

Envestra Limited
Chairman's Address
20 October, 2011 Annual General Meeting

Ladies and Gentlemen,

Financial Performance

I am pleased to report to you on Envestra's financial performance for the year ended 30 June 2011, and the Company's affairs generally. Net Profit after Tax was up 21% to \$45 million, cashflow from operations was up 16%, and revenue increased 11%, as a result of higher deliveries of gas to our residential and smaller commercial customers. We benefited from a colder winter in 2010, and sound growth in customer connections. Additionally we had the volumes arising from our Country Energy acquisition in October 2010. A record 119 PJ of gas was transported for the year.

Total dividends paid to shareholders were 5.5 cents and amounted to \$77.5 million.

Our shares, like those of most other listed entities, suffered during the global financial crisis and it was pleasing to see the subsequent recovery in our share price. The increase in the share price over the year, when combined with the dividend, showed a total return of 52% for the year.

Underlying cashflow available for distribution to shareholders increased by 14% to \$121.3 million representing a cashflow coverage of dividends of 1.6 times.

In considering the full-year results for 2010-11, the Board decided that it was appropriate to increase the final dividend to 2.9 cents (previously 2.75 cents) and announced that it expected to pay dividends totalling 5.8 cents in the 2011-12 year (previously 5.5 cents).

The decision to increase dividends was taken in the context of payments to shareholders over recent years having remained flat in response to the global financial crisis.

Our objective is to improve distributions to shareholders whilst ensuring a prudent financial position is maintained.

As previously advised, the Company has implemented a policy of retaining a greater portion of cash than in the past to assist in partly funding its capital expenditure programme.

This maintains our strategy of reducing gearing with the objective of achieving an improved credit rating with Standard and Poor's.

Performance of other key measures in 2010-11 was also sound:

- A record amount of \$129 million was invested in capital projects related to new gas mains and connections, replacing old mains and enhancing the capacity of the networks.

- An enhanced marketing program was implemented focusing primarily on securing greater gas consumption from existing homes and maintaining the high penetration rates we have enjoyed for many years with new homes. A total of \$6.4 million was invested in advertising, incentives and sponsorship initiatives as well as developing a wide range of business partnerships with key groups within the property and housing sectors. Some 26,700 new consumers were connected to Envestra's networks (apart from the 26,500 consumers added with the Country Energy acquisition). Over 1.1 million properties are now connected to our networks.

Country Energy Gas Networks Acquisition

Envestra acquired Country Energy Gas Networks in New South Wales in October 2010 for \$108.7 million; financed by \$65 million in debt and the balance, in effect, from shareholders' equity. The networks are based in Wagga Wagga and surrounding towns, and comprise 1,170 kilometres of distribution networks and 65 kilometres of transmission pipelines.

Operation and maintenance of these assets is being performed by APA Asset Management, the organisation that looks after our other networks around Australia.

Integration of this regional business into the Envestra Group has proceeded in accordance with our expectations, with the network making a solid, albeit small, contribution to the Group's financial performance.

Capital Markets and Funding

We were active in the capital markets in 2010-11 with two US Private Placements completed. We raised A\$172 million via a 17-year bond in July 2010, and a further A\$350 million via 10, 12 and 30-year bonds issued in June and July 2011. In May 2011 we repaid A\$174 million of maturing 10-year bonds. In addition, a \$100 million loan facility was put in place with the National Australia Bank.

I can also announce today that the Company has executed a \$235 million (4 and 5 year) Syndicated Loan Agreement with Australian and international banks, with the new funding to re-finance existing bank loans and bonds maturing in mid-2012. Thereafter, the Group will have no currently drawn loans maturing before July 2014, other than small amounts of commercial paper.

The average time to maturity of the total debt portfolio is around 11 years, which helps mitigate re-financing risk, and compares favourably with other businesses in our sector.

We continue our long-held policy to hedge, substantially, interest rates over the 5-year regulatory periods, ensuring our interest costs are broadly consistent with that which the AER includes in its rate of return (or WACC) allowance, thereby minimising risk related to rising interest rates.

Lastly, on capital matters, last month we announced a Security Purchase Plan offer to existing shareholders enabling them to invest up to a further \$15,000 in Envestra. This equity raising is in addition to the Dividend Re-investment Plan applying to the dividend to be paid on 28 October, which in itself, will raise \$25.7 million in new capital. It follows \$44 million of equity raisings last financial year that was applied to funding of the 2010-11 capital expenditure programme and the Country Energy acquisition.

The October DRP and the SPP shares are to be issued at 64 cents.

We expect the SPP to raise a modest amount. It is aimed at smaller shareholders who only receive limited opportunity to increase their interests through the Dividend Re-investment Program. Our aim is to raise around \$55 million of new equity during the course of this financial year, mainly through the DRPs, which will provide a sound financing basis for our \$200 million capital expenditure programme in 2011-12.

Carbon Tax

There has been considerable public debate and media coverage of the Federal Government's intention to introduce a Carbon Tax as from 1 July 2012. Our Managing Director will comment further shortly.

The tax will have a financial impact on Envestra through the cost of buying carbon credits to offset the gas used in our networks (known as System Use Gas). Under the regulatory regime this cost is expected to be passed through to gas consumers via increased distribution tariffs.

Based on a carbon price of \$23 per tonne, we expect the impact on each domestic consumer to be around \$8 per annum.

More generally, the tax will add to the cost of most goods and services and will be borne throughout the economy. The tax will flow through to the day-to-day input costs of running our business, which will add to the costs that will be passed through to gas consumers.

Sustainability

A major focus of Envestra is sustainability. Sustainability is about the prudent management of our business to ensure we deliver long-term value for our shareholders, employees, consumers and the community.

An issue that has received close attention by Envestra and regulatory authorities in recent years is the former gas works sites owned or previously operated by Envestra or its predecessor companies.

The Albury Gas Company in New South Wales (now an Envestra subsidiary) sold its former gas works site to the local Council in 1985. Coal gas had been produced at the site for almost a century through to the early 1970s. Common practice at the time was to dispose of many of the bi-products on-site.

A few years ago, the New South Wales Environment Protection Authority requested The Albury Gas Company to undertake certain soil and groundwater investigations at the site. Legislation has changed over time and current legislation requires the "original polluter" to undertake the remediation where this is deemed necessary. We have made considerable progress with the environmental investigations associated with the former gas works operations and expect to commence this major project later this year.

In Victoria, the Company owns three former gas works sites at which we are undertaking investigations into the extent of contamination. The results will determine the level of any necessary remediation.

Costs in carrying out this "clean-up" are material and provision has been made in our Financial Statements.

We are working diligently at resolving these sensitive environmental matters.

Outlook

Our Company is well positioned and we look forward to delivering another solid result in 2011-12. Whilst gas volumes delivered to the domestic market for the first three months are 7% below expectations, we have maintained our Profit after Tax guidance of around \$60 million - subject always to the vagaries of the weather and other unforeseen eventualities.

The challenges being faced by businesses locally and overseas as a result of the global financial crisis have continued. We are in another period of extreme volatility with share markets around the world moving up and down in value by up to 5% within days. It is therefore pleasing to note that the value of Envestra shares has been less affected by this latest round of stock market volatility – perhaps due to the fundamentally sound and sustainable nature of our business.

I now invite Ian Little our Managing Director to address you.