

23 February 2012

Net Profit up 16%

Spending on network improvements up 40%



Envestra Limited, Australia's leading natural gas distribution company, today announced a **Profit after Tax of \$40.7 million** for the half-year ended 31 December 2011, a 16% increase on the previous half-year¹.

The profit increase reflects increased tariffs applying from 1 July 2011 as a result of the South Australian and Queensland regulatory reviews. However, revenues were affected by lower gas volumes due to the warmer weather in the winter and spring months of 2011. The volume of gas delivered through the Company's distribution networks and transmission pipelines was 60.8 petajoules (64.5 PJ in the prior corresponding period). The volume of gas delivered to domestic and small industrial and commercial consumers was 10% lower.

The Company also announced that a 2.9 cent interim dividend will be paid on 27 April, bringing total dividends for 2011-12 to 5.8 cents, a 5.5% increase on the prior year dividend.

Other highlights for the half-year include:

	Change on 2010-11 half-year	
• Revenue from continuing operations	Up 8%	to \$243.9 million
• Net borrowing costs	Up 3%	to \$88 million
• Total consumers	Up 14,500	to 1,129,000
• Capital expenditure	Up 40%	to \$82 million
• Network mains replacement	Up 49%	to 145 km

Consistent with Envestra's commitments in the recent South Australian and Queensland regulatory submissions, the capital expenditure program has been significantly extended compared with the period ended 31 December 2010, with spending increased 40% to \$82 million and mains replacement extended to 145 km compared to 97 km in the prior corresponding period. Capital expenditure is anticipated to further increase in the second-half of the 2011-12 year.

Net borrowing costs were up 3% in the first-half due to higher interest costs arising from new debt to partly fund the Company's capital expenditure program, and also higher costs on the Company's capital indexed bonds with annual inflation in the period being 3.5% compared with 2.9% in the comparable half-year period.

¹ On an underlying basis, net profit after tax was \$40.9 million for the December 2011 half-year, an increase of 11% from the prior corresponding period.

Total operating costs were up 10%, due mainly to increased expenditure on natural gas marketing, System Use Gas and leak maintenance costs. System Use Gas costs were impacted by a significant increase in the cost of gas purchased from retailers.

Total dividends paid in the first-half were \$42.5 million (\$38.1 million in 1H2010-11). The increase was due to a higher dividend rate in this half-year (2.9 cents in 2011, 2.75 cents in 2010), and a higher number of shares on issue resulting from the Dividend Re-investment Plan. Cashflow available to support that dividend was \$120.7 million, representing a cashflow dividend coverage ratio of 2.8 times for the half-year. The substantial margin in part reflects the timing of operating and interest payments of \$19 million in early January, due to 31 December falling on a weekend. Without this cash flow timing variance, the dividend coverage ratio was 2.4 times. It should be noted that the first-half typically produces higher revenue, profit and cash flows than the second-half due to a higher weighting of cool weather in the first-half.

A further 14,500 new consumers were connected to the distribution networks in the 6 months to 31 December, reflecting the ongoing demand for natural gas connections in new housing subdivisions and the success of the Company's marketing program.

New connections in Victoria, which represents around 50% of Envestra's business, were particularly strong, being 7% higher than the prior period. The new consumers will add about \$4.0 million per annum to future revenue.

The Group continued its substantial capital expenditure program spending \$82 million during the period on network extensions, mains and meter replacements and general upgrades to the networks.

A total of 127 kilometres of new mains were laid to accommodate the increase in consumers. The Company now has around 23,500 kilometres of distribution networks and transmission pipelines around the country.

As previously announced to the market on 12 January 2012, the Australian Competition Tribunal handed down its decision on Envestra's appeal against the Australian Energy Regulator's Final Decision in July 2011 in respect of the South Australian and Queensland Access Arrangements for the period 2011-2016. The Tribunal upheld two of Envestra's grounds of appeal resulting in an increase in the Company's revenue to be recorded over the regulatory period of around \$80 million. \$6.7 million of this additional revenue has been recognised in the 31 December 2011 half-year period.

Outlook

A Net Profit after Tax of around \$60 million has previously been foreshadowed for the full-year. Due to the additional revenue to be recognised as a result of the regulatory appeal outlined above, a Profit after Tax of around \$70 million is now expected, subject to weather conditions and any other unforeseen circumstances in the second-half.

A dividend of 2.9 cents is to be paid to shareholders on 27 April, in line with previous guidance provided to the market.

The Company's Dividend Re-investment Plan will apply to the payment, with the new shares to be issued at a 2.5% discount to the 10-day Volume Weighted Average Price (VWAP) commencing on 2 April.

The relevant dates for the dividend are as follows:

19 March	Shares trade ex-dividend
26 March	Record date
2 to 17 April	DRP pricing (VWAP over 10 business days, less 2.5% discount)
27 April	Dividend payment

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