

ENVESTRA LIMITED

Full-Year Results 30 June 2010

*Steady Performance –
Investing for the long term*

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Managing Director

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26 August 2010



Steady Operating Performance

2009-10 Highlights

		Change on 2008-09	
Underlying Net Profit after Tax	\$36M	↑	2%
Cash Flow from Operations	\$117M	↓	4%
<10TJ Volumes	47 PJ	↓	4%
Haulage Revenue	\$354M	↑	2%
Net Borrowing Costs	\$156M	↓	1%
Net Profit after Tax	\$37M	↓	8%

- Decreased domestic gas consumption – down 4% due to warmer weather
- Borrowing costs steady despite capital markets volatility, increased credit margins
- Operating costs up 8% - strategic initiatives expected to yield benefits in future
- Strong network connection performance – 24,000 new consumers, now 1.06 million

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Operations Highlights

- Almost 300km of new mains laid – network now almost 21,000km
- 24,000 consumers added – now 1.06 million connections
- \$100m Capex program completed
 - Significant savings versus budget estimates on some projects
 - Major work associated with infrastructure projects, eg Brisbane Airport Link, Ipswich motorway relocation, Mornington Peninsula
- Strategic review of operational practices in APA with external consultancy – savings anticipated from 2010-11
- Safety performance improving (12 vs 16 LTIs) – continuing focus
- 111.4PJ of gas delivered – down 4% over 2007/08 – declining household consumption
- Natural Gas Marketing Program expanded (\$6m vs \$2.7m) to compete with Government sponsored renewables

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Financial Performance – Profit

Year ended 30 June

	2010 \$M	2009 \$M	Change %	
Revenue (excluding interest)	382.7	388.1	(1.4)	Overview of results: <ul style="list-style-type: none"> • Solid revenue outcome despite warmer weather • 2009 revenues included \$5.9m of land sales, and \$9.1m of Government Grant revenue • Borrowing costs steady, lower inflation / indexation costs on CIBs offset by higher margins • Operating costs up due to renewed marketing strategy, process improvements, regulatory consultancies, and increased shared services costs
Operating costs	(121.8)	(113.1)	(7.7)	
EBITDA	260.9	275.0	(5.1)	
Depreciation, amortisation and impairment	(53.0)	(63.0)	15.9	
EBIT	207.9	212.0	(1.9)	
Net borrowing costs	(156.3)	(157.3)	0.6	
Profit before tax and loan note interest	51.6	54.7	(5.7)	
Loan note interest	-	(2.3)		
Profit before tax	51.6	52.4	(1.5)	
Tax	(14.4)	(12.1)		
PAT	37.2	40.3	(7.7)	

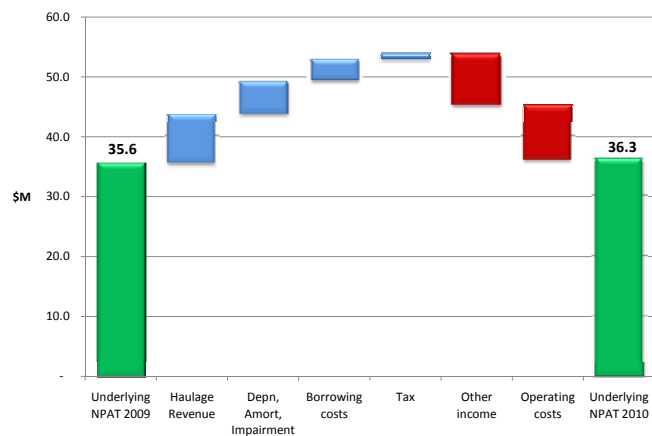
Note:

- Tariffs increases for 2009-10: Queensland 3.6%, South Australia 3.6%, Victoria 4.2%
- Indexation (interest) on the Capital Indexed Bonds (CIBs) is non-cash

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Underlying NPAT 2010 vs 2009



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Underlying Profitability – 30 June 2010

	Underlying Profit after Tax		Underlying EBITDA	
	2010 \$M	2009 \$M	2010 \$M	2009 \$M
30 June				
Per Financial Statements	37.2	40.3	260.9	275.0
One off items:				
Land sale	(0.3)	(4.1)	(0.5)	(5.9)
Remediation/impairment	0.5	3.9	-	-
Investment allowance	(1.1)	(4.5)	-	-
UNDERLYING RESULT	36.3	35.6	260.4	269.1

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Financial Performance – Cash Flow

Year ended 30 June

	2010 \$M	2009 \$M	Change %	
Operating cash flow	260.5	257.4	0.4	Overview of results:
Net borrowing costs	(143.4)	(135.1)		
Cash flow from operations	117.1	122.3	(4.3)	
Net proceeds from land sale	1.0	1.0		
Replacement capex	(10.7)	(18.4)		
Available for distribution	107.4	104.9	2.4	
Distributions	(73.0)	(75.8)	3.7	
Contribution to growth capex	34.4	29.1	18.2	<ul style="list-style-type: none"> Higher contribution to fund growth capex
Growth capex	(87.1)	(94.1)	7.4	
Cash flow pre-debt and equity financing	(52.7)	(65.0)		
Debt proceeds (repayments)	21.0	(70.2)		<ul style="list-style-type: none"> Strong shareholder response to DRP Capital raising costs higher due to establishment of new long-term (5-17 years) debt facilities
Equity	42.3	133.9		
Capital raising costs	(10.4)	(3.3)		
Increase / (decrease) in cash	0.2	(4.6)		
Closing cash	6.4	6.2		

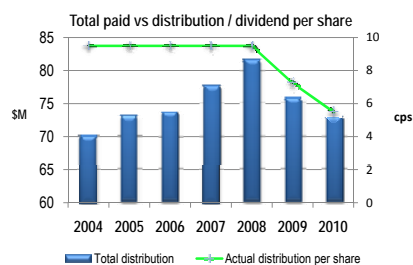
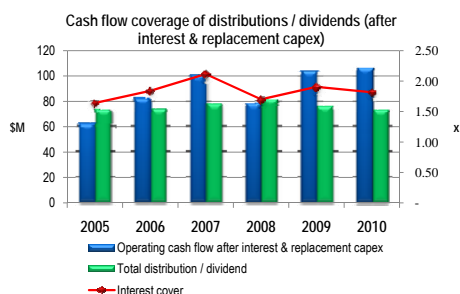
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Sustainable Dividends

Distributions / dividends paid out of cash flow post interest and replacement capex

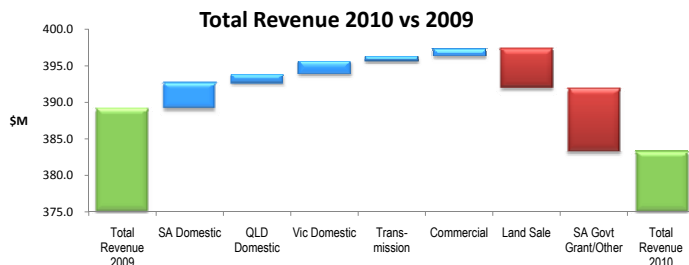
- Cash flow (post interest and replacement capex) coverage of distributions is 147% in FY 2010
- Higher dividend coverage allows greater contribution to growth capex
- Dividend at current level sustainable



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Total Revenue



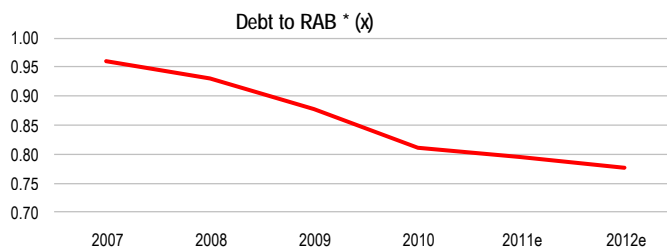
	2010		2009	
	\$M	%	\$M	%
Regulated Haulage Revenue				
- Domestic	261.5	68	255.0	66
- Commercial	76.4	20	75.5	19
Unregulated Haulage Revenue				
Other Revenue	16.6	4	15.8	4
Total Revenue	383.3	100	389.1	100

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Balance Sheet

- Assets primarily network related – balance sheet valuations reflect historical cost
- No asset impairments - balance sheet value of network assets = 1.07 x Regulatory Asset Base (“RAB”)
 - Gearing (based on Balance Sheet assets) = 74% (75% based on indicative market value of equity)
- Some asset revaluation evident in peer companies
- Debt to RAB * at June 2010 is 0.81x and reducing
- > \$400m tax losses (no cash tax payable)



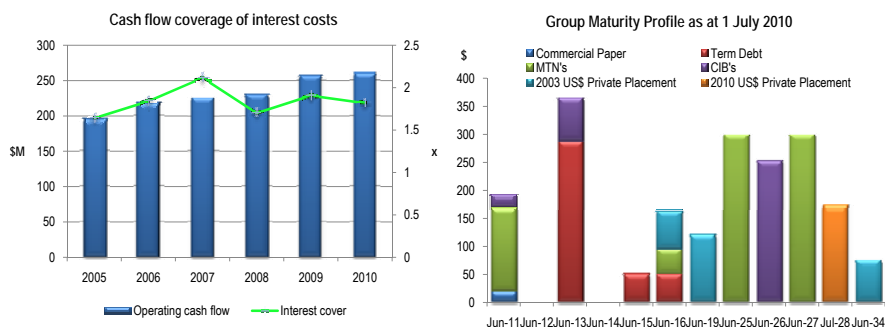
* Includes \$100m uncovered assets

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Finance Cost Management

- Envestra's debt portfolio has the longest average term to maturity in the sector
 - Extended to 10 years following USPP issuance in July 2010
 - Over half the Group's debt has historically low margins (<100 pts) and maturities beyond 2024
 - \$634M bonds/bank facilities re-financed in 2009-10 – longest tenor (17 year) debt issue by an Australian BBB borrower
- 90% of interest exposure hedged at 30 June – minimal interest rate risk through to regulatory resets
- Interest cover (ISCR) was 1.8x at June 2010, well above covenants (1.5)



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Regulatory Performance

- Access Arrangement submissions for South Australia / Queensland currently being prepared (due to be lodged by 1 October)
- Opex in 2009-10 below regulatory benchmarks
- Capex close to benchmarks in South Australia / Queensland, but lower in Victoria as response to the GFC – expected to 'catch-up' in next two years
- Current Access Arrangements provide significant certainty over 2010-11 results
- South Australia / Queensland regulatory process – first with AER for Envestra – issues are generally well understood by management

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Summary and Outlook

- Solid result with underlying NPAT up 2% (despite warmer weather conditions)
- Cashflow coverage of distributions at 147%
- Contract dispute with APA settled
- Capital management initiatives:
 - DRP raised \$42M
 - All necessary refinancing completed through to 2011-12
- Given average debt maturity profile of 10 years, Envestra is well placed to take advantage of improving economic conditions
- Continuing strong demand for new connections and network extensions (23,000 new connections, capex around \$125 million for 2010-11)
- October 2010 dividend of 2.75 cents (unfranked)
- Profit after tax in 2010-11 expected to be comparable to 2009-10

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Supporting Information

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Who we are

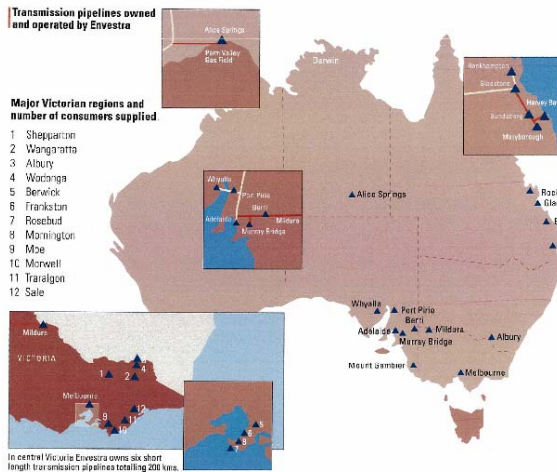
Envestra Limited owns strategic gas distribution and transmission pipelines that operate as regulated monopolies in key population growth centres in Victoria, South Australia and Queensland. Cash flows are highly predictable and grow in line with customer connections and regulated tariff increases, supporting sustainable dividend payments to shareholders over the long-term...

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Where we do business

Transmission pipelines owned and operated by Envestra



Major Victorian regions and number of consumers supplied

- 1 Shepparton
- 2 Wangaratta
- 3 Albury
- 4 Wodonga
- 5 Benetok
- 6 Frankston
- 7 Rosebud
- 8 Mornington
- 9 Moe
- 10 Morwell
- 11 Traralgon
- 12 Sale

In central Vic, Envestra owns six short length transmission pipelines totalling 200 kms.

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Corporate Snapshot

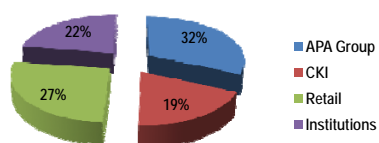
ENVESTRA LIMITED

(as at 30 June unless marked)

ASX code	ENV
Customer numbers	1.06M
Underlying EBITDA	A\$260M
Net debt	A\$2002M
Total shareholders' equity*	A\$521M
Enterprise value	A\$2,700M
Shares on Issue	1,387M
Market Capitalisation	A\$700M

* Per balance sheet

Shareholder Profile

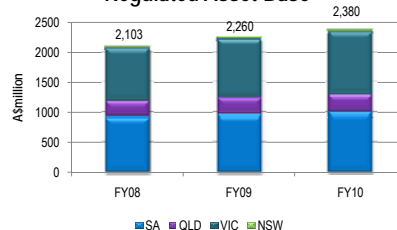


*Retail investor defined as <100,000 shareholding.

Location	Length of Mains	Transmission Pipelines
Victoria	9,641 km	219 km
South Australia	7,887 km	372 km
Queensland	2,560km	284 km
New South Wales	615 km	20 km
Northern Territory	38 km	153 km
TOTAL	20,741km	1,048 km

Source: IRESS

Regulated Asset Base



...essential infrastructure in key population / economic hubs

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Key Operating Sensitivities

Operating item	Sensitivities	Profit after tax impact (annual)	Explanation
Interest Expense	Interest Rates +/- 1%	\$0.5 million	Variable interest rate debt 90% hedged
Operating Leverage	Sales revenue +/- \$10 million	\$6 million	Low proportion of variable costs
Foreign Currency	USD +/- 1%	nil	FX exposure on debt facilities 100% hedged
Inflation	CPI +/- 1%	<\$2 million	Capital Indexed Bonds provide natural hedge against tariff changes – medium term revenue increase covers any short-term loss

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Growth Drivers

Location	Customer Numbers	Volume Used (Petajoules)
Victoria	550,068	53.9
South Australia	401,337	35.0
Queensland	84,715	15.8
New South Wales	23,831	3.3
Northern Territory	1,080	3.4
TOTAL	1,061,031	111.4

- Customer growth driven by demographics, housing development
- Each new customer adds approximately \$275 in revenue per annum
- Networks strategically positioned in 3 of the 5 high growth corridors in Victoria
- Growth in gas usage driven by government energy policies, demand for cleaner energy and growth in population / economy

...growth underpinned by long-term demographic trends

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Funding Growth Capex

- Investment in new customer connections generates RAB growth and certain, regulated returns
- With new investment at 1 x RAB, the decrease in debt funding provides greater profit generation in future
- Growth capex largely funded by new debt and equity in the past – to be funded mainly by surplus cash flow and equity in future

...increased funding of growth capex from surplus cash flow

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Variations in Natural Gas Demand due to Weather

- High correlation between weather and consumption

Year ended 30 June

Volumes - PJ	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Victoria and NSW	57.2	59.2	59.1	57.1	58.8	57.8	60.3	57.1	56.9	55.2
South Australia	35.0	36.0	36.0	36.4	37.4	36.8	38.3	41.8	42.3	39.4
Queensland / other	19.2	19.8	19.7	19.4	18.1	17.8	17.9	16.5	14.8	12.9
Total	111.4	115.0	114.8	112.9	114.3	112.4	116.5	115.4	114.0	107.5
<10TJ (weather effected)	47.2	49.2	46.8	44.8	47.3	45.1	47.2	43.6	42.9	42.1
<i>Effective Degree Days</i>										
Melbourne	1,265	1,368	1,280	1,206	1,340	1,294	1,508	1,257	1,353	1,326
Adelaide	921	1,032	906	936	1,063	966	1,063	970	1,005	912

- But consumer habits are changing. Gradual household base load reductions are evident; however, tariff settings each 5 years make allowance for declining household gas usage
- Commercial revenue not significantly impacted by weather fluctuations

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Financial Performance – Distributions

- Distributions of 5.5cps paid in 2009-10

Distributions	Date	Principal repaid	Interest	Dividend cps	Franked %	Total cps	DRP Operating	DRP Discount
<u>2009</u>	30 Nov-08	4.13	0.37	-	-	4.50	Yes	2.5%
	29 May-09	0.81	0.05	1.89	-	2.75	Yes	2.5%
						7.25		
<u>2010</u>	30 Oct-09	-	-	2.75	-	2.75	Yes	2.5%
	30 Apr-10	-	-	2.75	55.0	2.75	Yes	2.5%
						5.50		

- One-off partial franking in April 2010

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Growth in EBITDA and Profit before Tax*



* Note: Profit Before Tax and After Loan Note Interest

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Growing Regulated Asset Base

Regulated Asset Base	2007 30 June \$M	2008 30 June \$M	2009 30 June \$M	2010 30 June \$M
South Australia	875	922	961	999
Queensland	243	258	278	292
Victoria	824	892	988	1,055
New South Wales	29	31	33	34
Total	1,971	2,103	2,260	2,380

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Improved Distribution Coverage (after replacement capex)

30 June \$M	2002	2003	2004	2005	2006	2007	2008	2009	2010
Operating cashflow (pre-interest)	198	204	216	195	217	226	230	258	262
SA Government receipt	-	-	55	-	-	-	-	-	-
	198	204	271	195	217	226	230	258	262
Borrowing costs	(115)	(118)	(117)	(119)	(118)	(107)	(135)	(135)	(144)
Operating cash flow (after interest)	83	86	154	76	99	119	95	123	118
Replacement capex	(9)	(10)	(12)	(14)	(17)	(19)	(17)	(18)	(11)
Cash flow available for distribution/dividend	74	76	142	62	82	100	78	105	107
Distributions/dividends	(60)	(67)	(70)	(73)	(74)	(78)	(82)	(76)	(73)
Cash flow after distribution/dividend	14	9	72	(11)	8	22	(4)	29	34
Distribution/dividend coverage	123%	113%	203%	85%	111%	128%	95%	138%	147%

Note: Summary as per financial statements

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Gearing – Reducing Debt to Regulated Asset Base

	30 June 2007	30 June 2008	30 June 2009	30 June 2010
1. Book Gearing-Total Assets Net Debt / Total Assets (less cash)	75%	78%	75%	74%
2. Economic Value Gearing Net Debt / (Market cap plus Net Debt) Share price	66% 1.15c	78% 64c	76% 49c	75% 49c
3. Debt to RAB * Debt / Regulated Asset Base *	0.96	0.93	0.88	0.81

Note: Loan Notes are treated as equity

* Includes \$100m uncovered assets

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