

27 August 2008



- Profit after Tax for 2007-08 of \$163.6 million
Significant uplift from Put Option tax benefit
- Capital raising and distribution change to occur in 2008-09

Envestra Limited, Australia's largest natural gas distribution company, today announced a Profit after Tax of \$163.6 million, which includes a one-off tax benefit of \$153.2 million. The tax benefit relates to the exercise of the Put Option over Envestra's Victorian assets by Origin Energy on 2 July 2007.

An underlying¹ Profit after Tax of \$10.4 million was recorded, compared with an underlying Profit after Tax of \$2.3 million in 2006-07.

Other results for the year include:

• Revenue (from ordinary trading activities)	Up 3%	to	\$343.0 million
• Revenue and other income	Down <1%	to	\$346.0 million
• Underlying cashflow from operating activities ²	Up 6%	to	\$105.1 million
• EBITDA	Down 2%	to	\$234.8 million
• Gas volumes	Up 2%	to	115 PJ
• Total consumers	Up 23,365	to	1,013,455
• Distributions to shareholders	9.5 cents		

Revenue and other income was flat in the absence of Put Option proceeds and land sales in 2007-08.

The volume of gas delivered through the Company's distribution networks and transmission pipelines was up 2% to 115 petajoules, with the volume of gas delivered to domestic and small industrial and commercial consumers up 4% to 47 petajoules. Envestra generates 90% of its revenue from these consumers. Although volumes were up, they were again impacted by warmer than normal weather for most of the year, which was partly offset by the addition of new consumers.

¹ The underlying profit after tax has been adjusted to reflect Put Option proceeds and related tax offsets, prior year land sales and tax loss transfers to Origin Energy.

² The underlying cash flow has been adjusted for interest timing, and Put Option and land sale proceeds in 2006-07.

Total operating costs were up \$2.8 million, or 3%, due mainly to higher leak maintenance and system use gas.

Cash retained at the end of the year was \$10.8 million.

Around 23,400 new consumers, of which 22,750 are domestic consumers, were added to the distribution networks, reflecting the ongoing strong demand for natural gas in new housing subdivisions. The new consumers will add about \$6 million per annum to future revenue.

The Group continued its substantial capital expenditure program spending \$108.3 million on network extensions, regional projects and upgrades to the networks.

A total of 333 kilometres of new mains were laid primarily in new subdivisions and 178 kilometres of old mains were replaced. The Company now has over 21,100 kilometres of networks and pipelines around the country.

Expectations for 2008-09

Standard & Poor's confirmed Envestra's BBB-/A-3 rating on 13 August 2008, but indicated the Group's rating outlook was negative because of Envestra's relatively high debt levels and currently volatile capital market conditions.

The Company views its investment grade rating as of paramount importance and intends to take appropriate steps to protect it. Therefore, in response to the S&P negative outlook, and recognising the volatility in capital markets, the Board has decided to reduce distributions for the 2008-09 year to 8.0cents per security (9.5 cents in 2007-08). At the current price of 72 cents, the securities will offer a yield of 11.1%.

It is expected that the next distribution to shareholders, which is for the six months ending 30 September 2008, will be 4.5 cents per security (5.7 cents in November 2007) and will be paid in late November.

The Company expects cashflows from operations in 2008-09 to be close to 120% of the new distribution requirement, and intends to maintain its long-held financial policy of paying distributions only from available cashflows. The Company is confident that the 8.0 cent distribution will be at least maintained in the future.

The Board has further decided that an equity issue of approximately \$100 million will be undertaken later in 2008, the terms and structure of which will be determined in conjunction with the Company's financial advisers. Envestra's major shareholders, APA and Cheung Kong Infrastructure, have indicated they would intend to support an issue of new securities. This additional equity will be used for growth capital expenditure and debt reduction.

A Profit after Tax from network operations in excess of \$20 million is expected in 2008-09 (\$10.4 million in 2007-08), subject to normal weather conditions occurring.

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Envestra Limited

Summary of cash flows (\$m)

<i>Year ended 30 June</i>	<i>2008</i>	<i>2007</i>
Net cash flow before borrowing costs	230.2	226.1
Net borrowing costs	(135.4)	(106.9)
Cash flow from operating activities	94.8	119.2
Replacement capital expenditure	(16.8)	(18.7)
Available for distribution	78.0	100.5
Distributions	(81.7)	(77.7)
Contribution to growth capital expenditure	(3.7)	22.8
Loan drawdowns for growth capital expenditure	55.0	59.9
Cash available for growth capital expenditure	51.3	82.7
Growth capital expenditure	(91.5)	(89.1)
Cashflow available pre debt/equity re-financing	(40.2)	(6.4)
Debt (drawdowns net of repayments)	5.3	(53.6)
Proceeds from sale of land	-	2.4
Equity raising	34.6	43.0
Capital raising costs	(0.3)	(0.4)
Change in cash	(0.6)	(15.0)
Opening cash	11.4	26.4
Closing cash	10.8	11.4

Income Statement (\$m)

<i>Year ended 30 June</i>	<i>2008</i>	<i>2007</i>
Revenue/income	346.0	347.3
Operating costs	(111.2)	(108.4)
Depreciation/amortisation	(59.7)	(58.3)
Profit before borrowing costs and income tax	175.1	180.6
Less: borrowing costs	(144.8)	(137.1)
Profit before interest on loan notes and income tax	30.3	43.5
Interest on loan notes	(10.8)	(18.2)
Profit before income tax	19.5	25.3
Income tax (expense) / revenue	144.1	(28.3)
Profit / (Loss) after income tax	163.6	(3.0)



Review of results for the year ended 30 June 2008

Revenue/income

Envestra's income, which is generated mainly from retailers for delivering natural gas to their customers, was \$346.0 million, down \$1.3 million on 2006-07.

The decrease is due to the prior period including \$7.8 million of Put Option proceeds from Origin Energy and \$2.1 million from the sale of land. In addition, interest revenue in 2007-08 was \$1.6 million lower than the prior year. Offsetting these decreases was higher haulage revenue in 2007-08 resulting from customer growth and slightly cooler conditions than 2006-07, and the annual adjustment to network tariffs.

Operating expenses

Operating expenses of \$111.2 million were \$2.8 million higher than the previous year. This was due mainly to higher leak maintenance costs (up \$1.6 million) and system use gas expense (up \$2.4 million), and full retail contestability costs of \$1.7 million incurred in Queensland. These increases were partially offset by the absence of land management costs this year (\$4.6 million in 2006-07).

Operating profit

Profit before borrowing costs and tax was down 3 per cent to \$175.1 million, compared with \$180.6 million for the previous year.

Borrowing costs

Borrowing costs (excluding loan note interest paid to shareholders) were \$144.8 million, which is \$7.7 million above the previous period. The increase is due to higher interest on new debt, together with higher interest rate swaps associated with hedging debt related to the Company's Victorian assets when the new Victorian Access Arrangement for that State was handed down. The increased interest rate costs will be largely recoverable through higher tariffs under the regulatory regime over the next four years.

Result

A Profit before Tax of \$19.5 million was recorded – a decrease of \$5.8 million on 2006-07.

The net result was a Profit after Tax (including the payment of Loan Note interest to shareholders) of \$163.6 million. This result reflects the one-off tax benefit of \$153.2 million recorded on exercise of the Put Option with Origin Energy on 2 July 2007.

An underlying Profit after Tax of \$10.4 million was recorded, compared with an underlying Profit after Tax of \$2.3 million in 2006-07.

Cashflow

Cashflow from operating activities was \$94.8 million, down \$24.4 million on 2006-07. The major contributors to this decrease were Put Option proceeds of \$7.8 million received in the prior year not being received in 2007-08, the timing of interest payments (\$18.4 million), and an increase in interest expense (\$8.6 million), partially offset by higher haulage and services revenue of \$13.4 million.

An underlying cashflow from operating activities of \$105.1 million was recorded, compared with an underlying cashflow of \$98.8 million in 2006-07.

Distributions to shareholders amounted to \$81.7 million, resulting in a small shortfall from operating cashflows being available to fund growth capex, simply reflecting the interest payment timing referred to above. Growth capex of \$91.5 million was financed by equity raised during the year, and debt drawdowns.

Total distributions over the past five years have averaged 81% of cashflow from operations (after replacement capex). A surplus is again expected in 2008-09.

Capital expenditure

Capital expenditure was \$108.3 million – up \$0.5 million on the previous year.

During the year 333 kilometres of new mains were laid and 178 kilometres of mains were upgraded. 23,400 new consumers (22,750 domestic) were connected to the Company's distribution networks.

Gearing

At 30 June 2008 the Company's gearing was 77%, up from 66% in the prior year due to weakening in the Company's share price (\$0.64 at 30/06/08). Current gearing, based on the recent share price of \$.072 is 75%.

(Gearing is defined as $\text{Net Debt}/(\text{Net Debt} + \text{market value of equity})$).

Issued capital

At 30 June, Envestra had 891,377,475 stapled securities on issue. New securities totalling 39,098,961 were issued via the Company's Distribution Re-investment Plan during the year.

Returns to shareholders

Distributions to shareholders were maintained at 9.5 cents per stapled security. The share price at 30 June 2008 was \$0.64 (2007: \$1.155). Total shareholder returns (before tax) were (36%). This decline in shareholder returns was a consequence of the material drop in the prices of listed infrastructure securities generally which occurred in conjunction with the global credit crisis and the escalation of the cost of debt.