Investing in energy infrastructure

Envestra Limited
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ASX RELEASE

14 August 2014

Envestra

The Manager
ASX Market Announcements
Australian Securities Exchange
4th Floor, 20 Bridge Street
SYDNEY NSW 2000

Electronic Lodgement

Dear Sir or Madam

Company Announcement

Attached is the following announcement for release to the market:

- Appendix 4E
- 2013-14 Financial Statements

Yours sincerely

Des Petherick
Company Secretary

Telephone: (08) 8418 1114

Envestra Limited Preliminary Final Report

ABN 19 078 551 685

Appendix 4E

Financial year ended 30 June 2014

Results for announcement to the market

				$million
Total revenue and income	up	9% or $46.9M	to	554.4
Profit before income tax	up	42% or $64.9M	to	218.7
Net profit after tax attributable to members	up	42% or $45.2M	to	153.0
Net cash inflow from operating activities	up	5% or $11.8M	to	245.6

Dividends paid in 2013-14

A dividend of 3.2 cents per fully paid ordinary share (unfranked) was paid on 31 October 2013.

A further dividend of 3.2 cents per fully paid ordinary share (unfranked) was paid on 30 April 2014.

Total dividends for 2013-14 were 6.4 cents per share, and amounted to $115.0 million (2012-13: 5.9 cents dividends per share totalling $93.7 million).

Dividend paid in July 2014 and Dividend Re-investment Plan ("DRP")

An unfranked dividend of 3.5 cents was paid on 25 July 2014. The aggregate amount of this dividend was $62.9 million. The dividend did not contain any conduit foreign income. The Company's DRP did not operate on this dividend.

REVIEW OF RESULTS FOR THE YEAR ENDED 30 JUNE 2014

Revenue and income

Envestra's revenue and income, which is generated mainly from retailers for delivering natural gas to their customers, was $554.4 million in 2013-14, up $46.9 million on 2012-13.

The improvement in revenue was mainly due to increases in distribution tariffs which came into effect on 1 July 2013 and which were incorporated in the South Australia and Queensland 5-year Access Arrangements approved by the Australian Energy Regulator ("AER") in 2011. There was an overall 4% decrease in gas distribution volumes to 108.2 PJ compared with 113.0 PJ in 2012-13, due to a decrease in volumes delivered to industrial and large commercial (>10 TJ) customers as a result of several plant closures, and decreased volumes from domestic and smaller customers (48.2 PJ vs 51.0 PJ in the prior year) as a result of warmer weather in the current year. Envestra earns the majority of its revenues from domestic (<10 TJ) customers.

Operating expenses

Operating expenses of $152.4 million were $5.2 million higher than the previous year. The increase was largely due to higher Carbon Permit costs of $2.0 million resulting from a permit cost increase under the *Clean Energy Act 2011* legislation from $23.00/tonne to $24.15/tonne, and an adjustment to the carbon costs relating to the 2012-13 financial year (these additional costs are fully recoverable through haulage tariffs). In addition, $4.2 million of costs associated with the proposed Envestra merger/takeover process were incurred during 2013-14. Excluding these "one-off" and "pass-through" costs, operating costs decreased by $1.0 million. This included leak maintenance and system use gas cost savings of $4.7 million.

Finance costs

Net finance costs were $121.1 million, $26.8 million lower than the previous year. The main contributing factors to the decrease were lower floating interest rates on unhedged debt, and the full-year impact of lower rates on fixed interest rate swaps.

Result

Profit after Tax was $153.0 million, ($107.8 million in 2012-13). The revenue increases outlined above combined with tight control of operating and finance costs have led to the increase in profitability.

Cashflow

Cash flow from operating activities was $245.6 million, up $11.8 million (or 5%) on 2012-13, due mainly to the increased revenues and lower financing costs outlined above. This more than covered the $115.0 million of dividends, contributing $128.5 million to the funding of the $253.3 million capital expenditure program. Operating cashflow in 2013-14 was reduced by $44.7 million as a result of a "one-off" adjustment when forward billing arrangements in South Australia ceased on 1 July 2013. This change occurred as a result of the introduction of the new National Energy Customer Framework ("NECF") in South Australia.

Distributions to shareholders amounted to $115.0 million. The dividend coverage ratio was 1.9 times (2.2 times in the prior year). The decrease in the dividend coverage ratio was largely due to the "one-off" operating cashflow impact from the introduction of the NECF in South Australia as outlined above.

Capital expenditure

Capital expenditure paid was $253.3 million – up $35.9 million on the previous year.

The main factor in this 17% increase was higher mains replacement expenditure ($135.2 million in 2013-14, $102.0 million in the prior year). A total of 512 kilometres of mains were upgraded (417 kilometres in the prior year). During the year, 205 kilometres of new mains were laid, and 21,317 new consumers were connected to the Company's distribution networks. Capital expenditure associated with the new mains and connections was $55.0 million ($60.0 million in 2012-13).

Gearing

At 30 June 2014 the Company's gearing was 64%, close to the 63% in the prior year. Principal debt was $2,188.5 million ($2,053.9 million at 30 June 2013).

The regulatory framework under which the Company's revenues are determined assumes a gearing level of 60%.

On a market value basis (based on the Company's share price), gearing was 47% at year end, compared with 54% for the prior year.

(Gearing is defined as Net Debt divided by Book value of total non-cash assets).

The average age to maturity of the Company's debt portfolio was 9 years at 30 June 2014.

Issued capital

At 30 June, Envestra had 1,796,808,474 ordinary shares on issue. The Dividend Re-investment Plan did not operate during the year.

REVIEW OF RESULTS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

Returns to shareholders

Dividends paid to shareholders were 6.4 cents per fully paid ordinary share (5.9 cents per share in 2012-13). The share price at 30 June 2014 was $1.36 (2013: $0.99). Total shareholder return for 2013-14 (before tax and including dividends and capital growth in share price) was 43.1%. This follows a total shareholder return in 2012-13 of 34.5%.

NET TANGIBLE ASSET BACKING

	2014	2013
Net tangible asset backing per ordinary share (Net assets less intangible assets)	**14 cents**	13 cents

ANNUAL GENERAL MEETING

The annual general meeting is planned to be held as follows:

Place: Adelaide Convention Centre
Date: Wednesday, 29 October 2014
Time: 10.00 a.m.

AUDIT

The financial statements have been audited.

	Year ended 30 June 2014 $mill.	2013 $mill.
Income Statement		
Revenue and income	**554.4**	507.5
Operating costs	**(152.4)**	(147.2)
Earnings before interest, tax, depreciation, impairment and amortisation	**402.0**	360.3
Depreciation and impairment	**(62.2)**	(58.6)
Earnings before finance costs and tax	**339.8**	301.7
Net finance costs	**(121.1)**	(147.9)
Profit before tax	**218.7**	153.8
Tax expense	**(65.7)**	(46.0)
Profit after tax	**153.0**	107.8

The presentation of the following Cash Flow Statement differs to the Consolidated Cash Flow Statement on page 19 with a view to highlighting "Cash flow available for dividends".

	Year ended 30 June 2014 $mill.	2013 $mill.
Cash Flow Statement		
Operating receipts less payments	364.7	377.6
Net cash flow before finance costs	**364.7**	**377.6**
Net finance costs	(119.1)	(143.8)
Cash flow from operating activities	**245.6**	**233.8**
Net proceeds from sale of assets	-	0.9
Payments for remediation of land	(2.1)	(8.9)
Replacement capex	(27.3)	(20.8)
Available for dividends	**216.2**	**205.0**
Dividends	(115.0)	(93.7)
Available for growth capex	**101.2**	**111.3**
Growth capex	(226.0)	(196.6)
Cash flow available pre debt/equity re-financing	**(124.8)**	**(85.3)**
Debt drawdowns / (repayments) (Net)	128.0	(129.3)
Debt and capital raising costs	(0.7)	(4.4)
Issue of shares	-	219.0
Change in cash	**2.5**	**-**
Opening cash	1.0	1.0
Closing cash	**3.5**	**1.0**

Envestra Limited ACN 078 551 685
Directors' and Financial Report – 30 June 2014

Contents

Envestra Limited is a company limited by shares, incorporated and domiciled in Australia. Its principal registered office is:

Level 10, 81 Flinders St
Adelaide SA 5000

Directors' Report

The Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Envestra Limited and the entities it controlled at the end of, or during, the year ended 30 June 2014 in accordance with a resolution of the Directors.

Directors

The following persons were Directors of Envestra Limited during the whole of the financial year and up to the date of this report:

John Geoffrey Allpass (Chairman)
Ian Bruce Little (Managing Director)
Eric Fraser Ainsworth AM
Dominic Loi Shun Chan
Ivan Kee Ham Chan
Ross Murray Gersbach
Michael Joseph McCormack
Olaf Brian O'Duill

Details of the Directors' and Company Secretary's qualifications, experience and special responsibilities appear on pages 4 to 6 of this report. Directors' shareholdings are disclosed on page 13 of this report.

Principal activities

During the year the principal continuing activities of the Group consisted of:
(a) Provision of natural gas haulage services to retailers and industrial customers through the transmission pipelines and distribution networks it owns and manages.
(b) Development of the business through expansion of the existing networks.

Operating and financial review

Review of operations

Envestra's natural gas distribution networks and transmission pipelines operate as regulated and unregulated monopolies in key population areas in South Australia, Victoria, Queensland, New South Wales and the Northern Territory. Envestra generates its revenue by delivering natural gas through its networks to almost 1.2 million domestic, commercial and industrial customers.

Envestra's revenue and income, which is generated mainly from retailers for delivering natural gas to their customers, was $554.4 million in 2013-14, up $46.9 million (or 9%) on 2012-13.

The improvement in revenue was mainly due to increases in distribution tariffs which came into effect on 1 July 2013 and which were incorporated in the South Australia and Queensland 5-year Access Arrangements approved by the Australian Energy Regulator ("AER") in 2011. There was an overall 4% decrease in gas distribution volumes to 108.2 PJ compared with 113.0 PJ in 2012-13, due to a decrease in volumes delivered to industrial and large commercial (>10 TJ) customers as a result of several plant closures, and decreased volumes from domestic and smaller customers (48.2 PJ vs 51.0 PJ in the prior year) as a result of warmer weather in the current year. Envestra earns the majority of its revenues from domestic (<10 TJ) customers.

Operating expenses of $152.4 million were $5.2 million higher than the previous year. The increase was largely due to higher Carbon Permit costs of $2.0 million resulting from a permit cost increase under the *Clean Energy Act 2011* legislation from $23.00/tonne to $24.15/tonne, and an adjustment to the carbon costs relating to the 2012-13 financial year (these additional costs are fully recoverable through haulage tariffs). In addition, $4.2 million of costs associated with the proposed Envestra merger/takeover process were incurred during 2013-14. Excluding these "one-off" and "pass-through" costs, operating costs decreased by $1.0 million. This included leak maintenance and system use gas cost savings of $4.7 million.

Net finance costs were $121.1 million, $26.8 million lower than the previous year. The main contributing factors to the decrease were lower floating interest rates on unhedged debt, and the full-year impact of lower rates on fixed interest rate swaps.

For the year ended 30 June 2014, Profit after Tax was $153.0 million, which compares with a Profit after Tax of $107.8 million in 2012-13 (up 42%).

Operating and financial review (continued)

Review of operations (continued)

Cash flow from operating activities was $245.6 million, up $11.8 million (or 5%) on 2012-13, due mainly to the increased revenues and lower financing costs outlined above. This more than covered the $115.0 million of dividends, contributing $128.5 million to the funding of the $253.3 million capital expenditure program. Operating cashflow in 2013-14 was reduced by $44.7 million as a result of a "one-off" adjustment when forward billing arrangements in South Australia ceased on 1 July 2013. This change occurred as a result of the introduction of the new National Energy Customer Framework ("NECF") in South Australia.

Capital expenditure paid in 2013-14 was $35.9 million higher than the previous year. A large proportion of the expanded capex program focused on the replacement of aging cast iron and steel gas mains ($135.2 million). The Group is aiming to replace most of these old pipelines with polyethylene pipes over the next few years. During the year 512km of mains were replaced, a 23% increase on the 417km of the previous year.

Around 21,300 new customers were added to the networks, (23,200 in 2012-13). Capital expenditure of $55.0 million associated with the new connections was recorded in 2013-14 ($60.0 million in 2012-13).

A steady improvement in the Company's credit metrics has occurred over recent years, with a gearing level at 30 June 2014 (based on net debt and market value of equity) of 47% down from 54% at the beginning of the year and from 64% a year before then. The improvement to gearing and other key credit indicators has been reflected in Standard and Poors' and Moody's BBB+, Baa2 credit ratings, with the Standard and Poors' rating being upgraded from BBB on 11 August 2014, following the Cheung Kong Consortium ("CK Consortium") offer being declared "unconditional" on 7 August 2014 (refer below).

The Group's revenues are dependent on regulatory determinations made by the AER every five years. The current Access Arrangements in South Australia and Queensland expire on 30 June 2016, while those in Victoria and New South Wales expire on 31 December 2017. In April 2014, the Company announced the decision by the NSW Minister for Resources and Energy to remove regulatory coverage of the Company's Wagga Wagga gas distribution network. The revocation will not materially affect the Group's revenue or financial performance.

For the 2013-14 financial year Envestra's market value increased by 37% to over $2.4 billion, with the share price moving from 99.5 cents on 1 July 2013 to $1.36 at 30 June 2014. The increase was in part the result of the respective merger/takeover offers made by our major shareholders (refer below), but also reflecting the enhanced profitability and future prospects for our business.

No new equity was raised during the year with the previously utilised Dividend Re-investment Plan having been suspended for the 2013-14 year.

Total annual return to shareholders (reflecting capital growth and dividends) for 2013-14 was 43% (2012-13: 34%).

Dividends paid to shareholders in 2013-14 were 6.4 cents per fully paid ordinary share (5.9 cents per share in 2012-13). A final dividend of 3.5 cents was declared on 11 July 2014 and paid on 25 July 2014, and is therefore not included in the 2013-14 financial statements.

The 2013-14 dividends were supported by cashflow per share of 12.0 cents per share (that is the dividend coverage ratio was 1.9 times) and the $115.0 million of dividends paid in 2013-14 amounts to 75% of the declared Profit after Tax for 2013-14.

Envestra had a provision in its June 2013 financial statements for the remediation of contaminated sites. During the year the remediation project at Warragul was completed at a total cost of $1.9 million which was below cost expectations. At 30 June 2014, $6.3 million remains in the provision to cover the estimated clean-up costs at Sale, Victoria.

The Group's net assets increased by 2%, to $861.0 million during the year. This increase is attributable to the increase in retained earnings arising from the excess of the year's earnings over dividends distributed to shareholders partially offset by the movement in the cash flow hedge reserve.

Likely developments, expected results and risk factors

On a "business as usual" basis, the Company expects profitability in 2014-15 to be broadly in line with the result in 2013-14 but this guidance is subject to changes that may arise as a result of transfer of control to the CK Consortium (refer below), the impact of any abnormal items that may occur and excludes final financial advisory transaction and related fees associated with the CK Consortium takeover offer.

Beyond the risk to the Group's revenues from fluctuations in weather, the main risks to achieving the expected profit result in 2014-15 are unforeseen variations in operating and borrowing costs. Whilst these costs are not expected to materially fluctuate from expectations implicit in the above profit forecast, some variation in these costs is possible particularly in the area of system use gas and leak maintenance costs, and also interest costs from unhedged debt (the Company's policy is to hedge between 80% and 100% of variable rate debt).

Operating and financial review (continued)

Likely developments, expected results and risk factors (continued)

Further impacts on the income statement from "hedge accounting ineffectiveness" ($2.6 million profit recorded in 2013-14 – refer note 9) may also provide variation to the net profit result.

The capital expenditure program in 2014-15 will again be focused on capacity enhancements, mains replacement and several major projects to be undertaken during the year which will connect new areas to the network as well as increasing supply to high demand areas. In total, around 455km of mains are expected to be replaced.

CK Consortium takeover proposal

On 15 July 2013, the Envestra Group received a proposal from APA Group to acquire all issued capital which it did not currently own through a Scheme of Arrangement. After the Envestra Independent Board Committee (IBC) formed by Envestra to consider the proposal rejected this initial offer, on 17 December 2013 Envestra received a revised proposal from the APA Group, and the IBC resolved by majority to proceed with the steps necessary to put the revised proposal before Envestra shareholders for their consideration. On 4 March 2014 Envestra entered into a Scheme Implementation Agreement with APA Group. A shareholder Scheme Meeting was arranged for 13 May 2014.

On 7 May 2014, Envestra received an alternative, indicative, non-binding and conditional takeover proposal from the CK Consortium to acquire all of Envestra's shares for a cash consideration of $1.32 per share. As a result the Scheme Meeting was adjourned to allow the IBC to consider the alternative offer. On 30 May 2014 Envestra entered into a Bid Implementation Agreement with the CK Consortium and unanimously recommended the offer to shareholders. The Scheme Implementation Agreement with APA Group was terminated on this day.

The CK Consortium offer to shareholders opened on 4 July 2014.

On 7 August 2014, the offer was declared "unconditional" upon the 50% minimum acceptance level of the offer being reached. Accordingly a change of control of the Envestra Group occurred.

The implication of the change in control to the CK Consortium, particularly in relation to future strategic direction and potential developments, cannot be determined at the date of this report. The CK Consortium's intentions regarding future operations are broadly outlined in the Bidders Statement sent to shareholders on 4 July 2014.

Significant changes in the state of affairs

No changes other than the CK Consortium offer referred to above, have occurred during the year which significantly changes the state of affairs of the Group.

Environmental regulation

A Voluntary Risk Assessment has been prepared and submitted to the Victorian Environmental Protection Authority ("EPA") in respect of the sites owned by the Group at Sale and Warragul that were formerly used for the manufacture of town gas. Remedial work for the site owned at Warragul was undertaken and completed during the year.

In respect to the site at Sale, under Victorian law, the ultimate liability for remediation costs potentially lies with the original polluter. The contamination is believed to have occurred when the site was owned and operated as a coal gas plant by two third parties. Whilst it is possible that these remediation costs will either be assumed by the third parties, or alternatively recovered from them, the matter is yet to be determined. Accordingly, the estimated liability continues to be recorded in the financial statements at 30 June 2014.

Dividends – Envestra Limited

The following dividends were paid during the year covered by this report:

	Cents per ordinary share	Total dividend $million
Dividend on 31 October 2013	3.2	57.5
Dividend on 30 April 2014	3.2	57.5
Total dividends paid in 2013-14	6.4	115.0

Indemnity and insurance of officers

Each Director and Executive Officer of Envestra is indemnified against liability as such an officer, to another person (except Envestra and its related bodies corporate), unless the liability arises out of conduct involving a lack of good faith. They are also indemnified for costs of defending proceedings in which judgement is given in their favour, or in which they are acquitted, or the claim is withdrawn. The Directors and Officers (Senior Executives) are also indemnified under Deeds of Access, Insurance and Indemnity.

The Company has paid a premium during the period of this report under a contract which insures the officers, Directors and executives.

In addition to this and in accordance with the Bid Implementation Agreement between Envestra and the CK Consortium, Directors' and Officers' Liability Insurance seven year "run-off" cover was implemented upon the CK Consortium offer being declared "unconditional" on 7 August 2014.

A condition of the insurance is that the nature of the liability indemnified, the premium payable and certain other details of the policy not be disclosed.

Non-audit services

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in note 23.

The Board of Directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out in note 23, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor.
- None of the services undermines the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

Matters subsequent to the end of the financial year

The status of the offer from the CK Consortium has been reported under "CK Consortium takeover proposal" on page 3 of the Directors' Report.

The Directors are not aware at the date of this report of any other matter or circumstance which has arisen since 30 June 2014 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years; or
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

Information on Directors

John Allpass FCA, FCPA, FAICD *Chairman – non-executive*
Experience and expertise
Chairman sine 2002 (Director since 1997).
Chartered accountant with over 30 years' experience in the accounting profession. Former Managing Partner, KPMG (Queensland).

Other current directorships
Schiphol Australia Pty Ltd (since November 2010); Brisbane Airport Corporation Pty Ltd (alternate director since September 2009).

Former directorships
Member of KPMG National Board. Director: Macquarie Bank Limited (1994-2007); Queensland Investment Corporation (1991-2008); BrisConnections Management Company Ltd (2008-2013); BUPA Australia Pty Ltd (1999-2013); and BUPA Australia Holdings Pty Ltd (2008-2013).

Special responsibilities
Chairman of the Board
Chairman of the Remuneration Committee
Chairman of the Independent Board Committee (formed to consider the proposed APA merger and CK Consortium takeover)
Member of Due Diligence Committee (formed to consider the proposed APA merger)

Information on Directors (continued)

Ian Little FCA,BCA, MBA, MAICD *Managing Director*
Experience and expertise
Executive director since 2003.
Chartered accountant with over 30 years' experience in the energy industry.

Other current directorships
Chairman, Australian Gas Industry Trust (Director since December 2006); Chairman, University of South Australia Business School Advisory Board (since May 2012 and member since May 2010); and Director, Energy Supply Association of Australia (since November 2012).

Former directorships
Director and Chairman, South Australian Botanic Gardens and State Herbarium (2005-2011) and Director Phoenix Society (2009-2012).

Special responsibilities
Member of Independent Board Committee (formed to consider the proposed APA merger and CK Consortium takeover)
Member of the Due Diligence Committee (formed to consider the proposed APA merger)

Fraser Ainsworth AM B Comm, FAICD
Experience and expertise
Independent Director since 2004.
More than 40 years' experience in the Australian resources and energy sectors. Former Managing Director of SAGASCO Holdings Group (1988-1994) and Delhi Petroleum Pty Ltd (1983-1987).

Other current directorships
Chairman, Horizon Oil Limited (since December 2001) and Chairman, Tarac Australia Limited (since January 2006, deputy Chairman from 1996-2005).

Former directorships
Chairman, SA Generation Corporation (1996-2000) and Bionomics Ltd (1997-2004), and Non-executive Director, Oil Search Ltd (2002-2010).

Special responsibilities
Member of Audit Committee
Member of Remuneration Committee
Chairman of Due Diligence Committee (formed to consider the proposed APA merger)
Member of the Independent Board Committee (formed to consider the proposed APA merger and CK Consortium takeover)

Olaf O'Duill B Comm (Hons), FAICD, SFFin
Experience and expertise
Independent Director since 2000.
Extensive experience in a wide range of commercial endeavours.

Former directorships
Chairman: National Electricity Market Management Company Ltd (1996-1999); Southern Healthcare Network (1995-1999); Amrad Corporation Ltd (2002-2004); and, Tower Ltd (2000-2006). Director: McPhersons Ltd (1995-2003); Sigma Compnay Ltd (1995-2002); and, Sunraysia Television Ltd (1992-2008).

Special responsibilities
Chairman of Audit Committee
Member of the Remuneration Committee
Member of the Independent Board Committee (formed to consider the proposed APA merger and CK Consortium takeover)

Ivan Chan BSc, LLB, MBA
Experience and expertise
Director since 2007.
Some 25 years' experience in banking, investment and finance. Currently, Chief Planning and Investment Officer, Cheung Kong Infrastructure Holdings Ltd and Chief Financial Officer, Power Assets Holdings Limited.

Special responsibilities
Member of the Independent Board Committee (formed to consider the proposed APA merger)

Information on Directors (continued)

Dominic Chan FCPA FCCA
Experience and expertise
Director since 2005.
Certified Public Accountant with some 30 years' experience in the financial management and accounting professions. Currently, Chief Financial Officer, Cheung Kong Infrastructure Holdings Ltd.

Other current directorships
Executive Director, Cheung Kong Infrastructure Holdings Ltd; Executive Director, Power Assets Holdings Limited; Director, HK Electric Investments Manager Ltd; and Executive Director, HK Electric Investments Ltd

Former directorships
Director: Spark Infrastructure; Cambridge Water PLC; ETSA Utilities; Powercor Australia Ltd; and, CitiPower Pty Ltd.

Ross Gersbach B Bus, CPA, MAICD
Experience and expertise
Director since 2007.
Extensive experience in the infrastructure sector of the energy industry. Currently, Chief Executive, Strategy and Development, APA Group.

Former directorships
Director: APA Group (2006-2008); Elgas Ltd (2004-2006); and, ActewAGL (2004-2006).

Special responsibilities
Member of Audit Committee

Michael McCormack B Surv, Grad Dip Eng, MBA, FAICD
Experience and expertise
Director since 2007.
More than 25 years experience in the infrastructure sector of the energy industry. Currently, Managing Director, APA Group.

Other current directorships
Chairman of a number of APA Group subsidiary companies.

Former directorships
Director Australian Pipeline Industry Association (2004-2013).

Company secretary

Mr D C Petherick was appointed to the position of Joint Company Secretary when the Company was formed in 1997. He has fulfilled this role on a permanent basis since 2006. Mr Petherick has over 30 years' experience in the gas industry including 10 years as Secretary to various South Australian government energy ministers.

Mr P May and Mr G Barton were joint Company Secretaries as at 30 June 2014.

Meetings of Directors

The number of Directors' meetings and meetings of committees of Directors held during the period for which each Director held office between 1 July 2013 to 30 June 2014, and the number of meetings attended by each Director were:

	Meetings of Directors		Meetings of committees							
	Full meetings (iii)		Independent Board		Due Diligence		Audit		Remuneration	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
J G Allpass (i)	12	12	33	33	8	8	-	-	-	-
I B Little (i)	12	12	33	33	8	8	-	-	-	-
E F Ainsworth	12	12	33	33	8	8	4	4	2	2
D L S Chan	12	10	-	-	-	-	-	-	-	-
I K H Chan (i) (ii)	12	12	22	18	-	-	-	-	-	-
R M Gersbach	8	8	-	-	-	-	4	4	-	-
M J McCormack	8	8	-	-	-	-	-	-	-	-
O B O'Duill	12	11	33	27	-	-	4	4	2	2

(i) Mr J G Allpass and Mr I B Little attended four Audit Committee and two Remuneration Committee meetings, and Mr I K H Chan attended two Audit Committee meetings.

(ii) Mr I K H Chan was a conflicted Director following the CK Consortium takeover proposal, and the Independent Board Committee was reconstituted on 9 May 2014.

(iii) Includes four concurrent meetings of the Board and Independent Board Committee.

Remuneration report

The information provided under headings A – D includes remuneration disclosures that are required under the *Corporations Act 2001* and the *Corporations Regulations 2001*.

The information provided in this remuneration report has been audited as required by Section 308(3C) of the *Corporations Act 2001*.

A Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders and conforms to market practice for delivery of reward.

The Group has structured an executive remuneration framework that is market competitive and complementary to the strategy of the organisation.

The framework caters for shareholders' interests in that it:

- Has economic performance as a core component of plan design.
- Takes into consideration returns to shareholders.
- Attracts and aims to retain high calibre executives.

The framework caters for employees' interests in that it:

- Rewards capability and experience.
- Rewards contribution to growth in shareholder wealth and/or Group earnings.
- Provides a clear structure for earning rewards.
- Provides recognition of individuals' contributions.

The Remuneration Committee advises the Board on remuneration policies and practices, and makes recommendations on remuneration packages and other terms of employment for the Managing Director and other senior executives, having regard to the need to attract, retain and develop appropriately skilled people.

Each member of the senior management team is employed under a contract covering a range of matters including their duties, rights, responsibilities and entitlements on termination.

The Committee, having regard to personal and corporate performance and relevant comparative information provided by an external professional human resources consultant, reviews remuneration of the senior management team annually.

Remuneration for senior executives comprises both fixed remuneration and incentives (bonuses). The bonuses are based on a combination of the Group's results and individual performance levels. The payment of bonuses is dependent upon the achievement of operating and financial targets set at the beginning of each year.

Each employee has a list of personal key performance indicators (KPIs) set by the Managing Director and reviewed by the Remuneration Committee, against which performance is measured.

Performance against the KPIs is considered by the Managing Director and the Remuneration Committee as part of their deliberations as to individual bonuses. Any bonus is based on a combination of individual performance (40%) and corporate outcomes (60%). The Managing Director is assessed entirely on the corporate outcomes.

The maximum bonus for the Managing Director is 45% (including 15% deferred) of his base salary. The maximum bonus for the Company Secretary, Group Manager – Commercial, Group Manager – Finance, Group Manager – Treasury and Risk is 37.5% (including 12.5% deferred), and for the Group Manager - Regulation is 20%. For all other senior executives the maximum bonus is 20% of their base salaries.

The Managing Director, Company Secretary, Group Manager – Commercial, Group Manager – Finance, and Group Manager – Treasury and Risk are entitled to payment of the deferred portion of their bonus after three years' service following the year in which the initial bonus was awarded. The deferred bonus is equivalent to 50% of the bonus awarded three years earlier.

The Company does not operate an Employee Share Option Plan.

Non-executive directors
Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-executive Directors' fees and payments are reviewed annually by the Board. The Chairman's fee has been set at twice the fees of non-executive Directors.

Remuneration report (continued)

A Principles used to determine the nature and amount of remuneration (continued)

Directors' fees
The current base remuneration was last increased with effect from 1 July 2010. The non-executive Director who chairs the Audit Committee as well as other members of the Committee receive additional fees for their services.

In addition, Mr Fraser Ainsworth and Mr John Allpass received additional fees ($25,000 and $15,000, respectively) for their membership of the Due Diligence Committee established during 2013-14 to assess aspects of the merger proposal from the APA Group.

Non-executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $900,000.

Retirement allowances for directors
Until June 2003, non-executive Directors were entitled to receive retirement benefits on a sliding scale based on the number of years served on the Board. The maximum retirement benefit was payable after 10 years of service and is calculated as three times the average annual emoluments of the Director over the three years before the date of retirement.

The Retirement Benefit Scheme was suspended as at 30 June 2003 and the period of service at that time was used to determine the benefit payable to the Directors as at 30 June 2003. The benefit payable at the time of retirement is calculated using 10/13 of the three year average salary immediately preceding the date of retirement and the years of service up to 30 June 2003. The liability for the payment of this benefit is adjusted for changes in fees paid annually and incorporated in the provision in the financial statements. Only two Directors are entitled to retirement benefits accrued prior to 30 June 2003. They are Mr John Allpass and Mr Olaf O'Duill.

Executive pay
The executive pay and reward framework has three components:

- Base pay and benefits.
- Superannuation.
- Performance incentives (bonuses).

Base Pay
This is structured as a total employment cost package (TEC) which may be delivered as a combination of cash and prescribed non-financial benefits at the executive's discretion.

The Remuneration Committee received information from Geoff Nunn and Associates (GNA) through the annual survey conducted in April 2014 of remuneration packages in the utilities sector. The advice was used to ensure base pay reflects the market for a comparable role. Base pay for senior executives is reviewed annually to ensure the executives' pay is competitive with the market.

The Board's decisions on senior executives' packages are made independently using the advice provided by GNA and having regard to Envestra's financial circumstances.

Benefits
Executives are provided with death and total disability insurance cover, salary continuance insurance cover and company funded car parking. The cost of these benefits is taken into consideration when determining the total employment cost packages as outlined on the following pages. The provision of a fully maintained vehicle is at the executive's discretion, the cost of which is part of the total employment cost package.

Superannuation
The Company contributes superannuation to the executive's nominated fund. All superannuation contributions are treated as part of the executive's salary package.

Short-term performance bonus
Each year, the Remuneration Committee considers the performance against the Company's strategic business plans and KPIs to assist in determining bonuses. The payment of bonuses is at the discretion of the Board acting on advice from the Remuneration Committee.

For the year ended 30 June 2014, the KPI targets reflect performance against profit after tax, cash flow, management of the proposed APA merger and subsequently the CK Consortium proposed takeover of Envestra, capital expenditure, the management of environmental activities and shareholder returns, as well as other key strategic measures related to drivers of performance in future reporting periods.

Remuneration report (continued)

A Principles used to determine the nature and amount of remuneration (continued)

Further details on these corporate objectives and performance against them are as follows:

Financial measures

Objectives: Profit after Tax, and cash flow available for dividends.

Outcomes: A 42% increase in Profit after Tax to $153.0 million was recorded and cash flow per share available for dividends was 12.0 cents (12.6 cents in 2012-13).

Commercial and Regulatory measures

Objective: Resolve APA Group's merger proposal in a manner satisfactory to the Independent Board Committee.

Outcome: the proposed Scheme of Arrangement with APA Group was not implemented after an offer from the CK Consortium was received on 7 May 2014. The CK Consortium offer of $1.32 per Envestra share implied an enterprise value for the Company of around $4.5 billion and a market capitalisation of around $2.4 billion. Envestra's Independent Board Committee unanimously recommended this transaction to shareholders.

Objective: Resolve remediation of the former gasworks site in Sale (Victoria).

Outcome: Due to significant delays caused by the Victorian Environment Protection Authority limited progress was made in resolving which party would be responsible for any future clean-up of the site. However remediation was completed at another Victorian site.

Objective: Customer connections are to exceed 24,000, complete 460 kilometres of mains replacement and complete the $275 million capital expenditure program.

Outcome: Customer connections were 21,317, a total of 512 kilometres of gas mains were replaced and a total of $253.3 million of capital expenditure was undertaken.

Total Shareholder Returns (TSR)

Objective: Achieve a TSR in excess of 10% for the year (includes movement in market prices of the securities).

Outcome: The market price of the Company's shares rose 36.7% over the 12 months to 30 June 2014, and shareholders holding shares at 1 July 2013 received a dividend yield of 6.4%. Total shareholder return was 43.1%. This outcome was significantly influenced by the proposed APA Group merger and subsequent CK Consortium takeover proposal.

Sound results were achieved across a range of corporate measures in addition to those outlined above. Each of the executives performed to a high standard against their personal KPIs, while several executives were heavily involved in responding to the merger and takeover proposals.

Deferred bonuses

Deferred bonuses are payable, on a rolling basis, after three years' service and are linked to the bonus paid in the year prior to the commencement of the three-year period. The provision of a deferred bonus recognises the need to ensure short-term targets are not achieved at the expense of the longer-term success of the business. Although executives are entitled to these further payments on completion of three years' service, the amount of any bonus in that third year will reflect any potential change in performance that has occurred as a result of inappropriate short-term bonus focus in previous years. The deferred bonus also recognises the small executive team within the business and the need to retain these senior executives in order to provide management stability.

The structuring of the deferred bonus such that it is linked to the short-term bonus earned three years previously provides an additional compensation mechanism that acts as an incentive for the executives to remain with the Group for the long term. Deferred bonuses are payable to the Managing Director, Company Secretary, Group Manager – Commercial, Group Manager – Finance, and Group Manager – Treasury and Risk.

B Details of remuneration

Amounts of remuneration

Details of the remuneration of the Directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of Envestra Limited and the Group are set out in the following tables.

The key management personnel of Envestra Limited and the Group includes the Directors as per page 1 and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entity:

- A Staniford – Group Manager - Commercial
- D Petherick – Company Secretary
- G Meredith – Group Manager – Treasury and Risk
- P May – Group Manager – Finance
- C de Laine – Group Manager - Regulation

Remuneration report (continued)

B Details of remuneration (continued)

Key management personnel of Envestra Limited and the Group

2014	Short-term employee benefits				Post-employment benefits		
	Cash salary and fees	Cash bonus (ii)		Non-monetary benefits	Super-annuation (ii)	Retirement benefits	Total
Name		STI	DSTI				
	$	$	$	$	$	$	$
Non-executive Directors							
J G Allpass *Chairman*	**177,225**	**-**	**-**	**-**	**17,775**	**(3,214)**	**191,786**
E F Ainsworth	**115,253**	**-**	**-**	**-**	**11,748**	**-**	**127,001**
D L S Chan *(i)*	**90,000**	**-**	**-**	**-**	**-**	**-**	**90,000**
I K H Chan *(i)*	**90,000**	**-**	**-**	**-**	**-**	**-**	**90,000**
R M Gersbach *(i)*	**102,000**	**-**	**-**	**-**	**-**	**-**	**102,000**
M J McCormack *(i)*	**90,000**	**-**	**-**	**-**	**-**	**-**	**90,000**
O B O'Duill	**98,010**	**-**	**-**	**-**	**9,990**	**(1,354)**	**106,646**
Sub-total non-executive Directors	**762,488**	**-**	**-**	**-**	**39,513**	**(4,568)**	**797,433**
Executive Director							
I B Little *Managing Director*	**573,442**	**142,600**	**62,050**	**21,084**	**17,775**	**-**	**816,951**
Other key management personnel							
A Staniford	**318,087**	**73,000**	**35,800**	**37,374**	**19,275**	**-**	**483,536**
D Petherick *(iv)*	**282,833**	**62,300**	**22,650**	**15,398**	**27,000**	**-**	**410,181**
G Meredith *(iv)*	**241,979**	**57,400**	**18,500**	**28,053**	**24,086**	**-**	**370,018**
P May *(iv)*	**245,375**	**57,400**	**18,500**	**30,075**	**17,775**	**-**	**369,125**
C de Laine *(iii)*	**195,823**	**35,000**	**-**	**6,769**	**19,960**	**-**	**257,552**
Total key management personnel compensation	**2,620,027**	**427,700**	**157,500**	**138,753**	**165,384**	**(4,568)**	**3,504,796**

(i) The Directors' fees for Mr D Chan and Mr I Chan were paid to Cheung Kong Infrastructure Holdings (Malaysian) Ltd. The fees for Mr M McCormack and Mr R Gersbach were paid to Australian Pipeline Ltd.
(ii) Short term incentive (STI) and Deferred short term incentive (DSTI). Bonus payments to key management personnel may be taken either as cash or superannuation.
(iii) Mr de Laine was not included in key management personnel in the prior financial year.
(iv) Included in 'cash salary and fees' is an additional remuneration amount in relation to work carried out as part of the APA/CK Consortium merger/takeover process.

2013	Short-term employee benefits				Post-employment benefits		
	Cash salary and fees	Cash bonus (ii)		Non-monetary benefits	Super-annuation (ii)	Retirement benefits	Total
Name		STI	DSTI				
	$	$	$	$	$	$	$
Non-executive Directors							
J G Allpass *Chairman*	163,800	-	-	-	16,200	10,735	190,735
E F Ainsworth	92,820	-	-	-	9,180	-	102,000
D L S Chan *(i)*	90,000	-	-	-	-	-	90,000
I K H Chan *(i)*	90,000	-	-	-	-	-	90,000
R M Gersbach *(i)*	102,000	-	-	-	-	-	102,000
M J McCormack *(i)*	90,000	-	-	-	-	-	90,000
O B O'Duill	98,280	-	-	-	9,720	2,711	110,711
Sub-total non-executive Directors	726,900	-	-	-	35,100	13,446	775,446
Executive Director							
I B Little *Managing Director*	557,936	137,400	36,750	19,216	15,928	-	767,230
Other key management personnel							
A Staniford	309,912	72,000	21,950	38,724	17,000	-	459,586
D Petherick	254,242	60,200	14,650	16,793	19,425	-	365,310
G Meredith	210,810	53,400	11,600	25,190	23,305	-	324,305
P May	213,697	53,400	13,000	28,480	16,470	-	325,047
Total key management personnel compensation	2,273,497	376,400	97,950	128,403	127,228	13,446	3,016,924

(i) The Directors' fees for Mr D Chan and Mr I Chan were paid to Cheung Kong Infrastructure Holdings (Malaysian) Ltd. The fees for Mr M McCormack and Mr R Gersbach were paid to Australian Pipeline Ltd.
(ii) Short term incentive (STI) and Deferred short term incentive (DSTI). Bonus payments to key management personnel may be taken either as cash or superannuation.

Remuneration report (continued)

C Service agreements

Remuneration and other terms of employment for the Managing Director and the other key management personnel are formalised in service agreements. The salary package is inclusive of the superannuation guarantee levy. Each of the agreements provide for the provision of performance-related cash bonuses, other benefits including death and permanent disability, and salary continuance insurance, and the provision of a fully maintained motor vehicle. The cost of any company provided vehicle is deducted from the employee's salary package. Other major provisions of the agreements relating to remuneration are set out below. Executive remuneration is reviewed annually by the Remuneration Committee.

I Little, *Managing Director*
- Term of agreement – non-specific, commencing 28 March 2003.
- Base salary, inclusive of superannuation, for the year ended 31 August 2014 of $594,100.
- Subject to performance, an annual bonus of up to 30% of base salary is payable.
- An additional deferred bonus is payable, equal to 50% of the short-term bonus paid three years earlier.
- Payment of termination benefit on termination by the Company, other than for gross misconduct, after six months' notice (subject to certain conditions), equal to 12 months' base salary plus an amount equal to the last short-term bonus paid prior to the termination.

A Staniford, *Group Manager - Commercial*
- Term of agreement – non-specific, commencing 1 August 2000.
- Base salary, inclusive of superannuation, for the year ended 31 August 2014 of $359,200.
- Subject to performance, an annual bonus of up to 25% of base salary is payable.
- An additional deferred bonus is payable, equal to 50% of the short-term bonus paid three years earlier.
- Payment of termination benefit on termination by the Company, other than for gross misconduct, equal to 18 months' base salary (including six months' period of notice).

D Petherick, *Company Secretary*
- Term of agreement – non-specific, commencing 1 September 1997.
- Base salary, inclusive of superannuation, for the year ended 31 August 2014 of $283,200.
- Subject to performance, an annual bonus of up to 25% of base salary is payable.
- An additional deferred bonus is payable, equal to 50% of the short-term bonus paid three years earlier.
- Payment of termination benefit on termination by the Company, other than for gross misconduct, equal to 12 months' base salary (including three months' period of notice).

G Meredith, *Group Manager – Treasury and Risk*
- Term of agreement – non-specific, commencing 1 August 2000.
- Base salary, inclusive of superannuation, for the year ended 31 August 2014 of $261,000.
- Subject to performance, an annual bonus of up to 25% of base salary is payable.
- An additional deferred bonus is payable, equal to 50% of the short-term bonus paid three years earlier.
- Payment of termination benefit on termination by the Company, other than for gross misconduct, equal to 12 months' base salary (including three months' period of notice).

P May, *Group Manager - Finance*
- Term of agreement – non-specific, commencing 4 April 2005.
- Base salary, inclusive of superannuation, for the year ended 31 August 2014 of $261,000.
- Subject to performance, an annual bonus of up to 25% of base salary is payable.
- An additional deferred bonus is payable, equal to 50% of the short-term bonus paid three years earlier.
- Payment of termination benefit on termination by the Company, other than for gross misconduct, equal to 12 months' base salary (including three months' period of notice).

C de Laine, *Group Manager - Regulation*
- Term of agreement – non-specific, commencing 24 October 2005.
- Base salary, inclusive of superannuation, for the year ended 31 August 2014 of $220,000.
- Subject to performance, an annual bonus of up to 20% of base salary is payable.
- Payment of termination benefit on termination by the Company, other than for gross misconduct, equal to 12 months' base salary (including three months' period of notice).

Remuneration report (continued)

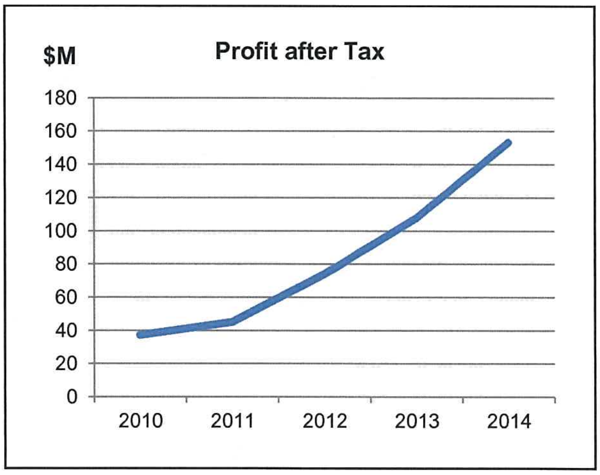
D Additional information

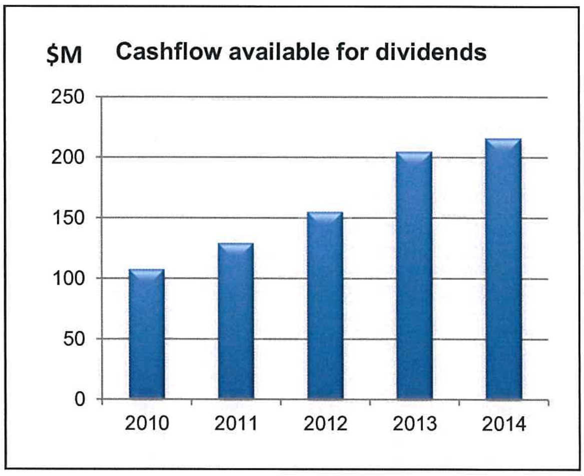
Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance

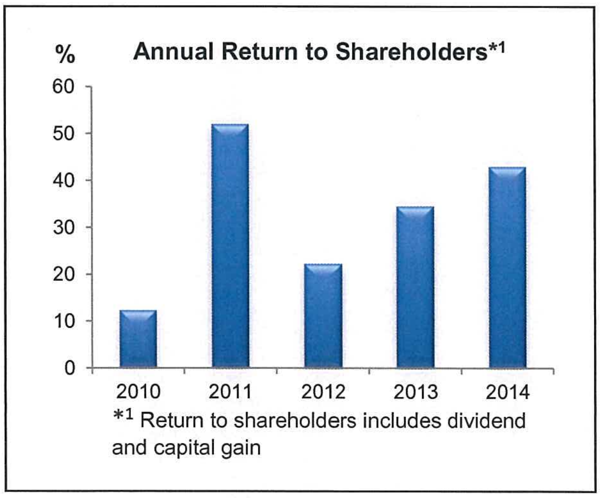
The following table sets out the Group's performance over the past five years in respect of the key financial and non-financial indicators used to measure year-on-year performance, as well as historic shareholder return data.

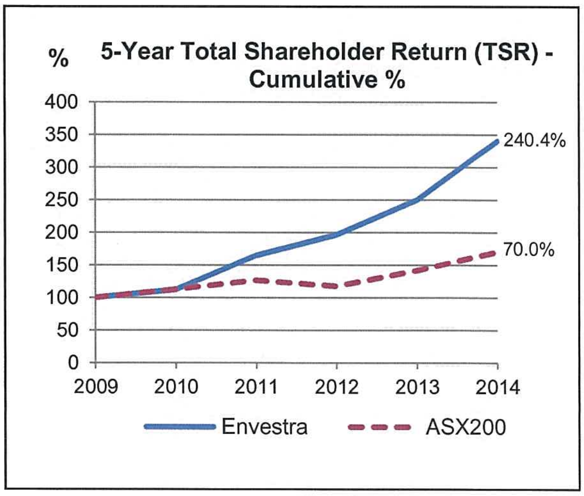
	2010	2011	2012	2013	2014
Gas volumes <10TJ consumers	47,228	52,878	49,847	51,020	48,189
New consumers (i)	24,101	26,712	25,760	23,246	21,317
Total revenue and income ($m) (ii)	382.7	424.2	468.6	507.5	554.4
Net profit after tax ($m)	37.2	45.0	73.9	107.8	153.0
Cash flow available for dividends ($m)	107.4	129.1	155.1	205.0	216.2
Capital expenditure ($m)	97.8	129.2	176.1	217.4	253.3
Return to shareholders (%)	12.3	52.0	22.2	34.5	43.1
Earnings per share (cents)	2.8	3.2	4.9	6.6	8.5

(i) 2011 data excludes customers in Envestra (NSW) Pty Limited acquired through business acquisition on 29 October 2010.
(ii) Excludes interest income.









Remuneration report (continued)

D Additional information (continued)

Details of remuneration: cash bonuses
For each short-term cash bonus included in the tables on page 10, the percentage of the available bonus paid, in the financial year, is set out below.

Name	Maximum bonus (excluding deferred) %	Bonus paid $	Percentage of maximum bonus %	Deferred Bonus $	Total 2014 $	Total 2013 $
I Little	30	142,600	80	62,050	**204,650**	174,150
A Staniford	25	73,000	81	35,800	**108,800**	93,950
D Petherick	25	62,300	88	22,650	**84,950**	74,850
G Meredith	25	57,400	88	18,500	**75,900**	65,000
P May	25	57,400	88	18,500	**75,900**	66,400
C de Laine	20	35,000	80	-	**35,000**	N/A

The bonus can be taken as cash and/or a contribution to superannuation.

Directors' shareholdings

Particulars of the ordinary shares held by each Director of the Company and Director related entities, as at 30 June 2014 were:

Director	Holding 30 June 2013	Movement during the year	Holding 30 June 2014 (iii)
J G Allpass	399,632	-	**399,632**
I B Little	151,362	-	**151,362**
E F Ainsworth	66,000	-	**66,000**
D L S Chan (i)	-	-	**-**
I K H Chan (i)	-	-	**-**
O B O'Duill	231,923	-	**231,923**
M J McCormack (ii)	66,681	-	**66,681**
R M Gersbach (ii)	-	-	**-**

(i) Mr D L S Chan and Mr I K H Chan are representatives of Cheung Kong Infrastructure Holdings (Malaysian) Ltd which at 30 June 2014 owned 313,645,693 (17.46%) ordinary shares in Envestra.

(ii) Mr M J McCormack and Mr R M Gersbach are representatives of APA Pipeline Ltd which at 30 June 2014 owned 593,755,789 (33.05%) ordinary shares in Envestra.

(iii) Each Director who held shares in Envestra at 30 June 2014 accepted the CK Consortium takeover offer for all of the issued shares in Envestra Limited. The offer became "unconditional" on 7 August 2014.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 14.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report and financial statements. Amounts in the Directors' report and financial statements have been rounded off in accordance with that Class Order to the nearest million dollars, unless specifically stated otherwise.

John G Allpass
Chairman

Adelaide
14 August 2014

Auditor's Independence Declaration

As lead auditor for the audit of Envestra Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Envestra Limited and the entities it controlled during the year.

Andrew Forman
Partner
PricewaterhouseCoopers

Adelaide
14 August 2014

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	Notes	2014 $mill.	2013 $mill.
Revenue from continuing operations			
Network services		**554.4**	507.0
Total revenue from continuing operations		**554.4**	507.0
Net gain on disposal of property, plant and equipment		**-**	0.5
Total revenue and income excluding finance income		**554.4**	507.5
Network operating costs		**(125.0)**	(123.0)
Gas purchases		**(13.1)**	(14.1)
Corporate development, property and administration costs		**(14.3)**	(10.1)
Total operating costs		**(152.4)**	(147.2)
Depreciation and impairment	5	**(62.2)**	(58.6)
Profit before finance costs and tax		**339.8**	301.7
Finance income		**0.3**	0.9
Finance costs		**(121.4)**	(148.8)
Net finance costs	5	**(121.1)**	(147.9)
Profit before income tax expense		**218.7**	153.8
Income tax expense	6	**(65.7)**	(46.0)
Net profit after tax		**153.0**	107.8
		Cents	Cents
Basic and diluted earnings per share attributable to ordinary equity holders of Envestra Limited	30	**8.5**	6.6

The Consolidated Income Statement should be read in conjunction with the accompanying notes.

	Notes	2014 $mill.	2013 $mill.
Net profit after tax for the financial year		**153.0**	107.8
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit and loss			
Changes in the fair value of cash flow hedges	20	**(26.8)**	33.4
Income tax benefit/(expense) relating to changes in the fair value of cash flow hedges	20	**8.0**	(10.0)
Other comprehensive income/(expense) for the financial year		**(18.8)**	23.4
Total comprehensive income for the financial year		**134.2**	131.2
Profit for the financial year is attributable to:			
Owners of Envestra Limited		**153.0**	107.8
Total comprehensive income for the financial year is attributable to:			
Owners of Envestra Limited		**134.2**	131.2

The Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

	Notes	2014 $mill.	2013 $mill.
ASSETS			
Current assets			
Cash and cash equivalents	7	**3.5**	1.0
Receivables	8	**75.8**	82.7
Other assets	10	**3.0**	2.5
Total current assets		**82.3**	86.2
Non-current assets			
Receivables	8	**2.5**	4.8
Property, plant and equipment	11	**2,689.4**	2,497.0
Intangible assets	12	**606.0**	606.0
Deferred tax assets	13	**-**	-
Derivative financial instruments	9	**8.8**	42.9
Total non-current assets		**3,306.7**	3,150.7
Total assets		**3,389.0**	3,236.9
LIABILITIES			
Current liabilities			
Payables	14	**53.4**	47.2
Borrowings	15	**-**	3.0
Provisions	16	**3.5**	3.3
Derivative financial instruments	9	**0.8**	2.3
Other liabilities	17	**15.6**	70.9
Total current liabilities		**73.3**	126.7
Non-current liabilities			
Borrowings	15	**2,143.4**	2,019.5
Provisions	16	**6.8**	10.4
Derivative financial instruments	9	**51.6**	43.3
Deferred tax liabilities	18	**252.9**	195.2
Total non-current liabilities		**2,454.7**	2,268.4
Total liabilities		**2,528.0**	2,395.1
Net Assets		**861.0**	841.8
EQUITY			
Contributed equity	19	**869.7**	869.7
Reserves	20	**(18.4)**	0.4
Retained earnings/(accumulated losses)	20	**9.7**	(28.3)
Total Equity		**861.0**	841.8

The Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

	Notes	Contributed Equity $mill.	Reserves $mill.	Accumulated Losses $mill.	Total Equity $mill.
Balance at 1 July 2012		651.8	(23.0)	(42.4)	586.4
Profit for the financial year		-	-	107.8	107.8
Other comprehensive income for the financial year		-	23.4	-	23.4
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax	19	217.9	-	-	217.9
Dividends paid	21	-	-	(93.7)	(93.7)
Balance at 30 June 2013		869.7	0.4	(28.3)	841.8
Profit for the financial year		**-**	**-**	**153.0**	**153.0**
Other comprehensive expense for the financial year		**-**	**(18.8)**	**-**	**(18.8)**
Transactions with owners in their capacity as owners					
Dividends paid	21	**-**	**-**	**(115.0)**	**(115.0)**
Balance at 30 June 2014		**869.7**	**(18.4)**	**9.7**	**861.0**

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

	Notes	2014 $mill.	2013 $mill.
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**565.2**	575.1
Payments to suppliers and employees (inclusive of goods and services tax)		**(200.5)**	(197.5)
		364.7	377.6
Finance income received		**0.3**	0.9
Finance costs paid		**(119.4)**	(144.7)
Net cash inflow from operating activities	28	**245.6**	233.8
Cash flows from investing activities			
Payments for property, plant and equipment		**(253.3)**	(217.4)
Proceeds from sale of property, plant and equipment		**-**	0.9
Payments for remediation of land		**(2.1)**	(8.9)
Net cash outflow from investing activities		**(255.4)**	(225.4)
Cash flows from financing activities			
Proceeds from issue of ordinary shares	19	**-**	219.0
Proceeds from borrowings		**377.8**	342.5
Repayment of borrowings		**(249.8)**	(471.8)
Dividends paid	21	**(115.0)**	(93.7)
Debt and capital raising costs		**(0.7)**	(4.4)
Net cash inflow/(outflow) from financing activities		**12.3**	(8.4)
Net increase in cash and cash equivalents		**2.5**	-
Cash and cash equivalents at the beginning of the financial year		**1.0**	1.0
Cash and cash equivalents at the end of the financial year	7	**3.5**	1.0

The Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the two years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Envestra Limited and its subsidiaries. The financial statements are presented in the Australian currency.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Envestra Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were approved by the Board of Directors on 14 August 2014.

Compliance with IFRS
The consolidated financial statements of Envestra Limited also comply with International Financial Reporting Standards (IFRS).

Accounting convention
While certain assets and liabilities are presented in accordance with the historical cost convention, certain financial assets and liabilities (including derivative instruments) are recorded at fair value through the income statement and cash flow hedge reserve.

New and amended standards adopted by the Group
The Group has applied AASB 13 *Fair Value Measurement* for first time for their annual reporting period commencing 1 July 2013. The adoption of AASB 13 resulted in an update to the valuation methodology for derivatives to include credit risk in fair market value.

None of the other new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2013 affected any disclosures or any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

Critical accounting estimates
The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(b) Principles of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The consolidated financial statements incorporate the activities and affairs of Envestra Limited ("Envestra") and its controlled entities (the "Group"):

Envestra (SA) Holdings 1 Limited ACN 008 181 066
Envestra (SA) Limited ACN 008 139 204
Envestra (QLD) Limited ACN 009 760 883
Envic Holdings 1 Pty Ltd ACN 085 882 337
Envic Holdings 2 Limited ACN 085 882 364
Envestra Victoria Pty Ltd ACN 085 882 373
Vic Gas Distribution Pty Ltd ACN 085 899 001
The Albury Gas Co Ltd ACN 000 001 249
Envestra (NSW) Holdings 1 Pty Limited ACN 108 315 957
Envestra (NSW) Holdings 2 Pty Limited ACN 108 316 249
Envestra (NSW) Holdings 3 Pty Limited ACN 108 316 007
Envestra (NSW) Pty Limited ACN 083 199 839

The effects of transactions between the entities within the Envestra Group are eliminated on consolidation.

1 Summary of significant accounting polices (continued)

(c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling on that date. Foreign exchange differences arising on translation are recognised in the income statement.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Service revenue represents revenue earned from the provision of gas distribution haulage services and is recognised when the service is provided. Customer contributions are made in relation to various capital projects and are recognised when work has been substantially completed.

Interest revenue includes interest income on money invested and is recognised when the interest is earned. Dividends are recognised as revenue when the right to receive payment is established.

(e) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs to be incurred on particular projects are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to depreciable assets are recognised by reducing the carrying amount of the asset.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the Federal income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and for unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset, or a liability. No deferred tax asset, or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit, or taxable profit or loss.

Deferred tax assets and deferred tax liabilities associated with indefinite life intangibles are measured on the basis that these assets are not depreciated.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Envestra Limited and its controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

1 Summary of significant accounting polices (continued)

(g) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation or depreciation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(h) Cash and cash equivalents

Cash includes cash on hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts.

Envestra Limited holds a deposit at call account in New Zealand which is translated into Australian dollars using the spot rate at balance date. The account is held to make dividend payments to New Zealand shareholders.

(i) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

The Access Arrangement covering the South Australian and Queensland networks requires the retailer to pay for gas delivered within 30 days.

The Access Arrangements covering the Victorian and NSW networks require distributors to charge retailers and large industrial customers when the end user is billed.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is used when there is objective evidence that the Group will not be able to collect all amounts due.

A provision for doubtful debts is recorded based on historical evidence of credit recovery in relation to invoices raised for miscellaneous items, such as costs to repair damage to the network caused by a third party. No provision has been raised for impairment in relation to debtors associated with any of the Access Arrangements because no debts are considered doubtful.

(j) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised liabilities (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 9. Movements in the hedging reserve in shareholders' equity are shown in note 20. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the derivative is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the derivative is less than 12 months.

(i) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to hedged risk.

1 Summary of significant accounting polices (continued)

(j) Derivatives (continued)

(ii) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(k) Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation. Cost includes expenditure directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Category	*Useful life (years)*
Buildings	40
Furniture, fittings and computer equipment	3–10
Gas mains and inlets:	
• Polyethylene	60
• Steel	100
• Cast iron	120
• Gas meters	25
• Regulators	50
• Gate stations	50
• Telemetry equipment	10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (note 1(g)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(l) Intangible assets

The distribution licences held by Vic Gas Distribution Pty Ltd and Envestra (NSW) Pty Limited, which are recorded in the financial statements at $585.6 million and $17.7 million respectively, and the other intangible asset held by Envestra (NSW) Pty Limited of $2.7 million, in the opinion of the Directors have an indefinite life. Therefore no amortisation charge has been included in the financial statements. An assessment of the recoverable amount of the intangibles is made at the time of preparing the half yearly and annual financial reports to ensure they are not below the carrying amounts of the intangibles (refer note 12).

(m) Trade and other payables

Trade accounts payable, including accruals not yet billed, are recognised when the Envestra Group becomes obliged to make future payments as a result of a purchase of assets or services. Trade accounts payable are generally settled within 30 days.

(n) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

For borrowings designated in a fair value hedge, carrying value is equal to fair value less transaction costs (refer note 1(j)(*i*)).

1 Summary of significant accounting polices (continued)

(o) Borrowing costs

Borrowing costs include:

- interest and indexation on borrowings;
- amortisation of debt establishment costs;
- ancillary costs, including fees;
- ineffective derivatives; and
- CIB redemption costs/income.

(p) Employee benefits

(i) Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised as current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. No provision for sick leave has been included in the financial statements.

(ii) Long service leave
A liability for long service leave is recognised and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on Australian government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Other
The Envestra Group had 15 employees as at 30 June 2014 (15 as at 30 June 2013). The operational activities of the Group are undertaken by APA Asset Management and associated subcontractors.

(q) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(r) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period, but not distributed at the end of the reporting period.

Dividends declared after the end of the reporting period, whether or not paid prior to signing of the accounts are not recognised as a liability and are disclosed in note 21.

(s) Earnings per share

(i) Basic earnings per share
Basic earnings per share is determined by dividing the profit after income tax attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share
The diluted earnings per share are the same as the basic earnings per share as the Company has no options or other potential ordinary shares.

1 Summary of significant accounting polices (continued)

(t) New accounting standards and interpretations

Certain new Accounting Standards and Interpretations have been published that are not mandatory for 30 June 2014 reporting periods. The Group's assessment of the impact of these new Standards and Interpretations is set out below.

(i) AASB 9 Financial Instruments
AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. Since December 2013 it also sets out new rules for hedge accounting. The Standard is not applicable until 1 January 2017, but is available for early adoption.

The Standard only permits the accounting for financial assets to be at either amortised cost or fair value, and for the recognition of fair value gains and losses to be in the income statement, or in other comprehensive income if they relate to equity investments that are not held for trading. The new requirements for financial liabilities only affect the accounting for financial liabilities that are designated at fair value through the income statement. The application of the new Standard is not expected to have any effect on the accounting for, or disclosures in relation to, financial assets and financial liabilities.

The new hedging rules align hedge accounting more closely with the Group's risk management practices. As a general rule it will be easier to apply hedge accounting going forward. The new Standard also introduces expanded disclosure requirements and changes in presentation.

The Group has determined not to early adopt the new Standard. In order to apply the new hedging rules, the Group would have to adopt AASB 9 and the consequential amendments to AASB 7 and AASB 139 in their entirety.

None of the other new Accounting Standards and Interpretations that have been published but are not mandatory for 30 June 2014 reporting periods, are expected to have a material impact on the Group's current accounting or disclosures.

(u) Environmental remediation expenditure

Provisions for future environmental remediation are recognised where sites, whether owned, or previously owned and subject to the relevant state Environmental Protection Acts' liability provisions, are known to be contaminated and it is probable that an outflow of economic benefits will be required to remediate the site. The estimated future outflows are the best estimate of the expenditure required to remediate the sites. Future remediation costs are reviewed annually and any changes are reflected in the present value of the land management costs provision at the end of the reporting period, with a corresponding change in the cost of the associated asset, and/or the income statement.

In some cases, it is possible that estimated remediation costs included in the financial statements may be recoverable under relevant environmental laws from third parties. No allowances have been made for potential recovery.

(v) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 33). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(w) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments, or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred and the liabilities incurred.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date.

The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in the income statement as a bargain purchase.

1 Summary of significant accounting polices (continued)

(x) Parent entity financial information

The financial information for the parent entity, Envestra Limited, disclosed in note 31 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investment in subsidiaries
Investments in subsidiaries are accounted for at cost in the financial statements of Envestra Limited.

Tax consolidation legislation
Envestra Limited and its wholly-owned controlled entities have implemented the tax consolidation legislation as of 1 July 2002. Vic Gas Distribution Pty Ltd and The Albury Gas Co Ltd joined the Envestra Tax Consolidated Group on 2 July 2007. Envestra (NSW) Pty Limited, Envestra (NSW) Holdings 1 Pty Limited, Envestra (NSW) Holdings 2 Pty Limited, and Envestra (NSW) Holdings 3 Pty Limited joined the Tax Consolidated Group effective from 29 October 2010.

The head entity, Envestra Limited, and the controlled entities in the Tax Consolidated Group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the Tax Consolidated Group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Envestra Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the Tax Consolidated Group to the extent that they are recognised in the controlled entities.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from, or payable to, other entities in the Group. Details about the tax funding agreement are disclosed in note 6.

2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, re-financing and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as cross-currency and interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, that is, not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include cash flow forecasting analysis in the case of interest rate liquidity and other price risks and ageing analysis for credit risk.

Risk management is carried out in accordance with policies approved by the Board of Directors. The Group Manager - Treasury and Risk, identifies, evaluates and hedges financial risks in close co-operation with the Group Manager - Finance. The Board oversees overall risk management, including policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess liquidity. The Board formally reviews and approves the Treasury Policy and Risk Management Policy annually.

Market risk

Foreign exchange risk
Foreign exchange transaction risk arises from the possibility that Envestra's cash flows could be adversely affected by movements in exchange rates. The main sources of Envestra's foreign exchange transaction exposures are interest and principal payments on US dollar denominated debt.

The Group's Treasury Policy requires all of the foreign exchange rate risk associated with non-Australian dollar denominated debt to be hedged to minimise fluctuations in the cash flows of the business.

The Group's exposure to foreign exchange risk at the reporting date was as follows:

	2014 US$mill.	**2013 US$mill.**
Borrowings	**715.0**	770.0

As all foreign exchange commitments are swapped to Australian dollars, the Group has no exposure to movements in foreign exchange risk.

Price risk
The Group is exposed to inflation ("CPI") price risk. This arises from the principal and/or interest payments on the Capital Indexed Bonds (CIBs) held by the Group being escalated by changes in CPI.

The Group's exposure to movements in the CPI through its $258 million CIBs is partially offset by the annual resetting of haulage tariffs in line with the CPI, together with the re-setting of the regulatory asset base at five-yearly intervals to reflect changes through the period in CPI.

The following table demonstrates the estimated sensitivity to a 1% increase/decrease in the CPI over one year, with all other variables held constant, on after-tax profit and equity, caused by indexation movements on the CIBs.

	2014 $mill.	**2013 $mill.**
Impact on after-tax profit and equity:		
CPI + 1%	**(1.8)**	(1.8)
CPI - 1%	**1.8**	1.8

Cash flow and fair value interest rate risk
As the Group has relatively minor interest-bearing assets, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. At the year-end, 21% (2013: 22%) of borrowings were at fixed rates.

The remainder of borrowings are at floating rates. Group policy is to hedge between 80% and 100% of floating rate borrowings using floating to fixed interest rate swaps.

2 Financial risk management (continued)

Market risk (continued)

As at reporting date, the Group had the following variable rate borrowings (excluding CIBs) and interest rate swap contracts outstanding (excluding borrowing costs):

	30 June 2014		30 June 2013	
	Weighted average interest rate %	Balance $mill.	Weighted average interest rate %	Balance $mill.
Interest bearing debt (at variable rates)	**4.1**	**1,720.0**	4.6	1,592.1
Interest rate swaps	**4.0**	**(1,550.0)**	4.0	(1,450.0)
Net exposure to cash flow interest rate risk		**170.0**		142.1

The Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps. They have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that match the rates used in the relevant regulatory determination for a term matched to the relevant regulatory period. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between the contracted fixed rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

Based upon the balance of gross debt at 30 June, if interest rates changed by +/-1%, with all other variables held constant and taking account of the hedging in place at 30 June, the estimated impact on after-tax profit and equity is set out below.

	2014 $mill.	2013 $mill.
Impact on after-tax profit:		
Interest rates + 1%	**(1.2)**	(1.0)
Interest rates - 1%	**1.2**	1.0
Impact on equity:		
Interest rates + 1%	**34.1**	42.3
Interest rates - 1%	**(35.6)**	(44.4)

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution. Counterparty limits for investment and hedging transactions are measured by reference to transaction limits set by the Board in relation to the counter parties' external credit ratings. Refer to note 9 for further details in relation to credit risk associated with derivatives.

At balance date there were no significant concentrations of credit risk within the Group. The maximum exposure to credit risk is represented by the carrying amount of financial assets of the Group which have been recognised on the balance sheet, including trade receivables. Refer to note 8 for further details of credit risk in relation to receivables.

2 Financial risk management (continued)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and an adequate amount of available committed credit facilities. Associated with this is the planning for unforeseen events which may curtail cash flows and put pressure on liquidity. At the end of the reporting period the Group held cash and deposits at call of $3.5 million (2013: $1.0 million) and had unused credit facilities on hand of $219.0 million (2013: $400.0 million) that are readily available for managing liquidity risk.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows. The Group aims at maintaining flexibility in funding by keeping committed credit lines available with a variety of counterparties. Refer to note 15 for further details on the Group's approach to liquidity risk management.

Maturities of financial liabilities
The Group's strategy is to maintain the long-term duration of its debt portfolio, to arrange refinancing at least six months prior to maturity and limit annual repayments to 15% of the debt portfolio, subject to conditions in financial markets enabling these targets to be met.

The table below presents the Group's financial liabilities and net settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including principal and interest obligations).

	Less than 1 year $mill.	Between 1 and 5 years $mill.	Between 5 and 15 years $mill.	Over 15 years $mill.	Total $mill.
At 30 June 2014					
Trade payables	**53.4**	**-**	**-**	**-**	**53.4**
Medium Term Notes	**22.2**	**123.1**	**716.2**	**-**	**861.5**
Capital Indexed Bonds	**8.0**	**34.4**	**420.5**	**-**	**462.9**
Bank loans	**138.9**	**175.4**	**-**	**-**	**314.3**
US Private Placement Notes	**52.1**	**384.4**	**929.4**	**190.0**	**1,555.9**
Interest rate swaps	**24.5**	**39.0**	**-**	**-**	**63.5**
	299.1	**756.3**	**2,066.1**	**190.0**	**3,311.5**
At 30 June 2013					
Trade payables	47.2	-	-	-	47.2
Medium Term Notes	22.9	129.0	740.8	-	892.7
Capital Indexed Bonds	7.8	33.5	431.1	-	472.4
Commercial Paper	3.0	-	-	-	3.0
Bank loans	8.0	183.7	-	-	191.7
US Private Placement Notes	53.1	273.0	1,094.5	198.0	1,618.6
Interest rate swaps	17.9	59.2	-	-	77.1
	159.9	678.4	2,266.4	198.0	3,302.7

2 Financial risk management (continued)

Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement, and for disclosure purposes.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level in accordance with the following fair value measurement hierarchy:
(a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
(b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2).
(c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2014 and 30 June 2013:

	Level 1 $mill.	Level 2 $mill.	Level 3 $mill.	Total $mill.
At 30 June 2014				
Assets				
Derivatives used for hedging	-	8.8	-	8.8
Total assets	-	8.8	-	8.8
Liabilities				
Borrowings	-	960.3	-	960.3
Derivatives used for hedging	-	52.4	-	52.4
Total liabilities	-	1,012.7	-	1,012.7
At 30 June 2013				
Assets				
Derivatives used for hedging	-	42.9	-	42.9
Total assets	-	42.9	-	42.9
Liabilities				
Borrowings	-	1,027.3	-	1,027.3
Derivatives used for hedging	-	45.6	-	45.6
Total liabilities	-	1,072.9	-	1,072.9

The fair value of financial liabilities that are not traded in an active market is determined using valuation techniques. The fair value of interest rate and cross currency swaps is calculated as the present value of the estimated future cash flows and the discount rate used is adjusted for counterparty or own credit risk. These instruments are categorised as level 2.

The carrying value of trade receivables and payables is a reasonable approximation of their fair values due to their short-term nature.

The Group has no instruments categorised at level 1 or 3.

3 Critical accounting estimates

The Group makes estimates and assumptions concerning the future. Estimates and judgements are periodically evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonably prospective under the circumstances.

The key estimates and assumptions are discussed below.

Estimated impairment of intangibles
The Group tests whether intangible assets have suffered any impairment in accordance with the accounting policy stated in note 1(l). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 12 for details of these assumptions.

Useful lives of property, plant and equipment
Management advises the Board in respect to the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. These estimates are based on the concept that the effective lives should truly reflect the profile of the loss of economic benefits to the Group. Refer to note 1(k) for details of the estimated useful lives used by the Group.

4 Segment information

Description of segments

Operating segments are based on the reports used by Management to assess the performance of, and allocate resources within, the Group. The Group operates gas distribution networks and transmission pipelines in various states and the Northern Territory within Australia. Management considers the business from a geographic perspective and has identified four reportable segments.

Segment information provided to Envestra Management

The segment information provided to Management for the reportable segments for the financial year ended 30 June 2014 is disclosed in the tables below. The measurement of these amounts is consistent with the financial statements.

2014	**Victoria $mill.**	**NSW $mill.**	**South Australia and other $mill.**	**Queensland $mill.**	**Unallocated $mill.**	**Consolidated $mill.**
Total segment revenue/income	**195.6**	**25.5**	**250.3**	**83.0**	**-**	**554.4**
Total segment operating costs	**(65.1)**	**(6.3)**	**(62.8)**	**(18.2)**	**-**	**(152.4)**
Earnings before interest, tax, depreciation, impairment and amortisation	**130.5**	**19.2**	**187.5**	**64.8**	**-**	**402.0**
Depreciation and impairment	**(26.1)**	**(4.3)**	**(23.9)**	**(7.9)**	**-**	**(62.2)**
Profit before finance costs	**104.4**	**14.9**	**163.6**	**56.9**	**-**	**339.8**
Net finance costs						**(121.1)**
Profit before income tax						**218.7**
Income tax expense						**(65.7)**
Net profit after tax						**153.0**
Segment assets	**1,689.2**	**164.5**	**1,128.8**	**394.3**	**12.2**	**3,389.0**
Segment liabilities	**40.5**	**2.4**	**30.6**	**5.8**	**2,448.7**	**2,528.0**
Acquisitions of property, plant and equipment	**110.1**	**4.7**	**106.6**	**35.1**	**-**	**256.5**
Depreciation expense	**27.6**	**4.3**	**23.9**	**7.9**	**-**	**63.7**
Other non-cash expenses	**-**	**-**	**2.2**	**-**	**-**	**2.2**

2013	**Victoria $mill.**	**NSW $mill.**	**South Australia and other $mill.**	**Queensland $mill.**	**Unallocated $mill.**	**Consolidated $mill.**
Total segment revenue/income	189.8	25.6	216.9	75.2	-	507.5
Total segment operating costs	(63.8)	(5.4)	(59.3)	(18.7)	-	(147.2)
Earnings before interest, tax, depreciation, impairment and amortisation	126.0	20.2	157.6	56.5	-	360.3
Depreciation and impairment	(25.2)	(4.0)	(21.9)	(7.5)	-	(58.6)
Profit before finance costs	100.8	16.2	135.7	49.0	-	301.7
Net finance costs						(147.9)
Profit before income tax						153.8
Income tax expense						(46.0)
Net profit after tax						107.8
Segment assets	1,608.3	163.7	1,052.3	368.7	43.9	3,236.9
Segment liabilities	39.2	1.8	66.8	8.9	2,278.4	2,395.1
Acquisitions of property, plant and equipment	92.8	5.2	87.2	29.2	-	214.4
Depreciation expense	25.3	4.0	21.9	7.5	-	58.7
Other non-cash expenses	1.3	(0.7)	2.6	-	-	3.2

5 Expenses

	2014 $mill.	2013 $mill.
Profit before income tax includes the following expenses:		
Depreciation and impairment		
Depreciation on buildings	**0.1**	0.1
Depreciation on plant and equipment	**63.6**	58.6
Impairment reversal	**(1.5)**	(0.1)
	62.2	58.6
Other charges against assets		
Bad and doubtful debts – trade debtors	**0.1**	-
Net Finance costs		
Finance income		
Interest income	**0.3**	0.9
	0.3	0.9
Finance costs		
Interest and indexation	**117.9**	141.6
Ineffective derivatives	**(2.6)**	(0.5)
Fees on financing facilities	**2.4**	3.7
Amortisation of debt establishment and credit insurance costs	**3.7**	4.0
	121.4	148.8
	121.1	147.9
Employee benefits expense	**5.1**	4.8
Land management provision expense/(reversal of unused amounts)	**-**	(0.7)

6 Income tax expense

	2014 $mill.	2013 $mill.
Income tax expense		
Deferred tax	65.7	46.0
	65.7	46.0
Attributable to:		
Profit from continuing operations	65.7	46.0
Deferred income tax expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets (note 13)	6.6	(7.7)
Increase in deferred tax liabilities (note 18)	59.1	53.7
	65.7	46.0
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	218.7	153.8
Tax at the Australian tax rate of 30% (2013: 30%)	65.6	46.1
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Deferred tax recognised on asset sale	-	(0.2)
Sundry items	0.1	0.1
Total income tax expense	65.7	46.0
Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity		
Net deferred tax – debited/(credited) directly to equity	(8.0)	9.3
Unrecognised temporary differences		
Deferred tax assets not recognised	2.2	2.0

Tax consolidation legislation

Envestra Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2002. Vic Gas Distribution Pty Ltd and The Albury Gas Co Ltd joined the Envestra Tax Consolidated Group on 2 July 2007. Envestra (NSW) Pty Limited joined the Envestra Tax Consolidated Group effective 29 October 2010. The accounting policy in relation to this legislation is set out in note 1(x).

On adoption of the tax consolidation legislation, the entities in the Tax Consolidated Group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liabilities of the wholly-owned entities in the case of a default by the head entity, Envestra Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Envestra Limited for any current tax payable assumed, and are compensated by Envestra Limited for any current tax receivable and deferred tax assets relating to unused tax losses, or unused tax credits that are transferred to Envestra Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist, where applicable, with its obligations to pay tax instalments. The funding amounts are recognised as intercompany receivables or payables. No funding obligations have arisen to date as no tax payments have been made.

7 Cash and cash equivalents

	2014 $mill.	2013 $mill.
Cash at bank – interest bearing	**3.5**	1.0
	3.5	1.0

8 Receivables

	2014 $mill.	2013 $mill.
Current		
Trade receivables	**75.9**	82.2
Other receivables	**-**	0.6
Provision for impairment of receivables	**(0.1)**	(0.1)
	75.8	82.7
Non-current		
Trade receivables	**2.5**	4.8
	2.5	4.8

Impaired trade receivables

A loss of $82,579 (2013: $17,984) has been recognised in the income statement in respect of bad debts written off during the year ended 30 June 2014.

Movements in the provision for impairment of receivables are as follows:

	2014 $	2013 $
Balance at the beginning of the financial year	**50,000**	138,489
Receivables written off during the year as uncollectable	**-**	(58,489)
Reversed due to collection of debt	**-**	(30,000)
Balance at the end of the financial year	**50,000**	50,000

Note: These amounts have not been rounded.

Past due but not impaired

As of 30 June 2014, trade receivables of $0.3 million (2013: $0.5 million) were past due but not impaired. The ageing of these trade receivables is as follows:

	2014 $mill.	2013 $mill.
31 to 60 days	**0.2**	0.1
Over 90 days	**0.1**	0.4
	0.3	0.5

Of the $0.3 million of debtors over 30 days at 30 June 2014, $0.2 million has now been collected.

Significant terms and conditions

Haulage revenue receivable from retailers in respect of the South Australian, Queensland and Northern Territory networks consists of billed revenue related to gas deliveries and is due within 30 days of billing date. Haulage revenue receivable from the Victorian and NSW retailers consists of billed revenue due within 14 days and unbilled revenue which has been estimated and is expected to be billed over the following two to three months.

Interest is receivable from the major banks that hold deposits at call for Envestra and is generally settled within a few days after the end of the month.

8 Receivables (continued)

Credit risk

Envestra's customers using the South Australia, Queensland and Northern Territory networks are required to pay for gas delivered within 30 days and credit risk is centred on the large retailers.

Under the National Energy Customer Framework (NECF) retailers in South Australia are required to provide bank guarantees in accordance with a pre-defined formula. As a result of this pre-defined formula, only one retailer in South Australia is required to provide a bank guarantee, and as at 30 June 2014, a bank guarantee for $11.7 million was in place.

One retailer in the Northern Territory is required to prepay an estimate of two months haulage services in advance. As at 30 June 2014 the prepayment totalled $127,000 (2013: $173,000).

Retailers using the Victorian and NSW networks pay in arrears for haulage services, and credit risk is centred on the large retailers. The Group has exercised its right under the various haulage revenue contracts with Victorian retailers to demand bank guarantees from certain retailers who do not possess investment grade credit ratings. At 30 June 2014 there were five bank guarantees in place with an aggregate value of $5.7 million (2013: $5.3 million).

Interest is receivable from major banks and no significant credit risk is perceived in relation to this amount.

Refer to note 2 for more information on the financial risk management policy of the Group.

Fair value

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

9 Derivative financial instruments

	2014 $mill.	2013 $mill.
Non-current assets		
Cross currency swap contracts – fair value and cash flow hedges	**8.8**	42.9
	8.8	42.9
Current liabilities		
Interest rate swaps – cash flow hedges	**0.8**	2.3
Non-current liabilities		
Interest rate swaps – cash flow hedges	**51.6**	43.3
	52.4	45.6
Net derivative liabilities	**43.6**	2.7

Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 2).

Interest rate swap contracts – cash flow hedges
The Group has entered into interest rate swap contracts that entitle it to receive interest at floating rates on notional principal amounts and oblige it to pay interest at fixed rates on the same amounts. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

The tables below include all swaps in place at the end of the financial year.

At 30 June 2014, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	2014 $mill.	2013 $mill.
Less than 1 year	**350.0**	900.0
1–2 years	**600.0**	-
2–3 years	**-**	600.0
3–4 years	**600.0**	-
	1,550.0	1,500.0

9 Derivative financial instruments (continued)

Instruments used by the Group (continued)

The Group also has $300 million of forward-starting interest rate swaps in place from 1 July 2015 to 31 December 2017.

The gain or loss from re-measuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and re-classified to the income statement when the hedged interest expense is recognised. The ineffective portion is recognised in income immediately. In the year ended 30 June 2014, there were no amounts recognised in the income statement (2013: $0.5 million profit).

At balance date these hedging contracts were recorded as liabilities with a fair value of $52.4 million (2013: liabilities of $45.6 million). In the year ended 30 June 2014 there was a decrease in fair value of $6.8 million (2013: increase of $24.2 million).

Cross currency swaps – fair value and cash flow hedges
The Group has entered into cross currency swap contracts in order to swap the US dollar debt principal and interest repayments from US dollar fixed coupon to Australian dollar floating rates.

At 30 June 2014, the notional principal amounts and periods of expiry of the cross currency swap contracts are as follows:

	2014 $mill.	2013 $mill.
Less than 1 year	**-**	-
1–2 years	**68.4**	-
2–3 years	**-**	101.7
3–4 years	**121.7**	19.2
Greater than 5 years	**629.4**	751.1
	819.5	872.0

The gain or loss from re-measuring hedging instruments used in fair value hedges to fair value is recorded in the income statement. To the extent these hedges are effective, offsetting entries are recorded against the underlying debt instruments. Ineffective portions result in a net impact to the income statement. In the year ended 30 June 2014 the ineffective portion resulted in a $2.6 million profit (2013: $nil). The increase in the ineffective portion in 2013-14 relates to the requirement in AASB 13 *Fair Value Measurement* to include credit risk in the valuation of derivatives. At balance date these contracts were assets with fair value of $8.8 million (2013: assets of $42.9 million). In the year ended 30 June 2014 there was a decrease in fair value of $34.1 million (2013: increase of $28.5 million). The 2013-14 movement was due to the increase in the Australian dollar exchange rate with the US dollar during the year, and movements in US and Australian interest rates. Fair value hedge movements offset against the hedged item were $16.7 million (2013: $9.3 million).

Credit risk

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. This arises with amounts receivable from unrealised gains on derivative financial instruments.

The Group undertakes all of its transactions in foreign exchange and interest rate contracts with "A" rated financial institutions. Management has established limits such that, at any time, no more than $500 million of notional principal amounts are with any single counterparty. The carrying amount of derivative assets recorded in the financial statements represents the Group's maximum exposure to credit risk as of 30 June 2014 in relation to those assets.

Fair value measurement
Prior to the implementation of AASB 13 *Fair Value Measurement* on 1 July 2013, the fair value of financial liabilities (including derivatives) was measured on the basis that the financial liability would be settled or extinguished with the counterparty. The adoption of AASB 13 has clarified that fair value is an exit price notion, and as such, the fair value of financial liabilities should be determined based on a transfer value to a third party market participant. As a result of this change, the fair value of derivative liabilities changed on transition to AASB 13, due to incorporating own credit risk into the valuation.

Interest rate risk exposures

Refer to note 2 for the Group's exposure to interest rate risk on interest rate swaps.

10 Other assets

	2014 $mill.	2013 $mill.
Current		
GST receivable	**2.3**	1.7
Deferred licence fee	**-**	0.1
Prepayments	**0.7**	0.7
	3.0	2.5

11 Property, plant and equipment

	Freehold land $mill.	Freehold buildings $mill.	Plant and equipment $mill.	Total $mill.
At 1 July 2012				
Cost	4.3	4.6	2,988.4	2,997.3
Accumulated depreciation	-	(1.9)	(653.7)	(655.6)
Net book amount	4.3	2.7	2,334.7	2,341.7
Year ended 30 June 2013				
Opening net book amount	4.3	2.7	2,334.7	2,341.7
Additions	-	0.2	214.2	214.4
Depreciation charge	-	(0.1)	(58.6)	(58.7)
Disposals	(0.3)	(0.1)	-	(0.4)
Closing net book amount	4.0	2.7	2,490.3	2,497.0
At 30 June 2013				
Cost	4.0	4.6	3,199.5	3,208.1
Accumulated depreciation	-	(1.9)	(709.2)	(711.1)
Net book amount	4.0	2.7	2,490.3	2,497.0
Year ended 30 June 2014				
Opening net book amount	**4.0**	**2.7**	**2,490.3**	**2,497.0**
Additions	**-**	**0.2**	**256.3**	**256.5**
Depreciation charge	**-**	**(0.1)**	**(63.6)**	**(63.7)**
Impairment/other	**(0.4)**	**-**	**-**	**(0.4)**
Closing net book amount	**3.6**	**2.8**	**2,683.0**	**2,689.4**
At 30 June 2014				
Cost	**3.6**	**4.8**	**3,455.8**	**3,464.2**
Accumulated depreciation	**-**	**(2.0)**	**(772.8)**	**(774.8)**
Net book amount	**3.6**	**2.8**	**2,683.0**	**2,689.4**

Valuation of land and buildings

An independent valuation of land and buildings was undertaken during the 2011-12 year by registered valuers. (Certain property assets had updated valuations completed in the 2013-14 year). The market valuations of these properties (incorporating valuations from 2011-12 and 2013-14) were in excess of the carrying values by approximately $4.5 million. The valuation of the properties did not take into account any potential remediation costs. A land management cost provision of $6.3 million (2013: $9.9 million) has been included in the financial statements at 30 June 2014 in relation to freehold land.

The Directors have decided to continue to carry land and buildings at cost less depreciation.

Non-current assets pledged as security

Refer to note 15 for information on non-current assets pledged as security by the Group.

12 Intangible assets

	2014 $mill.	2013 $mill.
Cost	**606.0**	606.0
Accumulated amortisation	**-**	-
Net book amount	**606.0**	606.0

Impairment tests for intangible assets

Intangible assets comprise the distribution licences held by Vic Gas distribution Pty Ltd (Victoria) and Envestra (NSW) Pty Ltd (New South Wales), and other intangible assets held by Envestra (NSW) Pty Ltd. The recoverable amount of the Victoria and NSW cash-generating units (CGU) is based on value in use calculations.

Key assumptions used for value-in-use calculations

The CGU calculations use cash flow projections based on current and expected regulatory outcomes for gas distributors. Cash flow projections are estimated for a period of 20 years, with a terminal value, recognising the long-term nature of the assets and anticipate long-term average growth rates of 1% to 3%. The pre-tax discount rate used was 7.7% (2013: 7.8%).

The assumptions applied to value-in-use calculations have been determined with reference to historic information, current performance and expected changes in operations taking into account pertinent information.

13 Deferred tax assets

	2014 $mill.	2013 $mill.
The balance comprises temporary differences attributable to:		
Accrued expenses	**0.8**	0.4
Provision for employee benefits	**0.4**	0.3
Deferred equity and debt raising costs	**0.4**	0.6
Deferred revenue	**1.2**	1.2
Provision for Carbon Tax permit costs	**0.8**	0.7
Derivatives	**7.1**	-
Deferred costs	**0.7**	-
Tax losses	**145.8**	152.6
	157.2	155.8
Set-off of deferred tax liabilities pursuant to set-off provisions (note 18)	**(157.2)**	(155.8)
Net deferred tax assets	**-**	-
Movements:		
Balance at the beginning of the financial year	**155.8**	157.6
Credited/(debited) to the income statement (note 6)	**(6.6)**	7.7
Credited/(debited) to equity	**8.0**	(9.5)
Balance at the end of the financial year	**157.2**	155.8

14 Payables

	2014 $mill.	2013 $mill.
Trade payables	**53.4**	47.2
	53.4	47.2

15 Borrowings

The Envestra Group owns gas distribution networks and transmission pipelines. Whilst the assets generally have very long lives, the financing of those assets is undertaken using a range of instruments with varying terms, including capital markets debt and bank loans, with maturities spread over the next 27 years to promote liquidity and minimise refinancing risk.

The loan portfolio is expected to be refinanced at regular intervals in the normal course of the Group's operations.

	2014 $mill.	2013 $mill.
Current		
Commercial Paper	-	3.0
	-	3.0
Non-current		
Bank loans	298.6	174.4
Capital Indexed Bonds	250.4	243.2
Medium Term Notes	634.1	633.1
US Private Placement Notes	960.3	968.8
	2,143.4	2,019.5
Total	2,143.4	2,022.5

Total secured liabilities

Total secured liabilities (current and non-current) are as follows:

	2014 $mill. Principal outstanding	2014 $mill. Book value	2013 $mill. Principal outstanding	2013 $mill. Book value
Bank loans	300.5	298.6	169.5	174.4
Commercial Paper	-	-	3.0	3.0
Capital Indexed Bonds	258.5	250.4	251.9	243.2
Medium Term Notes	645.0	634.1	645.0	633.1
US Private Placement Notes	984.5	960.3	984.5	968.8
	2,188.5	2,143.4	2,053.9	2,022.5

Book value of debt differs from principal outstanding due to the loans including unamortised borrowing costs and adjustments for fair value of derivatives.

Assets pledged as security

The carrying amounts of assets pledged as security for borrowings are:

	2014 $mill.	2013 $mill.
Current – floating charge		
Cash and cash equivalents	3.4	0.9
Receivables	71.7	79.2
Other assets	3.0	2.5
	78.1	82.6
Non-current – floating charge		
Receivables	2.5	4.8
Property, plant and equipment	2,597.0	2,404.5
Intangibles	585.6	585.6
Derivative financial instruments	8.8	42.9
	3,193.9	3,037.8
Group assets not pledged as security	117.0	116.5
Total Group assets per balance sheet	3,389.0	3,236.9

15 Borrowings (continued)

Significant terms and conditions

The bank loans, Capital Indexed Bonds, Commercial Paper, Medium Term Notes and US Private Placement Notes are secured by charges over the respective networks owned by the Envestra Group.

Envestra and its senior debt financiers are parties to a deed, known as the Intercreditor Deed Poll, which sets out various events of default, representations, warranties and undertakings relating to the provision of debt and hedging arrangements to the Group. The occurrence of an event of default (as defined in the Intercreditor Deed Poll) gives Envestra's financiers the right to require repayment of debt and close out hedging arrangements, subject to certain majority approval requirements. The acceleration of debt, or close out of hedges, may give rise to "swap breakage", "make-whole" and other costs being incurred.

Generally, events of default (as defined in the Intercreditor Deed Poll) concern adverse changes in Envestra's financial position or business, including the Interest Service Cover Ratio falling below 1.2:1 or the ratio of Total Indebtedness to Regulatory Asset Value exceeding 1.05:1. A change in control (in accordance with the relevant accounting standard) is also an event of default but only if a majority of financiers (more than 66.7%) declare the change in control "unacceptable". This declaration can only be made 60 days or more after the change in control occurs.

On 7 August 2014, the offer from the CK Consortium to acquire all Envestra shares was declared "unconditional" upon it reaching the 50% minimum acceptance level of the offer. Accordingly a change of control of the Envestra Group occurred. As part of the takeover process a sufficient number of binding confirmations have been obtained from Envestra's financiers to ensure that the change in control will not be declared "unacceptable" for the purposes of the Intercreditor Deed Poll.

At 30 June 2014, the Group was in compliance with all covenants and undertakings.

Group funding and liability structure

The Envestra Group's total interest bearing debt principal outstanding as at 30 June 2014 was $2,188.5 million comprising a range of financial instruments with varying maturities issued under the Group's treasury management program with a view to diversifying funding sources, increasing future refinancing options and lowering overall borrowing costs.

The existing debt instruments include:

Bank loans
Bank loans are committed facilities for terms generally up to three years.

Commercial Paper
The Envestra Group had no Commercial Paper on issue at 30 June 2014 (2013: $3.0 million). Commercial Paper is expected to be issued from time to time by the Group in the future largely as interim funding for the ongoing capital expenditure program.

The Commercial Paper and Medium Term Note Programme is supported by undrawn committed bank facilities of $219.0 million at 30 June 2014.

Capital Indexed Bonds
These bonds are due to mature in August 2025. The principal component is indexed by the quarterly movement in the CPI.

Medium Term Notes
Medium Term Notes totalling $645.0 million (2013: $645.0 million) are instruments issued under the Medium Term Note Programme for varying terms and as at 30 June 2014 had terms to maturity of up to 12 years. They are classified as non-current in accordance with these dates.

US Private Placement Notes
Notes with a principal value of A$984.5 million (2013: A$984.5 million) are issued in the United States of America for terms ending in 2015, 2018, 2021, 2022, 2023, 2027, 2033 and 2041. Included in these, are $165 million in Australian dollars, while the remainder are in US dollars. There are cross currency swaps in place to swap both the principal and interest payments from the US dollar fixed coupon to Australian dollar floating rate for the term of the respective note.

15 Borrowings (continued)

Financing arrangements

Access was available at balance date to the following lines of credit:

	2014 $mill.	2013 $mill.
Bank loan facilities		
Total facilities	**519.5**	569.5
Used at balance date	**300.5**	169.5
Unused at balance date	**219.0**	400.0

Fair values

The fair value of current borrowings approximates their carrying amount since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature. The fair value of non-current borrowings where it does not approximate carrying amount is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles. Carrying amounts also include unamortised debt establishment costs.

The carrying amounts and fair values of borrowings at balance date are:

	2014		2013	
	Carrying amount $mill.	Fair value $mill.	Carrying amount $mill.	Fair value $mill.
Non-traded financial liabilities				
Bank loans	**298.6**	**300.4**	174.4	177.2
US Private Placement Notes	**960.3**	**964.4**	968.8	973.4
Traded financial liabilities				
Capital Indexed Bonds	**250.4**	**234.6**	243.2	210.7
Medium Term Notes	**634.1**	**645.0**	633.1	645.0
Commercial Paper	**-**	**-**	3.0	3.0
	2,143.4	**2,144.4**	2,022.5	2,009.3

Risk exposures

Information about the Group's exposure to interest rate and foreign currency changes is provided in note 2.

16 Provisions

	2014 $mill.	2013 $mill.
Current		
Employee benefits	**0.8**	0.7
Carbon Tax permit costs	**2.7**	2.4
Land management costs	**-**	0.2
	3.5	3.3
Non-current		
Employee benefits	**0.2**	0.2
Other employee and Director entitlements	**0.3**	0.3
Land management costs	**6.3**	9.9
	6.8	10.4
Total	**10.3**	13.7

Land management costs
Provisions for future environmental remediation are recognised where there is a present obligation as a result of the manufacture of gas from coal at various sites in the past, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs required to remediate the sites.

16 Provisions (continued)

Movements in provisions

Movement in provisions (current and non-current), other than employee and Director benefits, during the financial year are set out below:

	Carbon permit costs $mill.	Land management costs $mill.	Total $mill.
Balance at 1 July 2012	-	19.9	19.9
Charged/(credited) to profit and loss			
Additional provision recognised	9.0	-	9.0
Unused amounts reversed	-	(0.9)	(0.9)
Amounts paid during the year	(6.6)	(8.9)	(15.5)
Balance at 30 June 2013	2.4	10.1	12.5
Charged/(credited) to profit and loss			
Additional provision recognised	**11.0**	**-**	**11.0**
Unused amounts reversed	**-**	**(1.9)**	**(1.9)**
Amounts paid during the year	**(10.7)**	**(1.9)**	**(12.6)**
Balance at 30 June 2014	**2.7**	**6.3**	**9.0**

17 Other liabilities

	2014 $mill.	2013 $mill.
Prepayments from energy retailers	**0.2**	50.7
Accrued costs	**2.9**	2.4
Interest accrued	**8.5**	13.8
Other deferred income	**4.0**	4.0
	15.6	70.9

18 Deferred tax liabilities

	2014 $mill.	2013 $mill.
The balance comprises temporary differences attributable to:		
Provision for equity and debt raising	**6.2**	6.8
Other	**0.1**	0.3
Provision for land management costs	**(1.9)**	(3.1)
Derivatives	**-**	0.2
Excess of book value over tax value of property, plant and equipment	**405.7**	346.8
	410.1	351.0
Set-off of deferred tax assets pursuant to set-off provisions (note 13)	**(157.2)**	(155.8)
Net deferred tax liabilities	**252.9**	195.2
Movements:		
Balance at the beginning of the financial year	**351.0**	297.3
Charged to the income statement (note 6)	**59.1**	53.7
Balance at the end of the financial year	**410.1**	351.0

19 Contributed equity

Share capital and other equity components

	2014 Securities	2013 Securities	2014 $mill.	2013 $mill.
Ordinary shares				
Issued and paid up capital	**1,796,808,474**	1,796,808,474	**868.1**	868.1
Deferred tax liability component			**1.6**	1.6
Total contributed equity			**869.7**	869.7

Movements in contributed equity

Date	Details	Number of securities	Issue Price	$mill.
1 July 2012	Opening balance	1,572,392,111		651.8
31 October 2012	Dividend reinvestment plan	30,941,386	$0.87	26.9
16 April 2013	Share placement	131,313,131	$0.99	130.0
30 April 2013	Dividend reinvestment plan	29,636,943	$1.01	29.9
21 May 2013	Share purchase plan	32,524,903	$0.99	32.2
				219.0
	Transaction costs			(1.8)
	Less: Deferred tax			0.7
30 June 2013	Closing balance	1,796,808,474		869.7
Current year transactions		-		-
30 June 2014	Closing balance	**1,796,808,474**		**869.7**

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of, and amounts paid on, the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote.

Dividend reinvestment plan ("DRP")

The Company has established a DRP under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares have been issued under the DRP at a 2.5% and 4.0% discount to the market price. Continuation of the DRP is subject to approval by the Board of Directors at the time dividend payments are authorised. The DRP was suspended for the 2013-14 year.

Share placement

The Company conducted a Share Placement in April 2013 under which new institutional investors and the APA Group acquired $130 million of new equity. Shares were issued at 99 cents per share.

Share purchase plan

The Company has a Share Purchase Plan under which eligible shareholders are able to acquire new Envestra shares up to a value of $15,000.

The Company conducted a Share Purchase Plan in May 2013, with shareholders subscribing for $32.2 million of new equity. Shares were issued at 99 cents per share, being the equivalent price of the Share Placement (refer above).

19 Contributed equity (continued)

Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and to maintain an optimal capital structure.

In order to maintain or alter the capital structure, the Group may adjust the amount of dividends paid to shareholders, or issue new shares to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total non-cash assets. Net debt is calculated as total borrowings less cash and cash equivalents. A market value of equity gearing ratio is also used and is calculated as net debt divided by net debt plus market value of equity.

The gearing ratios at 30 June 2014 and 30 June 2013 were as follows:

	2014 $mill.	2013 $mill.
Total borrowings (note 15)	**2,143.4**	2,022.5
Add back unamortised fees	**25.0**	28.0
Add back hedges impact on borrowings	**20.1**	3.4
Total borrowings	**2,188.5**	2,053.9
Less cash and cash equivalents (note 7)	**(3.5)**	(1.0)
Net debt	**2,185.0**	2,052.9
Total assets	**3,389.0**	3,236.9
Less cash and cash equivalents	**(3.5)**	(1.0)
Total non-cash assets	**3,385.5**	3,235.9
	Number	**Number**
Ordinary shares	**1,796,808,474**	1,796,808,474
Share price at 30 June	**$1.36**	$0.99
	$mill.	**$mill.**
Market value of equity	**2,443.7**	1,787.8
Book Value Gearing Ratio	**64.5%**	63.4%
Market Value Gearing Ratio	**47.2%**	53.5%

The Group has a financial covenant for its borrowing facilities which limits debt to being no more than 100% of the Regulatory Asset Base (RAB). During the 2014 and 2013 reporting periods, the Group's ratio was well within this covenant, with the Debt:RAB ratio being 73% at 30 June 2014 (72% at 30 June 2013).

20 Reserves and Retained earnings / (accumulated losses)

Reserves

	2014 $mill.	2013 $mill.
Hedging reserve – cash flow hedges	(18.4)	0.4
	(18.4)	0.4
Movements:		
Balance at the beginning of the financial year	0.4	(23.0)
Fair value movements	(26.8)	33.4
Deferred tax	8.0	(10.0)
Balance at the end of the financial year	(18.4)	0.4

Retained earnings / (accumulated losses)

Movements in retained earnings / (accumulated losses) were as follows:

	2014 $mill.	2013 $mill.
Balance at the beginning of the financial year	(28.3)	(42.4)
Profit for the year	153.0	107.8
Dividend paid	(115.0)	(93.7)
Balance at the end of the financial year	9.7	(28.3)

Nature and purpose of reserves

Hedging reserve – cash flow hedges
The hedging reserve is used to record gains or losses on a hedging instrument in cash flow hedges that are recognised directly in equity, as described in note 1(j).

21 Dividends

Ordinary shares

	2014 $mill.	2013 $mill.
Unfranked dividend - October: 3.2 cents (2014); 2.9 cents (2013)	57.5	45.6
Unfranked dividend - April: 3.2 cents (2014); 3.0 cents (2013)	57.5	48.1
	115.0	93.7

Dividends not recognised at year end

On 11 July 2014 the Directors declared the payment of an unfranked dividend of 3.5 cents per fully paid ordinary share. The aggregate amount of this dividend that was paid on 25 July 2014 is $62.9 million. This dividend is not recognised as a liability at year end.

22 Key management personnel disclosures

Key management personnel compensation

	2014 $	2013 $
Short-term employee benefits	**3,343,980**	2,876,250
Post-employment benefits	**160,816**	140,674
	3,504,796	3,016,924

Detailed remuneration disclosures are provided in sections A – D of the Remuneration Report on pages 7 to 13.

Equity instrument disclosures relating to key management personnel

Share holdings
The numbers of shares in the Company held during the financial year by each Director of Envestra Limited and key management personnel of the consolidated entity, including their personally-related parties, are set out below. There were no shares granted during the reporting period as remuneration.

2014	**Balance at the start of the year**	**Changes during the year**	**Balance at the end of the year**
Directors of Envestra Limited			
Ordinary Shares			
J G Allpass	**399,632**	-	**399,632**
I B Little	**151,362**	-	**151,362**
E F Ainsworth	**66,000**	-	**66,000**
O B O'Duill	**231,923**	-	**231,923**
M J McCormack	**66,681**	-	**66,681**
Other key management personnel of the Group			
Ordinary Shares			
D Petherick	**239,608**	-	**239,608**
G Meredith	**22,485**	-	**22,485**

2013	**Balance at the start of the year**	**Changes during the year**	**Balance at the end of the year**
Directors of Envestra Limited			
Ordinary Shares			
J G Allpass	363,029	36,603	399,632
I B Little	138,865	12,497	151,362
E F Ainsworth	66,000	-	66,000
O B O'Duill	223,438	8,485	231,923
M J McCormack	54,693	11,988	66,681
Other key management personnel of the Group			
Ordinary Shares			
D Petherick	231,123	8,485	239,608
G Meredith	14,000	8,485	22,485

23 Remuneration of auditors

During the year the following fees were paid, or payable, for services provided by the auditor of the parent entity and its related entities:

	2014 $	2013 $
PwC Australia		
Audit and other assurance services		
Audit and review of financial statements	**252,729**	227,047
Other assurance services		
Merger/takeover due diligence	**79,850**	-
Audit of regulatory financial statements	**-**	33,100
Audit of reported gas volumes	**24,250**	12,000
	356,829	272,147
Taxation services		
Merger/takeover due diligence and advisory	**205,802**	-
Tax compliance and other services	**58,398**	36,100
	264,200	36,100
Other services		
Advisory services	**-**	28,069
Total remuneration of PwC Australia	**621,029**	336,316

It is the Group's policy to engage PricewaterhouseCoopers (PwC) on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are likely to provide benefits. These assignments are principally tax compliance, auditing of regulatory statements and assistance with regulatory submissions. During the year, PwC were also engaged to provide advisory and due diligence services in relation to the merger and takeover proposals received from APA Group and the Cheung Kong Group Consortium.

24 Related party transactions

Parent entity

The ultimate parent entity within the Group is Envestra Limited.

Subsidiaries

Interests in subsidiaries are set out in note 25.

Key management personnel compensation

Disclosures relating to key management personnel are set out in note 22.

Transactions with related parties

The following transactions occurred with related parties:

	2014 $	2013 $
Expenses		
Payments for operation and management of the networks	**106,190,000**	108,881,000
Payments for capital expenditure relating to the networks	**260,378,000**	215,272,000

Outstanding balances arising from transactions with related parties

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties for the operation and management of the networks and capital expenditure relating to the networks:

	2014 $	2013 $
Trade payables	**43,010,000**	38,260,000

Terms and conditions

All transactions were made in accordance with executed commercial arrangements and/or on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

25 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding of Envestra Limited 2014 %	2013 %
Vic Gas Distribution Pty Ltd (1)	Australia	Ordinary	-	-
The Albury Gas Co Ltd (1)	Australia	Ordinary	-	-
Envestra (SA) Limited (2) (9)	Australia	Ordinary	-	-
Envic Holdings 1 Pty Ltd (3)	Australia	Ordinary	**100**	100
Envic Holdings 2 Limited (4)	Australia	Ordinary	-	-
Envestra Victoria Pty Ltd (5)	Australia	Ordinary	-	-
Envestra (NSW) Holdings 2 Pty Limited (6)	Australia	Ordinary	-	-
Envestra (NSW) Holdings 3 Pty Limited (7)	Australia	Ordinary	-	-
Envestra (NSW) Pty Limited (8)	Australia	Ordinary	-	-
Envestra (QLD) Limited (9)	Australia	Ordinary	**100**	100
Envestra (SA) Holdings 1 Limited (9)	Australia	Ordinary	**100**	100
Envestra (NSW) Holdings 1 Pty Limited	Australia	Ordinary	**100**	100

1) Vic Gas Distribution Pty Ltd is a subsidiary of Envestra Victoria Pty Ltd. The Albury Gas Co Ltd is a subsidiary of Vic Gas Distribution Pty Ltd.

2) Envestra (SA) Limited is a subsidiary of Envestra (SA) Holdings 1 Limited.

3) The book value of the investment in Envic Holdings 1 Pty Ltd is $100.

4) Envic Holdings 2 Limited is a subsidiary of Envic Holdings 1 Pty Ltd.

5) Envestra Victoria Pty Ltd is a subsidiary of Envic Holdings 2 Limited.

6) Envestra (NSW) Holdings 2 Pty Limited is a subsidiary of Envestra (NSW) Holdings 1 Pty Limited.

7) Envestra (NSW) Holdings 3 Pty Limited is a subsidiary of Envestra (NSW) Holdings 2 Pty Limited.

8) Envestra (NSW) Pty Limited is a subsidiary of Envestra (NSW) Holdings 3 Pty Limited.

9) These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 26.

26 Deed of cross guarantee

Envestra Limited, Envestra (SA) Holdings 1 Limited, Envestra (SA) Limited and Envestra (QLD) Limited are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others. By entering into the Deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' Report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

Consolidated income statement and a summary of movements in consolidated accumulated losses

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Envestra Limited, they also represent the 'Extended Closed Group'.

Set out below is a consolidated income statement and a summary of movements in consolidated accumulated losses for the year ended 30 June 2014 of the Closed Group consisting of Envestra Limited, Envestra (SA) Holdings 1 Limited, Envestra (SA) Limited and Envestra (QLD) Limited.

26 Deed of cross guarantee (continued)

	2014 $mill.	2013 $mill.
Income statement		
Total revenue and income	**333.3**	292.2
Network operating costs	**(68.0)**	(65.6)
Gas purchases	**(10.9)**	(11.3)
Corporate development, property and administration costs	**(10.7)**	(8.8)
Depreciation and impairment	**(31.9)**	(29.4)
Net finance costs	**(59.3)**	(65.9)
Profit before income tax expense	**152.5**	111.2
Income tax expense	**(45.8)**	(33.4)
Net profit after tax	**106.7**	77.8
Summary of movements in consolidated accumulated losses		
Accumulated losses at the beginning of the financial year	**(87.9)**	(72.0)
Net profit after tax for the financial year	**106.7**	77.8
Dividend paid	**(115.0)**	(93.7)
Accumulated losses at the end of the financial year	**(96.2)**	(87.9)

Balance sheet

Set out below is a consolidated balance sheet as at 30 June 2014 of the Closed Group consisting of Envestra Limited, Envestra (SA) Holdings 1 Limited, Envestra (SA) Limited and Envestra (QLD) Limited.

	2014 $mill.	2013 $mill.
ASSETS		
Current assets		
Cash and cash equivalents	**2.9**	0.5
Receivables	**33.8**	39.8
Other assets	**3.7**	1.3
Total current assets	**40.4**	41.6
Non-current assets		
Receivables	**163.6**	170.6
Investment in subsidiaries	**508.9**	508.9
Property, plant and equipment	**1,484.8**	1,374.9
Derivative financial instruments	**9.1**	-
Total non-current assets	**2,166.4**	2,054.4
Total assets	**2,206.8**	2,096.0
LIABILITIES		
Current liabilities		
Payables	**26.6**	21.9
Provisions	**2.2**	1.9
Other liabilities	**7.1**	62.6
Total current liabilities	**35.9**	86.4
Non-current liabilities		
Borrowings	**1,296.1**	1,166.4
Provisions	**0.5**	0.4
Derivative financial instruments	**34.3**	32.6
Deferred tax liabilities	**92.0**	55.6
Total non-current liabilities	**1,422.9**	1,255.0
Total liabilities	**1,458.8**	1,341.4
Net Assets	**748.0**	754.6
EQUITY		
Contributed equity	**869.7**	869.7
Reserves	**(25.5)**	(27.2)
Accumulated losses	**(96.2)**	(87.9)
Total Equity	**748.0**	754.6

27 Economic dependency

The Envestra Group has three major customers. They are:

- Origin Energy Retail Ltd, a subsidiary of Origin Energy Ltd;
- Energy Australia Pty Ltd; and
- AGL Pty Ltd.

The Envestra Group has a contract with APA Asset Management to operate and maintain the networks.

28 Reconciliation of profit after income tax to net cash inflow from operating activities

	2014 $mill.	2013 $mill.
Profit after income tax	**153.0**	107.8
Depreciation and amortisation	**67.4**	62.7
Indexation of Capital Indexed Bonds	**6.6**	5.4
Other deferred revenue	**-**	2.5
Gain on disposal of land and plant and equipment	**-**	(0.5)
Change in operating assets and liabilities		
(Increase)/decrease in trade debtors	**9.2**	(3.6)
(Increase)/decrease in other operating assets	**(0.5)**	1.8
Increase/(decrease) in trade creditors and other liabilities	**(55.8)**	11.7
Increase in provision for deferred income tax	**65.7**	46.0
Net cash inflow from operating activities	**245.6**	233.8

29 Non-cash investing and financing activities

Dividends satisfied by the issue of shares under the Dividend Reinvestment Plan in 2012-13 are shown in note 19.

30 Earnings per share

Basic earnings per share

	2014 cents	2013 cents
Profit from continuing operations attributable to the ordinary equity holders of the Company	**8.5**	6.6

Diluted earnings per share

The diluted earnings per share are the same as the basic earnings per share.

Weighted average number of shares used as the denominator

	2014 Number	2013 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**1,796,808,474**	1,629,119,095

31 Parent entity financial information

Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2014 $mill.	2013 $mill.
Balance sheet		
Current assets	**40.4**	41.6
Total assets	**2,751.6**	2,649.4
Current liabilities	**35.9**	86.4
Total liabilities	**2,433.4**	2,345.5
Shareholders equity		
Issued capital	**869.7**	869.7
Reserves – cash flow hedges	**(25.5)**	(27.2)
Accumulated losses	**(526.0)**	(538.6)
	318.2	303.9
Profit for the year	**127.4**	6.6
Total comprehensive income for the year	**129.1**	18.1

Guarantees entered into by the parent entity

There are cross guarantees given by Envestra Limited, Envestra (SA) Holdings 1 Limited, Envestra (SA) Limited and Envestra (QLD) Limited as described in note 26.

Contingent liabilities of the parent entity

The parent entity had contingent liabilities as at 30 June 2014 as disclosed in note 34. The parent had no material contingent liabilities at 30 June 2013.

Contractual commitments for the acquisition of property, plant and equipment

The parent entity had no contractual commitments for the acquisition of property, plant or equipment as at 30 June 2014 or 30 June 2013.

Investment in subsidiaries

The recoverable amount of investments in subsidiaries is based on a calculation of the equity value in the subsidiary. Those calculations use cash flow projections based on current and expected regulatory outcomes for gas distributors. Cash flow projections are estimated for a period of 20 years, with a terminal value, recognising the long-term nature of the assets and anticipate long-term average growth rates of 1% to 3%. The discount rate used was 8.4% (2013: 8.6%).

32 Events occurring after the balance sheet date

On 7 August 2014, the offer from the CK Consortium to acquire all Envestra shares was declared "unconditional" upon it reaching the 50% minimum acceptance level of the offer. Accordingly a change of control of the Envestra Group occurred. The implication of the change in control to the CK Consortium, particularly in relation to future strategic direction and potential developments, cannot be determined at the date of this report. The CK Consortium's intentions regarding future operations are broadly outlined in the Bidders Statement sent to shareholders on 4 July 2014.

There have been no other significant events that have occurred after the balance sheet date.

33 Commitments

Operating leases

Envestra has non-cancellable operating leases for office space and warehouses expiring within one to seven years. The leases have varying terms, escalation clauses and renewal rights. Excess office space is sublet to third parties and the warehouses are sublet to APA Asset Management as its works depot, also under non-cancellable operating leases.

	2014 $mill.	2013 $mill.
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**1.5**	1.5
Later than one year but not later than five years	**1.0**	2.2
Later than five years	**0.3**	0.5
	2.8	4.2
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	**2.6**	3.7

Other expenditure commitments as at 30 June 2014 are contracted by the Company's operator (APA Group).

34 Contingent liability

As outlined in "CK Consortium takeover proposal" in the Directors' Report, the CK Consortium takeover offer was declared "unconditional" upon it reaching the 50% minimum acceptance level of the offer. Accordingly a change of control of the Envestra Group occurred. On the offer being declared "unconditional", a Financial Advisory Transaction Fee is payable to Goldman Sachs. The amount payable is $14.6 million (excluding GST), with $0.9 million of the fee accrued in 2013-14.

In the Directors' opinion:

(a) the financial statements and notes set out on pages 15 to 52 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that Envestra Limited will be able to pay its debts as and when they become due and payable; and

(c) the audited remuneration disclosures set out on pages 7 to 13 of the Directors' Report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*; and

(d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 26 will be able to meet any obligations or liabilities to which they are, or may become subject by virtue of the Deed of Cross Guarantee described in note 26.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declaration by the Managing Director and Group Manager - Finance required by section 295A of the *Corporations Act 2001* and have received an assurance that the declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

This declaration is made in accordance with a resolution of the Directors.

John G Allpass
Chairman

Adelaide
14 August 2014

Independent auditor's report to the members of Envestra Limited

Report on the financial report

We have audited the accompanying financial report of Envestra Limited (the company), which comprises the balance sheet as at 30 June 2014, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Envestra Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

pwc

Auditor's opinion

In our opinion:

(a) the financial report of Envestra Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 7 to 13 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Envestra Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Forman
Partner

Adelaide
14 August 2014