

Financial Information



4.1 Balance Sheet

An audited balance sheet of Envestra as at 31 December 1998 and a proforma balance sheet adjusted to reflect the financial position of Envestra following the acquisition of the Stratus Business and completion of the Rights Offer, the Placement and the Convertible Note issue are set out below.

	ACTUAL 31 DECEMBER 1998	PROFORMA 31 DECEMBER 1998 INCLUDING STRATUS	PROFORMA 31 DECEMBER 1998 INCLUDING STRATUS AND THE RIGHTS OFFER, PLACEMENT AND CONVERTIBLE NOTES
	\$M	\$M	\$M
Current assets			
Cash and bank balances	17.3	28.7	24.1
Receivables	0.1	13.4	9.9
Other	0.2	0.4	0.4
Total current assets	17.6	42.5	34.4
Non-current assets			
Preliminary expenses and transaction costs	18.9	30.8	38.5
Property, plant and equipment	901.7	1,506.2	1,506.2
Distribution licence	-	584.8	584.8
Total non-current assets	920.6	2,121.8	2,129.5
Total assets	938.2	2,164.3	2,163.9
Current liabilities			
Accounts payable	8.8	16.6	16.6
Loan Notes	17.1	17.1	30.2
Other	14.0	14.0	14.0
Total current liabilities	39.9	47.7	60.8
Non-current liabilities			
Borrowings	584.3	1,802.3	1,594.3
Loan Notes	198.9	198.9	329.4
Provisions	6.4	6.7	6.7
Other	11.5	11.5	11.5
Total non-current liabilities	801.1	2,019.4	1,941.9
Total liabilities	841.0	2,067.1	2,002.7
Net assets	97.2	97.2	161.2
Equity			
Share capital	105.0	105.0	169.0
Accumulated losses	(7.8)	(7.8)	(7.8)
Total equity	97.2	97.2	161.2
Equity and Loan Notes			
Total equity	97.2	97.2	161.2
Loan Notes	216.0	216.0	359.6
Total equity and Loan Notes	313.2	313.2	520.8

Note

1. The costs of issuing the Stapled Securities have been deducted from the proceeds of equity, to the extent those costs relate to equity (\$2.4m) and included in transaction costs to the extent the costs related to the debt portion of the Securities (\$7.7m).

4.2 Forecasts

Financial forecasts made by the Directors of Envestra have been premised on a detailed examination of the estimated revenues and expenses of Envestra. In determining the financial forecasts, the Directors have also considered the opinions of professional advisors who have reviewed certain of the assumptions made in preparing the forecasts.

Due care and attention has been given to the preparation of Envestra's forecasts. However, forecasts by their very nature are subject to significant uncertainties and contingencies, many of which are outside the control of Envestra and the Directors. These uncertainties and contingencies include the general state of the Australian economy and the energy industry, the regulatory environment and the actions of potential competitors of Envestra. Investors should take particular note of the risks that may affect the return to Investors which are set out in Section 5. Actual results may vary significantly from the forecasts.

Investors should refer to the whole of this Prospectus before making their investment decision with respect to any investment in Securities.

Investors should not place undue reliance on the forecasts.

The forecasts were prepared on the basis of certain assumptions, the principal ones of which are detailed in Section 4.3. No representation is made that the assumptions will prove to be accurate. The forecasts should be read in conjunction with the assumptions, sensitivity analyses and risk factors discussed below and elsewhere in this Prospectus.

4.2.1 FORECAST FINANCIAL PERFORMANCE OF ENVESTRA

Envestra's forecast cashflow for the years 1999 and 2000 is presented in the table below together with Envestra's actual cashflow for 1998. The principal assumptions on which the forecasts are based are set out in Section 4.3.

	ACTUAL 30 JUNE 1998 \$M	FORECAST 30 JUNE 1999 ⁽¹⁾ \$M	FORECAST 30 JUNE 2000 \$M
Cashflow from operations	71.5	77.1	150.7
Interest on borrowings	(28.4)	(52.1)	(122.1)
Subvention receipt ²	0.0	6.0	35.0
Cashflow from operations after interest and tax	43.1	31.0	63.6
Capital expenditure	(21.1)	(50.7)	(116.9)
Acquisitions	(886.8)	(1,207.7)	0.0
Preliminary expenses and transaction costs	(20.6)	(11.9)	(10.1)
Funds from investing activities	(928.5)	(1,270.3)	(127.0)
Increase/(decrease) in borrowings	578.5	1,272.9	(103.1)
Issue of Securities	350.0	0.0	210.0
Funds from financing activities	928.5	1,272.9	106.9
Cash for year	43.1	33.6	43.5
Cash brought forward	0.0	15.9	25.8
Cash in Stratus on acquisition	0.0	4.8	0.0
Cash available for Security Holders	43.1	54.3	69.3
Distribution to Investors	(27.1)	(28.5)	(48.9)
Cash Retained by Envestra	15.9	25.8	20.4

Note

1 The Stratus Business was acquired by Envestra on 31 March 1999.

2 The subvention receipt is based on the Subvention Deed (described in Section 7.1.5)

Envestra's forecast profit and loss statements for the years 1999 and 2000 are presented in the table below together with Envestra's actual profit and loss statement for 1998:

	ACTUAL 30 JUNE 1998 \$M	FORECAST 30 JUNE 1999 \$M	FORECAST 30 JUNE 2000 \$M
Operating profit before depreciation and interest	55.1	89.1	154.7
Less: depreciation and amortisation ¹	(17.7)	(24.4)	(36.0)
Less: net interest expense ²	(29.5)	(62.9)	(124.2)
Profit /(Loss) before interest on Loan Notes	7.8	1.8	(5.5)
Interest on Loan Notes	(12.0)	(12.5)	(18.7)
Operating loss before tax	(4.2)	(10.7)	(24.2)
Tax Expense ³	(2.9)	(11.9)	(3.0)
Operating loss after tax	(7.1)	(22.6)	(27.2)

Note

1 Amortisation reflects the amortisation of the preliminary expenses and the borrowing costs.

2 Net interest expense excludes interest expense on the Loan Notes.

3 Income tax expense if calculated after adjusting for the following:

	1998	1999	2000
Prima facie tax benefit/(expense)	1.5	3.9	8.7
Permanent differences:			
- depreciation on fixed assets	(4.1)	(5.0)	(5.2)
- amortisation of transaction costs/expenses	(0.3)	(0.3)	(0.6)
- other	-	(0.3)	-
Tax losses transferred out of group	-	(16.2)	(40.9)
Subvention receipt ^A	-	6.0	35.0
Income tax expense	(2.9)	(11.9)	(3.0)

Note

A Payments made to Vic Gas under the terms of the Subvention Deed (described in Section 7.1.5)

Distributions on the Loan Notes will be determined by Available Cash and will not be constrained by the existence of accounting profits or losses. Distributions forecast to be payable in 2000 are \$48.9 million (which relates to interest periods under the Loan Notes of 1 April 1999 to 30 September 1999 and 1 October 1999 to 31 March 2000), which comprise \$16.6 million of interest and \$32.3 million of principal repayment on the Loan Notes. Forecast operating loss after tax is \$27.2 million for 2000. It should be noted that the periods for payment of interest of April to September and October to March for the Loan Notes are different from the accounting periods for reporting profits and losses of Envestra which are July to December and January to June.

Investors should be aware that the Directors expect Envestra to continue to incur accounting losses for approximately seven years. However, the Directors do not believe this will impair Envestra's ability to meet forecast distributions during this time, which are dependent upon available cashflow.

4.2.2 FORECAST RETURNS TO INVESTORS

Envestra forecasts that Investors will receive a distribution of 9.00¢ per existing Security and 7.28¢ per New Security in the year ended 30 June 2000.

The distribution per Security is forecast to rise to 9.25¢ in the year ended 30 June 2001 and to 9.50¢ in the year ended 30 June 2002. Half yearly distributions are expected to be paid in November and May of each year. The next distribution will be paid in November 1999.

Initial distributions will take the form of interest paid on the Loan Notes and partial repayment of the Loan Note principal. During this period, dividends on the Shares are not expected to be paid and no franking credits are expected to be available. Franking credits will only be available when Envestra has paid income tax. Dividends are not expected to be paid for approximately seven years. Cashflow which is not able to be distributed by the payment of dividends may be distributed by way of reduction of share capital or other capital return.

The expected allocation of distributions on New Securities between the payment of interest and the repayment of Loan Note principal is as follows:

12 MONTHS ENDING 30 JUNE	FORECAST 2000	2001	2002
Distributions per New Security			
Interest payment	1.79¢	3.43¢	3.28¢
Principal repayment	5.49¢	5.82¢	6.22¢
Total payment	7.28¢	9.25¢	9.50¢

Australian resident Investors will be assessable for tax on that part of the distribution that is interest on the Loan Note. Investors will not be assessable for tax on that part of the distribution that is the repayment of the Loan Note principal. However, repayment of the Loan Note principal will reduce the cost of the Loan Notes for the purposes of calculating any tax liability upon disposal.

4.3 Assumptions

The principal assumptions adopted in preparing the forecasts are set out below. The list of assumptions referred to is not intended to be exhaustive. When considering these assumptions, Investors should be aware of the sensitivities presented in Section 4.4 and the risk factors associated with an investment in Envestra which are outlined in Section 5.

4.3.1 PRICING ASSUMPTIONS

Victoria

Victoria accounts for 43% of forecast revenue on average over the forecast period. The forecast assumptions for Victoria reflect the current tariff order which has been ratified by the Regulator and which applies until December 2002.

South Australia

South Australia accounts for 41% of forecast revenue on average over the forecast period. Envestra has a Haulage Agreement with Boral Energy that applies until the earlier of full Contestability (currently scheduled for July 2001) or June 2002. Envestra has made a submission to the Regulator in relation to an Access Arrangement that will apply from the date on which the Access Arrangement is approved. The forecasts are based on different assumptions to this submission. For the period to June 2001, the forecast assumptions for South Australia reflect the provisions of the Haulage Agreement until consumer classes become Contestable. The Directors believe this assumption to be reasonable.

In preparing the forecasts, it has been assumed that industrial and commercial consumers with annual consumption of less than 10TJ become Contestable by 1 July 2000 and that domestic consumers become Contestable by 1 July 2001. Industrial and commercial consumers with annual consumption greater than 10TJ became Contestable on 1 July 1999.

Based on the operating costs submitted in the Access Arrangement, Envestra is not generating the required rate of return. While the Code requires that prices be cost reflective, the forecasts assume that the transition to these pricing levels will occur progressively. An immediate increase in pricing to cost reflective levels would cause a "price shock" which may have an impact on demand.

Queensland

Queensland accounts for 10% of forecast revenue on average over the forecast period. For the period to July 2001, the forecast assumptions for Queensland reflect the Haulage Agreement. From July 2001, it is assumed that prices received by Envestra escalate so as to achieve a gradual transition to cost reflective pricing.

Other

Envestra's business in other areas, including Alice Springs (NT), Palm Valley (NT transmission pipeline), Mildura (Vic), Riverland (SA), Murray Valley (NSW), Albury (NSW) and Bundaberg (Qld), accounts for 6% of forecast revenue on average over the forecast period. The assumptions for these jurisdictions are based upon principles that have been discussed with the Regulator and Envestra's experience in preparing submissions for other areas.

4.3.2 VOLUME ASSUMPTIONS

In determining Envestra's forecasts, assumptions have been made as to likely volumes of natural gas that will be transported through the Network as described in the table below.

NATURAL GAS VOLUME (PJ)	2000	2001	2002
Victoria	55.6	56.7	57.7
South Australia	36.0	36.1	36.2
Queensland	4.6	4.8	5.0
Other	7.9	8.8	9.0
Total	104.1	106.4	107.9

4.3.3 OPERATING COSTS

In preparing Envestra's forecasts, it has been assumed that Regulators will consider that the Network is operated efficiently and that Envestra will be able to pass on operating costs of the Network.

Victoria

Envestra's forecasts assume that BEAM will be able to achieve operating cost reductions of about 25% over the period to December 2002.

South Australia

The forecasts have been prepared on the assumption that costs in South Australia are consistent with Envestra's submission to the Regulator.

Queensland

The forecasts have been prepared on the assumption that costs in Queensland are consistent with historical experience.

Other

The forecasts have been prepared on the assumption that costs in the other jurisdictions in which Envestra operates are consistent with historical experience.

4.3.4 DEBT FINANCE AND CONVERTIBLE NOTES

The forecasts have been prepared to reflect the terms of existing debt finance facilities and swap arrangements.

Envestra at the time of the 1997 initial public offering entered into two debt funding facilities - a \$505 million term debt facility and a \$215 million issue of Capital Index Bonds - to fund the acquisition of the Existing Network from Boral and for capital expenditure. A \$10 million working capital facility was also entered into at this time. These facilities remain outstanding and are secured against Existing Network assets. Section 8.2 contains further details on these facilities.

Envestra's acquisition of the Stratus Business was partly funded by the following facilities established by EnVic:

- \$100 million term loan with a one year maturity;
- \$410 million term loan with a three year maturity; and
- \$400 million term loan with a five year maturity.

EnVic has also established the following facilities:

- \$70 million term loan for capital expenditure, maturing in three years; and
- \$5 million working capital facility, subject to review on an annual basis.

Interest on these facilities is payable quarterly, whilst principal is not due to be repaid until final maturity. Envestra has entered into swap arrangements to hedge 80% of the interest rate risk on the initial amount drawn down on these facilities until the next Victorian Regulatory Period.

The average maturity of these facilities is three years. Envestra proposes that upon maturity, the full amount of the facilities described above will be refinanced.

Envestra also intends, through a wholly owned subsidiary, EnVic Holdco, to issue approximately 83.3 million Convertible Notes to institutional investors to raise \$100 million. The proceeds of the issue of Convertible Notes will be used to repay the Boral loan in part.

4.3.5 CAPITAL EXPENDITURE

The forecasts assume capital expenditure for maintenance of the Network including the Accelerated Mains Replacement Programme and to fund growth of the Network as follows:

CAPITAL EXPENDITURE (\$M)	2000	2001	2002
Maintenance	9.7	10.0	9.9
Growth ⁽¹⁾	107.2	64.5	62.2

1 Growth includes expenditure under the Accelerated Mains Replacement Programme.

36% of the forecast growth capital expenditure in the year 2000 is expected to be directed to greenfield sites.

4.3.6 WORKING CAPITAL

The Company believes that it has sufficient working capital to meet its stated objectives. The Haulage Agreement requires 45 days prepayment of the service fee. In addition, the forecasts are based on the assumption that the working capital facilities which are in place can be drawn upon as required.

4.3.7 TAXATION

The forecasts are based on the application of Australian taxation laws as at the date of this Prospectus.

4.3.8 ECONOMIC ASSUMPTIONS

Annual inflation (as measured by changes in CPI) is assumed to be 2.5% from 1999.

4.3.9 ACCOUNTING POLICIES

The forecast distributions assume no change in applicable Accounting Standards, the Corporations Law or other financial reporting requirements that may have a material effect on the Envestra forecast distributions. The accounting policies adopted by the Directors in preparing the forecast distributions are consistent with those disclosed in the most recent annual financial statements with the addition of the policy described below in Section 4.3.9.1

4.3.9.1 Accounting for Intangible Assets

The Directors are of the view that the distribution licence for Stratus has an ongoing life and its value will not diminish over time. Notwithstanding this, an assessment has been made of the depreciable amount of the distribution licence in current dollar terms for the period to 2038 on the same basis as that used in the original bid for Stratus. Throughout this period, the residual value approximates to the current carrying amount of the distribution licence, resulting in an immaterial depreciable amount. Consequently, no amortisation charge has been recognised in the forecast.

An assessment of the recoverable amount of the distribution licence will be made in each accounting period to ensure that it is not less than the carrying amount. The recoverable amount is determined based on the net amount expected to be recovered through the net cash inflows arising from the continued use of the distribution licence and its subsequent disposal, if applicable, discounted to the present value using a market determined risk adjusted discount rate.

ASIC has recently expressed an interest in the accounting treatment of intangible assets. Should a change in the accounting policy be required, there may be a material reduction in the accounting result. However, this will not have an impact on cashflow and therefore should not affect Envestra's ability to make forecast distributions.

4.4 Sensitivity Analysis of Cash Available to Security Holders in 2002

The sensitivity analyses have been conducted based on 2002 cashflows because prior to this time the Haulage Agreement operates to reduce the impact of variation in revenue assumptions on the amount of Available Cash.

The sensitivities describe the relationship between changes in the respective variables and the forecast amount of cash available for distributions per Security. Distributions may be varied by the amount of the change in cash available, but in the sensitivities, no account is taken of existing cash balances or other means of funding distributions.

4.4.1 TOTAL OPERATING COSTS

Total operating costs for 2002 have been varied by $\pm 5\%$.

Variation in Total Operating Costs Assumed	-5%	+5%
Change in Cash Available per Security in 2002	+0.7¢	-0.7¢

4.4.2 NATURAL GAS VOLUMES

Volume from year to year will vary according to the weather, particularly the severity of winter. Variations in weather, however, average over time.

Natural gas volumes have been varied in 2002 (at which time it is assumed that all customers under the Haulage Agreement are Contestable) by $\pm 3\%$. This could reflect substitution to alternative fuel sources or changes to consumer numbers in that year or weather variations. No corresponding adjustment to capital expenditure has been made.

Variation in Natural gas Volume Assumed	-3%	+3%
Change in Cash Available per Security in 2002	-1.2¢	+1.2¢

4.4.3 INTEREST RATES

The interest rates on the majority of Envestra's debt facilities are either by their terms or through swaps fixed for periods varying between two and 15 years. Furthermore, to the extent that market interest rates change, it is anticipated that Regulators will take such changes into account in determining Access Charges at the time of any regulatory reset.

The table below shows the effect of varying unfixed rates of interest on nominal debt by $\pm 1\%$ for the period from 30 June 1999 until 30 June 2002. The impact of variation in interest rates is cumulative and has an increasing impact on Available Cash for each successive year. The analysis is conservative in that it assumes no change to the Access Charges to reflect the variation in interest rates.

Variation in Interest Rate Assumed	-1%	+1%
Change in Cash Available per Security in 2002	+0.8¢	-1.1¢

4.4.4 INFLATION

Envestra's revenues and certain components of its costs are likely to change as a consequence of changes in CPI. Inflation has been varied by $\pm 1\%$ on a cumulative basis. The analysis has not adjusted interest rates on nominal debt to reflect changes in inflation and will therefore tend to overstate the sensitivity.

Variation in Inflation Assumed	-1%	+1%
Change in Cash Available per Security in 2002	-0.5¢	+0.5¢

4.4.5 REGULATORY OUTCOMES

The impact on the forecast cash available to Security Holders in 2002 of various regulatory outcomes in South Australia and Queensland relative to the base case assumptions is shown in the table below.

REGULATORY OUTCOMES RELATIVE TO BASE CASE	ASSET BASE -5%	BASE CASE ASSET BASE	ASSET BASE -5%
	BASE CASE RATE OF RETURN	RATE OF RETURN -0.25%	RATE OF RETURN -0.25%
Change in Cash Available per Security in 2002	-0.8¢	-0.4¢	-1.1¢