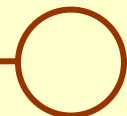


# APA Group

## Acquisition of Origin Energy Networks

Mick McCormack  
Managing Director

**Date: 4 April 2007**



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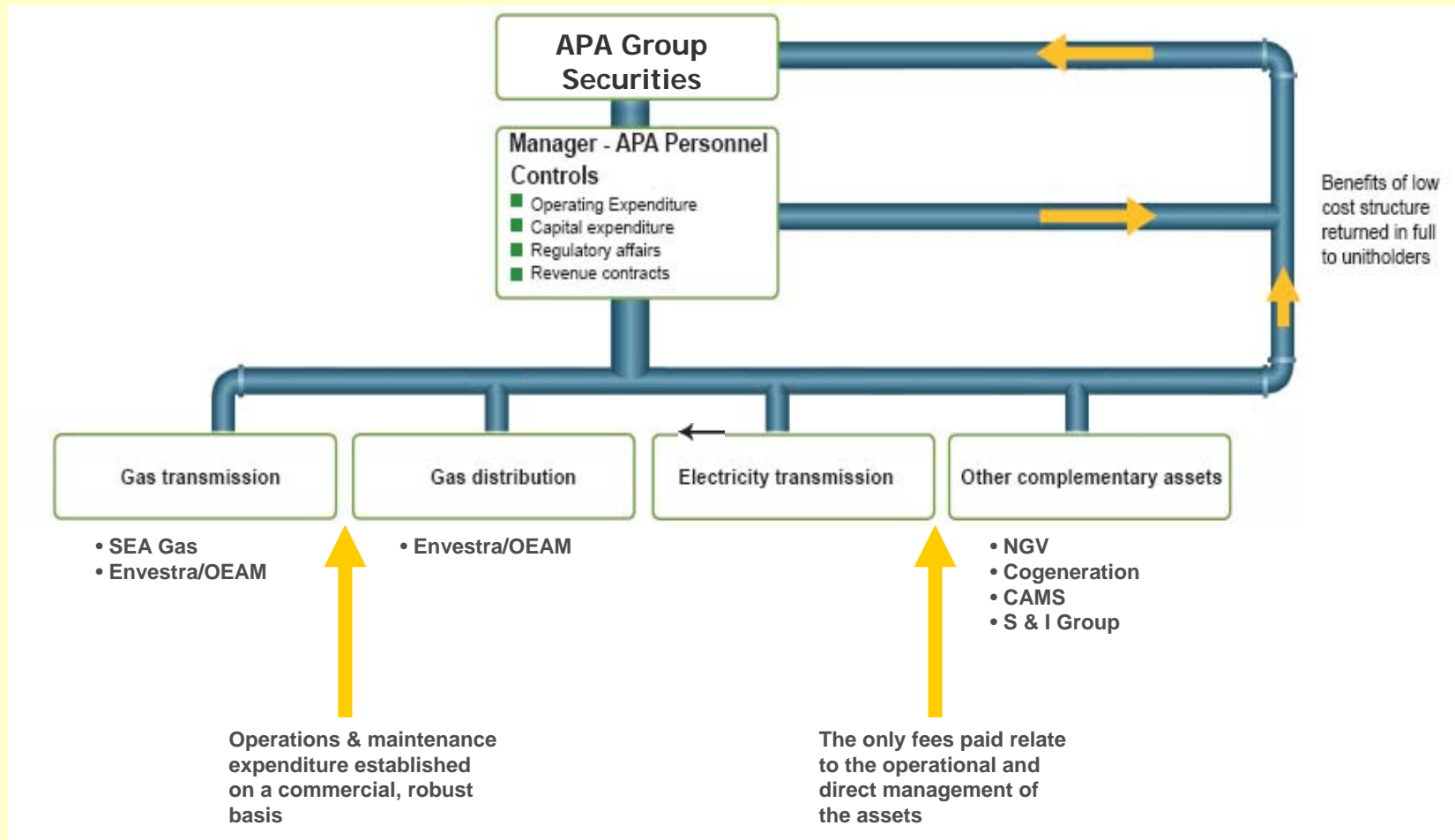
# Outline

- Overview
- Business Model
- Assets Acquired and Pricing
- Strategic Rationale
- Asset Description
- Integration Process
- Summary Financials and Impact
- APA Assets as at April 2007
- Conclusion

# Overview

- Price of \$556.5m plus \$15.4m transaction costs (inc. stamp duty)
- Increases cash available for distribution and investment from day 1
- Completion targeted for July
  - No material financial impact on FY07 financials
- Strategic acquisitions in APA's core business of energy delivery - all businesses are gas focused and significantly enhance APA's internal operations capability
- Strengthens and diversifies APA's presence across Australia
- Long term predictable cash flow with growth potential
- Assets under operation are over \$8 billion

# Business Model



**“APA delivers because it has a lean, low-cost business model which maximises returns for securityholders”**

# Assets Acquired and Pricing

- Total acquisition price \$556.5 m plus \$15.4 m of transaction costs (inc. stamp duty)

Asset acquired	Interest	Purchase price	Multiple
SEA Gas pipeline	33.3% stake	\$133.2m	14.5x EBITDA (FY07) <sup>1</sup>
Envestra securities	17.2% stake	\$170.4m	\$1.20 per security <sup>2</sup>
OEAM & other businesses	100% ownership	\$252.9m	13.1x EBITDA (FY07) <sup>1</sup>
<b>Total</b>		<b>\$556.5m</b>	

**Notes:**

1. Based on APA's forecast of EBITDA
2. A discount to the 1 and 3 month VWAP, 4.4% discount to close price on 3 April 2007

# Strategic Rationale

- Assets provide long-term stable revenue which will increase cash available for distribution and further investment
- Significantly expands APA's footprint and provides growth opportunities, including the development of the east Australian gas transmission grid
- Further enhances APA's internal operational capabilities which increases organic growth opportunities
- Enhances APA's ability to deliver gas to all mainland population centres

# SEA Gas

## Asset overview

- 114 PJ p.a. capacity, 680 km pipeline linking Victorian gas fields to South Australia
- Two compressor stations and readily expandable
- APA transmission systems now access all major population centres
- Commissioned January 2004 and fully contracted



## **Asset overview (cont'd)**

- Subject to rights for existing owners. Upon acquisition APA will have pre-emptive rights over the remaining two-thirds.

## **Strategic rationale**

- Opportunity to develop east Australia gas grid
- Bolts on to APA's core transmission business
- Leverages off APA existing operating capability



## **Asset overview cont'd**

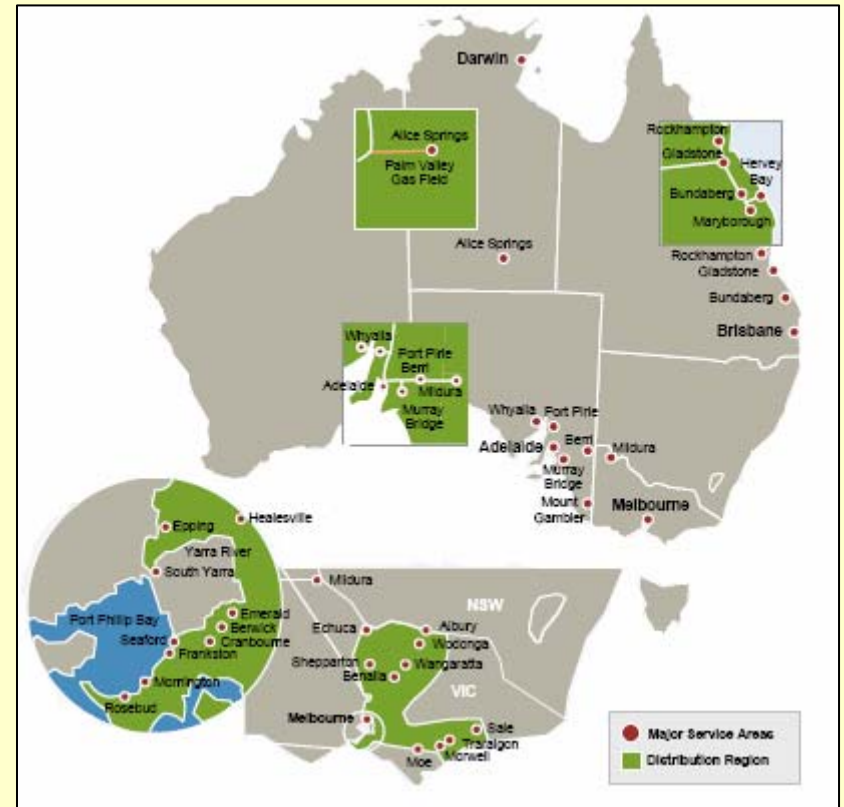
- Employs 500 staff and approximately 700 contractors
- Subject to consents for assignment of contracts
- Natural gas vehicles, cogeneration, two laterals

## Strategic rationale

- Continues strategy of increasing internal operating capability.
- Good fit with APA's existing business and complements APA's skill base and technical capability, O&M capability now in all mainland states and territories
- Primarily operates under long term contracts
- Continues APA's strategy of acquiring internally operated businesses
- Increases opportunities of generating additional non-regulated revenues across APA
- These resources will drive greenfield and brownfield developments in all states

## Asset overview

- One of Australia's largest natural gas distributor
- Primary assets comprise:
  - 19,100km of natural gas distribution networks
  - 1,029km of natural gas transmission pipelines
- Serves more than 980,000 consumers in all eastern and central Australian states
- Over 95% of revenue is regulated
- Operated by OEAM



## **Strategic rationale**

- Establishes APA as cornerstone investor and largest shareholder
- OEAM operates all Envestra assets
- Opportunity for board representation
- Diversification of assets by type and location
- Together with OEAM, fits APA's business model of owning and operating its assets.

# Integration Process

- Detailed integration plan being developed
- A detailed communication strategy to cover both the new APA staff from OEAM and APA's existing staff
- Developing and issuing offers of employment to all OEAM staff
- Integration of new staff into APA's organisational structure
- Roll out of key policies and procedures
- Ensuring a continued strong emphasis on maintaining a safe working environment and ensuring the safe and reliable delivery of gas
- Operations and administration savings were not included in valuation

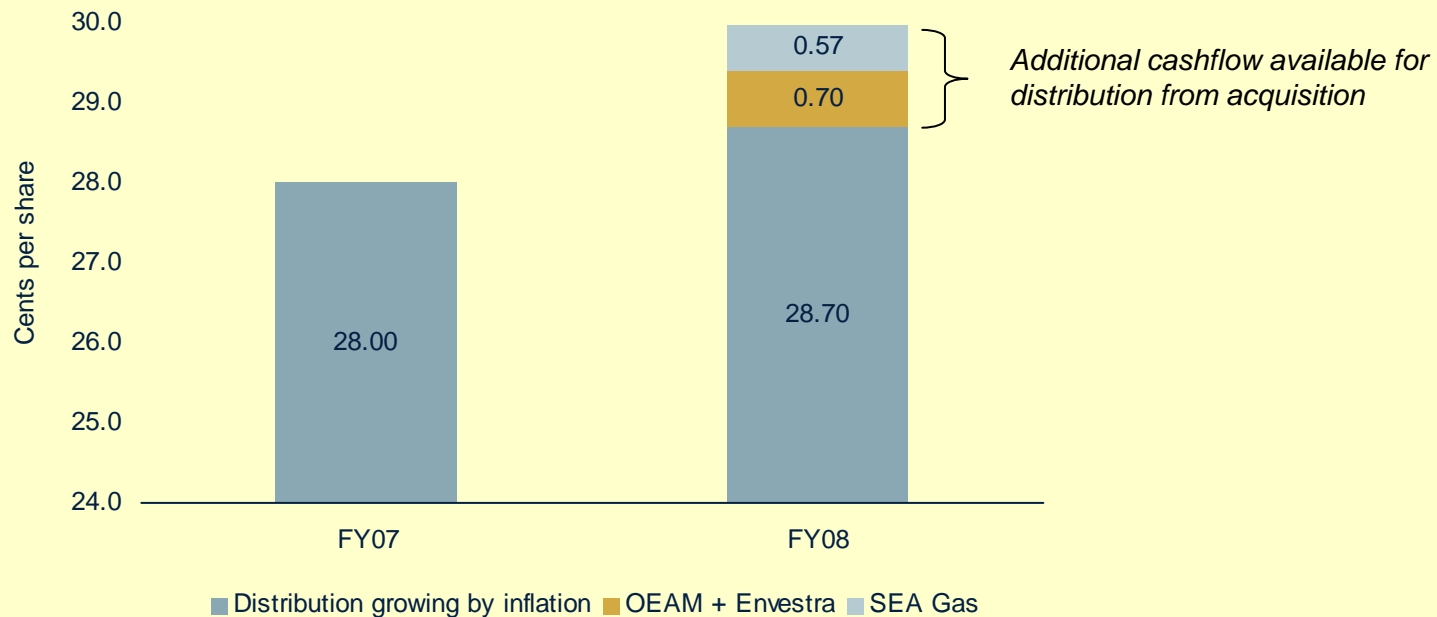
# Summary financials – Origin Energy Networks

<b>\$m</b>	<b>2008F</b>
Operating cash flow	43.8
Tax on operating cash flow	(9.3)
Capex	-
Post tax interest	(29.1)
<b>Cashflow available for distribution</b>	<b>5.5</b>

- The acquisition provides incremental cash flow available for distribution and investment

# Impact on APA

- No impact on FY07 results or guidance
- Free cash flow accretive from year 1
- Additional cash will allow APA to focus on increasing distributions at least in line with CPI and fund growth opportunities



# Impact on APA (cont'd)

## Funding

- Funded from committed bridge facilities
- Gearing, following transaction, within existing debt covenants
- Bridge facilities will be refinanced as part of the current syndication process

# APA's ASSETS AS AT APRIL 2007

## LEGEND

- Pipelines
- Electricity Transmission
- - - Proposed
- State and Territory boundary
- LNG Facility
- Allgas Distribution System
- Envestra Distribution System
- Gas storage facility
- Gas processing facility / power station
- Capital cities
- Point of interest
- Envestra Distribution major service area



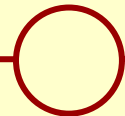
# Conclusion

- Good fit and fair price
- Strong free cash flow generation
- Growth opportunities across the Australian supply chain
- Fits with APA core and complementary strategy
  - Provides opportunities to further develop core business and enhances ability to transmit gas around eastern Australia gas grid
  - Substantially builds on strategy of strong internal operating capability
  - Increases opportunities of generating additional non-regulated revenues across APA
  - Bolt-on to existing integration processes



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# Accounting Treatment

Asset acquired	Interest	Accounting treatment
SEA Gas pipeline	33.3% stake	Equity accounted
Envestra securities	17.2% stake	Distributions treated as income from associates
OEAM & other businesses <sup>1</sup>	100% ownership	Consolidated

# OEAM

- OEAM complements APA's existing skill base

Capability	Qld		NSW		Vic		SA		WA		Tas		NT	
	APA / OEAM		APA / OEAM		APA / OEAM		APA / OEAM		APA / OEAM		APA / OEAM		APA / OEAM	
Asset management	✓	✓	✓		✓	✓		✓	✓					
Engineering	✓	✓			✓	✓		✓						
Commercial	✓	✓	✓		✓	✓		✓	✓					
Regulatory	✓	✓	✓		✓	✓		✓	✓					
IT	✓	✓	✓		✓	✓		✓	✓					
Asset development	✓	✓	✓		✓	✓		✓	✓					
Operations	✓	✓		✓	✓	✓		✓		✓				✓