Envestra

This Scheme Booklet is important and requires your immediate attention. You should read it in its entirety. If you are in any doubt as to how to deal with this document, please consult your financial, legal or other professional adviser.

SCHEME BOOKLET

for the scheme of arrangement between

ENVESTRA LIMITED

ABN 19 078 551 685

and its ordinary shareholders (other than APA Group) in relation to the proposed acquisition of Envestra Limited by Australian Pipeline Limited (ABN 99 091 344 704) as responsible entity of Australian Pipeline Trust (ARSN 091 678 778)

A Notice of Scheme Meeting is included as Appendix 6 to this Scheme Booklet. A proxy form for the Scheme Meeting and an Election Form accompany this Scheme Booklet.

The Scheme Meeting will be held on 13 May 2014 at 10.00am at Riverbank Rooms 1-3, Adelaide Convention Centre, North Terrace, Adelaide, South Australia.

The Recommending Directors, namely John Allpass, Ian Little, Fraser Ainsworth AM and Olaf O'Duill, recommend that Participating Envestra Shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Scheme is fair and reasonable and in the best interests of Participating Envestra Shareholders. The Recommending Directors are a majority of the Non APA Affiliated Directors.

The other Non APA Affiliated Directors, namely Ivan Chan and Dominic Chan, recommend that Participating Envestra Shareholders vote against the Scheme.

The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, in the best interests of Participating Envestra Shareholders, in the absence of a superior proposal.

If you have any questions about the Scheme, please call the Envestra Shareholder Information Line on 1300 784 494 (from within Australia) or +61 1300 784 494 (from outside Australia).

Important notices and disclaimers

Important document
This Scheme Booklet is an important document and should be read in its entirety. If you are in any doubt as to the course you should follow, you should seek independent professional advice.

Date
This Scheme Booklet is dated 7 April 2014 and was lodged with ASIC on the same date.

Explanatory statement
This Scheme Booklet is an explanatory statement which has been prepared pursuant to section 412(1) of the Corporations Act to explain the effect of the Scheme and provide information which is material to the making of a decision by Participating Envestra Shareholders about whether or not to vote in favour of the Scheme.

Role of ASIC, the ASX and the Court
A copy of this Scheme Booklet has been examined by ASIC pursuant to section 411(2)(b) of the Corporations Act and registered by ASIC under section 412(6) of the Corporations Act. ASIC has been or will be requested to provide a statement in accordance with section 411(17)(b) of the Corporations Act that ASIC has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court at the Second Court Hearing. Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet has been lodged with the ASX. Neither the ASX nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

Important notice associated with Court order under subsection 411(1) of the Corporations Act

The fact that under subsection 411(1) of the Corporations Act the Court has ordered that the Scheme Meeting be convened and has approved the Scheme Booklet required to accompany the notice of the Scheme Meeting does not mean that the Court:

(a) has formed any view as to the merits of the Scheme or as to how Participating Envestra Shareholders should vote on the Scheme (on this matter Participating Envestra Shareholders must reach their own decision); or

(b) has prepared, or is responsible for the contents of, this Scheme Booklet.

Responsibility for information in this Scheme Booklet
The APA Scheme Booklet Information and the Combined Group Scheme Booklet Information (including the risk factors concerning the Combined Group in Section 8) have been prepared by APA Group and are the responsibility of APA Group. Envestra, its Related Bodies Corporate and each of their respective officers, employees, professional advisers and agents are not responsible for, and do not assume responsibility for, the APA Scheme Booklet Information or the Combined Group Scheme Booklet Information.

The Envestra Scheme Booklet Information has been prepared by Envestra and is the responsibility of Envestra. APA Group, its Related Bodies Corporate and each of their respective officers, employees, professional advisers and agents are not responsible for, and do not assume responsibility for, the Envestra Scheme Booklet Information.

The reasons set out on pages 27 of this Scheme Booklet under the heading "Reasons why Ivan Chan and Dominic Chan recommend that you vote against the Scheme" have been prepared by Ivan Chan and Dominic Chan, and do not reflect the views of the Recommending Directors.

Grant Samuel & Associates Pty Limited has prepared the Independent Expert's Report and is responsible for that report. None of Envestra, APA Group, their respective Related Bodies Corporate and their respective directors, officers, employees, professional advisers and agents assumes any responsibility for the accuracy or completeness of the information in the Independent Expert's Report, except that Envestra and APA Group (but not their respective directors, officers, employees and advisers) are responsible for the information given by them, respectively, to Grant Samuel & Associates Pty Limited.

Deloitte Corporate Finance Pty Ltd has prepared the Investigating Accountant's Report and is responsible for that report. None of Envestra, APA Group, their respective Related Bodies Corporate and their respective directors, officers, employees, professional advisers and agents assumes any responsibility for the accuracy or completeness of the information in the Investigating Accountant's Report.

Investment decisions
This Scheme Booklet does not take into account your individual investment objectives, financial situation, taxation position or particular needs. The information in this Scheme Booklet should not be relied on as the sole basis for any decision in relation to your Envestra Shares. You should seek independent professional advice before making any investment decision in relation to your Envestra Shares or how to vote on the Scheme.

Forward looking statements
This Scheme Booklet contains forward looking statements which are not based solely on historical facts but are based on current expectations of Envestra and (in relation to the APA Scheme Booklet Information and the Combined Group Scheme Booklet Information) APA Group about future events and results. These forward looking statements are subject to inherent risks and uncertainties. Such risks and uncertainties include factors and risks specific to the industries in which Envestra and APA Group operate as well as general economic conditions, prevailing exchange rates and interest rates, conditions in the financial markets, government policies and regulations, competitive pressures and changes in technology. Actual events or results may differ materially from the expectations expressed or implied in such forward looking statements.

None of Envestra, APA Group, their respective related bodies corporate or their respective directors, officers, employees and advisers makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law. Accordingly, you are cautioned about placing undue reliance on forward looking statements contained in this Scheme Booklet.

The forward looking statements in this Scheme Booklet reflect views held only at the date of this Scheme Booklet. Subject to any continuing obligations under law or the ASX Listing Rules, Envestra and APA Group do not give any undertaking to update or revise any forward looking statements after the date of this Scheme Booklet to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any statement has been based.

Notice to foreign shareholders
This Scheme Booklet complies with Australian disclosure requirements and accounting standards. These requirements and standards may be different to those in jurisdictions outside Australia.

Foreign shareholders may not be entitled to receive New APA Securities pursuant to the Scheme and should refer to Section 4.16 of this Scheme Booklet for further information.

Participating Envestra Shareholders who are not Australian resident taxpayers or who are liable for tax outside of Australia should seek specific tax advice in relation to the Australian and overseas tax consequences of the transactions contemplated by this Scheme Booklet.

The financial information in this Scheme Booklet has also been prepared in accordance with Australian equivalents of International Financial Reporting Standards (A-IFRS), which may differ from generally accepted accounting principles in other jurisdictions.

Neither this Scheme Booklet, nor the Scheme, constitutes an offer to Participating Envestra Shareholders, or a solicitation, in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or solicitation. Restrictions in jurisdictions outside Australia and its external territories and New Zealand may make it impractical or unlawful for APA Securities to be issued under a scheme of arrangement to, or be received under a scheme of arrangement by, Participating Envestra Shareholders in those jurisdictions.

New Zealand

The offer of New APA Securities pursuant to the Scheme is being made to Participating Envestra Shareholders in New Zealand pursuant to the Securities Act (Overseas Companies) Exemption Notice 2002 (New Zealand).

This Scheme Booklet is not a New Zealand prospectus or an investment statement and it has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the Securities Act 1978 (New Zealand) or any other relevant law in New Zealand. This Scheme Booklet may not contain all of the information that a prospectus or an investment statement under New Zealand law is required to contain.

United States

The New APA Securities to be issued pursuant to the Scheme have not been, and will not be, registered under the United States Securities Act of 1933 (U.S. Securities Act), or the securities laws of any other jurisdiction, and may not be offered or sold in the U.S. or to "U.S. Persons" (as defined in Regulation S under the Securities Act) (U.S. Persons) unless they are registered under the U.S. Securities Act, or an exemption from the registration requirements of the U.S. Securities Act is available.

Any New APA Securities issued to persons in the United States or to U.S. Persons under the Scheme will be issued in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Section 3(a)(10) thereof, based on the approval of the Scheme by the Court.

New APA Securities received under the Scheme by any person who is deemed to be an "affiliate" of APA Group under Rule 145 under the U.S. Securities Act, including, without limitation, directors and certain executive officers, may not be resold in the United States or to a U.S. Person except in accordance with the provisions of Rule 144 under the U.S. Securities Act, outside of the United States in reliance upon Regulation S under the U.S. Securities Act, or as otherwise permitted by the U.S. Securities Act.

Persons in the United States and U.S. Persons should note that this Scheme Booklet has been prepared in accordance with Australian disclosure requirements, which are different to those that would apply to a disclosure document prepared in accordance with the rules of the U.S. Securities Exchange Commission (SEC). The SEC has not reviewed or approved the contents of this Scheme Booklet. In particular, persons in the United States and U.S. Persons should note that the pro forma financial information included in this Scheme Booklet does not purport to comply with the requirements of Article 11 of Regulation S-X of the rules and regulations of the SEC.

Bahamas

This document is issued exclusively to Envestra Shareholders in furtherance of a court-supervised statutory arrangement pursuant to Part 5.1 of the Corporations Act. It is not intended for distribution to the public in The Bahamas. No shares or other interests will be offered or issued to any persons other than Envestra Shareholders.

Privacy
Envestra may collect personal information about you in connection with the Scheme. The personal information may include the names, contact details and details of shareholdings of Participating Envestra Shareholders, together with the names and contact details of individuals appointed by Participating Envestra Shareholders to act as proxies, attorneys or corporate representatives to vote at the Scheme Meeting.

Such information will be collected for the purpose of the Scheme Meeting and implementing the Scheme. The information may be disclosed to Envestra, Envestra's advisers and service providers, and to APA Group and APA Group's advisers and service providers, to the extent necessary in connection with the Scheme Meeting and implementing the Scheme.

You may have certain rights to access personal information which is collected about you. You should contact Envestra's share registry, Link Market Services, in the first instance should you wish to exercise these rights. You can contact Link Market Services by telephone on 1300 784 494 (from within Australia) or +61 1300 784 494 (from outside Australia).

Participating Envestra Shareholders who appoint a named person as their proxy, attorney or corporate representative to vote at the Scheme Meeting should inform that individual of the matters outlined above.

Definitions
Capitalised terms used in this Scheme Booklet are defined in Section 14 of this Scheme Booklet.

Certain documents reproduced in the annexures and appendices to this Scheme Booklet have their own defined terms, which are sometimes different from those in the Glossary.

Unless otherwise stated, all data contained in charts, graphs, and tables is based on information available at the date of this document. All numbers are rounded unless otherwise indicated.

References to time
All references to time in this Scheme Booklet are to the time in Adelaide, Australia unless expressly indicated otherwise.

Effect of rounding
A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Scheme Booklet, including those in respect of the Scheme Consideration, are subject to the effect of rounding. Accordingly, their actual calculation may differ from the calculations set out in this Scheme Booklet.

Currency
All references in this Scheme Booklet to "$", "A$" and "cents" are references to Australian currency, unless otherwise specified.

Notice of Scheme Meeting
The Notice of Scheme Meeting is set out in Appendix 6.

No internet site is part of this Scheme Booklet
Envestra maintains an internet site at www.envestra.com.au. APA Group maintains an internet site at www.apa.com.au. Any references in this Scheme Booklet to an internet site are a textual reference for information only and no information in any internet site forms part of this Scheme Booklet.

Questions
If you have any questions in relation to the Scheme or this Scheme Booklet, please call the Envestra Shareholder Information Line on 1300 784 494 (from within Australia) or +61 1300 784 494 (from outside Australia) between 8.00am and 4.30pm (Adelaide time), Monday to Friday.

A copy of this Scheme Booklet can be found on Envestra's website at www.envestra.com.au.

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KEY DATES AND EVENTS

Dividend Record Date for Envestra FY2014 interim dividend	21 March 2014
First Court Hearing for approval of this Scheme Booklet	7 April 2014
Scheme Booklet and Notice of Scheme Meeting despatched to Participating Envestra Shareholders	11 April 2014
Payment of **Envestra interim dividend**	30 April 2014
Deadline for receipt of Proxy Forms for Scheme Meeting	11 May 2014 (10.00am)
Record date for determining entitlement to vote at the Scheme Meeting	11 May 2014 (6.30pm)
Scheme Meeting to be held at Riverbank Rooms 1-3, Adelaide Convention Centre, North Terrace, Adelaide, South Australia	13 May 2014 (10.00am)
Second Court Hearing to approve the Scheme	16 May 2014
Effective Date of Scheme	16 May 2014
Suspension of trading in Envestra Shares	Close of trading on 16 May 2014
Commencement of trading in New APA Securities on a deferred settlement basis on the ASX	19 May 2014
Deadline for receipt of Elections for Scheme Consideration	23 May 2014 (4.30pm)
Scheme Record Date for determining entitlements to Scheme Consideration	23 May 2014 (6.30pm)
Implementation Date: • Envestra Shares owned by Participating Envestra Shareholders transferred to APL in its capacity as responsible entity for APT • New APA Securities issued	30 May 2014
Last day for despatch of Cash Consideration and holding statements confirming the allotment of New APA Securities	6 June 2014
Last day of deferred settlement trading in New APA Securities	6 June 2014
New APA Securities commence trading on a normal settlement basis on the ASX	10 June 2014
Last day for sales to be completed under the Cash Out Facility	20 June 2014

Unless stated otherwise, all times in this Scheme Booklet are references to Adelaide time.

These dates and times are indicative only and are subject to change. The actual times and dates will depend on many factors outside the control of Envestra, including the Court approval process and the satisfaction or, where applicable, waiver of the conditions precedent in the Scheme Implementation Agreement. Any changes to the above timetable will be notified on Envestra's website at www.envestra.com.au and announced to the ASX.

LETTER FROM THE CHAIRMAN OF ENVESTRA

7 April 2014

Dear Envestra Shareholder,

On 17 December 2013, Envestra Limited (**Envestra**) announced that it received a revised proposal from APA Group to acquire all of the issued capital of Envestra not owned by APA Group. Envestra further announced that the Independent Board Committee formed by Envestra to consider the proposals received from APA Group had resolved by majority to proceed with the steps necessary to put a revised proposal before Envestra Shareholders (other than APA Group) (**Participating Envestra Shareholders**) for their consideration.

The Independent Board Committee was formed on 18 July 2013, and comprises John Allpass, Ian Little, Fraser Ainsworth AM, Olaf O'Duill and Ivan Chan (with Dominic Chan as his alternate). The APA Affiliated Directors, namely Michael McCormack and Ross Gersbach, are not members of the Independent Board Committee.

Subsequently, on 4 March 2014, Envestra announced that it had entered into a Scheme Implementation Agreement with APA Group, under which, subject to the satisfaction of a number of conditions, APA Group will acquire 100% of the ordinary shares in Envestra pursuant to a scheme of arrangement (**Scheme**).

The Recommending Directors, namely John Allpass (Chairman), Ian Little (Managing Director), Fraser Ainsworth AM and Olaf O'Duill, recommend that Participating Envestra Shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Scheme is fair and reasonable and in the best interests of Participating Envestra Shareholders. Subject to these same qualifications, the Recommending Directors intend to vote all Envestra Shares respectively held or controlled by them in favour of the Scheme.

The Recommending Directors are a majority of the Non APA Affiliated Directors.

The other Non APA Affiliated Directors, namely Ivan Chan and Dominic Chan, recommend that Participating Envestra Shareholders vote against the Scheme.

The APA Affiliated Directors (namely Michael McCormack and Ross Gersbach) have not made any recommendation in relation to the Scheme.

If the Scheme is implemented, each Participating Envestra Shareholder at the Scheme Record Date will be entitled to receive their Scheme Consideration in one of the following two alternative forms:[1]

- **All Scrip Consideration** comprising 0.1919[2] New APA Securities per Envestra Share held at the Scheme Record Date; or
- **Maximum Cash Consideration** of $1.17[3] cash per Envestra Share held at the Scheme Record Date, subject to an aggregate cap of $241 million. Participating Envestra Shareholders electing to receive Maximum Cash Consideration will have their entitlements to Cash Consideration scaled back proportionately to the extent that this cap would otherwise be exceeded, with the balance of their Scheme Consideration comprising an entitlement to Scrip Consideration.

Envestra Shareholders at the Dividend Record Date will also be entitled to receive the interim dividend for FY2014 of $0.032 per Envestra Share to be paid by Envestra on 30 April 2014, whether the Scheme is implemented or not.

In addition, subject to Implementation of the Scheme by 30 June 2014, each Participating Envestra Shareholder who receives New APA Securities under the Scheme will be entitled to receive APA Group's FY2014 final distribution (should one be approved by the APA Group Board) with respect to the New APA Securities issued to them under the Scheme. If approved by the APA Group Board, this distribution is expected to be paid in September 2014.

1 Under each Scheme Consideration alternative, New APA Securities to which an Ineligible Foreign Envestra Shareholder or an Unmarketable Parcel Participant would otherwise be entitled will be dealt with under the Cash Out Facility. See Sections 4.9, 4.12 and 4.16 of this Scheme Booklet for further information.

2 Should the Scheme be implemented after 30 June 2014, the Scrip Consideration per Envestra Share and the Cash Consideration per Envestra Share may be adjusted under the terms of the Scheme in the event that Envestra's FY2014 final dividend is greater or lesser than 0.1919 of APA's FY2014 final distribution. See Section 4.9 of this Scheme Booklet for further details.

3 See footnote 2 above.

Based on an APA Security price of $6.0974, being the 30-day VWAP on 11 December 2013[4], the implied value of the All Scrip Consideration is $1.17 (which does not include the $0.032 per Envestra Share dividend to be paid by Envestra on 30 April 2014 or the value of APA Group's FY2014 final distribution that may be received). This represents:

- a 10.4% premium to the closing price of Envestra Shares on the ASX on 15 July 2013 of $1.06, being the last trading day prior to Envestra announcing APA Group's initial proposal;
- an 18.0% premium to the 30-day VWAP of Envestra Shares on the ASX up to and including 15 July 2013 of $0.99; and
- a 13.8% premium to the 90-day VWAP of Envestra Shares on the ASX up to and including 15 July 2013 of $1.03.

In addition, since the announcement of APA Group's initial proposal on 16 July 2013, Envestra Shareholders have received the FY2013 final dividend of $0.032 per Envestra Share paid on 31 October 2013 and will receive the FY2014 interim dividend of $0.032 per Envestra Share to be paid by Envestra on 30 April 2014.

Based on an APA Security price of $6.45, being the closing price of APA Securities on the ASX on 3 April 2014 (the last practicable trading day prior to the date of this Scheme Booklet), the implied value of the All Scrip Consideration is $1.24.

The Independent Expert, Grant Samuel & Associates Pty Limited, appointed by Envestra's Independent Board Committee has concluded that the Scheme is fair and reasonable and, therefore, in the best interests of Participating Envestra Shareholders in the absence of a superior proposal. The Independent Expert has assessed the full underlying value of Envestra (including a premium for control) in the range $1.11-$1.32 per Envestra Share and has assessed the value of the All Scrip Consideration to be in the range $1.15-$1.27 per Envestra Share.

Participating Envestra Shareholders who receive New APA Securities will have the opportunity to maintain exposure to the business of Envestra, as well as obtain exposure to the larger Combined Group, benefiting from increased financial strength and a more diversified business mix. In addition, if the Scheme is implemented, you may be entitled to partial capital gains tax rollover relief on New APA Securities that you receive.

While the Recommending Directors have decided to recommend APA Group's proposal, in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Scheme is fair and reasonable and in the best interests of Participating Envestra Shareholders, for the reasons set out on pages 15 to 20 (inclusive) of this Scheme Booklet, the Recommending Directors nevertheless continue to believe that Envestra's prospective future financial performance may be attractive to Participating Envestra Shareholders. In the six months ended 31 December 2013, Envestra's net profit after tax increased by 47% compared with the prior corresponding period; and a 35%-39% improvement in net profit after tax is expected for the full year to 30 June 2014. The Envestra Board expects Envestra's FY2014 full year net profit after tax to be between $145 million and $150 million[5] (as released to the ASX on 20 February 2014), and expects that level of profit to be sustained over the periods covered by existing regulatory determinations through to June 2016.[6] Due to the anticipated sustained financial performance over these periods, the Independent Board Committee considers that there is potential for future increases to the existing dividend level (6.4 cents per Envestra Share in FY2014) through the existing regulatory periods.

4 The date at which the scrip exchange ratio was determined using APA's 30-day VWAP.

5 Assuming normal weather conditions and no other unforeseen circumstances in the second half of FY2014 and excluding any transaction completion costs resulting from the proposed Scheme.

6 The net profit after tax guidance is based on Envestra's internal modelling. This modelling incorporates existing regulatory determinations (based on benchmark revenue settings) and assumes normal weather conditions and no other unforeseen circumstances during the periods to 30 June 2016, as well as anticipated operating and finance costs, based on historical experience and hedging arrangements. The modelling also excludes any transaction completion costs resulting from the proposed Scheme. Finance cost modelling includes the impact of Envestra's hedging policy, whereby at least 80% of the variable interest rate on Envestra's debt is fixed for the duration of existing Access Arrangements. The Access Arrangements for the South Australian and Queensland network assets expire on 30 June 2016, and the Access Arrangements for the Victorian and Albury network assets expire on 31 December 2017.

Ivan Chan and Dominic Chan have decided to recommend that Participating Envestra Shareholders vote against the Scheme for the reasons set out on page 27 of this Scheme Booklet.

Please read this Scheme Booklet carefully in its entirety, including the reasons to vote in favour or against the Scheme set out on pages 15 to 26 (inclusive) of this Scheme Booklet, before making any decision on how to vote on the Scheme.

Your vote is important, as only those votes cast by Participating Envestra Shareholders on the Scheme Resolution will be counted in determining whether the Scheme has been approved by the requisite majority of Participating Envestra Shareholders. For the Scheme to be implemented, it must be approved by a majority (i.e. greater than 50%) in number of Participating Envestra Shareholders (that is, excluding members of the APA Group) voting[7] on the resolution to approve the Scheme.[8] In addition, those Participating Envestra Shareholders who vote in favour must cast at least 75% of the total number of votes cast[9] by Participating Envestra Shareholders on that resolution.

Accordingly, I encourage you to vote either by attending the Scheme Meeting, to be held on 13 May 2014 at Riverbank Rooms 1-3, Adelaide Convention Centre, North Terrace, Adelaide, South Australia commencing at 10.00am, or by lodging a proxy vote by completing and returning the Proxy Form provided with this Scheme Booklet in accordance with the instructions on that form. Alternatively, you may lodge your proxy vote electronically by logging onto www.linkmarketservices.com.au or www.envestra.com.au.

If you have any questions in relation to the Scheme or this Scheme Booklet, please contact the Envestra Shareholder Information Line on 1300 784 494 (within Australia) or +61 1300 784 494 (outside Australia) on Business Days between 8.00am and 4.30pm (Adelaide time).

Yours sincerely

John Allpass
Chairman
Envestra Limited

7 In person or by proxy, attorney or, in the case of corporate Participating Envestra Shareholders, by a corporate representative.

8 The Court has discretion to approve the Scheme where it is approved by at least 75% of all votes cast on the Scheme Resolution but not by a majority in number of Participating Envestra Shareholders voting on the Scheme Resolution: refer to section 411(4)(a)(ii)(A) of the Corporations Act.

9 In person or by proxy, attorney or, in the case of corporate Participating Envestra Shareholders, by a corporate representative.

LETTER FROM THE CHAIRMAN OF APA GROUP

APA Group

7 April 2014

Dear Envestra Shareholder,

I am pleased that Envestra's Independent Board Committee and the APA Group have agreed the terms of a proposal that offers you a premium for your Envestra Shares and the opportunity to join existing APA Securityholders in owning Australia's largest natural gas infrastructure business.

The proposed transaction is structured as a scheme of arrangement and therefore requires the approval of Envestra Shareholders (other than APA Group) (**Participating Envestra Shareholders**) to be implemented. Importantly, the Independent Expert appointed by Envestra's Independent Board Committee has assessed the Scheme to be fair and reasonable and, therefore, in the best interests of Participating Envestra Shareholders, in the absence of a superior proposal.

A majority of the Non APA Affiliated Directors of Envestra recommend that Participating Envestra Shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Scheme is fair and reasonable and in the best interests of Participating Envestra Shareholders.

APA Group – who we are and what we do

APA Group owns and/or operates $12.2 billion of energy infrastructure in Australia, comprising gas transmission pipelines, gas storage facilities and gas distribution networks, as well as complementary infrastructure such as gas-fired and renewable electricity generation, gas processing plants and electricity transmission. APA Group currently operates and manages Envestra's gas distribution networks under long-term agreements that have been in place since 2007, and run to 2027, and is also the company's largest shareholder, with a 33.05% interest. APA Group has a workforce of over 1,600 employees and approximately 1,500 contractors, of which, on average, 550 employees and 940 contractors are directly engaged in the management and operation of Envestra's assets and report to Envestra's management team.

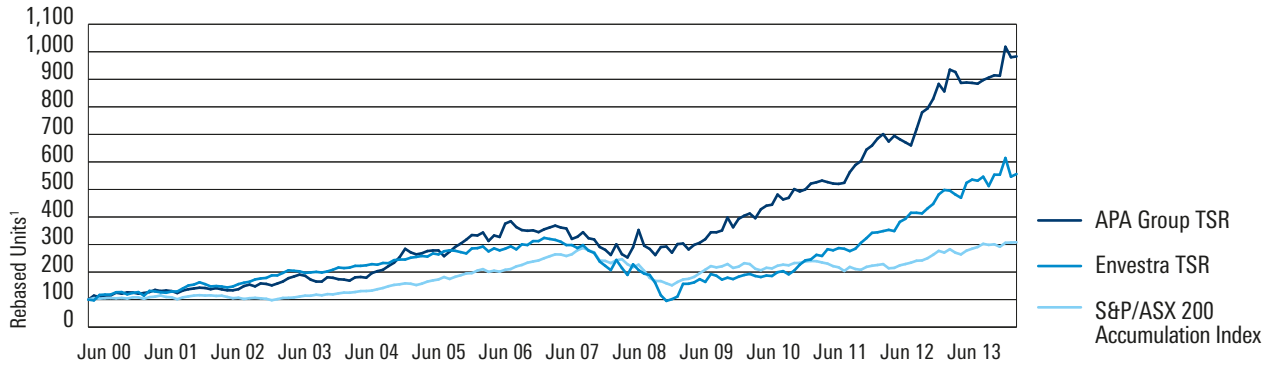
Since listing in 2000, APA Group has grown substantially through both the organic development of our assets and by acquiring and investing in energy infrastructure assets throughout the country. Over this period, APA Group has maintained a consistent focus on investment opportunities, whether organic or by acquisition, that utilise our core skills in gas transmission and gas distribution, and that deliver appropriate commercial returns on our investment.

APA Group now has an interest in major gas infrastructure assets in every mainland state and territory, transporting more than half of the gas used in Australia. As we have expanded our infrastructure investments, APA Group has been able to create value for investors through broadening the services that we offer to our customers.

At APA Group we believe that real benefits come from diversifying our asset base, while staying true to our strategy. The broader our portfolio of strategically-aligned activities delivering appropriate risk-adjusted returns, the better placed we are to continue to create value through investment.

It's this approach that has underpinned our ability to consistently deliver attractive returns for investors, achieving an aggregate total return to APA Securityholders of approximately 883% since listing, and a compound annual return of 18.0%. During the same period, the S&P/ASX 200 Accumulation Index achieved a Total Securityholder Return[10] of only 208% or compound annual return of 8.5%.[11] The chart below demonstrates that APA Group has significantly outperformed both Envestra and the S&P/ASX 200 Accumulation Index:

Total Securityholder Returns – APA Group vs Envestra and S&P/ASX 200 Accumulation Index



Notes:

1 APA Security price, Envestra share price and S&P/ASX 200 Accumulation Index rebased to 100 as at APA Group listing date.

2 Based on IRESS data.

3 Past performance is not an indicator of future performance.

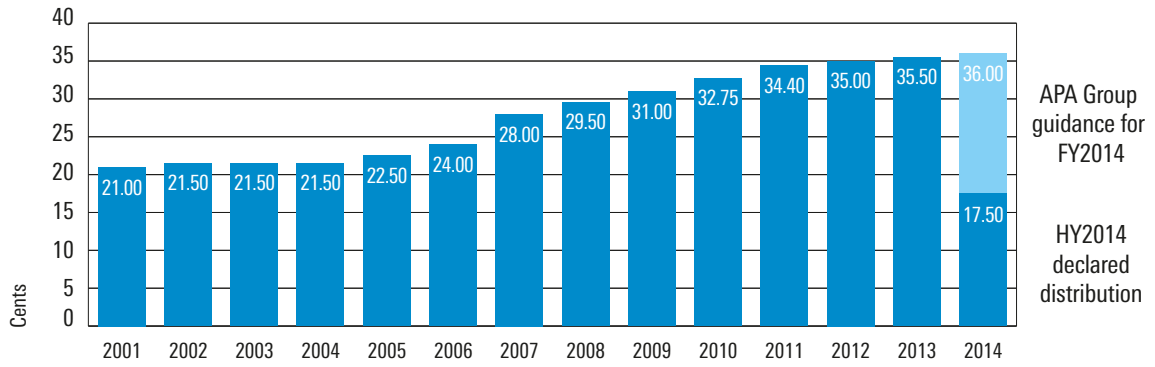
4 See Sections 5.8 and 6.10 of this Scheme Booklet for further information.

APA Group is committed to maximising securityholder returns over the long term, and we recognise that a responsible distribution policy plays an important role in delivering on this objective. Typically, investors can expect that distributions will grow in step with operating cash flow, although we are also focused on ensuring that sufficient operating cash flow is retained in the business to support the funding of our growth projects.

10 Total Securityholder Return means the capital appreciation of the security/share price, adjusted for capital management such as security splits and consolidations and assuming the reinvestment of distributions at the declared distribution rate per security/share.

11 Comparisons of securityholder returns and security price performance to the market based on the S&P/ASX 200 Accumulation Index from 13 June 2000 (the APA Security listing date) up to and including 3 April 2014 (the last practicable trading day prior to the date of this Scheme Booklet). Annual returns are calculated on a compound growth rate basis. See Section 6.10 "Historic Total Securityholder Returns, security price performance and distributions" for further details. Past performance is not an indicator of future performance.

APA Group distributions per financial year since APA Group listing in 2000



Notes:

1 Distributions are shown as those classified as interim and final distributions in respect of a financial year.

2 FY2014 distributions are based on the APA Group distribution guidance of at least 36.0 cents released to the ASX on 19 February 2014.

3 Past performance is not an indicator of future performance.

4 See Sections 5.8 and 6.10 of this Scheme Booklet for further information.

Rationale for APA Group pursuing this Scheme with Envestra

The combination of APA Group and Envestra will bring together the strengths of the two groups – Envestra's portfolio of east Australian gas distribution networks with APA Group's nationwide gas transmission and energy infrastructure assets and its operating and management resources.

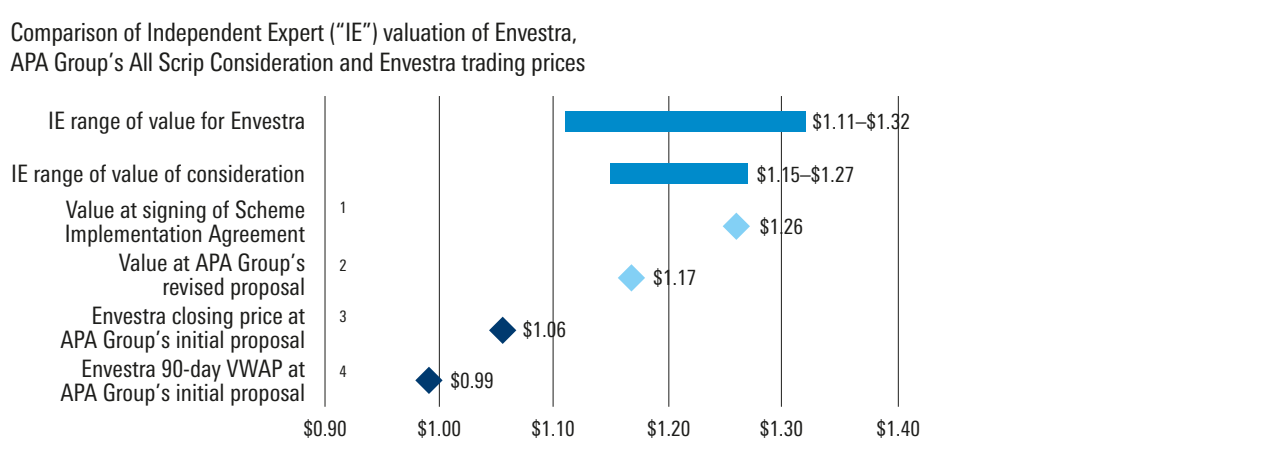
APA Group believes that the Combined Group will benefit from:

- **Aligned ownership and operatorship of Envestra's assets** providing the greatest incentives and capability to drive operational improvements for the benefit of the Combined Group.
- **Diversity of assets and operations** with relative revenue stability from regulated assets and growth opportunities from APA Group's brownfield expansions and greenfields projects. Expressed on a pro forma basis, 48% of FY2013 Combined Group revenue was subject to full economic regulation with the remainder from a mix of regulated assets with negotiated tariffs and assets with light regulation or unregulated tariffs.
- **Increased financial strength and size benefits** with the Combined Group expected to have a market capitalisation of over $6 billion[12] and to benefit from a consolidation of APA Group's existing inclusion in the S&P/ASX 50 Index and other global indices. Further, the Combined Group should benefit from greater access to a broader range of more liquid capital markets to deliver competitive funding for Envestra and APA Group's capital expenditure programs.

12 Assuming an APA Security price of $6.0974 and pro forma APA Securities on issue of 1,027 million, calculated as 836 million existing APA Securities currently on issue plus 191 million New APA Securities issued as Scheme Consideration (assuming payment of cash up to the entire Available Cash Consideration).

Attractive proposal for Envestra Shareholders

For each of your Envestra Shares we are offering scrip consideration of 0.1919 APA Securities (with a choice of receiving All Scrip Consideration or Maximum Cash Consideration, as discussed further in this Scheme Booklet). The Independent Expert engaged by Envestra's Independent Board Committee has attributed a value to the All Scrip Consideration in the range $1.15-1.27 per Envestra Share, based on a value range for APA Securities of $6.00-$6.60 per APA Security. This value is within the Independent Expert's estimate of the full underlying value for Envestra (inclusive of a control premium) which has been assessed to be in the range $1.11-$1.32 per Envestra Share. See below.



Notes:

1 APA Group's closing price of $6.58 on 3 March 2014, being the last trading day before signing the Scheme Implementation Agreement.

2 APA Group's 30-day VWAP of $6.0974 at 11 December 2013, the date at which the scrip exchange ratio was determined using APA Group's 30-day VWAP.

3 Envestra closing price on 15 July 2013.

4 Envestra 90-day VWAP at 15 July 2013.

Participating Envestra Shareholders have the choice of receiving their Scheme Consideration in the form that better suits their individual circumstances – either All Scrip Consideration or Maximum Cash Consideration (subject to an aggregate cap of $241 million). Participating Envestra Shareholders may be entitled to a portion of Australian capital gains tax rollover relief on the APA Securities they receive.[13]

Based on the closing price of APA Securities on the ASX on 3 April 2014, the implied value of the All Scrip Consideration is $1.24.[14]

Participating Envestra Shareholders who receive New APA Securities under the Scheme will retain an exposure to Envestra's existing assets, while benefiting from APA Group's larger and more diversified portfolio of infrastructure investments.

Subject to implementation of the Scheme by 30 June 2014, each Participating Envestra Shareholder who receives New APA Securities under the Scheme will be entitled to receive APA Group's FY2014 final distribution. While any distribution will require APA Group Board approval, APA Group has issued distribution guidance which indicates that the FY2014 final distribution is expected to be at least 18.5 cents per security.

13 Further information on the tax consequences of the Scheme for Envestra Shareholders is available in Section 10 of this Scheme Booklet.

14 Based on an APA Security price of $6.45, being the closing price of APA Securities on the ASX on 3 April 2014 (the last practicable trading day prior to the date of this Scheme Booklet).

The future for investors in the Combined Group

With Australia's increasing demand for energy, and natural gas in particular, the Combined Group will be well-positioned to continue APA Group's track record of growing sustainably and delivering secure and reliable financial performance. The proposed transaction will ensure that securityholders of the Combined Group benefit from aligning the ownership and operation of Envestra's assets, as well as benefits derived from the growth profile of APA Group's assets and those that flow from participation in a larger business with increased financial strength.

As such, I encourage you to read this Scheme Booklet in full and then to vote in favour of the Scheme at the Scheme Meeting on 13 May 2014 at 10.00am at Riverbank Rooms 1-3, Adelaide Convention Centre, North Terrace, Adelaide, South Australia, or if you are unable to attend, to complete the Proxy Form accompanying this Scheme Booklet and return it as instructed. Alternatively, you may lodge your proxy vote electronically by logging onto www.linkmarketservices.com.au or www.envestra.com.au.

As Chairman of the board of the responsible entity of APA Group, I am excited by the future for the Combined Group and look forward to welcoming you as a new APA Securityholder on the successful implementation of the Scheme.

Yours sincerely

Leonard Bleasel AM
Chairman
APA Group

WHAT YOU SHOULD DO

STEP 1: READ THE SCHEME BOOKLET

You should read this Scheme Booklet in its entirety before deciding whether or not to vote in favour of the Scheme.

If you have any questions, please contact the Envestra Shareholder Information Line on 1300 784 494 (from within Australia) or +61 1300 784 494 (outside Australia) between 8.00am and 4.30pm (Adelaide time), Monday to Friday.

STEP 2: VOTE ON THE SCHEME

Vote on the Scheme by doing one of the following:

- **vote by proxy** – complete and return the Proxy Form in accordance with the instructions set out on the Proxy Form so that it is received by Link Market Services by no later than 10.00am (Adelaide time) on 11 May 2014, or lodge your proxy online at www.linkmarketservices.com.au or www.envestra.com.au by no later than 10.00am (Adelaide time) on 11 May 2014, and have your proxy attend the Scheme Meeting in person and vote on your behalf;
- **vote in person** – attend the Scheme Meeting in person at Riverbank Rooms 1-3, Adelaide Convention Centre, North Terrace, Adelaide, South Australia on 13 May 2014, commencing at 10.00am (Adelaide time);
- **vote by attorney** – have your duly authorised attorney attend the Scheme Meeting in person and vote on your behalf. The power of attorney, or a certified copy of the power of attorney, should be lodged with Link Market Services before the meeting or be brought to the meeting; or
- **vote by corporate representative** – Participating Envestra Shareholders which are bodies corporate can also vote at the Scheme Meeting by having their corporate representative attend the Scheme Meeting in person and vote on their behalf. A copy of the certificate of appointment of the representative should be lodged with Link Market Services before the meeting or be brought to the meeting.

The Scheme will not proceed unless the Scheme Resolution is approved by Participating Envestra Shareholders.

In order for the Scheme Resolution to be passed, it must be approved by a majority (i.e. greater than 50%) in number of Participating Envestra Shareholders (that is, excluding APA Group) voting on the Scheme Resolution (in person or by proxy, attorney or, in the case of corporate Participating Envestra Shareholders, by a corporate representative).[15] In addition, those Participating Envestra Shareholders who vote in favour must cast at least 75% of the total number of votes cast by Participating Envestra Shareholders on the Scheme Resolution (in person or by proxy, attorney or, in the case of corporate Participating Envestra Shareholders, by a corporate representative).

Please refer to Section 3 of this Scheme Booklet for further information regarding how to vote at the Scheme Meeting.

15 The Court has discretion to approve the Scheme where it is approved by at least 75% of all votes cast on the Scheme Resolution but not by a majority in number of Participating Envestra Shareholders voting on the Scheme Resolution: refer to section 411(4)(a)(ii)(A) of the Corporations Act.

STEP 3: ELECT YOUR SCHEME CONSIDERATION

Scheme Consideration alternatives

Under the Scheme, you can choose to receive your Scheme Consideration in one of the following alternative forms (subject to the paragraphs below dealing with Ineligible Foreign Envestra Shareholders and Unmarketable Parcel Participants):

(a) **All Scrip Consideration** comprising 0.1919 New APA Securities for every Envestra Share held at the Scheme Record Date; or

(b) **Maximum Cash Consideration** of $1.17 cash per Envestra Share held at the Scheme Record Date, subject to an aggregate cap of $241 million. If you elect to receive Maximum Cash Consideration, you will have your entitlement to Cash Consideration scaled back proportionately to the extent that this cap would otherwise be exceeded, with the balance of your Scheme Consideration comprising an entitlement to Scrip Consideration.

Should the Scheme be implemented after 30 June 2014, the Scrip Consideration per Envestra Share and the Cash Consideration per Envestra Share may be adjusted under the terms of the Scheme in the event that Envestra's FY2014 final dividend is greater or lesser than 0.1919 of APA Group's FY2014 final distribution. See Section 4.9 of this Scheme Booklet for further details.

Further details regarding the All Scrip Consideration and Maximum Cash Consideration alternatives are set out in Sections 4.6 and 4.7, respectively, in the Scheme Booklet.

Election procedure

If you wish to receive All Scrip Consideration (and you do not wish to make an Unmarketable Parcel Election), you do not need to make an Election and you do not need to return the Election Form. The All Scrip Consideration will be issued to you (or, if you are an Ineligible Foreign Envestra Shareholder, sold on your behalf under the Cash Out Facility) without any Election on your part provided you hold Envestra Shares at the Scheme Record Date.

If you wish to receive the Maximum Cash Consideration or you wish to make an Unmarketable Parcel Election, you must complete the Election Form accompanying this Scheme Booklet and:

- post the validly completed Election Form to Link Market Services in the reply paid envelope provided or, if you are outside of Australia or do not otherwise use the reply paid envelope, to the following address: Envestra Limited, C/- Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235; or
- hand deliver the validly completed Election Form to Envestra Limited, C/- Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138 or Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000; or
- successfully transmit the validly completed Election Form by facsimile to Link Market Services on 02 9287 0309 (from within Australia) or +61 2 9287 0309 (from outside Australia),

so that it is received by no later than the Election Date, which is currently expected to be 4.30pm (Adelaide time) on 23 May 2014.

Alternatively, you may make your Election online at www.envestra.com.au by no later than the Election Date. To use this facility you will need your Shareholder Reference Number (SRN) or Holder Identification Number (HIN), surname or company name and postcode of your registered holding of Envestra Shares.

If you are a Participating Envestra Shareholder as at the Scheme Record Date and you have not made a valid Election by the Election Date, you will be deemed to have elected to receive All Scrip Consideration.

Ineligible Foreign Envestra Shareholders

Any Participating Envestra Shareholder whose address in the Envestra Register is outside of Australia and its external territories and New Zealand will be an Ineligible Foreign Envestra Shareholder for the purposes of the Scheme, unless Envestra and APA Group are satisfied, acting reasonably, that the laws of all relevant jurisdictions permit the issue of New APA Securities to that Participating Envestra Shareholder either unconditionally or after compliance with requirements that are not unduly onerous.

If you are an Ineligible Foreign Envestra Shareholder, you will be entitled to make an Election, but you will not be issued New APA Securities. Instead, New APA Securities to which you would otherwise have been entitled under the Scheme (whether under the All Scrip Consideration alternative or the Maximum Cash Consideration alternative) will be issued to the Cash Out Facility Nominee and sold under the Cash Out Facility, with your pro rata share of the Cash Out Facility Proceeds (free of brokerage charges incurred by the Cash Out Facility Nominee) being promptly remitted to you. Further information regarding Ineligible Foreign Envestra Shareholders and the Cash Out Facility is set out in Section 4.16 and Section 4.12 of this Scheme Booklet, respectively.

With respect to Cheung Kong Infrastructure Holdings (Malaysian) Ltd (**CKI**), which holds approximately 17.5% of the Envestra Shares as at the date of this Scheme Booklet, Envestra and APA Group have agreed that:

(a) they are satisfied that the laws of all relevant jurisdictions permit the issue of New APA Securities to CKI either unconditionally or after compliance with requirements that are not unduly onerous; and

(b) accordingly, CKI will not be an Ineligible Foreign Envestra Shareholder for the purposes of the Scheme.

Unmarketable Parcel Participants

Regardless of which Scheme Consideration alternative you choose, if you would qualify as an Unmarketable Parcel Participant (in that you would receive an Unmarketable Parcel of 77 New APA Securities or less under the Scheme and you are not an Ineligible Foreign Envestra Shareholder), you will be entitled to make an Unmarketable Parcel Election. By making an Unmarketable Parcel Election, you will be electing to have your Unmarketable Parcel sold on your behalf under the Cash Out Facility, with your pro rata share of the Cash Out Facility Proceeds (free of brokerage charges incurred by the Cash Out Facility Nominee) being promptly remitted to you. This Election can be made on the Election Form or online at www.envestra.com.au.

If you are unsure as to whether or not you will qualify as an Unmarketable Parcel Participant, you can still indicate on the Election Form (or online) that you wish to make an Unmarketable Parcel Election. However, your Unmarketable Parcel Election will only become effective in the event that you would otherwise receive 77 New APA Securities or less under the Scheme.

Further information regarding Unmarketable Parcel Participants and the Cash Out Facility is set out in Section 4.10 and Section 4.12 of this Scheme Booklet, respectively.

Further details

Further details on how to make Elections are set out in Section 4.11 of this Scheme Booklet.

REASONS TO VOTE IN FAVOUR OF THE SCHEME

This Section should be read in conjunction with pages 21 to 26 of this Scheme Booklet, which set out a summary of the potential disadvantages associated with the Scheme, and other reasons to vote against the Scheme, and page 28 of this Scheme Booklet, which set out other relevant considerations.

The Recommending Directors believe the Scheme to be in the best interests of Participating Envestra Shareholders and recommend that you vote in favour of the Scheme, in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Scheme is fair and reasonable and in the best interests of Participating Envestra Shareholders, for the following reasons:

- **The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, in the best interests of Participating Envestra Shareholders, in the absence of a superior proposal**
- **The Scheme Consideration is also considered to be "fair" by the Recommending Directors, as it is a material premium to the Envestra Share price that prevailed shortly prior to APA Group announcing its original proposal on 16 July 2013**
- **You might not receive a control premium if the Scheme does not proceed, as APA Group may increase its holding from 33.05% over a period of time and may obtain control without making a full takeover offer**
- **No superior proposal has emerged since the initial announcement of the APA Group merger**
- **If you receive New APA Securities, you will have the opportunity to participate in the future financial performance of the Combined Group, which will have a more diversified asset base and more liquid securities than Envestra**
- **The Envestra Share price is more likely to fall than to rise, at least in the short term, if the Scheme is not implemented**[16]
- **You have the choice of receiving your Scheme Consideration in the form that better suits your individual circumstances – either All Scrip Consideration or Maximum Cash Consideration (subject to an aggregate Cash Consideration cap of $241 million)**
- **If you receive New APA Securities, you may be eligible for partial CGT rollover relief**

The Recommending Directors, namely John Allpass (Chairman), Ian Little (Managing Director), Fraser Ainsworth AM and Olaf O'Duill, are a majority of the Non APA Affiliated Directors.

In the absence of a superior proposal, and subject to the Independent Expert continuing to conclude that the Scheme is fair and reasonable and in the best interests of Participating Envestra Shareholders, each of the Recommending Directors intends to vote in favour of the Scheme in relation to Envestra Shares held or controlled by him. Michael McCormack, an APA Affiliated Director, intends to vote in favour of the Scheme in relation to the Envestra Shares held or controlled by him. The interests of Envestra Directors in Envestra Shares are set out in Section 11.2 of this Scheme Booklet.

Other than the Recommending Directors and Michael McCormack, no other Envestra Director holds or controls Envestra Shares.

Though the Recommending Directors acknowledge that there may be reasons to vote against the Scheme, they believe that the potential advantages of, and other reasons to vote in favour of, the Scheme outweigh the potential disadvantages of, and other reasons to vote against, the Scheme (set out on pages 21 to 26 of this Scheme Booklet).

Ivan Chan and Dominic Chan believe that the Scheme is not in the best interests of Participating Envestra Shareholders and recommend that you vote against the Scheme, for the reasons set out on page 27 of this Scheme Booklet.

16 In comparison to the price immediately before the market becoming aware that the Scheme will not be implemented.

The reasons for the Recommending Directors recommending that Participating Envestra Shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Scheme is fair and reasonable and in the best interests of Participating Envestra Shareholders, are set out in further detail below:

1. The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, in the best interests of Participating Envestra Shareholders, in the absence of a superior proposal

The Independent Board Committee appointed Grant Samuel & Associates Pty Limited as Independent Expert to prepare an Independent Expert's Report providing an opinion as to whether the Scheme is in the best interests of Participating Envestra Shareholders.

The Independent Expert has assessed the full underlying value of Envestra (including a premium for control) to be in the range $1.11–$1.32 per Envestra Share and assessed the value of the All Scrip Consideration to be in the range $1.15–$1.27 per Envestra Share. The maximum cash payment under the Maximum Cash Consideration alternative is $1.17[17] per Envestra Share. As the value attributed to the All Scrip Consideration and the maximum cash payment fall within the estimate of the full underlying value for Envestra, Grant Samuel & Associates Pty Limited has assessed the Scheme to be fair and reasonable and, therefore, in the best interests of Participating Envestra Shareholders, in the absence of a superior proposal.

The Independent Expert's Report is set out in full in Appendix 1 of this Scheme Booklet. You should read the Independent Expert's Report in its entirety as part of your assessment of the Scheme before casting your vote in relation to the Scheme.

2. The Scheme Consideration is also considered to be "fair" by the Recommending Directors, as it is a material premium to the Envestra Share price that prevailed shortly prior to APA Group announcing its original proposal on 16 July 2013

Based on an APA Security price of $6.0974, being the 30-day VWAP of APA Securities on the ASX on 11 December 2013[18], the implied value of the All Scrip Consideration is $1.17 (which does not include the $0.032 per Envestra Share interim dividend to be paid by Envestra on 30 April 2014 or the value of APA Group's FY2014 final distribution that may be received). This represents:

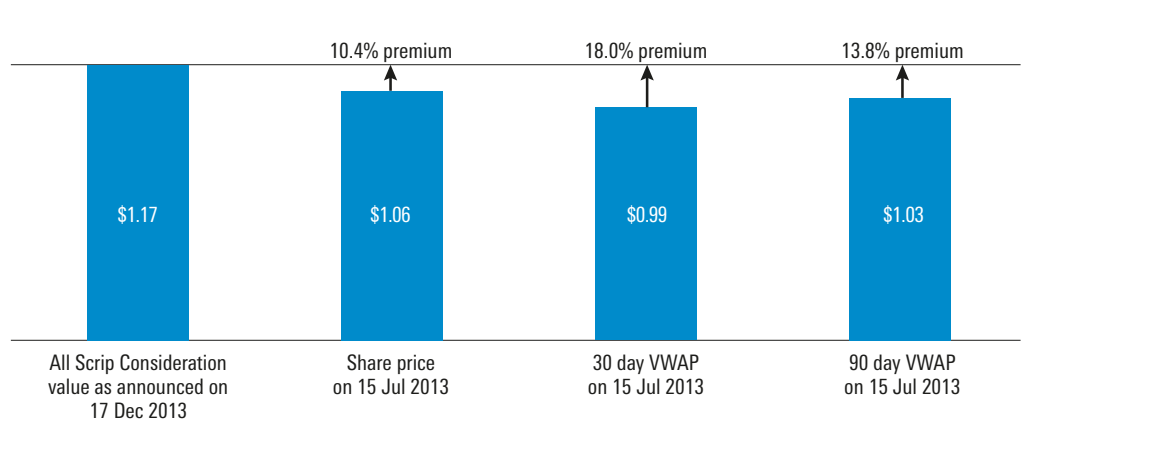
- a 10.4% premium to the closing price of Envestra Shares on the ASX on 15 July 2013 of $1.06, being the last trading day prior to Envestra announcing APA Group's initial proposal;
- an 18.0% premium to the 30-day VWAP of Envestra Shares on the ASX up to and including 15 July 2013 of $0.99; and
- a 13.8% premium to the 90-day VWAP of Envestra Shares on the ASX up to and including 15 July 2013 of $1.03.

In addition, since the announcement of APA Group's initial proposal on 16 July 2013, Envestra Shareholders have received the FY2013 final dividend of $0.032 per Envestra Share paid on 31 October 2013 and will receive the FY2014 financial year interim dividend of $0.032 per Envestra Share to be paid by Envestra on 30 April 2014.

17 Should the Scheme be implemented after 30 June 2014, the Scrip Consideration per Envestra Share and the Cash Consideration per Envestra Share may be adjusted under the terms of the Scheme in the event that Envestra's FY2014 final dividend is greater or lesser than 0.1919 of APA's FY2014 final distribution. See Section 4.9 of this Scheme Booklet for further details.

18 The date at which the scrip exchange ratio was determined using APA Group's 30-day VWAP.

Offer premium over historical trading prices for Shares in Envestra



Source: IRESS. Note that the All Scrip Consideration value as announced on 17 December 2013 was based on an APA Security price of $6.0974, being the 30-day VWAP as of the close of business on Wednesday, 11 December 2013.

Based on an APA Security price of $6.45, being the closing price of APA Securities on the ASX on 3 April 2014 (the last practicable trading day prior to the date of this Scheme Booklet), the implied value of the All Scrip Consideration is $1.24. The last closing price of Envestra Shares on the ASX on the same date was $1.15.

3. You might not receive a control premium if the Scheme does not proceed, as APA Group may increase its holding from 33.05% over a period of time and may obtain control without making a full takeover offer

Since July 2007, APA Group has increased its interest in Envestra from 17.2% to 33.05%, predominantly through participating in Envestra capital raisings. The Corporations Act allows APA Group to increase its holding by up to 3% every six months without making a full takeover offer. If the Scheme does not proceed, APA Group could therefore obtain a controlling interest in Envestra by acquiring additional Envestra Shares to bring its voting power in Envestra to more than 50% in three years, through acquisitions on the ASX without offering a control premium.

However, if there is a change of control of Envestra as a result of APA Group using the creep provisions, there is a risk that such a change of control may be considered "unacceptable" to Envestra's financiers who are parties to the Intercreditor Deed Poll, and therefore an event of default under the Intercreditor Deed Poll. This may result in early repayment of Envestra's debt and substantial payments above face value and other costs[19]. It is therefore not clear to the Non APA Affiliated Directors whether APA would be prepared to proceed with such a strategy without first entering into a binding arrangement with Envestra's financiers confirming that the change of control would not be declared "unacceptable" under the Intercreditor Deed Poll.

19 All of Envestra's debt and hedging instruments are potentially subject to early repayment in these circumstances. As at 31 March 2014, Envestra expects that the quantum of payments above face value that may be required in these circumstances would be in the range of $200 million to $250 million.

4. No superior proposal has emerged since the initial announcement of the APA Group merger

Since the announcement of the APA Group merger proposal to the ASX by APA Group on 16 July 2013 and up to the date of this Scheme Booklet, no superior proposal has emerged and the Recommending Directors are not aware of any superior proposal (or any alternative proposal) that is likely to emerge.

5. If you receive New APA Securities, you will have the opportunity to participate in the future financial performance of the Combined Group, which will have a more diversified asset base and more liquid securities than Envestra

Participating Envestra Shareholders (other than Ineligible Foreign Envestra Shareholders) have the option to receive New APA Securities as part of their Scheme Consideration. New APA Securities will enable shareholders to:

- **Maintain exposure to the business of Envestra with minimised integration risk given APA Group is already the operator of the Envestra pipelines**

  If the Scheme is implemented, Participating Envestra Shareholders will have the ability to retain exposure to the business of Envestra, including its future growth prospects, albeit on a diluted basis. In this regard, if the Scheme is implemented, Participating Envestra Shareholders' equity interest in the Combined Group is expected to vary between 18.6% and 21.6% (depending on the number of Participating Envestra Shareholders who elect All Scrip Consideration).[20]

  APA Group is the current operator of the Envestra natural gas distribution networks and transmission pipelines under long-term Operating and Management Agreements expiring in 2027. Therefore, the implementation of the Scheme will not change the current operator of Envestra's distribution networks and transmission pipelines, which should minimise integration risks.

- **Obtain exposure to the larger Combined Group, benefiting from increased financial strength and a more diversified business mix**[21]

  If the Scheme is implemented, the revenue and EBITDA of the Combined Group will be higher than Envestra on a standalone basis.

  Based on the 12 months ending on 30 June 2013, the Combined Group's pro forma revenue was $1,419.1 million (compared to $507.5 million for Envestra standalone) and the Combined Group's pro forma EBITDA was $993.3 million (compared to $360.3 million for Envestra standalone).

  Based on the six months ending on 31 December 2013, the Combined Group's pro forma revenue was $792.5 million (compared to $293.1 million for Envestra standalone) and the Combined Group's pro forma EBITDA was $582.5 million (compared to $217.7 million for Envestra standalone).

  If the Scheme is implemented, the Combined Group is also expected to have an enhanced profile in both equity and debt capital markets, given that the Combined Group is expected to be among the 50 largest ASX-listed companies. This enhanced profile may provide benefits to the Combined Group in the future.

20 If an adjustment to the Scheme Consideration is required as described in Section 4.9 of this Scheme Booklet, Participating Envestra Shareholders' equity interest in the Combined Group may be lower than 18.6% or higher than 21.6%.

21 Information regarding the business and capital markets profile of the Combined Group is sourced from Section 7.5 of this Scheme Booklet. Pro forma revenue and EBITDA figures for the Combined Group are sourced from Section 7.7 of this Scheme Booklet. Refer to Sections 7.5 and 7.7 of this Scheme Booklet for further detail.

If the Scheme is implemented, the combination of Envestra's natural gas distribution networks and transmission pipelines, together with APA Group's extensive transmission pipelines and other energy infrastructure, will form a unique portfolio of natural gas infrastructure assets across mainland Australia, with a potentially attractive mix of regulated and unregulated revenue and assets.

A description of the Combined Group is set out in Section 7 of this Scheme Booklet.

- **Obtain exposure to the various growth opportunities offered by APA Group assets**

  If the Scheme is implemented, Participating Envestra Shareholders who receive New APA Securities will receive an economic interest in APA Group's asset portfolio and its suite of growth options. A description of the Combined Group is set out in Section 7 of this Scheme Booklet.

6. The Envestra Share price is more likely to fall than to rise, at least in the short term, if the Scheme is not implemented[22]

Since the day prior to the announcement of APA Group's initial proposal on 16 July 2013, the Envestra Share price has risen 8.5% up to $1.15 on 3 April 2014, being the last practicable trading day prior to the date of this Scheme Booklet.

There are many factors that affect Envestra's share price; however, the Recommending Directors consider that in the absence of the implementation of the Scheme and in the absence of an alternative superior proposal, or speculation regarding an alternative proposal, Envestra's share price may fall below current levels.

This view is also held by the Independent Expert, who stated at page 74 of the Independent Expert's Report:

"In the absence of the Scheme or a similar offer, shareholders could only realise their investment by selling on market at a price which does not include a premium and which would incur transaction costs (e.g. brokerage). In these circumstances (assuming no speculation as to an alternative or revised offer), it is likely that Envestra shares, under current market conditions and its current ownership and operating structure, would trade at prices below the value of the Scheme ($1.15-1.27 per share). However, any drop in the price is unlikely to be dramatic as the premiums implied by Grant Samuel's value range (8-27%) are relatively modest, the Envestra share price is currently trading at a 9% discount to the implied value of the Scheme (ie. $1.24 based on the current APA Group security price of $6.45) and the share price will be supported by its dividend yield."

22 In comparison to the price immediately before the market becoming aware that the Scheme will not be implemented.

7. You have the choice of receiving your Scheme Consideration in the form that better suits your individual circumstances – either All Scrip Consideration or Maximum Cash Consideration (subject to an aggregate Cash Consideration cap of $241 million)

If the Scheme is implemented, each Participating Envestra Shareholder at the Scheme Record Date will be entitled to receive their Scheme Consideration in one of the following two alternative forms[23]:

- **All Scrip Consideration** comprising 0.1919[24] APA Securities per Envestra Share held at the Scheme Record Date; or
- **Maximum Cash Consideration** of $1.17[25] cash per Envestra Share held at the Scheme Record Date, subject to an aggregate cap of $241 million. If you elect to receive Maximum Cash Consideration, you will have your entitlement to Cash Consideration scaled back proportionately to the extent that this cap would otherwise be exceeded, with the balance of your Scheme Consideration comprising an entitlement to Scrip Consideration.

The Recommending Directors believe that APA Group's proposal offers the opportunity to choose a Scheme Consideration alternative (either All Scrip Consideration or Maximum Cash Consideration) which better suits your individual circumstances.

8. If you receive New APA Securities, you may be eligible for partial CGT rollover relief

If the Scheme is implemented, you may be entitled to partial CGT rollover relief on New APA Securities that you receive.

The benefit of receiving New APA Securities will depend primarily on the individual circumstances of each Participating Envestra Shareholder and the extent to which shareholders receive units in APT. You should discuss this with your tax adviser.

For further detail regarding the general Australian tax consequences of the transaction, refer to Section 10 of this Scheme Booklet. Taxation laws in Australia are complex and you are encouraged to read Section 10 carefully and seek independent professional advice about your individual circumstances.

23 Under each Scheme Consideration alternative, New APA Securities to which an Ineligible Foreign Envestra Shareholder or an Unmarketable Parcel Participant would otherwise be entitled will be dealt with under the Cash Out Facility. See Sections 4.10, 4.12 and 4.16 of this Scheme Booklet for further information.

24 Should the Scheme be implemented after 30 June 2014, the Scrip Consideration per Envestra Share and the Cash Consideration per Envestra Share may be adjusted under the terms of the Scheme in the event that Envestra's FY2014 final dividend is greater or lesser than 0.1919 of APA's FY2014 final distribution. See Section 4.9 of this Scheme Booklet for further details.

25 See footnote 24 above.

REASONS TO VOTE AGAINST THE SCHEME

Set out below are the reasons identified by the Recommending Directors as to why you may consider voting against the Scheme.

The Recommending Directors consider that the potential disadvantages of, and other reasons to vote against, the Scheme outlined below are outweighed by the potential advantages of, and other reasons to vote in favour of, the Scheme (set out on pages 15 to 20 of this Scheme Booklet) and that the Scheme is in the best interests of Participating Envestra Shareholders, in the absence of a superior proposal[26], but believe that Participating Envestra Shareholders should take the potential disadvantages of, and other reasons to vote against, the Scheme set out below into consideration when deciding whether or not to vote in favour of the Scheme.

The Recommending Directors, namely John Allpass (Chairman), Ian Little (Managing Director), Fraser Ainsworth AM and Olaf O'Duill, are a majority of the Non APA Affiliated Directors.

The Recommending Directors believe the reasons why you may consider voting against the Scheme are as follows:

- **You may disagree with the Recommending Directors' recommendation and the Independent Expert's conclusion**
- **Your equity interest in Envestra's assets will be diluted**
- **You may believe a superior proposal for Envestra may emerge**
- **You may not want to own New APA Securities. However, you may receive New APA Securities even if you elect Maximum Cash Consideration, if you are scaled back**
- **You may not have confidence that the level of distributions currently paid by APA Group ($0.355 per APA Security in FY2013), and anticipated to be paid in future years, is sustainable**
- **The value of the scrip component of the Scheme Consideration is not certain and will depend on the price at which New APA Securities trade on the ASX after the Implementation Date**
- **The potential tax consequences of the Scheme may not be suitable to your financial position**

The reasons why Ivan Chan and Dominic Chan recommend that you vote against the Scheme are set out on page 27 of this Scheme Booklet.

1. You may disagree with the Recommending Directors' recommendation and the Independent Expert's conclusion

You may disagree with the recommendation of the Recommending Directors and the conclusion of the Independent Expert, Grant Samuel & Associates Pty Limited, who have both concluded that the Scheme is in the best interests of Participating Envestra Shareholders, in the absence of a superior proposal.

Participating Envestra Shareholders are not obliged to follow the recommendation of the Recommending Directors or agree with the Independent Expert's conclusion.

26 Subject to the Independent Expert continuing to conclude that the Scheme is fair and reasonable and in the best interests of Participating Envestra Shareholders.

2. Your equity interest in Envestra's assets will be diluted

Under the Scheme, you will be able to choose to receive your Scheme Consideration in the form of All Scrip Consideration or Maximum Cash Consideration (subject to scale back) as described in Sections 4.6 and 4.7 of this Scheme Booklet, respectively.

If the Scheme is implemented, Participating Envestra Shareholders' equity interest in the Combined Group is expected to be between 18.6% and 21.6% (depending on the number of Participating Envestra Shareholders who elect All Scrip Consideration).[27] If the Scheme is implemented and you receive New APA Securities as consideration, your participation in the future performance of Envestra's assets will occur through your holding in the Combined Group. This will mean that your current exposure to Envestra's assets and the value that they generate in the future will be diluted and shared with other securityholders of the Combined Group. You will not have the opportunity to receive future dividends from Envestra, other than the FY2014 interim dividend of $0.032 per Envestra Share to be paid by Envestra on 30 April 2014[28], but instead you may receive distributions through your holding in the Combined Group.

Based on the alternative forms of Scheme Consideration that may be elected and depending on each Participating Envestra Shareholder's individual preference, if the Scheme is implemented, some Participating Envestra Shareholders may receive their consideration entirely in cash.[29] Should you receive consideration entirely in cash, you will no longer participate in the future performance of Envestra or the Combined Group. This will mean that you will not retain any exposure to Envestra's assets or have the potential to share in the value that could be generated in the future. If the Scheme is implemented, you will not have the opportunity to receive future dividends from Envestra, other than the FY2014 interim dividend of $0.032 per Envestra Share to be paid by Envestra on 30 April 2014.[30]

3. You may believe a superior proposal for Envestra may emerge

You may believe that a superior proposal for Envestra could emerge in the future. Whilst there is no evidence available to suggest a third party may make an alternative or superior proposal, it remains possible that such a proposal may emerge in the course of time, particularly since the Envestra Board expects Envestra's FY2014 full year net profit after tax to be between $145 million and $150 million[31] (as released to the ASX on 20 February 2014), and expects that level of profit to be sustained over the periods covered by existing regulatory determinations through to June 2016.[32] However, for the reasons noted below, the Recommending Directors believe that the possibility of a superior proposal emerging is low:

- since the announcement of APA Group's initial proposal on 16 July 2013 and up to the date of this Scheme Booklet, no superior proposal has been received; and
- APA Group's shareholding of 33.05% may discourage other potential acquirers from submitting a superior proposal.

27 If an adjustment to the Scheme Consideration is required as described in Section 4.9 of this Scheme Booklet, Participating Envestra Shareholders' equity interest in the Combined Group may be lower than 18.6% or higher than 21.6%.

28 Except that, in the event the Scheme is not implemented by 30 June 2014, Envestra Shareholders will be eligible to receive any final dividend for FY2014 declared or determined to be paid by Envestra (provided that they hold their Envestra Shares on the record date for that dividend).

29 Participating Envestra Shareholders electing to receive Maximum Cash Consideration should note that, if a scale back of Cash Consideration is required, they will not be entitled receive the full $1.17 in cash per Envestra Share held by them on the Scheme Record Date. To the extent scaling back is required, Participating Envestra Shareholders who elect Maximum Cash Consideration will receive a reduced amount of Cash Consideration and the balance of their Scheme Consideration in Scrip Consideration.

30 See footnote 28 above.

31 Assuming normal weather conditions and no other unforeseen circumstances in the second half of FY2014 and excluding any transaction completion costs resulting from the proposed Scheme.

32 The net profit after tax guidance is based on Envestra's internal modelling. This modelling incorporates existing regulatory determinations (based on benchmark revenue settings) and assumes normal weather conditions and no other unforeseen circumstances during the periods to 30 June 2016, as well as anticipated operating and finance costs, based on historical experience and hedging arrangements. The modelling also excludes any transaction completion costs resulting from the proposed Scheme. Finance cost modelling includes the impact of Envestra's hedging policy, whereby at least 80% of the variable interest rate on Envestra's debt is fixed for the duration of existing Access Arrangements. The Access Arrangements the South Australian and Queensland network assets expire on 30 June 2016, and the Access Arrangements for the Victorian and Albury network assets expire on 31 December 2017.

4. You may not want to own New APA Securities. However, you may receive New APA Securities even if you elect to receive Maximum Cash Consideration, if you are scaled back

- **New APA Securities may not be attractive for some Participating Envestra Shareholders, who may consider the investment profile of the Combined Group to be less attractive relative to Envestra as a standalone entity**

  APA Group's assets are predominantly natural gas transmission pipelines and, as such, offer an investment profile different from that of Envestra on a standalone basis. The Combined Group will have a different business mix, characterised by the exposure to:

  – a mix of regulated and contracted revenue, with approximately 48% of revenue subject to full regulation (as compared to Envestra's current revenue of approximately 90% subject to full regulation) and the remainder of the Combined Group's revenue sourced from a mix of regulated assets with negotiated tariffs and assets with light regulation or unregulated tariffs[33]; and

  – the Asset Management and Energy Investments business segments[34],

  and will therefore have a different risk profile to Envestra.

  Due to the relative size of APA Group and Envestra, the business of the Combined Group will largely reflect the existing APA Group business. Accordingly, Participating Envestra Shareholders who receive New APA Securities will be subject to certain risks in relation to APA Group, including risks in relation to the future operational and financial performance of the existing APA Group business, the potential impairment of goodwill and other intangible assets (including any impairment relating to pipeline assets historically acquired by APA Group) and the future earnings potential of APA Group's assets. Participating Envestra Shareholders who receive New APA Securities will also be subject to potential risks in relation to the Combined Group's financial profile, including the ongoing necessity to fund future capital expenditure commitments and the potential need to refinance existing debt of the Combined Group. These, and other, risks are described in further detail in Section 8 of this Scheme Booklet.

  You may wish to maintain your investment in Envestra in order to have an investment in a publicly listed company with the specific characteristics of Envestra in terms of risk, predominant exposure to regulated assets and earnings, operational profile, size, capital structure and potential dividend stream. In particular, you may consider that Envestra's potential future dividend growth or share price performance as a standalone entity could compare favourably with that of the Combined Group, and you may therefore wish to retain an undiluted investment in Envestra.

  Implementation of the Scheme may result in disadvantages to those who wish to maintain their current investment profile. If you wish to maintain your investment profile, you may find it necessary to identify an investment or investments which you consider have a similar profile to that of Envestra and you may incur transaction costs in undertaking any new investment.

  APA Securities are tradeable on the ASX. Accordingly, if you receive New APA Securities under the Scheme, and you do not wish to continue to hold them after the Implementation Date, you will have the option to sell them on the ASX.

33 Information regarding the Combined Group's revenue is sourced from Section 7.2 of this Scheme Booklet. Refer to Section 7.2 for further details.

34 Refer to Section 6 of this Scheme Booklet for information about APA Group and New APA Securities.

- **There are a number of risks associated with owning New APA Securities**

  If the Scheme is implemented, Participating Envestra Shareholders who receive New APA Securities will be subject to certain risks associated with APA Group and the Combined Group.

  These risks include:

  – The value of New APA Securities being subject to market movements on the ASX
  – Change in risk and investment profile
  – Change of control risk
  – Integration and synergy risk
  – Risk of impairment of goodwill and other intangible assets
  – Risk of accounting revisions being required
  – Tax consequences
  – The impact of pricing regulation by the independent national and state energy regulators on the Combined Group
  – The potential for bypass and competition
  – Gas demand risk
  – Gas supply risk
  – Counterparty risk
  – Interest rates and refinancing risks
  – Minority interest risk
  – Investment risk
  – Contract renewal risk
  – Operational risk
  – Risks around operating licences and authorisations
  – Environmental risks
  – Risks involving land leases
  – Construction and development risk
  – Disputes and litigation risks
  – Insurance risks

  These risks have been outlined in further detail by APA Group in Section 8 of this Scheme Booklet. Other than the risks specifically associated with the Scheme, they are typical business and operating risks applying to any such enterprise.

- **You may receive New APA Securities, even if you elect to receive Maximum Cash Consideration, if you are scaled back**

  The Cash Consideration is subject to an aggregate cap of $241 million. If you elect to receive Maximum Cash Consideration, you will have your entitlement to Cash Consideration scaled back proportionately to the extent that this cap would otherwise be exceeded, with the balance of your Scheme Consideration comprising an entitlement to Scrip Consideration. The scale back mechanism is outlined in further detail in Section 4.8 of this Scheme Booklet.

5. You may not have confidence that the level of distributions currently paid by APA Group ($0.355 per APA Security in FY2013), and anticipated to be paid in future years, is sustainable

APA Group's revenue is largely based on capacity contracts related to their major pipelines, some of which are due to expire in the next two to three years, including contracts in respect of the Moomba Sydney Pipeline. Whilst APA Group has demonstrated an ability to increase annual revenue and EBITDA over many years, there is the potential for a material gap to arise between APA Group's targeted revenue for periods after expiry of current contracts (FY2017 and FY2018) and APA Group's potential contractual revenue for those periods if existing contracts are not renewed or replaced (or are replaced with contracts with less favourable terms and conditions). APA Group has expressed confidence regarding its ability to prevent such a gap arising. However, any such efforts will be undertaken in the context of a rapidly changing east coast gas market where transportation flows may be influenced by the economics of supply to the Gladstone LNG plants, political decisions regarding coal seam methane developments in New South Wales, and technology innovations in shale gas opportunities in central Australia (among other factors). Whilst these dynamics may provide opportunities, it is uncertain whether APA Group's revenue after FY2016 will be sufficient to fully cover the current distribution levels.

The book values of APA Group's assets, particularly goodwill and other intangible assets, are subject to annual "impairment review" in accordance with Australian (and International) Accounting Standards. Such impairment reviews require an assessment of future revenue associated with particular pipelines. Whilst APA Group has advised that "impairment surpluses" exist as at 31 December 2013 for APA Group's major pipeline assets, it is possible that pipeline contract renewals will not occur as expected (thereby impacting revenue), and future impairment calculations will give rise to "impairment deficits". Such impairments will need to be recorded through the Combined Group's profit and loss statement, which may impact the Combined Group's ability to maintain, or increase distributions in future years. However, such potential impairment write-downs would not affect operating cash flows and therefore it is also possible that the Combined Group Board's decision regarding future distribution levels would not be influenced by such write-downs.

6. The value of the scrip component of the Scheme Consideration is not certain and will depend on the price at which New APA Securities trade on the ASX after the Implementation Date

Under the Scheme, you can choose to receive your Scheme Consideration in the form of All Scrip Consideration or Maximum Cash Consideration (subject to scale back) as described in Sections 4.6 and 4.7, respectively, of this Scheme Booklet.

The value of any New APA Securities received by individual Participating Envestra Shareholders on implementation of the Scheme will be dependent on the price at which APA Securities trade on the ASX as at the Implementation Date.

Following the implementation of the Scheme, the APA Security price may rise or fall based on market conditions (just as with any other market investment) and the Combined Group's financial and operational performance. If the APA Security price falls, the value of the New APA Securities you receive as Scheme Consideration will decline. Accordingly, there is no guarantee as to the future value of the Scheme Consideration to be received under the Scheme, to the extent that you receive New APA Securities.

In addition, the Cash Out Facility Nominee will be issued New APA Securities attributable to certain Ineligible Foreign Envestra Shareholders and Unmarketable Parcel Participants and will sell them on market as soon as reasonably practicable after the Implementation Date (see Sections 4.10, 4.12 and 4.16 of this Scheme Booklet). The quantum of these sales is unknown, but is likely to be relatively small compared to the total number of APA Securities on issue.

7. The potential tax consequences of the Scheme may not be suitable to your financial position

Implementation of the Scheme may result in taxation consequences, potentially including taxable capital gains, for Participating Envestra Shareholders, which will arise earlier than may otherwise have been the case.

Section 10 of this Scheme Booklet provides a general outline of the Australian taxation implications of the Scheme. You should read Section 10 in detail and seek independent taxation advice regarding the taxation consequences applicable to your own circumstances.

REASONS WHY IVAN CHAN AND DOMINIC CHAN RECOMMEND THAT YOU VOTE AGAINST THE SCHEME

Ivan Chan and Dominic Chan have advised Envestra that they believe that the Scheme is not in the best interests of Participating Envestra Shareholders and that they recommend that you vote against the Scheme.

Ivan Chan and Dominic Chan are not considered to be independent directors of Envestra, because they are part of the senior management team of Cheung Kong Infrastructure Holdings Ltd as Executive Director and Chief Financial Officer, and Chief Planning and Investment Officer, respectively. Cheung Kong Infrastructure Holdings (Malaysian) Ltd, a subsidiary of Cheung Kong Infrastructure Holdings Ltd, holds approximately 17.5% of the Envestra Shares as at the date of this Scheme Booklet.

Ivan Chan and Dominic Chan note that the Independent Expert has concluded that the Scheme is fair and reasonable, on the basis that the Independent Expert's valuation of the Scrip Consideration falls within the range of the Independent Expert's valuation of Envestra (including a premium for control).

Whilst acknowledging that the Independent Expert has followed the accepted conventions in Australian mergers and acquisitions practice (and related ASIC guidance in *Regulatory Guide 111 – Content of expert reports*) for assessing whether an offer is "fair" and "reasonable", Ivan Chan and Dominic Chan recommend that you vote against the Scheme for the reasons set out below.

Dominic Chan considers that Envestra is a very good business on a standalone basis, managed extremely well by a very efficient management team. He believes that Envestra is a regulated business with strong cash flows and returns to shareholders, and that it is a stable entity from a financial and operating point of view.

However, Dominic Chan believes APA Group has a different risk and financial profile than Envestra. In particular, he notes that APA Group has assets that are to a large extent unregulated and have a different and more volatile risk profile than Envestra's assets.

The Cash Consideration component of the Scheme Consideration is capped at $241 million. Therefore, based on an APA Security price of $6.45 at close of trading on 3 April 2014, being the last practicable trading day prior to the date of this Scheme Booklet, the Cash Consideration component of the Scheme is limited to approximately 16.3% of the value of the aggregate Scheme Consideration being offered by APA Group. Accordingly, under the Scheme, Envestra Shareholders are being offered Scheme Consideration which primarily comprises New APA Securities.

Should elections for Maximum Cash Consideration exceed the $241 million cap, Envestra Shareholders electing Maximum Cash Consideration will have their entitlements to Cash Consideration scaled back and will be required to accept New APA Securities for the balance of their Scheme Consideration.

Accordingly, Envestra Shareholders may be required to receive New APA Securities even if they elect to receive Maximum Cash Consideration, should a scale back of Cash Consideration be required. Those Envestra Shareholders will be required to assume the risks of holding and liquidating APA Securities over a period of time, with the associated transaction costs. As noted above, Dominic Chan considers the risk profile of APA Group to be different from the risk profile of Envestra.

Dominic Chan considers that the absence of a substantially higher proportion of Cash Consideration is not desirable for those Envestra Shareholders who do not want to invest in a company with the characteristics of APA Group. He considers that a higher proportion of Cash Consideration should be provided, so that Envestra Shareholders have more flexibility with regard to their choice of Scheme Consideration.

Dominic Chan also believes that the premium for control being offered by APA Group is insufficient. As noted above, he considers Envestra to be a very good business on a standalone basis, which is also a stable entity from a financial and operating point of view. Conversely, Dominic Chan considers the risk profile of APA Group to be different from that of Envestra, and notes that Participating Envestra Shareholders who receive New APA Securities will be exposed to risks of holding and liquidating APA Securities over a period of time with the associated transaction costs. Dominic Chan believes the premium for control being offered by APA Group to be insufficient to compensate for these risks.

Ivan Chan concurs with the views held by Dominic Chan set forth above. He also noted that Envestra has undertaken a financial deleveraging exercise over the past five years to such an extent that he believes the current financial position of Envestra would ensure that it will be in a strong position to withstand any future financial market crisis. By comparison, he believes that APA Group has a different risk and financial profile and has a more aggressive acquisition appetite than Envestra.

OTHER RELEVANT CONSIDERATIONS

You should also take into account the following additional considerations in deciding whether to vote in favour of, or against, the Scheme.

1. If the Scheme does not proceed

If the Scheme does not proceed (e.g. because the Scheme is not approved by Participating Envestra Shareholders or the approval of the Court is not obtained at the Second Court Hearing or the Scheme Implementation Agreement is terminated):

- Participating Envestra Shareholders will continue to hold their Envestra Shares and the rights of Participating Envestra Shareholders will not change.
- Participating Envestra Shareholders will not receive the Scheme Consideration.
- Envestra will continue to operate as a standalone entity listed on the ASX under the leadership of the Envestra Board and management.
- The Recommending Directors consider that the Envestra Share price is more likely to fall than to rise, at least in the short term, if the Scheme is not implemented[35].
- Envestra will have incurred approximately $3 million of transaction costs in relation to the proposed Scheme, even if it does not proceed.

2. The Scheme may be implemented even if you do not vote, or if you vote against the Scheme

You should be aware that even if you do not vote, or you vote against the Scheme, the Scheme may still be implemented if it is approved by the requisite majorities of Participating Envestra Shareholders and by the Court.

If this occurs and you are a Participating Envestra Shareholder, your Envestra Shares will be transferred to APL in its capacity as responsible entity for APT and you will receive the Scheme Consideration even though you did not vote on, or voted against, the Scheme.

3. Conditionality of the Scheme

There are a number of conditions precedent which must be satisfied, or waived, prior to the Scheme being implemented. Full details of these conditions are provided in Section 4.3 of this Scheme Booklet.

As at the date of this Scheme Booklet, the Non APA Affiliated Directors are not aware of any circumstances which would cause the outstanding conditions precedent not to be satisfied or (where applicable) waived.

4. Warranties from Participating Envestra Shareholders

Participating Envestra Shareholders' attention is drawn to the warranties that Participating Envestra Shareholders who participate in the Scheme will be deemed to have given, if the Scheme becomes Effective, including that their Envestra Shares (including any rights and entitlements attaching to those Envestra Shares) will be transferred fully paid and free from all mortgages, charges, liens, encumbrances, security interests and other interests of third parties of any kind, whether legal or otherwise, including any restrictions on transfer of any kind. See Section 4.19 of this Scheme Booklet for further details.

35 In comparison to the price immediately before the market becoming aware that the Scheme will not be implemented.

SECTION

1

1 OVERVIEW OF THE SCHEME

1.1 Background

On 4 March 2014, Envestra announced that it and APA Group have signed a Scheme Implementation Agreement under which it is proposed that APA Group will acquire all of the issued Envestra Shares which it does not own under a scheme of arrangement.

The Scheme is subject to a number of conditions precedent, details of which can be found in Section 4.3 of this Scheme Booklet.

1.2 Summary of the Scheme

Overview

The Scheme is proposed to be implemented by way of a scheme of arrangement, involving the transfer of all the Envestra Shares that APA Group does not already own to APL in its capacity as responsible entity of APT in return for APA Group providing the Scheme Consideration to each Participating Envestra Shareholder for each Envestra Share held by them on the Scheme Record Date.

Further information regarding the Scheme Consideration is set out below and in Section 4.5 of this Scheme Booklet.

Conditions for implementing the Scheme

Implementation of the Scheme is subject to a number of conditions precedent being satisfied, or (where applicable) waived, including, but not limited to, the following conditions precedent which remain outstanding as at the date of this Scheme Booklet:

- the Independent Expert concludes that the Scheme is in the best interests of Participating Envestra Shareholders and does not withdraw or adversely modify that conclusion before 8.00am (Adelaide time) on the Second Court Date;
- approval of the Scheme by Participating Envestra Shareholders;
- approval of the Scheme by the Court;
- by no later than 8.00am on the Second Court Date, ASIC and the ASX have issued or provided such consents, confirmations or approvals or have done such other acts which Envestra and APA Group agree are reasonably necessary or desirable to implement the Scheme;
- no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing any aspect of the Scheme being in effect as at 8.00am on the Second Court Date;
- no occurrence of an Envestra Prescribed Event or an APA Prescribed Event by 8.00am on the Second Court Date;
- no occurrence of an Envestra Material Adverse Change or an APA Material Adverse Change by 8.00am on the Second Court Date;
- the representations and warranties provided by Envestra and APA Group in the Scheme Implementation Agreement being true and correct in all material respects as at 8.00am on the Second Court Date; and
- as at 8.00am on the Second Court Date, the Financier Confirmation remaining in full force and effect and not having been withdrawn or materially adversely modified, and no event having occurred prior to 8.00am on the Second Court Date that would enable the parties who have given the Financier Confirmation to withdraw or materially adversely modify the Financier Confirmation.

As at the date of this Scheme Booklet, the Non APA Affiliated Directors are not aware of any circumstances which would cause the outstanding conditions precedent not to be satisfied or (where applicable) waived.

Further information regarding the conditions precedent to implementation of the Scheme is set out in Section 4.3 of this Scheme Booklet.

Scheme Consideration

Under the Scheme, Participating Envestra Shareholders can choose to receive their Scheme Consideration in one of the following alternative forms (subject to the paragraphs below regarding Ineligible Foreign Envestra Shareholders and Unmarketable Parcel Participants):

(a) **All Scrip Consideration** – comprising 0.1919 New APA Securities for every Envestra Share held at the Scheme Record Date; or

(b) **Maximum Cash Consideration** – $1.17 cash for every Envestra Share held at the Scheme Record Date, subject to an aggregate cap of $241 million. Participating Envestra Shareholders electing to receive Maximum Cash Consideration will have their entitlements to Cash Consideration scaled back proportionately to the extent that this cap would otherwise be exceeded, with the balance of their Scheme Consideration comprising an entitlement to Scrip Consideration.

Should the Scheme be implemented after 30 June 2014, the Scrip Consideration per Envestra Share and the Cash Consideration per Envestra Share may be adjusted under the terms of the Scheme in the event that Envestra's FY2014 final dividend is greater or lesser than 0.1919 of APA Group's FY2014 final distribution. See Section 4.9 of this Scheme Booklet for further details.

All Envestra Shareholders at the Dividend Record Date will also be entitled to receive the interim dividend of $0.032 per Envestra Share to be paid by Envestra on 30 April 2014, whether the Scheme is implemented or not.

Further information regarding the Scheme Consideration is set out in Section 4.5 of this Scheme Booklet.

Further details on how to make Elections are set out in Section 4.11 of this Scheme Booklet.

Scale back of Maximum Cash Consideration

If Elections for Maximum Cash Consideration can be satisfied in full, Participating Envestra Shareholders who elect Maximum Cash Consideration will receive 100% Cash Consideration, consisting of $1.17 cash (subject to a potential adjustment as described in Section 4.9 of this Scheme Booklet) (Cash Amount) for each Envestra Share held at the Scheme Record Date.

If scaling back is required, Participating Envestra Shareholders who elect Maximum Cash Consideration will receive a reduced amount of Cash Consideration and the balance of their Scheme Consideration in Scrip Consideration.

The scale back will be implemented if aggregate Elections for Maximum Cash Consideration exceed $241 million. The scale back proportion is calculated by dividing $241 million by the aggregate Elections for Maximum Cash Consideration (that is, the number of Envestra Shares held by Participating Envestra Shareholders electing Maximum Cash Consideration multiplied by the Cash Amount) (Scale Back Proportion).

If scaling back is required, each Participating Envestra Shareholder who elects to receive Maximum Cash Consideration will receive:

- Cash Consideration at the Cash Amount per Envestra Share held at the Scheme Record Date for the Scale Back Proportion of its holding of Envestra Shares; and
- Scrip Consideration of 0.1919 New APA Securities (subject to a potential adjustment as described in Section 4.9 of this Scheme Booklet) (Scrip Amount) per Envestra Share held at the Scheme Record Date for the remainder of its holding of Envestra Shares,

subject to the paragraphs below regarding Ineligible Foreign Envestra Shareholders and Unmarketable Parcel Participants.

The table below shows the results of scaling back in various scenarios (based on a Participating Envestra Shareholder holding 1,000 Envestra Shares who elects Maximum Cash Consideration, and assuming that no adjustment to the Scheme Consideration is required as described in Section 4.9 of this Scheme Booklet).

Percentage of Envestra Shares held by Participating Envestra Shareholders who elect to receive Maximum Cash Consideration (%)	Cash Consideration received by a Participating Envestra Shareholder holding 1,000 Envestra Shares who elects to receive Maximum Cash Consideration (A$)	Number of APA Securities received by a Participating Envestra Shareholder holding 1,000 Envestra Shares who elects to receive Maximum Cash Consideration	Value of APA Securities received by a Participating Envestra Shareholder holding 1,000 Envestra Shares who elects to receive Maximum Cash Consideration (A$)[36]
10.0%	1,170	Nil	Nil
17.0%	1,170	Nil	Nil
20.0%	1,002	27.0	174
30.0%	668	82.0	529
40.0%	501	109.0	703
50.0%	401	126.0	813
60.0%	334	137.0	884
70.0%	286	144.0	929
80.0%	250	150.0	968
90.0%	223	155.0	1,000
100.0%	200	159.0	1,026

Ineligible Foreign Envestra Shareholders

Certain Participating Envestra Shareholders will be treated as Ineligible Foreign Envestra Shareholders under the Scheme. Such shareholders will be entitled to make an Election, but will not be issued New APA Securities. Instead, New APA Securities to which they would otherwise have been entitled under the Scheme (whether under the All Scrip Consideration alternative or the Maximum Cash Consideration alternative) will be issued to the Cash Out Facility Nominee and sold under the Cash Out Facility, with their pro rata share of the Cash Out Facility Proceeds (free of brokerage charges incurred by the Cash Out Facility Nominee) being promptly remitted to them. Further information regarding Ineligible Foreign Envestra Shareholders is set out in Section 4.16 of this Scheme Booklet. Further information regarding the Cash Out Facility is set out in Section 4.12 of this Scheme Booklet.

36 Assuming an APA security price of $6.45 as at 3 April 2014, being the last practicable trading day prior to the date of this Scheme Booklet.

With respect to Cheung Kong Infrastructure Holdings (Malaysian) Ltd (**CKI**), which holds approximately 17.5% of the Envestra Shares as at the date of this Scheme Booklet, Envestra and APA Group have agreed that:

(a) they are satisfied that the laws of all relevant jurisdictions permit the issue of New APA Securities to CKI either unconditionally or after compliance with requirements that are not unduly onerous; and

(b) accordingly, CKI will not be an Ineligible Foreign Envestra Shareholder for the purposes of the Scheme.

Unmarketable Parcel Participants

Regardless of which Scheme Consideration alternative a Participating Envestra Shareholder chooses, each Participating Envestra Shareholder who would qualify as an Unmarketable Parcel Participant (in that the Participating Envestra Shareholder would receive an Unmarketable Parcel of 77 New APA Securities or less under the Scheme, and they are not an Ineligible Foreign Envestra Shareholder) will be entitled to make an Unmarketable Parcel Election. By making an Unmarketable Parcel Election, the Participating Envestra Shareholder will be electing to have their Unmarketable Parcel sold under the Cash Out Facility, with their pro rata share of the Cash Out Facility Proceeds (free of brokerage charges incurred by the Cash Out Facility Nominee) being promptly remitted to them. This Election can be made on the Election Form or online at www.envestra.com.au.

A Participating Envestra Shareholder who is unsure as to whether or not it will qualify as an Unmarketable Parcel Participant can still indicate on the Election Form (or online) that the Participating Envestra Shareholder wishes to make an Unmarketable Parcel Election. However, the Unmarketable Parcel Election will only become effective in the event that the Participating Envestra Shareholder would otherwise receive 77 New APA Securities or less under the Scheme.

Further information regarding Unmarketable Parcel Participants and the Cash Out Facility is set out in Section 4.10 and Section 4.12 of this Scheme Booklet, respectively.

Effect of the Scheme

If the Scheme becomes Effective and is implemented:

- APL in its capacity as responsible entity of APT will acquire all of the Envestra Shares not already owned by APA Group;
- each Participating Envestra Shareholder at the Scheme Record Date will receive the Scheme Consideration; and
- Envestra will become a subsidiary of APA Group and will be delisted from the ASX.

A copy of the Scheme is set out in Appendix 4 to this Scheme Booklet.

Steps for implementing the Scheme

There are a number of steps that need to be taken to implement the Scheme. These steps are described in greater detail in Section 4.2 of this Scheme Booklet.

1.3 Recommendation of the Recommending Directors

The Recommending Directors believe that the Scheme is in the best interests of Participating Envestra Shareholders and recommend that Participating Envestra Shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Scheme is fair and reasonable and in the best interests of Participating Envestra Shareholders.

The Recommending Directors are:

- John Allpass (Chairman and Non-Executive, Independent Director);
- Ian Little (Managing Director);
- Fraser Ainsworth AM (Non-Executive, Independent Director); and
- Olaf O'Duill (Non-Executive, Independent Director).

The Recommending Directors are a majority of the Non APA Affiliated Directors.

The other Non APA Affiliated Directors are:

- Ivan Chan (Non-Executive Director); and
- Dominic Chan (Non-Executive Director).

Ivan Chan and Dominic Chan are not considered to be independent directors of Envestra, because they are part of the senior management team of Cheung Kong Infrastructure Holdings Ltd as Executive Director and Chief Financial Officer, and Chief Planning and Investment Officer, respectively. Cheung Kong Infrastructure Holdings (Malaysian) Ltd, a subsidiary of Cheung Kong Infrastructure Holdings Ltd, holds approximately 17.5% of the Envestra Shares as at the date of this Scheme Booklet.

The APA Affiliated Directors are:

- Michael McCormack (Non-Executive Director); and
- Ross Gersbach (Non-Executive Director).

Michael McCormack is an APA Affiliated Director because he is the Managing Director and Chief Executive Officer of APA Group. Ross Gersbach is an APA Affiliated Director because he is the Chief Executive Strategy and Development of APA Group.

The interests of the Envestra Directors in the Scheme are disclosed in Section 11 of this Scheme Booklet.

In the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Scheme is fair and reasonable and in the best interests of Participating Envestra Shareholders, each of the Recommending Directors intend to vote in favour of the Scheme in relation to Envestra Shares held or controlled by him. Michael McCormack, an APA Affiliated Director, intends to vote in favour of the Scheme in relation to the Envestra Shares held or controlled by him. The interests of Envestra Directors in Envestra Shares are set out in Section 11.2 of this Scheme Booklet.

In making their recommendations, the Recommending Directors have in particular considered the following:

(a) the potential advantages of, and other reasons for voting in favour of, the Scheme set out on pages 15 to 20 of this Scheme Booklet;

(b) the potential disadvantages of, and other reasons for voting against, the Scheme set out on pages 21 to 26 of this Scheme Booklet; and

(c) the other relevant considerations noted on page 28 of this Scheme Booklet.

1.4 Recommendation of Ivan Chan and Dominic Chan

Ivan Chan and Dominic Chan believe that the Scheme is not in the best interests of Participating Envestra Shareholders and recommend that Participating Envestra Shareholders vote against the Scheme, for the reasons set out on page 27 of this Scheme Booklet under the heading "Reasons why Ivan Chan and Dominic Chan recommend that you vote against the Scheme".

In making their recommendations, Ivan Chan and Dominic Chan have also considered the following:

(a) the potential advantages of, and other reasons for voting in favour of, the Scheme set out on pages 15 to 20 of this Scheme Booklet;

(b) the potential disadvantages of, and other reasons for voting against, the Scheme set out on pages 21 to 26 of this Scheme Booklet; and

(c) the other relevant considerations noted on page 28 of this Scheme Booklet.

1.5 Independent Expert's Report

Grant Samuel & Associates Pty Limited was appointed by the Independent Board Committee as the Independent Expert to prepare a report on whether the Scheme is in the best interests of Participating Envestra Shareholders.

The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, in the best interests of Participating Envestra Shareholders, in the absence of a superior proposal.

An Independent Expert's Report is required by the Corporations Regulations to be included with this Scheme Booklet.

In particular, given that APA Group holds more than 30% of the issued capital of Envestra, and Michael McCormack is a director of both Envestra and APA Group, the Corporations Regulations require this Scheme Booklet to include a report made by an expert who is not associated with APA Group, stating whether or not, in his or her opinion, the Scheme is in the best interests of members of Envestra and setting out his or her reasons for that opinion.

A copy of the Independent Expert's Report in relation to the Scheme is set out in Appendix 1 to this Scheme Booklet.

1.6 Approvals required

For the Scheme to be implemented, it must be approved by:

- a majority (i.e. more than 50%) in number of Participating Envestra Shareholders present and voting on the Scheme Resolution (in person or by proxy, attorney or, in the case of a corporate Participating Envestra Shareholder, by a corporate representative)[37]; and
- at least 75% of the total number of votes cast on the Scheme Resolution by Participating Envestra Shareholders (in person or by proxy, attorney or, in the case of a corporate Participating Envestra Shareholder, by a corporate representative).

Cheung Kong Infrastructure Holdings (Malaysian) Ltd (**CKI**) holds approximately 17.5% of the Envestra Shares as at the date of this Scheme Booklet. CKI's holding represents more than 25% of the Envestra Shares held by Participating Envestra Shareholders (that is, excluding Envestra Shares held by APA Group). Accordingly, if CKI chooses to vote against the Scheme Resolution, that resolution will not be passed and the Scheme will not be implemented.

37 The Court has discretion to approve the Scheme where it is approved by at least 75% of all votes cast on the Scheme Resolution but not by a majority in number of Participating Envestra Shareholders voting on the Scheme Resolution: refer to section 411(4)(a)(ii)(A) of the Corporations Act.

Envestra has made enquiries of CKI regarding its possible voting intentions in relation to the Scheme. CKI has not advised Envestra of its voting intentions and, further, has advised Envestra that it does not currently intend to make a public statement regarding its voting intentions.

The Scheme Meeting has been convened for 10.00am (Adelaide time) on 13 May 2014 at Riverbank Rooms 1-3, Adelaide Convention Centre, North Terrace, Adelaide, South Australia.

The Scheme is also conditional on approval by the Court.

1.7 Entitlement to vote

All Participating Envestra Shareholders on the Envestra Register at 6.30pm (Adelaide time) on 11 May 2014 are entitled to vote at the Scheme Meeting.

For further details on how to vote, please refer to Section 3 of this Scheme Booklet.

1.8 Exclusivity arrangements

Participating Envestra Shareholders' attention is drawn to the exclusivity obligations agreed to by Envestra, which are summarised in Section 4.17 of this Scheme Booklet.

1.9 Tax considerations for Participating Envestra Shareholders

A summary of the general Australian taxation implications of the Scheme for Participating Envestra Shareholders who are Australian residents for tax purposes is set out in Section 10 of this Scheme Booklet.

Your decision regarding how to vote on the Scheme should be made only after consultation with your financial, legal or other professional adviser based on your own investment objectives, financial situation, taxation position and particular needs.

1.10 How to obtain further information

For further information, you can call the Envestra Shareholder Information Line on 1300 784 494 (from within Australia) or +61 1300 784 494 (from outside Australia) between 8.00am and 4.30pm (Adelaide time), Monday to Friday.

If you are in doubt about anything in this Scheme Booklet, please contact your financial, legal or other professional adviser.

SECTION

2

2 KEY QUESTIONS

This Section answers some frequently asked questions about the Scheme. It is not intended to address all relevant issues for Participating Envestra Shareholders and should be read together with all other sections of this Scheme Booklet.

QUESTION	ANSWER	MORE INFORMATION
QUESTIONS ABOUT THE SCHEME		
1. Why have I received this Scheme Booklet?	This Scheme Booklet has been sent to you because you are a Participating Envestra Shareholder and Participating Envestra Shareholders are being asked to vote on the Scheme, which, if approved, will result in APL in its capacity as responsible entity of APT acquiring all Envestra Shares which APA Group does not already own. If you continue to hold Envestra Shares on the Scheme Record Date and the Scheme becomes Effective, your Envestra Shares will be acquired by APA Group for the Scheme Consideration. This Scheme Booklet is intended to help you to decide how to vote on the Scheme Resolution which needs to be passed at the Scheme Meeting to allow the Scheme to proceed.	
2. What is the Scheme?	The Scheme is a scheme of arrangement, which is a statutory procedure under the Corporations Act that is commonly used to enable one company to acquire another company. If the Scheme becomes Effective and is implemented, APL in its capacity as responsible entity of APT will acquire all of the issued Envestra Shares which APA Group does not already own and Envestra will be delisted from the ASX. The Scheme is subject to a number of conditions precedent set out in clause 2.1 of the Scheme Implementation Agreement, and summarised in Section 4.3 of this Scheme Booklet.	Sections 1 and 4 of this Scheme Booklet provide information on the implementation of the Scheme. A copy of the Scheme is contained in Appendix 4 of this Scheme Booklet.
3. When does the Scheme become Effective?	In order to become Effective, the Scheme must be approved by the Court at the Second Court Hearing. Envestra will apply to the Court for an order approving the Scheme, if the Scheme is approved by the requisite majorities of Participating Envestra Shareholders voting at the Scheme Meeting and all other conditions to the Scheme (other than approval of the Court) have been satisfied or waived.	Sections 1 and 4 of this Scheme Booklet provide information on the implementation of the Scheme. A copy of the Scheme is contained in Appendix 4 of this Scheme Booklet.

QUESTION	ANSWER	MORE INFORMATION
QUESTIONS ABOUT THE SCHEME		
4. What is the effect of the Scheme?	If the Scheme becomes Effective and is implemented: • all Envestra Shares as at the Scheme Record Date that are not already owned by APA Group will be transferred to APL in its capacity as responsible entity of APT; • Envestra will become a wholly owned subsidiary of APA Group and will be delisted from the ASX; and • all Participating Envestra Shareholders at the Scheme Record Date (whether or not they voted for, or against, the Scheme) will receive the Scheme Consideration, which they can elect to receive in the form of either All Scrip Consideration, or Maximum Cash Consideration (subject to scale back).	Sections 4.5 to 4.10 of this Scheme Booklet contain detailed information about the Scheme Consideration.
5. What if I am an Ineligible Foreign Envestra Shareholder?	Any Participating Envestra Shareholder whose address in the Envestra Register is outside of Australia and its external territories and New Zealand will be an Ineligible Foreign Envestra Shareholder for the purposes of the Scheme, unless Envestra and APA Group are satisfied, acting reasonably, that the laws of all relevant jurisdictions permit the issue of New APA Securities to that Participating Envestra Shareholder either unconditionally or after compliance with requirements that are not unduly onerous. Envestra and APA Group have agreed that Cheung Kong Infrastructure Holdings (Malaysian) Ltd, which holds approximately 17.5% of the Envestra Shares as at the date of this Scheme Booklet, will not be an Ineligible Foreign Envestra Shareholder for the purposes of the Scheme. Ineligible Foreign Envestra Shareholders will be entitled to vote on the Scheme Resolution and will also be entitled to make an Election for All Scrip Consideration or Maximum Cash Consideration, but will not be issued New APA Securities. Instead, New APA Securities to which they would otherwise have been entitled under the Scheme (whether under the All Scrip Consideration alternative or the Maximum Cash Consideration alternative) will be issued to the Cash Out Facility Nominee and sold under the Cash Out Facility, with their pro rata share of the Cash Out Facility Proceeds (free of brokerage charges incurred by the Cash Out Facility Nominee) being promptly remitted to them. Further information regarding the Cash Out Facility is set out in Section 4.12 of this Scheme Booklet and the detailed provisions governing the Cash Out Facility are set out in clause 5.7 of the Scheme.	Section 4.16 of this Scheme Booklet provides further information in relation to the effect of the Scheme on Ineligible Foreign Envestra Shareholders.

QUESTION	ANSWER	MORE INFORMATION
QUESTIONS ABOUT APA GROUP		
6. Who is APA Group?	APA Group is Australia's largest natural gas infrastructure business, owning and/or operating $12.2 billion of energy infrastructure. This includes 14,100 km of natural gas transmission pipelines across mainland Australia delivering more than half of the nation's natural gas usage, gas storage facilities and over 25,000 km of gas distribution mains in eastern Australia as well as complementary infrastructure such as gas-fired and renewable electricity generation, gas processing plants and electricity transmission. APA Group is Envestra's largest shareholder with a 33.05% interest. APA Group operates and manages Envestra's gas distribution networks and pipelines under long-term agreements. APA Group is listed on the ASX (ASX:APA) and is included in the S&P/ASX 50 Index.	Section 6 of this Scheme Booklet contains detailed information about APA Group.
7. Why is APA Group seeking to implement the Scheme?	If the Scheme becomes Effective and is implemented, the Combined Group will bring together the strength of the two groups – Envestra's portfolio of east Australian gas distribution networks with APA Group's gas transmission and energy infrastructure and operating and management resources. APA Group believes that implementation of the Scheme will result in securityholders in the Combined Group benefiting from: • **Aligned ownership and operatorship** of Envestra's assets providing the greatest incentives and capability to drive operational improvements for the benefit of the Combined Group. • **Diversity of assets and operations** with relative revenue stability from regulated assets and growth opportunities from APA Group's brownfield expansions and greenfield projects. Expressed on a pro-forma basis, 48% of FY2013 Combined Group revenue was subject to full economic regulation with the remainder from a mix of regulated assets with negotiated tariffs and assets with light regulation or unregulated tariffs. • **Increased financial strength and size benefits** with the Combined Group expected to have a market capitalisation of over $6 billion and to benefit from a consolidation of APA Group's existing inclusion in the S&P/ASX 50 Index and other global indices. Further, the Combined Group should benefit from greater access to a broader range of more liquid capital markets to deliver competitive funding for Envestra and APA Group's capital expenditure programs.	Section 7.5 of this Scheme Booklet outlines the strategic rationale for the Scheme.

QUESTION	ANSWER	MORE INFORMATION
QUESTIONS ABOUT APA GROUP		
8. What are APA Group's intentions for Envestra?	APA Group already operates Envestra's assets and has a workforce of over 1,600 employees and approximately 1,500 contractors, of which, on average, 550 employees and 940 contractors directly undertake operations and maintenance on behalf of Envestra. APA Group will continue to manage and operate all material elements of the Envestra business, in substantially the same manner as they currently operate. APA Group will also fully integrate the Envestra businesses to drive further performance and sustainable growth. APA Group does not currently intend that any major changes will be made to the business or the deployment of fixed assets of the Envestra business. If the Scheme is implemented, APA Group will continue the employment of all Envestra employees (other than the Envestra Managing Director) until at least 30 September 2014. APA Group's intentions for Envestra in relation to delisting, corporate and head office operations and employees are set out in Section 7.6 of this Scheme Booklet.	Section 7.6 of this Scheme Booklet contains more detail on APA Group's intentions with respect to Envestra.
9. What is APA Group's performance track record?	APA Group's objective is to maximise securityholder value, sustainably growing its distributions while continuing to appropriately fund its growth. APA Group's strong performance in this regard is well demonstrated by APA Group's Total Securityholder Returns, a measure that reflects distributions and trading price. Since listing, APA Group has delivered total returns to its securityholders of 883%, equivalent to a compound annual return of 18.0% over this time, outperforming the market during this period.[38] It is a hallmark of APA Group that in its 13 years as a listed business, its distributions have never been reduced nor has APA Group traded below its listing price.	Section 6.10 of this Scheme Booklet contains more detail on APA Group's performance track record.

38 Comparisons of securityholder returns and security price performance to the market based on the S&P/ASX 200 Accumulation Index and the S&P/ASX 200 Index respectively from 13 June 2000 (the APA Security listing date) up to and including 3 April 2014 (the last practicable trading day prior to the date of this Scheme Booklet). Annual returns are calculated on a compound growth rate basis. See Section 6.10 "Historic Total Securityholder Returns, security price performance and distributions" for further details. Past performance is not an indicator of future performance.

QUESTION	ANSWER	MORE INFORMATION
QUESTIONS ABOUT APA GROUP		
10. What are the benefits and risks of electing to receive New APA Securities?	APA Group considers the implementation of the Scheme and combination of APA Group and Envestra will enable Participating Envestra Shareholders who receive New APA Securities to: • realise a premium for their Envestra Shares, as well as partial CGT rollover relief on New APA Securities[39]; • become an investor in the leading energy infrastructure company in Australia, accessing the benefits of increased scale, geographic and business diversification, integration of operations and ownership, and sustainable long-term growth; • become an investor in a larger business with a strong balance sheet, with access to a broader range of more liquid capital markets to deliver competitive funding for Envestra's capital program over the next five years; • receive investment returns through a combination of sustainable distribution growth and capital returns, afforded through regulated revenues, and unregulated growth opportunities from APA Group's brownfield expansions and greenfield projects; and • enhance the liquidity of their investment, with the Combined Group having an estimated market capitalisation of over $6 billion, and a member of the S&P/ASX 50 index and a number of significant global equity indices. Electing to receive New APA Securities also presents some risks to Participating Envestra Shareholders relating to: • the implementation of the Scheme; • the Combined Group; and • the general economy and securities market. An investment in APA Group is not an identical substitute for an investment in Envestra as the Combined Group will have a different risk and investment profile. In addition, the market price for APA Securities (including the New APA Securities) may trade at a higher or lower price than the price at the date of this Scheme Booklet.	Section 7.2 of this Scheme Booklet contains further details on the Combined Group. Section 8 of this Scheme Booklet contains further information on risks.

39 Participating Envestra Shareholders who receive Scrip Consideration may benefit from partial Australian capital gains tax rollover relief, provided that they qualify. Further information is available in Section 10 of this Scheme Booklet.

QUESTION	ANSWER	MORE INFORMATION

QUESTIONS ABOUT APA GROUP

11. How will APA Group's movement in security price impact the value of the Scheme Consideration?

The table below shows how the implied value of the Scheme Consideration varies with changes in the APA Security price. It also shows the corresponding impact on the premium to the 30-day VWAP of Envestra Shares on 15 July 2013. The table below is designed to assist Participating Envestra Shareholders in assessing the value of the Scheme Consideration at different APA Security prices. It does not provide a forecast of the price at which APA Securities will trade on any relevant market, including the ASX.

APA Group is not obliged to make any adjustment to the Scheme Consideration if the value of the APA Securities changes before the implementation of the Scheme. Accordingly, market fluctuations could favourably or adversely affect the implied value of the Scheme Consideration at any particular time.

APA Security price		Implied value of All Scrip Consid-eration	Implied premium to Envestra's 30-day VWAP up to 15 July 2013 of $0.99[1]	Implied value of Maximum Cash Consid-eration[2]	Implied premium to Envestra's 30-day VWAP up to 15 July 2013 of $0.99[3]
$6.00		$1.15	16.2%	$1.15	16.5%
$6.0974	APA Group's 30-day VWAP on 11 December 2013[4]	$1.17	18.0%	$1.17	18.0%
$6.10		$1.17	18.1%	$1.17	18.1%
$6.20		$1.19	20.0%	$1.19	19.7%
$6.30		$1.21	22.0%	$1.20	21.3%
$6.40		$1.23	23.9%	$1.22	22.9%
$6.45	Closing price of APA Securities on the ASX on 3 April 2014[5]	$1.24	24.9%	$1.23	23.7%
$6.50		$1.25	25.8%	$1.23	24.5%
$6.60		$1.27	27.8%	$1.25	26.1%

Notes:

1 Envestra 30-day VWAP up to and including 15 July of $0.99.

2 Assuming 100% of Participating Envestra Shareholders elect to receive Maximum Cash Consideration and the aggregate cash cap of $241 million is reached.

3 The last trading day prior to Envestra announcing APA Group's initial proposal.

4 The date at which the scrip exchange ratio was determined using APA's 30 day VWAP.

5 The last practicable trading day before the date of this Scheme Booklet.

QUESTION	ANSWER	MORE INFORMATION
ASSESSMENT OF THE SCHEME		
12. What are the Recommending Directors' recommendations in respect of the Scheme?	The Recommending Directors recommend that you vote in favour of the Scheme, in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Scheme is fair and reasonable and in the best interests of Participating Envestra Shareholders. The Recommending Directors, namely John Allpass (Chairman), Ian Little (Managing Director), Fraser Ainsworth AM and Olaf O'Duill are a majority of the Non APA Affiliated Directors.	Pages 15 to 20 of this Scheme Booklet set out the reasons for the Recommending Directors' recommendations.
13. What are the recommendations of Ivan Chan and Dominic Chan in respect of the Scheme?	Ivan Chan and Dominic Chan recommend that you vote against the Scheme.	Page 27 of this Scheme Booklet sets out the reasons for the recommendations of Ivan Chan and Dominic Chan.
14. What is the opinion of the Independent Expert?	The Independent Board Committee has appointed Grant Samuel & Associates Pty Limited as the Independent Expert. The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, in the best interests of Participating Envestra Shareholders, in the absence of a superior proposal.	A copy of the Independent Expert's Report is set out in Appendix 1 to this Scheme Booklet.
15. What is the Independent Expert's Report?	An independent expert's report is required by the Corporations Regulations to be included with this Scheme Booklet. In particular, given that APA Group holds more than 30% of the issued capital of Envestra, and Michael McCormack is a director of both Envestra and APA Group, the Corporations Regulations require this Scheme Booklet to include a report made by an expert who is not associated with APA Group, stating whether or not, in his or her opinion, the Scheme is in the best interests of members of Envestra and setting out his or her reasons for that opinion.	A copy of the Independent Expert's Report is set out in Appendix 1 to this Scheme Booklet.

QUESTION	ANSWER	MORE INFORMATION
ASSESSMENT OF THE SCHEME		
16. What are the reasons to vote in favour of the Scheme?	The Recommending Directors recommend that you vote in favour of the Scheme, in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Scheme is fair and reasonable and in the best interests of Participating Envestra Shareholders, for the following reasons: • The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, in the best interests of Participating Envestra Shareholders, in the absence of a superior proposal. • The Scheme Consideration is also considered to be "fair" by the Recommending Directors, as it is a material premium to the Envestra Share price that prevailed shortly prior to APA Group announcing its original proposal on 16 July 2013. • You might not receive a control premium if the Scheme does not proceed, as APA Group may increase its holding from 33.05% over a period of time and may obtain control without making a full takeover offer. • No superior proposal has emerged since the initial announcement of the APA Group merger. • If you receive New APA Securities, you will have the opportunity to participate in the future financial performance of the Combined Group, which will have a more diversified asset base and more liquid securities than Envestra. • The Envestra Share price is more likely to fall than to rise, at least in the short term, if the Scheme is not implemented (in comparison to the price immediately before the market becoming aware that the Scheme will not be implemented). • You have the choice of receiving your Scheme Consideration in the form that better suits your individual circumstances – either All Scrip Consideration or Maximum Cash Consideration (subject to an aggregate Cash Consideration cap of $241 million). • If you receive New APA Securities, you may be eligible for partial CGT rollover relief. Further detail in relation to these reasons is set out in pages 15 to 20 of this Scheme Booklet.	Pages 15 to 20 of this Scheme Booklet set out in further detail the reasons for the Recommending Directors' recommendations.
17. Who are the Recom-mending Directors?	The Recommending Directors are John Allpass, Ian Little, Fraser Ainsworth AM and Olaf O'Duill. The Recommending Directors are a majority of the Non APA Affiliated Directors.	Section 5.4 of this Scheme Booklet contains more information about the Envestra Directors.

QUESTION	ANSWER	MORE INFORMATION
ASSESSMENT OF THE SCHEME		
18. Who are the Non APA Affiliated Directors?	The Non APA Affiliated Directors are John Allpass, Ian Little, Fraser Ainsworth AM, Ivan Chan, Dominic Chan and Olaf O'Duill.	Section 5.4 of this Scheme Booklet contains more information about the Envestra Directors.
19. Who are the APA Affiliated Directors?	The APA Affiliated Directors are Michael McCormack and Ross Gersbach. Michael McCormack is an APA Affiliated Director because he is the Managing Director and Chief Executive Officer of APA Group. Ross Gersbach is an APA Affiliated Director because he is the Chief Executive Strategy and Development of APA Group.	Section 5.4 of this Scheme Booklet contains more information about the Envestra Directors.
20. How are the Recom-mending Directors intending to vote?	In the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Scheme is fair and reasonable and in the best interests of Participating Envestra Shareholders, each of the Recommending Directors intends to vote in favour of the Scheme in relation to Envestra Shares held or controlled by him.	Section 1.3 of this Scheme Booklet contains more information about the recommendations and voting intentions of the Recommending Directors. Details about the interests of all Envestra Directors in Envestra Shares are detailed in Section 11.2 of this Scheme Booklet.
21. How are the other Envestra Directors intending to vote?	Michael McCormack, an APA Affiliated Director, intends to vote in favour of the Scheme in relation to Envestra Shares held or controlled by him. Other than Michael McCormack and the Recommending Directors, no other Envestra Director holds or controls Envestra Shares.	Details about the interests of all Envestra Directors in Envestra Shares are detailed in Section 11.2 of this Scheme Booklet.
22. Do any of the Envestra Directors hold APA Securities?	John Allpass holds (directly and indirectly) 28,583 APA Securities. Michael McCormack holds 208,590 APA Securities and Ross Gersbach holds 485 APA Securities (both are APA Affiliated Directors). No other Envestra Director holds APA Securities.	Details about the interests of all Envestra Directors in APA Securities are detailed in Section 11.3 of this Scheme Booklet.

QUESTION	ANSWER	MORE INFORMATION
ASSESSMENT OF THE SCHEME		
23. What are the reasons to vote against the Scheme?	Reasons identified by the Recommending Directors as to why you might vote against the Scheme include: • You may disagree with the Recommending Directors' recommendation and the Independent Expert's conclusion • Your equity interest in Envestra's assets will be diluted • You may believe a superior proposal for Envestra may emerge • You may not want to own New APA Securities. However, you may receive New APA Securities even if you elect Maximum Cash Consideration, if you are scaled back • You may not have confidence that the level of distributions currently paid by APA Group ($0.355 per APA Security in FY2013), and anticipated to be paid in future years, is sustainable • The value of the scrip component of the Scheme Consideration is not certain and will depend on the price at which New APA Securities trade on the ASX after the Implementation Date • The potential tax consequences of the Scheme may not be suitable to your financial position. These reasons are set out in further detail on pages 21 to 26 of this Scheme Booklet. In addition, Section 8 of this Scheme Booklet contains information on risks related to the Scheme (which may also be considered as reasons to vote against the Scheme). The Recommending Directors believe that the potential advantages of, and other reasons to vote in favour of, the Scheme outweigh the potential disadvantages of, and other reasons to vote against, the Scheme. However, all the Non APA Affiliated Directors consider that Participating Envestra Shareholders should be aware of the potential disadvantages and risks related to the Scheme. The reasons why Ivan Chan and Dominic Chan recommend that you vote against the Scheme are set out on page 27 of this Scheme Booklet under the heading "Reasons why Ivan Chan and Dominic Chan recommend that you vote against the Scheme".	Pages 21 to 26 of this Scheme Booklet set out some of the potential disadvantages of, and other reasons to vote against, the Scheme. Section 8 of this Scheme Booklet contains information on risks related to the Scheme. You should also review page 28 of this Scheme Booklet which sets out other considerations relevant to your assessment of the Scheme. The reasons why Ivan Chan and Dominic Chan recommend that you vote against the Scheme are set out on page 27 of this Scheme Booklet.

QUESTION	ANSWER	MORE INFORMATION
SCHEME CONSIDERATION		
24. What will I receive if the Scheme is approved and implemented?	If the Scheme becomes Effective and you hold Envestra Shares at the Scheme Record Date, you will receive the Scheme Consideration. Participating Envestra Shareholders can choose to receive one of the following alternative forms of Scheme Consideration: • **All Scrip Consideration** – comprising 0.1919 New APA Securities for every Envestra Share held at the Scheme Record Date; or • **Maximum Cash Consideration** – $1.17 cash for every Envestra Share held at the Scheme Record Date, subject to an aggregate cap of $241 million, (subject to a potential adjustment as described in Section 4.9 of this Scheme Booklet in the event that the Scheme is implemented after 30 June 2014). If you elect to receive Maximum Cash Consideration, you will have your entitlement to Cash Consideration scaled back proportionately to the extent that this cap would otherwise be exceeded, with the balance of your Scheme Consideration comprising an entitlement to Scrip Consideration. Under each Scheme Consideration alternative, New APA Securities to which an Ineligible Foreign Envestra Shareholder or an Unmarketable Parcel Participant would otherwise be entitled will be dealt with under the Cash Out Facility. All Envestra Shareholders at the Dividend Record Date will also be entitled to receive the interim dividend of $0.032 per Envestra Share to be paid by Envestra on 30 April 2014, whether the Scheme is implemented or not.	Detailed information about the Scheme Consideration is provided in Sections 4.5 to 4.10 of this Scheme Booklet. Details on how to make Elections are set out in Section 4.11 of this Scheme Booklet. Further information regarding the Cash Out Facility is set out in Section 4.12 of this Scheme Booklet.
25. What if I receive 77 or less New APA Securities?	Regardless of which Scheme Consideration alternative you choose, if you would qualify as an Unmarketable Parcel Participant (in that you would receive an Unmarketable Parcel of 77 New APA Securities or less under the Scheme and you are not an Ineligible Foreign Envestra Shareholder), you will be entitled to make an Unmarketable Parcel Election. By making an Unmarketable Parcel Election, you will be electing to have your Unmarketable Parcel sold on your behalf under the Cash Out Facility, with your pro rata share of the Cash Out Facility Proceeds (free of brokerage charges incurred by the Cash Out Facility Nominee) being promptly remitted to you. This Election can be made on the Election Form or online at www.envestra.com.au. If you are unsure as to whether or not you will qualify as an Unmarketable Parcel Participant, you can still indicate on the Election Form (or online) that you wish to make an Unmarketable Parcel Election. However, your Unmarketable Parcel Election will only become effective in the event that you would otherwise receive 77 New APA Securities or less under the Scheme.	Further information regarding Unmarketable Parcel Participants is set out in Section 4.9 of this Scheme Booklet. Further information regarding the Cash Out Facility is set out in Section 4.12 of this Scheme Booklet.

QUESTION	ANSWER	MORE INFORMATION
SCHEME CONSIDERATION		
26. What is the implied value of the Scheme Consideration?	Based on an APA Security price of $6.45, being the closing price of APA Securities on the ASX on 3 April 2014 (the last practicable trading day prior to the date of this Scheme Booklet), the implied value of the All Scrip Consideration is $1.24. The implied value of the Maximum Cash Consideration alternative will vary depending on the level of scale back and proportion of APA Securities received under this alternative.	
27. How do I choose my Scheme Consideration?	You can choose the form of your Scheme Consideration by making your Election and completing and returning the Election Form that accompanies this Scheme Booklet (or making your Election online at www.envestra.com.au) in accordance with the instructions set out on the Election Form, by the Election Date (as at the date of this Scheme Booklet, expected to be 4.30pm (Adelaide time) on 23 May 2014, or such later time as Envestra may announce to the ASX). If you wish to receive the All Scrip Consideration (and do not wish to make an Unmarketable Parcel Election), you do not need to complete or return the Election Form. The All Scrip Consideration will be issued to you (or, if you are an Ineligible Foreign Envestra Shareholder, sold on your behalf under the Cash Out Facility) without the need to make an Election on your part, provided you hold Envestra Shares on the Scheme Record Date. Regardless of which Scheme Consideration alternative you choose, you will be entitled to make an Unmarketable Parcel Election (provided that you are not an Ineligible Foreign Envestra Shareholder). An Unmarketable Parcel Election will only become effective in the event that you become entitled to receive an Unmarketable Parcel of 77 New APA Securities or less under the Scheme. By making an Unmarketable Parcel Election, you will be electing to have your Unmarketable Parcel sold on your behalf under the Cash Out Facility, with your pro rata share of the Cash Out Facility Proceeds (free of brokerage charges incurred by the Cash Out Facility Nominee) being promptly remitted to you. This election can be made on the Election Form or online at www.envestra.com.au. Ineligible Foreign Envestra Shareholders can make an Election for All Scrip Consideration or Maximum Cash Consideration, but are not entitled to be issued New APA Securities. Please refer to Section 4.16 of this Scheme Booklet for further details on how the Scheme affects Ineligible Foreign Envestra Shareholders.	Section 4.11 of this Scheme Booklet contains further information regarding Elections.

QUESTION	ANSWER	MORE INFORMATION
SCHEME CONSIDERATION		
28. What if I do not make any Election for Scheme Consideration?	If you do not validly complete and return the Election Form (or make an Election online at www.envestra.com.au) before the Election Date in accordance with the instructions set out on the Election Form, you will be deemed to have elected to receive All Scrip Consideration in the form of 0.1919 New APA Securities for each Envestra Share that you hold on the Scheme Record Date (subject to a potential adjustment as described in Section 4.9 of this Scheme Booklet in the event that the Scheme is implemented after 30 June 2014). This also applies to Ineligible Foreign Envestra Shareholders, although the New APA Securities to which an Ineligible Foreign Envestra Shareholder would otherwise be entitled due to a deemed election to receive All Scrip Consideration will be dealt with under the Cash Out Facility.	Section 4.11 of this Scheme Booklet contains further information regarding Elections.
29. Can I change my Election?	You may change your Election by lodging a replacement Election Form (or by making a replacement Election online at www.envestra.com.au) provided that it is received by Link Market Services no later than the Election Date. You can obtain additional copies of the Election Form by contacting the Envestra Shareholder Information Line on 1300 784 494 (from within Australia) or +61 1300 784 494 (from outside Australia) between 8.00am and 4.30pm (Adelaide time), Monday to Friday.	Section 4.11(e) of this Scheme Booklet contains further information regarding Elections, including how to change your Election.
30. When will I receive my Scheme Consideration?	If the Scheme becomes Effective and is implemented: • any payment of Cash Consideration to which you are entitled will be dispatched within five Business Days of the Implementation Date; • Scrip Consideration to which you are entitled will be issued to you on the Implementation Date and a holding statement for New APA Securities will be sent to you within five Business Days of the Implementation Date; • if you would receive 77 or less New APA Securities as part of your Scheme Consideration, and you have made an Unmarketable Parcel Election to have your New APA Securities sold on your behalf under the Cash Out Facility, any Scrip Consideration that would otherwise be issued to you will be sold on your behalf under the Cash Out Facility; and • if you are an Ineligible Foreign Envestra Shareholder, any Scrip Consideration that would otherwise be issued to you will be sold on your behalf under the Cash Out Facility.	Section 4.13 of this Scheme Booklet contains further information regarding when you will receive your Scheme Consideration.

QUESTION	ANSWER	MORE INFORMATION
SCHEME CONSIDERATION		
30. When will I receive my Scheme Consideration? continued	Ineligible Foreign Envestra Shareholders and Unmarketable Parcel Participants will be paid their pro rata share of the Cash Out Facility Proceeds (free of brokerage charges incurred by the Cash Out Facility Nominee) promptly following the last sale under the Cash Out Facility. Sales must be completed under the Cash Out Facility within 15 Business Days of the Implementation Date. If you have currently elected to receive dividends paid by Envestra by electronic funds transfer, any cash payments you are entitled to under the Scheme will be paid to the bank account you have nominated for payment of dividends. If you have not elected to receive dividends paid by Envestra by electronic funds transfer, you will receive any cash payments by cheque. Participating Envestra Shareholders who have not elected to receive dividends paid by Envestra by electronic funds transfer, but who wish to receive their Cash Consideration (and any Cash Out Facility Proceeds) by that method, should contact Link Market Services on 1300 784 494 (from within Australia) or +61 1300 784 494 (from outside Australia). In order for changes to apply to the payment of any Cash Consideration (and any Cash Out Facility Proceeds), they must be notified to Link Market Services prior to the Scheme Record Date.	Section 4.13 of this Scheme Booklet contains further information regarding when you will receive your Scheme Consideration.
31. What are the tax implications of the Scheme?	A summary of the general Australian taxation implications of the Scheme for Participating Envestra Shareholders who are Australian residents for tax purposes is set out in Section 10 of this Scheme Booklet. Your decision on whether or not to vote in favour of the Scheme should be made only after your consultation with a financial, legal or other professional adviser based on your own investment objectives, financial situation, taxation position and particular needs.	See Section 10 of this Scheme Booklet.
32. Will I have to pay any brokerage in relation to the Scheme?	There are no brokerage or other costs payable by you in connection with the disposal of your Envestra Shares and your receipt of the Scheme Consideration under the Scheme. If you are an Ineligible Foreign Envestra Shareholder or an Unmarketable Parcel Participant whose Scrip Consideration is sold under the Cash Out Facility, you will not incur brokerage in connection with the sale of that Scrip Consideration under the Cash Out Facility.	
33. How do I receive the Envestra interim dividend?	If you were an Envestra Shareholder at the Dividend Record Date, you will also be entitled to receive the FY2014 interim dividend of $0.032 per Envestra Share (in addition to any Scheme Consideration) to be paid by Envestra on 30 April 2014, whether or not the Scheme is implemented.	

QUESTION	ANSWER	MORE INFORMATION
SCHEME MEETING, VOTING AND APPROVAL		
34. Who is entitled to vote at the Scheme Meeting?	Participating Envestra Shareholders (that is, excluding APA Group) who are recorded on the Envestra Register as the holder of Envestra Shares as at 6.30pm (Adelaide time) on 11 May 2014 are entitled to attend and vote at the Scheme Meeting.	See Section 3 of this Scheme Booklet for further information regarding how to vote.
35. When and where will the Scheme Meeting be held?	The Scheme Meeting is scheduled to be held at Riverbank Rooms 1-3, Adelaide Convention Centre, North Terrace, Adelaide, South Australia at 10.00am (Adelaide time) on 13 May 2014.	The Notice of Scheme Meeting is set out in Appendix 6 to this Scheme Booklet.
36. If I wish to vote in favour of the Scheme, how do I vote?	You can vote at the Scheme Meeting: • by sending in the Proxy Form (or lodging your proxy online at www.linkmarketservices.com.au or www.envestra.com.au) in accordance with the instructions set out on the Proxy Form and have your proxy attend the Scheme Meeting in person and vote on your behalf; • in person; or • by attorney. Participating Envestra Shareholders which are bodies corporate can also vote at the Scheme Meeting through a corporate representative.	See Section 3 of this Scheme Booklet for further information regarding how to vote. A Proxy Form for the Scheme Meeting accompanies this Scheme Booklet.
37. Is voting compulsory? Should I vote?	Voting is not compulsory. However, the Recommending Directors recommend that you vote in favour of the Scheme, in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Scheme is fair and reasonable and in the best interests of Participating Envestra Shareholders, and urge you to exercise your right to vote at the Scheme Meeting. Ivan Chan and Dominic Chan recommend that you vote against the Scheme, and urge you to exercise your right to vote at the Scheme Meeting. If the Scheme becomes Effective, you will be bound by the Scheme whether or not you voted and whether or not you voted in favour of the Scheme. Your vote is important, as only those votes cast by Participating Envestra Shareholders on the Scheme Resolution will be counted in determining whether the Scheme has been approved by the requisite majorities of Participating Envestra Shareholders.	Refer to Section 1.3 this Scheme Booklet for further information regarding the Recommending Directors' recommendations, and Section 1.4 of this Scheme Booklet for further information regarding the recommendations of Ivan Chan and Dominic Chan. Detailed information on how to vote is set out in Section 3 of this Scheme Booklet.
38. How do I vote if I am unable to attend the Scheme Meeting?	If you cannot attend the Scheme Meeting, you should complete and return the Proxy Form (or lodge your proxy online at www.linkmarketservices.com.au or www.envestra.com.au) in accordance with the instructions set out on the Proxy Form and have your proxy attend the Scheme Meeting in person and vote on your behalf.	Detailed information on how to vote is set out in Section 3 of this Scheme Booklet.

QUESTION	ANSWER	MORE INFORMATION
SCHEME MEETING, VOTING AND APPROVAL		
39. Will I be bound by the Scheme if I do not vote or if I vote against the Scheme?	Yes, if the Scheme is approved and becomes Effective, then all Envestra Shares held by you at the Scheme Record Date will be transferred to APL in its capacity as responsible entity of APT and you will receive the Scheme Consideration, notwithstanding that you did not vote, or that you voted against the Scheme.	
40. What is the approval threshold for the Scheme?	The Scheme Resolution must be approved by: • a majority (i.e. more than 50%) in number of Participating Envestra Shareholders who vote on the Scheme Resolution (in person or by proxy, attorney or, in the case of a corporate Participating Envestra Shareholder, by a corporate representative); and • at least 75% of the total number of votes cast by Participating Envestra Shareholders on the Scheme Resolution (in person or by proxy, attorney or, in the case of a corporate Participating Envestra Shareholder, by a corporate representative). The Court has discretion to waive the first of these two requirements if the Court considers it appropriate to do so. APA Group entities cannot vote on the Scheme Resolution. Cheung Kong Infrastructure Holdings (Malaysian) Ltd (CKI) holds approximately 17.5% of the Envestra Shares as at the date of this Scheme Booklet. CKI's holding represents more than 25% of the Envestra Shares held by Participating Envestra Shareholders (that is, excluding Envestra Shares held by APA Group). Accordingly, if CKI chooses to vote against the Scheme Resolution, that resolution will not be passed and the Scheme will not be implemented. Envestra has made enquiries of CKI regarding its possible voting intentions in relation to the Scheme. CKI has not advised Envestra of its voting intentions and, further, has advised Envestra that it does not currently intend to make a public statement regarding its voting intentions. Voting at the Scheme Meeting will be by poll. For the Scheme to become Effective, it must also be approved by the Court.	Further details of the approval thresholds required are set out in Section 1.6 of this Scheme Booklet.
41. Are there any conditions to the Scheme?	There are a number of conditions precedent which must be satisfied or waived prior to the Scheme being implemented. As at the date of this Scheme Booklet, the Non APA Affiliated Directors are not aware of any circumstances which would prevent the outstanding conditions precedent from being satisfied or (where applicable) waived.	Further details of the conditions precedent are set out in Section 4.3 of this Scheme Booklet.

QUESTION	ANSWER	MORE INFORMATION
SCHEME MEETING, VOTING AND APPROVAL		
42. When will the results of the Scheme Meeting be known?	The results of the Scheme Meeting will be available at the conclusion of the Scheme Meeting on 13 May 2014 and will be announced to the ASX once available. Even if the Scheme Resolution is passed, the Scheme will be subject to approval by the Court.	

QUESTION	ANSWER	MORE INFORMATION
OTHER QUESTIONS		
43. What happens if the Scheme is not approved?	If the Scheme is not approved by the requisite majorities of Participating Envestra Shareholders, or if the Scheme is not approved by the Court, then the Scheme will not become Effective and will not proceed. Participating Envestra Shareholders will not receive the Scheme Consideration, but will retain their Envestra Shares, and Envestra will continue to operate as a standalone entity.	See Section 1.6 of this Scheme Booklet for further information on the required approvals. Further details of what will or may happen to Envestra and Participating Envestra Shareholders if the Scheme does not proceed are set out on page 28 of this Scheme Booklet.
44. What happens if a superior proposal emerges?	If a superior proposal emerges, this will be announced to the ASX and the Non APA Affiliated Directors will carefully consider the superior proposal and advise you of their recommendation.	
45. Is there a break fee[40] payable?	As at the date of this Scheme Booklet, Envestra has not agreed to pay any break fees. However, under the terms of the Scheme Implementation Agreement, if Envestra agrees a break fee arrangement with a third party in relation to a competing proposal, Envestra is required to agree an equivalent break fee arrangement with APA Group on terms no less favourable than those agreed with any such third party. Envestra has also agreed that the aggregate value of any break fees agreed with third parties will not exceed $10 million, and that Envestra will not enter into any break fee arrangement in relation to a third party transaction where a fee becomes payable as a consequence of the relevant transaction being rejected by Envestra Shareholders (as opposed to, for example, the payment becoming payable due to Envestra's default or as a consequence of another transaction being successful).	See Section 4.17 of this Scheme Booklet for further information.

40 A break fee is a fee which is often required to be paid by a target entity to the proposed acquirer (or vice versa) under a scheme implementation agreement if the scheme of arrangement does not proceed (for example, to compensate the other party for their reasonable external and internal costs and opportunity costs in connection with the scheme).

QUESTION	ANSWER	MORE INFORMATION
OTHER QUESTIONS		
46. What if the Independent Expert changes its opinion?	If the Independent Expert changes its opinion, this will be announced to the ASX and the Non APA Affiliated Directors will carefully consider the Independent Expert's revised opinion and advise you of their recommendation.	A copy of the Independent Expert's Report is set out in Appendix 1 to this Scheme Booklet.
47. Can I sell my Envestra Shares now?	You can sell some or all of your Envestra Shares on market at any time before the close of trading on the ASX on the Effective Date at the prevailing market price, in which case you will not receive any Scheme Consideration for those Envestra Shares which you have sold. The Effective Date is currently expected to be 16 May 2014.	
48. What are the forms accompanying this Scheme Booklet?	Accompanying this Scheme Booklet are: **Proxy Form** If you are unable or do not wish to attend the Scheme Meeting in person, you should complete and return the Proxy Form (or lodge your proxy online at www.linkmarketservices.com.au or www.envestra.com.au) in accordance with the instructions set out on the Proxy Form and have your proxy attend the Scheme Meeting in person and vote on your behalf. **Election Form** The Election Form can be used to elect your preferred Scheme Consideration alternative. If you wish to receive All Scrip Consideration (and do not wish to make an Unmarketable Parcel Election), you do not need to complete or return the Election Form. If you wish to receive Maximum Cash Consideration or wish to make an Unmarketable Parcel Election, you should complete and return the Election Form (or make your Election online at www.envestra.com.au) in accordance with the instructions set out in the Election Form.	Section 3 of this Scheme Booklet provides more detailed information on how to vote at the Scheme Meeting. Section 4.11 of this Scheme Booklet provides more detailed information on how to make an Election.
FURTHER INFORMATION		
49. How can I get further information if I have any questions?	For further information, you can call the Envestra Shareholder Information Line on 1300 784 494 (from within Australia) or +61 1300 784 494 (from outside Australia) between 8.00am and 4.30pm (Adelaide time), Monday to Friday. If you are in doubt about anything in this Scheme Booklet, please contact your financial, legal or other professional adviser.	

SECTION

3

3 HOW TO VOTE

3.1 Scheme Meeting

The Scheme Meeting has been convened for 10.00am (Adelaide time) on 13 May 2014 at Riverbank Rooms 1-3, Adelaide Convention Centre, North Terrace, Adelaide, South Australia.

At the Scheme Meeting, Participating Envestra Shareholders will be asked to consider and, if thought fit, pass the following resolution:

> *"That pursuant to and in accordance with section 411 of the Corporations Act, the scheme of arrangement proposed to be entered into between Envestra and the Participating Envestra Shareholders, as more particularly set out in the Scheme Booklet accompanying this notice of meeting, is agreed to (with or without modification as approved by the Court to which Envestra and APA Group agree) and, subject to approval of the Scheme by the Court, the Envestra Board is authorised to implement the Scheme with any such modifications or conditions."*

In order for the Scheme Resolution to be passed, it must be approved by a majority (i.e. greater than 50%) in number of Participating Envestra Shareholders (that is, excluding APA Group) voting on the Scheme Resolution (in person or by proxy, attorney or, in the case of a corporate Participating Envestra Shareholder, by a corporate representative).[41] In addition, those Participating Envestra Shareholders who vote in favour must cast at least 75% of the total number of votes cast by Participating Envestra Shareholders on the Scheme Resolution (in person or by proxy, attorney or, in the case of corporate Participating Envestra Shareholders, by a corporate representative).

Voting at the Scheme Meeting will be by poll.

If you wish the Scheme to proceed, it is important that you vote in favour of the Scheme Resolution at the Scheme Meeting. The Scheme will not proceed unless the Scheme is approved by Participating Envestra Shareholders and the Court.

3.2 Entitlement to vote

All Participating Envestra Shareholders who are on the Envestra Register as at 6.30pm (Adelaide time) on 11 May 2014 will be entitled to vote at the Scheme Meeting.

If Envestra Shares are jointly held, only one of the joint holders is entitled to vote. If more than one shareholder votes in respect of jointly held Envestra Shares, only the vote of the shareholder whose name appears first on the Envestra Register will be counted.

3.3 How to vote

You may vote in person at the Scheme Meeting. If you are unable to attend the Scheme Meeting in person, you may vote by proxy or by a duly authorised attorney.

A corporate shareholder or corporate proxy may vote by corporate representative appointed pursuant to section 250D of the Corporations Act.

Further details are set out below:

(a) Voting in person

To vote in person at the Scheme Meeting, you must attend the Scheme Meeting commencing at 10.00am (Adelaide time) on 13 May 2014 at Riverbank Rooms 1-3, Adelaide Convention Centre, North Terrace, Adelaide, South Australia.

All persons attending the Scheme Meeting must register their attendance by disclosing their name at the point of entry to the meeting.

41 The Court has discretion to approve the Scheme where it is approved by at least 75% of all votes cast on the Scheme Resolution but not by a majority in number of Participating Envestra Shareholders voting on the Scheme Resolution: refer to section 411(4)(a)(ii)(A) of the Corporations Act.

(b) Voting by proxy

If you cannot attend the Scheme Meeting, you may vote by proxy by completing and sending in the Proxy Form and have your proxy attend the Scheme Meeting in person and vote on your behalf. A proxy need not be an Envestra Shareholder.

The Proxy Form (together with any power of attorney, or other authority, under which the Proxy Form is signed, or a certified copy of that power of attorney or authority) must be:

(i) posted to Link Market Services in the reply paid envelope provided or, if you are outside of Australia or do not otherwise use the reply paid envelope, to the following address: Envestra Limited, C/- Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235; or

(ii) hand delivered to either Envestra Limited, C/- Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138 or Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000; or

(iii) successfully transmitted by facsimile to Link Market Services on 02 9287 0309 (from within Australia) or +61 2 9287 0309 (from outside Australia); or

(iv) posted, delivered or successfully transmitted by facsimile to the registered office of Envestra,

so that it is received by no later than 10.00am (Adelaide time) on 11 May 2014.

Your proxy should retain a copy of the Proxy Form (together with any power of attorney, or other authority, under which the Proxy Form is signed, or a certified copy of that power of attorney or authority) to assist with admission to the Scheme Meeting.

Alternatively, you may lodge your proxy online at www.linkmarketservices.com.au or www.envestra.com.au by no later than 10.00am (Adelaide time) on 11 May 2014.
To use this facility you will need your Shareholder Reference Number (SRN) or Holder Identification Number (HIN), surname or company name and postcode of your registered holding of Envestra Shares.

(c) Voting by attorney

Alternatively, if you cannot attend the Scheme Meeting, you may have a duly authorised attorney attend and vote on your behalf. An attorney need not be an Envestra Shareholder.

The power of attorney, or a certified copy of the power of attorney, should be lodged with Link Market Services before the Scheme Meeting, or be brought to the meeting.

(d) Corporate representative

Participating Envestra Shareholders which are bodies corporate can also vote at the Scheme Meeting by having your corporate representative attend the Scheme Meeting in person and vote on your behalf. If a representative of a Participating Envestra Shareholder or corporate proxy is to attend the Scheme Meeting pursuant to section 250D of the Corporations Act, a certificate of appointment of the representative (or such other document as the Chairman of the Scheme Meeting considers sufficient together with any power of attorney, or other authority, under which the certificate or other document is signed, or a certified copy of that power of attorney or authority) should be lodged by post with Link Market Services at Envestra Limited, C/- Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235, or by hand delivery to either Envestra Limited, C/- Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138 or Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000, prior to the Scheme Meeting, or be brought to the meeting.

A form of certificate can be obtained by contacting Link Market Services on 1300 784 494 (from within Australia) or +61 1300 784 494 (from outside Australia).

SECTION 4

4 IMPLEMENTATION OF THE SCHEME

4.1 Introduction

The Scheme is a scheme of arrangement under the Corporations Act. Schemes of arrangement are commonly used to give effect to the acquisition of one company by another company. A scheme of arrangement is an arrangement between a company and either its shareholders (or a class of shareholders) or its creditors (or a class of creditors) given effect in accordance with the Corporations Act.

The key terms of the Scheme, if approved and implemented, will involve:

(a) the acquisition by APL in its capacity as responsible entity of APT on the Implementation Date of all of the Envestra Shares not already held by APA Group as at the Scheme Record Date; and

(b) the provision of the Scheme Consideration to Participating Envestra Shareholders who hold Envestra Shares at the Scheme Record Date (currently expected to be 6.30pm (Adelaide time) on 23 May 2014).

A copy of the Scheme is set out in full in Appendix 4 to this Scheme Booklet. This Section 4 explains the steps involved in implementing the Scheme.

The Scheme is subject to the satisfaction or waiver of a number of conditions precedent. These are described in Section 4.3 of this Scheme Booklet.

4.2 Steps in implementing the Scheme

(a) Execution of Scheme Implementation Agreement

On 4 March 2014, Envestra and APA entered into the Scheme Implementation Agreement under which Envestra agreed to propose the Scheme to Participating Envestra Shareholders and Envestra and APA agreed to take all steps reasonably necessary to implement the Scheme.

A copy of the Scheme Implementation Agreement is set out in Appendix 3 to this Scheme Booklet. Certain key aspects of the Scheme Implementation Agreement are summarised in Sections 4.16, 4.17 and 4.18 of this Scheme Booklet.

(b) Execution of Deed Poll by APA

On 2 April 2014, APA executed the Deed Poll pursuant to which APA agreed, subject to the Scheme becoming Effective, to comply with its obligations under the Scheme, including providing to each Participating Envestra Shareholder as at the Scheme Record Date the Scheme Consideration to which that shareholder is entitled under the Scheme. A copy of the Deed Poll is included in Appendix 5 to this Scheme Booklet.

Details regarding the Scheme Consideration are set out in Section 4.5 of this Scheme Booklet.

(c) Scheme Meeting

On 7 April 2014, the Court ordered that Envestra convene the Scheme Meeting at 10.00am (Adelaide time) on 13 May 2014 at Riverbank Rooms 1-3, Adelaide Convention Centre, North Terrace, Adelaide, South Australia for the purpose of Participating Envestra Shareholders considering and, if thought fit, approving the Scheme.

For the Scheme to proceed, the Scheme Resolution must be passed at the Scheme Meeting. The required approval thresholds are set out in Section 1.6 of this Scheme Booklet.

The Notice of Scheme Meeting is set out in Appendix 6 to this Scheme Booklet.

The vote at the Scheme Meeting will be conducted by poll.

All Participating Envestra Shareholders who are on the Envestra Register as at 6.30pm (Adelaide time) on 11 May 2014 will be entitled to vote at the Scheme Meeting.

(d) Court order approving the Scheme

In order to become Effective, the Scheme must be approved by the Court at the Second Court Hearing.

Envestra will apply to the Court for an order approving the Scheme, if the Scheme is approved by the requisite majorities of Participating Envestra Shareholders voting at the Scheme Meeting and all other conditions to the Scheme (other than approval of the Court) have been satisfied or waived.

Each Participating Envestra Shareholder has the right to seek leave to appear at the Second Court Hearing and be heard in respect of the Scheme. Participating Envestra Shareholders who wish to oppose the approval of the Scheme at the Second Court Hearing must file with the Court and serve on Envestra a notice of appearance in the form prescribed, together with any affidavit on which the Participating Envestra Shareholder wishes to rely at the hearing. The notice of appearance and affidavit must be served on Envestra at its address for service by 5.00pm (Sydney time) on the day before the Second Court Hearing. The address for service is:

Envestra Limited
C/- Johnson Winter & Slattery
Level 9, 211 Victoria Square
ADELAIDE SA 5000
Attention: Mr John Keeves

The Court may refuse to approve the Scheme or may approve the Scheme subject to conditions or variations, even if the Scheme is approved by the requisite majorities of Participating Envestra Shareholders.

(e) Implementation of the Scheme

The Implementation Date of the Scheme is the date which is five Business Days after the Scheme Record Date, or such other date agreed by Envestra and APA Group in writing, ordered by the Court, or as may be required by the ASX.

On the Implementation Date of the Scheme, subject to the provision of the Scheme Consideration as described in Section 4.5 of this Scheme Booklet, all of the Envestra Shares held by Participating Envestra Shareholders as at the Scheme Record Date, together with all rights and entitlements attaching to those Envestra Shares, will be transferred to APL in its capacity as responsible entity of APT, without the need for any further act by any Participating Envestra Shareholder (other than acts performed by Envestra or its officers as agent and attorney of the Participating Envestra Shareholders) by:

(i) Envestra delivering to APL in its capacity as responsible entity of APT a duly completed and executed share transfer form to transfer all of the Envestra Shares held by Participating Envestra Shareholders to APL in its capacity as responsible entity of APT; and

(ii) APL in its capacity as responsible entity of APT duly executing that share transfer form and delivering it to Envestra for registration.

Information regarding the payment of Scheme Consideration to Participating Envestra Shareholders is set out in Section 4.13 of this Scheme Booklet.

Immediately following receipt of the duly executed share transfer form, Envestra will register APL in its capacity as responsible entity of APT as the holder of all of the Envestra Shares which APA Group does not already own.

(f) Removal from official quotation

Following the Implementation Date of the Scheme, Envestra will request the ASX to end official quotation of Envestra Shares and remove Envestra from the official list of the ASX.

4.3 Conditions precedent

The Scheme will not proceed unless all of the conditions precedent set out in clause 2.1 of the Scheme Implementation Agreement are satisfied or, where applicable, have been waived in accordance with the Scheme Implementation Agreement. In summary, the conditions precedent are as follows:

(a) Conditions for the benefit of both Envestra and APA Group

The following conditions precedent were included in the Scheme Implementation Agreement for the benefit of both Envestra and APA Group. Waiver of any breach or non-fulfilment of any of these conditions requires the written consent of both Envestra and APA Group:

(i) **Independent Expert:** the Independent Expert's Report concludes that the Scheme is fair and reasonable and in the best interests of Participating Envestra Shareholders and the Independent Expert does not withdraw or adversely modify that conclusion before 8.00am (Adelaide time) on the Second Court Date;

(ii) **ASIC and the ASX:** by no later than 8.00am on the Second Court Date, ASIC and the ASX have issued or provided such consents, confirmations or approvals or have done such other acts which Envestra and APA Group agree are reasonably necessary or desirable to implement the Scheme;

(iii) **Restraints:** no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing any aspect of the Scheme is in effect as at 8.00am (Adelaide time) on the Second Court Date;

(iv) **Financier Confirmation:** as at 8.00am on the Second Court Date, the Financier Confirmation remaining in full force and effect and not having been withdrawn or materially adversely modified, and no event having occurred prior to 8.00am on the Second Court Date that would enable the parties who have given the Financier Confirmation to withdraw or materially adversely modify the Financier Confirmation.

(b) Conditions for the benefit of Envestra only

The following conditions were included in the Scheme Implementation Agreement for the sole benefit of Envestra. Only Envestra can waive any breach or non-fulfilment of these conditions:

(i) **No APA Prescribed Event:** no APA Prescribed Event occurs between the date of the Scheme Implementation Agreement and 8.00am (Adelaide time) on the Second Court Date;

(ii) **No APA Material Adverse Change:** no APA Material Adverse Change occurs, or is discovered, announced, disclosed or otherwise becomes known to Envestra between the date of the Scheme Implementation Agreement and 8.00am (Adelaide time) on the Second Court Date; and

(iii) **APA Group Representations, Warranties and Undertakings:** the representations and warranties of APA Group set out in clause 8.2 of the Scheme Implementation Agreement are true and correct in all material respects on the date of the Scheme Implementation Agreement and as at 8.00am (Adelaide time) on the Second Court Date and the undertakings in that clause and in clause 7.4 of the Scheme Implementation Agreement have been complied with in all material respects as at 8.00am (Adelaide time) on the Second Court Date.

(c) Conditions for the benefit of APA Group only

The following conditions were included in the Scheme Implementation Agreement for the sole benefit of APA Group. Only APA Group can waive any breach or non-fulfilment of these conditions:

(i) **No Envestra Prescribed Event:** no Envestra Prescribed Event occurs between the date of the Scheme Implementation Agreement and 8.00am (Adelaide time) on the Second Court Date;

(ii) **No Envestra Material Adverse Change:** no Envestra Material Adverse Change occurs, or is discovered, announced, disclosed or otherwise becomes known to APA Group between the date of the Scheme Implementation Agreement and 8.00am (Adelaide time) on the Second Court Date; and

(iii) **Envestra Representations, Warranties and Undertakings:** the representations and warranties of Envestra set out in clause 8.1 of the Scheme Implementation Agreement are true and correct in all material respects on the date of the Scheme Implementation Agreement and as at 8.00am (Adelaide time) on the Second Court Date and the undertakings in that clause have been complied with in all material respects as at 8.00am (Adelaide time) on the Second Court Date.

(d) Conditions that cannot be waived

The following conditions relate to mandatory legal requirements which cannot be waived by Envestra and APA Group:

(i) **Participating Envestra Shareholder approval of Scheme:** before 8.00am (Adelaide time) on the Second Court Date, the Scheme Resolution is approved by Participating Envestra Shareholders at the Scheme Meeting by the requisite majorities required under section 411(4)(a)(ii) of the Corporations Act; and

(ii) **Court approval:** the Court makes orders under section 411(4)(b) of the Corporations Act approving the Scheme on the Second Court Date.

4.4 Status of conditions precedent

As at the date of this Scheme Booklet, the Non APA Affiliated Directors are not aware of any circumstances which would cause the outstanding conditions precedent not to be satisfied or (where applicable) waived.

If any of the conditions precedent are not satisfied or (where appropriate) waived by the time specified for their satisfaction or if there is an omission or occurrence which will prevent a condition precedent being satisfied by the time so specified or, if no date is specified, by the End Date, then either Envestra or APA Group may serve notice on the other and then Envestra and APA Group will consult in good faith to determine whether:

(a) the Scheme may proceed by way of alternative means or methods;

(b) to extend the relevant time or date for satisfaction of the condition precedent;

(c) to change the date of the application to be made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme or adjourning that application (as applicable) to another date agreed by the parties and, if required, approved by the Court (being a date no later than five Business Days before the End Date); and/or

(d) to extend the End Date.

If Envestra and APA Group are unable to reach agreement regarding an appropriate course of action within the shorter of:

(e) five Business Days following the date of a notice that a condition precedent has not been satisfied or waived, or is prevented from being satisfied, by the time for satisfaction; or

(f) the period commencing on the date of a notice that a condition precedent has not been satisfied or waived, or is prevented from being satisfied, by the time for satisfaction and ending at 8.00am (Adelaide time) on the Second Court Date,

either of them may, provided that it has complied with its obligations (if any) in respect of that condition precedent and the relevant condition precedent is for its benefit (whether solely or jointly with the other party) or cannot be waived, terminate the Scheme Implementation Agreement by notice in writing to the other party.

Each of the conditions precedent, other than Court approval, must be satisfied or (where appropriate) waived by the Second Court Hearing. As at the date of lodgement of this Scheme Booklet with ASIC for registration, the Non APA Affiliated Directors are not aware of any circumstances which would cause the outstanding conditions precedent not to be satisfied or (where appropriate) waived in accordance with the terms of the Scheme Implementation Agreement.

4.5 Scheme Consideration

Under the Scheme, Participating Envestra Shareholders can choose to receive their Scheme Consideration in one of the following alternative forms (subject to Section 4.9 below regarding potential adjustments to the Scheme Consideration, Section 4.10 below regarding Unmarketable Parcel Participants and Section 4.16 below regarding Ineligible Foreign Envestra Shareholders):

(a) **All Scrip Consideration** – comprising 0.1919 New APA Securities for every Envestra Share held at the Scheme Record Date; or

(b) **Maximum Cash Consideration** – $1.17 cash for every Envestra Share held at the Scheme Record Date, subject to an aggregate cap of $241 million. Participating Envestra Shareholders electing to receive Maximum Cash Consideration will have their entitlements to Cash Consideration scaled back proportionately to the extent that this cap would otherwise be exceeded, with the balance of their Scheme Consideration comprising an entitlement to Scrip Consideration.

In addition to any Scheme Consideration, all Envestra Shareholders at the Dividend Record Date will also be entitled to receive the interim dividend of $0.032 per Envestra Share to be paid by Envestra on 30 April 2014, whether the Scheme is implemented or not.

Further details regarding the All Scrip Consideration and Maximum Cash Consideration alternatives are set out in Sections 4.6 and 4.7 respectively of this Scheme Booklet.

Details on how to make Elections are set out below in Section 4.11 of this Scheme Booklet. Participating Envestra Shareholders who have not made a valid Election by the Election Date will be deemed to have validly elected to receive All Scrip Consideration.

4.6 All Scrip Consideration

The All Scrip Consideration alternative comprises 0.1919 New APA Securities for every Envestra Share held at the Scheme Record Date (subject to the potential adjustment described in Section 4.9 below).

Participating Envestra Shareholders who wish to receive All Scrip Consideration (and who do not wish to make an Unmarketable Parcel Election), do not need to make an Election and do not need to return the Election Form. The All Scrip Consideration will be issued to such Participating Envestra Shareholders (or, in the case of Ineligible Foreign Envestra Shareholders, sold on their behalf under the Cash Out Facility) without any Election on their part, provided that they hold Envestra Shares at the Scheme Record Date.

4.7 Maximum Cash Consideration

Participating Envestra Shareholders may elect to receive the Maximum Cash Consideration. The total Cash Consideration made available by APA Group to satisfy Elections for Maximum Cash Consideration is limited to $241 million (**Available Cash Consideration**).

If all Elections for Maximum Cash Consideration can be satisfied in full, Participating Envestra Shareholders who elect Maximum Cash Consideration will receive 100% of their Scheme Consideration in cash, consisting of $1.17 cash for each Envestra Share held at the Scheme Record Date (subject to the potential adjustment described in Section 4.9 below) (**Cash Amount**).

However, if the Available Cash Consideration is not sufficient to allow all Participating Envestra Shareholders who elected Maximum Cash Consideration to receive the Cash Amount for each Envestra Share they hold at the Scheme Record Date, the Elections of those shareholders will be scaled back on a pro rata basis.

This will result in those shareholders receiving less than 100% Cash Consideration for their Envestra Shares and the balance will consist of Scrip Consideration. The extent to which Elections for Maximum Cash Consideration are scaled back will depend on Elections made by other Participating Envestra Shareholders. Further details regarding the scale back mechanism is set out in Section 4.8 of this Scheme Booklet.

Due to the fact that entitlements of Participating Envestra Shareholders who elect Maximum Cash Consideration will not be known until all valid Elections have been received and processed, Participating Envestra Shareholders who elect Maximum Cash Consideration will not know the precise composition of their Scheme Consideration at the time of completing the Election Form (or making an Election online) or at the time of the Scheme Meeting. The outcome of Elections will not be known until after the Election Date and will be announced by Envestra to the ASX when it becomes available.

In the case of Envestra Shares held in joint names, any cheque required to be paid will be payable to the joint holders and forwarded to the registered address as it appears on the Envestra Register as at the Scheme Record Date.

Participating Envestra Shareholders who wish to receive the Maximum Cash Consideration must complete and return a validly completed Election Form accompanying this Scheme Booklet so that it is received by Link Market Services at the address specified in the Election Form by the Election Date, or make your Election online at www.envestra.com.au by the Election Date. Details on how to make Elections are set out below in Section 4.11 of this Scheme Booklet. Participating Envestra Shareholders who have not made a valid Election by the Election Date will be deemed to have validly elected to receive All Scrip Consideration.

4.8 Scale back mechanism

(a) If scaling back does not occur

If all Elections for Maximum Cash Consideration can be satisfied in full, scaling back is not required and Participating Envestra Shareholders who elect Maximum Cash Consideration will receive 100% of their Scheme Consideration in cash, consisting of $1.17 cash for each Envestra Share held at the Scheme Record Date (subject to the potential adjustment described in Section 4.9 below) (**Cash Amount**).

(b) If scaling back occurs

The total Cash Consideration made available by APA Group to satisfy Elections for Maximum Cash Consideration is limited to $241 million (**Available Cash Consideration**). If the Available Cash Consideration is not sufficient to allow all Participating Envestra Shareholders as at the Scheme Record Date to receive the Cash Amount for each Envestra Share they hold at the Scheme Record Date, the Elections of those shareholders will be scaled back on a pro rata basis.

This will result in those shareholders receiving less than 100% Cash Consideration for their Envestra Shares and the balance will consist of Scrip Consideration. The extent to which Elections for Maximum Cash Consideration are scaled back will depend on Elections made by other Participating Envestra Shareholders.

If scaling back is necessary in relation to an Election for Maximum Cash Consideration, it will be achieved by the relevant shareholder receiving Cash Consideration for a proportion of their Envestra Shares; the shareholder will receive Scrip Consideration for the balance of their Envestra Shares.

Specifically, if scaling back occurs for Participating Envestra Shareholders who elect Maximum Cash Consideration, the number of their Envestra Shares in respect of which they will receive the Cash Amount will be determined in accordance with the following formula:

$$\left(\frac{A \times B}{C \times \text{Cash Amount}} \right)$$

Where:

A = the number of Envestra Shares held at the Scheme Record Date by the relevant Participating Envestra Shareholder who has validly elected Maximum Cash Consideration;

B = 241 million (i.e. the Available Cash Consideration);

C = the total number of Envestra Shares held at the Scheme Record Date by all Participating Envestra Shareholders who validly elected Maximum Cash Consideration; and

Cash Amount = $1.17, subject to the potential adjustment described in Section 4.9 below.

In respect of each of their remaining Envestra Shares, such Participating Envestra Shareholders as at the Scheme Record Date will receive Scrip Consideration of 0.1919 New APA Securities (subject to the potential adjustment described in Section 4.9 below).

The table on page 32 shows the results of scaling back in various scenarios (based on a Participating Envestra Shareholder holding 1,000 Envestra Shares who elects Maximum Cash Consideration, and assuming that no adjustment to the Scheme Consideration is required as described in Section 4.9 below).

4.9 Potential adjustment to Scheme Consideration

Under the terms of the Scheme, the Scrip Consideration of 0.1919 New APA Securities for each Envestra Share, and the Cash Consideration of $1.17 for each Envestra Share, may be adjusted if the Scheme is implemented after 30 June 2014.

If the Scheme is implemented after 30 June 2014, Participating Envestra Shareholders will not receive APA Group's FY2014 final distribution in respect of any New APA Securities issued to them as Scheme Consideration. However, Participating Envestra Shareholders will be eligible to receive any FY2014 final dividend declared or determined to be paid by Envestra (provided that they hold Envestra Shares on the record date for that dividend).

Envestra and APA Group have agreed a mechanism by which the Scheme Consideration may be adjusted in the event that Envestra's FY2014 final dividend is greater or lesser than 0.1919 of APA Group's FY2014 final distribution (the **Permitted Envestra Dividend Amount**).

If such an adjustment is required, Envestra proposes (subject to Court consent) to provide further information to its shareholders explaining the effect of the adjustment, once the amount of Envestra's FY2014 final dividend and the amount of APA Group's FY2014 final distribution are known.

An adjustment will be required if there is an "Excluded Envestra Dividend" or an "Envestra Dividend Shortfall". An Excluded Envestra Dividend is the amount (if any) by which Envestra's FY2014 final dividend exceeds the Permitted Envestra Dividend Amount. The Envestra Dividend Shortfall (if any) is calculated by subtracting from the Permitted Envestra Dividend Amount the higher of (a) Envestra's FY2014 final dividend; and (b) $0.0355 per Envestra Share (provided that this gives a positive number).

If there is an "Excluded Envestra Dividend" or an "Envestra Dividend Shortfall":

(a) the adjusted number of New APA Securities to be issued as Scrip Consideration per Envestra Share (Scrip Amount) will be calculated as follows:

Scrip Amount = (0.1919) – (Excluded Envestra Dividend ÷ $6.0974)
+ (Envestra Dividend Shortfall ÷ $6.0974)

(b) the adjusted Cash Consideration per Envestra Share (Cash Amount) will be calculated as follows:

Cash Amount = $1.17 – Excluded Envestra Dividend + Envestra Dividend Shortfall

4.10 Unmarketable Parcel Participants

Regardless of which Scheme Consideration alternative a Participating Envestra Shareholder chooses, each Participating Envestra Shareholder who would qualify as an Unmarketable Parcel Participant (in that the Participating Envestra Shareholder would receive an Unmarketable Parcel of 77 New APA Securities or less under the Scheme, and they are not an Ineligible Foreign Envestra Shareholder) will be entitled to make an Unmarketable Parcel Election. By making an Unmarketable Parcel Election, the Participating Envestra Shareholder will be electing to have their Unmarketable Parcel sold under the Cash Out Facility, with their pro rata share of the Cash Out Facility Proceeds (free of brokerage charges incurred by the Cash Out Facility Nominee) being promptly remitted to them. This Election can be made on the Election Form, or online at www.envestra.com.au.

If no Unmarketable Parcel Election is made by a Participating Envestra Shareholder, the Unmarketable Parcel will be issued to the Participating Envestra Shareholder (provided that it is not an Ineligible Foreign Envestra Shareholder) and not sold on its behalf.

A Participating Envestra Shareholder who is unsure as to whether or not it will qualify as an Unmarketable Parcel Participant can still indicate on the Election Form (or online) that the Participating Envestra Shareholder wishes to make an Unmarketable Parcel Election. However, the Unmarketable Parcel Election will only become effective in the event that the Participating Envestra Shareholder would otherwise receive 77 New APA Securities or less under the Scheme.

Further information regarding how to make Elections is set out below in Section 4.11 of this Scheme Booklet. Further information regarding the Cash Out Facility is set out in Section 4.12 of this Scheme Booklet.

4.11 How to make an Election

(a) General

Participating Envestra Shareholders can choose the form of their Scheme Consideration by completing the Election Form which accompanies this Scheme Booklet and:

- posting the validly completed Election Form to Link Market Services in the reply paid envelope provided or, if the Participating Envestra Shareholder is outside of Australia or does not otherwise use the reply paid envelope, to the following address: Envestra Limited, C/- Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235; or
- hand delivering the validly completed Election Form to either Envestra Limited, C/- Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138 or Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000; or
- successfully transmitting the validly completed Election Form by facsimile to Link Market Services on 02 9287 0309 (from within Australia) or +61 2 9287 0309 (from outside Australia),

so that it is received by no later than the Election Date, which is currently expected to be 4.30pm (Adelaide time) on 23 May 2014.

Alternatively, Participating Envestra Shareholders may make their Elections online at www.envestra.com.au by no later than Election Date. To use this facility Participating Envestra Shareholders will need their Shareholder Reference Number (SRN) or Holder Identification Number (HIN), surname or company name and postcode of their registered holding of Envestra Shares.

If a Participating Envestra Shareholder wishes to receive All Scrip Consideration (and does not wish to make an Unmarketable Parcel Election), that Participating Envestra Shareholder does not need to make an Election and does not need to return the Election Form. The All Scrip Consideration will be issued to the Participating Envestra Shareholder (or, in the case of Ineligible Foreign Envestra Shareholders, sold on their behalf under the Cash Out Facility) without any Election on the part of the Participating Envestra Shareholder, provided it holds Envestra Shares at the Scheme Record Date.

If a Participating Envestra Shareholder wishes to receive the Maximum Cash Consideration or wishes to make an Unmarketable Parcel Election (or both), that Participating Envestra Shareholder must return a validly completed Election Form accompanying this Scheme Booklet so that it is received by Link Market Services at the address specified in the Election Form by the Election Date or must make an Election online at www.envestra.com.au by the Election Date.

Elections must be made in accordance with the terms and conditions set out in the Election Form. Validly completed Election Forms and online Elections must be received by Link Market Services by the Election Date. Election Forms received, and online Elections made, after the Election Date will be disregarded. Participating Envestra Shareholders who do not make an Election, or whose Election Form is invalid, or whose Election Form is received after the Election Date, or whose online Election is made after the Election Date, will be deemed to have elected to receive All Scrip Consideration in respect of each Envestra Share held by them at the Scheme Record Date.

Subject to paragraph (b) below (Trustee or nominee shareholders), under the terms of the Scheme, an Election by a Participating Envestra Shareholder will be deemed to apply in respect of their entire registered holding of Envestra Shares at the Scheme Record Date, even if that holding is smaller or larger than the Participating Envestra Shareholder's holding at the time it made the Election.

(b) Trustee or nominee shareholders

A Participating Envestra Shareholder who holds one or more parcels of Envestra Shares as trustee or nominee for, or otherwise on account of, another person, may make separate Elections in relation to each of those parcels to reflect the instructions of the beneficial owners of the Envestra Shares as to how they wish to receive their Scheme Consideration.

In order to make separate Elections, the trustee or nominee should establish separate holdings on the Envestra Register (each with a separate holder identification number (i.e. HIN)), pooling the Envestra Shares they hold into separate holdings based on the Scheme Consideration Elections of the beneficial owners.

Separate holdings must be established prior to the Scheme Record Date in order to make separate Elections for Scheme Consideration in relation to each holding. An Election made in respect of any such parcel of Envestra Shares, or an omission to make an Election in respect of any parcel of Envestra Shares, will not be taken to extend to the other parcels.

The Scheme Consideration payable in respect of each separate holding will be calculated on the total balance of the holding, not individual beneficial shareholder entitlements. A Participating Envestra Shareholder who wishes to make separate Elections should call the Envestra Shareholder Information Line on 1300 784 494 (from within Australia) or +61 1300 784 494 (from outside Australia) between 8.00am and 4.30pm (Adelaide time), Monday to Friday, for further information, or to obtain additional copies of the Election Form.

(c) Completing the Election Form

Elections (other than online Elections) should be made by completing the Election Form accompanying the Scheme Booklet as follows:

Participating Envestra Shareholders who wish to receive All Scrip Consideration (and do not wish to make an Unmarketable Parcel Election), do not need to make an Election and do not need to return the Election Form. The All Scrip Consideration will be issued to those Participating Envestra Shareholders (or, in the case of Ineligible Foreign Envestra Shareholders, sold on their behalf under the Cash Out Facility) without any Election on their part provided they hold Envestra Shares at the Scheme Record Date.

Participating Envestra Shareholders who wish to elect Maximum Cash Consideration should mark the following box on the Election Form:

A Election of Scheme Consideration – *please mark only one box*

I/We elect:

☐ **OPTION A – Maximum Cash Consideration:**
A$1.17 cash per Envestra Share that I/we hold on the Scheme Record Date (**Cash Consideration**), subject to an aggregate cap of $241 million, with the remainder of my consideration to comprise of New APA Securities if a scale back of Cash Consideration is required; or

Participating Envestra Shareholders who wish to make an Unmarketable Parcel Election should mark the following box on the Election Form:

B Unmarketable Parcel Cash Out Facility (Optional)

Regardless of which Scheme Consideration alternative you choose, if you would qualify as an Unmarketable Parcel Participant (in that you would receive an Unmarketable Parcel of 77 New APA Securities or less under the Scheme and you are not an Ineligible Foreign Envestra Shareholder), you will be entitled to elect to have your Unmarketable Parcel sold on your behalf under the Cash Out Facility.

☐ By marking this box I/we elect to participate in the Cash Out Facility in the event that I/we would otherwise receive an Unmarketable Parcel of 77 or less New APA Securities.

A Participating Envestra Shareholder who is unsure as to whether or not it will qualify as an Unmarketable Parcel Participant can still indicate on the Election Form that the Participating Envestra Shareholder wishes to make an Unmarketable Parcel Election. However, the Unmarketable Parcel Election will only become effective in the event that the Participating Envestra Shareholder would otherwise receive 77 New APA Securities or less under the Scheme.

If no election is made by a Participating Envestra Shareholder, any Unmarketable Parcel to which that Participating Envestra Shareholder becomes entitled will be issued to that Participating Envestra Shareholder and not sold on their behalf, unless the Participating Envestra Shareholder is an Ineligible Foreign Envestra Shareholder.

(d) Making an Election online

Participating Envestra Shareholders who wish to make an online Election should visit Envestra's website, www.envestra.com.au, click on the link entitled "Scheme of Arrangement" and they will be directed to the Scheme website. To use this facility, Participating Envestra Shareholders will need their Shareholder Reference Number (SRN) or Holder Identification Number (HIN), surname or company name and postcode of their registered holding of Envestra Shares.

(e) Changing an Election

Participating Envestra Shareholders may change their Election by lodging a replacement Election Form, or by making a replacement Election online, provided that it is received by Link Market Services no later than the Election Date.

Participating Envestra Shareholders can obtain additional copies of the Election Form by contacting the Envestra Shareholder Information Line on 1300 784 494 (from within Australia) or +61 1300 784 494 (from outside Australia) between 8.00am and 4.30pm (Adelaide time), Monday to Friday.

Replacement Election Forms received after the Election Date, and replacement online Elections made after the Election Date, will be disregarded and the Scheme Consideration received by Participating Envestra Shareholders will be determined in accordance with the Election(s) on their original Election Form or their original online Election (as applicable).

(f) Ineligible Foreign Envestra Shareholders

Certain Participating Envestra Shareholders will be treated as Ineligible Foreign Envestra Shareholders under the Scheme. Such shareholders will be entitled to make an Election for All Scrip Consideration or Maximum Cash Consideration, but will not be issued New APA Securities. Instead, New APA Securities to which they would otherwise have been entitled under the Scheme (whether under the All Scrip Consideration alternative or the Maximum Cash Consideration alternative) will be issued to the Cash Out Facility Nominee and sold under the Cash Out Facility, with their pro rata share of the Cash Out Facility Proceeds (free of brokerage charges incurred by the Cash Out Facility Nominee) being promptly remitted to them.

Further information regarding Ineligible Foreign Envestra Shareholders is set out in Section 4.16 of this Scheme Booklet. Further information regarding the Cash Out Facility is set out in Section 4.12 of this Scheme Booklet and the detailed provisions governing the Cash Out Facility are set out in clause 5.7 of the Scheme.

4.12 Cash Out Facility

The purpose of the Cash Out Facility is to provide a sale facility for Scrip Consideration that:

(a) cannot be issued to Ineligible Foreign Envestra Shareholders (refer to Section 4.16 of the Scheme Booklet);

(b) comprises an Unmarketable Parcel (i.e. 77 New APA Securities or less) where the Participating Envestra Shareholder who would otherwise have received the Unmarketable Parcel has made an Unmarketable Parcel Election to have the Unmarketable Parcel sold on its behalf under the Cash Out Facility; or

(c) comprises the fractional entitlements of Scrip Consideration that arise under the Scheme.

APA Group will establish the Cash Out Facility and appoint the Cash Out Facility Nominee to sell such Scrip Consideration under the Cash Out Facility.

If the Scheme becomes Effective, the Scrip Consideration referred to above will be issued by APA Group to the Cash Out Facility Nominee on the Implementation Date and APA Group must procure that the Cash Out Facility Nominee sells the Scrip Consideration under the Cash Out Facility within 15 Business Days of the Implementation Date.

The Cash Out Facility Nominee may sell the Scrip Consideration under the Cash Out Facility in such manner, at such price or prices and on such other terms as the Cash Out Facility Nominee determines in good faith.

Promptly after the last sale of Scrip Consideration under the Cash Out Facility, the Cash Out Facility Nominee must pay the proceeds of the sale of the Scrip Consideration in Australian dollars as follows:

(a) Participating Envestra Shareholders who are Ineligible Foreign Envestra Shareholders or Unmarketable Parcel Participants will receive their pro rata share of the Cash Out Facility Proceeds (excluding the proceeds arising from the sale of fractional entitlements) free of brokerage charges incurred by the Cash Out Facility Nominee; and

(b) the balance of the Cash Out Facility Proceeds (arising from the sale of fractional entitlements) will be paid to The Hutt Street Centre Foundation (a centre for homeless and vulnerable people in Adelaide).

The cash amount received by Ineligible Foreign Envestra Shareholders and Unmarketable Parcel Participants will depend on the price at which the Scrip Consideration can be sold under the Cash Out Facility by the Cash Out Facility Nominee at the relevant time and the amount of any taxes and charges (excluding brokerage) incurred by the Cash Out Facility Nominee in connection with sales under the Cash Out Facility.

The cash amount received by Ineligible Foreign Envestra Shareholders and Unmarketable Parcel Participants under the Cash Out Facility may be more or less than the value of the Scrip Consideration that the shareholder would have received.

None of Envestra, APA Group or the Cash Out Facility Nominee gives any assurance as to the price that will be achieved for the sale of Scrip Consideration by the Cash Out Facility Nominee under the Cash Out Facility.

Ineligible Foreign Envestra Shareholders and Unmarketable Parcel Participants can obtain up-to-date information on the market price of New APA Securities (ASX code: APA) on the ASX at www.asx.com.au.

Payment of an amount to an Ineligible Foreign Envestra Shareholder or to an Unmarketable Parcel Participant under the Cash Out Facility will be in full satisfaction of the obligations of APA Group under the Scheme in respect of the Scrip Consideration sold on behalf of that shareholder under the Cash Out Facility.

4.13 Paying the Scheme Consideration

APA Group has entered into the Deed Poll under which APA Group has covenanted in favour of Participating Envestra Shareholders at the Scheme Record Date to provide the Scheme Consideration in accordance with the Scheme.

If the Scheme becomes Effective:

(a) on the Business Day prior to the Implementation Date, APA will pay the Cash Consideration into a trust account established by Envestra, where it will be held prior to despatch to Participating Envestra Shareholders;

(b) any payment of Cash Consideration to which Participating Envestra Shareholders are entitled will be dispatched within five Business Days of the Implementation Date;

(c) Scrip Consideration will be issued to Participating Envestra Shareholders on the Implementation Date and holding statements for New APA Securities will be sent to Participating Envestra Shareholders within five Business Days of the Implementation Date; and

(d) Ineligible Foreign Envestra Shareholders and Unmarketable Parcel Participants who are entitled to any Cash Out Facility Proceeds from the sale of their Scrip Consideration under the Cash Out Facility will be paid their pro rata share of the Cash Out Facility Proceeds promptly following the last sale under the Cash Out Facility. The Cash Out Facility Nominee must complete sales under the Cash Out Facility within 15 Business Days of the Implementation Date.

Participating Envestra Shareholders who have currently elected to receive dividends paid by Envestra by electronic funds transfer will receive their Cash Consideration (and any Cash Out Facility Proceeds) by electronic funds transfer paid to the bank account they have nominated to Link Market Services for the payment of dividends. Participating Envestra Shareholders who have not elected to receive dividends paid by Envestra by electronic funds transfer will receive their Cash Consideration (and any Cash Out Facility Proceeds) by cheque.

Participating Envestra Shareholders who have not elected to receive dividends paid by Envestra by electronic funds transfer, but who wish to receive their Cash Consideration (and any Cash Out Facility Proceeds) by that method, should contact Link Market Services on 1300 784 494 (from within Australia) or +61 1300 784 494 (from outside Australia). In order for changes to apply to the payment of any Cash Consideration (and any Cash Out Facility Proceeds), they must be notified to Link Market Services prior to the Scheme Record Date.

4.14 Fractional entitlements

Fractional entitlements to Scrip Consideration under the Scheme will be treated as follows:

(a) any entitlement of a Participating Envestra Shareholder under the Scheme to be issued a fraction of a New APA Security will be rounded down to the nearest whole number of New APA Securities; and

(b) any fraction of a New APA Security to which a Participating Envestra Shareholder would be entitled but for them being an Ineligible Foreign Envestra Shareholder or an Unmarketable Parcel Participant will be rounded down to the nearest whole number of New APA Securities for the purpose of determining their entitlements to the proceeds of the Cash Out Facility.

The total amount of all New APA Securities represented by all fractions referred to above will be issued to the Cash Out Facility Nominee and sold pursuant to the Cash Out Facility. The proceeds of sale of those securities (less applicable taxes and charges, other than brokerage) will be paid to The Hutt Street Centre Foundation (a centre for homeless and vulnerable people in Adelaide).

Cash Consideration and Cash Out Facility Proceeds payable to Participating Envestra Shareholders under the Scheme will be rounded to the nearest whole cent.

4.15 Determination of persons entitled to Scheme Consideration

Participating Envestra Shareholders whose names appear on the Envestra Register as at the Scheme Record Date, expected to be 6.30pm (Adelaide time) on 23 May 2014, will be entitled to receive the Scheme Consideration under the Scheme.

Dealings on or prior to the Scheme Record Date

For the purpose of establishing the persons who are entitled to participate in the Scheme, dealings in Envestra Shares will only be recognised if:

(a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Envestra Register as a holder of the relevant Envestra Shares as at 6.30pm (Adelaide time) on the Scheme Record Date; and

(b) in all other cases, registrable transfers or transmission applications in respect of those dealings are received at the place where the Envestra Register is maintained by 4.30pm (Adelaide time) on the Scheme Record Date.

Envestra will not accept registration or recognise for any purpose any transmission application or transfer in respect of Envestra Shares received after such times or received prior to those times but not in registrable form.

Dealings after the Scheme Record Date

For the purposes of determining entitlements to Scheme Consideration, Envestra will, until the Scheme Consideration has been provided to Participating Envestra Shareholders, maintain the Envestra Register in accordance with the terms of the Scheme, and the Envestra Register in this form will solely determine entitlements to the Scheme Consideration.

As from 6.30pm (Adelaide time) on the Scheme Record Date (other than for APA Group after the Implementation Date), each entry current on the Envestra Register will cease to be of any effect other than as evidence of entitlement of Participating Envestra Shareholders to the Scheme Consideration in respect of the Envestra Shares relating to that entry.

Any share statements of holding in respect of Envestra Shares shall, from the Scheme Record Date, cease to have any effect as documents of evidence of title in respect of such Envestra Shares.

4.16 Ineligible Foreign Envestra Shareholders

Restrictions in certain foreign countries may make it impractical or unlawful for New APA Securities to be offered or issued under the Scheme to Participating Envestra Shareholders located in those countries, or for Envestra Shareholders located in those countries to receive New APA Securities under the Scheme.

Any Participating Envestra Shareholder whose address in the Envestra Register is outside of Australia and its external territories and New Zealand will be an Ineligible Foreign Envestra Shareholder for the purposes of the Scheme, unless Envestra and APA Group are satisfied, acting reasonably, that the laws of all relevant jurisdictions permit the issue of New APA Securities to that Participating Envestra Shareholder either unconditionally or after compliance with requirements that are not unduly onerous.

With respect to Cheung Kong Infrastructure Holdings (Malaysian) Ltd (**CKI**), which holds approximately 17.5% of the Envestra Shares as at the date of this Scheme Booklet, Envestra and APA Group have agreed that:

(a) they are satisfied that the laws of all relevant jurisdictions permit the issue of New APA Securities to CKI either unconditionally or after compliance with requirements that are not unduly onerous; and

(b) accordingly, CKI will not be an Ineligible Foreign Envestra Shareholder for the purposes of the Scheme.

Ineligible Foreign Envestra Shareholders will be entitled to make an Election, but will not be issued New APA Securities. Instead, New APA Securities to which they would otherwise have been entitled under the Scheme (whether under the All Scrip Consideration alternative or the Maximum Cash Consideration alternative) will be issued to the Cash Out Facility Nominee and sold under the Cash Out Facility, with their pro rata share of the Cash Out Facility Proceeds (free of brokerage charges incurred by the Cash Out Facility Nominee) being promptly remitted to them.

Further information regarding the Cash Out Facility is set out in Section 4.12 of this Scheme Booklet and the detailed provisions governing the Cash Out Facility are set out in clause 5.7 of the Scheme.

Subject to the foregoing, this Scheme Booklet and the Scheme do not, either individually or in combination, constitute any offer or invitation to issue or sell any securities in Envestra or APA Group to any person in any jurisdiction outside of Australia and its external territories and New Zealand. Neither this Scheme Booklet, nor the Scheme, constitutes an offer to Participating Envestra Shareholders, or a solicitation, in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or solicitation.

This Scheme Booklet has been prepared having regard to applicable Australian disclosure requirements. These requirements may be different from those in other jurisdictions.

Participating Envestra Shareholders who are not Australian tax residents or who are liable for tax outside of Australia should seek specific tax advice in relation to the Australian and overseas tax consequences of the transactions contemplated by this Scheme Booklet.

4.17 Exclusivity arrangements

Under the Scheme Implementation Agreement, Envestra has agreed to certain exclusivity restrictions as set out below. Full details of these exclusivity restrictions can be found in clause 11 of the Scheme Implementation Agreement set out in Appendix 3 to this Scheme Booklet.

These restrictions apply to Envestra during the period (**Exclusivity Period**) from the date of the Scheme Implementation Agreement until the first to occur of:

(a) the date the Scheme Implementation Agreement is terminated in accordance with its terms;

(b) the Implementation Date (which is currently expected to be 30 May 2014); and

(c) the End Date (which is 30 September 2014, or such later date as Envestra and APA Group agree in writing).

No solicited proposals restriction

Under the no solicited proposals restriction, during the Exclusivity Period, Envestra must not, and must ensure that its Representatives do not, directly or indirectly solicit or invite, or initiate any enquiries, negotiations or discussions, or communicate any intention to do any of these things, with a view to obtaining any offer, expression of interest or proposal from any person in relation to a Competing Proposal.

No restriction on Unsolicited Competing Proposals

Envestra and its Representatives may respond to any bona fide approach by a third party in respect of a Competing Proposal (or potential Competing Proposal) not solicited in breach of the "no solicited proposals restrictions" referred to above (**Unsolicited Competing Proposal**), including:

(a) entering into, continuing, or participating in negotiations or discussions with, any person regarding, or in connection with, an Unsolicited Competing Proposal;

(b) allowing any such party and its Representatives to undertake due diligence on Envestra or its Related Bodies Corporate in connection with an Unsolicited Competing Proposal; and

(c) making available to any person and its Representatives or permit such person and its Representatives to receive any non-public information relating to Envestra or its Related Bodies Corporate in connection with an Unsolicited Competing Proposal.

Notification of existence of Competing Proposals

During the Exclusivity Period, Envestra must notify APA Group in writing within three Business Days if Envestra:

(a) becomes aware of the existence of a Competing Proposal which Envestra (acting reasonably) considers to be, or to be capable of becoming, a Superior Proposal; or

(b) provides any material confidential information concerning the business or operations of Envestra or the Envestra Group to a third party making or proposing a Competing Proposal (or its Representatives) in connection with a Competing Proposal,

unless the Non APA Affiliated Directors determine that to do so would involve, or be likely to involve, a breach of their fiduciary or statutory duties.

The notification must include the identity of the relevant person making or proposing the relevant Competing Proposal, together with all material terms and conditions of the Competing Proposal as well as any update or variation to the terms and conditions.

Restriction on break fee arrangements with third parties

During the Exclusivity Period, the Envestra Group must not enter into any agreements with any persons other than a member of the APA Group under which the Envestra Group is required to pay a break fee, inducement fee, cost reimbursement or otherwise in connection with a proposed takeover bid for Envestra, scheme of arrangement proposed by Envestra, sale of substantially all of Envestra's assets and operations or transaction of similar economic effect (**Acquisition Event**):

(a) where the aggregate value of such fees exceeds $10 million; or

(b) (regardless of the value of the fees agreed) that is payable as a consequence of the Acquisition Event not proceeding as a result of the Acquisition Event being rejected by Envestra Shareholders (as opposed to, for example, the payment becoming payable due to Envestra's default or as a consequence of another Acquisition Event being successful).

If, during the Exclusivity Period, the Envestra Group enters into a break fee, inducement fee or cost reimbursement arrangement with one or more third parties in relation to an Acquisition Event, Envestra must agree an equivalent arrangement with APA Group in relation to the Scheme (on terms no less favourable than any such third party arrangement and of an amount equal to the highest individual amount agreed with any such third party).

4.18 Termination of the Scheme Implementation Agreement

The circumstances in which the Scheme Implementation Agreement can be terminated are set out in clause 12 of the Scheme Implementation Agreement, which is attached as Appendix 3 to this Scheme Booklet. The termination rights of the parties under the Scheme Implementation Agreement include those set out below.

Either Envestra or APA Group may terminate the Scheme Implementation Agreement by notice in writing to the other:

(a) in the circumstances summarised in Section 4.3 of this Scheme Booklet (relating to the non-satisfaction of a condition precedent);

(b) before 8.00am (Adelaide time) on the Second Court Date, if the other party (**defaulting party**) is in breach of any provision of the Scheme Implementation Agreement (including a breach of a representation or warranty) and:

  (i) that breach is material;

  (ii) the non-defaulting party has given prompt written notice to the defaulting party setting out the breach; and

  (iii) if the breach is capable of remedy, the breach is not remedied by the defaulting party within five Business Days (or such shorter period ending at 11.59pm (Adelaide time) on the Business Day before the Second Court Date) of it receiving a notice under sub-paragraph (ii);

(c) before 5.00pm (Adelaide time) on the Business Day before the Second Court Date, if at the Scheme Meeting or any adjournment or postponement of it at which the Scheme is voted on, the Scheme is not approved by the requisite majority of Participating Envestra Shareholders required under the Corporations Act;

(d) if the Scheme has not become Effective by the End Date, or becomes incapable, for any reason, of being implemented by the End Date;

(e) 8.00am (Adelaide time) on the Second Court Date, if the Independent Expert concludes (whether in its original or any subsequent opinion) that the Scheme is not fair and reasonable and not in the best interests of Participating Envestra Shareholders; or

(f) 8.00am (Adelaide time) on the Second Court Date, in the event that:

(i) one or more of the Non APA Affiliated Directors withdraws or adversely varies his statement that he considers the Scheme to be in the best interests of Participating Envestra Shareholders and his recommendation that Participating Envestra Shareholders vote in favour of the Scheme; and

(ii) due to that withdrawal or variation, fewer than a majority of the Non APA Affiliated Directors continue to consider the Scheme to be in the best interests of Participating Envestra Shareholders and recommend that Participating Envestra Shareholders vote in favour of the Scheme.

APA Group may also terminate the Scheme Implementation Agreement by notice in writing to Envestra before 8.00am (Adelaide time) on the Second Court Date in the event that the Board of Envestra (excluding the APA Affiliated Directors) (or the Independent Board Committee) (or a majority of the Non APA Affiliated Directors) (as the case requires) recommends, promotes or otherwise endorses a Competing Proposal.

Envestra and APA Group can also terminate the Scheme Implementation Agreement by written agreement between them.

If the Scheme Implementation Agreement is terminated, Envestra and APA Group will no longer be obliged to proceed with the Scheme.

4.19 Warranties from Participating Envestra Shareholders

Under clause 7.3 of the Scheme, if the Scheme becomes Effective, Participating Envestra Shareholders as at the Scheme Record Date will be deemed to have given, and will be deemed to have appointed and authorised Envestra as its attorney and agent to give, warranties to APA Group that:

(a) their Envestra Shares (including any rights and entitlements attaching to those Envestra Shares) will be transferred fully paid and free from all mortgages, charges, liens, encumbrances, security interests and other interests of third parties of any kind, whether legal or otherwise, including any restrictions on transfer of any kind; and

(b) they have full power and capacity to sell and to transfer their Envestra Shares (including any rights and entitlements attaching to those Envestra Shares) to APL in its capacity as responsible entity of APT.

If either of these warranties is breached, Participating Envestra Shareholders may be liable to pay to APA Group any amount paid by APA Group to acquire clear title to their Envestra Shares.

4.20 Shareholding splitting or division

Under clause 6.6 of the Scheme, if Envestra and APA Group reasonably believe that two or more Participating Envestra Shareholders have been party to shareholding splitting or division in an attempt to manipulate the result of the Scheme Meeting, Envestra may give notice to those Participating Envestra Shareholders attributing to one of them specifically identified in the notice the Envestra Shares held by all of them and stating which Election made by or on behalf of them applies to all of them.

APA Group, in complying with the provisions of the Scheme relating to it in respect of the Participating Envestra Shareholder specifically identified in the notice as the deemed holder of all the specified Envestra Shares, will be taken to have satisfied and discharged its obligations to the other Participating Envestra Shareholders named in the notice under the terms of the Scheme.

SECTION

5

5 INFORMATION ABOUT ENVESTRA

5.1 Responsibility for information

The information set out in this Section 5 was prepared by Envestra and Envestra is responsible for the information contained in this Section 5.

5.2 Background

This Section 5 contains information in relation to Envestra. Additional information about Envestra is included in Section 11 of this Scheme Booklet and in the Independent Expert's Report attached as Appendix 1 to this Scheme Booklet.

Further information regarding Envestra is also available in Envestra's FY2013 Annual Report, which is available from the Envestra website at www.envestra.com.au.

5.3 Overview of Envestra

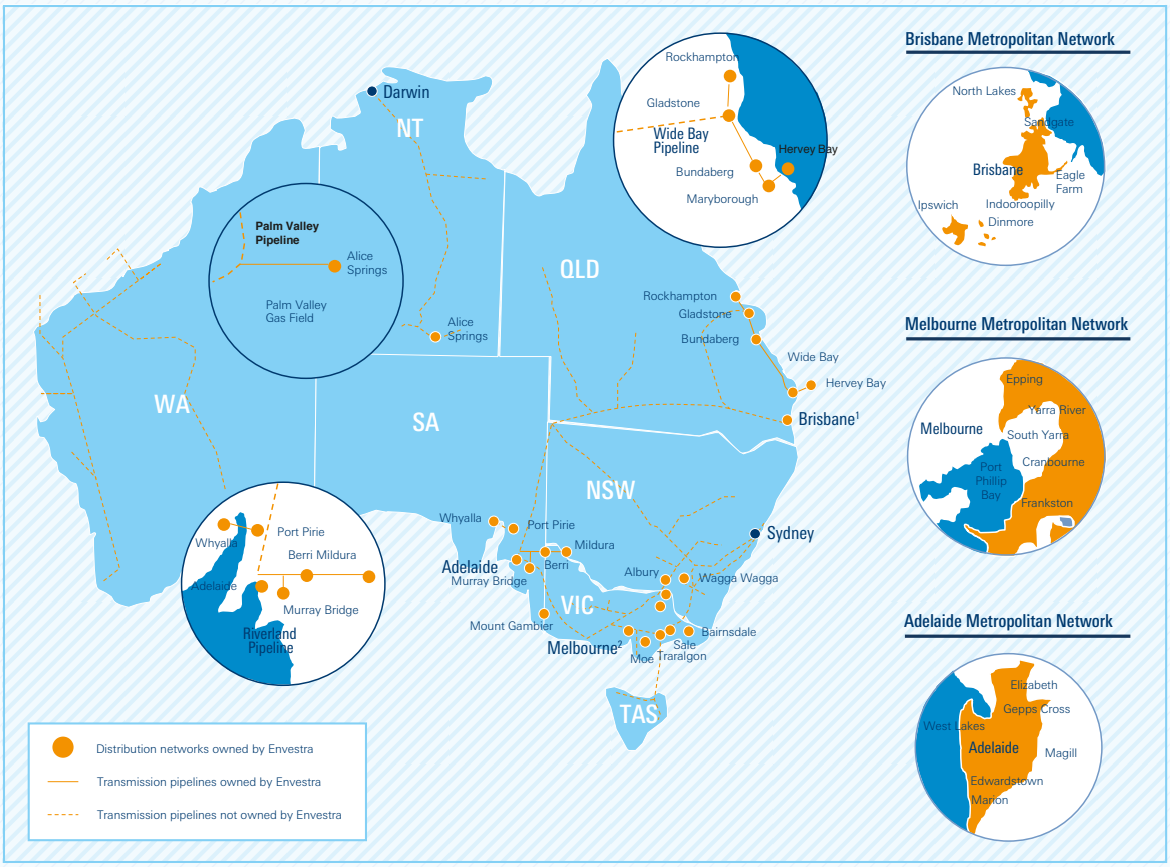
Envestra is one of Australia's largest natural gas distribution companies, with origins dating back over 150 years. The South Australian and Brisbane Gas Companies, which began operating in 1861 and 1864, respectively, were combined into one organisation, Envestra, and listed on the ASX in August 1997. In March 1999, Envestra acquired part of the former Victorian Gas and Fuel Corporation distribution network.

Envestra today owns natural gas networks that operate mainly as regulated monopolies in the key population centres of Victoria, South Australia and Queensland, as well as in smaller centres in New South Wales and the Northern Territory, reaching approximately 1.2 million customers. Envestra's assets consist of 22,856 km of distribution networks and 1,123 km of transmission pipelines (as at 31 December 2013). Envestra's revenue is generated mainly by charging retailers and industrial customers for the provision of gas haulage services through its networks.

In July 2007, APA Group acquired Origin Energy's 17.21% stake in Envestra (and APA Group has subsequently increased its stake to 33.05%). As part of the transaction between APA Group and Origin Energy, APA Group also took over the long-term Operating and Management Agreements to operate, maintain and expand Envestra's distribution networks and transmission pipelines. These contracts are due to expire in June 2027. Envestra's management team closely oversees management of those activities undertaken by, on average, 550 employees and 940 contractors working for APA Group.

An overview of the geographical locations of Envestra's operations is provided in **Figure 5.1** below:

Figure 5.1: Geographical overview of Envestra's assets



Notes:

1 North of the Brisbane River.

2 Melbourne's central business district, northern and north eastern suburbs and the outer south eastern suburbs, including the Mornington Peninsula.

A summary of key statistics for Envestra's assets is provided below, as at 31 December 2013:

Location	Length of mains (km)	Number of consumers	Volume of gas delivered for HY2014 (Petajoules)
Victoria	10,156	600,350	28.6
South Australia	8,107	428,102	17.5
Queensland	2,703	91,865	7.8
New South Wales	1,851	53,415	3.4
Northern Territory	39	1,111	1.7
Total	**22,856**	**1,174,843**	**59.0**

Transmission pipelines	Length (km)
Victoria	225
South Australia	372
Queensland	283
New South Wales	84
Northern Territory	159
Total	1,123

The figures below provide a breakdown of Envestra's assets, its revenue and its EBITDA, by geographic location of its assets.

Figure 5.2: Breakdown of Envestra's assets as at 31-Dec-2013

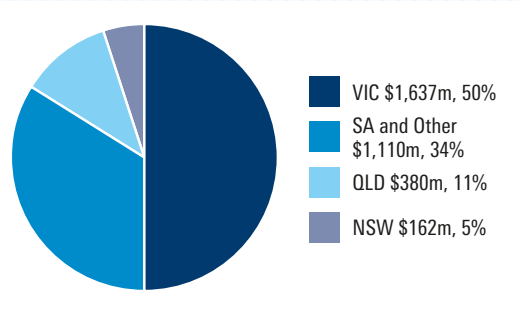


Figure 5.3: Breakdown of Envestra's HY2014 revenue

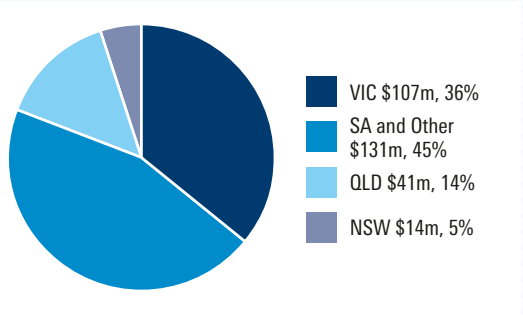
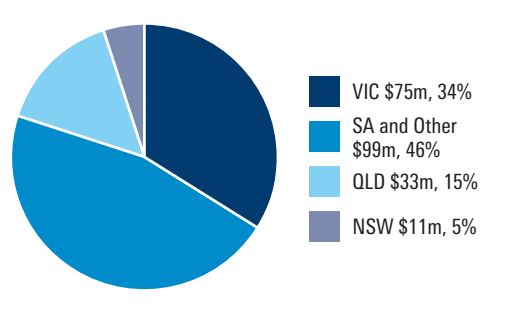


Figure 5.4: Breakdown of Envestra's HY2014 EBITDA

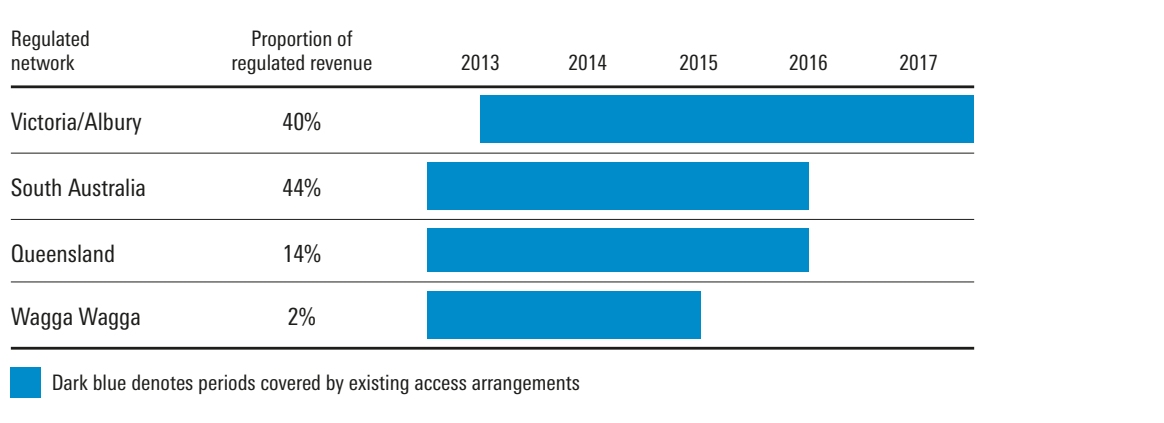


With its monopoly position as a natural gas distributor in certain markets, Envestra's revenue is subject to price regulation by the AER. Revenues are based on tariffs determined as a result of decisions made by the AER, after consultation with Envestra, retailers, energy user groups and community organisations. The AER's review process considers both the allowed regulatory costs, including return on capital, and the AER's views on demand forecasts over the access period. For each network, Envestra tariffs typically include a fixed charge component and a usage-based charge.

Access Arrangements are usually set for a period of five years. Following a final decision on the Access Arrangements for Victoria and Albury in March 2013, Envestra's Access Arrangements are now in place for key networks until at least 2016, as demonstrated in Figure 5.5.

The Access Arrangements for South Australia and Queensland were last reset on 1 July 2011. The Access Arrangements for Victoria and Albury were last reset on 1 July 2013.

Figure 5.5: Timeline of expiry of Envestra's Access Arrangements



Note:

1 On 1 May 2013 Envestra applied to the National Competition Council to revoke coverage of Envestra's Wagga Wagga gas distribution network. If successful, the Wagga Wagga gas distribution network would no longer be regulated by the Australian Energy Regulator. A decision on Envestra's application by the NSW Government is imminent, but has not been received by Envestra as at the date of this Scheme Booklet. It is not anticipated that this decision will materially affect Envestra's revenue or financial performance.

5.4 Directors and senior management

(a) Directors

The current directors of Envestra are:

NAME	POSITION
John Allpass	Chairman, Non-Executive, Independent Director
Ian Little	Managing Director
Fraser Ainsworth AM	Non-Executive, Independent Director
Ivan Chan	Non-Executive Director
Dominic Chan	Non-Executive Director
Olaf O'Duill	Non-Executive, Independent Director
Michael McCormack	Non-Executive Director
Ross Gersbach	Non-Executive Director

Mr McCormack is not considered to be independent because he is the Managing Director and Chief Executive Officer of APA Group. Mr Gersbach is not considered to be independent because he is the Chief Executive Strategy and Development of APA Group. Mr Ivan Chan and Mr Dominic Chan are not considered to be independent because they are part of the senior management team of Cheung Kong Infrastructure Holdings Ltd as Executive Director and Chief Financial Officer, and Chief Planning and Investment Officer, respectively. Cheung Kong Infrastructure Holdings (Malaysian) Ltd, a subsidiary of Cheung Kong Infrastructure Holdings Ltd, holds approximately 17.5% of the Envestra Shares as at the date of this Scheme Booklet.

(b) Senior management

Key members of Envestra's senior management team include:

NAME	POSITION
Ian Little	Managing Director
Des Petherick	Company Secretary
Paul May	Group Manager, Finance & Joint Company Secretary
Greg Meredith	Group Manager, Treasury and Risk
Andrew Staniford	Group Manager, Commercial
Craig de Laine	Group Manager, Regulation

5.5 Envestra historical financial information

This Section 5.5 contains the following Envestra historical financial information:

- consolidated income statements for HY2014, FY2013 and FY2012;
- consolidated balance sheet as at 31 December 2013; and
- consolidated statements of cash flows for HY2014, FY2013 and FY2012.

The information presented is in an abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act. Envestra considers that for the purposes of this Scheme Booklet the information presented in an abbreviated form is more meaningful to Participating Envestra Shareholders.

This Section 5.5 also contains (in Section 5.5(e)) a summary of Envestra's consolidated cash flows for HY2014, FY2013 and FY2012 in a form different from that presented in Envestra's historical financial statements and which has been included to highlight cash flow "available for dividends".

(a) Basis of preparation

Envestra's statutory income statements, balance sheet and cash flows are disclosed in the annual report of Envestra for FY2013, which includes comparatives for FY2012 and in the interim financial report of Envestra for HY2014, both of which can be found at www.envestra.com.au or the ASX website at www.asx.com.au.

The historical financial information below relates to Envestra on a standalone basis and accordingly does not reflect any impact of the Scheme (other than $1.2 million of fees incurred by Envestra in relation to the Scheme as at 31 December 2013, which are reflected in the HY2014 income statement and balance sheet). The pro forma financial effect of the Scheme is set out in Section 7.7 of this Scheme Booklet.

(b) Envestra consolidated historical income statements for HY2014, FY2013 and FY2012

A$ Million	HY2014	FY2013	FY2012
Operating revenue	293.1	507.0	468.6
Other income	–	0.5	–
Total revenue excluding interest income	**293.1**	**507.5**	**468.6**
Asset operation and management expenses	(69.2)	(137.1)	(122.2)
Employee benefit expense	(2.4)	(4.8)	(4.2)
Other expenses	(3.8)	(5.3)	(9.1)
EBITDA	**217.7**	**360.3**	**333.1**
Finance costs	(62.5)	(148.8)	(175.4)
Finance income	0.2	0.9	4.2
Depreciation and impairment	(31.0)	(58.6)	(56.5)
Profit before tax	**124.4**	**153.8**	**105.4**
Income tax expense	(37.3)	(46.0)	(31.5)
Profit after tax	**87.1**	**107.8**	**73.9**

(c) Envestra consolidated balance sheet as at 31 December 2013

A$ Million	31 December 2013
Current assets	
Cash and cash equivalents	1.1
Receivables and other current assets	59.2
Total current assets	**60.3**
Non-current assets	
Property, plant and equipment	2,593.7
Receivables and other financial assets	29.3
Intangible assets	606.0
Total non-current assets	**3,229.0**
Total assets	**3,289.3**
Current liabilities	
Trade and other payables	52.2
Provisions	8.7
Other financial liabilities	1.3
Total current liabilities	**62.2**
Non-current liabilities	
Provisions	10.1
Deferred tax liabilities	228.6
Borrowings and other financial liabilities	2,125.9
Total non-current liabilities	**2,364.6**
Total liabilities	**2,426.8**
Net assets	**862.5**
Equity	
Issued capital	869.7
Reserves	(8.5)
Retained earnings	1.3
Total equity	**862.5**

(d) Envestra consolidated cash flows for HY2014, FY2013 and FY2012

A$ Million	HY2014 Envestra statutory	FY2013 Envestra statutory	FY2012 Envestra statutory
Cash flows from operating activities			
Receipts from customers	295.5	575.1	497.3
Payments to suppliers and employees	(98.2)	(197.5)	(182.7)
Finance income received	0.2	0.9	4.3
Finance costs paid	(62.4)	(144.7)	(147.1)
Net cash inflow from operating activities	**135.1**	**233.8**	**171.8**
Payments for property, plant and equipment	(135.8)	(217.4)	(176.1)
Proceeds from sale of property, plant and equipment	–	0.9	0.1
Payments for remediation of land	(0.7)	(8.9)	(0.6)
Net cash outflow from investing activities	**(136.5)**	**(225.4)**	**(176.6)**
Proceeds from borrowings	134.0	342.5	542.5
Repayment of borrowings	(74.5)	(471.8)	(523.1)
Proceeds from issue of ordinary shares	–	219.0	69.6
Debt and capital raising costs	(0.5)	(4.4)	(3.0)
Dividends paid	(57.5)	(93.7)	(87.5)
Net cash inflow (outflow) from financing activities	**1.5**	**(8.4)**	**(1.5)**
Net increase (decrease) in cash and cash equivalents	0.1	–	(6.3)
Cash and cash equivalents at beginning of financial year	1.0	1.0	7.3
Cash and cash equivalents at end of financial year	**1.1**	**1.0**	**1.0**

(e) Additional summary of Envestra consolidated cash flows for HY2014, FY2013 and FY2012

The presentation of the consolidated cash flows in this Section 5.5(e) differs from the consolidated cash flow statement set out in Section 5.5(d) of this Scheme Booklet (which is prepared in accordance with Australian Accounting Standards and is included in Envestra's audited and reviewed financial statements). The below presentation has been included to highlight cash flow "available for dividends".

A$ Million	HY2014	FY2013	FY2012
Operating receipts less payments	197.3	377.6	314.6
Net cash flow before finance costs	**197.3**	**377.6**	**314.6**
Net finance costs	(62.2)	(143.8)	(142.8)
Cash flow from operating activities	**135.1**	**233.8**	**171.8**
Net proceeds from sale of assets	–	0.9	0.1
Payments for remediation of land	(0.7)	(8.9)	(0.6)
Replacement capex[1]	(12.4)	(20.8)	(16.2)
Available for dividends	**122.0**	**205.0**	**155.1**
Dividends	(57.5)	(93.7)	(87.5)
Available for growth capex	**64.5**	**111.3**	**67.6**
Growth capex	(123.4)	(196.6)	(159.9)
Cash flow available pre debt/equity re-financing	**(58.9)**	**(85.3)**	**(92.3)**
Debt (repayments)/drawdowns (net)	59.5	(129.3)	19.4
Debt and capital raising costs	(0.5)	(4.4)	(3.0)
Issue of shares	–	219.0	69.6
Change in cash	**0.1**	**–**	**(6.3)**
Cash and cash equivalents at beginning of financial year	1.0	1.0	7.3
Cash and cash equivalents at end of financial year	**1.1**	**1.0**	**1.0**

Note:

1 For comparative purposes, APA Group's "Replacement capex" for HY2014, FY2013 and FY2012 was $20.6 million, $24.7 million and $24.4 million, respectively. APA Group's pro forma "Replacement capex" is not shown as a separate line item in the APA Group pro forma cash flows for HY2014, FY2013 and FY2012 in Section 6.13(d) of this Scheme Booklet, as it is incorporated within "Payments for property, plant and equipment".

5.6 Outlook

As highlighted in Envestra's FY2013 Annual Report (Directors' Report section, pages 28 to 30):

- Net profit after tax rose by 46% over the previous year.
- Further increases in capital expenditures are expected to occur in FY2014 with around $270 million to be spent 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. A total of 465 km of mains are expected to be replaced.
- Envestra's capital expenditure program of around $1.3 billion over the next five years will generate increases in revenues over coming years due to the consequent increase in the Regulated Asset Base. Included in this capital expenditure is mains replacement of around $600 million which will reduce gas leakage and associated maintenance costs. The investments will place the network business in a position of enhanced system reliability and revenue generation capacity over the long term.
- It remains Envestra's objective to at least maintain distributions to shareholders in "real" terms whilst maintaining a prudent financial position. The dividend rate for payments to shareholders in FY2014 is expected to be 6.4 cents per share, an 8% increase on FY2013.

As highlighted in Envestra's half year ended 31 December 2013 results, announced to the market on 20 February 2014:

- Net profit after tax for the six month period was 47% higher than in 2012.
- Net profit after tax of between $145 million and $150 million is now expected for the full-year ending 30 June 2014, assuming normal weather conditions and no other unforeseen circumstances in the second half, and excluding any transaction completion costs resulting from the proposed Scheme.
- The dividend to be paid on 30 April 2014 is 3.2 cents per share, bringing total dividends paid in FY2014 to 6.4 cents (5.9 cents in FY2013).
- Capital expenditure of around $280 million is forecast for the full-year ending 30 June 2014, with $25 million to be spent on replacement capex and $255 million on network extensions, new connections, mains and meter replacement, and other growth projects.

5.7 Material changes in financial position of Envestra and other developments

Based on the most recent management accounting information available as at the date of this Scheme Booklet, relative to 31 December 2013, within the knowledge of the Envestra directors there have been no material changes in Envestra's financial position.

5.8 Historical share price performance, Total Securityholder Return and distributions

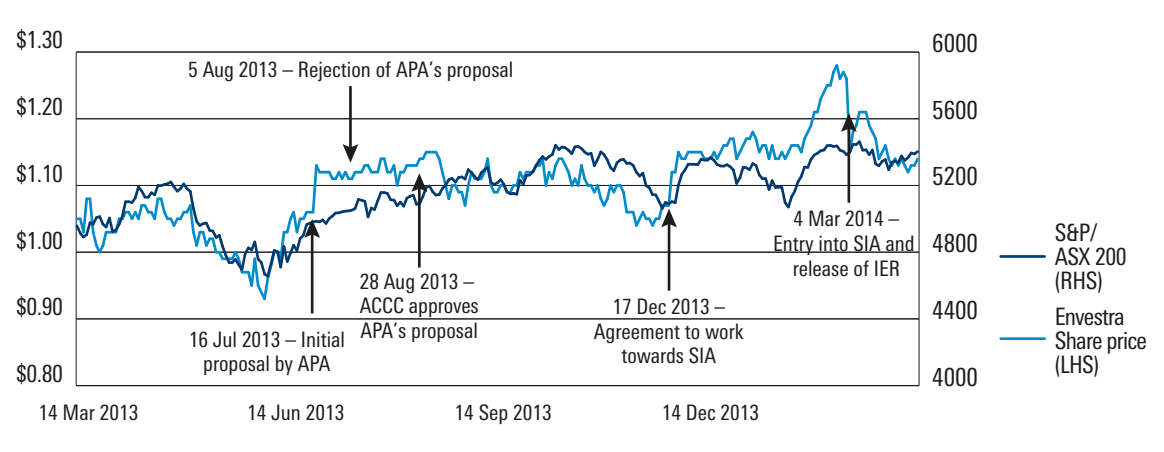
(a) Envestra Share price performance

The last recorded sale price of Envestra Shares traded on the ASX before the announcement that APA Group and Envestra were to proceed with the scheme of arrangement proposal was $1.07 on 16 December 2013. This compares with a price of $1.06 on 15 July 2013, the last recorded sale price of Envestra Shares on the day prior to APA Group's initial proposal.

The last recorded sale price of Envestra Shares traded on the ASX on the last practicable trading day prior to the date on which this Scheme Booklet was lodged with ASIC for registration was $1.15 on 3 April 2014. The highest and lowest recorded daily closing price for Envestra Shares over the 12 months that preceded the date on which this Scheme Booklet was lodged with ASIC for registration were $1.28 on 26 February 2014 and $0.93 on 24 June 2013, respectively.

The chart in Figure 5.6 below shows Envestra's share price performance over the 12 months to 3 April 2014, relative to the S&P/ASX 200 Index.

Figure 5.6: Envestra Share price performance over the 12 months to 3 April 2014, relative to the S&P/ASX 200 Index



Source: Envestra and IRESS data

Notes:

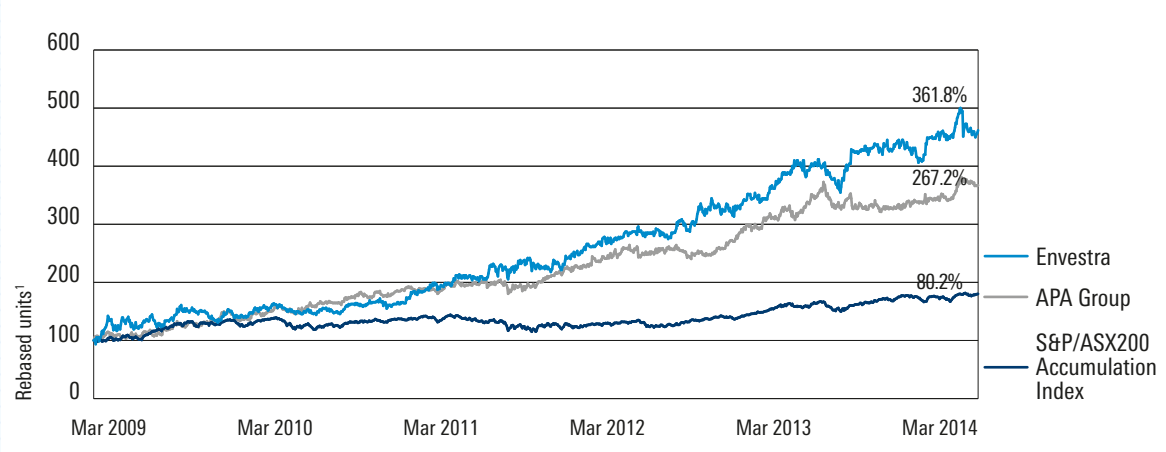
1 Share price performance means the capital movement of the share/index price.

2 Past performance is not an indicator of future performance.

(b) Envestra Total Securityholder Return

The chart in Figure 5.7 below shows Envestra's Total Securityholder Return over the five years to 3 April 2014, relative to the S&P/ASX 200 Accumulation Index and APA Group. Over that period, Envestra's relative Total Securityholder Return has been very strong at 361.8% (vs. 80.2% for the S&P/ASX 200 Accumulation Index), which equates to a compound annual growth rate of 35.8% (vs. 12.5% for the S&P/ASX 200 Accumulation Index). Over the same period, APA Group's Total Securityholder Return was 267.2%, which equates to a compound annual growth rate of 29.7%. Envestra's Total Securityholder Return since 2009 largely reflects share price increases occurring from the time of the global financial crisis (which affected infrastructure stocks generally) when a low priced (and dilutive) rights issue was undertaken by Envestra (with an issue price of 30 cents per Envestra Share and an issue date of 12 February 2009), together with the fact that the Envestra Group's revenue and profitability has been significantly enhanced since that time.

Figure 5.7: Envestra Total Securityholder Return over the five years to 3 April 2014, relative to the S&P/ASX 200 Accumulation Index and APA Group



Source: IRESS data

Notes:

1 Envestra Share price, APA Security price and S&P/ASX 200 Accumulation Index rebased to 100 as at 3 April 2009 for comparative purposes. Subsequent movements reflect changes in the index value and in underlying share and security prices, as well as capital management such as security/share splits and consolidations and assuming the reinvestment of distributions/dividends at the declared distribution/dividend rate per security/share.

2 Envestra and APA Group Total Securityholder Returns are based on IRESS data.

3 Past performance is not an indicator of future performance.

4 Participating Envestra Shareholders should note that this chart shows the comparative Total Securityholder Return over the five years to 3 April 2014, and that a chart showing comparative Total Securityholder Return over a different period may give a materially different result. See, for example, the Total Securityholder Return chart in the Letter from the Chairman of APA Group on page 8 of this Scheme Booklet, which covers the period from 13 June 2000 to 3 April 2014.

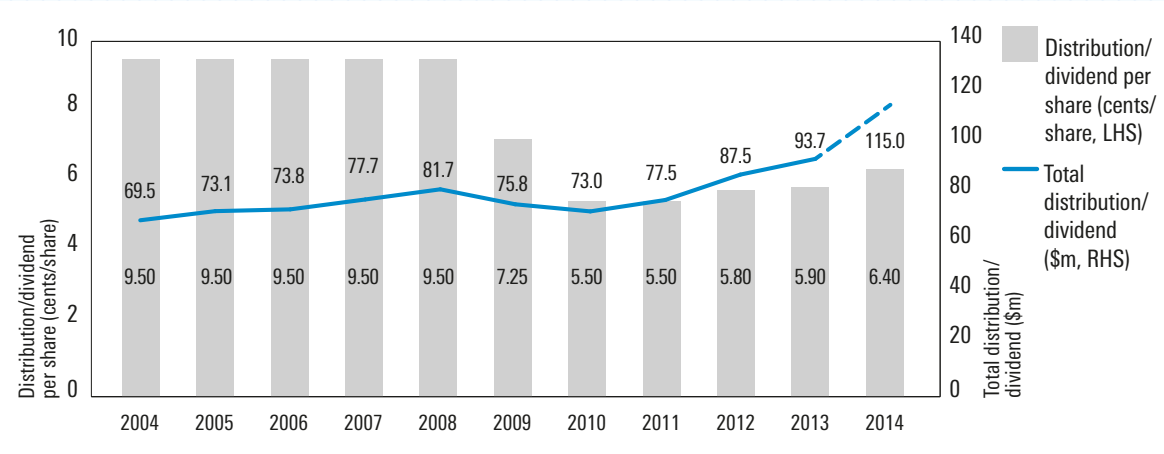
(c) Profits, distributions and financial gearing

Over the period from FY2009 to FY2013, Envestra has increased net profit after tax (excluding significant items) from $40.3 million in FY2009 to $107.8 million in FY2013, an increase of 167%. Similarly, Envestra's earnings per share increased from 3.8 cents per Envestra Share to 6.6 cents per Envestra Share, an increase of 74% over the period from FY2009 to FY2013.

Envestra's total dividend payments to shareholders have risen from $75.8 million in FY2009 to $93.7 million in FY2013, an increase of 24% in the period from FY2009 to FY2013. However, Envestra's dividend payments in each financial year per Envestra Share fell from 7.25 cents in FY2009 to 5.5 cents in FY2010 and FY2011 (with an increase to 5.8 cents, 5.9 cents and 6.4 cents paid per Envestra Share in FY2012, FY2013 and FY2014, respectively), reflecting the highly dilutive rights issue that occurred in FY2009, together with the Envestra Group's revised financial strategy aimed at retaining more cash in the business to facilitate the financing of a major growth capital expenditure program. Accordingly, Envestra's gearing (defined as net debt to book value of equity) has fallen from 78% at the beginning of FY2009 to 63% at the end of FY2013.

Envestra's longer-term distribution/dividend rates, and the total amount paid to Envestra Shareholders per financial year, are outlined in Figure 5.8.

Figure 5.8: Distributions/dividends paid by Envestra since FY2004



Notes:

1 Distributions/dividends shown are those paid in the relevant financial year.

2 FY2014 dividend includes the interim dividend to be paid on 30 April 2014.

3 Past performance is not an indicator of future performance.

5.9 Issued Envestra Shares

As at the date of this Scheme Booklet, Envestra had 1,796,808,474 fully paid ordinary shares on issue.

Envestra does not anticipate that it will be required to issue any Envestra Shares before the Implementation Date.

5.10 Envestra substantial shareholders

The substantial holders (within the meaning of the Corporations Act) of Envestra Shares as at close of trading on 3 April 2014, being the last practicable trading day prior to the date of this Scheme Booklet, are as follows:

Name	Number of Envestra Shares	Percentage of Envestra Shares
APA Group	593,755,789	33.05%
Cheung Kong Infrastructure Holdings (Malaysian) Limited	313,645,693	17.46%

For this purpose, the Corporations Act provides that a person has a substantial holding in a body corporate if the total votes attached to voting shares in the body corporate in which the person, or their associates, have relevant interests (and would have a relevant interest but for sections 609(6) (market traded options) or 609(7) (conditional agreements) of the Corporations Act) is 5% or more of the total number of votes attached to voting shares in the body corporate.

Envestra has relied on substantial holder notices provided to it up to the date of this Scheme Booklet, which are available on the ASX website, and information provided by its share registry, to compile the above table.

5.11 Risk factors

The risk factors in this Section 5.11 are existing risks relating to Envestra's business and the industry in which it operates. These risks will continue to be relevant to Participating Envestra Shareholders if the Scheme is not implemented and Participating Envestra Shareholders retain their current investment in Envestra.

If the Scheme proceeds, Participating Envestra Shareholders as at the Scheme Record Date will cease to be Envestra Shareholders. However, those Participating Envestra Shareholders who receive New APA Securities may continue to be exposed to some or all of the risks set out in this Section 5.11, through their ownership interest in the Combined Group. See Section 8 of this Scheme Booklet for further details of the risk factors concerning the Combined Group.

This Section describes key, but not all, risks associated with an investment in Envestra. This Section does not take into account the investment objectives, financial situation, taxation position or particular needs of Participating Envestra Shareholders and is not exhaustive. Prior to deciding how to vote on the Scheme, Participating Envestra Shareholders should carefully consider the risk factors discussed in this Section and in Section 8, as well as other information contained in this Scheme Booklet and, if in doubt, seek independent professional advice.

(a) General risk factors

As with any entity with listed securities on the ASX, the future prospects, operating and financial performance of Envestra and the value of Envestra Shares are affected by a variety of general business cycles, economic and political factors in Australia and overseas, including economic growth, inflation, interest rates, employment levels, changes in government policies or regulatory regimes, changes in accounting or financial reporting standards, and changes in taxation laws (or their interpretation) or regulations in the markets in which Envestra operates. Deterioration of the general economic conditions, adverse foreign exchange rate movements, the Australian and overseas stock markets, natural disasters and catastrophic events may also affect Envestra's operating and financial position.

(b) Specific risk factors

Specific risk factors for Envestra include, but are not limited to, the following:

(i) Regulatory risk

Envestra's monopoly position in certain markets as a gas distributor means its revenue is subject to price regulation by the AER. The AER reviews Envestra's Access Arrangements at five-yearly intervals under the National Gas Law and National Gas Rules. This process determines future revenues and, as a consequence, tariffs, as well as contractual terms for retailers and some large-volume customers over the regulatory period.

There is a risk that revenues will be lower than expected if the AER determines Access Charges lower than the levels assumed. Such a determination may adversely affect Envestra's future performance.

The AER's assessment of Access Charges also assumes that Envestra will be considered an "efficient operator" within the meaning of the National Gas Rules and that therefore all operating and capital costs will be recouped through Envestra's Access Charges. To the extent that Envestra's operating and capital costs exceed the level set by the AER (being the level expected to be achieved by an "efficient operator"), Envestra may not be able to recover those costs. The inability to recover these costs could adversely affect Envestra's future performance.

(ii) Natural gas volume risk

Envestra's Access Charges include a component based on the volume of natural gas distributed. Domestic consumers account for most of Envestra's revenue. Consumers may use less natural gas for a variety of reasons, including warmer weather, or through reliance on competing energy sources. If consumers use less natural gas, this could adversely affect Envestra's future revenues.

Because domestic consumers use natural gas for basic household requirements they constitute a relatively stable category of consumer which is relatively insensitive to changes in the level of economic activity.

If gas volumes delivered do not match those allowed by the AER under the Access Arrangements, this could also impact future revenue.

(iii) Refinancing risk

Developments in global financial markets may adversely affect the liquidity of global credit markets. This may result in an increase in the cost of funding and in some cases a reduction in the availability of some funding sources throughout global markets, including Australia. Lack of access to credit markets, or access on less favourable terms, will affect Envestra's ability to refinance existing facilities on maturity and to fund its operations, undertake future projects, develop new business initiatives or respond to competitive pressures, and this may have an adverse effect on Envestra's future financial performance and position.

(iv) Capital expenditure

The AER's assessment of Access Charges involves an assessment of expected allowable capital expenditure in the forecast period. If the level of capital expenditure incurred is higher than expected and the additional expenditure isn't allowed by the AER as an addition to Envestra's asset base and not reflected in Access Charges, returns to Envestra Shareholders may be negatively affected.

(v) Supply and network operational risk

Disruption to Envestra's networks, including a loss of gas supply, would negatively affect returns to Envestra Shareholders. While disruptions pose a potential risk, it is most unlikely that, other than in circumstances of a major transmission pipeline failure, supply would be lost to more than a small part of a network at any one time.

Envestra has insurance against damage to the networks and consequential loss arising from that damage.

(vi) Loss of key management personnel

Envestra's success depends to a significant extent on its key personnel, in particular, the senior management team discussed in Section 5.4 of this Scheme Booklet. The loss of key personnel and an inability to recruit or retain suitable replacement or additional personnel may adversely affect Envestra's future financial performance. Envestra has 15 employees, and the possible risk of loss of key management personnel accentuates the business risk given the relatively small size of Envestra's employment base.

(vii) Litigation

Envestra may be the subject of complaints or litigation by customers, suppliers, government agencies or other third parties. Such matters may have an adverse effect on Envestra's reputation, divert its financial and management resources from more beneficial uses, or have a material adverse effect on Envestra's future financial performance or position.

(viii) Operations management risk

Envestra's operating and maintenance activities are largely conducted by APA Group and associated sub-contractors. If APA Group fails to comply with the requirements of the operating and management agreements entered into between Envestra and APA Group, substantial damage could occur to Envestra's assets, information technology and databases, employees or the public generally. Damage from such failure may be covered in some part by insurance, but this will not necessarily be the case.

(ix) Other risks

Other risk factors for Envestra include counterparty risk, operating licences and authorisations risk, environmental risk and land lease risk. These risks are substantially similar in nature to the risks identified by APA Group in Sections 8.4(e), 8.4(k), 8.4(l) and 8.4(m) of this Scheme Booklet, respectively.

5.12 ASIC benchmarks

ASIC Regulatory Guide 231 – Infrastructure entities: Improving disclosure for retail investors sets out benchmark and disclosure principle requirements for infrastructure entities. A full copy of the ASIC guide can be found on the ASIC website.

Envestra is an "infrastructure entity" for the purposes of that regulatory guide and, accordingly, has made the required disclosure against the benchmarks and disclosure principles, which can be found on Envestra's website at www.envestra.com.au/about-envestra/corporate-governance/asic-disclosure/.

5.13 ASIC and ASX lodgements and disclosures

Envestra is a disclosing entity for the purpose of the Corporations Act, and as such is subject to continuous reporting and disclosure obligations. Specifically, as an ASX listed company, Envestra is subject to the ASX Listing Rules which require it (subject to certain exceptions) to notify the ASX immediately of any information of which it becomes aware concerning Envestra that a reasonable person would expect to have a material effect on the price or value of its shares. The following table summarises key announcements made by Envestra in the period since the beginning of 2013:

DATE	ANNOUNCEMENT
31 January 2013	Floods damage Wide Bay natural gas pipeline
21 February 2013	Appendix 4D – Interim Financial Report (31 December 2012)
15 March 2013	Envestra's Victorian and Albury Access Arrangements
9 April 2013	Trading halt
9 April 2013	Placement and SPP to fund expanded capex program
9 April 2013	Market Presentation on Placement and SPP
10 April 2013	Successful completion of Placement
22 April 2013	Security Purchase Plan
14 May 2013	Security Purchase Plan
15 May 2013	SPP Scale Back Details
24 May 2013	S&P upgrades Envestra credit rating to BBB

DATE	ANNOUNCEMENT
16 July 2013	Non-binding Merger Proposal from APA Group
5 August 2013	Envestra not to proceed with APA proposal
22 August 2013	Appendix 4E and 2012-13 Financial Statements
22 August 2013	Media Release – 2012-13 Full-Year Results
22 August 2013	Market presentation – 2012-13 Financial Results
27 September 2013	Annual Report to shareholders
27 September 2013	Notice of Annual General Meeting/Proxy Form
30 October 2013	2013 AGM – Chairman's Address (and Powerpoint)
30 October 2013	2013 AGM – Managing Director's Address (and Powerpoint)
30 October 2013	2013 AGM – Shareholders' Questions and Answers
30 October 2013	2013 AGM – Media release
30 October 2013	2013 AGM – Results of Resolutions
12 December 2013	Profit guidance upgrade 2013-14
17 December 2013	Envestra to proceed with APA Scheme of Arrangement proposal
20 February 2014	Appendix 4D – Interim Financial Report 2013-14
20 February 2014	2013-14 Half-Year Results – Media Release
20 February 2014	2013-14 Half-Year Results – PowerPoint
4 March 2014	Envestra recommends Scheme of Arrangement by APA Group
4 March 2014	Scheme Implementation Agreement
4 March 2014	Independent Expert's Report

The disclosures made by Envestra to the ASX are available from the ASX's website at www.asx.com.au. Further announcements concerning material developments in relation to Envestra will continue to be available on that website and on Envestra's website at www.envestra.com.au after the date of this Scheme Booklet.

In addition, Envestra is required to lodge annual and half yearly financial reports with ASIC (via lodgement with the ASX). Copies of these and other documents lodged with ASIC by Envestra may be obtained from ASIC. Envestra will provide free of charge, to any holder of Envestra Shares who requests it before the Scheme is approved by order of the Court, a copy of:

- Envestra's constitution;
- any continuous disclosure notice given to the ASX by Envestra after the lodgement with ASIC of the annual financial report of Envestra for the year ended 30 June 2013 referred to below and before the date of this Scheme Booklet; and
- the annual financial report, directors' report and auditor's report of Envestra for FY2013 and the half year financial report for HY2014.

Copies of Envestra's continuous disclosure notices and annual and half yearly financial reports may also be obtained from Envestra's website at www.envestra.com.au.

SECTION 6

6 INFORMATION ABOUT APA GROUP AND NEW APA SECURITIES

6.1 Responsibility for information

The information set out in this Section 6 was prepared by APA Group and APA Group is responsible for the information contained in this Section 6.

6.2 Background

(a) Overview of APA Group

APA Group is Australia's largest natural gas infrastructure business. It has ownership interests in and operates approximately $12.2 billion of energy infrastructure, principally for transporting and storing gas. This includes 14,100 km of natural gas transmission pipelines across mainland Australia, gas storage facilities, and two gas distribution businesses – Envestra and Allgas[42] – with over 25,000 km of gas mains and 1.2 million consumer connections across eastern Australia.

In addition to its core businesses of gas transmission and distribution, APA Group also holds ownership interests in, and operates, complementary energy infrastructure assets such as gas-fired electricity generation plants, wind farms, gas processing plants and electricity transmission.

APA Group's interests in these assets are held through direct ownership or through minority equity interests in a number of other energy infrastructure enterprises, including Envestra and Allgas.

APA Group has direct management and operational control over its assets and the majority of its investments, employing over 1,600 employees and approximately 1,500 contractors across Australia. It derives stable revenue through a mix of regulated returns, negotiated revenue contracts, investments and asset management.

APA Group has steadily and strategically grown its business through acquisitions, development of new assets and expansion of existing assets. Most recently, APA Group acquired high-quality pipelines with secure long-term revenue contracts through its acquisition of Hastings Diversified Utilities Fund in December 2012, and has implemented capital projects in excess of $1 billion to increase the capacity and performance of its gas pipeline and storage portfolio.

APA Group is listed on the ASX and is included in the S&P/ASX 50 Index. Since listing in June 2000, its market capitalisation has increased from $0.5 billion to over $5.3 billion[43] and has achieved an aggregate total return to APA Securityholders of approximately 883%.[44]

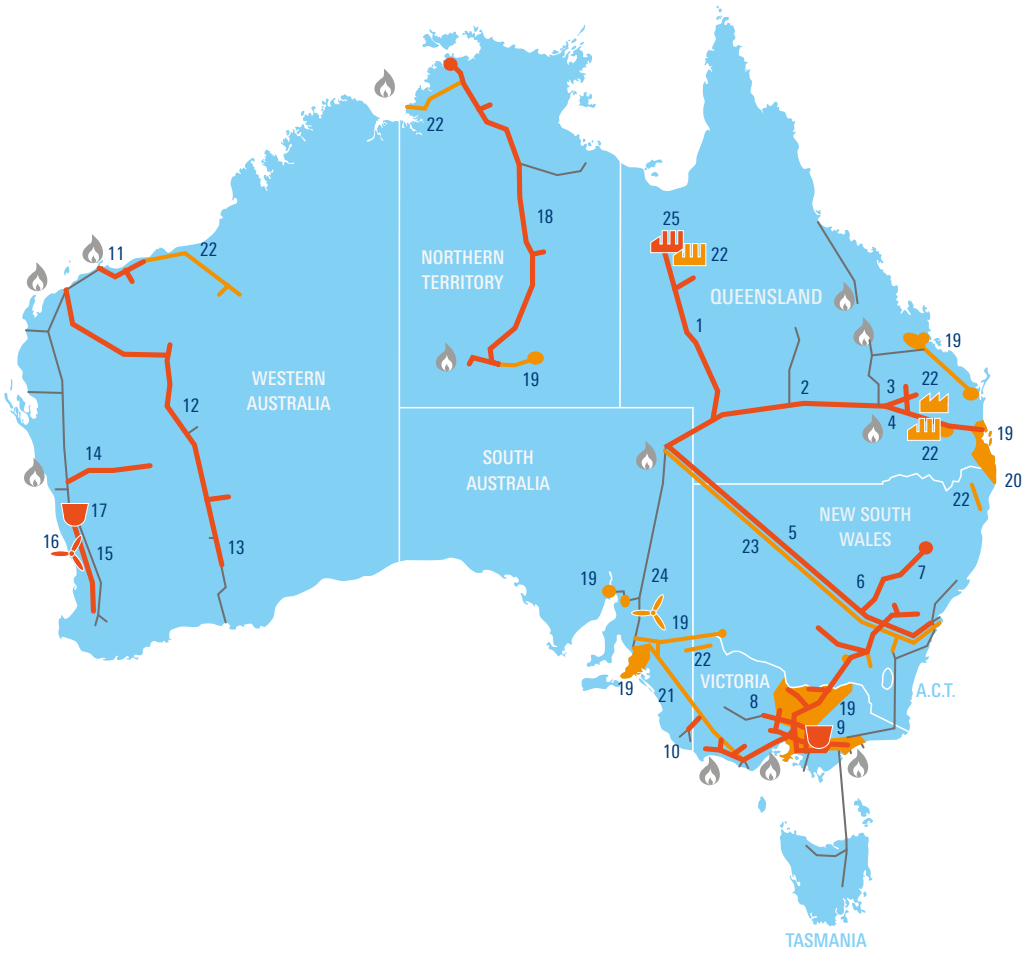
APA Group is headquartered in Sydney, and has assets and offices across Australia.

42 Allgas is managed and operated by APA Group and owned by GDI (EII), in which APA Group holds a 20% interest.

43 Based on an APA Security price of $6.45, being the closing price of APA Securities on the ASX on 3 April 2014 (the last practicable trading day prior to the date of this Scheme Booklet).

44 Total Securityholder Return calculations for the period from APA Group's listing on 13 June 2000 to 3 April 2014. Past performance is not an indicator of future performance.

Figure 6.1: APA Group assets and investments



ENERGY INFRASTRUCTURE

Queensland

1. Carpentaria Gas Pipeline
2. South West Queensland Pipeline
3. Berwyndale Wallumbilla Pipeline
4. Roma Brisbane Pipeline

New South Wales

5. Mooba Sydney Pipeline
6. Central West Pipeline
7. Central Ranges Pipeline and distribution network

Victoria

8. Victorian Transmission System
9. Dandenong LNG Storage Facility

South Australia

10. SESA Pipeline

Western Australia

11. Pilbara Pipeline System
12. Goldfields Gas Pipeline (88%)
13. Kalgoorlie Kambalda Pipeline
14. Mid West Pipeline (50%)
15. Parmelia Gas Pipeline
16. Emu Downs Wind Farm
17. Mondarra Gas Storage Facility

Northern Territory

18. Amadeus Gas Pipeline

ENERGY INVESTMENTS

19. **Envestra Limited (33%)** Gas distribution networks and pipelines (SA, Vic, Qld, NSW & NT)
20. **GDI (EII) Pty Ltd (20 %)** Allgas gas distribution network in Queensland
21. **SEA Gas Pipeline (50%)**
22. **Energy Infrastructure Investments (20%)** Gas pipelines, electricity transmission, gas-fired power stations and gas processing plants
23. **Ethane Pipeline Income Fund (6%)**
24. **E112 (20%)** North Brown Hill Wind Farm

UNDER DEVELOPMENT

25. **Diamantina and Leichhardt Power Stations (50%)**

APA Group assets
APA Group investments
Other natural gas pipelines
Wind farm
Power station
Gas processing plant
Gas storage
Gas production

Source: APA Group Annual Review and Sustainability Report 2013

Note:

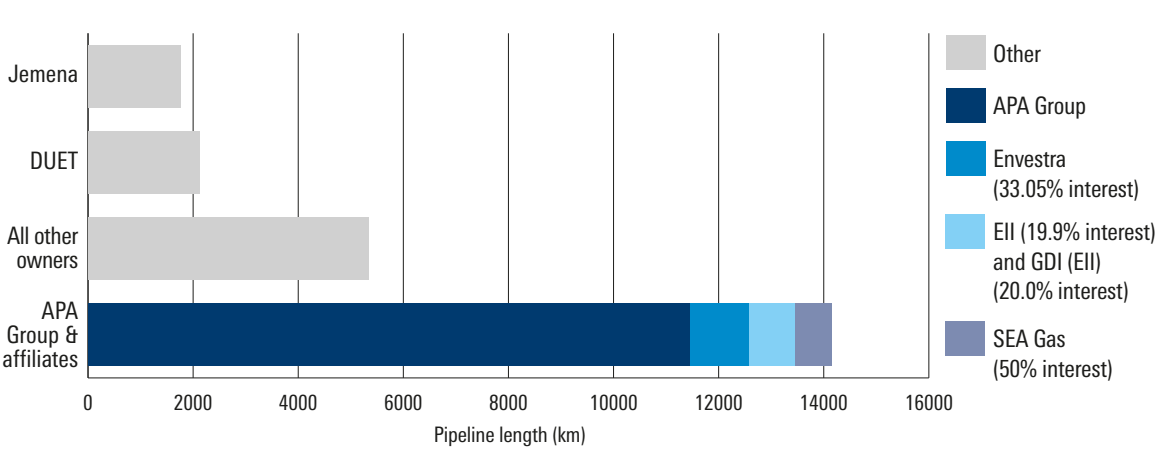
Figure 6.1 shows energy infrastructure assets which are relevant to APA Group's business reporting segments. APA Group assets are coloured dark orange, APA Group investments are coloured light orange and energy infrastructure assets in which APA Group does not have an interest but which are relevant to the markets in which APA Group operates are coloured grey.

(b) APA Group's core businesses

(i) Gas transmission

APA Group is Australia's largest operator of high pressure natural gas transmission pipelines and has a substantial ownership interest in these pipelines. It has developed an unparalleled portfolio of more than 20 pipelines covering 14,100 km across mainland Australia, delivering approximately half the nation's gas usage.

Figure 6.2: Australian gas transmission pipeline ownership (by km)[45]



Source: APA Group; "Electricity Gas Australia 2013", Energy Supply Association of Australia

In eastern Australia, APA Group's wholly owned pipelines form a strategic 7,000 km network grid, connecting all major gas producing sources with markets and gas consumers. In Australia's western and northern regions, APA Group's pipelines deliver gas to significant mining regions and major cities.

APA Group's pipelines and storage assets are strategically located across the mainland, and are able to be expanded and extended in line with growth and developments of the energy market.

APA Group's revenue related to the pipelines is stable, underpinned by regulatory arrangements or capacity-based revenue contracts with creditworthy customers.

(ii) Gas distribution

APA Group is one of Australia's largest owners and operators of gas distribution networks, with interests in two gas distribution network companies, Envestra and Allgas, and the role as manager and operator of these networks. Together, these assets deliver gas to approximately 1.2 million homes and businesses across eastern Australia, via a portfolio of over 25,000 km of gas mains, and associated infrastructure.

APA Group first acquired a 17.2% interest in Envestra in 2007, and now holds a 33.05% interest in the company. Throughout this time, APA Group has provided operational and asset management services for Envestra under long-term services agreements. APA Group holds a 20% interest in GDI (EII) (which owns the Allgas distribution network in Queensland) and has managed and operated the Allgas Distribution Network since 2006.

45 Includes all transmission pipelines in which APA Group has an equity interest.

Figure 6.3: Network assets operated by APA Group

6.3 The market in which APA Group operates

APA Group's assets and operations are primarily focused on the gas transmission and distribution segments of the Australian energy industry, with some exposure to electricity generation and transmission.

(a) Gas demand

As a flexible, clean-burning fuel, gas is becoming an increasingly important component of global energy supply and Australia's primary energy consumption (natural gas delivered 23% of this in 2011-12, or 1,335 PJ).[46]

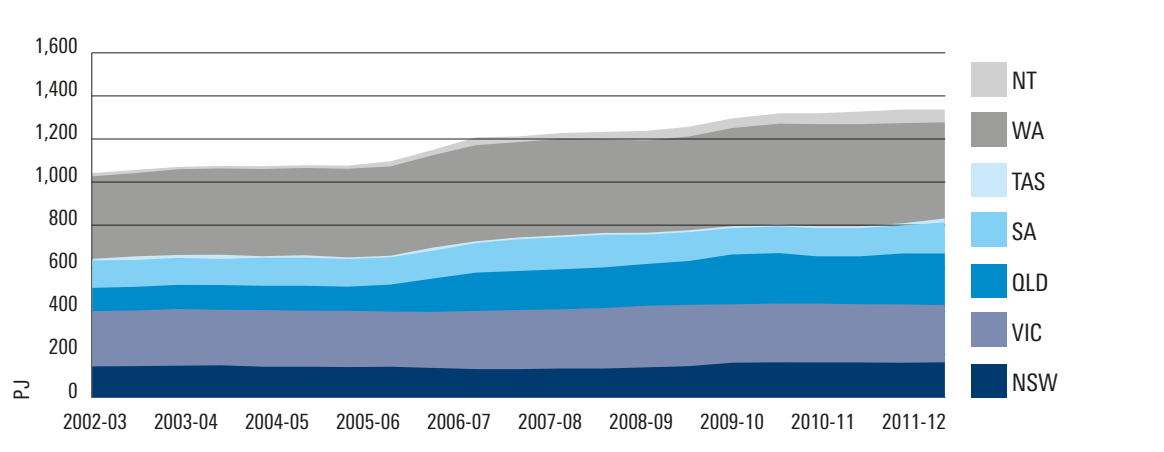
Domestic gas consumption grew 9% over the five years to 2011-12, underpinned largely by growth in Queensland and Western Australia. The importance of gas to the mining industry has been a key driver of this growth and Western Australia's highest share of gas demand on a state basis (see Figure 6.4). The eastern Australian market[47] accounted for around 59% of Australia's gas consumption in 2011-12.[48]

46 "Gas Market Report", October 2013, Bureau of Resources and Energy Economics.

47 Comprising New South Wales, Victoria, Queensland, South Australia and Tasmania.

48 "Gas Market Report", October 2013, Bureau of Resources and Energy Economics.

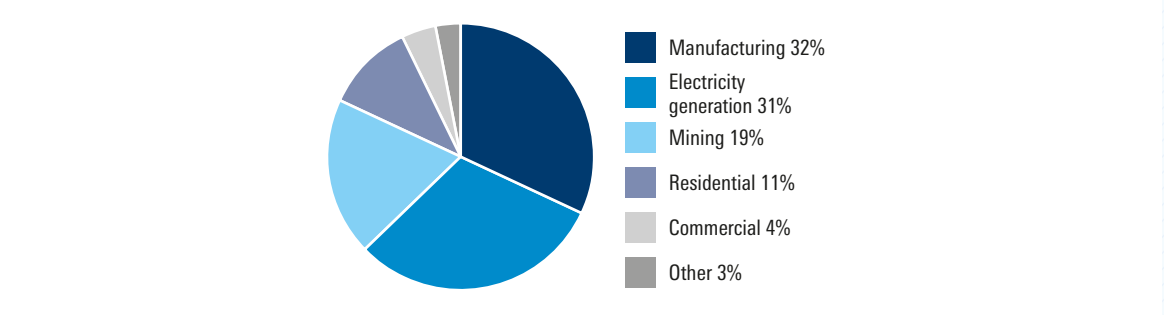
Figure 6.4: Domestic gas consumption by State



Source: "Gas Market Report", October 2013, Bureau of Resources and Energy Economics

In 2011-12, the manufacturing sector was Australia's largest consumer of gas, followed by electricity generation, mining, residential and commercial sectors (see Figure 6.5). Gas is widely used in the manufacturing sector and is of particular importance to a relatively small number of large customers in the metal (smelting and refining) and chemical industries (fertilisers and plastics) where gas is a major energy source and production input.

Figure 6.5: Australian domestic gas consumption by sector, 2011-12



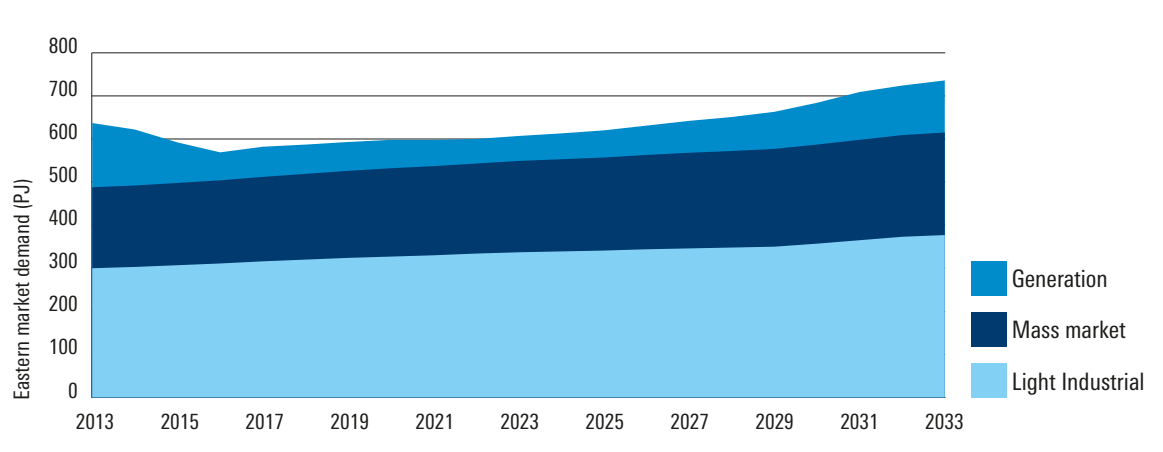
Source: "Gas Market Report", October 2013, Bureau of Resources and Energy Economics

Australian domestic consumption is forecast to grow at 1.3% per annum from 2013 to 2050.[49] Eastern Australian domestic consumption is also forecast to grow 0.9% per annum from 2014 to 2033.[50] This forecast growth is primarily driven by mass market (residential and business) and large industrial (manufacturing and mining) market segments which are both forecast to grow at 1.2% per annum (see Figure 6.6). Key underlying drivers include expected growth in real household per capita income, moderation in energy price growth and positive economic growth generally and for energy-intensive industry sectors. Gas powered generation is forecast to decline by 0.4% per annum over this period due to declining electricity demand and an assumed reduced price impost on carbon emissions.

49 "Australian Energy Projections to 2050", Bureau of Resources and Energy Economics.

50 "Gas Statement of Opportunities", November 2013, Australian Energy Market Operator.

Figure 6.6: Eastern Australian domestic gas consumption forecasts

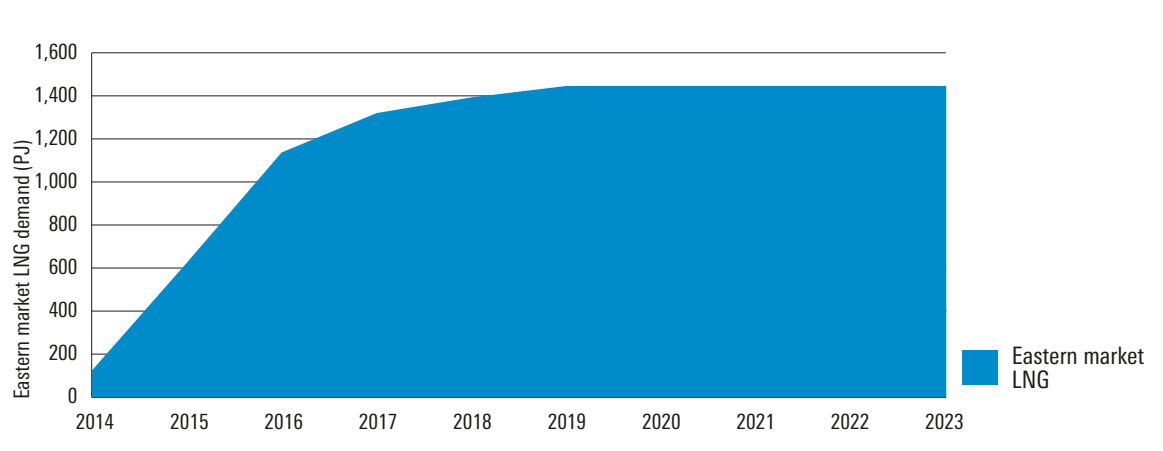


Source: "Gas Statement of Opportunities", November 2013, Australian Energy Market Operator

In addition to domestic consumption, export-led LNG demand of approximately 1,000 PJ (approximately 20 million tonnes) boosted total demand to 2,300 PJ in 2011-12, delivered by existing LNG projects in Western Australia and the Northern Territory.[51]

There are currently three LNG projects under construction in Queensland which will be the first in Australia to make use of onshore gas resources. These projects will link gas fields in the Surat-Bowen basins to export terminals in Gladstone. These projects are expected to substantially increase demand in eastern Australia within the next four years, with demand for LNG forecast to grow from c.123 PJ in 2014 to c.1,446 PJ by 2019 (Figure 6.7).

Figure 6.7: Eastern Australian LNG demand



Source: "Gas Statement of Opportunities", November 2013, Australian Energy Market Operator

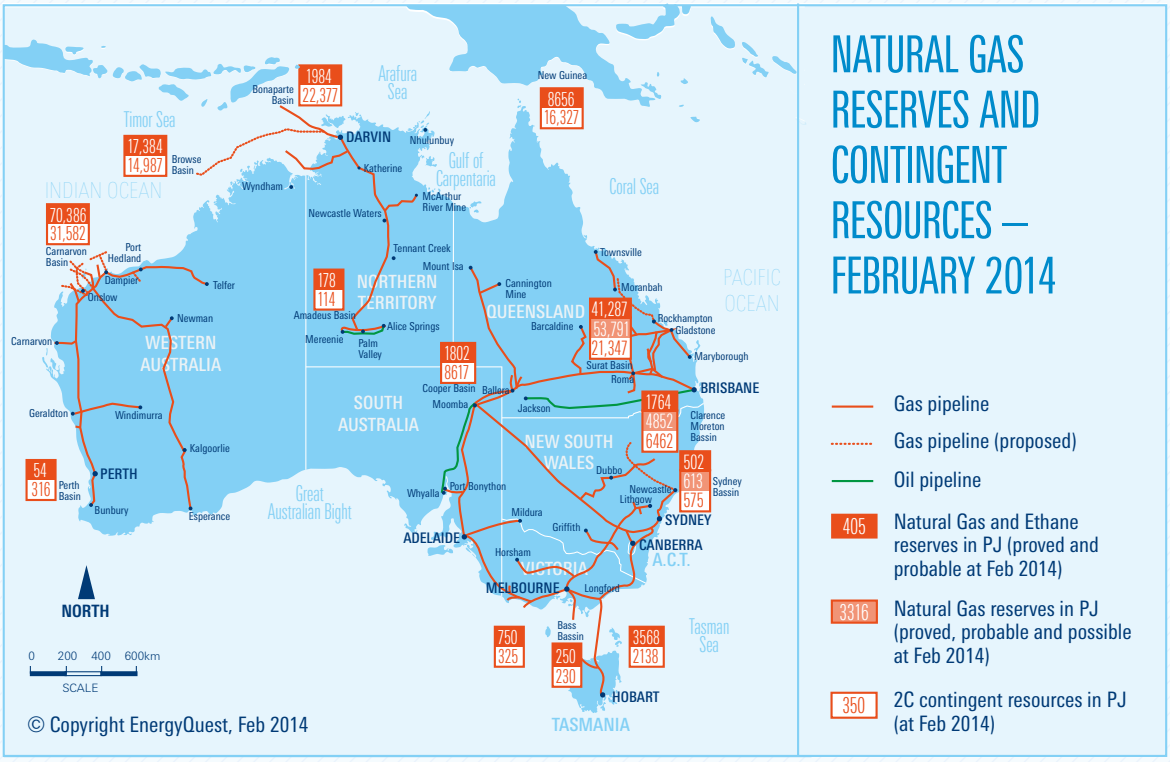
51 "Gas Statement of Opportunities", November 2013, Australian Energy Market Operator.

APA Group's extensive intra-regional pipeline network is uniquely positioned to accommodate shifting demand centres, noting that the South West Queensland Pipeline is currently the only pipeline connecting Queensland gas fields to southern markets (via Moomba in the Cooper Basin) and the only pipeline capable of transporting natural gas from Cooper Basin to Gladstone for export as LNG.

(b) Gas supply

Natural gas is an abundant resource in Australia and is Australia's third largest energy resource after coal and uranium, with an estimated 138,922 PJ of 2P (proved and probable) resources located across Australia (Figure 6.8). Analysis indicates that sufficient reserves are likely to be commercially viable to satisfy projected gas demand for at least the next 20 years.[52]

Figure 6.8: Locations of Australia's natural gas reserves and resources



Source: "EnergyQuarterly", February 2014, EnergyQuest

52 "Gas Statement of Opportunities", November 2013, Australian Energy Market Operator.

6.4 Overview of economic regulation in Australia

A national regulatory regime, which is encapsulated in the National Gas Law and the National Gas Rules, applies to gas pipelines and gas distribution networks. This regime provides mechanisms for third party access, regulatory pricing principles, regulatory governance and access dispute resolution. The objective of the regime is to promote efficient investment in, and efficient operation and use of, natural gas services for the long-term interests of consumers of natural gas. The economic regulation aspects of the regime apply to most gas distribution networks and a number of gas transmission pipelines in Australia except those that operate in a competitive environment and have minimal market power.

The regime provides for two forms of regulation:

(a) **Light regulation:** applies to pipelines that exhibit a degree of market power, derived through their natural monopoly characteristics, but not sufficient to warrant full regulation. Under light regulation, the regulator does not determine the prices at which services are to be provided. Contractual terms (including price) are negotiated between the service provider and customer. If terms of access cannot be agreed, the matter can be referred to the regulator to arbitrate the access dispute; and

(b) **Full regulation:** generally, applies to pipelines and distribution networks that have a higher degree of market power derived from their natural monopoly nature. The full regulation regime provides for the regulator to determine price and other terms of access for standard ("reference") services as part of an Access Arrangement process. The regulatory regime is designed such that the asset owner has a reasonable opportunity to recover at least the efficient costs of owning and operating a pipeline to provide the reference services, including the benchmark cost of capital, regulatory depreciation, operating costs and "stay in business" capital taking into account forecast growth. Access Arrangement periods usually run for five years.

The Australian Energy Regulator is responsible for the economic regulation of gas transmission and distribution pipelines in all states except Western Australia, where the Economic Regulation Authority is the relevant regulator.

6.5 Contracted and regulated revenue

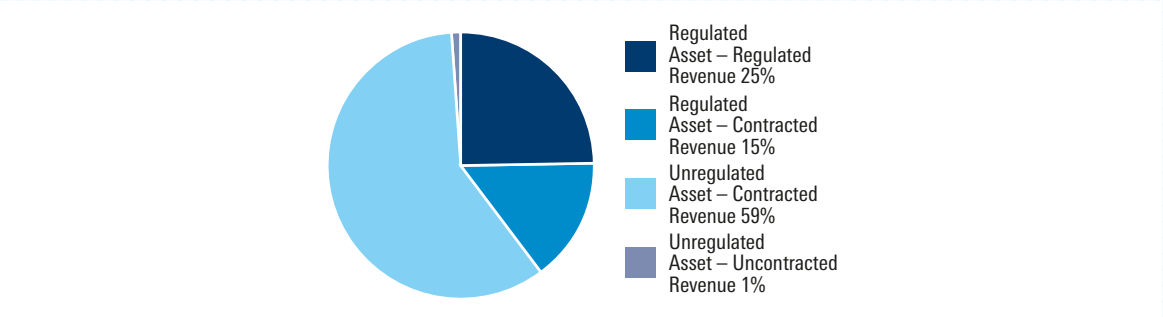
APA Group derives revenue streams through a mix of regulated returns, long-term negotiated revenue contracts, asset management fees and investments. Earnings are underpinned by strong cash flows generated from high quality, well positioned, geographically diversified assets and a small portfolio of creditworthy customers.

The National Gas Law and National Gas Rules provide the mechanisms for regulatory pricing, among other things. The economic regulation aspects of the regime apply to most gas distribution networks and a number of gas transmission pipelines in Australia.

Contracted revenues are sourced from unregulated assets, assets under light regulation as well as assets under full regulation. Contracts are generally for a reservation of capacity, with a majority of the revenue fixed. The average contract term is approximately 10 years, and where new infrastructure is required, terms tend to be 15 years or greater.

Approximately 25% of APA Group's revenue (excluding pass-through revenue) for FY2013 was subject to prices determined under full regulation. The majority of the remaining 75% of revenue is generated from contracts that have set terms, including negotiated price for the life of the contract, independent of regulatory arrangements.

Figure 6.9: FY2013 breakdown by contracted, uncontracted and regulated revenue



Source: APA Group

6.6 APA Group business reporting segments

APA Group is a major participant in developing, owning and operating natural gas transportation infrastructure across Australia. Operations are reported in three principal business segments:

(a) Energy Infrastructure, which includes all of APA Group's wholly or majority owned pipelines, gas storage assets and the Emu Downs Wind Farm;

(b) Asset Management, which provides commercial, operating services and/or asset maintenance services to the majority of its energy investments for appropriate fees; and

(c) Energy Investment, which includes APA Group's strategic stakes in a number of investment vehicles that house energy infrastructure assets, generally characterised by long-term secure cash flows, with low capital expenditure requirements.

Figure 6.10: APA Group business reporting segments

BUSINESS SEGMENT	DESCRIPTION
Energy Infrastructure	APA Group's energy infrastructure business has an extensive gas transmission portfolio comprising of a mix of mature, established and more recently completed pipelines across mainland Australia. APA Group's energy infrastructure assets include: • Gas transmission pipelines: 16 high pressure gas transmission pipelines • Gas storage: Mondarra Gas Storage Facility in Western Australia and Dandenong LNG Storage Facility in Victoria • Power generation: 80 MW Emu Downs Wind Farm in Western Australia

BUSINESS SEGMENT	DESCRIPTION
Energy Investments	APA Group has equity interests in a number of energy infrastructure enterprises, which comprise: • Envestra (33.05% interest) • GDI (EII) (20% interest) • SEA Gas Pipeline[53] (50% interest) • Ethane Pipeline Income Fund[54] (6.1% interest) • Energy Infrastructure Investments[55] (19.9% interest) • EII2[56] (20.2% interest) • Diamantina Power Station (50%) (under construction)
Asset Management	APA Group provides commercial, operating services and/or asset maintenance services to the majority of its energy investments for appropriate fees. APA Group also provides corporate services to Ethane Pipeline Income Fund, EII2 and GDI (EII).

The Energy Infrastructure segment (continuing business) contributed 84% of total normalised revenue (excluding pass-through revenue) and 85% of total normalised EBITDA for FY2013.[57]

In addition, the Energy Investment segment contributed approximately 8% of APA Group's EBITDA for FY2013 and the Asset Management segment contributed approximately 7% of APA Group's EBITDA for FY2013.

APA Group's assets are set out in Figure 6.1 of this Scheme Booklet.

6.7 APA Group's core business units

(a) Gas transmission

(i) East coast

With the addition of the South West Queensland Pipeline as part of the acquisition of Hastings Diversified Utilities Fund, APA Group now has a 7,000 km integrated pipeline grid on the east coast of Australia, with the ability to transport gas seamlessly from multiple gas production facilities to gas users across four states.

Customers using the grid now have flexibility in relation to receipt and delivery points, with the potential to move between 33 receipt points and about 98 delivery points on the east coast. APA Group is developing the commercial and operational framework to deliver these and other related services to APA Group's customer base, such as storage, gas-parking facilities and multidirectional flows.

Recent commercial agreements reflect the increasing demand for grid services. For example, in May 2013, APA Group executed a gas transmission agreement across three pipelines to transport gas seamlessly

53 SEA Gas Pipeline transports gas from the Otway and Bass Basins to Victoria and South Australia.

54 Ethane Pipeline Income Fund owns the Ethane Pipeline.

55 Energy Infrastructure Investments is an unlisted investment vehicle which holds annuity style energy infrastructure assets. APA Group is the operator of those assets.

56 EII2 is an unlisted investment vehicle which owns the North Brown Hill Wind Farm in South Australia.

57 Normalised revenue and normalised EBITDA exclude significant items and divested businesses consistent with those disclosed in the 30 June 2013 APA Group Annual Report.

from Moomba directly to Brisbane under a single contract. In October and November 2013, APA Group executed three separate gas transportation agreements with energy retailers to move gas from Victoria into New South Wales.

(ii) West and north

In Western Australia, APA Group owns and operates five pipeline systems and an underground gas storage facility. The Goldfields Gas Pipeline is the largest asset in APA Group's Western Australian portfolio, transporting gas from the Carnarvon Basin and Northwest Shelf producers to mining customers in the Pilbara, Murchison and Goldfields mining regions for industrial use and power generation. The growing Pilbara mining region is also serviced by APA Group's Pilbara Pipeline System in the north. APA Group is currently expanding the capacity of the Goldfields Gas Pipeline by 28% following agreements with mining customers Rio Tinto and BHP Billiton, for increased gas transportation services.

APA Group's expanded Mondarra Gas Storage Facility together with the Parmelia Gas Pipeline provide gas storage and transportation services for customers in the Perth region.

APA Group has ownership interests in and operates the major pipelines serving the Northern Territory, including the Amadeus Gas Pipeline (100% ownership) and the Bonaparte Gas Pipeline (20% ownership through Energy Infrastructure Investment).

(b) Gas distribution

APA Group has extensive experience in the operations and ownership of gas distribution networks in Australia through Envestra and GDI (EII) (which owns the Allgas distribution network in Queensland) and northern New South Wales.

(i) Envestra

APA Group originally acquired a 17.2% interest in Envestra in July 2007 from Origin Energy along with three long-term operating agreements. Since then, APA Group has supported Envestra's growth, increasing its shareholding to 33.05%.

Envestra's portfolio includes 22,762 km of gas mains across South Australia, Victoria, Queensland, New South Wales and the Northern Territory, as well as 1,124 km of transmission pipelines. As at 30 June 2013, Envestra had 1.2 million customers and the majority of its revenue comes from regulated distribution charges.

APA Group manages and operates Envestra's assets under long-term Operating and Management Agreements. Under the agreements, APA Group also has responsibility, under Envestra's direction, for planning, designing and constructing network extensions, and promoting the use of gas within the networks.

(ii) Allgas

APA Group acquired the Allgas Distribution Network from the Queensland Government in October 2006. APA Group became a minority investor in Allgas in December 2011 when it sold the business into GDI (EII), an unlisted joint venture in which APA Group holds a 20% interest. The Allgas Distribution Network includes 3,061 km of gas mains primarily in Brisbane (extending to the northern tip of New South Wales) with two smaller networks in Oakey and Toowoomba. As at 30 June 2013, Allgas had 90,213 customer connections.

APA Group manages and operates the network under a long-term agreement.

(c) Other investments

APA Group owns a number of other related energy assets and investments which enhance APA Group's existing gas pipeline and distribution portfolio or utilise APA Group's core skills. This includes gas-fired generation, such as the Diamantina Power Station currently under construction in Mount Isa, Queensland, which will be supplied from the Carpentaria Gas Pipeline.

6.8 APA Group strategy and growth opportunities

(a) APA Group strategy

APA Group's objective to maximise APA Securityholder value is supported by its strategy to:

- focus on expanding and enhancing its natural gas infrastructure portfolio to meet the increasing demand for natural gas services;
- capture revenue and operational synergies from its significant asset base;
- pursue asset development opportunities which leverage APA Group's existing assets and utilise the depth of its comprehensive asset management and operational skills;
- enhance APA Group's services to customers, including the development of more flexible and tailored services to better satisfy customer requirements; and
- strengthen its financial capability.

(b) APA Group growth opportunities

APA Group's asset portfolio provides it with a competitive advantage and platform for further growth opportunities, which include:

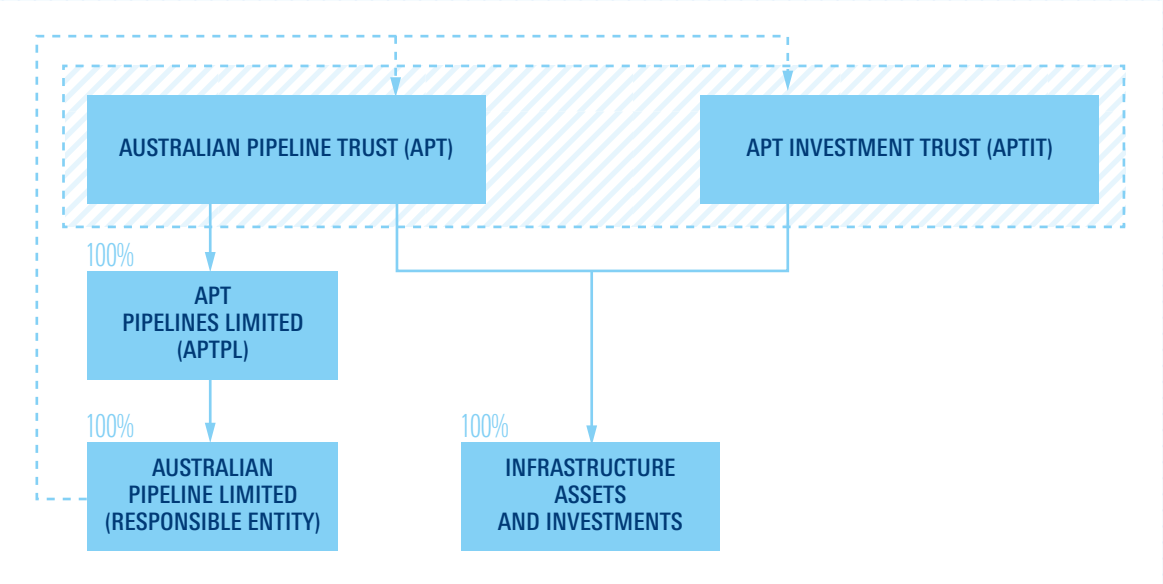
- expansion of existing assets; for example, the Goldfields Gas Pipeline capacity expansion and expansion of compression facilities and Wallumbilla and Moomba;
- further development of APA Group's east coast gas pipeline grid to optimise services for customers and connect new regions;
- expansion of gas distribution networks to new residential developments;
- the potential acquisition of newly constructed pipelines meeting specific customer requirements, such as the gas transmission pipelines supplying Queensland's LNG projects; and
- development or acquisition of energy infrastructure assets complementary to APA Group's core business, such as the Diamantina Power Station.

6.9 APA Group's structure

APA comprises of two trusts, APT and APTIT, which are registered managed investment schemes regulated by the Corporations Act. APT Units are "stapled" to APTIT Units on a one-to-one basis so that one APT Unit and one APTIT Unit form a single stapled security which trades on the ASX.

APT and APTIT are required by the Corporations Act to have a responsible entity which performs the role of trustee of these trusts. The APA Group Responsible Entity and its officers must act in the best interests of APA Securityholders.

Figure 6.11: APA Group structure



The APA Group Responsible Entity holds 100% of the shares in APTPL on trust for APT. APTPL in turn holds 100% of the shares in the APA Group Responsible Entity.

As well as being the holding company for the APA Group Responsible Entity, the principal activities of APTPL are managing the treasury activities (being the sole corporate borrower on behalf of APA Group), advancing borrowings to companies within APA Group and being the parent investment company for APT.

The character of distributions from APT and APTIT differs and that affords flexibility with respect to returns to APA Securityholders on their investment in APA Group. APT generally provides post-tax distributions whilst APTIT provides pre-tax distributions, and both may include a tax deferred component.

6.10 Historic Total Securityholder Returns, security price performance and distributions

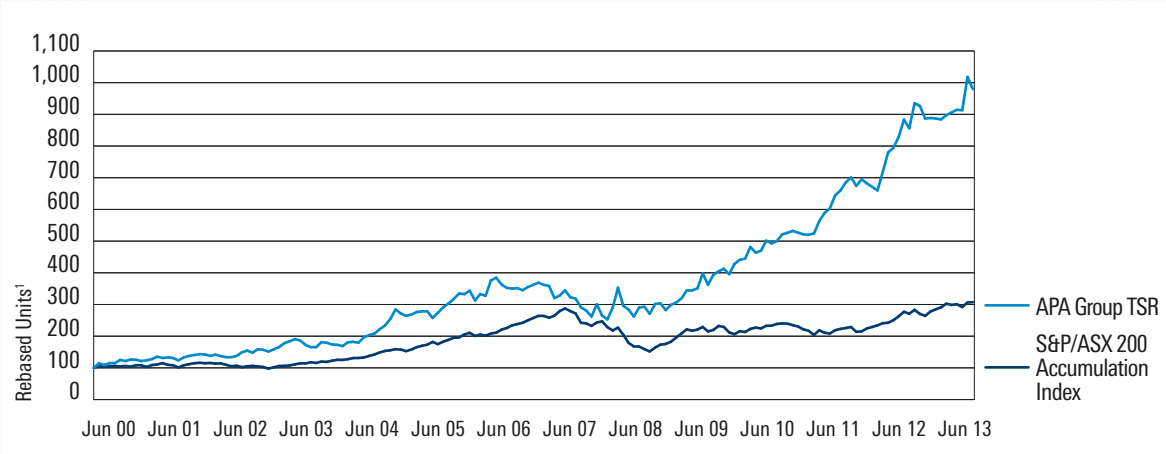
(a) Total Securityholder Returns

APA Group has achieved an aggregate total return to APA Securityholders of approximately 883% since listing[58], equivalent to a compound annual return of 18.0% over this time. During the same period, APA Group has outperformed the market, with the S&P/ASX 200 Accumulation Index achieving a total return of 208%.[59] This outperformance by APA Group has been driven by a combination of strong APA Security price performance and distribution growth.

58 Total Securityholder Return calculations for the period from APA Group's listing on 13 June 2000 to 3 April 2014. Past performance is not an indicator of future performance.

59 Comparisons of securityholder returns and security price performance to the market based on the S&P/ASX 200 Accumulation Index from 13 June 2000 (the APA Security listing date) up to and including 3 April 2014 (the last practicable trading day prior to the date of this Scheme Booklet). Annual returns are calculated on a compound growth rate basis.

Figure 6.12: APA Group Total Securityholder Return vs the S&P/ASX 200 Accumulation Index



Source: APA Group, based on IRESS data

Notes:

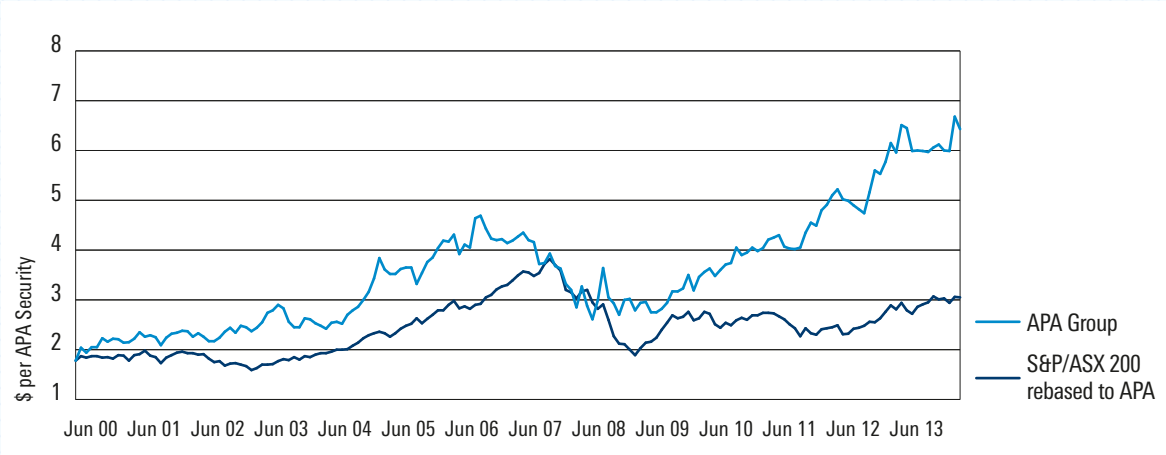
1 APA Security price and S&P/ASX 200 Accumulation Index rebased to 100 as at APA Group listing date.

2 Past performance is not an indicator of future performance.

(b) APA Security price performance

APA Group has had strong growth in its security price performance and has outperformed the S&P/ASX 200 index over the period since listing. The figure below sets out APA Security price performance since listing.

Figure 6.13: APA Security price performance since listing



Source: APA Group, based on IRESS data

Notes:

1 S&P/ASX 200 Index rebased to the APA Security price at APA Group listing date.

2 Past performance is not an indicator of future performance.

The recorded closing price for APA Securities on the ASX on 3 April 2014, the last practicable trading day before the date of this Scheme Booklet, was $6.45.

During the three months ended 3 April 2014:

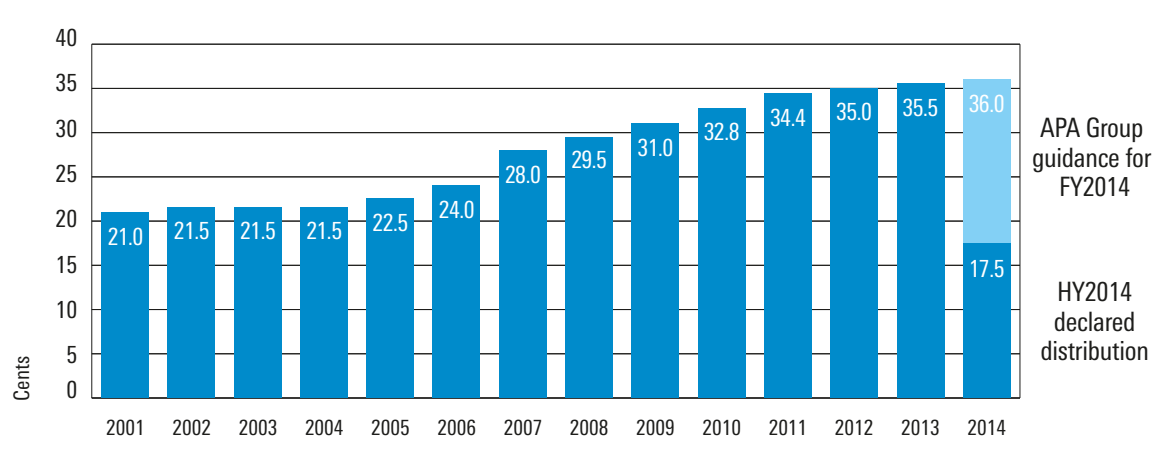
- the highest recorded daily closing price for APA Securities on the ASX was $6.68 on 28 February 2014; and
- the lowest recorded daily closing price for APA Securities on the ASX was $5.98 on 14 January 2014 and 30 January 2014.

The closing price for APA Securities on the ASX before the public announcement of the Scheme was $6.36 on 16 December 2013.

(c) Distribution growth track record

APA Group has a solid and consistent distribution record which has increased from 21.0[60] cents per APA Security in 2001 (APA Group's first full financial year since listing on the ASX) to 35.5 cents in FY2013. This represents a cumulative average growth rate of 4.5% per annum.

Figure 6.14: Distributions paid by APA Group since IPO (cents per share)



Notes:

1 Distributions are shown as those classified as interim and final distributions in respect of a financial year.

2 FY2014 distributions are based on the APA Group distribution guidance of at least 36.0 cents released to the ASX on 19 February 2014.

3 Past performance is not an indicator of future performance.

60 The distribution for the financial year ended 30 June 2001 was $0.21. Note that a $0.01 distribution was paid to APA Securityholders for the period between 13 June 2000 and 30 June 2000, being the 17-day period from listing.

(d) APA Group's distribution policy

APA Group's distribution policy has been framed in consideration of the need to retain equity in the business to support funding of its significant growth opportunities. APA Group intends to continue to pay distributions from operating cash flow with the view to growing distributions over the longer term. In that regard, APA's distribution policy is that:

- distributions should continue to be sustainable over time and to be funded from operating cash flows;
- the growth in total distributions should ordinarily not exceed the growth in underlying total operating cash flows; and
- distributions should grow in step with the business and the demand on cash flow required to be reinvested in the business.

APA Group does not currently intend to change its distribution policy following implementation of the Scheme.

(e) Distributions guidance for FY2014

APA Group confirms its guidance that the total distribution per APA Security for FY2014 is expected to total at least 36.0 cents per security. The APA Group Board has already declared an interim distribution for the six months ended 31 December 2013 of 17.5 cents. Subject to implementation of the Scheme by 30 June 2014, each Participating Envestra Shareholder who receives New APA Securities under the Scheme will be entitled to receive APA Group's FY2014 final distribution for those New APA Securities. While any distribution will require APA Group Board approval, APA Group has issued distribution guidance which indicates that the FY2014 final distribution is expected to be at least 18.5 cents per security.

(f) APA Group annual tax statements

APA Group issues annual tax statements to all APA Securityholders in connection with their holdings in mid-September each year.

The distribution components from APT and APTIT must be separately disclosed in APA Securityholders' income tax returns. An APTIT distribution may comprise both taxable trust income and tax deferred/capital amounts. An APT distribution may comprise both an unfranked distribution and a tax deferred capital amount for tax purposes.

Please refer to Section 10 of this Scheme Booklet for an explanation of the tax implications of the Scheme. Participating Envestra Shareholders should seek their own independent professional advice regarding the individual tax consequences applicable to them.

6.11 APA Group Directors and senior management

The APA Group Board comprises seven directors, the majority of whom (including the chairman) are independent. Brief profiles of the APA Group Directors are set out in Figure 6.15 below.

Figure 6.15: Director profiles

NAME	BIOGRAPHY
Leonard Bleasel AM **FAICD FAIM** Independent Chairman Appointed 28 August 2007 Appointed Chairman 30 October 2007	Leonard (Len) Bleasel had a long career in the energy industry before retiring from management in 2001. He started his career in AGL in 1958 and worked in a variety of roles, culminating in the position of Managing Director and CEO from 1990 to 2001. Len is Chairman of the Taronga Conservation Society Australia and the Advisory Council for CIMB Securities International (Australia) Pty Limited. Len's past appointments have included lead non-executive Director of QBE Insurance Group Limited, Chairman of Foodland Associated Limited, ABN AMRO Australia Holdings Pty Limited, Solaris Power, the Australian Gas Association, Natural Gas Corporation Holdings Ltd (New Zealand), Elgas Ltd, Auscom Holdings Pty Ltd, Industrial Pipe Systems Pty Ltd and East Australian Pipeline Ltd, a Director of St George Bank Limited and Gas Valpo (Chile), and Vice President of the Royal Blind Society. Len was awarded an AM in the General Division of the Order of Australia for services to the Australian gas and energy industries and the community.
Michael McCormack **BSurv GradDipEng MBA FAICD** CEO Appointed 1 July 2005 Managing Director Appointed 1 July 2006	Michael (Mick) McCormack has been Chief Executive Officer of APA Group since 1 July 2005 and Managing Director since 1 July 2006. Mick has over 25 years' experience in the gas infrastructure sector in Australia, and his career has encompassed all aspects of the sector, including commercial development, design, construction, operation and management of most of Australia's natural gas pipelines and gas distribution systems. Mick is an Envestra Director and formerly a director of the Australian Pipeline Industry Association and the Australian Brandenburg Orchestra.
Steven Crane **BComm FAICD SFFin** Independent Director Appointed 1 January 2011	Steven (Steve) Crane has over 30 years' experience in the financial services industry. His background is in investment banking, having previously been Chief Executive Officer of ABN AMRO Australia and BZW Australia. Steve has considerable experience as a non-executive director of listed entities. He is currently Chairman of nib holdings limited, a Director of Bank of Queensland Limited, Transfield Services Limited and Taronga Conservation Society Australia and a member of the Advisory Council for CIMB Securities International (Australia) Pty Limited. He was formerly Chairman of Adelaide Managed Funds Limited and Investa Property Group Limited, a Director of Adelaide Bank Limited, Foodland Associated Limited and APA Ethane Limited, the responsible entity of Ethane Pipeline Income Fund, and a member of the Advisory Council for RBS Group (Australia) Pty Limited. Steve is a member of the APA Group Audit and Risk Management Committee and the APA Group Remuneration Committee.

NAME	BIOGRAPHY
John Fletcher **BSc MBA FAICD** Independent Director Appointed 27 February 2008	John Fletcher has over 35 years' experience in the energy industry, having held a number of executive positions in AGL prior to his retirement in 2003, including Chief Financial Officer. John has previously been a Director of Integral Energy, Natural Gas Corporation Holdings Ltd (New Zealand), Foodland Associated Limited, Sydney Water Corporation and Alinta Energy Group. He brings a wide commercial and financial practical knowledge to the Board. John was previously an AGL appointed Director of Australian Pipeline Limited from 2000 to 2005. John is the Chairman of the APA Group Remuneration Committee and a member of the APA Group Audit and Risk Management Committee.
Russell Higgins AO **BEc FAICD** Independent Director Appointed 7 December 2004	Russell Higgins has extensive experience both locally and internationally in the energy sector and in economic and fiscal policy. He was Secretary and Chief Executive Officer of the Department of Industry, Science and Resources from 1997 to 2002 and Chairman of the Australian Government's Energy Task Force from 2003 to 2004. Russell is a Director of Telstra Corporation Limited, Argo Investments Limited, Leighton Holdings Limited and the St James Ethics Foundation. He is a former Chairman of the CSIRO Energy Transformed Flagship Advisory Committee, the Snowy Mountains Council and the Australian Government's Management Improvement Advisory Committee and a former Director of Australian Biodiesel Group Limited, EFIC, CSIRO, Austrade, the Australian Industry and Development Corporation and Ricegrowers Limited (trading as SunRice), as well as a former member of the Australian Government's Joint Economic Forecasting Group. In 2006-07, he was a member of the Prime Ministerial Task Group on Emissions Trading. Russell is Chairman of the APA Group Health Safety and Environment Committee and a member of the APA Group Audit and Risk Management Committee.
Patricia McKenzie **LLB FAICD** Independent Director Appointed 1 January 2011	Patricia McKenzie has considerable expertise and experience in energy market regulation and, as a qualified solicitor, extensive corporate legal experience. She is currently a Director of Macquarie Generation and was formerly a Director of Australian Energy Market Operator Limited, the national energy market operator for electricity and gas, and the Chief Executive Officer of Gas Market Company Limited, the market administrator for retail competition in the gas industry in New South Wales and the Australian Capital Territory. Patricia is also Chair of Healthdirect (National Health Call Centre Network Limited). Patricia is a member of the APA Group Health Safety and Environment Committee and the APA Group Remuneration Committee.

NAME	BIOGRAPHY
Robert Wright **BComm FCPA** Independent Director Appointed 11 February 2000	Robert Wright has over 30 years' financial management experience, having held a number of Chief Financial Officer positions, including Finance Director of David Jones Limited. He is currently the Chairman of Super Retail Group Limited and APA Ethane Limited, the responsible entity of Ethane Pipeline Income Fund, and was previously Chairman of SAI Global Limited, Dexion Limited and RCL Group Limited. Robert is the Chairman of the APA Group Audit and Risk Management Committee and a member of the APA Group Health Safety and Environment Committee.

Brief profiles of the members of APA Group's senior management team are as follows:

Figure 6.16: Senior management profiles

NAME	BIOGRAPHY
Ross Gersbach **BBus MAICD** Chief Executive Strategy and Development	Ross Gersbach has responsibility for further enhancing APA Group's portfolio of assets that complement the value of its infrastructure, including APA Group's investments in gas-fired and wind power generation, and the operation and development of these assets. He is responsible for APA Group's Energy Investments, group strategy, regulatory and government affairs, environmental development, and mergers and acquisitions Ross was previously an APA Group Director from 2004 to 2008, joining the management team in April 2008 where he was responsible for all commercial aspects of APA Group. He has over 20 years' experience in senior positions across a range of energy related sectors, covering areas such as infrastructure investments, mergers and acquisitions and strategic developments. Additionally, Ross has extensive commercial experience and has managed a portfolio of infrastructure assets in the natural gas and electricity distribution network sector. Ross is an Envestra Director.
Rob Wheals **BComm CA GAICD** Group Executive Transmission	Rob Wheals is responsible for the commercial and operational performance of APA Group's transmission and gas storage assets. Rob joined APA Group in September 2008. Since this time he has been responsible for managing APA Group's pipeline revenue contracts and customers on a national basis. This has included the organic expansion of APA Group's gas transmission and storage portfolio, totalling in excess of $1 billion of capital projects over this time.

NAME	BIOGRAPHY
John Ferguson **MIGEAust** Group Executive Networks	John Ferguson is responsible for the operation and management of APA Group's minority owned gas distribution assets – Envestra Limited and GDI (EII) – covering over 25,000 km of gas distribution pipelines and 1.2 million gas users in eastern Australia. John joined APA Group in September 2008, continuing his 30-year career in the gas infrastructure business, covering operations, network development and gas marketing.
Kevin Lester **BEng(Civil) MIEAust GAICD** Group Executive Infrastructure Development	Kevin Lester is responsible for engineering services, procurement and the delivery of APA Group's infrastructure expansion projects. This includes primary responsibility for asset management, project development and technical regulation of all pipeline related assets. Kevin joined APA Group in August 2012, continuing a career in the management of major infrastructure projects, including energy infrastructure. Kevin is a Director and the Immediate Past President of the Australian Pipeline Industry Association.
Peter Fredricson **BComm CA GAICD** Chief Financial Officer	Peter Fredricson is responsible for all financial aspects of APA Group, including accounting and financial reporting, financial compliance and governance, taxation, treasury, balance sheet management, capital strategy, and insurance and risk. He is also responsible for both Investor Relations and Information Technology. Peter joined APA Group in June 2009. He has considerable expertise in the listed energy infrastructure sector and over 20 years' experience in senior financial roles in financial services and investment banking organisations across Australia, New Zealand and Asia.
Peter Wallace **BA MAICD MAHRI** Group Executive Human Resources	Peter Wallace is responsible for managing the Human Resources function, which covers strategy and activities relating to our people and their employment at APA Group. Peter joined APA Group in April 2011. Previously he has filled senior Human Resources roles in Australia as well as in Asia/Pacific and the United States, and has a strong background in business integration and business growth. He has over 32 years' experience in heavy manufacturing, minerals, steel, steel distribution and related building and construction sectors.

NAME	BIOGRAPHY
Mark Knapman **BComm LLB FGIA FCIS** Company Secretary	In addition to being responsible for the secretariat function, Mark Knapman oversees corporate governance and the legal, internal audit and financial services compliance functions of APA Group. He has extensive experience as a Company Secretary. He was Company Secretary and General Counsel of an ASX-listed company and Asia Pacific Legal Counsel and Company Secretary for a US multinational company before joining APA Group. Prior to those roles, he was a partner of an Australian law firm. Mark holds degrees in law and commerce and a Graduate Diploma in Applied Corporate Governance. He is a Fellow of the Governance Institute of Australia (formerly Chartered Secretaries Australia), and the Institute of Chartered Secretaries and Administrators, and is admitted to practice as a solicitor.

6.12 Corporate governance

The APA Group Responsible Entity is responsible for APA Group's corporate governance practices.

APA Group has committed to incorporating each of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations into its corporate governance policies. Those policies are summarised below, and full details are available on APA Group's website at www.apa.com.au.

APA Group Board	The APA Group Board is accountable to APA Securityholders for the proper management of APA Group's business and affairs. It operates in accordance with a charter, which is published on APA Group's website. The APA Group Board normally meets 11 times each year, with additional meetings being held as required. To assist the APA Group Board in carrying out its responsibilities, it has established an Audit and Risk Management Committee, Remuneration Committee and Health Safety and Environment Committee. Each committee has its own charter which describes the roles and responsibilities delegated to the committee by the APA Group Board. The charters are published on APA Group's website. The APA Group Board delegates responsibility for implementing the strategic direction and managing the day-to-day operations of APA Group to the APA Group Managing Director. The APA Group Board considers that a diverse range of skills, experience and backgrounds is required to effectively govern the business. Those skills include financial, strategic, operational, legal, regulatory and general commercial expertise.
Ethical and responsible behaviour	APA Group's code of conduct sets out the behaviour required of directors and employees and recognises the responsibilities of APA Group and its personnel to APA Securityholders, customers, suppliers, employees and the community. It also requires that breaches of the code are reported and provides a mechanism to enable breaches to be reported without fear of retribution. The code is published on APA Group's website.

Financial reporting and effectiveness of internal controls	The APA Group Board has established an Audit and Risk Management Committee. The APA Group Managing Director, APA Group Chief Financial Officer, Company Secretary, head of risk and insurance, other senior management personnel, as required, and the external and internal auditors attend committee meetings at the discretion of the committee. Apart from reviewing the integrity of APA Group's financial reporting, the committee receives reports from the external and internal auditors, monitors their effectiveness and the independence of the external auditor, and makes recommendations to the APA Group Board on the appointment or replacement (subject APA Securityholders' approval, if applicable) of the external auditor.
Market disclosure and shareholder communications	APA Group's market disclosure policy, published on APA Group's website, aims to ensure that information that a person could reasonably expect to have a material effect on the price of APA Securities, whether the information is positive or negative, is announced to the market by release to the ASX in accordance with the ASX Listing Rules and the Corporations Act. APA Group aims to ensure APA Securityholders are informed of all significant developments affecting APA Group's state of affairs and business.
Risk management	The identification and effective management of risk, including calculated risk-taking, are viewed as an essential part of APA Group's approach to creating long-term securityholder value. The APA Group Board is responsible for adopting and reviewing APA Group's approach to the identification, evaluation and management of risks that are material to the fulfilment of APA Group's objectives. The APA Group Board has delegated certain activities to its Audit and Risk Management Committee. The committee's primary function with respect to risk is to maintain and oversee a sound system of internal risk management controls based on the APA Group Board's adopted risk management approach. The APA Group Managing Director is accountable for ensuring that a risk management system is established, implemented and maintained in accordance with APA Group's risk management policy and framework.
Directors' fees and executive remuneration	The APA Group Board has established a Remuneration Committee to consider and make recommendations to the Board on, among other things, remuneration policies applicable to APA Group Directors and senior management. The committee may seek external professional advice on any matter within its terms of reference. Independent remuneration consultants are engaged by the Chairman of the Remuneration Committee to provide comparative market data with respect to non-executive director and executive remuneration.

6.13 APA Group historical and pro forma financial information

This Section 6.13 contains the following APA Group historical and pro forma financial information:

- consolidated income statement for HY2014 and pro forma consolidated income statements for FY2013 and FY2012;
- consolidated balance sheet as at 31 December 2013; and
- pro forma consolidated statements of cash flows for HY2014, FY2013 and FY2012.

The information presented is in an abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act. The APA Group considers that for the purposes of this Scheme Booklet the information presented in an abbreviated form is more meaningful to Participating Envestra Shareholders.

(a) Basis of preparation

APA Group's statutory income statements, balance sheet and cash flows are disclosed in the annual report of APA Group for FY2013, which includes comparatives for FY2012 and in the interim financial report of APA Group for HY2014, both of which can be found at www.apa.com.au or the ASX website at www.asx.com.au.

During FY2013 and FY2012, APA Group undertook the following significant transactions:

- acquisition of Hastings Diversified Utilities Fund (HDF) in October 2012 and subsequent divestment of the Moomba to Adelaide Pipeline System (MAPS) on 1 May 2013; and
- sale of 80% of Allgas on 16 December 2011 and retention of a 20% equity accounted investment in GDI (EII) which owns Allgas.

In order to illustrate the financial effect of the above transactions, APA Group's statutory income statements and cash flows for FY2013 and FY2012 have been adjusted as if the acquisition of HDF (excluding MAPS) and sale of 80% of Allgas had occurred on 1 July 2011.

The historical financial information below relates to the APA Group on a standalone basis and accordingly does not reflect any impact of the Scheme. The pro forma financial effect of the Scheme is set out in Section 7.7 of this Scheme Booklet.

(b) APA Group income statement for HY2014 and pro forma income statements for FY2013 and FY2012

A$ Million	HY2014 statutory[1]	FY2013 pro forma	FY2012 pro forma
Operating revenue excluding pass-through revenue	468.5	862.7	790.8
Share of net profits of joint venture entities accounted for using the equity method	36.4	44.9	28.8
Other income (including investment income)	4.1	8.1	6.3
Operating pass-through revenue	201.8	352.7	320.1
Total revenue excluding interest income	**710.8**	**1,268.4**	**1,146.0**
Asset operation and management expenses	(23.5)	(54.2)	(67.2)
Other pipeline costs – pass-through	(201.8)	(352.7)	(320.1)
Employee benefit expense	(84.5)	(166.2)	(145.5)
Other expenses	(2.1)	(18.6)	(24.1)
EBITDA	**398.9**	**676.7**	**589.1**
Finance costs	(164.7)	(319.8)	(298.9)
Finance income	0.7	13.7	20.2
Depreciation and amortisation expense	(74.7)	(134.6)	(120.0)
Profit before tax	**160.2**	**236.0**	**190.4**
Income tax expense	(39.5)	(62.2)	(50.3)
Profit after tax	**120.7**	**173.8**	**140.1**

Note:

1 There are no pro forma adjustments to the APA Group income statement for the six months ended 31 December 2013.

Refer to Annexure A of this Scheme Booklet for the detailed analysis of the pro forma adjustments in respect of FY2013 and FY2012.

(c) APA Group balance sheet

A$ Million	31 December 2013 statutory[1]
Current assets	
Cash and cash equivalents	60.7
Receivables, inventories and other current assets	179.6
Total current assets	**240.3**
Non-current assets	
Property, plant and equipment	5,397.8
Equity accounted investments	605.1
Receivables and other financial assets	257.6
Goodwill and other intangible assets	1,324.9
Total non-current assets	**7,585.4**
Total assets	**7,825.7**
Current liabilities	
Trade and other payables	171.7
Provisions	68.4
Other financial liabilities	77.8
Total current liabilities	**317.9**
Non-current liabilities	
Provisions and other payables	52.8
Deferred tax liabilities	248.3
Borrowings and other financial liabilities	4,738.6
Total non-current liabilities	**5,039.7**
Total liabilities	**5,357.6**
Net assets	**2,468.1**
Equity	
Issued capital	2,398.0
Reserves	(70.8)
Retained earnings	140.9
Total equity	**2,468.1**

Note:

1 The working capital position at HY2014 for the APA Group is that current liabilities exceed current assets by $77.6 million primarily as a result of $77.8 million of cash flow hedge liabilities. The APA Group Directors continually monitor the working capital position, including forecast working capital requirements and have ensured that there are appropriate refinancing strategies and adequate committed funding facilities in place to accommodate financial obligations as and when they fall due.

(d) APA Group pro forma cash flows for HY2014, FY2013 and FY2012

A$ Million	HY2014 pro forma	FY2013 pro forma	FY2012 pro forma
Receipts from customers	757.7	1,359.1	1,214.8
Payments to suppliers and employees	(413.8)	(702.4)	(653.7)
Dividends received	28.4	51.9	41.7
Proceeds from repayment of finance leases	2.4	5.0	4.4
Interest received	3.2	8.5	36.9
Interest and other costs of finance paid	(160.9)	(285.6)	(281.1)
Income tax paid	0.1	(0.1)	–
Net cash provided by operating activities	**217.1**	**436.4**	**363.0**
Payments for property, plant and equipment	(200.7)	(415.4)	(450.4)
Proceeds from the sale of property, plant and equipment	0.5	0.6	0.5
Payments for equity accounted investments	–	(65.4)	(28.5)
Payments for controlled entities net of cash acquired	–	(8.2)	(5.7)
Payments for intangible assets	(0.9)	(1.1)	(0.4)
Proceeds from sale of businesses	1.8	–	–
Net cash used in investing activities	**(199.3)**	**(489.5)**	**(484.5)**
Increase (decrease) in borrrowings	118.6	48.5	595.1
Proceeds from issue of securities	–	83.2	44.6
Payment of debt issue costs	(2.0)	(25.9)	(13.8)
Payment of security issue costs	(0.1)	(0.1)	(0.1)
Distributions paid	(154.6)	(301.5)	(269.8)
Net cash used in financing activities	**(38.1)**	**(195.8)**	**356.0**
Net decrease in cash and cash equivalents	(20.3)	(248.9)	234.5
Cash and cash equivalents at beginning of financial year	81.0	329.9	95.4
Cash and cash equivalents at end of financial year	**60.7**	**81.0**	**329.9**

Refer to Annexure A of this Scheme Booklet for the detailed analysis of the pro forma adjustments for HY2014, FY2013 and FY2012.

6.14 Rights and benefits of New APA Securities

The All Scrip Consideration under the Scheme will be New APA Securities, which will be fully paid and will rank equally with existing APA Securities and will be able to be traded on the ASX.

Further information on rights and liabilities attaching to APA Securities can be found in Section 6.18 of this Scheme Booklet.

6.15 APA Group's capital structure

As at the close of trading on 3 April 2014, the last practicable trading day before the date of this Scheme Booklet, APA Group's issued securities included 835,750,807 APA Securities.

6.16 APA Group substantial securityholders

As at the close of trading on 3 April 2014, being the last practicable trading day before the date of this Scheme Booklet, the APA Group Responsible Entity had been notified of the following Relevant Interests of 5% or more in its issued securities as set out in **Figure 6.17**.

Figure 6.17: APA Group substantial securityholders

APA Securityholder	Number of APA Securities	Percentage holding
Unisuper Ltd	57,698,008	6.90%
Deutsche Bank AG and its Related Bodies Corporate	44,378,960	5.31%

6.17 Funding Available Cash Consideration

APA Group has agreed to provide Available Cash Consideration up to an aggregate cap of $241 million.

APA Group intends to fund the Available Cash Consideration using available cash and drawing on existing bank facilities. To meet this funding obligation, APA Group has available to it:

(a) finance facilities, being existing syndicated and bilateral bank facilities, with an undrawn committed amount of $647 million as at 31 March 2014 which is for general corporate purposes and is available to fund the Available Cash Consideration. Further details of the syndicated and bilateral bank facilities are set out below; and

(b) cash reserves of immediately available cash on hand of at least $14 million as at 31 March 2014, consisting of deposits with major commercial banks.

In November 2011, APA Group executed a three-tranche syndicated bank facility. The first tranche of that facility was repaid and cancelled in December 2012, and the facility currently comprises the following two tranches:

(a) Tranche B – three year revolving credit facility ($483.333 million); and

(b) Tranche C – four year revolving credit facility ($483.333 million).

The members of the syndicated bank facility are:

Australia and New Zealand Banking Group Limited;
The Bank of Nova Scotia Asia Limited;
The Bank of Tokyo-Mitsubishi UFJ, Ltd;
BNP Paribas;
Citibank N.A., Sydney Branch;
Commonwealth Bank of Australia;
DnB NOR Bank ASA, Singapore Branch;
HSBC Bank Australia Limited;
Mizuho Corporate Bank Ltd;
National Australia Bank Limited;
Oversea-Chinese Banking Corporation Limited;
Royal Bank of Canada;
The Royal Bank of Scotland plc, Australia Branch;
Sumitomo Mitsui Banking Corporation, Sydney Branch; and
Westpac Banking Corporation.

As at 31 March 2014, the syndicated bank facility was drawn to $530 million.

Bilateral bank facilities are provided by:

Australia and New Zealand Banking Group Limited – $100 million;
The Bank of Tokyo-Mitsubishi UFJ, Ltd – $100 million;
Commonwealth Bank of Australia – $150 million;
National Australia Bank Limited – $100 million; and
Westpac Banking Corporation – $100 million.

As at 31 March 2014, the bilateral banking facilities were drawn to $340 million.

The drawdown of funds under the finance facilities described in this Section 6.17 is subject to the various conditions precedent, the key conditions including:

(a) there being no event of default or review event in existence or which would result from the borrowing of such funds; and

(b) there being no potential event of default in existence.

Other conditions precedent relate to limited representations and warranties and other procedural conditions precedent, usual for facilities of this nature, many of which are subject to "material adverse effect" considerations.

The term "material adverse effect" means a material adverse effect on the ability of APA Group obligors (taken as a whole) to perform their obligations under the finance documents or a material adverse effect on the material remedies or rights of the finance parties under the finance documents.

At the date of this Scheme Booklet, APA Group is not aware of any reason why such conditions precedent will not be satisfied to allow the proceeds to be available to pay any amounts that APA Group may be required to pay in respect of the Available Cash Consideration as and when such amounts are due.

Having regard to the matters in this Section 6.17, APA Group believes that it continues to have access to funds in excess of the total amount of Available Cash Consideration that it may be required to pay under the Scheme, as well as its costs associated with the Scheme.

6.18 Summary of the rights and liabilities attaching to APA Securities

APA Securities consist of one APT Unit and one APTIT Unit, stapled together and jointly quoted on the ASX.

The rights and liabilities attaching to APA Securities are determined by the APA Group Constitutions, applicable law and the ASX Listing Rules. The following is a summary of the rights and liabilities attaching to APA Securities. In the absence of any amendment to the APA Group Constitutions or change in applicable law or the ASX Listing Rules, these rights and liabilities will attach to New APA Securities issued under the Scheme. It is not an exhaustive summary of the rights and liabilities attaching to APA Securities.

(a) Summary of the APA Group Constitutions

Each of APT and APTIT are registered managed investment schemes. The APA Group Responsible Entity is the responsible entity for each of APT and APTIT. Both APT and APTIT are established under their respective constitutions which contain the main rules governing their operation. The Corporations Act, exemptions and declarations given by ASIC, the ASX Listing Rules (subject to waivers), and the general law of trusts are also relevant to the rights and obligations of the APA Group Responsible Entity and of APA Securityholders (referred to as members for the purposes of the summary below).

The APA Group Responsible Entity must ensure that the APA Group Constitutions meet the requirements of the Corporations Act. The APA Group Responsible Entity may amend the APA Group Constitutions without member approval if it reasonably considers that the amendment will not adversely affect members' rights. Any other amendments must be approved by a special resolution of members.

The key rights attaching to APTIT Units and the APT Units under the APA Group Constitutions and the Corporations Act are identical (except as set out below) and for that reason have not been separately summarised. The main provisions of the APA Group Constitutions (which are governed by the laws of New South Wales) that deal with the rights and obligations of members are:

(i) **units:** a fully paid APT Unit and APTIT Unit confers an undivided interest in APT and APTIT, respectively. The APA Group Constitutions contemplate the issue of options, partly paid APT Units and partly paid APTIT Units;

(ii) **stapling:** the APA Group Constitutions provide for the stapling of one APT Unit or one APTIT Unit to any other security or securities which the APA Group Responsible Entity in the future causes to be stapled to APT Units or APTIT Units. Where, as with APT Units and APTIT Units, stapling occurs, members will be holders of the other stapled security and the stapled securities will be able to be traded only as a single stapled security on the ASX[61];

(iii) **distributions:** subject to the terms of issue of particular APT Units or APTIT Units, members on the relevant trust's register at the end of a distribution period are entitled to a share in the relevant trust's income (and any capital which is to be distributed) proportionate to their holding. The distribution periods are the periods ending on 30 June and 31 December or such other dates as may be determined by the APA Group Responsible Entity. Outside of distributions to be paid at the end of distribution periods, the APA Group Responsible Entity may make distributions of capital and income in its discretion. Generally, the APA Group Responsible Entity will pay them within three months of the end of the relevant distribution period;

(iv) **transfer:** while they are stapled, APT Units and APTIT Units may only be transferred together. Unitholders may transfer APA Securities by proper transfer in the manner prescribed by the APA Group Responsible Entity. The APA Group Responsible Entity may refuse to register a transfer of APA Securities where the transfer is not in registrable form or where such a refusal is permitted by the ASX Listing Rules or the ASX;

61 A stapling deed has been entered into by the APA Group Responsible Entity in its capacity as the responsible entity of APT and APTIT under which it must consult and co-operate in respect of a number of matters. Under this deed, while APT and APTIT remain stapled, the APA Group Responsible Entity must have regard to the interests of APA Securityholders as a whole and not only interests of unitholders of APT and APTIT considered separately.

(v) **no redemption:** there is no right of redemption of APT Units or APTIT Units. The APA Group Responsible Entity may only consolidate, subdivide, cancel or otherwise reorganise APT Units or APTIT Units if the trust, corporation or managed investment scheme whose securities are stapled to the APT Units or APTIT Units also consolidates, subdivides, cancels or otherwise reorganises the corresponding stapled securities;

(vi) **winding up:** if APT or APTIT is terminated and wound up, members are entitled to receive a share of the net proceeds of the realisation of all cash, investments, rights and other property of the relevant trust, proportionate to their holding, after adjustment for any unpaid amounts on the APT Units or APTIT Units (as relevant) and after the APA Group Responsible Entity has deducted its remuneration and costs and subject to any special rights or restrictions attached to any APA Securities or the direction in writing of all APA Securityholders. The APA Group Responsible Entity is also entitled to distribute assets to members in specie. Each of APT and APTIT terminate on the earlier of the date determined by the APA Group Responsible Entity, and the date on which they are otherwise terminated in accordance with the APA Group Constitutions or by law;

(vii) **members' liability:** for fully paid units, a member's liability is limited under the APA Group Constitutions to the amount paid (or payable in the case of partly paid APT Units or APTIT Units) for their APT Units or APTIT Units;

(viii) **meetings:** members' rights to requisition, attend and vote at meetings are mostly prescribed by the Corporations Act. The APA Group Constitutions provide that the quorum for a meeting is, depending on the type of meeting, either 10 or 20 members. While the APT Units are stapled to APTIT Units, meetings of APT and APTIT may be held concurrently. Each APT Unitholder and APTIT Unitholder is entitled to receive notice of, attend and (except in certain circumstances) vote at general meetings of APT and APTIT and to receive all notices, accounts and other documents required to be sent to APT Unitholders and APTIT Unitholders under the APA Group Constitutions or the Corporations Act; and

(ix) **voting:** at a general meeting of APT and APTIT, APT Unitholders and APTIT Unitholders present in person or by proxy, attorney or representative have one vote on a show of hands and one vote for each dollar of the value of APT and APTIT Units held on a poll. Voting on resolutions is by a show of hands unless a poll is demanded, except if the resolution is a special resolution, which must be decided on a poll.

The APA Group Constitutions also deal with the powers, duties and liabilities of the APA Group Responsible Entity:

(x) **powers:** generally, the APA Group Responsible Entity has all powers that it is possible to confer on a trustee and all powers incidental to ownership of the assets of APT or APTIT as though the APA Group Responsible Entity were the absolute and beneficial owner of those assets. In exercising its powers, the APA Group Responsible Entity may acquire or dispose of any real or personal property and borrow or raise money, encumber any asset of APT or APTIT, incur any liability, enter into joint venture arrangements or fetter any power;

(xi) **issues:** subject to the APA Group Constitutions, the Corporations Act and the ASX Listing Rules, the APA Group Responsible Entity has power to issue APT Units or APTIT Units and options over APT Units or APTIT Units on such terms as it determines. Once APT Units are stapled to APTIT Units to form an APA Security, any issue of new APT Units must be matched by a corresponding issue of APTIT Units and stapled together. The APA Group Constitutions contain a number of limits as to the price at which units may be issued. Those limits are consistent with the Corporations Act (as modified by relevant ASIC class orders) and the ASX Listing Rules;

(xii) **duties:** the APA Group Responsible Entity's duties are mainly contained in the Corporations Act;

(xiii) **fees and expenses:** the APA Group Responsible Entity may recover out of each of APT and APTIT's assets, expenses properly incurred in the operation of APT and APTIT, respectively. The APA Group Constitutions also authorise the APA Group Responsible Entity to receive fees calculated at the rate

of 0.55% per annum of gross asset value of all cash, investments, rights and other property of each of APT and APTIT. These fees are payable quarterly and may be waived by the APA Group Responsible Entity. APA Group Responsible Entity's position in respect of fees and expenses is detailed further in Section 9.5 of this Scheme Booklet;

(xiv) **rights:** the APA Group Responsible Entity may also:

i. take and act upon advice from professionals;

ii. value the assets of APT and APTIT at any time (at market value unless it determines there is no market in respect of an asset or that the market value does not represent the fair value of the asset); and

iii. hold APT Units or APTIT Units in any capacity, contract with any person (including itself, a member or any associate) and hold or deal in or have any other interest in an APT or APTIT asset.

The APA Group Responsible Entity is entitled to be indemnified out of the assets of APT and APTIT for any liability it incurs in properly performing or exercising any of its duties in relation to APT and APTIT, respectively. Requests for free copies of the APA Group Constitutions may be made by contacting APA Group.

(b) Directors of the APA Group Responsible Entity

In accordance with the provisions of a deed poll made in 2004 by the APA Group Responsible Entity in favour of the APT Unitholders for the time being and from time to time and pursuant to the provisions of the constitution of the APA Group Responsible Entity, the APA Group Responsible Entity has agreed to use its best endeavours:

(i) to allow APT Unitholders to nominate a person to fill any vacancy on the board of the APA Group Responsible Entity which arises following the retirement of a director by rotation or who retires at an annual general meeting of the APA Group Responsible Entity having been appointed since the previous annual general meeting of the APA Group Responsible Entity by the directors of the APA Group Responsible Entity either to fill a casual vacancy on the board or as an addition to the board;

(ii) to procure that APT Unitholders are given an opportunity to approve any such nominations by resolution or postal ballot; and

(iii) if there are more nominations than vacancies, to procure that an election is held and those whose nominations are approved by the highest majorities are taken to have been approved for the purposes of filling the vacancies.

(c) Valuation of APA Securities

The APA Group Responsible Entity has formed the view that, for the purposes of clause 4.3(b) of each of the APA Group Constitutions, the current market value of one Envestra Share is equivalent to 0.1919 APA Securities. The APA Group Responsible Entity has formed this view on the basis that the best reflection of the current market value of Envestra Shares in the context of the Scheme is the value which it is prepared to pay and which will be approved by Participating Envestra Shareholders if the Scheme is to become Effective.

If the Scheme becomes Effective, Participating Envestra Shareholders will be taken to have stated that, for the purposes of clause 4.3(b) of the APA Group Constitution, the current market value of one Envestra Share is equivalent to 0.1919 APA Securities.

The APA Group Responsible Entity has acknowledged that the statement of value in this Section is acceptable to it, as required by clause 4.3(b) of each of the APA Group Constitutions.

As a consequence of the above, if the Scheme becomes Effective, the APA Group Responsible Entity will become empowered, under the APA Group Constitutions, to issue APA Securities to Participating Envestra Shareholders in accordance with the terms of the Scheme.

6.19 APA Group Distribution Reinvestment Plan

The APA Group Distribution Reinvestment Plan allows APA Securityholders to have their semi-annual distributions automatically reinvested into additional APA Securities, at a discount to the market price, without brokerage or other transaction costs.

The APA Group Distribution Reinvestment Plan is not currently in operation following the decision of the APA Group Board to suspend it until further notice, announced on 19 June 2013.

When it operates, participation in the APA Group Distribution Reinvestment Plan is optional. APA Securityholders may join, vary their participation or withdraw from the Distribution Reinvestment Plan at any time.

Under the APA Group Distribution Reinvestment Plan, APA Securities may be issued at a discount to the market price, as set by the APA Group Responsible Entity from time to time, with the market price being calculated as the weighted average price of all APA Securities sold on the ASX over a period of 10 trading days ending on the fifth trading day prior to the date scheduled for payment of the relevant distribution (or an alternative period thought to be appropriate by the APA Group Responsible Entity).

6.20 ASIC benchmarks

ASIC Regulatory Guide 231 – Infrastructure entities: Improving disclosure for retail investors sets out the following benchmark and disclosure principle requirements for infrastructure entities. A full copy of the ASIC guide can be found on the ASIC website.

APA Group is an "infrastructure entity" for the purposes of that regulatory guide and, accordingly, has made the required disclosure against the benchmarks and disclosure principles, which can be found on APA Group's website at http://apa.com.au/about-apa/corporate-governance.aspx. A summary of APA Group's disclosure against the benchmarks is also included in the table below, which you should read together with the more fulsome disclosure available on APA Group's website.

BENCHMARK DISCLOSURE REQUIREMENT	APA GROUP STATEMENT AND EXPLANATION
1 **Corporate structure and management** (conform with ASX Corporate Governance Principles and Recommendations)	The benchmark is met other than in respect to Recommendation 2.4 of the Revised ASX Corporate Governance Principles and Recommendations, in that APA Group has not established a nomination committee of the Board. The Board has determined that the efficient handling of the selection and appointment of new directors (and any related matters) can be done by the full Board and the process is not diminished by the absence of a nomination committee. APA Group publishes a corporate governance statement in its Annual Report, which also sets out detailed disclosures in respect of compliance with ASX Listing Rule Guidance Note 9. A copy of the most recent APA Group Annual Report is available on the APA Group website at www.apa.com.au.

BENCHMARK DISCLOSURE REQUIREMENT	APA GROUP STATEMENT AND EXPLANATION
2 Remuneration of management (incentive-based, derived from the performance of the infrastructure entity)	The benchmark is met in respect of remuneration paid to key management personnel. APA Group publishes a remuneration report in the APA Group Annual Report. A copy of the most recent APA Group Annual Report is available are on the APA Group website at www.apa.com.au.
3 Classes of units and shares (fully paid with same rights)	The benchmark is met.
4 Substantial related party transactions (compliance with ASX Listing Rule 10.1)	The benchmark is met for substantial related party transactions between APA Group and entities outside APA Group. APA Securityholder approval would be sought as required under ASX Listing Rule 10.1. The benchmark is not met for related party transactions between APT and APTIT. APA Group has obtained ASIC relief and an ASX waiver to permit transactions (without the need to comply with the related party transaction requirements of the ASX Listing Rules or the Corporations Act) between APT, APTIT and their controlled entities given that they are part of a group with the same securityholders.
5 Cash flow forecasts (for the current financial year, the entity has prepared and had approved (a) a 12-month cash flow forecast and has engaged an independent person in connection with it, and (b) an internal unaudited cash flow forecast for each new significant infrastructure asset)	(a) The benchmark is met. (b) This benchmark is not currently applicable as APA Group has not acquired any new significant assets in the last 12-month period.
6 Base-case financial model (before any new material transaction, and at least once every three years, an assurance practitioner reviews the entity's base-case financial model)	The benchmark is met.
7 Performance and forecast (actual outcome for the first two years of operation of new infrastructure assets equals or exceeds any original publicly disclosed forecasts)	The benchmark is not currently applicable. APA Group does not publicly disclose forecasts to justify the acquisition or development of infrastructure assets.

BENCHMARK DISCLOSURE REQUIREMENT	APA GROUP STATEMENT AND EXPLANATION
8 Distributions (no distributions from scheme borrowings)	The benchmark is met.
9 Updating unit prices	The benchmark is not applicable to APA Group. The benchmark only applies to unlisted unit trusts. APA Group is listed on the ASX.

6.21 Labour standards or environmental, social or ethical considerations

APA Group generally does not take labour standards and ethical, social or environmental considerations into account when making investment decisions. However, these factors may sometimes be implicitly taken into account when investment decisions are made. APA Group is also committed to operating in a safe and sustainable manner and to minimising the environmental impact of its activities. Further information is outlined on APA Group's website at www.apa.com.au.

6.22 ACCC informal approval

On 26 July 2013, the ACCC announced that it was commencing a review of the proposed Scheme under its Merger Process Guidelines. Following a period of market enquiries, the ACCC announced on 27 August 2013 that it would not oppose the proposed Scheme.

6.23 APA Group is required to disclose certain information to the ASX

New APA Securities form part of the Scheme Consideration, and accordingly the Corporations Act requires that this Scheme Booklet include all information that would be required for a product disclosure statement for an offer of New APA Securities.

APA Group is a listed disclosing entity for the purposes of the Corporations Act and, as such, it is subject to regular reporting and disclosure obligations. Specifically, like all listed entities, the APA Group Responsible Entity is required to continuously disclose to the market any information of which it is aware that a reasonable person would expect to have a material effect on the price or the value of APA Securities.

Copies of documents lodged with ASIC in relation to APA Group (not being documents referred to in section 1274(2)(a) of the Corporations Act) may be obtained from, or inspected at, an ASIC office.

The APA Group Responsible Entity will provide a copy of each of the following documents, free of charge, to any person on request prior to the Scheme Meeting:

(a) the APA Group Constitutions;

(b) the most recent annual financial statement lodged with ASIC by APA Group for FY2013 and half year financial report lodged with ASIC by APA Group for HY2014; and

(c) any other document or financial statement lodged by APA Group with ASIC or the ASX under the continuous disclosure reporting requirements in the period after the lodgement of the full-year financial statements for FY2013 and before the lodgement of this Scheme Booklet with ASIC.

Requests for free copies of these documents may be made by contacting APA Group.

In addition, copies of all documents lodged with the ASX in relation to APA Group can be inspected at the registered office of APA Group during normal business hours. APA Group's website at www.apa.com.au also includes a wide range of information on APA Group (including copies of the above documents) and its activities.

SECTION

7

7 INFORMATION ABOUT THE COMBINED GROUP

7.1 Responsibility for information

The information set out in this Section 7 was prepared by APA Group and APA Group is responsible for the information contained in this Section 7.

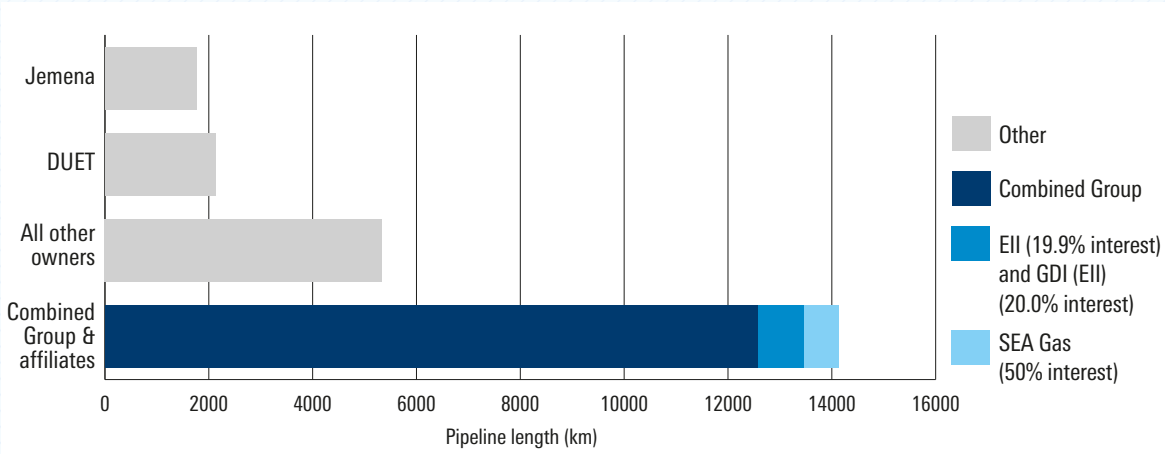
7.2 The Combined Group

Participating Envestra Shareholders who receive New APA Securities as part of their Scheme Consideration will become securityholders in the Combined Group. The Combined Group combines the strengths of the two groups – Envestra's portfolio of east Australian gas distribution networks with APA Group's gas transmission and energy infrastructure assets, and its operating and management resources.

The Combined Group will:

- be Australia's largest natural gas infrastructure business, with a market capitalisation of over $6 billion[62];
- own and operate approximately $12.2 billion of energy infrastructure, principally gas transmission pipelines, gas distribution networks and gas storage facilities, as well as complementary infrastructure such as gas-fired and renewable electricity generation, gas processing plants and electricity transmission;
- retain the respective industry leading positions of APA Group and Envestra in gas pipelines and gas distribution networks;

Figure 7.1: Australian gas transmission pipeline ownership (by km)[63]

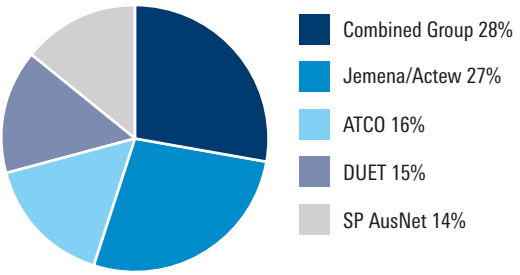


Source: "Electricity Gas Australia 2013", Energy Supply Association of Australia; APA Group data; Envestra data

62 Assuming an APA Security price of $6.0974 and pro forma APA Securities on issue of 1,027 million, calculated as 836 million existing APA Securities currently on issue plus 191 million New APA Securities issued as Scheme Consideration (assuming payment of cash up to the entire Available Cash Consideration).

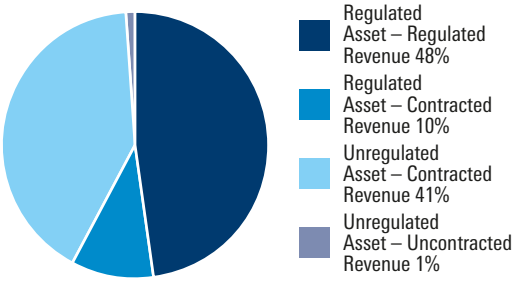
63 Includes all transmission pipelines in which the Combined Group will have an equity interest.

Figure 7.2: Australian distribution network market share (by connections)



- retain the benefits of APA Group's rank in Australian and global indices, and exposure to equity investors and debt capital markets;
- have a well-diversified and stable revenue base, sourced from a mix of regulated and contracted revenue with approximately 48% of revenue subject to full regulation, approximately 10% of revenue from regulated assets with negotiated tariffs and 41% under contract with either light regulation or no regulation;

Figure 7.3: FY2013 pro forma Combined Group breakdown by revenue type



Source: APA Group

- retain APA Group's operation and management role for Envestra's assets, leveraging its extensive history and experience in maintaining the assets and further potential synergies as outlined in Section 7.5 of this Scheme Booklet. APA Group's history and experience in managing Envestra's assets minimises integration risks and key personnel risk; and
- continue to develop existing and future growth projects, many of which are unique to the Combined Group due to its asset footprint.

Refer to Section 7.7 for pro forma financials for the Combined Group.

7.3 Capital structure and ownership

As at 3 April 2014, APA Group had 835,750,807 ordinary securities on issue. If the Scheme is implemented, the APA Group Responsible Entity will issue a maximum amount of 230,865,810[64] New APA Securities to acquire a 100% interest in Envestra.

If the Scheme is implemented, the overall interest of Envestra Shareholders (excluding APA Group) in the Combined Group will be between approximately 18.6% and 21.6%, depending on how many Participating Envestra Shareholders elect to receive Maximum Cash Consideration.

7.4 Combined Group Board and management

If the Scheme is implemented, the members of the current APA Group Board will continue to form the board of the Combined Group. APA Group currently intends to restructure the Envestra Board and seek the resignation of the existing Envestra Directors. Similarly, APA Group will review and reconstitute the boards of Envestra's subsidiaries.

The APA Group Board intends that Mr Michael McCormack will continue as Chief Executive Officer and Managing Director of the Combined Group, and that the senior management team for the Combined Group will comprise the APA Group senior management team set out in Section 6.11 of this Scheme Booklet. See Section 7.6 of this Scheme Booklet for further information.

7.5 Strategic rationale for the Scheme

The Scheme has a strong strategic rationale providing benefits for securityholders in the Combined Group from the following three key areas:

- aligned ownership and operatorship of Envestra's assets;
- diversity of assets and operations; and
- increased financial strength and size benefits.

(a) Aligned ownership and operatorship of Envestra's assets

The combination of APA Group and Envestra will align the ownership and operatorship of Envestra's assets, providing the greatest incentives and capability to drive operational improvements for the benefit of the Combined Group.

APA Group already manages and operates Envestra's gas distribution networks and pipelines and also provides commercial services to Envestra under long-term Operating and Management Agreements. Under the Operating and Management Agreements, APA Group has responsibility for planning, designing and constructing network extensions and promoting the use of gas within the network. The majority of the fees earned by APA Group under this agreement are based on a percentage of Envestra's revenues. APA Group has limited ability to earn incentive bonuses from driving increased revenue and controlling costs. The combination of Envestra and APA Group will align full ownership with business operations and provide greater incentives to promote the utilisation of gas with developers, builders, consumers and governments and councils in order to drive revenues.

Over the next four years, Envestra has plans for approximately $1.3 billion of capital works. These plans primarily relate to its mains renewal program. This program will provide improved integrity of supply and the opportunity to connect increased loads such as embedded power and co-generation with the ability to derive additional revenues. The combination of Envestra and APA Group will allow this program to be carried out through a more streamlined process with the development, design, approval financing,

64 On the basis of all Participating Envestra Shareholders electing to receive 100% of their Scheme Consideration in APA Securities, and assuming that no adjustment to the Scheme Consideration is required as described in Section 4.9 of this Scheme Booklet.

construction and management of the networks all undertaken by the Combined Group. The result of this will enable the full benefits of the program to be captured by the Combined Group.

Further, the Combined Group will be able to integrate ownership of the supply chain for the transportation of gas. This will arise through those APA Group's transmission pipelines that connect sources of gas production through to Envestra's mains reticulation network reaching customers in urban centres. This will allow for improved planning opportunities and operation efficiencies to better meet customer requirements.

The combination of Envestra and APA Group is also expected to provide corporate cost savings and other cost synergies (although these are likely to be modest) for the Combined Group. The Combined Group will continue to use APA Group's comprehensive systems and trained, qualified and experienced employees (who currently operate and maintain the Envestra assets), ensuring it is well placed to operate efficiently and with little disruption from implementation of the Scheme.

(b) Diversity of assets and operations

The combination of APA Group's extensive portfolio of transmission pipelines and other energy infrastructure with Envestra's natural gas distribution networks and transmission pipelines will form a unique portfolio of natural gas infrastructure across mainland Australia.

The Combined Group will have an attractive mix of revenue sources with the relative stability provided by regulated assets and growth opportunities from APA Group's brownfield expansions and greenfield capital projects, expected to be in the order of $400 million per annum for the medium term. Expressed on a pro forma basis, FY2013 Combined Group revenue has approximately 48% of revenue subject to full economic regulation with the remainder from a mix of regulated assets with negotiated tariffs and assets with light regulation or unregulated tariffs.

The Combined Group will be well-placed to deliver long-term sustainable growth from its diversified and integrated suite of assets across gas transmission and distribution, energy infrastructure and asset management businesses.

(c) Increased financial strength and size benefits

The Combined Group is expected to have a market capitalisation of over $6 billion[65], which is likely to place it within the 40 largest entities by market capitalisation in the ASX All Ordinaries Index.

The Combined Group is expected to have an enhanced profile in both equity and debt capital markets. In particular, the Combined Group will continue to benefit from a consolidated inclusion in the S&P/ASX 50 index, as well as other global indices. Given its size, the Combined Group will have greater access to a broader range of more liquid capital markets to deliver competitive funding for Envestra and APA Group's capital expenditure programs.

7.6 APA Group's intentions for the business, assets and employees of Envestra

This Section 7.6 sets out APA Group's current intentions in respect of Envestra's business, assets, corporate structure and employees.

The statements of intention contained in this Section are based on information concerning Envestra and its business that is known to APA Group at the time of preparation of this Scheme Booklet either from publicly available sources or which APA Group obtained from Envestra in the course of its due diligence in connection with the proposed Scheme.

65 Assuming an APA Security price of $6.0974 and pro forma APA Securities on issue of 1,027 million, calculated as 836 million existing APA Securities currently on issue plus 191 million New APA Securities issued as Scheme Consideration (assuming payment of the entire Available Cash Consideration).

APA Group intends to conduct a review of Envestra's assets, business structure, capital, debt and financing arrangements to maximise profitability and value for APA Securityholders. APA Group's final decision on these matters will only be reached in light of all material facts and circumstances at the relevant time and after having had the opportunity to review Envestra's information in more detail after implementation of the Scheme. Accordingly, the statements set out in the following sections are statements of current intentions only and may change as new information becomes available or circumstances change.

(a) Continuation of the Envestra business

APA Group will continue to manage and operate Envestra's assets; however, this will be as part of the Combined Group. APA Group will also continue to operate the Envestra business in substantially the same manner as it currently operates and fully integrate the two businesses to drive further performance and sustainable growth. APA Group does not currently intend that any major changes will be made to the business or the deployment of fixed assets of the Envestra business.

(b) Corporate matters

If the Scheme is implemented, APA Group currently intends to:

- seek to have Envestra removed from the official list of the ASX as soon as practicable after the Implementation Date; and
- restructure the Envestra Board and review and reconstitute the boards of Envestra's subsidiaries.

(c) Integration

Due to APA Group's current role as manager and operator of Envestra's assets, integration will be focused on corporate and head office operations.

If the Scheme is implemented, APA Group currently intends to maintain APA Group's current head office in Sydney, Australia and co-locate offices, where able and deemed appropriate. Envestra's existing corporate head office function will be subsumed by the APA Group function in Sydney and its other offices as appropriate.

(d) Employees

If the Scheme is implemented, APA Group will continue the employment of all Envestra employees (other than the Envestra Managing Director) until at least 30 September 2014. APA Group is currently in consultation with Envestra employees in respect of their employment. However, it is possible that there will be some redundancies. All Envestra employees will be treated in accordance with the terms of their respective employment contracts in place at the date of the Scheme Implementation Agreement.

7.7 Combined Group pro forma historical financial information

(a) Combined Group overview

This Section 7.7 contains pro forma historical financial information which has been prepared to illustrate the historical financial information of the Combined Group. The pro forma historical financial information has been prepared to provide Participating Envestra Shareholders with an indication of the scale and size of the Combined Group and the illustrative financial effect on APA Group if the Scheme is implemented. It does not necessarily illustrate the financial information that would have been prepared had APA Group acquired Envestra on or before 31 December 2013.

The pro forma historical financial information set out in this Section should be read in conjunction with the risk factors set out in Section 8 of this Scheme Booklet, other information contained in this Scheme Booklet and the accounting policies of APA Group and Envestra as disclosed in their most recent financial reports.[66]

The pro forma historical financial information contained in this Section 7.7 has been derived from the financial statements of APA Group and Envestra, which were prepared in accordance with the recognition and measurement principles of Australian Accounting Standards. It is presented in an abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act.

The Investigating Accountant has been appointed to prepare an Investigating Accountant's Report on the Combined Group pro forma historical financial information. The Investigating Accountant's Report is set out in Appendix 2.

(b) Assumptions regarding capital structure

For the purposes of considering the effect of the Scheme on the capital structure of APA Group, the Combined Group pro forma historical financial information has been prepared on the assumption that APA Group owns 100% of Envestra following the implementation of the Scheme.

In preparing the Combined Group pro forma historical financial information it has been assumed that the Cash Consideration paid by APA Group will be the entire Available Cash Consideration of $241 million.

The assumed exchange ratio for each share in Envestra for each APA Security is 0.1919. The table below has been calculated assuming an APA Security price of $6.545 being the 30-day VWAP on 3 April 2014. The number of Envestra Shares not owned by APA Group for the purpose of calculating the total consideration is 1,203,052,685 which is derived as follows:

Envestra Shares on issue as at the date of this Scheme Booklet	1,796,808,474
Less: Envestra Shares held by APA Group	(593,755,789)
	1,203,052,685

The purchase consideration is assumed to be calculated as follows:

	A$ Million
Cash	241.0
Value of New APA Securities	1,252.3
Total consideration	1,493.3
Number of New APA Securities to be issued ('000s)	191,338

66 APA Group's HY2014 financial report and FY2013 financial report were disclosed to the market on 19 February 2014 and 21 August 2013, respectively. Envestra's HY2014 financial report and FY2013 financial report were disclosed to the market on 20 February 2014 and 22 August 2013, respectively.

(c) Sources of information and pro forma adjustments

The pro forma historical financial information presented in this Section 7.7 has been compiled from the following sources:

- for APA Group, the historical and pro forma income statements and statements of cash flows for HY2014 and FY2013 and the balance sheet as at 31 December 2013 presented in Section 6.13;
- for Envestra, the historical income statements and statements of cash flows for HY2014 and FY2013 and the balance sheet as at 31 December 2013 presented in Section 5.5; and
- the pro forma adjustments and assumptions to illustrate the financial effect of the completion of the Scheme as if the Scheme was effective from 1 July 2012.

(d) Combined Group pro forma income statements for HY2014 and FY2013

A$ Million	HY2014 pro forma Combined Group	FY2013 pro forma Combined Group
Operating revenue excluding pass-through revenue	752.7	1,353.5
Operating pass-through revenue	29.0	44.9
Other income	10.8	20.7
Total revenue	**792.5**	**1,419.1**
Asset operation and management expenses	(89.4)	(186.0)
Other pipeline costs – pass-through	(29.0)	(44.9)
Employee benefit expense	(86.9)	(171.0)
Other expenses	(4.7)	(23.9)
EBITDA	**582.5**	**993.3**
Finance costs	(236.0)	(486.2)
Finance income	0.9	14.6
Depreciation, impairment and amortisation expense	(108.9)	(199.7)
Profit before tax	**238.5**	**322.0**
Income tax expense	(62.6)	(87.1)
Profit after tax	**175.9**	**234.9**

The pro forma income statements of the Combined Group for HY2014 and FY2013 have been derived as follows:

A$ Million	HY2014 APA Group statutory	HY2014 Envestra statutory	Pro forma adjust-ments	HY2014 pro forma Combined Group
Operating revenue excluding pass-through revenue	468.5	293.1	(8.9)	752.7
Operating pass-through revenue	201.8	–	(172.8)	29.0
Other income	40.5	–	(29.7)	10.8
Total revenue	**710.8**	**293.1**	**(211.4)**	**792.5**
Asset operation and management expenses	(23.5)	(69.2)	3.3	(89.4)
Other pipeline costs – pass-through	(201.8)	–	172.8	(29.0)
Employee benefit expense	(84.5)	(2.4)	–	(86.9)
Other expenses	(2.1)	(3.8)	1.2	(4.7)
EBITDA	**398.9**	**217.7**	**(34.1)**	**582.5**
Finance costs	(164.7)	(62.5)	(8.8)	(236.0)
Finance income	0.7	0.2	–	0.9
Depreciation, impairment and amortisation expense	(74.7)	(31.0)	(3.2)	(108.9)
Profit before tax	**160.2**	**124.4**	**(46.1)**	**238.5**
Income tax expense	(39.5)	(37.3)	14.2	(62.6)
Profit after tax	**120.7**	**87.1**	**(31.9)**	**175.9**

A$ Million	FY2013 APA Group pro forma	FY2013 Envestra statutory	Pro forma adjust-ments	FY2013 pro forma Combined Group
Operating revenue excluding pass-through revenue	862.7	507.0	(16.2)	1,353.5
Operating pass-through revenue	352.7	–	(307.8)	44.9
Other income	53.0	0.5	(32.8)	20.7
Total revenue	**1,268.4**	**507.5**	**(356.8)**	**1,419.1**
Asset operation and management expenses	(54.2)	(137.1)	5.3	(186.0)
Other pipeline costs – pass-through	(352.7)	–	307.8	(44.9)
Employee benefit expense	(166.2)	(4.8)	–	(171.0)
Other expenses	(18.6)	(5.3)	–	(23.9)
EBITDA	**676.7**	**360.3**	**(43.7)**	**993.3**
Finance costs	(319.8)	(148.8)	(17.6)	(486.2)
Finance income	13.7	0.9	–	14.6
Depreciation, impairment and amortisation expense	(134.6)	(58.6)	(6.5)	(199.7)
Profit before tax	**236.0**	**153.8**	**(67.8)**	**322.0**
Income tax expense	(62.2)	(46.0)	21.1	(87.1)
Profit after tax	**173.8**	**107.8**	**(46.7)**	**234.9**

(i) Pro forma adjustments to derive the Combined Group pro forma income statements

The following pro forma adjustments have been included in the income statements of the Combined Group as if they had applied from 1 July 2012:

A$ Million	*Note*	HY2014 pro forma adjust-ment	FY2013 pro forma adjust-ment
Envestra equity accounted profit	*1*	(29.7)	(32.8)
Depreciation on fair value uplift to property, plant and equipment	*2*	(4.5)	(9.0)
Amortisation of contract intangible	*3*	1.3	2.5
Operating and Management Agreements	*4*		
• Operating revenue		(8.9)	(16.2)
• Pass-through revenue		(172.8)	(307.8)
• Pass-through costs		172.8	307.8
• Asset operation and management expenses		3.3	5.3
Interest on acquisition borrowings	*5*	(8.8)	(17.6)
Envestra merger proposal costs	*6*	1.2	–
Profit before tax		(46.1)	(67.8)
Income tax expense	*7*	14.2	21.1
Total pro forma adjustments		**(31.9)**	**(46.7)**

1. Removal of the APA Group equity accounted profit in relation to existing 33.05% investment in Envestra.
2. Increase in depreciation expense consistent with the uplift on property, plant and equipment from the book value recorded by Envestra to estimated fair value based on provisional accounting for the acquisition.
3. Elimination of the amortisation on the contract intangible asset recognised by APA Group in relation to the Operating and Management Agreements between APA Group and Envestra.
4. Elimination of amounts charged by APA Group to Envestra, including pass-through revenue and pass-through expenses in relation to the Operating and Management Agreements.
5. It has been assumed that the cash component of the Scheme Consideration will be funded by increased borrowings with effect from 1 July 2012. Accordingly, the pro forma adjustments reflect an increase in interest expense for HY2014 and FY2013.
6. Elimination of costs incurred by Envestra in relation to the APA Group merger proposal on the basis that they are considered to be non-recurring.
7. Income tax expense on the pro forma adjustments has been recognised at the rate of 30%.

(ii) APA Group statutory results for FY2014

The Combined Group pro forma income statements do not reflect a number of one-off items directly attributable to the Scheme:

1. transaction costs totalling $36.4 million will be funded from existing cash reserves and will be accounted for as follows:
   - $12.8 million of transaction costs incurred by APA Group will be expensed;
   - $13.1 million of transaction costs incurred by APA Group associated with the issue of New APA Securities will be offset against equity; and
   - $10.5 million of transaction costs incurred by Envestra will be treated as pre-acquisition expenses and eliminated on consolidation;
2. a gain after income tax of approximately $383.8 million will be recorded in relation to the increase in the fair value of APA Group's previously held 33.05% interest in Envestra Shares;
3. a loss after income tax of approximately $152.2 million will be recorded in relation to the settlement of the Operating and Management Agreements; and
4. the results for the period will only include the acquisition of Envestra from the date APA Group obtains control.

The above amounts will be reflected in the APA Group statutory accounts for FY2014 except for $10.5 million of transaction costs incurred by Envestra which will be treated as pre-acquisition expenses.

(iii) Synergies

No pro forma adjustments have been made for potential synergy benefits as APA Group has not had access to sufficient information to identify, confirm and quantify all available synergies, or to assess any costs to be incurred to achieve the synergies.

(e) Combined Group pro forma consolidated balance sheet as at 31 December 2013

A$ Million	31 December 2013 APA Group statutory	31 December 2013 Envestra statutory	Pro forma adjustments	31 December 2013 pro forma Combined Group
Current assets				
Cash and cash equivalents	60.7	1.1	36.4	25.4
Receivables, inventories and other current assets	179.6	59.2	(25.5)	213.3
Total current assets	**240.3**	**60.3**	**(61.9)**	**238.7**
Non-current assets				
Property, plant and equipment	5,397.8	2,593.7	450.0	8,441.5
Equity accounted investments	605.1	–	(384.4)	220.7
Receivables and other financial assets	257.6	29.3	–	286.9
Goodwill and other intangible assets	1,324.9	606.0	481.8	2,412.7
Total non-current assets	**7,585.4**	**3,229.0**	**547.4**	**11,361.8**
Total assets	**7,825.7**	**3,289.3**	**485.5**	**11,600.5**
Current liabilities				
Trade and other payables	171.7	52.2	(25.5)	198.4
Provisions and other liabilities	68.4	8.7	–	77.1
Other financial liabilities	77.8	1.3	–	79.1
Total current liabilities	**317.9**	**62.2**	**(25.5)**	**354.6**
Non-current liabilities				
Provisions and other payables	52.8	10.1	–	62.9
Deferred tax liabilities	248.3	228.6	(309.8)	167.1
Borrowings and other financial liabilities	4,738.6	2,125.9	241.0	7,105.5
Total non-current liabilities	**5,039.7**	**2,364.6**	**(68.8)**	**7,335.5**
Total liabilities	**5,357.6**	**2,426.8**	**(94.3)**	**7,690.1**
Net assets	**2,468.1**	**862.5**	**579.8**	**3,910.4**

A$ Million	31 December 2013 APA Group statutory	31 December 2013 Envestra statutory	Pro forma adjustments	31 December 2013 pro forma Combined Group
Equity				
Issued capital	2,398.0	869.7	369.5	3,637.2
Reserves	(70.8)	(8.5)	(7.2)	(86.5)
Retained earnings	140.9	1.3	217.5	359.7
Total equity	**2,468.1**	**862.5**	**579.8**	**3,910.4**

(i) Pro forma adjustments to derive the Combined Group pro forma balance sheet

The following pro forma adjustments have been made for purposes of illustrating the Combined Group balance sheet as if they had applied at 31 December 2013.

1. Based on an implied price of $1.256 per Envestra Share and on the assumption that the Cash Consideration paid by APA Group will be the entire Available Cash Consideration of $241.0 million, APA Group will acquire ownership of Envestra for a total consideration of $1,493.3 million. This will be funded by borrowings of $241.0 million and an issue of 191,337,691 New APA Securities to the value of $1,252.3 million.
2. It has been assumed that the total transaction costs of $36.4 million will be funded from existing cash reserves and will be accounted for as follows:
   - $12.8 million of transaction costs incurred by APA Group will be expensed;
   - $13.1 million of transaction costs incurred by APA Group associated with the issue of New APA Securities will be offset against equity; and
   - $10.5 million of transaction costs incurred by Envestra will be treated as pre-acquisition expenses and eliminated on consolidation.
3. The purchase price accounting for the acquisition has been determined on a provisional basis by allocating the difference between the purchase consideration and the carrying value of assets and liabilities in the 31 December 2013 consolidated balance sheet of Envestra to property, plant and equipment and associated deferred tax balances with the remaining difference being allocated to goodwill.

The provisional purchase price accounting for the acquisition is summarised as follows:

A$ Million		
Book value of Envestra net assets at 31 December 2013	862.5	
Less: pre-acquisition transaction costs	(10.5)	
Book value of net assets acquired		852.0
Increase in value of property, plant and equipment		450.0
Write-back of deferred tax liability related to property, plant and equipment		303.1
Goodwill and other intangible assets		634.0
		2,239.1
Less: existing 33.05% ownership interest		(745.8)
Purchase consideration		**1,493.3**
Purchase consideration comprised of:		
Cash		241.0
New APA Securities		1,252.3
		1,493.3

The pro forma adjustments to reflect the estimated financial effect of the accounting for the business combination are illustrative only and are limited to property, plant and equipment and the deferred tax impact from these allocations. The write back of the deferred tax liability arises as a consequence of Envestra joining the APA Group tax consolidated group which results in the tax value of property, plant and equipment being reset in accordance with tax consolidation rules.

Australian Accounting Standards require an allocation of fair value of assets and liabilities acquired. APA Group will undertake a formal allocation of its acquisition subsequent to the date when the Scheme is implemented. Accordingly that allocation may give rise to material differences in values allocated to the above balance sheet line items and may also give rise to fair value being allocated to other balance sheet line items.

It is intended that the Envestra entities will join the APA Group tax consolidated group. Under Envestra's existing financing arrangements, consent must first be obtained from the majority of its financiers (being financiers whose exposures in aggregate are more than 66.67% of the total) before the Envestra entities may accede to the APA Group tax sharing agreement.

For the purposes of the Combined Group pro forma balance sheet it has been assumed that Envestra will be joining the APA Group tax consolidated group (including, but not limited to, step up of the value of assets and the availability of Envestra's tax losses to be applied by the Combined Group).

4. Pro forma adjustments in respect of APA Group's existing 33.05% investment in Envestra.

These adjustments eliminate APA Group's existing 33.05% investment in Envestra which was recorded as an equity accounted investment of $384.4 million at 31 December 2013 and related deferred tax balances.

A$ Million	APA Group historical	Pro forma adjust-ments	Combined Group
Investments accounted for using the equity method	384.4	(384.4)	–
Deferred tax liabilities	(6.7)	6.7	–
Reserves	(15.7)	15.7	–

5. APA Group has Operating and Management Agreements with Envestra. The business combination settles this relationship and in accordance with Australian Accounting Standards the settlement of the pre-existing relationship is accounted for separately from the acquisition accounting. This adjustment expenses APA Group's existing contract intangible and goodwill of $152.2 million relating to the Operating and Management Agreements.

   In addition, the $25.5 million receivable owed to APA Group by Envestra in relation to December 2013 services provided in accordance with the Operating and Management Agreements has been eliminated.

6. Envestra's pro forma non-current borrowings totalling $2,088.5 million have continued to be disclosed as a non-current liability in the Combined Group pro forma consolidated balance sheet.

   The debt facilities to which Envestra or its subsidiaries are a party contain change of control provisions that could be triggered by the entry into the Scheme Implementation Agreement, the Scheme, the acquisition of Envestra Shares by APA Group following the implementation of the Scheme or the delisting of Envestra. If such a provision is triggered, this may allow the counterparty to demand immediate or earlier repayment of borrowed monies.

   Envestra has sought and received appropriate assurance from sufficient Envestra financiers, in a form acceptable to APA Group, that any change of control resulting from the Scheme will not be deemed "unacceptable" under Envestra's debt financing arrangements (refer to Section 8.3(b) of this Scheme Booklet).

7. Issued capital reconciliation:

A$ Million		**31 December 2013 pro forma Combined Group**
Issued capital:		
APA Group		2,398.0
Envestra		869.7
		3,267.7
New APA Securities issued as part of consideration for Envestra Shares	1,252.3	
Costs associated with issue of New APA Securities	(13.1)	
Elimination of Envestra issued capital on consolidation	(869.7)	
Increase in issued capital		369.5
		3,637.2

8. Reserves reconciliation:

A$ Million		31 December 2013 pro forma Combined Group
Reserves:		
APA Group		(70.8)
Envestra		(8.5)
		(79.3)
Elimination of reserves recognised in relation to APA Group's investment in Envestra	(15.7)	
Elimination of Envestra reserves on consolidation	8.5	
Decrease in reserves		(7.2)
		(86.5)

9. Retained earnings reconciliation:

A$ Million		31 December 2013 pro forma Combined Group
Retained earnings:		
APA Group		140.9
Envestra		1.3
		142.2
Gain on step up in value of APA Group's previously held 33.05% interest in Envestra Shares	383.8	
Loss on settlement of Operating and Management Agreements	(152.2)	
APA Group transaction costs expensed	(12.8)	
Elimination of Envestra retained earnings on consolidation	(1.3)	
		217.5
		359.7

(f) Combined Group pro forma cash flows for HY2014 and FY2013

A$ Million	HY2014 pro forma Combined Group	FY2013 pro forma Combined Group
Cash flows from operating activities		
Receipts from customers	871.5	1,610.2
Payments to suppliers and employees	(335.9)	(586.8)
Dividends received	9.4	20.3
Proceeds from repayment of finance leases	2.4	5.0
Interest received	3.4	9.4
Interest and other costs of finance paid	(232.1)	(447.9)
Income taxes paid	0.1	(0.1)
Net cash provided by operating activities	**318.8**	**610.1**
Payments for property, plant and equipment	(331.6)	(630.8)
Proceeds from the sale of property, plant and equipment	0.5	1.5
Payments for controlled entities net of cash acquired	–	(8.2)
Payments for intangible assets	(0.9)	(1.1)
Proceeds from sale of businesses	1.8	–
Net cash used in investing activities	**(330.2)**	**(638.6)**
Increase (decrease) in borrowings	183.8	95.3
Proceeds from issue of securities	–	83.2
Payment of debt issue costs	(2.5)	(28.5)
Payment of security issue costs	(0.1)	(1.9)
Distributions paid	(190.0)	(368.5)
Net cash used in financing activities	**(8.8)**	**(220.4)**
Net decrease in cash and cash equivalents	(20.2)	(248.9)
Cash and cash equivalents at beginning of financial year	82.0	330.9
Cash and cash equivalents at end of financial year	**61.8**	**82.0**

The pro forma cash flows of the Combined Group for HY2014 and FY2013 have been derived as follows:

A$ Million	HY2014 APA Group pro forma	HY2014 Envestra statutory	Pro forma adjust-ments	HY2014 pro forma Combined Group
Cash flows from operating activities				
Receipts from customers	757.7	295.5	(181.7)	871.5
Payments to suppliers and employees	(413.8)	(98.2)	176.1	(335.9)
Dividends received	28.4	–	(19.0)	9.4
Proceeds from repayment of finance leases	2.4	–	–	2.4
Interest received	3.2	0.2	–	3.4
Interest and other costs of finance paid	(160.9)	(62.4)	(8.8)	(232.1)
Income taxes paid	0.1	–	–	0.1
Net cash provided by operating activities	**217.1**	**135.1**	**(33.4)**	**318.8**
Payments for property, plant and equipment	(200.7)	(136.5)	5.6	(331.6)
Proceeds from the sale of property, plant and equipment	0.5	–	–	0.5
Payments for intangible assets	(0.9)	–	–	(0.9)
Proceeds from sale of businesses	1.8	–	–	1.8
Net cash used in investing activities	**(199.3)**	**(136.5)**	**5.6**	**(330.2)**
Increase (decrease) in borrowings	118.6	59.5	5.7	183.8
Payment of debt issue costs	(2.0)	(0.5)	–	(2.5)
Payment of security issue costs	(0.1)	–	–	(0.1)
Distributions paid	(154.6)	(57.5)	22.1	(190.0)
Net cash used in financing activities	**(38.1)**	**1.5**	**27.8**	**(8.8)**
Net decrease in cash and cash equivalents	(20.3)	0.1	–	(20.2)
Cash and cash equivalents at beginning of financial period	81.0	1.0	–	82.0
Cash and cash equivalents at end of financial period	**60.7**	**1.1**	**–**	**61.8**

A$ Million	FY2013 APA Group pro forma	FY2013 Envestra statutory	Pro forma adjust-ments	FY2013 pro forma Combined Group
Cash flows from operating activities				
Receipts from customers	1,359.1	575.1	(324.0)	1,610.2
Payments to suppliers and employees	(702.4)	(197.5)	313.1	(586.8)
Dividends received	51.9	–	(31.6)	20.3
Proceeds from repayment of finance leases	5.0	–	–	5.0
Interest received	8.5	0.9	–	9.4
Interest and other costs of finance paid	(285.6)	(144.7)	(17.6)	(447.9)
Income taxes paid	(0.1)	–	–	(0.1)
Net cash provided by operating activities	**436.4**	**233.8**	**(60.1)**	**610.1**
Payments for property, plant and equipment	(415.4)	(226.3)	10.9	(630.8)
Proceeds from the sale of property, plant and equipment	0.6	0.9	–	1.5
Payments for equity accounted investments	(65.4)	–	65.4	–
Payments for controlled entities net of cash acquired	(8.2)	–	–	(8.2)
Payments for intangible assets	(1.1)	–	–	(1.1)
Net cash used in investing activities	**(489.5)**	**(225.4)**	**76.3**	**(638.6)**
Increase (decrease) in borrowings	48.5	(129.3)	176.1	95.3
Proceeds from issue of securities	83.2	219.0	(219.0)	83.2
Payment of debt issue costs	(25.9)	(2.6)	–	(28.5)
Payment of security issue costs	(0.1)	(1.8)	–	(1.9)
Distributions paid	(301.5)	(93.7)	26.7	(368.5)
Net cash used in financing activities	**(195.8)**	**(8.4)**	**(16.2)**	**(220.4)**
Net decrease in cash and cash equivalents	(248.9)	–	–	(248.9)
Cash and cash equivalents at beginning of financial year	329.9	1.0	–	330.9
Cash and cash equivalents at end of financial year	**81.0**	**1.0**	**–**	**82.0**

(i) Pro forma adjustments to derive the Combined Group pro forma cash flows

The following pro forma adjustments have been made for purposes of illustrating the Combined Group cash flows as if they had applied from 1 July 2012.

A$ Million	*Note*	HY2014 cash flow pro forma adjust-ment	FY2013 cash flow pro forma adjust-ment
Envestra distributions to APA Group	*1*	(19.0)	(31.6)
Interest on acquisition borrowings	*2*	(8.8)	(17.6)
Operating and Management Agreements	*3*		
Receipts from customers		(181.7)	(324.0)
Payments to suppliers		176.1	313.1
Capital expenditure		5.6	10.9
Dividends paid by Envestra	*4*	57.5	93.7
Distributions paid	*5*	(35.4)	(67.0)
Payments for equity accounted investments	*6*	–	65.4
Proceeds from issue of securities	*7*	–	(219.0)
Increase (decrease) in borrowings	*8*	5.7	176.1
Total pro forma adjustments		**–**	**–**

1. Removal of dividends received by APA Group from Envestra in relation to its existing 33.05% investment in Envestra.
2. Additional finance costs on borrowings used to fund the cash component of the Scheme Consideration.
3. Removal of the amounts charged by APA Group to Envestra pursuant to the Operating and Management Agreements.
4. Removal of dividends paid by Envestra to shareholders.
5. Distributions paid by APA Group have been adjusted as it has been assumed that the APA Group securities to be issued to acquire Envestra were issued on 1 July 2012 and that those security holders received distributions equal to the cents per security paid by APA Group for FY2013 and HY2014.
6. Removal of payments made by APA Group to acquire shares in Envestra.
7. Removal of proceeds received by Envestra for the issue of shares.
8. Borrowings have been adjusted as it has been assumed that the pro forma adjustments would have resulted in movements in borrowings.

SECTION 8

8 RISK FACTORS CONCERNING THE COMBINED GROUP

8.1 Responsibility for information

The information set out in this Section 8 was prepared by APA Group and APA Group is responsible for the information contained in this Section 8.

8.2 Introduction

The Scheme presents a number of potential risks that you should consider when deciding how to vote on the Scheme and in deciding what Election you should make in respect of the form of Scheme Consideration. In making these decisions, you should read this entire Scheme Booklet carefully. You should also carefully consider the risk factors outlined in this Section and your personal circumstances. This Section is general only and does not take into account your individual objectives, financial situation, taxation position or particular needs.

If the Scheme is implemented, you will receive New APA Securities if you elect All Scrip Consideration or if you elect Maximum Cash Consideration and a scale back is required (unless you are an Ineligible Foreign Envestra Shareholder or an Unmarketable Parcel Participant whose entitlement will be dealt with as set out in Section 4.12 of this Scheme Booklet). Therefore, you will be exposed to the risks associated with an investment in the Combined Group.

If the Scheme does not proceed, Envestra will continue to be subject to a number of risks and uncertainties.

This Section outlines some of the:

- risks specific to the Scheme and the creation of the Combined Group (see Section 8.3 of this Scheme Booklet);
- risks specific to the Combined Group (see Section 8.4 of this Scheme Booklet); and
- general investment risks (see Section 8.5 of this Scheme Booklet).

You should carefully consider the risk factors discussed in this Section, as well as the other information contained in this Scheme Booklet before voting on the Scheme. If you are unclear in relation to any matter or uncertain if APA Securities are a suitable investment for you, you should seek independent professional advice.

Refer to Section 5.11 of this Scheme Booklet for further information on the existing risks relating to Envestra's business and the industry in which it operates if the Scheme is not implemented and Participating Envestra Shareholders retain their current investment in Envestra.

8.3 Risks specific to the Scheme and the creation of the Combined Group

(a) The value of New APA Securities is subject to market movements on the ASX

Under the terms of the Scheme, Participating Envestra Shareholders will be able to choose between All Scrip Consideration or Maximum Cash Consideration. Participating Envestra Shareholders who elect Maximum Cash Consideration may also receive New APA Securities, as the Available Cash Consideration is a capped amount. Where the total amount of Available Cash Consideration is required to be pro-rated amongst Participating Envestra Shareholders who elect Maximum Cash Consideration, those Participating Envestra Shareholders will receive some New APA Securities.

The value of the New APA Securities will fluctuate depending on the price at which the New APA Securities trade on the ASX after the Implementation Date.

For Ineligible Foreign Envestra Shareholders and Unmarketable Parcel Participants, the value of the consideration they will receive will depend on the price realised by the Cash Out Facility Nominee in respect of the sale of New APA Securities attributable to the Ineligible Foreign Envestra Shareholders or Unmarketable Parcel Participants.

Some Participating Envestra Shareholders may not intend to continue to hold the New APA Securities received and may wish to sell them on the ASX soon after the Implementation Date. In addition, the Cash Out Facility Nominee will sell New APA Securities attributable to Ineligible Foreign Envestra Shareholders and Unmarketable Parcel Participants on market as soon as reasonably practicable after the Implementation Date. There is a risk that such sales may exert downward pressure on the price of APA Securities in the short term.

In any event, there is no guarantee regarding the market price of APA Securities either in the period before the Scheme Meeting or after the Implementation Date. Future market prices may be either above or below current or historical market prices.

(b) Change of control

Some contracts to which Envestra or its subsidiaries are a party contain change of control provisions that could be triggered by the entry into the Scheme Implementation Agreement, the Scheme, the acquisition of Envestra Shares by APA Group following the implementation of the Scheme or the delisting of Envestra. If such a provision is triggered, this may allow the counterparty to demand immediate or earlier repayment of borrowed monies, review, adversely modify or terminate the contract. If a counterparty to any such contract were to demand immediate or earlier repayment of borrowed monies, terminate or seek to renegotiate the contract this may have an adverse effect on the Combined Group, depending on the relevant contract.

In respect of Envestra's debt financing, Envestra has sought and received appropriate assurance from sufficient Envestra financiers, in a form acceptable to APA Group, that any change of control resulting from the Scheme will not be deemed "unacceptable" under Envestra's debt financing arrangements.

(c) Integration and synergy

APA Group has not been able to identify, confirm and quantify all available synergies, or to assess any costs to be incurred to achieve synergies. However, APA Group reasonably expects that various cost savings and synergy benefits may be obtained over time through the integration of APA Group and Envestra. Achievement of any synergies is not certain. There is a risk that synergies may not be realised at all or not realised to their full extent, or that they may be realised over a longer period of time than anticipated. There is also a risk that implementation and other one-off costs may be substantial or greater than reasonably anticipated. This could have a material adverse impact on the Combined Group's financial position and performance.

The transition of information systems and data, technical, financial and legal information and resources may not proceed smoothly and may divert management's attention from managing APA Group's business. There may also be some employee resistance to changes as part of integration. There is a risk that revenue streams or operations could be disrupted or that costs associated with the transition may be greater than expected, which could adversely affect the Combined Group's financial position and performance.

(d) Impairment of goodwill and other intangible assets

The financial statements of the Combined Group will be prepared in conformity with A-IFRS and consistent with the current accounting policies of APA Group. Under A-IFRS, intangible assets that have an indefinite useful life including goodwill, are not subject to amortisation and are reviewed annually for impairment. Individual assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an individual asset may not be recoverable. Changes to the carrying amounts of intangible assets of the Combined Group could have an adverse impact on the reported financial performance of the Combined Group and, depending on the extent of the impact, could affect the amount of distributions paid by the Combined Group.

(e) Accounting revisions may be required

Envestra has particular accounting policies and methods which are fundamental to how it records and reports its financial position and results of operations. The directors of Envestra may have exercised judgement in selecting and applying certain accounting policies or methods which might have been reasonable under the circumstances yet might have resulted in reporting materially different outcomes than would have been reported under APA Group's policies and methods.

While no material differences between APA Group and Envestra policies and methods have been identified to date, there remains some uncertainty associated with the extent of the amount of any impact of any such differences. The integration of Envestra's accounting functions may lead to revisions of these accounting policies, which may adversely impact on the Combined Group's reported results of operations and/or financial position and performance.

(f) Change in risk and investment profile

Participating Envestra Shareholders who elect to receive All Scrip Consideration will receive New APA Securities in exchange for their Envestra Shares. Participating Envestra Shareholders who elect Maximum Cash Consideration may also receive New APA Securities, as the Available Cash Consideration is a capped amount. An investment in APA Group is not an identical substitute for an investment in Envestra as the Combined Group will have a different risk and investment profile.

Participating Envestra Shareholders who receive New APA Securities will be exposed to risk factors relating to APA Group, and to certain risks relating to the Combined Group. In some cases, those risks are different from or additional to those related to Envestra. See Section 8.4 of this Scheme Booklet for details of the risks relating to the Combined Group.

The investment profile for Participating Envestra Shareholders who receive New APA Securities will also change. The operational profile, capital structure and size of the Combined Group will be different to that of Envestra on a standalone basis.

These changes in risk and investment profile may be considered a disadvantage by some Participating Envestra Shareholders.

(g) Financing implications for Combined Group

If the Scheme proceeds, there may be financing implications for the Combined Group.

It is intended that over time, the covenants of the Envestra Group financings will be aligned with those of the APA Group financing facilities. Under Envestra's existing financing arrangements, consent must first be obtained from its financiers in order to align those facilities. The level of consent required will vary between Envestra financiers whose exposures are in aggregate 75% to 100% of the total depending on the alignment required. Until such consent is obtained, the Envestra Group will be required to be separately maintained from a financing perspective by the Combined Group. During this period, the Envestra Group financing arrangements will be treated as excluded subsidiaries for the purposes of the APA Group financing facilities.

Although financier consent for alignment will be sought after implementation of the Scheme, such consent may not be obtained in a reasonable time or at all. Accordingly, until such consent is obtained, the Combined Group will be required to separately maintain the Envestra Group facilities and operate its commercial dealings at arm's length from the APA Group. Further, the Envestra Group will be required to continue to produce separate accounts and comply with certain financial covenants. This may have a negative effect on the Combined Group's financial performance.

(h) Tax implications for Combined Group

If the Scheme proceeds, there may be tax implications for the Combined Group.

It is intended that, over time, the Envestra entities will be consolidated into the APA Group for tax purposes. Under Envestra's existing financing arrangements, consent must first be obtained from the majority of its financiers (being its financiers whose exposures are in aggregate more than 66.67% of the total) before the Envestra entities may accede to the APA Group tax sharing agreement. Until such consent is obtained, the Envestra entities must continue to comply with the Envestra tax sharing agreement and cannot be consolidated into the APA Group for tax purposes.

Although financier consent will be sought after implementation of the Scheme, such consent may not be obtained in a reasonable time or at all. Accordingly, the financial benefits of tax consolidation (including, but not limited to, step up of the value of assets to market value and the availability of Envestra's tax losses to be applied by the Combined Group) may not be realised when expected, or at all. This may have a negative effect on the Combined Group's financial performance.

(i) Tax consequences for Participating Envestra Shareholders

If the Scheme proceeds, there may be tax consequences for Participating Envestra Shareholders.

APA Securityholders receive their annual tax statement in connection with their holding in mid-September each year. This annual tax statement sets out important information that is required to be included in the tax returns of each APA Securityholder. The timing of this statement may impact on the time at which Participating Envestra Shareholders who elect to receive New APA Securities are able to lodge their tax returns.

Please refer to Section 10 of this Scheme Booklet for an explanation of the Australian tax implications of the Scheme. Participating Envestra Shareholders should seek their own independent professional advice regarding the individual tax consequences applicable to them.

8.4 Risks specific to the Combined Group

APA Group owns and operates natural gas transmission and distribution assets, spanning every state and territory on mainland Australia. APA Group's current projects include the construction of new energy infrastructure assets as well as the expansion of some of its existing assets.

Key business risks for the Combined Group

(a) Economic regulation of the Combined Group

Approximately 25% of APA Group's pro forma revenue (excluding pass-through revenue) for FY2013 was subject to prices determined under full regulation by the independent national and state energy regulators. Regulatory pricing periods generally run for five years and reflect the regulator's determination, amongst other matters, of APA Group's projected operating and capital costs, and weighted average cost of capital. However, costs can change materially within a regulatory pricing period resulting in adverse impacts on earnings.

The price regulation outcomes determined by the Australian Energy Regulator and the Economic Regulatory Authority of Western Australia under an Access Arrangement process for a full regulation asset may adversely affect APA Group's revenue in respect of that asset (to the extent revenue on a full regulation asset is not derived from a haulage contract that has its terms and conditions, including price, set for the period of the contract).

If APA Group is unable to efficiently manage the operating costs within regulatory allowance, or if the regulator's projection of the operating costs, capital costs, taxation and weighted average costs of capital at the beginning of a pricing period is insufficient to meet the actual costs incurred, this may adversely affect APA Group's earnings and/or financial position and performance.

In addition, a number of APA Group's assets are subject to light regulation which, while not a price regulation regime, does enable the regulator to arbitrate any disputes with customers on price and other terms of access.

Additionally, under the National Gas Law, any person (including customers seeking access to a pipeline) may make an application that an unregulated pipeline become "covered" and subject to economic regulation. If a determination and decision is made for coverage, it may increase costs associated with regulation and limit APA Group's ability to negotiate tariffs and other commercial terms.

(b) Bypass and competitive risk

Bypass and competitive risk occurs when a new transmission pipeline offers gas transportation services to the same end market serviced by existing pipelines. This risk is particularly applicable to the Moomba Sydney Pipeline and Parmelia Gas Pipeline. For example, the Eastern Gas Pipeline is a competitive pipeline to the Moomba to Sydney Pipeline, transporting gas from Victoria to the Sydney market. If bypass risk eventuates, APA Group's future earnings could be reduced if customers purchase gas transportation services from new or existing competing pipelines rather than from APA Group's existing pipelines.

(c) Gas demand risk

The volume of gas that is transported by APA Group is dependent on end-user demand. The relative price of gas and its competitive position with other energy sources (including electricity, coal, fuel oils, solar, wind and other alternate energy sources) may significantly change demand levels for services on APA Group's assets. The reduction in demand for APA Group's transmission services may also arise if the use of gas swap contracts by customers increases. Gas swap contracts involve customers "swapping" gas at specified delivery points so as to reduce the distance gas needs to be transported. Increased usage of such contracts may adversely affect future revenue. In addition, if APA Group's customers build gas storage facilities, this may reduce the demand for gas transmission and storage services on APA Group assets.

The competitive position of gas and the actions of APA Group's customers cannot be predicted with certainty. If the demand for gas weakens, it will adversely impact APA Group's future revenue, profits and financial position.

(d) Gas supply risk

The availability of competitively priced gas is essential for ongoing use of gas transmission pipelines and distribution networks. If there is a shortage of competitively priced gas, either as a result of gas reserve depletion or the unwillingness or inability of gas production companies to produce gas, APA Group's revenue and the carrying value of assets may be materially adversely affected.

(e) Counterparty risk

As part of its ongoing commercial activities, APA Group enters into transportation, storage and asset management agreements with various third parties. If a counterparty to such an agreement is unable to meet its commitments to APA Group whether in whole or in part, there is a risk that future anticipated revenue would reduce unless and until APA Group is able to secure an alternative customer. Counterparty risk also arises when contracts are entered into for derivatives with financial institutions. APA Group's counterparty risk is reduced by implementation of credit policies that apply to transportation and derivative contracts.

The failure of a counterparty to a transportation or derivative contract could, however, materially and adversely affect APA Group's financial position and performance and/or credit rating.

APA Group is also exposed to counterparty risk with respect to existing interest rate and foreign currency hedging arrangements. Exposures are regularly monitored in accordance with APA Group's treasury risk management policy.

(f) Interest rates and refinancing risks

APA Group is exposed to movements in interest rates where funds are borrowed at a floating interest rate and are not effectively hedged or where fixed rate debt is being refinanced. There is a risk that adverse interest rate movements may affect APA Group's earnings, both directly (through increased interest payments) and indirectly (through the impact on asset carrying values).

APA Group has borrowings extending through to 2024. Access to continuing financing sources to extend and/or refinance debt facilities will be important. An inability to secure new debt facilities at a similar quantum and cost to existing debt facilities may materially and adversely affect APA Group's operations and/or financial position and performance.

(g) Minority interest risk

APA Group has minority interests in a number of energy infrastructure enterprises and provides various services to these enterprises including one or more of corporate services, asset management, operation and/or maintenance services. As APA Group is not able to exercise control over the management or conduct of these enterprises, there is a risk that the decisions of these enterprises, including decisions relating to distributions or dividends, may not align with the interests or wishes of APA Group. Any decision by these enterprises to decrease or cease the payment of distributions or dividends, may adversely affect APA Group's financial position and performance.

(h) Investment risk

From time to time, APA Group may acquire infrastructure and related assets or undertake additional or incremental investment in its existing assets. Although the APA Group Board and APA Group's senior management have considerable expertise in the assessment and structuring of such investments, and they engage external expert assistance as considered necessary, any final investment decision places considerable reliance on many assumptions.

There is a risk that these assumptions and forecasts (some of which may relate to time periods many years away) may ultimately not be realised. If these assumptions and forecasts are not realised or are realised only in part, this may adversely affect APA Group's financial position and performance. There is also a risk that APA Group may be unable to secure further appropriate infrastructure investments on suitable terms, thereby limiting its growth.

(i) Contract renewal risk

A large part of APA Group's revenues is the subject of long-term negotiated contracts with end customers. Due to a range of factors including customer demand risk, gas supply risk, counterparty risk, bypass and competitive risk, APA Group may not be successful in recontracting the available pipeline capacity when it comes due for contract renewal. If APA Group is unable to recontract the available pipeline capacity when it comes due for renewal, it will adversely impact APA Group's future revenue, profits and financial position.

Other risks related to the APA Group as an owner and operator of energy infrastructure in Australia

(j) Operational risk

APA Group is exposed to a number of operational risks such as equipment failures or breakdowns, rupture of pipelines (including as a result of corrosion) with a risk of explosion, information technology systems failures or breakdowns, employee or equipment shortages, contractor default, unplanned interruptions including through industrial disputes or natural disasters, damage by third parties and unforeseen accidents. Operational disruption, the cost of repairing or replacing damaged assets and the risk of claims by shippers following an operational disruption, could adversely impact APA Group's earnings. Insurance policies may only provide protection for some, but not all, of the costs that may arise from unforeseen events.

APA Group also faces the risk that it could be forced to suspend gas pipeline services due to a failure on the part of a producer of natural gas to maintain supply. The suspension of gas production from the supplier, or a suspension of gas pipeline services by APA Group, may adversely affect APA Group's earnings and/or financial position and performance.

(k) Operating licences and authorisations

In addition to economic regulation, the natural gas industry in Australia is regulated from an operational perspective. APA Group is directly or indirectly subject to a range of regulatory requirements such as environmental laws and regulation, occupational health and safety requirements and technical and safety standards.

All pipeline, distribution, gas processing, storage and electricity generation assets owned and/or operated by APA Group require compliance with relevant federal, state and territory laws, regulations and policies. Changes in any such laws, regulations or policies may have an adverse impact on APA Group's pricing, costs or compliance regimes, which could materially affect APA Group's operations, earnings and/or financial position and performance.

In some instances, assets owned and/or operated by APA Group are dependent on the granting and maintenance of appropriate licences, permits or regulatory consents. Although these authorisations may be renewed following expiry or granted (as the case may be), there can be no guarantee that authorisations will be renewed, granted or continued, or renewed, granted or continued on no more onerous terms. Moreover, these authorisations are potentially subject to loss or forfeiture in the event of material non-compliance. Any failure to obtain or maintain necessary authorisations may adversely affect APA Group's operations and/or financial position and performance.

(l) Environmental risks

National, state and territory environmental laws and regulations affect the operations of APA Group's assets. These laws and regulations set various standards regarding certain aspects of health and environmental quality, provide for penalties and other liabilities for the violation of such standards, and establish, in certain circumstances, obligations to remediate current facilities and locations where operations are, or were, previously conducted.

There is a risk that liability could be imposed on APA Group for damages, clean-up costs or penalties in the event of discharge of prohibited substances into the environment, environmental damage caused by APA Group or previous owners of property or assets acquired by APA Group, or other non-compliance with environmental laws and regulations. Increased costs associated with regulatory compliance and/or litigation could adversely affect APA Group's earnings and/or financial position and performance.

(m) Land leases

APA Group's gas pipeline assets are primarily constructed and operated on land over which APA Group has easements on land that it leases from other entities or on land that it owns. If APA Group loses any lease or easement rights or is otherwise required to relocate its pipelines, the operating business could be adversely affected. APA Group's operations could also be negatively impacted if land access costs increase, including through rental increases, renewals of expiring agreements, prevention of easement encroachments or enforcement of APA Group's current land access rights.

(n) Construction and development risk

As part of growing its business, APA Group develops new assets and undertakes expansion to its existing assets. Development of APA Group's assets involves a number of typical construction risks including the failure to obtain necessary approvals, employee or equipment shortages, higher than budgeted construction costs, insolvency events and project delays, which may impact the commerciality and economics of the development or otherwise impact on APA Group's other assets.

(o) Disputes and litigation risks

In the course of its operations, APA Group may be involved in disputes and litigation. There is a risk that material or costly disputes or litigation could affect APA Group's financial position and performance. As at the date of this Scheme Booklet, APA Group is not aware of any litigation that would have a material adverse effect on it.

(p) Insurance

There may be some circumstances where APA Group's insurance will not cover, or will not be adequate to cover, the consequences of adverse events arising from operations, or where APA Group may become liable for pollution or other operational hazards against which it cannot insure or may have elected not to have insured or keep insured on account of high premium costs or otherwise. In that event, APA Group could incur significant costs that may adversely affect APA Group's financial position and performance.

(q) Risks specific to Envestra

Risks specific to Envestra are set out in Section 5.11(b) of this Scheme Booklet. Some or all of these risks may continue to be relevant to Envestra as part of the Combined Group.

8.5 General investment risks

Changes in global economic conditions (including changes in interest rates, inflation, foreign exchange rates and labour costs) as well as general trends in the Australian and overseas equity markets may affect the trading price of APA Securities on the ASX. One or more of these factors may cause APA Securities to trade below current prices and may adversely affect the operating and financial performance of the Combined Group. In addition, changes in the value of APA Securities may be unrelated or disproportionate to the actual operating performance of the Combined Group.

(a) Stock market fluctuations

The market price of APA Securities (including the New APA Securities to be issued pursuant to the Scheme) will be affected by the financial performance of APA Group and also varied and often unpredictable factors on the stock market generally. These factors include international share markets, interest rates, domestic and international economic conditions, investor sentiment, market supply and demand, and government taxation and other policy changes.

Additionally, APA Securities (including the New APA Securities to be issued pursuant to the Scheme) may trade at higher or lower prices than the price at the time of this Scheme Booklet.

(b) Economic conditions

The operating and financial performance of APA Group is influenced by a variety of general economic and business conditions including the level of inflation, interest rates and exchange rates, government fiscal, monetary and regulatory policies. A prolonged deterioration in general economic conditions, including an increase in interest rates or a decrease in demand, could materially and adversely affect APA Group's operations and/or financial position and performance.

(c) Access to capital

APA Group relies on access to debt and equity financing. The ability to secure financing, or financing on acceptable terms, may be materially adversely affected by volatility in the financial markets, globally or affecting a particular geographic region, industry or economic sector or by a downgrade in its credit rating. For these or other reasons, financing may be unavailable or the cost of financing may be significantly increased. Such inability to obtain, or increase to the costs of obtaining, financing could materially and adversely affect APA Group's operations and/or financial position and performance.

(d) Government policy and taxation

Changes in the National Gas Law and the National Gas Rules, relevant taxation laws, interest rates, accounting standards, other legal, legislative and administrative regimes, and government policies, may have an adverse effect on the assets, operations and ultimately the financial performance of APA Group. These factors may ultimately affect APA Group's financial position and performance and the market price of APA Securities.

SECTION 9

9 FEES AND OTHER COSTS

9.1 Responsibility for information

The information set out in this Section 9 was prepared by APA Group and APA Group is responsible for the information contained in this Section 9.

9.2 Consumer Advisory Warning

Did you know?

Small differences in both investment performance and fees and costs can have a substantial impact on your long-term returns.

For example, total annual fees and costs of 2% of your fund balance rather than 1% could reduce your final return by up to 20% over a 30-year period (for example, reduce it from $100,000 to $80,000).

You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs.

You may be able to negotiate to pay lower contribution fees and management costs where applicable. Ask the fund or your financial adviser.

To find out more

If you would like to find out more, or see the impact of the fees based on your own circumstances, the **Australian Securities and Investments Commission** (ASIC) website (www.moneysmart.gov.au) has a managed investment fee calculator to help you check out different fee options.

The law requires that the above standard Consumer Advice Warning be included at the beginning of the "Fees and other costs" Section of this Scheme Booklet.

Detailed information required by law about the fees and other costs of APA are provided in the Section below.

9.3 Ongoing fees and expenses of APA

Figure 9.1 below shows fees and other costs that you may be charged if you receive New APA Securities as part of your Scheme Consideration. These fees and costs may be deducted from the returns on your investment or from the assets of APA. You should read all the information about fees and costs because it is important to understand their impact on your investment. Please refer to Section 10 of this Scheme Booklet for an explanation of the Australian tax implications of the Scheme.

All fees and charges in Figure 9.1 are inclusive of the net amount of GST and take into account expected input tax credits or reduced input tax credits for GST on fees and charges where applicable.

Figure 9.1: Fees and other costs

Type of fee or cost	Amount	How and when paid
Fees when your money moves in or out of APA		
Establishment fee The fee to open your investment	Nil	N/A
Contribution fee The fee on each amount contributed to your investment either by you or your employer	Nil	N/A
Withdrawal fee The fee on each amount you take out of your investment	Nil	N/A
Termination fee The fee to close your investment	Nil	N/A
Management costs		
The fees and costs for managing your investment	The APA Group Responsible Entity is entitled to: • a fee of 0.55% per annum (including GST) of the value of APA's total assets, plus • reimbursement of actual administration costs. However, the APA Group Responsible Entity has waived its right to receive the fee to the extent that it exceeds costs incurred by it in acting as the APA Group Responsible Entity for so long as it acts as the responsible entity of APT and APTIT. The total management costs charged by the APA Group Responsible Entity are estimated to be $3.3 million per annum (0.084%[67] per annum of the value of APA's net assets), i.e. $42.12 for every $50,000 invested in APA Securities.	The APA Group Responsible Entity management fee is calculated and accrued on a monthly basis on the last day of each month and is payable out of the assets of APA in arrears on a quarterly basis.

67 This percentage fee is based on APA's combined pro forma net assets of $3.9 billion.

Type of fee or cost	Amount	How and when paid
Scheme of arrangement (Scheme) costs[68]		
Costs of the Scheme	Estimated at $25.9 million, i.e. $330.31 for every $50,000 invested in APA Securities.[69]	Payable out of the assets of APT.
Service Fees		
Investment switching fee The fee for changing investment options	Nil	N/A

9.4 Example of annual fees and costs relating to APA

Figure 9.2 below gives an example of how the fees and costs for APA can affect your investment over a one-year period.

You should use Figure 9.2 to compare this product with other managed investment products. All amounts are GST inclusive net of any reduced input tax credits.

Figure 9.2: Example of annual fees and costs

Example		Balance of $50,000 with a contribution of $5,000 during the year[70]
Contribution fees	Nil	N/A
PLUS Management costs	0.084% per annum	For every $50,000 you have in APA Securities, you will be charged $42.12 each year
Scheme costs[71]	0.661%	$330.31
EQUALS Cost of APA		If you had an investment of $50,000 at the beginning of the year and you put in an additional $5,000 during that year, you would be charged fees of **$372.44**

68 This does not include Envestra's costs in respect of the Scheme.

69 Calculated on the same basis and subject to the same assumption set out in footnote 67.

70 The amounts in this column are calculated based on APA's combined total pro forma net assets of $3.9 billion. The fees described in this table are paid by the APA Group Responsible Entity out of the assets of APA, and are not a separate liability of APA Securityholders.

71 This does not include Envestra's costs in respect of the Scheme.

9.5 Additional information on fees and expenses

APA Group Responsible Entity costs and expenses

The APA Group Responsible Entity, as the responsible entity of each of APT and APTIT, is entitled to charge an annual fee for acting as responsible entity of APT and APTIT of 0.55% per annum (including GST) of the total value of APA's assets, and to be reimbursed for any costs or expenses it incurs in the proper performance of its duties in relation to APT and APTIT. Such expenses include registry and audit fees, taxes, compliance costs, valuation fees and management fees.

Can the fees change?

Under the APA Group Constitutions, the APA Group Responsible Entity is entitled to waive its right to receive the annual fee. Historically, the APA Group Responsible Entity has always waived its right to receive the annual fee to the extent that it exceeds costs incurred by it in acting as the APA Group Responsible Entity, so that the total amount of fees and costs charged will only be those actual costs. The APA Group Responsible Entity currently has no intention to vary this practice.

However, the APA Group Responsible Entity could, if new circumstances such as changed market conditions apply, decide to charge an amount of the annual fee above the actual costs referred to above, up to the maximum allowed in the APA Group Constitutions of 0.55% per annum (including GST) of gross assets plus expenses without the consent of APA Securityholders. If it does so, it would give investors at least 30 days' notice of the change. Also, if the APA Group Responsible Entity was replaced as responsible entity of APT and APTIT, any replacement responsible entity could increase the fees and costs up to the amounts provided for in the APA Group Constitutions of 0.55% per annum (including GST) of gross assets plus expenses without the consent of APA Securityholders. APA Group currently has no intention of removing APL as the APA Group Responsible Entity and APL has no intention of retiring as the APA Group Responsible Entity.

How are fees paid?

The fees described in this Section 9 are paid by the APA Group Responsible Entity out of the assets of APA, and are not a separate liability of APA Securityholders.

Further information on the APA Group Constitutions is set out in Section 6.18 of this Scheme Booklet.

Costs of the Scheme

APA's costs (inclusive of GST) associated with the Scheme are:

- legal adviser costs – $1.8 million;
- accounting and taxation adviser costs – $0.5 million;
- investigating accountant costs – $0.4 million;
- financial adviser costs – $12.1 million; and
- other costs (including stamp duty and other consulting costs) – $11.1 million.

SECTION 10

10 AUSTRALIAN TAXATION IMPLICATIONS OF THE SCHEME

10.1 Introduction

This Section is a summary of the likely tax consequences for Participating Envestra Shareholders who dispose of their Envestra Shares and who:

- are residents of Australia for Australian income tax purposes;
- hold their Envestra Shares on capital account (or are taken, under Australian law, to hold their Envestra Shares on capital account), and not as revenue assets or trading stock for Australian income tax purposes;
- are not employees of Envestra for Australian income tax purposes;
- are not "life insurance companies";
- are not "temporary residents" for Australian income tax purposes; and
- are not subject to Taxation of Financial Arrangements (under Division 230 of the Income Tax Assessment Act 1997).

This summary also does not address any potential foreign tax consequences for Participating Envestra Shareholders.

This summary reflects the current provisions of the *Income Tax Assessment Act 1936* (Cth) (**1936 Act**) and the *Income Tax Assessment Act 1997* (Cth) (**1997 Act**), *A New Tax System (Goods and Services Tax Act 1999* (Cth), the current stamp duty law, the regulations made under those Acts and the current administrative practice of the Australian Taxation Office (**ATO**) and State Revenue Offices. Except where expressly stated, it does not otherwise take into account or anticipate changes in taxation laws, whether by way of future judicial decision or legislative actions.

A class ruling application has been lodged by APA with the ATO to confirm taxation guidance relevant to the Participating Envestra Shareholders who transfer their Envestra Shares to APA under the Scheme. The class ruling, when issued, will be available via the ATO website at www.ato.gov.au and, on either or both of the Envestra website at www.envestra.com.au or the APA website at www.apa.com.au.

It is anticipated that the class ruling will both confirm the availability and application of scrip for scrip rollover and be consistent with the taxation guidance of the Scheme for Participating Envestra Shareholders. Further, it is anticipated that the class ruling will be available before Participating Envestra Shareholders are required to vote on the Scheme, thereby providing certainty on the tax guidance of the Scheme for those Shareholders.

Participating Envestra Shareholders should be aware that the actual tax consequences of the proposed Scheme may differ to this guidance depending on their individual circumstances. As the information contained in this guidance is necessarily general in nature and does not provide final or definite tax advice for any individual Participating Envestra Shareholder, Participating Envestra Shareholders will need to consult their own independent professional tax advisers regarding the consequences of the Scheme in light of their own personal circumstances.

10.2 Capital Gains Tax consequences

If the Scheme is approved, the disposal of Envestra Shares held on capital account by an Australian resident Participating Envestra Shareholder will constitute a CGT event and may accrue a capital gain or loss.

(a) Capital gain or loss

Any capital gain or loss made by a Participating Envestra Shareholder upon disposal of their Envestra Shares under the Scheme is calculated as the difference between the capital proceeds received for their Envestra Shares and the cost base (or reduced cost base in the case of a capital loss) of their Envestra Shares.

The capital proceeds received by Participating Envestra Shareholders who choose the All Scrip Consideration will equal the market value of the New APA Securities received at the Implementation Date.

If Maximum Cash Consideration is selected, the capital proceeds received by Participating Envestra Shareholders will equal the cash amount received under the Scheme plus the market value of the New APA Securities received.

The cost base (or reduced cost base) for a Participating Envestra Shareholder of their Envestra Shares generally includes the cost of acquiring those Envestra Shares. Certain other incidental costs of acquisition and disposal, such as brokerage and stamp duty, may also be included to the cost base (or reduced cost base).

Participating Envestra Shareholders who in the past held Envestra Stapled Securities (Envestra Shares stapled to Loan Notes) should consider the determination of their Envestra Share CGT cost base as a consequence of interest and principal, payments received over the period of their Loan Notes and the termination of the Envestra Stapled Structure which occurred on 29 May 2009 when the final repayment of principal on the Loan Notes was made.

If a Participating Envestra Shareholder makes a capital gain on the disposal of Envestra Shares, that capital gain should be aggregated with any other capital gains of the same income year and any capital losses (of the same income year or brought forward from the prior income year) to ascertain the net capital gain to be included in their assessable income. This capital gain will be included in assessable income subject to the availability of such concessions as scrip for scrip rollover relief and the discount capital gains concession (which are discussed below).

If a Participating Envestra Shareholder makes a capital loss on the disposal of their Envestra Shares, that capital loss can be offset against capital gains in the same income year (but not against other assessable income) and any remaining capital loss can be carried forward to offset against capital gains arising in subsequent income years (subject to the Participating Envestra Shareholder satisfying any relevant carry forward loss tests).

Participating Envestra Shareholders should be aware that whilst the New APA Securities will consist of Units in trusts (both APT and APTIT), for taxation purposes, APT is treated as a company, with APTIT being treated as a trust. The taxation treatment for APT as a company and APTIT as a trust has implications not only for CGT and scrip for scrip roll-over relief considerations, but also for distributions received in respect of these securities in the future.

(b) Scrip for scrip rollover relief

Broadly, scrip for scrip rollover relief may be available to defer a capital gain made by a taxpayer if, under an arrangement, a taxpayer exchanges a share in a company for a share in another company. APT Securities are regarded as "shares" for income tax purposes; APTIT Securities are not.

Participating Envestra Shareholders will be exchanging their Envestra Shares with the New APA Securities (if the All Scrip Consideration is chosen), or with a combination of replacement securities and cash (if Maximum Cash Consideration is chosen and a scale back applies), or cash only (if Maximum Cash Consideration is chosen and no scale back applies). Under the current law, where Participating Envestra Shareholders make a capital gain in respect of their Envestra Shares and choose for the scrip for scrip rollover relief from CGT to apply, a partial scrip for scrip rollover should be available, as detailed below.

Scrip for scrip rollover will only be available in respect of "Eligible Proceeds" received in exchange for their Envestra Shares. As a result, the rollover only applies where a Participating Envestra Shareholder receives New APA Securities, and then only to the extent of the value of the APT Units received.

The value of the APT and APTIT securities received is likely to be based upon the weighing of the Net Tangible Asset (NTA) split of APT and APTIT respectively. If the transaction is implemented on or before

30 June 2014 then NTA is expected to be based upon the 31 December 2013 NTA. The reasonableness of this valuation methodology will be confirmed in the anticipated ATO Class Ruling.

(i) "Eligible Proceeds"

"Eligible Proceeds" (being the value of the New APA Securities that relates to APT Units) is reasonably expected to be 75.80% of the total New APA Securities value received (based on the NTA split at 31 December 2013).

(ii) "Ineligible Proceeds"

"Ineligible Proceeds" will be the value of the New APA Securities (being the APTIT Units), reasonably expected to be the remaining 24.20% of the value of the total New APA Securities received at the Implementation Date (based on the NTA split at 31 December 2013).

Where Maximum Cash Consideration is chosen, the amount of cash received by Participating Envestra Shareholders will also be regarded as "Ineligible Proceeds".

Broadly, the consequences of a Participating Envestra Shareholder choosing the scrip for scrip rollover relief are that:

- The portion of the capital gain made on disposal of Envestra Shares that is attributable to the "Eligible Proceeds" (value of the APT Units) as distinct from "Ineligible Proceeds" (the value of APTIT Units and any cash) would be deferred.
- The Participating Envestra Shareholder will be deemed (for CGT discount purposes only) to have acquired the APT Units at the time that they originally acquired their Envestra Shares. This may be relevant for capital gains tax discount purposes (refer Section 10.2(c) below).
- A Participating Envestra Shareholder would only be taxed on any capital gain made to the extent that it relates to the "Ineligible Proceeds" received (the APTIT Units and cash). Accordingly, the capital gain calculation would be the sum of the value of the APTIT Units and any cash, less the applicable portion of the existing cost base in their Envestra Shares referable to these proceeds.
- The cost base of the New APA Securities should All Scrip Consideration be elected and as a result of choosing the scrip for scrip rollover should comprise (based on the NTA split at 31 December 2013):
  - approximately 75.80% of their existing cost base in Envestra, as the cost base of the APT Units; and
  - approximately 24.20% of the market value of the New APA Securities as the cost base of the APTIT Units.
- Should Maximum Cash Consideration be elected (and a scale back applies such that New APA Securities are received), and scrip for scrip rollover is chosen, the cost base of the New APA Securities received in the case of the APT Unit will comprise that proportion of their existing Envestra Share cost base as is referable to the APT Unit component of the combined cash and New APA Securities value received. The cost base of the APTIT Unit received should be approximately 24.20% of the market value of the New APA Securities (based on the NTA split at 31 December 2013).
- Where scrip for scrip rollover is not available (e.g. in the case of a capital loss or ineligible proceeds) or not chosen, the CGT cost base of the New APA Securities received will be the value of the consideration provided for those New APA Securities; that is, the market value of the Envestra Shares exchanged at the Implementation Date. This should equate to the market value of the New APA Securities received regardless of whether All Scrip Consideration or Maximum Cash Consideration is chosen.

Again the allocation of "cost base" referable to the New APA Securities received (being the APT and APTIT Securities) is reasonably expected to be approximately 75.80% and 24.20% respectively.

(iii) Claiming scrip for scrip rollover relief

Participating Envestra Shareholders who seek to choose scrip for scrip rollover relief should include as assessable income in their tax return for the year in which the Implementation Date occurs only that portion of the capital gain which is attributable to the APTIT Units and Cash Consideration (if received) and not include the portion of the capital gain which is attributable to the APT Units.

(c) Discount capital gains concession

If a Participating Envestra Shareholder, who is an individual, trustee of a trust or a complying superannuation entity, makes a capital gain upon the disposal of their Envestra Shares, they may be eligible to claim the discount capital gains concession if they acquired their Envestra Shares at least 12 months before the Implementation Date (calculated by excluding the day of acquisition). The discount capital gains concession, if claimed, applies to capital gains after offsetting any capital loss.

This means that:

- in the case of an individual or a trustee of a trust, only 50% of the net capital gain (after deducting any available capital losses) made from the disposal of their Envestra Shares will be included in assessable income; and
- in the case of complying superannuation entities, only 2/3 of the net capital gain (after deducting any available capital losses) made from the disposal of their Envestra Shares will be included in assessable income.

The discount capital gains concession is not available for companies. It is also not available for Participating Envestra Shareholders who have held their Envestra Shares for less than 12 months prior to the Implementation Date.

10.3 Envestra FY2014 interim dividend and APA FY2014 final distribution (collectively, the "Distributions")

Envestra Shareholders who held Envestra Shares on the Dividend Record Date will be entitled to receive the Envestra FY2014 interim dividend to be paid by Envestra in April 2014.

APA Group's FY2014 final distribution will be also payable with respect to all New APA Securities issued to Participating Envestra Shareholders, subject to implementation of the Scheme by 30 June 2014. The Distributions should not be capital proceeds for CGT purposes on disposal of Envestra Shares and should be assessable or tax deferred receipts to investors as "normal" distributions in accordance with their individual tax circumstances.

10.4 Implications of holding New APA Securities

As the New APA Securities comprise both APTIT Units and APT Units, Participating Envestra Shareholders may receive distributions as a holder of these securities.

(a) Trust distributions from APTIT

APTIT is a trust and not a "public trading trust", and to the extent that there is a Distribution Amount (as defined in the APTIT Constitution) to which a unitholder is "presently entitled" in an income year, the Responsible Entity of APTIT should not be taxed on any of the taxable income of the trust. Instead Participating Envestra Shareholders who hold APTIT Units should be subject to tax on their share of the taxable income of APTIT.

Participating Envestra Shareholders may receive "tax deferred" distributions from APTIT. A Participating Envestra Shareholder should not generally include "tax deferred" distributions received in their assessable income. Instead, to the extent that a distribution includes a tax deferred amount, this would reduce the Participating Envestra Shareholder's cost base in the APTIT Unit held. Should the tax deferred distributions received by a Participating Envestra Shareholder exceed the Participating Envestra Shareholder's cost base of their units in APTIT, the excess would be taxed as a capital gain to the Participating Envestra Shareholder in the income year in which the excess was distributed. APTIT will issue statements to its unitholders in respect of the distributions it makes detailing the amount of the distribution and taxable or deferred components applicable.

(b) Distributions from APT

As mentioned in Section 10.2(a), APT Units are treated akin to company shares for the taxation purposes of APT and its unitholders. Effectively, distributions of profits are treated as dividends and may be franked or unfranked for imputation purposes.

Any distributions received by a Participating Envestra Shareholder with respect to an APT Unit should be included in the Participating Envestra Shareholder's assessable income in the income year in which the distributions are paid. To the extent that the distributions are franked, Participating Envestra Shareholders who are "qualified persons" will be required to include in their assessable income an additional amount representing the franking credit attached to the distributions.

Participating Envestra Shareholders who are "qualified persons" should be able to claim a tax offset equal to the amount of the franking credits attached to the distributions paid on the units. This tax offset will either reduce any tax payable by the Participating Envestra Shareholder, or give rise to a tax refund (to the extent that it exceeds the tax that is otherwise payable by the Participating Envestra Shareholder for that income year). Broadly, to be a "qualified person" in relation to a franked distribution, a Participating Envestra Shareholder must satisfy:

(i) The "holding period rule" – which requires that the APT Units be held "at risk" by a Participating Envestra Shareholder for a continuous period of at least 45 days (not including the day of acquisition or the day of disposal) at some stage between the date of acquisition (i.e. the Implementation Date) and 45 days after the APT Units become ex-dividend; and

(ii) The "related payments rule" – which requires that where an APT Unitholder is obliged to pass the benefits of distributions on to others, they must hold the units "at risk" for a continuous period of at least 45 days, commencing 45 days before and ending 45 days after (not including the date of acquisition and disposal) the APT Units become ex-dividend.

(iii) Participating Envestra Shareholders will also be regarded as a "qualified person" where the "small shareholder exemption" applies. This exemption is available where the sum of tax offsets to be claimed does not exceed $5,000 and the "related payments rule" does not apply.

APT will issue distribution statements detailing the amount of the distributions and their tax attributes as franked or unfranked.

10.5 Subsequent disposal of New APA Securities on or after Implementation Date

The disposal of New APA Securities received by Australian resident Participating Envestra Shareholders under the Scheme, and held on capital account, will constitute a CGT event and may accrue a capital gain or loss.

The acquisition time of the New APA Securities will be relevant to determining the eligibility for CGT discount upon subsequent disposal of the New APA Securities.

For income tax purposes, and depending upon whether scrip for scrip rollover is available and chosen or not, the acquisition time of New APA Securities will be as follows:

- APT Units (where scrip for scrip rollover is available and chosen) will be deemed to be acquired on the original acquisition date of the Envestra Shares exchanged; or
- APT Units (where scrip for scrip rollover is not available or chosen) will be acquired on the Implementation Date; and
- APTIT Units will be acquired on the Implementation Date.

(a) CGT consequences

The sale of New APA Securities by Participating Envestra Shareholders will constitute a CGT event and a capital gain or loss may accrue.

(i) Capital gain or loss

Any capital gain or loss made by a Participating Envestra Shareholder upon disposal of their New APA Securities is calculated as the difference between the capital proceeds received for their New APA Securities and the cost base (or reduced cost base) of their New APA Securities.

The capital proceeds received by Participating Envestra Shareholders should be the proceeds received on disposal of the New APA Securities.

The cost base of the New APA Securities is set out in Section 10.2(b) above.

If a Participating Envestra Shareholder makes a capital gain on the disposal of the New APA Securities, that capital gain should be aggregated with any other capital gains and any capital losses (of the same income year or brought forward from the prior income year) to ascertain the net capital gain to be included in their assessable income.

If a Participating Envestra Shareholder makes a capital loss on the disposal of the New APA Securities, that capital loss can be offset against capital gains in the same income year (but not against other assessable income) and any remaining capital loss can generally be carried forward to offset against capital gains arising in subsequent income years (subject to the Participating Envestra Shareholder satisfying any relevant carry forward loss tests).

(ii) Discount capital gains concession

If a Participating Envestra Shareholder, who is an individual, trustee of a trust or a complying superannuation entity, makes a capital gain upon the disposal of their New APA Securities, they may be eligible to claim the discount capital gains concession where they had held (or are deemed to hold) their New APA Securities for a period of at least 12 months. The discount capital gains concession is applied after reducing capital gains for any available capital losses.

For purposes of satisfying the CGT discount 12-month requirement, new APT Units will be deemed to have been acquired on the date that the exchanged Envestra Shares were actually acquired. However, this will only be the case if scrip for scrip rollover has been chosen in relation to the original Envestra Shares.

Where CGT discount is applicable, this means that:

- in the case of an individual or a trustee of a trust, only 50% of the net capital gain (after deducting any available capital losses) made from the disposal of their New APA Securities will be included in assessable income); and
- in the case of complying superannuation entities, only 2/3 of the net capital gain (after deducting any available capital losses) made from the disposal of their New APA Securities will be included in assessable income.

The discount capital gains concession is not available for Participating Envestra Shareholders who are companies.

10.6 Stamp duty

No stamp duty should be payable in Australia by Participating Envestra Shareholders on the disposal of their Envestra Shares under the Scheme or on acquisition of the New APA Securities under the Scheme.

10.7 GST

No Australian GST should be payable by Participating Envestra Shareholders in respect of the disposal of their interests in Envestra under the Scheme, their acquisition of their interest in the New APA Securities under the Scheme (if choosing the All Scrip Consideration or the scrip component of the Maximum Cash Consideration) or upon disposal of the New APA Securities.

However, even if registered for GST, Participating Envestra Shareholders may not be able to fully recover GST incurred on costs associated with the disposal and acquisition of their interests.

Participating Envestra Shareholders should seek their own independent tax advice on the consequences of GST.

SECTION

11

11 ENVESTRA ADDITIONAL INFORMATION

11.1 Responsibility for information

The information set out in this Section 11 was prepared by Envestra and Envestra is responsible for the information contained in this Section 11.

11.2 Interests in Envestra held by Envestra Directors

As at the date of this Scheme Booklet, the Envestra Directors have the following interests in securities in Envestra:

Name	Number of Envestra Shares in which an interest is held
John Allpass	399,632[1]
Ian Little	151,362[2]
Fraser Ainsworth AM	66,000[3]
Ivan Chan	NIL
Dominic Chan	NIL
Olaf O'Duill	231,923[4]
Michael McCormack	66,681
Ross Gersbach	NIL

Notes:

1 51,047 Envestra Shares are held directly by Mr Allpass. 306,360 Envestra Shares are held indirectly by Mr Allpass through the John G Allpass Superannuation Fund, an entity controlled by Mr Allpass. Mr Allpass also controls 42,225 Envestra Shares through the estate of his late mother.

2 These Envestra Shares are held indirectly by Mr Little through the Little Superannuation Fund, an entity controlled by Mr Little and Ms J Yuile.

3 These Envestra Shares are held indirectly by Mr Ainsworth through the Fraskel Superannuation Fund, an entity controlled by Mr Ainsworth and Mrs K Ainsworth.

4 These Envestra Shares are held indirectly by Mr O'Duill through the O'Duill No.1 Superannuation Fund, an entity controlled by Mr O'Duill.

The effect of the Scheme on the interests in Envestra Shares held by the Envestra Directors will be no different from the effect on the like interests of other persons.

11.3 Interests in APA Group held by Envestra Directors

As at the date of this Scheme Booklet, the Envestra Directors have the following interests in securities in APA Group:

Name	Number of APA Securities in which an interest is held
John Allpass	28,583[1]
Ian Little	NIL
Fraser Ainsworth AM	NIL
Ivan Chan	NIL
Dominic Chan	NIL
Olaf O'Duill	NIL
Michael McCormack	208,590
Ross Gersbach	485

Note:

1 6,000 APA Securities are held directly by Mr Allpass. 22,583 APA Securities are held indirectly by Mr Allpass through the John G Allpass Superannuation Fund, an entity controlled by Mr Allpass. In addition, Mr Allpass also indirectly holds 500 APA unsecured Sub.Cum FRN Notes maturing on 30 September 2072 (each of $100.00 face value) through the John G Allpass Superannuation Fund, an entity controlled by Mr Allpass.

11.4 Payments or other benefits to directors, secretaries or executive officers

Save as set out in this Section 11.4, no payment or other benefit will be made or given to any Envestra Director or any secretary or executive officer of Envestra, or any director, secretary or executive officer of a Related Body Corporate of Envestra, as compensation for loss of, or as consideration for or in connection with, his or her retirement from office as a director or secretary or executive officer of Envestra or a Related Body Corporate of Envestra.

(a) Entitlements under services agreements

Managing Director

Pursuant to the Managing Director's employment contract:

- Ian Little may terminate his employment by giving 12 months' notice; and
- Envestra may terminate Ian Little's employment by giving 12 months' notice.

In each case, Envestra may choose to pay Ian Little, in lieu of notice, the amount to which he would have been entitled for the period of notice (or the unexpired balance of the period of notice, as applicable) on account of annual remuneration, plus the amount of the last short-term incentive paid prior to the termination (pro-rated in the event that the unexpired balance of the period of notice is less than 12 months).

In addition to the termination provisions referred to above, if Ian Little ceases to be the most senior executive of the Envestra Group (including any holding company of Envestra), or there is a substantial diminution in Ian Little's role and responsibilities, or Envestra's securities cease to be listed on the ASX (or other recognised stock exchange) (**Fundamental Change**), then:

- Ian Little may terminate his employment with Envestra within six months of the event giving rise to the Fundamental Change and will, in this circumstance, be entitled to 12 months' total remuneration; and
- Ian Little will remain employed on a passive basis (with no duties) for any portion of the six-month period referred to above following his providing notice and will continue to accrue and/or be paid his contractual entitlements (including as to incentives) during that period (provided that Ian Little's employment may still be terminated for cause during that six-month period).

On termination of his employment, Ian Little is entitled to accrued annual and long service leave.

Mr Little may also be awarded an annual bonus of up to 30% of his total annual remuneration (**short-term incentive**)[72], and is also entitled to receive payment of a deferred short-term incentive (equal to 50% of the short-term incentive paid for the year three years' prior to that year), if he remains employed by Envestra as at 7 September in each year. This includes any period of notice, provided that he remains employed by Envestra during that notice period.

Executive Officers

Pursuant to the employment contracts of Des Petherick, Greg Meredith, Paul May, Andrew Staniford and Craig de Laine (the **Executive Officers**):

- the Executive Officer may terminate his employment by giving three months' written notice (except for Andrew Staniford, which is six months' written notice) – or payment by Envestra in lieu of notice at Envestra's election;
- Envestra may terminate the Executive Officer's employment by giving three months' written notice (except for Andrew Staniford which is six months' written notice) – or payment by Envestra in lieu of notice at Envestra's election; and

72 Refer to Section 11.4(b) for the arrangements in respect of Ian Little's short-term incentive for the 2013-14 financial year in the event that the Scheme is implemented before 30 June 2014.

- other than in relation to Craig de Laine, if Envestra proposes to change an Executive Officer's status, duties or responsibilities in a manner which will involve a significant diminution of his status, duties and responsibilities, it is deemed that Envestra has given notice to terminate the relevant Executive Officer's employment (as referred to immediately above).

If Envestra terminates the employment of an Executive Officer by giving notice, or is deemed to have given notice, upon termination:

- in relation to Des Petherick, Greg Meredith and Paul May, Envestra must pay an amount equal to the average annual base salary received in the last three years prior to termination of the Executive Officer's employment, reduced by any amount that is paid as the unexpired balance of the notice period;
- in relation to Andrew Staniford, Envestra must pay an amount equal to the base salary he would have received in the 12 months following his termination; and
- in relation to Craig de Laine, Envestra must pay an amount equal to the base salary he would have received in the nine months following his termination.

The Executive Officers may also be awarded an annual bonus of up to 25% of the base salary (up to 20% in the case of Craig de Laine) (short-term incentive) based on performance at the discretion of the Envestra Board. The short-term incentive (if any) is payable in September after the end of the relevant financial year to which it relates. Executive Officers are only entitled to the short-term incentive if they remain employed by Envestra as at 30 June of the year of payment, unless the Envestra Board determines otherwise. If an Executive Officer's employment terminates before 30 June in a particular year, the Envestra Board may, at its discretion, pay the pro-rated short-term incentive for that year.

Under the terms of the Scheme Implementation Agreement, APA Group has committed to continue the employment of the Executive Officers referred to above until at least 30 September 2014. Des Petherick, Greg Meredith, Paul May and Andrew Staniford are entitled to receive payment of a deferred short-term incentive (equal to 50% of the short-term incentive paid for the year three years' prior to that year), to which they become entitled on 1 July each year (and which is normally paid in September in each year). If the Scheme Becomes Effective prior to 30 June 2014, Des Petherick, Greg Meredith and Paul May will each be entitled to receive this payment regardless of whether they remain employed as at 1 July 2014.

On termination, the Executive Officers are entitled to payment of accrued annual and long service leave.

(b) Entitlements conditional upon the Scheme becoming Effective

If the Scheme is implemented before 30 June 2014, the Envestra Board has determined that Ian Little will be paid his short-term incentive for FY2014 (which would normally require Ian Little to remain employed as at 7 September 2014) in advance of 7 September 2014. The amount payable will be pro-rated to the extent that the Scheme is implemented prior to 30 June 2014.

(c) Retirement allowances for Envestra Directors

Until June 2003, non-executive Envestra Directors were entitled to receive retirement benefits on a sliding scale based on the number of years served on the Envestra Board. The maximum retirement benefit was payable after 10 years of service and is calculated as three times the average annual emoluments of the non-executive Envestra 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 eligible directors as at 30 June 2003. The benefit payable at the time of retirement is calculated using 10/13 of the three-year average annual emoluments immediately preceding the date of retirement and the years of service up to 30 June 2003. Only two Envestra Directors (John Allpass and Olaf O'Duill) are entitled to retirement benefits accrued prior to 30 June 2003 (with accrued benefits of $205,491 and $53,930 respectively, as at 30 June 2013).

11.5 Other agreements or arrangements connected with or conditional on the Scheme

Except as set out in this Section or as set out elsewhere in this Scheme Booklet, there is no agreement or arrangement made between any Envestra Director and any other person in connection with or conditional on the outcome of the Scheme:

(a) each Envestra Director who holds Envestra Shares at the Scheme Record Date will be entitled to receive the Scheme Consideration in accordance with the terms of the Scheme;

(b) under the Scheme Implementation Agreement, APA Group has indemnified the directors, company secretaries and employees of each member of Envestra and its Related Bodies Corporate from and against all claims, liabilities and losses which he or she may suffer or incur by reason of a breach of any of the representations, warranties and undertakings given by APA Group in clauses 7.5 and 8.2 of the Scheme Implementation Agreement;

(c) APA Group has agreed in the Scheme Implementation Agreement in favour of each Envestra Director and each Executive Officer and each other person who is a director of Envestra or any of its Related Bodies Corporate at the Implementation Date that Envestra will take out and maintain for a period of seven years following the Implementation Date, to the maximum extent permitted by law, insurance cover insuring each such person against liabilities incurred in the course of his or her service as a director, company secretary or employee of Envestra or its Related Bodies Corporate prior to implementation of the Scheme. If Envestra does not take out such insurance cover before the Implementation Date or it ceases to be in place or available for any reason during the period of seven years after the Implementation Date, APA Group will procure that Envestra takes out such cover on terms that are no less advantageous than the coverage provided under policies of the APA Group from time to time;

(d) APA Group has agreed in the Scheme Implementation Agreement, on its behalf and on behalf of each member of the APA Group and their respective directors, company secretaries or employees, that, to the maximum extent permitted by law, none of Envestra and its Representatives accepts responsibility for due diligence information provided to APA in connection with the Scheme;

(e) APA Group has agreed in the Scheme Implementation Agreement to release its rights to claim against any officer of Envestra in connection with any breach of any representations, covenants or warranties in the Scheme Implementation Agreement or any disclosures in connection with the Scheme Implementation Agreement, except where the Envestra officer has not acted in good faith or has engaged in wilful misconduct; and

(f) Fraser Ainsworth AM and John Allpass are entitled to be paid additional fees by Envestra of $25,000 and $15,000, respectively, in relation to the work that they have undertaken as directors of Envestra in relation to the Scheme. These fees are to be paid regardless of whether or not the Scheme is implemented.

11.6 Interests held by Envestra Directors in contracts of APA Group

Michael McCormack is the Managing Director and Chief Executive Officer of APA Group and is employed by APA Group under an employment contract. Ross Gersbach is Chief Executive Strategy and Development of APA Group and is employed by APA Group under an employment contract.

Other than as set out in Section 11.5 of this Scheme Booklet or this Section 11.6, no Envestra Director has an interest in any contract entered into by APA Group.

11.7 Other interests of Envestra Directors

Except as set out in this Scheme Booklet, no Envestra Director has any other interest material to the Scheme.

11.8 Envestra Directors' intentions regarding the business, assets and employees of Envestra

If the Scheme becomes Effective, all Envestra Shares which APA Group does not own will be transferred to APL in its capacity as responsible entity of APT. The Envestra Board understands that it is the present intention of APA Group to reconstitute the Envestra Board so that APA Group controls the Envestra Board. As such, it is not possible for the Envestra Directors to provide a statement of their intentions regarding:

- the continuation of the business of Envestra;
- any major changes to be made to the business of Envestra, including any redeployment of the fixed assets of Envestra; or
- the future employment of the present employees of Envestra.

The intentions of APA Group in relation to these matters are outlined above in Section 7.6 of this Scheme Booklet.

SECTION 12

12 APA GROUP ADDITIONAL INFORMATION

12.1 Responsibility for information

The information set out in this Section 12 was prepared by APA Group and APA Group is responsible for the information contained in this Section 12.

12.2 APA Group registry

APA Group's registry is Link Market Services.

12.3 APA Group interests in Envestra Shares

The following table shows the Relevant Interest of APA Group and its Associates in marketable securities in Envestra on 3 April 2014, the last practicable trading day before the date of this Scheme Booklet:

Holder of Relevant Interest	Registered holder of securities	Person entitled to be registered as holder	Number of securities	Person's votes	Percentage of total securities on issue
APA Group	APL	APL	593,755,789	593,755,789	33.05%

Except as stated in this Section 12.3 and Section 12.7 of this Scheme Booklet, neither APA Group nor any of its Associates (other than Envestra) have:

(i) a relevant interest in any Envestra Shares or any other marketable securities of Envestra;

(ii) provided, or agreed to provide, consideration for any Envestra Shares in the four months preceding the date of this Scheme Booklet; or

(iii) given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person, or an Associate, to vote in favour of the Scheme or dispose of Envestra Shares which benefit is not offered to all Participating Envestra Shareholders under the Scheme in the four months preceding the date of this Scheme Booklet.

12.4 APA Group Directors' interests in Envestra Shares

The following table shows the Relevant Interest of each APA Group Director in marketable securities in Envestra on 3 April 2014, the last practicable trading day before the date of this Scheme Booklet:

Name	No. of Envestra Shares in which an interest is held
Leonard Bleasel AM	NIL
Michael McCormack	66,681[1]
Steven Crane	NIL
John Fletcher	NIL
Russell Higgins AO	NIL
Patricia McKenzie	NIL
Robert Wright	NIL
	66,681

Note:

1 These Envestra Shares are held directly by Mr McCormack.

Except as stated in this Section 12.4:

(i) there are no marketable securities of Envestra held by or on behalf of APA Group Directors as at the date of this Scheme Booklet;

(ii) none of the APA Group Directors hold, or have any interest in, marketable securities of Envestra; and

(iii) there has been no dealing by any APA Group Director in any marketable securities of Envestra or APA Group in the four months preceding the date of this Scheme Booklet.

12.5 APA Group Directors' interests in APA Securities

The following table shows the Relevant Interest of each APA Group Director in marketable securities in APA on 3 April 2014, the last practicable trading day before the date of this Scheme Booklet:

APA Group Directors	Fully paid APA Securities
Leonard Bleasel AM	460,664[1]
Michael McCormack	208,590[2]
Steven Crane	100,000[3]
John Fletcher	66,188[4]
Russell Higgins AO	92,040[5]
Patricia McKenzie	12,500[6]
Robert Wright	39,444[7]
	979,426

Notes:

1 275,037 APA Securities are held directly by Mr Bleasel, including by Mrs Bleasel. 185,627 APA Securities are held indirectly by Mr Bleasel through Sambop Pty Limited.

2 These APA Securities are held directly by Mr McCormack.

3 These APA Securities are held indirectly by Mr Crane through Depeto Pty Limited.

4 33,927 APA Securities are held directly by Mr Fletcher. 32,261 APA Securities are held indirectly by Mr Fletcher through Mrs Dianne Fletcher.

5 13,894 APA Securities are held directly by Mr Higgins. 78,146 APA Securities are held indirectly by Mr Higgins through Clarity Research Pty Limited.

6 These APA Securities are held indirectly by Mrs McKenzie through Kelamarn Pty Ltd for the McKenzie Superannuation Fund.

7 These APA Securities are held indirectly by Mr Wright through R & C Wright Super Pty Ltd.

Except as stated in this Section 12.5:

(i) there are no marketable securities of APA Group held by or on behalf of APA Group Directors as at the date of this Scheme Booklet;

(ii) none of the APA Group Directors hold, or have any interest in, marketable securities of APA Group; and

(iii) there has been no dealing by any APA Group Director in any marketable securities of APA Group in the four months preceding the date of this Scheme Booklet.

12.6 Benefits from APA Group to Non APA Affiliated Directors

Subject to Section 12.7, there is no payment or other benefit that has been made or is proposed to be made or given by APA Group to any Non APA Affiliated Director in connection with the Scheme.

12.7 Other agreements or arrangements connected with or conditional on the Scheme

There is no agreement or arrangement made between any APA Group Director or any secretary or executive officer of APA Group and any other person in connection with or conditional on the outcome of the Scheme, except as set out in this Section or as set out elsewhere in this Scheme Booklet:

(a) under the Scheme Implementation Agreement, APA Group has indemnified the directors, company secretaries and employees of each member of Envestra and its Related Bodies Corporate (which includes the APA Affiliated Directors) from and against all claims, liabilities and losses which he or she may suffer or incur by reason of a breach of any of the representations, warranties and undertakings given by APA Group in clauses 7.5 and 8.2 of the Scheme Implementation Agreement;

(b) APA Group has agreed in the Scheme Implementation Agreement in favour of each Envestra Director (which includes the APA Affiliated Directors) and each Executive Officer and each other person who is a director of Envestra or any of its Related Bodies Corporate at the Implementation Date that Envestra will take out and maintain for a period of seven years following the Implementation Date, to the maximum extent permitted by law, insurance cover insuring each such person against liabilities incurred in the course of his or her service as a director, company secretary or employee of Envestra or its Related Bodies Corporate prior to implementation of the Scheme. If Envestra does not take out such insurance cover before the Implementation Date or it ceases to be in place or available for any reason during the period of seven years after the Implementation Date, APA Group will procure that Envestra takes out such cover on terms that are no less advantageous than the coverage provided under policies of the APA Group from time to time; and

(c) APA Group has agreed in the Scheme Implementation Agreement to release its rights to claim against any officer of Envestra (which includes the APA Affiliated Directors) in connection with any breach of any representations, covenants or warranties in the Scheme Implementation Agreement or any disclosures in connection with the Scheme Implementation Agreement, except where the Envestra officer has not acted in good faith or has engaged in wilful misconduct.

12.8 Cooling off regime

Cooling off rights do not apply to the Scheme.

12.9 Complaint handling procedures

The APT Constitution contains provisions which govern the procedures for dealing with complaints by APT Unitholders. The APTIT Constitution contains identical provisions.

The APA Group Responsible Entity has procedures in place to properly consider and deal with any complaints received from APT Unitholders and APTIT Unitholders in accordance with the applicable Australian standards on complaints handling. The APA Group Responsible Entity will use reasonable endeavours to deal with and resolve complaints within a reasonable time from the date of receipt of the complaint.

The APA Group Responsible Entity must record any APT Unitholder or APTIT Unitholder complaint and the date it was received in a register maintained for that purpose.

Complaints may be submitted in writing to:

By post:
Compliance Manager, APA Group
Level 19, HSBC Building
580 George Street
Sydney NSW 2000

By email:
APAfeedback@apa.com.au

Alternatively, you may call the Compliance Manager on +61 2 9693 0000 between 8.30am and 5.00pm (Sydney time), Monday to Friday.

The complainant should provide the APA Group Responsible Entity with all relevant information that the APA Group Responsible Entity may require to properly deal with, and resolve the complaint.

The APA Group Responsible Entity will inform the complainant by notice in writing of its decision in relation to the complaint, the remedies (if any) and any avenues of appeal that may be available.

The APA Group Responsible Entity will provide the complainant with all reasonable assistance and information required for the purpose of making a complaint and understanding the complaints handling procedures adopted by the APA Group Responsible Entity.

If you are dissatisfied with the response or the complaint is not dealt with and resolved within 45 days, you may raise the matter directly with the Financial Ombudsman Service. Its contact details are:

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Telephone: 1300 780 808

The APA Group Responsible Entity is a member of the Financial Ombudsman Service Limited.

12.10 Name and contact details

The APA Group Responsible Entity will issue the New APA Securities pursuant to the Scheme. The APA Group Responsible Entity's contact details are:

Australian Pipeline Limited
Level 19, HSBC Building
580 George Street
Sydney NSW 2000

12.11 Other material information

Other than as contained in or referred to in this Scheme Booklet, there is no other information material to the making of a decision by a Participating Envestra Shareholder about whether or not to vote in favour of the Scheme or to elect to receive New APA Securities under the Scheme that is known to APA Group, a director of APA Group, or a director of any member of the APA Group, and has not been previously disclosed to Participating Envestra Shareholders.

SECTION 13

13 GENERAL ADDITIONAL INFORMATION

13.1 Consents

The following parties have given and, before the date on which this Scheme Booklet was lodged with ASIC for registration, have not withdrawn, their consent to be named in this Scheme Booklet in the form and context in which they are named:

(a) Johnson Winter & Slattery, as Australian legal adviser to Envestra;

(b) Goldman Sachs Australia Pty Ltd, as financial adviser to Envestra;

(c) Grant Samuel & Associates Pty Limited, as the Independent Expert;

(d) Deloitte Corporate Finance Pty Ltd, as the Investigating Accountant;

(e) Link Market Services Limited, as Envestra's share registry; and

(f) APA Group, in respect of the APA Scheme Booklet Information and the Combined Group Scheme Booklet Information.

The following persons have given and, before the date on which this Scheme Booklet was lodged with ASIC for registration, have not withdrawn, their consent to the inclusion in this Scheme Booklet of the following statements in the form and context in which they are included:

(a) Grant Samuel & Associates Pty Limited, in respect of the Independent Expert's Report and references to that report in this Scheme Booklet;

(b) Deloitte Corporate Finance Pty Ltd, in respect of the Investigating Accountant's Report and references to that report in this Scheme Booklet; and

(c) APA Group, in respect of the APA Scheme Booklet Information and the Combined Group Scheme Booklet Information.

Each person referred to in this Section 13.1:

- has not authorised or caused the issue of this Scheme Booklet;
- does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based other than as specified in this Section 13.1; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Scheme Booklet except in respect of those reports or statements to which they have consented as specified in this Section 13.1.

13.2 Responsibility for information

The information set out in this Section 13 was prepared by Envestra and Envestra is responsible for the information contained in this Section 13.

13.3 No unacceptable circumstances

The Non APA Affiliated Directors believe that the Scheme does not involve any circumstances in relation to the affairs of Envestra that could reasonably be characterised as constituting "unacceptable circumstances" for the purposes of section 657A of the Corporations Act.

13.4 ASIC and ASX consents or approvals

Regulation 5.1.01 of the Corporations Regulations requires that, unless ASIC allows otherwise, the Scheme Booklet must contain all of the matters set out in Part 3 of Schedule 8 to the Corporations Regulations. As some of these requirements are not applicable or appropriate in respect of the Scheme, ASIC has allowed the following variations in this Scheme Booklet.

(a) Change in financial position

Clause 8302(h) of Schedule 8 of the Corporations Regulations requires the Scheme Booklet to disclose the extent to which the financial position of Envestra has materially changed since the date of the last balance sheet laid before Envestra's general meeting, being its financial statements for FY2013.

ASIC has allowed Envestra to confine its disclosure to all material changes to Envestra's financial position between 31 December 2013, being the end of Envestra's half year (the results in respect of which were announced to the ASX on 20 February 2014), and the lodgement of this Scheme Booklet for registration by ASIC, on condition that:

(a) the explanatory statement states that Envestra will give a copy of the financial report for the half year ended 31 December 2013 free of charge to any Envestra Shareholder who asks for a copy before the Scheme is approved by the Court;

(b) the explanatory statement sets out whether, within the knowledge of the directors of Envestra, the financial position of Envestra has materially changed since 31 December 2013. This information is provided in Section 5.7 of this Scheme Booklet;

(c) Envestra discloses in announcements to the ASX any material changes to its financial position that occur after the date of lodgement of the explanatory statement for registration by ASIC but prior to the Scheme being approved by the Court; and

(d) the explanatory statement sent to Envestra Shareholders is substantially in the form given to ASIC on or about 2 April 2014.

A copy of Envestra's half year report for the period ended 31 December 2013 is available on Envestra's website at www.envestra.com.au.

(b) Independent Expert's Report

Where a company the subject of a scheme of arrangement obtains two or more independent expert's reports, each of which could be used for the purposes of clause 8303 of Schedule 8 of the Corporations Regulations, the Scheme Booklet is required by clause 8304 of Schedule 8 of the Corporations Regulations to be accompanied by a copy of each such report.

Envestra's Independent Board Committee commissioned the Independent Expert, Grant Samuel & Associates Pty Limited, to prepare an initial report for the information of the Independent Board Committee prior to execution of the Scheme Implementation Agreement (**Initial Report**). The Initial Report was released to the ASX on 4 March 2014. Grant Samuel & Associates Pty Limited was then commissioned by Envestra's Independent Board Committee to prepare an updated report to be included with this Scheme Booklet (**Updated Report**).

ASIC has allowed the Scheme Booklet not to have to be accompanied by the Initial Report on the basis that:

(a) the Scheme Booklet is accompanied by the Updated Report, which is dated on or about the date of the Scheme Booklet and which reflects any changes in circumstances since the date of the Initial Report; and

(b) the Updated Report makes it clear what has changed since the Initial Report was released to the ASX, with a summary of all material changes to be included in the cover letter of the Updated Report and with a description of the material changes to be set out in another part of the Updated Report.

The Independent Expert's Report set out in Appendix 1 to this Scheme Booklet is the Updated Report referred to above.

Under clause 8305 of Schedule 8 of the Corporations Regulations, ASIC has consented to the Updated Report containing a forecast of the profits or profitability of Envestra in the form in which it appeared in the draft of the Updated Report provided to ASIC on 2 April 2014.

13.5 Supplementary information

Envestra will issue a supplementary document to this Scheme Booklet if it becomes aware of any of the following between the date of lodgement of this Scheme Booklet for registration by ASIC and the date of the Scheme Meeting:

(a) a material statement in this Scheme Booklet is false or misleading;

(b) a material omission from this Scheme Booklet;

(c) a significant change affecting a matter included in this Scheme Booklet; or

(d) a significant new matter has arisen and it would have been required to be included in this Scheme Booklet if it had arisen before the date of lodgement of this Scheme Booklet for registration by ASIC.

Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, Envestra may circulate and publish the supplementary document by any or all of:

(a) prominently placing an advertisement in a published newspaper that is circulated throughout Australia;

(b) posting the supplementary document on Envestra's website at www.envestra.com.au;

(c) making an announcement to the ASX; or

(d) issuing a supplementary explanatory statement.

13.6 No other material information

Other than as contained in or referred to in this Scheme Booklet, there is no other information material to the making of a decision by Participating Envestra Shareholders about whether or not to vote in favour of the Scheme, being information that is known to Envestra or a director of Envestra or a Related Body Corporate of Envestra or a director of a Related Body Corporate of Envestra and which has not previously been disclosed to Participating Envestra Shareholders.

13.7 Date of this Scheme Booklet

This Scheme Booklet is dated 7 April 2014.

SECTION 14

14 GLOSSARY

ACCC means the Australian Competition and Consumer Commission.

Access Arrangement means an arrangement for access to a price regulated pipeline or distribution network covered by the National Gas Law and National Gas Rules setting out the terms and conditions, including price, at which third parties can acquire services on the pipeline or network.

Access Charge means the charge payable for the delivery of gas through a delivery point.

AER means Australian Energy Regulator.

AGL means AGL Energy Limited.

A-IFRS means the Australian equivalent to International Financial Reporting Standards, as issued by the Australian Accounting Standards Board.

Allgas means Allgas Energy Pty Limited (ABN 52 009 656 446).

Allgas Distribution Network means the gas distribution networks in south-east Queensland and northern New South Wales including southern Brisbane, Gold Coast, Toowoomba and Oakley networks.

All Scrip Consideration means the Scheme Consideration alternative described in Section 4.6 of this Scheme Booklet.

Amadeus Gas Pipeline means the APA Group owned 1,671 km gas transmission pipeline, from Palm Valley to Darwin, Northern Territory.

APA means the stapled entity comprising APT and APTIT.

APA Affiliated Directors means Michael McCormack and Ross Gersbach.

APA Group means APT, APTIT, APL and each of the entities controlled by the APA Group Responsible Entity.

APA Group Board means the board of the APA Group Responsible Entity.

APA Group Constitutions means the APT Constitution and the APTIT Constitution.

APA Group Director means a director of the APA Group Responsible Entity.

APA Group Distribution Reinvestment Plan means the distribution reinvestment policy of APA Group available at http://www.apa.com.au/investor-centre/securityholding-information/distribution-reinvestment-plan.aspx.

APA Group Responsible Entity means APL in its capacity as responsible entity of APT and APTIT.

APA Material Adverse Change has the meaning given to it in the Scheme Implementation Agreement.

APA Prescribed Event has the meaning given to that term in the Scheme Implementation Agreement.

APA Scheme Booklet Information means:

(a) the Letter from the Chairman of APA Group on page 7 of this Scheme Booklet;

(b) Section 2 (Key questions) "Questions about APA Group" questions 6 to 11 (inclusive);

(c) Section 6 (Information about APA Group and New APA Securities);

(d) Section 9 (Fees and other costs);

(e) to the extent that it has been prepared based on information provided by APA Group, Section 10 (Australian taxation implications of the Scheme);

(f) Section 12 (APA Group additional information);

(g) to the extent that it has been prepared based on information provided by APA Group, Section 14 (Glossary); and

(h) Annexure A.

APA Security means one APT Unit and one APTIT Unit, stapled together such that they must only be transferred together.

APA Securityholder means a registered holder of an APA Security.

APL means Australian Pipeline Limited (ABN 99 091 344 704, AFSL 239 927).

APT means Australian Pipeline Trust (ARSN 091 678 778), a registered managed investment scheme regulated by the Corporations Act.

APT Constitution means the constitution of APT dated 18 February 2000 (as amended).

APT Unit means an ordinary unit in APT.

APT Unitholder means a holder of an APT Unit.

APTIT means APT Investment Trust (ARSN 115 585 441), a registered managed investment scheme regulated by the Corporations Act.

APTIT Constitution means the constitution of APTIT dated 30 June 2005 (as amended).

APTIT Unit means an ordinary unit in APTIT.

APTIT Unitholder means a holder of an APTIT Unit.

APTPL means APT Pipelines Limited (ABN 89 009 666 700), a company wholly owned by APT.

ASIC means the Australian Securities and Investments Commission.

Asset Management means APA Group's asset management business segment described in Section 6.6 of this Scheme Booklet.

Associate has the meaning given in the Corporations Act.

ASX means, as the context requires, ASX Limited (ABN 98 008 624 691) or the securities market conducted by ASX Limited.

ASX Listing Rules means the official listing rules of the ASX.

Australian Accounting Standards means:

(a) the accounting standards as defined in section 9 of the Corporations Act;

(b) the requirements of the Corporations Act for the preparation and content of accounts; and

(c) generally accepted accounting principles and practices consistently applied in Australia, including any domestically accepted international accounting standards, except principles and practices that are inconsistent with those referred to in paragraphs (a) and (b) of this definition.

Available Cash Consideration means $241 million.

Business Day has the meaning given in the ASX Listing Rules.

Carpentaria Gas Pipeline means the APA Group owned 944 km gas transmission pipeline from Ballera to Mount Isa, Queensland.

Cash Amount means $1.17, subject to a potential adjustment as described in Section 4.9 of this Scheme Booklet.

Cash Consideration means the cash component of the Scheme Consideration.

Cash Out Facility means the sale facility described in Section 4.12 of this Scheme Booklet and as set out in clause 5.7 of the Scheme.

Cash Out Facility Nominee means a person appointed by APA Group, in consultation with Envestra to operate the Cash Out Facility.

Cash Out Facility Proceeds means the cash proceeds of the sale of Scrip Consideration by the Cash Out Facility Nominee under the Cash Out Facility, net of applicable taxes and charges (other than brokerage) incurred by the Cash Out Facility Nominee in connection with the sale.

CGT means capital gains tax.

CHESS means the Clearing House Electronic Subregister System which provides for electronic security transfers in Australia.

CKI means Cheung Kong Infrastructure Holdings (Malaysian) Ltd.

Combined Group means the combined APA Group and Envestra Group following Implementation of the Scheme.

Combined Group Scheme Booklet Information means:

(a) Section 7 (Information about the Combined Group); and

(b) Section 8 (Risk factors concerning the Combined Group).

Competing Proposal has the meaning given to it in the Scheme Implementation Agreement.

Corporations Act means the *Corporations Act 2001* (Cth).

Corporations Regulations means the *Corporations Regulations 2001* (Cth).

Court means the Federal Court of Australia.

Dandenong LNG Storage Facility means the APA Group owned liquefied natural gas storage facility with capacity of 12,000 tonnes (0.7 PJ) located at the Dandenong City Gate on the Victorian Transmission System.

Deed Poll means the Deed Poll set out in Appendix 5 to this Scheme Booklet.

Diamantina Power Station means the 242 MW combined cycle gas-fired power station being developed at Mount Isa, Queensland, 50% owned by APA Group.

Dividend Record Date means the record date for determining Envestra Shareholders entitled to be paid the FY2014 interim dividend of $0.032 per Envestra Share, being 21 March 2014.

EBITDA means earnings before interest, income tax, depreciation and amortisation.

Effective, when used in relation to the Scheme, means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) approving the Scheme.

Effective Date means the date on which the Scheme becomes Effective.

Election means a valid election as to the form of Scheme Consideration which a Participating Envestra Shareholder as at the Scheme Record Date wishes to receive (and, if applicable, whether it wishes to make an Unmarketable Parcel Election), made on and in accordance with the directions contained in the Election Form or online at www.envestra.com.au.

Election Date means 4.30pm (Adelaide time) on the same day as the Scheme Record Date.

Election Form means the form accompanying this Scheme Booklet pursuant to which Participating Envestra Shareholders as at the Scheme Record Date may elect the form of Scheme Consideration they wish to receive in consideration for the transfer of their Envestra Shares to APL in its capacity as responsible entity of APT under the Scheme (and, if applicable, whether they wish to make an Unmarketable Parcel Election).

Emu Downs Wind Farm means the APA owned 80 MW wind farm located 200 km north of Perth, Western Australia.

End Date has the meaning given to it in the Scheme Implementation Agreement.

Energy Infrastructure means APA Group's energy infrastructure business segment described in Section 6.6 of this Scheme Booklet.

Energy Infrastructure Investments or EII means Energy Infrastructure Investments Pty Limited (ABN 95 104 348 852).

Energy Investments means APA Group's energy investments business segment described in Section 6.6 of this Scheme Booklet.

EII2 means EII 2 Pty Limited (ABN 62 139 673 215).

Envestra means Envestra Limited (ABN 19 078 551 685).

Envestra Board means the Board of Envestra.

Envestra Director means a director of Envestra.

Envestra Group means Envestra and its Related Bodies Corporate.

Envestra Material Adverse Change has the meaning given to it in the Scheme Implementation Agreement.

Envestra Prescribed Event has the meaning given to it in the Scheme Implementation Agreement.

Envestra Register means the register of members of Envestra.

Envestra Scheme Booklet Information means all information in this Scheme Booklet, other than:

(a) the APA Scheme Booklet Information;

(b) the Combined Group Scheme Booklet Information;

(c) the Independent Expert's Report; and

(d) the Investigating Accountant's Report.

Envestra Share means a fully paid ordinary share in the capital of Envestra.

Envestra Shareholder means a person who is recorded in the Envestra Register as a holder of Envestra Shares.

Ethane Pipeline means the 1,375 km pipeline transporting ethane from Moomba, South Australia to Port Botany, New South Wales.

Ethane Pipeline Income Fund means the ASX-listed trust, which owns the Ethane Pipeline.

Executive Officers means Andrew Staniford, Des Petherick, Greg Meredith, Paul May and Craig de Laine.

Financier Confirmation has the meaning given to it in the Scheme Implementation Agreement.

First Court Hearing means the hearing by the Court of an application for an order under section 411(1) of the Corporations Act convening the Scheme Meeting.

FY2009 means the financial year to 30 June 2009.

FY2010 means the financial year to 30 June 2010.

FY2011 means the financial year to 30 June 2011.

FY2012 means the financial year to 30 June 2012.

FY2013 means the financial year to 30 June 2013.

FY2014 means the financial year to 30 June 2014.

FY2015 means the financial year to 30 June 2015.

FY2016 means the financial year to 30 June 2016.

FY2017 means the financial year to 30 June 2017.

FY2018 means the financial year to 30 June 2018.

GDI (EII) means GDI (EII) Pty Limited (ABN 96 154 766 524).

Goldfields Gas Pipeline means the APA Group owned (88.2%) 1,427 km gas transmission pipeline from Yarraloola to Kalgoorlie, Western Australia. APA Group also wholly owns five Laterals with a total length of 113 km.

GST has the meaning it has in the GST Act.

GST Act means the *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

HDF means Hastings Diversified Utilities Fund as acquired by APA Group in 2012.

HY2014 means the financial half year to 31 December 2013.

Implementation Date means the date on which the Scheme is to be implemented, being the fifth Business Day after the Scheme Record Date, or such other date agreed by Envestra and APA Group in writing, ordered by the Court or as may be required by the ASX.

Independent Board Committee means the committee of the Envestra Board formed on 18 July 2013 to consider APA Group's proposals to acquire the Envestra Shares that it does not own, comprising John Allpass, Ian Little, Fraser Ainsworth AM, Olaf O'Duill and Ivan Chan (with Dominic Chan as his alternate).

Independent Expert means Grant Samuel & Associates Pty Limited (ACN 050 036 372).

Independent Expert's Report means the report set out in Appendix 1 to this Scheme Booklet.

Ineligible Foreign Envestra Shareholders means an Envestra Shareholder whose address as shown in the Envestra Register is a place outside:

(a) Australia and its external territories; and

(b) New Zealand,

unless Envestra and APA Group are satisfied, acting reasonably, that the laws of all relevant jurisdictions permit the issue of New APA Securities to that Envestra Shareholder either unconditionally or after compliance with requirements that are not unduly onerous.

Intercreditor Deed Poll means the deed poll so entitled originally made on 26 June 1997 between Envestra and the persons described in it as the "Facility Agent", the "Bond Agent", the "Hedge Counterparty" and the "Security Agent" as amended and restated by a deed dated 29 January 2009, as amended, restated or supplemented from time to time.

Investigating Accountant means Deloitte Corporate Finance Pty Ltd (ABN 19 003 833 127).

Investigating Accountant's Report means the Investigating Accountant's Report set out in Appendix 2 to this Scheme Booklet.

Lateral means a branch pipeline linking a main pipeline to a gas field, market or end-user.

Link Market Services means Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000.

LNG means liquefied natural gas.

MAPS means the Moomba Adelaide Pipeline System, a 1,184 km pipeline system running from Moomba to Adelaide, with two major Laterals to Port Pirie/Whyalla and Angaston.

Maximum Cash Consideration means the Scheme Consideration alternative described in Section 4.7 of this Scheme Booklet.

Mondarra Gas Storage Facility means the APA Group owned 15 PJ underground gas storage facility near Dongara, 350 km north of Perth, Western Australia. The facility is connected to the Parmelia Gas Pipeline and the Dampier to Bunbury Pipeline.

Moomba Sydney Pipeline means the APA Group owned 2,028 km gas transmission pipeline system, including the mainline from Moomba, South Australia to Wilton, New South Wales, and Laterals to regional New South Wales and the Australian Capital Territory. The pipeline is interconnected with several pipelines, including the Victorian Transmission System at Culcairn.

MW means megawatt.

National Gas Law means the gas law implemented under the *National Gas (South Australia) Act 2008* in South Australia and which:

(a) is made applicable in each other Australian jurisdiction (except Western Australia) under the relevant mirror application legislation; and

(b) in Western Australia, is amended by and applied under the *National Gas Access (WA) Act 2009*.

National Gas Rules has the meaning given to it in the National Gas Law.

New APA Securities means new APA Securities to be issued under the terms of the Scheme as Scheme Consideration.

Non APA Affiliated Directors means each of John Allpass, Ian Little, Fraser Ainsworth AM, Ivan Chan, Dominic Chan and Olaf O'Duill.

North Brown Hill Wind Farm means the 132 MW wind farm located at Hallett, South Australia, 20% owned by APA Group.

Notice of Scheme Meeting means the notice of Scheme Meeting set out in Appendix 6 of this Scheme Booklet.

Operating and Management Agreements means the long-term operating and management agreements under which certain APA Group members operate, manage and promote Envestra's distribution networks and transmission pipelines.

Origin Energy means Origin Energy Limited (ABN 47 653 165 331).

Parmelia Gas Pipeline means the APA Group owned 447 km gas transmission pipeline from Dongara to Pinjarra, Western Australia.

Participating Envestra Shareholder means an Envestra Shareholder who is not APT, APTIT, APL or an entity controlled by the APA Group Responsible Entity.

Pilbara Pipeline System means the APA Group owned 328 km network of gas transmission pipelines in northwest Western Australia, connecting gas sources in the Carnarvon Basin with Karratha, Port Hedland, and Wodinga, and interconnecting with other pipelines in the region.

PJ means Petajoule (1 PJ = 0.94 Bcf).

Proxy Form means the proxy form accompanying this Scheme Booklet.

Recommending Directors means John Allpass, Ian Little, Fraser Ainsworth AM and Olaf O'Duill.

Related Body Corporate has the meaning given to it in the Corporations Act.

Relevant Interest has the meaning given to it in the Corporations Act.

Representatives means, in relation to a party:

(a) a Related Body Corporate of the party; or

(b) an director, company secretary or employee of the party or any of the party's Related Bodies Corporate; or

(c) an adviser, consultant, agent or representative of the party or any of the party's Related Bodies Corporate.

Roma Brisbane Pipeline means the APA Group owned 582 km gas transmission pipeline from Wallumbilla (near Roma) to Brisbane, including the Peat Lateral, Queensland.

Scheme means the scheme of arrangement, a copy of which is set out in Appendix 4 to this Scheme Booklet, to be proposed between Envestra and the Participating Envestra Shareholders pursuant to section 411 of the Corporations Act.

Scheme Booklet means this document, including the explanatory statements in relation to the Scheme as required under section 412(1) of the Corporations Act in respect of the Scheme.

Scheme Consideration means the consideration to be provided by APA Group to Participating Envestra Shareholders under the Scheme in respect of each Envestra Share held on the Scheme Record Date, as more fully described in Section 4.5 of this Scheme Booklet.

Scheme Implementation Agreement means the Scheme Implementation Agreement dated 4 March 2014 between Envestra and APA Group, a copy of which is set out in Appendix 3 to this Scheme Booklet.

Scheme Meeting means the meeting of Participating Envestra Shareholders convened by the Court under section 411 of the Corporations Act for the purpose of considering and, if thought fit, approving the Scheme.

Scheme Record Date means the time and date for determining Participating Envestra Shareholders entitled to receive Scheme Consideration, being 6.30pm (Adelaide time) on the fifth Business Day after the Effective Date, currently expected to be 23 May 2014, or such other date as agreed between the parties or required by the ASX.

Scheme Resolution means the resolution to be put to Participating Envestra Shareholders to approve the Scheme as set out in the Notice of Scheme Meeting set out in Appendix 6 to this Scheme Booklet (such resolution will be put to Participating Envestra Shareholders at the Scheme Meeting and must be approved by the requisite majorities of Participating Envestra Shareholders under section 411(4) of the Corporations Act).

Scrip Amount means 0.1919 New APA Securities, subject to a potential adjustment as described in Section 4.9 of this Scheme Booklet.

Scrip Consideration means the New APA Security component of the Scheme Consideration.

SEA Gas Pipeline means the 687 km gas transmission pipeline from Port Campbell and Iona in Victoria to Adelaide and other regional markets in South Australia and Victoria. APA Group owns 50% of the pipeline and also provides contracted maintenance services.

Second Court Date means the first day on which the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme is (or is to be) heard or, if the application is adjourned for any reason, the first day on which the adjourned application is heard.

Second Court Hearing means the hearing before the Court to approve the Scheme following the Scheme Meeting.

South West Queensland Pipeline means the APA Group owned 936 km gas transmission pipeline from Moomba, South Australia to Wallumbilla, Queensland.

Superior Proposal has the meaning given to it in the Scheme Implementation Agreement.

Total Securityholder Return means the capital appreciation of the security/share price, adjusted for capital management such as security/share splits and consolidations and assuming the reinvestment of distributions/dividends at the declared distribution/dividend rate per security/share.

Unmarketable Parcel means 77 New APA Securities or less.

Unmarketable Parcel Election means a valid election by a Participating Envestra Shareholder that if they would otherwise receive 77 New APA Securities or less under the Scheme, those New APA Securities instead be issued to the Cash Out Facility Nominee to be sold in accordance with the process described in Section 4.12 of this Scheme Booklet.

Unmarketable Parcel Participant means a Participating Envestra Shareholder (other than an Ineligible Foreign Envestra Shareholder) who makes an Unmarketable Parcel Election and who would otherwise be entitled to receive 77 New APA Securities or less under the Scheme.

Unsolicited Competing Proposal has the meaning given to it in Section 4.17 of this Scheme Booklet.

Victorian Transmission System means the APA Group owned 1,842 km gas transmission pipeline network in Victoria, interconnected with the Moomba Sydney Pipeline at Culcairn, New South Wales.

VWAP means volume weighted average price, calculated by dividing the value of trades by the volume of trades over a given period.

ANNEXURE

A

ANNEXURE A

Reconciliation of APA Group statutory income statement to the pro forma income statement for the year ended 30 June 2013

A$ Million	FY2013 statutory	HDF pro forma adjust-ments	Allgas pro forma adjust-ments	FY2013 pro forma
Operating revenue excluding pass-through revenue	852.2	10.5	–	862.7
Share of net profits of joint venture entities accounted for using the equity method	44.9	–	–	44.9
Other income (including investment income)	10.8	(2.7)	–	8.1
Operating pass-through revenue	352.7	–	–	352.7
Total revenue excluding interest income	**1,260.6**	**7.8**	**–**	**1,268.4**
Gain on previously held interest in HDF on obtaining control	142.3	(142.3)	–	–
Asset operation and management expenses	(96.9)	61.3	(18.6)	(54.2)
Other pipeline costs – pass-through	(352.7)	–	–	(352.7)
Employee benefit expense	(169.3)	3.1	–	(166.2)
Other expenses	(15.2)	(3.4)	–	(18.6)
EBITDA	**768.8**	**(73.5)**	**(18.6)**	**676.7**
Finance costs	(302.6)	(17.2)	–	(319.8)
Finance income	11.7	2.0	–	13.7
Depreciation and amortisation expense	(130.5)	(4.1)	–	(134.6)
Profit before tax	**347.4**	**(92.8)**	**(18.6)**	**236.0**
Income tax expense	(51.4)	(10.8)	–	(62.2)
Minority interest	2.8	(2.8)	–	–
Profit after tax	**298.8**	**(106.4)**	**(18.6)**	**173.8**

Reconciliation of APA Group statutory income statement to the pro forma income statement for the year ended 30 June 2012

A$ Million	FY2012 statutory	HDF pro forma adjust-ments	Allgas pro forma adjust-ments	FY2012 pro forma
Operating revenue excluding pass-through revenue	706.6	114.3	(30.1)	790.8
Share of net profits of joint venture entities accounted for using the equity method	28.3	–	0.5	28.8
Other income (including investment income)	16.8	(11.0)	0.5	6.3
Operating pass-through revenue	302.6	–	17.5	320.1
Total revenue excluding interest income	**1,054.3**	**103.3**	**(11.6)**	**1,146.0**
Asset operation and management expenses	(75.5)	(8.6)	16.9	(67.2)
Other pipeline costs – pass-through	(302.6)	–	(17.5)	(320.1)
Employee benefit expense	(132.9)	(15.9)	3.3	(145.5)
Other expenses	(17.5)	(6.6)	–	(24.1)
EBITDA	**525.8**	**72.2**	**(8.9)**	**589.1**
Finance costs	(240.6)	(74.9)	16.6	(298.9)
Finance income	6.3	13.9	–	20.2
Depreciation and amortisation expense	(110.4)	(15.5)	5.9	(120.0)
Profit before tax	**181.1**	**(4.3)**	**13.6**	**190.4**
Income tax expense	(50.4)	1.3	(1.2)	(50.3)
Profit after tax	**130.7**	**(3.0)**	**12.4**	**140.1**

Pro forma adjustments

HDF pro forma adjustments

(a) The results of HDF (excluding MAPS) have been included as if HDF (excluding MAPS) had been part of the APA Group from 1 July 2011 with the following additional adjustments:

- distributions received by APA Group from HDF have been removed;
- management and performance fees incurred by HDF have been removed from the results of HDF on the basis that APA Group management is internalised;
- takeover response costs and debt refinancing costs incurred by HDF have been removed on the basis that they are considered to be non-recurring;
- HDF depreciation has been adjusted to reflect the useful lives of non-current assets utilised by APA Group;
- HDF issued call warrants as part of a mezzanine loan agreement in relation to the South West Queensland Pipeline expansion. The call warrants granted an option to exercise for cash and the option was accounted for at fair value through the income statement. The gains or losses on the revaluation of the option have been removed on the basis that APA Group would finance this expansion through its existing borrowing facilities and no such option would be granted.

(b) Finance costs have been adjusted to reflect the following assumptions:

- the cash component paid by APA Group to acquire HDF has been funded by increased borrowings with effect from 1 July 2011; and
- the proceeds received on the sale of MAPS have been utilised to reduce borrowings with effect from 1 July 2011.

(c) APA Group's result contained a number of significant items relating to the HDF acquisition including a number of expenses incurred by HDF after its acquisition by APA Group. These significant items have been removed from the FY2013 statutory income statement on the basis that they are considered to be non-recurring.

(d) Income tax expense on the pro forma adjustments has been reflected at a rate of 30% less permanent differences.

Allgas pro forma adjustments

(e) The statutory income statements include the following significant items:

- profit on divestment of Allgas of $12.0 million offset by transaction costs of $21.7 million in FY2012; and
- write-back of provision for transaction costs relating to the sale of Allgas of $18.6 million in FY2013.

These significant items have been removed from the FY2013 and FY2012 statutory income statements on the basis that they are considered to be non-recurring.

(f) The statutory income statement for FY2012 reflected 100% of the results of Allgas up to the date of sale (16 December 2011). Post the sale of an 80% interest in this business, APA Group accounts for its residual investment as an investment in an associate. The adjustment removes the 100% result contributed in FY2012. This is replaced by:

- the pro forma equity accounted share of net profit after tax of the associate; and
- the increase in "pass through revenue", "pass through costs" and operator fees relating to the appointment of APA Group as the operator of Allgas as if this appointment had occurred on 1 July 2011.

(g) It has been assumed that the proceeds received on the sale of Allgas ($495.3 million) have been utilised to reduce borrowings with effect from 1 July 2011. Accordingly, the pro forma adjustment reflects an interest saving of $16.6 million for FY2012.

(h) Income tax expense on the pro forma adjustments has been reflected at a rate of 30% less permanent differences.

Reconciliation of APA Group statutory cash flow to the pro forma cash flow for the six months ended 31 December 2013

A$ Million	HY2014 statutory	HDF pro forma adjust-ments	HY2014 pro forma
Receipts from customers	757.7	–	757.7
Payments to suppliers and employees	(414.3)	0.5	(413.8)
Payments by HDF to Hastings Funds Management for management and performance fees	(8.3)	8.3	–
Dividends received	28.4	–	28.4
Proceeds from repayment of finance leases	2.4	–	2.4
Interest received	3.2	–	3.2
Interest and other costs of finance paid	(160.9)	–	(160.9)
Income tax paid	0.1	–	0.1
Net cash provided by operating activities	**208.3**	**8.8**	**217.1**
Payments for property, plant and equipment	(200.7)	–	(200.7)
Proceeds from the sale of property, plant and equipment	0.5	–	0.5
Payments for intangible assets	(0.9)	–	(0.9)
Proceeds from sale of businesses	1.8	–	1.8
Net cash used in investing activities	**(199.3)**	**–**	**(199.3)**
Increase (decrease) in borrrowings	127.4	(8.8)	118.6
Payment of debt issue costs	(2.0)	–	(2.0)
Payment of security issue costs	(0.1)	–	(0.1)
Distributions paid	(154.6)	–	(154.6)
Net cash used in financing activities	**(29.3)**	**(8.8)**	**(38.1)**
Net decrease in cash and cash equivalents	(20.3)	–	(20.3)
Cash and cash equivalents at beginning of financial period	81.0	–	81.0
Cash and cash equivalents at end of financial period	**60.7**	**–**	**60.7**

Reconciliation of APA Group statutory cash flow to the pro forma cash flow for the year ended 30 June 2013

A$ Million	FY2013 statutory	HDF pro forma adjust-ments	FY2013 pro forma
Receipts from customers	1,347.8	11.3	1,359.1
Payments to suppliers and employees	(703.8)	1.4	(702.4)
Payments by HDF to Hastings Funds Management for management and performance fees	(31.6)	31.6	–
Payments by HDF for takeover defence	(26.7)	26.7	–
Dividends received	54.6	(2.7)	51.9
Proceeds from repayment of finance leases	4.7	0.3	5.0
Interest received	19.3	(10.8)	8.5
Interest and other costs of finance paid	(289.9)	4.3	(285.6)
Income tax paid	(0.1)	–	(0.1)
Net cash provided by operating activities	**374.3**	**62.1**	**436.4**
Payments for property, plant and equipment	(397.4)	(18.0)	(415.4)
Proceeds from the sale of property, plant and equipment	0.6	–	0.6
Payments for equity accounted investments	(65.4)	–	(65.4)
Payments for controlled entities net of cash acquired	(265.3)	257.1	(8.2)
Payments for intangible assets	(1.1)	–	(1.1)
Proceeds from sale of businesses	411.4	(411.4)	–
Net cash used in investing activities	**(317.2)**	**(172.3)**	**(489.5)**
Increase (decrease) in borrrowings	(49.8)	98.3	48.5
Proceeds from issue of securities	83.2	–	83.2
Payment of debt issue costs	(25.9)	–	(25.9)
Payment of security issue costs	(8.7)	8.6	(0.1)
Payments for early settlement of loans and derivatives	(34.9)	34.9	–
Distributions paid	(269.9)	(31.6)	(301.5)
Net cash used in financing activities	**(306.0)**	**110.2**	**(195.8)**
Net decrease in cash and cash equivalents	(248.9)	–	(248.9)
Cash and cash equivalents at beginning of financial year	329.9	–	329.9
Cash and cash equivalents at end of financial year	**81.0**	**–**	**81.0**

Reconciliation of APA Group statutory cash flow to the pro forma cash flow for the year ended 30 June 2012

A$ Million	FY2012 statutory	HDF pro forma adjust-ments	Allgas pro forma adjust-ments	FY2012 pro forma
Receipts from customers	1,104.1	123.3	(12.6)	1,214.8
Payments to suppliers and employees	(604.8)	(42.0)	(6.9)	(653.7)
Dividends received	51.3	(11.0)	1.4	41.7
Proceeds from repayment of finance leases	3.1	1.3	–	4.4
Interest received	7.2	29.2	0.5	36.9
Interest and other costs of finance paid	(225.4)	(72.3)	16.6	(281.1)
Net cash provided by operating activities	**335.5**	**28.5**	**(1.0)**	**363.0**
Payments for property, plant and equipment	(249.1)	(209.7)	8.4	(450.4)
Proceeds from the sale of property, plant and equipment	0.5	–	–	0.5
Payments for available for sale investments	(11.7)	11.7	–	–
Payments for equity accounted investments	(28.5)	–	–	(28.5)
Payments for controlled entities net of cash acquired	(5.7)	–	–	(5.7)
Payments for intangible assets	(0.4)	–	–	(0.4)
Proceeds from sale of businesses	475.5	–	(475.5)	–
Net cash used in investing activities	**180.6**	**(198.0)**	**(467.1)**	**(484.5)**
Increase (decrease) in borrrowings	(103.8)	230.8	468.1	595.1
Proceeds from issue of securities	44.6	–	–	44.6
Payment of debt issue costs	(13.8)	–	–	(13.8)
Payment of security issue costs	(0.1)	–	–	(0.1)
Distributions paid	(208.5)	(61.3)	–	(269.8)
Net cash used in financing activities	**(281.6)**	**169.5**	**468.1**	**356.0**
Net increase in cash and cash equivalents	234.5	–	–	234.5
Cash and cash equivalents at beginning of financial year	95.4	–	–	95.4
Cash and cash equivalents at end of financial year	**329.9**	**–**	**–**	**329.9**

Pro forma adjustments

HDF pro forma adjustments

(a) The cash flows of HDF (excluding MAPS) have been included as a pro forma adjustment as if HDF (excluding MAPS) had been part of the APA Group from 1 July 2011.

(b) The management and performance fees incurred by HDF have been removed on the basis that APA Group management is internalised.

(c) The takeover response costs incurred by HDF have been removed on the basis that they are considered to be non-recurring.

(d) Distributions received by APA Group from HDF have been removed.

(e) Finance costs have been adjusted as it has been assumed that the cash component of the HDF acquisition has been funded by increased borrowings and the proceeds received on the sale of MAPS have been utilised to reduce borrowings with effect from 1 July 2011.

(f) Payments made by APA Group to acquire securities in HDF have been removed, due to the assumption that APA Group acquired HDF prior to 1 July 2011.

(g) Distributions paid by APA Group have been adjusted as it has been assumed that the APA Group securities issued to acquire HDF were issued on 1 July 2011 and that those security holders received distributions equal to the cents per security paid by APA Group for FY2013 and FY2012.

(h) Borrowings have been adjusted as it has been assumed that the pro forma adjustments would have resulted in movements in borrowings.

Allgas pro forma adjustments

(i) The exclusion of the operating cash flows and payments for property, plant and equipment of Allgas for FY2012 as if the sale of this business had occurred prior to 1 July 2011.

(j) Inclusion of pro forma cash receipts and payments from the appointment of APA Group as the operator of the Allgas business.

(k) Inclusion of interest income earned on redeemable preference shares.

(l) Inclusion of dividends received from Allgas as if APA Group had taken a 20% interest in this business, pursuant to its sale, with effect from 1 July 2011.

(m) It has been assumed that the proceeds received on sale of the Allgas business have been utilised to reduce borrowings with effect from 1 July 2011. Accordingly, the pro forma adjustments reflect an interest saving of $16.6 million in FY2012.

(n) Proceeds received from the sale of Allgas have been removed, due to the assumption that APA Group sold this business prior to 1 July 2011.

(o) Borrowings have been adjusted as it has been assumed that the pro forma adjustments would have resulted in movements in borrowings.

APPENDIX

1

INDEPENDENT EXPERT'S REPORT

GRANT SAMUEL

GRANT SAMUEL & ASSOCIATES

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7 April 2014

The Directors
Envestra Limited
Level 10
81 Flinders Street
Adelaide SA 5000

Dear Directors

APA Group Proposal

1 Introduction

On 4 March 2014, Envestra Limited ("Envestra") announced that it had entered into a Scheme Implementation Agreement with APA Group under which APA Group would acquire all of the shares in Envestra that it did not already own by way of a scheme of arrangement under Section 411 of the Corporations Act, 2001 ("the Scheme"). The Scheme follows a previous proposal by APA Group (in July 2013) which was rejected by a board sub-committee of Envestra directors not associated with APA Group ("the IBC") and results from a revised proposal made by APA Group in December 2013.

APA Group is a stapled entity listed on the Australian Securities Exchange ("ASX"). It is Australia's largest natural gas infrastructure business and is Envestra's largest shareholder with a 33.05% interest. APA Group has a market capitalisation of around $5.4 billion.

Under the Scheme, Envestra shareholders will receive consideration valued at $1.17[1] per share and be able to choose between two consideration options[2]:

- 0.1919[1] APA Group stapled securities for every Envestra share ("All Scrip Consideration")[3]; or
- a combination of APA Group stapled securities and cash, where the aggregate cash component will be subject to an overall cap of $241 million and a maximum cash payment of $1.17 per Envestra share ("Maximum Cash Consideration"). To the extent that shareholders have their entitlement to cash scaled back the balance of the consideration paid to them will be APA Group stapled securities.

Envestra shareholders are entitled to receive the 3.2 cents per share dividend to be paid by Envestra in April 2014. If the Scheme is implemented by 30 June 2014, Envestra shareholders will be entitled to APA Group's final distribution for FY14[4].

The Scheme is subject to the satisfaction of a number of conditions which are set out in full in the Notice of Meeting and Explanatory Memorandum ("Scheme Booklet") to be sent by Envestra to shareholders.

A majority of the Envestra directors not associated with APA Group are recommending that Envestra shareholders vote in favour of the Scheme subject to no superior proposal and the independent expert continuing to conclude that the Scheme is fair and reasonable and in the best interests of Envestra shareholders (other than APA Group). The two directors appointed by Envestra's second largest shareholder[5], Cheung Kong Infrastructure Holdings (Malaysian) Ltd ("CKI") do not consider the Scheme to be in the best interests of Envestra shareholders (other than APA Group) and are recommending shareholders vote against the Scheme.

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1 Based on the APA Group 30 day volume weighted average price at the close of business on 11 December 2013 of $6.0974. Should the Scheme not be implemented by 30 June 2014, the consideration may be adjusted in the event that Envestra's final dividend for FY14 is greater or lesser than 0.1919 of APA Group's final distribution for FY14 (refer Section 4.9 of the Scheme Booklet for details).

2 With the exception of ineligible foreign shareholders and, if they make an election, Envestra shareholder who would otherwise be entitled to an unmarketable parcel of APA Group stapled securities (i.e. 77 or less APA Group securities).

3 The All Scrip Consideration is the default consideration under the Scheme.

4 FYXX = financial year end 30 June 20XX.

5 CKI has a 17.46% interest in Envestra.

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As APA Group has a relevant interest in Envestra of 33.05% and Michael McCormack is a director of both APA Group and Envestra, the IBC has engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report for the purposes of Section 411 of the Corporations Act, 2001 ("Corporations Act"). The report is to set out Grant Samuel's opinion as to whether the Scheme is fair and reasonable and in the best interests of Envestra shareholders other than APA Group and to state the reasons for that opinion. A copy of the report will accompany the Scheme Booklet to be sent to shareholders by Envestra. This letter contains a summary of Grant Samuel's opinion and main conclusions.

2 Opinion

In Grant Samuel's opinion, the Scheme is fair and reasonable and, therefore, in the best interests of Envestra shareholders other than APA Group, in the absence of a superior proposal.

3 Key Conclusions

- **Grant Samuel has valued Envestra in the range of $1.11-1.32 per share**

Envestra has been valued in the range $1,994.4-2,373.4 million which corresponds to a value of $1.11-1.32 per share. The valuation is summarised below:

Envestra - Valuation Summary ($ millions)

	Full Report Section Reference	Value Range	
		Low	High
Business operations	5.3	4,027.0	4,378.0
Corporate cost savings	5.5	160.0	180.0
Other assets and liabilities	5.4	(64.9)	(56.9)
Enterprise value		**4,122.1**	**4,501.1**
Net borrowings	5.6	(2,127.7)	(2,127.7)
Value of equity		**1,994.4**	**2,373.4**
Fully diluted shares on issue (millions)		1,796.8	1,796.8
Value per share		**$1.11**	**$1.32**

Source: Section 5.1 of Full Report

The valuation represents the estimated full underlying value of Envestra assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Envestra shares to trade on the ASX in the absence of a takeover offer.

It should be noted that Grant Samuel's estimate of full underlying value for Envestra:

- assumes elimination of all corporate costs;
- includes value for Envestra's carried forward income tax losses; and
- is based on a relatively low discount rate range of 6.5-7.0%.

Grant Samuel's value range is based on a value for Envestra's business operations of $4,027-4,378 million. This value is the aggregate of the values attributed by Grant Samuel to each of Envestra's operating regions and includes a value for carried forward income tax losses. The individual values have not been disclosed in this report but represent overall judgements having regard to discounted cash flow ("DCF") analysis and multiple analysis (EBITDA[6] and RAB[7]) for each region.

Grant Samuel's primary focus was on DCF analysis. A DCF model was developed by Grant Samuel based on financial models prepared by Envestra which allows the key drivers of revenue,

[6] EBITDA is earnings before net interest, tax, depreciation and amortisation, investment income and significant and non-recurring items.
[7] RAB is regulated asset base which is the value of the fixed assets set by the AER as the basis for determining tariffs.

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costs and capital expenditure to be modelled by region. The model projects nominal after tax cash flows from 31 December 2013 to 30 June 2034 (20.5 years) by operating region, with terminal values calculated to represent the value of cash flows in perpetuity. Net present values are calculated on an ungeared after tax basis using a nominal after tax discount rate (weighted average cost of capital) in the range 6.5-7.0%. A corporate tax rate of 30% has been assumed but the DCF analysis takes into account the benefit of utilising existing carried forward tax losses (over the first four and a half years).

The base DCF model assumes the business operations continue on an "as is" basis reflecting Envestra's estimate of future regulatory returns. Grant Samuel developed a number of other cases to examine the sensitivity of the NPV outcomes to changes variables. Grant Samuel's selected value range of $4,027-4,378 million for Envestra's business operations reflects a subjective balancing of the cases and a view that the appropriate discount rate to apply is 6.5-7.0%.

The value range of $4,027-4,378 million for Envestra's operations implies the following multiples of EBITDA and RAB:

Envestra Business Operations – Implied Valuation Parameters

	Variable ($ million)	Value Range	
		Low	High
Value Range ($ million)		**4,027**	**4,378**
Multiple of EBITDA[8] (times)			
FY13 (actual)	359.6	11.2	12.2
FY14 (broker consensus)	399.8	10.1	11.0
FY15 (broker consensus)	412.7	9.8	10.6
FY16 (broker consensus)	431.7	9.3	10.1
Multiple of RAB[9] (times)			
As at 30 June 2013 (actual)	2,775	1.5	1.6
As at 31 December 2013 (actual)	2,879	1.4	1.5
As at 30 June 2015 (Case A, DCF Model)	3,221	1.3	1.4

Source: Section 5.3.3 of Full Report

The overall multiples of EBITDA implied by the value range are towards the low end of relevant transaction evidence although the overall implied RAB multiples are high. In Grant Samuel's opinion, these overall multiples are appropriate as:

- the EBITDA multiples implied by the value range reflect the aggregate earnings for Envestra. It is difficult to interpret these aggregate multiples given differing outlooks for each of Envestra's operations in relation to:
  - the mix of regulated and unregulated revenue;
  - capital expenditure plans;
  - growth profiles and potential; and
  - regulatory periods and rates of returns.

  Grant Samuel's value range has been built up on an individual region basis and the values attributed to each of these regions imply multiples of projected EBITDA that Grant Samuel considers appropriate in view of that network's growth opportunities, future earnings profile and future capital intensity;
- the South Australian/Northern Territory and Queensland networks are approximately halfway through a regulatory period during which they are entitled to a rate of return of 10.28%. This level of return is unlikely to continue beyond 30 June 2016 and, consequently, Envestra's

[8] Represents Grant Samuel's value range divided by Envestra's EBITDA.
[9] Represents Grant Samuel's value range divided by Envestra's RAB.

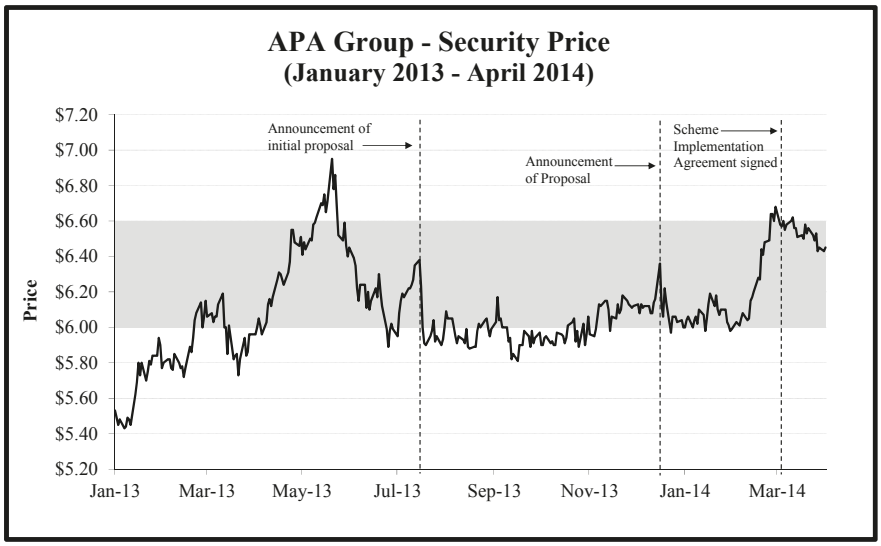
overall EBITDA is higher in the short term than is anticipated in the future (resulting in lower EBITDA multiples in the near term but higher in the medium term);

- around 10% of Envestra's revenue is derived from non-regulated sources and the assets generating this income are not recognised in the RAB. Consequently, implied RAB multiples are marginally higher than if all revenue was regulated;
- Envestra is undertaking an accelerated mains replacement programme, which will result in a significant increase in RAB in South Australia, Victoria and Queensland over the short to medium term. Consequently, Envestra's RAB will increase significantly over the medium term and RAB multiples would be lower if the value assumed the mains replacement programme had been completed; and
- none of the market evidence is directly comparable to Envestra. Transaction evidence since 2007 is limited and generally reflects single distribution networks (not a portfolio of networks). Although all the comparable listed entities own some regulated assets, none is solely an owner of gas distribution networks and most own a mix of gas and electricity transmission and distribution assets. Consequently, although the market evidence provides useful guidance for the valuation of Envestra, the extent of the focus of Envestra's portfolio on regulated gas distribution networks suggests that earnings multiples towards the lower end of transaction evidence may be warranted.

- **A value has been attributed to the scrip consideration of $1.15-1.27 per Envestra share**

Grant Samuel has attributed a value to the scrip consideration of $1.15-1.27 per Envestra share (to two decimal places) based on a value range for APA Group stapled securities of $6.00-6.60.

Grant Samuel's judgement is that, for the purposes of assessing the Scheme, an APA Group security price of $6.00-6.60 is a reasonable estimate in current market conditions. This range takes into account the performance of APA Group securities since the initial proposal to Envestra, the limited information available in relation to the combined entity and current market conditions. The selected value range relative to recent APA Group stapled security prices is shown below:



Source: IRESS

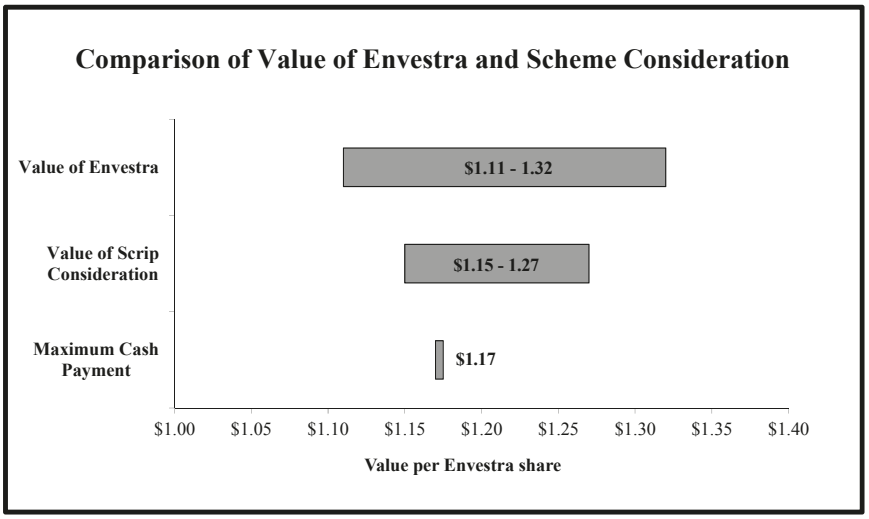
The low end of the range ($6.00) broadly reflects sharemarket trading since July 2013 until mid February 2014 and APA Group has not traded below this level for any length of time since November 2013. The top end of the selected range ($6.60) is above the closing price on 1 April

2014 of $6.45. Prima facie, the current security price represents the value of the consideration under the Scheme. However, Grant Samuel considers that the selected range, which is arguably conservative, is reasonable for the purposes of assessing the Scheme given:

- APA Group's premium market rating compared to its peers (at both EBITDA and net profit after tax levels);
- the substantial rise (7.5%) in the security price in a very short period of time (since 11 February 2014);
- that APA Group securities have only traded above $6.60 on 14 days since the release of its interim FY14 results on 19 February 2014 (and only above a daily VWAP of $6.60 on two of those days);
- the current security price is in line with the current median broker target price; and
- that combined entity financial information is not yet available publicly.

- **The Scheme is fair**

Grant Samuel has estimated the full underlying value of Envestra, including a premium for control, to be in the range $1.11-1.32 per share. The value attributed to the scrip consideration under the Scheme of $1.15-1.27 per share and the maximum cash payment of $1.17 per share fall within Grant Samuel's estimate of the full underlying value for Envestra. Accordingly, the Scheme is fair. The bottom of the valuation range represents the relevant threshold for fairness. Any price above the bottom of the range is, by definition, fair.



However, the value of the consideration under the Scheme will vary with movements in the APA Group stapled security price. Accordingly, until the APA Group securities are issued under the Scheme, Envestra shareholders are exposed to changes in overall equity market conditions and specific events that could impact the APA Group security price. The actual value received could ultimately exceed, or be less than, $1.15-1.27 per Envestra share.

- **As the Scheme is fair, it is also reasonable and, therefore, in the best interests of shareholders**

As the Scheme is fair, it is also reasonable. In any event, there are a number of other factors that support the reasonableness of the Scheme and which Envestra shareholders should consider in determining whether or not to vote for the Scheme. In particular:

- the Scheme delivers premiums of around 8-27% to Envestra share prices prior to the announcement of APA Group's initial proposal on 16 July 2013. In Grant Samuel's opinion, these premiums, while lower than typically observed, are reasonable for Envestra. High premiums for control are not generally expected for listed businesses with gas distribution assets as:
  - cash flows of gas distribution networks are stable and predictable with long run growth generally limited to economic growth and inflation and, as regulated assets, are reasonably transparent with a considerable level of publicly available information on revenues, volumes, operating costs and capital investment;
  - distributions typically represent a substantial proportion of available cash flow;
  - while there are likely to be some operating cost synergies, there is usually little opportunity for integration with other assets (particularly in revenue terms) and, therefore, there is limited scope for an acquirer to achieve synergies; and
  - energy infrastructure entities are typically reasonably highly leveraged and there is limited scope to enhance returns by increasing debt.

  For these reasons, it is Grant Samuel's view that listed gas infrastructure assets trade on the ASX at close to full underlying value underpinned by distribution yield (and yield growth). Consequently, the premiums represented by the Scheme for Envestra are not unreasonable;
- in the absence of the Scheme or a similar offer, it is likely that Envestra shares, under current market conditions and its current ownership and operating structure, would trade at prices below the value of the Scheme ($1.15-1.27 per share). However, any drop in the Envestra share price is unlikely to be dramatic as the premiums implied by Grant Samuel's value range (8-27%) are relatively modest, the Envestra share price is currently trading at a 9% discount to the implied value of the Scheme ($1.24 based on the current APA Group security price of $6.45) and the share price will be supported by its dividend yield; and
- an acquisition proposal by any other party could not succeed without the agreement of APA Group (as Envestra's largest shareholder with a 33.05% shareholding). The level of this shareholding means that an offer by APA Group which was not fair may still be reasonable depending on the circumstances. On the other hand, CKI's interest in Envestra (17.46%) is such that it may be difficult for APA Group to make an offer that was not fair.

  It should be noted that under the Corporations Act, APA Group can increase its interest by up to 3% every six months without making a full takeover offer (i.e. without paying a premium for control). However, in doing so there is a risk that a change of control may be considered "unacceptable" and therefore an event of default under Envestra's existing financing arrangements. In this case, early repayment of Envestra's borrowings and substantial payments above face value and other costs may be required.

- **There is little likelihood of a superior alternative proposal for Envestra**

  Since the announcement of the initial proposal on 16 July 2013 there has been ample opportunity for an interested party to make a competing offer. No such offer has been made at the date of this report but the opportunity to do so remains until the Scheme meeting. Nevertheless, an acquisition proposal by any other party could not succeed without the agreement of APA Group (33.05% interest) and CKI (17.46% interest). A potential acquirer may also be deterred by the fact that the O&M Contracts are long term (expiry June 2027) and not easily terminable by Envestra.

  It would be open to shareholders to vote against the Scheme in the hope that APA Group would make a subsequent higher offer. However, there is no evidence that APA Group would be prepared to pay a higher price particularly as it has increased the consideration since July 2013, has engaged with Envestra for over eight months and has incurred costs.

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4 IBC Report

On 17 December 2013, following receipt of the revised proposal from APA Group, the IBC resolved to proceed with the steps necessary to put that proposal before Envestra shareholders for approval. Envestra also announced that a formal recommendation in relation to the proposal would be made by the Envestra board (excluding the APA Group representatives) after completion of those steps and execution of a scheme implementation agreement. Accordingly, in December 2013 the IBC engaged Grant Samuel to commence the preparation of an independent expert's report for the purposes of Section 411 of the Corporations Act.

However, while negotiating the terms of the Scheme with APA Group, the IBC determined that prior to entering a Scheme Implementation Agreement it wanted to receive an independent expert's report assessing the merits of APA Group's revised proposal ("the IBC Report"). The IBC Report was to be:

- for the information of the IBC, although the directors were to form their own view of the proposal based on a range of external advice, due diligence and other information as appropriate;
- based on the information available at that time and it was recognised that this would not include:
  - a final executed Scheme Implementation Agreement; and
  - a final Scheme Booklet (including information on the financial impacts of the proposal on APA Group, an investigating accountant's report, taxation advice and Scheme of Arrangement);
- in the same form as the report that would be required under Section 411 of the Corporations Act and to utilise the same basis of assessment (i.e. whether or not the proposal is fair and reasonable and in the best interests of Envestra shareholders other than APA Group) subject to the information constraints; and
- released publicly but not sent directly to shareholders of Envestra.

Accordingly, the IBC requested that Grant Samuel prepare the IBC Report. The IBC Report was finalised on 3 March 2014 and released to the ASX on 4 March 2014.

The IBC also recognised that, should it resolve to recommend APA Group's revised proposal to Envestra shareholders, a separate independent expert report incorporating additional information would ultimately need to be despatched to shareholders as part of the Scheme Booklet. Accordingly, the IBC requested that Grant Samuel prepare this report.

This report is essentially the same as the IBC Report. The primary differences are as follows:

- Sections 1, 2 and 9 of the report have been redrafted to reflect the purpose of this report in comparison to the purpose of the IBC Report and a summary letter has been prepared;
- announcements, market prices and changes in other data for Envestra, APA Group and listed peer group entities since 28 February 2014 have been reflected in this report;
- changes made to the Scheme Booklet since 21 February 2014 (the last draft made available to Grant Samuel prior to finalisation of the IBC Report) have been reflected in this report including the statement that the Envestra board expects annual net profit after tax to be sustained at $145-150 million through to June 2016; and
- Grant Samuel has increased the value of the consideration under the Scheme from $1.15-1.25 to $1.15-1.27 per Envestra share reflecting that the APA Group security price has traded at levels above $6.50 since 28 February 2014. This change did not result in any change in Grant Samuel's assessment of the fairness of the Scheme.

5 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Envestra shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard

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to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by Envestra in relation to the Scheme.

Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Scheme, the responsibility for which lies with the directors of Envestra. In any event, the decision whether to vote for or against the Scheme is a matter for individual shareholders, based on their own views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Scheme should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Envestra or APA Group. These are investment decisions upon which Grant Samuel does not offer an opinion and independent of a decision to vote for or against the Scheme. Shareholders should consult their own professional adviser in this regard.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully
GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates

Financial Services Guide and Independent Expert's Report in relation to the Proposal by APA Group

Grant Samuel & Associates Pty Limited
(ABN 28 050 036 372)

7 April 2014

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GRANT SAMUEL & ASSOCIATES

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Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for Envestra Limited ("Envestra") in relation to a proposal from APA Group to acquire all of the issued capital in Envestra that it does not already own pursuant to a scheme of arrangement ("the Envestra Report"), Grant Samuel will receive a fixed fee of $545,000 (inclusive of the $475,000 received for the preparation of the IBC Report) plus reimbursement of out-of-pocket expenses (as stated in Section 9.3 of the Envestra Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Envestra Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 9.3 of the Envestra Report:

> *"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Envestra or APA Group or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Scheme. Grant Samuel advises that:*
>
> - *it prepared an independent expert's report dated 3 August 2012 for HDUF in relation to a takeover offer by Pipeline Partners Australia Pty Limited. HDUF was eventually taken over by APA Group; and*
> - *it prepared the IBC Report for which it received a fixed fee of $475,000.*
>
> *Grant Samuel had no part in the formulation of the Scheme. Its only role has been the preparation of this report and the IBC Report.*
>
> *Grant Samuel will receive a fixed fee of $545,000 (inclusive of the $475,000 fee received for the preparation of the IBC Report) for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Scheme. Grant Samuel's out of pocket expenses in relation to the preparation of this report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.*
>
> *Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."*

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the IBC Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the Envestra Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

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1 Introduction

On 16 July 2013, Envestra Limited ("Envestra") announced that it had received an unsolicited, indicative, conditional and non-binding proposal from APA Group (Envestra's largest shareholder with a 33.05% interest) to acquire all the issued capital of Envestra that it did not already own pursuant to a scheme of arrangement. Under this proposal Envestra shareholders would receive 0.1678 APA Group securities for every Envestra share and be entitled to receive any final Envestra dividend for FY13[1].

APA Group is a stapled entity that comprises Australian Pipeline Trust ("APT") and APT Investment Trust ("APTIT"). Australian Pipeline Limited, a subsidiary of APT, is responsible entity for each of the trusts. APA Group stapled securities are listed and trade on the Australian Securities Exchange ("ASX"). APA Group is Australia's largest natural gas infrastructure business and has a market capitalisation of around $5.4 billion.

Envestra formed a board sub-committee of directors not associated with APA Group ("the IBC") to consider the proposal from APA Group and, on 5 August 2013, announced that the IBC had concluded that the proposal significantly undervalued Envestra shares in the context of a control transaction and therefore the IBC had decided not to proceed with the proposal.

On 17 December 2013, Envestra announced that it had received a revised proposal from APA Group under which Envestra shareholders will receive consideration valued at $1.17[2] per share and be able to choose between two consideration options:

- 0.1919[2] APA Group stapled securities for every Envestra share ("All Scrip Consideration"); or
- a combination of APA Group stapled securities and cash, where the aggregate cash component will be subject to an overall cap of $241 million and a maximum cash payment of $1.17 per Envestra share ("Maximum Cash Consideration"). To the extent that shareholders have their entitlement to cash scaled back the balance of the consideration paid to them will be APA Group stapled securities.

Envestra shareholders will be entitled to receive the dividend of $0.032 per share relating to the six months ended 31 December 2013 which is expected to be paid by Envestra in April 2014. If the proposal is implemented by 30 June 2014, Envestra shareholders will be entitled to APA Group's final distribution for the year ended 30 June 2014.

On that date, the IBC resolved to proceed with the steps necessary to put the proposal before Envestra shareholders for approval. Envestra also announced that a formal recommendation in relation to the proposal would be made by the Envestra board (excluding the APA Group representatives) after completion of these steps and execution of a scheme implementation agreement.

On 4 March 2014, Envestra announced that:

- the parties had facilitated the conduct of a due diligence process;
- appropriate assurances had been received from sufficient Envestra financiers (in a form acceptable to APA Group) that any change of control resulting from the proposal would not be deemed "unacceptable" under Envestra's debt financing arrangements; and
- Grant Samuel & Associates Pty Limited ("Grant Samuel") had provided a report to the IBC dated 3 March 2014 ("the IBC Report") in which it had concluded that the proposal is in the best interests of Envestra shareholders other than APA Group, in the absence of a superior proposal.

As a consequence, the IBC resolved by majority to enter into a Scheme Implementation Agreement with APA Group to implement the proposal by way of a scheme of arrangement under Section 411 of the Corporations Act, 2001 ("Corporations Act") ("the Scheme"). The Scheme is subject to the satisfaction of a number of conditions which are set out in full in the Notice of Meeting and Explanatory

[1] FYXX = financial year end 30 June 20XX

[2] Based on the APA Group 30 day volume weighted average price at the close of business on 11 December 2013 of $6.0974.

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Memorandum ("Scheme Booklet") to be sent by Envestra to shareholders. In summary, the key conditions include that:

- an independent expert concludes that the Scheme is fair and reasonable and in the best interests of Envestra shareholders other than APA Group and does not withdraw or adversely modify that conclusion prior to the second court date;
- the Scheme is approved by the requisite majorities of Envestra shareholders other than APA Group; and
- the financier confirmations remain in full force and effect and have not been withdrawn or materially adversely modified by the second court date.

Other elements of the Scheme include:

- the All Scrip Consideration is the default consideration under the Scheme;
- fractional entitlements to APA Group stapled securities under the Scheme will be rounded down to the nearest whole number of securities;
- should the Scheme not be implemented by 30 June 2014, the consideration may be adjusted in the event that Envestra's final dividend for FY14 is greater or lesser than 0.1919 of APA Group's final distribution for FY14. If an adjustment is required, Envestra will provide further information to its shareholders once the amount of Envestra's final dividend for FY14 and APA Group's final distribution for FY14 are known;
- Envestra shareholders with registered addresses outside Australia (or its external territories) or New Zealand will be "ineligible foreign shareholders" (unless Envestra and APA Group determine otherwise) and will not receive APA Group stapled securities. Such shareholders will receive in cash the net proceeds (i.e. after applicable taxes and charges but free of brokerage) of the sale on the ASX of the APA Group securities to which they would otherwise have been entitled. Envestra and APA Group have agreed that Cheung Kong Infrastructure Holdings (Malaysian) Ltd ("CKI") (Envestra's second largest shareholder with a 17.46% interest) will not be an ineligible foreign shareholder for the purposes of the Scheme;
- under either consideration option, Envestra shareholders who would be entitled to receive a parcel of 77 or less APA Group stapled securities ("unmarketable parcel securityholders") may elect to have the APA Group securities to which they would otherwise be entitled sold and receive in cash the net proceeds (i.e. after applicable taxes and charges but free of brokerage);
- Envestra has agreed not to solicit a competing proposal[3] during the exclusivity period[4]. Envestra may respond to an unsolicited competing proposal but must notify APA Group in writing within three business days if it becomes aware of the existence of any bona fide competing proposal or provides material confidential information to a third party in connection with a competing proposal. Such notification must include the identity of the proponent of the competing proposal and all material terms and conditions of that proposal. This requirement applies unless the Envestra board determines that taking such action would involve (or would be likely to involve) a breach of the board's fiduciary or statutory duties;

---

[3] A competing proposal means a transaction or arrangement:
- pursuant to which, if ultimately completed, any person would:
  - acquire (directly or indirectly) an interest in all or a substantial part of the assets or business of Envestra or a relevant interest in more than 20% of the voting shares of Envestra;
  - acquire (directly or indirectly) control of Envestra; or
  - acquire or merge (directly or indirectly) with Envestra; or
- which is conditional on Envestra failing to proceed with the Scheme or terminating the Scheme Implementation Agreement.

[4] The period from 4 March 2014 to the earlier of:
- the date the Scheme Implementation Agreement is terminated;
- the scheme implementation date; and
- 30 September 2014 (or such later date as agreed by the parties).

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- Envestra has agreed not to enter into any agreement with any person (other than APA Group) under which it is required to pay a break fee or similar arrangement in connection with an acquisition event (whether by takeover bid, scheme of arrangement, sale of assets and operations or similar) where the aggregate value of such fees exceeds $10 million or the fee is payable as a consequence of the acquisition event not proceeding due to rejection by Envestra shareholders. If during the exclusivity period Envestra enters into any break fee or similar arrangement in relation to an acquisition event, it must agree an equivalent arrangement with APA Group in relation to the Scheme; and
- a sunset date for implementation of the Scheme of 30 September 2014 (or a later date as may be agreed in writing by the parties).

A majority of the Envestra directors not associated with APA Group are recommending that Envestra shareholders vote in favour of the Scheme subject to no superior proposal and the independent expert continuing to conclude that the Scheme is fair and reasonable and in the best interests of Envestra shareholders (other than APA Group). The two directors appointed by CKI do not consider the Scheme to be in the best interests of Envestra shareholders (other than APA Group) and are recommending shareholders vote against the Scheme.

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2 Scope of the Report

2.1 Purpose of the Report

Under Section 411 of the Corporations Act the Scheme must be approved by a majority in number (i.e. more than 50%) of each class of shareholders present and voting (either in person or by proxy) at the meeting, representing at least 75% of the votes cast on the resolution. If approved by Envestra shareholders not associated with APA Group, the Scheme will then be subject to approval by the Federal Court of Australia.

Part 3 of Schedule 8 to the Corporations Regulations prescribes the information to be sent to shareholders in relation to schemes of arrangement pursuant to Section 411. Part 3 of Schedule 8 requires an independent expert's report in relation to a scheme of arrangement to be prepared when a party to a scheme of arrangement has a prescribed shareholding in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. In those circumstances, the independent expert's report must state whether the scheme of arrangement is in the best interests of shareholders subject to the scheme and must state reasons for that opinion.

In this case, APA Group has a relevant interest in 33.05% and Michael McCormack is a director of both APA Group and Envestra. Accordingly, the directors not associated with APA Group have engaged Grant Samuel to prepare an independent expert's report for the purposes of Section 411 of the Corporations Act. The report is to set out Grant Samuel's opinion as to whether the Scheme is fair and reasonable and in the best interests of Envestra shareholders other than APA Group and to state the reasons for that opinion. A copy of the report will accompany the Scheme Booklet to be sent to shareholders by Envestra.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Envestra shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by Envestra.

Voting for or against the Scheme is a matter for individual shareholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Scheme should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in Envestra or APA Group. These are investment decisions upon which Grant Samuel does not offer an opinion and independent of a decision to vote for or against the Scheme. Shareholders should consult their own professional adviser in this regard.

2.2 Basis of Evaluation

There is no legal definition of the expression "in the best interests". However, the Australian Securities & Investments Commission ("ASIC") has issued Regulatory Guide 111 which establishes guidelines in respect of independent expert's reports. ASIC Regulatory Guide 111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between "fair" and "reasonable". A proposal that was "fair and reasonable" or "not fair but reasonable" would be in the best interests of shareholders. For most other transactions the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. If the advantages outweigh the disadvantages, a proposal would be in the best interests of shareholders.

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The Scheme is economically the same as a takeover offer. Accordingly, Grant Samuel has evaluated the Scheme as a control transaction and formed a judgement as to whether the Scheme is "fair and reasonable".

Fairness involves a comparison of the offer price with the value that may be attributed to the securities that are the subject of the offer based on the value of the underlying businesses and assets. For this comparison, value is determined assuming 100% ownership of the target and a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting an offer such as:

- the offeror's existing shareholding;
- other significant shareholdings;
- the probability of an alternative offer; and
- the liquidity of the market for the target company's shares.

An offer could be considered "reasonable" if there were valid reasons to accept the offer notwithstanding that it was not "fair".

Fairness is a more demanding criteria. A "fair" offer will always be "reasonable" but a "reasonable" offer will not necessarily be "fair". A fair offer is one that reflects the full market value of a company's businesses and assets. An offer that is in excess of the pre-bid market prices but less than full value will not be fair but may be reasonable if shareholders are otherwise unlikely in the foreseeable future to realise an amount for their shares in excess of the offer price. This is commonly the case where the bidder already controls the target company. In that situation the minority shareholders have little prospect of receiving full value from a third party offeror unless the controlling shareholder is prepared to sell its controlling shareholding.

Grant Samuel has determined whether the Scheme is fair by comparing the estimated underlying value range of Envestra with the offer price. The Scheme will be fair if it falls within the estimated underlying value range. In considering whether the Scheme is reasonable, the factors that have been considered include:

- the existing shareholding structure of Envestra;
- the likelihood of an alternative offer and alternative transactions that could realise full underlying value;
- the likely market price and liquidity of Envestra shares in the absence of the Scheme; and
- other advantages and disadvantages for Envestra shareholders of approving the Scheme.

2.3 Sources of the Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

Publicly Available Information

- the Scheme Booklet (including earlier drafts);
- the Scheme Implementation Agreement dated 4 March 2014;
- annual reports of Envestra and APA Group for the five years ended 30 June 2013;
- half year results for Envestra and APA Group for the six months ended 31 December 2013;
- Access Arrangement decisions for Envestra's regulated networks;

- press releases, public announcements, media and analyst presentation material and other public filings by Envestra and APA Group including information available on their respective websites;
- brokers' reports and recent press articles on Envestra, APA Group and the Australian gas transmission and distribution industry;
- long term credit ratings for Envestra and APA Group by Standard and Poor's and Moody's Investor Services;
- sharemarket data and related information on Australian listed companies engaged in the gas transmission and distribution industry and on acquisitions of companies and businesses in this industry; and
- information relating to the Australian and international energy sectors including supply/demand forecasts and regulatory decisions and pronouncements (as appropriate).

Non Public Information provided by Envestra

- draft minutes of Envestra's due diligence committee for meetings on 14 January 2014, 20 January 2014, 7 February 2014 and 14 February 2014;
- draft minutes of management presentation meeting between Envestra and APA Group on 28 January 2014;
- draft report of Envestra's due diligence committee to the IBC provided to Grant Samuel on 10 February 2014;
- management accounts for Envestra for the period ending 30 June 2010 to the period ending 28 February 2014;
- budget for Envestra for the year ending 30 June 2014 prepared by Envestra management and adopted by the board;
- forecast for Envestra for the year ending 30 June 2014 (based on actual results to 31 December 2013) prepared by Envestra management and provided to the board;
- Envestra's 2013 Capital Expenditure and Operating Expenditure Strategic Plan for the period FY14 to FY34 ("2013 Strategic Plan") prepared by APA Asset Management and reviewed by Envestra management;
- Envestra's current regulatory models and Long Term Financial Model prepared by Envestra management;
- Operating & Management Agreements dated 2 July 2007 between Envestra and APA Asset Management; and
- other confidential documents, board papers, presentations and working papers.

In preparing this report, representatives of Grant Samuel visited the offices of Envestra in Adelaide. Grant Samuel has also held discussions with, and obtained information from, senior management of Envestra and its advisers.

2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change

significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by Envestra and its advisers. Grant Samuel has considered and relied upon this information. Envestra has represented in writing to Grant Samuel that to its knowledge the information provided by it was then, and is now, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Scheme is fair and reasonable and in the best interests of Envestra shareholders other than APA Group. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Envestra or APA Group. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

The information provided to Grant Samuel included:

- the budget for Envestra for the year ending 30 June 2014 ("FY14 Budget") prepared by Envestra management and adopted by the directors of Envestra;
- the forecast for Envestra for the year ending 30 June 2014 (based on actual results to 31 December 2013) ("FY14 Forecast") prepared by Envestra management and provided to the board; and
- cash flow models for Envestra's business operations for the period from 30 June 2014 including inputs from the 2013 Strategic Plan ("Cash Flow Models"). These models were prepared by Envestra.

Envestra is responsible for the information contained in the FY14 Budget, FY14 Forecast, the 2013 Strategic Plan and the Cash Flow Models ("the forward looking information"). Grant Samuel has considered and, to the extent deemed appropriate, relied on this information for the purposes of its analysis. In relation to the use of the Cash Flow Models Grant Samuel has made adjustments to reflect its judgement on certain matters and to ensure consistent application of assumptions. The major assumptions underlying the forward looking information were reviewed by Grant Samuel in the context of current economic, financial and other conditions. It should be noted that the forward looking information and the underlying assumptions have not been reviewed (nor is there a statutory or regulatory requirement for such a review) by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions.

Subject to these adjustments and limitations, Grant Samuel considers that, based on the inquiries it has undertaken and only for the purposes of its analysis for this report (which do not constitute, and are not as extensive as, an audit or accountant's examination), there are reasonable grounds to believe that the forward looking information has been prepared on a reasonable basis. In forming this view, Grant Samuel has taken the following factors into account that:

- Envestra has sophisticated management and financial reporting processes. The prospective financial information has been prepared through a detailed budgeting process involving preparation of "ground up" forecasts by the management and is subject to ongoing analysis and revision to reflect the impact of actual performance or assessments of likely future performance;
- the FY14 Budget was adopted by the Directors of Envestra;
- the FY14 Forecast is based on actual operating results for Envestra for the six months ended 31 December 2013 and management projections;
- the 2013 Strategic Plan was endorsed by the Directors of Envestra; and
- the majority of Envestra's assets are regulated and therefore revenue and costs are relatively stable and predictable.

While Envestra has made guidance statements about profit after tax for FY14, the directors of Envestra have decided that they will not include the FY14 Forecast in the Scheme Booklet and therefore this information has not been disclosed in this IBC Report.

In order to provide an indication of the expected financial performance of Envestra, Grant Samuel has considered brokers' forecasts for Envestra (see Appendix 1). Grant Samuel has used the median of the brokers' forecasts to review the parameters implied by its valuation of Envestra. These forecasts are sufficiently close to Envestra's forward looking information to be useful for analytical purposes.

Grant Samuel has no reason to believe that the forward looking information reflects any material bias, either positive or negative. However, the achievability of the forward looking information is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable.

As part of its analysis, Grant Samuel has reviewed the sensitivity of net present values to changes in key variables. The sensitivity analysis isolates a limited number of assumptions and shows the impact of variations to those assumptions. No opinion is expressed as to the probability or otherwise of those variations occurring. Actual variations may be greater or less than those modelled. In addition to not representing best and worst outcomes, the sensitivity analysis does not, and does not purport to, show the impact of all possible variations to the business model. The actual performance of the business may be negatively or positively impacted by a range of factors including, but not limited to:

- changes to the assumptions other than those considered in the sensitivity analysis;
- greater or lesser variations to the assumptions considered in the sensitivity analysis than those modelled; and
- combinations of different variations to a number of different assumptions that may produce outcomes different to the combinations modelled.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;

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- the assessments by Envestra and its advisers with regard to legal, regulatory, tax and accounting matters relating to the transaction are accurate and complete;
- the information set out in the Scheme Booklet is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Scheme will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Scheme are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

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3 Australian Gas Sector

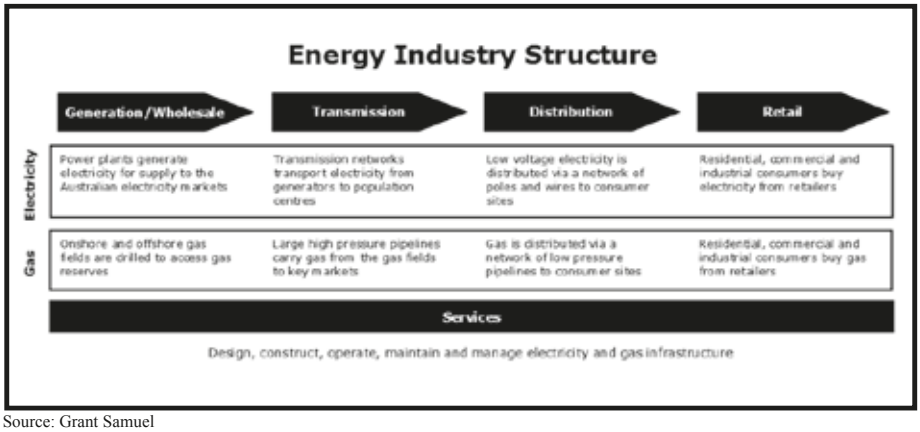
Overview of Energy Industry

World energy consumption has increased by an average of 2.4% per annum since 2000[5] and is expected to grow on average by 1.5% per annum to 2035. Recent years have seen high and volatile world energy prices signifying shifting supply and demand conditions, changing geopolitical circumstances, increased interest in the threat of climate change and unsettled economic conditions. This has increased demand for natural gas worldwide and encouraged the growth of renewable energy sources.

The Asia Pacific region accounts for around 40% of world energy consumption with average growth since 2000 of 5.6% per annum. Chinese demand is the major driver in the Asia Pacific region accounting for 55% of the region's energy consumption (and over 22% of world consumption). Although the major fuel sources in the Asia Pacific region continue to be coal and oil, natural gas has experienced the fastest rates of growth (albeit off a relatively low base) reflecting the substantial investment in projects for the sale of liquefied natural gas ("LNG") to Asia. LNG currently accounts for 32% of global gas trade with the Asia Pacific region importing around 70% of that volume.

Net energy consumption in Australia has grown at an average of 2% per annum since 2000 and is expected to grow by 0.5% per annum to 2050. This moderate growth reflects the long term decline in the energy intensity of the Australian economy as a result of increased efficiency (through technological improvement and fuel switching) and the rapid growth in less energy intensive sectors. This decline has been accelerated by implementation of new policies (including renewable energy targets and carbon pricing) and Australia's experience is expected to mirror international trends with growth in the consumption of natural gas and energy from renewable sources. However, as a net energy exporter, production of energy (excluding uranium) in Australia is forecast to grow by 1.4% per annum in the period to 2050 in response to continuing Asian demand.

The segments of, and services to, the energy industry can be depicted as follows:



Source: Grant Samuel

Historically, Australia's energy industry comprised state based enterprises. However, as a consequence of economic and legislative changes, the industry is now more integrated across jurisdictions. As the management of energy markets is critical to the economy, parts of the energy industry remain subject to regulation.

[5] Information in this report on the energy industry is from a range of sources. The major sources are *"World Energy Outlook 2013"*, International Energy Agency, November 2013, "*BP Statistical Review of World Energy June 2013"*, BP plc., *"BP Energy Outlook 2035"*, BP plc., January 2014, *"International Energy Outlook 2013"*, U.S. Energy Information Administration, July 2013, *"State of the Energy Market 2013"*, AER, December 2013, *"Energy in Australia 2013"*, Bureau of Resources and Energy Economics ("BREE"), May 2013, *"Australian Energy Projections to 2049-50"*, BREE, December 2012, *"2013 Gas Statement of Opportunities"*, AEMO, November 2013, *"Gas Market Report"*, BREE, October 2013, *"2013 Australian Energy Update"* BREE, July 2013 and *"Australian Gas Resource Assessment 2012"*, Geoscience Australia/BREE, May 2012.

In 2004, the regulatory functions for the Australian energy industry were redesigned and two new national regulatory bodies were established: the Australian Energy Market Commission ("AEMC"), responsible for rule making and market development, and the Australian Energy Regulator ("AER"), responsible for monitoring and regulating electricity and gas transmission and distribution networks and retail markets. On 1 July 2009, the Australian Energy Market Operator ("AEMO") was established to operate the National Electricity Market and the retail and wholesale gas markets of eastern and southern Australia (replacing a number of state entities). Western Australia has opted not to transfer regulatory responsibility for its energy markets to the AER (but has adopted a modified version of the national gas law) and in the Northern Territory the AER has not been empowered to perform functions relating to the electricity market. Recently further reforms have been made to improve the efficiency of energy markets including changes to the energy rules and implementation of national regulation in the retail segment.

Envestra primarily owns assets in the gas distribution segment of the Australian energy industry while APA Group primarily operates in the gas transmission segments. Therefore, the remainder of this section focuses on the gas sector.

Gas Sector

(i) Demand

Natural gas is produced in Australia both for domestic markets and for export (as LNG). It accounts for approximately 25% of total Australian energy consumption, behind coal (31%) and oil (39%) with renewable sources accounting for 5% of consumption. Natural gas has a range of industrial, commercial and domestic applications in Australia. It is increasingly used for electricity generation and is expected to fuel 36% of generation by 2050 (up from 15% in 2010).

The consumption of natural gas in Australia is expected to grow by 1.3% per annum (a faster rate than overall energy consumption) to 34% of total consumption by 2050 driven primarily by the electricity generation sector in the eastern states and the LNG export sector. Key factors for this increase in demand include the increasing availability of gas, the increasing relative cost of coal, government initiatives to reduce greenhouse gas emissions and continued strong energy demand in Asia. The development of the LNG export sector in recent years has increased Australia's integration with global energy markets and resulted in real increases in domestic energy costs.

The growth in gas demand differs from the west coast to the east coast. Western Australia consumes more natural gas than any other state, with demand driven by gas fired power generation, the export of LNG and the mining sector. On the east coast, total annual demand is expected to increase threefold by 2033 (at an average of 5.8% per annum) driven by gas demand for LNG export projects. In comparison, domestic gas demand is projected to grow at an average of 0.9% per annum with New South Wales expected to remain the largest domestic consumer followed by Queensland and Victoria. Queensland is forecast to experience the most rapid growth in gas consumption (other than the Northern Territory which remains relatively small) underpinned by gas fired generation and the commissioning of the LNG export projects at Gladstone.

(ii) Reserves and Production

Australia has extensive reserves of natural gas. There are two main types of natural gas produced in Australia: conventional natural gas (typically found in underground reservoirs trapped in rock sometimes in association with oil) and coal seam methane gas ("CSG") (contained within coal seams). There are also other unconventional forms of gas including shale gas[6], tight gas[7] and gas from renewable sources (such as biogas and biomass).

The first commercial conventional gas project in Australia was established in central southern Queensland in 1961, the first commercial CSG project in Australia was established in late 1996 and the first commercial production of shale gas in Australia occurred in late 2012 in the Cooper Basin.

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6 Gas which has not migrated to a reservoir rock but is still confined within low permeability, organic rich source rocks. In Australia the Cooper, Maryborough, Perth and Canning Basins are considered prospective.

7 Gas which occurs within low permeability reservoir rocks. Tight gas is not currently produced in Australia but the largest resources have been assessed to be in the Perth, Cooper and Gippsland Basins.

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Australia's natural gas market operates as three separate regions: Western Australia, the Northern Territory and Eastern Australia (other states and territories). Total proved and probable conventional gas reserves are estimated at around 97,000PJ[8] and proved and probable CSG reserves at 44,000PJ with total demonstrated gas resources estimated to be in excess of 270,000PJ. Estimated 2P reserves, production and demonstrated resources by region are summarised below:

Australia - Natural Gas Reserves, Gas Production and Demonstrated Resources (PJ)

Type/Region	2P Reserves (August 2013)	Production (Year to 30 June 2013)	Demonstrated Resources[9]
Conventional Gas			
Western Australia	89,280	1,433	136,900
Northern Territory[10]	1,192	39	22,000
Eastern Australia	6,898	481	14,100
Total Conventional	**97,370**	**1,953**	**173,000**
Coal Seam Gas			
Western Australia	-	-	-
Northern Territory	-	-	-
Eastern Australia			
- Queensland Basins	41,146	248	na[11]
- New South Wales Basins	2,805	5	na
Total CSG	**43,951**	**253**	**101,434[12]**
Shale Gas			
Western Australia	-	-	-
Northern Territory	-	-	-
Eastern Australia	na	na	2,200
Total Shale Gas	**na**	**na**	**2,200**
Total Natural Gas	**141,321**	**2,206**	**274,434[13]**
Total Eastern Australia	50,849	734	115,534

Source: EnergyQuest and Grant Samuel analysis

In aggregate, Western Australia and the Northern Territory account for around 64% of Australia's 2P natural gas reserves. At current rates of production, 2P reserves represent approximately 61 years of supply (including for export as LNG). There are also significant contingent resources in the Carnarvon, Bonaparte and Browse Basins. The bulk of the fields are located in major offshore reservoirs. There are no CSG resources identified in these regions.

2P reserves of conventional gas in Eastern Australia amount to only approximately 14 years of supply at current production levels although considerable potential remains to develop new reserves (e.g. Gippsland Basin, Otway Basin). The relatively small conventional gas resources and the fact that it is not economically viable to deliver Western Australian gas to the east coast, has resulted in the development of CSG and shale gas as alternate forms of gas fuel in the eastern states.

CSG reserves significantly exceed conventional gas reserves in Eastern Australia. The Bowen and Surat Basins in Queensland account for approximately 94% of 2P reserves. Additional CSG resources have been identified across the eastern states including the Galilee, Maryborough and Ipswich Basins in Queensland and the Gunnedah and Gloucester Basins in New South Wales.

Australia is considered to have major potential to develop other unconventional gas resources such as shale gas and tight gas. Investigations are preliminary but it has been estimated that Australia has over 460,000PJ of technically recoverable resources of shale gas[14], with the Cooper Basin identified as a major focus for shale gas development.

8 PJ = petajoule

9 Estimated at January 2011 by Geoscience Australia/BREE using a modified version of the McKelvey resource classification system. Represents economic and sub-economic resources (i.e. excludes inferred resources) and equates to discovered gas under the more generally used oil and gas resource classification system.

10 Reflecting only the Australian net entitlement to Bayu-Udan.

11 na = not available

12 A further 250,000PJ of inground resource of CSG is also estimated.

13 A further 11,000PJ of conventional gas, 122,020PJ of CSG and 22,052PJ of tight gas are estimated in the inferred category.

14 Source: "Technically Recoverable Shale Oil and Shale Gas Resources: An Assessment of 137 Shale Formations in 41 Countries Outside the United States", U.S. Energy Information Administration and Advance Resources International Inc (June 2013).

All major gas producers/wholesalers supplying the Australian market are privately owned (although some are state owned enterprises of overseas governments). In the year ended 30 June 2013 total natural gas production was estimated to be 2,206PJ of which around 50% was consumed domestically with the balance exported to markets in Asia. CSG production has grown significantly in recent years from 13PJ in 2000 to 253PJ in 2013 and is expected to be around 2,500PJ in 2035. CSG currently accounts for 34% of natural gas production in Eastern Australia but is expected to increase to around 90% of production by 2030 due to the LNG export projects in Queensland.

Australia currently has three LNG operations: the North West Shelf Joint Venture located off the north west coast of Western Australia (which commenced export in 1989), the Darwin LNG Project in the Northern Territory (which commenced export in 2006) and the Pluto LNG Project located in the Carnarvon Basin off Western Australia (which commenced export in May 2012). Australia exported 1,103PJ[10] of LNG in the year ended 30 June 2013, primarily to Japan, China, South Korea and Taiwan. Demand for natural gas in Asia is expected to grow by an average of 2.4% per annum to 2040 (3.3% per annum excluding Japan and South Korea) with new markets expected to commence LNG importation.

The projected growth in Asian demand has prompted investment in the Australian LNG industry (and overseas) including the expansion of existing projects and new development in Western Australia and the Northern Territory as well as LNG projects on the east coast based on CSG reserves. In this regard, there are three LNG projects with a current total production capacity of 25.3Mtpa[15] under construction at Gladstone in Queensland (Queensland Curtis LNG, Gladstone LNG and Australia Pacific LNG) with first LNG production due in the period 2014-2015. A fourth project at Gladstone with initial capacity of 8Mtpa (Arrow LNG Plant) received environmental approval in December 2013 but no final investment decision has been made as yet.

Historically, gas has been sold in Australia under confidential long term contracts between producers and downstream buyers. However, in recent years there has been a shift towards shorter term contracts, the inclusion of review provisions and the emergence of spot markets[16]. Wholesale gas prices reflect a number of factors including cost of production, contract volume, available reserves, length of contract, price escalations and flexibility and typically include some adjustment for inflation or periodic price reset. Although gas pricing information is limited, Australian gas prices have historically been low relative to international prices due to Australia's abundant coal and natural gas reserves and geographic isolation.

It is widely accepted that Australian gas prices will increase in real terms as the Australian market becomes more integrated with international gas markets. This has already occurred in Western Australia (primarily reflecting the impact of demand for LNG and a relatively small domestic gas market) and is emerging in Eastern Australia. However, the timing and extent of gas price increases in Eastern Australia will depend on the interaction of a range of factors including:

- the growth in demand for energy in Australia;
- the continued growth in demand for LNG in Asia;
- government initiatives addressing climate change including renewable energy targets[17] and carbon pricing[18];

15 Mtpa = million tonnes per annum

16 Victoria operates a spot market in which approximately 10-20% of Victorian wholesale gas volume is traded. Short term trading markets commenced in Sydney and Adelaide in September 2010 and in Brisbane in December 2011. These markets provide a spot mechanism to manage contractual imbalances and not prices that would be agreed under longer term arrangements. In addition, AEMO is developing a gas trading exchange located at Queensland's Wallumbilla gas pipeline hub which is due for launch by March 2014. The aim of the exchange is to promote transparent and efficient trading so that all market participants can manage the financial risks associated with variable gas prices.

17 The Australian Government introduced a renewable energy scheme in 2001 (which was expanded in 2007) which aims to achieve 20% of total electricity generation to be supplied from renewable energy sources by 2020. The renewable energy target has driven investment in renewable power generation (principally wind) which in turn has increased demand for gas peaking power stations to support the intermittent nature of wind energy. The Coalition Government elected in September 2013 has committed to a review of this scheme in 2014.

18 On 1 July 2012, the Australian Government introduced a carbon pricing mechanism into the economy. The mechanism involved a three year fixed price period (including a price ceiling and floor) before transitioning to an emissions trading scheme on 1 July 2015. The mechanism applies directly to the largest carbon polluters and the carbon price started at $23 per tonne. In August 2012 the mechanism was revised to link the carbon price to the price of carbon allowances in the European Union emissions trading market and, prior to the September 2013 election, the government committed to bring forward the shift to an emissions trading scheme to 1 July 2014. The Coalition Government elected in September 2013 has introduced legislation to repeal carbon pricing mechanism, reaffirmed Australia's commitment to a 5% reduction in greenhouse emissions by 2020 and committed to launch a Direct Action plan (whereby it will pay for emissions abatement activity in Australia and fund urban tree planting and rooftop solar installations).

- the commissioning and ramp up to full capacity of the Queensland LNG projects (and any future expansion of these projects);
- the delay and increased costs associated with the development of CSG and shale gas resources as a result of community concerns as to their environmental impact;
- the length of time required to bring new gas supplies to market; and
- that available gas contract price data reflects historical (not current) capital and operating costs.

On the other hand, there are a number of factors that may limit the extent to which gas prices on the east coast may increase:

- moderation in electricity demand growth in recent years;
- natural gas may be superseded as the low carbon intensity fuel for generation;
- a substantial amount of gas would be stranded without a market if not all of the Queensland LNG projects are commissioned or developed to proposed scale; and
- an increase in east coast gas prices will stimulate supply as projects which are currently marginal become economic.

In any event, there is emerging evidence that gas prices in Eastern Australia are moving upwards, particularly as existing long term contracts run off. It remains to be seen whether domestic wholesale prices will approximate full LNG netback prices, which many commentators predict could exceed $8.00 per GJ[19] in the medium term.

(iii) Transmission and Storage

Large scale commercial gas usage in Australia commenced in the early 1970s. As most Australian gas production fields are located in areas remote from major retail load centres, high pressure steel pipeline infrastructure was developed to bring gas to the retail market. The transmission system links to gas distribution networks which deliver gas to the premises of residential, commercial and industrial customers. Large industrial users and electricity generators may connect directly to the transmission pipelines.

Gas transmission infrastructure (including processing plants, pipelines, compressors and storage facilities) has a long working life if appropriately maintained. The customer base is a small number of major gas users including power stations, energy retailers and minerals processors. Services are typically provided under long term arrangements[20] (around 10 years), are tailored to customer requirements and may include:

- firm forward haulage: whereby the customer reserves capacity on the pipeline and receives priority services. In some instances, back haul services (i.e. transportation of gas in opposite direction to aggregate physical flows of gas in the pipeline) may also be available on a firm capacity basis;
- interruptible haulage: which are sold on an "as available" basis and may be interrupted or delayed at relatively short notice depending on pipeline constraints or gas supply; and
- park services: which enable customers to store gas on a pipeline in order to respond to changes in the market or customer demand.

Moving gas through a pipeline takes time and therefore customers nominate in advance the amount of gas they want gas suppliers to inject into the pipeline and the amount they want to withdraw. Deviations from the nominated amounts can create physical imbalances in the pipeline impacting operating pressure and the quantity of gas available and therefore attract additional charges. The high pressure and significant length of pipelines means that there is a large amount of gas stored in a pipeline at any time ("linepack") providing some flexibility to a pipeline and its customers.

Pipelines are a significant capital investment and secure long term supplies of gas and viable markets are required before a commitment to build is made. Consequently, gas transmission typically relies on

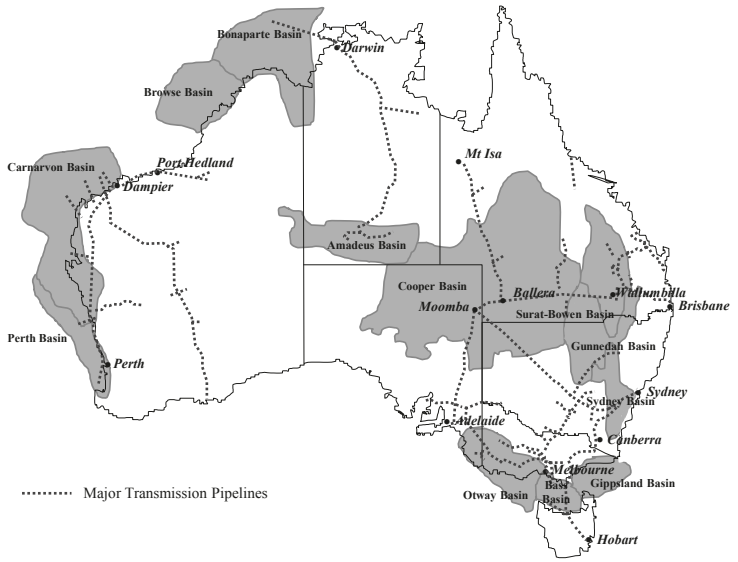
[19] GJ = gigajoule

[20] Due to the shorthaul characteristics of the Victorian market, AEMO manages the operations of the gas transmission system (owned by APA Group) and users are not required to enter into contracts with daily gas flow determined by bids into the wholesale gas market.

discrete large projects with long term contracts to underwrite capacity and pipelines are not developed with significant spare capacity. However, once a pipeline is built it can be expanded to meet demand growth. Whether new pipelines are developed or existing infrastructure is expanded (e.g. by looping or compression) depends on a range of factors including location and volume of gas supply and demand, existing reservation arrangements and infrastructure capacity, the technical ability to expand the pipeline, the potential for changes in pipeline tariffs and the cost of construction or expansion.

Australia's gas transmission system covers over 25,000 kilometres of pipelines:

Australian Gas Basins and Major Transmission Pipelines



Source: Grant Samuel

As a consequence of the location of the major gas reserves and the demand which supported commercialisation of these reserves, three independent gas transmission pipeline systems have developed:

- **Eastern Pipeline System:** an interconnected gas transmission network covering all states and territories except Western Australia and the Northern Territory. It connects the existing major gas demand hubs of south eastern Australia and the growing demand hubs of Queensland to the existing major conventional reserves basins of Eastern Australia (e.g. Cooper Basin, Otway, Bass and Gippsland Basins) as well as the CSG reserves of Queensland and New South Wales. APA Group and Jemena are the major owners and operators in the Eastern Pipeline System. Seven pipelines in the Eastern Pipeline System are covered with four subject to full regulation.

  The Eastern Pipeline System has developed over the last 20 years as new pipelines have been constructed and existing infrastructure has been expanded primarily in response to the development of the CSG sector and demand for gas for electricity generation. The commissioning of the QSN Link in 2009 enabled gas delivery between Queensland and the southern states. The expansion of the South West Queensland Pipeline ("SWQP") completed in December 2011 significantly enhanced the interconnectivity and capacity of the pipeline system allowing various capacity expansion projects to be undertaken (e.g. South West Queensland Pipeline, Roma to Brisbane Pipeline, Moomba to Sydney Pipeline and Victorian Transmission System). The LNG export projects have required the construction of three major transmission pipelines to transport gas to Gladstone (due for completion by 2014/2015). Interconnection of the major pipelines has provided

energy customers with gas supply alternatives and increased competition between basins to supply gas.

- **Western Pipeline System:** encompasses gas transmission pipelines which deliver gas to the populated south west of Western Australia from the offshore Carnarvon and Perth Basins and to the resources sector in the Pilbara, Murchison and Goldfields regions of Western Australia from the Carnarvon Basin. Although the Western Pipeline System includes some of the longest gas transmission pipelines in Australia, it is less integrated than the Eastern Pipeline System. DUET Group and APA Group are the major owners and operators in the Western Pipeline System. The Dampier Bunbury Natural Gas Pipeline and the Goldfields Gas Pipeline are subject to full regulation with access arrangements due to be renewed from 1 January 2016 and 1 January 2015 respectively.
- **Northern Pipeline System:** encompasses gas transmission pipelines delivering gas from the Amadeus Basin in Central Australia and the offshore Bonaparte Basin to Darwin for electricity generation in Darwin and for export as LNG. Energy Infrastructure Investments and APA Group are the major owners and APA Group is the only operator in the Northern Pipeline System. All pipelines in the Northern Pipeline System are uncovered except the Amadeus Gas Pipeline which is subject to full regulation with access arrangements due for renewal from 1 July 2016.

Further expansion of Australia's gas transmission system will occur to address gas supply and demand dynamics. In recent years there has been increased activity associated with dedicated gas storage facilities to complement linepack gas but this is not expected to materially impact the system. However, a preliminary study has been announced into the feasibility of developing a link between the Northern Pipeline System and the Eastern Pipeline System. Such a link could impact the dynamics of the gas transmission system.

All major gas transmission pipelines in Australia are owned by the private sector (although some are state owned enterprises of overseas governments). The major owners of Australian gas transmission pipelines are ASX listed entities APA Group and DUET Group, Jemena[21], Energy Infrastructure Investments (a joint venture of APA Group, Marubeni Corporation and Osaka Gas) and QIC Global Infrastructure ("QIC") (owned by QIC Limited, a Queensland Government company).

The regulatory framework for gas transmission pipelines in Australia is detailed in the National Gas Law and Rules under which gas pipelines are either "covered" or "uncovered". Covered pipelines may be subject to "full regulation", which requires owners to submit access arrangements (including reference tariffs) to the regulator for approval for a period of time (typically five years) after which they are reviewed, or "light regulation" whereby the owner must publish access prices and other terms and conditions on its website[22]. The regulatory framework also includes a mechanism for reviewing whether a pipeline requires economic regulation and for a 15 year "no coverage" period to be granted in certain circumstances.

Nationally, only 11 gas transmission pipelines (out of 64 major pipelines) are subject to economic regulation (seven subject to full regulation and four subject to light regulation). Uncovered pipelines are free to determine prices and other terms and conditions on a commercial basis, subject to the general competition provisions of the Competition and Consumer Act, 2010 and the potential for an application for coverage.

(iv) Distribution

Transmission pipelines connect to gas distribution networks at gate stations. Distribution networks are comprised of high, medium and low pressure mains which service areas of high demand and transport gas to the end users. Gas is now reticulated in all Australian capital cities and most major regional areas and towns.

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[21] Jemena is a division of SPI (Australia) Assets Pty Ltd ("SPIAA") and owns a portfolio of assets in the energy infrastructure sector. SPIAA is 40% owned by Singapore Power Limited ("Singapore Power"), the largest electricity and gas utility in Singapore, and 60% owned by State Grid Corporation of China ("State Grid"), the largest utility in China.

[22] However, if a pipeline has been deemed a "designated pipeline" it cannot be subject to light regulation. The only covered gas transmission pipeline which is currently a designated pipeline is the Dampier Bunbury Natural Gas Pipeline in Western Australia.

As gas distribution networks in Australia generally have natural monopoly characteristics, most are "covered" under the National Gas Law and Rules. As with gas transmission pipelines, covered distribution networks may be subject to "full regulation" requiring owners to submit access arrangements (including reference tariffs) to the regulator for approval for a period of time (typically five years). The owner of the distribution network must publish access prices (tariffs) and other terms and conditions on its website. The regulatory framework also includes a mechanism for reviewing whether a distribution network requires economic regulation and for a 15 year "no coverage" period to be granted in certain circumstances.

Nationally, 10 of the 12 major gas distribution networks are covered and subject to full regulation with two of the networks deemed designated pipelines (i.e. the South Australian Gas Distribution Network in South Australia and the Mid-West and South West Gas Distribution Systems in Western Australia). The two uncovered major networks (i.e. the Tasmanian Distribution System and the Darwin Distribution System) are free to determine prices and other terms and conditions on a commercial basis, subject to the general competition provisions of the Competition and Consumer Act, 2010 and the potential for an application for coverage. There are a number of smaller gas distribution networks in regional areas that are not covered.

Reference tariffs in access arrangements for distribution networks subject to full regulation are based on a building blocks approach. Under this approach, the regulator assesses the revenue needed by the owner to cover efficient costs (including a benchmark return on capital) and derives reference tariffs for the network. In doing so, account is taken of a network's historic and forecast operating and maintenance costs, capital expenditure, asset depreciation costs and taxation liabilities. Reference tariffs are calculated by reference to a weighted average cost of capital (return on assets) applied to the regulated asset base[23]. The rules also allow for income adjustments via incentive mechanisms to reward efficient operating practices over each regulatory period. Regulatory decisions are subject to merits reviews by the Australian Competition Tribunal[24].

The majority of gas distribution networks in Australia are owned by the private sector. The major owners of Australian gas distribution networks are Envestra and Jemena with DUET Group, GDI (EII) Pty Ltd (owned 20% by APA Group) and SP AusNet (31.1% owned by Singapore Power and 19.9% owned by State Grid) having smaller interests.

(v) Retailing

Retailers purchase natural gas from suppliers (producers or wholesalers) and on-sell it to residential, commercial and industrial customers. The retail price of gas represents the wholesale cost of gas, transmission and distribution tariffs, the retailer's operating costs and a profit margin. While state and territory governments have responsibility for regulating retail energy markets, a national energy customer framework was proposed in July 2012 whereby certain non-price regulatory functions will be administered by the AEMC and AER and is being progressively implemented[25].

Retail tariffs have historically been subject to a regulated cap reviewed at regular intervals (usually annually). In general, small consumers (residential and small business) were charged the standard tariff (which the retailer may set equal to or lower than the tariff cap) while larger consumers (commercial and industrial) negotiate tariffs with the retailer. Today, full retail contestability for gas has been implemented in all jurisdictions[26] and customers may either be on a standard contract (which includes model terms and conditions that cannot be amended) or enter into a market contract (which reflects minimum terms and conditions but may offer discounts or other inducements typically for a fixed term).

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23 A rule change implemented in November 2012 allows the regulator to make an assessment of the overall rate of return a benchmark entity needs to meet its efficient costs (rather than a parameter by parameter assessment) and to take into account a wider range of information thereby allowing decisions that reflect conditions in capital markets.

24 Recent reforms to the appeals provisions are expected to benefit consumers (although currently only the South Australian parliament has passed legislation to implement these reforms). Other reforms are in train to better manage network costs in the long term interests of consumers including changes to network reliability standards.

25 To date New South Wales, South Australia, Tasmania and the Australian Capital Territory have implemented the reforms and Victoria and Queensland are yet to implement them. Western Australia and the Northern Territory do not intend to implement the reforms.

26 Except that in Western Australia under the Gas Market Moratorium adopted in May 2004 incumbent electricity retailer Synergy is prevented from competing for customers who consume less than 180GJ annum.

The state and territory governments are committed to the removal of retail price caps where effective competition can be demonstrated in the gas market. Currently, only New South Wales and Western Australia apply some form of retail price regulation for small gas customers.

At October 2013 there were 14 retailers active in the gas mass market in Australia, although not all were active in each jurisdiction. Most of these retailers offer the supply of both gas and electricity in at least some of the jurisdictions in which they are active. Private retailers dominate the gas market in all states except Tasmania. The major gas retailers are ASX listed companies AGL Energy Limited ("AGL Energy") and Origin Energy Limited ("Origin Energy"), EnergyAustralia (owned by Hong Kong listed CLP Holdings Limited) and Alinta Energy (owned by a consortium of investors).

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4 Profile of Envestra Limited

4.1 Background

Envestra was formed when the gas distribution assets of Boral Limited ("Boral") (namely the South Australian, Queensland and the Northern Territory distribution networks) were combined and floated on the ASX in August 1997 with a stapled security structure (comprising one share and one loan note). At listing Boral retained a 19.97% shareholding and this interest was part of Boral's energy assets demerged as Origin Energy Limited in 2000. Origin Energy sold its interest in Envestra (then 17.2%) to APA Group in 2007.

Envestra has grown its asset base over time both organically and through a series of acquisitions. It acquired the Palm Valley Pipeline in the Northern Territory in 1998, the Victorian gas distribution network for $1.2 billion in 1999 and the Wagga Wagga gas distribution network for $107 million in 2010.

Today, Envestra is the owner of the largest portfolio of gas distribution networks in Australia and is headquartered in Adelaide. Its objective is to own and operate natural gas distribution networks, pipelines and related services that generate reliable dividends and attractive returns for shareholders. Prior to the announcement of the initial approach from APA Group on 16 July 2013, Envestra had a market capitalisation of approximately $1.9 billion.

4.2 Operations

Envestra owns gas distribution networks and associated gas transmission pipelines across Australia and serviced 1.16 million consumers (including around 1.1 million domestic users) at 30 June 2013. Its assets comprise 22,762 kilometres of mains and 1,124 kilometres of transmission pipelines with gas distribution networks in Melbourne, Adelaide and Brisbane forming the majority of its asset base. Around 90% of Envestra's assets are subject to full regulation by the AER.

Envestra operates and reports on a regional basis as follows:

Envestra – Operations at 30 June 2013

	South Australia/ Northern Territory[27]	Victoria	Queensland	New South Wales
Regulated metropolitan networks	Adelaide	Melbourne	Brisbane	
Regulated regional networks	Whyalla Port Pirie Mt Gambier Riverland Mildura	Shepparton Wangaratta Wodonga Moe Morwell Traralgon Sale Bairnsdale	Rockhampton	Albury Wagga Wagga
Unregulated regional networks	Alice Springs		Bundaberg Maryborough Hervey Bay	Wagga Wagga Region[28]
Transmission pipelines	Riverland Palm Valley	12 short-length pipelines	Wide Bay	Wagga Wagga region
Length of mains (kilometres)	8,122	10,106	2,692	1,842
Length of pipelines (kilometres)	531	225	284	84
Number of consumers	425,632	593,918	90,988	52,924
Gas volume in FY13 (PJ)	36.7	53.4	16.4	6.5

27 Including Mildura, which is accounted for as part of South Australia/Northern Territory, although geographically in Victoria.

28 The Wagga Wagga network is approximately 30% unregulated.

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Envestra – Operations at 30 June 2013				
	South Australia/ Northern Territory[27]	Victoria	Queensland	New South Wales
RAB[29] ($million)	1,154	1,163	358	100
Reset date	1 July 2016	1 Jan 2018	1 July 2016	1 Jan 2018/1 July 2015
FY13 EBITDA contribution	44%	35%	16%	5%

Source: Envestra

A description of each of Envestra's regional operations is set out in Section 4.8 of this report.

The operation and management of all of Envestra's assets is outsourced to APA Group under contracts ("O&M Contracts") under which APA Group is responsible for:

- managing the haulage of gas through each network;
- operating and maintaining each network;
- planning, designing and constructing network extensions;
- assisting Envestra with submissions to the AER;
- assisting Envestra in promoting the use of natural gas;
- preparing and settling with Envestra the budget for each financial year;
- providing Envestra with regular information on financial and other management issues;
- reading meters and billing retailers; and
- the development of procedures in relation to billing, System Use Gas, fair market rental or value for APA Group's assets used for the services provided, key design parameters for any network and public relations activities.

In return for providing these services, APA Group is entitled to:

- a fee of 3% of Envestra's total network revenue (which is currently a recoverable cost under Envestra's access arrangements);
- be reimbursed for all costs and disbursements reasonably incurred in the performance of its obligations (including redundancy costs); and
- a performance bonus of one third of any reduction in costs from the immediately preceding financial year (adjusted for inflation) as a result of decreases in the average capital cost of connecting new consumer sites to the networks and/or decreases in controllable costs per GJ of gas.

The O&M Contracts expire on 30 June 2027 and may only be terminated before then:

- by Envestra, for a breach by APA Group of their terms which has not been waived, loss of regulatory authorisations, insolvency or if, without the written consent of Envestra, there is a change in control of APA Group;
- by APA Group, for a breach by Envestra of their terms which has not been waived or if Envestra fails to pay an amount of in excess of 1% of budgeted net cash flow within 30 days of written notice by APA Group; or
- if there is prolonged force majeure.

Envestra has a corporate team of 15 staff who provide the administration, finance, treasury, regulatory and commercial functions for the company. This includes:

- negotiating third party access arrangements;
- preparing and submitting proposals, conducting negotiations with and reporting financial results to the AER in relation to access arrangement determinations;
- managing the O&M Contracts;

[29] RAB is regulated asset base as calculated by Envestra (i.e. not as stated in access arrangements).

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- marketing activities aimed at promoting marketing natural gas to consumers; and
- managing financing requirements and shareholder reporting and other obligations.

4.3 Financial Performance

The historical financial performance of Envestra for the five years ended 30 June 2013 and the six months ended 31 December 2013 is summarised below:

Envestra - Financial Performance ($ millions)

	Year ended 30 June					Six months ended 31 December
	2009 actual	2010 actual	2011 actual	2012 actual	2013 actual	2013 actual
RAB (period end)	*2,260*	*2,380*	*2,454*	*2,594*	*2,775*	*2,879*
Consumers (000's)	*1,036.9*	*1,061.0*	*1,114.5*	*1,140.2*	*1,163.5*	*1,174.8*
Gas delivered (PJ)	*115.0*	*111.4*	*119.0*	*114.6*	*113.0*	*59.0*
Total network revenue	**382.2**	**382.2**	**424.2**	**468.6**	**507.5**	**293.1**
Network operating costs	(90.5)	(99.8)	(103.2)	(108.9)	(123.0)	(62.8)
Gas purchases	(12.1)	(11.8)	(14.4)	(13.3)	(14.1)	(6.4)
Corporate costs	(9.7)	(9.7)	(10.7)	(11.6)	(10.8)	(6.2)
Operating costs	**(112.3)**	**(121.3)**	**(128.3)**	**(133.8)**	**(147.9)**	**(75.4)**
EBITDA[30]	**269.9**	**260.9**	**295. 9**	**334.8**	**359.6**	**217.7[31]**
Depreciation and amortisation	(58.2)	(52.7)	(53.3)	(56.7)	(58.7)	(31.0)
EBIT[32]	**211.7**	**208.2**	**242.6**	**278.1**	**300.9**	**186.7**
Net interest expense	(159.6)[33]	(156.3)	(174.6)	(171.2)	(147.9)	(62.3)
Significant and non-recurring items[34]	0.3	(0.3)	(3.1)	(1.5)	0.8	-
Operating profit before tax	**52.4**	**51.6**	**64.9**	**105.4**	**153.8**	**124.4**
Income tax expense	(12.1)	(14.4)	(19.9)	(31.5)	(46.0)	(37.3)
Profit after tax attributable to Envestra shareholders	**40.3**	**37.2**	**45.0**	**73.9**	**107.8**	**87.1**
Statistics						
Basic EPS[35]	*3.8¢*	*2.8¢*	*3.2¢*	*4.9¢*	*6.6¢*	*4.8¢*
Dividends per share[36]	*5.5¢[37]*	*5.5¢[38]*	*5.7¢*	*5.8¢*	*6.2¢*	*3.2¢*
Amount of dividend franked	*-*	*27%*	*-*	*-*	*-*	*-*
Dividends paid in year	*7.3¢[39]*	*5.5¢*	*5.5¢*	*5.8¢*	*5.9¢*	*3.2¢*
Dividend coverage ratio[40]	*1.4x*	*1.5x*	*1.7x*	*1.8x*	*2.2x*	*2.1x*
Dividend yield[41]	*10.8%*	*11.2%*	*8.2%*	*7.4%*	*6.2%*	
Total network revenue growth	*10.9%*	*-*	*10.9%*	*10.6%*	*8.3%*	*na*
EBITDA growth	*15.7%*	*(3.3%)*	*13.3%*	*13.3%*	*7.4%*	*na*
EBIT growth	*20.7%*	*(2.3%)*	*16.3%*	*14.8%*	*8.2%*	*na*
EBITDA margin	*70.6%*	*68.3%*	*69.7%*	*71.4%*	*70.9%*	*74.2%*
EBIT margin	*55.8%*	*54.5%*	*57.1%*	*59.3%*	*59.3%*	*63.7%*
Interest cover[42]	*1.3x*	*1.3x*	*1.4x*	*1.6x*	*2.0x*	*3.0x*

Source: Envestra and Grant Samuel analysis

30 EBITDA is earnings before net interest, tax, depreciation and amortisation, investment income and significant and non-recurring items. Differs to reported EBITDA due to exclusion of significant and non-recurring items.

31 EBITDA is after $1.2 million in takeover defence costs.

32 EBIT is earnings before net interest, tax, investment income and significant and non-recurring items. Differs to reported EBIT due to exclusion of significant and non-recurring items.

33 Including $2.3 million of interest on loan notes.

34 Provided to Grant Samuel by Envestra. Not disclosed in Envestra's statutory financial statements.

35 EPS = earnings per security including significant items.

36 Represents dividends in relation to the financial year (i.e. not dividends paid during the year).

37 Envestra's stapled entity structure was terminated on 29 May 2009 when the final repayment of principal on the loan notes occurred. Dividends per share in FY09 include 0.81 cents of capital per loan note and 0.05 cents of interest per loan note.

38 The dividend paid on 30 April 2010 (i.e. the interim dividend for FY10) was franked to 54.6%.

39 In FY09 shareholders received 4.94 cents of capital per loan note, 0.42 cents of interest per loan note plus 1.89 cents in franked dividend.

40 Calculated as cash dividends paid divided by cash flow available for distribution.

41 Based on dividends declared for the period and the closing Envestra share price on last day of the period.

42 Interest cover is EBIT divided by net interest.

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Network services revenue primarily relates to haulage revenue (both regulated and unregulated) with other revenue being generated from activities such as special meter reads, disconnections, mains alterations and customer contributions relating to construction activities. Approximately 90% of Envestra's revenue is generated from consumers of less than 10TJ[43] of gas per annum (i.e. the retail and commercial markets). Approximately 55% of Envestra's revenue is generated in the first half of the financial year due to higher gas volumes transported during the winter period.

Revenue and earnings have grown steadily since FY10. Increased revenue in this period reflects:

- annual increases in tariffs charged;
- the acquisition of the Wagga Wagga distribution network in October 2010;
- an increase in capital expenditure (including a major mains replacement program);
- new customer connections; and
- tariff increases as a result of the most recent regulatory determinations (effective in South Australia and Queensland from 7 July 2011 and 30 June 2011 respectively and in Victoria from 29 April 2013).

Operating costs primarily relate to network operating costs (including the fee paid to APA Group), carbon tax costs, repairs and maintenance and marketing. Gas purchases refer to the gas that Envestra predominantly buys to replace gas that has leaked from the networks. Corporate costs include the administration and staff costs associated with Envestra's corporate functions. Operating costs have increased over the period as a result of:

- the expansion of the distribution networks;
- increases in marketing spend aimed at enhancing the market position of natural gas;
- the introduction of the carbon tax in FY13 (at a cost of $9.6 million) which was fully recovered in revenue; and
- higher maintenance costs primarily as a result of leaks associated with the portion of the networks still comprised of cast iron mains.

Consequently, EBITDA and EBIT have grown on average by 7.4% and 9% respectively over the period at relatively consistent margins. Envestra's EBIT by operating region is shown below:

Envestra – EBIT by Region[44] ($ millions)

	Year ended 30 June					Six months ended 31 December
	2009 actual	2010 actual	2011 actual	2012 actual	2013 actual	2013 actual
South Australia/Northern Territory	82.8	77.8	92.6	119.4	135.7	87.9
Victoria	91.8	90.8	105.0	98.9	100.7	61.1
Queensland	33.7	35.2	36.9	44.7	49.0	28.6
New South Wales	3.4	4.4	8.1	15.1	15.5	9.1
Total EBIT	**211.7**	**208.2**	**242.6**	**278.1**	**300.9**	**186.7**

Source: Envestra and Grant Samuel analysis

This analysis shows that the contribution from each region has grown in the period but that South Australia/Northern Territory and Victoria remain the key contributors to Envestra's earnings. The operating performance of each region is discussed in more detail in Section 4.8 of this report.

Net interest expense increased following the FY11 acquisition of the Wagga Wagga distribution network. Lower interest rates on floating rate debt and on fixed interest rate swaps commencing January 2013 have contributed to the reduction in interest expenses in FY13.

43 TJ = terajoule

44 Historical EBIT has been restated to reflect current regional classifications.

Envestra pays dividends from cash flows from operations plus the proceeds from sale of assets less payments for remediation of land and replacement capital expenditure. Dividends per share have gradually increased over the five year period as earnings and cash flow have grown (notwithstanding increases in shares on issue). Dividends have been unfranked as Envestra does not pay cash tax due to carried forward income tax losses and tax depreciation deductions in excess of accounting depreciation. Since 31 December 2013, Envestra has declared an unfranked dividend of 3.2 cents per share which is expected to be paid on 30 April 2014 (with an ex-dividend date of 17 March 2014).

Outlook

Envestra has not publicly released detailed earnings forecasts for FY14 or beyond. However, on 12 December 2013, Envestra announced that it expects profit after tax for FY14 of around $145 million, reflecting lower than expected borrowing costs and higher than expected gas volumes to residential and commercial markets. Envestra has also announced an increase in the annual rate of dividends paid from 5.9 cents per share paid in FY13 to 6.4 cents per share in FY14. On 20 February 2014, Envestra increased its guidance for FY14 net profit after tax to between $145 million and $150 million and in the Scheme Booklet has stated that this level of net profit after tax is expected to be sustained through to 30 June 2016.

In order to provide an indication of the expected future financial performance of Envestra, Grant Samuel has also considered brokers' forecasts for Envestra (see Appendix 1) as follows:

Envestra – Financial Performance ($ millions)

	Year ending 30 June			
	2013 actual	Broker Consensus (Median)		
		2014	2015	2016
Total network revenue	507.5	550.9	568.6	592.3
EBITDA	359.6	399.8	412.7	431.7
EBIT	300.9	338.0	346.7	362.5
Net profit after tax	107.8	147.8	149.4	154.7
Earnings per share	6.6¢	8.2¢	8.3¢	8.5¢
Dividends per share[36]	6.2¢	6.4¢	6.7¢	7.0¢

Source: Grant Samuel analysis (see Appendix 1)

4.4 Cash Flow

Envestra's cash flow for the five years ended 30 June 2013 and the six months ended 31 December 2013 is summarised below:

Envestra – Cash Flow ($ millions)

	Year ended 30 June					Six months ended 31 Dec 2013 actual
	2009 actual	2010 actual	2011 actual	2012 actual	2013 actual	
Cash flow from operations	**122.3**	**117.1**	**137.0**	**171.8**	**233.8**	**135.1**
Proceeds from sale of assets	1.0	1.0	7.8	0.1	0.9	-
Payment for remediation of land	-	-	(0.8)	(0.6)	(8.9)	(0.7)
Replacement capital expenditure	(18.4)	(10.7)	(14.9)	(16.2)	(20.8)	(12.4)
Available for distribution	**104.9**	**107.4**	**129.1**	**155.1**	**205.0**	**122.0**
Dividends/distributions paid	(75.8)	(73.0)	(77.5)	(87.5)	(93.7)	(57.5)
Cash flow after distributions	**29.1**	**34.4**	**51.6**	**67.6**	**111.3**	**64.5**
Growth capital expenditure	(94.1)	(87.1)	(114.3)	(159.9)	(196.6)	(123.4)
Acquisitions	-	-	(108.7)	-	-	-
Proceeds from security issues (net)	130.6	31.9	41.8	66.6	214.6	-
Proceeds from borrowings (net)	(70.2)	21.0	130.5	19.4	(129.3)	59.0
Net increase/(decrease) in cash	**(4.6)**	**0.2**	**0.9**	**(6.3)**	**-**	**0.1**
Opening cash	*10.8*	*6.2*	*6.4*	*7.3*	*1.0*	*1.0*
Closing cash	*6.2*	*6.4*	*7.3*	*1.0*	*1.0*	*1.1*

Source: Envestra and Grant Samuel analysis

Notwithstanding the increase in the quantum of dividends paid in the period (as a result of increased shares on issue as well as increases in the rate of dividend), Envestra's dividend coverage ratio[40] has increased from around 1.4 times in FY09 to 2.2 times in FY13. The increased cash retention has partially funded an increased capital expenditure program, a large proportion of which relates to the replacement of aging cast iron and steel gas mains with polyethylene pipes. The balance of the capital expenditure program has been funded by a mix of debt and equity. Envestra has used its dividend reinvestment plan to raise equity over the period but in FY09 (through a rights issue) and FY13 (through an institutional placement and share purchase plan) it has taken advantage of market conditions to raise additional capital.

Based on its recent regulatory decisions, Envestra anticipates capital expenditure of around $1.3 billion in the five years from FY13. This includes around $600 million to substantially complete the mains replacement project by FY18. The mains replacement program will benefit Envestra's earnings by increasing the RAB (and therefore revenue) and by reducing gas leakage and associated maintenance costs.

4.5 Financial Position

The financial position of Envestra as at 30 June 2013 (audited) and 31 December 2013 (reviewed) is summarised below:

Envestra - Financial Position ($ millions)

	As at 30 June 2013	As at 31 December 2013
Debtors, other assets and prepayments	85.2	59.2
Creditors, accruals and provisions	(70.7)	(60.3)
Net working capital	**14.5**	**(1.1)**
Property, plant and equipment (net)	2,497.0	2,593.7
Distribution licences and other intangible assets	606.0	606.0
Receivables	4.8	4.3
Deferred tax liabilities (net)	(195.2)	(228.6)
Non current provisions	(10.4)	(10.1)
Prepayment from energy retailers	(50.7)	(0.6)
Derivative financial instruments (net)	(2.7)	(13.7)
Total funds employed	**2,863.3**	**2,949.9**
Cash and deposits	1.0	1.1
Bank loans, other loans and finance leases	(2,022.5)	(2,088.5)
Net borrowings	**(2,021.5)**	**(2,087.4)**
Net assets	**841.8**	**862.5**
Statistics		
Shares on issue at period end (million)	*1,796.8*	*1,796.8*
RAB[29] ($ million)	*2,775*	*2,879*
Net assets per share	*$0.47*	*$0.48*
NTA[45] per share	*$0.13*	*$0.14*
Gearing[46]	*63.4%*	*64.3%*
Net borrowings/RAB[47]	*74.0%*	*73.4%*
Book gearing[48]	*70.6%*	*70.8%*
Market gearing[49]	*53.1%*	*50.5%*

Source: Envestra and Grant Samuel analysis

Property, plant and equipment primarily reflects the net written down value of the mains and inlets, gas meters, gas regulators and gate stations that comprise the gas distribution networks as well as gas transmission pipelines. It also includes two former gas works sites which are subject to remediation for which a significant provision has been made. Distribution licences primarily

45 NTA is net tangible assets, which is calculated as net assets less intangible assets (i.e. distribution licences and other intangible assets).
46 Gearing is net borrowings divided by total non-cash assets. This is the definition of gearing used by Envestra.
47 Calculated as net borrowings (before capitalised borrowing costs and fair value adjustments) divided by RAB.
48 Book gearing is net borrowings divided by net assets plus net borrowings.
49 Market gearing is net borrowings divided by market capitalisation (at period end) plus net borrowings.

comprise the licences in relation to the Victorian networks acquired in 1999 ($585.6 million) and are considered to have an indefinite life and therefore not amortised.

Prepayment from energy retailers primarily represents the terms of the South Australian access arrangements which require the retailer to prepay for haulage services. Since 30 June 2013 this requirement has been changed and the prepayment released.

Envestra uses a range of derivative financial instruments to manage its exposure to fluctuations in interest rates and foreign exchange rates. At 30 June 2013 Envestra had a net derivative liability of $2.7 million.

Envestra's borrowings comprise both capital market instruments and bank facilities with maturities over the next 28 years to match the nature of its assets. At 30 June 2013, Envestra had $2,453.9 million in debt facilities (with an average maturity of 10 years) of which $2,053.9 million was drawn:

Envestra – Borrowings at 30 June 2013 ($ millions)

Facility	Amount Committed	Amount Drawn	Maturity
Bank loans	569.5	169.5	April 2014-October 2016
Commercial paper	3.0	3.0	1 month
Capital indexed bonds	251.9	251.9	Aug 2025 Principal
Medium term notes	645.0	645.0	2015, 2024 and 2026
US private placement notes	984.5[50]	984.5	Varying (2015 - 2041)
	2,453.9	**2,053.9**	
Capitalised borrowing costs	-	(28.0)	
Fair value adjustments	-	(3.4)	
Total	**2,453.9**	**2,022.5**	

Source: Envestra

The borrowings are secured over the networks owned by Envestra. Envestra and its senior debt financiers are parties to the Intercreditor Deed Poll which sets out various events of default, representations, warranties and undertakings relating to the debt and hedging arrangements. An event of default gives Envestra's senior debt financiers the right to require repayment of debt and close out hedging arrangements (subject to certain majority approval requirements) and may result in "make whole" and "swap close out" payments and other additional costs. A change of control is an event of default but only if the majority of financiers (more than 66.7%) declare the change of control "unacceptable". This declaration can only be made 60 or more days after the change in control occurs, unless financiers volunteer to make an earlier undertaking.

Envestra has a Standard and Poor's ("S&P") long term credit rating of "BBB/Stable" and a Moody's Investors Services ("Moody's") long term credit rating of "Baa2/Stable". On 17 December 2013, both S&P and Moody's announced that these credit ratings were not immediately affected by the announcement of APA Group's non-binding proposal for Envestra.

At 31 December 2013, Envestra had $2,403.1 million in debt facilities of which $2,115.6 million was drawn (as set out below) and a net derivative liability of $13.7 million.

Envestra – Borrowings at 31 December 2013 ($ millions)

Facility	Amount Committed	Amount Drawn	Maturity
Bank loans	519.5	232.0	April 2014-October 2016
Capital indexed bonds	254.1	254.1	Aug 2025
Medium term notes	645.0	645.0	2015, 2024 and 2026
US private placement notes	984.5[50]	984.5	Varying (2015 - 2041)
	2,403.1	**2,115.6**	
Capitalised borrowing costs	-	(26.6)	
Fair value adjustments	-	(0.5)	
Total	**2,403.1**	**2,088.5**	

Source: Envestra

[50] Issued in the United States of America and including $165 million in Australian dollars and the balance in United States dollars.

Under the Australian tax consolidation regime, Envestra and its wholly owned Australian resident entities have elected to be taxed as a single entity. At 30 June 2013, Envestra had carried forward income tax losses of $508.7 million ($152.6 million of tax shield), all of which were recognised in the balance sheet. In addition, Envestra had carried forward Australian capital losses of $8.2 million ($2.5 million of tax shield). Envestra has no accumulated franking credits and does not expect to pay income tax in the short to medium term due to the ability to utilise carried forward income tax losses.

4.6 Capital Structure and Ownership

Envestra has 1,796,808,474 ordinary shares on issue.

At 31 March 2014 there were 15,599 registered shareholders in Envestra with the top 20 registered shareholders accounting for approximately 74.7% of the shares on issue. Envestra has two substantial shareholders:

Envestra – Substantial Shareholders		
	Number of Shares	Percentage
APA Group	593,755,789	33.05%
CKI	313,645,693	17.46%

CKI became a substantial shareholder with a 19.97% interest following a $310 million capital raising in September 1999 to fund the acquisition of the Victorian networks. APA Group acquired a 17.2% interest in Envestra in July 2007 from Origin Energy as part of a wider transaction. Participation in Envestra's distribution reinvestment plan and by underwriting Envestra's 2009 rights issue has increased APA Group's interest over time. Both APA Group and CKI have two directors on the Envestra board. In this regard, under Envestra's constitution:

- while CKI holds more than 15% of Envestra's shares, it is entitled to appoint up to two directors to Envestra's board; and
- if CKI holds between 10% and 15% of Envestra's shares, it is entitled to appoint one director to Envestra's board.

Other than APA Group and CKI, the top twenty registered shareholders are principally institutional nominee or custodian companies. Approximately 35% of registered shareholders hold less than 10,000 shares but this represents less than 2% of shares on issue. Envestra shareholders are predominantly Australian based investors (over 98% of registered shareholders and 82% of securities on issue).

Envestra's dividend reinvestment plan was suspended in August 2013.

4.7 Share Price Performance

From listing in August 1997 until early 2005, Envestra securities traded broadly around $1.00. Subsequently, the securities traded up to peak at $1.275 in mid April 2007 around the time that APA Group acquired the O&M Contracts and a 17.2% interest in Envestra from Origin Energy. The commencement of the global financial crisis from mid 2007 and the market sentiment implications of a lower than expected regulatory decision in Victoria, negatively impacted Envestra's security price through the period to the end of November 2008 when it had declined to trade around $0.50. In response to the challenging circumstances, Envestra reduced its distributions and undertook a rights issue in December 2008 at $0.30 per security.

Envestra traded around $0.30 in the first quarter of 2009 and recovered to around $0.50 in late May 2009 following S&P's revision of the outlook for its "BBB-" long term credit rating (to "stable" from "negative"), termination of the stapled security structure, positive market responses to the AER's rate of return guidance for the electricity infrastructure sector and a FY09 profit guidance upgrade. The following graph illustrates the movement in the Envestra share price and trading volumes since 1 January 2009:

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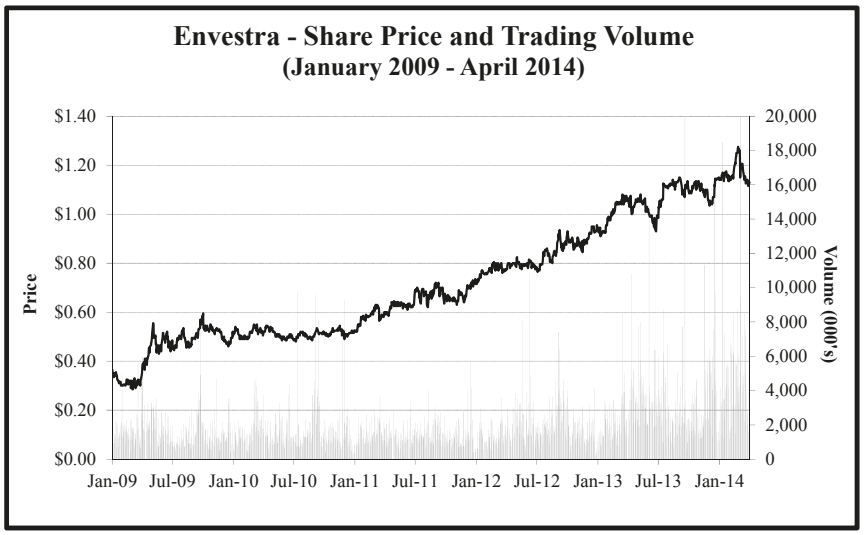


Source: IRESS

Notes: (1) Only once in this period has more than 20,000,000 shares traded in a day (on 4 March 2014 the day the Scheme Implementation Agreement was signed).

Envestra's shares traded around $0.50 from mid 2009 to the beginning of FY11. Following the AER's final decision on the access arrangements in Queensland and South Australia (which account for over 50% of its business) in June 2011, Envestra's share price trended upwards on the back of continued earnings improvements and increased dividends per security through to April/May 2013 when it dipped in line with the market to close at $0.995 on 30 June 2013. During July 2013 the share price rose to close at $1.06 on 15 July 2013, the day prior to APA Group's initial approach to Envestra. The Envestra share price jumped 6% to around $1.12 following the approach. When APA Group's approach was rejected by Envestra on 5 August 2013 the shares closed at $1.115.

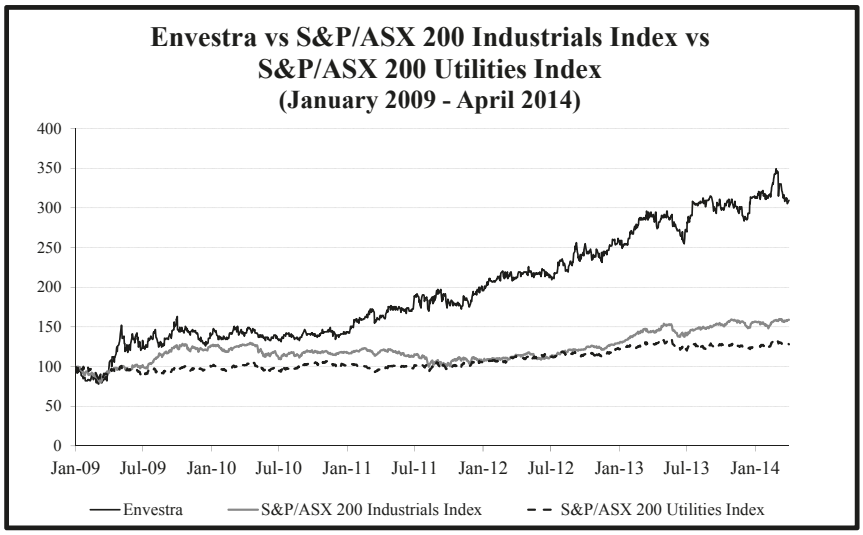
From then until APA Group's revised proposal on 17 December 2013, the Envestra share price traded around $1.10 as the market anticipated a revised proposal from APA Group. The Envestra share price closed at $1.07 on 16 December 2013, the day prior to the announcement of APA Group's revised proposal. Subsequently, Envestra shares traded in the range of $1.105-1.285 (at a VWAP of $1.17) and closed at $1.13 on 1 April 2014. In the two weeks prior to the signing of the Scheme Implementation Agreement, the Envestra share price increased in line with the APA Group security price and the 0.1919 exchange ratio under the Scheme (generally traded above $1.20). It has subsequently declined reflecting that Envestra shares commenced trading ex-dividend (3.2 cents) on 17 March 2014 and an increased risk that the Scheme will not proceed (i.e. the CKI appointed directors are not recommending the Scheme to shareholders).

Envestra has a restricted free float of 49.5% (i.e. excluding APA Group and CKI) and is not highly liquid. Average weekly volume over the twelve months prior to the announcement of APA Group's initial proposal on 16 July 2013 represented approximately 0.8% of average securities on issue in that period or annual turnover of around 39% of total average issued capital (around 80% of free float). This is not unusual for energy infrastructure entities from which investors seek long term stable distributions.

Envestra is a member of various indices including the S&P/ASX 200 Industrial Index and the S&P/ASX 200 Utilities Index. At 1 April 2014 its weighting in these indices was 0.18% and 7.98% respectively. The following graph illustrates the performance of Envestra shares since January 2009 relative to the S&P/ASX 200 Industrials Index and the S&P/ASX 200 Utilities Index. From June 2009 to January 2012 Envestra outperformed the indices reflecting the positive implications of regulatory decisions for earnings during that period as the equity markets

stabilised. From then until APA Group's initial proposal in July 2013, Envestra's performance generally mirrored the market and its peers with periods of over and under performance.

Following the initial re-rating upon announcement of APA Group's approach, Envestra continued to perform in line with the indices until re-rating again upon announcement of the revised proposal on 17 December 2013. Envestra has traded up in line with APA Group securities post 11 February 2014 but has declined since the signing of the Scheme Implementation Agreement:



Source: IRESS

4.8 Operations by Region

Envestra operates and reports on a regional basis. Each of the four regions is discussed below.

South Australia/Northern Territory

Envestra's South Australia/Northern Territory region encompasses:

- the South Australian distribution network which spans the greater Adelaide region;
- regional networks in Whyalla, Port Pirie, Mt Gambier and Murray Bridge;
- the Riverland Pipeline which connects Mildura to the Moomba to Adelaide Pipeline and delivers gas to Irymple, Redcliff and Mildura;
- the Palm Valley Pipeline which connects Palm Valley with Alice Springs; and
- the distribution network in Alice Springs.

The South Australian distribution network is regulated and its current five year regulatory period is from 1 July 2011 to 30 June 2016. An accelerated mains replacement program is currently underway to replace the remaining cast iron and unprotected steel mains in the network (approximately 12% of the network). Envestra has also commenced expansion of the network into new areas in South Australia including Buckland Park (north west of Adelaide) and in Tanunda in the Barossa Valley.

Gas is delivered to Envestra's South Australian distribution network primarily via the Moomba to Adelaide Pipeline System (owned by QIC Global Infrastructure) and the SEA Gas Pipeline (50% owned by APA Group). Demand for gas in the region comes from the retail and industrial markets and from power generators. Gas is used by the retail market in this region for heating, cooking

and hot water. Envestra's major customers include the integrated energy companies Origin Energy and AGL Energy, other energy retailers, power generators and industrial users.

The operating performance of South Australia/Northern Territory is summarised below:

South Australia/Northern Territory[51] - Operating Performance ($ millions)

	Year ended 30 June					Six months ended 31 December
	2009 actual	2010 actual	2011 actual	2012 actual	2013 actual	2013 actual
Period end RAB ($million)	*961*	*999*	*1,024*	*1,072*	*1,154*	*1,192*
Consumers (000s)	*394.9*	*402.4*	*411.0*	*418.7*	*425.6*	*429.2*
Effective degree days[52]	*1,032*	*921*	*1,126*	*970*	*857*	*473*
Gas delivered (PJ)	*39.6*	*38.7*	*39.6*	*37.2*	*36.7*	*19.2*
Network revenue	**158.3**	**152.7**	**167.0**	**196.2**	**216.9**	**130.9**
Operating costs	(47.2)	(52.8)	(54.2)	(55.7)	(59.3)	(31.5)
EBITDA	**111.1**	**99.9**	**112.8**	**140.5**	**157.6**	**99.4**
Depreciation and amortisation	(28.3)	(22.1)	(20.2)	(21.1)	(21.9)	(11.5)
EBIT	**82.8**	**77.8**	**92.6**	**119.4**	**135.7**	**87.9**
Network revenue growth	*10.3%*	*(3.5%)*	*9.4%*	*17.5%*	*10.6%*	
EBITDA growth	*16.0%*	*(10.1%)*	*12.9%*	*24.6%*	*12.2%*	
EBIT growth	*18.5%*	*(6.0%)*	*19.0%*	*28.9%*	*13.7%*	
EBITDA margin	*70.2%*	*65.4%*	*67.5%*	*71.6%*	*72.7%*	*75.9%*
EBIT margin	*52.3%*	*50.9%*	*55.4%*	*60.9%*	*62.6%*	*67.2%*

Source: Envestra

Revenue and EBIT in this region have increased on average by 8.2% and 12.6% per annum respectively over the five years to FY13 while the number of consumers has grown by 1.8% per annum in the same period. In addition to increased connections and despite fluctuations in effective degree days, revenue over this period has been positively impacted by the 15.3% increase in network tariffs from 1 July 2011 and the real growth in tariffs allowed under the current access arrangement.

AEMO has estimated that mass market (retail) demand in this region will grow at a rate of 0.7% per annum to 2033. Envestra anticipates growth in the retail market to be focussed on areas north of Adelaide.

Victoria

Envestra's Victoria region encompasses

- one of the three gas distribution networks in Victoria. Envestra's network area covers northern, outer eastern and southern Melbourne, the Mornington Peninsula and regional areas such as Shepparton and Sale; and
- twelve short length gas transmission pipelines.

The Victorian distribution network (excluding Mildura) is regulated and the current five year regulatory period is from 1 January 2013 to 31 December 2017. An accelerated mains replacement program is currently underway to replace the remaining cast iron and unprotected steel mains in the network (approximately 4% of network). Envestra has also commenced expansion of the network into new areas near Merrifield, north west of Melbourne.

Gas is delivered to Envestra's Victorian distribution networks via the Victorian Transmission System (owned by APA Group). Demand for gas in Victoria comes from the retail and industrial markets and from power generators. Gas is used by the retail market in this region for heating,

51 For the purposes of this analysis South Australia/Northern Territory includes Mildura.

52 Effective degree days is a measure of coldness used to model daily gas demand (i.e. the weather relationship for demand for gas from the retail market).

cooking and hot water. Envestra's major customers include the integrated energy companies Origin Energy, AGL Energy and EnergyAustralia, other energy retailers, power generators and industrial users.

The operating performance of Victoria is summarised below:

Victoria[53] - Operating Performance ($ millions)

	Year ended 30 June					Six months ended 31 December
	2009 actual	2010 actual	2011 actual	2012 actual	2013 actual	2013 actual
Period end RAB ($million)	*988*	*1,055*	*1,015*	*1,088*	*1,163*	*1,213*
Consumers (000s)	*536.2*	*550.1*	*565.3*	*580.5*	*593.9*	*600.3*
Effective degree days	*1,368*	*1,265*	*1,465*	*1,293*	*1,337*	*761*
Gas delivered (PJ)	*55.3*	*53.6*	*57.5*	*54.6*	*53.4*	*28.6*
Network revenue	**159.2**	**162.6**	**181.1**	**177.7**	**189.8**	**106.5**
Operating costs	(46.6)	(50.4)	(53.9)	(55.3)	(63.8)	(31.9)
EBITDA	**112.6**	**112.2**	**127.2**	**122.4**	**126.0**	**74.6**
Depreciation and amortisation	(20.8)	(21.4)	(22.2)	(23.5)	(25.3)	(13.5)
EBIT	**91.8**	**90.8**	**105.0**	**98.9**	**100.7**	**61.1**
Network revenue growth	*9.9%*	*2.1%*	*11.4%*	*(1.9)%*	*6.8%*	
EBITDA growth	*14.2%*	*(0.4)%*	*13.4%*	*(3.8)%*	*2.9%*	
EBIT growth	*20.2%*	*(1.1)%*	*15.6%*	*(5.8)%*	*1.8%*	
EBITDA margin	*70.7%*	*69.0%*	*70.2%*	*68.9%*	*66.4%*	*70.0%*
EBIT margin	*57.7%*	*55.8%*	*58.0%*	*55.7%*	*53.1%*	*57.4%*

Source: Envestra

Despite fluctuations in the effective degree days, revenue and EBIT in this region have increased on average by 3.5% and 2.3% per annum respectively over the five years to FY13 broadly in line with the growth in the number of consumers (2.6% per annum) in the same period. As the latest regulatory decision was handed down later than expected, it had no impact on the results for FY13. However, under the decision the Victoria network tariffs increased by 2.3% from 1 July 2013 and will increase by around 5% each year thereafter during the current access arrangement.

AEMO estimates demand for gas in the mass market (retail) in Victoria will increase by around 1.1% per annum to 2033. Envestra anticipates growth in the retail market to be focussed on areas north east of Melbourne.

Queensland

Envestra's Queensland region encompasses

- the regulated gas distribution network covering the northern parts of Brisbane and including Ipswich;
- the regulated gas distribution network in Rockhampton;
- the Wide Bay Pipeline from Gladstone to Bundaberg; and
- the unregulated gas distribution networks in Bundaberg, Maryborough and Hervey Bay.

The current five year regulatory period for the regulated assets in Queensland is from 1 July 2011 to 30 June 2016. An accelerated mains replacement program is currently underway to remove the remaining cast iron and unprotected steel mains in the network (approximately 6% of the network).

[53] For the purposes of this analysis Victoria excludes Mildura.

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Gas is delivered to Envestra's Brisbane and Ipswich networks via the Roma to Brisbane Pipeline (owned by APA Group), the Gladstone and Rockhampton networks by the Queensland Gas Pipeline (owned by Jemena) and the Bundaberg, Maryborough and Hervey Bay networks by its own Wide Bay Pipeline. Demand for gas in Queensland comes from the retail and industrial markets and from power generators. Unlike Envestra's other regions gas is used by the retail market in this region primarily for cooking and hot water and not heating (therefore effective degree days is not a statistic used in reviewing operational performance). Envestra's major customers include the integrated energy companies Origin Energy and AGL Energy, other energy retailers, power generators and industrial users.

The operating performance of Queensland is summarised below:

Queensland - Operating Performance ($ millions)

	Year ended 30 June					Six months ended 31 December
	2009 actual	2010 actual	2011 actual	2012 actual	2013 actual	2013 actual
Period end RAB ($million)	*278*	*292*	*319*	*336*	*358*	*373*
Consumers (000s)	*82.5*	*84.7*	*87.1*	*89.1*	*91.0*	*91.9*
Gas delivered (PJ)	*16.5*	*15.8*	*16.6*	*16.5*	*16.4*	*7.8*
Revenue	**57.6**	**59.4**	**60.3**	**70.7**	**75.2**	**41.5**
Operating costs	(15.9)	(16.1)	(15.2)	(17.8)	(18.7)	(9.0)
EBITDA	**41.7**	**43.3**	**45.1**	**52.9**	**56.5**	**32.5**
Depreciation and amortisation	(8.0)	(8.1)	(8.2)	(8.2)	(7.5)	(3.9)
EBIT	**33.7**	**35.2**	**36.9**	**44.7**	**49.0**	**28.6**
Network revenue growth	*16.4%*	*3.1%*	*1.5%*	*17.2%*	*6.4%*	
EBITDA growth	*23.4%*	*3.8%*	*4.2%*	*17.3%*	*6.8%*	
EBIT growth	*28.1%*	*4.5%*	*4.8%*	*21.1%*	*9.6%*	
EBITDA margin	*72.4%*	*72.9%*	*74.8%*	*74.8%*	*75.1%*	*78.3%*
EBIT margin	*58.5%*	*59.3%*	*61.2%*	*63.2%*	*65.2%*	*68.9%*

Source: Envestra

Revenue and EBIT in this region have increased on average by 6.9% and 9.8% per annum respectively over the five years to FY13 while the number of consumers has grown by 2.5% per annum over the same period. In addition to increased connections, revenue over this period has been positively impacted by the 12.5% increase in network tariffs from 1 July 2011 and the real growth in tariffs allowed under the current access arrangement.

AEMO estimates overall demand for gas in Queensland will increase by 1.1% per annum over the period to 2033 with growth in mass market (retail) demand of around 2.4% per annum.

New South Wales

Envestra's New South Wales region encompasses

- the Albury gas distribution networks which is regulated with a current five year regulatory period 1 January 2013 to 31 December 2017; and
- the Wagga Wagga gas distribution network. Approximately 65% of this network is regulated with a current five year regulatory period of 1 July 2010 to 30 June 2015.

A mains replacement program is currently underway to replace the remaining cast iron and unprotected steel mains from these networks.

Gas is delivered to Envestra's New South Wales networks from a lateral pipeline off the Moomba Sydney Pipeline (owned by APA Group) and the New South Wales-Victoria Interconnector Pipeline (owned by APA Group). Demand for gas in New South Wales comes from the retail and

industrial markets and from power generators. Gas is used by the retail market in this region for heating, cooking and hot water.

The operating performance of New South Wales is summarised below:

New South Wales - Operating Performance ($ millions)

	Year ended 30 June					Six months ended 31 December
	2009 actual	2010 actual	2011 actual	2012 actual	2013 actual	2013 actual
Period end RAB ($million)	*33*	*34*	*96*	*98*	*100*	*101*
Consumers (000s)	*23.4*	*23.8*	*51.1*	*51.9*	*52.9*	*53.4*
Gas delivered (PJ)	*3.6*	*3.4*	*5.3*	*6.4*	*6.5*	*3.4*
Revenue	**7.1**	**7.5**	**15.8**	**24.0**	**25.6**	**14.2**
Operating costs	(2.6)	(2.0)	(5.0)	(5.0)	(6.1)	(3.0)
EBITDA	**4.5**	**5.5**	**10.8**	**19.0**	**19.5**	**11.2**
Depreciation and amortisation	(1.1)	(1.1)	(2.7)	(3.9)	(4.0)	(2.1)
EBIT	**3.4**	**4.4**	**8.1**	**15.1**	**15.5**	**9.1**
Network revenue growth	*7.6%*	*5.6%*	*110.7%*	*51.9%*	*6.7%*	
EBITDA growth	*(11.8)%*	*22.2%*	*96.4%*	*75.9%*	*2.6%*	
EBIT growth	*(17.1)%*	*28.2%*	*85.8%*	*86.4%*	*2.6%*	
EBITDA margin	*63.4%*	*73.3%*	*68.4%*	*79.2%*	*76.2%*	*78.9%*
EBIT margin	*47.9%*	*58.1%*	*51.3%*	*62.9%*	*60.5%*	*64.1%*

Source: Envestra

The acquisition of the Wagga Wagga network in October 2010 doubled the number of consumers and the amount of gas delivered in this region. However, the margins contributed by this acquisition are higher than the Albury network, largely due to the RAB of the network and in part also due to the unregulated portion of the network. In addition, the current access arrangement for Albury was handed down later than expected and had no impact on the results for FY13. However, under the decision the Albury network tariffs have increased by 2.3% from 1 July 2013 and will increase by around 5% each year of the access arrangement.

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5 Valuation of Envestra Limited

5.1 Summary

Envestra has been valued in the range $1,994.4-2,373.4 million which corresponds to a value of $1.11-1.32 per share. The valuation represents the estimated full underlying value of Envestra assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Envestra shares to trade on the ASX in the absence of a takeover offer.

The value for Envestra is the aggregate of the estimated market value of Envestra's operating business and other assets less external borrowings and non-trading liabilities at 31 December 2013. The valuation is summarised below:

Envestra - Valuation Summary ($ millions)

	Report Section Reference	Value Range	
		Low	High
Business operations	5.3	4,027.0	4,378.0
Corporate cost savings	5.5	160.0	180.0
Other assets and liabilities	5.4	(64.9)	(56.9)
Enterprise value		**4,122.1**	**4,501.1**
Net borrowings	5.6	(2,127.7)	(2,127.7)
Value of equity		**1,994.4**	**2,373.4**
Fully diluted shares on issue (millions)		1,796.8	1,796.8
Value per share		**$1.11**	**$1.32**

The value attributed to Envestra's business operations is an overall judgement having regard to discounted cash flow ("DCF") analysis, the capitalisation of earnings or cash flows methodology and other measures commonly used in the energy infrastructure sector (i.e. multiples of regulated asset base). The specific factors taken into consideration in reaching this judgement are set out in Section 5.3 of this report.

It should be noted that Grant Samuel's estimate of full underlying value:

- assumes elimination of all corporate costs;
- includes value for Envestra's carried forward income tax losses; and
- is based on a discount rate range of 6.5-7.0%.

The value of Envestra includes a premium for control. Takeover premiums are typically in the range 20-35% depending on the individual circumstances. Synergies available to acquirers such as cost savings through merging operations are normally a significant factor in justifying their ability to pay a meaningful premium over market prices. In this case, direct synergies available to any acquirer of Envestra include all corporate costs (see Section 5.5).

The premiums implied by Grant Samuel's value range over the $1.06 share price prevailing on 15 July 2013 (the day prior to the announcement of APA Group's initial proposal) are in the range of 5-25%. In Grant Samuel's opinion, these premiums, while lower than typically observed, are reasonable for Envestra. High premiums for control are not generally expected for listed businesses with gas distribution assets as:

- cash flows of gas distribution networks are stable and predictable with long run growth generally limited to economic growth and inflation and, as regulated assets, are reasonably transparent with a considerable level of publicly available information on revenues, volumes, operating costs and capital investment;

- distributions typically represent a substantial proportion of available cash flow;
- while there are likely to be some operating cost synergies, there is usually little opportunity for integration with other assets (particularly in revenue terms) and, therefore, there is limited scope for an acquirer to achieve synergies; and
- energy infrastructure entities are typically reasonably highly leveraged and, therefore, there is limited scope to enhance returns by increasing debt.

For these reasons, it is Grant Samuel's view that listed gas infrastructure assets trade on the ASX at close to full underlying value underpinned by distribution yield (and yield growth). This view is broadly confirmed by historical transaction evidence, except for the period 2005-2008 where there was a greater propensity to pay premiums above listed entity multiples (possibly due to the increased market interest in the investment class and the availability of leverage).

Grant Samuel's value range is wide (16-19%) reflecting the impact of financial leverage on the value of equity in Envestra. At the business operation level, the value range is only 8-9%.

The valuation range of $1.11-1.32 per share exceeds Envestra's reported net tangible assets of $0.14 as at 31 December 2013. This primarily relates to the difference resulting from the application of accounting standards in comparison to Grant Samuel's judgement as to the price that an acquirer may be willing to pay for Envestra.

5.2 Methodology

5.2.1 Overview

Grant Samuel's valuation of Envestra has been estimated by aggregating the estimated market value of its business operations together with the realisable value of non-trading assets and deducting external borrowings and non-trading liabilities. The value of the operating business has been estimated on the basis of fair market value as a going concern, defined as the maximum price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

The valuation of Envestra is appropriate for the acquisition of the company as a whole and, accordingly, incorporates a premium for control. The value is in excess of the level at which, under current market conditions, shares in Envestra could be expected to trade on the sharemarket. Shares in a listed company normally trade at a discount of 15-25% to the underlying value of the company as a whole (but this discount does not always apply).

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies that are commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

Nevertheless, valuations are generally based on either or both discounted cash flow or multiples of earnings and Grant Samuel has had regard to both methodologies in the valuation of Envestra. In addition, some weight has also been given to the implied

multiples of regulated asset base ("RAB") which is the value of the fixed assets set by the AER as the basis for determining tariffs.

5.2.2 Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, including resources and energy infrastructure, and for the valuation of start-up projects where earnings during the first few years can be negative but it is also widely used in the valuation of established industrial businesses. DCF valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture depleting resources, development projects and fixed term contracts (which are typical in the resources and energy infrastructure sectors), the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate which reflects the risk associated with the cash flow stream.

Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgement. In addition, even where cash flow forecasts are available, the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a "de facto" cash flow capitalisation valuation).

The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, DCF valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions as to expected future performance need to be made.

A financial model of the operating business has been developed by Grant Samuel based on the long term cash flow models prepared by Envestra. The model allows the key drivers of revenue, operating costs and capital expenditure to be modelled. The model is based on a large number of assumptions and is subject to significant uncertainty and contingencies, many of which are outside the control of Envestra. A number of different scenarios have been developed and analysed to reflect the impact on value of various key assumptions relating to revenue, operating costs, capital expenditure and other factors. The financial model is discussed in more detail in Section 5.3.2 of this report.

5.2.3 Capitalisation of Earnings or Cash Flows

Capitalisation of earnings or cash flows is the most commonly used method for valuation of industrial businesses. This methodology is most appropriate for industrial businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual capital expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBIT or net profit after tax. These are referred to respectively as EBITDA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the sharemarket. EBITDA and EBIT multiples are more commonly used in valuing whole businesses for

acquisition purposes where gearing is in the control of the acquirer but are also used extensively in sharemarket analysis.

Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between parameters is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable to EBIT if depreciation or non-cash charges distort earnings or make comparisons between companies difficult. On the other hand, EBIT can better adjust for differences in relative capital expenditure intensity.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers it is necessary to infer the appropriate multiple from other evidence.

The primary approach used by valuers is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors, including:

- economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
- strategic attractions of the business - its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
- rationalisation or synergy benefits available to the acquirer;
- the structural and regulatory framework;
- investment and sharemarket conditions at the time; and
- the number of competing buyers for a business.

A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor. To convert sharemarket data to meaningful information on the valuation of companies as a whole, it is market practice to add a "premium for control" to allow for the premium which is normally paid to obtain control through a takeover offer. This premium is typically in the range 20-35%.

The premium for control paid in takeovers is observable but caution must be exercised in assessing the value of a company or business based on the market rating of comparable companies or businesses. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations

premiums may be minimal or even zero. It is inappropriate to apply an average premium of 20-35% without having regard to the circumstances of each case. In some situations there is no premium. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors through an initial public offering.

Acquisitions of listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall sharemarket levels and ratings between countries, economic factors (economic growth, inflation, interest rates) and market structures and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or sharemarket levels.

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

5.2.4 Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used as a "cross check" of the result determined by a capitalised earnings valuation or by discounting cash flows. While they are only used as a cross check in most cases, industry rules of thumb can be the primary basis on which buyers determine prices in some industries. In the case of energy infrastructure businesses a common rule of thumb parameter is the multiple of RAB. However, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

5.2.5 Net Assets/Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Such an approach is not appropriate in Envestra's case.

5.3 Value of Business Operations

5.3.1 Overview

Grant Samuel estimates the value of Envestra's business operations to be in the range $4,027-4,378 million.

The value range is the aggregate of the values attributed by Grant Samuel to each of Envestra's operating regions and includes a value for carried forward income tax losses. The individual values have not been disclosed in this report but represent overall judgements having regard to DCF analysis and multiples analysis (EBITDA and RAB) for each region. The primary focus was on the DCF analysis. The value ranges selected are judgements derived through an iterative process. The objective is to determine a value that is both consistent with the market evidence as to multiples and fits with the output of the DCF analysis in terms of the various cases and their likelihood.

5.3.2 DCF Analysis

A DCF Model has been developed by Grant Samuel based on financial models prepared by Envestra. Grant Samuel has made adjustments to the financial models to reflect its judgement on certain matters.

The DCF Model projects nominal after tax cash flows from 31 December 2013 to 30 June 2034 (a period of 20.5 years) by operating region, with terminal values calculated to

represent the value of cash flows in perpetuity (by capitalising net after tax cash flows based on a perpetual growth assumption). Net present values are calculated on an ungeared after tax basis using a nominal after tax discount rate (weighted average cost of capital) in the range 6.5-7.0%[54]. Appendix 3 sets out a detailed analysis of the selection of these discount rates. A corporate tax rate of 30% has been assumed but the DCF analysis takes into account the benefit of utilising existing carried forward tax losses (over the first four and a half years).

The DCF Model allows revenue, operating costs and capital expenditure to be modelled by region. Regulated revenue is sourced from regulatory models for the Victorian, South Australian, Queensland, Wagga Wagga (New South Wales) and Albury (New South Wales) assets and adjusted to reflect Envestra's views. Unregulated revenue has been assumed to grow at inflation (2.5%). The base DCF Model assumes the business operations continue on an "as is" basis reflecting Envestra's estimate of future regulatory returns (referred to in this report as "Case A"). The key general and specific operational assumptions underlying Case A are set out in Appendix 2.

Case A is based on a number of assumptions many of which are outside the control of Envestra. Expected gas volume varies between regions and reflects factors such as population growth, economic growth, volume usage per customer, gas connections and weather patterns[55]. However, the interaction of these factors is reflected in the gas volumes assumed by the AER in the tariff determination process for each network. To the extent actual gas volume is different to that assumed by the AER, Envestra's revenue will be higher or lower than assumed in the access arrangements. However, under or over performance will only occur until the regulatory assumptions are reset at the next determination date. If under performance occurs, Envestra has the ability to manage capital expenditure and, to a lesser degree, operating costs. Over performance (i.e. higher volumes) will be a benefit to Envestra but is unlikely to continue into the next determination period.

As a consequence, modelling the factors driving gas volumes is not meaningful. In the medium and longer term, Envestra's revenue will reflect the allowed regulatory revenue derived from the rate of return on the regulated asset base that the AER determines to be appropriate. A sustained change in gas volumes would be taken into consideration by the AER in its determination of future tariffs. Similarly, longer term regulatory operating expenses and capital expenditure will reflect the AER's view of market factors, including gas volumes. Consequently, as over 90% of Envestra's revenue is derived from assets subject to full regulation, the largest uncertainty for future cash flows is the outcome of the AER determinations.

Accordingly, Grant Samuel has analysed the DCF Model to examine the sensitivity of the NPV outcomes to changes in the following variables:

- the regulatory rate of return assumed in the periods beyond the current access arrangements. Envestra's current access arrangements are as follows:

Envestra – Current Access Arrangements

Region	Regulatory Rate of Return	Reset Date
South Australia/Northern Territory	10.28%	1 July 2016
Victoria	7.39%	1 January 2018
Queensland	10.28%	1 July 2016
New South Wales (Albury)	7.39%	1 January 2018
New South Wales (Wagga Wagga)	9.72%	1 July 2015

[54] The evidence set out in Appendix 3 indicates that discount rates in the range of 6.5-8.0% would be plausible for this DCF analysis in current market conditions. However, in order to ensure that the fairness assessment for the Scheme is robust, discount rates in the range of 6.5-7.0% have been adopted (i.e. the NPVs are higher than if a higher discount rate was adopted).

[55] Weather impacts (as measured by the movements in the number of degree days) are short term fluctuations in revenue. To the extent there is a sustained change in weather patterns it would be captured in future regulatory decisions.

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Although Envestra puts forward submissions to the AER, the ultimate decision regarding the rate of return it is allowed to earn on its regulated assets, allowable costs and pass-through capital expenditure, lies with the AER. Grant Samuel has chosen to review this variable by changing the regulatory rate of return for future determination periods to cover a range of possible outcomes, consistent with current market conditions and the AER's guidelines. Case A assumes a 7.58% rate of return[56] beyond the current access arrangements based on the AER's guidelines. For the purposes of this sensitivity analysis, rates of 7.1%[57] and 8.1%[58] have been reviewed[59];

- a scaling back in the operating expenditure outperformance currently assumed by Envestra. Case A reflects outperformance on the allowed operating expenditure of an "efficient provider". There is a risk that this situation may not continue in the future, and has been modelled by increasing cash operating expenditure by 1% (relative to Envestra's assumption); and
- the gamma (which determines the allowable tax value of imputation credits) to be applied in the period beyond the current regulatory arrangements. Many participants have different views as to the appropriate gamma that should be applied by the AER. In this case, Grant Samuel has decreased the gamma from 0.5 to 0.25.

Each scenario assumes Case A as the starting point. A description of each scenario is outlined in the table below.

Envestra – Summary of DCF Scenarios

Case	Description
A	Envestra networks on an "as is" basis as described in Appendix 2
B	Case A with a regulatory rate of return of 8.1% beyond the current regulatory periods
C	Case A with a regulatory rate of return of 7.1% beyond the current regulatory periods
D	Case A with a 1% increase in the annual forecast cash operating expenditure
E	Case A with a regulatory gamma of 0.25 beyond the current regulatory period

Grant Samuel has selected discount rates in the range 6.5-7.0%. However, as discussed in Appendix 3, there is considerable uncertainty as to the discount rates that an acquirer would apply in current market conditions. Therefore, Grant Samuel has also reviewed each of the above scenarios across a range of discount rates.

The output of the DCF analysis for a range of discount rates is summarised below:

Envestra – NPV Outcomes ($ millions)

Case	Discount Rate				
	6.0%	6.5%	7.0%	7.5%	8.0%
A	5,038	4,381	3,877	3,480	3,157
B	5,404	4,694	4,150	3,721	3,373
C	4,674	4,069	3,605	3,239	2,942
D	5,013	4,359	3,858	3,462	3,141
E	5,142	4,469	3,954	3,547	3,217

56 Calculated as: (Re x E/V) + (Rd x D/V), where Re (the cost of equity) is calculated as (Rf + (Beta x (Rm-RF))) = (4.26% + (0.7 x 6.50%)) = 8.81% and Rd (the cost of debt) is calculated as (Rf + debt risk premium) = (4.26% + 2.5%) = 6.76%. The gearing (D/V) is 60% and therefore E/V is 40%. The effects of the interest tax shield and gamma (the implied value of imputation credits) are separately taken into account by the AER to derive regulatory revenue and not specifically in the stated rate of return.

57 Calculated as: risk free rate of 4.8%, market risk premium of 6.5%, equity beta of 0.7, gearing of 60% and debt risk premium of 2.5%.

58 Calculated as: risk free rate of 3.8%, market risk premium of 6.5%, equity beta of 0.7, gearing of 60% and debt risk premium of 2.5%.

59 It should be noted that the regulatory rate of return is not the same as the discount rate used by Grant Samuel as they are calculated on different bases (i.e. the tax shield is calculated differently). Assuming the same parameters underlying the 7.58% regulatory rate of return (see footnote 56) and the approach adopted in Appendix 3 would result in a discount rate of 6.4%.

As with any long term projections, there are inherent uncertainties about future events and outcomes and, as shown above, small changes in certain assumptions can have disproportionate impacts on the calculated values. In this regard, the scenario analysis does not fully to take into account the operational flexibility that management has to react to changes in markets in which Envestra operates. However, as over 90% of its revenue is regulated, Envestra's ability to react to market changes is somewhat limited. Nonetheless, Envestra has full control over the actual level of capital expenditure spent and in the past has responded to changing market conditions by curtailing this expenditure. Envestra also has some control over the timing and nature of its operating expenses and may choose to vary these under certain market conditions. However, the primary downside risk for Envestra lies with unfavourable regulatory rate of return decisions.

As discussed above, net present values from DCF analyses are subject to significant limitations and should always be treated with considerable caution. The following factors are relevant to consideration of the above NPV outcomes:

- relatively small changes in assumptions regarding the regulatory rate of return can have a large impact on cash flow and therefore NPV outcomes. While the AER's new guidelines on rates of return is useful and allows flexibility for the actual regulatory outcomes, market conditions are uncertain. Grant Samuel has reviewed a range of regulatory rates of returns that are reasonable in current market conditions but the actual outcomes may be significantly different to the range considered;
- Case A reflects the rates of return in current regulatory periods with the regulatory rate of return reverting to 7.58% for all periods thereafter (having regard to the AER's current guidelines). Case B and C present NPV outcomes under future regulatory rates of return of 8.1% and 7.1% respectively. In each case it is assumed that the rate of return adopted after the current access arrangement period remains constant indefinitely. This is unlikely to occur and there will be fluctuations over time;
- the scenarios have been reviewed across a range of discount rates but the long term regulatory rate of return is not independent of the discount rate that an acquirer would apply in assessing the value of the assets. As the regulatory rate of return and the discount rate are based on common factors, it is reasonable to expect that high rates of return would mean high discount rates are appropriate (and vice versa);
- it is unlikely that if market conditions improve, future regulatory rates of return will be as high as those determined for the South Australian/Queensland access arrangements in 2011 (10.28%);
- changes in operating expenditure have a limited impact on NPV and, although it is possible that Envestra may underperform its targeted operating expenditure by more than the 1% shown in Case D, the impact on NPV would not be expected to be significant compared with the impact of other operational variables;
- Envestra effectively controls when and how much capital expenditure will be spent. The capital expenditure planned over the next four years is significant, as it includes the accelerated mains replacement programmes in South Australia, Victoria and Queensland. This expenditure has an upfront negative impact on cash flow while the benefits of the expenditure are derived over the long term in the form of increased tariffs and decreased operating costs. Deferral of this capital outlay would have an impact on the NPV outcomes but is unlikely to be material; and
- the terminal values represents around 45-50% of NPV under all cases.

Grant Samuel's selected value range of $4,027-4,378 million for Envestra's business operations reflects a subjective balancing of the cases and a view that the appropriate discount rate to apply is 6.5-7.0%. This is depicted diagrammatically below:

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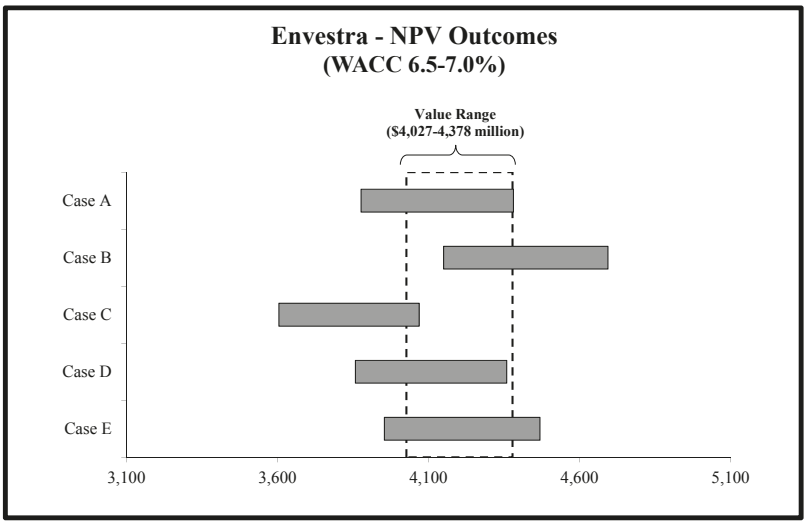

The range of NPV outcomes produced by the cases highlights the impact that regulatory decisions on rates of return have on value. The bottom end of Grant Samuel's value range is above the bottom end of Case A and at the top end of Case C. In comparison, the top end of Grant Samuel's value range is towards the midpoint of Case B. This result is appropriate as the regulatory rate of return is likely to rise above 7.58% on average in the long term as market conditions (particularly interest rates) revert to longer term norms. Increased operating costs and a decrease in the gamma have a lesser impact on NPV and are captured in Grant Samuel's value range. It should also be noted that the value range is the aggregate of the values selected for each of the regions, all of which have different levels of regulated and unregulated revenue, future capital expenditure and potential growth.

5.3.3 Multiples Analysis

Grant Samuel's selected value ranges by region have been reviewed having regard to the multiples of EBITDA and RAB for comparable listed entities and for transactions involving selected energy infrastructure assets.

Although EBIT multiples have also been analysed in Appendix 4, these multiples are not presented in the table below as the most common metric for energy infrastructure businesses is multiples of EBITDA as they remove the distortion of differences in depreciation and amortisation charges between entities.

Transaction Evidence

The following table sets out the EBITDA multiples implied by transactions involving the acquisition of selected energy infrastructure assets since 2003:

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Recent Transaction Evidence – Gas Transmission and Distribution in Australia

Date	Asset/Entity Acquired	Regulation[60]	Consideration (millions)	EBITDA Multiple (times)	
				Historical	Forecast
Gas Distribution					
Dec 11	Allgas Network	F	$540	15.0	14.4
Jul 11	WA Gas Networks	F	$312	12.5	10.3
Jun 11	Multinet Gas (20.1%)	F	$149	7.9	7.9
Oct 10	Country Energy Gas Networks	F	$109	na	11.3
Apr 07	Envestra (17.2%)	F	$990	12.7	13.1
Oct 06	Allgas Energy Pty Ltd	F	$521	na	18.1
Gas Transmission					
Apr 13	Moomba Adelaide Pipeline	U	$401	10.8	10.8
Aug 12	HDUF (Epic Energy)	U	$1,385	26.2	17.7
Jul 11	Tasmanian Gas Pipeline	U	$200	11.0	na
Jul 11	Dampier Bunbury Pipeline (20%)	F	$840	9.6	9.2
Jun 11	Amadeus Gas Pipeline	F	$63	2.6	4.2
Nov 10	SEA Gas Pipeline (33.4%)	U	$278	na	10.9
Mar 10	Berwyndale to Wallumbilla Pipeline	U	$83	na	32.9
Aug 08	Central Ranges Pipeline	F	$24	na	32.2
Jun 08	North Queensland Gas Pipeline	U	$202	na	na
Apr 07	SEA Gas Pipeline (33.3%)	U	$400	na	14.5
Nov 06	Alinta Infrastructure Holdings	F/U	$956	14.3	14.5
Aug 06	GasNet Australia Group	F/U	$452	13.9	13.3
Feb 05	Carpentaria Gas Pipeline (30%)	L	$327	na	na
Aug 04	Dampier to Bunbury Natural Gas Pipeline	F	$1,860	na	11.1
Aug 04	Southern Cross Pipelines (45%)/Parmelia Gas (100%)	F	$206	8.3	na
Apr 04	Epic Energy	U	$-[61]	8.2	8.8
Mar 04	Duke Energy Australian and New Zealand assets	F/U	$1,690	17.0	15.5
Energy Infrastructure					
May 13	SP AusNet (19.9%)	F	$4,141	9.1	8.6
May 13	SPI (Australia) Assets Pty Ltd (60%)	F/U	$8,714	12.2	na
Nov 12	ElectraNet (41.1%)	F	$1,217	9.8	na
Dec 08	Various energy infrastructure assets of APA Group	F/U	$165	na	10.6
May 07	Alinta Limited	F/U	$8,041	15.4	14.5
Apr 06	AGL Infrastructure Assets	F/U	$6,500	13.0	12.6

Source: Grant Samuel analysis (see Appendix 4).

Further details on these transactions are set out in Appendix 4.

The following factors are relevant to consideration of the transaction evidence:

- in the period 2005 to 2008 there was an increase in the multiples paid for gas infrastructure assets in Australia due to competition for the available assets as the Eastern Pipeline System developed and sector consolidation occurred. Since the commencement of the global economic downturn in 2007, multiples paid have moderated;

- the number of transactions involving gas distribution assets since 2007 is limited but indicate prospective multiples in the range of 10-14 times EBITDA for 100% interests in assets. APA Group's divestment of the Allgas Network occurred at a forecast EBITDA multiple of 14.4 times and a RAB multiple of 1.24 times. This transaction is an outlier for gas distribution assets in terms of EBITDA multiples but the RAB multiples are in line with other evidence. The reason for this discrepancy is unclear

60 F = full regulation; L = light regulation; U = unregulated

61 Equity consideration paid was nominal ($4) and $662 million of borrowings were assumed (i.e. gross consideration of $662 million).

but it is noted the APA Group divested this asset into an unlisted entity in which it holds a 20% interest and it remains operator of the network under a long term contract. Excluding this transaction the implied multiples fall in the range of 10-11 times EBITDA;

- although the acquisition of a 20.1% interest increased DUET Group's interest in Multinet Gas to 100%, it was an acquisition of a minority interest and is unlikely to include a full premium for control. Further, it was undertaken as part of wider transaction undertaken to simplify ownership structures of Australian gas utilities businesses (WA Gas Networks, Multinet Gas and Dampier Bunbury Pipeline) and, accordingly, multiples of individual components may be less meaningful;
- the transactions generally involve interests in single assets rather than portfolios of assets. The exception in recent times is APA Group's acquisition of HDUF which involved an extensive unregulated, strategically located pipeline system;
- multiples paid for unregulated gas transmission assets appear marginally higher than for regulated gas distribution assets. In this regard, HDUF was a strategic acquisition with earnings to emerge following substantial capital expenditure (by forecast year three the multiples implied by the transaction decline to around 11 times) and involved a competitive bidding process and the sale of Moomba Adelaide Pipeline was required by the ACCC to allow APA Group's takeover of HDUF;
- APA Group has been highly active both in acquiring and divesting pipeline assets as its business model and asset portfolio have evolved, particularly on the east coast. Other transactions primarily involve existing owners increasing their interests (e.g. SEA Gas Pipeline in November 2010) or the divestment of assets by owners under financial distress (e.g. the sale of a 20% interest in Dampier Bunbury Pipeline and the Tasmanian Gas Pipeline by AET&D Holdings No 2. Pty Ltd);
- transactions involving both gas transmission infrastructure and other energy assets (e.g. the acquisition of APA Group assets by unlisted investment vehicle Energy Infrastructure Investments Pty Limited ("EII") and the acquisition of Alinta Infrastructure Holdings) will have multiples that represent a blend of businesses; and
- the recent transactions involving electricity assets (SP AusNet and ElectraNet) are acquisitions of minority interests but, in both instances, the acquirer was State Grid which is building a portfolio of energy infrastructure assets in Australia. In this regard, it also acquired a 60% interest in SPIAA in 2013.

Sharemarket Evidence

The following table sets out the implied EBITDA multiples for a range of listed comparable entities based on share prices as at 1 April 2014:

Sharemarket Ratings of Listed Entities – Energy Transmission and Distribution

Company	Market Capitalisation (millions)	EBITDA Multiple (times)			
		Historical	Forecast Year 1	Forecast Year 2	Forecast Year 3
Australia - Gas					
APA Group (standalone)	A$5,391	14.2	12.8	11.6	10.7
DUET Group	A$2,741	10.7	10.7	10.0	9.7
Australia - Electricity					
SP AusNet	A$4,437	9.7	9.7	9.4	na
Spark	A$2,249	8.1	8.0	8.6	na
New Zealand					
Vector	NZ$2,460	8.0	8.7	8.6	8.4

Source: Grant Samuel analysis (see Appendix 4).

A detailed analysis of these entities is set out in Appendix 4.

The following factors are relevant to consideration of the comparable entity multiples:

- the multiples for the listed entities are based on share prices and therefore do not include a premium for control;
- APA Group has been presented on a standalone basis (excluding any allowance in earnings for the potential acquisition of Envestra). APA Group's near term multiples are high reflecting the earnings expected to emerge from the HDUF assets acquired in 2012, multiples decline to around 11 times in Forecast Year 3 (FY16);
- although none of the entities is directly comparable to Envestra they generally exhibit characteristics and value drivers similar to Envestra's gas distribution networks. The least comparable is APA Group which, although focussed on the gas sector, is primarily an owner and operator of unregulated gas transmission pipelines and provider of energy infrastructure services to third parties (rather than an owner of regulated distribution networks). In relation to the other entities the following should be noted:
  - DUET Group owns 100% of Multinet Gas (gas distribution in Victoria), a 66% interest in United Energy (electricity distribution in Victoria) and an 80% interest in Dampier Bunbury Pipeline (gas transmission in Western Australia), all of which are regulated assets (although Dampier Bunbury Pipeline's revenue is based on commercial contracts and not regulatory decisions);
  - Spark Infrastructure Group ("Spark") owns 49% interests in each of Victoria Power Network (Citipower and Powercor electricity distribution networks in Victoria) and SA Power Networks (electricity distribution in South Australia), all of which are regulated assets;
  - SP AusNet owns Victoria's primary electricity transmission network, an electricity distribution network located in eastern Victoria and a gas distribution network located in central and western Victoria, all of which are regulated; and
  - Vector Limited ("Vector") owns and manages a portfolio of energy infrastructure networks in New Zealand including electricity distribution (approximately 55% of EBITDA), gas transmission (25%), gas distribution (9%) and electricity and gas metering installations and telecommunications (11%). Vector has a restricted free float, with Auckland Energy Consumer Trust holding a 75.1% interest;
- all of the entities are internally managed (albeit SP AusNet only from 31 March 2014 following the termination of the management services agreement with a subsidiary of Singapore Power); and
- electricity distribution and transmission is generally more capital intensive than gas distribution or transmission and therefore the EBITDA multiples for SP AusNet and Spark (prospective EBITDA multiples of 8-9 times) are lower than for the gas entities (over 10 times prospective EBITDA).

RAB Multiples

A common rule of thumb parameter used in the valuation of energy infrastructure assets is RAB multiples[62]. The RAB (or regulated asset base) is determined by the relevant regulator using concepts such as depreciated optimised replacement cost to determine an appropriate investment value for the asset (for its current and forecast workload). This investment base is then combined with a determination of the appropriate return on capital (usually a weighted average cost of capital) to develop a tariff structure designed to deliver that return over the regulatory period.

Theoretically, listed infrastructure entities should trade at, and assets should be acquired at, 1.0 times RAB. However, that does not occur and, in fact, most assets generally trade at a premium to RAB. The precise reasons for this are uncertain but contributing factors probably include:

[62] Represents enterprise value (i.e. business value before debt) divided by RAB.

- expectations of volume growth above the levels used by regulators (at least until the next regulatory reset);
- expectations of savings relative to the level of operating and capital costs assumed by regulators;
- a cost of capital less than that assumed by regulators. Reasons for this might include:
  - benefits from tax efficient structuring;
  - the benefits of diversification. Most of the listed entities own a number of different assets which dilutes the exposure to any one asset in terms of operating and regulatory risks. Regulators only calculate the cost of capital for individual assets rather than a portfolio of assets (although theoretically there should be no difference);
  - use of higher levels of gearing than regulators assume (60%). The analysis in Appendix 3 indicates a number of entities (DUET Group, Spark) have gearing levels closer to 70%; and
  - long term funding at rates lower than current or expected regulatory determinations;
- growth options that may be available to an entity and reflected in its market capitalisation; and
- profit streams from other businesses (although these should be backed out in any analysis).

The RAB multiples implied by acquisitions of regulated energy infrastructure assets in Australia since 2003 (for which sufficient information is available to do so) are set out below. This data should also be treated with caution:

Recent Transaction Evidence – RAB Multiples

Date	Entity/Asset Acquired	RAB Multiple (times)
Gas Distribution		
Dec 11	Allgas Network	1.23
Jul 11	WA Gas Networks	1.20
Jun 11	Multinet Gas (20.1%)	1.13
Oct 10	Country Energy Gas Networks	1.25
Apr 07	Envestra (17.2%)	1.50
Oct 06	Allgas Energy Pty Ltd	1.64
Gas Transmission		
Jul 11	Dampier Bunbury Pipeline (20%)	0.95
Jun 11	Amadeus Gas Pipeline	0.68
Aug 08	Central Ranges Pipeline	0.45
Aug 06	GasNet Australia Group	2.19[63]
Aug 04	Dampier to Bunbury Natural Gas Pipeline	1.20
Aug 04	Southern Cross Pipelines (45%) and Parmelia Gas (100%)	1.47
Energy Infrastructure		
May 13	SP AusNet (19.9%)	1.17
Nov 12	ElectraNet (41.1%)	1.32
Dec 06	DirectLink	1.45
Apr 06	AGL Infrastructure Assets	1.41-1.52
Mar 06	Murraylink	1.47

Source: Grant Samuel analysis (see Appendix 4)

[63] RAB multiple is 1.64 times if adjusted for unregulated assets which are assumed to represent approximately 25% of enterprise value.

The transactions show a diversity of RAB multiples and have moderated since 2007. In any event, the evidence certainly indicates that acquirers are prepared to pay multiples in excess of 1.0 times RAB for regulated assets generally and at least 1.2 times for gas distribution assets.

Summarised below are RAB multiples for those listed entities which have a relatively high proportion of regulated revenue and for which meaningful RAB multiples can be calculated from publicly available information:

Selected Listed Entities – RAB Multiples

Company	RAB Multiple (times)
APA Group	nmf[64]
DUET Group	1.30
SP AusNet	1.30
Spark	1.42
Vector	1.48

Source: Grant Samuel analysis (see Appendix 4).

Some caution is necessary in relying on this data as it is difficult to isolate the full effects of other activities and to determine what adjustments may be necessary.

Summary of Market Evidence

Recent market evidence indicates that a difference has emerged in the market pricing for the electricity and gas infrastructure sectors (as can be observed in the sharemarket ratings). Evidence also indicates that pricing differs between gas transmission and distribution assets, possibly reflecting lower capital intensity for transmission assets and that gas distribution assets are regulated while most gas transmission pipelines are not.

In broad terms, recent transaction evidence implies multiples of 10-11 times prospective EBITDA for gas distribution networks and RAB multiples in excess of 1.2 times. However, the transaction evidence is limited (particularly since 2007) and generally reflects single network assets rather than portfolios of assets (albeit that the networks remain effectively "ring fenced").

In contrast, the listed gas infrastructure entities own portfolios of assets. These entities are trading around 10 times prospective EBITDA (with APA Group trading at premium multiples of 11-12 times reflecting its blend of activities and the earnings to emerge from HDUF's assets in the period to FY16). Indeed, prior to the announcement of APA Group's initial proposal, Envestra was trading around 10 times prospective EBITDA (see Appendix 4). Including a premium for control, the multiples would be higher. However, any such premium for control is unlikely to be substantial for the reasons discussed in Section 5.1 of this report (i.e. as gas infrastructure assets have stable cash flows, are reasonably transparent and there are limited operating cost synergies). In any event, the effective premium for control at the EBITDA level will be diluted by relatively high gearing.

The RAB multiples implied by the trading of listed energy infrastructure entities are not dissimilar to the 1.4 times that Envestra was trading prior to the announcement of the initial proposal (see Appendix 4). This compares to the transaction evidence that implies RAB multiples of around 1.2 times for single gas distribution networks.

[64] nmf = not meaningful. Only 25% of APA Group's revenue is derived directly from regulated revenue.

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Comparison of Value of Envestra to Market Evidence

Grant Samuel's value range of $4,027-4,378 million for Envestra's operations implies the following multiples of EBITDA and RAB:

Envestra Business Operations – Implied Valuation Parameters

	Variable ($ million)	Value Range	
		Low	High
Value Range ($ million)		**4,027**	**4,378**
Multiple of EBITDA[65] (times)			
FY13 (actual)	359.6	11.2	12.2
FY14 (broker consensus)	399.8	10.1	11.0
FY15 (broker consensus)	412.7	9.8	10.6
FY16 (broker consensus)	431.7	9.3	10.1
Multiple of RAB[66] (times)			
As at 30 June 2013 (actual)	2,775	1.5	1.6
As at 31 December 2013 (actual)	2,879	1.4	1.5
As at 30 June 2015 (Case A, DCF Model)	3,221	1.3	1.4

While Envestra has provided guidance in relation to profit after tax for FY14, the FY14 Forecast has not been released and therefore this information has not been disclosed in this report. Accordingly, the implied prospective multiples set out above are based on the median of brokers' forecasts for Envestra (see Appendix 1 for details). However, forecasts of Envestra's RAB are not generally disclosed and this is problematic for value analysis for Envestra as substantial growth capital is to be spent over the period to FY18. Consequently, the implied RAB multiples for 30 June 2015 set out above are based on Case A of Grant Samuel's DCF Model. In Grant Samuel's opinion, the broker consensus EBITDA forecasts and projected RAB in the DCF Model are sufficiently close to Envestra's forward looking information to be useful for analytical purposes.

The overall multiples of EBITDA implied by the value range are towards the low end of relevant transaction evidence although the overall implied RAB multiples are high. In Grant Samuel's opinion, these overall multiples are appropriate as:

- the EBITDA multiples implied by the value range reflect the aggregate earnings for Envestra. It is difficult to interpret these aggregate multiples given differing outlooks for each of Envestra's operations in relation to:
  - the mix of regulated and unregulated revenue;
  - capital expenditure plans;
  - growth profiles and potential; and
  - regulatory periods and rates of returns.

  Grant Samuel's value range has been built up on an individual region basis and the values attributed to each of these regions imply multiples of projected EBITDA that Grant Samuel considers appropriate in view of that network's growth opportunities, future earnings profile and future capital intensity (see below);
- the South Australian/Northern Territory and Queensland networks are approximately halfway through a regulatory period during which they are entitled to a rate of return of 10.28%. This level of return is unlikely to continue beyond 30 June 2016 and, consequently, Envestra's overall EBITDA is higher in the short term than is

[65] Represents Grant Samuel's value range divided by Envestra's EBITDA.

[66] Represents Grant Samuel's value range divided by Envestra's RAB.

anticipated in the future (resulting in lower EBITDA multiples in the near term but higher in the medium term);

- around 10% of Envestra's revenue is derived from non-regulated sources and the assets generating this income are not recognised in the RAB. Consequently, implied RAB multiples are marginally higher than if all revenue was regulated;
- Envestra is undertaking an accelerated mains replacement programme, which will result in a significant increase in RAB in South Australia, Victoria and Queensland over the short to medium term. Consequently, Envestra's RAB will increase significantly over the medium term and RAB multiples would be lower if the value assumed the mains replacement programme had been completed; and
- none of the market evidence is directly comparable to Envestra. Transaction evidence since 2007 is limited and generally reflects single distribution networks (not a portfolio of networks). Although all the comparable listed entities own some regulated assets, none is solely an owner of gas distribution networks and most own a mix of gas and electricity transmission and distribution assets. Consequently, although the market evidence provides useful guidance for the valuation of Envestra, the extent of the focus of Envestra's portfolio on regulated gas distribution networks suggests that earnings multiples towards the lower end of transaction evidence may be warranted.

The values attributed to the individual regions have also been reviewed by reference to the implied EBITDA and RAB multiples based on values excluding the benefit of tax losses:

- **South Australia/Northern Territory**

South Australia/Northern Territory – Implied Valuation Parameters		
	Value Range	
	Low	High
Multiple of EBITDA (times)		
FY13 (actual)	10.5	11.4
FY14 (Case A, DCF Model)	9.2	9.9
FY15 (Case A, DCF Model)	8.4	9.1
FY16 (Case A, DCF Model)	8.1	8.8
Multiple of RAB (times)		
As at 30 June 2013 (actual)	1.4	1.6
As at 31 December 2013 (actual)	1.4	1.5
As at 30 June 2015 (Case A, DCF Model)	1.2	1.3

The EBITDA multiples are marginally lower than the overall multiples but are appropriate as the current access arrangement has a relatively favourable regulatory rate of return (10.28%). When the current determination period finishes in June 2016, the rate of return for this network is expected to decline. Consequently, near term earnings are high relative to longer term earnings and, therefore, the EBITDA multiples implied by the valuation are low. In comparison, the current RAB multiple implied by the valuation is high but expected to decline over the next few years as the effect of the accelerated mains replacement programme (expected to be completed by FY17) increases RAB. The South Australian/Northern Territory network has a low proportion of non-regulated revenue.

- **Victoria**

Victoria – Implied Valuation Parameters		
	Value Range	
	Low	High
Multiple of EBITDA (times)		
FY13 (actual)	11.9	13.0
FY14 (Case A, DCF Model)	10.9	12.0
FY15 (Case A, DCF Model)	10.1	11.1
FY16 (Case A, DCF Model)	9.4	10.3
Multiple of RAB (times)		
As at 30 June 2013 (actual)	1.3	1.4
As at 31 December 2013 (actual)	1.2	1.4
As at 30 June 2015 (Case A, DCF Model)	1.1	1.2

The multiples implied by the value of the Victorian network are higher than the overall multiples. In Grant Samuel's view, these multiples are appropriate as:

- the current access arrangement only commenced in 2013, meaning that the Victorian (and Albury) network have the most time remaining of any of the networks under the current arrangements. The current regulatory rate of return that applies to this network is 7.39%, marginally lower than the Case A forecast regulatory rate of return that applies to subsequent periods (7.58%). Therefore, EBITDA for the network is forecast to trend upward over the medium term;
- the RAB multiple is forecast to decline over the next few years as the impact of the accelerated mains replacement programme (expected to be completed by FY20) increases RAB; and
- nearly all of the Victorian network is regulated although it is better positioned for real long term growth relative to Envestra's other networks. Several of Melbourne's growth corridors lie in or adjacent to Envestra's regulated areas. Victoria has the population and climate to support increasing gas usage growth opportunities in areas such as Merrifield (north of Melbourne) implying higher long term value generation.

- **Queensland**

Queensland – Implied Valuation Parameters		
	Value Range	
	Low	High
Multiple of EBITDA (times)		
FY13 (actual)	9.6	10.4
FY14 (Case A, DCF Model)	8.6	9.4
FY15 (Case A, DCF Model)	8.1	8.9
FY16 (Case A, DCF Model)	7.7	8.4
Multiple of RAB (times)		
As at 30 June 2013 (actual)	1.5	1.6
As at 31 December 2013 (actual)	1.4	1.6
As at 30 June 2015 (Case A, DCF Model)	1.3	1.4

The EBITDA multiples implied for Queensland are marginally lower but the RAB multiples are higher than the overall multiples. These multiples are appropriate as:

- the current access arrangement in Queensland has a relatively favourable regulatory rate of return (10.28%). When the current determination period finishes in June 2016, the rate of return for this network is expected to decline.

Consequently, near term earnings are high relative to longer term earnings and, therefore, the implied EBITDA multiples are low;

- the RAB multiples implied for Queensland are high but expected to decline over the next few years as the effect of the mains replacement programme (expected to be completed by FY18) increases RAB; and
- Queensland's network earns a relatively high proportion of unregulated revenue. As a consequence, Queensland may grow faster than solely regulated revenue streams and only the regulated assets are recognised in RAB.

- **New South Wales**

New South Wales – Implied Valuation Parameters		
	Value Range	
	Low	High
Multiple of EBITDA (times)		
FY13 (actual)	10.8	11.8
FY14 (Case A, DCF Model)	9.9	10.8
FY15 (Case A, DCF Model)	11.8	13.0
FY16 (Case A, DCF Model)	12.1	13.2
Multiple of RAB (times)		
As at 30 June 2013 (actual)	2.1	2.3
As at 31 December 2013 (actual)	2.1	2.3
As at 30 June 2015 (Case A, DCF Model)	1.8	2.0

The multiples implied for New South Wales are appropriate as a large proportion of the network is unregulated (the revenue for which is expected to grow faster than regulated revenue) and only regulated assets are recognised in the RAB.

5.4 Other Assets and Liabilities

Envestra's other assets and liabilities have been valued in the range $56.9-64.9 million (negative) and include:

- a significant provision for remediation of former gas work sites at Sale and Warragul. There is a possibility that the cost involved may not be as high as provided or may be offset by contribution from other parties. Therefore, a range of negative values (net liability) has been adopted;
- Envestra's other net assets as at 31 December 2013 ($2.5 million); and
- under the Scheme, Envestra shareholders will retain the 3.2 cent per share dividend payable in relation to the six months ended 31 December 2013. This dividend is not provided for in the 31 December 2013 balance sheet (as it was only declared after period end) and therefore an allowance of $57.5 million has been made.

No value has been attributed to Envestra's carried forward capital losses of $8.2 million as there is currently no expectation that these losses will be recouped.

5.5 Corporate Cost Savings

Envestra incurs costs of approximately $11 million per annum. These costs represent costs associated with running Envestra's head office and include:

- the Envestra executive office (such as costs associated with the offices of the Managing Director and Chief Financial Officer, company secretarial and legal, planning and development, regulatory affairs, corporate affairs, treasury, tax etc.); and
- listed company expenses (such as directors' fees, annual reports and shareholder communications, share registry and listing fees and dividend processing).

These costs are fully allocated to Envestra's regional operations for financial reporting purposes and therefore are reflected in the DCF analysis in Section 5.3.2 of this report. However, any acquirer of Envestra would be able to save the costs associated with being a listed company. Furthermore, an acquirer of Envestra which has an existing presence in the energy infrastructure sector in Australia should be able to eliminate most of these costs.

Grant Samuel has assumed that all corporate costs would be saved for the purposes of the valuation (i.e. cost savings available to the acquirer) and, based on a discount rates in the range 6.5-7.0%, has attributed a value of $160-180 million to corporate cost savings.

5.6 Net Borrowings

Envestra's net borrowings for valuation purposes as at 31 December 2013 are $2,127.7 million as follows:

Envestra – Net Borrowings for Valuation Purposes

	$ million
Bank loans	232.0
Capital indexed bonds	254.1
Medium term notes	645.0
US private placement notes	984.5
Total borrowings	**2,115.6**
Fair value adjustments	(0.5)
Derivative financial instruments (net)	13.7
Cash	(1.1)
Total	**2,127.7**

Envestra's borrowings comprise a portfolio of capital market instruments and bank loans. The portfolio is long term with around 80% of the portfolio (by value) with maturities beyond five years and an average maturity profile of 10 years. Envestra also has a portfolio of swaps and other derivatives that are designed to hedge any currency exposure and to convert interest rate exposure to fixed rates matching the term of its access arrangements (currently 3-4 years).

The nature of Envestra's portfolio gives rise to the question as to whether the market value of the debt differs to book value. In this regard, the fair value adjustments recognised at 31 December 2013 ($0.5 million asset) and the net value of Envestra's derivative financial instruments ($13.7 million liability) have been taken into account in determining net borrowings for valuation purposes in the table above.

Grant Samuel has also reviewed the terms of the individual facilities comprising the debt portfolio. It is clear that there are some long term debt tranches that are on favourable terms relative to current market rates. For example, two $300 million tranches of credit wrapped medium term notes (issued in 2005 with 10-12 years remaining) have all up margins, including wrap costs, of 0.52% and 0.54% over the 90 day bank bill swap rate ("BBSW") respectively. On the other hand, there are some facilities with an effective cost above current market rates (e.g. some tranches of fixed rate US private placement notes).

The net present value of the differential between the interest rates applicable to the existing debt portfolio and current market rates is around $60 million assuming a discount rate of 6%, tax rate of 30% and current margins of 2% over BBSW for 10 year debt (with shorter tenor at lower margins and longer tenor at higher margins). However, Grant Samuel has not made an adjustment for this theoretical value as the net outcome of Envestra's hedging arrangements is that it has effectively fixed its overall cost of debt at around 6% for the 3-4 year period of its current access arrangements. A rate of 6% represents margins of 2.5-2.8% over current 3-4 year BBSW (in the range 3.2-3.5%). These margins are above those that Envestra (as a BBB rated corporate) could achieve in today's debt capital markets (i.e. if it was borrowing directly for the same 3-4 year term) and are a "cost" of having the very long underlying maturity profile (albeit that it does reduce refinancing risk). The cost of this maturity profile effectively offsets the favourable margins contained in Envestra's underlying portfolio.

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6 Profile of APA Group

6.1 Background

APA Group is an ASX listed internally managed stapled entity that comprises APT and APTIT. It was formed in June 2000 through the spinoff and ASX listing (as APT) of the gas transmission pipeline assets of The Australian Gas Light Company. It was restructured into a stapled entity effective 4 January 2007 in order to make returns to securityholders more tax effective. Since listing, APA Group has achieved significant growth through the development and expansion of, and the buyout of minority stakes in, its pipeline assets and the acquisition and development of new assets. It has also been transformed from being solely an owner of infrastructure assets to an active operating business.

Today, APA Group is Australia's largest natural gas infrastructure business, is headquartered in Sydney and has over 1,500 employees. APA Group's strategy is to enhance its portfolio of gas infrastructure assets in Australia, facilitate the development of gas related projects that enhance its infrastructure portfolio, capture revenue and operational synergies from its asset base and leverage its asset management and operational skillset. APA Group has a market capitalisation of around $5.4 billion.

6.2 Business Operations

APA Group develops, owns and operates natural gas transportation infrastructure across Australia. It has three business segments as follows:

- **Energy Infrastructure:** APA Group owns:
  - a portfolio of gas transmission pipelines totalling over 14,000 kilometres across all Australian mainland states and territories including:
    - **Moomba Sydney Pipeline**: a 2,028 kilometre pipeline system which delivers gas from Moomba to cities and regional centres in the Australian Capital Territory and New South Wales;
    - **South West Queensland Pipeline:** a 936 kilometre duplicated pipeline which delivers gas between Wallumbilla in south east Queensland to Moomba in north eastern South Australia**.** It provides the link between the Bowen and Surat Basins and customers in Mount Isa and in the south eastern Australian gas markets in New South Wales and South Australia;
    - **Roma Brisbane Pipeline:** a 582 kilometre pipeline which delivers gas from Wallumbilla (near Roma) to Brisbane and regional centres along its route;
    - **Victoria Transmission System**: a 1,842 kilometre pipeline system which delivers gas throughout Victoria;
    - **Carpentaria Gas Pipeline:** a 944 kilometre pipeline which delivers gas from Ballera in south west Queensland to Mt Isa and the surrounding Carpentaria mineral province;
    - **Amadeus Gas Pipeline:** a 1,671 kilometre pipeline system which delivers gas from the offshore Bonaparte Basin to Darwin, Alice Springs and regional centres in the Northern Territory; and
    - **Goldfields Gas Pipeline (88.2%)**: a 1,590 kilometre pipeline which delivers gas from the Carnarvon Basin and Northwest Shelf to the Pilbara, Murchison and Goldfields mining regions in Western Australia;
  - two gas storage facilities (15PJ capacity Mondarra Gas Storage Facility in Western Australia and the 0.7PJ capacity Dandenong LNG Storage Facility in Victoria); and
  - the 80MW Emu Downs Wind Farm in Western Australia;

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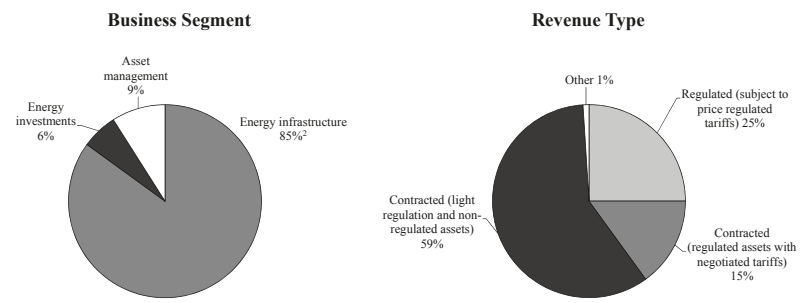
- **Energy Investments:** APA Group owns equity interests in energy infrastructure entities as follows:
  - **Envestra Limited (33.05%):** an ASX-listed natural gas distribution and transmission company which owns over 22,000 kilometres of distribution networks and approximately 1,120 kilometres of transmission pipelines and services over 1 million customers in South Australia, Victoria, Queensland, New South Wales and the Northern Territory;
  - **SEA Gas Pipeline (50%):** an unregulated 680 kilometre pipeline that delivers gas from the Otway and Bass Basins to Adelaide and other regional markets in South Australia and Victoria;
  - **Energy Infrastructure Investments Pty Limited (19.9%):** an unlisted investment vehicle which owns electricity interconnectors, gas-fired power generation plants, gas transmission pipelines and coal seam gas processing plants. APA Group's co-investors are Marubeni Corporation (49.9%) and Osaka Gas (30.2%);
  - **Energy Infrastructure Investments 2 Pty Limited (20.2%):** an unlisted investment vehicle which owns the North Brown Hill Wind Farm, a 132MW wind farm in South Australia. APA Group's co-investors are Marubeni Corporation (39.9%) and Osaka Gas (39.9%);
  - **GDI (EII) Pty Ltd (20%):** an unlisted investment vehicle which owns the Allgas Gas Network, a 2,800 kilometre gas distribution network in south east Queensland servicing customers in Brisbane (south of the river) to the northern New South Wales, with separate networks in Toowoomba and Oakey in Queensland. APA Group's co-investors are Marubeni Corporation (40%) and funds managed by RREEF (40%);
  - **Ethane Pipeline Income Fund (6.1%):** an ASX-listed managed investment scheme which owns the Moomba to Port Botany Ethane Pipeline, a 1,375 kilometre pipeline which supplies gas from Moomba to a petrochemical facility at Port Botany in New South Wales; and
  - **Diamantina Power Station Pty Limited (50%):** an unlisted joint venture with AGL Energy which is constructing the gas fired 242MW Diamantina Power Station and 60MW Leichardt Power Station at Mount Isa in Queensland; and
- **Asset Management**: APA Group provides commercial, operating services and/or asset maintenance services to most of its energy investments and investment management services to all of its energy investments (other than Envestra and Diamantina Power Station Pty Limited).

In FY13, the composition of APA Group's revenue was:

APA Group – FY13 Revenue[1]



Source: APA Group
Note: (1) Excluding pass through revenue and divested businesses.
(2) Revenue of the Energy Infrastructure segment is sourced from Western Australia/Northern Territory (29.4%), Victoria/South Australia (22.4%), Queensland (29.4%) and New South Wales (18.8%).

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6.3 Financial Performance

During the five and a half years ended 31 December 2013, APA Group has undertaken significant corporate activity as it has evolved from being an owner of infrastructure assets to an active operating business. In particular, APA Group's revenue and earnings increased significantly in FY13 following the acquisition of the remaining 79.3% of Hastings Diversified Utilities Fund ("HDUF") by December 2012:

APA Group - Financial Performance ($ millions)

	Year ended 30 June					Six months ended 31 Dec 2013 actual
	2009 actual	2010 actual	2011 actual	2012 actual	2013 actual	
Total revenue[67]	921.1	975.6	1,079.2	1,054.3	1,260.5	710.8
Pass through revenue[68]	(271.4)	(329.9)	(381.7)	(302.6)	(352.7)	(201.8)
Revenue (excluding pass through revenue)	**649.7**	**645.7**	**697.5**	**751.7**	**907.8**	**509.0**
EBITDA[69]	**444.4**	**460.0**	**489.6**	**535.5**	**667.1**	**398.9**
Depreciation and amortisation[70]	(95.6)	(91.4)	(100.4)	(110.4)	(130.5)	(74.7)
EBIT[69]	**348.8**	**368.6**	**389.2**	**425.1**	**536.6**	**324.2**
Net interest expense	(213.0)	(229.4)	(247.0)	(234.3)	(290.9)	(164.0)
Significant items (as reported)	(21.0)	-	2.5	(9.7)	101.7[71]	-
Operating profit before tax	**114.8**	**139.2**	**144.7**	**181.1**	**347.4**	**160.2**
Income tax expense	(35.9)	(38.7)	(35.9)	(50.4)	(51.4)	(39.5)
Operating profit after tax	**78.9**	**100.5**	**108.8**	**130.7**	**296.0**	**120.7**
Outside equity interests	(0.1)	(0.1)	(0.3)	-	2.8	-
Profit after tax attributable to APA Group stapled securityholders	**78.8**	**100.4**	**108.5**	**130.7**	**298.8**	**120.7**
Statistics						
Basic EPS	*16.2¢*	*19.4¢*	*19.7¢*	*20.4¢*	*38.7¢*	*14.4¢*
Basic EPS (before significant items)	*22.7¢*	*19.4¢*	*19.7¢*	*21.9¢*	*23.1¢*	*14.4¢*
Operating cash flow per security[72]	*48.2¢*	*51.9¢*	*52.6¢*	*52.5¢*	*56.0¢*	*25.9¢*
Distribution per security	*31.0¢*	*32.8¢*	*34.4¢*	*35.0¢*	*35.5¢*	*17.5¢*
Distribution payout ratio[73]	*65.6%*	*64.4%*	*65.7%*	*67.0%*	*68.2%*	*67.5%*
Interest cover[74]	*2.1x*	*2.1x*	*2.0x*	*2.5x*	*2.3x*	*2.3x*

Source: APA Group and Grant Samuel analysis

APA Group derives revenue from a mix of regulated returns and long term negotiated contracts for the transportation of gas and electricity generation and from the provision of investment management and operational services. Approximately 25% of APA Group's revenue (excluding pass through revenue) is currently subject to prices determined under full regulation. The remaining 75% of revenue is largely derived from contracts with set terms.

APA Group pays distributions semi-annually in March and September from operating cash flow after payment of interest, tax and maintenance capital costs. Distributions may comprise after tax dividends (which may be franked) and tax deferred distributions (capital returns) from APT and pre-tax distributions (including tax deferred amounts) from APTIT. Historically, distributions

67 Revenue includes pass through revenue, share of net profits of equity accounted associates and jointly controlled entities, finance lease income, dividends, rental income, interest income on investments in Energy Infrastructure Investments Pty Limited and GDI (EII) Pty Limited and revenue from business divested. It excludes other interest income and significant items.

68 Pass through revenue is revenue on which no margin is earned and arises predominantly in its asset management operations.

69 Includes share of net profits from equity accounted associates and jointly controlled entities.

70 Around 96% of depreciation and amortisation relates to the Energy Infrastructure segment with 4% relating to Asset Management.

71 Significant items in FY13 primarily relate to the acquisition of HDUF.

72 Operating cash flow is net cash from operations after interest and tax payments, adjusted to exclude APA Group identified significant items.

73 Distribution payout ratio is calculated as total distribution payments divided by operating cash flow.

74 Calculated as EBITDA (as reported) divided by net interest expense.

have exceeded earnings primarily as a result of low maintenance capital expenditure and income tax paid (relative to the accounting charges for depreciation and income tax expense) and significant income tax losses carried forward (see below).

APA Group's performance over the period by operating segment is shown below:

APA Group - Financial Performance ($ millions)

	Year ended 30 June					Six months ended 31 Dec
	2009[75] actual	2010 actual	2011 actual	2012 actual	2013 actual	2013 actual
Revenue (excluding pass through revenue)						
Energy Infrastructure	543.6	566.2	545.1	610.0	741.4	414.5
Energy Investments	11.7	19.4	27.1	41.7	51.2	38.4
Asset Management	60.5	60.1	68.7	69.3	82.3	56.1
Total revenue (continuing)	**615.8**	**645.7**	**640.9**	**721.0**	**874.9**	**509.0**
Divested business[76]	33.9	-	56.6	30.7	32.9	-
Total revenue	**649.7**	**645.7**	**697.5**	**751.7**	**907.8**	**509.0**
Revenue Growth						
Energy Infrastructure		*4.2%*	*(3.7%)*	*11.9%*	*21.6%*	
Energy Investments		*65.6%*	*39.7%*	*53.9%*	*22.6%*	
Asset Management		*(0.7%)*	*14.3%*	*0.9%*	*18.8%*	
Total revenue (continuing)		*4.8%*	*(0.7%)*	*12.5%*	*21.3%*	
EBITDA						
Energy Infrastructure	389.1	408.6	423.8	441.7	549.9	326.0
Energy Investments	11.6	19.1	27.1	41.7	51.2	38.4
Asset Management	22.6	32.3	38.7	31.9	45.4	34.5
Total EBITDA (continuing)	**423.3**	**460.0**	**489.6**	**515.3**	**646.5**	**398.9**
Divested business[76]	21.1	-	-	20.2	20.6	-
Total EBITDA	**444.4**	**460.0**	**489.6**	**535.5**	**667.1**	**398.9**
EBITDA Growth						
Energy Infrastructure		*5.0%*	*3.7%*	*4.2%*	*24.5%*	
Energy Investments		*65.0%*	*42.1%*	*54.1%*	*22.6%*	
Asset Management		*42.8%*	*19.9%*	*(17.6%)*	*42.4%*	
Total EBITDA continuing		*8.7%*	*6.4%*	*5.3%*	*25.5%*	
EBITDA Margin						
Energy Infrastructure	*71.6%*	*72.2%*	*77.7%*	*72.4%*	*74.2%*	*78.6%*
Energy Investments	*98.7%*	*98.3%*	*99.9%*	*100.0%*	*100.0%*	*100.0%*
Asset Management	*37.4%*	*53.8%*	*56.4%*	*46.0%*	*55.2%*	*61.5%*
Total EBITDA continuing	*68.7%*	*71.2%*	*76.4%*	*71.5%*	*73.9%*	*78.4%*

Source: APA Group and Grant Samuel analysis[77]

The above analysis reveals the transformation of APA Group since 2008. While it has continued to acquire and develop energy infrastructure assets, APA Group has divested assets into unlisted funds (in which it typically retains an interest of around 20%) and grown its third party asset management revenue streams (a less capital intensive business activity).

APA Group has not publicly released earnings forecasts for FY14 or beyond. On 19 February 2014, APA Group confirmed its guidance for FY14 as follows:

- EBITDA of $730-740 million, including share of profits from associates and jointly controlled entities;

75 Revenue and EBITDA for FY08 is not available in the same format and therefore growth data is not available.

76 Revenue and EBITDA of divested business primarily relates to assets owned by APA Group which have been divested to unlisted investment vehicles in which APA Group retains an interest and for which it provides investment and asset management services.

77 APA Group has not reported divested business on an EBIT basis and therefore Grant Samuel is unable to prepare this segmental analysis to EBIT level.

- net interest cost of $315-325 million; and
- distribution of at least 36.0 cents per security.

In order to provide an indication of the expected future financial performance of APA Group (on a standalone basis), Grant Samuel has considered brokers' forecasts for APA Group as follows:

APA Group (Standalone Basis) – Financial Performance ($ millions)

	Year end 30 June			
	2013 actual	Broker Consensus (Median)		
		2014	2015	2016
Revenue (excluding pass through revenue)	907.8	970.1	1,051.2	1,103.0
EBITDA	667.1	742.4	813.9	877.8
EBIT	536.6	594.7	661.7	725.0
Net profit after tax (before significant items)	178.7	202.0	239.3	265.3
EPS (before significant items)	23.1¢	24.0¢[78]	28.4¢	31.9¢
Operating cash flow per security (before significant items)	56.0¢	50.8¢[78]	57.0¢	61.4¢
Distributions per security	35.5¢	36.2¢	37.5¢	38.9¢

Source: Grant Samuel analysis (see Appendix 5)

6.4 Cash Flow

APA Group pays distributions from operating cash flow after payment of interest, tax and stay in business capital expenditure:

APA Group – Cash Flow ($ millions)

	Year ended 30 June					Six months ended 31 Dec
	2009 actual	2010 actual	2011 actual	2012 actual	2013 actual	2013 actual
Receipts less payments from operations	418.8	439.4	460.7	499.3	644.1	343.4
Net interest paid	(213.3)	(212.7)	(223.8)	(218.2)	(270.6)	(157.8)
Dividends and proceeds from finance leases	28.2	41.0	52.6	54.4	59.3	30.8
Income tax paid	(0.2)	-	0.4	-	(0.1)	0.1
Stay in business capital expenditure	(16.4)	(14.7)	(18.0)	(24.4)	(24.7)	(20.6)
Cash flow from operations	**217.1**	**253.0**	**271.9**	**311.1**	**408.0**	**195.9**
Distributions paid	(143.8)	(160.0)	(183.4)	(208.5)	(269.9)	(154.6)
Cash flow after distributions	**73.3**	**93.0**	**88.5**	**102.6**	**138.1**	**41.3**
Significant items	(7.2)	-	-	-	(58.3)	(8.3)
Growth capital expenditure	(285.3)	(120.7)	(213.1)	(224.7)	(372.7)	(179.6)
Acquisitions	(130.8)	(220.5)	(292.9)	(46.3)	(331.9)	(0.9)
Divestments	545.9	8.2	7.9	476.0	412.0	1.8
Net proceeds from security issues	78.4	141.7	348.7	44.5	74.4	-
Net proceeds from borrowings	(271.0)	70.4	75.3	(117.5)	(110.5)	125.4
Net increase/(decrease) in cash	**3.3**	**(27.9)**	**14.4**	**234.6**	**(248.9)**	**(20.3)**
Opening cash	*105.5*	*108.8*	*80.9*	*95.3*	*329.9*	*81.0*
Closing cash	*108.8*	*80.9*	*95.3*	*329.9*	*81.0*	*60.7*

Source: APA Group and Grant Samuel analysis

Over the period shown above APA Group has invested significant growth capital into existing pipelines (average of around $240 million per annum), progressively increased its ownership in listed gas sector peers (Envestra and HDUF) and acquired various other energy assets. These investments have been funded through a combination of new equity (e.g. dividend reinvestment

[78] EPS and operating cash flow per security in the broker forecasts for FY14 reflect the substantial increase in the number of stapled securities on issue following the acquisition of HDUF during FY13. The FY13 per security data is based on the weighted average number of securities on issue during that year (772.3 million) while FY14 is based on the current outstanding number of securities on issue (835.8 million).

plan and a $300 million institutional placement in FY11), asset divestments (including into unlisted investment vehicles), cash flow from operations and debt.

APA Group has indicated that over the three years to 30 June 2016 growth capital is expected to be around $400 million per annum with stay in business (maintenance) capital expenditure of around $25-30 million per annum. Significant growth capital projects in the period include projects already underway as well as additional capacity expansion in the Victorian Transmission System, the southern lateral expansion of the Moomba Sydney Pipeline and additional compression at Moomba and Wallumbilla on the South West Queensland Pipeline.

6.5 Financial Position

The financial position of APA Group as at 30 June 2013 (audited) and 31 December 2013 (reviewed) is summarised below:

APA Group - Financial Position ($ millions)

	30 June 2013 (restated[79])	31 December 2013
Debtors and prepayments	165.5	156.4
Inventories	12.7	18.6
Creditors, accruals and provisions[80]	(284.9)	(240.2)
Net working capital	**(106.7)**	**(65.2)**
Property, plant and equipment (net)	5,280.4	5,397.8
Goodwill	1,150.5	1,150.5
Contract and other intangibles (net)	177.0	174.4
Equity accounted investments	589.1	605.1
Finance lease receivables	39.1	32.0[81]
Other financial assets	35.3	205.9[82]
Other financial liabilities	-	(231.8)[82]
Derivative financial instruments (net)	(154.0)	na[82]
Other payables	(3.7)	(3.8)
Deferred tax liability	(213.9)	(248.3)
Other liabilities (net)	(46.0)	(24.7)
Total funds employed	**6,747.1**	**6,991.9**
Cash and deposits	81.0	60.7
Borrowings	(4,314.2)	(4,584.5)
Net borrowings	**(4,233.2)**	**(4,523.8)**
Net assets	**2,513.9**	**2,468.1**
Outside equity interests	-[83]	-[83]
Equity attributable to APA Group securityholders	**2,513.9**	**2,468.1**
Statistics		
Securities on issue at period end (million)	835.8	*835.8*
Net assets per security	*$3.01*	*$2.95*
NTA per security	*$1.42*	*$1.37*
Gearing[84]	*62.8%*	*63.8%*
Book gearing	*62.7%*	*64.7%*
Market gearing	*45.8%*	*47.4%*

Source: APA Group and Grant Samuel analysis

Property, plant and equipment (net) primarily reflects the net written down value of gas transportation systems, meters, compressors and other plant and equipment and at 30 June 2013 included $494.4 million of work in progress (including expansion of the Goldfields Gas Pipeline,

79 Restated by APA Group to reflect the adoption of revised AASB 119 (Employee Benefits) in the six months to 31 December 2013.
80 Including capital expenditure accruals and interest payable accruals ($161.6 million at 30 June 2013).
81 Excluding current portion which is not separately disclosed at 31 December 2013.
82 Other financial assets and liabilities at 31 December 2013 include derivative financial instruments that are not separately disclosed.
83 Less than $100,000.
84 Gearing is defined as net debt divided by net debt plus book equity. As calculated and disclosed by APA Group.

augmentation and capacity expansion in the Victorian Transmission System and additional compression at Moomba on the South West Queensland Pipeline). Goodwill increased by around $700 million in FY13 following the acquisition of Hastings Diversified Utilities Fund) in December 2012.

Equity accounted investments include APA Group's 50% interest in SEA Gas Pipeline, 50% interest in Diamantina Power Station Pty Limited, 20% interest in GDI (EII) Pty Ltd, 20.2% interest in Energy Infrastructure Investments 2 Pty Limited, 19.9% interest in Energy Infrastructure Investments Pty Limited and 33.05% interest in Envestra. Other financial assets include the 6.1% interest in Ethane Pipeline Income Fund, redeemable ordinary shares in Energy Infrastructure Investments Pty Ltd and redeemable preference shares in GDI (EII) Pty Ltd as well as derivative financial instrument assets. Finance lease receivables relate to the lease of a metering station, natural gas vehicle facilities, the expansion of the X41 power station and two pipeline laterals.

Derivative financial instruments include cross currency interest rate swaps, equity forward contracts foreign exchange contracts, forward foreign exchange contracts. Other liabilities (net) include linepack gas, gas in storage and other assets less unearned revenue, retirement benefit obligations and non-current employee provisions.

APA Group targets gearing[84] in the range of 65% to 68% and its borrowings comprise both capital market instruments and bank facilities. As at 31 December 2013, APA Group had $5,295 million in debt facilities of which $4,543 million was drawn as follows:

APA Group – Borrowings ($ millions)

Facility	As at 31 December 2013		Maturity
	Amount Committed	Amount Drawn	
Bank borrowings	1,517.0	765.0	Various to 2018
Guaranteed Senior Notes	3,263.0	3,263.0	Various to 2024
Subordinated Notes	515.0	515.0	30 September 2072
	5,295.0	**4,543.0**	
Deferred borrowing costs and adjustments	-	(41.5)	
Total	**5,295.0**	**4,584.5**	

Source: APA Group

At 31 December 2013, APA Group's senior facilities had an average maturity of 5.4 years. The guaranteed senior notes include notes denominated in Australian dollars, United States dollars, Japanese Yen, Canadian dollars and British Pounds. The subordinated notes are long dated, unsecured, subordinated and cumulative. They can be redeemed by APA Group on 31 March 2018 or any interest payment date (quarterly) thereafter or if a change of control event, tax event or capital event occurs.

APA Group's financing entity (APT Pipelines Ltd) has a S&P long term credit rating of "BBB/Stable" and a Moody's long term credit rating of "Baa2/Stable". On 17 December 2013, S&P and Moody's announced that these credit ratings were not immediately affected by the announcement of the non-binding proposal for Envestra.

Under the Australian tax consolidation regime, APT and its wholly owned Australian resident entities have elected to be taxed as a single entity. At 30 June 2013, APA Group had carried forward income tax losses of approximately $896 million ($269 million of tax shield), all of which were recognised in the balance sheet. In addition, APA Group had carried forward Australian capital losses of approximately $100 million ($30 million of tax shield), none of which are recognised in the balance sheet. APA Group does not expect to pay income tax in the short to medium term due to the proportion of its income that is not assessable for taxation purposes, accelerated tax depreciation and the ability to utilise carried forward income tax losses.

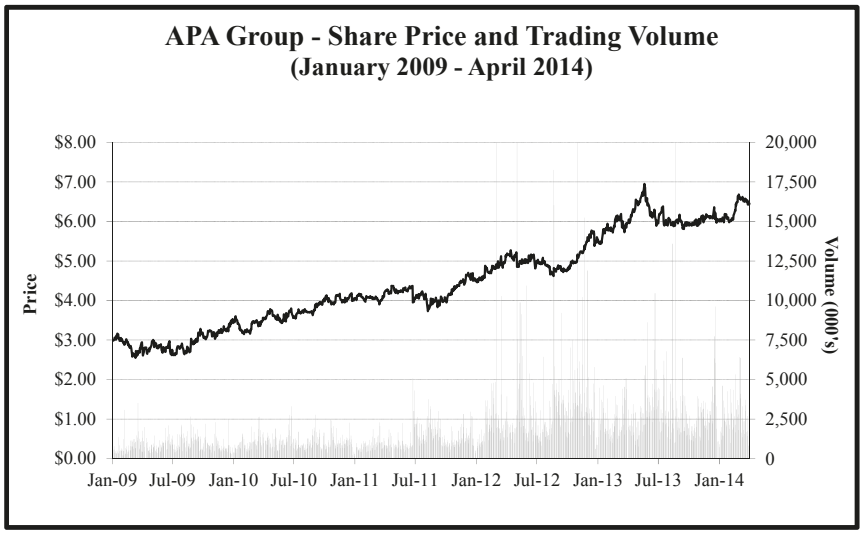
6.6 Capital Structure and Ownership

APA Group has 835,750,807 stapled securities on issue. There are over 80,000 registered

securityholders in APA Group. It has a significant retail investor base with approximately 90% of registered securityholders holding 10,000 or fewer securities although this represents only around 20% of securities on issue. APA Group has two substantial securityholders, UniSuper Ltd (6.9%) and Deutsche Bank AG (5.3%). APA Group operates a distribution reinvestment plan but it was suspended in June 2013.

6.7 Security Price Performance

APA Group securities listed at a slight premium to the offer price of $2.00 in June 2000 and gradually increased to around $5.00 (unadjusted) by mid 2006 before decreasing to $3.00 by the end of 2008 (largely in line with the stockmarket as the implications of the global financial crisis for world economic activities and capital markets emerged). The following graph illustrates the movement in the APA Group security price and trading volumes since January 2009:



Source: IRESS

Notes: (1) Security prices are on an adjusted basis reflecting various returns of capital paid prior to May 2004 and the renounceable rights issue of November 2006.

(2) Only four times in this period has more than 20,000,000 securities traded in a day: 29 February 2012 for no apparent reason but likely to do with APA Group's offer for HDUF, 2 May 2012 when Petronas Australia Pty Limited sold its 17.41% interest in APA Group, 30 October 2012 the day prior to the then scheduled closure of the offer for HDUF and 21 August 2013 upon release of positive FY13 results and guidance for FY14. This volume is not shown on the graph.

During the first half of 2009, APA Group's security price was volatile before settling in the range $2.70-3.00. Over the next two years the security price predominantly mirrored or slightly outperformed the broader market to reach an intraday high of $4.43 in April 2011. In June 2011, APA Group announced a $300 million capital raising and the acquisition of the Emu Downs Wind Farm and its security price declined to $3.90. However, by December 2011 the APA Group security price increased to around $4.55 following completion of a $1.45 billion debt refinancing program.

On 14 December 2011, APA Group announced a takeover offer for HDUF. Despite the offer being rejected, APA Group securities traded in the range $4.50-4.70 for the remainder of the month. During 2012, the APA Group security price was influenced by the takeover activity around HDUF (including the announcements by the Australian Competition & Consumer Commission and a competing bid from Pipeline Partners Australia Pty Limited announced on 2 July 2012) and gradually increased to trade broadly in the range $4.80-5.20. On 21 August 2012, a revised takeover offer by APA Group was recommended by HDUF and APA Group's security price closed at $4.82. Over the next 11 months, APA Group's security price steadily rose from

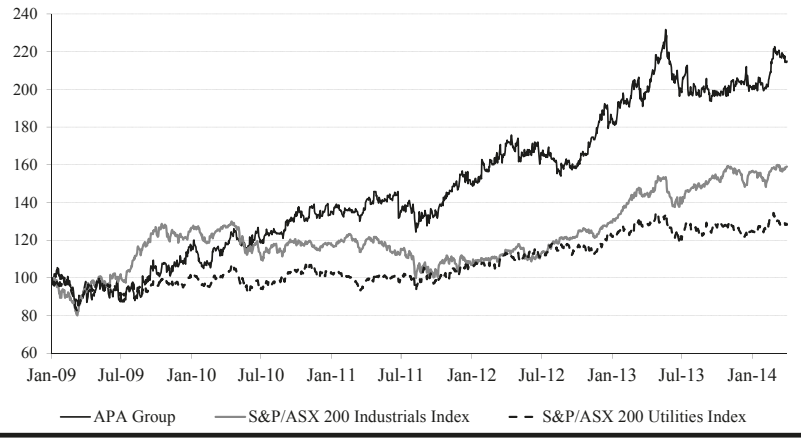
$4.82 to a record high of $6.97 in mid May 2013 following positive FY12 and FY13 half year results which were above market expectations, before declining to trade broadly in the range $6.00-6.30 in June 2013 (with a general market correction).

In the month prior to the announcement of APA Group's initial approach to Envestra on 16 July 2013, APA Group securities traded in the range of $5.85-$6.43 (at a VWAP of $6.13) and closed at $6.38 on 15 July 2013. Until the revised proposal to Envestra on 17 December 2013, the APA Group security price traded lower at a VWAP of $6.00 but rose to close at $6.36 on 16 December 2013. Subsequently, APA Group securities traded around $6.00 but rose in the second half of February 2014 to a high of $6.68. During March 2014, the security price has settled to trade broadly in the range of $6.40-6.60 and closed at $6.45 on 1 April 2014. Notwithstanding some uncertainty concerning contracted revenue expiries after FY16, the increase above $6.00 appears a positive reaction to APA Group's interim FY14 results (which showed emerging earnings from the HDUF assets and the Mondarra Gas Storage Facility expansion) and the decision to undertake a feasibility study into a link between the eastern and northern gas pipeline systems.

APA Group has no restrictions on free float. Average weekly volume has more than doubled since 2009 and APA Group is a reasonably liquid security. Average weekly volume over the twelve months prior to the announcement of the initial proposal to Envestra represented approximately 2% of average securities on issue or annual turnover of around 107% of average issued capital. This is not unusual for energy infrastructure entities from which investors seek stable distributions.

APA Group is a member of various indices including the S&P/ASX 50 Index, S&P/ASX 200 Industrials Index and S&P/ASX 200 Utilities Index. Its current weighting in these indices is approximately 0.47%, 0.47% and 21.23% respectively. The following graph illustrates the performance of APA Group securities relative to the S&P/ASX 200 Industrials Index and S&P/ASX Utilities Index:

APA Group vs S&P/ASX 200 Industrials Index vs S&P/ASX 200 Utilities Index
(January 2009 - April 2014)



Source: IRESS

In the period since 2008, APA Group has generally outperformed both indices. In particular, there have been periods of outperformance due to positive earnings results which were at or above market expectations (e.g. period from August 2011 to December 2011 associated with the FY11 result and the period from August 2012 to December 2012 associated with the FY12 result) and corporate activity (e.g. period from December 2011 to August 2012 associated with APA Group's takeover offer for HDUF and the period post July 2013 associated with APA Group's initial approach to Envestra).

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7 Valuation of the Consideration under the Scheme

7.1 Summary

Under the Scheme, Envestra shareholders will have the option to receive either:

- 0.1919 APA Group securities for each Envestra share; or
- combination of APA Group securities and cash, where the aggregate cash component is subject to an overall cap of $241 million and a maximum cash payment of $1.17 per share.

Grant Samuel has attributed a value to the scrip consideration of $1.15-1.27 per Envestra share (to two decimal places) based on a value range for APA Group securities of $6.00-6.60.

The value of the scrip consideration will vary with movements in the APA Group stapled security price. Accordingly, if the Scheme is implemented Envestra shareholders are exposed to events or other factors that impact the APA Group security price until the securities are issued. The actual value of the consideration could therefore ultimately exceed, or be less than, $1.15-1.27 per Envestra share. Depending on the circumstances, significant (and sustained) movements in the APA Group stapled security price could change the evaluation of the Scheme.

Envestra shareholders will have the option to receive a combination of APA Group securities and cash subject to an overall cap of $241 million on the amount of cash available. If all Envestra shareholders elected to receive cash, they would receive $0.20 per Envestra share (i.e. around 16-17% of the assessed value of the consideration). However, the amount of cash per Envestra share received by shareholders may be higher depending on the take up of this consideration alternative.

7.2 Approach

The Scheme involves a change of control of Envestra. For the purposes of takeover analysis, to the extent that Envestra shareholders receive APA Group stapled securities under the Scheme, the relevant test for Envestra shareholders is the expected market value of the APA Group securities. This involves an estimation of the trading price for APA Group after the Scheme is implemented (rather than a pre bid price).

It is normal practice to use the post announcement market price as the starting point for estimating the value of an offer with a scrip component. An alternative method is to estimate the underlying value of the combined entity and then to apply a discount to reflect a portfolio interest. However, access to the detailed financial and operational information (such as earnings and operational forecasts or asset plans) of both parties is required to undertake such a fundamental analysis of the value of the consideration. Furthermore, the consensus view of a well traded market is likely to be a more reliable estimate than that of a single external observer. Market prices (particularly for large entities such as APA Group that are closely followed by a wide range of market analysts) usually incorporate the influence of all publicly available information on an entity's prospects, future earnings and risks.

Grant Samuel has had regard to the market price of APA Group and addressed the following questions:

- is there any reason why the market price is not a true reflection of the fair market value of APA Group stapled securities? For example, there could be:
  - important information about the entity and its business/assets which would affect the security price but is not in the public domain;
  - mispricing by the market; and/or
  - abnormal trading activity in APA Group stapled securities; and

- will the proposed transaction, if implemented, have a material impact on APA Group's financial metrics, growth prospects, risk profile or other factors that would be likely to result in a change in the security price?

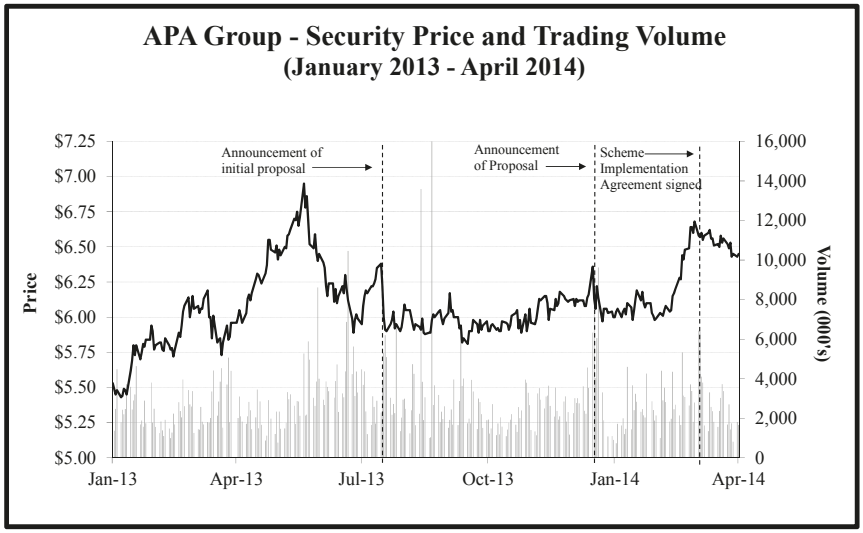
In considering these questions, Grant Samuel has:

- analysed the recent trading in APA Group stapled securities;
- reviewed broker analyst research on APA Group; and
- analysed the impact of the Scheme on APA Group's key financial metrics.

7.3 Analysis of the Market for APA Group Securities

APA Group is a member of the S&P/ASX 50 Index. APA Group's security price performance since January 2009 is discussed in Section 6.7 of this report.

Since mid 2013 APA Group's security price has been relatively stable. Trading in APA Group securities between 1 January 2013 and 15 July 2013 (the last day of trading prior to announcement of APA Group's initial proposal to Envestra) was in the range $5.39-6.97, at a VWAP of $6.11. In April/May 2013 APA Group's stapled security price rose to trade above $6.25 (peaking at $6.97 in intraday trade on 20 May 2013) before declining to around $6.00 in late June 2013. This decline was broadly in line with a global stockmarket correction that occurred over the same period:



Source: IRESS
Notes: (1) Only once in this period has more than 16,000,000 securities traded in a day (i.e. 21 August 2013 upon release of positive FY13 results and guidance for FY14). This volume is not shown on the graph.

On 16 July 2013 (the day of the announcement of APA Group's initial proposal to Envestra), APA Group securities closed down 2.4% (at $6.23) compared to a prior day close of $6.38. However, the APA Group security price had risen by around 6% in the two weeks prior to this announcement in comparison to a 2.8% increase in the market in the same period.

Trading between 16 July 2013 and 16 December 2013 (the day prior to announcement of the Scheme) was in the range $5.80-$6.38 (at a VWAP of $6.00) and closed at $6.36. Over this period, APA Group's security price increased 2.1%, broadly in line with the market in the same period (S&P/ASX 200 Industrials Index increase of 1.8%).

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On 17 December 2013 (the day the Scheme was announced), APA Group securities closed down 3.6% (at $6.13) on a day when the stockmarket was flat. Since then, APA Group securities have traded in the range $5.93-$6.68 (at a VWAP of $6.26) and closed at $6.45 on 1 April 2014. It should be noted that APA Group securities:

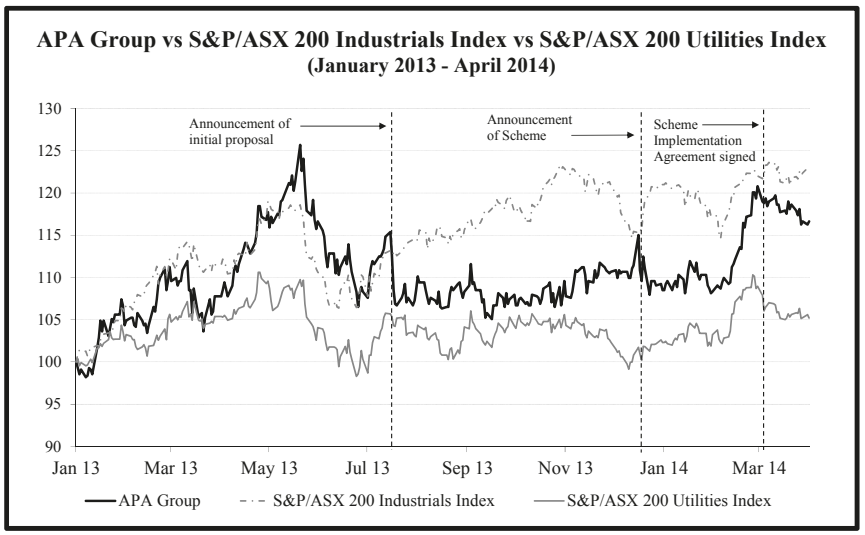
- commenced trading ex-distribution on 23 December 2013 (for a distribution of 17.5 cents payable on 12 March 2014), declining 17 cents on that day; and
- have risen since mid February 2014 reflecting a positive response to APA Group's interim FY14 results (released 19 February 2014), an expectation of further earnings emerging from the HDUF assets and the expansion of the Mondarra Gas Storage Facility and the announcement of a feasibility study for a project to link the eastern and northern gas pipeline systems.

However, although APA Group is reasonably liquid, security price movements of around 2% on a day to day basis are not uncommon. The important question is whether the recent performance and current price reflect the rational view of a well informed market or, alternatively, whether APA Group is out of line with its peers or the market.

In addressing this issue the following factors have been considered:

APA Group Compared to the Market

The following graph illustrates the performance of APA Group securities since 1 January 2013 relative to the S&P/ASX 200 Industrials Index and S&P/ASX 200 Utilities Index:



Source: IRESS

This graph shows that until the announcement of the initial proposal to Envestra, APA Group securities broadly mirrored movements in the market, although it outperformed the S&P/ASX 200 Utilities Index post mid-March 2013. On each announcement in relation to Envestra, the APA Group security price has fallen while the market was broadly flat on the day.

Following the commencement of ex-distribution trading on 23 December 2013, the APA Group security price performance has mirrored movements in the market except for the period from mid February 2014 to announcement of the Scheme Implementation Agreement on 4 March 2014 when it outperformed the market and in the last week of March 2014 when it underperformed the market:

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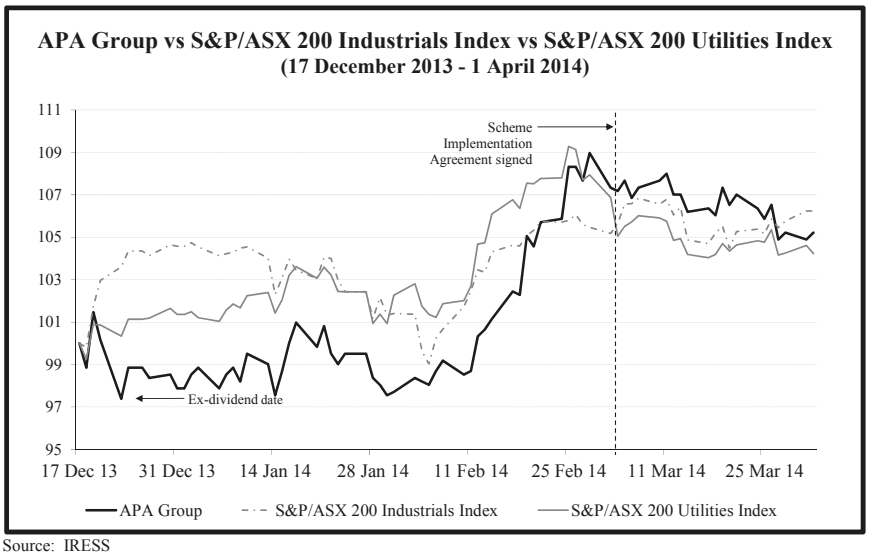
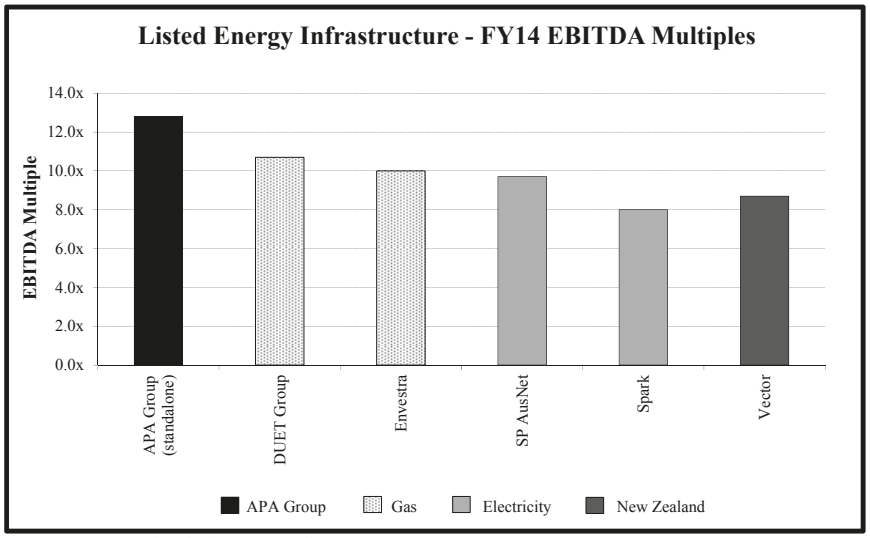


Source: IRESS

APA Group Compared to its Peers

APA Group's market ratings (in terms of EBITDA multiples, EBIT multiples and ungeared NTA multiples) relative to its peers are illustrated below:



Source: Grant Samuel analysis (see Appendix 4)

Notes: (1) Based on sharemarket prices as at 1 April 2014 except for Envestra which is shown as at 15 July 2013 (the day prior to the announcement of APA Group's initial proposal). The closing prices of Envestra on 16 December 2013 (the day prior to announcement of the Scheme) was not materially different ($1.06 vs. $1.07).

(2) All of the listed entities have a 30 June year end, except Spark and SP AusNet which have a 31 December and 31 March year end, respectively. Therefore, for these entities FY14 equates to the year ended 31 December 2014 and 31 March 2014, respectively.

(3) APA Group is presented only on a standalone basis as no pro forma FY14 financial information or broker forecasts are available on a combined entity basis.

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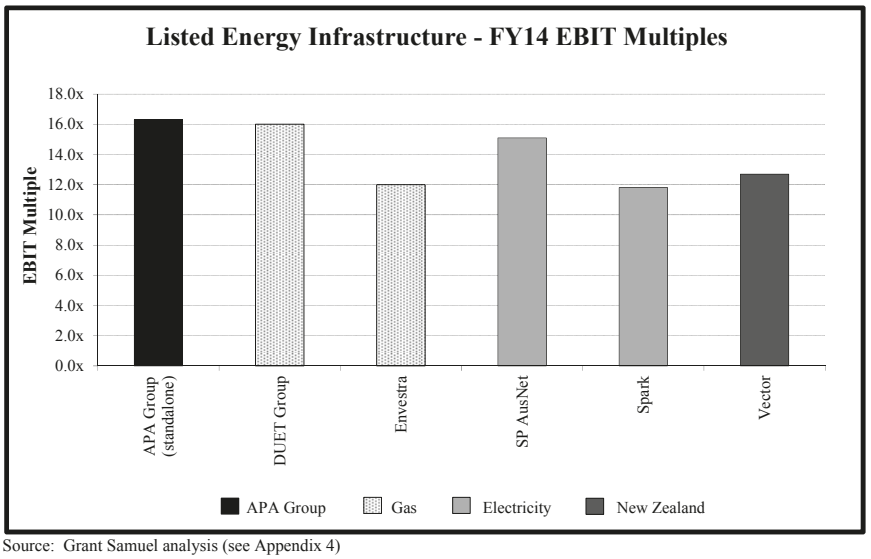
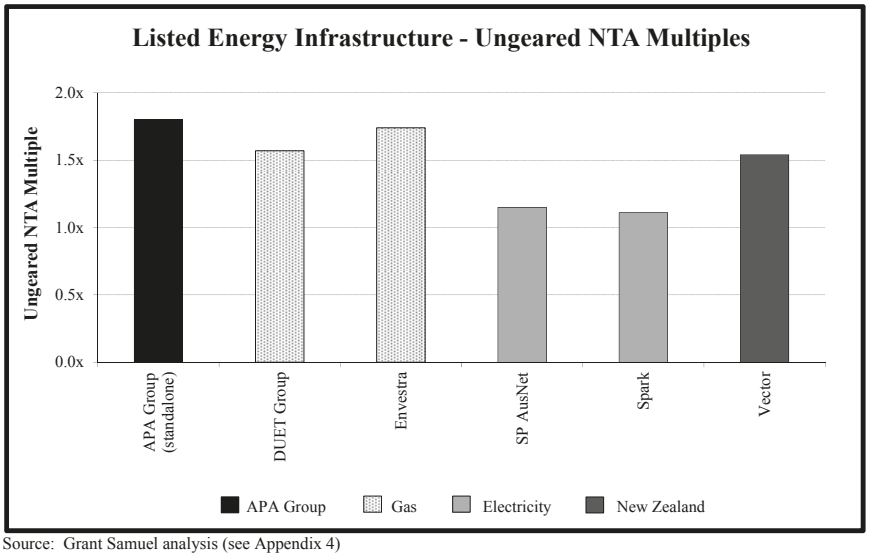


Source: Grant Samuel analysis (see Appendix 4)



Source: Grant Samuel analysis (see Appendix 4)
Note: Ungeared NTA as at latest balance date.

APA Group is the largest gas transmission infrastructure owner in Australia and has direct management and operational control over its assets. It also owns and develops other energy infrastructure (e.g. gas storage facilities, wind farms and gas fired power stations), holds a range of equity interests in energy infrastructure entities and provides a range of asset management services to those entities. Its earnings multiples reflect the blend of its activities and its extensive portfolio of pipelines. In considering APA Group's relative market ratings the following should be noted:

- none of the listed peers is directly comparable to APA Group:
  - Envestra is primarily involved in ownership of regulated gas distribution networks;

- DUET Group owns and operates majority interests in a regulated gas transmission asset, a regulated gas distribution network and a regulated electricity distribution network. Approximately 65% of DUET Group's proportionate EBITDA is derived from its gas assets and therefore its metrics reflect the blend of its activities; and
- SP AusNet, Spark and, albeit to a lesser extent, Vector are primarily electricity distribution and transmission businesses;

- gas distribution businesses are relatively more capital intensive than gas transmission businesses, which supports a lower EBITDA multiple. In this regard, stay in business capital generally represents 5-6% of EBITDA for Envestra while it has generally represented around 4-5% of APA Group's EBITDA (based on its energy infrastructure and asset management segments). In comparison, DUET Group's stay in business capital expenditure (on a proportional basis) represents a higher proportion of EBITDA (of around 12-13%) reflecting its electricity distribution network as well as its regulated gas transmission and distribution assets;
- electricity infrastructure businesses are generally more capital intensive than gas infrastructure businesses and therefore trade at EBITDA multiples lower than the gas entities. Furthermore, the pure electricity sector entities (SP AusNet and Spark) trade at lower multiples of ungeared NTA compared to gas sector entities reflecting the longer useful lives of gas distribution and transmission infrastructure;
- similar to APA Group, DUET Group, Spark and Vector are fully internally managed (i.e. neither the assets nor entity management are outsourced). In comparison, management of the assets of Envestra and SP AusNet is outsourced (as is the entity management for SP AusNet); and
- unlike APA Group, DUET Group, Envestra, SP AusNet and Spark do not have a third party management business (although all derive some non-regulated revenue). Vector's multiples are higher due to its restricted free float and its non-electricity activities (i.e. gas wholesale, gas haulage and technology).

Of the energy infrastructure peers, DUET Group is most comparable to APA Group. Both entities own, manage and operate energy assets. However, around 90%[85] of DUET Group's revenue is from regulated activities (compared to only 25% for APA Group), only 65% of its proportionate EBITDA is derived from gas assets and it does operate a third party asset management business. Consequently, APA Group trades at a premium to DUET Group although the extent of the premium decreases as earnings emerge for APA Group from the acquired HDUF assets and the commissioning of other assets over the period to FY16.

At current share prices APA Group's EBITDA multiples are materially above its peer group but this can be justified as a result of the scale and strategic importance of APA Group's assets (including the flexibility provided by its extensive east coast pipeline system), its lower capital intensity, the low proportion of regulatory assets, its third party management business and the earnings to emerge over the period to FY16. On an EBIT multiple basis it is more in line with its peers (albeit still at the higher end).

Based on the above analysis, there is no evidence to suggest that APA Group is trading on a basis relative to its peer group that is not sustainable.

[85] Excluding Dampier Bunbury Pipeline which (although a regulated asset) derives revenue on a contractual basis, 60% of DUET Group's revenue is regulated.

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Broker Target Prices

At its closing price on 1 April 2014 of $6.45, APA Group is trading in line with median broker 12 month target prices:

APA Group – Broker Target Prices

Broker	Date of Last Report	Target Price[86]			
		Pre 16 July 2013 (Initial Proposal)	Post 21 Aug 2013 (FY13 Results)	Post 17 Dec 2013 (Revised Proposal)	Post 19 Feb 2014 (FY14 Interim)
Broker 1	20 Feb 2014	na	na	$7.17	$7.19
Broker 2	19 Feb 2014	$6.20	$6.25	$6.12	$6.24
Broker 3	19 Feb 2014	restricted	restricted	restricted	restricted
Broker 4	19 Feb 2014	na	$6.11	$6.33	$6.17
Broker 5	19 Feb 2014	$5.80	$5.80	$6.05	$6.45
Broker 6	20 Mar 2014	$5.10	$5.50	$5.60	$5.70
Broker 7	19 Feb 2014	$7.00	$6.50	$6.50	$6.75
Broker 8	4 Mar 2014	$6.05	$6.25	$6.55	$6.80
Broker 9	19 Feb 2014	$6.25	$6.10	$6.05	$6.25
Broker 10	19 Feb 2014	$6.10	$6.30	$6.40	$6.85
Broker 11	19 Feb 2014	$6.18	$6.29	$6.72	$7.10
Broker 12	19 Feb 2014	$6.20	$6.19	$6.12	nmf[87]
Broker 13	4 Mar 2014	$5.84	$5.96	$5.96	$6.23
Low		*$5.10*	*$5.50*	*$5.60*	*$5.70*
High		*$7.00*	*$6.50*	*$7.17*	*$7.19*
Median		***$6.14***	***$6.19***	***$6.23***	***$6.45***

Source: Brokers' reports and Grant Samuel analysis (see Appendix 5)

The review of target prices is made difficult by the timing of announcements in relation to Envestra relative to APA Group's results announcements. As far as Grant Samuel is aware, brokers have only adjusted target prices since the announcement of the Scheme on 17 December 2013 to reflect changes to their views based on APA Group's standalone earnings and not as a consequence of the potential acquisition of Envestra (except for Broker 12 post the FY14 interim results). In addition, it is noted that median broker target prices pre and post announcement of the Scheme are broadly similar. However, following announcement of the FY14 interim results on 19 February 2014 broker target prices for APA Group have risen.

APA Group's current security price ($6.45) is in line with the median broker target price. While there is no clear conclusion that can be drawn from this analysis, at a minimum, there is no evidence to suggest APA Group stapled securities are currently materially out of line with broker target prices.

Liquidity

APA Group is a reasonably liquid stock. Average weekly volume over the twelve months prior to announcement of the initial proposal to Envestra represented approximately 2% of average securities on issue or annual turnover of around 107% of average issued capital.

Over the past three years, APA Group has been involved in extended takeover activity in relation to HDUF (which occurred over the period from 14 December 2011 to 13 December 2012) and to Envestra (since 16 July 2013). Average weekly volume and transactions for APA Group securities for a different period over the last three years are summarised below:

[86] Restricted brokers are acting as advisers to either Envestra and APA Group.

[87] Broker 12's target price post 19 February 2014 assumes APA Group completes the acquisition of Envestra.

APA Group – Stapled Security Trading		
Period	**Average Weekly Volume (000s)**	**Average Weekly Transactions**
Period post the Scheme		
17 December 2013 to 1 April 2014	13,496	16,989
Periods post Initial Proposal to Envestra		
16 July 2013 to 1 April 2014 *(post initial proposal to Envestra)*	14,285	18,763
17 November 2013 to 16 December 2013 *(four weeks prior to Scheme)*	14,412	22,097
16 July 2013 to 16 December 2013 *(period from initial proposal to Scheme)*	14,920	20,102
Periods without Takeover Activity		
13 December 2012 to 15 July 2013 *(period from close of offer for HDUF to initial proposal to Envestra)*	13,165	21,864
14 December 2010 to 13 December 2011 *(year prior to announcement of takeover offer for HDUF)*	5,944	8,164

Source: IRESS and Grant Samuel analysis

APA Group's takeover of HDUF was completed with consideration comprising cash and scrip. As result APA Group issued 175.7 million stapled securities, a 27% increase in its issued capital. As a consequence, trading in APA Group securities increased from around 5.9 million securities and 8,000 transactions per week to around 13.2 million securities and 22,000 transactions per week.

While average weekly volume of securities traded increased by 13% following the initial proposal approach to Envestra (while the number of trades have decreased implying an increase in the size of trades), this is not atypical when a transaction is anticipated. Although the average weekly volume of securities traded and the number of transactions have decreased since the announcement of the Scheme in December 2013, the implied size of the trades has increased.

In summary, while the volume of trading activity in APA Group securities has generally increased since the initial proposal to Envestra, there is nothing to indicate any specific abnormal trading in APA Group stapled securities.

Non Public Information

Under ASX Listing Rules, APA Group is required to keep the market informed of events and developments in a timely manner as they occur. Once APA Group becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of its securities, it must inform the market of that information.

On 14 November 2013, APA Group held an investor day, the presentations for which were designed to provide insight into its business operations, key priorities of APA Group and the business outlook. In this regard, APA Group addressed matters such as:

- near term growth driven by the committed expansions of the South West Queensland Pipeline, Victorian Transmission System, and the Goldfields Gas Pipeline;
- potential for further continued growth (e.g. exposure to additional gas demand from the Queensland LNG export projects via its integrated east coast pipeline system and the potential gas supply to the Gove Alumina Refinery via its Amadeus Gas Pipeline);
- the implications of changes in east coast gas dynamics including upward pressure on domestic gas prices which may reduce domestic demand for gas but may also facilitate the development of further unconventional gas resources (particularly in the Cooper Basin); and
- customer recontracting risk, particularly in relation to the Moomba to Sydney Pipeline. In this regard, APA Group is actively marketing the pipeline's capacity in order to replace contracts expiring in FY16 and exploring other revenue opportunities (e.g. storage services).

APA Group announced its interim FY14 financial results and reaffirmed its FY14 guidance on 19 February 2014. It also announced a feasibility study into the development of a link between the Northern Pipeline System and the Eastern Pipeline System, the objective of which would be to further increase the flexibility of APA Group's existing pipeline network.

Consequently, there is no reason to consider that any information relating to APA Group's standalone business that would have a material impact on its security price has not been publicly disclosed. In particular, as the customer recontracting risk from FY16 is well known in the market, it is not unreasonable to assume that it is taken into account in the current APA Group security price.

7.4 Impact of Scheme

The pro forma operational and financial implications for APA Group of the acquisition of Envestra (including underlying assumptions) are set out in Section 7 of the Scheme Booklet.

The acquisition has strategic benefits for APA Group in that it:

- strengthens APA Group's position as Australia's largest national gas infrastructure business;
- provides the opportunity to generate operational efficiencies and cost savings; and
- underpins future growth by providing increased revenue stability and financial strength.

Financial analysis is provided assuming APA Group acquires 100% of Envestra with the consideration including cash of $241 million (being the aggregate cap under the Maximum Cash Consideration). The combined entity pro forma financial information has been prepared by APA Group. Deloitte Corporate Finance Pty Limited has reviewed this information and its Investigating Accountant's Report is attached as Appendix 2 to the Scheme Booklet.

The pro forma financial information is summarised below:

Pro Forma Impact of Scheme on Financial Parameters of APA Group

	Year ended 30 June 2013		*Inc/ (Dec)*	Six months ended 31 December 2013		*Inc/ (Dec)*
	actual proforma	combined entity		actual proforma	combined entity	
Weighted average number of securities (million)	***772.3***	***963.7***	***24.8%***	***835.8***	***1,027.1***	***22.9%***
Revenue Mix						
Regulated assets:						
- regulated revenue	25.0%	48.0%				
- contracted revenue	15.0%	10.0%				
	40.0%	58.0%	*45.0%*			
Unregulated assets:						
- regulated revenue	59.0%	41.0%				
- contracted revenue	1.0%	1.0%				
	60.0%	42.0%	*(30.0%)*			
Total	100.0%	100.0%				
Financial Performance ($ million)						
Revenue (excluding pass through revenue)	915.7	1,374.2	*50.1%*	509.0	763.5	*50.0%*
EBITDA	676.7	993.3	*46.8%*	398.9	582.5	*46.0%*
EBIT	542.1	793.6	*46.4%*	324.2	473.6	*46.1%*
Profit after tax attributable to securityholders	173.8	234.9	*35.2%*	120.7	175.9	*45.7%*
Earnings per security	22.5¢	24.4¢	*8.3%*	14.4¢	17.1¢	*18.6%*
Operating cash flow per security	56.5¢	63.3¢	*12.1%*	26.0¢	31.0¢	*19.5%*
EBITDA margin	73.9%	72.3%	*(2.2%)*	78.4%	76.3%	*(2.7%)*
EBIT margin	59.2%	57.7%	*(2.5%)*	63.7%	62.0%	*(2.6%)*
Financial Position ($ million)						
Total assets				7,825.7	11,464.3	*46.5%*
Total liabilities				(5,357.6)	(7,690.1)	*43.5%*
Net assets				**2,468.1**	**3,774.2**	***52.9%***
NTA				**1,143.2**	**1,502.7**	***31.4%***
Net assets per security				*$2.95*	*$3.67*	*24.4%*
NTA per security				*$1.37*	*$1.46*	*7.0%*
Gearing				*63.8%*	*65.2%*	*2.2%*

Source: Scheme Booklet and Grant Samuel analysis

The acquisition of Envestra has a material financial impact on APA Group but does not

fundamentally change APA Group's operations apart from increasing its weighting to regulated revenue. In this context, revenue and operating earnings increase by around 50% and 45% respectively[88].

However, it should be noted that the pro forma financial information presented does not reflect a number of one off items attributable to the Scheme including:

- $31.4 million of transaction costs, although only $12.8 million of these costs (around 1 cent per security) are expected to impact profits in FY14;
- a gain (after tax) of approximately $333 million relating to an increase in the fair value of APA Group's 33.05% interest in Envestra; and
- a loss (after tax) of approximately $152 million relating to the termination of the O&M Contracts.

Furthermore, the pro forma financial information makes no allowance for any cost savings or synergy benefits which may result from the Scheme and provides no guidance in relation to future distributions for the combined entity.

The pro forma financial analysis indicates that:

- the acquisition is accretive to earnings per security although operating profit margins decrease marginally;
- NTA per security increases by 7%; and
- gearing increases marginally to around 65% but is within APA Group's target gearing range of 65-68%.

There is a risk that the Scheme could trigger an event of default under Envestra's existing borrowing arrangements (and therefore result in early repayment of debt, "make whole" payments and other costs) but this has been mitigated by obtaining appropriate assurances from sufficient of Envestra's financiers prior to the signing of the Scheme Implementation Agreement. Maintenance of these assurances during the period prior to implementation is a condition of the Scheme.

Other

It could be argued that the market is not yet fully informed about the Scheme and its impacts for APA Group. No detailed financial information on the combined APA Group was provided at announcement of the Scheme or the signing of the Scheme Implementation Agreement. Such information will only be made available when the Scheme Booklet is released.

However, analysis of the impact of the Scheme on APA Group is reasonably straightforward insofar as it is a conventional 100% acquisition. In any event, there is no real change in the nature of APA Group other than the level of its interest in Envestra, the reduction in third party management revenue and the increase in the proportion of revenue that is directly derived from regulated assets. On the other hand:

- the consideration options mean there is a range of outcomes in relation to gearing and issued capital depending on the extent to which the Maximum Cash Consideration alternative is taken up;
- APA Group's interest in Envestra will increase from 33.05% to 100% and its interest will be consolidated and not equity accounted. The unravelling of the equity accounting complicates the financial analysis based on publicly available financial information; and
- the extent of estimated cost savings and transaction costs for APA Group in relation to the Scheme is not available.

However, both APA Group and Envestra are relatively transparent entities and widely followed by brokers (some of which have undertaken the merger analysis). It is reasonable to believe that the market has had time to assess the Scheme and its implications for APA Group and that the estimated impacts are reflected in current trading in APA Group stapled securities.

[88] Net profit after tax also increases by around this amount in the six months ended 31 December 2013 due to the decrease in Envestra's finance costs relative to FY13.

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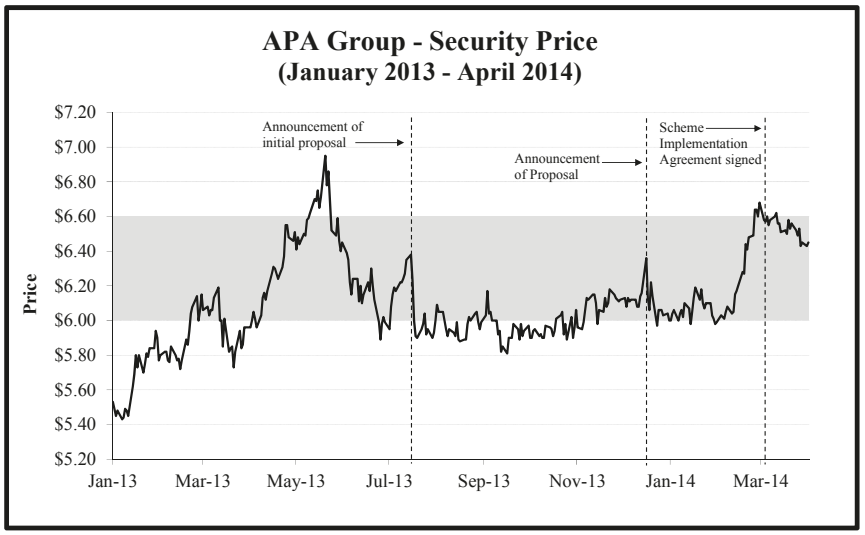
7.5 Conclusion

It is over eight months since APA Group's initial proposal to Envestra. In this time, trading in APA Group securities has been impacted by the release of its FY13 financial results, FY14 guidance and interim FY14 results and market uncertainty as to whether the Scheme will proceed and the implications for APA Group of the acquisition. Nevertheless:

- there is no evidence to suggest that the APA Group security price does not reflect the rational view of an informed market or that APA Group is trading on a basis relative to its peer group that is not sustainable; and
- energy infrastructure entities such as APA Group and Envestra are relatively transparent and the market has had sufficient opportunity to absorb and analyse the impact of the transaction. Therefore, the impact of the acquisition of Envestra should be reflected in APA Group's current security price although there is some uncertainty at this time as to the operational and financial implications of the Scheme for APA Group.

Grant Samuel's judgement is that, for the purposes of assessing the Scheme, an APA Group security price of $6.00-6.60 is a reasonable estimate in current market conditions. This range takes into account the performance of APA Group securities since the initial proposal to Envestra, the limited information available in relation to the combined entity and current market conditions. The selected value range relative to recent APA Group stapled security prices is shown below:



Source: IRESS

The low end of the range ($6.00) broadly reflects sharemarket trading since July 2013 until mid February 2014 and APA Group has not traded below this level for any length of time since November 2013. The top end of the selected range ($6.60) is above the closing price on 1 April 2014 of $6.45. Prima facie, the current security price represents the value of the consideration under the Scheme. However, Grant Samuel considers that the selected range, which is arguable conservative, is reasonable for the purposes of assessing the Scheme given:

- APA Group's premium market rating compared to its peers (at both EBITDA and net profit after tax levels);
- the substantial rise (7.5%) in the security price in a very short period of time;
- that APA Group securities have only traded above $6.60 on 14 days since the release of its interim FY14 results on 19 February 2014 (and only above a daily VWAP of $6.60 on two of those days);
- the current security price is in line with the current median broker target price; and
- that combined entity financial information is not yet available publicly.

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8 Evaluation of the Scheme

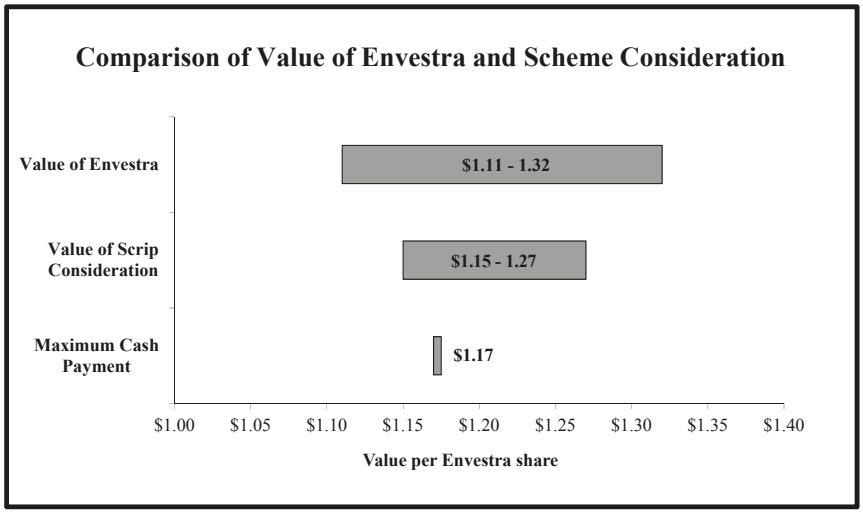
8.1 Conclusion

In Grant Samuel's opinion, the Scheme is fair and reasonable and, therefore, in the best interests of Envestra shareholders other than APA Group, in the absence of a superior proposal.

8.2 Fairness

Grant Samuel has estimated the full underlying value of Envestra, including a premium for control, to be in the range $1,994.4-2,373.4 million which corresponds to $1.11-1.32 per share. The value is the aggregate of the estimated market value of Envestra's business operations together with other assets less external borrowing and non-trading liabilities. The value range exceeds the price at which, based on current market conditions, Grant Samuel would expect Envestra shares to trade on the ASX in the absence of a takeover offer in the short term. The valuation is set out in Section 5 of this report.

The value attributed to the scrip consideration of $1.15-1.27 per share (refer Section 7.1) and the maximum cash payment of $1.17 per share fall within Grant Samuel's estimate of the full underlying value for Envestra. Accordingly, the Scheme is fair. The bottom of the valuation range represents the relevant threshold for fairness. Any price above the bottom of the range is, by definition, fair.



However, the value of the consideration under the Scheme will vary with movements in the APA Group stapled security price. Accordingly, until the APA Group securities are issued under the Scheme, Envestra shareholders are exposed to changes in overall equity market conditions and specific events that could impact the APA Group security price. The actual value received could ultimately exceed, or be less than, $1.15-1.27 per Envestra share.

8.3 Reasonableness

As the Scheme is fair, it is also reasonable. In any event, there are a number of other factors that support the reasonableness of the Scheme and which Envestra shareholders should consider in determining whether or not to vote for the Scheme. These factors are set out in the following sections.

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8.3.1 Premium for Control

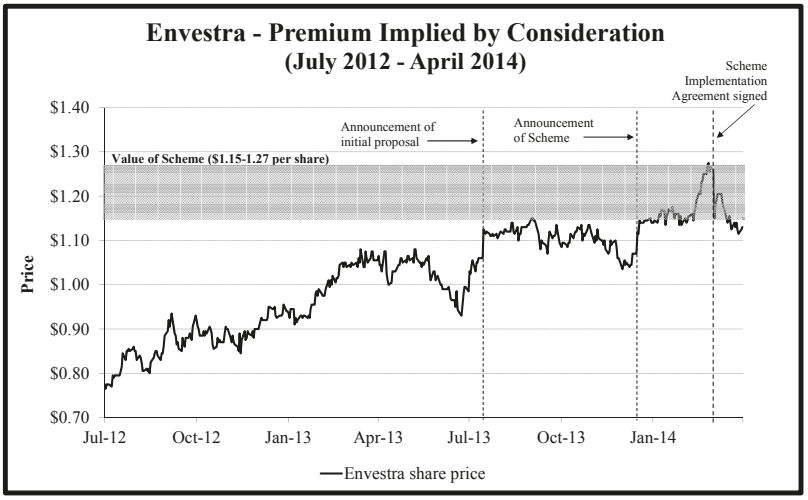
The Scheme represents the following premiums over pre announcement prices when measured relative to the value attributed to the consideration by Grant Samuel ($1.15-1.27 per share):

Envestra – Premium Implied by Value of Consideration

Period	Value of Consideration	Envestra Price/VWAP	Premium
16 December 2013 – Pre-Scheme price	$1.15-1.27	$1.07	7.5-18.7%
15 July 2013 – Pre-initial proposal price	$1.15-1.27	$1.06	8.5-19.8%
1 week prior to 15 July 2013 (VWAP)	$1.15-1.27	$1.05	9.3-21.0%
1 month prior to 15 July 2013 (VWAP)	$1.15-1.27	$1.00	15.0-27.0%
3 months prior to 15 July 2013 (VWAP)	$1.15-1.27	$1.02	12.7-24.5%
6 months prior to 15 July 2013 (VWAP)	$1.15-1.27	$1.02	12.7-24.5%
12 months prior to 15 July 2013 (VWAP)	$1.15-1.27	$0.96	19.8-32.3%

Source: IRESS and Grant Samuel analysis

The announcement of the initial proposal from APA Group on 16 July 2013 resulted in a 6% jump in the Envestra share price (to $1.125). Although the Envestra share price had declined to around $1.07 on the day prior to the announcement of the Scheme on 17 December 2013 (in line with a decline in the market), it had traded at a VWAP of $1.10 in the period between announcements. Consequently, the relevant benchmarks for the implied premium are the unaffected Envestra share prices prior to 16 July 2013 as illustrated in the following graph:



Source: IRESS and Grant Samuel analysis

The level of premiums observed in takeovers varies depending on the circumstances of the target and other factors (such as the potential for competing offers) but for industrial companies tends to fall in the range 20-35%. However, in the case of energy infrastructure entities with a primary focus on ownership of regulated assets there is little scope for large premiums over pre-bid prices as cash flows are stable and predictable with security prices underpinned by the distribution yield and typically there are limited synergies available to a purchaser.

The Scheme represents premiums of around 8-27% to unaffected Envestra share prices. These premium are not unreasonable given Envestra is an investor in regulated gas

distribution assets with no other operating business. High premiums for control are not expected as Envestra:

- has stable and predictable cash flows with long run growth generally limited to economic growth and inflation;
- is reasonably transparent to investors;
- distributions represent a substantial proportion of available cash flow; and
- there is limited scope for an acquirer to achieve synergies or to enhance returns by increasing debt.

Another, and perhaps better, way of looking at the premium represented by the Scheme is to compare the value of the Scheme based on the APA Group stapled security price for a particular date or period to the price of Envestra shares on the same date or period. On this basis, the Scheme represents premiums of around 14-20%:

Envestra – Premium over Pre-announcement Prices

Period	APA Group Price/ VWAP	Implied Consideration	Envestra Price/ VWAP	Premium
16 December 2013 – Pre-Scheme price	$6.36	$1.22	$1.07	14.0%
15 July 2013 – Pre-initial proposal price	$6.38	$1.22	$1.06	15.1%
1 week prior to 15 July 2013 (VWAP)	$6.28	$1.20	$1.05	14.3%
1 month prior to 15 July 2013 (VWAP)	$6.13	$1.18	$1.00	18.0%
3 months prior to 15 July 2013 (VWAP)	$6.34	$1.22	$1.02	19.6%
6 months prior to 15 July 2013 (VWAP)	$6.16	$1.18	$1.02	15.7%
12 months prior to 15 July 2013 (VWAP)	$5.52	$1.06	$0.96	10.4%

Source: IRESS and Grant Samuel analysis

8.3.2 Share Trading in the absence of any Takeover Offer

In the absence of the Scheme or a similar offer, shareholders could only realise their investment by selling on market at a price which does not include a premium and which would incur transaction costs (e.g. brokerage). In these circumstances (assuming no speculation as to an alternative or revised offer), it is likely that Envestra shares, under current market conditions and its current ownership and operating structure, would trade at prices below the value of the Scheme ($1.15-1.27 per share). However, any drop in the price is unlikely to be dramatic as the premiums implied by Grant Samuel's value range (8-27%) are relatively modest, the Envestra share price is currently trading at a 9% discount to the implied value of the Scheme ($1.24 based on the current APA Group security price of $6.45) and the share price will be supported by its dividend yield.

8.3.3 Existing APA Group Interest

As the Scheme is fair it is also reasonable. However, it should be noted that an acquisition proposal by any other party could not succeed without the agreement of APA Group (as Envestra's largest shareholder with a 33.05% shareholding). The level of this shareholding means that an offer by APA Group which was not fair may still be reasonable depending on the circumstances. On the other hand, CKI's interest in Envestra (17.46%) is such that it may be difficult for APA Group to make an offer that was not fair.

Nevertheless, it should be noted that under the Corporations Act, APA Group can increase its interest by up to 3% every six months without making a full takeover offer (i.e. without paying a premium for control). However, there is a risk that a change of control may be considered "unacceptable" to financiers party to the Intercreditor Deed Poll and therefore an event of default. This may result in early repayment of Envestra's debt and substantial payments above face value and other costs.

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8.4 Other Advantages, Disadvantages and Risks

Under the Scheme, shareholders will exchange their Envestra shares for stapled securities in APA Group (and if they select the Maximum Cash Consideration some portion in cash). In doing so, Envestra shareholders:

- will realise their investment in Envestra at a value that incorporates a premium for control (and will, if they elect to receive some cash, receive some of that value in cash[89]) but the actual value received will only be determined when the APA Group stapled securities are issued. Some shareholders may not want to hold APA Group stapled securities and would have preferred to crystallise their investment in Envestra in cash. However, Envestra shareholders will be able to sell into a liquid market for APA Group stapled securities, although there is no certainty that they will be able to realise the scrip received for an amount equivalent to the value attributed to the consideration (e.g. due to transaction costs and the risks associated with any stockmarket investment). On the other hand, ineligible foreign shareholders and unmarketable parcel securityholders will receive cash proceeds from the sale of the APA Group securities they would otherwise have received;
- incur no transaction costs (i.e. brokerage) to acquire APA Group stapled securities. Moreover, as the exchange ratio under the Scheme reflects a premium for control, their interest in APA Group will be greater than if they had realised their Envestra shares on market and used the sale proceeds (net of transaction costs) to acquire APA Group stapled securities on market (also net of transaction costs); and
- if eligible, may be able to defer some of the capital gains consequences of accepting the Scheme to the extent capital gains tax scrip for scrip rollover relief is available (see Section 8.6). If shareholders elect to receive some cash, the cash amount received may be used to meet some or all of any capital gains tax liability.

The decision to hold APA Group stapled securities received under the Scheme is a decision independent of a decision to vote for the Scheme. However, if the APA Group stapled securities are retained, Envestra shareholders will:

- retain an economic interest in the Envestra assets, albeit on a diluted basis. The eventual interest of Envestra shareholders in APA Group depends on shareholder elections in relation to the maximum cash consideration alternative but will be in the range of 18.6-21.6% of the enlarged APA Group;
- gain exposure to APA Group, a member of the S&P/ASX 50 Index and Australia's largest natural gas infrastructure business. However, Envestra shareholders will no longer be invested in an entity with primary focus on investment in regulated gas distribution assets as APA Group is an active operator of gas infrastructure assets which has ownership interests in and operates $12 billion of energy infrastructure. Consequently, Envestra shareholders will be exposed to a more diversified and less regulated portfolio of assets (although still predominantly gas infrastructure assets) and the general operational risks of APA Group's activities. There will be no change in their exposure to APA Group's asset management expertise as Envestra's assets are currently operated by APA Group;
- be entitled to distributions on a pari passu basis with APA Group securityholders (i.e. they will be entitled to all distributions paid by APA Group after the date of issue of the stapled securities under the Scheme), including for the six months ended 30 June 2014 if the Scheme is implemented prior to 30 June 2014;
- be exposed to integration risk although the risk will be mitigated to some degree by APA Group's confirmatory due diligence process and the fact that it currently operates Envestra's networks; and

[89] The maximum amount of cash that a shareholder could receive is $1.17 per share. Depending on the elections for the maximum cash consideration, shareholders elections will be scaled back to cap the total cash payment by APA Group under the Scheme to $241 million.

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- based on an APA Group security price in the range $6.00-$6.60 and the pro forma analysis summarised in Section 7.4 of this report, Envestra shareholders would experience an increase in dividends and NTA per security (on an equivalent basis) notwithstanding a decrease in earnings and operating cash flow per security as shown below:

Pro Forma Impact per Equivalent Envestra Share (FY13)

	Envestra Stand-alone	Proforma Combined Entity[90]	Value of APA Group Security					
			$6.00			$6.60		
			Equivalent Envestra Share[91]	Change		Equivalent Envestra Share[91]	Change	
				Absolute	%		Absolute	%
Earnings per security	6.6¢	24.4¢	4.7¢	*(1.9¢)*	*(28.9%)*	4.6¢	*(2.0¢)*	*(30.0%)*
Operating cash flow per security	13.9¢[92]	63.3¢	12.2¢	*(1.7¢)*	*(12.4%)*	12.0¢	*(1.9¢)*	*(13.7%)*
Distribution per security	6.2¢	35.5¢[93]	6.8¢	*0.6¢*	*10.2%*	6.7¢	*0.5¢*	*8.4%*
NTA per security	$0.14	$1.46	$0.28	*$0.14*	*100.7%*	$0.28	*$0.14*	*97.5%*

The decrease in earnings and operating cash flow per security reflects the dilutionary impact of APA Group's much higher market rating relative to Envestra.

The increase in distribution per security (on an equivalent basis) decreases marginally if FY14 guidance is used as Envestra's guidance for a 3.2%[94] increase in dividends for FY14 (to 6.4 cents per share) in comparison to APA Group's guidance of at least a 1.4% increase in distribution for FY14 (to 36 cents per security).

However, the pro forma impact per equivalent Envestra share:

- is based on the historical pro forma analysis for FY13 and both entities have experienced growth in earnings in FY14 to date; and
- will vary with movements in APA Group's security price.

Therefore, the actual impact on an equivalent basis for Envestra shareholders may lie outside the ranges presented above.

8.5 Prospect of a Superior Alternative Proposal

The Scheme is fair and reasonable. However, in weighing up any proposal, shareholders need to have regard to the alternatives that are realistically available to them.

Since the announcement of the initial proposal on 16 July 2013 and the Scheme on 17 December 2013, there has been an opportunity for any other interested party to make a competing offer. No such offer has been made at the date of this report. Although a competing offer may be made at any time before the meeting for the Scheme, there appears little likelihood that an alternative bidder will make a more attractive offer for Envestra.

However, an acquisition proposal by any other party could not succeed without the agreement of APA Group (33.05% interest) and CKI (17.46% interest). A potential acquirer may also be deterred by the fact that the O&M Contracts are long term (expiry June 2027) and not easily terminable by Envestra.

90 Refer Section 7.4 of this report.

91 Consideration calculated at 0.1924-0.1894 APA Group stapled securities for every Envestra share, being the sum of $0.20 cash reinvested in APA Group securities at a price of $6.00-6.60 (respectively) and the balance of the consideration in scrip (i.e. 0.1590 APA Group securities per Envestra share). The scrip portion of the consideration is calculated as $0.97 (i.e. $1.17 less $0.20) divided by $6.0974 (being the APA Group VWAP upon which the transaction consideration is based).

92 Calculated as Envestra cash flow available for distribution before replacement expenditure in FY13 ($225.8 million, see Section 4.4) divided by weighted average number of shares on issue in FY13 (1,629,119,095).

93 Based on actual distribution per security by APA Group for FY13 as no guidance has been provided for combined entity distributions.

94 The increase is 8.5% when measured on guidance for dividends paid during FY14 (rather than dividends relating to FY14).

It would be open to shareholders to vote against the Scheme in the hope that APA Group would make a subsequent higher offer. However, this involves significant risks. There is no evidence that APA Group would be prepared to pay a higher price. It has increased the consideration since July 2013, has engaged with Envestra for over eight months and has incurred costs. Moreover, shareholders could not be confident of realising a price as high as $1.15-1.27 if they wished to sell their Envestra shares on market at a later date.

In any event, the consideration offered under the Scheme represents a fair price for Envestra.

8.6 Other Matters

Taxation Consequences

If the Scheme receives shareholder approval and is implemented, shareholders will be treated as having disposed of their Envestra shares for tax purposes. A capital gain or loss may arise on disposal depending on the cost base of the Envestra shares, the length of time held, whether the shares are held on capital or revenue account and whether the shareholder is an Australian resident for tax purposes. Details of the taxation consequences are set out in Section 10 of the Scheme Booklet. In particular, it should be noted that under the Scheme, capital gains tax scrip for scrip rollover relief may only be available to eligible shareholders in relation to a portion of their investment (namely the value received that relates to APT units which is estimated to be approximately 76% of the value received). Shareholders should consult their own professional adviser in relation to the taxation consequences.

Transaction Costs

If the Scheme is not approved by shareholders, it is estimated that Envestra will meet costs (including legal and other adviser's fees as well as printing and mailing costs) of $3.0 million as a standalone entity (<0.5 cents per share) of which $1.2 million had been incurred prior to 31 December 2013.

Ineligible Foreign Shareholders

Ineligible foreign shareholders (i.e. Envestra shareholders with registered addresses outside of Australia and its external territories and New Zealand) (unless otherwise determined by Envestra and APA Group) will not be entitled to receive APA Group stapled securities under the Scheme. However:

- the APA Group securities which they would otherwise receive will be sold on market and they will receive the cash proceeds of sale (after payment of any applicable taxes and charges but free of brokerage) in Australian dollars;
- they can acquire APA Group securities through the ASX if they wish to retain an exposure to the combined entity; and
- shareholders representing a relatively small percentage of Envestra's issued shares are expected to be impacted by these provisions.

Unmarketable Parcel Securityholders

Under either consideration option, Envestra shareholders can elect to have the APA Group stapled securities to which they become entitled sold in the event that they receive 77 or less APA Group securities. If they elect for the securities to be sold, APA Group will arrange for those securities to be sold and remit the proceeds (after payment of any applicable taxes and charges but free of brokerage) to the shareholder. In this context, they can acquire APA Group securities through the ASX if they wish to retain an exposure to the combined entity.

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8.7 Shareholder Decision

Grant Samuel has been engaged to prepare an independent expert's report setting out whether in its opinion the Proposal is fair and reasonable and in the best interests of Envestra shareholders other than APA Group and to state reasons for that opinion. Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Scheme, the responsibility for which lies with the independent directors of Envestra.

In any event, the decision whether to vote for or against the Scheme is a matter for individual shareholders based on each shareholder's views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the Scheme, shareholders should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Envestra or APA Group. These are investment decisions upon which Grant Samuel does not offer an opinion and are independent of a decision on whether to vote for or against the Scheme. Shareholders should consult their own professional adviser in this regard.

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9 Qualifications, Declarations and Consents

9.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally) and provides marketing and distribution services to fund managers. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 500 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Caleena Stilwell BBus FCA F Fin and Stephen Wilson BCom MCom (Hons) CA(NZ) SF Fin. Each has a significant number of years of experience in relevant corporate advisory matters. Ross Grant BSc (Hons) MComm (Hons), Sophie Whitlam BCom BSc and Chapman Li BCom assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

9.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Scheme is fair and reasonable and in the best interests of shareholders other than APA Group. Grant Samuel expressly disclaims any liability to any Envestra shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading.

Grant Samuel has had no involvement in the preparation of the Scheme Booklet issued by Envestra and has not verified or approved any of the contents of the Scheme Booklet. Grant Samuel does not accept any responsibility for the contents of the Scheme Booklet (except for this report).

9.3 IBC Report

Following announcement of APA Group's revised proposal on 17 December 2013, the IBC engaged Grant Samuel to commence the preparation of an independent expert's report for the purposes of Section 411 of the Corporations Act.

While negotiating the terms of the Scheme with APA Group, the IBC determined that prior to entering a Scheme Implementation Agreement it wanted to receive an independent expert's report assessing the merits of APA Group's revised proposal. The report was to be:

- for the information of the IBC, although the directors were to form their own view of the proposal based on a range of external advice, due diligence and other information as appropriate;
- based on the information available at that time and it was recognised that this would not include:
  - a final executed Scheme Implementation Agreement; and
  - a final Scheme Booklet (including information on the financial impacts of the proposal on APA Group, an investigating accountant's report, taxation advice and Scheme of Arrangement);
- in the same form as the report that would be required under Section 411 of the Corporations Act and to utilise the same basis of assessment (i.e. whether or not the proposal is fair and reasonable and in the best interests of Envestra shareholders other than APA Group) subject to the information constraints; and
- released publicly but not sent directly to shareholders of Envestra.

Accordingly, the IBC requested that Grant Samuel prepare the IBC Report. The IBC Report was finalised on 3 March 2014 and released to the ASX on 4 March 2014.

In this process, the IBC recognised that a separate independent expert report incorporating additional information would ultimately need to be despatched to shareholders as part of the Scheme Booklet. Accordingly, the IBC requested that Grant Samuel prepare this report.

This report is essentially the same as the IBC Report. The primary differences are as follows:

- Sections 1, 2 and 9 of the report have been redrafted to reflect the change in the purpose of this report in comparison to the IBC Report and a summary letter has been prepared;
- announcements, market prices and changes in other data for Envestra, APA Group and listed peer group entities since 28 February 2014 have been reflected in this report;
- changes made to the Scheme Booklet since 21 February 2014 (the last draft made available to Grant Samuel prior to finalisation of the IBC Report) have been reflected in this report including the statement that the Envestra board expects annual net profit after tax to be sustained at $145-150 million through to June 2016; and
- Grant Samuel has increased the value of the consideration under the Scheme from $1.15-1.25 to $1.15-1.27 per Envestra share reflecting that the APA Group security price has traded at levels above $6.50 since 28 February 2014. This change did not result in any change in Grant Samuel's assessment of the fairness of the Scheme.

9.4 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Envestra or APA Group or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Scheme. Grant Samuel advises that:

- it prepared an independent expert's report dated 3 August 2012 for HDUF in relation to a takeover offer by Pipeline Partners Australia Pty Limited. HDUF was eventually taken over by APA Group; and
- it prepared the IBC Report for which it received a fixed fee of $475,000.

Grant Samuel had no part in the formulation of the Scheme. Its only role has been the preparation of this report and the IBC Report.

Grant Samuel will receive a fixed fee of $545,000 (inclusive of the $475,000 fee received for the preparation of the IBC Report) for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Scheme. Grant Samuel's out of pocket expenses in relation to the preparation of this report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

9.5 Declarations

Envestra has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Envestra has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by Envestra are limited to an amount equal to three times the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to Envestra and its advisers. Certain changes were

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made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

9.6 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Scheme Booklet to be sent to shareholders of Envestra. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

9.7 Other

The accompanying letter dated 7 April 2014 and the Appendices form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED
7 April 2014

Grant Samuel & Associates

Appendix 1

Envestra - Broker Consensus Forecasts

Envestra has not publicly released earnings forecasts for FY14 or beyond. However, on 12 December 2013 Envestra announced that it expects to record profit after tax for FY14 of around $145 million, reflecting lower than expected borrowing costs and higher than expected gas volumes to residential and commercial markets. Envestra has also announced an increase in the annual rate of dividends paid from 5.9 cents per share paid in FY13 to 6.4 cents per share declared in FY14. On 20 February 2014, Envestra increased its guidance for FY14 net profit after tax to between $145 million and $150 million.

In order to provide an indication of the expected future financial performance of Envestra, Grant Samuel has considered brokers' forecasts for Envestra. Set out below is a summary of forecasts prepared by brokers that follow Envestra in the Australian stockmarket:

Envestra – Broker Forecasts for the Year ending 30 June

Broker	Report Date	Revenue ($millions)			EBITDA[1] ($millions)			EBIT[2] ($millions)			NPAT[3] ($millions)			EPS[4] (cents)			DPS[5] (cents)		
		2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
1	4-Mar-14	543.0	562.3	578.3	393.1	410.1	419.4	328.5	340.8	345.3	142.4	149.8	148.1	7.9	8.3	8.2	6.4	6.7	7.1
2	20-Feb-14	556.2	585.6	609.9	404.0	419.0	444.0	342.4	354.5	379.0	147.6	146.9	161.9	8.2	8.2	9.0	6.4	7.5	8.7
3	4-Mar-14	557.3	575.3	610.1	409.0	421.0	448.0	348.9	356.0	382.9	148.3	149.6	157.9	8.3	8.3	8.8	6.4	7.3	8.4
4	20-Feb-14	550.1	567.1	587.9	401.0	414.1	425.9	338.6	347.1	354.8	148.0	149.1	151.5	8.2	8.3	8.4	6.4	6.6	7.0
5	20-Feb-14	560.6	580.4	606.5	397.7	410.9	430.2	335.1	343.7	359.4	149.4	148.2	149.3	8.3	8.2	8.3	6.4	6.6	6.8
6	20-Feb-14	555.6	575.8	596.6	403.8	417.4	433.2	341.0	350.0	362.0	147.8	145.8	147.2	8.2	8.1	8.2	6.4	6.7	7.4
7	4-Mar-14	545.0	570.0	609.0	398.0	416.0	446.0	335.0	350.0	377.0	146.0	152.0	169.0	8.1	8.5	9.4	6.4	6.5	6.7
8	20-Feb-14	547.0	563.0	588.0	399.0	409.0	430.0	338.0	345.0	363.0	149.0	152.0	162.0	8.2	8.2	8.6	6.4	6.9	7.2
9	20-Feb-14	545.5	563.7	584.7	398.6	411.2	434.1	336.5	346.3	365.5	147.2	151.4	159.6	8.2	8.4	8.9	6.4	6.6	6.8
10	20-Feb-14	551.6	563.9	582.7	400.6	409.2	425.5	337.9	341.9	353.4	148.6	145.7	144.7	8.3	8.1	8.1	6.4	6.5	6.6
	Minimum	*543.0*	*562.3*	*578.3*	*393.1*	*409.0*	*419.4*	*328.5*	*340.8*	*345.3*	*142.4*	*145.7*	*144.7*	*7.9*	*8.1*	*8.1*	*6.4*	*6.5*	*6.6*
	Maximum	*560.6*	*585.6*	*610.1*	*409.0*	*421.0*	*448.0*	*348.9*	*356.0*	*382.9*	*149.4*	*152.0*	*169.0*	*8.3*	*8.5*	*9.4*	*6.4*	*7.5*	*8.7*
	Median	***550.9***	***568.6***	***592.3***	***399.8***	***412.7***	***431.7***	***338.0***	***346.7***	***362.5***	***147.8***	***149.4***	***154.7***	***8.2***	***8.3***	***8.5***	***6.4***	***6.7***	***7.0***

Source: Brokers' reports, Grant Samuel analysis

When reviewing this data the following should be noted:

- as far as Grant Samuel is aware, Envestra is followed by 13 brokers of which ten are presented above. The remaining three brokers have not released research on Envestra since the interim FY14 results were reported on 20 February 2014;
- the forecasts presented above represent the latest available broker forecasts for Envestra and all were published after Envestra announced its results for the interim FY14 on 20 February 2014; and
- as far as is possible to identify from a review of the brokers' reports, Grant Samuel believes that the earnings forecasts do not incorporate any one-off adjustments or non-recurring items.

1 EBITDA is earnings before net interest, tax, depreciation and amortisation, other income and non-recurring items.
2 EBIT is earnings before net interest, tax and other income and non-recurring items.
3 NPAT is net profit after tax.
4 EPS = earnings per share.
5 DPS = dividends per share.

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Appendix 2

DCF Model Assumptions

1 General Assumptions

The following general assumptions have been made in the DCF Model:

- a discount rate of 6.5-7.0% is applied to nominal ungeared after tax cash flows;
- inflation of 2.5% per annum;
- a cost for carbon is included but is fully recovered in revenue;
- corporate tax rate of 30%;
- no significant changes in legislation or in the policies or procedures of regulatory bodies;
- no changes in working capital due to the long term, stable nature of the cash flows; and
- no acquisitions or divestitures occur.

2 Operational Assumptions

The key operational assumptions underlying Case A are set out below:

- for the current Access Arrangement periods, regulated revenue is determined by multiplying tariffs set by the AER and volumes forecast by Envestra;
- for subsequent determination periods:
  - regulated revenue has been modelled using the building block approach. That is, revenue is the sum of:
    - the rate of return multiplied by the starting period regulated asset base ("RAB") subject to annual inflation and straight line depreciation;
    - regulatory allowed operating expenditure; and
    - tax payable less an allowance for the implied value of imputation credits; and
  - the rate of return has been determined by reference to the AER guidelines released in December 2013. On this basis, it is assumed that for all of Envestra's regulated assets the rate of return is 7.58%[1] and gamma is 0.5 (which compares to the current South Australian/Queensland rate of return of 10.28% and gamma of 0.25 until 30 June 2016, the Victoria/Albury rate of return of 7.39% and gamma of 0.25 until 31 December 2017 and the Wagga Wagga rate of return of 9.72% and gamma of 0.65 until 30 June 2015);
- allowance is made for Envestra's history of performance relative to operating expenditure regulatory targets;
- RAB is calculated by taking start of regulatory period RAB, allowing for inflation, adding capital expenditure and subtracting straight line depreciation;
- an Efficiency Carryover Mechanism allowance is allowed for in the current and next access arrangement period;
- 2.5% per annum growth in non-regulated revenue;
- operating costs are estimated on a project by project basis, where individual major projects, cost initiatives and mains replacement impact on operating costs are separately identified in the short to medium term. In the long term, operating costs are assumed to increase by 2.5% per annum;
- capital expenditure has been forecast in the medium term on a project by project basis based on Envestra's 2013 Strategic Plan. In the longer term, capital expenditure is forecast based on

[1] Based on Envestra assumptions: risk free rate of 4.26%, market risk premium of 6.5%, equity beta of 0.7, gearing of 60% and debt risk premium of 2.5%.

connection costs (increasing by 2.5%) and connection numbers based on third party projections, observed market trends and management insights.

- specific assumptions on a region by region basis are as follows:

South Australia/Northern Territory

- the current Access Arrangement period ends on 30 June 2016;
- capital expenditure reflects the 2013 Strategic Plan with the major expenditure being the mains replacement program for the Adelaide network. An accelerated mains replacement program is underway to replace the remaining 12% of the network that utilises cast iron and unprotected steel mains and is scheduled to be completed by FY17; and
- terminal value based on perpetual growth rate of 2.5%.

Victoria

- the current Access Arrangement period ends on 31 December 2017;
- capital expenditure in the current Access Arrangement period (largest component of which is the mains replacement programme) has been delayed relative to the 2013 Strategic Plan as a consequence of the delay in the AER decision. The mains replacement program is to replace the remaining 4% of the network that utilises cast iron and unprotected steel mains and is scheduled to be completed by FY20; and
- terminal value based on perpetual growth rate of 3.0%.

Queensland

- the current Access Arrangement period ends on 30 June 2016;
- capital expenditure in the current Access Arrangement period (the largest component of which is the mains replacement programme for the Brisbane network) reflects the 2013 Strategic Plan. The mains replacement program is to replace the remaining 6% of the network that utilises cast iron and unprotected steel mains and is scheduled to be completed by FY18; and
- terminal value based on perpetual growth rate of 2.5%.

New South Wales

- the New South Wales region consists of two regulated networks, Wagga Wagga and Albury
- the current Access Arrangement period for Wagga Wagga ends on 30 June 2015;
- the current Access Arrangement period for Albury ends on 31 December 2017; and
- terminal value based on a perpetual growth rate of 2.5%.

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Appendix 3

Selection of Discount Rate

1 Overview

A discount rate in the range of 6.5-7.0% has been selected as appropriate to apply to the forecast nominal ungeared after tax cash flows of the business operations of Envestra Limited ("Envestra").

Selection of the appropriate discount rate to apply to the forecast cash flows of any business enterprise is fundamentally a matter of judgement. The valuation of an asset or business involves judgements about the discount rates that may be utilised by potential acquirers of that asset. There is a body of theory which can be used to support that judgement. However, a mechanistic application of formulae derived from that theory can obscure the reality that there is no "correct" discount rate. Despite the growing acceptance and application of various theoretical models, it is Grant Samuel's experience that many companies rely on less sophisticated approaches. Many businesses and investors use relatively arbitrary "hurdle rates" which do not vary significantly from investment to investment or change significantly over time despite interest rate movements. Valuation is an estimate of what real world buyers and sellers of assets would pay and must therefore reflect criteria that will be applied in practice even if they are not theoretically correct. Grant Samuel considers the rates adopted to be reasonable discount rates that acquirers would use irrespective of the outcome of any particular theoretical model.

The discount rate that Grant Samuel has adopted is reasonable relative to the rates derived from theoretical models. The discount rate represents an estimate of the weighted average cost of capital ("WACC") appropriate for these assets. Grant Samuel has calculated a WACC based on a weighted average of the cost of equity and the cost of debt. This is the relevant rate to apply to ungeared cash flows. There are three main elements to the determination of an appropriate WACC. These are:

- cost of equity;
- cost of debt; and
- debt/equity mix.

WACC is a commonly used basis but it should be recognised that it has shortcomings in that it:

- represents a simplification of what are usually much more complex financial structures; and
- assumes a constant degree of leverage which is seldom correct.

In selecting the discount rate range, we utilised the capital asset pricing model ("CAPM") as the starting point in our analysis to determine a cost of equity. However, it is easy to credit the output of models with a precision it does not warrant. The reality is that any cost of capital estimate or model output should be treated as a broad guide rather than an absolute truth. The cost of capital is fundamentally a matter of judgement, not merely a calculation. In this context, regard was also had to other methods such as the implied cost of equity based on the Gordon Growth Model (or perpetuity formula), market evidence that suggests that equity investors have substantially repriced risk since the global financial crisis and the fact that interest rates are at low levels by comparison with historical norms.

The CAPM is probably the most widely accepted and used methodology for determining the cost of equity capital. There are more sophisticated multivariate models which utilise additional risk factors but these models have not achieved any significant degree of usage or acceptance in practice. However, while the theory underlying the CAPM is rigorous the practical application is subject to shortcomings and limitations and the results of applying the CAPM model should only be regarded as providing a general guide. There is a tendency to regard the rates calculated using CAPM as inviolate. To do so is to misunderstand the limitations of the model. For example:

- the CAPM theory is based on expectations but uses historical data as a proxy. The future is not necessarily the same as the past;
- the measurement of historical data such as risk premia and beta factors is subject to very high levels of statistical error. Measurements vary widely depending on factors such as source, time period and sampling frequency;

- the measurement of beta is often based on comparisons with other companies. None of these companies is likely to be directly comparable to the entity for which the discount rate is being calculated and may operate in widely varying markets;
- parameters such as the debt/equity ratio and risk premium are based on subjective judgements; and
- there is not unanimous agreement as to how the model should adjust for factors such as taxation. The CAPM was developed in the context of a "classical" tax system. Australia's system of dividend imputation has a significant impact on the measurement of net returns to investors.

In this context, the Australian Energy Regulator ("AER") undertakes detailed analysis of rates of return based on WACC including analysis of the relevant variables. In December 2013, the AER released new rate of return guidelines setting out how it will determine the return that regulated energy infrastructure entities can earn on their investments. The new guidelines followed extensive consultation with market participants and enable greater flexibility in responding to changing market conditions and changes in financing practices in the industry. Grant Samuel has had regard to the AER's analysis and guidelines but in Grant Samuel's view it can give a misleading impression of the precision about what is, in reality, a relatively crude tool of unproven accuracy that gives, at best, a broad approximation of the cost of capital.

In addition, the market upheaval since 2007 has seen a repricing of risk by investors and global interest rates, including long term bond rates, are at very low levels by comparison with historical norms. The CAPM methodology does not readily allow for these types of events.

The cost of debt has been determined by reference to the pricing implied by the debt markets in Australia. The cost of debt represents an estimate of the expected future returns required by debt providers. In determining the appropriate cost of debt over this forecast period, regard was had to debt ratings of comparable companies.

Selection of an appropriate debt/equity mix is a matter of judgement. The debt/equity mix represents an appropriate level of gearing, stated in market value terms, for the business over the forecast period. The relevant proportions of debt and equity have been determined having regard to the financial gearing of the industry in general and comparable companies, and judgements as to the appropriate level of gearing considering the nature and quality of the cash flow stream.

The following sections set out the basis for Grant Samuel's determination of the discount rates for Envestra's business operations and the factors which limit the accuracy and reliability of the estimates.

2 Definition and Limitations of the CAPM and WACC

The CAPM provides a theoretical basis for determining a discount rate that reflects the returns required by diversified investors in equities. The rate of return required by equity investors represents the cost of equity of a company and is therefore the relevant measure for estimating a company's weighted average cost of capital. CAPM is based on the assumption that investors require a premium for investing in equities rather than in risk free investments (such as Australian government bonds). The premium is commonly known as the market risk premium and notionally represents the premium required to compensate for investment in the equity market in general.

The risks relating to a company or business may be divided into specific risks and systematic risks. Specific risks are risks that are specific to a particular company or business and are unrelated to movements in equity markets generally. While specific risks will result in actual returns varying from expected returns, it is assumed that diversified investors require no additional returns to compensate for specific risk, because the net effect of specific risks across a diversified portfolio will, on average, be zero. Portfolio investors can diversify away all specific risk.

However, investors cannot diversify away the systematic risk of a particular investment or business operation. Systematic risk is the risk that the return from an investment or business operation will vary with the market return in general. If the return on an investment was expected to be completely correlated with the return from the market in general, then the return required on the investment would be equal to the return required from the market in general (i.e. the risk free rate plus the market risk premium).

Systematic risk is affected by the following factors:

- financial leverage: additional debt will increase the impact of changes in returns on underlying assets and therefore increase systematic risk;
- cyclicality of revenue: projects and companies with cyclical revenues will generally be subject to greater systematic risk than those with non-cyclical revenues; and
- operating leverage: projects and companies with greater proportions of fixed costs in their cost structure will generally be subject to more systematic risk than those with lesser proportions of fixed costs.

CAPM postulates that the return required on an investment or asset can be estimated by applying to the market risk premium a measure of systematic risk described as the beta factor. The beta for an investment reflects the covariance of the return from that investment with the return from the market as a whole. Covariance is a measure of relative volatility and correlation. The beta of an investment represents its systematic risk only. It is not a measure of the total risk of a particular investment. An investment with a beta of more than one is riskier than the market and an investment with a beta of less than one is less risky. The discount rate appropriate for an investment which involves zero systematic risk would be equal to the risk free rate.

The formula for deriving the cost of equity using CAPM is as follows:

$$Re = Rf + Beta\ (Rm - Rf)$$

Where:

Re	=	the cost of equity capital;
Rf	=	the risk free rate;
Beta	=	the beta factor;
Rm	=	the expected market return; and
Rm - Rf	=	the market risk premium.

The beta for a company or business operation is normally estimated by observing the historical relationship between returns from the company or comparable companies and returns from the market in general. The market risk premium is estimated by reference to the actual long run premium earned on equity investments by comparison with the return on risk free investments.

The formula conventionally used to calculate a WACC under a classical tax system is as follows:

$$WACC = (Re \times E/V) + (Rd \times (1-t) \times D/V)$$

Where:

E/V	=	the proportion of equity to total value (where V = D + E);
D/V	=	the proportion of debt to total value;
Re	=	the cost of equity capital;
Rd	=	the cost of debt capital; and
t	=	the corporate tax rate

The models, while simple, are based on a sophisticated and rigorous theoretical analysis. Nevertheless, application of the theory is not straightforward and the discount rate calculated should be treated as no more than a general guide. The reliability of any estimate derived from the model is limited. Some of the issues are discussed below:

- **Risk Free Rate**

  Theoretically, the risk free rate used should be an estimate of the risk free rate in each future period (i.e. the one year spot rate in that year if annual cash flows are used). There is no official "risk free" rate but rates on government securities are typically used as an acceptable substitute. More importantly, forecast rates for each future period are not readily available. In practice, the long term Commonwealth Government Bond rate is used as a substitute in Australia and medium to long term Treasury Bond rates are used in the United States. It should be recognised that the yield to maturity of a long term bond is only an average rate and where the yield curve is strongly positive (i.e. longer

term rates are significantly above short term rates) the adoption of a single long term bond rate has the effect of reducing the net present value where the major positive cash flows are in the initial years. The long term bond rate is therefore only an approximation.

The ten year bond rate is a widely used and accepted benchmark for the risk free rate. Where the forecast period exceeds ten years, an issue arises as to the appropriate bond to use. While longer term bond rates are available, the ten year bond market is the deepest long term bond market in Australia and is a widely used and recognised benchmark. There is a very limited market for bonds of more than ten years. In the United States, there are deeper markets for longer term bonds. The 30 year bond rate is a widely used benchmark. However, long term rates accentuate the distortions of the yield curve on cash flows in early years. In any event, a single long term bond rate matching the term of the cash flows is no more theoretically correct than using a ten year rate. More importantly, the ten year rate is the standard benchmark used in practice.

- **Market Risk Premium**

  The market risk premium (*Rm - Rf*) represents the "extra" return that investors require to invest in equity securities as a whole over risk free investments. This is an "ex-ante" concept. It is the expected premium and as such it is not an observable phenomenon. There is no generally accepted approach to estimating a forward looking market risk premium and therefore the historical premium is used as the best available proxy measure. The premium earned historically by equity investments is usually calculated over a time period of many years, typically at least 30 years. This long time frame is used on the basis that short term numbers are highly volatile and that a long term average return would be a fair indication of what most investors would expect to earn in the future from an investment in equities with a 5-10 year time frame.

  In the United States it is generally believed that the premium is in the range of 5-6% but there are widely varying assessments (from 3% to 9%). Australian studies have been more limited and mainly derive from the Officer Study[1] which was based on data for the period 1883 to 1987 (prior to the introduction of dividend imputation) and indicated that the long run average premium was in the order of 8% using an arithmetic average but subject to significant statistical error[2]. More recently, the Officer Study has been updated to 2011[3] with the long term average declining to around 6%. However, due to concerns about the earlier market data, Officer now includes the average risk premium since 1958 which is estimated to be 5.9% ignoring the impact of imputation[4].

  In addition, the market risk premium is not constant and changes over time. At various stages of the market cycle investors perceive that equities are more risky than at other times and will increase or decrease their expected premium. Indeed, prior to 2008 there were arguments being put forward that the risk premium was lower than it had been historically while today there is evidence to indicate that current market risk premiums are above historical averages. However, there is no accepted approach to deal with changes in market risk premia for current conditions.

- **Beta Factor**

  The beta factor is a measure of the expected covariance (i.e. volatility and correlation of returns) between the return on an investment and the return from the market as a whole. The expected beta factor cannot be observed. The conventional practice is to calculate an historical beta from past share price data and use it as a proxy for the future but it must be recognised that the expected beta is not necessarily the same as the historical beta. A company's relative risk does change over time.

  The appropriate beta is the beta of the company being acquired rather than the beta of the acquirer (which may be in a different business with different risks). Betas for the particular subject company

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1 R.R. Officer in Ball, R., Brown, P., Finn, F. J. & Officer, R. R., "Share Market and Portfolio Theory: Readings and Australian Evidence" (second edition), University of Queensland Press, 1989 ("Officer Study").

2 The "true" figure lies within a range of approximately 2-10% at a 95% confidence level.

3 Dr. S. Bishop and Professor R.R. Officer, "Review of Debt Risk Premium and Market Risk Premium" (February 2013), prepared for Aurizon Holdings Limited.

4 Where the market return explicitly includes a component for imputation benefits of 1.0 the market risk premium over the same period is around 6.5%.

may be utilised. However, it is also appropriate (and may be necessary if the investment is not listed) to utilise betas for comparable companies and sector averages (particularly as those may be more reliable).

However, there are very significant measurement issues with betas which mean that only limited reliance can be placed on such statistics. There is no "correct" beta. For example:

- over the last three years Envestra's beta as measured by the Australian Graduate School of Management ("AGSM") has varied between 0.49 and 0.87 and, at June 2013 was measured at 0.49; and
- the standard error of the AGSM's estimate of the Envestra beta has generally been in the order of 0.2, meaning that for a beta of, say, 0.49 even at a 68% confidence level, the range is 0.29 to 0.69.

- **Debt/Equity Mix**

The tax deductibility of the cost of debt means that the higher the proportion of debt the lower the WACC, although this would be offset, at least in part, by an increase in the beta factor as leverage increases.

The debt/equity mix assumed in calculating the discount rate should be consistent with the level implicit in the measurement of the beta factor. Typically, the debt/equity mix changes over time and there is significant diversity in the levels of leverage across companies in a sector. There is a tendency to calculate leverage at a point in time whereas the leverage should represent the average over the period the beta was measured. This can be difficult to assess with a meaningful degree of accuracy.

The measured beta factors for listed companies are "equity" betas and reflect the financial leverage of the individual companies. It is possible to unleverage beta factors to derive asset betas and releverage betas to reflect a more appropriate or comparable financial structure. In Grant Samuel's view this technique is subject to considerable estimation error. Deleveraging and releveraging betas exacerbates the estimation errors in the original beta calculation and gives a misleading impression as to the precision of the methodology. Deleveraging and releveraging is also incorrectly calculated based on debt levels at a single point in time.

In addition, the actual debt and equity structures of most companies are typically relatively complex. It is necessary to simplify this for practical purposes in this kind of analysis.

Finally, it should be noted that, for this purpose, the relevant measure of the debt/equity mix is based on market values not book values.

- **Specific Risk**

The WACC is designed to be applied to "expected cash flows" which are effectively a weighted average of the likely scenarios. To the extent that a business is perceived as being particularly risky, this specific risk should be dealt with by adjusting the cash flow scenarios. This avoids the need to make arbitrary adjustments to the discount rate which can dramatically affect estimated values, particularly when the cash flows are of extended duration or much of the business value reflects future growth in cash flows. In addition, risk adjusting the cash flows requires a more disciplined analysis of the risks that the valuer is trying to reflect in the valuation.

However, it is also common in practice to allow for certain classes of specific risk (particularly sovereign and other country specific risks) in a different way by adjusting the discount rate applied to forecast cash flows.

3 Calculation of WACC for Envestra

3.1 Cost of Equity Capital

The cost of equity capital has been estimated by reference to the CAPM. Grant Samuel has adopted a cost of equity capital in the range 7.8-8.4%.

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- **Risk Free Rate**

  Grant Samuel has adopted a risk free rate of 4.2%. The risk free rate approximates the current yield to maturity on ten year Australian Government bonds.

- **Market Risk Premium**

  Grant Samuel has consistently adopted a market risk premium of 6% and believes that this continues to be a reasonable estimate. It:

  - is not statistically significantly different to the premium suggested by long term historical data;
  - is similar to that used by a wide variety of analysts and practitioners (typically in the range 5-7%); and
  - makes no explicit allowance for the impact of Australia's dividend imputation system.

- **Beta Factor**

  Grant Samuel has adopted a beta factor in the range 0.60-0.70 for the purposes of valuing Envestra's business operations.

  Grant Samuel has considered the beta factors for a range of Australian and New Zealand energy infrastructure entities in determining an appropriate beta for Envestra's business operations. The betas have been calculated on two bases relative to each entity's home exchange index and relative to the Morgan Stanley Capital International Developed World Index ("MSCI"), an international equities market index that is widely used as a proxy for the global stockmarket as a whole. A summary of betas for selected comparable listed entities is set out in the table below:

Equity Beta Factors for Selected Energy Infrastructure Entities

Entities	Market Capital-isation[5] (millions)	Monthly Observations over 4 years			Weekly Observations over 2 years	
		AGSM[6]	Bloomberg[7]		Bloomberg	
			Local Index	MSCI[8]	Local Index	MSCI
Envestra	**A$1,905**	**0.54**	**0.67**	**0.60**	**0.71**	**0.59**
Australia –Gas						
APA Group	A$5,391	0.54	0.73	0.63	0.53	0.47
DUET Group	A$2,741	0.41	0.64	0.48	0.49	0.46
Australia – Electricity						
SP AusNet	A$4,437	0.46	0.83	0.73	0.72	0.57
Spark	A$2,249	0.08	0.44	0.50	0.54	0.50
New Zealand						
Vector	NZ$2,460	na	0.41	0.34	0.50	0.29

Source: AGSM, Bloomberg

The evidence suggests that relatively low betas are appropriate for energy infrastructure entities. However, considerable caution is warranted in selecting a beta for Envestra:

5 Based on share prices as at 1 April 2014, except Envestra which is based on the share price as at 15 July 2013 (being the day prior to announcement of the APA Group's initial approach).

6 The Australian beta factors calculated by the Australian Graduate School of Management ("AGSM") as at December 2013, except for Envestra which is calculated up to June 2013. Beta factors are calculated over a period of 48 months using ordinary least squares regression or the Scholes-Williams technique where the stock is thinly traded.

7 Bloomberg betas have been calculated up to 1 April 2014, except for Envestra which is calculated up to 15 July 2013. Grant Samuel understands that betas estimated by Bloomberg are not calculated strictly in conformity with accepted theoretical approaches to the estimation of betas (i.e. they are based on regressing total returns rather than the excess return over the risk free rate). However, in Grant Samuel's view the Bloomberg beta estimates can still provide a useful insight into the systematic risks associated with companies and industries. The figures used are the Bloomberg "adjusted" betas.

8 MSCI is calculated using local currency so that there is no impact of currency changes in the performance of the index.

- individual company betas (for the same source/period) fall in a reasonably wide range. For example, Bloomberg Four Year Local Index betas range from 0.44 (for Spark) to 0.83 (for SP AusNet);
- all of the data is subject to significant statistical error. For example, Envestra's AGSM beta has a standard error of approximately 0.16 (i.e. even at a 68% confidence level it lies somewhere between 0.38 and 0.70) and APA Group's AGSM beta has a standard error of approximately 0.15; and
- the betas vary somewhat, depending on the measurement source (AGSM and Bloomberg), with the Bloomberg Four Year Local Index betas being higher than the AGSM betas for all the selected companies with the exception of Vector (which does not have an AGSM beta).

Having regard to the factors above, Grant Samuel has selected a beta factor in the range of 0.60-0.70 for Envestra.

A beta factor range of 0.60-0.70 is higher than the evidence in the above table would suggest, in particular for entities involved primarily in the gas sector (Envestra, APA Group, DUET Group). However, this range encompasses the new AER rate of return guidelines (December 2013) which indicate a range of betas from 0.4-0.7 but under which the AER proposes to adopt a beta of 0.7.

- **Calculation**

Using the estimates set out above, the cost of equity capital can be calculated as follows:

Low			**High**		
Re	=	*Rf + Beta (Rm-Rf)*	*Re*	=	*Rf + Beta (Rm-Rf)*
	=	*4.2% + (0.6 x 6.0%)*		=	*4.2% + (0.7 x 6.0%)*
	=	***7.8%***		=	***8.4%***

3.2 Cost of Debt

A cost of debt of 7.0% has been adopted based on a margin of 2.8% over the risk free rate. This figure represents the cost of borrowings with a ten year tenor.

3.3 Debt/Equity Mix

The selection of the appropriate debt/equity ratio involves perhaps the most subjectivity of discount rate selection analysis. In determining an appropriate debt/equity mix, regard was had to gearing levels of Envestra and the peer group entities used in the beta analysis.

Gearing levels for these entities for the past four years are set out below:

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Gearing Levels for Selected Listed Energy Infrastructure Entities							
Entity	Year End	Net Debt/(Net Debt + Market Capitalisation)					
		Financial Year Ended				Current[9]	*4 Year Average*
		Historical 4	Historical 3	Historical 2	Historical 1		
Envestra	**30 Jun**	**74.0%**	**65.8%**	**63.2%**	**53.1%**	**51.5%**	**64.0%**
Australia - Gas							
APA Group	30 Jun	59.9%	52.0%	44.5%	45.8%	45.6%	50.5%
DUET Group	30 Jun	75.8%	72.9%	68.6%	67.5%	65.9%	71.2%
Australia - Electricity							
SP AusNet	31 Mar	61.4%	63.7%	59.2%	54.1%	54.5%	59.6%
Spark	31 Dec	79.0%	71.0%	69.0%	65.6%	66.1%	71.2%
New Zealand							
Vector	30 Jun	52.9%	47.2%	46.8%	46.7%	49.4%	48.4%

Source: Company Reports, IRESS, Bloomberg, Grant Samuel analysis

The selection of gearing levels is highly judgemental. The table shows a range of gearing levels, but generally between 50-70%. The debt levels should actually be the weighted average measured over the same period as the beta factor rather than just at the current point in time. Moreover, these do not always bear any relationship to the betas of the individual companies. In some cases highly geared companies still have equity betas towards the lower end of the range (e.g. Spark).

Having regard to the above, the debt/equity mix has been estimated as 35-45% equity and 55-65% debt. This is regarded as being broadly consistent with a beta factor of 0.60-0.70.

3.4 WACC

On the basis of the parameters outlined and assuming a corporate tax rate of 30%, the nominal WACC is calculated to be in the range 5.9-6.5%.

Low

WACC = (Re x E/V) + (Rd x (1-t) x D/V)
= (7.8% x 35%) + (7.0% x 0.7 x 65%)
= 5.9%

High

WACC = (Re x E/V) + (Rd x (1-t) x D/V)
= (8.4% x 45%) + (7.0% x 0.7 x 55%)
= 6.5%

This is an after tax discount rate to be applied to nominal ungeared after tax cash flows. However, it must be recognised that this is a calculation based on statistics of limited reliability and involving a multitude of assumptions. In this regard, Grant Samuel's view is that the selected cost of capital should incorporate a margin over the calculated WACC range to reflect:

- alternative approaches for estimating the cost of equity such as the Gordon Growth Model[10] suggest higher rates than the 7.8-8.4% implied by the CAPM. Analysis of the entities most comparable to Envestra (i.e. DUET Group, SP AusNet, APA Group and Spark) using the Gordon Growth Model suggests costs of equity capital in the range 8.9-11.5% (yields mostly around 5.9-8.5% and dividend growth of 2.4-4.4% with medians of around 6.9% and 3.0% respectively). A cost of equity of 8.9-11.5% would imply a WACC of 6.3-7.9% if all other parameters above are held constant. The Gordon Growth Model is an alternative approach to estimating the cost of equity under which it is calculated as the current forecast yield plus the expected long term growth rate. This approach is particularly useful when valuing assets which generate long term stable growth cash flows such as energy infrastructure assets. However, caution is warranted in considering this analysis because of the difficulties of

[9] Current gearing levels are based on the most recent balance sheet information and on share market prices as at 1 April 2014, except Envestra which is based on share prices as at 15 July 2013 (day prior to the announcement of APA Group's initial approach).

[10] Under the Gordon Growth Model, the implied cost of equity is calculated as the current forecast yield plus the expected long term growth rate (i.e. *Re = (Dividends/Price) + g,* where Re is the cost of equity capital and g is the perpetual growth rate).

putting the yields of the energy infrastructure entities on a comparable basis because of differing tax treatments;

- anecdotal information suggests that equity investors have repriced risk since the global financial crisis and that acquirers are pricing offers on the basis of hurdle rates above those implied by theoretical models. However, this has yet to be translated into the measures of market risk premium (at least based on longer term historical data). In this regard, an increase in the market risk premium of 1% (i.e. from 6% to 7%) would increase the calculated WACC range to 6.1-6.8%;
- global interest rates, including long term bond rates, are at low levels by comparison with historical norms reflecting the very substantial amounts of liquidity being pumped into many advanced economies (particularly Western Europe and the United States) to stimulate economic activity. Effective real interest rates are now low. We do not believe this position is sustainable and, in our view, the risk is clearly towards a rise in bond yields. Conceptually, the interest rates used to calculate the discount rate should recognise this expectation (i.e. they should be forecast for each future period) but for practical ease market practice is that a single average rate based on the long term bond rate is generally adopted for valuation purposes. Some academics/valuation practitioners consider it to be inappropriate to add a "normal" market risk premium (e.g. 6%) to a temporarily depressed bond yield and therefore a "normalised" risk free rate should be used. On this basis, an increase in the risk free rate to (say) 5% would increase the calculated WACC range to 6.6-7.2%; and
- analysis of recent research reports on Australian entities involved in the energy infrastructure sector (i.e. APA Group, Envestra, DUET Group, Spark and SP AusNet) indicates that brokers are currently adopting costs of equity capital in the range 8.7-11.2%, with a median of 9.5% and WACC in the range 6.2-8.8%, with a median of 7.5%.

Having regard to these matters and the calculations set out above, Grant Samuel's judgement is reasonable discount rates to apply to discounted cash flow analysis for regulated energy assets in current market conditions would be anywhere in the range 6.5-8.0%. However, for the purposes of valuing Envestra's gas distribution networks, Grant Samuel has selected a discount rate range of 6.5-7.0% (i.e. towards the lower end of the range) in order to ensure that the fairness assessment for the Scheme is robust (i.e. higher NPVs are generated).

4 Dividend Imputation

The conventional WACC formula set out above was formulated under a "classical" tax system. The CAPM model is constructed to derive returns to investors after corporate taxes but before personal taxes. Under a classical tax system, interest expense is deductible to a company but dividends are not. Investors are also taxed on dividends received. Accordingly, there is a benefit to equity investors from increased gearing.

Under Australia's dividend imputation system, domestic equity investors now receive a taxation credit (franking credit) for any tax paid by a company. The franking credit attaches to any dividends paid out by a company and the franking credit offsets personal tax. To the extent the investor can utilise the franking credit to offset personal tax, then the corporate tax is not a real impost. It is best considered as a withholding tax for personal taxes. It can therefore be argued that the benefit of dividend imputation should be added into any analysis of value.

There is no generally accepted method of allowing for dividend imputation. In fact, there is considerable debate within the academic community as to the appropriate adjustment or even whether any adjustment is required at all. Some suggest that it is appropriate to discount pre tax cash flows, with an increase in the discount rate to "gross up" the market risk premium for the benefit of franking credits that are on average received by shareholders. On this basis, the discount rate might increase by approximately 2% but it would be applied to pre tax cash flows. However, not all of the necessary conditions for this approach exist in practice:

- not all shareholders can use franking credits. In particular, foreign investors gain no benefit from franking credits. If foreign investors are the marginal price setters in the Australian market there should be no adjustment for dividend imputation;

- not all franking credits are distributed to shareholders; and
- capital gains tax operates on a different basis to income tax. Investors with high marginal personal tax rates will prefer cash to be retained and returns to be generated by way of a capital gain.

Others have proposed a different approach involving an adjustment to the tax rate in the discount rate by a factor reflecting the effective use or value of franking credits. If the credits can be used, the tax rate is reduced towards zero. The proponents of this approach have in the past suggested a factor in the range 50-65% as representing the appropriate adjustment (gamma). Alternatively, the tax charge in the forecast cash flows can be decreased to incorporate the expected value of franking credits distributed.

There is undoubtedly merit in the proposition that dividend imputation affects value. Over time dividend imputation will become factored into the determination of discount rates by corporations and investors. In Grant Samuel's view, however, the evidence gathered to date as to the value the market attributes to franking credits is insufficient to rely on for valuation purposes. More importantly, Grant Samuel does not believe that such adjustments are widely used by acquirers of assets at present. While acquirers are undoubtedly attracted by franking credits there is no clear evidence that they will actually pay extra for them or build it into values based on long term cash flows. The studies that measure the value attributed to franking credits are based on the immediate value of franking credits distributed and do not address the risk and other issues associated with the ability to utilise them over the longer term. Accordingly, it is Grant Samuel's opinion, that it is not appropriate to make any adjustment.

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Appendix 4

Market Evidence

1 Valuation Evidence from Transactions

There have been a large number of transactions in the energy sector in Australia in the last decade. However, many involved entities holding a range of energy businesses and assets and therefore the multiples implied by these transactions are not meaningful in assessing valuation parameters appropriate for Envestra Limited ("Envestra"). The number of transactions primarily focused on gas transmission and distribution infrastructure is more limited but these transactions are useful in reviewing the valuation of Envestra. Set out below is a summary of transactions involving gas transmission and distribution businesses in Australia since 2003 for which there is sufficient information to calculate meaningful valuation parameters:

Recent Transaction Evidence – Gas Transmission and Distribution in Australia

Date	Target	Regulation[1]	Transaction	Consideration[2] (millions)	EBITDA Multiple[3] (times)		EBIT Multiple[4] (times)		Ungeared NTA Multiple[5] (times)	RAB Multiple[6] (times)
					Historical	Forecast	Historical	Forecast		
Gas Distribution										
Dec 11	Allgas Network	F	Acquisition by GDI (EII) Pty Limited	$540	15.0	14.4	na[7]	na	0.7	1.23
Jul 11	WA Gas Networks	F	Acquisition by ATCO Group	$312	12.5	10.3	18.9	na	1.7	1.20
Jun 11	Multinet Gas	F	Acquisition of 20.1% by DUET Group	$149	7.9	7.9	10.2	na	1.6	1.13
Oct 10	Country Energy Gas Networks	F	Acquisition by Envestra	$109	na	11.3	na	na	1.2	1.25
Apr 07	Envestra	F	Acquisition of 17.2% by APA Group	$990	12.7	13.1	16.7	16.7	1.9	1.50
Oct 06	Allgas Energy Pty Ltd	F	Acquisition by APA Group	$521	na	18.1	na	25.5	na	1.64
Gas Transmission										
Apr 13	Moomba Adelaide Pipeline	U	Acquisition by QIC Global Infrastructure	$401	10.8[8]	10.8	na	11.8	1.1	na
Aug 12	Hastings Diversified Utilities Fund	U	Acquisition by APA Group	$1,385	26.2[9]	17.7[9]	33.0[9]	22.6[9]	1.8	na
Jul 11	Tasmanian Gas Pipeline	U	Acquisition by Palisade Diversified Infrastructure Fund	$200	11.0	na	16.4	na	0.7	na
Jul 11	Dampier Bunbury Pipeline	F	Acquisition of 20% by DUET Group	$840	9.6	9.2	13.2	na	1.3	0.95
Jun 11	Amadeus Gas Pipeline	F	Acquisition by APA Group	$63	2.6	4.2	7.9	7.5	0.6	0.68
Nov 10	SEA Gas Pipeline	U	Acquisition of 16.7% by APA Group and 16.7% by REST	$278	na	10.9	na	na	na	na

1 F = full regulation; L = light regulation; U = unregulated
2 Implied equity value if 100% of the company or business had been acquired.
3 Represents gross consideration divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.
4 Represents gross consideration divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.
5 Represents gross consideration divided by ungeared net tangible assets (that is, net assets less intangibles plus borrowings (including derivatives) less cash as at latest balance date).
6 Represents gross consideration divided by RAB. RAB means regulated asset base and is the value of the fixed assets set by the regulator as the basis for determining tariffs.
7 na = not available
8 Performance from 9 October 2012 to 1 May 2013, annualised.
9 Calculated based on earnings for Epic Energy only.

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Recent Transaction Evidence – Gas Transmission and Distribution in Australia

Date	Target	Regul-ation[1]	Transaction	Consid-eration[2] (millions)	EBITDA Multiple[3] (times)		EBIT Multiple[4] (times)		Ungeared NTA Multiple[5] (times)	RAB Multiple[6] (times)
					Historical	Forecast	Historical	Forecast		
Mar 10	Berwyndale to Wallumbilla Pipeline	U	Acquisition by APA Group	$83	na	32.9	na	na	1.0	na
Aug 08	Central Ranges Pipeline	F	Acquisition by APA Group	$24	na	32.2	na	na	1.0	0.45
Jun 08	North Queensland Gas Pipeline	U	Acquisition by Victorian Funds Management Corporation	$202	na	na	8.0	na	1.3	na
Apr 07	SEA Gas Pipeline	U	Acquisition of 33.3% by APA Group	$400	na	14.5	na	na	na	na
Nov 06	Alinta Infrastructure Holdings	F/U	Acquisition by Alinta	$956	14.3	14.5	22.9	24.2	2.0	na[10]
Aug 06	GasNet Australia Group	F/U	Takeover by APA Group	$452	13.9	13.3	19.5	18.3	1.3	2.19[11]
Feb 05	Carpentaria Gas Pipeline	L	Acquisition of 30% by APA Group	$327	na	na	11.8	11.4	na	na[10]
Aug 04	Dampier to Bunbury Natural Gas Pipeline	F	Acquisition by DUET Group/Alinta/Alcoa Consortium	$1,860	na	11.1	na	na	na	1.20
Aug 04	45% of Southern Cross Pipelines and 100% of Parmelia Gas	F	Acquisition by APA Group	$206	8.3	na	na	na	na	1.47
Apr 04	Epic Energy	U	Acquisition by HDUF Epic Trust	$-[12]	8.2	8.8	10.8	na	1.0	na
Mar 04	Duke Energy Australian and New Zealand assets	F/U	Acquisition by Alinta	$1,690	17.0	15.5	na	na	na	na[10]
Energy Infrastructure										
May 13	SP AusNet	F	Acquisition of 19.9% by State Grid Corporation of China	$4,141	9.1	8.6	13.6	12.9	1.1	1.17
May 13	SPI (Australia) Assets Pty Ltd	F/U	Acquisition of 60% by State Grid Corporation of China	$8,714	12.2	na	17.7	na	1.4	na
Nov 12	ElectraNet	F	Acquisition of 41.1% by State Grid Corporation of China	$1,217	9.8	na	13.8	na	1.4	1.32
Dec 08	Various energy infrastructure assets of APA Group	F/U	Acquisition by Energy Infrastructure Investments Pty Limited	$165	na	10.6	na	na	1.0	na[10]
May 07	Alinta Limited	F/U	Acquisition by Babcock & Brown/Singapore Power Consortium	$8,041[13]	15.4[14]	14.5	20.8[14]	19.6	1.8	na[10]
Apr 06	AGL Infrastructure Assets	F/U	Acquisition by Alinta Limited	$6,500	13.0	12.6	18.4	18.1	7.3	1.41-1.52[15]

Source: Grant Samuel analysis[16]

10 Only a portion of assets are regulated and, therefore, RAB multiples are not meaningful.

11 RAB multiple is 1.64 times if adjusted for unregulated assets which are assumed to represent approximately 25% of enterprise value.

12 Equity consideration paid was nominal ($4) and $662 million of borrowings were assumed (i.e. gross consideration of $662 million).

13 The final terms of the transaction announced in May 2007 valued Alinta at approximately $8 billion ($16.06 per Alinta share). As a result of movements in the value of the scrip portions of the consideration, the value received by Alinta shareholders on completion of the transaction on 31 August 2007 had declined to $7.6 billion.

14 Multiples shown as historical are for the year ending 31 December 2007 (i.e. current year) as no historical earnings were available.

15 Based on the valuation attributed to gas and electricity networks by independent expert in its report dated 28 August 2006.

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A brief summary of each transaction is set out below.

Gas - Distribution

Allgas Distribution Network / GDI (EII) Pty Limited

In December 2011, APA Group announced the sale of its Queensland Gas Network business ("Allgas") into a newly established joint venture, GDI (EII) Pty Limited ("GDI"). APA Group retained a 20% equity interest in GDI with Marubeni Corporation and RREEF Infrastructure each holding a 40% interest. APA Group remained as asset manager and operator of the network under a 10 year agreement, with two five year extension options. The net proceeds of the transaction totalled $478 million (enterprise value of $526 million after transaction costs of $22.5 million). Allgas was one of two gas distribution businesses in South East Queensland and had 2,942 kilometres of regulated gas network spanning Brisbane, the Gold Coast, Northern New South Wales, Toowoomba and Oakey. The network delivered 10.5PJ of gas annually to around 82,000 customers and had a regulated asset base at 30 June 2011 of $440 million.

WA Gas Networks / ATCO Group

In July 2011, ATCO Group ("ATCO") announced that it has signed a conditional agreement to acquire a 74.1% interest in WA Gas Networks ("WAGN") from WestNet Infrastructure Group. ATCO also acquired the remaining 25.9% interest in WAGN from DUET Group, giving it 100% ownership of WAGN for total consideration of approximately $1.0 billion. WAGN is a natural gas distribution network utility that connects more than 620,000 customers through 12,800 kilometres of natural gas pipelines and associated infrastructure. It provides service throughout the Perth metropolitan area including Mandurah, as well as the surrounding regions of Geraldton, Bunbury, Busselton, Kalgoorlie, Albany, Harvey, Pinjarra, Brunswick Junction and Capel. At 30 June 2011, WAGN had $848 million of regulated assets.

Multinet Gas (20.1%) / DUET Group

In July 2011, DUET Group announced that it had acquired a further 20.1% interest in Multinet Gas for $30 million, bringing its total interest to 100%. Multinet Gas was Victoria's largest gas distribution network (by number of customers) with 670,573 connections. It carried 60.6PJ of gas annually through 1,940 square kilometres of gas pipelines and had a regulated asset base of $978 million at 30 June 2011.

Country Energy Gas Networks / Envestra Limited

In October 2010, Envestra announced that it had entered into an agreement with Country Energy to acquire its gas networks business, Country Energy Gas Networks Pty Ltd, for $107 million, split 70/30% between regulated and unregulated assets. The networks comprised 1,160 kilometres of gas distribution pipelines and 65 kilometres of transmission pipelines in the Wagga Wagga and surrounding southern New South Wales region. The networks deliver 3PJ annually to 26,000 consumers. The majority of the operations were in Wagga Wagga and were regulated. The gas networks in the remaining towns were unregulated. The regulated business contributed $10 million of revenue, delivered 1.6PJ of gas to 19,500 users and had a regulated asset base of $60 million in July 2010. The unregulated network generated $4 million revenue per annum, delivered 1.4PJ of gas to around 6,600 users.

Envestra Limited (17.2%) / APA Group

In April 2007, APA Group announced it had entered into a conditional agreement with Origin Energy to acquire its 17.2% stake in Envestra for $170.4 million. This represented a 4.4% discount to the closing price at 3 April 2007. At the time of the acquisition, Envestra was Australia's largest natural gas distributor with 19,100 kilometres of natural gas distribution networks and 1,029 kilometres of natural gas transmission pipelines. Over 95% of Envestra's revenue was regulated. APA Group became Envestra's largest shareholder on completion of the acquisition. As the transaction involved a minority interest the implied multiples do not include a premium for control. However, the interest acquired was strategic.

[16] Grant Samuel analysis based on data obtained from IRESS, Capital IQ, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.

Allgas Energy Pty Ltd / APA Group

In October 2006, APA Group announced it would acquire Allgas Energy Pty Ltd ("Allgas Energy") from ENERGEX Limited for $521 million. Allgas Energy was one of two gas distribution businesses in South East Queensland and had a 2,300 kilometre regulated gas network spanning Brisbane, the Gold Coast, Northern New South Wales, Toowoomba and Oakey that supplied approximately 65,000 customers. The Allgas Energy network was supplied by APA Group's Roma to Brisbane Pipeline and was a complementary infrastructure to APA Group's gas transmission businesses. APA Group planned to expand the Allgas Energy distribution network and increase network utilisation.

Gas - Transmission

Moomba to Adelaide Pipeline System / QIC Global Infrastructure

In April 2013, APA Group announced the sale of the Moomba Adelaide Pipeline System ("MAPS") to QIC Global Infrastructure ("QIC") for $400.6 million. MAPS was acquired by APA Group as part of its takeover of Hastings Diversified Utility Fund ("HDUF") in October 2012. As part of the acquisition, APA Group made an undertaking to the Australian Competition & Consumer ("ACCC") to divest MAPS. After taking into account stamp duty payable by the buyer, the transaction represents an enterprise value of $423 million for MAPS. MAPS is an unregulated 1,184 kilometre pipeline system with capacity of 253TJ per day. It services the South Australian market, with the main line from Moomba to Adelaide and two major laterals to the regional centres of Port Pirie/Whyalla and Angaston. The historical EBITDA multiple is calculated based on earnings from October 2012 to 1 May 2013, annualised. As these earnings exclude the winter period, the historical EBITDA may be understated (i.e. the historical EBITDA multiple may be overstated).

Hastings Diversified Utilities Fund / APA Group

On 14 December 2011, APA Group announced an off market takeover offer for all of the HDUF securities that it did not already own. A competitive bidding process with Pipeline Partners Australia Pty Limited ("Pipeline Partners")[17] followed. On 17 August 2012 APA Group increased its takeover offer for HDUF to $0.72 cash and 0.390 APA Group securities for each HDUF security ($0.80 cash and 0.390 APA Group security if compulsory acquisition was reached). APA Group proceeded to compulsory acquisition in November 2012. The terms of the transaction (under compulsory acquisition) valued HDUF at $1,385 million ($2.61 per HDUF security). As a result of movements in the value of the scrip portions of the consideration, the value received by HDUF shareholders on completion of the transaction on 13 December 2012 had increased to $1,615 million ($3.05 per HDUF security). HDUF's sole asset was 100% of Epic Energy which owned and operated three major unregulated gas transmission pipeline systems in Australia: MAPS, the South West Queensland Pipeline (including the QSN Link) and the Pilbara Pipeline System. In addition, it owned and operated a 70 kilometre pipeline in South Australia, the South East Pipeline. Excluding HDUF's other assets (net) of $299.4 million and adding back corporate expenses of $55 million[18], the transaction implied a value of 100% of the equity of Epic Energy of $1,141 million (or an enterprise value of $2,763 million, including Epic Energy's borrowings of $1,591 million and other liabilities (net) of $30.5 million). The multiples implied by the transaction are high as there were substantial uplift in earnings to emerge in the period to 2015 (capital expenditure for which had already been incurred) and the strategic location and growth optionality of each of Epic Energy's pipelines.

Tasmanian Gas Pipeline / Palisade Diversified Infrastructure Fund

In August 2011 Palisade Diversified Infrastructure Fund acquired the Tasmanian Gas Pipeline from WestNet Infrastructure Group for $200 million. The Tasmanian Gas Pipeline transports gas from the Gippsland Basin in Victoria across Bass Strait to Tasmania. The pipeline is a 734 kilometre, unregulated subsea and onshore gas pipeline system which was commissioned in 2002. Construction of the pipeline was underpinned by long term take or pay contracts (out to 2016-2018) to major users in Tasmania and it is understood to have spare capacity.

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17 A consortium of Australian and Canadian infrastructure investors. The major investors in Pipeline Partners are Caisse de dépôt et placement du Québec and the Hastings managed unlisted Utilities Trust of Australia.

18 Based on midpoint of value range from the independent expert's report for HDUF securityholders.

Dampier Bunbury Pipeline / DUET Group

In July 2011, DUET Group acquired a 20% interest in Dampier Bunbury Pipeline ("DBP") from AET&D Holdings No. 2 Pty Ltd for $168 million, taking its interest from 60.0% to 80.0%. DBP is the owner/operator of Western Australia's principal gas transmission pipeline, the Dampier to Bunbury Natural Gas Pipeline ("DBNGP"). DBNGP is the only pipeline connecting the natural gas reserves of the Carnarvon and Browse basins with industrial, commercial and residential customers in Perth and surrounding regions and is regulated by the Economic Regulatory Authority of Western Australia ("ERA"). DBP completed the last stage of a $1.8 billion three stage expansion of the DBNGP in April 2010. The purchase price implies a RAB multiple of 0.95 times based on DBP management calculations as at the time of the transaction ERA was reviewing RAB as part of the 2010-2015 Access Arrangement.

Amadeus Gas Pipeline / APA Group

In June 2011, APA Group announced that it had acquired the 1,630 kilometre Amadeus Gas Pipeline in the Northern Territory for $63 million. Since the Amadeus Gas Pipeline was commissioned in 1986 it has been leased by Amadeus Gas Trust from a consortium of financial institutions and NT Gas as trustee for the Amadeus Trust has managed and operated the pipeline. APA Group held a 96% interest in NT Gas and the Amadeus Gas Trust. APA Group acquired the pipeline and associated assets (represented by the residual balance of the lease) from the consortium at the end of the lease. APA Group has entered into a long term gas transportation agreement with Power and Water Corporation, the Northern Territory's government owned electricity provider. The Amadeus Gas Pipeline is regulated by the Australian Energy Regulator ("AER") which issued the 2011-2016 Access Arrangement in July 2011. Earnings multiples have been calculated by reference to earnings set out in the AER's regulatory decision (i.e. historical earnings are the estimate for the year ended 30 June 2011 and the forecast earnings are the average over the five year regulatory period). The purchase price implies a RAB multiple of 0.68 times based on RAB at 30 June 2011. The multiples implied by the transaction are low even allowing that the pipeline is regulated and has a limited growth outlook. It is uncertain if the purchase price reflects the price that a third party acquirer may pay for the Amadeus Gas Pipeline.

SEA Gas Pipeline / APA Group (16.7%) and Retail Employees Superannuation Trust (16.7%)

On 11 November 2010 International Power plc announced that it had sold its 33.3% equity interest in SEA Gas Pipeline for $92.5 million plus a working capital adjustment. The SEA Gas Pipeline is a 114PJ per annum capacity, 680 kilometres unregulated pipeline linking the Victorian gas fields to South Australian markets. The interest was sold in two tranches, 16.7% to APA Group (which exercised its pre-emptive right over International Power's interest to increase its interest to 50%) and 16.7% to Retail Employees Superannuation Trust (which increased its interest to 50%). APA Group operates the SEA Gas Pipeline.

Berwyndale to Wallumbilla Pipeline / APA Group

In March 2010, APA Group announced the acquisition of the Berwyndale to Wallumbilla Pipeline in Queensland for $82.6 million. The Berwyndale to Wallumbilla Pipeline was commissioned in 2009 and is a 112 kilometre pipeline extending from the Berwyndale coal seam gas fields in the Surat Basin to the Wallumbilla hub in Central Queensland. The acquisition was underpinned by a long term gas transportation agreement with AGL Energy which retains an option for increased capacity and an option to extend its term.

Central Ranges Pipeline / APA Group

On 11 August 2008 APA Group announced the acquisition of Country Pipelines Pty Limited, the owner of the Central Ranges Pipeline and associated distribution network, for $23.5 million. The Central Ranges Pipeline runs from Dubbo (where it connects to APA Group's Central West Pipeline) to Tamworth in the Central Ranges region in New South Wales. The pipeline was commissioned in August 2006 at a total cost of $66 million and consists of 294 kilometres of transmission pipeline and approximately 180 kilometres of distribution network in Tamworth.

North Queensland Gas Pipeline / Victorian Funds Management Corporation

On 30 June 2008 Victorian Fund Management Corporation entered into an agreement with the 50/50 joint venture between AGL Energy Limited ("AGL Energy") and Arrow Energy Limited to acquire the North

Queensland Gas Pipeline for $201.8 million. The North Queensland Gas Pipeline was commissioned in 2004 and comprises a 370 kilometre pipeline from the Moranbah Gas Processing Facility to Yabulu Power Station in Townsville and the Queensland Nickel Industries refinery plus a 22 kilometre lateral to the Stuart industrial precinct. The Joint Venture had acquired the pipeline as part of their acquisition of the Enertrade merchant gas and pipeline businesses from the Queensland Government on 1 August 2007. The sale of the pipeline is consistent with the intentions of the Joint Venture at the time of that acquisition. The historical EBIT multiple has been calculated by grossing up AGL Energy's disclosed share of earnings for 30 June 2008 on an annualised basis and the ungeared NTA multiple is calculated by reference to AGL Energy's disclosure of net assets disposed.

SEA Gas Pipeline / APA Group

In April 2007, APA Group announced it had entered into a conditional agreement to acquire Origin Energy 33.3% interest in SEA Gas Pipeline for $133.2 million. The SEA Gas Pipeline is a 114PJ per annum capacity, 680 kilometres pipeline linking the Victorian gas fields to South Australian markets. APA Group operates the pipeline.

Alinta Infrastructure Holdings / Alinta Limited

On 15 November 2006, Alinta Limited ("Alinta") announced an unconditional cash takeover offer for the 80% of securities in Alinta Infrastructure Holdings ("AIH") that it did not already own. Alinta formed AIH in August 2005 from a portfolio of nine gas transmission infrastructure and power generation assets that had been acquired from Duke Energy in March 2004 (see below). The initial public offering of AIH in October 2005 took the form of a partly paid issue, with $2.00 per stapled security payable on application and $1.20 per stapled security payable on 29 December 2006 ("the second instalment"). Alinta retained a 20% interest in AIH at listing, with an agreement to maintain an interest of at least 15%. Alinta's offer was $2.06 cash per partly paid security (pre second instalment) or $3.26 post the second instalment.

GasNet Australia Group / APA Group

In June 2006, Babcock & Brown Infrastructure ("BBI") announced, in association with APA Group, it would make a scrip takeover offer for GasNet Australia Group ("GasNet"). The consideration offered was 1.545 BBI stapled securities for each GasNet stapled security not already owned by BBI and APA Group (together 14.2%). The offer represented $2.45 per GasNet stapled security, excluding the estimated 6.75 cents final distribution announced by BBI ($2.55 cum dividend). GasNet directors rejected the offer on the basis that it materially undervalued the company and was highly conditional. On 15 August 2006, Colonial First State Global Asset Management announced a recommended counter offer of $2.88 cash per stapled security ($2.77 after adjusting for the proposed 11 cent distribution for the six months to 30 June 2006). On 22 August 2006, BBI and APA Group announced the termination of their joint bidding agreement and their bid lapsed. In addition, APA Group announced an offer of $3.10 cash per stapled security valuing GasNet at $452 million. GasNet owned and operated 1,930 kilometres of gas transmission pipelines and a LNG storage facility in Victoria as well as a 450 kilometre pipeline in Western Australia.

Carpentaria Gas Pipeline / APA Group

In February 2005, APA Group purchased the remaining 30% of Carpentaria Gas Pipeline that it did not already own from Santos Limited, Origin Energy and Delhi Petroleum for $98 million cash. Carpentaria Gas Pipeline was an 840 kilometres gas pipeline which connected the Ballera gas fields in south west Queensland to Mt Isa in north west Queensland.

Dampier to Bunbury Natural Gas Pipeline / DUET Group / Alinta / Alcoa Consortium

In August 2004, the receivers and managers of the DBNGP announced that a consortium comprising DUET Group (60%), Alinta (20%) and Alcoa of Australia Limited (20%) had been named as the preferred bidder for the purchase of 100% of DBNGP and its associated assets. The consortium's bidding price was approximately $1.86 billion (excluding transaction costs and proposed capital expenditure). The acquisition further diversified DUET Group's portfolio of regulated energy utility businesses by adding a strategic gas transmission asset.

Southern Cross Pipelines and Parmelia Gas Business / APA Group

In August 2004, APA Group purchased the remaining 45% of Southern Cross Pipelines ("SCP") that it did not already own and 100% of the Parmelia Gas business ("Parmelia") from CMS Energy for $206 million. SCP was the 88.2% owner of the 1,380 kilometre Goldfield Gas Transmission Pipeline in Western Australia. Parmelia owned and operated a transmission pipeline, a gas processing facility and storage facilities in Western Australia.

Epic Energy Pty Limited and Epic Energy (Pilbara Pipeline) Pty Ltd / HDUF Epic Trust

In April 2004, Hastings Funds Management Limited, as responsible entity of the HDUF Epic Trust, agreed to acquire the entities that owned four unregulated natural gas pipelines and the associated services company for an enterprise value of $662 million (representing $4 equity consideration plus $662 million of assumed borrowings, excluding transaction costs). The pipelines were Moomba to Adelaide Pipeline System, South West Queensland Pipeline, Pilbara Pipeline System and South East Pipeline. These assets formed the seed assets for HDUF's initial public offering in December 2004.

Duke Energy's Australian and New Zealand Assets / Alinta Limited

In March 2004, Alinta announced that it had reached an agreement to purchase the Australian and New Zealand gas assets of Duke Energy, following Duke Energy's decision to exit the Asia-Pacific region. The assets acquired were three gas transmission pipelines and three gas-fired power stations in Australia and one gas-fired power station in New Zealand. The pipelines had a combined length of 2,156 kilometres and the power plants had a combined capacity of 686MW. The acquisition provided Alinta with a stable and secure income stream and strong potential for volume growth, particularly from the pipeline assets on Australia's east coast.

Energy Infrastructure

SP AusNet (19.9%) / State Grid Corporation of China

In May 2013, Singapore Power Limited ("Singapore Power") announced that its wholly owned subsidiary, Singapore Power International ("SPI"), had entered into an agreement to sell a 19.9% interest in SP AusNet to State Grid Corporation of China ("State Grid") for $824 million. SPI would retain a 31.1% interest in SP AusNet. Concurrently, Singapore Power sold a 60% interest in SPI (Australia) Assets Pty Limited (the owner of Jemena Group and Zinfra Group) to State Grid. SP AusNet owns three Victorian regulated energy networks: electricity transmission, electricity and gas distribution and non-regulated Select Solutions which provides a range of energy, water and environmental services to the utilities industry. It had regulated and contracted assets of $7.6 billion at 31 March 2013. Although the transaction was for a 19.9% interest in SP AusNet, the sale of this interest reduced Singapore Power's interest from 51% to 31.1% and the concurrent sale of a majority interest in Jemena means that Singapore Power was giving up unfettered control of SP AusNet and therefore the multiples implied by the transaction reflect at least strategic value (if not control value).

SPI (Australia) Assets Pty Ltd / State Grid Corporation of China

In May 2013, Singapore Power announced the sale of a 60% interest in SPI (Australia) Assets Pty Limited ("SPIAA") to State Grid for an undisclosed price. SPIAA owns the Alinta Assets (see below) acquired by Singapore Power in 2007. At the time of announcement SPIAA's operations included:

- Jemena Group, the owner and manager of a portfolio of energy infrastructure assets including regulated gas and electricity distribution networks and gas transmission and storage assets; and
- Zinfra Group, a provider of engineering, design, construction, operational and maintenance services to owners of electricity, gas and water infrastructure assets.

As a consequence of the transaction, SPIAA recognised an impairment to the carrying value of its assets of $407 million. The multiples have been calculated assuming the consideration paid by State Grid reflects a 60% interest in SPIAA's assets at 31 March 2013 (i.e. SPIAA's represent the value of the business). Although a relatively crude approach, the resulting multiples appear realistic given the nature of SPIAA's business.

ElectraNet Pty Ltd (41.1%) / State Grid Corporation of China

In November 2012, State Grid acquired a 41.1% interest in ElectraNet Pty Ltd ("ElectraNet") from the Queensland Government for $500 million. ElectraNet owned and operated a regulated electricity transmission network in South Australia. It had 5,591 kilometres of line length and a regulated asset base of $1,869 million at 1 July 2012. It was due for regulatory reset on 1 July 2013. All shareholder loans have been treated as equity.

Various Energy Infrastructure Assets of APA Group / Energy Infrastructure Investments Pty Limited

In May 2008 APA Group announced its intention to establish an unlisted investment vehicle for annuity style assets within its existing asset portfolio in order to reduce gearing. On 15 December 2008 APA Group announced the establishment of Energy Infrastructure Investments Pty Limited ("EII") in conjunction with Marubeni Corporation (49.9%) and Osaka Gas (30.2%). APA Group is to hold a 19.9% interest in EII and to continue to manage and operate the assets under a long term agreement with a market based fee structure. The assets transferred to EII at the equivalent of $696 million for 100% were electricity interconnectors (Murraylink and Directlink), gas fired power stations (Daandine and X41), coal seam gas processing plants (Tipton West and Kogan North), Telfer/Nifty Pipeline and pipelines under construction and due to be commissioned in 2009 (Bonaparte Pipeline and Wickham Point Pipeline). This transaction implies a pro forma forecast EBITDA multiple of 10.6 times. This multiple represents a blend of the businesses acquired.

Alinta Limited / Babcock & Brown/SPI Consortium

On 11 May 2007 Alinta announced that it had signed a scheme implementation agreement with a consortium comprising Babcock & Brown Limited ("Babcock & Brown") and Singapore Power International Pte Limited ("SPI") (a wholly owned subsidiary of Singapore Power) ("the Consortium"). Under the scheme proposal the Consortium would acquire 100% of the issued capital of Alinta for cash and scrip in three ASX listed energy infrastructure entities managed by Babcock & Brown plus the APA Group stapled securities owned by Alinta would be distributed directly to Alinta shareholders. Alinta owned 29 energy businesses and assets including gas transmission and distribution assets, electricity distribution assets, power generation assets, energy retail assets and asset management businesses. Under the proposal the assets and liabilities of Alinta were to be distributed between SPI, the listed Babcock & Brown entities and Alinta shareholders.

The terms of the transaction valued Alinta at approximately $8 billion ($16.06 per Alinta share) and implied a current year multiple of 15.4 times EBITDA. As a result of movements in the value of the scrip portions of the consideration, the value received by Alinta shareholders on completion of the transaction on 31 August 2007 had declined to $7.6 billion (a current year multiple of EBITDA of 14.8 times). The transaction was the result of a competitive bidding process and the multiples reflect the blend of Alinta's various businesses.

SPI owned a 51% interest in ASX listed energy and utility investment SP AusNet which is managed by Singapore Power. SP AusNet has a first chance to consider any electricity and gas transmission and distribution investment opportunity in Australia and New Zealand identified by Singapore Power. On 20 September 2007, SP AusNet announced that it had agreed to acquire the Alinta Assets acquired by SPI for $7.2 billion (being $8.142 billion less $975 million of existing debt). The Alinta Assets included the New South Wales Gas Distribution Network, the Alinta Victorian Electricity Network, a 50% interest in ActewAGL Distribution Partnership, a 34.1% interest in United Energy Electricity Distribution Network, the Queensland Gas Pipeline, the Eastern Gas Pipeline, the VicHub Interconnect Facility and the Eastern States Asset Management business. The proposed acquisition implied a multiple for the Alinta Assets for the year ending 31 March 2008 (forecast) of around 13.4 times EBITDA (on a see through basis). In December 2007 this transaction was cancelled and did not proceed due to the impact on capital markets of the commencement of the global financial crisis. Nevertheless, it is indicative of valuation metrics for transmission and distribution assets at the time.

AGL Infrastructure Assets/Alinta Limited

On 26 April 2006, The Australian Gas Light Company ("AGL") and Alinta announced an agreement to merge and restructure their respective businesses to create two separated listed companies, Alinta Limited ("New Alinta") (focused on the ownership and management of energy infrastructure assets) and AGL

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Energy Limited (focused on energy retailing, trading and generation). One component of the transaction involved the acquisition of AGL's infrastructure and asset management businesses for $6.5 billion. The businesses acquired included a gas network in New South Wales, an electricity network in Victoria and 50% of the ActewAGL Distribution Partnership, the Agility infrastructure management and services business, Wattle Point Wind Farm in South Australia, the Cawse Cogeneration facility in Western Australia, Gas Valpo (a regional gas distribution and retailing business in Chile) and a 30% interest in APA Group. The gas and electricity networks (including ActewAGL) represented 65-70% of the value attributed to the AGL Infrastructure Assets and the New South Wales gas network was the major component of those assets.

The multiples calculated for the transaction reflect the blend of businesses (including a substantial asset management business), that the network assets were substantial, high quality assets and that the AGL Infrastructure business on a standalone basis had a lower relative tax cost base than its peers.

2 Valuation Evidence from Sharemarket Prices

The valuation of Envestra has been considered in the context of the sharemarket ratings of listed Australian and New Zealand energy infrastructure entities. Whilst none of these companies is precisely comparable to Envestra, the sharemarket data provides some framework to assess valuation parameters for Envestra. The Australian entities have been categorised based on whether they are primarily involved in gas or electricity infrastructure.

Sharemarket Ratings of Selected Listed Entities – Energy Transmission and Distribution

Company	Year End	Market Capitalisation[19] (millions)	EBITDA Multiple[20] (times)				EBIT Multiple[21] (times)				Ungeared NTA[22] Multiple (times)	RAB Multiple[23] (times)
			Historical	Forecast Year 1	Forecast Year 2	Forecast Year 3	Historical	Forecast Year 1	Forecast Year 2	Forecast Year 3		
Envestra	**30 Jun**	**A$1,905**	**10.9**	**10.0**	**9.6**	**9.2**	**13.1**	**12.0**	**11.4**	**11.0**	**1.74**	**1.42**
Australia - Gas												
APA Group (standalone)	30 Jun	A$5,391	14.2	12.8	11.6	10.7	18.0	16.3	14.6	13.4	1.80[24]	nmf[25]
APA Group (combined entity)	30 Jun	A$6,625	13.3	na	na	na	16.7	na	na	na	1.63	nmf
DUET Group	30 Jun	A$2,741	10.7	10.7	10.0	9.7	15.7	16.0	14.6	14.0	1.57	1.30
Australia - Electricity												
SP AusNet	31 Mar	A$4,437	9.7	9.7	9.4	na	14.8	15.1	14.7	na	1.15	1.30
Spark	31 Dec	A$2,249	8.1	8.0	8.6	na	11.7	11.8	14.2	na	1.11	1.42
New Zealand												
Vector	30 Jun	NZ$2,460	8.0	8.7	8.6	8.4	11.0	12.7	12.6	12.3	1.54	1.48

Source: Grant Samuel analysis[26]

Note: No forecasts for the combined entity have been issued by APA Group and only one broker has published forecasts assuming the acquisition of Envestra is completed. Therefore, no forecast multiples are presented for the combined entity.

The multiples shown above are based on sharemarket prices as at 1 April 2014 (except Envestra which is shown as at 15 July 2013, the day prior to the announcement of APA Group's initial proposal) and do not

19 Market capitalisation based on sharemarket prices as at 1 April 2014 except Envestra which is shown as at 15 July 2013 (the day prior to the announcement of APA Group's initial proposal). The closing price for Envestra on the day prior to the announcement of the Scheme were not materially different to these prices ($1.06 vs $1.07).

20 Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income profit after tax from associates, and significant and non-recurring items. For Spark, earnings from associates are proportionately consolidated.

21 Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax, investment income, profit after tax from associates, and significant and non-recurring items. For Spark, earnings from associates are proportionately consolidated.

22 Represents gross capitalisation divided by ungeared net tangible assets (that is, shareholders' funds less intangibles, plus borrowings (including derivatives) less cash as at the latest balance date).

23 Represents gross capitalisation divided by RAB. RAB is as calculated by each of the entities (i.e. not per the access arrangements).

24 The NTA of APA Group has been adjusted to remove the book value of energy investments which have also been excluded from the calculation of gross capitalisation.

25 nmf = not meaningful

26 Grant Samuel analysis based on data obtained from IRESS, Capital IQ, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

reflect a premium for control. All of the entities have a 30 June year end except for SP AusNet which has a 31 March year end and Spark Infrastructure Group ("Spark") which has a 31 December year end.

The data analysed for each entity included the last two annual historical results plus the subsequent three forecast years. However, the data presented above represents an alignment of the financial data to allow direct comparison between the entities as well as to Envestra's financial information which is on a June year end. Under this alignment, the earnings forecast for SP AusNet for the year ending 31 March 2014 and for Spark for the year ending 31 December 2013 have been treated as their Historical Year. While this is a relatively crude adjustment it is arguably more useful than leaving the data unadjusted.

A brief description of each company is set out below:

APA Group

APA Group primarily develops, owns and operates natural gas transportation infrastructure across Australia. It is the largest gas transmission pipeline owner in Australia. Its businesses are:

- Energy Infrastructure: APA Group owns and operates a portfolio of gas transmission pipelines totalling over 14,000 kilometres across all Australian mainland states and territories including all its assets which, two gas storage facilities in Western Australia and Victoria, and wind farm in Western Australia;
- Energy Investments: APA Group owns equity interests in energy infrastructure entities (both listed and unlisted) including Envestra (33.05%), gas pipelines (SEA Gas Pipeline (50%), Ethane Pipeline (6%)), GDI (EII) Pty Ltd which owns the Allgas Gas Network (20%), Diamantina Power Station Pty Limited (50%), and other energy infrastructure including electricity interconnectors, gas fired power stations and coal seam gas processing plants; and
- Asset Management; APA Group provides commercial, operating services and/or asset maintenance services to most of its energy investments and investment management services to all of its energy investments (other than Envestra and Diamantina Power Station Pty Limited).

APA Group's multiples reflect the blend of its businesses and, in particular, the increasing income stream from asset management. In FY13, only 25% of revenue was sourced from regulated assets and therefore multiples of RAB are not meaningful.

DUET Group

DUET Group ("DUET") owns 100% of Multinet Gas (gas distribution in Victoria), a 66% interest in United Energy (electricity distribution in Victoria) and an 80% interest in Dampier Bunbury Pipeline (gas transmission in Western Australia), all of which are regulated assets (although revenue of Dampier Bunbury Pipeline is subject to contracts not regulatory decisions). DUET is seeking to increase the proportion of income it derives from non-regulated sources and has recently expanded its services business to own and operate two new gas transmission pipelines in Western Australia which it is developing. In FY13, 93% of DUET's revenue was attributable to regulated activities. During 2012 DUET internalised its management. All of DUET's businesses now have internalised core functions including engineering, asset management and corporate support.

SP AusNet

SP AusNet is a utility infrastructure asset vehicle which owns Victoria's primary electricity transmission network, an electricity distribution network located in eastern Victoria and a gas distribution network located in central and western Victoria. All of these businesses are regulated. In the year ended 31 March 2013, 83% of SP AusNet's revenue was attributable to regulated activates. Singapore Power and State Grid currently have a 31.1% and 19.9% interest in SP AusNet respectively (after State Grid acquired its 19.9% interest from Singapore Power in 2013). On 31 March 2014, SP AusNet terminated its management services agreement with SPI Management Services Pty Limited (a subsidiary of Singapore Power) and is now internally managed. In recent times, there has been a degree of uncertainty around SP AusNet including a dispute with the AER, a tax dispute and bushfire litigation. There is an expectation that earnings of two of SP AusNet's assets will decrease across the forecast period as its regulatory reset dates arise, however, as its reset periods are staggered the impact on forecast earnings are less clear (although earnings multiples are higher in Forecast Year 1.)

Spark Infrastructure Group

Spark owns 49% interests in Victoria Power Networks (comprising Citipower and Powercor whose principal activities are electricity distribution in Victoria) and SA Power Networks (whose principal activity is electricity distribution in South Australia), all of which are regulated assets. The remaining 51% interests are held by Cheung Kong Infrastructure Ltd and Power Asset Holdings Ltd. In the year ended 31 December 2013, 77% and 11% of Spark's revenue was sourced from regulated and semi-regulated activities, respectively. The management of Spark was internalised in 2011 and both of Spark's businesses have internalised core functions.

The calculation of underlying multiples for Spark is complex because of the minority holdings and form of investment. In calculating EBITDA and EBIT multiples, adjustments has been made to reflect Spark's proportionate share of EBITDA and EBIT from its equity accounted investments as well as proportionate share of external debt. RAB multiples are based on Spark's proportionate share of RAB. Revenue and profits of Spark are expected to decline during the year ended 31 December 2015 as there is expected to be a reduction in the regulatory rate of return for SA Power Networks from 1 July 2015 and for Victoria Power Networks from 1 January 2016. This is reflected in the earnings multiples for Spark which are lower in the near term (i.e. higher earnings) and higher in Forecast Year 2 (i.e. lower earnings).

Vector Limited

Vector Limited ("Vector") owns and manages a portfolio of energy infrastructure networks in New Zealand including electricity distribution (approximately 55% of EBITDA), gas transmission (25%), gas distribution (9%) and electricity and gas metering installations and telecommunications (11%). In addition, Vector owns a 22% share of NZ Windfarms Limited, a 50% share in Treescape (New Zealand's largest vegetation management company). In FY13, around 64% of revenue was sourced from regulated assets (which comprised 88% of Vector's assets). Vector's earnings are expected to decline in FY14 as a result of regulatory changes impacting electricity and gas transportation earnings, before growing modestly from 2015. Vector has a restricted free float, with The Auckland Energy Consumer Trust holding a 75.1% interest.

Appendix 5

APA Group - Broker Consensus Forecasts

APA Group has not publicly released earnings forecasts for FY14 or beyond. However, on 11 December 2013 APA Group announced:

- full year EBITDA guidance for FY14 of $730-740 million, including its share of profits from associates and jointly controlled entities; and
- net interest cost guidance for FY14 of $315-325 million.

Furthermore, on 17 December 2013, APA Group announced an estimated interim distribution for FY14 of 17.5 cents per security (with a payment date of 12 March 2014) and distribution guidance for FY14 of at least 36.0 cents per security. APA Group reaffirmed its FY14 guidance on 19 February 2014.

In order to provide an indication of the expected future financial performance of APA Group, Grant Samuel has considered brokers' forecasts for APA Group. Set out below is a summary of forecasts prepared by brokers that follow APA Group in the Australian stockmarket:

APA Group – Broker Forecasts for the Year ending 30 June

Broker	Report Date	Revenue[1] ($millions)			EBITDA[2] ($millions)			EBIT[3] ($millions)			EPS[4] (cents)			OCF[5] (cents)			DPS[6] (cents)			Target Price
		2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	
1	20-Feb-14	968.2	1,025.2	1,073.3	731.8	773.9	836.7	593.8	628.9	678.7	23.9	24.9	28.1	52.0	53.8	59.0	36.5	38.5	41.5	$7.19
2	19-Feb-14	1,001.0	1,064.0	1,090.0	736.0	816.0	869.0	604.0	678.0	726.0	22.9	27.7	30.9	49.5	56.6	61.1	36.2	37.0	37.7	$6.24
3	19-Feb-14	1,012.5	951.5	957.4	744.9	809.3	873.1	594.7	650.2	705.2	24.8	29.1	31.4	52.4	59.4	63.5	36.0	37.0	38.0	R[7]
4	19-Feb-14	900.0	978.0	1,031.0	738.0	814.0	860.0	586.0	649.0	687.0	23.0	25.0	27.0	48.1	54.5	58.8	36.0	38.0	39.0	$6.17
5	19-Feb-14	926.0	987.0	1,013.0	743.0	820.0	876.0	594.0	670.0	724.0	23.2	26.1	30.0	45.5	52.4	56.5	36.5	37.0	38.9	$6.45
6	20-Mar-14	910.0	984.0	1,085.0	741.0	810.0	919.0	591.0	652.0	756.0	24.0	30.0	37.0	48.9	57.5	61.7	36.0	37.0	38.0	$5.70
7	19-Feb-14	966.1	1,045.7	1,137.0	751.5	812.6	879.6	600.7	654.7	715.0	24.4	27.0	29.7	56.1	59.8	62.9	36.8	40.0	42.0	$6.75
8	4-Mar-14	994.9	1,072.7	1,171.5	742.4	813.7	906.0	603.0	668.7	755.9	25.0	29.4	35.7	59.4	66.2	74.4	36.0	37.5	39.5	$6.80
9	19-Feb-14	970.1	1,067.2	1,117.3	739.3	813.3	856.9	602.1	668.9	711.1	24.7	29.3	32.6	52.6	60.1	62.2	36.0	36.9	37.8	$6.25
10	19-Feb-14	976.0	1,100.0	1,147.0	746.0	836.0	921.0	580.0	650.0	726.0	22.7	26.7	32.3	56.6	55.6	58.3	37.0	38.0	40.0	$6.85
11	19-Feb-14	959.0	1,056.6	1,116.0	739.5	827.8	880.1	585.5	676.2	728.0	24.0	29.0	32.5	50.8	57.4	60.1	36.0	37.5	38.5	$7.10
12	19-Feb-14	973.0	nmf[8]	nmf	752.0	nmf	nmf	600.0	nmf	nmf	24.5	nmf	nmf	48.6	nmf	nmf	36.5	nmf	nmf	nmf
13	4-Mar-14	1,010.0	1,114.0	1,255.0	761.0	828.0	927.0	611.0	674.0	769.0	26.3	29.6	36.4	47.4	54.3	65.1	36.5	38.0	40.0	$6.23
	Minimum	*900.0*	*951.5*	*957.4*	*731.8*	*773.9*	*836.7*	*580.0*	*628.9*	*678.7*	*22.7*	*24.9*	*27.0*	*45.5*	*52.4*	*56.5*	*36.0*	*36.9*	*37.7*	*$5.70*
	Maximum	*1,012.5*	*1,114.0*	*1,255.0*	*761.0*	*835.0*	*927.0*	*611.0*	*678.0*	*769.0*	*26.3*	*30.0*	*37.0*	*59.4*	*66.2*	*74.4*	*37.0*	*40.0*	*42.0*	*$7.19*
	Median	***970.1***	***1,051.2***	***1,103.0***	***742.4***	***813.9***	***877.8***	***594.7***	***661.7***	***725.0***	***24.0***	***28.4***	***31.9***	***50.8***	***57.0***	***61.4***	***36.2***	***37.5***	***38.9***	***$6.45***

Source: Brokers' reports, Grant Samuel analysis

1 Excluding pass through revenue.
2 EBITDA is earnings before net interest, tax, depreciation and amortisation, other income and non-recurring items. Includes share of profits of equity accounted associates and jointly controlled entities.
3 EBIT is earnings before net interest, tax and other income and non-recurring items. Includes share of profits of equity accounted associates and jointly controlled entities.
4 EPS = earnings per share
5 OCF = operating cash flow per security
6 DPS = distribution per security
7 R = broker subject to research restrictions
8 nmf = not meaningful. Broker 12's target price and forecast earnings beyond FY14 assume APA Group completes the acquisition of Envestra.

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When reviewing this data the following should be noted:

- as far as Grant Samuel is aware, APA Group is followed by 15 brokers, of which 13 are presented above. The other two brokers have not published a report since the announcement of APA Group's interim FY14 results and therefore are not presented;
- the broker forecasts are not prepared on a consistent basis in relation to the treatment of pass through revenue. In the table above, Grant Samuel has attempted to present the broker earnings forecasts on a common basis by adjusting certain broker forecasts for estimated pass through revenue of $400 million in FY14, $450 million in FY15 and $500 million in FY16; and
- as far as is possible to identify from a review of the brokers' reports, Grant Samuel believes that the earnings forecasts do not assume acquisition of Envestra (except for Broker 12 beyond FY14, which has been excluded) and do not incorporate any one-off adjustments or non-recurring items.

APPENDIX

2

INVESTIGATING ACCOUNTANT'S REPORT

Deloitte.

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The Directors
Australian Pipeline Limited
as responsible entity of
Australian Pipeline Trust and APT Investment Trust
HSBC Building
Level 19, 580 George Street
Sydney NSW 2000

7 April 2014

Dear Sirs

Report on Historical Financial Information

Introduction

This report has been prepared at the request of the Directors of Envestra Limited ("Envestra") and Australian Pipeline Limited as responsible entity of Australian Pipeline Trust and APT Investment Trust ("APA Group") for inclusion in the Scheme Booklet to be issued by Envestra in respect of the proposed acquisition by APA Group of all the issued capital of Envestra not currently owned by APA Group (the "Scheme").

Deloitte Corporate Finance Pty Limited is wholly owned by Deloitte Touche Tohmatsu ("Deloitte") and holds the appropriate Australian Financial Services licence under the Corporations Act 2001 for the issue of this report.

References to the Company and other terminology used in this report have the same meaning as defined in the Scheme Booklet.

Scope

Historical Financial Information and Pro forma Historical Financial Information

Deloitte Corporate Finance Pty Limited has been engaged by the Directors of Envestra and the Directors of APA Group to review:

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a) APA Group Pro Forma Historical Financial Information

- The historical consolidated income statement of APA Group for the six months ended 31 December 2013 and the pro forma historical consolidated income statements for the years ended 30 June 2013 and 30 June 2012;
- The historical consolidated balance sheet of APA Group as at 31 December 2013;
- The historical consolidated cash flow statement of APA Group for the six months ended 31 December 2013 and the pro forma historical consolidated cash flow statements for the years ended 30 June 2013 and 30 June 2012;
- Relevant notes to the above pro forma historical financial information of APA Group; and
- The pro forma adjustments and the assumptions on which they are based as described in the Scheme Booklet

as contained in Section 6.13 of the Scheme Booklet, together the "APA Group Pro Forma Historical Financial Information".

The APA Group Pro Forma Historical Financial Information has been extracted from the consolidated financial statements of the APA Group for the six months ended 31 December 2013 and for the years ended 30 June 2013 and 30 June 2012 ("the APA Group Statutory Historical Financial Information"), after adjusting for the effects of the pro forma adjustments described in Section 6.13 of the Scheme Booklet.

b) Envestra Historical Financial Information

- The historical consolidated income statements of Envestra for the six months ended 31 December 2013 and the years ended 30 June 2013 and 30 June 2012;
- The historical consolidated balance sheet of Envestra as at 31 December 2013;
- The historical consolidated cash flow statements of Envestra for the six months ended 31 December 2013 and the years ended 30 June 2013 and 30 June 2012; and
- Relevant notes to the above historical financial information of Envestra

as contained in Section 5.5 of the Scheme Booklet, together the "Envestra Historical Financial Information".

The Envestra Historical Financial Information has been extracted from the consolidated financial statements of Envestra for the six months ended 31 December 2013 and for the years ended 30 June 2013 and 30 June 2012 ("the Envestra Statutory Historical Financial Information").

c) Combined Group Pro Forma Historical Financial Information

- The pro forma consolidated income statements of the Combined Group assuming completion of the Scheme for the six months ended 31 December 2013 and the year ended 30 June 2013;
- The pro forma consolidated balance sheet of the Combined Group assuming completion of the Scheme as at 31 December 2013;
- The pro forma consolidated cash flow statements of the Combined Group assuming completion of the Scheme for the six months ended 31 December 2013 and the year ended 30 June 2013;
- Relevant notes to the above pro forma historical financial information of the Combined Group assuming completion of the Scheme; and
- The pro forma adjustments and the assumptions on which they are based as described in the Scheme Booklet

as contained in Section 7.7 of the Scheme Booklet, together the "Combined Group Pro Forma

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Historical Financial Information".

The Combined Group Pro Forma Historical Financial Information has been extracted from the APA Group Pro Forma Historical Financial Information and the Envestra Historical Financial Information, after reflecting the pro forma adjustments described in Section 7.7 of the Scheme Booklet.

The APA Group Statutory Historical Financial Information has been extracted from the consolidated financial reports of:

- APA Group for the years ended 30 June 2013 and 30 June 2012, which were audited by Deloitte Touche Tohmatsu in accordance with the Australian Auditing Standards. Deloitte Touche Tohmatsu issued an unmodified audit opinion on the respective financial reports;

- APA Group for the six month period ended 31 December 2013, which was reviewed by Deloitte Touche Tohmatsu in accordance with Australian Standard on Review Engagements 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Deloitte Touche Tohmatsu issued an unmodified review conclusion on the consolidated financial report of the APA Group for the half year ended 31 December 2013.

The Envestra Statutory Historical Financial Information has been extracted from the consolidated financial reports of:

- Envestra for the years ended 30 June 2013 and 30 June 2012, which were audited by PwC in accordance with the Australian Auditing Standards. PwC issued an unmodified audit opinion on the respective financial reports;

- Envestra for the six month period ended 31 December 2013, which was reviewed by PwC in accordance with Australian Standard on Review Engagements 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. PwC issued an unmodified review conclusion on the consolidated financial report of Envestra for the half year ended 31 December 2013.

The APA Group Pro Forma Historical Financial Information, the Envestra Historical Financial Information and the Combined Group Pro Forma Historical Financial Information are presented in an abbreviated form in the Scheme Booklet insofar as they do not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports and interim condensed financial reports prepared in accordance with the Corporations Act 2001.

The stated basis of preparation of the Pro Forma Historical Financial Information is the recognition and measurement principles contained in Australian Accounting Standards applied to the historical financial information and the events or transactions to which the pro forma adjustments relate, as described in sections 5.5, 6.13 and 7.7 of the Scheme Booklet, as if those events or transactions had occurred as at the date of the historical financial information. Due to its nature, the Pro Forma Historical Financial Information does not represent the APA Group's or the Combined Group's actual or prospective financial position or performance (including cash flows).

Directors' Responsibility

The Directors of APA Group are responsible for the preparation and presentation of the APA Group Pro Forma Historical Financial Information and the Combined Group Pro Forma Historical Financial Information, including the selection and determination of pro forma adjustments made to the historical financial information and included in the APA Group Pro Forma Historical Financial Information and the Combined Group Pro Forma Historical Financial Information.

The Directors of Envestra are responsible for the preparation and presentation of the Envestra Historical Financial Information.

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This includes responsibility for the operation of such internal controls as the Directors of Envestra and the Directors of APA Group determine are necessary to enable the preparation of the Historical Financial Information and the Pro Forma Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the APA Group Pro Forma Historical Financial Information, Envestra Historical Financial Information and Combined Group Pro Forma Historical Financial Information based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with Australian Standard on Assurance Engagements (ASAE) 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly we will not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the Historical Financial Information or the Pro Forma Historical Financial Information.

We have performed the following procedures as we, in our professional judgement, considered reasonable in the circumstances:

- consideration of work papers, accounting records and other documents, including those dealing with the extraction of the APA Group Pro Forma Historical Financial Information and the Envestra Historical Financial Information from the reviewed and audited APA Group consolidated financial statements and Envestra consolidated financial statements respectively for the relevant periods;
- consideration of the reasonableness and appropriateness of the pro forma transactions and/or adjustments described in Sections 5.5, 6.13 and 7.7 of the Scheme Booklet;
- enquiry of Envestra and APA Group Directors, management, personnel and advisors; and
- the performance of analytical procedures applied to the Historical Financial Information and the Pro Forma Historical Financial Information.

Conclusion

Historical Financial Information and Pro forma Historical Financial Information

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that the APA Group Pro Forma Historical Financial Information, the Envestra Historical Financial Information and the Combined Group Pro Forma Historical Financial Information are not presented fairly, in all material respects, on the basis of the pro forma transactions and/or adjustments described in Sections 5.5, 6.13 and 7.7 of the Scheme Booklet and in accordance with the recognition and measurement principles contained in the Australian Accounting Standards and the accounting policies adopted by the APA Group.

Subsequent events

Apart from the matters dealt with in this Report, and having regard for the scope of our Report, nothing has come to our attention that would cause us to believe that matters arising after 31 December 2013, other than matters dealt with in this Report, would require comment on, or adjustments to, the APA Group Pro Forma Historical Financial Information, Envestra Historical Financial Information and Combined Group Pro Forma Historical Financial Information contained in the financial information in the Scheme Booklet, or would cause that information to be misleading or deceptive.

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Disclosure of Interest

Deloitte Touche Tohmatsu and its subsidiary Deloitte Corporate Finance Pty Limited do not have any interest in the outcome of the Scheme other than the preparation of this report and participation in the due diligence procedures for which normal professional fees will be received. Deloitte Touche Tohmatsu is the auditor of APA Group.

Consent

Deloitte Corporate Finance Pty Limited has consented to the inclusion of this Investigating Accountants' Report in the Scheme Booklet in the form and context in which it is so included, but has not authorised the issue of the Scheme Booklet. Accordingly, Deloitte Corporate Finance Pty Limited makes no representation regarding, and takes no responsibility for, any other documents or material in, or omissions from, the Scheme Booklet.

Yours faithfully

Deloitte Corporate Finance Pty Limited

Johan Duivenvoorde
Director
Deloitte Corporate Finance Pty Limited

APPENDIX

3

SCHEME IMPLEMENTATION AGREEMENT

SCHEME IMPLEMENTATION AGREEMENT

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SCHEME IMPLEMENTATION AGREEMENT

DATE **4 MARCH 2014**

PARTIES

1 **ENVESTRA LIMITED** ACN 078 551 685 of Level 10, 81 Flinders Street, ADELAIDE SA 5000 (**Envestra**); and

2 **AUSTRALIAN PIPELINE LIMITED** ACN 091 344 704 of Level 19, HSBC Building, 580 George Street, SYDNEY NSW 2000 in its capacity as responsible entity and trustee of the **AUSTRALIAN PIPELINE TRUST** ARSN 091 678 778 (**APL as RE of APT**) and in its capacity as responsible entity and trustee of the **APT INVESTMENT TRUST** ARSN 115 585 441, both of Level 19, HSBC Building, 580 George Street, SYDNEY NSW 2000 (the stapled entity comprising the Australian Pipeline Trust and the APT Investment Trust, and acting through the APA Responsible Entity, being **APA**).

RECITALS

A Envestra and APA have agreed that Envestra will propose a scheme of arrangement under Part 5.1 of the Corporations Act between Envestra and its shareholders (other than members of the APA Group), pursuant to which APL as RE of APT will acquire all of the ordinary shares in Envestra which it does not already own.

B Envestra and APA have agreed to implement the Scheme upon and subject to the terms and conditions of this Agreement.

C Envestra and APA have agreed certain other matters in connection with the Scheme as set out in this Agreement.

OPERATIVE PART

1 Definitions and Interpretation

1.1 Definitions

In this Agreement, unless a contrary intention appears:

Acquisition Event means:

(a) a takeover bid for, or scheme of arrangement proposed by, Envestra;

(b) the acquisition of substantially all the assets and operations of Envestra; or

(c) any transaction having a similar economic effect.

Agreed Announcement means the public announcement to be issued by Envestra in the form set out in Annexure 4.

Agreement means this document including any schedule or annexure.

APA Affiliated Director means each of:

(a) Mr Mick McCormack and Mr Ross Gersbach; and

(b) any other person who becomes a director of Envestra after the date of this Agreement who is an Officer of a member of the APA Group.

APA Due Diligence Information has the meaning given in clause10.1(b)(ii).

APA Group means APT, APTIT, APL and each of the entities controlled by the APA Responsible Entity (including any control exercised by the APA Responsible Entity as responsible entity or trustee of APT or APTIT).

APA Indemnified Parties means each member of the APA Group and their respective Officers.

APA Material Adverse Change means any event, change or circumstance or announcement or disclosure of any event, change or circumstance (or, in the case of any pre-existing event, change or circumstances, any worsening thereof) which has occurred or becomes known to Envestra on or after the date of this Agreement that, individually or in the aggregate with other such events, changes or circumstances, has or would, with the lapse of time, be reasonably likely to have, a material adverse effect on the business, assets, liabilities, financial position, financial performance, prospects or profitability of the APA Group taken as a whole, except any such event, change or circumstance:

(a) resulting from or arising in connection with:

(i) any adoption, implementation or change in applicable law or any interpretation of applicable law by any Governmental Agency;

(ii) any change in global, national or regional political conditions (including the outbreak of war or acts of terrorism);

(b) caused or to the extent contributed to by any climatic or other natural event or condition (including any weather conditions and any natural disaster);

(c) resulting from or arising in connection with the execution, announcement or performance of this Agreement or the implementation of the Scheme or the consummation of any transaction contemplated by this Agreement or the Scheme;

(d) fairly disclosed before the date of this Agreement in any Public Register or fairly disclosed in writing in the APA Due Diligence Information given before the date of this Agreement or in a letter addressed to Envestra for this purpose which specifically refers to this clause and which is given before the date of this Agreement; or

(e) in relation to which Envestra has expressly consented in writing.

APA Prescribed Event means any of the following:

(a) APA converts all or any the APA Securities into a larger or smaller number of APA Securities;

(b) any member of the APA Group resolves to reduce its capital in any way or reclassifies, splits, combines, redeems or repurchases directly or indirectly any of its securities;

(c) any member of the APA Group:

(i) enters into a withdrawal offer or buy-back agreement; or

(ii) resolves to approve the terms of a withdrawal offer under the Corporations Act or the terms of a buy-back agreement under the Corporations Act;

(d) any member of the APA Group issues APA Securities or other securities, or grants an option over APA Securities or other securities, or agrees to make such an issue or grant such an option, other than in accordance with the terms attaching to any performance rights granted as at the date of this Agreement or distribution reinvestment plan existing as at the date of this Agreement;

(e) any member of the APA Group issues, or agrees to issue, convertible notes or convertible units;

(f) any member (or members) of the APA Group disposes, or agrees to dispose, of the whole or a substantial part of the APA Group's business or property;

(g) any member of the APA Group resolves to be wound up;

(h) an Insolvency Event occurs in relation to any member of the APA Group;

(i) any member of the APA Group proposes or takes any steps to implement a scheme of arrangement or other compromise or arrangement with its creditors or any class of them;

(j) APA declares or pays, makes or incurs any liability to pay any distribution whether by way of distribution, capital distribution, bonus or other share of its profits or assets to members of APT or APTIT, other than an interim distribution for the six months ended 31 December 2013 and, if the Scheme is not Implemented by 30 June 2014, a final distribution for the year ending 30 June 2014;

(k) the APT Constitution or APTIT Constitution or the constitution of any other member of the APA Group is amended or replaced or any member of the APA Group states its intention to or makes any change to its constitution, other than an amendment made to record the issue price of APA Securities that are to be issued as Scheme Consideration;

(l) either the APT or the APTIT is terminated;

(m) any member of the APA Group undertakes any action or transaction similar to any action or transaction referred to in any of the preceding paragraphs under the law of its place of incorporation; or

(n) any member of the APA Group authorises, commits or agrees to do any of the matters set out above,

provided that an APA Prescribed Event shall not include:

(o) any wholly intra group transaction between members of the APA Group or in the case of subparagraph (b), any wholly owned member of the APA Group:

(p) any action or transaction:

(i) resulting from or arising in connection with the performance of or contemplated by this Agreement or under the Scheme;

(ii) which any member of the APA Group is permitted to undertake, or not to undertake, under this Agreement;

(iii) fairly disclosed before the date of this Agreement in any Public Register or fairly disclosed in writing in the APA Due Diligence Information given before the date of this Agreement or in a letter addressed to Envestra for this purpose which specifically refers to this clause and which is given before the date of this Agreement; or

(iv) in relation to which Envestra has expressly consented in writing, such consent not to be unreasonably withheld.

APA Released Person has the meaning given to that term in clause 15.4.

APA Responsible Entity means APL in its capacity as responsible entity of APT and APTIT.

APA Security means one APT Unit and one APTIT Unit, stapled together such that they must only be transferred together.

APA Scheme Booklet Information means all information in the Scheme Booklet (or in any update to the Scheme Booklet released by Envestra) regarding APA or the APA Group or APA Securities.

APA Warranty means each representation, warranty or undertaking set out in clause 8.2.

APL means Australian Pipeline Limited (ABN 99 091 678 778, AFSL 239 927).

APT means Australian Pipeline Trust (ARSN 091 678 778) a registered managed investment scheme regulated by the Corporations Act.

APT Constitution means the constitution of APT dated 18 February 2000 (as amended).

APT Unit means an ordinary unit in APT.

APTIT means APT Investment Trust (ARSN 115 585 441) a registered managed investment scheme regulated by the Corporations Act.

APTIT Constitution means the constitution of APTIT dated 30 June 2005 (as amended).

APTIT Unit means an ordinary unit in APTIT.

ASIC means the Australian Securities and Investments Commission.

ASIC Review Period means the period from the date on which a draft of the Scheme Booklet is submitted by Envestra to ASIC to the date on which ASIC confirms that it has no objection to the form of the Scheme Booklet.

ASX means ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.

ASX Listing Rules means the official listing rules of ASX.

Board means, in respect of a party, the board of directors of that party in place from time to time.

Business Day has the meaning given in the ASX Listing Rules.

Cash Out Facility has the meaning given to that term in the Scheme.

Combined Group means the combined Envestra Group / APA Group after Implementation.

Combined Group Scheme Booklet Information means:

(a) all information in the Scheme Booklet regarding the Combined Group; and

(b) the risk factors disclosed in the Scheme Booklet regarding the Combined Group.

Competing Proposal means any proposed or possible transaction or arrangement:

(a) pursuant to which, if ultimately completed, any person or persons (other than a member of the APA Group) would:

  (i) acquire (directly or indirectly):

    (A) an interest in all or a substantial part of the assets or business of Envestra or the Envestra Group; or

    (B) a Relevant Interest in more than 20 percent of the voting shares of Envestra;

  (ii) acquire (directly or indirectly) control (as determined in accordance with section 50AA of the Corporations Act) of Envestra; or

  (iii) otherwise acquire (directly or indirectly) or merge (directly or indirectly) with Envestra (including by a reverse takeover bid, reverse scheme of arrangement or dual listed company or similar structure); or

(b) which is conditional upon Envestra failing to proceed with the Scheme or terminating this Agreement.

Condition Precedent means a condition precedent set out in clause 2.1.

Consultation Period has the meaning given in clause 2.4(c).

Corporations Act means the *Corporations Act 2001* (Cth).

Corporations Regulations means the *Corporations Regulations 2001* (Cth).

Court means the Federal Court of Australia or such other court of competent jurisdiction under the Corporations Act as agreed by the parties.

Deed Poll means a deed poll substantially in the form of Annexure 3 (or in such other form as is agreed between Envestra and APA) under which APA covenants in favour of the Scheme Shareholders to perform its obligations under the Scheme.

Effective means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme.

Effective Date means the date upon which the Scheme becomes Effective.

End Date means 30 September 2014, or such later date as Envestra and APA may agree in writing.

Envestra Disclosure and Permitted Financing Activities Letter means the letter of that name given by Envestra to APA on or prior to the date of this Agreement and signed by the parties' authorised officers.

Envestra Due Diligence Information has the meaning given in clause 10.1(a)(ii).

Envestra Group means Envestra and its Related Bodies Corporate.

Envestra Indemnified Parties means each member of the Envestra Group and their respective Officers.

Envestra Indemnified Person has the meaning given to that term in clause 15.1.

Envestra Material Adverse Change means any event, change or circumstance or announcement or disclosure of any event, change or circumstance (or, in the case of any pre-existing event, change or circumstances, any worsening thereof) which has occurred or becomes known to APA on or after the date of this Agreement that, individually or in the aggregate with other such events, changes or circumstances, has or would, with the lapse of time, be reasonably likely to have, a material adverse effect on the business, assets, liabilities, financial position, financial performance, prospects or profitability of the Envestra Group taken as a whole, except any such event, change or circumstance:

(a) resulting from or arising in connection with:

  (i) any adoption, implementation or change in applicable law or any interpretation of applicable law by any Governmental Agency;

  (ii) any change in global, national or regional political conditions (including the outbreak of war or acts of terrorism);

(b) caused or to the extent contributed to by any climatic or other natural event or condition (including any weather conditions and any natural disaster);

(c) resulting from or arising in connection with the execution, announcement or performance of this Agreement or the implementation of the Scheme or the consummation of any transaction contemplated by this Agreement or the Scheme;

(d) fairly disclosed before the date of this Agreement in any Public Register or fairly disclosed in writing in the Envestra Due Diligence Information given before the date of this Agreement or in the Envestra Disclosure and Permitted Financing Activities Letter; or

(e) in relation to which APA has expressly consented in writing.

Envestra Permitted Financing Activities means any of the activities set out in Schedule 2 of the Envestra Disclosure and Permitted Financing Activities Letter.

Envestra Prescribed Event means any of the following:

(a) Envestra converts all or any of its shares into a larger or smaller number of shares;

(b) any member of the Envestra Group resolves to reduce its share capital in any way or reclassifies, splits, combines, redeems or repurchases directly or indirectly any of its shares;

(c) any member of the Envestra Group:

(i) enters into a buy-back agreement; or

(ii) resolves to approve the terms of a buy-back agreement under the Corporations Act;

(d) any member of the Envestra Group issues shares, or grants an option over its shares, or agrees to make such an issue or grant such an option;

(e) any member of the Envestra Group issues, or agrees to issue, convertible notes or other debt securities or enters into any new debt facility, or amends or extends the terms of any existing debt facility;

(f) any member of the Envestra Group disposes, or agrees to dispose, of the whole or a substantial part of its business or property;

(g) any member of the Envestra Group grants a Security Interest, or agrees to grant a Security Interest, creates, or agrees to create any mortgage, lien or other encumbrance over, or declares itself trustee of, the whole or a substantial part of its business or property;

(h) any member of the Envestra Group resolves to be wound up;

(i) an Insolvency Event occurs in relation to Envestra or any member of the Envestra Group;

(j) any member of the Envestra Group proposes or takes any steps to implement a scheme of arrangement or other compromise or arrangement with its creditors or any class of them;

(k) Envestra declares any dividend or pays, makes or incurs any liability to pay any distribution whether by way of dividend, capital distribution, bonus or other share of its profits or assets to its members, other than the dividend of up to $0.032 per Envestra Share expected to be paid in April 2014 and, if the Scheme is not Implemented by 30 June 2014, a final dividend for the year ending 30 June 2014 (where the record date for that dividend is after 30 June 2014);

(l) the constitution of Envestra or any other member of the Envestra Group is amended or replaced or any member of the Envestra Group states its intention to or makes any change to its constitution;

(m) any member of the Envestra Group undertakes any action or transaction similar to any action or transaction referred to in any of the preceding paragraphs under the law of its place of incorporation;

(n) any member of the Envestra Group agrees to an amendment of the Financier Confirmation; or

(o) any member of the Envestra Group authorises, commits or agrees to do any of the matters set out above,

provided that a Envestra Prescribed Event shall not include:

(p) any Envestra Permitted Financing Activities;

(q) any wholly intra group transaction between members of the Envestra Group:

(r) any action or transaction:

(i) resulting from or arising in connection with the performance of or contemplated by this Agreement or under the Scheme;

(ii) which any member of the Envestra Group is permitted to undertake, or not to undertake, under this Agreement;

(iii) fairly disclosed before the date of this Agreement in any Public Register or fairly disclosed in writing in the Envestra Due Diligence Information given before the date of this Agreement or in the Envestra Disclosure and Permitted Financing Activities Letter; or

(iv) in relation to which APA has expressly consented in writing, such consent not to be unreasonably withheld.

Envestra Released Person has the meaning given to that term in clause 15.3.

Envestra Scheme Booklet Information means information included in the Scheme Booklet (or in any update to the Scheme Booklet released by Envestra) other than:

(a) the APA Scheme Booklet Information;

(b) the Combined Group Scheme Booklet Information;

(c) the Independent Expert's Report;

(d) the Investigating Accountant's Report; and

(e) the Tax Section.

Envestra Share means a fully paid ordinary share in the capital of Envestra.

Envestra Shareholder means a person who is recorded in the Register as the holder of Envestra Shares.

Envestra Warranty means each representation, warranty or undertaking set out in clause 8.1.

Exclusivity Period means the period commencing on the date of this Agreement and ending on the earlier of:

(a) the termination of this Agreement in accordance with its terms;

(b) the Implementation Date; and

(c) the End Date.

Financier Confirmation means the binding confirmation provided prior to the date of this Agreement by the number of Envestra's financiers as is required under the Intercreditor Deed Poll that they will not declare any Envestra change of control resulting from the Scheme to be "unacceptable" for the purposes of the Intercreditor Deed Poll.

First Court Hearing means the hearing by the Court of an application for an order under section 411(1) of the Corporations Act convening the Scheme Meeting.

Governmental Agency means any government or representative of a government or any governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, competition authority or entity in any jurisdiction. It includes ASIC, ASX (and any other stock exchange) and the Australian Takeovers Panel and any self-regulatory organisation established under statute.

Implementation means the implementation of the Scheme in accordance with its terms following it becoming Effective.

Implementation Date means the fifth Business Day following the Record Date or such other date agreed by the parties in writing, ordered by the Court or as may be required by ASX.

Indemnified Envestra Officers means each director of Envestra as at the date of this Agreement and Mr Des Petherick, Mr Paul May, Mr Greg Meredith and Mr Andrew Staniford.

Independent Board Committee means the committee of the Board of Envestra established on 18 July 2013 to consider the proposal by the APA Group to acquire all the issued capital of Envestra not already held by the APA Group by way of a scheme of arrangement.

Independent Expert means such person as Envestra appoints to prepare the Independent Expert's Report in accordance with clause 4.1(b).

Independent Expert's Report means a report that accompanies the Scheme Booklet (as required by clause 8303 of Schedule 8 of the Corporations Regulations) by an expert who is independent of Envestra and APA stating whether or not in its opinion the Scheme is fair and reasonable and in the best interests of Participating Envestra Shareholders, and setting out reasons for that opinion, and includes any update to that report.

Ineligible Foreign Envestra Shareholder means a Participating Envestra Shareholder whose address as shown in the Register is a place outside:

(a) Australia and its external territories; and

(b) New Zealand,

unless Envestra and APA are satisfied, acting reasonably, that the laws of all relevant jurisdictions permit the issue of New APA Securities to that Participating Envestra Shareholder either unconditionally or after compliance with requirements that are not unduly onerous.

Insolvency Event means, for a person:

(a) being in liquidation or provisional liquidation or administration;

(b) having a controller or analogous person appointed to it or any of its property,

(c) an application being made to a court to appoint a controller, provisional liquidator, trustee for creditors or in bankruptcy or analogous person to the person or any of the person's property (or such an application being granted);

(d) the holder of a Security Interest, or any agent on its behalf, appointing a controller or taking possession of any of the person's property;

(e) an application being made to a court for an order for its winding up (or such an order being made);

(f) being taken under section 459F(1) of the Corporations Act to have failed to comply with a statutory demand;

(g) being unable to pay its debts when they fall due or otherwise insolvent;

(h) becoming an insolvent under administration, or entering into a compromise or arrangement with, or assignment for the benefit of, any of its creditors; or

(i) anything analogous to any of the foregoing events any jurisdiction other than Australia.

Intercreditor Deed Poll means the deed poll so entitled originally made on 26 June 1997 between Envestra and the persons described in it as the "Facility Agent", the "Bond Agent", the "Hedge Counterparty" and the "Security Agent" as amended and restated by a deed dated 29 January 2009, as amended from time to time.

Investigating Accountant means such person as jointly appointed by APA and Envestra to prepare the Investigating Accountant's Report.

Investigating Accountant's Report means a report on the financial information contained in the Scheme Booklet.

Material Contract means, in respect of the Envestra business, a contract entered into by a member of the Envestra Group involving revenue or expenditure over the term of the contract in excess of $10 million.

Mutual Confidentiality Deed means the mutual confidentiality deed dated 5 September 2013 (as amended by side letter dated 6 February 2014 and by side letter dated 28 February 2014) between APA and Envestra.

New APA Securities means the APA Securities to be issued under the Scheme as Scheme Consideration.

Non APA Affiliated Director means each director of Envestra from time to time, other than the APA Affiliated Directors.

Officer means, in relation to an entity, any person who is a director, company secretary or employee of that entity.

Participating Envestra Shareholder means an Envestra Shareholder who is not APT, APTIT, APL or any other member of the APA Group.

PPSA means the *Personal Property Securities Act 2009* (Cth).

Public Registers means the following publicly searchable (whether or not on payment of a fee) files and registers:

(a) ASX as at 28 February 2014;

(b) ASIC as at 28 February 2014;

(c) the High Court, Federal Court and the Supreme Courts in each State and Territory of Australia as at 31 January 2014;

(d) the Personal Property Securities Register of Australia as at 12 February 2014; and

(e) IP Australia and Intellectual Property Office of New Zealand as at 7 February 2014.

Record Date means 7.00pm (Sydney time) on the fifth Business Day following the date on which the Scheme becomes Effective or such date as agreed between the parties or required by ASX.

Register means the register of members of Envestra.

Regulator's Draft means the draft of the Scheme Booklet provided, or to be provided, to ASIC pursuant to section 411(2) of the Corporations Act.

Related Body Corporate has the meaning given in the Corporations Act.

Related Entity of a party (**first entity**) means another entity which is:

(a) related to the first entity within the meaning of section 50 of the Corporations Act;

(b) in any consolidated entity (as defined in section 9 of the Corporations Act) which contains the first entity; or

(c) any trust of which the first entity or an entity described in paragraph (a) or (b) above is a trustee.

Relevant Governmental Agency has the meaning in clause 2.5(a).

Relevant Interest has the same meaning as given by sections 608 and 609 of the Corporations Act.

Representative means, in relation to a party:

(a) a Related Body Corporate of the party; or

(b) an Officer of the party or any of the party's Related Bodies Corporate; or

(c) an adviser, consultant, agent or representative of the party or any of the party's Related Bodies Corporate.

Scheme means the scheme of arrangement under Part 5.1 of the Corporations Act to be made between Envestra and the Scheme Shareholders substantially in the form of Annexure 2, subject to any alterations or conditions (whether proposed by a party or required by the Court) which are agreed in writing by each party.

Scheme Booklet means an explanatory memorandum to be approved by the Court and despatched to Participating Envestra Shareholders which includes the Scheme, an explanatory statement under section 412 of the Corporations Act, the Independent Expert's Report, the Investigating Accountant's Report and relevant notices of meeting, proxy forms and election form.

Scheme Consideration means the consideration to be provided by APA in consideration for the transfer of Envestra Shares held by Scheme Shareholders to APL as RE of APT, as described in clause 5 of the Scheme (the Scrip Amount, as defined in the Scheme, having been calculated based on a ratio of 0.1919 APA Securities for each Envestra Share using (a) the 30 day volume weighted average price of APA Securities on the ASX as at close of business on 11 December 2013, being $6.0974; and (b) a value of $1.17 for each Envestra Share, and the Cash Amount, as defined in the Scheme, being calculated as $1.17 for each Envestra Share, in each case subject to adjustment under the Scheme).

Scheme Meeting means the meeting of Participating Envestra Shareholders to be ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act in respect of the Scheme.

Scheme Resolution means the resolution to be put to Participating Envestra Shareholders to approve the Scheme.

Scheme Shareholder means a person who is a Participating Envestra Shareholder on the Record Date.

Second Court Date means the first day on which the application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is, or is to be, heard or, if the application is adjourned for any reason, the first day on which the adjourned application is heard.

Security Interest means a "security interest" as defined in section 51A of the Corporations Act.

Shareholder Information means information in relation to Envestra Shareholders of the type described in Schedule 3 of the Envestra Disclosure and Permitted Financing Activities Letter.

Superior Proposal means a bona fide Competing Proposal in respect of Envestra received by Envestra (and which was not obtained in breach of clause 11.1), which the Board of Envestra (excluding the APA Affiliated Directors) (or the Independent Board Committee) resolves (or a majority of the Non APA Affiliated Directors determines), acting in good faith and in order to satisfy what the relevant directors consider to be their fiduciary or statutory duties (and after consulting with Envestra's financial advisers and having taken written advice from Envestra's legal advisers and having taken into account any factors considered relevant):

(a) is capable of being valued and consummated; and

(b) would, if consummated, result in a transaction more favourable to Participating Envestra Shareholders than the Scheme,

taking into account all terms and conditions of the Competing Proposal.

Tax Section means any statement of the tax consequences of the Scheme and associated matters for Participating Envestra Shareholders (whether or not on the letterhead of Envestra's tax advisers) as may be included in the Scheme Booklet.

Timetable means the indicative timetable set out in Annexure 1, subject to any modifications as the parties may agree in writing.

Transaction Documents means:

(a) this Agreement;

(b) the Scheme;

(c) the Deed Poll; and

(d) any other document in final agreed form which APA and Envestra agree is necessary or desirable to be entered into for the purposes of the Scheme.

Unmarketable Parcel Participant has the meaning given to that term in the Scheme.

Unsolicited Competing Proposal means any bona fide approach by a third party in respect of a Competing Proposal not solicited in breach of clause 11.1.

Warranty Claim means any claim by a party arising out of a breach of a Envestra Warranty or APA Warranty (as applicable).

Working Hours means, for the purpose of clause 18.4(b), 9.00am to 5.00pm on a day that is not a Saturday, Sunday or public holiday in the place to which the notice is sent.

1.2 Interpretation

In this Agreement, unless a contrary intention appears:

(a) words or expressions importing the singular include the plural and vice versa;

(b) words or expressions importing a gender include any gender;

(c) words or expressions denoting individuals include corporations, firms, unincorporated bodies, government authorities and instrumentalities;

(d) a reference to a party to a document includes that party's successors and permitted assigns;

(e) where a word or expression is defined or given meaning, another grammatical form of that word or expression has a corresponding meaning;

(f) any heading, index, table of contents or marginal note is for convenience only and does not affect the interpretation of this Agreement;

(g) a provision of this Agreement shall not be construed to the disadvantage of a party merely because that party was responsible for the preparation of this Agreement or that provision;

(h) a reference to this Agreement includes this Agreement as amended, varied, novated, supplemented or replaced from time to time;

(i) a reference to a clause, party, annexure, exhibit or schedule is a reference to a clause of, and a party, annexure, exhibit and schedule to, this Agreement;

(j) any recitals, schedule or annexure form part of this Agreement and have effect as if set out in full in the body of this Agreement;

(k) a reference to legislation or a provision of legislation includes:

  (i) all regulations, orders or instruments issued under the legislation or provision; and

  (ii) any modification, consolidation, amendment, re-enactment, replacement or codification of such legislation or provision;

(l) references to "include", "including" or any variation thereof are to be construed without limitation;

(m) a reference to "$" or "dollar" is to Australian currency;

(n) where the day on which any act, matter or thing is to be done is a day other than a Business Day, such act, matter or thing will be done on the next Business Day; and

(o) a reference to any time is a reference to that time in Adelaide, Australia.

2 Conditions Precedent

2.1 Conditions Precedent

Subject to this clause 2, the obligations of the parties to proceed to Implementation of the Scheme do not become binding, and the Scheme will not become Effective, unless each of the following conditions precedent is satisfied or is waived in accordance with clause 2.2:

(a) **Independent Expert:** the Independent Expert's Report concludes that the Scheme is fair and reasonable and in the best interests of Participating Envestra Shareholders and the Independent Expert does not withdraw or adversely modify that conclusion before 8.00am on the Second Court Date;

(b) **Shareholder Approval of Scheme:** before 8.00am on the Second Court Date, the Scheme Resolution is duly approved by Participating Envestra Shareholders at the Scheme Meeting by the requisite majorities under section 411(4)(a)(ii) of the Corporations Act;

(c) **Court Approval:** the Court makes orders under section 411(4)(b) of the Corporations Act approving the Scheme on the Second Court Date;

(d) **ASIC and ASX**: by no later than 8.00am on the Second Court Date, ASIC and ASX have issued or provided such consents, confirmations or approvals or have done such other acts which the parties agree are reasonably necessary or desirable to implement the Scheme;

(e) **Restraints**: no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing any aspect of the Scheme is in effect as at 8.00am on the Second Court Date;

(f) **No Envestra Prescribed Events:** no Envestra Prescribed Event occurs between the date of this Agreement and 8.00am on the Second Court Date;

(g) **No Envestra Material Adverse Change:** no Envestra Material Adverse Change occurs, or is discovered, announced, disclosed or otherwise becomes known to APA between the date of this Agreement and 8.00am on the Second Court Date;

(h) **Envestra Representations, Warranties and Undertakings:** the representations and warranties of Envestra set out in clause 8.1 of this Agreement are true and correct in all material respects as at the date of this Agreement and as at 8.00am on the Second Court Date and the undertakings in that clause have been complied with in all material respects as at 8.00am on the Second Court Date;

(i) **No APA Prescribed Events:** no APA Prescribed Event occurs between the date of this Agreement and 8.00am on the Second Court Date;

(j) **No APA Material Adverse Change:** no APA Material Adverse Change occurs, or is discovered, announced, disclosed or otherwise becomes known to Envestra between the date of this Agreement and 8.00am on the Second Court Date;

(k) **APA Representations, Warranties and Undertakings:** the representations and warranties of APA set out in clause 8.2 of this Agreement are true and correct in all material respects as at the date of this Agreement and as at 8.00am on the Second Court Date and the undertakings in clause 8.2 and clause 7.4 have been complied with in all material respects as at 8.00am on the Second Court Date; and

(l) **Financier Confirmation:** as at 8.00am on the Second Court Date, the Financier Confirmation remaining in full force and effect and not having been withdrawn or materially adversely modified, and no event having occurred prior to 8.00am on the Second Court Date that would enable the parties who have given the Financier Confirmation to withdraw or materially adversely modify the Financier Confirmation.

2.2 Benefit and waiver of Conditions Precedent

(a) The Conditions Precedent in clauses 2.1(a) (Independent Expert), 2.1(d) (ASIC and ASX), 2.1(e) (Restraints) and 2.1(l) (Financier Confirmation) are for the benefit of each party, and any breach or non-fulfilment of any of those Conditions Precedent may only be waived with the written consent of each of the parties.

(b) The Conditions Precedent in clauses 2.1(f) (No Envestra Prescribed Events), 2.1(g) (No Envestra Material Adverse Change) and 2.1(h) (Envestra Representations, Warranties and Undertakings) are for the sole benefit of APA, and any breach or non-fulfilment of any of those Conditions Precedent may only be waived by APA giving its written consent.

(c) The Conditions Precedent in clauses 2.1(i) (No APA Prescribed Events), clause 2.1(j) (No APA Material Adverse Change) and 2.1(k) (APA Representations, Warranties and Undertakings) are for the sole benefit of Envestra, and any breach or non-fulfilment of any of those Conditions Precedent may only be waived by Envestra giving its written consent.

(d) The Conditions Precedent in clauses 2.1(b) (Shareholder Approval of Scheme) and 2.1(c) (Court Approval) are for the benefit of both parties but cannot be waived.

(e) A party entitled to waive the breach or non-fulfilment of a Condition Precedent pursuant to this clause 2.2 may do so in its absolute discretion and, subject to the other party agreeing to abide by the conditions, may do so subject to conditions.

(f) If a party waives the breach or non-fulfilment of a Condition Precedent in accordance with clause 2.2, that waiver will preclude it from suing the other party for any breach of this Agreement constituted by the same event which gave rise to the breach or non-fulfilment of the Condition Precedent.

(g) A waiver of a breach or non-fulfilment in respect of one Condition Precedent does not constitute:

(i) a waiver of breach or non-fulfilment of any other Condition Precedent resulting from the same events or circumstances; or

(ii) a waiver of breach or non-fulfilment of that Condition Precedent resulting from any other events or circumstances.

2.3 Reasonable endeavours and notification

(a) Without prejudice to any other obligations of the parties under this Agreement, but subject to the other provisions of this Agreement:

(i) each of the parties must use their reasonable endeavours to satisfy, or procure the satisfaction of, the Conditions Precedent in clauses 2.1(a) (Independent Expert), 2.1(b) (Shareholder Approval of Scheme), 2.1(c) (Court Approval), 2.1(d) (ASIC and ASX) and 2.1(e) (Restraints) as soon as practicable after the date of this Agreement and in any event with a view to the Effective Date occurring on or before the End Date to the extent that it is within their respective control;

(ii) Envestra must use its reasonable endeavours to satisfy, or procure the satisfaction of, the Conditions Precedent in clauses 2.1(f) (No Envestra Prescribed Event), 2.1(g) (No Envestra Material Adverse Change) and 2.1(h) (Envestra Representations, Warranties and Undertakings); and

(iii) APA must use its reasonable endeavours to satisfy, or procure the satisfaction of, the Conditions Precedent in clauses 2.1(i) (No APA Prescribed Event), clause 2.1(j) (No

APA Material Adverse Change) and 2.1(k) (APA Representations, Warranties and Undertakings),

provided that nothing in this clause 2.3 will prevent the Board of Envestra (excluding the APA Affiliated Directors) or the Independent Board Committee or any Non APA Affiliated Director from changing or withdrawing its recommendation of the Scheme or any other statement set out in the Agreed Announcement.

(b) Each party must:

(i) promptly inform the other of a failure to satisfy a Condition Precedent or of any circumstance which may result in any of the Conditions Precedent not being satisfied or capable of being satisfied;

(ii) promptly advise the other party in writing of the satisfaction of a Condition Precedent; and

(iii) give the Court on the Second Court Date a certificate confirming (in respect of matters within its own knowledge) whether or not the Conditions Precedent (other than the Condition Precedent in clause 2.1(c)) have been satisfied or waived.

2.4 Condition Precedent not satisfied or waived

(a) If:

(i) any Condition Precedent has not been fulfilled or waived in accordance with clause 2.2 by the time or date specified in clause 2.1 for satisfaction of the Condition Precedent; or

(ii) there is an act, omission, event, occurrence or circumstance which will prevent a Condition Precedent from being satisfied by the time or date specified in clause 2.1 for its satisfaction or, if no time or date is specified, by the End Date (and the non-fulfilment of the Condition Precedent which would otherwise occur has not already been waived),

either APA or Envestra may serve notice on the other of them and then Envestra and APA will consult in good faith with a view to determining whether:

(iii) the Scheme may proceed by way of alternative means or methods;

(iv) to extend the relevant time or date for satisfaction of the Condition Precedent;

(v) to change the date of the application to be made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme or adjourning that application (as applicable) to another date agreed by the parties and, if required, approved by the Court (being a date no later than 5 Business Days before the End Date); and/or

(vi) to extend the End Date.

(b) If Envestra and APA are unable to reach agreement under clause 2.4(a) within the Consultation Period (as defined below) either of them may, provided that it has complied with its obligations (if any) under clause 2.3 in respect of that Condition Precedent and the relevant Condition Precedent is for its benefit (whether solely or jointly with the other party) or cannot be waived under clause 2.2(d), terminate this Agreement by notice in writing to the other party.

(c) For the purposes of clause 2.4(b), the **Consultation Period** is the shorter of:

(i) five Business Days following the date of a notice given in accordance with clause 2.4(a); and

(ii) the period commencing on the date of a notice given in accordance with clause 2.4(a) and ending at 8.00am on the Second Court Date.

2.5 Communications regarding regulatory approvals

To the extent permitted by law and each party's respective legal obligations and without limitation to clause 2.3:

(a) as soon as practicable after the date of this Agreement, the parties must cooperate in good faith to develop a plan for communications with Governmental Agencies that are required to be approached for the purpose of procuring the satisfaction of any Condition Precedent (each a **Relevant Governmental Agency**);

(b) each party must provide any Relevant Governmental Agency with all information reasonably required by the Relevant Governmental Agency in connection with the Scheme;

(c) each party:

(i) subject to the requirements of the Relevant Governmental Agency, shall have the right to be present and make submissions at or in relation to any proposed meeting by the other party or its advisers with a Relevant Governmental Agency in relation to the Scheme (except to the extent that such meeting involves the discussion of commercially sensitive information); and

(ii) must promptly provide copies to the other party of any written communication sent to or received from a Relevant Governmental Agency in connection with the Scheme (except to the extent that such written communication contains commercially sensitive information of the party in correspondence with the Relevant Governmental Agency); and

(d) notwithstanding any other provision of this Agreement, for the purposes of obtaining any approval of a Relevant Governmental Agency, neither APA nor Envestra is required to agree to any conditions or to provide or to agree to provide any written undertakings to a Relevant Governmental Agency which are not reasonably acceptable to APA or Envestra (as the case requires).

3 Scheme

3.1 Outline of Scheme

Subject to the terms and conditions of this Agreement, Envestra must propose and implement the Scheme, under which on the Implementation Date all of the Envestra Shares held by Scheme Shareholders will be transferred to APL as RE of APT and the Scheme Shareholders will be entitled to receive for each Envestra Share the Scheme Consideration.

3.2 No amendment to the Scheme without consent

Envestra must not consent to any material modification of, or amendment to, or the making or imposition by the Court of any condition in respect of, the Scheme without the prior written consent of APA, such consent not to be unreasonably withheld.

3.3 Scheme Consideration

Subject to the Scheme becoming Effective, APA undertakes to Envestra that in consideration of the transfer of each of the Envestra Shares held by Scheme Shareholders to APL as RE of APT under the Scheme it will provide or procure the provision of the Scheme Consideration in accordance with the Scheme.

3.4 Ineligible Foreign Envestra Shareholders

(a) APA has no obligation to allot or issue New APA Securities to any Ineligible Foreign Envestra Shareholder under the Scheme and, instead, must procure that the New APA

Securities that would have otherwise been issued to the Ineligible Foreign Envestra Shareholder are dealt with under the Cash Out Facility.

(b) Envestra and APA:

(i) are satisfied that the laws of all relevant jurisdictions permit the issue of New APA Securities to Cheung Kong Infrastructure Holdings (Malaysian) Ltd (**CKI**) either unconditionally or after compliance with requirements that are not unduly onerous; and

(ii) agree that CKI is not an Ineligible Foreign Envestra Shareholder.

3.5 Entitlement to dividends and distributions

(a) Envestra Shareholders will be entitled to receive the dividend of $0.032 per Envestra Share expected to be paid by Envestra in April 2014.

(b) APA's final distribution for the year ending 30 June 2014 will be payable with respect to all New APA Securities issued to Scheme Shareholders under the Scheme, subject to Implementation of the Scheme by 30 June 2014.

(c) To the extent the Scheme is not Implemented by 30 June 2014:

(i) Envestra Shareholders will be entitled to receive any final dividend on their Envestra Shares for the year ending 30 June 2014 declared or determined to be payable by the Envestra Board, provided that the record date for that dividend is after 30 June 2014; and

(ii) if the dividend referred to in clause 3.5(c)(i) is greater or lesser than the Permitted Envestra Dividend Amount (as defined in the Scheme), the Scheme Consideration will, if required by the terms of the Scheme, be adjusted pursuant to the terms of the Scheme.

4 Envestra's obligations in respect of the Scheme

4.1 Steps to be taken

Envestra must take all necessary steps to propose and implement the Scheme as soon as is reasonably practicable and use all reasonable endeavours to do so in accordance with the Timetable, including taking each of the following steps:

(a) **Agreed Announcement**: make its Agreed Announcement in accordance with clause 13.1;

(b) **Independent Expert**: procure the finalisation of the Independent Expert's Report and provide all assistance and information reasonably requested by the Independent Expert to enable it to finalise the Independent Expert's Report on a timely basis;

(c) **Investigating Accountant**: procure the finalisation of the Investigating Accountant's Report and provide all assistance and information reasonably requested by the Investigating Accountant to enable it to finalise the Investigating Accountant's Report;

(d) **Preparation of Scheme Booklet**: prepare the Scheme Booklet in accordance with clause 6;

(e) **Lodgement of draft Scheme Booklet with ASIC**: provide an advanced draft of the Scheme Booklet to ASIC for its review and approval for the purposes of section 411(2) of the Corporations Act and to APA, and liaise with ASIC during the ASIC Review Period;

(f) **ASIC Review Period**: during the ASIC Review Period, keep APA promptly informed of any matters raised by ASIC in relation to the Scheme Booklet (and any resolution of those matters), and use reasonable endeavours, with the co-operation of APA, to resolve any such matters;

(g) **Court documents**: promptly prepare all documents necessary for the Court proceedings (including any appeals) relating to the Scheme (including originating process, affidavits, submissions and draft minutes of Court orders) in accordance with all applicable laws, and provide APA with drafts of those documents for review and (acting reasonably and in good faith) take into account, for the purpose of amending those drafts, any comments from APA and its Representatives on those drafts;

(h) **Approval of Scheme Booklet**: unless Envestra disagrees with the final form and content of the APA Scheme Booklet Information or the Combined Group Scheme Booklet Information as determined by APA under clause 6(h), as soon as practicable after the end of the ASIC Review Period, procure that a meeting of the Board of Envestra is convened to approve the Scheme Booklet and also to approve an application to the Court for an order that the Scheme Meeting be convened by the despatch of the Scheme Booklet to Participating Envestra Shareholders;

(i) **Court direction**: apply to the Court for an order under section 411(1) of the Corporations Act directing Envestra to convene the Scheme Meeting;

(j) **Despatch Scheme Booklet:** promptly after, and provided that, the approvals and orders in clauses 4.1(h) and 4.1(i) have been received, request ASIC to register the explanatory statement included in the Scheme Booklet in relation to the Scheme in accordance with section 412(6) of the Corporations Act and then despatch a copy of the Scheme Booklet to each Participating Envestra Shareholder and to all other persons entitled to receive notice of the Scheme Meeting;

(k) **Update the Scheme Booklet**: if applicable, update the Scheme Booklet in accordance with clause 8.1(j);

(l) **Shareholder Information**: subject to clause 5(i), the terms of the Scheme and applicable law:

(i) provide, and give all necessary directions to Envestra's registry to provide, the Shareholder Information to APA and, where requested, Envestra must procure such information to be provided to APA in such electronic form as is reasonably requested by APA; and

(ii) conditional on the Scheme becoming Effective, provide to APA all necessary information in its possession about Participating Envestra Shareholders which APA reasonably requires to facilitate the issue by the APA Responsible Entity of New APA Securities as consideration for the Scheme;

(m) **Scheme Meeting**: convene the Scheme Meeting in accordance with the Court order, and put the Scheme Resolution to Participating Envestra Shareholders at the Scheme Meeting;

(n) **Proxy results**: provide an update to a nominated Representative of APA on the status of proxy forms received by the Envestra registry for the Scheme Meeting:

(i) on the day that is 15 Business Days before the Scheme Meeting;

(ii) on each Business Day following the day that is 15 Business Days before the Scheme Meeting up to and including the deadline for receipt of proxy forms; and

(iii) immediately following the deadline for receipt of proxy forms.

(o) **Section 411(17)(b) statement**: apply to ASIC for the production of:

(i) an indication of intent letter stating that it does not intend to appear before the Court at the First Court Hearing; and

(ii) a statement pursuant to section 411(17)(b) of the Corporations Act stating that ASIC has no objection to the Scheme;

(p) **Court approval**: apply to the Court for an order approving the Scheme in accordance with sections 411(4)(b) and, if applicable, 411(6) of the Corporations Act;

(q) **Lodge copy of Court order, etc**: if the Court approves the Scheme in accordance with sections 411(4)(b) and, if applicable, 411(6) of the Corporations Act:

(i) as soon as practicable after such time and in any event by no later than 4pm on the first Business Day after the date on which the Court makes the order, lodge with ASIC an office copy of the order approving the Scheme in accordance with section 411(10) of the Corporations Act;

(ii) use reasonable endeavours to ensure that ASX suspends trading in Envestra Shares with effect from the close of trading on the Effective Date;

(iii) close the Register as at the Record Date to determine who are Scheme Shareholders and their entitlements to the Scheme Consideration as at the Record Date;

(iv) promptly execute proper instruments of transfer of, and register all transfers of, Envestra Shares to APL as RE of APT on the Implementation Date; and

(v) promptly do all other things contemplated by or necessary to lawfully give effect to the Scheme and the orders of the Court approving the Scheme;

(r) **ASX listing**:

(i) use its reasonable endeavours to ensure that the Envestra Shares continue to be quoted on ASX until the close of business on the Implementation Date; and

(ii) not request ASX to remove Envestra from the official list of ASX until after the Implementation Date in accordance with the directions of APA;

(s) **Consultation and co-operation**: subject to the proper performance by the directors of Envestra of their fiduciary and statutory duties and provided that nothing in this paragraph requires the provision by any member of the Envestra Group or its Representatives of any information in breach of any obligation of confidentiality or any law, during the period from the date of this Agreement to the Implementation Date, Envestra will:

(i) co-operate in good faith with APA in its efforts to promote the merits of the Scheme, including, where agreed to be appropriate, the parties acting reasonably;

(A) through communications with Participating Envestra Shareholders; or

(B) holding meetings between Representatives of Envestra and key Participating Envestra Shareholders at the reasonable request of APA; and

(ii) not, and will use reasonable endeavours to procure that the directors of Envestra do not, act in a manner adverse to the Scheme; and

(t) **Director changes:** upon Implementation of the Scheme, appoint the nominees of APA as directors of Envestra and each subsidiary of Envestra (subject to appropriate consents having been given), and cause the resignation or removal as directors of Envestra and each subsidiary of Envestra of such persons as are nominated by APA, subject to ensuring that the minimum number of directors required by law is maintained at all times.

4.2 Agreed Announcement

Envestra must authorise and issue the Agreed Announcement immediately following execution of this Agreement, which will include:

(a) details of the position of each Non APA Affiliated Director in respect of the Scheme including:

(i) the name of the director;

(ii) his position in respect of whether he considers the Scheme to be in the best interests of Participating Envestra Shareholders or whether he has abstained from stating his position;

(iii) his recommendation in respect of whether Participating Envestra Shareholders should vote in favour of the Scheme or whether he has abstained from giving a recommendation;

(iv) the voting intent in respect of any Envestra Shares that he holds or that he is able to control voting rights in respect of or whether he has abstained from stating his voting intention;

(b) a statement to the effect that:

(i) a majority of the Non APA Affiliated Directors consider the Scheme to be in the best interests of Participating Envestra Shareholders and recommend that Participating Envestra Shareholders vote in favour of the Scheme; and

(ii) each Non APA Affiliated Director forming part of the majority referred to in clause 4.2(b)(i) who holds Envestra Shares or is able to control voting rights in respect of Envestra Shares intends to vote his Envestra Shares, or procure that those Envestra Shares are voted, in favour of the Scheme,

subject to there being no superior proposal in respect of Envestra and the Independent Expert continuing to conclude that the Scheme is fair and reasonable and in the best interests of Participating Envestra Shareholders.

5 APA's obligations in respect of the Scheme

Subject to the terms and conditions of this Agreement, APA must take all reasonably necessary steps to assist Envestra to propose and implement the Scheme as soon as is reasonably practicable and use all reasonable endeavours to do so in accordance with the Timetable, including taking each of the following steps:

(a) **Preparation of Scheme Booklet:** provide assistance with the preparation of the Scheme Booklet in accordance with clause 6;

(b) **Independent Expert information**: provide all assistance and information reasonably requested by Envestra or by the Independent Expert in connection with the preparation of the Independent Expert's Report;

(c) **Investigating Accountant**: procure the finalisation of the Investigating Accountant's Report and provide all assistance and information reasonably requested by the Investigating Accountant to enable it to finalise the Investigating Accountant's Report;

(d) **Regulator's Draft**: as soon as reasonably practicable after receipt from Envestra of the proposed Regulator's Draft, either:

(i) confirm in writing to Envestra that the APA Scheme Booklet Information and the Combined Group Scheme Booklet Information in the form and context in which it appears in the proposed Regulator's Draft is not misleading or deceptive and does not contain any material omission; or

(ii) provide Envestra with the textual changes required to ensure that the proposed Regulator's Draft is not misleading or deceptive and does not contain any material omission;

(e) **ASIC Review Period**: provide reasonable assistance to Envestra in connection with resolving any matter raised by ASIC regarding the Scheme Booklet or the Scheme during the ASIC Review Period;

(f) **Approval of Scheme Booklet**: as soon as practicable after the end of the ASIC Review Period, procure that a meeting of its Board is convened to approve those sections of the

Scheme Booklet that comprise the APA Scheme Booklet Information and the Combined Group Scheme Booklet Information as being in a form appropriate for despatch to Participating Envestra Shareholders;

(g) **Deed Poll**: before the First Court Hearing, execute the Deed Poll;

(h) **Court representation**: procure that it is represented by counsel at the Court hearings convened for the purposes of sections 411(1), 411(4)(b) and 411(6) of the Corporations Act, at which, through its counsel, it will undertake (if requested by the Court) to do all such things and take all such steps within its power as may be reasonably necessary in order to ensure the fulfilment of its obligations under this Agreement and the Scheme;

(i) **Proxy solicitation**:

(i) provide reasonable notice to Envestra in advance of any activities to be undertaken by or on behalf of APA to solicit proxies or votes at the Scheme Meeting and consult in good faith with Envestra regarding all material details concerning such activities (including any material communications with Envestra Shareholders); and

(ii) ensure that any information disclosed to APA under clause 4.1(n) is kept confidential, is not used for any purpose other than the solicitation of proxies or votes at the Scheme Meeting, is treated in according with privacy law and (to the extent relevant) Envestra's privacy policy and is not disclosed to any person other than APA's directors, senior managers and advisers who reasonably require that information for the purpose of soliciting proxies or votes at the Scheme Meeting;

(j) **Shareholder Information**: ensure that any information disclosed to APA under clause 4.1(l)(i) is kept confidential and is treated in according with privacy law and (to the extent relevant) Envestra's privacy policy;

(k) **Scheme Consideration**: if the Scheme becomes Effective, provide the Scheme Consideration in accordance with the Deed Poll and the Transaction Documents on the Implementation Date; and

(l) **Other:** do all things lawfully within its power that are reasonably necessary to give effect to the Scheme and the orders of the Court approving the Scheme.

6 Preparation of Scheme Booklet

(a) Subject to APA complying with its obligations under clause 6(d), Envestra must prepare the Scheme Booklet as soon as is reasonably practicable after the date of this Agreement and use all reasonable endeavours to do so in accordance with the Timetable.

(b) Envestra must use reasonable endeavours to ensure that the Scheme Booklet complies with the requirements of the Corporations Act, the ASX Listing Rules and all ASIC Regulatory Guides applicable to members' schemes of arrangement under Part 5.1 of the Corporations Act, except in respect of the APA Scheme Booklet Information and the Combined Group Scheme Booklet Information.

(c) Envestra must make available to APA drafts of the Scheme Booklet (including any draft of a report by the Independent Expert but excluding those sections containing the Independent Expert's opinions or conclusions) and consult with APA in relation to the content of those drafts, and consider in good faith, for the purpose of amending those drafts, comments from APA and its advisers on those drafts received on a timely basis.

(d) Subject to paragraph (e), APA must:

(i) provide to Envestra such information regarding APA, the APA Group, the APA Securities and the Combined Group as is required to ensure that the Scheme Booklet complies with the requirements of the Corporations Act, the ASX Listing Rules and all ASIC Regulatory Guides applicable to members' schemes of arrangement under Part 5.1 of the Corporations Act, including all the information that would be required under sections 636(1)(c), (f), (ga), (h), (i), (k)(ii), (l) and (m) of the Corporations Act

to be included in a bidder's statement if APA were offering the Scheme Consideration as consideration under a takeover bid (APA acknowledging that Envestra will rely on such information to prepare the Scheme Booklet and agreeing that the APA Scheme Booklet Information and the Combined Group Scheme Booklet Information will be provided in good faith); and

(ii) provide to Envestra such assistance as Envestra may reasonably require in order to adapt such information for inclusion in the Scheme Booklet,

as soon as reasonably practicable after the date of this Agreement (and must use all reasonable endeavours to do so in accordance with the Timetable).

(e) APA's obligation under paragraph (d) to provide information regarding the Combined Group is subject to Envestra providing (and Envestra must provide) APA in a timely manner with such information regarding the Envestra Group as is reasonably necessary for APA to prepare the information regarding the Combined Group required by the disclosure requirements referred to in sub-paragraph (d)(i).

(f) Envestra must:

(i) only use the APA Scheme Booklet Information (to the extent that it is confidential) and the Combined Group Scheme Booklet Information (to the extent that it is confidential) with the prior written consent of APA (not to be unreasonably withheld or delayed); and

(ii) from the date of the First Court Hearing until the Implementation Date, promptly inform APA if it becomes aware that the Scheme Booklet contains a statement that is or has become misleading or deceptive in a material respect or that contains a material omission.

(g) The parties acknowledge that the Scheme Booklet will contain statements to the effect that:

(i) Envestra is responsible for the contents of the Scheme Booklet other than, to the maximum extent permitted by law, the APA Scheme Booklet Information, the Combined Group Scheme Booklet Information, the Independent Expert's Report, the Investigating Accountant's Report and the Tax Section (except to the extent that the Tax Section has been prepared based on information provided by Envestra). APA and its directors, officers and advisers do not assume any responsibility for the accuracy or completeness of any such Envestra information; and

(ii) APA is responsible for the APA Scheme Booklet Information and the Combined Group Scheme Booklet Information. APA is also responsible for the Tax Section, to the extent it has been prepared based on information provided by APA. Envestra and its directors, officers and advisors do not assume any responsibility for the accuracy or completeness of the APA Scheme Booklet Information or the Combined Group Scheme Booklet Information.

(h) If the parties disagree on the form or content of the Scheme Booklet (including any update to the Scheme Booklet to be made in accordance with clause 4.1(k)):

(i) they must consult in good faith to try to settle an agreed form of the Scheme Booklet (or an agreed form of the update to the Scheme Booklet, as applicable); and

(ii) failing agreement within five Business Days, the dispute must be referred to the chairmen of Envestra and APA.

If within five Business Days of the referral to the chairmen there is still no agreement between the parties, the final form and content of the Scheme Booklet (or the form and content of the update to the Scheme Booklet, as applicable):

(iii) the Envestra Scheme Booklet Information shall be determined by Envestra, acting reasonably; and

(iv) the APA Scheme Booklet Information and the Combined Group Scheme Booklet Information shall be determined by APA, acting reasonably,

provided that if Envestra, acting reasonably, disagrees with the final form or content (or both) of the APA Scheme Booklet Information or the Combined Group Scheme Booklet Information (or both) as determined by APA under paragraph (iv) above, Envestra may terminate this Agreement by notice in writing to APA at any time up until the relevant information has been despatched by Envestra in accordance with clause 4.1(j) or clause 4.1(k) (as applicable).

(i) Envestra must undertake appropriate verification procedures in relation to the Envestra Scheme Booklet Information and APA must undertake appropriate verification procedures in relation to the APA Scheme Booklet Information and the Combined Group Scheme Booklet Information.

7 Pre-implementation Obligations

7.1 Conduct of business

From the date of this Agreement up to and including the Implementation Date, each party must conduct its business, and procure that of its Related Entities conducts its business, in the ordinary course, in substantially the same manner, and at the same locations, as previously conducted and use reasonable endeavours to:

(a) preserve intact its current business organisation including keeping available the services of its officers and employees;

(b) preserve its relationships with customers, suppliers, licensors, licensees and others having business dealings with it; and

(c) maintain the condition of its business and assets, including maintaining at least its current level of insurance (provided such level of insurance continues to be generally available).

7.2 Certain Envestra Group actions requiring the consent of APA

Without limiting clause 7.1, from the date of this Agreement up to and including the Implementation Date, Envestra must not and must ensure that each other member of the Envestra Group does not:

(a) dispose or agree or offer to dispose of or lease or agree or offer to lease any one or more assets, businesses or entities or any one or more items of real property, plant or equipment (or any interest in any of the foregoing), the value or aggregate value of which exceeds $10 million, to any person other than a member of the Envestra Group;

(b) acquire or agree or offer to acquire any one or more assets, businesses or entities or any one or more items of real property, plant or equipment (or any interest in any of the foregoing), the value or aggregate value of which exceeds $10 million, from any person other than a member of the Envestra Group;

(c) either:

(i) enter into an employment contract with a potential employee (other than to replace on substantially similar terms (including as to remuneration and benefits) an employee who has ceased to be an employee of the Envestra Group); or

(ii) enter into a new employment contract with, or amend an employment contract of, an existing employee of a member of the Envestra Group (other than any increase in remuneration or benefits consistent with past practice),

in respect of which the total annual employment costs of that existing or potential employee are in excess of $150,000;

(d) settle any legal proceedings, claim, investigation, arbitration or other like proceeding where the amount claimed by or against a member of the Envestra Group exceeds $5 million;

(e) enter, or propose to enter, into or amend, or propose to amend, in any material respect any joint venture, partnership or other agreement with any person other than a member of the Envestra Group involving or reasonably likely to involve expenditure or other commitment on the part of a member of the Envestra Group in excess of $10 million;

(f) incur any financial indebtedness or issue any debt securities, other than:

(i) any financial indebtedness incurred within existing limits of any existing debt facility or debt securities;

(ii) trade credit or other liabilities incurred in the ordinary course of business;

(iii) indebtedness to a member of the Envestra Group; or

(iv) any Envestra Permitted Financing Activities;

(g) authorise, commit or agree to do any of the matters set out above.

7.3 Exceptions

Nothing in clause 7.1 or clause 7.2 restricts:

(a) anything which a party is required to do, permitted to do or is permitted not to do under any provision of this Agreement or the Scheme, or which is otherwise contemplated by this Agreement or the Scheme;

(b) anything which, in the case of the Envestra Group, is consented to by APA and, in the case of the APA Group, is consented to by Envestra (in each case, such consent not to be unreasonably withheld);

(c) any transaction, expenditure or other action (not involving any proposed or contemplated M&A activity) fairly disclosed before the date of this Agreement:

(i) in any public filing with the ASX or ASIC; or

(ii) in writing in any of the due diligence information referred to in clause 10.1; or

(d) any agreement or other arrangement which is conditional on the Scheme not being Implemented other to the extent to which entry into such agreement or arrangement would be in breach of clause 11.

7.4 Envestra employees

APA undertakes that:

(a) promptly following the date of this Agreement, it will engage in discussions with Envestra's Managing Director, and will consult with Envestra's employees with a view to identifying staffing requirements to support the ongoing network business in the event the Scheme is Implemented; and

(b) within 14 days of the date of this Agreement, APA will formally outline to Envestra APA's intentions in respect of all individual Envestra employees; and

(c) if the Scheme is Implemented:

(i) APA will continue the employment of all Envestra Group employees (other than Mr Ian Little) until at least 30 September 2014; and

(ii) the employment of Mr Ian Little will be treated in accordance with the terms of the services agreement between Envestra and Mr Ian Little dated 28 March 2006 (as amended), including clause 14.3 of that agreement (Effect of Fundamental Change), unless otherwise agreed between APA and Mr Ian Little.

8 Representations, Warranties and Undertakings

8.1 Representations, warranties and undertakings by Envestra

Subject to clause 8.3, Envestra represents and warrants (and, where applicable, undertakes) to APA (on its own behalf and separately as trustee for each of the APA Indemnified Parties) that:

(a) Envestra and each of its Related Bodies Corporate is a corporation duly incorporated, validly existing and limited by shares under the Corporations Act or other applicable legislation;

(b) it has full legal capacity and power to own its own property and to carry on its business;

(c) the execution, delivery and performance of this Agreement by Envestra has been properly authorised by all necessary corporate action and Envestra has full corporate power to execute, deliver and perform this Agreement;

(d) this Agreement constitutes legal, valid and binding obligations on Envestra (subject to laws generally affecting creditors' rights and the principles of equity);

(e) neither it nor any other member of the Envestra Group is affected by an Insolvency Event;

(f) all information provided by or on behalf of Envestra to the Independent Expert and the Investigating Accountant to enable their respective reports to be prepared has been, and will be, provided in good faith and on the understanding that the Independent Expert and the Investigating Accountant will rely on that information for the purpose of preparing their respective reports for inclusion in the Scheme Booklet;

(g) all information provided by or on behalf of Envestra to Envestra's tax advisers to enable the preparation of the Tax Section has been, and will be, provided in good faith and on the understanding that Envestra's tax advisers will rely on that information for the purpose of preparing the Tax Section;

(h) the Envestra Scheme Booklet Information:

(i) will be prepared and included in the Scheme Booklet in good faith and on the understanding that APA and its directors will rely on that information for the purpose of considering and approving the APA Scheme Booklet Information and the Combined Group Scheme Booklet Information; and

(ii) will comply in all material respects with the requirements of the Corporations Act, the ASX Listing Rules and relevant ASIC regulatory guides and the terms of this Agreement as they apply to such information;

(i) as at the date the Scheme Booklet is despatched to Participating Envestra Shareholders, the Scheme Booklet (excluding the APA Scheme Booklet Information, the Combined Group Scheme Booklet Information, the Independent Expert's Report, the Investigating Accountant's Report and the Tax Section) will not be misleading or deceptive in any material respect (whether by omission or otherwise);

(j) Envestra will (but in respect of the APA Scheme Booklet Information and the Combined Group Scheme Booklet Information, subject to APA complying with its obligations under clause 8.2(j)) update the Scheme Booklet as soon as reasonably practicable with all such further or new information which may arise after the Scheme Booklet has been despatched until the Scheme Meeting which is either necessary to ensure that the Scheme Booklet is not misleading or deceptive in any material respect (whether by omission or otherwise) or which is otherwise material for disclosure to Participating Envestra Shareholders or that is required to be disclosed to Participating Envestra Shareholders under any applicable law;

(k) Envestra is not in breach of its continuous disclosure obligations under the ASX Listing Rules and, other than in respect of the Scheme, it is not relying on the carve-out in Listing Rule 3.1A to withhold any material information from public disclosure;

(l) Envestra's financial statements for the financial year ended 30 June 2013 give a true and fair view of the financial position of Envestra as at 30 June 2013 and of its financial performance for the financial year ended on that date;

(m) Envestra's financial statements for the 6 months ended 31 December 2013 give a true and fair view of the financial position of Envestra as at 31 December 2013 and of its financial performance for the 6 months ended on that date;

(n) as at the date of this Agreement:

(i) the total issued capital of Envestra is 1,796,808,474 Envestra Shares;

(ii) there are no other shares, options, performance rights or convertible instruments or other securities or financial products granted or on issue by Envestra (or offers or agreements to issue any of the foregoing);

(o) all of the shares of the subsidiaries of Envestra and other members of the Envestra Group are legally and beneficially owned by Envestra (whether directly or indirectly) and those shares have been validly issued and fully paid up;

(p) there is no encumbrance, option, right of pre-emption, right of first or last refusal or other third party right over any of the shares in any member of the Envestra Group (other than Envestra) and to the knowledge of Envestra there is no encumbrance, option, right of pre-emption, right of first or last refusal or other third party right over any of the shares in Envestra other than those disclosed to APA in writing;

(q) no member of the Envestra Group (aside from Envestra) has in place any plans or schemes relating to the provision of shares, options or other equity entitlements to officers or employees of that member;

(r) other than disclosed in the Envestra Due Diligence Information, no member of the Envestra Group has given a commitment to any Officer of that member in relation to the change of ownership of Envestra;

(s) other than as disclosed to APA in writing prior to the date of this Agreement, no member of the Envestra Group has any arrangement with any corporate, financial or other adviser or any third party under which Envestra has agreed to pay or is obliged to pay a fee or expense to that adviser or third party if the Scheme does, or if the Scheme does not, become Effective or otherwise in connection with the Scheme;

(t) the Envestra Due Diligence Information has been provided to APA in good faith and Envestra has not knowingly and intentionally:

(i) omitted anything from the Envestra Due Diligence Information that Envestra knows would be material to the financial position or performance of Envestra's business;

(ii) omitted anything from the Envestra Due Diligence Information that Envestra knows would be such as to make any part of that information materially false or misleading;

(iii) included anything that Envestra knows is materially false or misleading in the Envestra Due Diligence Information; or

(iv) omitted from the Envestra Due Diligence Information any Material Contract containing a provision pursuant to which the signing of this Agreement, the Scheme, the acquisition of Envestra Shares by APA following the Implementation of the Scheme or the delisting of Envestra if the Scheme is successful will result in the Material Contract being terminated or adversely modified or any adverse action being taken or arising thereunder;

(u) it will use reasonable endeavours to procure that no Envestra Prescribed Event or Envestra Material Adverse Change occurs;

(v) as at the date of this Agreement, it is not involved in or aware of any negotiations or discussions, approach or attempt to initiate any negotiations or discussions, or intention to make such an approach or attempt to initiate any negotiations or discussions in respect of any expression of interest, offer, proposal or discussion in relation to a Competing Proposal, whether direct or indirect, solicited or unsolicited and in writing or otherwise; and

(w) this Agreement does not conflict with or result in the breach of or default under:

(i) any provision of Envestra's constitution; or

(ii) any:

(A) material term or provision of any agreement to which it or a another member of the Envestra Group is a party; or

(B) writ, order or injunction, judgment, law, rule or regulation to which it or another member of the Envestra Group is subject or by which it or they are bound,

and which is material in the context of the Envestra Group taken as a whole, save as fairly disclosed in the Envestra Due Diligence Information given before the date of this Agreement.

8.2 Representations, warranties and undertakings by APA

Subject to clause 8.4, APA represents and warrants (and, where applicable, undertakes) to Envestra (on its own behalf and separately as trustee for each of the Envestra Indemnified Parties) that:

(a) APL is a company duly incorporated, validly existing and limited by shares under the Corporations Act;

(b) APT and APTIT are managed investment schemes registered under Chapter 5C of the Corporations Act;

(c) the execution, delivery and performance of this Agreement by APA has been properly authorised by all necessary corporate action and APA has full corporate power to execute, deliver and perform this Agreement;

(d) this Agreement constitutes legal, valid and binding obligations on APA (subject to laws generally affecting creditors' rights and the principles of equity);

(e) neither it nor any other member of the APA Group is affected by an Insolvency Event;

(f) all information provided by or on behalf of APA to the Independent Expert and the Investigating Accountant to enable their respective reports to be prepared has been, and will be, provided in good faith and on the understanding that the Independent Expert and Investigating Accountant will rely upon that information for the purpose of preparing their respective reports for inclusion in the Scheme Booklet;

(g) all information provided by or on behalf of APA to Envestra's tax advisers to enable the preparation of the Tax Section has been, and will be, provided in good faith and on the understanding that Envestra's tax advisers will rely on that information for the purpose of preparing the Tax Section;

(h) the APA Scheme Booklet Information and the Combined Group Scheme Booklet Information (to the extent that APA has consented to inclusion of that information in accordance with clause 6(g)(ii)):

(i) will be prepared in good faith and on the understanding that Envestra and each of its directors will rely on that information for the purposes of preparing the Scheme Booklet and proposing the Scheme;

(ii) will comply in all material respects with the requirements of the Corporations Act, the ASX Listing Rules and relevant ASIC regulatory guides and the terms of this Agreement as they relate to such information; and

(iii) would not cause the Scheme Booklet to be "defective", within the meaning of sections 1021B and 1022A of the Corporations Act (whether by omission or otherwise) if those sections applied to the Scheme Booklet;

(i) as at the date the Scheme Booklet is despatched to Participating Envestra Shareholders, the APA Scheme Booklet Information and the Combined Group Scheme Booklet Information will not be misleading or deceptive in any material respect (whether by omission or otherwise);

(j) APA will provide to Envestra all such further or new material information that arises after the Scheme Booklet has been despatched until the date of the Scheme Meeting which is necessary to ensure that the APA Scheme Booklet Information and the Combined Group Scheme Booklet Information, in the form and context in which that information appears in the version of the Scheme Booklet sent to Participating Envestra Shareholders is not misleading or deceptive in any material respect (whether by omission or otherwise) and would not cause the Scheme Booklet to be defective (within the meaning of sections 1021B and 1022A of the Corporations Act), whether by omission or otherwise, if those sections applied to the Scheme Booklet, and if it becomes aware that the APA Scheme Booklet Information or the Combined Group Scheme Booklet Information contains a misleading or deceptive statement or is subject to a material omission, or has become misleading or deceptive or subject to a material omission, or would cause the Scheme Booklet to be defective (within the meaning of sections 1021B and 1022A of the Corporations Act), whether by omission or otherwise, if those sections applied to the Scheme Booklet, provide such further or new information as is required to correct the defect;

(k) APA is not in breach of its continuous disclosure obligations under the ASX Listing Rules and, other than in respect of the Scheme, it is not relying on the carve-out in Listing Rule 3.1A to withhold any material information from public disclosure;

(l) APA's financial statements for the financial year ended 30 June 2013 give a true and fair view of the financial position of APA as at 30 June 2013 and of its financial performance for the financial year ended on that date;

(m) APA's financial statements for the 6 months ended 31 December 2013 give a true and fair view of the financial position of APA as at 31 December 2013 and of its financial performance for the 6 months ended on that date;

(n) as at the date of this Agreement:

(i) there are 835,750,807 APA Securities on issue;

(ii) there are no other units, shares, options, performance rights or convertible instruments or other securities or financial products granted or on issue by APA (or offers or agreements to issue any of the foregoing);

(o) this Agreement does not conflict with or result in the breach of or default under:

(i) any provision of the APT Constitution or the APTIT Constitution or APL's constitution; or

(ii) any:

(A) material term or provision of any agreement to which it or a another member of the APA Group is a party; or

(B) writ, order or injunction, judgment, law, rule or regulation to which it or another member of the APA Group is subject or by which it or they are bound,

and which is material in the context of the APA Group taken as a whole, save as fairly disclosed in the APA Due Diligence Information given before the date of this Agreement.

(p) the APA Due Diligence Information has been provided to Envestra in good faith and APA has not knowingly and intentionally:

(i) omitted anything from the APA Due Diligence Information that APA knows would be material to the financial position or performance of APA's business;

(ii) omitted anything from the APA Due Diligence Information that APA knows would be such as to make any part of that information materially false or misleading; or

(iii) included anything that APA knows is materially false or misleading in the APA Due Diligence Information;

(q) it will use reasonable endeavours to procure that no APA Prescribed Event or APA Material Adverse Change occurs; and

(r) other than as disclosed to the ASX prior to the date of this Agreement, neither it nor any of its associates (as defined in section 12 of the Corporations Act):

(i) has a Relevant Interest in any Envestra Shares; or

(ii) is a party to any agreement, arrangement or understanding involving the conferring of rights on it the economic effect of which is equivalent, substantially equivalent, or similar to it acquiring, holding or disposing of Envestra Shares (whether combined with a financing arrangement or not).

8.3 Envestra limitation of liability

(a) Envestra is not liable in respect of a Warranty Claim in relation to a Envestra Warranty if the fact, matter, circumstance or act giving rise to the Warranty Claim:

(i) was required to be done by Envestra under the Transaction Documents; or

(ii) was approved by APA in writing (prior to the fact, matter, circumstance or act occurring); or

(iii) has been fairly disclosed in writing by Envestra to APA prior to the date the parties entered into this Agreement, including in the Envestra Due Diligence Information or the Envestra Disclosure and Permitted Financing Activities Letter, except in relation to the Envestra Warranty in clause 8.1(n) which is not subject to this paragraph (iii).

(b) The Envestra Warranties are qualified by, and are given subject to, the facts, matters, circumstances and acts referred to in clause 8.3(a).

8.4 APA limitation of liability

(a) APA is not liable in respect of a Warranty Claim in relation to an APA Warranty if the fact, matter, circumstance or act giving rise to the Warranty Claim:

(i) was required to be done by APA under the Transaction Documents; or

(ii) was approved by Envestra in writing (prior to the fact, matter, circumstance or act occurring); or

(iii) has been fairly disclosed in writing by APA to Envestra prior to the date the parties entered into this Agreement, including in the APA Due Diligence Information,

except in relation to the APA Warranty in 8.2(n) which is not subject to this paragraph (iii).

(b) The APA Warranties are qualified by, and are given subject to, the facts, matters, circumstances and acts referred to in clause 8.4(a).

8.5 Reliance

(a) Each party acknowledges that the other has entered into this Agreement in reliance on the representations, warranties and undertakings that are given by the party in this clause 8.

(b) The parties have not relied on any representation or warranty in deciding whether to enter into this Agreement, other than as expressly set out in this clause 8.

8.6 Nature of provisions

(a) Each of the representations and warranties in this clause 8 shall be deemed to be given as at the date of this Agreement and at 8.00am on the Second Court Date by reference to the circumstances then existing.

(b) Each of the representations, warranties and undertakings given by a party in this clause 8 must be construed as a separate and independent provision and will not be limited or restricted by reference to the terms of any other representation, warranty or undertaking in this clause 8 or any other term of this Agreement.

(c) Each of the representations and warranties in this clause 8:

(i) will survive the completion of the transactions contemplated by this Agreement or the termination of this Agreement; and

(ii) is given with the intent that liability under it will not be confined to breaches which are discovered prior to the completion of the transactions contemplated by this Agreement or the date of termination of this Agreement.

8.7 Notification

A party must promptly advise the other in writing of any representation or warranty provided in this clause 8 by the party being false or misleading in any material respect when given or a breach of any undertaking in this clause 8 by the party.

9 Indemnities

9.1 Indemnity from Envestra

Envestra indemnifies APA and the other APA Indemnified Parties from and against all claims, actions, proceedings, liabilities, obligations, damages, loss, harm, charges, costs, expenses, duties and other outgoings of whatever nature and however arising which any of the APA Indemnified Parties may suffer or incur by reason of any breach of any of the representations, warranties and undertakings in clause 8.1.

9.2 Indemnity from APA

APA indemnifies Envestra and the other Envestra Indemnified Parties from and against all claims, actions, proceedings, liabilities, obligations, damages, loss, harm, charges, costs, expenses, duties and other outgoings of whatever nature and however arising which any of the Envestra Indemnified Parties may suffer or incur by reason of any breach of any of the representations, warranties and undertakings given by it in clause 8.2 or by reason of any breach of any undertaking given by it in clause 7.4.

9.3 Nature of indemnities

Each indemnity in clauses 9.1 and 9.2 is a continuing obligation, separate and independent from the other obligations of the parties, and survives termination or completion of this Agreement. It is not necessary for a person to incur expense or make any payment before enforcing a right of indemnity in

this clause 9. The making of a claim by a person under an indemnity in this clause 9 in respect of a particular event does not preclude that person from subsequently making further claims under that indemnity in respect of any further loss arising out of the same event for which it has not previously been indemnified.

10 No reliance on Due Diligence Information

10.1 Due diligence investigations

(a) APA acknowledges and agrees, both on its own behalf and on behalf of each of the other APA Indemnified Persons that:

(i) prior to entry into this Agreement, it and its Representatives have undertaken their own due diligence investigations in relation to the Envestra Group, including access to data rooms, management presentations, interviews and discussions;

(ii) in the course of those investigations, and the negotiations and discussions in relation thereto, Envestra and its Representatives have provided to APA and its Representatives information in various forms in connection with the Scheme or relating to the Envestra Group (the **Envestra Due Diligence Information**);

(iii) as at the date of this Agreement it is not aware, as a consequence of obtaining the Envestra Due Diligence Information, of any information or matter that would give it a right to terminate this Agreement or would constitute a breach of any Envestra Warranty; and

(iv) the Envestra Warranties are provided subject to, and are qualified by, any facts, matters or circumstances which have been fairly disclosed in writing to APA or its Representatives prior to the date of this Agreement in the Envestra Due Diligence Information or the Envestra Disclosure and Permitted Financing Activities Letter or otherwise on the terms and conditions of this Agreement (except in relation to the Envestra Warranty in clause 8.1(n) which is not subject to this paragraph (iv)).

(b) Envestra acknowledges and agrees, both on its own behalf and on behalf of each of the other Envestra Indemnified Persons that:

(i) prior to entry into this Agreement, it and its Representatives have undertaken their own due diligence investigations in relation to the APA Group, including management presentations, interviews and discussions;

(ii) in the course of those investigations, and the negotiations and discussions in relation thereto, APA and its Representatives have provided to Envestra and its Representatives information in various forms in connection with the Scheme or relating to the APA Group (the **APA Due Diligence Information**);

(iii) as at the date of this Agreement it is not aware, as a consequence of obtaining the APA Due Diligence Information, of any information or matter that would give it a right to terminate this Agreement or would constitute a breach of any APA Warranty; and

(iv) the APA Warranties are provided subject to, and are qualified by, any facts, matters or circumstances which have been fairly disclosed in writing to Envestra or its Representatives prior to the date of this Agreement in the APA Due Diligence Information or otherwise on the terms and conditions of this Agreement (except in relation to the APA Warranty in 8.2(n) which is not subject to this paragraph (iv)).

10.2 Limited assurance regarding Due Diligence Information

(a) Except as set out in clauses 8.1(f), 8.1(g), 8.1(h), 8.1(i), 8.1(j), 8.1(t) and 8.1(w)(ii), APA acknowledges and agrees, both on its own behalf and on behalf of each of the other APA Indemnified Persons, that none of Envestra and its Representatives, to the maximum extent permitted by law:

(i) makes any representation or warranty:

(A) as to the accuracy, reasonableness, completeness or relevance of any of the Envestra Due Diligence Information;

(B) as to the reasonableness of any forecast or other forward looking statement contained or referred to in the Envestra Due Diligence Information, or any assumption upon which any such forecast or other forward looking statement is based;

(C) that any of the Envestra Due Diligence Information has been audited, verified or prepared with reasonable care; or

(D) that the Envestra Due Diligence Information is the totality of the information that a person would require or expect to find in order to consider or evaluate the Scheme;

(ii) accepts any responsibility to APA, any of the other APA Indemnified Persons or any other person for any false, inaccurate or misleading Envestra Due Diligence Information or for any opinion formed or conclusion drawn by APA or its Representatives as a result of examining the Envestra Due Diligence Information;

(iii) accepts any responsibility to inform APA or any of its Representatives of any matter arising or coming to the notice of Envestra which may affect or qualify any Envestra Due Diligence Information; and

(iv) is liable for any loss of any kind (including, without limitation, any consequential or economic loss) arising from any inaccuracy, incompleteness or similar defect in the Envestra Due Diligence Information or any default, negligence or lack of care in relation to the preparation or provision of the Envestra Due Diligence Information.

(b) Except as set out in clauses 8.2(f), 8.2(g), 8.2(h), 8.2(i), 8.2(j), 8.2(o)(ii) and 8.2(p) Envestra acknowledges and agrees, both on its own behalf and on behalf of each of the other Envestra Indemnified Persons that none of APA and its Representatives, to the maximum extent permitted by law:

(i) makes any representation or warranty:

(A) as to the accuracy, reasonableness, completeness or relevance of any of the APA Due Diligence Information;

(B) as to the reasonableness of any forecast or other forward looking statement contained or referred to in the APA Due Diligence Information, or any assumption upon which any such forecast or other forward looking statement is based;

(C) that any of the APA Due Diligence Information has been audited, verified or prepared with reasonable care; or

(D) that the APA Due Diligence Information is the totality of the information that a person would require or expect to find in order to consider or evaluate the Scheme;

(ii) accepts any responsibility to Envestra, any of the other Envestra Indemnified Persons or any other person for any false, inaccurate or misleading APA Due Diligence Information or for any opinion formed or conclusion drawn by Envestra or its Representatives as a result of examining the APA Due Diligence Information;

(iii) accepts any responsibility to inform Envestra or any of its Representatives of any matter arising or coming to the notice of APA which may affect or qualify any APA Due Diligence Information; and

(iv) is liable for any loss of any kind (including, without limitation, any consequential or economic loss) arising from any inaccuracy, incompleteness or similar defect in the APA Due Diligence Information or any default, negligence or lack of care in relation to the preparation or provision of the APA Due Diligence Information.

10.3 Own enquiries

(a) Subject to clauses 8.1(f), 8.1(g), 8.1(h), 8.1(i), 8.1(j), 8.1(t) and 8.1(w)(ii), without limiting clauses 10.1 and 10.2:

(i) APA acknowledges and agrees both on its own behalf and on behalf of each of the other APA Indemnified Persons that each of them has made its own independent assessment of all Envestra Due Diligence Information and has carried out, and relied solely on, its own investigation and analysis of the Envestra Due Diligence Information and the Scheme; and

(ii) APA acknowledges and agrees that it has entered into this Agreement utilising the Envestra Due Diligence Information solely at its own risk.

(b) Subject to clauses 8.2(f), 8.2(g), 8.2(h), 8.2(i), 8.2(j), 8.2(o)(ii) and 8.2(p), without limiting clauses 10.1 and 10.2:

(i) Envestra acknowledges and agrees both on its own behalf and on behalf of each of the other Envestra Indemnified Persons that each of them has made its own independent assessment of all APA Due Diligence Information and has carried out, and relied solely on, its own investigation and analysis of the APA Due Diligence Information and the Scheme; and

(ii) Envestra acknowledges and agrees that it has entered into this Agreement utilising the APA Due Diligence Information solely at its own risk.

10.4 Benefit

(a) The acknowledgements, confirmations and agreements in clauses 10.1(a), 10.2(a) and 10.3(a) are given to Envestra on its own behalf and separately as trustee for each of the Envestra Indemnified Parties.

(b) The acknowledgements, confirmations and agreements in clauses 10.1(b), 10.2(b) and 10.3(b) are given to APA on its own behalf and separately as trustee for each of the APA Indemnified Parties.

11 Exclusivity

11.1 Solicited proposals

Subject to clauses 11.4(b) and 11.6, during the Exclusivity Period, Envestra must not and must ensure that each of its Representatives does not:

(a) directly or indirectly solicit or invite; or

(b) initiate any enquiries, negotiations or discussions, or communicate any intention to do any of these things, with a view to obtaining,

any offer, expression of interest or proposal from any person in relation to a Competing Proposal.

11.2 Unsolicited proposals

(a) Envestra and its Representatives may respond to any Unsolicited Competing Proposal, including:

(i) entering into, continuing or participating in negotiations or discussions with any person regarding or in connection with an Unsolicited Competing Proposal;

(ii) allowing any such party and its Representatives to undertake due diligence on Envestra or its Related Bodies Corporate in connection with an Unsolicited Competing Proposal; and

(iii) making available to any person and its Representatives or permit such person and its Representatives to receive any non-public information relating to Envestra or its Related Bodies Corporate in connection with an Unsolicited Competing Proposal.

(b) Nothing in clauses 2, 4, 7 or 11.3 prevents any action by or on behalf of Envestra that is permitted by clause 11.2.

11.3 Notice of unsolicited approach

(a) During the Exclusivity Period, Envestra must within 3 Business Days notify APA in writing if it becomes aware of:

(i) the existence of any bona fide Competing Proposal which Envestra (acting reasonably) considers to be, or to be capable of becoming, a Superior Proposal; or

(ii) the provision by Envestra of any material confidential information concerning the business or operations of Envestra or the Envestra Group to a third party making or proposing a Competing Proposal (or its Representatives) in connection with a Competing Proposal.

For the avoidance of doubt, Envestra may only provide confidential information to a third party making or proposing a Competing Proposal (or its Representatives) in connection with a Competing Proposal as described in paragraph (ii) above if the Competing Proposal is an Unsolicited Competing Proposal.

(b) A notification given under clause 11.3(a) must include the identity of the relevant person making or proposing the relevant Competing Proposal, together with all material terms and conditions of the Competing Proposal as well as any update or variation to the terms and conditions.

11.4 Fiduciary carve out

(a) Without limiting clause 11.2, nothing in clauses 2, 4, 7 or 11.3 prevents or requires any action by or on behalf of Envestra in relation to any Unsolicited Competing Proposal if, after consultation with Envestra's financial advisers and receiving written legal advice from external legal advisers, the Board of Envestra (excluding the APA Affiliated Directors) (or the Independent Board Committee) has resolved (or a majority of the Non APA Affiliated Directors has determined) in good faith that:

(i) the Unsolicited Competing Proposal is or, if it was proposed, is reasonably capable of becoming a Superior Proposal; and

(ii) taking such action (where such action would otherwise be required by this Agreement) or failure to take such action (where such action would otherwise be prevented by this Agreement) would involve, or would be likely to involve, a breach of the fiduciary or statutory duties of the directors of Envestra.

(b) Any action permitted by clause 11.4(a) will not be regarded as a breach of clause 11.1.

11.5 Restriction on break fee arrangements with third parties

(a) During the Exclusivity Period, Envestra will not enter, and agrees to prohibit any entity within the Envestra Group from entering, into any agreements with any persons (other than a member of the APA Group) under which a member of the Envestra Group is required to make any payment by way of break fee, inducement fee, cost reimbursement or otherwise, to any person in connection with a proposal for an Acquisition Event:

(i) where the value or aggregate value of the fees agreed to exceeds $10 million; or

(ii) (regardless of the value of the fees agreed) that is payable as a consequence of the Acquisition Event not completing as a result of the Acquisition Event being rejected by Envestra Shareholders.

(b) Clause 11.5(a) does not apply to a payment by way of remuneration for professional services or to directors of Envestra for the discharge of their duties in connection with the Scheme.

(c) Provided that there is compliance with clause 11.5(a)(i), clause 11.5(a)(ii) does not restrict Envestra or any member of the Envestra Group from entering into an arrangement under which a member of the Envestra Group is required to make a payment in specified circumstances other than as a consequence of the relevant Acquisition Event being rejected by Envestra Shareholders (including, for the avoidance of doubt, where the payment becomes payable due to Envestra's default or as a consequence of another Acquisition Event being successful).

(d) If, during the Exclusivity Period, Envestra or any member of the Envestra Group enters into any agreements with one or more third parties (other than a member of the APA Group) which contain a break fee, inducement fee, cost reimbursement or other similar fee, in connection with a proposal for an Acquisition Event, Envestra agrees to enter into an equivalent arrangement with APA in relation to the Scheme on terms no less favourable to APA than the terms agreed with any such third party in relation to such Acquisition Event of an amount equal to the highest individual amount of any such fee specified in any such agreement.

11.6 Normal provision of information

Nothing in this clause 11 prevents Envestra from:

(a) providing information to rating agencies or any Governmental Agency in response to a request;

(b) providing information to its auditors, advisers, financiers, customers, joint venturers, franchisees, business partners and suppliers acting in that capacity in the ordinary course of business; or

(c) making presentations to brokers, portfolio investors, analysts and other third parties in the ordinary course of business.

12 Termination

12.1 Envestra Termination Events

Envestra may terminate this Agreement by notice in writing to APA:

(a) in accordance with clause 2.4(b) or clause 6(h);

(b) before 8.00am on the Second Court Date, if APA is in breach of any provision of this Agreement (including a breach of a representation or warranty under clause 8) and:

(i) that breach is material;

(ii) Envestra has given prompt written notice to APA setting out the breach; and

(iii) if the breach is capable of remedy, the breach is not remedied by APA within 5 Business Days (or such shorter period ending at 11.59pm on the Business Day before the Second Court Date) of it receiving notice under sub-paragraph (ii);

(c) before 8.00am on the Second Court Date, if the Independent Expert concludes (whether in its original or any subsequent opinion) that the Scheme is not fair and reasonable and in the best interests of Participating Envestra Shareholders;

(d) before 8.00am on the Second Court Date, if:

(i) one or more of the Non APA Affiliated Directors withdraws or adversely varies his:

(A) statement that he considers the Scheme to be in the best interests of Participating Envestra Shareholders; and

(B) recommendation that Participating Envestra Shareholders vote in favour of the Scheme; and

(ii) due to that withdrawal or variation, fewer than a majority of the Non APA Affiliated Directors continue to:

(A) consider the Scheme to be in the best interests of Participating Envestra Shareholders; and

(B) recommend that Participating Envestra Shareholders vote in favour of the Scheme;

(e) before 5.00pm on the Business Day before the Second Court Date, if at the Scheme Meeting or any adjournment or postponement of it at which the Scheme is voted on, the Scheme is not approved by the requisite majority of Participating Envestra Shareholders required under the Corporations Act; or

(f) if the Scheme has not been Implemented by the End Date, or becomes incapable, for any reason, of being Implemented by the End Date.

12.2 APA Termination Events

APA may terminate this Agreement by notice in writing to Envestra:

(a) in accordance with clause 2.4(b);

(b) before 8.00am on the Second Court Date, if Envestra is in breach of any provision of this Agreement (including a breach of a representation or warranty under clause 8) and:

(i) that breach is material;

(ii) APA has given prompt written notice to Envestra setting out the breach; and

(iii) if the breach is capable of remedy, the breach is not remedied by Envestra within 5 Business Days (or such shorter period ending at 11.59pm on the Business Day before the Second Court Date) of it receiving notice under sub-paragraph (ii);

(c) before 8.00am on the Second Court Date, if the Independent Expert concludes (whether in its original or any subsequent opinion) that the Scheme is not fair and reasonable and in the best interests of Participating Envestra Shareholders;

(d) before 8.00am on the Second Court Date, if:

(i) one or more of the Non APA Affiliated Directors withdraws or adversely varies his:

(A) statement that he considers the Scheme to be in the best interests of Participating Envestra Shareholders; and

(B) recommendation that Participating Envestra Shareholders vote in favour of the Scheme; and

(ii) due to that withdrawal or variation, fewer than a majority of the Non APA Affiliated Directors continue to:

(A) consider the Scheme to be in the best interests of Participating Envestra Shareholders; and

(B) recommend that Participating Envestra Shareholders vote in favour of the Scheme;

(e) before 8.00am on the Second Court Date, if the Board of Envestra (excluding the APA Affiliated Directors) (or the Independent Board Committee) (or a majority of the Non APA Affiliated Directors) (as the case requires) recommends, promotes or otherwise endorses a Competing Proposal;

(f) before 5.00pm on the Business Day before the Second Court Date, if at the Scheme Meeting or any adjournment or postponement of it at which the Scheme is voted on, the Scheme is not approved by the requisite majority of Participating Envestra Shareholders required under the Corporations Act; or

(g) if the Scheme has not been Implemented by the End Date, or becomes incapable, for any reason, of being Implemented by the End Date.

12.3 Effect of termination

If a party terminates this Agreement in accordance with this clause 12, this Agreement will have no further force or effect and the rights and obligations of the parties under this Agreement will cease, save that:

(a) clauses 1, 8, 9, 10, 12, 14, 15.3, 15.4, 17 and 18 will survive termination; and

(b) termination will be without prejudice to rights and liabilities of a party which have accrued before termination.

13 Public Announcements

13.1 Agreed Announcement

Immediately following the execution of this Agreement, Envestra must release the Agreed Announcement, which has attached to it a summary of the key terms of this Agreement, or a copy of this Agreement (minus the annexure containing the Agreed Announcement itself).

13.2 Restriction on other announcements

(a) Neither party may make any press release or announcement or make any other public disclosure relating to the subject matter of this Agreement or make public or otherwise publicly disclose this Agreement or any of its terms unless the release, announcement, publication or other public disclosure:

(i) is required by this Agreement, or is required to give effect to this Agreement or the Scheme;

(ii) is required to be made under any applicable law or the rules of any recognised stock exchange;

(iii) is required by a Governmental Agency to be made by the party;

(iv) repeats information or statements already in the public domain; or

(v) has the prior approval of the other party.

(b) Nothing in clause 13.2(a) prohibits:

(i) Envestra from making any announcement or public disclosure if, in the reasonable opinion of the Envestra Board, failure to disclose at that time the information proposed to be contained in the announcement or public disclosure would reasonably be expected to be inconsistent with the proper exercise of the duties of the directors of that party; and

(ii) APA from making any announcement or public disclosure if, in the reasonable opinion of the APA Board, failure to disclose at that time the information proposed to be contained in the announcement or public disclosure would reasonably be

expected to be inconsistent with the proper exercise of the duties of the directors of that party.

13.3 Notification

If a party is required by law, the rules of any stock exchange or any Governmental Agency to do any of the things referred to in clause 13.2, or if clause 13.2(b) otherwise applies, it must give the other party, to the extent lawful, as much notice (if any) as is reasonably practicable of the announcement or public disclosure.

14 Confidentiality and Standstill

14.1 Confidentiality

(a) Each of Envestra and APA acknowledges and agrees that it remains bound by the Mutual Confidentiality Deed, provided that it agrees that the terms of this Agreement will prevail over the Mutual Confidentiality Deed to the extent of any inconsistency.

(b) APA undertakes in favour of Envestra that any information concerning the Envestra Group which it acquires pursuant to this Agreement or the Scheme will be held and used by it on the same terms as contained in the Mutual Confidentiality Deed, to the extent those terms are not inconsistent with any provision of this Agreement.

(c) Envestra undertakes in favour of APA that any information concerning the APA Group which it acquires pursuant to this Agreement or the Scheme will be held and used by it on the same terms as contained in the Mutual Confidentiality Deed, to the extent those terms are not inconsistent with any provision of this Agreement.

(d) For the purposes of the Mutual Confidentiality Deed and the terms referred to in paragraph (b) and (c), each party consents to the use of, and the disclosure on a confidential basis to a Relevant Government Agency of, its confidential information for the purposes of satisfying any Condition Precedent and the implementation of the transactions contemplated by this Agreement.

14.2 Standstill

(a) Subject to clause 14.2(b), with retrospective effect from 31 January 2014, clause 9 (Dealing in Restricted Securities) of the Mutual Confidentiality Deed will apply to the parties as if each reference to “3 March 2014” in that clause will be deemed to be a reference to the Second Court Date.

(b) If this Agreement is terminated by Envestra in accordance with clause 12.1(b), each reference to “3 March 2014” in clause 9 (Dealing in Restricted Securities) of the Mutual Confidentiality Deed will be deemed to be a reference to the date that is 3 months after the date of termination of this Agreement. If this Agreement is terminated in any other manner, each reference to “3 March 2014” in clause 9 (Dealing in Restricted Securities) of the Mutual Confidentiality Deed will be deemed to be a reference to the date of termination of this Agreement.

14.3 Survival of obligations

The:

(a) rights and obligations of Envestra and APA under the Mutual Confidentiality Deed;

(b) the obligations of APA under clause 14.1(b) and 14.2; and

(c) the obligations of Envestra under clause 14.1(c),

survive termination of this Agreement.

15 Indemnity, insurance and release

15.1 D&O Insurance

(a) APA agrees that, prior to the Implementation Date, Envestra will take out run-off insurance cover with a reputable insurer, on terms that are no less advantageous to each of the Indemnified Envestra Officers and each other person who is a director of Envestra or any of its Related Bodies Corporate at the Implementation Date (together, the **Envestra Indemnified Persons**) than the coverage provided under the existing D&O policies of the Envestra Group, insuring each Envestra Indemnified Person for a period of seven years after the Implementation Date, to the maximum extent permitted by law, against all liabilities incurred by the Envestra Indemnified Person in the course of his or her service as a director or Officer of any member of the Envestra Group prior to Implementation.

(b) Envestra agrees to consult in good faith with APA regarding to cost of the insurance cover referred to in clause 15.1(a) in advance of taking out such insurance cover.

(c) If, for any reason, the insurance cover referred to in clause 15.1(a) is not taken out by Envestra by the Implementation Date, or ceases to be in place or available for any reason during the period of seven years after the Implementation Date, then subject to Implementation occurring, APA must procure that Envestra takes out and maintains for a period of seven years after the Implementation Date, to the maximum extent permitted by law, insurance cover with a reputable insurer, and on terms that are no less advantageous to each of the Envestra Indemnified Persons than the coverage provided under the D&O policies of the APA Group from time to time, insuring each Envestra Indemnified Person against all liabilities incurred by the Envestra Indemnified Person in the course of his or her service as a director or Officer of any member of the Envestra Group prior to Implementation.

(d) APA must use its reasonable endeavours to not do anything, and must use its reasonable endeavours to procure that no other member of the APA Group or Envestra Group following the Implementation Date does anything, which prejudices any insurance cover taken out under clause 15.1(a) or 15.1(c), as applicable.

15.2 No limitation

(a) The rights of the Envestra Indemnified Persons under this clause 15 are in addition to and without prejudice to any rights to indemnification or insurance coverage which an Envestra Indemnified Person may have under the constitution of, or in any deed or other agreement with, any member of the Envestra Group.

(b) Without limiting clauses 15.1 or 15.2(a), APA acknowledges that Envestra has granted rights of indemnification and insurance coverage to each of the Indemnified Envestra Officers pursuant to deeds entered into prior to the date of this Agreement.

15.3 Release by APA

To the maximum extent permitted by law, APA releases its rights against each Officer and Representative of Envestra (including each Envestra Indemnified Person) (**Envestra Released Person**) and undertakes that it will not make any claim or demand of any nature (howsoever arising and whether present or future, fixed or unascertained, actual or contingent, whether at law, in equity, under statute or otherwise) against any Envestra Released Person in connection with any breach of any representations, covenants or warranties in this Agreement or any disclosures in connection with this Agreement except where the Envestra Released Person has not acted in good faith or has engaged in wilful misconduct.

15.4 Release by Envestra

To the maximum extent permitted by law, Envestra releases its rights against each Officer and Representative of APA (**APA Released Person**) and undertakes that it will not make any claim or demand of any nature (howsoever arising and whether present or future, fixed or unascertained, actual or contingent, whether at law, in equity, under statute or otherwise) against any Released Person in connection with any breach of any representations, covenants or warranties in this Agreement or any disclosures in connection with this Agreement except where the APA Released Person has not acted in good faith or has engaged in wilful misconduct.

15.5 Benefit

(a) The undertakings of APA in this clause 15 are given to and held by Envestra as trustee for each of the Envestra Released Persons.

(b) The undertakings of Envestra in this clause 15 are given to and held by APA as trustee for each of the APA Released Persons.

16 Limitation of liability

16.1 Limitation

(a) Liabilities arising under, or in connection with, this Agreement can be enforced against APL only to the extent to which they can be satisfied out of the assets of either or both APT and APTIT out of which APL is entitled to be, and actually is, indemnified for the liability.

(b) In respect of such liabilities, the parties to this Agreement must not seek recourse to any assets that APL holds in any capacity other than as responsible entity of APT or APTIT. In particular, they must not:

(i) seek appointment of a receiver or receiver and manager (except in relation to the assets of APT or APTIT), liquidator, provisional liquidator, administrator or any similar person to APL; or

(ii) prove in any liquidation, administration or arrangement of, or affecting, APL (except in relation to assets of APT and APTIT).

(c) APL does not have to incur any obligation under this Agreement unless its liability in respect of that obligation is limited in the same manner as in this clause 16.1.

(d) No attorney, agent, receiver or receiver and manager appointed under this Agreement is authorised to act on behalf of APL in a way that exposes it to any personal liability.

(e) Subject to clause 16.2, the limitations in this clause 16.1 apply despite any other term of this Agreement, and extend to all APL's liabilities in connection with any act, error, omission, agreement, transaction, representation or obligation relating to this Agreement.

16.2 Exceptions

Clause 16.1 does not apply to any liability of APL to the extent that it is not satisfied because:

(a) the extent of APL's indemnification out of the assets of APT or APTIT (as relevant) is reduced under the APT Constitution or APTIT Constitution (as relevant), or by operation of law, as a result of APL's fraud, negligence, wilful misconduct or breach of trust;

(b) APL failed to exercise any right of indemnity it has under the APT Constitution or APTIT Constitution (as relevant) in respect of that obligation or liability; or

(c) APL released or waived any rights of indemnity it has under the APT Constitution or APTIT Constitution (as relevant), or engaged in acts or omissions which deprived APL of such rights to be indemnified.

17 Miscellaneous

17.1 No waiver

(a) A party waives a right under this Agreement only by written notice that it waives that right. A waiver is limited to the specific instance to which it relates and to the specific purpose for which it is given.

(b) Failure to exercise or enforce or a delay in exercising or enforcing or the partial exercise or enforcement of any right, power or remedy provided by law or under this Agreement by any party will not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement of that or any other right, power or remedy provided by law or under this Agreement.

17.2 Severance

If a provision of this Agreement would, but for this clause, be unenforceable or illegal:

(a) the provision must be read down to the extent necessary to avoid that result; and

(b) if the provision cannot be read down to that extent, it must be severed without affecting the validity and enforceability of the remainder of this Agreement.

17.3 About this document

(a) This Agreement and the Mutual Confidentiality Deed record the entire agreement between the parties as to their subject matter. Together they supersede all prior contracts, obligations, representations, conduct and understandings. This Agreement is immediately enforceable, subject to its own express terms.

(b) This Agreement may be amended only by written agreement of both parties.

(c) This Agreement may be executed in any number of counterparts, and by the parties in separate counterparts, but is not effective until each party has executed at least one counterpart. Each counterpart of this Agreement constitutes an original of this Agreement but the counterparts together constitute one and the same instrument.

17.4 Governing law and jurisdiction

(a) The laws of South Australia govern this Agreement.

(b) Each party submits to the jurisdiction of the courts exercising jurisdiction in South Australia, and any court that may hear appeals from any of those courts, for any proceedings in connection with this Agreement.

(c) Each party irrevocably waives any right it may have to claim that the courts referred to in paragraph (b) are an inconvenient forum.

17.5 Costs

(a) Except where expressly provided otherwise, each party must bear its own costs in relation to the negotiation, preparation, execution and performance of this Agreement and any further document required.

(b) APA must pay all stamp duties (if any) and any fines and penalties with respect to stamp duty in respect of this Agreement, the Scheme, the Deed Poll or the steps to be taken under this Agreement, the Scheme or the Deed Poll.

17.6 Further Acts

Each party must promptly do and perform all further acts and execute and deliver all further documents required by law or reasonably requested by any other party to give effect to this Agreement or the Scheme.

17.7 Assignment

A party may not assign, novate or otherwise transfer any of its rights or obligations under this Agreement except with the prior written consent of the other party.

17.8 No merger

The rights and obligations of the parties under this Agreement will not merge on completion of any transaction pursuant to this Agreement. They will survive the execution and delivery of any assignment or other document entered into for the purpose of implementing any transaction.

17.9 GST

(a) Unless otherwise expressly stated, all amounts payable under this Agreement are expressed to be exclusive of GST. If GST is payable on a taxable supply made under or in connection with this Agreement, the recipient of the supply must pay the supplier an additional amount equal to the GST payable on that supply provided that the supplier first issues a tax invoice for that supply.

(b) Without limiting clause 17.9(a), if an amount payable under this Agreement is calculated by reference to a liability incurred by a party, then the amount of the liability must be reduced by the amount of any input tax credit to which that party or the representative member of the GST group of which that party is a member, is entitled in respect of the acquisition of the supply to which that liability relates. A party will be assumed to be entitled to a full Input Tax Credit unless it demonstrates that its entitlement is otherwise prior to the date on which payment must be made.

(c) Words and expressions used in this clause 17.9 have the same meaning as in *A New Tax System (Goods and Services) Tax Act 1999* (Cth).

17.10 Clauses benefiting third parties

If a provision of this Agreement is expressed to be for the benefit of a person that is not a party to this Agreement, the party to this Agreement that receives that promise (the **promisee**):

(a) does so not only in its own capacity but also as trustee for the third party;

(b) must permit the third party to enforce the provision in the promisee's name on giving full indemnity and any reasonable security the promisee requires; and

(c) assumes no other duty or liability whatever to the third party such as to inform the third party of anything, to supervise, to monitor or to claim anything.

18 Notices

18.1 How to give notices

A notice in connection with this Agreement must be:

(a) in writing;

(b) signed by the party or its agent; and

(c) given to the recipient either by hand delivery, pre-paid airmail, facsimile transmission or email, in each case addressed in the manner relevantly described in Schedule 1.

18.2 Communications sent by email

A notice sent by email must:

(a) state the first and last name of the sender; and

(b) be in plain text format or, if attached to an email, must be an Adobe Portable Document Format (pdf) file.

Communications sent by email are taken to be signed by the named sender.

18.3 Change of Details

(a) A party may at any time change any of the details set out in Schedule 1 by not less than 5 Business Days notice to the other party.

(b) If details are so changed, this clause applies as if those changed details were set out in Schedule 1.

18.4 Proof of Notices

(a) Any notice given in accordance with clause 18.1, in the absence of earlier receipt, shall be deemed to have been duly given as follows:

(i) if delivered personally, on delivery;

(ii) if sent by pre-paid mail, on the Business Day after posting;

(iii) if sent by facsimile, at the local time (in the place of receipt of that fax) which then equates to the time at which that fax is sent as shown on the transmission report which is produced by the machine from which that fax is sent and which confirms transmission of that fax in its entirety; and

(iv) if sent by email, the first to occur of:

(A) when the sender receives an automated message confirming delivery; or

(B) one hour after the time sent (as recorded on the device from which the sender sent the email) unless the sender receives an automated message that the email has not been delivered.

(b) Any notice given outside Working Hours shall be deemed not to have been given until the start of the next period of Working Hours.

EXECUTED as an agreement

EXECUTED by **ENVESTRA LIMITED**)
in accordance with section 127 of the)
Corporations Act 2001 by:)

.....	.....
Director	Director/Secretary
.....	.....
Name (BLOCK LETTERS)	Name (BLOCK LETTERS)

EXECUTED by **AUSTRALIAN**)
PIPELINE LIMITED in its capacity as)
responsible entity and trustee of the)
AUSTRALIAN PIPELINE TRUST and)
in its capacity as responsible entity and trustee)
of the **APT INVESTMENT TRUST** in)
accordance with section 127 of the)
Corporations Act 2001 by:)

.....	.....
Director	Director/Secretary
.....	.....
Name (BLOCK LETTERS)	Name (BLOCK LETTERS)

Schedule 1 – Notices

Name:	Envestra Limited
Address:	Level 10, 81 Flinders Street, ADELAIDE SA 5000
Facsimile:	(08) 8227 1511
Email:	des.petherick@envestra.com.au
Attention:	Mr Des Petherick, Company Secretary

Name:	APA Group
Address:	Level 19, HSBC Building, 580 George Street, SYDNEY NSW 2000
Facsimile:	(02) 9693 0093
Email:	mark.knapman@apa.com.au
Attention:	Mr Mark Knapman, Company Secretary

APPENDIX

4

SCHEME OF ARRANGEMENT

SCHEME OF ARRANGEMENT

Pursuant to section 411 of the *Corporations Act 2001* (Cth)

BETWEEN

1 **ENVESTRA LIMITED** ACN 078 551 685 of Level 10, 81 Flinders Street, Adelaide SA 5000 (**Envestra**); and

2 Each person registered in the Envestra Register as the holder of an Envestra Share (other than any member of the APA Group) as at the Record Date.

1 Definitions and Interpretation

1.1 Definitions

In this Scheme:

All Scrip Consideration means the consideration determined in accordance with clause 5.3.

APA means the stapled entity comprising APT and APTIT, acting through the APA Responsible Entity.

APL as RE of APT means APL in its capacity as responsible entity and trustee of APT.

APA Constitutions means the APTIT Constitution and the APT Constitution.

APA FY14 Final Distribution means the cash amount of a final distribution declared, determined or paid by APA for the year ending 30 June 2014, where the record date for this distribution is before the Implementation Date for this Scheme.

APA FY14 Interim Distribution means the interim distribution of $0.175 cents per APA Security declared by APA for the six months ending 31 December 2013.

APA Group means APT, APTIT, APL and each of the entities controlled by the APA Responsible Entity (including any control exercised by the APA Responsible Entity as responsible entity and trustee of APT or APTIT).

APA Register means the register of holders of APA Securities.

APA Responsible Entity means APL in its capacity as responsible entity of APT and APTIT.

APA Security means one APT Unit and one APTIT Unit, stapled together such that they must only be transferred together.

APL means Australian Pipeline Limited (ABN 99 091 344 704, AFSL 239 927).

APT means Australian Pipeline Trust (ARSN 091 678 778), a registered managed investment scheme regulated by the Corporations Act.

APT Constitution means the constitution of APT dated 18 February 2000 (as amended).

APT Unit means an ordinary unit in APT.

APTIT means APT Investment Trust (ARSN 115 585 441), a registered managed investment scheme regulated by the Corporations Act.

APTIT Constitution means the constitution of APTIT dated 30 June 2005 (as amended).

APTIT Unit means an ordinary unit in APTIT.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ABN 98 008 624 691 or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.

ASX Listing Rules means the official listing rules of the ASX.

Available Cash Consideration means $241,000,000.

Business Day has the meaning given in the ASX Listing Rules.

Cash Amount means $1.17 cash subject to a reduction adjustment to this amount for any Excluded Envestra Divided and an increase adjustment to this amount for any Envestra Dividend Shortfall. If there is an Excluded Envestra Dividend or an Envestra Dividend Shortfall, the cash amount is to be calculated as follows:

Cash Amount = $1.17 – Excluded Envestra Dividend + Envestra Dividend Shortfall

Cash Out Facility means the Nominee sale facility provided for in clause 5.7.

Cash Out Scheme Shareholder means a Scheme Shareholder in respect of whom APA Securities are issued to the Nominee in the circumstances referred to in sub-paragraphs (ii) and (iii) of clause 5.7(a).

Cash Out Securities has the meaning given in clause 5.7(a).

CHESS means the Clearing House Electronic Subregister System for electronic transfers of securities operated by ASX Settlement Pty Limited ABN 49 008 504 532.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Federal Court of Australia or such other court of competent jurisdiction under the Corporations Act as agreed by the parties.

Deed Poll means the deed poll dated 2 April 2014 under which APA covenants in favour of the Scheme Shareholders to perform its obligations under this Scheme.

Effective means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) in relation to the Scheme.

Effective Date means the date upon which Scheme becomes Effective.

Election Date means 5.00 pm (Sydney time) on the same date as the Record Date.

Election Form means the form accompanying the Scheme Booklet (or which is otherwise made available by Envestra, including electronically) pursuant to which Scheme Shareholders may elect:

(a) the form of Scheme Consideration they wish to receive in consideration for the transfer of their Scheme Shares to APL as RE of APT under this Scheme; and

(b) if clause 5.6 applies to the Scheme Shareholder, whether to have the APA Securities to which the Scheme Shareholder would otherwise be entitled issued to the Nominee to be dealt with in accordance with clause 5.7.

Electronic Payment Election means, in respect of a Scheme Shareholder, an election made before the Record Date by the Scheme Shareholder (in accordance with the requirements of Envestra's share registry) to receive dividend payments from Envestra by electronic funds transfer to a bank account nominated by the Scheme Shareholder.

End Date has the meaning given to that term in the Scheme Implementation Agreement.

Envestra Dividend Shortfall means the Permitted Envestra Dividend Amount less the higher of the Envestra FY14 Final Dividend and $0.0355 (provided it remains a positive number).

Envestra FY14 Final Dividend means the cash amount of any final dividend declared, determined or paid by Envestra for the year ending 30 June 2014 (where the record date for that dividend is after 30 June 2014).

Envestra FY14 Interim Dividend means the interim dividend of $0.032 cents per Envestra Share declared by Envestra for the six months ending 31 December 2013.

Envestra Register means the register of members of Envestra.

Envestra Share means a fully paid ordinary share in the capital of Envestra.

Excluded Envestra Dividend means any amount by which the Envestra FY14 Final Dividend is in excess of the Permitted Envestra Dividend Amount.

Governmental Agency has the meaning given to that term in the Scheme Implementation Agreement.

Hutt St Centre means the Hutt St Centre, ABN 75 055 179 354.

Implementation Date means the fifth Business Day following the Record Date or such other date agreed by the parties in writing, or ordered by the Court or as may be required by ASX.

Ineligible Foreign Envestra Shareholder means a Scheme Shareholder whose Registered Address is a place outside:

(a) Australia and its external territories; and

(b) New Zealand.

unless Envestra and APA are satisfied, acting reasonably, that the laws of all relevant jurisdictions permit the issue of APA Securities to that Scheme Shareholder either unconditionally or after compliance with requirements that are not unduly onerous.

Maximum Cash Consideration means the consideration determined in accordance with clause 5.2.

Net Proceeds of Sales has the meaning given in clause 5.7(c)(ii)(A).

Nominee means a person appointed by APA, in consultation with Envestra, to sell the Cash Out Securities pursuant to clause 5.7.

Permitted Envestra Dividend Amount means the amount calculated by multiplying 0.1919 by the amount of any APA FY14 Final Distribution.

Record Date means 7.00pm (Sydney time) on the fifth Business Day following the Effective Date.

Registered Address means, in relation to a Scheme Shareholder, the address of that Scheme Shareholder as shown in the Envestra Register as at the Record Date.

Scheme means this scheme of arrangement under Part 5.1 of the *Corporations Act* between Envestra and Scheme Shareholders, subject to any alterations or conditions (whether proposed by a party or required by the Court) which are agreed in writing by Envestra and APA.

Scheme Booklet means the explanatory statement to be approved by the Court and despatched by Envestra to holders of Envestra Shares, and which includes, amongst other things, this Scheme and an explanatory statement under section 412 of the Corporations Act.

Scheme Consideration means the consideration to be provided by APA to Scheme Shareholders in consideration for the transfer of the Scheme Shares held by Scheme Shareholders to APL as RE of APT, as provided for under clause 5.

Scheme Implementation Agreement means the scheme implementation agreement dated 4 March 2014 between Envestra and APA, as amended, substituted or replaced from time to time.

Scheme Share means an Envestra Share on issue as at the Record Date, other than an Envestra Share held by a member of the APA Group.

Scheme Shareholder means a person who is registered in the Envestra Register as the holder of Envestra Shares at the Record Date (other than any member of the APA Group).

Scheme Transfer means, in relation to each Scheme Shareholder, a proper instrument of transfer of their Scheme Shares for the purpose of section 1071B of the Corporations Act, which may be a master transfer of all or part of all of the Scheme Shares.

Scrip Amount means 0.1919 APA Security subject to a deduction adjustment for any Excluded Envestra Dividend and an increase adjustment for any Envestra Dividend Shortfall. If there is an Excluded Envestra Dividend or an Envestra Dividend Shortfall the Scrip Amount is to be calculated as follows:

Scrip Amount = (0.1919) – (Excluded Envestra Dividend/$6.0974) + (Envestra Dividend Shortfall/$6.0974)

Second Court Date means the first day on which the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme is, or is to be, heard or, if the application is adjourned for any reason, the first day on which the adjourned application is heard, or is to be heard.

Unmarketable Parcel means 77 APA Securities or less.

Unmarketable Parcel Participant means a Scheme Shareholder (other than an Ineligible Foreign Envestra Shareholder) who:

(a) makes an election in accordance with clause 5.6 to have the APA Securities to which it would otherwise be entitled issued to the Nominee to be dealt with in accordance with clause 5.7; and

(b) but for the making of that election, would receive in aggregate an Unmarketable Parcel under the Scheme.

1.2 Interpretation

In this Scheme, unless a contrary intention appears:

(a) words or expressions importing the singular include the plural and vice versa;

(b) words or expressions importing a gender include any gender;

(c) words or expressions denoting individuals include corporations, firms, unincorporated bodies, government authorities and instrumentalities;

(d) a reference to a party to a document includes that party's successors and permitted assigns;

(e) where a word or expression is defined or given meaning, another grammatical form of that word or expression has a corresponding meaning;

(f) any heading, index, table of contents or marginal note is for convenience only and does not affect the interpretation of this Scheme;

(g) a provision of this Scheme shall not be construed to the disadvantage of a party merely because that party was responsible for the preparation of this Scheme or that provision;

(h) a reference to a clause, party, annexure, exhibit or schedule is a reference to a clause of, and a party, annexure, exhibit and schedule to, this Scheme;

(i) any recital, schedule or annexure forms part of this document and has effect as if set out in full in the body of this document;

(j) a reference to legislation or a provision of legislation includes:

(i) all regulations, orders or instruments issued under the legislation or provision; and

(ii) any modification, consolidation, amendment, re-enactment, replacement or codification of such legislation or provision;

(k) references to "include", "including" or any variation thereof are to be construed without limitation;

(l) a reference to "$" or "dollar" is a reference to Australian currency;

(m) where the day on which any act, matter or thing is to be done is a day other than a Business Day, such act, matter or thing will be done on the next Business Day; and

(n) a reference to time is to that time in Adelaide, Australia.

2 Preliminary

(a) Envestra is a public company limited by shares, incorporated in Australia and registered in Victoria. Envestra is admitted to the official list of the ASX and Envestra Shares are officially quoted on the ASX.

(b) As at the date of the Scheme Booklet, Envestra had 1,796,808,474 Envestra Shares on issue.

(c) APL is a public company limited by shares, incorporated in Australia and registered in New South Wales. APL is the responsible entity of APT and APTIT, registered managed investment schemes regulated by the Corporations Act. APA is a stapled entity comprising APT and APTIT. APA is admitted to the official list of the ASX and APA Securities are officially quoted on the ASX.

(d) Envestra and APA have agreed by entering into the Scheme Implementation Agreement to implement this Scheme. In particular, Envestra and APA have agreed that each of them will perform their respective obligations under the Scheme and have agreed to take certain steps to give effect to the Scheme.

(e) If this Scheme becomes Effective, each of the following will occur:

(i) all of the Scheme Shares will be transferred to APL as RE of APT;

(ii) in consideration of the transfer of the Scheme Shares to APL as RE of APT, APA will provide the Scheme Consideration to the Scheme Shareholders in accordance with this Scheme and the Deed Poll; and

(iii) Envestra will enter the name of APL as RE of APT in the Envestra Register as the holder of all Scheme Shares.

(f) APA has agreed by executing the Deed Poll to provide the Scheme Consideration to Scheme Shareholders in accordance with this Scheme and take the other actions attributed to it under this Scheme.

3 Conditions Precedent

3.1 Conditions Precedent

This Scheme is conditional upon, and will have no force or effect until, each of the following conditions precedent is satisfied:

(a) all of the conditions precedent set out in clause 2.1 of the Scheme Implementation Agreement having been satisfied or waived in accordance with the terms of the Scheme Implementation Agreement;

(b) neither the Scheme Implementation Agreement nor the Deed Poll having been terminated as at 8:00am on the Second Court Date;

(c) such other conditions as may be imposed by the Court under section 411(6) of the Corporations Act in relation to this Scheme and agreed to by Envestra and APA (acting reasonably), having been satisfied; and

(d) the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) in relation to this Scheme.

3.2 Certificate

At the Court hearing on the Second Court Date, Envestra and APA will each provide the Court with a certificate, or such other evidence as the Court requests, confirming (in respect of matters within its own knowledge) whether or not all of the conditions precedent set out in clause 2.1 of the Scheme Implementation Agreement (other than the condition precedent in clause 2.1(c) of the Scheme Implementation Agreement) have been satisfied or waived in accordance with the terms of the Scheme Implementation Agreement. Where the certificates disclose that any of those conditions precedent has been satisfied or waived in accordance with the terms of the Scheme Implementation Agreement, they will constitute conclusive evidence of the satisfaction or waiver of the condition (as the case may be).

3.3 End Date

This Scheme will lapse and be of no further force or effect if the Effective Date has not occurred on or before the End Date.

3.4 Termination

Without limiting any rights under the Scheme Implementation Agreement, if the Scheme Implementation Agreement is terminated in accordance with its terms before this Scheme becomes Effective, each of Envestra and APA are released from:

(a) any further obligation to take steps to implement this Scheme; and

(b) any liability with respect to this Scheme.

4 Implementation of the Scheme

4.1 Lodgement of Court Orders

(a) By no later than 4:00pm on the first Business Day following the date on which the Court makes orders approving the Scheme under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act), Envestra must lodge with ASIC an office copy of the Court order approving this Scheme in accordance with section 411(10) of the Corporations Act.

(b) Subject to clause 3.3, this Scheme will become Effective on and from the Effective Date.

4.2 Transfer of Scheme Shares

(a) Subject to this Scheme becoming Effective in accordance with clause 4.1, the following actions will occur (in the order set out below) on the Implementation Date:

(i) on or before 3.00pm on the Implementation Date, and in consideration for the transfer of the Scheme Shares to APL as RE of APT under this Scheme, APA must (subject to clause 4.2(b) and clause 5.8(a)) provide the Scheme Consideration to each Scheme Shareholder for each Scheme Share that is held by the Scheme Shareholders as at the Record Date in accordance with clause 5.8,

(ii) subject to APA fulfilling its obligations under clauses 4.2(a)(i) and 5.8 (subject to clause 4.2(b)), all of the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares at the Implementation Date, must be transferred to APL as RE of APT without the need for any further act by any Scheme Shareholder (other than acts performed by Envestra or any of its directors or officers as attorney and agent for Scheme Shareholders under clause 7.6), by Envestra effecting a valid transfer or transfers of the Scheme Shares to APL as RE of APT under section 1074D of the Corporations Act or, if that procedure is not available for any reason by:

(A) Envestra delivering to APL as RE of APT a duly completed and executed Scheme Transfer; and

(B) APL as RE of APT duly executing and delivering the Scheme Transfer to Envestra for registration; and

(iii) immediately after receipt of the duly executed Scheme Transfer from APL as RE of APT under clause 4.2(a)(ii)(B), Envestra must enter, or must procure the entry of, the name and address of APL as RE of APT in the Envestra Register as the holder of the Scheme Shares.

(b) Notwithstanding any other provision of this Scheme (including clause 5.8), while:

(i) APA Securities forming part of the Scheme Consideration must be issued (and relevant registers updated to record their issuance) on the Implementation Date; and

(ii) the aggregate cash forming part of the Scheme Consideration must be paid into the trust account referred to in clause 5.8(a) in accordance with that clause,

any requirements under clause 5 for the sending of cheques, or holding statements or making cash payments by electronic means may be satisfied within five Business Days after the Implementation Date (and the requirements relating to the Cash Out Facility must be satisfied within the time periods set out in clause 5.7).

5 Scheme Consideration

5.1 Election procedure

(a) Subject to this clause 5.1, each Scheme Shareholder is entitled to elect to receive as consideration for the transfer of its Scheme Shares to APL as RE of APT under this Scheme one of the following forms of consideration:

(i) All Scrip Consideration; or

(ii) Maximum Cash Consideration,

by making an election in accordance with clause 5.1(d).

(b) Where an Ineligible Foreign Envestra Shareholder makes an election pursuant to this clause 5 (including any deemed election), the scrip consideration component of their Scheme Consideration (if any) will be dealt with in accordance with clauses 5.4, 5.5 and 5.7.

(c) Where an Unmarketable Parcel Participant makes an election pursuant to this clause 5 (including any deemed election), the scrip consideration component of their Scheme Consideration will be dealt with in accordance with clauses 5.4, 5.6 and 5.7.

(d) An election (other than a deemed election) under this clause 5.1 (including an election made by an Unmarketable Parcel Participant in accordance with clause 5.6) must be made by completing an Election Form in accordance with the terms and conditions on the Election Form and returning the completed Election Form to Envestra at the address (or via such other method of submission specified in the Election Form) specified in the Election Form so that it is received at that address (or via that method) by no later than the Election Date.

(e) A Scheme Shareholder who does not make an election in accordance with clause 5.1(d) will be deemed to have elected to receive All Scrip Consideration.

(f) Subject to clause 5.1(g), an election made or deemed to be made by a Scheme Shareholder under this clause 5.1 will be deemed to apply in respect of the Scheme Shareholder's entire holding of Scheme Shares at the Record Date, regardless of whether the Scheme Shareholder's holding of Scheme Shares at the Record Date is greater or less than the Scheme Shareholder's holding at the time the Scheme Shareholder made (or was deemed to have made) its election.

(g) In the manner considered appropriate by Envestra, acting reasonably, a Scheme Shareholder who holds one or more parcels of Envestra Shares as trustee or nominee for, or otherwise on account of, another person, may make separate elections under this clause 5.1 in relation to each of those parcels of Envestra Shares (subject to it providing to Envestra and APA any substantiating information they reasonably require), and for the purposes of calculating the Scheme Consideration to which that Scheme Shareholder is entitled under the Scheme (including the application of clause 5.6), each such parcel of Envestra Shares will (subject to clause 6.6) be treated as though it were held by a separate Scheme Shareholder.

(h) A Scheme Shareholder may vary any election made by it under clause 5.1(d) by completing a replacement Election Form in accordance with the terms and conditions on the Election Form and returning that completed replacement Election Form to Envestra at the address specified in the Election Form (or via such other method of submission specified in the Election Form) so that it is received at that address (or via that method) by no later than the Election Date.

(i) Subject to clause 5.1(j), an election which is not made or deemed to have been made in accordance with this clause 5.1 will not be a valid election for the purpose of this Scheme and will not be recognised by Envestra or APA for any purpose.

(j) Envestra may, with the agreement of APA, settle as it thinks fit any difficulty, matter of interpretation or dispute which may arise in connection with determining the validity of any election, and any such decision will be conclusive and binding on Envestra, APA and the relevant Scheme Shareholder.

5.2 Maximum Cash Consideration

(a) If a Scheme Shareholder elects to receive Maximum Cash Consideration:

(i) if the Available Cash Consideration is not required by clause 5.2(b) to be pro rated amongst Scheme Shareholders who elect Maximum Cash Consideration, the Scheme Shareholder will be entitled to receive the Cash Amount per Scheme Share held by that Scheme Shareholder at the Record Date; and

(ii) if the Available Cash Consideration is required by clause 5.2(b) to be pro rated amongst Scheme Shareholders who elect Maximum Cash Consideration, the Scheme Shareholder will be entitled to receive (in aggregate) for the Scheme Shares held by that Scheme Shareholder at the Record Date, consideration comprising the cash component and the scrip component calculated below:

(A) (**cash component**): the Cash Amount per Scheme Share in respect of a number of its Scheme Shares calculated as follows (which may include any fraction of a Scheme Share arising from the calculation):

$$\frac{(\mathbf{A} \times \mathbf{B})}{(\mathbf{C} \times \textbf{Cash Amount})}$$

Where:

A = the number of Scheme Shares held by the Scheme Shareholder at the Record Date;

B = 241,000,000; and

C = the total number of Scheme Shares held at the Record Date by all Scheme Shareholders who elect Maximum Cash Consideration; and

(B) (**scrip component**): the Scrip Amount of APA Securities per Scheme Share, in respect of the balance of its holding of Scheme Shares (which balance may include any fraction of a Scheme Share arising from the creation of a fraction under sub-paragraph (A)).

(b) For the purpose of this clause 5.2, the Available Cash Consideration is required to be pro rated amongst Scheme Shareholders who elect Maximum Cash Consideration if the amount determined by multiplying the Cash Amount by the total number of Scheme Shares held at the Record Date by all Scheme Shareholders who elect Maximum Cash Consideration exceeds the Available Cash Consideration.

5.3 All Scrip Consideration

If a Scheme Shareholder elects to receive All Scrip Consideration then, subject to clauses 5.4, 5.5, 5.6 and 5.7, the Scheme Shareholder will be entitled to receive the Scrip Amount of APA Securities per Scheme Share held by that Scheme Shareholder at the Record Date.

5.4 Fractions

(a) Any entitlement of a Scheme Shareholder under this Scheme (including under clause 5.2(a)(ii)(B)) to be issued a fraction of an APA Security will be rounded down to the nearest whole number of APA Securities.

(b) Fractions of APA Securities which a Scheme Shareholder would have been entitled to be issued but for clause 5.5 or clause 5.6 will be rounded down to the nearest whole number of APA Securities, including for the purposes of calculating the Scheme Shareholder's cash entitlement under clause 5.7(c)(ii)(A).

(c) The total amount of APA Securities represented by all fractions of APA Securities which, but for clauses 5.4(a) or 5.4(b), Scheme Shareholders would have been entitled to under this Scheme must be dealt with in accordance with clause 5.7.

(d) Any cash amount payable to a Scheme Shareholder under this Scheme must be rounded to the nearest whole cent.

5.5 Ineligible Foreign Envestra Shareholders

(a) APA will be under no obligation to issue, and must not issue, any APA Securities under this Scheme to any Ineligible Foreign Envestra Shareholder and, instead, must procure that those APA Securities which, but for this clause 5.5, would be required to be so issued are dealt with on behalf of the Ineligible Foreign Envestra Shareholders in accordance with clause 5.7.

(b) Envestra and APA are satisfied that the laws of all relevant jurisdictions permit the issue of APA Securities to Cheung Kong Infrastructure Holdings (Malaysian) Ltd (**CKI**) either unconditionally or after compliance with requirements that are not unduly onerous, and Envestra acknowledges that CKI is not an Ineligible Foreign Envestra Shareholder.

5.6 Unmarketable Parcel Participants

If the scrip consideration component of the Scheme Consideration to be issued to any particular Scheme Shareholder (other than an Ineligible Foreign Envestra Shareholder) would result in the Scheme Shareholder receiving an Unmarketable Parcel, then, in respect of the APA Securities to which the Scheme Shareholder would otherwise be entitled as Scheme Consideration, that Scheme Shareholder may elect to have the APA Securities issued to the Nominee to be dealt with in accordance with clause 5.7.

5.7 Cash Out Facility

(a) APA Securities that:

(i) are required to be dealt with under this clause by clause 5.4(c);

(ii) are required to be dealt with under this clause by clause 5.5 (rounded down to the nearest whole number in accordance with clause 5.4(b)); or

(iii) are required to be dealt with under this clause by clause 5.6 (rounded down to the nearest whole number in accordance with clause 5.4(b)),

must be issued by APA to the Nominee on the Implementation Date (rounded down, if necessary, to the nearest whole number) (together, the **Cash Out Securities**) and subsequently sold in accordance with the remaining provisions of this clause 5.7.

(b) The Cash Out Facility will only be available in respect of APA Securities issued to the Nominee in the circumstances referred to in clause 5.7(a). Any purported election by a Scheme Shareholder to participate in the Cash Out Facility in any other circumstance will be invalid and not recognised for any purpose.

(c) APA must procure that:

(i) as soon as practicable and, in any event, not more than 15 Business Days after the Implementation Date, the Nominee sells the Cash Out Securities on the ASX, at such price or prices and on such other terms as the Nominee determines in good faith; and

(ii) promptly after the last sale of APA Securities in accordance with clause 5.7(c)(i), the Nominee:

(A) pays to each Cash Out Scheme Shareholder (in accordance with this clause 5.7, including clause 5.7(d)) an amount calculated as follows:

A x **B/C**

Where:

A = the gross proceeds of the sale of the Cash Out Securities (less any applicable taxes and charges, but excluding brokerage incurred by the Nominee in connection with the sales) (**Net Proceeds of Sales**);

B = the number of APA Securities issued to the Nominee under clause 5.7(a)(ii) or clause 5.7(a)(iii) (as applicable) in respect of that Cash Out Scheme Shareholder; and

C = the total number of APA Securities issued to the Nominee under clause 5.7(a); and

(B) pays to the Hutt St Centre the balance of the Net Proceeds of Sales.

(d) APA must procure that the Nominee makes payments to Cash Out Scheme Shareholders under clause 5.7(c) by:

(i) where the Cash Out Scheme Shareholder has made an Electronic Payment Election, making a payment by electronic means in accordance with that election; or

(ii) otherwise, whether or not the Cash Out Scheme Shareholder has made an Electronic Payment Election, despatching or procuring the despatch to the Cash Out Scheme Shareholder of a cheque in the name of the Cash Out Scheme Shareholder for the relevant amount, by pre-paid ordinary post (or, if the Registered Address of the Cash Out Scheme Shareholder is outside Australia, by pre-paid airmail post) in an envelope addressed to the Registered Address as at the Record Date.

(e) Payment of an amount to a Cash Out Scheme Shareholder in accordance with this clause 5.7 will be in full satisfaction of the obligations of APA to the Cash Out Scheme Shareholder under the Scheme in respect of the scrip component of that Cash Out Scheme Shareholder's Scheme Consideration.

(f) If APA receives professional advice that any withholding or other tax is required by law to be withheld from any such payment, APA must procure that the Nominee withholds the relevant amount before making the payment to the Cash Out Scheme Shareholder (and payment of the reduced amount shall be taken to be full payment of the relevant amount for the purposes of this Scheme including clause 5.7(c)(ii)(A)). APA must procure that any amount so withheld is paid to the relevant taxation authorities within the time permitted by law, and that a receipt or other appropriate evidence of such payment is promptly provided to the relevant Cash Out Scheme Shareholder.

(g) None of Envestra, APA or the Nominee gives any assurance as to the price that will be achieved for the sale of APA Securities by the Nominee. The sale of APA Securities under this clause 5.7 will be at the risk of the Cash Out Scheme Shareholder.

(h) Each Cash Out Scheme Shareholder appoints Envestra as its agent to receive on its behalf any financial services guide or other notices (including any updates of those documents) that the Nominee is required to provide to Cash Out Scheme Shareholders under the Corporations Act.

(i) To the extent that a cheque properly despatched by or on behalf of APA or the Nominee pursuant to clause 5.7(d)(ii) is returned to APA (or its agents) or the Nominee (or its agents) as undelivered or the cheque is not presented by a Cash Out Scheme Shareholder earlier than six months after the Implementation Date (**Unclaimed Cash Out Amount**):

(i) APA and the Nominee must deal with the Unclaimed Cash Out Amount in accordance with any applicable unclaimed moneys legislation; and

(ii) subject to APA and the Nominee complying with their obligations under clause 5.7(i)(i), APA and the Nominee are discharged from liability to any Cash Out Scheme Shareholder in respect of the Unclaimed Cash Out Amount.

5.8 Provision of Scheme Consideration

The obligations of APA under this Scheme to provide the Scheme Consideration to Scheme Shareholders will be satisfied:

(a) in the case of the cash component of the Scheme Consideration – by APA, on the Business Day before the Implementation Date:

(i) depositing the aggregate amount of the cash component of the Scheme Consideration in cleared funds into an account established by, or on behalf of, Envestra and in the name of Envestra (**Trust Account**) (details of which must be notified by Envestra to APA at least five Business Days before the Implementation Date), such amount to be held on trust by Envestra for the Scheme Shareholders (except that any interest on the amount will be for the benefit of APA), for the purpose of Envestra paying the cash component of the Scheme Consideration in accordance with clause 5.9; and

(ii) providing Envestra with written confirmation of that payment;

(b) in the case of APA Securities which are required to be issued to Scheme Shareholders under this clause 5 – by APA procuring that:

(i) the name and address of each such Scheme Shareholder is entered into the APA Register on the Implementation Date in respect of the APA Securities to which it is entitled under this clause 5; and

(ii) a holding statement is sent to the Registered Address of each such Scheme Shareholder within five Business Days after the Implementation Date representing the number of APA Securities issued to the Scheme Shareholder pursuant to this Scheme;

(c) in the case of APA Securities to be issued in respect of Scheme Consideration due to Cash Out Scheme Shareholders – by APA procuring that:

(i) the name and address of the Nominee is entered into the APA Register on the Implementation Date in respect of the APA Securities required to be issued to it under this clause 5;

(ii) a share certificate or holding statement in the name of the Nominee is sent to the Nominee within five Business Days after the Implementation Date representing the number of APA Securities so issued to it; and

(iii) the Nominee sells those APA Securities on behalf of the Cash Out Scheme Shareholders, and pays the proceeds in accordance with clause 5.7.

5.9 Despatch of cash component of Scheme Consideration

(a) Subject to APA complying with its obligations under clauses 4.2(a)(i) and 5.8 (subject to clause 4.2(b)), Envestra must within five Business Days after the Implementation Date, pay from the Trust Account to each Scheme Shareholder who is entitled to the cash component of the Scheme Consideration the amount due to that Scheme Shareholder in accordance with this Scheme by:

(i) where the Scheme Shareholder has made an Electronic Payment Election, making a payment by electronic means in accordance with that election; or

(ii) otherwise, whether or not the Scheme Shareholder has made an Electronic Payment Election, despatching or procuring the despatch to the Scheme Shareholder of a cheque in the name of the Scheme Shareholder for the relevant amount, by pre-paid ordinary post (or, if the Registered Address of the Scheme Shareholder is outside Australia, by pre-paid airmail post) in an envelope addressed to the Registered Address as at the Record Date.

(b) If Envestra receives professional advice that any withholding or other tax is required by law to be withheld from any such payment, Envestra must withhold the relevant amount before making the payment to the Scheme Shareholder (and payment of the reduced amount shall be taken to be full payment of the relevant amount for the purposes of this Scheme). Envestra must procure that any amount so withheld is paid to the relevant taxation authorities within the time permitted by law, and that a receipt or other appropriate evidence of such payment is promptly provided to the relevant Scheme Shareholder

(c) To the extent that a cheque properly despatched by or on behalf of Envestra pursuant to clause 5.9(a)(ii) is returned to Envestra (or its agents) as undelivered or the cheque is not presented by a Scheme Shareholder earlier than six months after the Implementation Date (**Unclaimed Consideration**):

(i) Envestra must deal with the Unclaimed Consideration in accordance with any applicable unclaimed moneys legislation; and

(ii) subject to Envestra complying with its obligations under clause 5.9(c)(i), Envestra is discharged from liability to any Scheme Shareholder in respect of the Unclaimed Consideration.

5.10 Status of APA Securities

Subject to this Scheme becoming Effective, APA must:

(a) issue the APA Securities required to be issued by it under this Scheme on terms such that each such APA Security will rank equally in all respects with each existing APA Security;

(b) ensure that each such APA Security is duly issued and is fully paid, non assessable and free from any mortgage, charge, lien, encumbrance or other security interest (except for any lien arising under the APT Constitution or the APTIT Constitution); and

(c) use all reasonable endeavours to ensure that, as from the Business Day following the Effective Date (or such later date as the ASX requires) the APA Securities issued under this Scheme are listed for quotation on the official list of the ASX initially on a deferred settlement basis and thereafter on an ordinary settlement basis.

5.11 Joint Holders

In the case of joint holders of Scheme Shares:

(a) the APA Securities to be issued under this Scheme must be issued to and registered in the names of the joint holders;

(b) any cheque required to be sent under this clause 5 must be made payable to the joint holders and sent to the holder whose name appears first in the Envestra Register on the Record Date; and

(c) any other document required to be sent under this clause 5 must be forwarded to the holder whose name appears first in the Envestra Register on the Record Date.

5.12 Binding Instructions

Any binding instructions relating to Envestra Shares between Envestra and a Scheme Shareholder who receives APA Securities (including, without limitation, any instructions relating to communications from Envestra) will from the Implementation Date be deemed, by reason of this Scheme, to be a similarly binding instruction to and accepted by APA in respect of APA Securities until that instruction is revoked or amended in writing addressed to APA at its share registry (unless such an instruction would not be recognised under Australian law, the APT Constitution or the APTIT Constitution).

5.13 Orders of a court or Governmental Agency

If written notice is given to Envestra (or Envestra's registry) of an order or direction made by a court of competent jurisdiction or by another Governmental Agency:

(a) that requires provision to a third party of all or part of the Scheme Consideration, which would otherwise be provided to a particular Scheme Shareholder in accordance with this clause 5, then Envestra shall be entitled to procure that all or part of that Scheme Consideration (as the case may be) is provided in accordance with that order or direction; or

(b) that prevents all or part of the Scheme Consideration being provided to any particular Scheme Shareholder in accordance with this clause 5, or the provision of such Scheme Consideration is otherwise prohibited by applicable law:

(i) in the case of a Scheme Shareholder who is not an Ineligible Foreign Envestra Shareholder, Envestra shall be entitled (in its sole discretion) to:

(A) direct APA to issue to the Nominee such number of APA Securities as that Scheme Shareholder would otherwise be entitled to, to be dealt with in accordance with clause 5.7, as if a reference to Cash Out Scheme Shareholders also included that Scheme Shareholder and references to that person's APA Securities in that clause were limited to APA Securities issued to the Nominee under this clause, and retain an amount equal to the amount calculated in accordance with clause 5.7(c)(ii)(A); or

(B) direct APA to issue such number of APA Securities, or pay such amount of the cash consideration, as that Scheme Shareholder would otherwise be entitled to under clause 5 to a trustee or nominee for that trustee or nominee to retain; or

(ii) in the case of an Ineligible Foreign Envestra Shareholder, Envestra shall be entitled to instruct the Nominee to retain an amount equal to the amount the Ineligible Foreign Envestra Shareholder would otherwise be entitled to be paid under clause 5.7, until such time as full payment in accordance with clause 5.7 is permitted by that order or direction or otherwise by law.

For the avoidance of doubt, if the relevant order or direction prevents the provision of only part of the Scheme Consideration which would otherwise be provided to a Scheme Shareholder, APA will provide the maximum possible portion of the Scheme Consideration to the Scheme Shareholder without giving rise to a breach of that order or direction and this clause 5.13(b) shall only apply only in respect of the remaining portion.

6 Dealings in Envestra Shares

6.1 Dealings in Envestra Shares by Scheme Shareholders

(a) For the purpose of establishing who is a Scheme Shareholder, dealings in Envestra Shares will only be recognised if:

(i) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Envestra Register as the holder of the relevant Envestra Shares by the Record Date; and

(ii) in all other cases, registrable transfers or transmission applications in respect of those dealings are received at the place where the Envestra Register is kept by the 5.00pm (Sydney time) on the same date as the Record Date,

and Envestra will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Envestra Shares received after such times, or received prior to such times but not in registrable form (except pursuant to clause 4.2 or any subsequent transfer by APL as RE of APT).

(b) Envestra must register transfers or transmission applications of the type referred to in clause 6.1(a)(ii) by the Record Date.

6.2 Envestra Register

(a) Envestra must, until the Scheme Consideration has been provided to Scheme Shareholders in accordance with this Scheme, maintain or procure the maintenance of the Envestra Register in accordance with the provisions of this clause 6 and the Envestra Register in this form will solely determine entitlements to Scheme Consideration.

(b) As from the Record Date, each entry current at that time in the Envestra Register in relation to the Scheme Shares will cease to be of any effect other than as evidence of entitlement of Scheme Shareholders to the Scheme Consideration in accordance with this Scheme in respect of those Scheme Shares.

6.3 Certificates and Holding Statements

All certificates and statements of holding for Scheme Shares held by Scheme Shareholders shall, following the Record Date, cease to have any effect as documents of title in respect of such Scheme Shares.

6.4 Provision of Information

As soon as practicable after the Record Date and in any event at least three Business Days before the Implementation Date, Envestra must, or must procure, details of the names, Registered Addresses and holdings of Scheme Shares of each Scheme Shareholder as at the Record Date are given to APA (or as it directs) in such form as APA may reasonably require. Scheme Shareholders agree that this information may be disclosed to APA, APA's advisers or its other service providers to the extent necessary to effect the Scheme.

6.5 No disposals after Record Date

If the Scheme becomes Effective, each Scheme Shareholder, and any person claiming through that Scheme Shareholder, must not in any way, deal with or dispose of or purport or agree to deal with or dispose of, any Scheme Shares or any interest in them except as set out in this Scheme, after the Record Date and any attempt to do so will be void and will have no legal effect whatsoever.

6.6 Shareholding splitting or division

If Envestra and APA are of the opinion (acting reasonably) that two or more Scheme Shareholders have, before the Record Date, been party to shareholding splitting or division in an attempt to manipulate the result of the vote by Envestra shareholders (other than members of the APA Group) on whether to approve the Scheme, Envestra may give notice to those Scheme Shareholders:

(a) setting out their names and registered addresses as shown in the Envestra Register;

(b) stating that opinion;

(c) attributing to one of them specifically identified in the notice the Envestra Shares held by all of them; and

(d) attributing to one of them specifically identified in the notice which election (pursuant to clause 5.1) made by or on behalf of one of them applies to all of them,

and, after such notice has been given, the Scheme Shareholder specifically identified in the notice as the deemed holder of all the specified Envestra Shares will, for the purposes of the provisions of the Scheme, be taken to hold all of those Envestra Shares and each of the other Scheme Shareholders whose names and registered addresses are set out in the notice will, for the purposes of the provisions of the Scheme, be taken to hold no Envestra Shares. APA in complying with the provisions of the Scheme relating to it in respect of the Scheme Shareholder specifically identified in the notice as the deemed holder of all the specified Envestra Shares, will be taken to have satisfied and discharged its obligations to the other Scheme Shareholders named in the notice under the terms of the Scheme.

6.7 Quotation of Envestra Shares

(a) Envestra must apply for suspension of trading in Envestra Shares on the ASX with effect from the close of trading on ASX on the Effective Date.

(b) At a date after the Implementation Date to be determined by APA, Envestra will apply to ASX:

  (i) for termination of the official quotation of Envestra Shares on ASX; and

  (ii) to have itself removed from the official list of ASX.

7 General provisions

7.1 Binding effect of Scheme

Each Scheme Shareholder acknowledges that this Scheme binds Envestra and all of the Scheme Shareholders (including those who do not attend the meeting of Envestra shareholders (other than members of the APA Group) to approve the Scheme or who do not vote at that meeting or who vote against the Scheme at that meeting) and, to the extent of any inconsistency and as permitted by law, overrides the constitution of Envestra.

7.2 Agreement by Scheme Shareholders

(a) Each Scheme Shareholder irrevocably agrees to:

(i) transfer its Scheme Shares, together with all rights and entitlements attaching to those Scheme Shares (other than where there has been a deduction adjustment to the Scheme Consideration in accordance with definition of "Cash Amount" and "Scrip Amount" as a result of the Scheme Participant being entitled to retain such a right or entitlement) to APL as RE of APT in accordance with this Scheme; and

(ii) any variation, cancellation or modification (if any) of the rights attached to its Scheme Shares constituted by or resulting from this Scheme.

(b) Each Scheme Shareholder who is issued APA Securities under this Scheme:

(i) agrees to become a holder of APA Securities and to have its name entered in the APA Register and accepts the APA Securities issued to it under the Scheme on the terms and conditions of the APT Constitution and the APTIT Constitution, without the need for any further act by the Scheme Shareholder; and

(ii) states, for the purposes of clause 4.3(b) of the APA Constitutions, that the current market value of one Envestra Share is equivalent to 0.1919 APA Securities and authorises Envestra to provide that statement of current market value to the APA Responsible Entity.

(c) Each Scheme Shareholder who is a Cash Out Scheme Shareholder agrees and acknowledges that the payment to it of an amount in accordance with clause 5.7 constitutes the satisfaction in full of its entitlement in and to the scrip component of its Scheme Consideration.

7.3 Warranties by Scheme Shareholders

Each Scheme Shareholder is deemed to have warranted to APA, and to have appointed and authorised Envestra as its attorney and agent to warrant to APA, that all their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) will, at the date of transfer of them to APL as RE of APT pursuant to the Scheme, be fully paid and free from all mortgages, charges, liens, encumbrances, security interests and other interests of third parties of any kind whether legal or otherwise, including any restrictions on transfer of any kind, and that they have full power and capacity to sell and to transfer their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) to APL as RE of APT under the Scheme. Envestra undertakes in favour of each Scheme Shareholder that it will provide such warranty to APA as agent and attorney on behalf of each Scheme Shareholder.

7.4 Pending registration of transfers

Upon provision of the Scheme Consideration and until the registration of APL as RE of APT in the Envestra Register as the holder of the Scheme Shares:

(a) APL as RE of APT will be beneficially entitled to the Scheme Shares transferred to it under this Scheme;

(b) each Scheme Shareholder is deemed to have irrevocably appointed APA as attorney and agent (and directed APA in each capacity) to appoint any officer or agent nominated by APA as its sole proxy and, where appropriate, its corporate representative, to attend Envestra shareholders' meetings, exercise the votes attached to the Scheme Shares registered in their name and sign any Envestra shareholders' resolution (and each Scheme Shareholder acknowledges and agrees that as a result of such appointment they must not themselves attend or vote at any meetings or sign any resolutions, whether in person or by proxy or corporate representative);

(c) each Scheme Shareholder must take all other action in the capacity of a registered holder of Scheme Shares as APA reasonably directs; and

(d) each Scheme Shareholder acknowledges and agrees that in exercising the powers referred to in this clause 7.4, APA and any officer or agent nominated by APA under clause 7.4 may act in the interests of APA as the intended registered holder of Scheme Shares.

7.5 Stamp Duty

APL as RE of APT must pay all stamp duty (if any) and any related fines and penalties payable in connection with the transfer of the Scheme Shares under this Scheme.

7.6 Authority to Envestra

(a) Without limiting Envestra's other powers under this Scheme, each Scheme Shareholder consents to Envestra doing all acts and things as may be necessary or desirable to give full effect to the Scheme and the transactions contemplated by it.

(b) Each Scheme Shareholder, without the need for any further act, irrevocably appoints Envestra and each of its directors and officers (jointly and severally) as its agent and attorney for the purpose of:

(i) executing any document or doing any other act necessary, expedient or desirable to give effect to the terms of this Scheme and the transactions contemplated by it including (without limitation) the execution and provision of the Scheme Transfer; and

(ii) enforcing the Deed Poll against APA,

and Envestra accepts such appointment.

(c) Envestra undertakes in favour of each Scheme Shareholder that it will enforce the Deed Poll against APA on behalf of and as agent and attorney for each Scheme Shareholder.

7.7 Further assurance

(a) Each Scheme Shareholder and Envestra will execute all documents and do all acts and things as may be necessary or desirable to give full effect to the Scheme and the transactions contemplated by it.

(b) Without limiting Envestra's other powers under the Scheme, Envestra has power to do all things that it considers necessary or desirable to give effect to this Scheme and the transactions contemplated by it.

7.8 Amendments to the Scheme

If the Court proposes to approve the Scheme subject to any alterations or conditions, Envestra may consent on behalf of all persons concerned, by its counsel or solicitors, to those alterations or conditions to which APA has provided its prior written consent.

7.9 Notices

If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to Envestra, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at the registered office of Envestra.

7.10 Governing Law

(a) This Scheme is governed by the laws of South Australia.

(b) Each party irrevocably and unconditionally submits, in connection with this Scheme, to the non-exclusive jurisdiction of the of courts of South Australia and any courts which have jurisdiction to hear appeals from the Court and waives any right to object to any proceedings being brought in these courts.

APPENDIX

5

DEED POLL

DEED POLL

AUSTRALIAN PIPELINE LIMITED

SCHEME SHAREHOLDERS

JOHNSON WINTER & SLATTERY
LAWYERS

211 Victoria Square, Adelaide SA 5000
GPO Box 2649, Adelaide SA 5001
T +61 8 8239 7111 | F +61 8 8239 7100
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SYDNEY | PERTH | MELBOURNE | BRISBANE | ADELAIDE

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1

DEED POLL

DATE 2 APRIL 2014

PARTIES

BY: **AUSTRALIAN PIPELINE LIMITED** ACN 091 344 704 of Level 19, HSBC Building, 580 George Street, SYDNEY NSW 2000 in its capacity as responsible entity and trustee of the **AUSTRALIAN PIPELINE TRUST** ARSN 091 678 778 (**APL as RE of APT**) and in its capacity as responsible entity and trustee of the **APT INVESTMENT TRUST** ARSN 115 585 441, both of Level 19, HSBC Building, 580 George Street, SYDNEY NSW 2000 (the stapled entity comprising the Australian Pipeline Trust and the APT Investment Trust, and acting through Australian Pipeline Limited in its capacity as responsible entity and trustee of Australian Pipeline Trust and the APT Investment Trust, being **APA**).

IN FAVOUR OF: Each person who is registered in the Envestra Register as the holder of Envestra Shares at the Record Date (other than a member of the APA Group) (**Scheme Shareholder**).

RECITALS

A Envestra Limited (ACN 078 551 685) (**Envestra**) and APA have entered into the Scheme Implementation Agreement with respect to the Scheme and associated matters.

B Envestra has agreed in the Scheme Implementation Agreement to propose the Scheme, pursuant to which (amongst other things), subject to the satisfaction or waiver of certain conditions precedent, APL as RE of APT will acquire all of the Scheme Shares from Scheme Shareholders for the Scheme Consideration.

C In accordance with the Scheme Implementation Agreement, APA enters into this Deed Poll for the purpose of covenanting in favour of the Scheme Shareholders to perform the obligations attributed to it under the Scheme.

OPERATIVE PART

1 Definitions and Interpretation

1.1 Definitions

In this Deed Poll:

(a) **Scheme** means the proposed scheme of arrangement pursuant to Part 5.1 of the Corporations Act between Envestra and Scheme Shareholders as contemplated by the Scheme Implementation Agreement;

(b) **Scheme Implementation Agreement** means the scheme implementation agreement entered into between Envestra and APA on 4 March 2014, as amended, substituted or replaced from time to time; and

(c) terms defined in the Scheme have the same meaning when used in this Deed Poll unless the context requires otherwise.

1.2 Interpretation

In this document, unless a contrary intention appears:

(a) words or expressions importing the singular include the plural and vice versa;

(b) words or expressions importing a gender include the other gender;

(c) words or expressions denoting individuals include corporations, firms, unincorporated bodies, government authorities and instrumentalities;

(d) a reference to a party includes that party's successors and permitted assigns;

(e) where a word or expression is defined or given meaning, another grammatical form has a corresponding meaning;

(f) any heading, index, table of contents or marginal note is for convenience only and does not affect the interpretation of this Deed Poll;

(g) a provision of this Deed Poll shall not be construed to the disadvantage of a party merely because that party was responsible for the preparation of this Deed Poll or that provision;

(h) a reference to this Deed Poll includes this Deed Poll as amended, varied, novated, supplemented or replaced from time to time;

(i) a reference to a clause is a reference to a clause of this Deed Poll;

(j) the recitals form part of this Deed Poll and have effect as if set out in full in the body of this Deed Poll;

(k) a reference to legislation or a provision of legislation includes:

(i) all regulations, orders or instruments issued under the legislation or provision; and

(ii) any modification, consolidation, amendment, re-enactment, replacement or codification of such legislation or provision;

(l) references to "include", "including" or any variation thereof are to be construed without limitation; and

(m) a reference to any time is a reference to that time in Adelaide, Australia.

2 Nature of Deed Poll

APA acknowledges and agrees that:

(a) this Deed Poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not party to it; and

(b) under the Scheme, each Scheme Shareholder irrevocably appoints Envestra and each of Envestra's directors and officers (jointly and severally) as its agent and attorney to enforce this Deed Poll against APA on behalf of that Scheme Shareholder.

3 Conditions

3.1 Conditions

The obligations of APA under clause 4 are subject to the Scheme becoming Effective.

3.2 Termination

The obligations of APA under this Deed Poll will automatically terminate and the terms of this Deed Poll will be of no further force or effect if:

(a) the Scheme Implementation Agreement is terminated in accordance with its terms before the Effective Date; or

(b) the Scheme does not become Effective by the End Date.

3.3 Consequences of termination

If this Deed Poll is terminated under clause 3.2, then, in addition and without prejudice to any other available rights, powers or remedies available to Scheme Shareholders:

(a) APA is released from its obligations under this Deed Poll except those obligations contained in clause 8.1 and any other obligations which by their nature survive termination; and

(b) each Scheme Shareholder retains the rights they have against APA in respect of any breach of this Deed Poll by APA which occurs before this Deed Poll is terminated.

4 Performance of Scheme obligations

4.1 General obligations

Subject to clause 3, APA covenants in favour of each Scheme Shareholder that:

(a) APA will observe and perform all obligations contemplated of it under the Scheme, and will otherwise comply with the Scheme, as if it were a party to the Scheme; and

(b) APA will comply with its obligations under the Scheme Implementation Agreement and do all things necessary on its part to implement the Scheme.

4.2 Obligation to provide Scheme Consideration

Subject to clause 3, in consideration for the transfer to APL as RE of APT of the Scheme Shares held by Scheme Shareholders in accordance with the Scheme, APA covenants in favour of each Scheme Shareholder that it will provide the Scheme Consideration to each Scheme Shareholder, in accordance with the terms of the Scheme.

4.3 Status of New APA Securities

APA covenants in favour of each Scheme Shareholder that the New APA Securities which are issued to Scheme Shareholders in accordance with the Scheme will:

(a) rank equally in all respects with the existing APA Securities; and

(b) be duly issued and fully paid, and free from any mortgage, charge, lien, encumbrance or other security interest (except for any lien arising under the APT Constitution and the APTIT Constitution (as applicable)).

5 Representations and Warranties

APA represents and warrants in favour of each Scheme Shareholder that:

(a) Australian Pipeline Limited is a corporation validly existing under the laws of Australia;

(b) APT and APTIT are managed investment schemes registered under Chapter 5C of the Corporations Act;

(c) APA has the corporate power to enter into and perform its obligations under this Deed Poll and to carry out the transactions contemplated by this Deed Poll;

(d) APA has taken all necessary corporate action to authorise the entry into this Deed Poll and has taken or will take all necessary corporate action to authorise the performance of this Deed Poll and to carry out the transactions contemplated by this Deed Poll; and

(e) this Deed Poll is valid and binding upon it and enforceable against it in accordance with its terms.

6 Continuing obligations

This Deed Poll is irrevocable and, subject to clause 3, remains in full force and effect until the earlier of:

(a) APA having fully performed its obligations under this Deed Poll; or

(b) the termination of this Deed Poll under clause 3.2.

7 Further assurances

APA will do all things and execute all deeds, instruments, transfers or other documents and do all acts or things as may be necessary or desirable to give full effect to the provisions of this Deed Poll and the transactions contemplated by it.

8 General

8.1 Stamp duty

APA must:

(a) pay all stamp duties (if any) and any fines and penalties with respect to stamp duty in respect of this Deed Poll or the steps to be taken under this Deed Poll (including, without limitation, the acquisition or transfer of Scheme Shares pursuant to the Scheme); and

(b) indemnify each Scheme Shareholder against any liability arising from any failure to comply with clause 8.1(a).

8.2 Notices

(a) Any notice or other communication to APA in connection with this Deed Poll must be in legible writing in English, signed by the person making the communication or its agent and must be given to APA either by hand delivery, pre-paid airmail, facsimile transmission or email, in each case addressed in the manner relevantly described below:

Address: Level 19, HSBC Building, 580 George Street, SYDNEY NSW 2000

Facsimile: +61 2 9693 0093

Email: mark.knapman@apa.com.au

Attention: Mark Knapman, Company Secretary

(b) A notice send by email must:

(i) state the first and last name of the sender; and

(ii) be in plain text format or, if attached to an email, must be an Adobe Portable Document Format (pdf) file.

Communications sent by email are taken to be signed by the named sender.

(c) Any notice or other communication given in accordance with clause 8.2(a) shall, in the absence of proof of earlier receipt, be deemed to have been duly given as follows:

(i) if delivered personally, on delivery;

(ii) if sent by pre-paid mail, on the third Business Day after posting;

(iii) if sent by facsimile, at the local time (in the place of receipt of the fax) which then equates to the time at which that fax is sent as shown on the transmission report which is produced by the machine from which that fax is sent and which confirms transmission of that fax in its entirety; and

(iv) if sent by email, the first to occur of:

(A) when the sender receives an automated message confirming delivery; or

(B) one hour after the time sent (as recorded on the device from which the sender sent the email) unless the sender receives an automated message that the email has not been delivered.

(d) Any notice given outside of Working Hours shall be deemed not to have been given until the start of the next period of Working Hours.

8.3 Cumulative rights

The rights, powers and remedies of APA and the Scheme Shareholders under this Deed Poll are in addition to and do not exclude the rights, powers or remedies provided by law or equity or by any agreement.

8.4 Waiver and variation

(a) A party waives a right under this Deed Poll only by written notice that it waives that right. A waiver is limited to the specific instance to which it relates and to the specific purpose for which it is given.

(b) Failure to exercise or enforce or a delay in exercising or enforcing or the partial exercise or enforcement of any right, power or remedy provided by law or under this Deed Poll by any party will not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement of that or any other right, power or remedy provided by law or under this Deed Poll.

(c) A provision of this Deed Poll may not be varied unless:

(i) before the Second Court Date, the variation is agreed to by Envestra in writing; or

(ii) on or after the Second Court Date, the variation is agreed to by Envestra in writing and the Court indicates that the variation would not of itself preclude approval of the Scheme,

in which event APA must enter into a further deed poll in favour of the Scheme Shareholders giving effect to such amendment.

8.5 Governing law and jurisdiction

(a) The laws of South Australia govern this Deed Poll.

(b) Each party submits to the jurisdiction of the courts exercising jurisdiction in South Australia, and any court that may hear appeals from any of those courts, for any proceedings in connection with this Deed Poll.

(c) Each party irrevocably waives any right it may have to claim that the courts referred to in paragraph (b) are an inconvenient forum.

8.6 Assignment

The rights of a Scheme Shareholder under this Deed Poll are personal. They cannot be assigned, charged or otherwise dealt with, and no person shall attempt or purport to do so, without the prior written consent of APA.

7

EXECUTED as a deed poll

EXECUTED by **AUSTRALIAN PIPELINE LIMITED** in its capacity as responsible entity and trustee of the **AUSTRALIAN PIPELINE TRUST** and in its capacity as responsible entity and trustee of the **APT INVESTMENT TRUST** in accordance with section 127 of the *Corporations Act 2001* by)

.....	.....
Director	Director/Secretary
Michael McCormack	M. T. Knapman
Name (BLOCK LETTERS)	Name Company Secretary (BLOCK LETTERS)

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APPENDIX

6

NOTICE OF SCHEME MEETING

Envestra Limited
ABN 19 078 551 685

NOTICE OF COURT ORDERED MEETING OF ENVESTRA LIMITED SHAREHOLDERS

NOTICE IS GIVEN that, by an order of the Federal Court of Australia (**Court**) made on 7 April 2014 under section 411(1) of the *Corporations Act 2001* (Cth) (**Corporations Act**), the Court has directed that a meeting of the holders of ordinary shares in Envestra Limited (**Envestra**) (other than APA Group) be held at Riverbank Rooms 1-3, Adelaide Convention Centre, North Terrace, Adelaide, South Australia on 13 May 2014 commencing at 10.00am.

The Court has directed that Mr John Allpass, or if he is unable to attend, Mr Fraser Ainsworth AM act as chairman of the meeting and has directed the chairman to report the results of the meeting to the Court.

PURPOSE OF THE MEETING

The purpose of the meeting is to consider and, if thought fit, to agree (with or without any modification or conditions approved by the Court to which Envestra and APA Group agree) to a scheme of arrangement proposed to be made between Envestra and the holders of its ordinary shares (other than ordinary shares held by APA Group) pursuant to Part 5.1 of the Corporations Act (**Scheme**).

RESOLUTION

The meeting will be asked to consider and, if thought fit, pass the following resolution:

> *"That pursuant to and in accordance with section 411 of the Corporations Act, the scheme of arrangement proposed to be entered into between Envestra and the Participating Envestra Shareholders, as more particularly set out in the Scheme Booklet accompanying this notice of meeting, is agreed to (with or without modification as approved by the Court to which Envestra and APA Group agree) and, subject to approval of the Scheme by the Court, the Envestra Board is authorised to implement the Scheme with any such modifications or conditions."*

DATED 7 April 2014

BY ORDER OF THE COURT

Des Petherick
Company Secretary

IMPORTANT NOTICE

Details about your entitlement to vote, how to vote and how to appoint a proxy, attorney or a corporate representative are set out in Section 3 (How to vote) of the Scheme Booklet of which this notice of meeting forms part (**Scheme Booklet**).

To enable you to make an informed voting decision, a copy of the Scheme and a copy of the explanatory statement required by section 412 of the Corporations Act in relation to the Scheme are contained in the Scheme Booklet. This notice should be read in conjunction with the entire Scheme Booklet.

Terms used in this notice of meeting (including the proposed resolution) have the same meaning as set out in the Glossary in Section 14 of the Scheme Booklet.

CORPORATE DIRECTORY

Company

Envestra Limited
ACN 078 551 685

Registered Office

Level 10, 81 Flinders Street
ADELAIDE SA 5000

Joint Company Secretaries

Des Petherick
Paul May
Geoffrey Barton

Share Registry

Link Market Services Limited
Level 12, 680 George Street
SYDNEY NSW 2000

Legal Adviser

Johnson Winter & Slattery
Level 9, 211 Victoria Square
ADELAIDE SA 5000

Financial Adviser

Goldman Sachs Australia Pty Ltd
Level 17, 101 Collins Street
MELBOURNE VIC 3000

Independent Expert

Grant Samuel & Associates Pty Limited
Level 19, Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000

Investigating Accountant

Deloitte Corporate Finance Pty Ltd
Grosvenor Place, 225 George Street
SYDNEY NSW 2000

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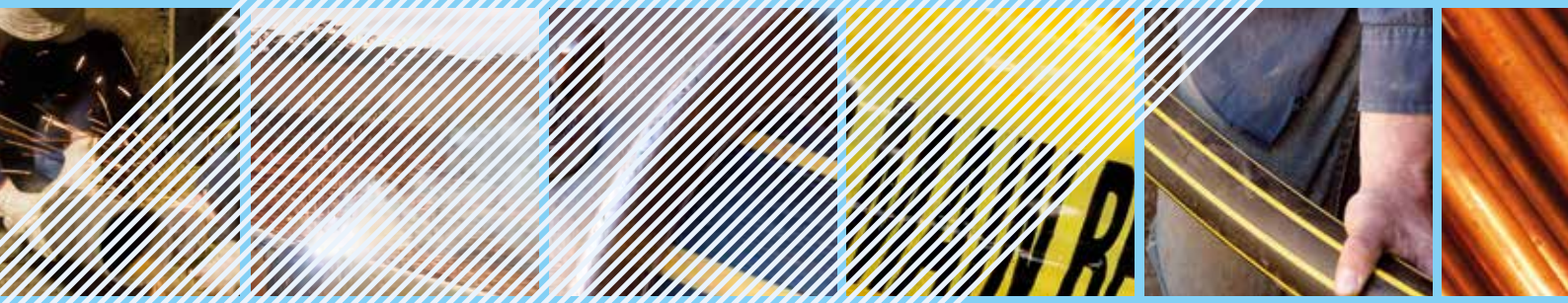

Envestra