Hastings Funds
Management Limited
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The Manager
Company Announcements Office
ASX Limited

3 August 2012

Dear Sir

Hastings Diversified Utilities Fund (ASX: HDF) – takeover bid by Pipeline Partners Australia Pty Limited
Target's Statement

We attach, by way of service pursuant to item 14 of section 633(1) of the *Corporations Act 2001* (Cth), a copy of the target's statement of Hastings Diversified Utilities Fund (**HDF**) in response to the off-market takeover bid by Pipeline Partners Australia Pty Limited for all the stapled securities in HDF.

The Target's Statement and attached letter is being sent to HDF securityholders.

Yours faithfully

Jane Frawley
Company Secretary

Hastings Funds Management
Hastings Funds Management Limited
ABN 27 058 693 388
AFSL No. 238309

A member of the Westpac Group

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SAMPLEVILLE VIC 3030

3 August 2012

Dear HDF Securityholder,

Pipeline Partners Australia's Offer for HDF

Please find enclosed the Target's Statement that has been prepared in response to the all cash off-market takeover bid made by Pipeline Partners Australia Pty Limited for all of your HDF Stapled Securities. Your Independent Directors have carefully considered Pipeline Partners Australia's Offer and the choices currently available to HDF Securityholders and unanimously recommend that you ACCEPT Pipeline Partners Australia's Offer in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Offer is fair and reasonable.

This Target's Statement details the key reasons to accept Pipeline Partners Australia's Offer of **$2.325 cash** for each HDF Stapled Security. In addition, if you were registered as a HDF Securityholder as at 29 June 2012, you will be entitled to receive the $0.025 cash distribution for the quarter ended 30 June 2012 without any reduction in the Pipeline Partners Australia Offer Price.[1]

It is important to note that on 26 July 2012, HDF announced that it had commenced engagement with the APA Group regarding granting access to due diligence in response to the APA Group's announcement that it intends to increase its current takeover offer for HDF to at least $2.50 per HDF Stapled Security (with a cash component of at least $0.60 and the remainder a fixed amount of APA Stapled Securities) subject to completion of satisfactory due diligence. There is, however, no certainty that a higher offer from the APA Group will eventuate. At the present time, the implied value of the current APA Group Offer is $2.02 per HDF Stapled Security based on the closing price of APA Stapled Securities on 27 July 2012.[2]

HDF Securityholders should also be aware that if you accept the Pipeline Partners Australia Offer now, you will lose your right to accept any potential higher competing offer from the APA Group or another competing bidder if such an offer eventuates (subject to withdrawal rights that may be available in limited circumstances).

I encourage you to read this Target's Statement in its entirety and consider Pipeline Partners Australia's Offer having regard to your own personal risk profile, investment strategy and tax circumstances.

To ACCEPT the Pipeline Partners Australia Offer, you should carefully follow the instructions outlined on page 1 of Pipeline Partners Australia's Bidder's Statement and complete the applicable Acceptance Form enclosed with it. Pipeline Partners Australia's Offer is scheduled to close at 7 pm (Melbourne time) on 31 August 2012, unless extended or withdrawn.

If you have any further enquiries in relation to Pipeline Partners Australia's Offer, please contact the HDF Securityholder Information Line on 1800 815 610 (toll-free in Australia) or +61 2 8256 3357 (outside Australia).

Yours sincerely,

Alan Cameron AO
Chairman
Hastings Funds Management Limited

[1] The Pipeline Partners Australia Offer Price may be reduced by the amount or value of any further distributions declared by HDF.
[2] Calculated as the closing price of APA Stapled Securities as at 27 July 2012, multiplied by 0.326 + $0.425, representing the $0.50 cash component of the APA Group Offer less the distributions of $0.025 per HDF Stapled Security paid on 30 January 2012 and 30 April 2012 and the distribution of $0.025 per HDF Stapled Security for the quarter ended 30 June 2012 payable on 6 August 2012.

Hastings Funds Management

THIS IS AN IMPORTANT DOCUMENT
If you are in any doubt about how to deal with this document, you should contact your broker, financial adviser or legal adviser immediately.

Hastings Diversified Utilities Fund (HDF)

Hastings Funds Management Limited (ABN 27 058 693 388) as responsible entity of HDUF Epic Trust (ARSN 109 770 961), HDUF Finance Trust (ARSN 109 770 765) and HDUF Further Investments Trust (ARSN 109 897 921), collectively Hastings Diversified Utilities Fund (HDF)

Target's Statement

This Target's Statement has been issued in response to the off-market takeover bid made by Pipeline Partners Australia Pty Limited (ACN 157 963 810) for all of the stapled securities in HDF.

Your Independent Directors unanimously recommend that you ACCEPT the Offer in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Offer is fair and reasonable.

ACCEPT

Pipeline Partners Australia Offer

IN THE ABSENCE OF A SUPERIOR PROPOSAL AND SUBJECT TO THE INDEPENDENT EXPERT CONTINUING TO CONCLUDE THAT THE OFFER IS FAIR AND REASONABLE

HDF Securityholders can call the HDF Securityholder Information Line on 1800 815 610 (a toll-free line for calls made from within Australia) or +61 2 8256 3357 (for calls made from outside Australia)

J.P.Morgan | RBC Capital Markets

Financial Advisers

Freehills

Legal Adviser

Important notices

Nature of this document
This document is a target's statement issued by Hastings Funds Management Limited (ABN 27 058 693 388) as responsible entity of HDUF Epic Trust (ARSN 109 770 961), HDUF Finance Trust (ARSN 109 770 765) and HDUF Further Investments Trust (ARSN 109 897 921), collectively Hastings Diversified Utilities Fund (HDF), under Part 6.5 Division 3 of the Corporations Act in response to the off-market takeover bid made by Pipeline Partners Australia Pty Limited (ACN 157 963 810), for all of the HDF Stapled Securities.

A copy of this Target's Statement was lodged with ASIC and given to the ASX on 3 August 2012. Neither ASIC nor the ASX nor any of their respective officers take any responsibility for the content of this Target's Statement.

Defined terms
A number of defined terms are used in this Target's Statement. These terms are explained in Section 9 of this Target's Statement. In addition, unless the contrary intention appears or the context requires otherwise, words and phrases used in this Target's Statement have the same meaning and interpretation as in the Corporations Act.

No account of personal circumstances
This Target's Statement does not take into account your individual objectives, financial situation or particular needs. It does not contain personal advice. Your Directors encourage you to seek independent financial, taxation and legal advice before making a decision as to whether or not to accept the Offer.

Disclaimer as to forward looking statements
Some of the statements appearing in this Target's Statement may be in the nature of forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industry in which HDF operates as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement. None of HDF, HDF's officers and employees, HFML, HFML's officers and employees or any persons named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement, 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. You are cautioned not to place undue reliance on any forward looking statement. The forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

Disclaimer as to information
The information on Pipeline Partners Australia and the Bidder Group contained in this Target's Statement has been prepared by HFML using publicly available information and has not been independently verified. Accordingly, HFML does not, subject to the Corporations Act, make any representation or warranty, express or implied, as to the accuracy or completeness of such information.

The Independent Expert's Report set out in the Annexure to this Target's Statement has been prepared by the Independent Expert for the purposes of this Target's Statement and the Independent Expert is responsible for that report. HDF does not accept or assume any responsibility for the accuracy or completeness of the Independent Expert's Report, other than the factual information provided by HDF to the Independent Expert for the purposes of the Independent Expert's Report.

Foreign jurisdictions
The release, publication or distribution of this Target's Statement in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations. This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with the laws and regulations outside Australia.

Maps and diagrams
Any diagrams, charts, maps, graphs and tables appearing in this Target's Statement are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, maps, graphs and tables is based on information available at the date of this Target's Statement.

Privacy
HFML has collected your information from the register of HDF Securityholders for the purpose of providing you with this Target's Statement. The type of information HFML has collected about you includes your name, contact details and information on your security holding in HDF. Without this information, HFML would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the name and address of securityholders to be held in a public register. Your information may be disclosed on a confidential basis to HDF's related bodies corporate and external service providers (such as the securityholder registry of HDF and print and mail service providers) and may be required to be disclosed to regulators such as ASIC. If you would like details of information about you held by HFML, please contact Computershare Investor Services Pty Limited at GPO Box 2975, Melbourne Victoria 3001 – Australia. HDF's privacy policy is available at http://www.hfm.com.au/privacy. The registered address of HDF is Level 27, 35 Collins Street, Melbourne Victoria 3000.

Key dates

Date of the Offer	**18 July 2012**
Date of this Target's Statement	**3 August 2012**
Close of the Offer Period	**7 pm (Melbourne time) on 31 August 2012 (unless extended or withdrawn)**

Contents

Chairman's letter

"Pipeline Partners Australia's Offer is presently the highest value choice available to all HDF Securityholders, based on the current outlook for HDF and its business"

Alan Cameron AO
Chairman

Dear HDF Securityholder,

ACCEPT Pipeline Partners Australia's Offer for HDF

On 13 July 2012, HDF announced that it had entered into a Takeover Bid Implementation Deed with Pipeline Partners Australia, pursuant to which Pipeline Partners Australia has made an all cash off-market takeover bid for all of your HDF Stapled Securities. The Pipeline Partners Australia Offer Price is $2.325 cash for each HDF Stapled Security. Also, if you were registered as a HDF Securityholder as at 29 June 2012, you will be entitled to receive the $0.025 cash distribution for the quarter ended 30 June 2012 without any reduction in the Pipeline Partners Australia Offer Price. However, the Pipeline Partners Australia Offer Price may be reduced by the amount or value of any further distributions declared by HDF.

On 26 July 2012, HDF announced that it had commenced engagement with the APA Group regarding granting access to due diligence in response to the APA Group's announcement that it intends to increase its current offer for HDF to at least $2.50 per HDF Stapled Security (with a cash component of at least $0.60 and the remainder a fixed amount of APA Stapled Securities) subject to completion of satisfactory due diligence. There is, however, no certainty that a higher offer from the APA Group will eventuate. At the present time, the implied value of the current APA Group Offer is $2.02 per HDF Stapled Security based on the closing price of APA Stapled Securities on 27 July 2012.(1)

Your Independent Directors have carefully considered Pipeline Partners Australia's Offer and the choices currently available to HDF Securityholders. HDF is required by law to issue this Target's Statement by 3 August 2012 and is not permitted to delay doing so until it is known whether the APA Group will increase its offer. In light of the choices currently available, your Independent Directors unanimously recommend that you ACCEPT Pipeline Partners Australia's Offer in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Offer is fair and reasonable. However, HDF Securityholders should be aware that if you accept Pipeline Partners Australia's Offer now, you will lose your right to accept any potential higher competing offer from the APA Group or another competing bidder if such an offer eventuates (subject to withdrawal rights that may be available in limited circumstances).

In making this recommendation, your Independent Directors have considered the following key supporting reasons:

- The Pipeline Partners Australia Offer Price reflects a significant premium to the recent trading levels of HDF Stapled Securities, in particular:
  - a 10.2% premium to the closing price of $2.11 per HDF Stapled Security on 14 May 2012, being the last full trading day prior to the announcement of the Pipeline Partners Australia Proposal;
  - a 15.1% premium to the implied APA Offer Price of $2.02 per HDF Stapled Security, based on the closing price of APA Stapled Securities on 27 July 2012;(2)
  - a 31.4% premium to the closing price of $1.77 per HDF Stapled Security on 13 December 2011, being the last full trading day prior to the announcement of the APA Group Offer; and
  - a 40.3% premium to the three month VWAP of $1.66 per HDF Stapled Security up to and including 13 December 2011.
- The Independent Expert, Grant Samuel & Associates, has concluded that the Offer is fair and reasonable, in the absence of a superior proposal.
- The Pipeline Partners Australia Offer Price provides HDF Securityholders with certainty of price and cash.
- The price of HDF Stapled Securities is likely to fall if the Offer is not successful and no superior proposal emerges.

(1) Calculated as the closing price of APA Stapled Securities as at 27 July 2012, multiplied by 0.326 + $0.425, representing the $0.50 cash component of the APA Group Offer less the distributions of $0.025 per HDF Stapled Security paid on 30 January 2012 and 30 April 2012 and the distribution of $0.025 per HDF Stapled Security for the quarter ended 30 June 2012 payable on 6 August 2012.
(2) Refer to footnote 1 above.

These key reasons to accept Pipeline Partners Australia's Offer are discussed in further detail in this Target's Statement.

Your Independent Directors have carefully considered Pipeline Partners Australia's Offer in light of the options potentially available to HDF Securityholders and have formed the following view:

- Pipeline Partners Australia's Offer is presently the highest takeover offer available to HDF Securityholders;
- Pipeline Partners Australia's Offer is presently the highest value choice available to all HDF Securityholders, based on the current outlook for HDF and its business;
- In the absence of the current takeover activity, including the offers from both Pipeline Partners Australia and the APA Group, HDF is expected to trade at a price below the Pipeline Partners Australia Offer Price; and
- Internalisation and a restructure of HDF's management arrangements has been carefully analysed over a period of time, and again more recently. This analysis is set out in detail in Section 5.9 of this Target's Statement and concludes that should HDF be internalised, and absent the current takeover activity, HDF would still be expected to trade at a price below the Pipeline Partners Australia Offer Price even after taking into account any market re-rating of HDF.

If HDF remains a standalone entity, HDF Securityholders who continue to own HDF Stapled Securities will also be exposed to various risks, including inherent risks within HDF's business and risks associated with financial markets in general.

HDF Securityholders should also be aware that the price of HDF Stapled Securities has traded in the range of $1.77 to $2.55 during the period between 13 December 2011, being the last full trading day prior to the announcement of the APA Group Offer, and 27 July 2012. The closing price of HDF Stapled Securities on 27 July 2012 was $2.55.

I encourage you to read this Target's Statement in its entirety and consider the Offer having regard to your own personal risk profile, investment strategy and tax circumstances.

To ACCEPT Pipeline Partners Australia's Offer, you should carefully follow the instructions outlined on page 1 of Pipeline Partners Australia's Bidder's Statement and complete the applicable Acceptance Form enclosed with it. Pipeline Partners Australia's Offer is scheduled to close at 7 pm (Melbourne time) on 31 August 2012, unless extended or withdrawn.

If you have any further enquiries in relation to Pipeline Partners Australia's Offer, please contact the HDF Securityholder Information Line on 1800 815 610 (toll-free in Australia) or +61 2 8256 3357 (outside Australia).

Yours sincerely,

Alan Cameron AO
Chairman
Hastings Funds Management Limited

Independent Directors' recommendation

After taking into account each of the matters in this Target's Statement and the Bidder's Statement, each of your Independent Directors recommends that you ACCEPT the Offer in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Offer is fair and reasonable.

James McDonald is the only Director who has a relevant interest in HDF Stapled Securities. Mr McDonald presently intends to ACCEPT the Offer in relation to those HDF Stapled Securities, in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Offer is fair and reasonable.

You should read this Target's Statement and the Bidder's Statement before making a decision on whether to accept the Offer.

Non-independent directors

One of the investors in Pipeline Partners Australia is Utilities Trust of Australia (UTA), an unlisted fund managed by HFML. The immediate holding company of HFML is Hastings Management Pty Ltd and the ultimate holding company is Westpac. Andrew Day is a director of Hastings Management Pty Ltd and Liam Forde is the Chairman of Hastings Management Pty Ltd. Victoria Poole is an executive of Westpac.

Due to their respective relationships with Hastings Management Pty Ltd and Westpac and UTA's interest in Pipeline Partners Australia, each of Andrew Day, Liam Forde and Victoria Poole were not party to the discussions that your Independent Directors had with Pipeline Partners Australia, nor do they consider it appropriate for them to make, and they decline to make, a recommendation as to whether HDF Securityholders should accept the Offer.

Further detail regarding the relationship between HDF and UTA is set out in Section 4.7 of this Target's Statement.

Recent developments

Currently, both Pipeline Partners Australia's Offer and the APA Group Offer are open for acceptance. The consideration under the APA Group Offer is currently $0.425 cash and 0.326 APA Stapled Securities for each HDF Stapled Security. At the present time, the implied value of the current APA Group Offer is $2.02 per HDF Stapled Security based on the closing price of APA Stapled Securities on 27 July 2012.(3)

On 25 July 2012, the APA Group announced that, subject to successful completion of satisfactory due diligence, it may make a revised takeover offer for HDF. The APA Group has indicated that the terms of its revised offer would include an increase in offer consideration to a value of at least $2.50 per HDF Stapled Security (with a cash component of at least $0.60, and the remainder a fixed amount of APA Stapled Securities). The trading price of HDF Stapled Securities on the ASX has increased in response to the APA Group's announcement.

The APA Group also stated that the revised offer would comprise a material reduction in conditionality. Following the ACCC's decision on 19 July 2012 that it would not oppose the APA Group's takeover offer for HDF subject to the APA Group divesting the Moomba to Adelaide Pipeline System (MAPS), the APA Group has waived the ACCC condition of its offer. It should be noted that the APA Group has not yet indicated how it would achieve the proposed sale of MAPS if it were to acquire HDF and therefore it is not known what value impact this sale may have on either HDF or the value of the APA Group scrip if the APA Group were to proceed with a revised offer. The APA Group has also stated that it would be willing to waive a number of additional conditions, including the 90% minimum acceptance condition, if it were to acquire a relevant interest in 70% of HDF Stapled Securities.

The Independent Directors are engaging with the APA Group in relation to the possible revised offer. HDF may provide the APA Group with access to due diligence, subject to agreeing the terms on which that access will be provided as well as the information to be provided, bearing in mind that the APA Group is a competitor to HDF. However, at this point in time there is no certainty that the APA Group will make a formal revised takeover offer for HDF. Accordingly, the Independent Directors have assessed Pipeline Partners Australia's Offer taking into account the terms of the current APA Group Offer that is presently open to HDF Securityholders to accept and not the terms of any possible revised offer.

The Independent Directors note that HDF is required under the Corporations Act to send this Target's Statement to HDF Securityholders by no later than 3 August 2012. As a result, the Independent Directors are not in a position to delay dispatch of this Target's Statement due to the recent development relating to the APA Group's takeover bid.

The Independent Directors' recommendation to accept Pipeline Partners Australia's Offer is subject to there being no superior proposal (and the Independent Expert continuing to conclude that the Offer is fair and reasonable). If a revised offer is formally made by the APA Group, the Independent Directors will assess that revised offer to determine whether it is superior to Pipeline Partners Australia's Offer and advise HDF Securityholders of its recommended course of action.

HDF Securityholders should be aware that if you accept Pipeline Partners Australia's Offer you will lose the ability to accept a higher offer from the APA Group or another competing bidder if such a bid eventuates (subject to withdrawal rights that may be available in limited circumstances).

(3) Calculated as the closing price of APA Stapled Securities as at 27 July 2012, multiplied by 0.326 + $0.425, representing the $0.50 cash component of the APA Group Offer less the distributions of $0.025 per HDF Stapled Security paid on 30 January 2012 and 30 April 2012 and the distribution of $0.025 per HDF Stapled Security for the quarter ended 30 June 2012 payable on 6 August 2012.

Key reasons to ACCEPT the Offer

Your Independent Directors unanimously recommend that you ACCEPT the Offer in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Offer is fair and reasonable.

Key reasons why you should ACCEPT the Offer are discussed in detail below.

1 The Pipeline Partners Australia Offer Price represents a significant premium to the pre-bid prices of HDF Stapled Securities

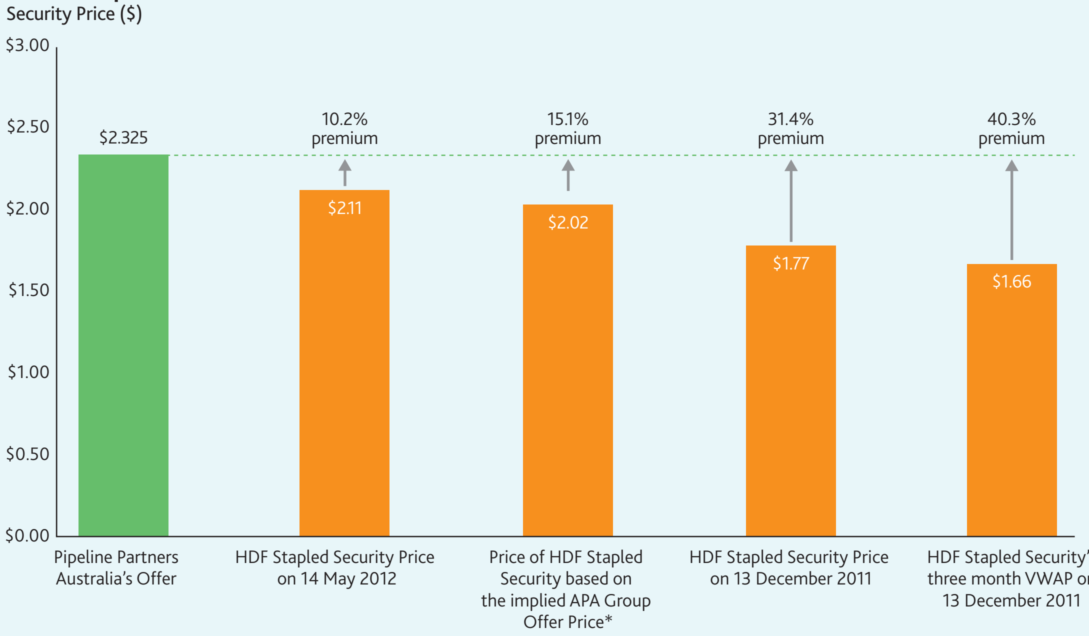
The Pipeline Partners Australia Offer Price represents:

- a 10.2% premium to the closing price of $2.11 per HDF Stapled Security on 14 May 2012, being the last full trading day prior to the announcement of the Pipeline Partners Australia Proposal;
- a 15.1% premium to the implied APA Offer Price of $2.02 per HDF Stapled Security, based on the closing price of APA Stapled Securities on 27 July 2012;(4)
- a 31.4% premium to the closing price of $1.77 per HDF Stapled Security on 13 December 2011, being the last full trading day prior to the announcement of the APA Group Offer; and
- a 40.3% premium to the three month VWAP of $1.66 per HDF Stapled Security up to and including 13 December 2011.

It should be noted that a number of announcements made by HDF since the announcement of the APA Group Offer involving new pipeline contracts and the refinancing of Epic Energy's debt could reasonably be expected to have had a positive impact on the price of HDF Stapled Securities, absent the APA Group Offer and Pipeline Partners Australia's Offer. Your Independent Directors believe that the Offer provides HDF Securityholders with a compelling premium to both the pre-bid levels of HDF Stapled Securities and provides appropriate value for your investment in HDF.

The Offer provides an opportunity for you to crystallise your investment in HDF now at a price that reflects a premium to HDF's undisturbed trading price in the absence of either the APA Group Offer and/or Pipeline Partners Australia's Offer.

The Offer premia



* Calculated as the closing price of APA Stapled Securities as at 27 July 2012, multiplied by 0.326 + $0.425, representing the $0.50 cash component of the APA Group Offer less the distributions of $0.025 per HDF Stapled Security paid on 30 January 2012 and 30 April 2012 and the distribution of $0.025 per HDF Stapled Security for the quarter ended 30 June 2012 payable on 6 August 2012.

(4) Calculated as the closing price of APA Stapled Securities as at 27 July 2012, multiplied by 0.326 + $0.425, representing the $0.50 cash component of the APA Group Offer less the distributions of $0.025 per HDF Stapled Security paid on 30 January 2012 and 30 April 2012 and the distribution of $0.025 per HDF Stapled Security for the quarter ended 30 June 2012 payable on 6 August 2012.

2 The Pipeline Partners Australia Offer Price provides HDF Securityholders with certainty of price and cash and is the highest value choice presently available

Your Independent Directors have carefully considered Pipeline Partners Australia's Offer in light of the options presently available to all HDF Securityholders and have formed the following view:

- The Pipeline Partners Australia Offer Price provides tangible value for HDF's contracted revenue profile, the strategic value of the pipelines and HDF's organic growth opportunities;
- Pipeline Partners Australia's Offer is the highest value choice presently available to HDF Securityholders, based on the current outlook for HDF and its businesses;
- In the absence of the current takeover activity, including the offers from both Pipeline Partners Australia and the APA Group, HDF is expected to trade at a price below the Pipeline Partners Australia Offer Price; and
- Internalisation of HDF and a restructure of HDF's management arrangements has been analysed and the consequential cash flow benefits are not expected to significantly change HDF's medium term distribution profile. Consequently, should HDF be internalised or undertake a restructure of its management arrangements, and absent the current takeover activity HDF would still be expected to trade at a price below the Pipeline Partners Australia Offer Price even after taking into account any market re-rating of HDF.

HDF Securityholders who wish to continue to participate in the potential rewards of owning HDF Stapled Securities as a standalone entity will also be exposed to various risks, including inherent risks within HDF's business and risks associated with financial markets in general (irrespective of the status of the management arrangements).

HDF Securityholders should also note the recent takeover developments that have occurred as described on page 4 of this Target's Statement.

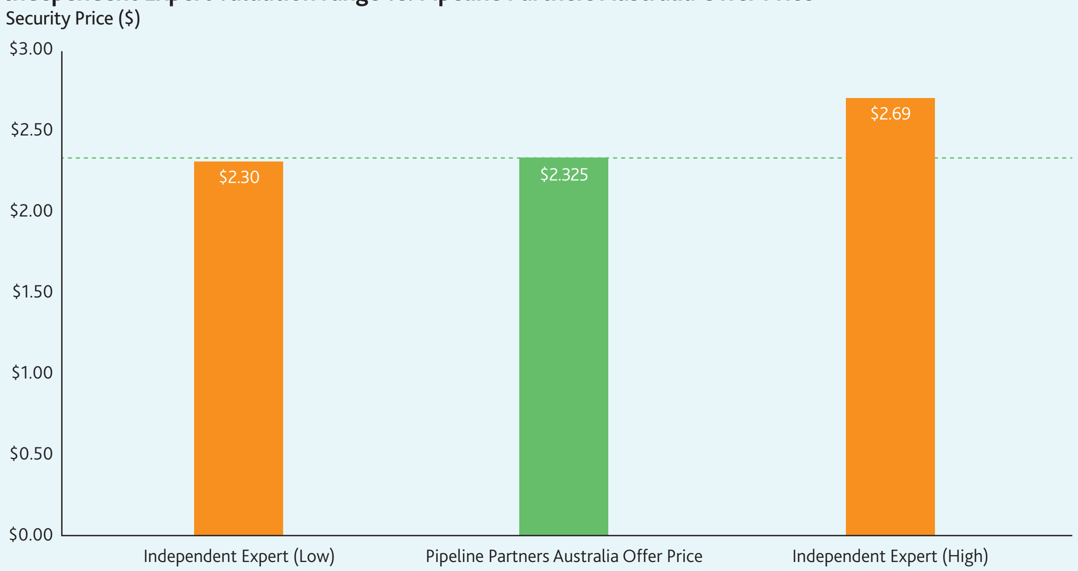
3 The Independent Expert has concluded that the Offer is fair and reasonable, in the absence of a superior proposal

Your Independent Directors appointed the Independent Expert, Grant Samuel & Associates, to prepare an independent assessment of the Offer. Grant Samuel & Associates has concluded that the Offer is fair and reasonable, in the absence of a superior proposal. Grant Samuel & Associates has estimated the full underlying equity value of HDF, including a premium for control, to be in the range of $1,217.5 – 1,427.5 million, which corresponds to $2.30 to $2.69 for each HDF Stapled Security. Your Independent Directors note that the Offer sits above the low end of the Independent Expert's valuation range. A copy of the Independent Expert's Report is contained in the Annexure to this Target's Statement.

Section 6.1 of the Independent Expert's Report states that:

"In Grant Samuel's opinion, the Pipeline Partners Offer is fair and reasonable, in the absence of a superior proposal."

Independent Expert valuation range vs. Pipeline Partners Australia Offer Price



The Independent Expert further states that the value range reflects:

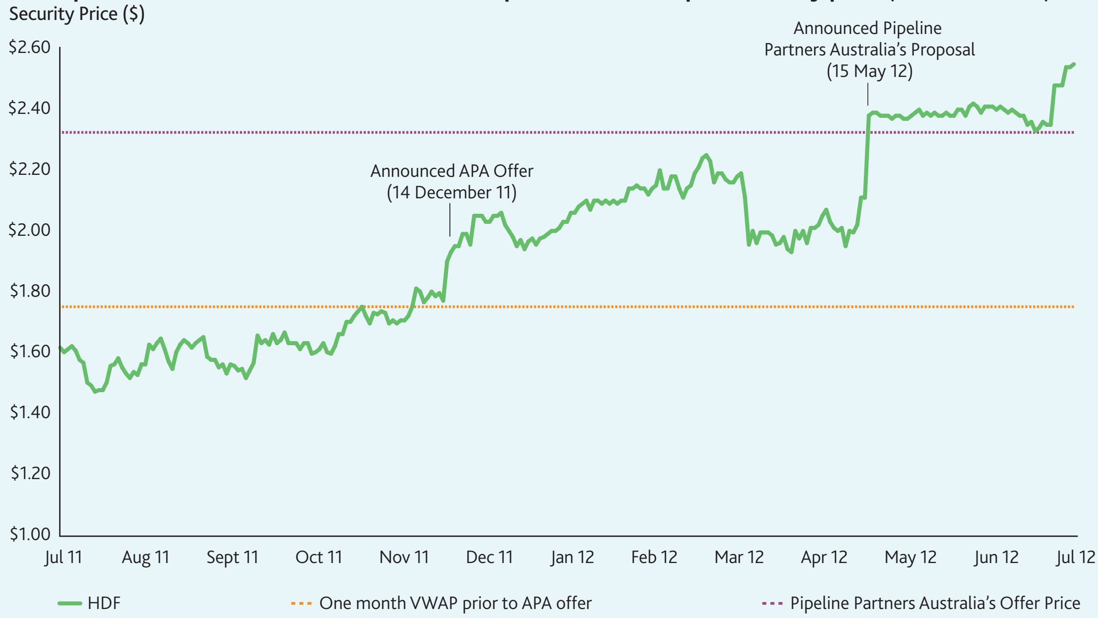
- *"the substantial uplift in the earnings and cash flows of the SWQP that will occur over the next four years as a result of the contracted increase in gas volumes (the majority of capital expenditure for which was incurred prior to 31 December 2011)";*
- *"that both the SWQP and the MAPS are currently highly contracted with high quality counterparties and that recontraction risk is relatively low given the current dynamics of the east coast gas market"; and*
- *"value for uncommitted growth opportunities inherent in Epic Energy's assets, particularly the SWQP. Epic Energy's pipelines are strategic assets that are well positioned to take advantage of future growth in demand for gas and have multiple, mutually exclusive paths to uplifts in value".*

4 The price of HDF Stapled Securities is likely to fall if the Offer is not successful and no alternative proposal emerges

If the Offer is not successful, it is likely that the price of HDF Stapled Securities will subsequently fall below current trading levels in the absence of a superior offer.

The following graph traces the price of HDF Stapled Securities prior to, and following, the announcement of the APA Group Offer and the Pipeline Partners Australia Proposal.

The Pipeline Partners Australia Offer Price compared to HDF Stapled Security price (last 12 months)



The market price of HDF Stapled Securities has outperformed its peers in recent months and has generally traded at or above the implied value of the APA Group Offer since it was announced. Your Independent Directors believe that the market price of HDF Stapled Securities has been sensitive and responsive to speculation about takeover activity, and it is highly likely that the trading price of HDF Stapled Securities since the announcement of the APA Group Offer reflected the view that a superior proposal could emerge, as occurred with the announcement of the Pipeline Partners Australia Proposal on 15 May 2012.

The closing price of HDF Stapled Securities on 27 July 2012 was $2.55, a 9.7% premium to the Pipeline Partners Australia Offer Price. Your Independent Directors consider that this premium reflects speculation that the APA Group may increase the APA Group Offer Price to in excess of the Pipeline Partners Australia Offer Price.

Your Independent Directors are of the opinion that, in the absence of the Offer or speculation that a superior proposal could eventuate, the market price for HDF Stapled Securities could be expected to trade below the Pipeline Partners Australia Offer Price of $2.325 per HDF Stapled Security.

Reasons why you may consider not accepting the Offer

1 You may consider that there is the potential for a superior proposal to be made in relation to HDF in the foreseeable future

You may believe that there is a possibility that a superior proposal could emerge in the foreseeable future. Although it is possible that the APA Group may make a revised offer that is superior to Pipeline Partners Australia's Offer (see page 4 of this Target's Statement), as of today, there is no superior proposal that is available to be accepted by HDF Securityholders.

2 You may wish to defer accepting the Offer

HDF Securityholders who accept the Offer will lose the ability to deal with their HDF Stapled Securities and will not be able to accept a superior offer from a competing bidder if such a bid eventuates (unless withdrawal rights are available or the Offer lapses and not all of its conditions are satisfied or waived).

As discussed on page 4 of this Target's Statement, there is a possibility that the APA Group may revise the terms of its offer (however there is no certainty that this will occur).

3 You may disagree with your Independent Directors' recommendation and the Independent Expert's conclusion

You may hold a different view to your Independent Directors and the Independent Expert and consider that the Offer value of $2.325 per HDF Stapled Security is inadequate.

4 You may wish to participate in any potential upside that may result from remaining a HDF Securityholder

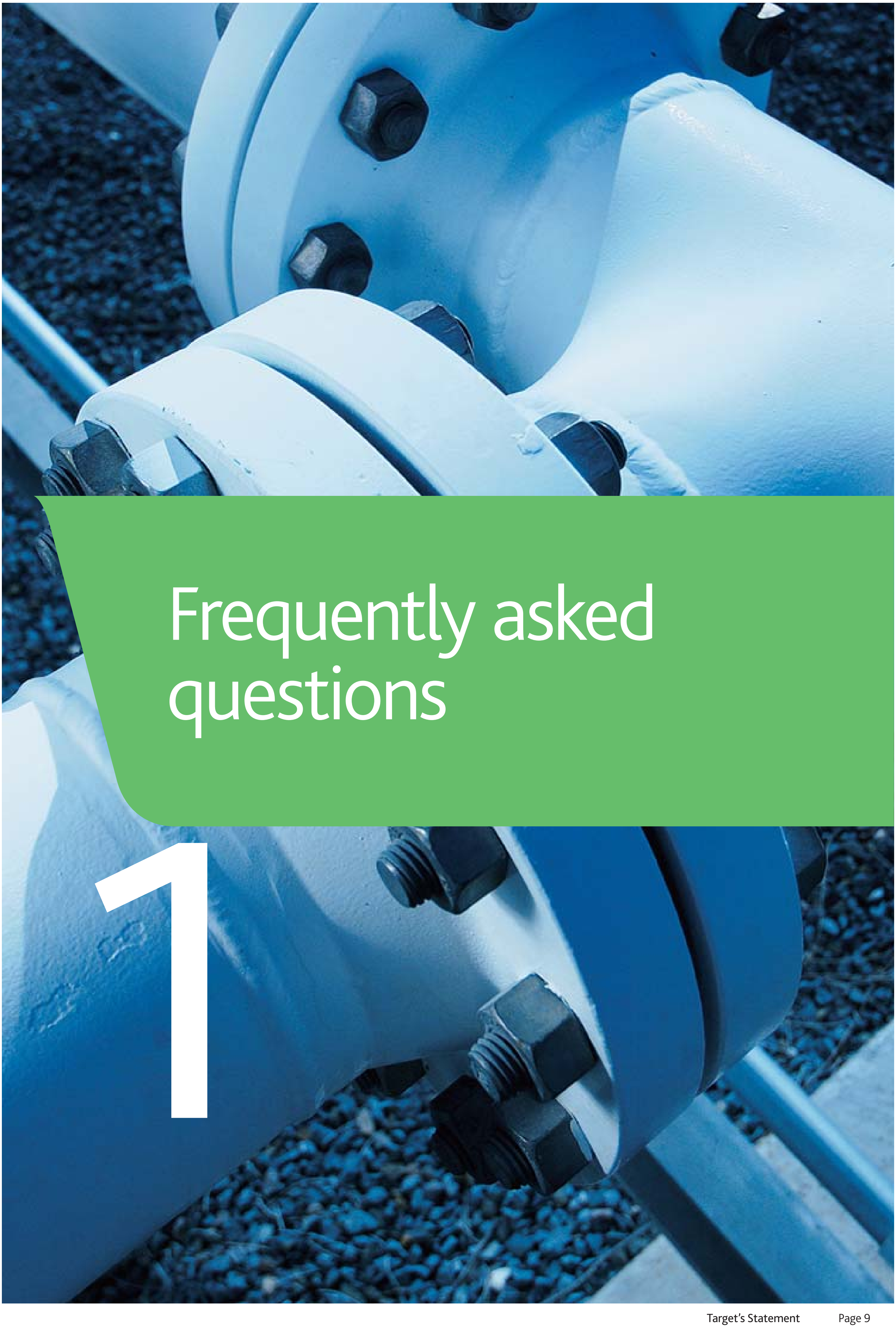
If you accept the Offer and the Offer becomes unconditional or you do not accept the Offer but Pipeline Partners Australia acquires 90% of HDF and proceeds to compulsory acquisition, you will cease to hold your HDF Stapled Securities. This means that you will not retain any exposure to HDF's assets or share in the value that could be generated by HDF in the future through the successful implementation of its business strategy and you will not have the opportunity to receive future distributions from HDF.

5 The tax consequences of the Offer may not be suitable to your financial position

Acceptance and subsequent implementation of the Offer may have tax consequences for you. A summary of the taxation implications of implementation of the Offer is set out in Section 7 of this Target's Statement. The summary is based on the Australian taxation law and administrative practice as at the date of this Target's Statement. The application of tax laws to HDF Securityholders will be dependent on particular facts and circumstances and accordingly it is strongly encouraged that HDF Securityholders obtain independent taxation advice.

6 The Offer may be subject to conditions that you consider unacceptable

Implementation of the Offer is subject to a number of conditions, which are set out in Section 7.7 of the Bidder's Statement and summarised in Section 4.3 of this Target's Statement. There is no certainty if and when these conditions will be satisfied.



1 Frequently asked questions

1 Frequently asked questions

This section answers some commonly asked questions about the Offer. It is not intended to address all relevant issues for HDF Securityholders. This section should be read together with all other parts of this Target's Statement.

Question	Answer
1 What is the Offer?	Pipeline Partners Australia has made an offer of $2.325 cash for each HDF Stapled Security held by you. Also, if you were registered as a HDF Securityholder as at 29 June 2012, you will be entitled to receive the $0.025 cash distribution for the quarter ended 30 June 2012 without any reduction in the Pipeline Partners Australia Offer Price. However, the Pipeline Partners Australia Offer Price may be reduced by the amount or value of any further distributions declared by HDF. Details in relation to the Offer are set out in Section 4.1 of this Target's Statement.
2 When does the Offer close?	The Offer is scheduled to close at 7pm (Melbourne time) on 31 August 2012. You should note that the Offer Period can be extended as permitted by the Corporations Act. See Section 8.13 of this Target's Statement for details of the circumstances in which the Offer Period can be extended.
3 Who is Pipeline Partners Australia?	Pipeline Partners Australia is an Australian company that is owned by a consortium of experienced Australian and Canadian investors in infrastructure assets. Details in relation to this consortium are set out in Section 1 of the Bidder's Statement and Section 6 of this Target's Statement.
4 What is the Bidder's Statement?	The Bidder's Statement is the document setting out the terms of, and other information relating to, the Offer. Holders of HDF Stapled Securities will have already received a copy of the Bidder's Statement in the mail.
5 What is this Target's Statement?	This Target's Statement has been prepared by HDF and provides HFML's response to the Offer, including the unanimous recommendation of your Independent Directors to ACCEPT the Offer in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Offer is fair and reasonable.
6 What choices do I have as a HDF Securityholder?	As a HDF Securityholder, you have the following four choices in respect of the Offer: • ACCEPT the Offer. Your Independent Directors recommend that you ACCEPT the Offer in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Offer is fair and reasonable; • sell your HDF Stapled Securities on the ASX (unless you have previously accepted the Offer and you have not validly withdrawn your acceptance); • reject the Offer by doing nothing; • do nothing now and wait. There are implications in relation to each of the above choices. A summary of these implications is set out in Section 2 of this Target's Statement.

Question	Answer
7 What are my Independent Directors recommending?	Your Independent Directors unanimously recommend that you ACCEPT the Offer in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Offer is fair and reasonable. If there is a change to this recommendation or any material development in relation to the Offer, HFML will inform you. Each of Liam Forde, Andrew Day and Victoria Poole have abstained from making any recommendation as to whether HDF Securityholders should accept the Offer due to a potential conflict of interest.
8 What do the Directors intend to do with their HDF Stapled Securities?	The sole Director who has a relevant interest in HDF Stapled Securities intends to ACCEPT the Offer in relation to those HDF Stapled Securities that he owns or controls in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Offer is fair and reasonable. Please refer to Section 8.5 of this Target's Statement for further details.
9 What does the Independent Expert say?	The Independent Expert has concluded that the Offer is fair and reasonable, in the absence of a superior proposal. The Independent Expert's Report is set out in the Annexure to this Target's Statement. You should read it carefully.
10 Why should I ACCEPT the Offer?	Your Independent Directors are unanimously recommending that you ACCEPT the Offer because: • the Offer represents a significant premium to the pre-bid prices of HDF Stapled Securities; • the Offer provides certainty of price and cash and is the highest value choice presently available to all HDF Securityholders; • the price of HDF Stapled Securities is likely to fall if the Offer is not successful and no alternative proposal emerges; and • the Independent Expert has concluded that the Offer is fair and reasonable, in the absence of a superior proposal. Further details as to why you should ACCEPT the Offer are set out in the 'Key reasons to ACCEPT the Offer' section of this Target's Statement (which commences on page 5).
11 How do I ACCEPT the Offer?	To accept the Offer, refer to page 1 of the Bidder's Statement, as well as the instructions on the applicable Acceptance Form enclosed with the Bidder's Statement. See also Section 3 of this Target's Statement for further information about how to accept the Offer.
12 How do I reject the Offer?	To reject the Offer, you should do nothing further.

Question	Answer
13 Can I accept the Offer for part of my holdings?	No. You cannot accept the Offer for part of your holdings. You may only accept the Offer for all of the HDF Stapled Securities held by you.
14 What is the status of the APA Group Offer?	On 14 December 2011, the APA Group announced a conditional takeover offer for all of the stapled securities in HDF at an offer price of $0.50 cash and 0.326 APA Stapled Securities for each HDF Stapled Security adjusted for any HDF distributions after this date. Following careful consideration, the HFML Board unanimously recommended that HDF Securityholders reject the APA Group Offer for the reasons set out in the APA Target's Statement. The HFML Board has maintained that recommendation. Based on the closing price of APA Stapled Securities on 27 July 2012, the implied value of the APA Group Offer is $2.02.(5) This represents a substantial discount to the Pipeline Partners Australia Offer Price and, in the view of the HFML Board, undervalues HDF. The APA Group announced on 25 July 2012 that it may make a revised takeover offer for HDF with an increase in offer consideration to a value of at least $2.50 per HDF Stapled Security (with a cash component of at least $0.60, and the remainder a fixed amount of APA Stapled Securities), but any such proposal remains subject to the APA Group successfully completing satisfactory due diligence. Although the HFML Board continues to engage with the APA Group, there is no certainty that the APA Group will revise the terms of its offer.
15 Are there any other bidders apart from Pipelines Partners Australia and the APA Group who may make a Competing Proposal?	As at the date of this Target's Statement, the Directors are not aware of any other interested party willing and capable of making a Competing Proposal for HDF.
16 What are the consequences of accepting the Offer now, while it remains conditional?	If you accept the Offer, unless withdrawal rights are available (see question 17 below) and you exercise those rights, you will give up your right to sell your HDF Stapled Securities on the ASX or otherwise deal with your HDF Stapled Securities while the Offer remains open (including the acceptance of any potential higher competing offer from the APA Group or another competing bidder if such an offer eventuates). While the Offer remains conditional, you will not be paid consideration under the Offer. You should take into account the possibility that there may be a delay in certain conditions being satisfied, or even that a condition may not be satisfied or waived (see question 21 below).

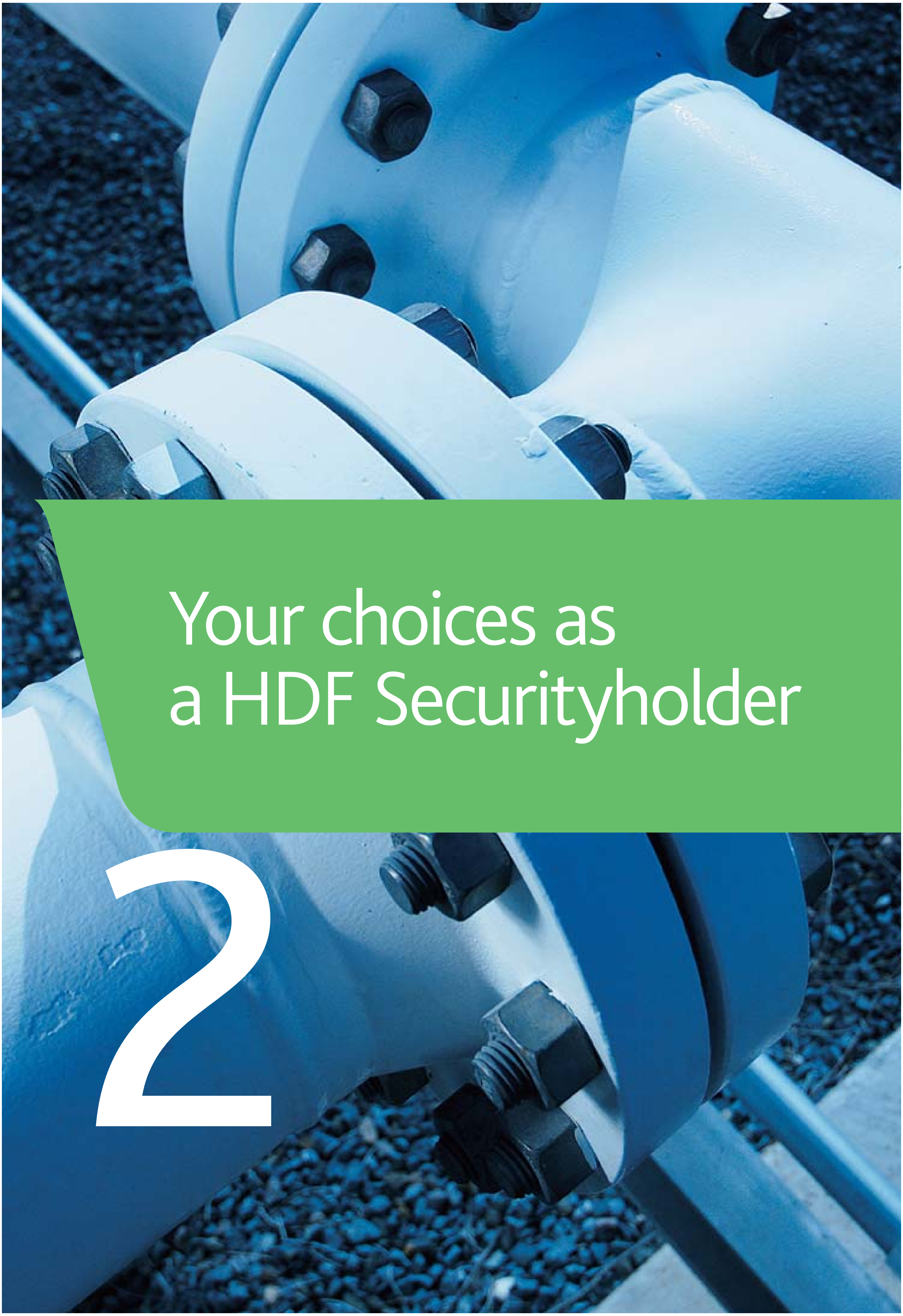
(5) Calculated as the closing price of APA Stapled Securities as at 27 July 2012, multiplied by 0.326 + $0.425, representing the $0.50 cash component of the APA Group Offer less HDF's distribution paid on 30 January 2012, 30 April 2012 and the HDF distribution payable on 6 August 2012.

Question	Answer
17 If I accept the Offer, can I withdraw my acceptance?	HDF Securityholders who accept the Offer will not be able to withdraw their acceptance, except in certain limited circumstances (see Section 8.16 of this Target's Statement).
18 What are the consequences of the Offer becoming unconditional?	If you accept the Offer after it becomes unconditional or the Offer becomes unconditional after you have accepted, you will be entitled to receive the consideration paid under the Offer.
19 What happens if the consideration payable under the Offer is increased?	If you accept the Offer and the Pipeline Partners Australia Offer Price subsequently increases and the Offer becomes unconditional, you will receive the increased price for your HDF Stapled Securities.
20 What are the conditions of the Offer?	Various conditions are attached to the Offer. These conditions are set out in Section 7.7 of the Bidder's Statement and are summarised in Section 4.3 of this Target's Statement.
21 What happens if the conditions of the Offer are not satisfied or waived?	If the conditions are not satisfied or waived before the Offer closes, the Offer will lapse and any acceptances will be cancelled. You will then be free to deal with your HDF Stapled Securities even if you have accepted the Offer.
22 When will I be paid if I accept the Offer?	If you accept the Offer in accordance with the instructions contained in the Offer and the applicable Acceptance Form, you will paid on or before the later of: • one month after the date that the Offer becomes or is declared unconditional; and • one month after the date you accept the Offer if the Offer is, at the time of acceptance, unconditional, but in any case, within 21 days after the Offer closes (assuming the conditions of the Offer have been satisfied or waived).
23 What are the tax implications of accepting the Offer?	A general outline of the tax implications of accepting the Offer is set out in Section 7 of this Target's Statement. As the outline is a general outline only, HDF Securityholders are encouraged to seek their own specific professional advice as to the taxation implications applicable to their circumstances.

Question	Answer
24 Do I pay brokerage or stamp duty if I accept?	You will not pay stamp duty on the disposal of your HDF Stapled Securities if you accept the Offer. If your HDF Stapled Securities are registered in an Issuer Sponsored Holding in your name and you deliver them directly to Pipeline Partners Australia, you will not incur any brokerage in connection with your acceptance of the Offer. If your HDF Stapled Securities are registered in a CHESS Holding, or if you are a beneficial owner whose HDF Stapled Securities are registered in the name of a broker, bank, custodian or other nominee, you should ask your Controlling Participant (usually your broker) or that nominee whether it will charge any transaction fees or service charges in connection with acceptance of the Offer.
25 What happens if I do nothing?	If you do nothing in relation to the Offer, you will remain a HDF Securityholder. If Pipeline Partners Australia acquires 90% or more of HDF Stapled Securities and the Offer becomes unconditional, Pipeline Partners Australia intends to compulsorily acquire your HDF Stapled Securities. See Section 8.20 of this Target's Statement for further details. If Pipeline Partners Australia acquires between 50.1% and 90.0% of HDF Stapled Securities and the Offer becomes unconditional, you will be a minority securityholder in HDF. The implications of being a minority securityholder are described in Section 4.6 of this Target's Statement.
26 Can I be forced to sell my HDF Stapled Securities?	You cannot be forced to sell your HDF Stapled Securities unless: • Pipeline Partners Australia acquires a relevant interest in at least 90% of all HDF Stapled Securities by the close of the Offer Period; and • Pipeline Partners Australia proceeds to compulsory acquisition of your HDF Stapled Securities. If Pipeline Partners Australia does proceed to compulsory acquisition of your HDF Stapled Securities, you will receive the last price offered by Pipeline Partners Australia for HDF Stapled Securities prior to the commencement of the compulsory acquisition process. See Section 8.20 of this Target's Statement for more details.
27 What are the consequences if Pipeline Partners Australia acquires less than 90% of HDF?	There are a number of possible implications for HDF Securityholders which are referred to in detail in Sections 4.6 and 7.5 of this Target's Statement.
28 Is there a number that I can call if I have further queries in relation to the Offer?	If you have any further queries in relation to the Offer, you can call the HDF Information Line on 1800 815 610 (a toll-free line for calls made from inside Australia) or +61 2 8256 3357 (for calls made from outside Australia). Calls to these numbers may be recorded.

2

Your choices as a HDF Securityholder



As a HDF Securityholder you have the following choices currently available to you in relation to the Offer:

(a) ACCEPT the Offer

Details of how to ACCEPT the Offer are set out in Section 3 of this Target's Statement and page 1 of the Bidder's Statement.

If you accept the Offer, you will give up your right to sell your HDF Stapled Securities on the ASX or otherwise deal with your HDF Stapled Securities while the Offer remains open, including the acceptance of any potential higher competing offer from the APA Group or another competing bidder if such a proposal eventuates, except in certain limited circumstances where withdrawal rights are available (see Section 8.16 of this Target's Statement).

Further, if you accept the Offer, you may be liable to pay CGT or income tax on the disposal of your HDF Stapled Securities which may have financial consequences for some HDF Securityholders (see Section 7 of this Target's Statement for further details of the tax consequences of the Offer).

HDF Securityholders who accept the Offer may also incur a brokerage charge if their HDF Stapled Securities are registered in a CHESS Holding.

(b) Sell your HDF Stapled Securities on market

If you have not already accepted the Offer, you can still sell your HDF Stapled Securities on market for cash.

The price of HDF Stapled Securities has traded in the range of $1.77 to $2.55 during the period between 13 December 2011, being the last full trading day prior to the announcement of the APA Group Offer, and 27 July 2012. The closing price of HDF Stapled Securities on 27 July 2012 was $2.55.

HDF Securityholders should be aware that, even if the market price of HDF Stapled Securities on the ASX is at a premium to the Pipeline Partners Australia Offer Price of $2.325, the ability of HDF Securityholders to sell their HDF Stapled Securities at that market price is subject to there being sufficient demand for those HDF Stapled Securities at that market price.

On 27 July 2012 the price of HDF Stapled Securities closed at $2.55, a 9.7% premium to the Offer Price of $2.325. The latest price for HDF Stapled Securities may be obtained from the ASX website www.asx.com.au.

HDF Securityholders who sell their HDF Stapled Securities on market:

- may be liable for CGT or income tax on the sale (see Section 7 of this Target's Statement);
- may incur a brokerage charge; and
- will not receive the benefits of any potential higher offer from Pipeline Partners Australia or a superior competing offer.

HDF Securityholders who wish to sell their HDF Stapled Securities on market should contact their broker.

(c) Do nothing

HDF Securityholders who do not wish to accept the Offer need not do anything. HDF Securityholders who do not wish to either accept the Offer or sell their HDF Stapled Securities on market now should do nothing further at this time.

However, you should note that if Pipeline Partners Australia acquires a relevant interest in:

- at least 90% of HDF Stapled Securities on issue, and the other defeating conditions of the Offer are either satisfied or waived, Pipeline Partners Australia will be entitled to compulsorily acquire the securities it does not already own (see Section 8.20 of this Target's Statement for further details); or
- more than 50% but less than 90% of HDF Stapled Securities on issue, and the other defeating conditions of the Offer are either satisfied or waived, HDF Securityholders who do not accept the Offer will become minority securityholders in HDF (this is further discussed in Section 4.6 of this Target's Statement).

3 How to ACCEPT the Offer

3 How to ACCEPT the offer

If you decide to accept the Offer, your acceptance must be received before the close of the Offer Period (7pm (Melbourne time) on 31 August 2012) unless the Offer Period is extended in accordance with the Corporations Act.

You should read this Target's Statement and the Bidder's Statement before making a decision on whether or not to accept the Offer.

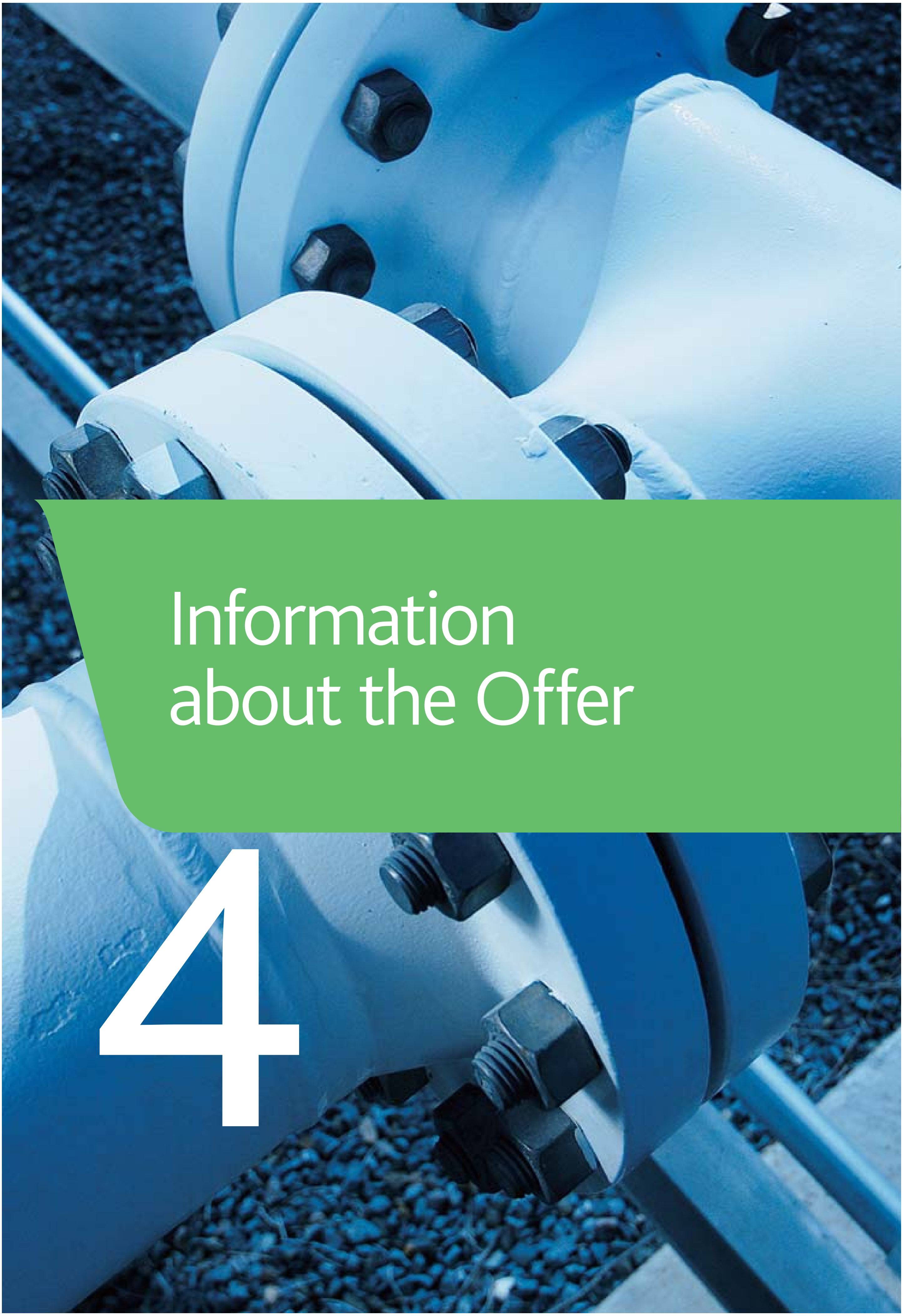
Depending on the nature of your holding, you may accept the Offer in the following ways:

For Issuer Sponsored Holdings of HDF Stapled Securities (Securityholder Reference Number beginning with 'I')	Complete the applicable Acceptance Form (included with the Bidder's Statement) in accordance with the instructions on it and return it in the envelope enclosed with the Bidder's Statement or to an address on the applicable Acceptance Form.
For CHESS Holdings of HDF Stapled Securities (Holder Identification Number beginning with 'X')	Contact your Controlling Participant (usually your broker) and instruct them to accept the Offer on your behalf or Complete the applicable Acceptance Form (included with the Bidder's Statement) in accordance with the instructions on it and return it in the envelope enclosed with the Bidder's Statement or to an address on the applicable Acceptance Form.

Effect of acceptance

A description of the consequences of accepting the Offer is set out in Section 8.15 of this Target's Statement.

Subject to the withdrawal rights summarised in Section 8.16, if you accept the Offer (even while it remains conditional), you will give up your rights to either sell your HDF Stapled Securities on the ASX or otherwise deal with your HDF Stapled Securities while the Offer remains open (including the acceptance of any potential higher competing offer that may emerge).



4 Information about the Offer

4.1 Summary of the Offer

The Pipeline Partners Australia Offer Price is $2.325 cash for each HDF Stapled Security. You will be entitled to receive any distribution from HDF if you still hold HDF Stapled Securities on the record date for that distribution, including the $0.025 distribution for the quarter ending 30 June 2012. The value of the consideration under the Offer may be reduced by the distribution to be paid by HDF for the quarter ending 30 September 2012, together with the amount of any other HDF distribution paid to you beyond this date.

The Offer is open for acceptance from 18 July 2012 until 7pm (Melbourne time) on 31 August 2012, unless extended or withdrawn. The circumstances in which the Offer may be extended or withdrawn are summarised in Sections 8.13 and 8.14 of this Target's Statement.

4.2 Independent Expert's Report

This Target's Statement includes, in the Annexure, a copy of a report by Grant Samuel & Associates (an independent expert not associated with either HDF or Pipeline Partners Australia) stating whether, in its opinion, the Offer is fair and reasonable to HDF Securityholders and giving reasons for that opinion.

- The Independent Expert has concluded that the Offer is fair and reasonable, in the absence of a superior proposal.
- The Directors recommend that you read the Independent Expert's Report in full.

4.3 Conditions of the Offer

The conditions of the Offer are set out in Section 7.7 of the Bidder's Statement.

If all of these conditions are not satisfied, or not waived by Pipeline Partners Australia, before the close of the Offer Period, then the Offer will lapse. HDF Securityholders who have accepted the Offer will not receive any consideration for their HDF Stapled Securities. Furthermore, HDF Securityholders who accept the Offer will, prior to the close of the Offer, lose the ability to deal with their HDF Stapled Securities or accept any potential higher competing offer, except in certain limited circumstances where withdrawal rights are available.

A summary of the key conditions of the Offer are:

- **70% minimum acceptance:** Pipeline Partners Australia and its associates have a relevant interest in at least 70% (by number) of all the HDF Stapled Securities.
- **Regulatory approvals:** All relevant regulatory approvals have been satisfied or obtained.
- **No restraining orders:** No government agency takes action to restrain or prohibit the Offer or require the divestiture by Pipeline Partners Australia of any HDF Stapled Securities or assets of HDF or Pipeline Partners Australia.
- **No material adverse effect:** There is no event giving rise to a material adverse effect in relation to HDF.
- **No material acquisitions, disposals or new commitments:** There are no material acquisitions, disposals or new commitments by any HDF Group Entity, except for any proposed transaction announced by HDF to the ASX or disclosed to Pipeline Partners Australia before the Announcement Date.
- **Remuneration payment:** No HDF Group Entity pays or agrees to pay any retirement benefit or allowance to any responsible entity, director or employee, or agrees to make or makes a substantial change to the basis or amount of remuneration or the terms of redundancy to any director or employee, except as required by law or provided under any superannuation or retirement scheme in effect on the Announcement Date.
- **Change of control:** No person exercises or purports to exercise a right or has any rights under a material contract as a result of the Offer or HFML ceasing to be the responsible entity of HDF.
- **Index decline:** The S&P/ASX 200 Index does not fall to (or below) a level which is 15% lower than the level as at the end of the trading day immediately before the Announcement Date and remain at or below that level until the Business Day immediately prior to the end of the Offer Period.
- **No prescribed occurrences:** No event that is a 'prescribed occurrence' occurs, such as HDF issuing HDF Stapled Securities (other than to HFML in respect of any Performance Fee payable) or becoming insolvent.
- **Litigation:** During the Offer Period, there is no material litigation greater than $5 million against any HDF Group Entity.
- **Performance fee:** HFML announces that the Performance Fee which will be accepted by HFML for the half-year period ending 30 June 2012 will not exceed $50 million and HFML will not accept any Performance Fee for any period commencing on or after 1 July 2012, while the Offer remains open or Pipeline Partners Australia has a relevant interest in more than 50% of the HDF Stapled Securities.

4.4 Likelihood of satisfaction of the conditions

The Performance Fee Condition has been satisfied. As at the date of this Target's Statement, HDF:

- is not aware of any act, omission, event or fact that would result in the breach or non-satisfaction of a condition to the Offer (with the exception of the Change of Control Condition); and
- is not in a position to state whether any of the other conditions of the Offer will be satisfied.

Section 5.4 of this Target's Statement contains an overview of Epic Energy's financing arrangements including a description of the review events that may arise as a result of the Offer. The arrangements described in that overview breach the Change of Control Condition. HFML is working with Pipeline Partners Australia to seek appropriate waivers under Epic Energy's financing arrangements that would result in the Change of Control Condition not being triggered. The Bidder's Statement states that Pipeline Partners Australia will, on the basis of statements contained in HDF's target's statement of 20 January 2012, waive the Change of Control Condition if those waivers are obtained.

Other than these financing arrangements, HDF is not aware of any material contract or similar arrangement, to which a member of the HDF Group is a party which allows another party to exercise rights such as termination, variation, or enforcement as a result of the Offer, or the acquisition of HDF Stapled Securities as a result of the Offer, or HFML ceasing to be responsible entity of any of the managed investment schemes comprising HDF, or the identity of the responsible entity of any of those managed investment schemes otherwise changing.

4.5 Implications of conditions not being satisfied

Any conditions of the Offer which are not satisfied (or triggered, as appropriate) may be waived by Pipeline Partners Australia.

If, at the close of the Offer Period, any condition has not been satisfied (or has been triggered) and has not been waived, Pipeline Partners Australia will have a choice either to declare the Offer unconditional and proceed with the acquisition of HDF Stapled Securities under the Offer or allow the Offer to lapse on the basis that the conditions have not been satisfied.

4.6 Consequences of Pipeline Partners Australia acquiring less than 90% of HDF

If Pipeline Partners Australia obtains a relevant interest in at least 90% (by number) of HDF Stapled Securities (and all the conditions to the Offer are either satisfied or waived, including the 70% minimum acceptance condition), Pipeline Partners Australia will be entitled to compulsorily acquire all outstanding HDF Stapled Securities.

If Pipeline Partners Australia acquires more than 50% but less than 90% of the HDF Stapled Securities then, assuming all conditions to the Offer are satisfied or waived (including the 70% minimum acceptance condition), Pipeline Partners Australia will acquire a majority security holding in HDF. In such circumstances, HDF Securityholders who do not accept the Offer will be minority securityholders in HDF. This has a number of possible implications, including the following:

- Pipeline Partners Australia will be in a position to cast the majority of votes at a general meeting of one or more of the trusts comprising HDF. This will enable Pipeline Partners Australia to control the appointment of the responsible entity of HDF;
- Pipeline Partners Australia has stated that it intends to adopt a long term strategy to its proposed investment in HDF, favouring long term growth over short term yields. Pipeline Partners Australia would propose a review of HDF's distribution policy and the gearing levels of HDF. Depending on the outcome of this review, Pipeline Partners Australia may consider seeking changes to HDF's distribution policy that materially reduce or even cease the payment of distributions to HDF Securityholders;
- if the number of HDF Securityholders is less than that required by the ASX Listing Rules to maintain an ASX listing then Pipeline Partners Australia has stated in the Bidder's Statement that it may seek to have HDF removed from the Official List of the ASX, even though it would not have 100% ownership of HDF, depending on factors such as the spread of HDF Securityholders at that time, the level of liquidity in HDF Stapled Securities (which is likely to have diminished materially) and the listing requirements of the ASX. If this occurs, HDF Stapled Securities will not be able to be traded on the ASX and this may have adverse tax consequences as set out in Section 7.5.1 of this Target's Statement;
- even if HDF remains listed on the ASX, the market for your HDF Stapled Securities is likely to be less liquid and less active than at present, and there is a risk that HDF could be fully or partially removed from certain S&P/ASX market indices due to a lack of free float and/or liquidity. If this occurred, it is likely to affect your ability to easily trade your HDF Stapled Securities; and
- as described in Section 5.4 of this Target's Statement, if Pipeline Partners Australia acquires a relevant interest in more than 75% of HDF Stapled Securities or HFML (or any of its affiliates or related bodies corporate) ceases to be the responsible entity of HDF Epic Trust or certain other specified events described in that section occur as a result of the Offer and the Epic Energy financiers do not provide the requisite waivers to the change of control of HDF, Epic Energy may be obliged to repay various debt facilities, potentially within 60 days of the relevant event occurring (unless the requisite waivers are obtained from the financiers).

In addition, if Pipeline Partners Australia acquires 75% or more of HDF Stapled Securities, it will be able to pass a special resolution of HDF. This will enable Pipeline Partners Australia to, among other things, change the HDF Constitutions.

If the Offer lapses, or if Pipeline Partners Australia acquires less than 50% of HDF Stapled Securities and waives the 70% minimum acceptance condition, the trading price of HDF Stapled Securities may be higher or lower than the Pipeline Partners Australia Offer Price. If you remain a HDF Securityholder in this circumstance, you will continue to enjoy the risks and rewards of being a HDF Securityholder.

4.7 Relationship between HDF and Utilities Trust of Australia

As set out in Section 1 of the Bidder's Statement, Pipeline Partners Australia is an Australian company which has four beneficial owners, being UTA, CDPQ, Kindle and Canafund.

HFML is the manager of UTA and, together with each UTA unitholder, is entitled to hold one share in the trustee of UTA, Utilities of Australia Pty Ltd. The Board of Utilities of Australia Pty Ltd is independent of HFML and has ultimate responsibility for approving investment decisions and supervising HFML in carrying out its management and administrative responsibilities. The Board of Utilities of Australia Pty Ltd consists of six investor-nominated directors, a HFML representative director and an independent chairman. The HFML representative director has no involvement with the management or affairs of HFML and is not a director of HFML.

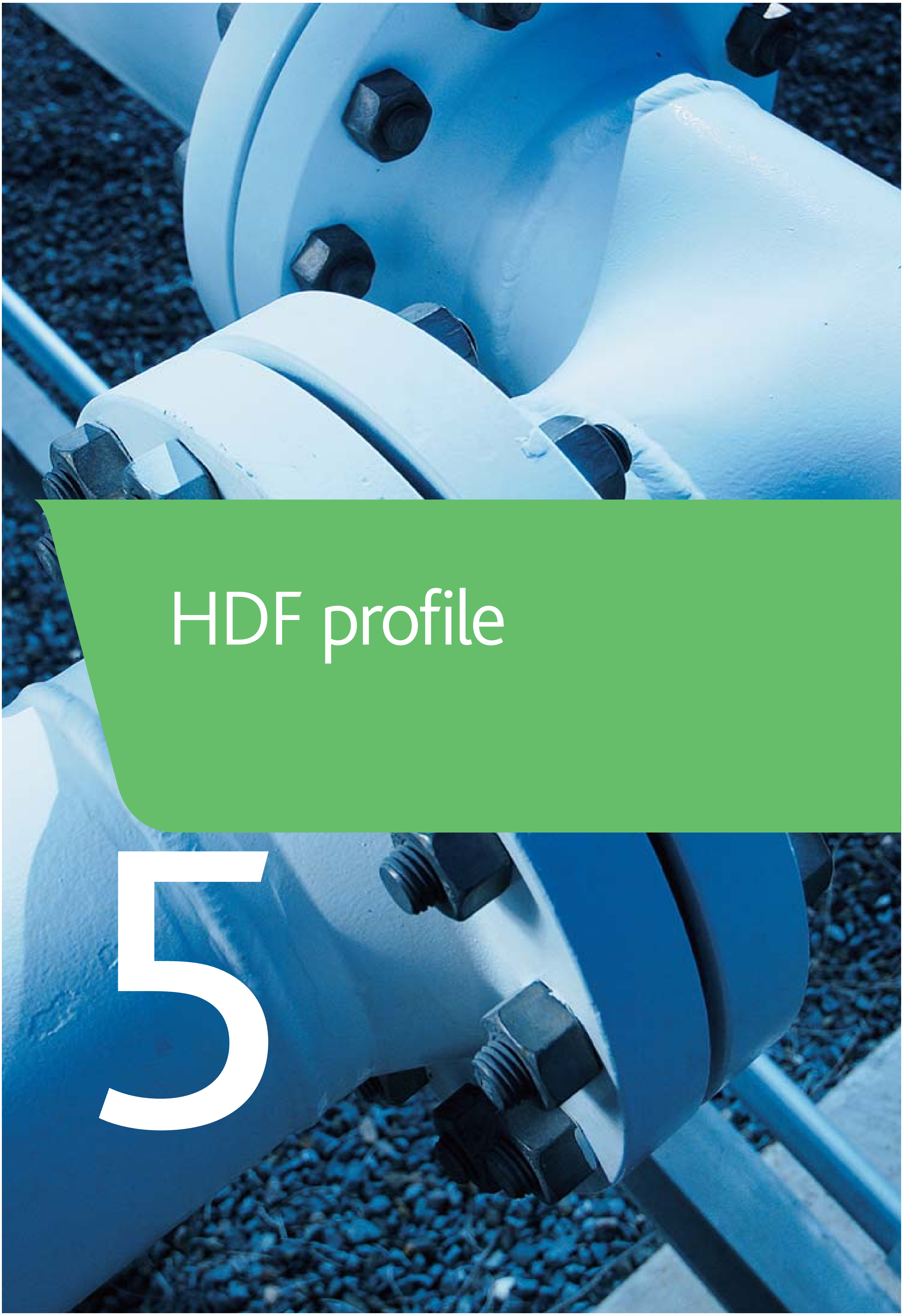
HFML receives management fees (referable to the net asset value of UTA) and has the potential to receive performance fees in providing these services.

HFML has not acted as manager or advised UTA in connection with, nor had any other role in the formulation of, the Offer. Neither HFML, nor any of its directors or HMPL group employees who have assisted the Independent Directors in considering the Offer, has been offered any fees or any other incentive by Pipeline Partners Australia, nor any member of the Bidder Group, in connection with the Offer. Should the Offer be successful, the net asset value of UTA may increase, which may in turn increase the management fee payable to HFML. The Independent Directors believe, based on the Bidder's Statement, that HFML may receive a management fee in respect of UTA's direct and indirect 39.3% interest in Pipeline Partners Australia's investment in HDF in the event the Offer is successful.

Governance protocols and procedures adopted in relation to the Offer

In view of the relationship between HFML and UTA, the HFML Board has adopted governance and information barrier protocols in relation to the Offer, the key elements of which are as follows:

- A discrete team of HMPL employees was established to assist the Independent Directors of HFML in considering the Offer and any other change of control proposal. A separate discrete team of HMPL employees together with an independent consultant and advisers was established to assist the Utilities of Australia Pty Ltd Board in relation to the Offer. Physical and information separation arrangements are in place between these teams and also between the teams and other HMPL group employees. Regular monitoring and testing of information barriers is undertaken to ensure arrangements remain robust and effective and that HMPL employees remain aware of their obligations in dealing with potential conflicts.
- HDF and UTA have each received independent financial and legal advice in relation to all aspects of the Offer.
- A committee comprised of the Independent Directors of HFML was established to consider the Offer on behalf of HDF Securityholders. The Independent Directors do not include any directors who are executives of the HFML group or Westpac. The independent committee of directors of HFML have had no involvement in the formulation of the Offer by UTA and Pipeline Partners Australia and did not advise UTA on any aspect of the Offer.



5 HDF profile

5.1 Background information on HDF

HDF is focussed on energy infrastructure investment and aims to capitalise on the strong, long term growth profile of that industry. HDF has been listed on the ASX since 13 December 2004 and is comprised of three stapled trusts:

- HDF Epic Trust;
- HDF Finance Trust; and
- HDF Further Investments Trust.

The responsible entity and manager of HDF is HFML, a subsidiary of Westpac.

HDF's strategy is to invest in energy infrastructure. HDF's near term focus is to leverage its strong market position in Australia's gas transmission network and capitalise on the increasing role that gas is expected to play in the growing domestic and international energy market.

5.2 Current business activities of HDF

The principal activity of each of the stapled trusts comprising HDF is as follows:

- the principal activity of HDF Epic Trust is the ownership, management, operation and maintenance of its assets (gas transmission pipelines in South Australia, South West Queensland and Western Australia);
- the principal activity of HDF Further Investments Trust is to facilitate further investments for the HDF Group, including energy infrastructure assets; and
- the principal activity of HDF Finance Trust is to provide finance to the HDF Group.

HDF's investment portfolio currently comprises 100% ownership of Epic Energy, one of Australia's largest high pressure gas transmission companies.

5.3 Recent business activities of HDF

Since the APA Target's Statement was released to the ASX on 20 January 2012, HDF has continued to deliver on its stated business strategy including by undertaking the following:

- **Refinance of Epic Energy's entire debt facilities:** On 26 March 2012, HFML announced the refinance of all Epic Energy's debt facilities, totalling $1.375 billion. The debt restructure provides HDF with a strong capital structure to support the next phase of its development and growth.
- **Settlement of Warrants:** Following the Epic Energy debt refinance in March 2012, on 2 April 2012, a call notice was issued to HDF for the payment of all its outstanding Warrants. The warrants payment, amounting to $41.8 million, was settled through existing cash reserves on 25 June 2012. Following the settlement of the Warrants, HDF's capital structure is now more simple and transparent and is well positioned for its next phase of growth.
- **Continued commercial contracting developments:** HDF continues to negotiate and execute commercial agreements with market participants for the facilitation of gas transportation services which are at various stages of commercial negotiations.

5.4 Bank debt facilities

HDF's debt facilities are held by Epic Energy and there is currently no fund level external debt in place. As noted in Section 4.4 of this Target's Statement, Pipeline Partners Australia intends to seek appropriate waivers so that the existing bank debt facilities of HDF can be retained. Key terms of the facilities are summarised below:

Facility	Bridge Facility	3 Year Facility	4 Year Facility	Capital Expenditure Facility	Total
Maturity	23 September 2013	23 March 2015	23 March 2016	23 March 2015	
Total ($ million)	**250.00**	**720.00**	**355.00**	**50.00**	**1,375.00**

Epic Energy's debt facilities have been provided by eight leading financial institutions and were fully drawn as at 30 June 2012, with the exception of the Capital Expenditure Facility which was undrawn. Epic Energy has no refinancing requirements prior to the maturation of the Bridge Facility in September 2013. However, the Bridge Facility includes certain terms which, subject to market conditions, may incentivise HDF to undertake an earlier refinancing of this facility.

Financial covenants and undertakings

Under the debt facilities, Epic Energy must comply with certain undertakings and financial covenants. A breach of the undertakings or financial covenants (if not remedied) may result in the financiers demanding immediate repayment of the debt facilities. If an immediate repayment was required and Epic Energy was unable to meet the demands of the financiers, the value of the business and the solvency of HDF could be adversely impacted.

The key undertakings Epic Energy must adhere to are:

- **Financial covenants:** The business must remain within a leverage ratio covenant and an interest coverage ratio covenant, which are tested every quarter.
- **Material revenue contracts:** Epic Energy must obtain the consent of the financiers if it seeks to materially vary or amend certain material contracts.
- **Negative pledge:** Epic Energy may not create or permit the granting of security over assets that are not already secured in favour of the financiers subject to certain exceptions.
- **Asset disposals:** Epic Energy must not sell, transfer or dispose of any assets that exceed 5% of the assets of the business or $20 million.
- **Restrictions on Epic Energy distributions:** Epic Energy can only make distributions to its 100% parent HDF if Epic Energy is not in default, a review event is not outstanding, the interest coverage ratio is more than 1.40x : 1.00x and the interest coverage ratio:
  - was not less than 1.30x : 1.00x at the end of each of the two most recent quarters;
  - was not less than 1.30x : 1.00x at the end of the most recent quarter and not less than 1.40x : 1.00x at the end of the previous quarter; or
  - where either of the events described in the bullet points above has occurred in the past, has been greater than 1.30x : 1.00x at the end of two consecutive quarters following the occurrence of the event.

  Also, distributions are capped until such time as the Bridge Facility is repaid.

The key financial covenants that Epic Energy must adhere to are:

(a) The leverage ratio of Epic Energy must not exceed the following during the periods referred to below:

Period	Debt/EBITDA covenant
30 Jun 2012 – 30 Jun 2013	9.00x
30 Sep 2013 – 31 Dec 2014	8.50x
31 Mar 2015 – 30 Jun 2015	8.25x
30 Sep 2015 – 31 Dec 2015	7.50x
31 Mar 2016 and thereafter	6.50x

(b) The interest coverage ratio of Epic Energy must not be less than 1.20x : 1.00x (an interest cover ratio below 1.20x : 1.00x would result in an event of default).

Epic Energy can adhere to compliance with its leverage ratio and interest coverage ratio through a combination of debt repayment or growth in EBITDA.

Review events

The terms of the facilities include review events which provide the financiers with the ability to review continuation of the facilities if a change of control or certain other events occur with respect to Epic Energy, including if:

- HFML (or any of its affiliates or related bodies corporate) ceases to be the responsible entity of HDF Epic Trust;
- HDF Epic Trust (or HFML, its affiliates or related bodies corporate) cease to own at least 50.1% of Epic Energy;
- any person (alone or with their associates) directly or indirectly acquires a legal or beneficial interest or relevant interest in more than 75% of the HDF Stapled Securities or HDF Epic Trust or otherwise acquires control of HDF or HDF Epic Trust;
- an insolvency event occurs with respect to any party to a material contract (other than Epic Energy Australia Pty Limited or a guarantor or a parent company who has provided support in favour of Epic Energy Australia Pty Limited or a guarantor); or
- certain material contracts are terminated.

Consequences of a review event

If a review event occurs, each financier may, for a period of 60 business days review the continuation of the facilities.

At the expiry of the 60 business day period, each financier may require Epic Energy to repay the funds provided by that financier (together with any accrued interest and other amounts outstanding).

If one of the review event conditions is triggered and early repayment is demanded, then in addition to being required to repay the outstanding amount of principal and any accrued interest on the various components of the facilities, it is possible that certain additional payment obligations may arise. In particular, it is likely that Epic Energy would be required to 'close out' its interest rate swap positions. Due to falls in interest rates, many of those swaps were 'out of the money' as at 30 June 2012, such that closing them out would be likely to crystallise a payment obligation (assuming interest rates remain at 30 June 2012 levels) of approximately $30.8 million. However, as a result of closing out these swaps, the interest rates payable by Epic Energy under any replacement financing would, all other things being equal, be likely to be lower.

If a review event occurs, and is subsisting, Epic Energy may not request any further drawdowns under the Epic Energy facilities.

Implications of the Offer on the debt facilities

It is possible that if the Offer is successful, that one or more of the review event conditions will be triggered, and that – unless consents are obtained from all of the relevant lenders – Epic Energy may be obliged to repay some or all of its lenders shortly thereafter (see description of consequence of review event process above).

5.5 Epic Energy

Epic Energy's pipeline operations consist of three major, unregulated natural gas transmission pipeline systems. These pipelines are strategically well located, servicing major participants in the Australian gas and energy sectors. These pipelines currently serve South Australia, regional Queensland and the Pilbara region of Western Australia.

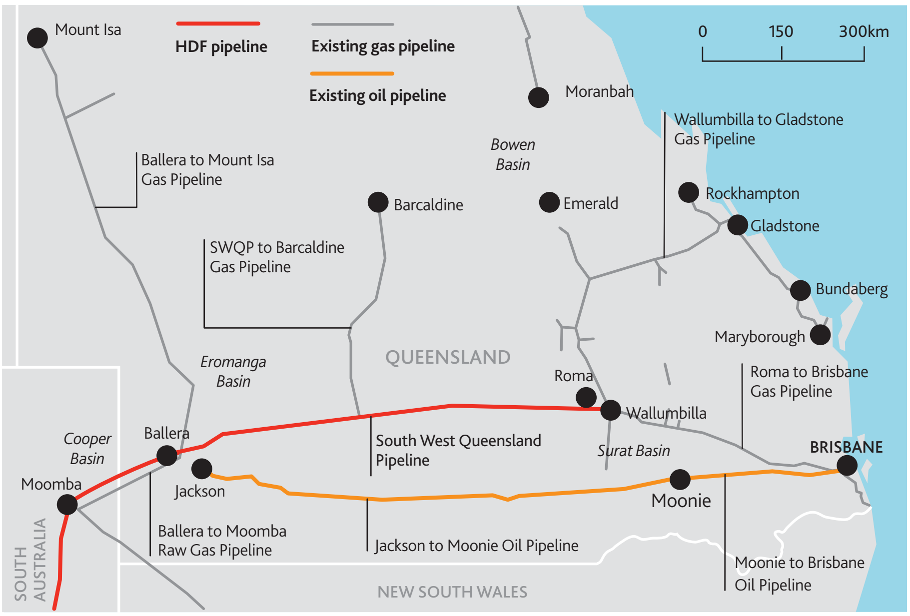
(a) South West Queensland Pipeline (SWQP)

Upon completion of the QSN Link (which connected the SWQP to Moomba), the SWQP was extended to a length of 937 kilometres with a partly compressed Westernhaul capacity of approximately 180 TJ/day connecting Wallumbilla in Queensland to Moomba in South Australia. As of January 2012, the SWQP's Westernhaul and Easternhaul capacity has been increased to approximately 385 TJ/day and 330 TJ/day (subject to configuration expected to be completed by mid 2014) respectively following the completion of the SWQP Stage 3 Expansion project. The SWQP has potential fully compressed Westernhaul and Easternhaul capacity of circa 700 TJ/day and 600 TJ/day respectively.

In its current Westernhaul configuration the SWQP enables gas to be supplied from the CSG fields of South East Queensland to power stations in regional Queensland and to the Mount Isa market, via third party pipelines, and through connections at Moomba into the Moomba to Sydney pipeline for on-shipping to New South Wales and via the MAPS to South Australian markets. Commencing in 2015, the SWQP will also have the capacity to supply gas in an easterly direction from the Cooper Basin to Wallumbilla, from which it can be supplied into the burgeoning LNG industry at Gladstone.

Key Statistics

Length	937 km
Current Westernhaul capacity	c. 385 TJ/day
Current Easternhaul capacity*	c. 330 TJ/day
Potential fully compressed Westernhaul capacity	c. 700 TJ/day
Potential fully compressed Easternhaul capacity	c. 600 TJ/day



Source: HDF.
*Subject to configuration to be completed by mid 2014.

(b) Moomba to Adelaide Pipeline System (MAPS)

The MAPS is a 1,184 kilometre pipeline (including laterals) with a current partly compressed capacity of approximately 240 TJ/day. Two major lateral pipes connect to the MAPS mainline: the Port Pirie/Whyalla lateral and the Angaston lateral. MAPS has a fully compressed capacity of circa 330 TJ/day.

The pipeline provides gas transmission to Adelaide and South Australian regional centres from the Cooper Basin production and processing facilities at Moomba, as well as the CSG fields of South East Queensland via the SWQP.

Key Statistics

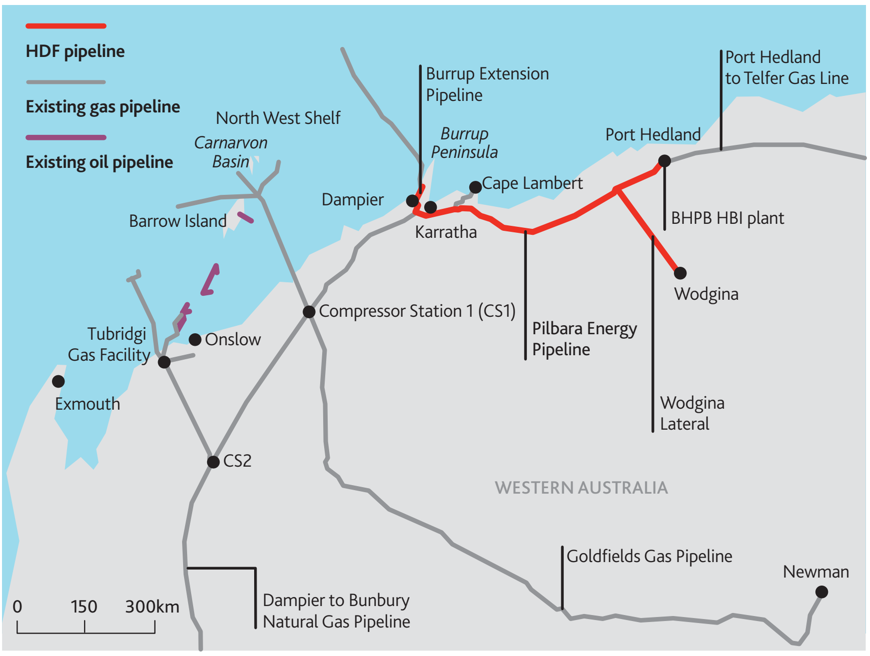
Length (incl. laterals)	1,184 km
Current Capacity	c. 240 TJ/day
Potential fully compressed capacity	c. 330 TJ/day

Source: HDF.

(c) Pilbara Pipeline System (PPS)

The PPS comprises four connected pipelines with a mainline uncompressed capacity of approximately 180 TJ/day. The backbone of the system is the Pilbara Energy Pipeline, a 219 kilometre pipeline that runs from a connection point on the Burrup Extension Pipeline, outside Karratha, to the Pilbara Energy Pipeline's terminal point outside Port Hedland, where it connects to a number of the power units that comprise the Port Hedland power station and separately to the Port Hedland to Telfer gas pipeline.

The 24 kilometre Burrup Extension Pipeline connects Woodside's North West Shelf processing plant at Dampier to the Pilbara Energy Pipeline outside Karratha. The 80 kilometre Wodgina Lateral connects Pilbara Energy Pipeline to the Talison tantalum mine at Wodgina. The new five kilometre Horizon Lateral connects the Burrup Extension Pipeline with the new Horizon Energy power station at Karratha.



Key Statistics

Length (incl. laterals)	328 km
Current uncompressed capacity	c. 180 TJ/day

Source: HDF.

5.6 Gas market developments

HDF's unique suite of gas transmission pipelines is strategically positioned to benefit from substantial growth opportunities, including:

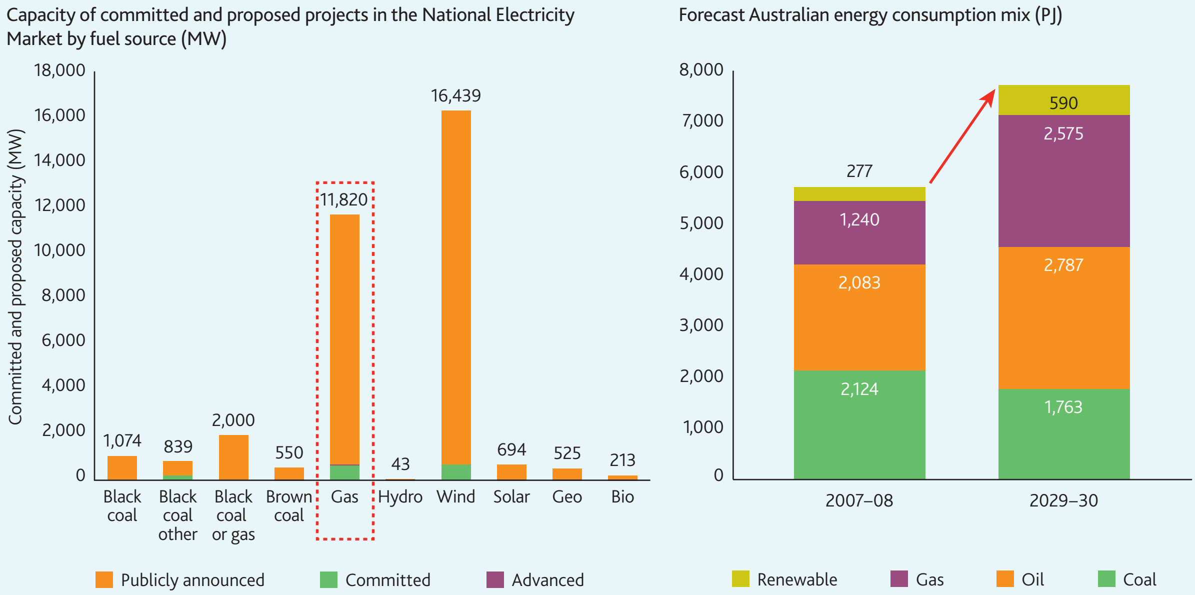
- rising gas demand, both domestically and for export;
- proximity to growing conventional natural gas and CSG reserves, as well as potential new reserves, including Cooper Basin tight and shale gas resources; and
- linking these growing supply sources with end users.

(a) Australian gas demand is expected to increase

Australian gas consumption is anticipated to significantly increase over the long term (see chart below) as Australian government policy initiatives such as the Clean Energy Future legislation and the Renewable Energy Target scheme support the development of a cleaner energy economy.

In particular, gas powered generation has been identified as a cleaner and cost effective alternative to coal fired generation. Gas powered generation can also provide back-up generation capacity to support increasing investment in other alternative but intermittent energy sources such as wind and solar.

Demand for natural gas

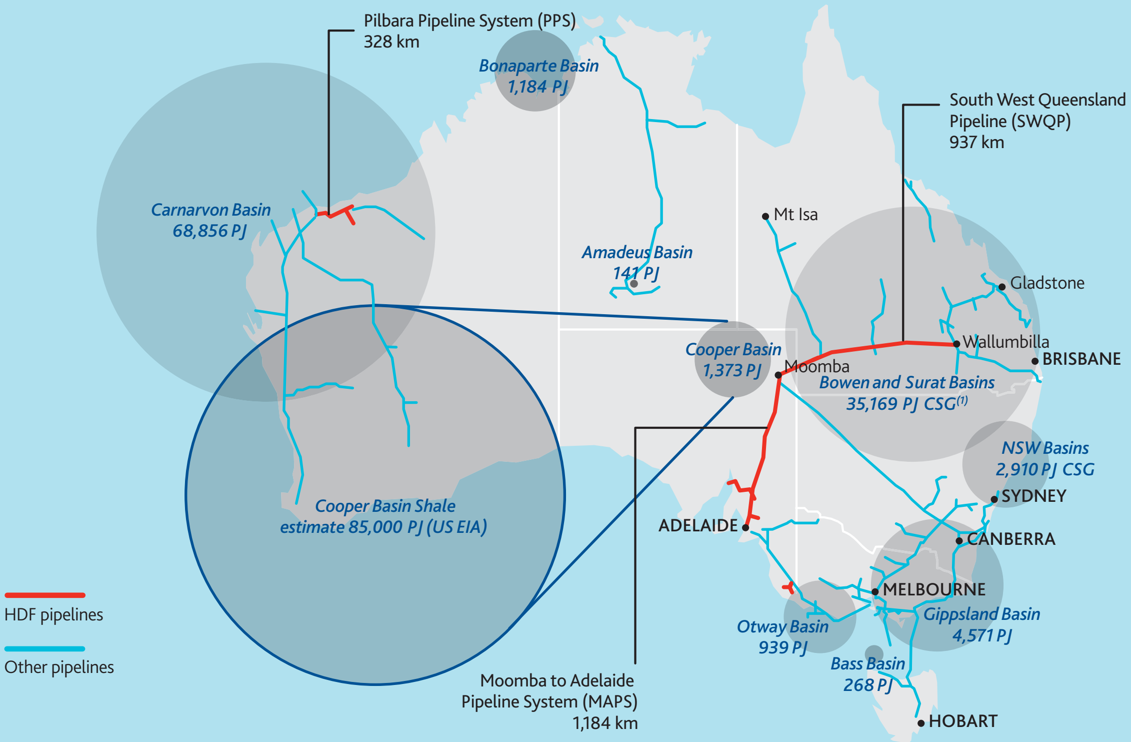


Source: AEMO Electricity Statement of Opportunities 2011; ABARE Energy Projections to 2029–30 dated March 2010.

(b) HDF's pipelines: the essential link to the east coast gas market

With depleting conventional gas reserves in southern gas basins, growing CSG reserves in Queensland and the potential for significant tight and shale gas resources to be exploited in the Cooper Basin, HDF's pipelines are uniquely positioned to supply gas to end customers throughout the east coast gas market, in particular the SWQP which is currently the only pipeline connecting the Queensland gas fields to southern markets, via Moomba in the Cooper Basin.

Overview of HDF pipelines



Source: AER State of the Energy Market 2011, EIA.
Note:
(1) Includes 183 PJ conventional gas.

(c) Further growth opportunities from LNG

In addition to domestic gas supply, the SWQP is currently the only pipeline capable of transporting gas from the Cooper Basin and/or southern gas basins to Wallumbilla, from where it can be transported to Gladstone to supply gas to LNG export facilities. There are currently three sanctioned projects which are being developed with expected completion in 2015: Australia Pacific LNG Pty Limited; Gladstone LNG; and Queensland Curtis LNG. The combined investment in these three projects is estimated to be in excess of $60 billion, and once fully commissioned are expected to have a combined production capacity in excess of 25 million tonnes of LNG per annum.

These projects are being developed to convert CSG to LNG for export to Asian customers. The proponents of these projects have secured off-take agreements with principally Japanese, Chinese and Korean end users for periods of up to 20 years from commencement of export, with LNG production expected to commence in 2014. Whilst dependent on a number of factors, the export of LNG from these facilities may result in increased demand for Easternhaul transportation capacity and services on the SWQP to support these LNG projects. Increased demand for Easternhaul capacity may also arise with the exercise of Easternhaul options within certain pre-existing gas transmission agreements. In overall terms, further anticipated Easternhaul flows largely driven by LNG export demand may result in reduced Westernhaul flows over the medium term.

The SWQP has contracted Easternhaul flows of circa 330 TJ/day commencing no later than mid 2015, equivalent to the pipeline's maximum capacity under its current configuration. Further compression can be undertaken to increase maximum Easternhaul transportation capacity up to circa 600 TJ/day, should additional Easternhaul demand arise. A FEED study is currently being undertaken for an existing SWQP shipper into Easternhaul compression options. Additional pipeline looping would be required in the event that demand for Easternhaul capacity exceeds circa 600 TJ/day.

(d) Growth funding requirements

HDF/Epic Energy's capital budgeting process incorporates a rigorous approach to risk evaluation and realising commercial returns. As a conservative owner and operator of long life, capital intensive energy infrastructure assets, HDF makes final investment decisions that are predicated on the business securing binding contractual commitments (e.g. gas transmission agreements in the case of committed transportation capacity along a pipeline) with credit worthy counterparties for terms typically of at least 15 years. In establishing its commercial return, HDF/Epic Energy will typically ensure that capital commitments are fully recovered over the initial contract term. Other factors considered for final investment decisions include:

- the level of residual risk in the project schedule and budget;
- the risk that the capacity created will not be recontracted upon the end of the initial contractual term;
- anticipated operational complexities that will arise in the future as a result of undertaking the expansion;
- securing appropriate development approvals (native title, cultural heritage, environmental, landowner and governmental); and
- the availability and cost of financing throughout the project term.

Further expansions of HDF's pipelines, in particular the SWQP and MAPS, may require significant amounts of capital expenditure. As at the date of this Target's Statement, HDF is currently committed to spend approximately $150 million in respect of the SWQP Easternhaul configuration together with the recently announced Moomba compression services for Santos. Beyond these committed projects, HDF is pursuing a number of specific accretive growth opportunities, however they presently remain uncommitted and subject to HFML Board approval and therefore uncertain.

Should these organic uncommitted opportunities be successfully implemented, it is conceivable that HDF would require approximately an additional $350 – 500 million in capital expenditure through to 2018 ($100 – 350 million capital expenditure up to 2015) in order to continue on its current growth trajectory. Funding of these uncommitted opportunities will be constrained by Epic Energy's existing debt facilities (summarised in Section 5.4 of this Target's Statement), and as such, additional funding from HDF Securityholders may be required to assist in funding this growth.

5.7 HDF risks

A summary of the risks that HDF Securityholders are exposed to relating to HDF, its business and assets is contained in the APA Target's Statement in Section 5.9.

Set out below is a summary of these key risks:

- **Contracted revenue risks:** HDF's contracted revenue profile provides significant revenue certainty. However, there are risks inherent in each contract, and the contracted revenue profile may change if contracts terminate early, options are exercised or other unforeseen events occur. For example, there is a pre existing option on the SWQP which if exercised could reduce contracted revenue in FY2015, but which HDF expects would be more than offset through additional contracted Easternhaul flows over the medium to long term.
- **Continued access to credit markets:** 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. Access to credit markets on less favourable terms will affect HDF'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 HDF's future financial performance and position.
- **Capital expenditure:** The business carried on by HDF is capital intensive. HDF's operating and financial performance will be partly reliant on HDF's ability to effectively manage significant capital projects within required budgets and timeframes and on sufficient funding being available for the capital expenditure requirements of the business, including the maintenance and replacement of equipment to meet operational requirements. Capital expenditure requirements may impact HDF's cash flow available to service financing obligations and make distributions.

5.8 Performance Fee

On 10 July 2012, HFML announced that a Performance Fee of $55,908,290, excluding GST, was payable to it for the six month period ended 30 June 2012. HFML also announced that, in view of the present corporate activity, HFML would defer its decision regarding the payment of the Performance Fee accrued for the six months ended 30 June 2012 and would continue to defer its decision regarding the previously deferred portion of the Performance Fee accrued for the six months ended 31 December 2011, being the payment of $23,383,549.

On 13 July 2012, HFML announced that, on the basis of an offer of $2.325 per security as adjusted for distributions, whilst the Offer remains open or Pipeline Partners Australia has a relevant interest in more than 50% of HDF Stapled Securities, HFML would accept performance fee payments for the performance periods from 1 January 2012 onwards of only $50 million. HFML intends to take into account the sustained performance of HDF and whether control of HDF has changed or whether HDF has undergone a change of responsible entity when it makes a decision regarding the payment of $23,383,549, being the previously deferred portion of the performance fee accrued for the six months ended 31 December 2011.

5.9 Assessment of options available to HDF Securityholders

In considering whether to recommend the Offer, your Independent Directors have assessed the Offer against a number of options including both an internalisation of HDF's management arrangements and a restructure of the remuneration arrangements between HDF and HFML. As part of this process your Independent Directors received external financial advice on the potential value of these options taking into account both quantitative and qualitative considerations compared to the current Pipeline Partners Australia Offer and the APA Group Offer. The non-independent Directors have not been involved in this evaluation, given that internalisation would result in a loss of fees for HFML and the fact that internalisation has been assessed against the Offer.

The internalisation of HDF's management arrangements would result in the cessation of remuneration arrangements with HFML and the transfer of the duties and tasks previously performed by HFML to a self-contained HDF. As part of this analysis it has been identified that HDF would save on ongoing management fees and any potential performance fees but would incur incremental costs namely in the form of:

- the hiring/re-hiring of an executive team;
- the hiring/re-hiring of a listed company board;
- the hiring of new staff to support the executive team including investor relations and corporate governance (including ASX listing, management and compliance); and
- additional occupancy, IT and infrastructure costs.

Taking the above into account the Independent Directors estimate that an internalisation, excluding potential performance fees, would result in net cost savings of approximately $4 – 5 million per annum.

Typically internalisation transactions have included a payment to the external manager as is evidenced by similar market transactions in Australia. As part of this process HFML may enter into an agreement with HDF that would enable the orderly transition of duties and tasks over a period of time.

When comparing the value of internalisation or restructure of the management arrangements to the current Pipeline Partners Australia Offer your Independent Directors have taken into account:

- the estimated net cost savings per annum and related effect on the earnings, operating cash flows and distribution profile on cents per security basis;
- the likely value range of payments attributable to HFML to implement an internalisation;
- the perceived advantages and disadvantages of an internalisation or restructure of management arrangements including quantitative and qualitative considerations;
- the execution considerations of internalisation including financial/market and business risks;
- the estimated intrinsic value range of HDF after an internalisation and the likely discount to this intrinsic value range based upon historical HDF trading price levels; and
- the impact on the capital structure post implementation of internalisation.

In light of the above your Independent Directors believe that an internalisation could potentially offer a number of benefits to HDF Securityholders including:

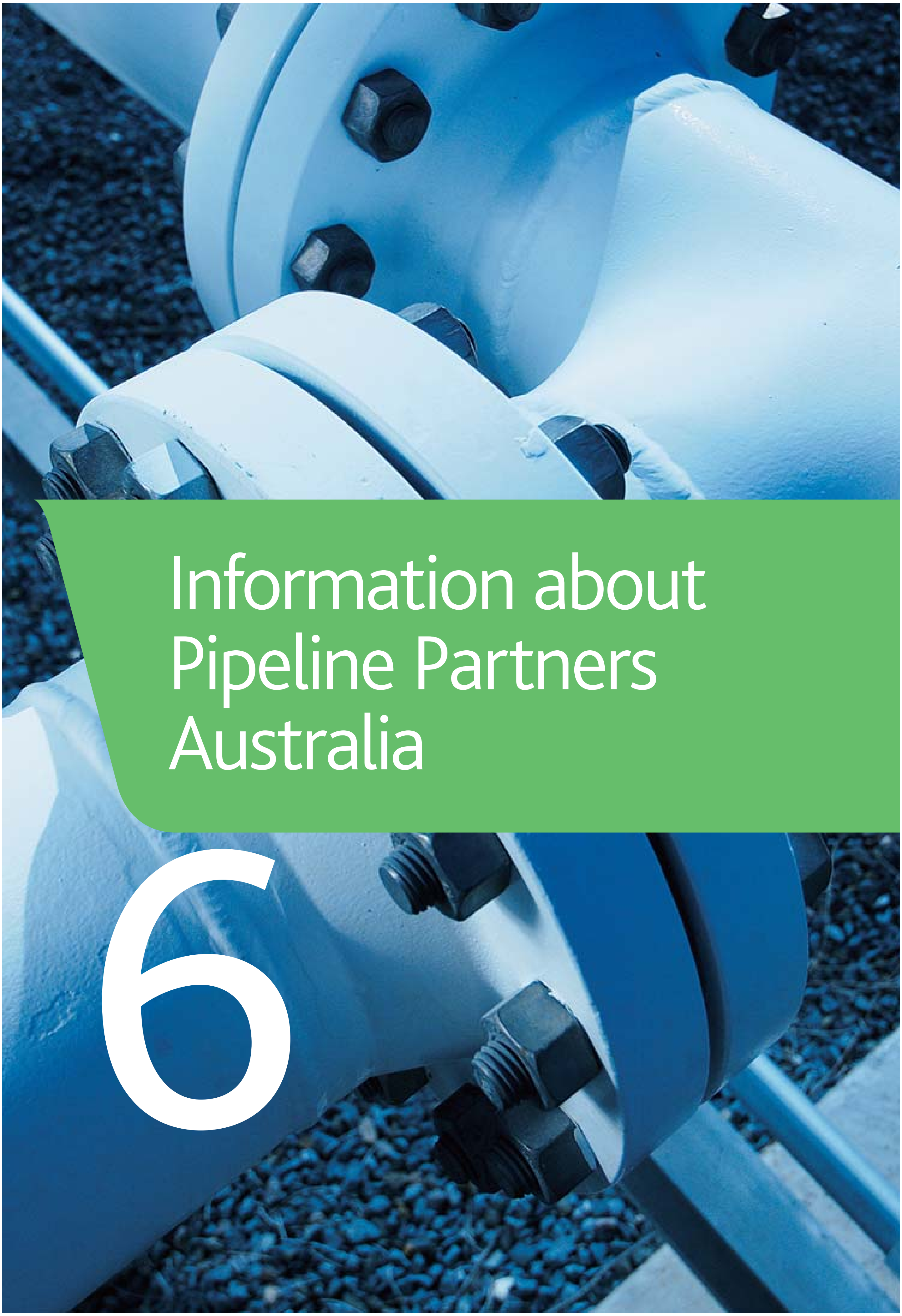
- an internalisation, excluding potential performance fees, would result in an improvement in operating cashflows in the form of net cost savings of approximately $4 – 5 million per annum;
- HDF would no longer be required to pay management fees or any potential performance fees if it outperforms the relevant benchmark;
- an internalisation would remove the aspect of the present structure of HDF which gives rise to a perception of a conflict of interest for HFML as responsible entity of HDF and its own and other interests; and
- an internalisation could result in an improved structure for reporting transparency.

However, your Independent Directors also consider that there would potentially be a number of disadvantages associated with an internalisation or restructure of the management arrangements including:

- it is expected that financier's consent and/or the renegotiation of the debt facilities would be required in order to ensure that HDF continues to comply with its financing conditions;
- if Epic Energy's financiers do not consent to the change of HFML as responsible entity of HDF, Epic Energy could be required to refinance some or all of its debt facilities and/or close out some or all of its existing interest rate swap positions. If, however, consent was granted, Epic Energy may be required to pay its financiers a fee and/or to 'close out' its existing interest rate swap positions, although, as a result of closing out these swaps, the interest rates payable by Epic Energy under any replacement financing would, all other things being equal, be likely to be lower; and
- the longer timeframe to implement, and the increased complexity of an internalisation or restructure of the management arrangements relative to the Offer.

The Independent Directors have carefully considered the Offer against an internalisation or restructure of the management arrangements and have formed the following view:

- Pipeline Partners Australia's Offer provides the highest value choice presently available to all HDF Securityholders when assessed against all of the options currently available to HDF Securityholders, based on the current outlook for HDF and its businesses.
- In the absence of a change of control proposal, including from both Pipeline Partners Australia and the APA Group, HDF is expected to trade at a price below Pipeline Partners Australia's Offer Price.
- The cash flow benefits from an internalisation or restructure of the management agreements are not expected to significantly change HDF's medium term distribution profile. Consequently, should HDF be internalised, it would still be expected to trade at a price below Pipeline Partners Australia's Offer Price even after taking into account any market re-rating of HDF.
- HDF Securityholders who wish to continue to participate in the potential rewards of owning HDF Stapled Securities as a standalone entity will also be exposed to various risks, including inherent risks within HDF's business and risks associated with financial markets in general (irrespective of the status of the management arrangements).



6 Information about Pipeline Partners Australia

6 Information about Pipeline Partners Australia

Details of Pipeline Partners Australia and the Bidder Group are contained in Section 1 of the Bidders Statement. A summary of Pipeline Partners Australia and the Bidder Group is set out below.

6.1 Overview of Pipeline Partners Australia

Pipeline Partners Australia was incorporated in Australia on 27 April 2012 for the purpose of its investors investing in HDF. The principal activity of Pipeline Partners Australia is to make the Offer and to acquire and hold HDF Stapled Securities. Pipeline Partners Australia has not undertaken any business other than preparing for and making the Offer.

The following is a high level description of the investors in Pipeline Partners Australia:

(a) CDPQ

The Caisse de dépôt et placement du Québec is one of the largest institutional fund managers in Canada and North America. CDPQ receives, administers and invests sums of money from certain Québec Government entities and instrumentalities and is a shareholder in over 4,000 businesses internationally. It holds a diversified portfolio, including fixed-income, securities, listed shares, real estate investments and private equity. As at 31 December 2011, its depositors' net assets totalled C$159 billion.

(b) Utilities Trust of Australia

Established in 1994, Utilities Trust of Australia is an unlisted unit trust that seeks to consistently provide investors with benchmark-plus returns by taking influential positions in global infrastructure projects.

UTA provides investors with access to a portfolio of infrastructure assets across Australia, the United Kingdom, continental Europe and the United States. As at 30 June 2012, UTA had a net asset value of A$2.6 billion.

(c) Kindle

Kindle acts as a bare trustee on behalf of its beneficiaries.

At the date of the Bidder's Statement, Kindle had the following principal beneficiaries:

- The Board of Trustees of the Colleges of Applied Arts and Technology Pension Plan, which had funds under management as at 31 December 2011 of C$5.6 billion;
- RBC Dexia Investor Services Trust as trustee of Canada Post Corporation Registered Pension Plan, which had funds under management as at 31 December 2011 of C$15.4 billion;
- The Northern Trust Company, Canada, as trustee of The Halifax Regional Municipality Master Trust, which had funds under management as at 31 December 2011 of C$1.2 billion;
- The New Brunswick Investment Management Corporation, as trustee of the NBIMC Infrastructure Fund Master Trust, which had funds under management as at 31 March 2011 of C$9.1 billion;
- CIBC Mellon Trust Company in its capacity as trustee of the TELUS Infrastructure Master Trust, which had funds under management as at 31 December 2011 of C$11.4 million. The TELUS sponsored defined benefit plans which participate in the TELUS Infrastructure Master Trust have combined funds under management of C$6.7 billion; and
- The University of British Columbia Staff Pension Plan, which had funds under management as at 31 December 2011 of C$0.9 billion.

(d) Canafund

Canafund is a wholly owned subsidiary of CN Strategic Master Trust Fund. Canafund is a special purpose vehicle set up for the purposes of investing in Pipeline Partners Australia. As at the date of the Bidder's Statement, Canafund did not hold any material assets, and it is not currently intended that it will hold any material assets, other than in connection with its investment in Pipeline Partners Australia. CN Strategic Master Trust Fund, together with CN Canadian Master Trust Fund hold the investments of the CN Pension Plans, acquired using investment income and contributions from Canadian National Railway Company and its employees. Canadian National Railway Company is a large North American freight railroad company that is a publicly listed company on the Toronto Stock Exchange and the New York Stock Exchange.

As at 31 December 2011, CN Strategic Master Trust Fund and CN Canadian Master Trust Fund together had approximately C$14.5 billion in total assets.

For more information on Pipeline Partners Australia and each of the investors in Pipeline Partners Australia, please refer to the Bidder's Statement.

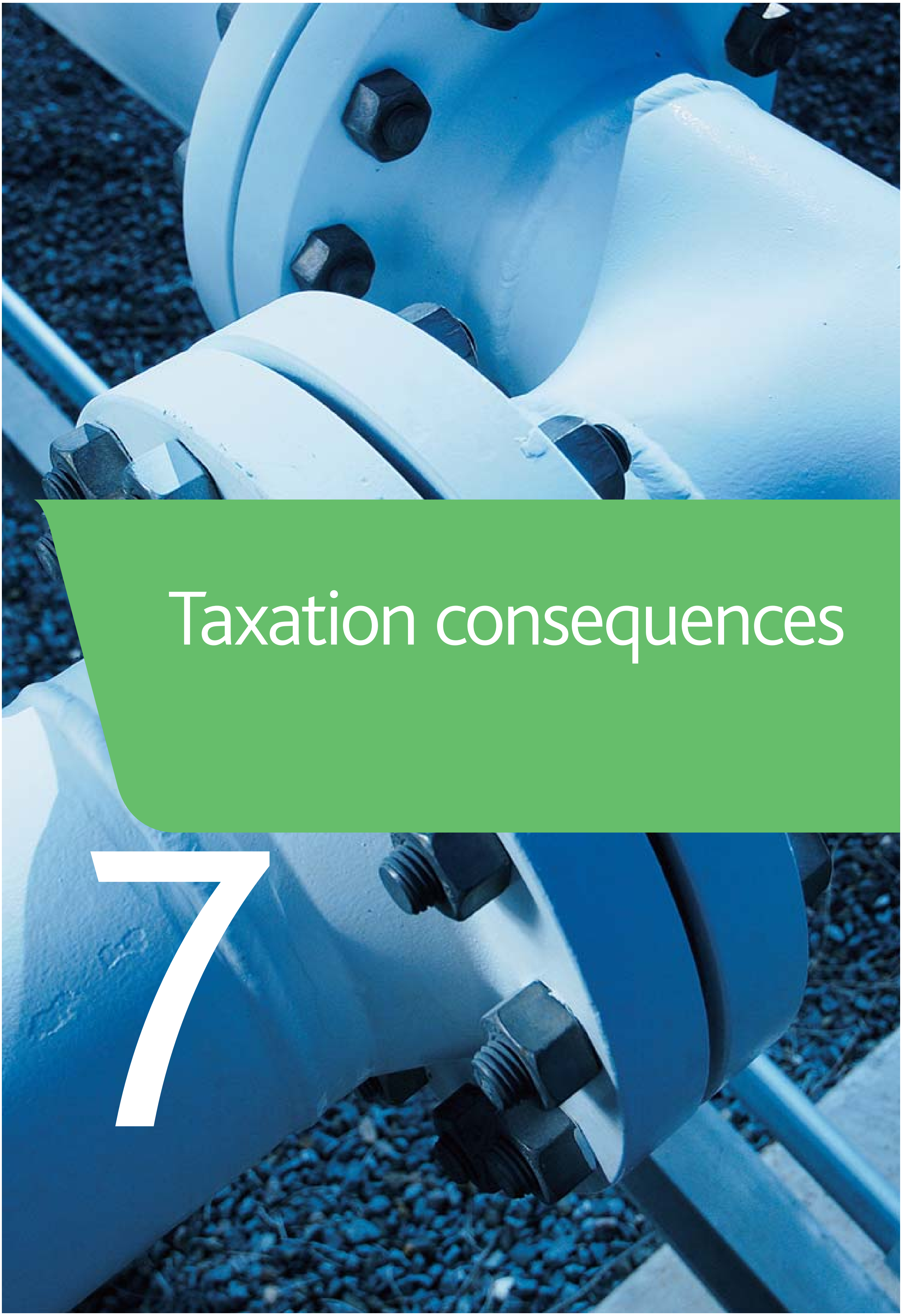
6.2 Pipeline Partners Australia's funding arrangements

Each of the investors in Pipeline Partners Australia has confirmed in writing to Pipeline Partners Australia that they will each make available (directly or through wholly owned subsidiaries or special purpose vehicles) to Pipeline Partners Australia amounts in the aggregate equal to the Offer Amount and other amounts necessary to meet Pipeline Partners Australia's transaction costs, in the following proportions:

Investor	Equity Commitment	Share of Pipeline Partners Australia's costs
CDPQ	$632,000,000.00	50.0%
Utilities Trust of Australia	$427,283,831.84	33.8%
UTA Pipelines Trust	$69,903,081.81	5.5%
Kindle	$94,868,468.17	7.5%
Canafund	$39,944,618.18	3.2%
Total	**$1,264,000,000.00**	**100.0%**

Under the terms of these funding arrangements, each investor is obliged to advance funds equal to that investor's equity commitment on request by Pipeline Partners Australia to enable Pipeline Partners Australia to satisfy its payment obligations to HDF Securityholders under the Offer, as well as other amounts to meet transaction costs.

The Bidder's Statement discloses that each investor has, or will have, the required capital which has not been allocated to any other investment opportunities to satisfy its funding obligations described above. Details regarding the sources of funding for each investor are set out in Section 4.3 of the Bidder's Statement.



7 Taxation consequences

7.1 Scope

This summary is a general statement of the Australian income tax, CGT, goods and services tax (GST) and stamp duty implications arising for HDF Securityholders that are Australian taxation residents who hold their HDF Stapled Securities on capital account. It does not apply to HDF Securityholders who hold their HDF Stapled Securities as either revenue assets or trading stock.

The summary is based on the Australian taxation law and administrative practice as at the date of this Target's Statement. The application of tax laws to HDF Securityholders will be dependent on particular facts and circumstances and accordingly it is strongly encouraged that HDF Securityholders obtain independent taxation advice.

7.2 Taxation on Disposal of HDF Securities

7.2.1 CGT Consequences

If the conditions of the Offer are satisfied, Participating Securityholders will dispose of their HDF Stapled Securities for consideration of $2.325 per security in cash. The disposal will constitute a CGT event.

Each HDF Stapled Security consists of one unit in each of HDUF Epic Trust, HDUF Finance Trust and HDUF Further Investments Trust. Accordingly, each Participating Securityholder will make three separate disposals for CGT purposes and three separate CGT calculations will be required. In undertaking these calculations, Participating Securityholders will be required to calculate their cost base (for a capital gain) or reduced cost base (for a capital loss) and the proceeds attributable to their units in each trust (as explained in Sections 7.2.2 and 7.2.3 below).

Participating Securityholders will, in respect of their units in each of HDUF Epic Trust, HDUF Finance Trust and HDUF Further Investments Trust, make:

- a capital gain if the capital proceeds received for their units are greater than the cost base of those units; and
- a capital loss if the reduced cost base of their units is greater than the capital proceeds received for those units.

Capital gains and capital losses of a Participating Securityholder in an income year from all sources will be aggregated to determine whether there is a net capital gain or a net capital loss for that income year.

A net capital gain for the income year is included in the Participating Securityholder's assessable income and is subject to income tax at the Participating Securityholder's applicable tax rate. However, the amount of the net capital gain may be reduced if the CGT discount is available (as explained in Section 7.2.4 below). A net capital loss for the income year cannot be deducted against a Participating Securityholder's other assessable income for tax purposes, but may be carried forward to be offset against capital gains derived in future income years. Specific capital loss carry forward rules apply to Participating Securityholders that are companies.

7.2.2 Cost base and reduced cost base

In broad terms, the cost base and reduced cost base of a Participating Securityholder's HDF Stapled Securities will equal:

- the amount that the Participating Securityholder paid (or gave as consideration) to acquire the HDF Stapled Securities (including certain incidental costs of acquisition, holding and disposal); less
- the tax deferred component of any distributions received from HDF whilst the Participating Securityholder held their HDF Stapled Securities.

Historically, distributions made by HDF to HDF Securityholders have comprised a significant tax deferred component. Further information on historical tax deferred distributions can be found on the HDF website (http://www.hfm.com.au/asxlisted/funds/hduf/distributions/).

Participating Securityholders will be required to apportion the cost base or reduced cost base of their HDF Stapled Securities between their units in each of HDUF Epic Trust, HDUF Finance Trust and HDUF Further Investments Trust. The Commissioner of Taxation will generally accept an apportionment that has been done on a reasonable basis. However, Participating Securityholders will need to make their own decision regarding the reasonable basis they will apply in their own circumstances. Further information on cost base apportionments that may be helpful to Participating Securityholders in making their own apportionment decision can be found on the HDF website (http://www.hfm.com.au/asxlisted/funds/hduf/distributions/).

7.2.3 Capital proceeds

The capital proceeds received by Participating Securityholders for their HDF Stapled Securities should be the consideration of $2.325 cash received per HDF Stapled Security. Based on the views of the Australian Taxation Office in Taxation Ruling TR 2010/4, the cash distribution of $0.025 for the quarter ended 30 June 2012 should not be treated as additional capital proceeds and should instead be treated as a distribution on the HDF Stapled Securities. The HDF website (http://www.hfm.com.au/asxlisted/funds/hduf/distributions/) contains information regarding the taxation treatment of distributions made by HDF.

The Participating Securityholders will be required to apportion the capital proceeds received between their units in each of HDUF Epic Trust, HDUF Finance Trust and HDUF Further Investments Trust on a reasonable basis. As noted above, Participating Securityholders will need to make their own decision as to a reasonable basis for apportionment.

7.2.4 CGT Discount

Individuals, complying superannuation entities or trustees who have held the HDF Stapled Securities for more than 12 months at the date of disposal (see below) should generally be entitled to discount the amount of a capital gain that arises upon disposal (after the application of any current year or carry forward capital losses).

For Participating Securityholders, the date of disposal of the HDF Stapled Securities for these purposes will be the date the contract to dispose of the HDF Stapled Securities is formed (i.e. the Participating Securityholder's acceptance is processed by Pipeline Partners Australia). The date of disposal for those HDF Securityholders whose HDF Stapled Securities are compulsorily acquired in accordance with Part 6A.1 of the Corporations Act will be the date of disposal.

The amount of the discount is 50% in the case of individuals and trustees and 33⅓% for complying superannuation entities. This is referred to as the 'CGT discount'. The CGT discount is not available for Participating Securityholders that are companies.

Where the Participating Securityholder is a trustee of a trust, the CGT discount may flow through to the beneficiaries in that trust, other than beneficiaries that are companies. Participating Securityholders that are trustees should seek specific advice regarding the tax consequences of distributions to beneficiaries attributable to discount capital gains.

7.3 GST

In the event that the Offer is successful, GST should not generally be payable in respect of the disposal of HDF Stapled Securities under the Offer.

7.4 Stamp Duty

In the event that the Offer is successful, any stamp duty will be payable by Pipeline Partners Australia in relation to the acquisition of HDF Stapled Securities under the Offer. However, stamp duty will not be payable by the Participating Securityholders in respect of the Offer.

7.5 Implications of Pipeline Partners Australia acquiring less than 90% of HDF

If Pipeline Partners Australia acquires more than 50% but less than 90% of the HDF Stapled Securities then, assuming all conditions to the Offer are satisfied or waived (including the 70% minimum acceptance condition), Pipeline Partners Australia will acquire a majority security holding in HDF. In such circumstances, HDF Securityholders who do not accept the Offer will be minority securityholders in HDF. The general implications of being a minority securityholder are discussed in Section 4.6 and the potential tax implications are discussed below.

7.5.1 Tax losses of HDF

Tax losses carried forward from prior income years currently exist within the HDF structure. Those losses have arisen due to deductible costs being incurred during the construction and early operation phases of the underlying assets and are currently available to shelter income during the income producing phases of the projects.

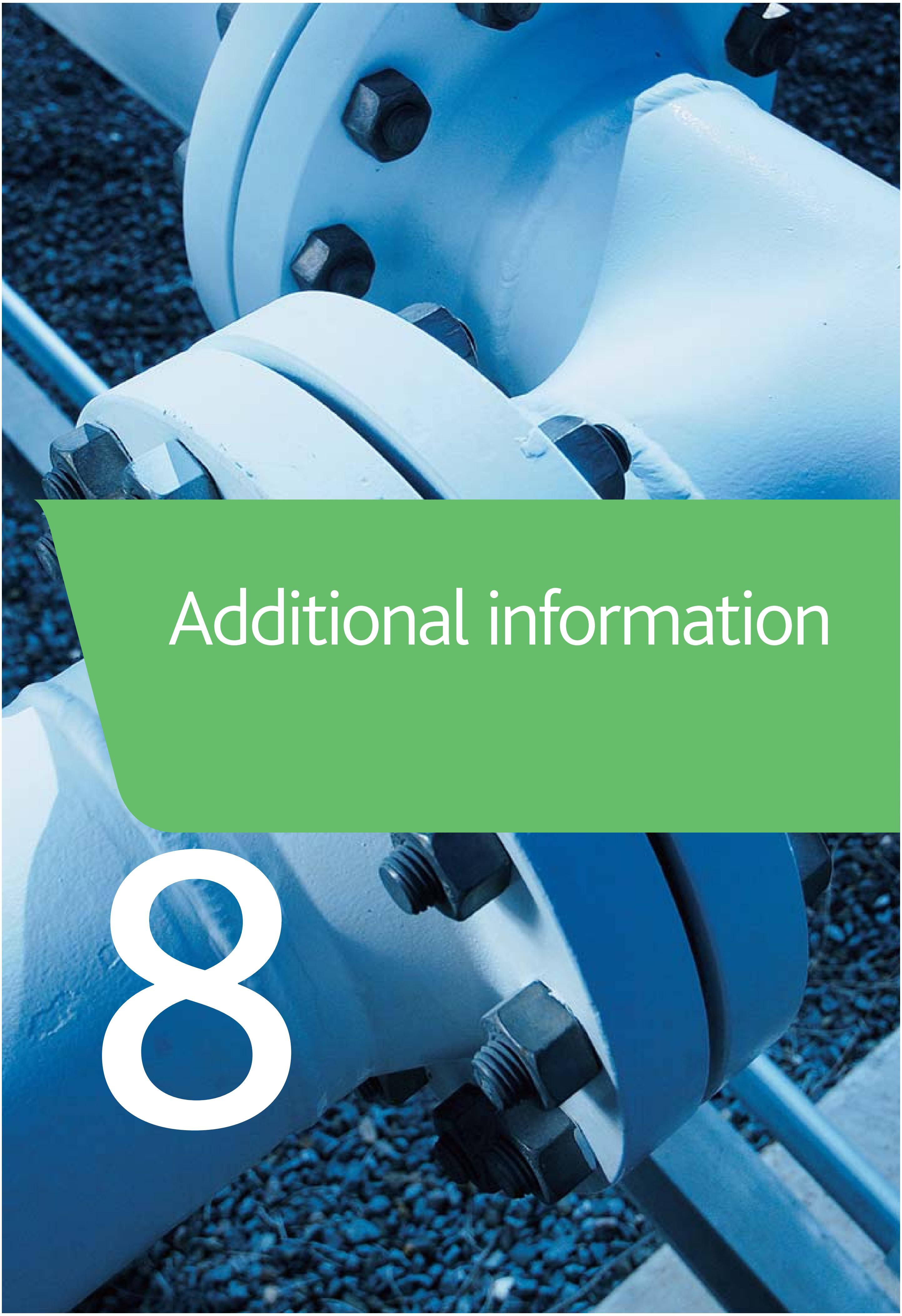
The utilisation of these losses in future periods is dependent on the satisfaction of certain legislative tests. In the event that Pipeline Partners Australia acquires more than 50% of the HDF Stapled Securities (assuming all conditions to the Offer are satisfied or waived including the 70% minimum acceptance condition) it will trigger a change of underlying ownership of HDF which may impact the availability of these losses. Additionally, in the event that Pipeline Partners Australia seeks to have HDF removed from the Official List of the ASX, one of the legislative tests that allows the utilisation of carried forward tax losses will cease to be available in relation to losses that have been incurred by trusts within the HDF structure as at the time of the delisting. As a result, it may be more difficult for HDF Trusts to utilise carried forward tax losses in future periods. However, the potential removal of HDF from the Official List of the ASX would not of itself impact the legislative tests that allow the utilisation of carried forward tax losses for companies within the HDF structure, and particularly in the Epic Energy Holdings Pty Ltd tax consolidated group.

7.5.2 Future exit of investment

In the event that Pipeline Partners Australia seeks to have HDF removed from the Official List of the ASX the liquidity of the HDF Stapled Securities held by minority securityholders may be reduced. As a result, a minority securityholder in HDF that would like to exit their investment may need to request that their Stapled Securities be redeemed. The tax treatment will depend on the particular facts and circumstances and the entire amount received may not be capital.

7.6 Taxation of HDF Stapled Securities

In the event that the Offer lapses on the basis that the conditions have not been satisfied or waived, the Offer should not cause the taxation treatment of the HDF Stapled Securities to change. The HDF website (http://www.hfm.com.au/asxlisted/funds/hduf/distributions/) contains information regarding the taxation treatment of distributions made by HDF on HDF Stapled Securities.



8 Additional information

8.1 Agreements relating to the Offer

Takeover Bid Implementation Deed

On 13 July 2012, HFML and Pipeline Partners Australia entered into the Takeover Bid Implementation Deed. A complete copy of the Takeover Bid Implementation Deed was lodged with ASX on 13 July 2012 and can be obtained from www.asx.com.au.

Under the Takeover Bid Implementation Deed, Pipeline Partners Australia and HFML have agreed the principles governing their relationship in relation to the Offer. The key terms of the Takeover Bid Implementation Deed include:

(a) Exclusivity

The Takeover Bid Implementation Deed contains certain exclusivity arrangements in favour of Pipeline Partners Australia. These arrangements can be summarised as follows:

(i) **No talk:** HFML must not participate in discussions that may lead to a Competing Proposal (except where the HFML Board has determined that the Competing Proposal is or is likely to be a superior proposal or that refusing to respond to such Competing Proposal would be likely to constitute a breach of the fiduciary duties owed by HFML or any Director).

(ii) **No shop:** HFML must not directly or indirectly solicit any enquiries, negotiations or discussions that may lead to a Competing Proposal.

(iii) **No due diligence:** HFML must not solicit any third party to undertake due diligence on HFML, assist in the formulation of a Competing Proposal, or provide any non public information relating to HDF to any third party in connection with the formulation of a Competing Proposal (except where the Competing Proposal is or is likely to be a superior proposal).

(iv) **Notification:** If HFML receives notice of a bona fide and credible Competing Proposal, HFML must notify Pipeline Partners Australia.

(v) **Recommendation of a Competing Proposal:** If HFML receives a Competing Proposal that it determines to be a superior proposal, HFML is prohibited from:

(A) entering into an agreement to undertake a Competing Proposal;

(B) publicly changing, withdrawing or modifying its recommendation of the Offer; or

(C) publicly recommending the Competing Proposal,

unless HFML has given two business days notice of the proposed action to Pipeline Partners Australia and provided Pipeline Partners Australia with all material terms of the Competing Proposal. HFML must seek consent from the person who has made the Competing Proposal to provide that person's name and identifying details to Pipeline Partners Australia. If consent is refused, HFML may only withhold these details from Pipeline Partners Australia if the HFML Board determines in good faith that failing to do so would be likely to constitute a breach of the statutory or fiduciary duties owed by HFML or any Director.

(vi) **Matching right:** During the two business days notice period described above, Pipeline Partners Australia has the right to offer a counter proposal to HFML and, if the counter proposal provides an equivalent or superior outcome to the relevant Competing Proposal, the Independent Directors must recommend Pipeline Partners Australia's counter proposal and not the Competing Proposal.

(b) Break fee

HFML has agreed to pay Pipeline Partners Australia a break fee of approximately $12.3 million (Break Fee) if:

(i) before the earlier of 31 December 2012 and the end of the Offer Period, a Competing Proposal is announced and that Competing Proposal becomes free from all defeating conditions and conditions precedent to completion, except in circumstances where:

(A) before the Competing Proposal is announced, the Independent Expert's Report has concluded that the Offer is not fair and not reasonable for HDF Securityholders (other than as a result of a Competing Proposal); or

(B) before the Competing Proposal is announced, the Independent Expert's Report has concluded that the Offer is not fair but reasonable for HDF Securityholders (other than as a result of a Competing Proposal), in which case HFML will pay Pipeline Partners Australia the Cost Reimbursement Fee on demand from Pipeline Partners Australia;

(ii) prior to 31 December 2012, any of the Independent Directors ceases to recommend the Offer (or announces an intention to do any of the foregoing), except in circumstances where:

(A) the Independent Expert opines that the Offer is not fair or not reasonable for HDF Securityholders (other than as a result of a Competing Proposal); or

(B) HFML has validly terminated the Takeover Bid Implementation Deed because of a material breach by Pipeline Partners Australia;

(iii) prior to 31 December 2012, there is a breach of the conditions of the Offer and Pipeline Partners Australia has publicly confirmed that it will not declare the Offer free from that breached condition;

(iv) prior to 31 December 2012, there is a breach of the exclusivity arrangements described above; or

(v) prior to 31 December 2012, HFML is in material breach of the Takeover Bid Implementation Deed and that breach is not remedied within 10 business days of written notice being given by Pipeline Partners Australia requesting the cessation of the breach.

However, no Break Fee will be payable if, after 10 November 2012, any one or more Independent Directors ceases to recommend the Offer or recommends a Competing Proposal (or announces an intention to do any of the foregoing) solely because Pipeline Partners Australia deducts from the Pipeline Partners Australia Offer Price the amount of any distribution (or part of any distribution) declared or determined by HFML for the quarter ending 30 September 2012 or any quarter after that, except where the deduction exceeds $0.025 per HDF Stapled Security for the quarter. In these circumstances HFML will pay Pipeline Partners Australia the Cost Reimbursement Fee on demand from Pipeline Partners Australia.

(c) Consortium arrangements

The Bidder Group's current arrangements in relation to the Offer (including for providing Pipeline Partners Australia with necessary funding to make and complete the Offer) are governed by a Bidding and Investment Deed dated 9 July 2012 and to which each member of the Bidder Group is a party.

The Bidding and Investment Deed includes provisions in relation to:

(i) governance of the Bidder Group, including the establishment and operation of an investor steering committee to make recommendations to the board of Pipeline Partners Australia in relation to the Offer;

(ii) the conduct of the Offer, including managing the Offer Period and prescribing a mechanism for confirming satisfaction or waiver of certain conditions of the Offer;

(iii) the Bidder Group's budget and funding obligations, including limiting each member of the Bidder Group's liability to its specified proportion of the maximum aggregate consideration payable by Pipeline Partners Australia under the Offer, plus an allowance for adviser costs and related expenditures;

(iv) arrangements for the governance of Pipeline Partners Australia, including for director appointments, board meetings and voting – a member of the Bidder Group's rights in this regard are proportionate to that member's direct or indirect interest in Pipeline Partners Australia; and

(v) exclusivity arrangements among the members of the Bidder Group.

(d) Pre-Bid Acceptance Deed

On 13 July 2012, Pipeline Partners Australia and Westpac entered into the Pre-Bid Acceptance Deed, which was released to the ASX on 17 July 2012 and is available at www.asx.com.au. Pursuant to the Pre-Bid Acceptance Deed, on 13 July 2012 Westpac agreed to accept the Offer for all of the 42,952,129 HDF Stapled Securities that Westpac holds legal and beneficial title in.

8.2 Status of the APA Group Offer

On 14 December 2011, the APA Group announced a conditional takeover offer for all of the stapled securities in HDF at an offer price of $0.50 cash and 0.326 APA Stapled Securities for each HDF Stapled Security adjusted for HDF distributions paid after the announcement date. Following careful consideration, the HFML Board unanimously recommended that HDF Securityholders reject the APA Group Offer for the reasons set out in the APA Target's Statement. The HFML Board has maintained that recommendation.

The cash component of the APA Offer Price has reduced to $0.425 as a result of HDF distributions. Based on the closing price of APA Stapled Securities on 27 July 2012, the implied value of the APA Offer Price is $2.02. This represents a substantial discount to the Pipeline Partners Australia Offer Price and, in the view of the HFML Board, undervalues HDF.

In addition, the current APA Group Offer continues to remain conditional and uncertain. The APA Group Offer was initially subject to 19 conditions. If all of those conditions are not satisfied, or waived by the APA Group, before the end of the APA Group Offer period, the APA Group Offer will lapse and no consideration will be received by HDF Securityholders who have accepted the APA Group Offer.

Since the APA Group Offer was announced, six of the conditions to the APA Group Offer have been waived, being:

- Condition (b) – FIRB approval;
- Condition (c) – ACCC approval;
- Conditions (l) and (m) – Change of control implications of the APA Group Offer for material contracts, other than financing arrangements;
- Condition (n) – Confirmation of progress of SWQP Stage 3 Expansion; and
- Condition (o) – Confirmation of status of agreement with AGL.

The APA Group waived the ACCC approval condition to its offer following the ACCC's announcement on 19 July 2012 that it would not oppose the APA Group Offer on the basis of a court enforceable undertaking from the APA Group to divest MAPS, following the successful completion of its offer. The timeline for the divestiture of MAPS in accordance with the undertaking is confidential and is not publicly known.

However, the APA Group Offer continues to remain subject to the remaining 13 other conditions, which include achieving a relevant interest in 90% of HDF Stapled Securities and waivers in respect of the change of control implications of the APA Group Offer under Epic Energy's financing arrangements.

On 6 March 2012, HDF announced that it had received credit approvals for committed financing of $1.375 billion for the refinance of all of Epic Energy's debt facilities. The terms of the new facility include change of control provisions. There is no certainty that Epic Energy's financiers will allow Epic Energy's financing to remain in place if, as a result of the APA Group Offer, the change of control provisions in the new facility are triggered. The details of the new facility and the implications of the Offer under the facility are set out in Section 5.4 of this Target's Statement.

HDF announced on 26 July 2012 that it had commenced engagement with the APA Group regarding granting the APA Group due diligence in response to the APA Group's announcement that it intends to increase its current offer for HDF to at least $2.50 per HDF Stapled Security (with a cash component of at least $0.60 and the remainder a fixed amount of APA Stapled Securities), subject to completion of satisfactory due diligence. At the present time, the implied value of the current APA Group Offer is $2.02 per HDF Stapled Security based on the closing price of APA Stapled Securities on 27 July 2012.

The APA Group has also stated that, under the potential revised offer, it would be willing to waive a number of conditions, including the 90% minimum acceptance condition if it were to acquire a relevant interest in 70% of HDF Stapled Securities.

At this point, however, there is no certainty that a higher offer from the APA Group will eventuate.

As at 27 July 2012, the APA Group has received acceptances in respect of approximately 0.4% of HDF Stapled Securities, giving the APA Group a total relevant interest of approximately 21.10% in HDF Stapled Securities.

The APA Group Offer period is currently scheduled to close on 4 September 2012. The APA Group has previously extended the APA Group Offer period on a number of occasions and it may do so again.

8.3 Directors of HFML

As at the date of this Target's Statement, the Directors of HFML are:

Name	Position
Alan Cameron AO	Chairman, Non-executive Director and Independent
James Evans	Non-executive Director and Independent
Stephen Gibbs	Non-executive Director and Independent
James McDonald	Non-executive Director and Independent
Andrew Day	Chief Executive, Executive Director (Not Independent)
Liam Forde	Non-executive Director (Not Independent)
Victoria Poole	Non-executive Director (Not Independent)

Source: HDF.

8.4 The position of Andrew Day, Liam Forde and Victoria Poole

Each of Andrew Day, Liam Forde and Victoria Poole have abstained from making any recommendation as to whether HDF Securityholders should accept the Offer.

Pipeline Partners Australia is owned by a consortium of infrastructure investors. One of those investors is UTA, a fund managed by HFML. In exchange for managing UTA, HFML receives management fees (referable to the net asset value of UTA) and has the potential to receive performance fees in providing these services. The immediate holding company of HFML is Hastings Management Pty Ltd and the ultimate holding company is Westpac. Andrew Day is a director of Hastings Management Pty Ltd and Liam Forde is the Chairman of Hastings Management Pty Ltd. Victoria Poole is an executive of Westpac.

Due to their respective relationships with Hastings Management Pty Ltd and Westpac, each of Andrew Day, Liam Forde and Victoria Poole were not party to the discussions that your Independent Directors had with Pipeline Partners Australia, nor do they consider it appropriate for them to make, and they decline to make, a recommendation as to whether HDF Securityholders should accept the Offer.

8.5 Interests and dealings in HDF Stapled Securities

(a) Interests in HDF Stapled Securities

As at the date of this Target's Statement, the only Director who has a relevant interest in HDF Stapled Securities is James McDonald, who has a relevant interest in 20,000 HDF Stapled Securities. As at the date of this Target's Statement, HFML has a relevant interest in 813,778 HDF Stapled Securities.

(b) Dealings in HDF Stapled Securities

Neither any Director nor HFML has acquired or disposed of a relevant interest in any HDF Stapled Securities since the announcement of the APA Group Offer on 14 December 2011 including in the four month period ending on the date immediately before the date of this Target's Statement.

(c) Intentions of your Directors in relation to the Offer

James McDonald is the only Director of HFML who has a relevant interest in HDF Stapled Securities and he presently intends to ACCEPT the Offer in relation to those HDF Stapled Securities, in the absence of a superior proposal and subject to the Independent Expert's Report continuing to conclude that the Offer is fair and reasonable.

8.6 Interests and dealings in Pipeline Partners Australia's Securities

(a) Interests in Pipeline Partners Australia's Securities

As at the date immediately before the date of this Target's Statement, no Director had a relevant interest in any of Pipeline Partners Australia's Securities.

(b) Dealings in Pipeline Partners Australia's Securities

No Director acquired or disposed of a relevant interest in any Pipeline Partners Australia's Securities in the four month period ending on the date immediately before the date of this Target's Statement.

8.7 Benefits and agreements

(a) Benefits in connection with retirement from office

As a result of the Offer, no person has been or will be given any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that person, or someone else, from a board or managerial office of HFML.

(b) Agreements connected with or conditional on the Offer

There are no agreements made between any Director of HFML and any other person in connection with, or conditional upon, the outcome of the Offer other than in their capacity as a holder of HDF Stapled Securities.

(c) Benefits from Pipeline Partners Australia

None of the Directors has agreed to receive, or is entitled to receive, any benefit from Pipeline Partners Australia which is conditional on, or is related to, the Offer, other than in their capacity as a holder of HDF Stapled Securities as outlined in Section 8.5 of this Target's Statement. HDF Securityholders should refer to Section 4.7 of this Target's Statement for details about the potential for HFML to receive management fees if the Offer is successful.

(d) Material interests of Directors in contracts with Pipeline Partners Australia

None of the Directors has any interest in any contract entered into by Pipeline Partners Australia.

8.8 Material litigation

HDF does not believe that it is involved in any litigation or dispute which is material in the context of HDF and HDF Group taken as a whole.

8.9 Issued capital

As at 27 July 2012, being the last practicable date prior to lodgement of this Target's Statement, HDF's issued capital consisted of 530,001,072 HDF Stapled Securities.

8.10 Substantial holders

As at 30 July 2012, being the last practicable date prior to lodgement of this Target's Statement, the following persons are substantial holders of HDF Stapled Securities as disclosed pursuant to substantial holding notices provided to the ASX:

HDF Securityholder	Number of HDF Stapled Securities	Percentage of HDF Stapled Securities
APA Group	111,836,780	21.10%
Westpac and its associates	47,472,494	8.97%[(6)]
Pipeline Partners Australia (as a result of Westpac accepting the offer in respect of 42,952,129 HDF Stapled Securities pursuant to the Pre-Bid Acceptance Deed)	42,952,129	8.10%
Morgan Stanley & Co. International plc	33,229,996	6.27%
Mitsubishi UFJ Financial Group, Inc. and its associates	33,229,996	6.27%
Australian Foundation Investment Company Limited	26,854,670	5.07%

Source: HDF.

8.11 Notice of Status of Conditions

Section 7.8 of the Bidder's Statement indicates that Pipeline Partners Australia will give a Notice of Status of Conditions to the ASX and HDF on 24 August 2012.

Pipeline Partners Australia is required to set out in its Notice of Status of Conditions:

- whether the Offer is free of any or all of the conditions;
- whether, so far as Pipeline Partners Australia knows, any of the conditions have been fulfilled; and
- Pipeline Partners Australia's voting power in HDF.

The Performance Fee Condition of the Offer has been satisfied as a result of HDF's announcement on 13 July 2012, described in Section 5.8 of this Target's Statement.

If the Offer Period is extended by a period before the time by which the Notice of Status of Conditions is to be given, the date for giving the Notice of Status of Conditions will be taken to be postponed for the same period. In the event of such an extension, Pipeline Partners Australia is required, as soon as practicable after the extension, to give a notice to the ASX and HDF that states the new date for the giving of the Notice of Status of Conditions.

If a condition is fulfilled (so that the Offer becomes free of that condition) during the Offer Period but before the date on which the Notice of Status of Conditions is required to be given, Pipeline Partners Australia must, as soon as practicable, give the ASX and HDF a notice that states that the particular condition has been fulfilled.

As at 27 July 2012, the Performance Fee Condition is the only condition to the Offer that Pipeline Partners Australia has given notice has been fulfilled.

8.12 The Offer Period

Unless the Offer is extended or withdrawn, it is open for acceptance from 18 July 2012 until 7pm (Melbourne time) on 31 August 2012.

The circumstances in which Pipeline Partners Australia may extend or withdraw the Offer are set out in Section 8.13 and Section 8.14 respectively of this Target's Statement.

8.13 Extension of the Offer Period

Pipeline Partners Australia may extend the Offer Period at any time before giving the Notice of Status of Conditions (referred to in Section 8.11 of this Target's Statement) while the Offer is subject to conditions. However, if the Offer is unconditional (that is, all the conditions are fulfilled or freed), Pipeline Partners Australia may extend the Offer Period at any time before the end of the Offer Period.

In addition, there will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period:

- Pipeline Partners Australia improves the consideration offered under the Offer; or
- Pipeline Partners Australia's voting power in HDF increases to more than 50%.

If either of these two events occurs, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurs.

8.14 Withdrawal of the Offer

Pipeline Partners Australia may not withdraw the Offer if you have already accepted it. Before you accept the Offer, Pipeline Partners Australia may withdraw the Offer with the written consent of ASIC and subject to the conditions (if any) specified in such consent.

(6) Westpac has accepted the Offer in respect of 42,952,129 HDF Stapled Securities but remains a substantial holder whilst the Offer remains conditional.

8.15 Effect of acceptance

If you accept the Offer, then, unless withdrawal rights are available (see Section 8.16 of this Target's Statement below) and you exercise these rights, you will give up your right to sell HDF Stapled Securities on the ASX or otherwise deal with them in any manner, while the Offer remains open (including the acceptance of any potential higher competing offer). The effect of acceptance of the Offer is set out in Section 7.6 of the Bidder's Statement. HDF Securityholders should read these provisions in full to understand the effect that acceptance will have on their ability to exercise the Rights attaching to their HDF Stapled Securities and the representations and warranties which they give by accepting the Offer.

In particular, HDF Securityholders should note that on the Offer, or any contract resulting from the acceptance of the Offer becoming unconditional, Pipeline Partners Australia will be entitled to attend meetings of HDF and vote on their behalf in respect of their HDF Stapled Securities in order to defeat resolutions relating to competing offers which may adversely affect the success of the Offer.

8.16 Your ability to withdraw your acceptance

You only have limited rights to withdraw your acceptance of the Offer.

You may only withdraw your acceptance of the Offer if Pipeline Partners Australia varies the Offer in a way that postpones, for more than one month, the time when Pipeline Partners Australia needs to meet its obligations under the Offer. This will occur if Pipeline Partners Australia extends the Offer Period by more than one month and the Offer is still subject to conditions.

8.17 When you will receive your consideration if you accept the Offer

In the usual case, you will be issued your consideration on or before the later of:

- one month after the date the Offer becomes or is declared unconditional; and
- one month after the date you accept the Offer if the Offer is, at the time of acceptance, unconditional,

but, in any event (assuming the Offer becomes or is declared unconditional), no later than 21 days after the end of the Offer Period.

However, there are certain exceptions to the above timetable for the issuing of consideration. Full details of when you will be issued your consideration are set out in Section 7.9 of the Bidder's Statement.

8.18 Effect of an improvement in consideration on HDF Securityholders who have already accepted the Offer

If Pipeline Partners Australia improves the consideration offered under its takeover bid, all HDF Securityholders, whether or not they have accepted the Offer before that improvement in consideration, will be entitled to the benefit of that improved consideration.

8.19 Lapse of the Offer

The Offer will lapse if the Offer conditions are not freed or fulfilled by the end of the Offer Period, in which case, all contracts resulting from acceptance of the Offer and all acceptances that have not resulted in binding contracts are void. In that situation, you will be free to deal with your HDF Stapled Securities as you see fit.

8.20 Compulsory acquisition

(a) Compulsory acquisition during or at the end of the Offer

Pipeline Partners Australia has indicated in Section 3.3 of the Bidder's Statement that if it satisfies the required thresholds, it intends to compulsorily acquire any outstanding HDF Stapled Securities.

Pipeline Partners Australia will be entitled to compulsorily acquire any HDF Stapled Securities in respect of which it has not received an acceptance of the Offer on the same terms as the Offer if, during or at the end of the Offer Period, Pipeline Partners Australia and its associates have a relevant interest in at least 90% (by number) of the HDF Stapled Securities.

If this threshold is met, Pipeline Partners Australia will have one month after the end of the Offer Period within which to give compulsory acquisition notices to HDF Securityholders who have not accepted the Offer. HDF Securityholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant HDF Securityholder to establish to the satisfaction of a court that the terms of the Offer do not represent 'fair value' for their HDF Stapled Securities. If compulsory acquisition occurs, HDF Securityholders who have their HDF Stapled Securities compulsorily acquired are likely to be issued their consideration approximately five to six weeks after the compulsory acquisition notices are dispatched to them.

On 13 July 2012 Pipeline Partners Australia entered into the Pre-Bid Acceptance Deed with Westpac pursuant to which Westpac agreed to accept the Offer for the 8.10% interest in HDF Stapled Securities that it legally and beneficially holds on a proprietary basis. Accordingly, Pipeline Partners Australia has a relevant interest in 8.10% of HDF Stapled Securities.

As at the day prior to the date of this Target's Statement, the APA Group has not publicly stated whether or not it will accept the Offer. If the APA Group does not accept the Offer, Pipeline Partners Australia would not be capable of obtaining a relevant interest in at least 90% of HDF Stapled Securities due to the APA Group's 20.71% holding in HDF Stapled Securities. Accordingly, without the APA Group's acceptance of the Offer, Pipeline Partners Australia would not be entitled to compulsorily acquire the remaining HDF Stapled Securities.

(b) Later compulsory acquisition by 90% holder

Even if Pipeline Partners Australia does not satisfy the compulsory acquisition threshold, it is possible that Pipeline Partners Australia will, at some time after the end of the Offer Period, become the beneficial holder of 90% of the HDF Stapled Securities. Pipeline Partners Australia would then have rights to compulsorily acquire HDF Stapled Securities not owned by it within six months of becoming the holder of 90% of HDF Stapled Securities. Pipeline Partners Australia's offered price for compulsory acquisition under this procedure would have to be considered in a report of an independent expert.

8.21 Consents

This Target's Statement contains statements made by, or statements said to be based on statements made by, Freehills (legal adviser to HDF in relation to the Offer), J.P. Morgan Australia Limited (**J.P. Morgan**) and Royal Bank of Canada (**RBC Capital Markets**) (financial advisers to HDF in relation to the Offer), Computershare Investor Services Pty Limited (**Computershare**) (HDF's share registrar) and Greenwoods & Freehills Pty Ltd (**Greenwoods & Freehills**) (tax adviser to HDF in relation to the Offer). Freehills, J.P. Morgan, RBC Capital Markets, Greenwoods & Freehills and Computershare have each consented to being named in this Target's Statement in the form and context in which each is named, but should not be regarded as authorising the issue of this Target's Statement or any statements in it.

Grant Samuel & Associates consents to be named as Independent Expert, and to the inclusion of its Independent Expert's Report as the Annexure to this Target's Statement, as well as statements extracted from or said to be based on statements made in the Independent Expert's Report.

As permitted by ASIC Class Order 01/1543 this Target's Statement contains statements which are made, or based on statements made, in documents lodged by Pipeline Partners Australia with ASIC or given to the ASX, or announced on the Company Announcements Platform of the ASX, by Pipeline Partners Australia. Pursuant to the Class Order, the consent of Pipeline Partners Australia is not required for the inclusion of such statements in this Target's Statement. Any HDF Securityholder who would like to receive a copy of any of those documents may obtain a copy (free of charge) during the Offer Period by contacting the HDF Information Line on 1800 815 610 (for calls made from within Australia) or +61 2 8256 3357 (for calls made from outside Australia). Any telephone calls to these numbers will, as required by the Corporations Act, be tape recorded, indexed and stored.

As permitted by ASIC Class Order 03/635, this Target's Statement may include or be accompanied by certain statements:

- fairly representing a statement by an official person; or
- from a public official document or a published book, journal or comparable publication.

In addition, as permitted by ASIC Class Order 07/429, this Target's Statement contains security price trading data sourced from IRESS and Bloomberg without their consent.

8.22 No other material information

This Target's Statement is required to include all the information that HDF Securityholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- only to the extent to which it is reasonable for investors and their professional advisers to expect to find this information in this Target's Statement; and
- only if the information is known to any Director.

The Directors are of the opinion that the information that HDF Securityholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is:

- the information contained in the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- the information contained in HDF's releases to the ASX, and in the documents lodged by HDF with ASIC before the date of this Target's Statement; and
- the information contained in this Target's Statement (including the information contained in the Independent Expert's Report).

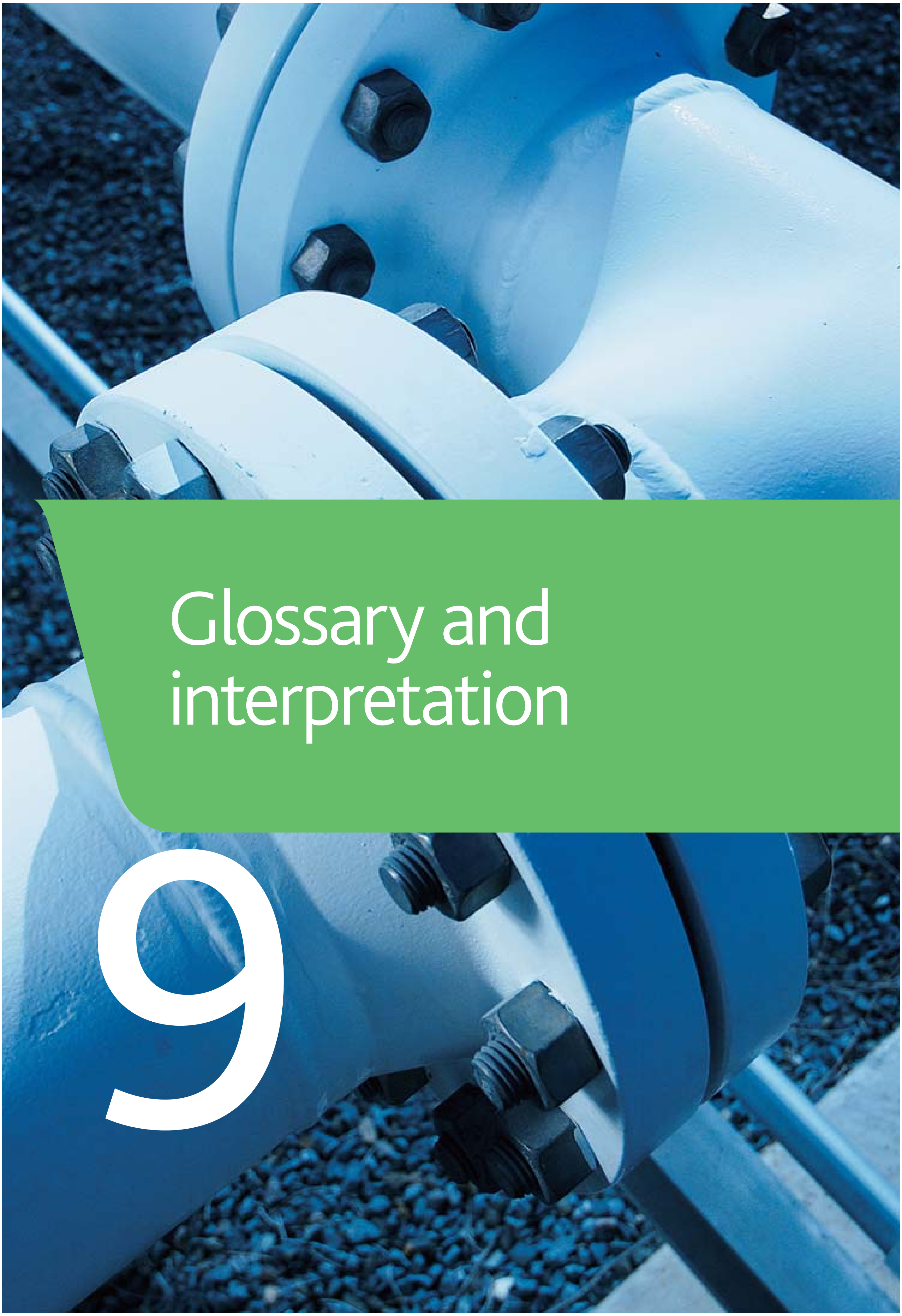
The Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all statements contained in them. References to Pipeline Partners Australia information in this Target's Statement have been extracted from the Bidder's Statement unless otherwise stated.

In deciding what information should be included in this Target's Statement, your Independent Directors have had regard to:

- the nature of the HDF Stapled Securities;
- the matters that HDF Securityholders may reasonably be expected to know in relation to HDF, Pipeline Partners Australia and the Offer;
- the fact that certain matters may reasonably be expected to be known to HDF Securityholders' professional advisers; and
- the time available to HDF to prepare this Target's Statement.

8.23 Early dispatch of takeover documents

HDF agreed in the Takeover Bid Implementation Deed that Pipeline Partners Australia could send the Bidder's Statement to HDF Securityholders earlier than would otherwise be permitted under Item 6 of Section 633(1) of the Corporations Act.



9 Glossary and interpretation

9.1 Glossary

The meanings of the terms used in this Target's Statement are set out below.

Term	Meaning
$, A$ or AUD	Australian dollar.
ACCC	Australian Competition and Consumer Commission.
Acceptance Form	each acceptance form enclosed with the Bidder's Statement or, as the context requires, any replacement or substitute acceptance form provided by or on behalf of Pipeline Partners Australia.
AGL	AGL Energy Limited (ABN 74 115 061 375).
Announcement Date	18 July 2012, being the date of the announcement of the Offer.
APA	Australian Pipeline Trust (ARSN 091 678 778) and APT Investment Trust (ARSN 115 585 441).
APA Bidder's Statement	the Bidder's Statement released by the APA Group to the ASX on 3 January 2012.
APA Conditions	the conditions listed under Section 10 of the APA Bidder's Statement to which the APA Group Offer is subject to, except the following conditions which were waived by the APA Group on 19 March 2012, 15 May 2012 and 20 July 2012: – (b) (Foreign Acquisitions and Takeovers Act); – (c) (ACCC approval); – (l) (HDF announcement re change of control); – (m) (change of control); – (n) (HDF announcement re contractual milestones); and – (o) (HDF announcement re commencement of AGL gas transportation agreement).
APA Group	APA and each of the entities controlled by Australian Pipeline Limited (ABN 99 091 344 704) in its capacity as responsible entity of APA.
APA Group Offer	the APA Group Offer announced on 14 December 2011 of $0.50 cash and 0.326 APA Stapled Securities for each HDF Stapled Security less the distributions of $0.025 per HDF Stapled Security paid on 30 January 2012 and 30 April 2012 and the distribution of $0.025 per HDF Stapled Security for the quarter ended 30 June 2012 that was declared on 20 June 2012, together with the APA Conditions.
APA Offer Price	at 27 July 2012 the APA Group Offer equates to an offer price of $2.02.
APA Stapled Securities	one ordinary unit in Australian Pipeline Trust (ARSN 091 678 778) and one ordinary unit in APT Investment Trust (ARSN 115 585 441), stapled together such that they must only be transferred together.
APA Target's Statement	the document (including the attachments), being the statement of HDF under Part 6.5 Division 3 of the Corporations Act disclosed to the ASX on 20 January 2012.
ASIC	the Australian Securities and Investments Commission.
ASX	ASX Limited (ACN 008 624 691).
ASX Listing Rules	the Official Listing Rules of the ASX, as amended and waived by the ASX from time to time.
ASX Settlement Operating Rules	the operating rules of ASX Settlement which govern the administration of the Clearing House Electronic Subregister System.
Bidder Group	Pipeline Partners Australia, Utilities Trust of Australia, CDPQ, Pipeline Investments Trust, CDPQ Limited Partnership, UTA Pipelines Trust, Kindle, Canafund and their Subsidiaries.
Bidder's Statement	the bidder's statement of Pipeline Partners Australia dated 18 July 2012.
Bidding and Investment Deed	the Bidding and Investment Deed dated 9 July 2012 between Pipeline Partners Australia, Utilities Trust of Australia, CDPQ and others.
Break Fee	has the meaning given in Section 8.1.
Business Day	Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that the ASX declares is not a business day.
C$	Canadian dollar.
Canafund	Canafund (Australia) Inc.
CDPQ	Caisse de dépôt et placement du Québec.
CGT	capital gains tax.
Change of Control Condition	condition (h) of the Offer.
CHESS Holding	a holding of HDF Stapled Securities on the CHESS Subregister of HDF.
CHESS Subregister	has the meaning given in the ASX Settlement Operating Rules.
Controlling Participant	has the meaning given in the ASX Settlement Operating Rules. Usually your Controlling Participant is a person, such as a broker, with whom you have a sponsorship agreement (within the meaning of the ASX Settlement Operating Rules).

9 Glossary and interpretation

Term	Meaning
Competing Proposal	any expression of interest, proposal, offer, transaction or arrangement by or with any person pursuant to which, if the expression of interest, proposal, offer, transaction or arrangement is entered into or completed substantially in accordance with its terms, would result in a third party: • directly or indirectly acquiring an interest, a relevant interest in or become the holder of: (i) more than 50% of the HDF Stapled Securities; or (ii) the whole or a substantial part or a material part of the business or property of any HDF Group Entity or the HDF Group (in either case when considered in aggregate); • acquiring control of any HDF Group Entity (including HFML) within the meaning of Section 50AA of the Corporations Act; • replacing HFML as the responsible entity of any or all of the HDF Trusts; or • otherwise directly or indirectly: (i) acquiring or merging with any HDF Group Entity (including HFML), or having the right to so acquire or merge with; or (ii) acquiring a significant economic interest in any HDF Group Entity (including HFML) or all or a significant part of the business of any HDF Group Entity (including HFML), in each case whether by way of takeover bid, scheme of arrangement, securityholder-approved acquisition or resolution, reverse takeover bid, capital reduction, security buy back, sale or purchase of assets, joint venture, dual listed companies structure, recapitalisation, establishment of a new holding company for the HDF Group or any HDF Group Entity (including HFML) or other synthetic merger, or any other transaction or arrangement.
Corporations Act	the *Corporations Act 2001* (Cth) (as modified or varied by ASIC).
Cost Reimbursement Fee	means the sum of all external transaction costs (to the extent actually invoiced), capped at an amount of $5 million, properly incurred after 15 May 2012 in connection with the Offer by Pipeline Partners Australia including, without limitation, the cost of Pipeline Partners Australia's external advisers and legal counsel, material and overhead and any out-of-pocket costs, payments or expenses (including, for the avoidance of doubt, any legal fees and other legal costs agreed to prior to 15 May 2012 which relate to due diligence, transaction advisory and other work undertaken before 15 May 2012).
CSG	coal seam gas.
Director	a director of HFML.
Easternhaul	haulage of gas in an eastern direction on the SWQP.
EBITDA	earnings before interest, income tax, depreciation and amortisation.
Epic Energy	the Epic Energy group of companies, which are wholly owned by HDF.
FEED study	Front End Engineering Design study
FIRB	the Foreign Investment Review Board.
Government	the Federal Government of Australia.
Grant Samuel & Associates	Grant Samuel & Associates Pty Limited (ABN 28 050 036 372).
GST	goods and services tax or similar value added tax levied or imposed in Australia under GST Law or otherwise on a supply.
GST Act	the *A New Tax System (Goods and Services Tax) Act 1999* (Cth).
GST Law	has the same meaning as in the GST Act.
HDF	Hastings Diversified Utilities Fund comprising HDF Epic Trust, HDF Finance Trust and HDF Further Investments Trust. The term also includes HDF's assets where the context requires.
HDF Constitutions	the constitutions of each of HDF Finance Trust, HDF Epic Trust and HDF Further Investments Trust.
HDF Epic Trust	HDUF Epic Trust (ARSN 109 770 961).
HDF Finance Trust	HDUF Finance Trust (ARSN 109 770 765).
HDF Further Investments Trust	HDUF Further Investments Trust (ARSN 109 897 921).
HDF Group	HDF, HFML and each of the entities controlled by HFML or any replacement responsible entity in such capacity and, where the context requires, HFML and any replacement responsible entity of HDF.
HDF Group Entity	any member within the HDF Group.
HDF Securityholder	the registered holder of a HDF Stapled Security.
HDF Stapled Security	one unit in each of HDF Epic Trust, HDF Finance Trust and HDF Further Investments Trust, stapled together such that they must only be transferred together.
HDF Trusts	HDF Epic Trust, HDF Finance Trust and HDF Further Investments Trust.
HFML	Hastings Funds Management Limited (ABN 27 058 693 388).
HFML Board	The board of directors of HFML.

Term	Meaning
HMPL	Hastings Management Pty Ltd (ACN 101 976 336), the immediate holding company of HFML.
Holder Identification Number	has the same meaning as in the ASX Settlement Operating Rules.
Independent Directors	Alan Cameron AO, James Evans, Stephen Gibbs and James McDonald.
Independent Expert	Grant Samuel & Associates.
Independent Expert's Report	an independent expert's report prepared by the Independent Expert in relation to the Offer for inclusion in this Target's Statement under Section 638 of the Corporations Act stating whether in the opinion of the Independent Expert, the Offer is fair and reasonable for HDF Securityholders.
Issuer Sponsored Holding	a holding of HDF Stapled Securities on the Issuer Sponsored Subregister of HDF.
Issuer Sponsored Subregister	has the meaning given in the ASX Settlement Operating Rules.
June 2012 Distribution	the HDF June 2012 distribution of 2.5 cents per stapled security declared on 20 June 2012 and payable on 6 August 2012.
Kindle	Conduit Investments Trustee Inc., a Canadian company, in its capacity as bare trustee on behalf of its beneficiaries, which are at the date of the Bidder's Statement include: • the Board of Trustees of the Colleges of Applied Arts and Technology Pension Plan, which had funds under management as at 31 December 2011 of C$5.6 billion; • RBC Dexia Investor Services Trust as trustee of Canada Post Corporation Registered Pension Plan, which had funds under management as at 31 December 2011 of C$15.4 billion; • The Northern Trust Company, Canada as trustee of The Halifax Regional Municipality Master Trust, which had funds under management as at 31 December 2011 of C$1.2 billion; • New Brunswick Investment Management Corporation, as trustee of the NBIMC Infrastructure Fund, which had funds under management as at 31 March 2011 of C$9.1 billion; • CIBC Mellon Trust Company in its capacity as trustee of the TELUS Infrastructure Master Trust, which had funds under management as at 31 December 2011 of C$11.4 million. The TELUS sponsored defined benefit plans which participate in the TELUS Infrastructure Master Trust have combined funds under management of C$6.7 billion; and • the University of British Columbia Staff Pension Plan, which had funds under management as at 31 December 2011 of C$0.9 billion.
LNG	liquefied natural gas.
MAPS	the Moomba to Adelaide Pipeline System.
Notice of Status of Conditions	the notice disclosing the status of the conditions to the Offer which is required to be given by Pipeline Partners Australia in accordance with Section 630(3) of the Corporations Act.
Offer	the offer by Pipeline Partners Australia to each HDF Securityholder to acquire all of the HDF Stapled Securities on the terms and conditions set out in the Bidder's Statement.
Offer Amount	$1,232,252,492, being the maximum amount of cash that would be payable by Pipeline Partners Australia under the Offer if acceptances were received for all of the HDF Stapled Securities on issue as at the date of this Target's Statement.
Offer Period	the period during which the Offer will remain open for acceptance in accordance with Section 7.2 of the Bidder's Statement.
Participating Securityholder	a HDF Securityholder whose HDF Stapled Securities are acquired by Pipeline Partners Australia under the Offer.
Performance Fee	the 'Incentive Fee' as defined in the HDF Constitutions.
Performance Fee Condition	condition (b) of the Offer.
Pipeline Partners Australia	Pipeline Partners Australia Pty Limited (ACN 157 963 810).
Pipeline Partners Australia Offer Price	$2.325 per HDF Stapled Security. The value of the consideration is subject to possible adjustments for future HDF distributions paid to you after the payment of the June 2012 distribution on 6 August 2012.
Pipeline Partners Australia Proposal	Pipeline Partners Australia's non binding proposal announced on 15 May 2012 to acquire all of the HDF Stapled Securities.
Pre-Bid Acceptance Deed	the pre-bid acceptance deed between Pipeline Partners Australia and Westpac dated 13 July 2012.
PPS	Pilbara Pipeline System.
QSN Link	an extension of the SWQP, connecting Ballera to Moomba and thereby enabling the transportation of CSG from south east Queensland to southern Australian markets.
Rights	has the meaning given in Section 8 of the Bidder's Statement.
S&P	Standard & Poor's.
S&P/ASX 200	the S&P/ASX 200 index published by Standard & Poor's.
Santos	Santos Limited (ABN 80 007 550 923).

Term	Meaning
Securityholder Reference Number	has the same meaning as in the ASX Settlement Operating Rules.
Subsidiary	has the meaning given in Section 46 of the Corporations Act, except that: • a trust may be a subsidiary, for the purposes of which a unit or other beneficial interest will be regarded as a share; and • a company or trust may be a subsidiary of a trust if it would have been a subsidiary if that trust was a company.
SWQP	the South West Queensland Pipeline, being the pipeline (incorporating the QSN Link) which provides a connection between gas producers in the Bowen/Surat Basin in south eastern Queensland and customers in Mount Isa (through its connection to the Carpentaria Gas Pipeline) and south eastern Australian markets through connection at Moomba with the MAPS and the Moomba Sydney Pipeline.
SWQP Stage 3 Expansion	the looping expansion of the SWQP through the construction of a new 450mm diameter pipeline adjacent to the existing pipeline, as well as the installation of further compression facilities at Wallumbilla.
Takeover Bid Implementation Deed	the deed entitled Takeover Bid Implementation Deed entered into between Pipeline Partners Australia and HFML dated 13 July 2012.
Target's Statement	this document (including the attachments), being the statement of HDF under Part 6.5 Division 3 of the Corporations Act.
Third Party	a person other than Pipeline Partners Australia, a member of the consortium of investors in Pipeline Partners Australia or any Subsidiary thereof, or a HDF Group Entity.
TJ	terajoules.
Utilities Trust of Australia or UTA	Utilities Trust of Australia or Utilities of Australia Pty Ltd (ACN 063 384 127) in its own capacity or in its capacity as trustee of Utilities Trust of Australia, as the context requires.
UTA Pipelines Trust	the UTA Pipelines Trust, or UTA Management Pty Ltd (ACN 155 283 266) in its capacity as trustee of the UTA Pipelines Trust, as the context requires.
UTA Board	the board of directors of UTA.
VWAP	volume weighted average price.
Warrants	the two tranches of HDF price linked cash settled warrants issued by HDF.
Westernhaul	haulage of gas in a western direction on the SWQP.
Westpac	Westpac Banking Corporation (ABN 33 007 457 141).

9.2 Interpretation

In this Target's Statement:

(1) Other words and phrases have the same meaning (if any) given to them in the Corporations Act.

(2) Words of any gender include all genders.

(3) Words importing the singular include the plural and vice versa.

(4) An expression importing a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa.

(5) A reference to a section, clause, attachment and schedule is a reference to a section of, clause of and an attachment and schedule to this Target's Statement as relevant.

(6) A reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them.

(7) Headings and bold type are for convenience only and do not affect the interpretation of this Target's Statement.

(8) A reference to time is a reference to time in Melbourne, Australia.

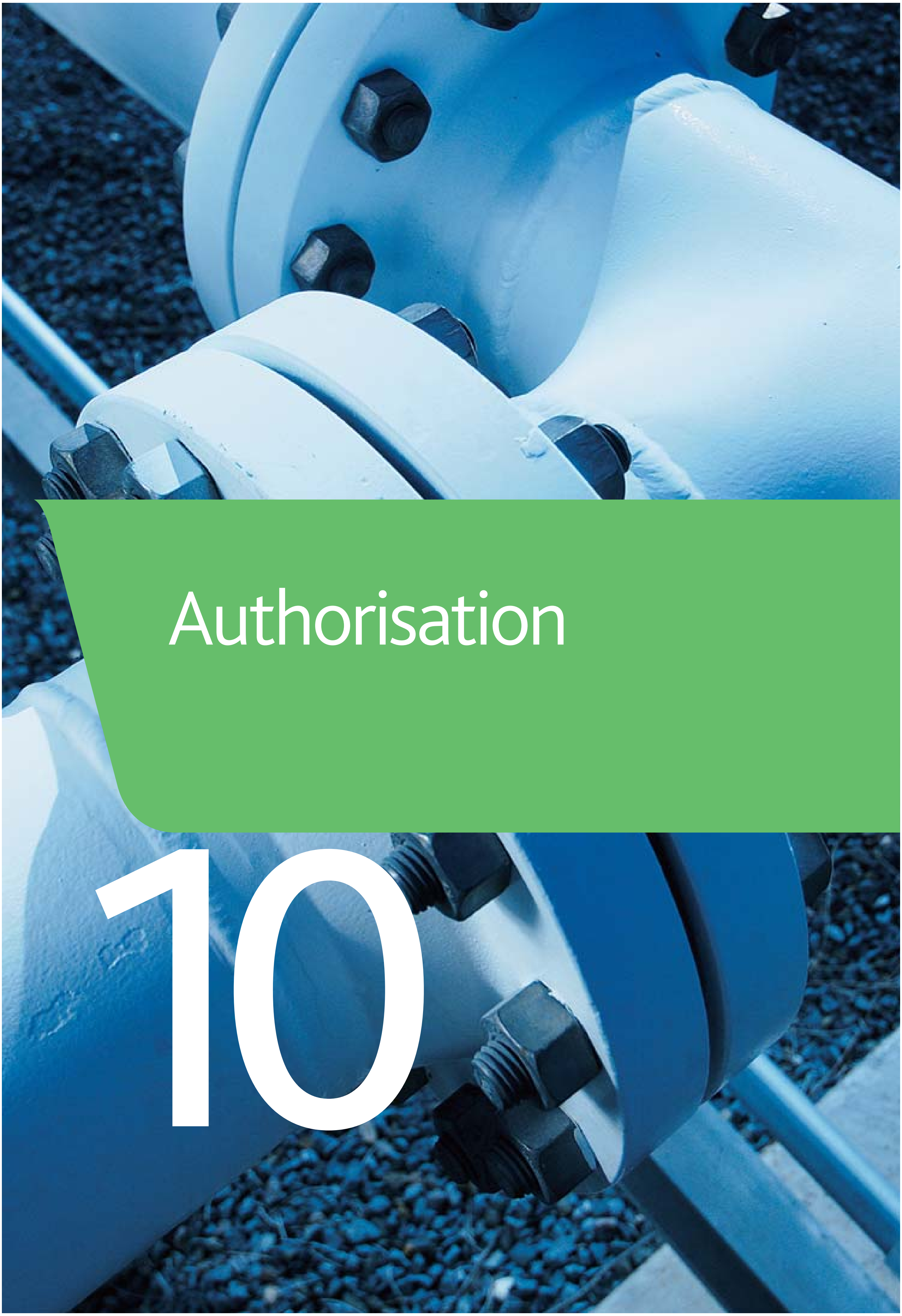
(9) A reference to dollars, $, A$, AUD, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia.

(10) A reference to 'short term' means the period one to three years from the date of this Target's Statement.

(11) A reference to 'medium term' means the period three to five years from the date of this Target's Statement.

(12) A reference to 'long term' means the period more than five years from the date of this Target's Statement.

(13) A reference to 'operating cash flow' means operating cash flow as determined by operating asset revenue plus interest earned on HDF's cash balances less operating expenses (including management fees, but excluding performance fees), interest costs paid in relation to financing facilities (other than interest costs relating to capital expenditure projects that are not yet ready for use), maintenance capital expenditure, tax paid and working capital adjustments.



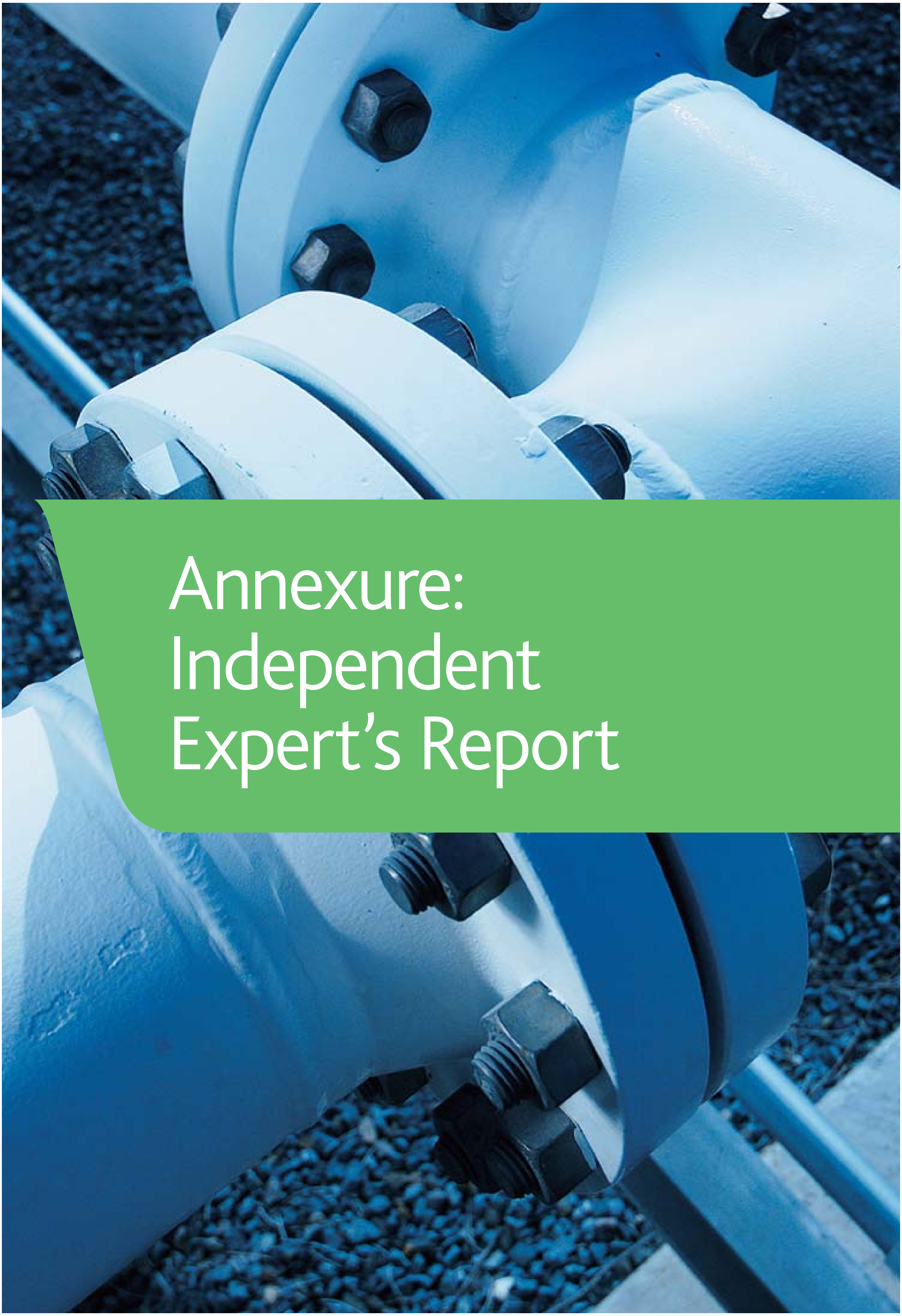
10 Authorisation

7 Taxation consequences

This Target's Statement has been approved by a resolution passed by the Directors of HFML.

Signed for and on behalf of HFML:

date	3rd August 2012
sign here	
print name	Alan Cameron AO
position	Director



Annexure: Independent Expert's Report

GRANT SAMUEL

GRANT SAMUEL & ASSOCIATES

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www.grantsamuel.com.au

3 August 2012

The Directors
Hastings Funds Management Limited as responsible entity for
HDUF Epic Trust, HDUF Finance Trust and HDUF Further Investments Trust
Level 27
35 Collins Street
Melbourne VIC 3000

Dear Directors

Pipeline Partners Offer

1 Introduction

Hastings Diversified Utilities Fund ("HDUF") is a triple stapled entity that comprises HDUF Epic Trust, HDUF Finance Trust and HDUF Further Investments Trust. Hastings Funds Management Limited ("Hastings"), a subsidiary of Westpac Banking Corporation ("Westpac"), is responsible entity for each of the trusts. HDUF stapled securities are listed and trade on the Australian Securities Exchange ("ASX").

HDUF is an investment vehicle focused on energy infrastructure assets and its sole asset is 100% of Epic Energy Holdings Pty Limited ("Epic Energy"). Epic Energy owns three major unregulated gas transmission pipeline systems in Australia: the Moomba to Adelaide Pipeline System ("MAPS"), the South West Queensland Pipeline ("SWQP") and the Pilbara Pipeline System ("PPS") and a small unregulated pipeline in South Australia ("SEP").

On 13 July 2012, Hastings announced that HDUF and Pipeline Partners Australia Pty Limited[1] ("Pipeline Partners") had entered into a Bid Implementation Deed under which Pipeline Partners would make a conditional all cash takeover offer of $2.325 per stapled security subject to the right to deduct from the offer price the amount of any distributions made by HDUF in respect of quarters ending after 30 June 2012 ("Pipeline Partners Offer").

The Pipeline Partners Offer is subject to a number of conditions which are set out in full in the Bidder's Statement issued by Pipeline Partners. In summary, the key outstanding conditions are:

- Pipeline Partners obtains a relevant interest in at least 70% of all HDUF stapled securities; and
- the S&P/ASX 200 Index does not fall to (or below) 3,458 (rounded) and remain at or below that level until the business day immediately prior to the end of the offer period[2].

Pipeline Partners has an 8.1% relevant interest in HDUF as consequence of entering into a Pre-Bid Acceptance Deed with Westpac.

As one of the Pipeline Partners consortium members is a Hastings managed fund, a subcommittee of independent directors of Hastings has considered the Pipeline Partners Offer on behalf of HDUF securityholders. The independent directors of Hastings have recommended that HDUF securityholders accept the Pipeline Partners Offer in the absence of a superior proposal and subject to the independent expert concluding (and continuing to conclude) that the Pipeline Partners Offer is fair and reasonable.

There is an existing takeover offer for HDUF by APA Group which was announced on 14 December 2011 ("APA Group Offer"). APA Group is HDUF's largest securityholder with a 20.71% interest. The consideration under the APA Group Offer is 0.326 APA Group stapled securities and $0.50 cash for each HDUF security (reduced by the amount of any distribution paid by HDUF stapled securities after 14

[1] 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.

[2] The Pipeline Partners Offer is currently scheduled to close on 31 August 2012, unless extended.

December 2011). The APA Group Offer has been extended a number of times and is currently scheduled to close on 4 September 2012 (unless extended). On 25 July 2012, APA Group announced its intention that, subject to successful completion of satisfactory due diligence, it may make a revised takeover offer for HDUF. The independent directors of Hastings are engaging with APA Group about the terms on which due diligence can be granted and its ability to increase its offer consideration. However, at the date of this report, the independent directors of Hastings continue to recommend that HDUF securityholders reject the APA Group Offer for the reasons set out in the Target's Statement dated 20 January 2012.

Although there is no requirement for an independent expert's report, the directors of Hastings have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Pipeline Partners Offer is fair and reasonable and to state reasons for that opinion. A copy of the report is to accompany the Target's Statement to be despatched to securityholders by HDUF. This letter contains a summary of Grant Samuel's opinion and main conclusions.

2 Opinion

In Grant Samuel's opinion, the Pipeline Partners Offer is fair and reasonable, in the absence of a superior proposal.

Grant Samuel has estimated the full underlying value of HDUF, including a premium for control, to be in the range $2.30-2.69 per stapled security. The value range exceeds the price at which, based on current market conditions, Grant Samuel would expect HDUF stapled securities to trade on the ASX in the absence of a takeover offer in the short term.

The Pipeline Partners Offer is $2.325 cash for each HDUF stapled security. The Pipeline Partners Offer falls within the value range of $2.30-2.69 and is superior in value to the APA Group Offer. Accordingly, it is "fair".

While the Pipeline Partners Offer is only just above the bottom of the range ($2.30), it should be recognised that:

- **the bottom of the valuation range represents the relevant threshold for fairness. Any price above the bottom of the range is, by definition, fair;**
- **the bottom of Grant Samuel's valuation range:**
  - **captures the full net present value impact of the substantial uplift in the earnings and cash flows of the SWQP that will occur over the next four years as a result of a contracted increase in gas volumes; and**
  - **incorporates some (risk weighted) value for other uncommitted growth opportunities inherent in HDUF's assets, particularly the SWQP; and**
- **the bottom of the valuation range reflects very high multiples of current earnings (24.6 times EBITDA[3] for the year ended 31 December 2011). Even the multiples of EBITDA for the year ending 31 December 2016 (which capture the uplift in earnings at the SWQP) are relatively high (9.9 times) compared to comparable transactions.**

As the Pipeline Partners Offer is fair, it is also reasonable.

The APA Group Offer is a "live alternative" to the Pipeline Partners Offer for HDUF securityholders. While the APA Group Offer has been assessed to be inferior in value, it is available until 4 September 2012. However, APA Group has announced its intention to (subject to the completion of satisfactory due diligence) increase its offer to at least $2.50 per HDUF stapled security. While there is no certainty that APA Group will make a formal revised takeover offer for HDUF, if such an offer eventuates, it could be superior in value to the Pipeline Partners Offer.

[3] EBITDA is Epic Energy's earnings before net interest, tax, depreciation and amortisation, other income and non-recurring items, management fees and other fund operating expenses.

GRANT SAMUEL

3 **Key Conclusions**

- **Grant Samuel has valued HDUF in the range $2.30-2.69 per stapled security**

HDUF has been valued in the range $1,217.5-1,427.5 million which corresponds to a value of $2.30-2.69 per stapled security. The valuation is summarised below:

HDUF - Valuation Summary ($ millions)			
	Report Section Reference	Value Range	
		Low	High
Business operations		2,600.0	2,800.0
Other assets and liabilities		(30.5)	(30.5)
Net borrowings		(1,591.4)	(1,591.4)
Equity interest in Epic Energy (100%)	5.3	**978.1**	**1,178.1**
HDUF corporate costs (net of savings)	5.4	(60.0)	(50.0)
HDUF other assets and liabilities	5.5	299.4	299.4
Value of equity		**1,217.5**	**1,427.5**
Stapled securities on issue (millions)		530.0	
Value per stapled security		**$2.30**	**$2.69**

The valuation represents the estimated full underlying value of HDUF assuming 100% of the entity 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 HDUF stapled securities to trade on the ASX in the absence of a takeover offer.

Grant Samuel's value range is based on a value for Epic Energy's business operations of $2,600-2,800 million. The value range is the aggregate of the values attributed by Grant Samuel to each of Epic Energy's gas transmission pipelines. Those values are overall judgements having regard to a number of valuation methodologies and parameters (including discounted cash flow ("DCF") analysis and capitalisation of earnings or cash flows) for each pipeline. The individual values have not been disclosed in this report as HDUF does not release financial information on an individual asset basis.

Grant Samuel developed a DCF model which allows the key drivers of revenue, costs and capital expenditure to be modelled by pipeline ("DCF Model"). The model forecasts nominal after tax cash flows from 1 July 2012 to 30 June 2032 (20 years) with a terminal value 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 8.0-8.5%.

Scenario A in the DCF Model assumes the pipelines operate on an "as is" basis and:

- reflects existing transportation contracts and assumes that the majority of contracts are renewed on similar terms; and
- allows for inlet compression at Moomba by 2015 to facilitate eastern haul flows on the SWQP to support existing gas transportation contracts.

Grant Samuel developed a number of other scenarios that reflect growth opportunities identified by Epic Energy or unspecified growth. All scenarios assume that the projections in Scenario A for the period 2012-2015 will be achieved and that most of the existing contracts are renewed. The range of net present value outcomes produced by the scenarios is wider than the value range of $2,600-2,800 million. The bottom end of Grant Samuel's value range ($2,600 million) reflects values above SWQP Scenario A (contracted volumes) and in line with the MAPS and PPS Scenario A (contracted volumes) as these pipelines do not have the same growth profile as the SWQP. The top end of the value range ($2,800 million) takes into account additional upside potential of uncommitted growth opportunities. Grant Samuel's value range ($2,600-2,800 million) lies below the "blue sky" scenarios as it is appropriate to risk weight such unspecified growth.

As a consequence, the value range of $2,600-2,800 million reflects:

3

- the substantial uplift in the earnings and cash flows of the SWQP that will occur over the next four years as a result of the contracted increase in gas volumes (the majority of capital expenditure for which was incurred prior to 31 December 2011);
- that both the SWQP and the MAPS are currently highly contracted with high quality counterparties and that recontraction risk is relatively low given the current dynamics of the east coast gas market; and
- value for uncommitted growth opportunities inherent in HDUF's assets, particularly the SWQP. Epic Energy's pipelines are well positioned to take advantage of future growth in demand for gas and have multiple, mutually exclusive paths to value uplifts. In this context, the value range for the SWQP exceeds the net present values for SWQP Scenario A (contracted volumes) reflecting the extent to which value has been allowed for uncommitted growth for that pipeline.

The value range implies the following multiples of EBITDA:

Epic Energy – Implied EBITDA Multiples[4]

Period	Variable[5] ($ million)	Value Range	
		Low	High
Year ended 31 December 2011 (actual)	105.6	24.6	26.5
Year ending 31 December 2012 (broker consensus)	156.0	16.7	17.9
Year ending 31 December 2013 (broker consensus)	175.0	14.9	16.0
Year ending 31 December 2014 (broker consensus)	186.7	13.9	15.0
Year ending 31 December 2015 (Scenario A, Grant Samuel DCF Model)	255.2	10.2	11.0
Year ending 31 December 2016 (Scenario A, Grant Samuel DCF Model)	261.8	9.9	10.7

The multiples of EBITDA are high but appropriate having regard to:

- the substantial uplift in earnings to emerge in the period to 2015 under existing gas transportation contracts;
- the strategic location and growth optionality of each of Epic Energy's pipelines; and
- the upside potential of providing additional compression services on the SWQP to existing customers, the selling of uncontracted capacity on the SWQP and the MAPS or a medium term compression project on the SWQP to meet anticipated future demand. The earnings for these opportunities are not reflected in the projected EBITDA. Multiples in 2016 decline to around 9-10 times (from 9.9-10.7 times) if earnings from one of these upside scenarios are included.

Recent market evidence is not particularly meaningful in reviewing the value parameters implied by Grant Samuel's value range for Epic Energy. Transaction evidence since 2008 is limited and generally reflects single pipeline assets (not integrated pipeline systems) with cash flow growth generally limited to economic growth and inflation. Although the most comparable listed entities own large integrated pipeline assets, none has the contracted revenue growth profile of Epic Energy. Consequently, higher multiples than suggested by the market evidence (9.5-11 times year one prospective EBITDA) are warranted for Epic Energy.

The EBITDA multiples implied by the value range reflect the aggregate earnings for Epic Energy. Grant Samuel's value range has been built up on an individual pipeline basis and the multiples of projected EBITDA[5] for each pipeline reflect the differing outlooks for each of the pipelines. In this regard, the multiples implied by the value for the PPS reflect the run off of a major contract in 2013 and the assumption that not all of that capacity will be recontracted. The multiples implied by the values for the SWQP and the MAPS reflect their respective contracted revenue profiles and their upside potential.

4 Represents Grant Samuel's value range divided by Epic Energy's EBITDA.

5 While HDUF has made guidance statements about contracted revenue, distributable cash flow and distributions, the directors of HDUF have decided not to include earnings projections in the Target's Statement 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 Epic Energy. However, brokers' forecasts are not available for periods beyond 31 December 2014 and therefore the projected earnings used to calculate multiples for 2015 and 2016 are based on Scenario A of Grant Samuel's DCF Model.

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- **A significant premium for control is being paid**

The Pipeline Partners Offer enables securityholders to realise their investment in HDUF at a cash price that incorporates a significant premium for control.

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 tend to fall in the range 20-35%. However, material premiums for control of the extent often seen in takeover transactions are not generally expected for listed entities with mature gas transmission assets as:

- cash flows of gas transmission assets are stable and predictable with long run growth generally limited to economic growth and inflation. High payout ratios mean that security prices are usually underpinned by the distribution yield;
- earnings profiles of gas transmission assets are reasonably transparent with a considerable level of publicly available information on revenues, volumes, operating costs and capital investment; and
- while there are likely to be some operating cost synergies, there is little opportunity for integration with other assets (particularly in revenue terms) and, therefore, there is limited scope for an acquirer to achieve synergies.

The Pipeline Partners Offer represents premia of 10-16% over prices preceding the announcement of the offer. These premia are relatively low as HDUF security prices during that period were impacted by takeover activity (i.e. the APA Group Offer). Consequently, it is more meaningful to measure the premium relative to undisturbed security prices. On the basis of HDUF security prices prior to the announcement of the APA Group Offer, the consideration of $2.325 cents represents premia of 31-45%. These premia may be overstated due to the passage of time. The undisturbed HDUF security prices are over seven months ago and since the APA Group Offer was announced:

- industrial equity markets have risen by around 7%; and
- HDUF has made a number of announcements in relation to its financial outlook following completion of the stage three expansion of SWQP in December 2011 (including the contracted revenue profile of SWQP and other short term revenue growth opportunities for Epic Energy) and the refinancing of Epic Energy's external borrowings.

Nevertheless, in Grant Samuel's opinion, the effective premium for control is still material.

- **The stapled security price is likely to fall below $2.325 in the absence of any takeover offer**

In the absence of the Pipeline Partners Offer or a similar offer, it is likely that HDUF securities, under current market conditions and its current ownership and operating structure, would trade at prices below $2.325. However, the security price may not decline to the levels prior to announcement of the APA Group Offer in December 2011.

In particular, since the announcement of the APA Group Offer, HDUF has released information indicating substantial annual growth in contracted revenues to 31 December 2015, material interest savings as a consequence of refinancing Epic Energy's external debt and increases of 10-20% in annual distributions in the short term. It is reasonable to assume that this information would have positively impacted HDUF's security trading price but it is nevertheless still likely to trade at prices below $2.325 (in the absence of a takeover offer).

Internalisation of HDUF's management arrangements was one of the options assessed by the independent directors when considering the Pipeline Partners Offer. Depending on the terms of any internalisation (in particular, the quantum of any payment to the external manager) it would be expected that such a restructure would be positive for the security price due to greater perceived alignment of the interests of directors, management and securityholders, the elimination of management and incentive fee payments and more favourable market sentiment towards internally managed entities.

However, in Grant Samuel's opinion, while the HDUF security price would be expected to be higher if management was internalised than if it was not, it would still be likely to trade at prices below $2.325 as:

- security prices represent portfolio interests (small parcels of securities) in listed entities and do not include a premium for control. In contrast, the consideration under the Pipeline Partners Offer of $2.325 incorporates a premium for control of 10-16% over prices preceding the announcement of the offer (although the premia may be understated as HDUF security prices were impacted by the APA Group Offer). Premium for control observed in takeovers tend to fall in the range of 20-35%;
- Grant Samuel's estimate of the full underlying value of HDUF of $2.30-2.69 per security includes a premium for control and reflects cost savings of $6 million per annum which exceed the net cost savings of $4-5 million per annum estimated to arise upon internalisation of management. Moreover, the valuation does not incorporate any payments to achieve these savings; and
- any payment to Hastings to facilitate internalisation or any negative impact of internalisation (e.g. increased financing costs) would offset some of the value benefit of internalising management.

▪ **There is no impediment to an alternative offer for HDUF**

The Pipeline Partners Offer is fair and reasonable. However, there is a "live alternative" to this offer in the form of the APA Group Offer. Grant Samuel has assessed the value of the APA Group Offer at $1.99-2.06 per HDUF stapled security (based on a value range for APA Group securities of $4.80-5.00 and an adjusted cash component of $0.425). This value is materially below the Pipeline Partners Offer. However, the APA Group Offer is open until 4 September 2012 (unless extended) and the ACCC has, subject to a court enforceable undertaking to sell the MAPS, decided not to oppose it. Furthermore, on 25 July 2012, APA Group announced its intention that, subject to successful completion of satisfactory due diligence, it would be in a position to make a revised takeover proposal for HDUF. Accordingly, it is relevant to consider the alternatives available to HDUF securityholders.

Although HDUF has agreed to no-talk, no-shop and no-due diligence provisions and Pipeline Partners has a relevant in interest in 8.1% of HDUF and a right to provide a matching or superior offer to a competing proposal, in Grant Samuel's opinion, there is no impediment to an alternative acquisition proposal being put by any other party. While Pipeline Partners' matching right does not prevent a competing proposal being made, it may limit the extent of any competitive process for HDUF.

At the date of this report, the independent directors of Hastings continue to recommend that HDUF securityholders reject the APA Group Offer on the basis that it is at a substantial discount to the Pipeline Partners Offer and undervalues HDUF. However, the independent directors of Hastings have announced that they will engage with APA Group about the terms on which due diligence can be granted and its ability to increase its offer consideration.

In these circumstances, securityholders should:

- continue to monitor both the Pipeline Partners Offer and the APA Group Offer;
- carefully consider the timing of their decision in relation to the Pipeline Partners Offer. The Pipeline Partners Offer is scheduled to close on 31 August 2012 while the APA Group Offer is scheduled to close on 4 September 2012 and neither offer has been declared final; and
- note that if they accept the Pipeline Partners Offer they will lose the ability to accept a higher offer from APA Group or another competing bidder, subject to withdrawal rights that may be available in limited circumstances.

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- **Other factors**

  There are few issues other than price when securityholders are faced with a cash offer. Other factors that securityholders should take into consideration are:

  - the Pipeline Partners Offer enables securityholders to realise their investment in HDUF at a cash price that incorporates a premium. In the absence of the Pipeline Partners Offer or any other takeover offer, securityholders could only realise their investment by selling on market at a price which does not include any premium and would incur transaction costs (e.g. brokerage);
  - HDUF stapled securities have generally traded above $2.325 since the announcement of the Pipeline Partners Offer to 27 July 2012 (in the range of $2.29-2.55, at a volume weighted average price of $2.42). Consequently, a cash price in excess of $2.325 could be achieved by selling on market, albeit transaction costs would be incurred. However, selling securityholders would lose the opportunity to receive any higher price that may be offered;
  - the Pipeline Partners Offer is subject to a 70% minimum acceptance condition. If the offer becomes unconditional but Pipeline Partners acquires less than 90% of HDUF's securities, there are a range of negative implications for remaining HDUF securityholders (e.g. dramatically reduced liquidity in the market for HDUF stapled securities, a potential reduction or cessation of distributions). In this circumstance, any remaining securityholders should consider their position carefully;
  - if the Pipeline Partners Offer becomes unconditional, accepting securityholders will be treated as having disposed of their HDUF securities for tax purposes. A capital gain or loss may arise on disposal depending on the cost base for the HDUF securities, the length of time held, whether the securities are held on capital or revenue account and whether the securityholder is an Australian resident for tax purposes; and
  - if Pipeline Partners acquires in excess of 50% but less than 90%, HDUF will meet transaction and takeover defence costs of around $15-23 million as a standalone entity (depending on post offer ownership interest). If the Pipeline Partners Offer is withdrawn or lapses then HDUF will meet costs of $3-4 million. Furthermore, in certain circumstances, HDUF will also be liable to pay to Pipeline Partners either a $12.3 million break fee or a cost reimbursement fee of up to $5 million.

4 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 HDUF securityholders. Accordingly, before acting in relation to their investment, securityholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Securityholders should read the Bidder's Statement issued by Pipeline Partners and the Target's Statement issued by HDUF in relation to the Pipeline Partners Offer.

Acceptance or rejection of the Pipeline Partners Offer is a matter for individual securityholders, 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. In particular, taxation consequences may vary from securityholder to securityholder. Securityholders who are in doubt as to the action they should take in relation to the Pipeline Partners Offer should consult their own professional adviser.

Similarly, it is a matter for individual securityholders as to whether to buy, hold or sell securities in HDUF. This is an investment decision independent of a decision on whether to accept or reject the Pipeline Partners Offer upon which Grant Samuel does not offer an opinion. Securityholders 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

HASTINGS DIVERSIFIED UTILITIES FUND

Financial Services Guide
and
Independent Expert's Report
in relation to the takeover offer by
Pipeline Partners Australia Pty Limited

Grant Samuel & Associates Pty Limited
(ABN 28 050 036 372)

3 August 2012

GRANT SAMUEL

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 Hastings Diversified Utilities Fund in relation to a takeover offer by Pipeline Partners Australia Pty Limited ("the HDUF Report"), Grant Samuel will receive a fixed fee of $525,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 7.3 of the HDUF 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 HDUF 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 7.3 of the HDUF 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 HDUF or Pipeline Partners 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 Pipeline Partners Offer.*
>
> *Grant Samuel commenced analysis for the purposes of this report in December 2011 prior to the announcement of the Pipeline Partners Offer. This work did not involve Grant Samuel participating in the setting the terms of, or any negotiations leading to, the Pipeline Partners Offer.*
>
> *Grant Samuel had no part in the formulation of the Pipeline Partners Offer. Its only role has been the preparation of this report.*
>
> *Grant Samuel will receive a total fixed fee of $525,000 for the preparation of this report (including the preliminary work). This fee is not contingent on the outcome of the Pipeline Partners Offer. Grant Samuel's out of pocket expenses in relation to the preparation of the 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 HDUF 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 HDUF 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.

GRANT SAMUEL & ASSOCIATES PTY LIMITED
ABN 28 050 036 372 AFS LICENCE NO 240985

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1 **Details of the Offer**

Hastings Diversified Utilities Fund ("HDUF") is a triple stapled entity that comprises HDUF Epic Trust, HDUF Finance Trust and HDUF Further Investments Trust. Hastings Funds Management Limited ("Hastings"), a subsidiary of Westpac Banking Corporation ("Westpac"), is responsible entity for each of the trusts. HDUF stapled securities are listed and trade on the Australian Securities Exchange ("ASX").

On 15 May 2012, Hastings announced that it had received an indicative, non-binding and conditional proposal to acquire all HDUF securities from Pipeline Partners Australia Pty Limited ("Pipeline Partners")[1] for $2.35 cash per HDUF stapled security (less adjustments for distributions paid). Hastings granted Pipeline Partners a due diligence period and, on 10 July 2012, announced that Pipeline Partners had provided a binding proposal consistent with the earlier indicative proposal.

On 13 July 2012, Hastings announced that HDUF and Pipeline Partners had entered into a Bid Implementation Deed under which Pipeline Partners will make a conditional all cash takeover offer of $2.325[2] per stapled security subject to Pipeline Partners' discretionary right to deduct from the offer price the amount of any distributions determined or declared by HDUF in respect of quarters ending after 30 June 2012 ("Pipeline Partners Offer").

Pipeline Partners' Bidder's Statement dated 18 July 2012 was served on HDUF on 18 July 2012 and despatched to HDUF securityholders on 19 July 2012. As at the date of the Bidder's Statement, Pipeline Partners had an 8.1% relevant interest in HDUF.

The Pipeline Partners Offer is subject to a number of conditions which are set out in full in the Bidder's Statement issued by Pipeline Partners. In summary, they are:

- Pipeline Partners obtains a relevant interest in at least 70% of all HDUF stapled securities;
- that Hastings announces that, while the offer is open or Pipeline Partners has a relevant interest of more than 50% in HDUF, the incentive fee it will accept in relation to the six months ended 30 June 2012 will not exceed $50 million and it will not accept any incentive fees for any period commencing on or after 1 July 2012[3];
- that before the end of the offer period[4]:
  - all regulatory time periods have expired and all regulatory obligations have been met;
  - there is not in effect any preliminary or final decision, order or decree issued by a Government agency and no application is made or action announced, threatened or commenced by a Government agency which materially adversely impacts the Pipeline Partners Offer or requires divestiture of any HDUF stapled securities or assets by Pipeline Partners;
  - no specified event occurs that will, or is reasonably likely to, have a material adverse effect on the assets and liabilities, financial position and performance, profits or prospects of HDUF;
  - no material acquisitions, disposals or new commitments by HDUF, except as announced to the ASX or disclosed during the due diligence period or which is approved by Pipeline Partners;
  - no HDUF entity pays or agrees to pay any retirement benefit or to make any substantial change to the basis or amount of any remuneration, terms of redundancy or entitlement of any current or proposed director, executive officer, manager or other employee (except as required by law);
  - no person exercises, or states an intention to exercise or has any rights under any agreement to which an HDUF entity is a party which materially impacts HDUF as a result of a change of control of HDUF or a change in the responsible entity for HDUF; or

[1] 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.
[2] The offer price represents $2.35 per stapled security less the $0.025 distribution payable on 6 August 2012.
[3] This condition has been satisfied.
[4] The Pipeline Partners Offer is currently scheduled to close on 31 August 2012, unless extended.

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- no person announces, commences or threatens litigation against a HDUF entity which may, or may reasonably, result in a judgement of more than $5 million;

- the S&P/ASX 200 Index does not fall to (or below) 3,458 (rounded) and remain at or below that level until the business day immediately prior to the end of the offer period; and
- none of a range of specified events (including those in Sections 652C(1) and (2) of the Corporations Act, 2001 ("Corporations Act")) occur between 13 July 2012 and the end of the offer period.

In addition, under the Bid Implementation Deed HDUF and Pipeline Partners have agreed:

- to certain exclusivity restrictions including no-talk, no-shop and no-due diligence provisions. The no-talk and no-due diligence restrictions apply unless the Hastings board, acting in good faith and in order to satisfy its fiduciary or statutory duties, determines that a competing proposal is, or is likely to be, a superior proposal. The due diligence restrictions also apply unless the third party enters into confidentiality arrangements and Pipeline Partners receives the same information as provided to the third party;
- that during the exclusivity period (13 July 2012 to the earlier of the termination of the Bid Implementation Deed and the end of the offer period) HDUF must notify Pipeline Partners if it receives written notice of a competing proposal from a third party. If HDUF determines the competing proposal is superior it must not enter into any agreement to undertake that proposal or publicly change the recommendation in relation to the Pipeline Partners Offer unless it has:
  - complied with the notification obligations;
  - given Pipeline Partners at least two business days notice in writing of the proposed action; and
  - provided Pipeline Partners with all material terms of the competing proposal.

  During the notice period, Pipeline Partners has the right to make a counter proposal that provides an equivalent or superior outcome to the competing proposal for HDUF securityholders; and
- a break fee of $12.3 million (plus any goods and services tax ("GST") is payable by HDUF to Pipeline Partners in certain circumstances, including if:
  - prior to the earlier of 31 December 2012 and the end of the offer period, a competing proposal becomes free of all conditions and a third party acquires an interest in more than 50% of HDUF or a material part of its business or property or Hastings is replaced as responsible entity;
  - prior to 31 December 2012, any of the independent directors withdraws a recommendation for the Pipeline Partners Offer or recommends a competing proposal (except if the independent expert concludes that the Pipeline Partners Offer is not fair or not reasonable or Hastings terminates the Bid Implementation Deed); and
  - prior to 31 December 2012, HDUF does anything which breaches any of the conditions of the Pipeline Partners Offer, breaches the exclusivity arrangements or there is an unremedied material breach of the Bid Implementation Deed.

  However:
  - if before a competing proposal is announced, the independent expert has concluded that the Pipeline Partners Offer is:
    - not fair and not reasonable, the break fee will not be payable; or
    - not fair but reasonable, the break fee will not be payable but a cost reimbursement fee capped at $5 million will be payable;
  - if, after 10 November 2012, any of the independent directors withdraws a recommendation for the Pipeline Partners Offer or recommends a competing proposal solely because Pipeline Partners deducts from the offer price the amount of any HDUF distribution declared for quarters ending after 30 June 2012 (or part thereof) (except for a deduction of that part which exceeds $0.025 per security per quarter, the break fee will not be payable but a cost reimbursement fee capped at $5 million will be payable.

As one of the Pipeline Partners consortium members is a Hastings managed fund (Utilities Trust of Australia), a subcommittee of independent directors of Hastings has considered the Pipeline Partners Offer on behalf of HDUF securityholders. The independent directors of Hastings have recommended that HDUF securityholders accept the Pipeline Partners Offer in the absence of a superior proposal and subject to the independent expert concluding (and continuing to conclude) that the Pipeline Partners Offer is fair and reasonable.

There is an existing takeover offer for HDUF by APA Group which was announced on 14 December 2011 ("APA Group Offer") (see Section 6.7). APA Group is HDUF's largest securityholder with a 20.71% interest. The APA Group Offer has been extended a number of times and is currently scheduled to close on 4 September 2012 (unless extended). On 25 July 2012, APA Group announced its intention that, subject to successful completion of satisfactory due diligence, it may make a revised takeover offer for HDUF. The independent directors of Hastings are engaging with APA Group about the terms on which due diligence can be granted and its ability to increase its offer consideration. However, at the date of this report, the independent directors of Hastings continue to recommend that HDUF securityholders reject the APA Group Offer.

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2 Scope of the Report

2.1 Purpose of the Report

Section 640 of the Corporations Act states that a Target's Statement made in response to a takeover offer for securities in an Australian listed entity must be accompanied by an independent expert's report if:

- the bidder's voting power in the target is 30% of more; or
- a director of the bidder is also a director of the target.

Although there is no requirement in the present circumstances for an independent expert's report pursuant to the Corporations Act or the ASX Listing Rules, the directors of Hastings have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Pipeline Partners Offer is fair and reasonable and to state reasons for that opinion. A copy of the report is to accompany the Target's Statement to be despatched to securityholders by HDUF.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual HDUF securityholders. Accordingly, before acting in relation to their investment, securityholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Securityholders should read the Bidder's Statement issued by Pipeline Partners and the Target's Statement issued by HDUF in relation to the Pipeline Partners Offer.

Whether or not to accept the Pipeline Partners Offer is a matter for individual securityholders 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. Securityholders who are in doubt as to the action they should take in relation to the Pipeline Partners Offer should consult their own professional adviser.

Similarly, it is a matter for individual securityholders as to whether to buy, hold or sell securities in HDUF. This is an investment decision independent of a decision on whether to accept or reject the Pipeline Partners Offer upon which Grant Samuel does not offer an opinion. Securityholders should consult their own professional adviser in this regard.

2.2 Basis of Evaluation

The term "fair and reasonable" has no legal definition although over time a commonly accepted interpretation has evolved. 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".

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 securityholders might consider prior to accepting an offer such as:

- the offeror's existing securityholding;
- other significant securityholdings;
- the probability of an alternative offer; and
- the liquidity of the market for the target's securities.

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 an entity'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 securityholders are otherwise unlikely in the foreseeable future to realise an amount for their securities in excess of the offer price. This is commonly the case where the bidder already controls the target company. In that situation the minority securityholders have little prospect of receiving full value from a third party offeror unless the controlling securityholder is prepared to sell its controlling securityholding.

Grant Samuel has determined whether the Pipeline Partners Offer is fair by comparing the estimated underlying value range of HDUF with the offer price. The Pipeline Partners Offer will be fair if it falls within the estimated underlying value range. In considering whether the Pipeline Partners Offer is reasonable, the factors that have been considered include:

- the existing securityholding structure of HDUF;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of HDUF securities in the absence of the Pipeline Partners Offer; and
- other advantages and disadvantages for HDUF securityholders of accepting the Pipeline Partners Offer.

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 Bidder's Statement;
- the Target's Statement dated 20 January 2012 in relation to the APA Group Offer;
- the Target's Statement in relation to the Pipeline Partners Offer (including earlier drafts);
- annual reports of HDUF for the six years ended 31 December 2011;
- press releases, public announcements, media and analyst presentation material and other public filings by HDUF including information available on its website;
- brokers' reports and recent press articles on HDUF and the Australian energy industry;
- sharemarket data and related information on Australian and New Zealand listed entities in the energy infrastructure sector and on acquisitions of entities and businesses in that sector; and
- information relating to the Australian energy industry including supply/demand forecasts and regulatory decisions and pronouncements (as appropriate).

Non Public Information provided by HDUF

- management accounts for HDUF and Epic Energy for the six months ended 30 June 2012;
- a budget plan for Epic Energy for the three years ending 31 December 2014 prepared by Epic Energy management;
- forecasts for Epic Energy for the year ending 31 December 2012 prepared by Epic Energy management;
- a cash flow model for HDUF dated 21 June 2012 including projections for Epic Energy's operations; and
- other confidential documents, board papers, presentations and working papers.

Grant Samuel has also held discussions with, and obtained information from, senior management of HDUF and its advisers and senior management of Epic Energy.

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

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create a misleading view of the process underlying the opinion. 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 HDUF and its advisers. Grant Samuel has considered and relied upon this information. HDUF has represented in writing to Grant Samuel that to its knowledge the information provided by it was complete and not incorrect or misleading in any material aspect. 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 Pipeline Partners Offer is fair and reasonable. 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 HDUF. 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 forecast for Epic Energy for the year ending 31 December 2012 ("2012 Forecast") prepared by management of Epic Energy;
- the budget plan for Epic Energy for the three years ending 31 December 2014 ("2014 Plan") prepared by management and adopted by the directors of Epic Energy; and
- a cash flow model dated 21 June 2012 for HDUF for the period commencing 1 January 2012. The model was prepared by HDUF and its advisers ("HDUF Model").

HDUF is responsible for the information contained in the 2012 Forecast, 2014 Plan and the HDUF Model ("the forward looking information"). Grant Samuel has considered and, to the extent deemed appropriate, relied on the forward looking information for the purposes of its analysis. Grant Samuel has not investigated this financial information in terms of the reasonableness of the underlying assumptions, accuracy of compilation or application of assumptions. 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 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:

- the 2014 Plan (including the 2012 Budget) was prepared through a detailed budgeting process involving preparation of "ground up" budgets by Epic Energy management and was endorsed by the Directors of Epic Energy;

- the 2012 Budget was approved by the Directors of Epic Energy;
- the 2012 Forecast is based on actual results for Epic Energy for the six months ended 30 June 2012;
- the HDUF Model was developed by Epic Energy and HDUF in conjunction with their advisers and was used in the recent refinancing of Epic Energy's external borrowings; and
- Epic Energy's assets are underpinned by long term contracts and therefore revenue and costs are relatively stable and predictable.

While HDUF has made guidance statements about contracted revenue to 31 December 2015 and distributions to 31 December 2013, the directors of HDUF have decided not to include the forward looking information in the Target's Statement and therefore this information has not been disclosed in this report.

In order to provide an indication of the expected financial performance of Epic Energy, Grant Samuel has considered brokers' forecasts for HDUF (see Appendix 1). Grant Samuel has used the median of the brokers' forecasts to review the parameters implied by its valuation of Epic Energy. However, as substantial earnings will emerge for Epic Energy under existing gas transportation contracts in 2015, the projections for 2015 and 2016 under Scenario A of the discounted cash flow model developed by Grant Samuel based on the HDUF Model ("DCF Model") (refer Section 5.3.2) have also been used to review the parameters implied by its valuation of Epic Energy. In Grant Samuel's opinion, the broker consensus forecasts and the projections in the DCF Model are sufficiently close to the 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;
- the information set out in the Target's Statement sent by HDUF to its securityholders is complete, accurate and fairly presented in all material respects; and
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading.

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

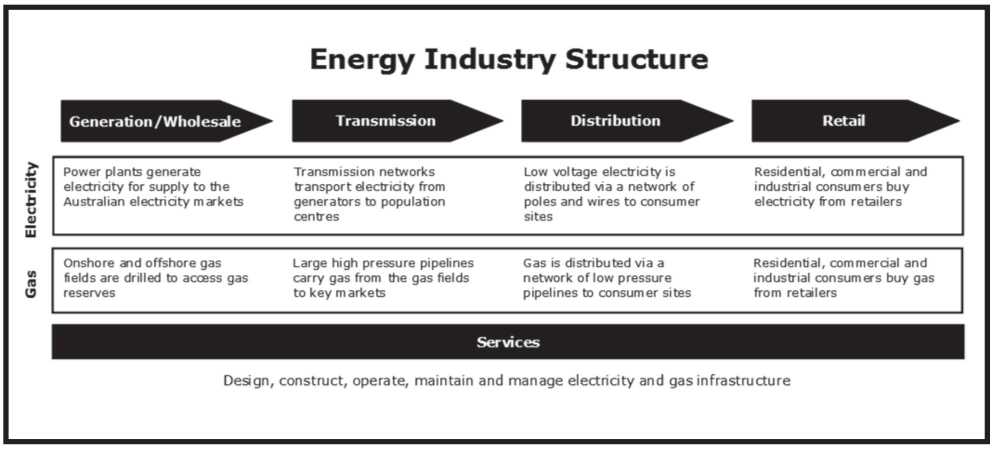
Overview of Energy Industry

World energy consumption has increased by an average of 2.5% per annum since 2001[5] and is expected to grow by 1.6% per annum to 2030. Most of the world's energy requirements are met from five energy sources (oil, coal, natural gas, nuclear and hydroelectricity). Oil is the leading energy source in all regions except Asia Pacific where coal dominates and Europe/Eurasia where natural gas is the leading fuel. Recent years have seen high and volatile world energy prices signifying shifting supply and demand conditions, changing geopolitical risks and increased political interest in the threat of climate change. This has increased demand for natural gas worldwide (projected to increase from 24% to 27% of consumption by 2030) and encouraged the growth of renewable energy sources.

The Asia Pacific region accounts for around 39% of world energy consumption with average growth over the last 10 years of 6% per annum. Chinese demand is the major driver in the Asia Pacific region accounting for 54% of energy consumption (and over 21% 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 30.5% of global gas trade with the Asia Pacific region importing around 60% of that volume.

Energy consumption in Australia has grown at an average of 1.8% per annum since 2000 and is expected to grow by 1% per annum to 2035. This moderate growth forecast is largely driven 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 3% per annum in the period to 2035 in response to 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. It is only in recent decades that, as a consequence of economic and legislative changes, the industry has become more integrated. However, as the management of energy resources, production and supply of energy and stability of energy markets are critical to the economy, the energy industry is subject to regulation.

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[5] Information in this report on the energy industry is from a range of sources. The major sources are *"World Energy Outlook 2011"*, International Energy Agency, November 2011, "*BP Statistical Review of World Energy June 2012"*, BP plc., *"BP Energy Outlook 2030"*, BP plc., January 2012, *"Energy in Australia 2012"*, Bureau of Resources and Energy Economics ("BREE"), February 2012, *"Australian Energy Projections to 2034-35"*, BREE, December 2011, *"State of the Energy Market 2011",* AER, December 2011, *"2011 Gas Statement of Opportunities"*, AEMO, November 2011, *"Australian Gas Resource Assessment 2012"*, Geoscience Australia/BREE, May 2012 and *"Energy Quarterly"*, EnergyQuest Pty Limited, 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.

HDUF operates in the gas transmission segment of the Australian energy industry and therefore the focus of the remainder of this section is the gas sector.

Gas Sector

(i) Demand

Natural gas is produced in Australia both for domestic markets and for export (as LNG) and accounts for approximately 23% of Australian energy consumption, behind coal (37%) and oil (35%) 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 2035 (up from 15% in 2010).

The consumption of natural gas in Australia is expected to grow by 2.9% per annum (a faster rate than overall energy consumption) to 35% of total consumption by 2035 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 consumption in Asia. The development of a 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 currently 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, New South Wales is expected to remain the largest domestic consumer of gas 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 new gas fired generation and the commissioning of the proposed LNG export projects at Gladstone (see below). In South Australia, as reliance on wind for electricity generation increases (currently 24% of capacity) and coal fired generation is retired, demand for gas for peaking generation is projected to grow.

(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).

Total proved and probable conventional gas reserves are estimated at around 99,000PJ[8] and proved and probable CSG reserves at around 43,000PJ with total gas resources estimated to be in excess of 250,000PJ. The first commercial conventional gas project in Australia was established in central southern Queensland in 1961 while the first commercial CSG project in Australia was established in late 1996.

6 Gas which has not migrated to a reservoir rock but is still confined within low permeability, organic rich source rocks. There is currently no production of shale gas in Australia but 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.

8 PJ = petajoule

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Due to the increasing demand for LNG across Asia, the current relatively low domestic market price for gas in the eastern states, the absence of cross continental pipelines and the costs associated with transporting LNG, Australia's natural gas market operates as three separate regions: Western Australia, the Northern Territory and Eastern Australia (other states and territories). Estimated 2P reserves, production and demonstrated resources by region are summarised below:

Australia - Natural Gas Reserves, Domestic Gas Production and Demonstrated Resources (PJ)

Region	2P Reserves (May 2012)	Production (12 months to 31 March 2012)	Demonstrated Resources[9]
Conventional Gas			
Western Australia	90,123	1,199	158,900
Northern Territory[10]	1,123	33	
Eastern Australia	7,167	480	14,100
Total Conventional	**98,413**	**1,712**	**173,000**
Coal Seam Gas			
Western Australia	-	-	-
Northern Territory	-	-	-
Eastern Australia			
- Queensland Basins	39,584	235	na[11]
- New South Wales Basins	2,827	6	na
Total CSG	**42,411**	**241**	**101,434**
Total Natural Gas	**140,824**	**1,953**	**274,434[12]**
Total Eastern Australia Gas	49,578	721	115,534

Source: EnergyQuest and Grant Samuel analysis.

In aggregate, Western Australia and the Northern Territory account for around 65% of Australia's 2P natural gas reserves. At current rates of production, 2P reserves represent approximately 74 years of supply (including for export as LNG). There are also significant contingent resources in the Carnarvon and Bonaparte Basins as well as the currently undeveloped Browse Basin. The bulk of the fields are located in major offshore reservoirs. There are no CSG resources identified in these regions.

Reserves of conventional gas in Eastern Australia amount to only approximately 15 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 as an alternative form of gas fuel for the eastern states.

CSG reserves now exceed conventional gas reserves in Eastern Australia. The Bowen and Surat Basins in Queensland account for approximately 93% 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. Exploration is continuing and additional CSG reserves are expected to be proved up.

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 375,000PJ of technically recoverable resources of shale gas in four basins and that there may be other prospective basins[13]. In particular, the Cooper Basin has been identified as a major focus for shale gas development with an estimated 80,000PJ of technically recoverable resource. Leading exploration companies including Santos Limited and Beach Energy Limited are actively pursuing shale opportunities in the Cooper Basin.

9 Estimated 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 11,000PJ of conventional gas, 122,020PJ of CSG, 22,052PJ of tight gas and 2,200 of shale gas are estimated in the inferred category arising from recent discoveries and previous finds requiring further appraisal.

13 Source: United States Energy Information Administration (Feb 2011).

All major gas producers/wholesalers supplying the Australian market are privately owned. In the year ended 31 March 2012 total natural gas production was estimated to be 1,953PJ of which around 55% was consumed domestically with the balance exported to markets in Asia from Western Australia. CSG production has grown significantly in recent years from 13PJ in 2000 to 241PJ and is expected to be 2,492PJ in 2035. CSG currently accounts for 33% of natural gas production in Eastern Australia and is expected to increase to 88% of production by 2030 primarily as a consequence of the development of the LNG export sector 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 1991), 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). In the 12 months to 31 March 2012 Australia exported 15.8Mt[10] (874PJ) of LNG primarily to Japan, China, South Korea and Taiwan. LNG demand in existing Asian markets is projected to continue to grow and new markets (such as Singapore and Thailand) are expected to commence LNG importation. Medium to long term Asian demand remains uncertain but projections range between 165Mtpa[14] (8,500PJ) and 260Mtpa (13,000PJ) by 2020[15].

The projected growth in Asian demand has prompted further investment in the LNG industry in Australia including the expansion of existing projects and new development in Western Australia and the Northern Territory (e.g. Pluto LNG Project, Gorgon Project) as well as LNG projects on the east coast based on CSG reserves and resources. In this regard, there are currently four LNG projects sponsored by major companies proposed in Queensland. As currently specified these projects have a total production capacity of 33.3Mtpa with first LNG production due in the period 2014-2015. As three of the projects (Queensland Curtis LNG, Gladstone LNG and Australia Pacific LNG) have been approved and are under construction, the production of CSG for export as LNG is no longer a matter of feasibility but of execution, although considerable challenges remain.

Gas has historically been sold in Australia under confidential long term contracts negotiated between producers and downstream buyers[16]. The wholesale gas price depends on a number of factors including total contract volume, available reserves, length of contract, price escalations and flexibility and will normally be subject to some adjustment for inflation or periodic price reset. Publicly available gas pricing information is limited, however, Australian gas prices have historically been low in comparison to international prices as a consequence of Australia's abundant coal reserves, geographic isolation from international markets and extensive natural gas resources. It is widely accepted that Australian gas prices will increase in real terms over the medium term. 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 any increase in gas prices in Eastern Australia is dependent on the interaction of a range of complex factors including:

- the continued growth in demand for energy in Australia;
- government initiatives to address climate change including a renewable energy target[17] and carbon pricing[18];

14 Mtpa = million tonnes per annum

15 The high end of the range reflects projections made since the Japanese earthquake in March 2011.

16 Victoria operates a spot market in which approximately 10-15% of gas produced is traded. Short term trading markets commenced in New South Wales and South Australia in September 2010 and in Queensland in December 2011. However, these markets reflect market imbalances and not prices that would be agreed under longer term arrangements. The renewable energy target is driving investment in renewable power generation (principally wind) which in turn is increasing demand for gas peaking power stations to support the intermittent nature of wind energy.

17 In 2010 the Australian Government introduced a renewable energy target requiring 45,000 gigawatt hours of electricity per annum (around 20% of total electricity generation) to be supplied from renewable energy sources by 2020. The objective of the target is to advance the development and employment of renewable energy resources over the medium term.

18 In December 2011, legislation introducing carbon price to the Australian economy received Royal Assent. Under the legislation the carbon pricing mechanism commenced on 1 July 2012 with a three year fixed price period before transitioning to an emissions trading scheme on 1 July 2015 (with a price ceiling and floor for the first three years). The carbon pricing mechanism applies directly to the largest carbon polluters and the carbon price has started at $23 per tonne and will rise in real terms by 2.5% per annum during the fixed price period. There is a range of industry assistance, tax cuts and increases in pensions, allowances and benefits to individuals to assist with the price impacts. However, the Opposition has said that it will repeal the legislation should it win government.

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- continued growth in demand for LNG in Asia;
- the commercialisation of CSG; and
- available gas contract price data reflects historical 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 increase:

- growth in demand for electricity may moderate;
- 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 any of the proposed CSG to LNG projects in Queensland are not commissioned or are not developed to proposed scale;
- an increase in east coast gas prices will stimulate supply as projects which are currently marginal (such as lower producing conventional gas basins) may become economic; and
- there will be significant gas production in advance of LNG plant commissioning and this may place some downward pressure on gas prices in the period to 2015.

In the absence of LNG demand, there are reasons to believe that gas prices in Eastern Australia will move upwards, particularly as existing long term contracts run off. The existence of LNG as an alternative source of demand creates further price pressures. However, 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 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[19] (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] Due to the short haul 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. Instead, a party's daily gas flow is determined by its bid into the wholesale gas market.

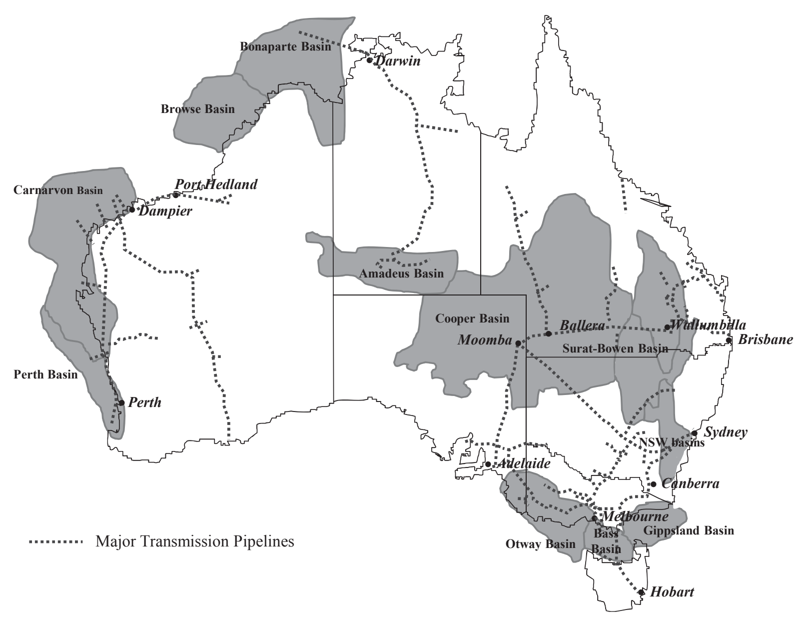
discrete large projects with long term contracts to underwrite capacity and pipelines are not developed with significant spare capacity. However, once a pipeline is built it can be expanded to meet demand growth. Whether new pipelines are developed or existing infrastructure is expanded (e.g. by looping 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.

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. 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 anti-competitive provisions of the Trade Practices Act, 1974).

All major gas transmission pipelines in Australia are owned by the private sector. The major owners of Australian gas transmission pipelines are Epic Energy, ASX listed entities APA Group and DUET Group, Jemena (owned by Singapore Power Limited ("Singapore Power"), the largest electricity and gas utility in Singapore) and Energy Infrastructure Investments (a joint venture of APA Group, Marubeni Corporation and Osaka Gas).

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:

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- **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 (i.e. Victoria, New South Wales and South Australia) and the growing demand hubs of Queensland (including south east Queensland and Gladstone) to the existing major conventional reserves basins of Eastern Australia (e.g. Cooper Basin, Otway, Bass and Gippsland Basins) as well as the emerging CSG reserves of Queensland and New South Wales (e.g. Surat and Bowen Basins). APA Group, Epic Energy and Jemena are the major owners and operators in the Eastern Pipeline System.

  The Eastern Pipeline System has developed over the last 15 years as new pipelines have been constructed and existing infrastructure expanded with recent expansion primarily in response to the development of the CSG industry in Queensland and increased demand for gas for electricity generation. In particular, the commissioning of the QSN Link as an extension of the South West Queensland Pipeline by HDUF in 2009 has enabled gas delivery between Queensland and the southern states. The further expansion of the South West Queensland Pipeline (which was completed in December 2011) has significantly enhanced the interconnectivity and capacity of the pipeline system and, consequently, various other capacity expansion projects are underway (e.g. Roma to Brisbane Pipeline, Moomba to Sydney Pipeline). The development of the LNG export projects in Queensland requires new transmission infrastructure to transport CSG to Gladstone and, depending on routes chosen, may further expand the Eastern Pipeline System. Other than this planned investment, no material expansion of the Eastern Pipeline System is expected in the short to medium term. Growth in gas fired peaking generation (to support wind generation) and new demand in South Australia (e.g. BHP Billiton Limited's ("BHP") Olympic Dam Project) is expected to be met by the expansion of existing pipeline infrastructure (e.g. compression). A number of smaller pipeline projects have been proposed for the Eastern Pipeline System (e.g. Queensland Hunter Pipeline) but there is no certainty that they will proceed.

  Interconnection of the major pipelines in the Eastern Pipeline System has provided energy customers with gas supply alternatives and increased competition between basins for gas supply. For example, while New South Wales has historically relied on gas from the Cooper Basin shipped via the Moomba to Sydney Pipeline, significant gas volume is now shipped to this market via the Eastern Gas Pipeline from the Gippsland Basin. Similarly, the SEA Gas Pipeline now transports as much gas to the South Australian market as the Moomba to Adelaide Pipeline.

  Seven pipelines in the Eastern Pipeline System are covered with four subject to full regulation. Transportation tariffs in the Eastern Pipeline System are estimated to range from $0.26 to $2.00 per GJ (2011 dollars). The range of tariffs reflects a number of factors including when the transportation arrangements were entered into, the relative differences in cost of the infrastructure and the availability of gas from alternative sources.

- **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. In order to meet the demand from the resources sector the system has seen substantial investment in the last 15 years including major expansion of capacity of the Dampier Bunbury Natural Gas Pipeline.

  DUET Group, APA Group and Epic Energy are the major owners and operators in the Western Pipeline System.

  Despite recent investment there is limited spare capacity on the major pipelines in the Western Pipeline System (i.e. Dampier Bunbury Natural Gas Pipeline, Goldfields Gas Pipeline). There is currently some physical (not contractual) capacity on the Pilbara Pipeline System (most of which is expected to become spare capacity in mid 2013) to meet increases in gas demand in the region. The relatively small domestic gas market in Western Australia means that major expansion of the Western Pipeline System depends on the availability of gas resources to meet demand from the LNG export sector and the resources sector more generally. No major new gas demand is projected (other than for power generation) and there are no new pipeline projects currently proposed.

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. Under the current access arrangements the reference tariff rate at 1 January 2012 for the Dampier Bunbury Natural Gas Pipeline is $1.17963 per GJ (2010 dollars) and for the Goldfields Gas Pipeline is $2.85 per GJ. The Pilbara Pipeline System is uncovered.

- **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.

  The small domestic gas market in the Northern Territory means that any major expansion of the Northern Pipeline System depends on increased demand from the LNG export sector. No major new gas demand is projected and there are no new pipeline projects currently proposed (although a subsea transmission pipeline to Darwin is expected if the Ichthys Project is commissioned).

  All pipelines in the Northern Pipeline System, except the Amadeus Gas Pipeline, are uncovered. The Amadeus Gas Pipeline is subject to full regulation with access arrangements recently determined for the period 1 August 2011 to 30 June 2016. Under the access arrangements the reference tariff rate for 2011-2012 is $0.6513 per GJ.

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 Australian gas transmission system.

(iv) Distribution and Retailing

Transmission pipelines connect to gas distribution networks at gate stations. Distribution networks are comprised of high and medium pressure mains which service areas of high demand and transport gas between population concentrations in a distribution area and low pressure pipes which lead off the mains to deliver gas to the end customer. Gas is now reticulated in most Australian capital cities, major regional areas and towns. The main customers of distribution networks are energy retailers.

As gas distribution networks in Australia generally have natural monopoly characteristics, most networks are regulated under the National Gas Law and Rules to ensure that parties can transport gas on reasonable terms and conditions. The major owners of Australian gas distribution networks are Jemena and ASX listed entities DUET Group, APA Group, SP AusNet (52% owned by Singapore Power) and Envestra Limited ("Envestra") (33% owned by APA Group).

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. Retail tariffs have historically been subject to a regulated cap reviewed at regular intervals (usually annually). In general, small consumers (residential and small business) are charged the standard tariff (which the retailer may set equal to or lower than the tariff cap) however larger consumers (commercial and industrial) negotiate tariffs with the retailer. In all states full retail contestability for gas has been implemented. The state governments are committed to the removal of retail price caps for gas where effective competition can be demonstrated. Currently, only New South Wales, South Australia and Western Australia apply some form of retail price regulation.

At October 2011 there were 11 gas retailers active in the mass market. Private retailers dominate the gas market in all states except Tasmania. The major retailers are private companies AGL Energy Limited ("AGL Energy"), Origin Energy Limited ("Origin Energy"), TRUenergy (owned by Hong Kong listed CLP Holdings Limited), Simply Energy (owned by United Kingdom listed International Power plc.) and Alinta (owned by a consortium of investors) and state government owned entities Ergon Energy and Aurora Energy.

4 Profile of Hastings Diversified Utilities Fund

4.1 Background

HDUF was formed by Hastings in mid 2004 as an investment vehicle focused on utility infrastructure assets in Australia and overseas. Its initial investment was a 100% interest in Epic Energy Holdings Pty Limited ("Epic Energy"), the owner operator of three major gas transmission pipeline systems in Australia. In October 2004, Hastings announced the initial public offering of HDUF at an application price of $2.56 per stapled security. The offering raised $379 million which was used to repay acquisition debt and issue expenses. Trading in HDUF stapled securities commenced on 13 December 2004.

In March 2005, HDUF acquired a 50% interest in Mid Kent Water (the fourth largest water only utility in the United Kingdom) for $98 million and in October 2006 acquired a 50% interest in South East Water (the second largest water only utility in the United Kingdom) for $230 million. In December 2007, Mid Kent Water was merged with South East Water to form the second largest water only utility in the United Kingdom. Post transaction HDUF held a 50% voting interest and 38.7% economic interest in South East Water.

In March 2009, HDUF's security price fell sharply reflecting concerns in relation to HDUF's ability to refinance existing HDUF borrowings, the impact of a declining United Kingdom Retail Price Index on South East Water, the potential conversion of its hybrid Trust-issued Adjustable Preferred Securities ("TAPS") and the possible funding requirement for the stage three expansion of Epic Energy's South West Queensland Pipeline. These concerns were confirmed when HDUF announced on 5 March 2009 strategic initiatives to strengthen its capital structure (including the possible divestment of all or part of assets) and a revision of its distribution guidance for 2009 from 28.5 cents per security to 12 cents per security. Following the stabilisation of its capital structure by a $250 million equity raising in July 2009, HDUF completed a strategic review of options to improve securityholder value in 2010. This review directed HDUF's strategy to energy infrastructure and, consequently, South East Water was sold in December 2010.

Today, HDUF is focused on investment in energy infrastructure assets and its sole asset is 100% of Epic Energy which owns and operates three major unregulated gas transmission pipeline systems (which are described in Section 4.3 of this report). Implementation of HDUF's strategy involves the organic growth of Epic Energy's assets and possible investment in infrastructure leveraged to the long term growth of the energy sector. Prior to the announcement of the APA Group Offer, HDUF had a market capitalisation of approximately $940 million.

4.2 Operating Structure

HDUF is a stapled group whereby each stapled security comprises one unit in HDUF Epic Trust, one unit in HDUF Finance Trust and one unit in HDUF Further Investments Trust. The units are "stapled" to each other and trade on the ASX as a single security. The principal activities of the trusts are:

- HDUF Epic Trust: investment in Epic Energy;
- HDUF Finance Trust: provision of finance to the stapled group; and
- HDUF Further Investments: facilitation of further investments.

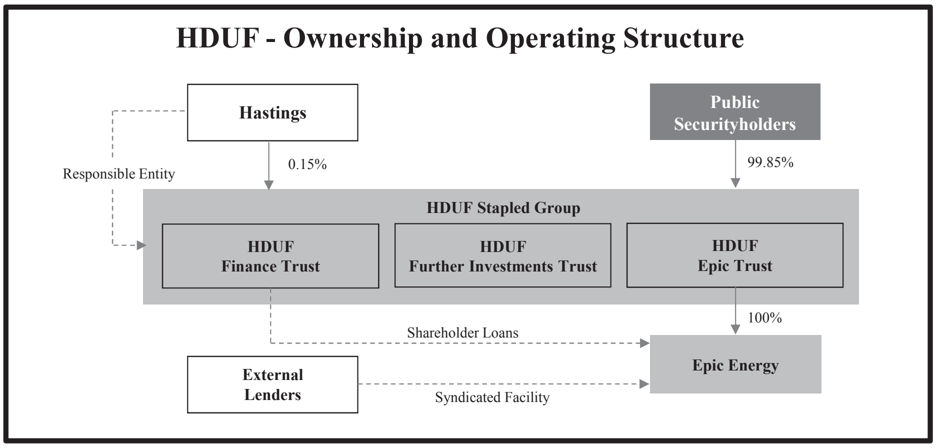
Each of the trusts is established under a constitution under which Hastings is appointed the responsible entity. These constitutions include provisions dealing with (amongst other things) the powers and remuneration of Hastings. The key roles undertaken by Hastings include:

- fund corporate governance (including provision of the Hastings board of directors and a chief executive officer), ASX listing management and stock exchange compliance;
- financial management and administration (including debt and equity management); and
- strategic development (including asset acquisitions and divestments), investor relations and other corporate head office functions.

Hastings has discretion in terms of the quantum of quarterly distributions and the investment, divestment and transfer of assets. Hastings has stated that HDUF will not borrow to pay distributions and distributions will only be paid from operating cash flows.

The Hastings board monitors HDUF on behalf of securityholders and consists of seven directors, four of whom are independent of Westpac. The Epic Energy board is responsible for the operations and performance of its pipeline assets and consists of five directors including three external directors (including the chairman), the Epic Energy chief executive officer and the HDF chief executive officer.

The ownership and operating structure of HDUF is summarised below:



Source: HDUF
Note: Hastings is a subsidiary of Westpac which has a 8.1% direct interest and a 8.97% relevant interest in HDUF.

HDUF Epic Trust is taxed as a public company trading trust (i.e. effectively treated as a company for tax purposes) and distributions to securityholders are in the form of unit trust distributions that may be franked to the extent franking credits are available. Distributions from HDUF Finance and HDUF Investments may include income, capital gains and tax deferred amounts (i.e. an amount paid out of the excess of operating income of the trust over the net income for tax purposes).

Each trust is liable for all proper and reasonable expenses incurred in relation to its operation. Expenses may be paid directly by HDUF, or be paid by Hastings and recovered from HDUF. In addition, HDUF pays Hastings the following fees for services provided:

HDUF – Hastings Fee Structure

Fee Type	Purpose	Basis
Management	■ for provision of investment management and administration services	■ 1.00% per annum of the market capitalisation of HDUF excluding any distributions payable to securityholders. Calculated quarterly and paid quarterly in arrears
Incentive	■ for managing HDUF's investments provided specified performance benchmarks are met	■ 20% of HDUF's return in excess of the S&P/ASX 200 Industrial Accumulation Index return for each half financial year. Calculated and payable six monthly in arrears or the period that ends on the date Hastings ceases to be responsible entity or the fund terminates. If the fund return is less than the return on the S&P/ASX 200 Industrial Accumulation Index in any half financial year, the deficit amount is carried forward and taken into account in calculating whether a fee is payable in subsequent periods

Source: HDUF

Management and incentive fees are payable in cash but, subject to securityholder approval, can be paid through the issue of HDUF stapled securities. In February 2011 Hastings obtained securityholder approval to enable any management or incentive fee payable in respect of any period ending on or after 31 December 2010 and up to and including 31 December 2013 to be payable in securities should Hastings elect to do so (effectively reinstating the fee payment arrangements agreed at listing). The issue price for securities is the volume weighted average price for the security for all sales on ASX for the period of 15 business days immediately before the date of issue, subject to a minimum price of $2.56. Hastings has deferred and waived fees at various times since listing.

In accordance with the Corporations Act, if Hastings wishes to retire as responsible entity, it must call a meeting of securityholders to explain its reasons and enable securityholders to select a new responsible entity by ordinary resolution. Furthermore, Hastings may be removed as responsible entity and a new responsible entity appointed by an ordinary resolution of securityholders. If either of these events occur:

- all fees or amounts owing to Hastings (including deferred fees) become due and payable; and
- the lenders to Epic Energy are entitled to demand early repayment of their facilities (refer Section 4.6).

4.3 Epic Energy

Epic Energy owns three major gas transmission pipeline systems in Australia: the Moomba to Adelaide Pipeline System ("MAPS"), the South West Queensland Pipeline (including the QSN Link) ("SWQP") and the Pilbara Pipeline System ("PPS"). In addition, it owns and operates a 70 kilometre pipeline in South Australia, the South East Pipeline ("SEP"). None of these transmission systems are covered for the purposes of the National Gas Law and Rules.

Epic Energy currently has around 140 employees[20] and conducts its own operations and maintenance except in relation to the PPS which is outsourced under contract. Epic Energy's head office and pipeline control room is located in Melbourne and it has facilities in northern Adelaide, regional South Australia and at Wallumbilla, Queensland, which are used as depots for the maintenance and engineering activities of its pipelines.

The key features of each of Epic Energy's assets are described below:

- **Moomba to Adelaide Pipeline System**

  The MAPS is one of Australia's largest pipeline systems covering 1,184 kilometres (including laterals) and transports gas from the Cooper Basin and various Queensland CSG fields (via the SWQP) to Adelaide and to South Australian regional centres.

  The MAPS mainline was built in 1968 and is an 858 kilometre pipeline connecting Moomba to Adelaide. There are five looped sections totalling 76 kilometres and seven compressor stations (four currently active) on the mainline. The mainline is currently configured to deliver a maximum capacity of approximately 240TJ[21] per day (88PJ per annum). However, this capacity can be increased to around 330TJ per day (120PJ per annum) by reinstating three mothballed mainline compressor stations. Recent integrity surveys show that MAPS continues to meet required operating standards and with regular maintenance is projected to have a long term remaining useful life.

  The demand for gas transportation services via the MAPS comes from the South Australian market, primarily for power generation but also from the retail and industrial commercial markets. Customers include integrated energy companies Origin Energy and AGL Energy, power generators (including International Power Australia) and industrial users such as Arrium Limited and Adelaide Brighton Cement Limited. A number of power stations connect directly to the MAPS including Hallett Power Station, Osborne Cogeneration Plant, Torrens

[20] On a full time equivalent basis.
[21] TJ = terrajoule

Island Power Station, Quarantine Power Station, Pelican Point Power Station, Dry Creek Power Station and Mintaro Power Station.

The MAPS has two major laterals:

- the 78 kilometre Port Pirie/Whyalla Lateral which has a maximum capacity of 24TJ per day (9PJ per annum) and delivers gas to industrial users in Whyalla (including Arrium Limited) and to the Whyalla township; and
- the 39 kilometre Angaston Lateral which has a maximum capacity of 18TJ per day (7PJ per annum) and primarily delivers gas to users in the Riverland area of South Australia and to the Riverland Pipeline (owned by Envestra) which supplies users in Berri, Murray Bridge and Mildura.

Capacity on the MAPS is highly contracted (in excess of 85% in its current configuration) with the majority of existing contracted volume expiring in the period 2015 to 2020 with one contract continuing beyond 2030.

The MAPS faces competition from the SEA Gas Pipeline (owned by APA Group and Retail Employees Superannuation Trust) which delivers gas from the Otway and Bass Basins to the South Australian market.

Gas demand in South Australia is projected to grow driven primarily by strong growth (2.5% per annum to 2035) in gas fired electricity generation (i.e. additional gas-fired power stations and increased utilisation of existing installed capacity). In particular, South Australia's growing reliance on intermittent wind powered generation is expected to increase the demand for gas for peaking generation. The proposed expansion of BHP's Olympic Dam Project represents a substantial potential increase in gas demand in the South Australian market due to the project's significant electricity requirements. Government approvals have been received for the project and BHP is expected to make a final investment decision during 2012 with gas potentially required to be delivered post 2017.

MAPS is considered to be well placed to capture the growth opportunities in the South Australian market:

- due to its ability to deliver gas sourced from both the Cooper Basin and the Queensland CSG fields;
- due to its ability to increase its capacity by around 40% at a relatively modest cost by reinstating mothballed compressors;
- as the SEA Gas Pipeline is substantially contracted to 2018; and
- as, in the absence of significant resource discoveries in the Otway and Bass Basins, there is expected to be limited southern gas available to supply to South Australia.

▪ **South West Queensland Pipeline**

The SWQP is a gas transmission pipeline system connecting Wallumbilla in Queensland to Moomba in north eastern South Australia.

The SWQP was originally built in 1996 as an eastern haul 755 kilometre pipeline to deliver gas from the Cooper Basin to Wallumbilla. In 2007 gas flow was reversed to allow Queensland CSG to be delivered from Wallumbilla to Ballera, Queensland. The SWQP has been expanded twice:

- the stage one expansion was completed in January 2009 and involved the installation of two compressor stations and construction of the QSN Link, a 182 kilometre pipeline between Ballera and Moomba connecting the SWQP to the MAPS and to the Moomba to Sydney Pipeline; and
- the stage three expansion was completed in December 2011 and involved the installation of an additional compressor station and construction of a 937 kilometre duplication of the SWQP (including the QSN Link). This expansion was underpinned by long term gas transmission contracts with Origin Energy and AGL Energy.

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Today, the SWQP is a 937 kilometre long duplicated pipeline. It is currently configured to deliver a partly compressed western haul maximum capacity of approximately 385TJ per day (140PJ per annum) and, in order to meet existing contractual commitments, during 2014 it will be reconfigured to operate bi-directionally with (in addition to its western haul capacity) partly compressed eastern haul maximum capacity of 330TJ per day (120PJ per annum). On this basis, the SWQP will be able to transport gas:

- west from various Queensland CSG fields to Moomba allowing gas to be delivered to markets in South Australia (via the MAPS), to markets in New South Wales and Australian Capital Territory (via APA Group's Moomba to Sydney Pipeline) and to Mount Isa (via APA Group's Carpentaria Gas Pipeline);
- east from the Cooper Basin from Moomba to markets in Brisbane (via APA Group's Roma to Brisbane Pipeline) and Gladstone (via Jemena's Queensland Gas Pipeline); and
- other existing connections to the LNG export pipelines currently under construction.

The expanded SWQP has potential fully compressed capacity of around 700TJ per day (256PJ per annum) western haul and around 600TJ per day (219PJ per annum) eastern haul.

The SWQP is a relatively new pipeline system. Recent integrity surveys showed no issues of concern with no major capital expenditure required to maintain its current capacity over the long term.

Demand for gas transportation services via the SWQP is driven by the demand dynamics in Queensland (primarily the industrial, power generation and (post 2014) LNG export segments), New South Wales (primarily the retail and commercial segments), South Australia (primarily the power generation segment) and Mount Isa (power generation and industrial). Despite not being connected directly to any market, the SWQP competes with third party pipelines to deliver gas into most of the markets it serves. In New South Wales and Australian Capital Territory it competes with the Eastern Gas Pipeline and in South Australia with the SEA Gas Pipeline.

The capacity of the SWQP is highly contracted. It is 100% contracted in a western haul direction until 2015 and then significantly contracted out to 2030 and around one third contracted beyond 2030. From 2015, existing eastern haul capacity is fully contracted for up to 15 years as a consequence of the Santos Easternhaul contract (147TJ per day of firm capacity) and the December 2011 exercise of an existing option for capacity.

Prospective gas transportation demand will be driven by the Queensland, New South Wales and South Australia markets. In this regard:

- Queensland is expected to experience the fastest rate of growth in gas consumption to 2035 primarily driven by the power generation segment. Separately, the Queensland LNG export projects will create significant additional demand. Although most of this gas is expected to bypass the SWQP (i.e. be sourced directly from Queensland CSG fields through dedicated LNG pipelines), it is likely that the Queensland LNG projects will seek to diversify gas supply sources and this gas will likely flow east through the SWQP as it is the only pipeline currently able to deliver gas into Queensland;
- gas demand in New South Wales and the Australian Capital Territory is expected to continue to grow out to 2035, primarily driven by the power generation segment. The SWQP is well placed to deliver gas to these markets due to its interconnection with the Moomba to Sydney Pipeline. However, there is some (albeit limited) bypass risk should the proposed Bulla Park Pipeline (connecting Wallumbilla to Bulla in New South Wales) or the Queensland Hunter Gas Pipeline (connecting Wallumbilla to Newcastle) be constructed; and
- as the SWQP delivers gas to the MAPS for delivery to the South Australian market the demand outlook in the South Australian market is as previously discussed for MAPS.

The SWQP is considered to be well positioned to meet future demand for gas transportation and storage in eastern Australia (including the Queensland LNG export projects) given:

- its strategic location in the Eastern Pipeline System;
- options within existing gas transportation agreements;
- its bi-directional nature (by mid 2014);
- the ability to increase capacity significantly by compression and/or looping; and
- the possible development of the substantial shale gas resource in the Cooper Basin.

- **Pilbara Pipeline System**

The PPS is a gas transmission system in the Pilbara region of Western Australia that transports gas produced from the offshore Carnarvon Basin. It was commissioned in 1996 and today comprises a mainline, an extension and two laterals:

- Pilbara Energy Pipeline: a 219 kilometre mainline from a connection point to the Dampier to Bunbury Natural Gas Pipeline and to the Burrup Extension Pipeline (at the Karratha Inlet Station) to just outside Port Hedland. It has an uncompressed capacity of around 180TJ per day (66PJ per annum). It delivers gas to power stations outside Karratha and Port Hedland, mining operations at Wodgina and Whim Creek and to the Telfer Gas Pipeline (owned by Energy Infrastructure Investments) for on shipping to the Telfer Mine. There is potential to increase the pipeline's capacity with compression and/or looping;
- Burrup Extension Pipeline: a 24 kilometre lateral delivering gas from the North West Shelf Joint Venture's processing plant at Dampier to the Karratha Inlet Station and the commencement point of the Pilbara Energy Pipeline;
- Wodgina Lateral: an 80 kilometre lateral which connects the Pilbara Energy Pipeline with the Talison tantalum mine at Wodgina (now serving Atlas Iron's Wodgina operation); and
- Horizon Power Lateral: five kilometre pipeline delivering gas to the new Horizon Energy power station outside Karratha.

The PPS is not expected to require major ongoing capital expenditure requirements to maintain its current capacity over the long term.

Demand for gas transportation services on the PPS comes primarily from the iron ore mining industry in the Pilbara region and the region's power stations. The PPS is fully contracted to mid 2013. Revenue is underpinned by a take-or-pay contract with BHP's Boodarie hot briquetted iron plant (which was decommissioned in 2005) with remaining capacity contracted to Horizon Power, Newcrest Mining, Talison, Birla Nifty and Dampier Bunbury Pipeline. When BHP's contract expires in 2013, it is expected that the contract will be renewed but on significantly lower volumes in support of local power generation needs and Epic Energy will seek to mitigate the impact on revenue.

With excess capacity from August 2013 and the ability to increase capacity through compression and/or looping, the PPS is well positioned to meet future demand for gas transportation in the Pilbara.

- **South East Pipeline**

The SEP is a gas transmission pipeline that delivers gas to Snuggery and Mount Gambier from the Katnook gas processing plant near Penola, south eastern South Australia and from the SEA Gas pipeline via the South East South Australia Pipeline (owned by APA Group). The mainline was built in 1991 and is 70km long. Capacity ranges from 12 to 15TJ per day depending on the delivery points and is uncompressed.

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4.4 **Financial Performance**

The financial performance of HDUF for the five years ended 31 December 2011 is summarised below. Following the divestment of South East Water and redemption of the TAPS during 2010, HDUF's consolidated EBIT[22] represents Epic Energy's operating earnings net of responsible entity fees and other fund operating expenses. To assist analysis, Epic Energy's operating earnings have been shown separately.

HDUF - Financial Performance ($ millions)

	Year ended 31 December				
	2007 actual	2008 actual	2009 actual	2010 actual	2011 actual
Epic Energy operating revenue	**91.3**	**95.5**	**119.6**	**134.9**	**141.6**
Epic Energy EBITDA[23]	**66.5**	**68.0**	**89.3**	**98.6**	**105.6**
Depreciation and amortisation	(16.6)	(16.4)	(20.2)	(21.9)	(21.9)
Epic Energy EBIT	**49.9**	**51.6**	**69.1**	**76.7**	**83.8**
Responsible entity management fees	(6.3)	(5.1)	(3.3)	(5.9)	(8.3)
Other fund operating expenses	(2.2)	(2.8)	(3.3)	(3.0)	(1.4)
Consolidated EBIT[24]	**41.4**	**43.7**	**62.5**	**67.8**	**74.0**
Net interest expense	(36.6)	(24.6)	(33.2)	(29.4)	(19.9)
Income from South East Water	20.3	13.9	9.7	12.7	-
Realised and unrealised losses (South East Water)	(8.0)	(12.7)	(66.3)	(43.9)	-
Realised and unrealised gains/(losses) on derivatives and cash and cash equivalents	9.9	(7.1)	4.8	(12.2)	(15.6)
Trustee management fees (TAPS Trust)	(1.2)	(1.0)	(0.5)	-	-
Responsible entity incentive fees	-	(18.4)	-	(22.4)	(57.3)
Other income and non-recurring items	(3.5)[25]	0.1	0.1	1.1	0.5
Operating profit before tax	**22.3**	**(6.1)**	**(22.9)**	**(26.3)**	**(18.3)**
Income tax expense	(6.2)	(5.7)	(5.7)	(10.7)	(11.6)
Profit after tax attributable to HDUF securityholders	**16.1**	**(11.8)**	**(28.6)**	**(37.0)**	**(29.9)**
HDUF Statistics					
Basic earnings per security	*8.8¢*	*(5.6)¢*	*(8.6)¢*	*(7.3)¢*	*(5.7)¢*
Distributions per security	*26.9¢*	*28.0¢*	*12.0¢*	*12.0¢*	*10.0¢*
Tax deferred proportion of distribution	*68%*	*100%*	*61%*	*83%*	*100%*
Distribution cover[26]	*102%*	*97%*	*159%*	*136%*	*111%*
Consolidated EBIT growth	*0.8%*	*6.3%*	*45.2%*	*9.2%*	*9.2%*
Interest cover[27]	*1.0x*	*1.6x*	*1.9x*	*2.3x*	*3.7x*
Epic Energy Statistics					
Operating revenue growth	*3.6%*	*4.5%*	*25.2%*	*12.8%*	*4.9%*
Operating expense growth	*5.1%*	*10.8%*	*10.1%*	*20.0%*	*(1.1%)*
EBITDA growth	*3.1%*	*2.2%*	*31.4%*	*10.5%*	*7.2%*
EBIT growth	*3.3%*	*3.3%*	*34.0%*	*11.0%*	*9.3%*
EBITDA margin	*72.8%*	*71.2%*	*74.7%*	*73.1%*	*74.6%*
EBIT margin	*54.7%*	*54.0%*	*57.8%*	*56.8%*	*59.2%*
Capital expenditure ($ millions):					
- Maintenance	*5.1*	*5.2*	*3.7*	*3.8*	*5.2*
- Growth	*5.1*	*123.5*	*70.4*	*424.7*	*347.6*

Source: HDUF and Grant Samuel analysis

22 EBIT is earnings before net interest, tax, income from South East Water, realised and unrealised gains and losses, incentive fees and other income and non-recurring items.

23 Epic Energy EBITDA is earnings before net interest, tax, depreciation and amortisation, income from South East Water, realised and unrealised gains and losses, incentive fees, other income and non-recurring items, management fees and other fund operating expenses.

24 Consolidated EBIT does not agree to the pro forma EBIT for the period 2008 to 2011 as set out in Section 6.2 of HDUF's Target Statement dated 20 January 2012 as Grant Samuel has identified additional items to be excluded as other income and non-recurring items.

25 Including $5.4 million in investment expenses associated with the merger of South East Water and Middle Kent Water.

26 Calculated as cash available for distribution (i.e. underlying operating revenue and investment receipts less operating expenses, interest expense and tax paid and after working capital movements and maintenance capital expenditure but excluding incentive fees) divided by the distribution declared for the year. In 2011 interest received on HDUF cash holdings has also been excluded from the calculation.

27 Interest cover is Consolidated EBIT divided by net interest.

22

During this period HDUF has focussed on the organic growth of Epic Energy (reflected in the growth in operating revenue and EBIT), on strengthening the stapled group's capital structure (reflected in the increase in interest cover), on realigning its investment strategy to energy infrastructure (i.e. divested South East Water) and on delivering the SWQP Stage 3 Expansion.

Epic Energy's operating revenue primarily relates to contracted gas transmission revenue but also includes pipeline projects, maintenance and other operating income. The increase in revenue in 2009 reflects the commencement of gas haulage associated with commissioning of the QSN Link in January 2009 and in 2010 reflects the combination of annual inflation adjustment to transmission agreements, an increase in uncontracted gas transmission revenue and a small number of additional capacity contracts. Epic Energy's operating margins have increased since the commissioning of the QSN Link reflecting the increase in gas transmission revenue but low incremental costs.

Epic Energy's capital expenditure in the period is substantially growth related and reflects the construction of the QSN Link between 2007 and 2009 ($175 million project) and the stage three expansion of the SWQP between 2009 and 2011 ($860 million project).

During the period HDUF has paid Hastings responsible entity fees as follows:

HDUF – Responsible Entity Fees ($ millions)

	Year ended 31 December				
	2007 actual	2008 actual	2009 actual	2010 actual	2011 actual
Management fees – HDUF	6.3	5.1	3.3	5.9	8.3
Management fees – TAPS Trust	1.2	1.0	0.5	-	-
Incentive fees - HDUF	-	18.4	-	22.4	57.3
Total	**7.4**	**24.5**	**3.8**	**28.2**	**65.6**

Source: HDUF

Prior to 1 January 2010 responsible entity management fees were settled by the issue of HDUF securities and subsequently they have been cash settled. In July 2009 Hastings waived until July 2011 the additional fees it was entitled to receive in relation to the $80 million capital raising completed in that month ($2.4 million pre GST).

Prior to 2011 trustee management fees were paid to Hastings in relation to the TAPS Trust which had been established for the purposes of financing water acquisitions including South East Water. HDUF redeemed its TAPS during 2010 and wound up the TAPS Trust. In addition, in July 2009 Hastings decided to rebate until 30 June 2011 trustee fees it was entitled to receive in relation to the TAPS Trust (in aggregate $1.1 million pre GST).

Incentive fees paid in 2008 and 2010 and for the six months ended 30 June 2011 ($2.1 million) were settled by the issue of HDUF securities at an issue price of $2.56. The incentive fee for the six months ended 31 December 2011 was $54.1 million (pre GST). Hastings decided to take $30.7 million of the fee in cash (pre GST) and to defer its decision regarding payment of the balance ($23.4 million) as it relates to the fee accrued in the period after the APA Group Offer was made on 14 December 2011. When considering payment of the deferred incentive fee Hastings intends to take into account the sustained performance of HDUF and whether control of HDUF has changed (or is likely to change) or whether HDUF has undergone (or is likely to undergo) a change of responsible entity.

Other fund operating expenses include listed company costs and corporate costs such as legal, audit and tax fees. The decrease in 2011 reflects the change in HDUF's activities following divestment of South East Water in December 2010.
Realised and unrealised losses (South East Water) in 2009 relates to the recognition of a $63.4 million unrealised loss based on an independent valuation and in 2010 relates to the sale of HDUF's interest in South East Water for £124.5 million for a realised loss of $39.6 million.

Distributions are paid quarterly out of free operating cash flow (i.e. underlying operating revenue and investment receipts less operating expenses, interest expense and tax paid and after working capital movements and maintenance capital expenditure but excluding incentive fees). In recent years distributions have been less than the cash available for distribution. HDUF's distributions decreased to 12 cents per stapled security in 2009 following the decision to strengthen HDUF's capital structure and the potential expansion of the SWQP. In 2011 distributions decreased to 10 cents per security reflecting reduced operating cash flow following the divestment of South East Water and contributions to the stage three expansion of the SWQP. In recent years a significant proportion of distributions paid have been tax deferred and, therefore, effectively tax free to securityholders (although the securityholder's cost base is reduced by the deferred amount).

Outlook

The SWQP Stage 3 Expansion was completed in December 2011 and contracted gas flows commenced 1 January 2012. Consequently, Epic Energy's historical performance is not reflective of its future financial performance which will include the financial benefits of this expansion project.

HDUF has not publicly released earnings forecasts for the year ending 31 December 2012 or beyond. However, HDUF has recently provided the following information:

- in its Target's Statement dated 20 January 2012 HDUF stated "The recent completion of the SWQP Stage 3 Expansion *[footnote: Subject to final administrative sign off processes that are expected to occur in 2012]*, the commencement in 2015 of the Santos Easternhaul GTA and a new $460 million contract in respect of SWQP for a period of up to 15 years commencing in 2015 will provide significantly higher revenue growth in the short term (2012 to 2014) to medium term (2015 to 2017) with only modest additional capital expenditure. This is expected to translate into material distributable cash flow growth from 2015…". In this regard, HDUF has projected contracted revenues to grow at 10.4% per annum to 31 December 2015;
- on 22 February 2012 HDUF stated that the refinancing of Epic Energy's external debt would have an immediate cash flow benefit as a result of interest cost savings of approximately $20-25 million per year to 2015. Financial close of the refinancing was announced on 26 March 2012;
- on 24 February 2012 HDUF advised:
  - an annual distribution of 10 cents per security for 2012 paid quarterly; and
  - distributions are expected to rise 1-2 cents per security in 2013; and
- an incentive fee of $55.9 million (pre GST) is payable to Hastings for the six months ended 30 June 2012. In view of the current corporate activity, Hastings has decided to defer its decision regarding payment of this amount. When considering payment of this fee, Hastings intends to take into account the same factors as for the deferred incentive fee for the six months ended 31 December 2011.

In order to provide an indication of the expected future financial performance of HDUF, Grant Samuel has considered brokers' forecasts for HDUF as follows:

HDUF – Future Financial Performance ($ millions)

	Year end 31 December			
	2011 actual	Broker Consensus (Median)		
		2012	2013	2014
Epic Energy operating revenue	141.6	202.0	218.0	232.4
Epic Energy EBITDA	105.6	156.0	175.0	186.7
Consolidated EBIT	74.0	110.6	125.7	136.0
Earnings per security (cents)	(5.7)¢	4.2¢	4.8¢	7.6¢
Distribution per security (cents)	10.0¢	10.0¢	11.5¢	12.1¢

Source: Grant Samuel analysis (see Appendix 1)

The step up in operating earnings in 2012 reflects completion of the SWQP Stage 3 Expansion. In Grant Samuel's opinion, the broker consensus forecasts are sufficiently close to the forward looking information to be useful for analytical purposes. However, as indicated by HDUF's guidance summarised above, there is further contracted revenue growth to emerge in the period 2015 to 2017.

4.5 Financial Position

The reported consolidated financial positions of Epic Energy and HDUF at 31 December 2011 are summarised below:

Consolidated Financial Position at 31 December 2011 ($ millions)	Epic Energy	HDUF[28]
Trade receivables	14.3	17.5
Stores and spares held for maintenance	1.8	1.8
Creditors, accruals and provisions	(39.9)	(41.4)
Net working capital	**(23.8)**	**(22.1)**
Property, plant and equipment (net)	1,551.7	1,551.7
Finance lease receivable	17.7	17.7
Capitalised borrowing costs	10.0	10.0
Derivative securities	(90.8)	(127.1)
Deferred tax liability	(12.8)	(12.8)
Other non-current liabilities	(1.4)	(1.5)
Distribution payable[29]	-	(13.3)
Responsible entity incentive fee[30]	-	(31.5)
Deferred responsible entity incentive fee	-	(23.4)
Total funds employed	**1,450.6**	**1,347.7**
Cash and deposits	66.9	299.8
External borrowings[31] (secured)	(1,189.2)	(1,189.2)
Subordinated loans[32] (unsecured)	(253.2)	-
Net borrowings	**(1,375.5)**	**(889.4)**
Net assets attributable to securityholders	**75.1**	**458.3**
Statistics		
Securities on issue at period end (million)		*530.0*
Net assets per security		*$0.86*
NTA[33] per security		*$0.86*
Book gearing[34]		*66.1%*
Market gearing[35]		*45.1%*

Source: HDUF and Grant Samuel analysis

Property, plant and equipment (net) mainly reflects the net written down value of pipelines, meter stations, compressor stations and other items of gas transmission equipment. Finance lease receivable relates to:

- an arrangement to provide a lateral to a customer in Western Australia which expires in 2013;
- an arrangement to dispose of a portion of the Burrup Extension Pipeline in Western Australia to a customer which expires in 2030, with a renewal option to take the lease to 2050.

Derivative securities include:

- interest rate swap contracts ($90.8 million liability) to hedge Epic Energy's exposure to interest rate risk; and

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28 For analysis purposes, Grant Samuel has adjusted HDUF's reported consolidated financial position as follows:
- accrued interest payable has been moved from borrowings to creditors, accruals and provisions in net working capital; and
- capitalised borrowing costs have been increased from $9.6 million to $10 million (in accordance with Epic Energy's audited financial position) with the adjustment reflected in creditors, accruals and provisions in net working capital.

29 The 2.5 cent per security distribution for the quarter ended 31 December 2011 which was paid on 30 January 2012.

30 Responsible entity incentive fee for 2011 paid in cash after year end.

31 Before capitalised borrowing costs.

32 The subordinated loans are provided by Epic Finance Trust to Epic Energy and eliminate on consolidation.

33 NTA is net tangible assets, which is calculated as net assets less intangible assets.

34 Book gearing is net borrowings divided by net assets plus net borrowings.

35 Market gearing is net borrowings divided by HDUF's market capitalisation at period end plus net borrowings.

- 48.6 million warrants ($36.2 million liability) issued in two tranches in December 2009 in connection with the Mezzanine Loan Note Facility. The exercise period for the warrants commenced 1 January 2012 and on 2 April 2012 HDUF received a warrant call notice for payment of all outstanding warrants. The total cash settlement amount of $41.8 million was paid on 25 June 2012.

At 31 December 2011 $66.9 million of cash and deposits related to Epic Energy and the remainder ($232.9 million) related to HDUF. All external borrowings are secured and relate to Epic Energy as follows:

Epic Energy – External Borrowings ($ millions)

Facility	As at 31 December 2011 Amount Committed	As at 31 December 2011 Amount Drawn	Maturity
Syndicated Facility	396.3	367.0[36]	Jan 2013
Lease Facility	51.1	51.1	Various to 2019
SWQP Stage 3 Expansion Facility	560.0	545.0	Jan 2014/2015
Mezzanine Loan Note Facility	200.0	226.1[37]	Dec 2019
	1,207.4	**1,189.2**	

Source: HDUF and Grant Samuel analysis

In addition, HDUF Finance Trust provides unsecured subordinated debt finance to Epic Energy. At 31 December 2011 four loans totalling $253.2 million were provided with terms between eight and ten years.

At 31 December 2011 HDUF had no unaccrued capital commitments (following practical completion of the SWQP Stage 3 Expansion) and disclosed the following contingent assets and liabilities:

- a financial assurance bond with the State of Queensland to undertake environmental remediation work at the end of the useful economic life of the SWQP Stage 3 expansion;
- a guarantee to the North West Shelf Venturers in relation to the performance of Epic Energy;
- a cross default mechanism between lease and senior debt facilities[38]; and
- the requirements of the Australian Commonwealth's Clean Energy Act 2011.

Under the Australian tax consolidation regime, Epic Energy and its wholly owned Australian resident subsidiaries have elected to be taxed as a single entity. At 31 December 2011, Epic Energy had carried forward income tax losses of approximately $164 million ($49.2 million of tax shield), all of which were recognised in the balance sheet. At 31 December 2011, Epic Energy had approximately $0.4 million of accumulated franking credits. In addition, HDUF Finance Trust has carried forward income tax losses of approximately $43.1 million ($12.9 million of tax shield), none of which are recognised in the balance sheet.

36 At 31 December 2011 the amortising lease equity letter of credit facility (a component of the Syndicated Facility) was drawn to $15.8 million but for accounting purposes is not recognised as an interest bearing liability.

37 Inclusive of capitalised interest and CPI indexation.

38 The cross default mechanism was eliminated on the refinancing of Epic Energy's external borrowings in March 2012.

4.6 Net Borrowings at 30 June 2012

As at 30 June 2012 the net borrowings (before capitalised borrowing costs) of Epic Energy and HDUF were as follows:

Net Borrowings at 30 June 2012 ($ millions)		
	Epic Energy	**HDUF (consolidated)**
Cash and deposits	41.9	127.6
External borrowings (secured)	(1,325.0)	(1,325.0)
Subordinated loans (unsecured)	(308.3)	-
Net borrowings	**(1,591.4)**	**(1,197.4)**

Source: HDUF and Grant Samuel analysis

At 30 June 2012 HDUF had cash and deposits totalling $127.6 of which $41.9 million related to Epic Energy.

External borrowings were refinanced in March 2012 when Epic Energy entered into new senior debt facilities (consisting of three tranches and a revolving facility totalling $1,375 million) with eight financial institutions. At 30 June 2012 Epic Energy's external borrowings were:

Epic Energy – External Borrowings ($ millions)			
Facility	**As at 30 June 2012**		**Maturity**
	Amount Committed	**Amount Drawn**	
Syndicated			
- Bridge Facility	250.0	250.0	Sept 2013
- Term Facility A	720.0	720.0	Mar 2015
- Term Facility B	355.0	355.0	Mar 2016
- Revolving Facility	50.0	-	Mar 2015
Total	**1,375.0**	**1,325.0**	

Source: HDUF and Grant Samuel analysis

The terms of the new facility provide Epic Energy with improved operational flexibility and include standard market terms. These terms include change of control provisions that provide lenders with the ability to review continuation of the facilities under a change of control including:

- where Hastings ceases to be the responsible entity of HDUF Epic Trust; and
- where any person directly or indirectly acquires a legal or beneficial interest or relevant interest in more than of 75% of the securities in HDUF or HDUF Epic Trust or otherwise acquires control of HDUF or HDUF Epic Trust.

If these provisions are triggered and early repayment is demanded then, in addition to being required to repay some or all of the outstanding amount of principal and any accrued interest, it is possible that certain additional payment obligations may arise including the close out of interest rate swap positions.

In addition, at 30 June 2012 HDUF Finance Trust had extended subordinated loans totalling $308.3 million to Epic Energy.

The interest rate swap contracts in place at 31 December 2011 were closed out and new interest rate swaps entered into on the refinancing in March and April 2012. At 30 June 2012 Epic Energy's interest rate swap contracts had a net market value of $30.8 million (liability). Epic Energy has also entered into forward currency contracts to cover scheduled capital expenditure. At 30 June 2012 these forward contracts had a net market value of $0.3 million (asset).

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4.7 Capital Structure and Ownership

At 30 June 2012, HDUF had 530,001,072 stapled securities on issue and 7,781 registered securityholders. The top twenty securityholders account for 74% of securities on issue and, other than APA Group and Westpac, are principally institutional nominee or custodian companies or listed investment companies. HDUF has received substantial securityholder notices as follows:

HDUF - Substantial Securityholders			
	Date of Notice	Number of Securities	Percentage
APA Group	15 December 2011	109,767,286	20.71%
Westpac[39]	16 March 2011	47,472,494	8.97%
BT Investment Management Limited[39]	16 March 2011	47,472,494	8.97%
Pipeline Partners[40]	19 July 2012	42,952,129	8.10%
Morgan Stanley & Co. International plc[41]	27 July 2012	33,229,996	6.27%
Mitsubishi-UFJ Financial Group, Inc[41]	30 July 2012	33,229,996	6.27%
Australian Foundation Investment Company Ltd	3 April 2012	26,854,670	5.07%

Source: HDUF

APA Group commenced acquiring an interest in HDUF in October 2009 and became a substantial securityholder on 8 April 2010 when it acquired 51.6 million securities on market at a price of $1.40 per security. Subsequently, it has acquired securities on market and participated in HDUF's currently suspended distribution reinvestment plan. Westpac's relevant interest includes a direct interest of 8.1% (mainly acquired from Hastings), Hastings' direct interest of 0.15% and the interests of other related institutional companies (e.g. Asgard Capital Management, BT Investment Management Limited).

HDUF has a significant retail investor base with 64% of securityholders holding 10,000 or less securities although this represents less than 5% of securities on issue. HDUF securityholders are predominantly Australian based investors.

4.8 Security Price Performance

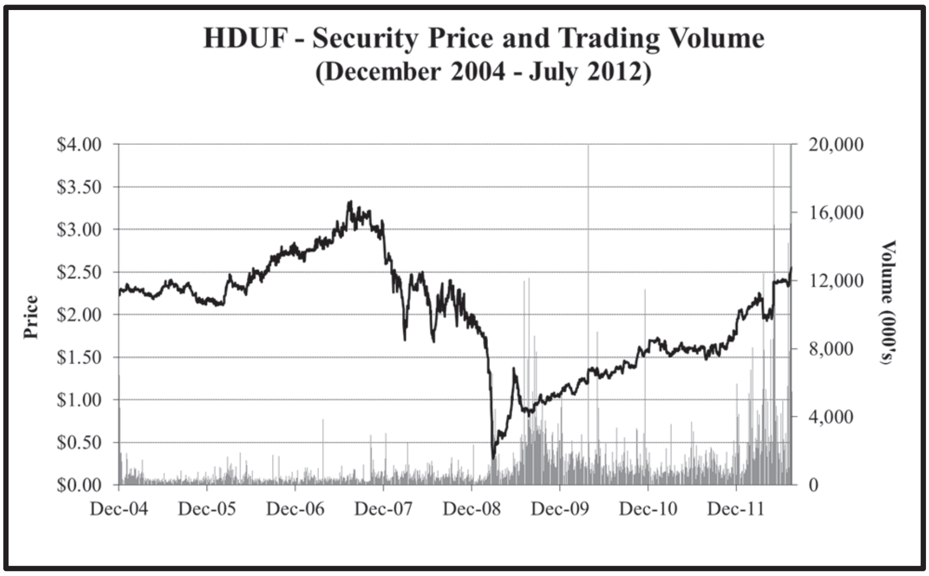
A summary of the price and trading history of HDUF since listing is set out below:

HDUF - Security Price History					
	Security Price ($)			Average Weekly Volume (000's)	Average Weekly Transactions
	High	Low	Close		
Year ended 31 December					
2004 (from 13 December)	2.31	2.22	2.29	10,520	880
2005	2.42	2.11	2.16	1,628	345
2006	2.84	2.10	2.68	1,724	701
2007	3.40	2.48	2.64	2,007	1,280
2008	2.78	1.61	1.92	2,490	2,195
2009	1.97	0.26	1.10	8,841	2,509
2010	1.73	1.06	1.69	6,707	2,427
2011	2.08	1.30	2.05	4,725	3,806
Quarter ended					
31 March 2012	2.25	1.93	2.11	10,413	4,551
30 June 2012	2.44	1.90	2.40	17,329	3,698
Month ended					
31 July 2012 (to 27 July)	2.55	2.29	2.55	39,443	2,748

Source: IRESS
Note: Security prices are on an adjusted basis reflecting the entitlements offer of July 2009.

39 As BT Investment Management Limited is an associate of Westpac, it has a relevant interest in the same securities.
40 As Westpac has entered into a Pre-Bid Acceptance Deed with Pipeline Partners for its 8.1% direct interest, Pipeline Partners has a relevant interest in those securities.
41 As Mitsubishi-UFJ Financial Group, Inc. is an associate of Morgan Stanley, it has a relevant interest in the same securities.

HDUF traded broadly around its issue price of $2.56 in the 18 months after listing. In mid 2006 the security price increased generally mirroring the market (particularly given increased corporate activity in the utilities infrastructure sector) and reached a record high of $3.87 in intraday trade on 16 October 2007. On 19 October 2007 HDUF raised $92 million in an institutional placement and security purchase plan at a price of $3.43 per security to refinance debt facilities associated with the acquisition of South East Water and provide flexibility for future growth:



Source: IRESS

Notes: (1) Security prices are on an adjusted basis reflecting the entitlements offer in July 2009.

(2) Only once since listing has more than 20,000,000 securities traded in a day (i.e. 8 April 2010 when APA Group acquired 51.6 million securities to take its interest to 14.9%). This volume is not shown on the graph.

From its equity raising in October 2007 to February 2009 HDUF's security price declined largely in line with the stockmarket as the implications of the global financial crisis for world economic activity and capital markets emerged. However, during February 2009 the security price fell sharply (by over 30%) to around $1.30 amid market concern in relation to HDUF's ability to refinance existing borrowings, the impact of the declining UK Retail Price Index on South East Water and a possible funding requirement for the stage three expansion of Epic Energy's SWQP. On 5 March 2009, HDUF provided a strategy update which outlined a requirement for increased funding for South East Water and a substantial decrease to its 2009 distribution guidance to 12 cents per security. The HDUF security price continued to slide and reached a low of $0.29 in intraday trade on 9 March 2009.

The security price recovered to around $1.00 by late May 2009 and, following an announcement on 29 May 2009 that HDUF was entering a formal process to explore the potential divestment of Epic Energy (in whole or part), it increased to around $1.50 on 4 June 2009 but drifted lower during June. On 1 July 2009 HDUF announced a $250 million equity raising at $0.90 per security to retire a corporate loan facility ($80 million), redeem its TAPS ($110 million) and assist in funding the expansion of the SWQP ($50 million). The equity raising was completed by 31 July 2009 and for the remainder of 2009 HDUF traded in the range $0.80 to $1.15 at a volume weighted average price of around $0.95.

Over the next two years the HDUF security price gradually appreciated reflecting a range of factors including improving equity markets, APA Group's acquisition of 51.6 million HDUF securities in April 2010, the sale of South East Water in December 2010 (proceeds of 40 cents per security) and HDUF announcements regarding new long term gas transportation agreements and the progress of the stage three SWQP expansion. During 2011, prior to the announcement of the

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APA Group Offer on 14 December 2011, HDUF securities traded in the range of $1.30-1.83 per security (at a volume weighted average price of $1.61) and closed at $1.77 on 13 December 2011.

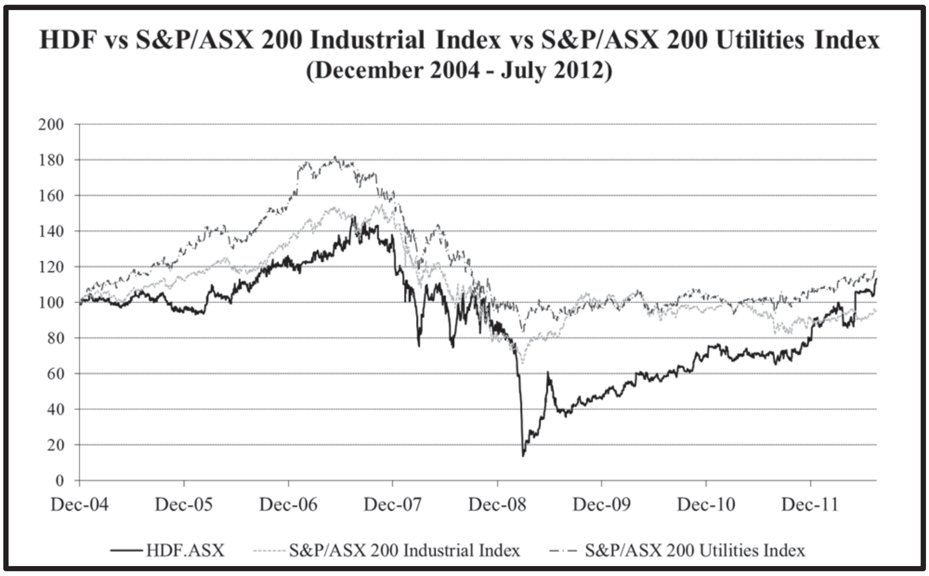
Since announcement of the APA Group Offer, HDUF securities have traded up on significantly increased volumes and the security price has been impacted by various announcements associated with the takeover activity:

HDUF – Security Price since announcement of the APA Group Offer			
Period	**Event (Last Day Prior)**	**Price Range**	**VWAP**[42]
14 Dec 2011 to 29 March 2012	ACCC statement of issues on APA Group Offer	$1.87-2.25	$2.09
30 March 2012 to 14 May 2012	Pipeline Partners indicative non-binding proposal	$1.90-2.14	$2.00
15 May 2012 to 19 July 2012	ACCC decision not to oppose APA Group Offer[43]	$2.29-2.44	$2.38
20 July 2012 to 24 July 2012	APA Group announces intention to increase offer	$2.46-2.53	$2.49
25 July 2012 to 27 July 2012	Target's Statement on Pipeline Partners Offer	$2.53-2.55	$2.54

HDUF securities closed on 14 May 2012 (the day prior to the announcement of the Pipeline Partners Offer) at $2.11 and on 27 July 2012 (the day prior to the release of the Target's Statement in relation to the Pipeline Partners Offer) at $2.55.

HDUF has a free float of around 70% (i.e. excluding APA Group, Hastings and Westpac's direct interest) but is not highly liquid. Average weekly volume over the twelve months prior to the announcement of the APA Group Offer represented approximately 1% of stapled securities on issue or annual turnover of around 43% of total average issued capital (61% of free float).

HDUF is a member of various indices including the S&P/ASX 200 Industrials Index and the S&P/ASX 200 Utilities Index. Its weighting in these indices is approximately 0.16% and 5.58% respectively. Since listing, except for the first half of 2009, movements in HDUF securities have generally mirrored movements in these indices with periods of outperformance around material announcements (e.g. the sale of South East Water). Since announcement of the APA Group Offer on 14 December 2011, HDUF securities have outperformed and underperformed on the back of the corporate activity but otherwise mirrored movements in the indices:



Source: IRESS

42 VWAP = volume weighted average price.
43 ACCC announcement was made on 19 July 2012 after trading closed for the day.

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5 Valuation of Hastings Diversified Utilities Fund

5.1 Summary

HDUF has been valued in the range $1,217.5-1,427.5 million which corresponds to a value of $2.30-2.69 per stapled security. The valuation represents the estimated full underlying value of HDUF assuming 100% of the entity 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 HDUF stapled securities to trade on the ASX in the absence of a takeover offer.

The value for HDUF is the aggregate of the estimated market value of its 100% interest in Epic Energy and other assets less external borrowings and non-trading liabilities. The valuation is summarised below:

HDUF - Valuation Summary ($ millions)

	Report Section Reference	Value Range	
		Low	High
Epic Energy (100% equity interest)	5.3	978.1	1,178.1
HDUF corporate costs (net of savings)	5.4	(60.0)	(50.0)
HDUF other assets and liabilities	5.5	299.4	299.4
Value of equity		**1,217.5**	**1,427.5**
Stapled securities on issue (millions)		530.0	
Value per stapled security		**$2.30**	**$2.69**

The value attributed to Epic Energy is an overall judgement having regard to a number of valuation methodologies and parameters, including discounted cash flow ("DCF") analysis and capitalisation of earnings or cash flows. The specific factors taken into consideration in reaching this judgement are set out in Section 5.3 of this report.

The value for HDUF 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 HDUF include listed company costs and a substantial portion of the management fee payable to Hastings (see Section 5.4).

The premia implied by Grant Samuel's value range over the $1.77 stapled security price prevailing on 13 December 2011 (the day prior to the announcement of the APA Group Offer) are in the range of 30.4-52.4%. These premia are high, particularly given material premiums for control of the extent often seen in takeover transactions are not generally expected for businesses with gas transmission assets as:

- cash flows of gas transmission assets are stable and predictable with long run growth generally limited to economic growth and inflation (with some potential for increased utilisation) and, although most Australian pipelines are not regulated, they are reasonably transparent with a considerable level of publicly available information on revenues, volumes, operating costs and capital investment; and
- while there are likely to be some operating cost synergies, there is little opportunity for integration with other assets (particularly in revenue terms) and, therefore, there is limited scope for an acquirer to achieve synergies.

However, in this case, the SWQP has a substantial contracted growth profile and each of Epic Energy's major assets retain significant strategic operational flexibility. In this regard:

- the bottom of the value range:
  - captures the value impact of the significant uplift in the earnings and cash flows of the SWQP that will occur over the next four years as a result of the contracted increase in gas volumes transported (the majority of capital expenditure for which was incurred prior to 31 December 2011); and

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- incorporates some (risk weighted) value for other uncommitted growth opportunities inherent in HDUF's assets, particularly the SWQP. In this context, the value range for the SWQP exceeds the NPV range for SWQP Scenario A (contracted volumes) reflecting the extent to which value has been allowed for uncommitted growth for that pipeline); and

- the top end of the value range incorporates greater value for the uncommitted growth options.

However, the premia implied by Grant Samuel's value range over the stapled security price prior to the announcement of the APA Group Offer may be overstated due to the passage of time:

- since 13 December 2011 industrial equity markets have risen by around 7%[44]; and
- HDUF has made a number of announcements concerning its financial outlook following completion of the stage three expansion of the SWQP in December 2011 (including the contracted revenue profile of SWQP and other short term revenue growth opportunities for Epic Energy) and the refinancing of Epic Energy's external borrowings.

In Grant Samuel's view, it is reasonable to assume that, in the absence of a takeover offer, this information would have had a positive impact on the HDUF security trading price.

On the basis of the $2.11 stapled security price prevailing on 14 May 2012 (the day prior to the announcement of Pipeline Partners' indicative, non-binding proposal) the premia implied by Grant Samuel's value range are in the range of 9.4-27.8%. This range is relatively low given the value attributed by Grant Samuel to HDUF's growth profile but is likely to be understated as a consequence of the takeover speculation reflected in the HDUF security price.

Grant Samuel's value range is wide (15-17%) reflecting the impact of financial leverage on the value of equity in HDUF. At the Epic Energy business level, the value range is less than 8%.

The valuation range of $2.30-2.69 per stapled security exceeds HDUF's reported net tangible assets of $0.86 as at 31 December 2011. 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 HDUF. The difference primarily relates to the values attributed to the SWQP and the MAPS.

5.2 Methodology

5.2.1 Overview

Grant Samuel's valuation of HDUF has been estimated by aggregating the estimated market value of its 100% interest in Epic Energy together with the realisable value of non-trading assets and deducting external borrowings and non-trading liabilities. The value of the Epic Energy 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 HDUF is appropriate for the acquisition of the entity as a whole and, accordingly, incorporates a premium for control. The value is in excess of the level at which, under current market conditions, securities in HDUF could be expected to trade on the sharemarket. Securities 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;

[44] The S&P/ASX 200 Industrial Index has risen from 5,728 on 13 December 2011 to 6,131 on 20 July 2012 (7%), although the S&P/ASX 200 Index has risen only by 0.1% (from 4,193 to 4,199) in the same period.

- 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 the Epic Energy business. Multiples of ungeared NTA have also been considered but given much less emphasis.

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 terms 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 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 for Epic Energy’s business has been developed by Grant Samuel based on a long term cash flow model prepared by HDUF. The model allows the key drivers of revenues, 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 HDUF. A number of different scenarios have been developed and analysed to reflect the impact on value of various key assumptions relating to pricing, 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.

In determining a value for the Epic Energy business, Grant Samuel has placed particular reliance on the EBITDA multiples implied by the valuation range compared to the EBITDA multiples derived from an analysis of comparable listed companies and transactions involving comparable businesses.

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 any event, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

In the case of energy infrastructure businesses a common rule of thumb is the multiple of regulated asset base ("RAB") which is the value of the fixed assets set by the relevant regulator as the basis for determining tariffs. However, as less than 15% of major gas transmission pipelines in Australia are subject to full economic regulation, this rule of thumb is not generally used as a cross check for gas pipeline valuations. In lieu of RAB multiples, multiples of ungeared NTA (calculated as net tangible assets plus net borrowings (including derivatives)) may be used to review value conclusions in relation to gas pipeline businesses. Ungeared NTA multiples reflect the written down book value of pipeline assets (rather than replacement value) and can vary depending on a range of factors including age (e.g. recent material capital expenditure or recent transaction activity will mean a higher ungeared NTA) and growth outlook (whether regulated, in a strategic location or has underutilised capacity). However, as gas pipelines typically have long lives (in excess of 60 years) and due to the high level of corporate activity involving pipelines in the last decade, ungeared NTA multiples may be a useful cross check for value conclusions in this sector.

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 HDUF's case.

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5.3 Value of Epic Energy

5.3.1 Summary

Grant Samuel estimates the value of Epic Energy to be in the range $978.1-1,178.1 million which includes a premium for control.

Epic Energy - Valuation Summary ($ millions)			
	Report Section Reference	Value Range	
		Low	High
Business operations	5.3.2	2,600.0	2,800.0
Other assets and liabilities	5.3.3	(30.5)	(30.5)
Net borrowings	5.3.4	(1,591.4)	(1,591.4)
Value of equity		**978.1**	**1,178.1**

The value of the Epic Energy business is the aggregate of the values attributed by Grant Samuel to each of Epic Energy's gas transmission pipelines. The individual values have not been disclosed in this report as HDUF does not release financial information on an individual asset basis.

5.3.2 Business Operations

Grant Samuel estimates the value of the Epic Energy business to be in range of $2,600-2,800 million.

This value range is the aggregate of the values attributed by Grant Samuel to each of Epic Energy's pipelines. The individual values have not been disclosed in this report but represent overall judgements having regard to DCF analysis and earnings multiple analysis (EBITDA multiples) for each pipeline. The primary focus was on DCF analysis. The value range selected is a judgement derived through an iterative process. The objective is to determine a value that is both consistent with the market evidence and fits with the output of the DCF analysis in terms of the various scenarios and their likelihood. Multiples of ungeared net tangible assets were considered but given much less emphasis.

DCF Analysis

A DCF model has been developed by Grant Samuel based on the HDUF Model ("DCF Model"). Grant Samuel has made adjustments to the projections to reflect its judgement on certain matters.

The DCF Model forecasts nominal after tax cash flows from 1 July 2012 to 30 June 2032 (a period of 20 years) with a terminal value calculated to represent the value of cash flows in perpetuity (by capitalising net after tax cash flows based on a 2% perpetual growth assumption). The following general assumptions have been made in the DCF Model:

- net present values ("NPV") are calculated on an ungeared after tax basis using a nominal after tax discount rate (weighted average cost of capital) in the range 8.0-8.5%. The rationale for selection of this discount rate range is set out in Appendix 2;
- an inflation rate of 2.5% per annum;
- a corporate tax rate of 30%;
- no significant changes in legislation (including taxation legislation) that have a material impact on Epic Energy's operations;
- sufficient economic gas reserves exist in Australia to meet both domestic and export gas demand in the long term; and
- no new pipelines are constructed that compete to deliver gas into Epic Energy's existing markets.

The DCF Model allows the key drivers of revenues, costs and capital expenditure to be modelled by pipeline. Scenario A in the DCF Model assumes the pipelines operate on an "as is" basis and:

- reflects existing gas transportation contracts and assumes that the majority of contracts are renewed on similar terms; and
- allows for the expansion by 2015 of SWQP eastern haul capacity via compression to support existing gas transportation contracts (i.e. Scenario A does not assume any medium to long term growth projects identified by Epic Energy).

The key general and specific operational assumptions underlying Scenario A are set out below:

- gas transportation tariffs escalate in accordance with contract terms (i.e. linked to inflation);
- most of Epic Energy's gas transportation contracts are renewed on expiry. This means that:
  - SWQP western haul capacity of 385TJ per day remains on average 90% contracted on a firm basis;
  - SWQP eastern haul capacity of 330TJ per day will be close to 100% contracted from 2015;
  - MAPS capacity of 240TJ per day remains on average around 90% contracted on a firm basis; and
  - PPS capacity of 180TJ per day is nearly fully contracted on a firm basis until 2013, after which it is on average 27% contracted;
- tariffs on renewed contracts are similar to tariffs for existing contracts after allowing for contractual escalation;
- no additional existing capacity is assumed to be contracted beyond that announced as at 20 July 2012;
- labour costs escalate at 3.5% per annum;
- non-labour costs escalate at 2.5% per annum;
- no allowance for implementation of the *Clean Energy Act, 2011* as exposure is limited and reduces over time as old contracts expire. On recontraction the cost of carbon is passed through to the customer;
- average maintenance capital expenditure of $5 million per annum through to 31 December 2014 escalating at 9.5% per annum thereafter;
- existing property, plant and equipment is depreciated on a straight line basis over the estimated life of the asset (e.g. plant and equipment for a period of 34 years);
- new capital expenditure is depreciated for tax purposes on a straight line basis for a period of 10-25 years;
- the cash flows relating to the SEP are included in the MAPS cash flows; and
- Epic Energy's carried forward income tax losses have been allowed for (i.e. the value of these carried forward tax losses is reflected in the NPV outcomes).

Scenario A produces a NPV range of $2,439-2,630 million based on discount rates of 8.0-8.5%. Grant Samuel has analysed Scenario A to examine the sensitivity of the NPV outcomes to changes in the following variables:

- recontracted volumes: +/- 5% (i.e. 105% and 95% of Scenario A);
- recontracted tariffs: +/- 5% (i.e. 105% and 95% of Scenario A);
- operating expenses: +/- 5% (i.e. 105% and 95% of Scenario A);
- maintenance capital expenditure: +/- 5% (i.e. 105% and 95% of Scenario A); and
- perpetual growth rate: +/-1% (i.e. growth of 3% and 1%).

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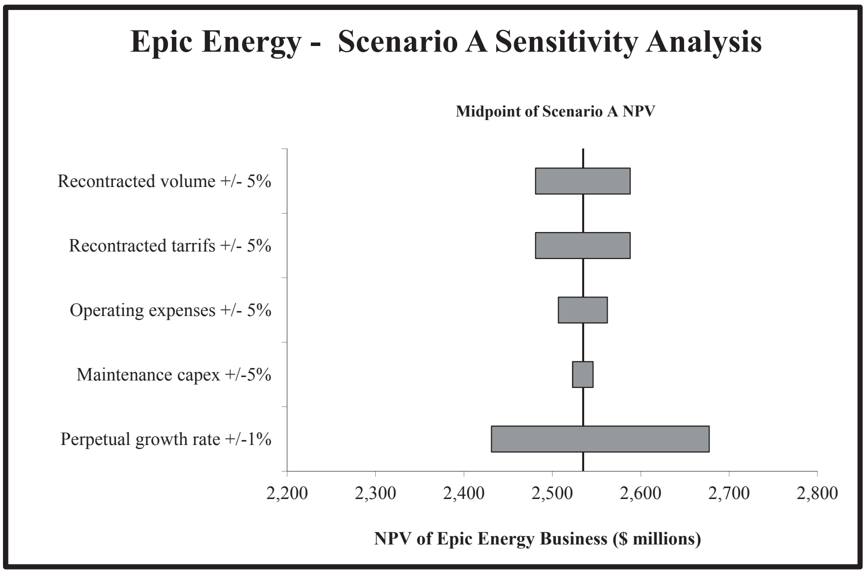
The output of this sensitivity analysis is summarised below:



These sensitivities do not, and do not purport to, represent the range of potential value outcomes for Epic Energy. They are simply theoretical indicators of the sensitivity of the net present values. In this regard, the NPV outcomes show a relatively wide range across the different variables, highlighting the sensitivity to relatively small changes in assumptions. In particular, net present value is more sensitive to variances in recontracted volumes and tariffs (both of which impact revenue) than changes in operating expenses (given the fixed cost structure of pipelines) and maintenance capital expenditure (no major periodic expenditure is required if regular maintenance undertaken). The terminal value is a significant component of net present value (around 30%) and, therefore, the NPV is highly sensitive to the perpetual growth rate. In this regard, a 2% perpetual growth rate under Scenario A implies long term cash flow growth less than inflation. This is realistic as tariffs generally increase by less than inflation and certain operating costs escalate faster than inflation.

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. The 100% take or pay nature of firm capacity contracts and the high credit quality nature of major counterparties means that Epic Energy has limited exposure to fluctuations in revenue during the term of existing contracts. The primary downside risk to the NPV outcomes for Epic Energy relates to the assumption regarding recontracting of existing contracted capacity for the pipelines. Grant Samuel considers this risk to be limited as:

- Epic Energy's pipelines are expected to have long remaining useful lives, particularly if maintenance expenditure is maintained;
- the DCF Model separately addresses the contract expiry profile for each pipeline in relation to which the following should be noted:
  - the cash flows for the PPS reflect the run off of the BHP contract in 2013 and do not assume that all of that capacity is recontracted;
  - in its current configuration, the MAPS is in excess of 80% contracted although the majority of this volume begins to expire post 2016. However, MAPS was commissioned in 1968, has a history of recontraction and is the only pipeline able to transport gas from the Cooper Basin and the Queensland CSG fields to the South Australian market; and

- the remaining term of SWQP's existing contracts is long with around 90% of existing western haul capacity contracted beyond 2020 (with over 50% contracted out to near 2030) and existing eastern haul capacity fully contracted from January 2015 for up to 15 years. Therefore, a significant portion of the NPV for SWQP is supported by long term take or pay contracts;

- the Australian natural gas resource (including conventional gas, CSG and shale gas) is expected to be sufficient to meet both domestic and export gas demand over the long term. In this regard, Epic Energy's pipelines are strategically located to benefit from the growth in demand for gas. In particular, the SWQP is the only gas transmission pipeline able to deliver gas between Queensland and the southern states; and
- it is unlikely that new pipelines could be developed at a cost which allows them to compete effectively on price with Epic Energy's pipelines. The capacity of the SWQP and the MAPS could be increased by installing/reinstating compression at lesser costs and lead times than construction of new pipelines.

Consequently, in Grant Samuel's view, it is realistic to assume Epic Energy's pipelines will exist long term and that, at the end of contract periods, the existing capacity is recontracted. In addition, there are a number of growth opportunities identified for the pipelines which, whilst not currently contracted and at various stages planning and conception, may occur in the medium term.

Accordingly, Grant Samuel has developed and analysed a number of scenarios that represent differing combinations of the growth opportunities identified by Epic Energy. The scenarios assume as a starting point that the projections for the period 2012-2015 in Scenario A will be achieved and that most of the existing contracts are renewed. Longer term assumptions have been made by Grant Samuel with reference to the HDUF Model and following discussions with HDUF and Epic Energy management. A description of each scenario is outlined in the table below:

Epic Energy – Summary of DCF Scenarios	
Scenario A	As set out in above. Pipelines operate on an "as is" basis and assumes: ▪ gas transportation contracts continue for their remaining term and most are recontracted on similar terms (allowing for escalation); and ▪ inlet compression will be built at Moomba to facilitate eastern haul flow on the SWQP to support existing contracts.
Scenario B	Scenario A with additional compression installed on the SWQP at Wallumbilla to allow gas flow to connecting pipelines to support expected requirements of existing customers
Scenario C	Scenario A with 100% of SWQP and MAPS capacity sold on a take or pay basis after 2015.
Scenario D	Scenario A with additional medium term growth projects that increase SWQP capacity by 70TJ/day through additional compression.
Scenario E	Scenario D with additional medium term growth projects being: ▪ further increase of SWQP capacity by 85TJ/day by compression; ▪ the increase of MAPS capacity by 90TJ/day by reinstating mothballed compression stations; and ▪ a new 25TJ/day PPS gas transportation contract to support power generation.
Scenario F	Scenario E with: ▪ 25% higher capital expenditure costs related to the additional growth projects described in Scenarios D and E; and ▪ a one year delay in both commencement and completion of the growth projects described in Scenarios D and E.

The output of the DCF analysis for a range of discount rates is summarised below:

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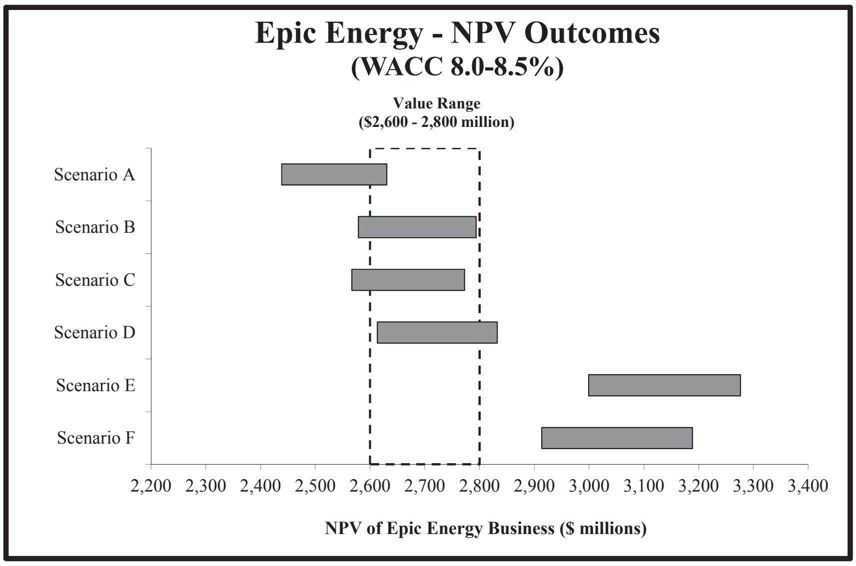
Epic Energy – NPV Outcomes ($ millions)				
Scenario	Discount Rates			
	7.5%	8.0%	8.5%	9.0%
Scenario A	2,856	2,630	2,439	2,273
Scenario B	3,047	2,794	2,579	2,394
Scenario C	3,015	2,773	2,567	2,389
Scenario D	3,090	2,832	2,613	2,425
Scenario E	3,604	3,276	2,999	2,762
Scenario F	3,514	3,189	2,914	2,678

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 NPV outcomes:

- Scenario A represents the current contracted arrangements of Epic Energy's pipelines and generally assumes that capacity is recontracted at expiry. It does not assume that existing spare pipeline capacity is fully sold;
- additional compression infrastructure may be required at Wallumbilla by existing SWQP eastern haul customers to transport gas to connecting pipelines to meet existing and expected obligations. Scenario B assumes that Epic Energy installs the compression infrastructure and provides compression services. The uplift in NPV from this project is 6.0%;
- Scenario C shows the incremental value (5.3% uplift) associated with the uncontracted portion of the existing pipeline capacity of the SWQP and the MAPS should demand for gas increase in the markets these pipelines service. No assumption is made in relation to the sale of existing capacity on the PPS;
- initial front end engineering and design studies have been undertaken in respect of the expansion project for the SWQP (by way of additional compression) described in Scenario D. The level of confidence that this capacity expansion project will occur is higher than other medium term growth projects identified by Epic Energy but is dependent on near term growth in demand for gas. The NPV uplift associated with this project is 7.4% (with no assumption that existing uncontracted capacity is sold); and
- the medium term growth projects described in Scenario E reflect the ability of the SWQP and the MAPS to take advantage of increased demand for gas on the east coast. To that extent it represents a "blue sky" scenario although it does not also assume that existing capacity is fully sold. Scenario F reflects that these expansion projects are uncertain as to project timing and cost.

Grant Samuel's selected value range of $2,600-2,800 million is a subjective balancing of the scenarios and a view that an appropriate discount rate to apply is 8.0-8.5%. This is depicted diagrammatically below:



The range of NPV outcomes produced by the scenarios is wider than the value range Grant Samuel has placed on Epic Energy of $2,600-2,800 million. The bottom end of Grant Samuel's value range lies towards the top end of Scenario A as it reflects values above SWQP Scenario A (contracted volumes) and in line with each of the MAPS and PPS Scenario A (contracted volumes) as these pipelines do not have the same growth profile as the SWQP. The top end of the value range takes into account the upside potential of providing additional compression services on the SWQP at Wallumbilla for existing customers (Scenario B), the sale of existing uncontracted capacity on the SWQP and the MAPS (Scenario C) and further increase of SWQP capacity via additional compression to meet expected future demand (Scenario D). The value range generally lies below the "blue sky" scenarios (Scenarios E and F) (albeit the midpoint of the value range is only 12-14% below the midpoint of the NPVs under these scenarios) as it is appropriate to risk weight such unidentified growth.

The value range of $2,600-2,800 million is appropriate as:

- it reflects the substantial uplift in the earnings and cash flows of the SWQP that will occur over the next four years as a result of the contracted increase in gas volumes for which most of the capital was expended prior to 31 December 2011;
- both the SWQP and the MAPS are currently highly contracted with high quality counterparties and recontraction risk is relatively low given the current dynamics of the east coast gas market;
- it includes some (risk weighted) value for uncommitted growth opportunities inherent in Epic Energy's assets, particularly the SWQP. Epic Energy's pipelines are strategic assets that are well positioned to take advantage of future growth in demand for gas and have multiple, mutually exclusive paths to uplifts in value. There exists opportunity to provide additional compression services on the SWQP to existing customers, excess capacity is available in all pipelines to meet short term changes in demand and both the SWQP and the MAPS are able to increase capacity in the medium term by installing/reinstating compression. The value range has regard to the operational flexibility of Epic Energy's pipelines. In this context, the value range for the SWQP exceeds the NPV range for SWQP Scenario A (contracted volumes) reflecting the extent to which value has been allowed for uncommitted growth for that pipeline; and
- Epic Energy has a history of delivering expansion programmes on time and within budget.

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Multiple Analysis

Grant Samuel's selected value range of $2,600-2,800 million has been reviewed having regard to the multiples of EBITDA and ungeared NTA for comparable listed entities and for transactions involving gas transmission pipelines.

Transaction Evidence

The following table sets out the EBITDA and ungeared NTA multiples implied by transactions involving the acquisition of gas transmission businesses since 2003:

Recent Transaction Evidence – Gas Transmission in Australia

Date	Target	Transaction	Consid-eration (millions)	EBITDA Multiple (times) Historical	EBITDA Multiple (times) Forecast	Ungeared NTA Multiple (times)
Jul 11	Tasmanian Gas Pipeline	Acquisition by Palisade Diversified Infrastructure Fund	$200	11.0	na	0.7
Jul 11	Dampier Bunbury Pipeline	Acquisition of 20% by DUET Group	$840	9.6	9.2	1.3
Jun 11	Amadeus Gas Pipeline	Acquisition by APA Group	$63	2.6	4.2	0.6
Nov 10	SEA Gas Pipeline	Acquisition of 16.7% by APA Group and 16.7% by REST	$278	na	10.9	na
Mar 10	Berwyndale to Wallumbilla Pipeline	Acquisition by APA Group	$83	na	32.9	1.0
Dec 08	Various energy infrastructure assets of APA Group	Acquisition by Energy Infrastructure Investments Pty Limited	$165	na	10.6	1.0
Aug 08	Central Ranges Pipeline	Acquisition by APA Group	$24	na	32.2	1.0
Jun 08	North Queensland Gas Pipeline	Acquisition by Victorian Funds Management Corporation	$202	na	na	1.3
Apr 07	SEA Gas Pipeline	Acquisition of 33.3% by APA Group	$400	na	14.5	na
Nov 06	Alinta Infrastructure Holdings	Acquisition by Alinta	$956	14.3	14.5	2.0
Aug 06	GasNet	Takeover by APA Group	$452	13.9	13.3	1.3
Feb 05	Carpentaria Gas Pipeline	Acquisition of 30% by APA Group	$327	na	na	na
Aug 04	Dampier to Bunbury Natural Gas Pipeline	Acquisition by DUET Group/Alinta/Alcoa Consortium	$1,860	na	11.1	na
Aug 04	45% of Southern Cross Pipelines and 100% of Parmelia Gas	Acquisition by APA Group	$206	8.3	na	na
Mar 04	Duke Energy Australian and New Zealand assets	Acquisition by Alinta	$1,690	17.0	15.5	na

Source: Grant Samuel analysis (see Appendix 3)

Further details on these transactions are set out in Appendix 3.

The following factors are relevant to consideration of the transaction evidence:

- in the period 2005 to 2008 there was a marked increase in the multiples paid for gas transmission 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 late 2008, multiples paid for gas transmission assets have moderated to around 9-11 times prospective EBITDA;

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- the transactions generally involve interests in single unregulated gas pipeline assets rather than extensive strategically located pipeline systems. In particular, since 2008 transaction evidence is limited and there have been no large scale, open market transactions;
- 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 ("AET&D"));
- APA Group has twice paid multiples in excess of 30 times projected EBITDA for 100% interests in relatively small pipelines (i.e. Berwyn to Wallumbilla Pipeline and Central Ranges Pipeline). In both instances, the price paid reflects ungeared NTA. The high EBITDA multiples probably reflect the cost savings that APA Group can achieve by adding these pipelines to its asset portfolio (which are likely to be substantial relative to the earnings of the asset acquired). On the other hand, APA Group's acquisition of the Amadeus Gas Pipeline implies very low EBITDA multiples even allowing that the pipeline is regulated and has a limited growth outlook. This transaction may not be meaningful as the purchase price represents the residual amount of a 25 year lease and may not reflect the price that a third party may pay for the Amadeus Gas Pipeline;
- there is no observable difference in the multiples paid in transactions involving minority interests and those paid for 100% interests. This reflects that the minority interest transactions all involve the purchaser increasing its interest in the assets (e.g. 33.3% interest in SEA GAS Pipeline and 20% interest in Dampier Bunbury Pipeline);
- it is unclear if the price paid for the 20% interest in Dampier Bunbury Pipeline reflects the price a third party acquirer may pay for 100% as the interest was subject to pre-emptive rights under a unitholders agreement to which DUET Group (with an existing 60% interest) was a party, was one of four assets transacted by DUET Group with AET&D and ATCO Australia Pty Ltd and the vendor was under financial distress;
- none of the transactions involve gas transmission assets for which earnings from already incurred major capital expenditure are yet to emerge. Although a $1.8 billion three stage expansion of the Dampier to Bunbury Natural Gas Pipeline was completed in 2010, the resulting earnings had emerged prior to DUET Group's acquisition of a further 20%;
- 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 the businesses;
- the multiples implied by EII's acquisition of various energy assets may be impacted by the vendor of the assets (APA Group) holding a 19.9% interest in EII and entering into a long term agreement to manage and operate the assets; and
- notwithstanding the limitations of multiples of ungeared NTA as a valuation metric, gas transmission pipelines have sold at between 0.6-1.3 times ungeared NTA since late 2008. In regard to these multiples:
  - the low end of the range relates to:
    - the regulated Amadeus Gas Pipeline by APA group (0.6 times) for the residual balance of a 25 year lease. It is uncertain if the price paid reflects the price that a third party may pay for the pipeline; and
    - the Tasmanian Gas Pipeline (0.7 times) which is a subsea and onshore gas pipeline system with substantial uncontracted capacity and high maintenance capital expenditure relative to onshore pipelines. Furthermore, the vendor (AET&D) was under financial distress;

- the high end of the range (1.3 times) relates to the acquisition of a further 20% interest in Dampier Bunbury Pipeline, the key strategic pipeline in Western Australia. As this interest was subject to pre-emptive rights and the vendor (AET&D) was under financial distress, the price paid may not appropriately reflect the strategic nature of the asset (the transaction implied a RAB multiple of 0.95 times); and
- the remaining transactions occurred at 1.0 times ungeared NTA and included two relatively small pipelines and a portfolio of energy infrastructure assets.

Sharemarket Evidence

The following table sets out the implied EBITDA and ungeared NTA multiples for a range of listed energy infrastructure entities based on share prices as at 20 July 2012. The entities have been categorised based on their major activity:

Sharemarket Ratings of Selected Listed Entities – Energy Infrastructure

Entity	Year End	Market Capital-isation (millions)	EBITDA Multiple (times)				Ungeared NTA Multiple (times)
			Historical	Forecast Year 1	Forecast Year 2	Forecast Year 3	
Australia - Gas							
APA Group	30 Jun	A$3,197	11.1	10.2	9.9	9.3	1.68
DUET Group	30 Jun	A$2,153	10.1	9.9	9.8	9.3	1.60
Envestra	30 Jun	A$1,329	11.7	10.3	9.5	8.6	1.66
Australia - Electricity							
SP AusNet	31 Mar	A$3,573	9.0	8.3	7.8	7.3	1.08
Spark	31 Dec	A$2,116	9.3	8.8	8.1	7.8	1.14
New Zealand							
Vector	30 Jun	NZ$2,708	9.0	8.7	8.6	8.7	1.71

Source: Grant Samuel analysis (see Appendix 3)

A detailed analysis of these entities is set out in Appendix 3.

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;
- the entities generally exhibit characteristics and value drivers similar to Epic Energy's gas transmission pipelines. The least comparable are Vector Limited ("Vector") (a New Zealand company with substantial electricity distribution activities), SP AusNet (with electricity and gas distribution assets and electricity transmission assets) and Spark Infrastructure Trust ("Spark") (with 49% interests in electricity distribution assets). In relation to the remaining entities the following should be noted:
  - APA Group is the largest gas transmission infrastructure owner in Australia with over 10,000 kilometres of pipelines. However, 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 asset management services to those entities. Its earnings multiples reflect the blend of its activities and its extensive portfolio of pipelines, particularly on the east coast;
  - DUET Group owns majority interests in three energy infrastructure assets with over 50% of proportionate revenue and EBITDA derived from two regulated gas and electricity distribution assets with the balance from regulated gas transmission. Its multiples reflect the blend of its activities; and
  - Envestra is primarily involved in ownership and operation of regulated gas distribution networks, although it also owns gas transmission pipelines measuring 1,120 kilometres. The operation and maintenance of Envestra's distribution networks is undertaken by APA Group;

- APA Group is projected to experience EBITDA growth from the completion of expansion projects on a number of its pipeline assets (e.g. Moomba to Sydney Pipeline) as well as emerging revenue streams from its asset management business. This makes comparison of its earnings multiples with its peers less relevant in the short term;
- APA Group, Spark and Vector are internally managed entities. In comparison, DUET Group and SP AusNet are externally managed and Envestra has outsourced the operation and maintenance of its distribution networks to APA Group. To the extent the cost of external services exceeds that which would be incurred if these services were internalised, the earnings multiples for externally managed entities would be higher than for internally managed entities (albeit not materially);
- 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.-8.5 times) are lower than for the gas entities (around 10 times prospective EBITDA). In addition, the electricity sector entities are trading at lower multiples of ungeared NTA (1.1 times) than gas sector entities (around 1.6-1.7 times), reflecting the longer useful lives of gas distribution and transmission infrastructure; and
- the implied multiples for the Epic Energy assets have been calculated on 31 December year end earnings. In comparison, the Australian gas infrastructure entities have 30 June year ends (with the forecast year one multiples being for the year ending 30 June 2012 while Epic Energy's forecast year one multiple is for the year ending 31 December 2012). The peer group forecasts have not been realigned to a December year end but, in general terms, it would make relatively little difference (between 0.1-0.4 adjustment to the multiple in most cases).

Analysis and Commentary

Recent market evidence indicates that a difference has emerged in the market pricing for the electricity and gas infrastructure sectors. Furthermore, evidence 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.

Recent transaction evidence implies multiples of 9.5-11 times prospective EBITDA for gas transmission assets and multiples of ungeared NTA in excess of 1.0 times. However, the transaction evidence is limited (particularly since 2008) and generally reflects single pipeline assets rather than integrated pipeline systems with significant operational flexibility.

In comparison, the listed gas infrastructure entities have portfolios of assets (including pipelines of strategic importance, such as APA Group’s Moomba to Sydney Pipeline, with expansion potential) from which they derive economies of scale. These entities are trading around 10 times prospective year one EBITDA which is consistent with the transaction evidence and (notwithstanding the differences in the assets) implies limited premia for control. This result is not unexpected. Cash flows of gas transmission assets are stable and predictable with long run growth generally limited to economic growth and inflation (with some potential for increased utilisation) and, although most Australian pipelines are not regulated, they are reasonably transparent with a considerable level of publicly available information on revenues, volumes, operating costs and capital investment. Moreover, while there are some operating cost synergies, there is little opportunity for integration with other assets (particularly in revenue terms) and limited scope for an acquirer to achieve synergies. For these reasons, it is Grant Samuel's view that listed gas infrastructure assets trade on the ASX at close to full underlying value. This is broadly confirmed by historical transaction evidence, except for the period 2005-2008 where there was a greater propensity

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to pay premiums above listed entity multiples (possibly due to the increased market interest in the investment class and the availability of leverage).

The ungeared NTA multiples implied by the trading of the listed gas entities are remarkably consistent at around 1.6-1.7 times. It would be unwise to read too much into this result as the metric is based on depreciated historical cost which depends on a range of factors including if and when the entity developed or acquired its pipelines, whether material capital expenditure has recently been incurred, the mix of assets owned and the degree of integration and whether the entity earns income from sources other than gas infrastructure ownership (e.g. APA Group's asset management activities).

Grant Samuel's value range of $2,600-2,800 million for Epic Energy's business implies the following multiples of EBITDA and ungeared NTA:

Epic Energy – Implied Valuation Parameters

	Variable ($ million)	Value Range	
		Low	High
Value Range ($ million)		**2,600**	**2,800**
Multiple of EBITDA[45]			
Year ended 31 December 2011 (actual)	105.6	24.6	26.5
Year ending 31 December 2012 (broker consensus)	156.0	16.7	17.9
Year ending 31 December 2013 (broker consensus)	175.0	14.9	16.0
Year ending 31 December 2014 (broker consensus)	186.7	13.9	15.0
Year ending 31 December 2015 (Scenario A, DCF Model)	255.2	10.2	11.0
Year ending 31 December 2016 (Scenario A, DCF Model)	261.8	9.9	10.7
Multiple of ungeared NTA[46]			
As at 31 December 2011 (actual)	1,541.4	1.7	1.8

While HDUF has made guidance statements about contracted revenue, distributable cash flow and distributions, the directors of HDUF have decided not to include earnings projections in the Target's Statement 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 Epic Energy (see Appendix 1 for details). However, brokers' forecasts are not available for periods beyond 31 December 2014. This is problematic for value analysis for Epic Energy as substantial earnings will emerge under existing gas transportation contracts in 2015. Consequently, the implied prospective multiples for 2015 and 2016 set out above are based on Scenario A of Grant Samuel's DCF Model. In Grant Samuel's opinion, the broker consensus forecasts and the projections in the DCF Model are sufficiently close to HDUF's forward looking information to be useful for analytical purposes.

The multiples of EBITDA and ungeared NTA implied by the value range are high but, in Grant Samuel's opinion, appropriate having regard to:

- the strategic location and growth optionality of each of Epic Energy's pipelines. They are well positioned to meet future demand for gas transportation, particularly given the changing dynamics of the east coast gas market;
- the substantial uplift in earnings to emerge in the period to 2015 under existing gas transportation contracts. Most capital expenditure associated with these earnings was incurred prior to 31 December 2011;

[45] Represents Grant Samuel's value range divided by Epic Energy's EBITDA.
[46] Represents Grant Samuel's value range divided by Epic Energy's ungeared NTA. Ungeared NTA is calculated as net tangible assets plus net borrowings (including derivatives).

- the upside potential of providing additional compression services on the SWQP to existing customers, the selling of uncontracted pipeline capacity on the SWQP and the MAPS and a medium term compression project on the SWQP to meet anticipated future demand for which there is a high level of confidence but for which earnings are not reflected in the projected EBITDA variables above. EBITDA multiples in 2016 decline to around 9-10 times (from 9.9-10.7 times) if earnings from one of these upside scenarios are included;
- none of the market evidence is directly comparable to Epic Energy. Transaction evidence since 2008 is limited and generally reflects single pipeline assets (not integrated pipeline systems) with cash flow growth generally limited to economic growth and inflation. Although the most comparable listed entities own large integrated pipeline assets, none has the contracted revenue growth outlook of Epic Energy. Consequently, although the market evidence provides useful guidance for the valuation of Epic Energy, the high contracted growth profile and operational optionality of Energy Energy's pipelines (particularly the SWQP) warrants higher multiples than suggested by the market evidence; and
- the EBITDA multiples implied by the value range reflect the aggregate earnings for Epic Energy. It is difficult to interpret these aggregate multiples given the nature and differing outlooks for each of Epic Energy's pipelines (particularly the substantial growth profile of the SWQP). However, Grant Samuel's value range has been built up on an individual pipeline basis and the values attributed to each pipeline imply multiples of projected EBITDA that Grant Samuel considers appropriate. In this regard, the multiples implied by the value for the PPS reflect the run off of the BHP contract in 2013 and the assumption that not all of that capacity is recontracted. The multiples implied by the values for the SWQP and the MAPS reflect their respective growth profiles as well as Grant Samuel's view of their upside potential.

5.3.3 Other Assets and Liabilities

Epic Energy's other assets and liabilities have been valued at $30.5 million (net liability) and include:

- the mark to market loss on interest rate swaps as at 30 June 2012 of $30.8 million (liability); and
- the mark to market gain on forward exchange contracts as at 30 June 2012 of $0.3 million (asset).

Epic Energy had carried forward income tax losses totalling $164 million as at 31 December 2011 ($49.2 million tax shield). The present value of the expected utilisation of these losses is reflected in the DCF analysis in Section 5.3.2 of this report. No value has been attributed to Epic Energy's $0.4 million of accumulated franking credits. While franking credits may have value to some securityholders they do not affect the underlying value of the company itself.

5.3.4 Net Borrowings

Epic Energy's net borrowings for valuation purposes are $1,591.4 million as follows:

Epic Energy – Net Borrowings for Valuation Purposes

	($ millions)
Cash and deposits	41.9
External borrowings	(1,325.0)
Subordinated loans	(308.3)
Net borrowings at 30 June 2012	**(1,591.4)**

5.4 HDUF Corporate Costs

HDUF incurs corporate costs of approximately $12 million per annum. These costs include:

- the management fee paid to Hastings for which it provides investment management and administration services including fund corporate governance (the Hastings board of directors, and chief executive officer), financial management and administration, strategic development and investor relations;
- listed company costs (such as annual reports and securityholder communications, security registry and listing fees and dividend processing); and
- corporate costs such as legal, audit and tax fees.

Any acquirer of HDUF would be able to save the costs associated with being a listed company and the Hastings management fee. However, a potential acquirer would expect to incur general corporate costs and, based on a review of the services provided by Hastings, may incur some incremental corporate costs. On this basis, it is estimated that 50% of corporate costs would be saved.

Grant Samuel has assumed residual corporate costs of $6 million per annum for the purposes of the valuation (i.e. costs remaining after the savings available to the acquirer) and a capitalised value for these residual costs of $50-60 million.

5.5 HDUF Other Assets and Liabilities

HDUF's other assets and liabilities have been valued at $299.4 million (asset) and include:

- the 2.5 cent per stapled security distribution for the quarter ended 30 June 2012 payable to securityholders on 6 August 2012 ($13.3 million);
- the deferred incentive fee payable to Hastings for the period ended 31 December 2011 ($23.4 million) plus non recoverable GST in relation to this fee ($0.6 million);
- the deferred incentive fee payable to Hastings for the period ended 30 June 2012 is $55.9 million. Grant Samuel has allowed $50 million for this fee (being the capped fee under the Pipeline Partners Offer) plus non recoverable GST in relation to this fee ($1.3 million);
- subordinated loans to Epic Energy of $308.3 million as at 30 June 2012;
- HDUF's cash holdings of $85.7 million as at 30 June 2012; and
- other net creditors as at 30 June 2012 ($6 million).

No value has been attributed to the $43.1 million ($12.9 million tax shield) of carried forward income tax losses of HDUF Finance Trust as there is currently no expectation that these losses will be recouped.

6 Evaluation of the Pipeline Partners Offer

6.1 Conclusion

In Grant Samuel's opinion, the Pipeline Partners Offer is fair and reasonable, in the absence of a superior proposal.

The Pipeline Partners Offer of $2.325[47] cash per stapled security falls within Grant Samuel's value range of $2.30-2.69 and is therefore fair. As the Pipeline Partners Offer is fair, it is also reasonable.

However, APA Group has announced its intention to, subject to the completion of satisfactory due diligence, increase its offer to at least $2.50 per HDUF stapled security. While there is no certainty that APA Group will make a formal revised takeover offer for HDUF, if such an offer eventuates it could be superior in value to the Pipeline Partners Offer.

6.2 Fairness

Grant Samuel has estimated the full underlying value of HDUF, including a premium for control, to be in the range $1,217.5-1,427.5 million which corresponds to $2.30-2.69 per stapled security. The value is the aggregate of the estimated market value of HDUF's 100% interest in three major pipeline systems together with other assets less external borrowings and non-trading liabilities. The value range exceeds the price at which, based on current market conditions, Grant Samuel would expect HDUF stapled securities 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 Pipeline Partners Offer is $2.325 cash for each HDUF stapled security. The Pipeline Partners Offer falls within the value range of $2.30-2.69 and is superior in value to the APA Group Offer. Accordingly, it is "fair".

While the Pipeline Partners Offer is only just above the bottom of the range ($2.30), it should be recognised that:

- the bottom of the valuation range represents the relevant threshold for fairness. Any price above the bottom of the range is, by definition, fair;
- the bottom of Grant Samuel's valuation range:
  - captures the full NPV impact of the substantial uplift in the earnings and cash flows of the SWQP that will occur over the next four years as a result of a contracted increase in gas volumes; and
  - incorporates some (risk weighted) value for other uncommitted growth opportunities inherent in HDUF's assets, particularly the SWQP; and
- the bottom of the valuation range reflects very high multiples of current earnings (24.6 times EBITDA for the year ended 31 December 2011). Even the multiples of EBITDA for the year ending 31 December 2016 (which capture the uplift in earnings at the SWQP) are relatively high (9.9 times EBITDA) compared to comparable transactions (9-11 times prospective year one EBITDA).

6.3 Premium for Control

The Pipeline Partners Offer enables securityholders to realise their investment in HDUF at a cash price that incorporates a significant premium for control .

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 tend to fall in the range 20-35%.

[47] Subject to Pipeline Partner's right to deduct from the offer price the amount of any HDUF distribution for quarters ending after 30 June 2012.

However, material premiums for control of the extent often seen in takeover transactions are not generally expected for listed entities with mature gas transmission assets as:

- cash flows of gas transmission assets are stable and predictable with long run growth generally limited to economic growth and inflation. High payout ratios mean that security prices are usually underpinned by the distribution yield;
- earnings profiles of gas transmission assets are reasonably transparent with a considerable level of publicly available information on revenues, volumes, operating costs and capital investment; and
- while there are likely to be some operating cost synergies, there is little opportunity for integration with other assets (particularly in revenue terms) and, therefore, there is limited scope for an acquirer to achieve synergies.

The Pipeline Partners Offer represents premiums of 10-16% over prices preceding the announcement of the offer:

Pipeline Partners Offer – Premium over Pre-Pipeline Partners Offer Announcement Prices

Period	Stapled Security Price	Premium
14 May 2012 – Pre-announcement price	$2.11	10.2%
1 month prior to 14 May 2012 – VWAP	$2.02	15.0%
30 March 2012 to 14 May 2012 – VWAP (post ACCC Statement of Issues)	$2.01	15.8%
3 months prior to 14 May 2012 – VWAP	$2.07	12.3%
5 months to 14 May 2012 – VWAP (post APA Group Offer)	$2.06	13.1%

These premia are relatively low as HDUF security prices during that period were impacted by takeover activity (i.e. the APA Group Offer). Consequently, it is more meaningful to measure the premium relative to undisturbed security prices. On the basis of HDUF security prices prior to the announcement of the APA Group Offer on 14 December 2012, the consideration of $2.325 cents represents premia consistent with those normally seen in takeover offers:

Pipeline Partners Offer – Premium over Pre-APA Group Offer Announcement Prices

Period	Stapled Security Price	Premium
13 December 2011 – Pre-announcement price	$1.77	31.4%
1 month prior to 13 December 2011 – VWAP	$1.75	33.1%
3 months prior to 13 December 2011 - VWAP	$1.66	40.3%
6 months prior to 13 December 2011 - VWAP	$1.61	44.3%
12 months prior to 13 December 2011 – VWAP	$1.61	44.6%

These premia may be overstated due to the passage of time. The undisturbed HDUF security prices are over seven months ago and since the APA Group Offer was announced:

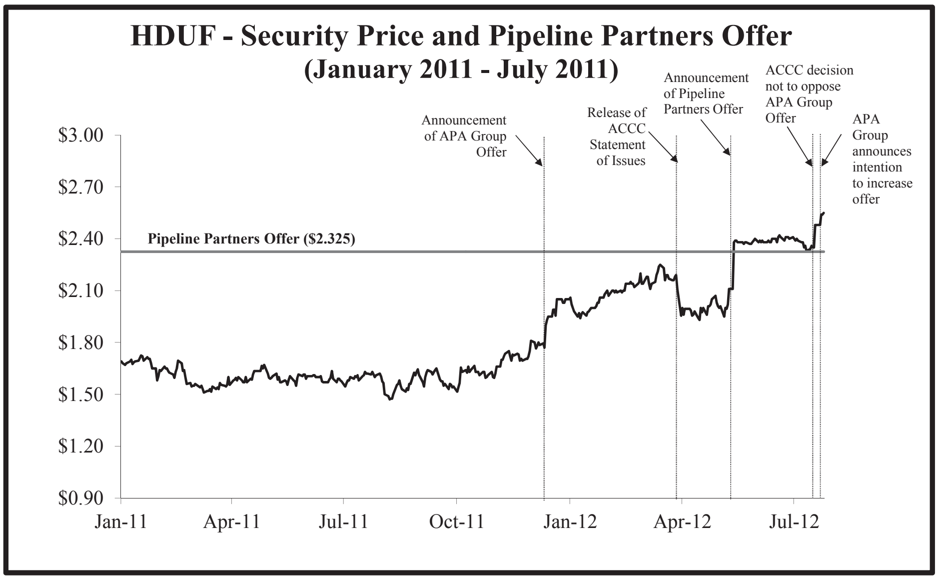
- industrial equity markets have risen by around 7%[44]; and
- HDUF has made a number of announcements in relation to its financial outlook following completion of the stage three expansion of SWQP (including the contracted revenue profile of SWQP and other short term revenue growth opportunities for Epic Energy) and the refinancing of Epic Energy's borrowings.

Nevertheless, in Grant Samuel's opinion, the effective premium for control is still material.

6.4 Security Trading in the absence of any Takeover Offer

In the absence of the Pipeline Partners Offer or a similar offer, securityholders could only realise their investment by selling on market at a price which does not include any premium and would incur transaction costs (e.g. brokerage). In these circumstances (and assuming there was no speculation as to an alternative or revised offer), it is likely that HDUF securities, under current market conditions and its current ownership and operating structure, would trade at prices below $2.325.

Prior to the announcement of the APA Group Offer HDUF securities traded throughout 2011 broadly in the range of $1.50-1.80 (at a volume weighted average price of $1.61) and HDUF securities had not traded above $2.325 since June 2008. Since December 2011, the HDUF security price has been at higher levels, reflecting the takeover activity (and associated ACCC announcements) as shown below:



Source: IRESS and Grant Samuel analysis

Accordingly, in the absence of the Pipeline Partners Offer or any other offer, it is likely that HDUF securities will trade at prices below $2.325. However, the security price may not decline to the levels prior to announcement of the APA Group Offer in December 2011.

In particular, since the announcement of the APA Group Offer, HDUF has released information indicating substantial annual growth in contracted revenues to 31 December 2015, material interest savings as a consequence of refinancing Epic Energy's external debt and guidance of an increase of 10-20% in annual distributions in 2013. In the absence of the takeover activity, it is reasonable to assume that this information would have positively impacted HDUF's security trading price but it is nevertheless still likely to trade at prices below $2.325 (in the absence of a takeover offer).

Internalisation of HDUF's management arrangements was one of the options assessed by the independent directors when considering the Pipeline Partners Offer (Section 5.9 of the Target's Statement). Depending on the terms of any internalisation (in particular the quantum of any payment to the external manager) it would be expected that such a restructure would be positive for the security price due to:

- greater perceived alignment of the interests of directors and management with those of securityholders;
- the elimination of management and incentive fee payments; and
- more favourable market sentiment towards internally managed entities.

However, in Grant Samuel's opinion, while the HDUF security price would be expected to be higher if management was internalised than if it was not, it would still be likely to trade at prices below $2.325 as:

- security prices represent portfolio interests (small parcels of securities) in listed entities and do not include a premium for control. In contrast, the consideration under the Pipeline Partners Offer of $2.325 incorporates a premium for control of 10-16% over prices preceding the announcement of the offer (although the premia may be understated as HDUF security prices were impacted by the APA Group Offer). Premiums for control observed in takeovers tend to fall in the range 20-35%;

- Grant Samuel's estimate of the full underlying value of HDUF of $2.30-2.69 per security includes a premium for control and reflects cost savings of $6 million per annum which exceed the net cost savings of $4-5 million per annum estimated to arise upon internalisation of management. Moreover, the valuation does not incorporate any payments to achieve these savings; and
- any payment to Hastings to facilitate internalisation or any negative impact of internalisation (e.g. increased financing costs) would offset some of the value benefit of internalising management.

6.5 Prospect of an Alternative Proposal

The Pipeline Partners Offer is fair and reasonable. However, there is a "live alternative" to this offer in the form of the APA Group Offer. Grant Samuel has assessed the value of the APA Group Offer at $1.99-2.06 per HDUF stapled security (based on a value range for APA Group securities of $4.80-5.00 and an adjusted cash component of $0.425). This value is materially below the Pipeline Partners Offer. However, the APA Group Offer is open until 4 September 2012 (unless extended) (see Section 6.7) and the ACCC has, subject to a court enforceable undertaking to sell the MAPS, decided not to oppose it. Furthermore, on 25 July 2012, APA Group announced its intention that, subject to successful completion of satisfactory due diligence, it would be in a position to make a revised takeover proposal for HDUF. Accordingly, it is relevant to consider the alternatives available to HDUF securityholders.

Although HDUF has agreed to no-talk, no-shop and no-due diligence provisions and Pipeline Partners has the right to provide a matching or superior offer to a competing proposal, there is no impediment to an alternative acquisition proposal being put by any other party. The $12.3 million break fee (approximately 2.3 cents per security) or the cost reimbursement fee (maximum of 0.94 cents per security) are not of a magnitude to represent a barrier to alternative proposals.

While Pipeline Partners has no securityholding in HDUF, it has a relevant interest in 8.1% as a consequence of entering into a Pre-Bid Acceptance Deed with Westpac. If the Pipeline Partners Offer becomes unconditional, Pipeline Partners will have an 8.1% interest in HDUF but if the Pipeline Partners Offer lapses or is withdrawn (at a time when the offer is still conditional), Pipeline Partners will have no interest in HDUF. Therefore, of itself, Pipeline Partners' relevant interest in HDUF does not represent a barrier to alternative proposals. However, during the offer period Pipeline Partners has the right to make a counter proposal that provides an equivalent or superior outcome for HDUF securityholders to any competing proposal from a third party. While Pipeline Partners' matching right does not prevent a competing proposal being made it may limit the extent of any competitive process for HDUF.

At the date of this report, the independent directors of Hastings continue to recommend that HDUF securityholders reject the APA Group Offer on the basis that it is at a substantial discount to the Pipeline Partners Offer and undervalues HDUF. However, the independent directors of Hastings have announced that they will engage with APA Group about the terms on which due diligence can be granted and its ability to increase its offer consideration.

In these circumstances, securityholders should:

- continue to monitor both the Pipeline Partners Offer and the APA Group Offer;
- carefully consider the timing of their decision in relation to the Pipeline Partners Offer. The Pipeline Partners Offer is currently scheduled to close on 31 August 2012 while the APA Group Offer is scheduled to close on 4 September 2012 and neither offer has been declared final; and
- note that if they accept the Pipeline Partners Offer they will lose the ability to accept a higher offer from APA Group or another competing bidder, subject to withdrawal rights that may be available in limited circumstances.

Since the announcement of the Pipeline Partners Offer, 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 (including no formal improvement to the APA Group Offer) but the opportunity to do so remains during the offer period (currently until 31 August 2012). However, as APA Group owns 20.71%, an acquisition proposal for 100% of HDUF by any other party cannot succeed without the agreement of APA Group. In this regard, it should be noted that the Pipeline Partners Offer has a minimum acceptance condition of 70% indicating that Pipeline Partners is prepared to own less than 100% of HDUF.

The Pipeline Partners Offer is subject to a 70% minimum acceptance condition. If the Pipeline Partners Offer becomes unconditional but Pipeline Partners acquires less than 90% of HDUF's securities, the implications for remaining HDUF securityholders include:

- if Pipeline Partners' interest exceeds 50% it will acquire control of HDUF and be able to determine the outcome of resolutions requiring approval of at least 50% of the votes cast by securityholders entitled to vote on the resolution (including removal of the responsible entity). However, even at a securityholding of less than 50% Pipeline Partners would have significant influence over such resolutions. At 75% or more Pipeline Partners would also be able to determine the outcome of special resolutions;
- change of control provisions in the syndicated debt facility would be triggered and Epic Energy may be required to repay some or all of its lenders and additional payment obligations may arise (e.g. the close out of interest swap positions) or the lenders may seek to impose costs or other terms for not demanding repayment;
- the outcome of the Pipeline Partners Offer may dramatically reduce the liquidity of the market for HDUF stapled securities and result in the removal of HDUF from, or a reduced weighting for HDUF in, key market indices;
- Pipeline Partners may seek:
  - changes to HDUF's distribution policy and gearing levels. This may result in a material reduction, in or the cessation of, distributions;
  - to delist HDUF from the ASX. In this case, remaining securityholders would hold unlisted securities reducing their ability to realise value; and
  - to influence the ongoing management of HDUF and its assets by obtaining a right of consultation on key decisions commensurate with the level of its investment and the appointment of nominee directors to boards of HDUF subsidiaries;
- it may be more difficult for carried forward income tax losses to be utilised in future periods; and
- the prospects of receiving a fully priced offer in the future for their investment in HDUF will be greatly reduced.

In this circumstance, any remaining securityholders should consider their position carefully.

In considering the Pipeline Partners Offer, the independent directors of Hastings assessed a number of options including internalisation of HDUF's management arrangements. Therefore, it is neither necessary nor relevant in the context of this report to evaluate or revisit the independent directors' decision in relation to internalisation of management.

6.6 Other Matters

There are few issues other than price when securityholders are faced with a cash offer. Other factors that securityholders should take into consideration are:

- HDUF stapled securities have generally traded above $2.325 since the announcement of the Pipeline Partners Offer to 27 July 2012 in the range of $2.29-2.55, at a volume weighted average price of $2.42. More recently, since the ACCC announced it would not oppose the APA Group Offer on 19 July 2012, HDUF securities have traded at a volume weighted average price of $2.51. Consequently, a cash price in excess of $2.325 could be achieved by selling on market, albeit transaction costs would be incurred. However, selling securityholders would lose the opportunity to receive any higher price that might be offered;

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- if the Pipeline Partners Offer becomes unconditional, accepting securityholders will be treated as having disposed of their HDUF securities for tax purposes. A capital gain or loss may arise on disposal depending on the cost base for the HDUF securities, the length of time held, whether the securities are held on capital or revenue account and whether the securityholder is an Australian resident for tax purposes. Details of the taxation consequences are set out in Section 7 of the Target's Statement. If in any doubt, securityholders should consult their own professional adviser; and
- if Pipeline Partners acquires in excess of 50% but less than 90% of HDUF, it is currently estimated that HDUF will meet transaction and takeover defence costs (including legal and other adviser's fees, as well as printing and mailing costs) of around $15-23 million as a standalone entity (depending on post offer ownership interest). However, if the Pipeline Partners Offer is withdrawn or lapses then it is estimated that HDUF will meet costs of $3-4 million on a standalone basis. Furthermore, in certain circumstances, HDUF will also be liable to pay to Pipeline Partners either a $12.3 million break fee or a cost reimbursement fee of up to $5 million.

6.7 APA Group Offer

Details of the Offer

APA Group is a stapled entity that comprises Australian Pipeline Trust and APT Infrastructure Trust. Australian Pipeline Limited, a subsidiary of Australian Pipeline Trust is responsible entity for each of the trusts. APA Group stapled securities are listed and trade on the ASX. APA Group is Australia's largest natural gas infrastructure business and has a market capitalisation of approximately $3.2 billion.

On 14 December 2011, APA Group announced an off market takeover offer for all of the HDUF securities that it does not already own. The consideration under the APA Group Offer is 0.326 APA Group stapled securities and $0.50 cash for each HDUF security (but the cash amount is to be reduced by the amount of any distribution paid by HDUF stapled securities after 14 December 2011).

The APA Group Offer is subject to a number of conditions which were set out in full in the Bidder's Statement dated 15 December 2012 issued by APA Group. A number of these conditions have been waived and the conditions remaining include:

- APA Group obtains a relevant interest in at least 90% of all HDUF stapled securities; and
- the S&P/ASX 200 Index does not fall to 3,800 or below and remain at or below 3,800 for at least three consecutive business days during the offer period.

The ACCC commenced a review of APA Group's proposed acquisition of HDUF in December 2011 and on 30 March 2012 released a statement of issues seeking further information on certain competition issues. On 19 July 2012, the ACCC announced that, after accepting a court enforceable undertaking from APA Group to divest the MAPS, it would not oppose the APA Group Offer.

APA Group has extended the offer period a number of times and it is currently scheduled to close on 4 September 2012 (unless extended).

The directors of Hastings recommended that HDUF securityholders reject the APA Group Offer for the reasons set out in the Target's Statement dated 20 January 2012. At the date of this report, the independent directors of Hastings continue to recommend that HDUF securityholders reject the APA Group Offer.

On 25 July 2012, APA Group announced its intention that, subject to successful completion of satisfactory due diligence (of around a week), it would be in a position to make a revised takeover proposal for HDUF. It has indicated that its revised offer would include:

- an increase in consideration to a value of at least $2.50 per HDUF stapled security with a cash component of at least $0.60 and the remainder a fixed amount of APA Group securities; and
- a material reduction in conditionality.

The independent directors of Hastings are engaging with APA Group about the terms on which due diligence can be granted and its ability to increase its offer consideration. However at the date of this report, there is no certainty that the APA Group will make a formal revised takeover offer for HDUF. Therefore, the assessment below of the value of the APA Group Offer is based on the current offer which is open to securityholders until 4 September 2012.

Assessment of the Scrip Component

The APA Group Offer is a "live alternative" to the Pipeline Partners Offer and is open until 4 September 2012. As the APA Group Offer consideration comprises both cash and APA Group stapled securities, it is necessary to make an assessment of the value of the securities being offered in order to attribute a value to the consideration. For this purpose, the relevant test is the expected market value of the securities in APA Group being offered as consideration. This involves an estimation of the trading price for APA Group after the offer 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 a scrip offer. 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 entities 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.

In this regard, Grant Samuel notes that APA Group:

- is a top 100 ASX listed entity and a member of a range of key indices including the S&P/ASX 100 Index, S&P/ASX 200 Industrials Index and S&P/ASX 200 Utilities Index;
- has had a relatively high free float (around 83%) since mid 2007 when Alinta Limited's 35% securityholding was distributed in-specie to its shareholders. APA Group's free float has increased to 100% in May 2012 with the sell down (by way of institutional placement) of Petronas Australia Pty Limited's 17.3% interest;
- is well followed and analysed by at least 10 brokers and appears to be trading in line with its listed peers (see Appendix 3), notwithstanding the HDUF takeover activity; and
- is not a highly liquid stock. However, this is typical for energy infrastructure entities from which investors seek long term stable distributions.

Consequently, in Grant Samuel's opinion, it is reasonable to assume that the APA Group security price represents assessments of value of a reasonably informed market and does not appear to be affected by any unsustainable factors.

Grant Samuel's judgement is that an APA Group security price of $4.80-5.00 is a reasonable estimate which encompasses the recent performance of APA Group securities as well as current market conditions. The top end of the range is above the APA Group security price on 13 December 2011 of $4.60 upon which the APA Group Offer is based. In this regard, it is noted that the offer terms were struck over seven months ago and APA Group securities have traded at a volume weighted average price of $4.90 since announcement of the offer. Furthermore, there has been a 7% increase in industrial equity markets since the announcement and APA Group's 2012 half year results released in February 2012 were slightly above market expectations.

This price range relative to recent APA Group security prices is shown below:

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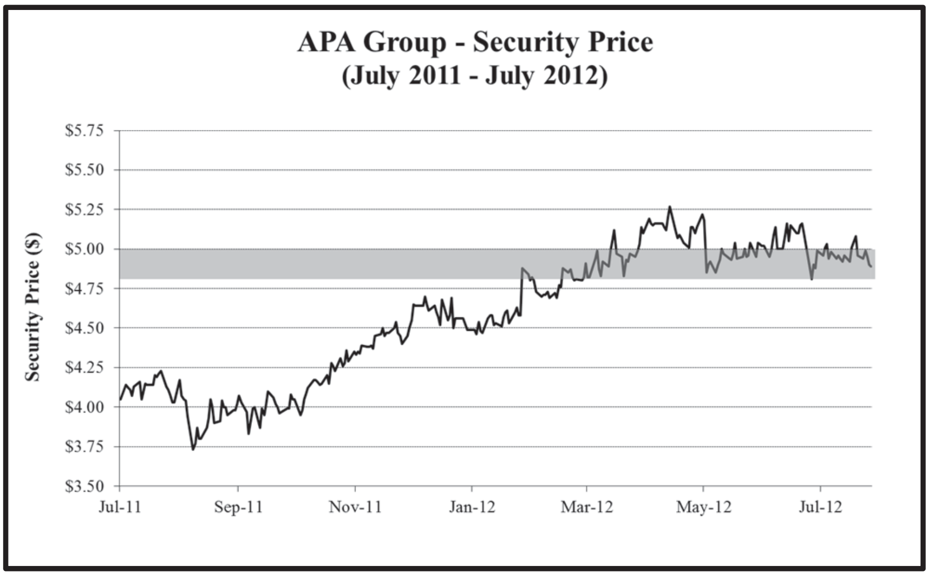

Source: IRESS and Grant Samuel analysis

Conclusion

Under the APA Group Offer, HDUF securityholders will receive $0.50 cash (reduced by the amount of any distribution paid by HDUF stapled securities after 14 December 2011) and 0.326 APA Group securities for every HDUF security.

Since 14 December 2011, HDUF has paid two quarterly distributions of $0.025 each with a third $0.025 quarterly distribution to be paid on 6 August 2012. Therefore the cash component of the APA Group Offer has reduced by $0.075 to $0.425. Based on a value range for APA Group securities of $4.80-5.00, the scrip component of the consideration has a value of $1.565-1.630 per HDUF security. Therefore, Grant Samuel has assessed the value of the consideration under the APA Group Offer at $1.99-2.06 per HDUF stapled security (rounded to two decimal places).

The value of the scrip component will vary with movements in the APA Group security price. Depending on the circumstances, significant (and sustained) movements in the APA Group security price could change the assessed value of the consideration under the APA Group Offer.

A feature of scrip takeover offers for eligible Australian resident securityholders is the availability of capital gains tax scrip for scrip rollover relief if a capital gain would otherwise have been made from the exchange of securities. If securityholders receive rollover relief the capital gain that would otherwise be generated would be deferred until they dispose of the securities received. HDUF securityholders should note that rollover relief is not available under the APA Group Offer.

The assessed value for the APA Group Offer is at a substantial discount (11.4-14.4%) to the Pipeline Partners Offer consideration of $2.325. On another view, APA Group securities would need to be trading at $5.83 for the consideration under the APA Group Offer to be equivalent to the Pipeline Partners Offer. APA Group has not traded at that level since it was listed in 2000.

Accordingly, the value of the APA Group Offer is:

- inferior in value to the Pipeline Partners Offer; and
- is below the bottom end of Grant Samuel's value range of $2.30-2.69 per stapled security.

However, while there is no certainty that APA Group will make a formal revised takeover offer for HDUF, if such an offer eventuates it could be superior in value to the Pipeline Partners Offer.

6.8 Securityholder Decision

The decision whether to accept or reject the Pipeline Partners Offer is a matter for individual securityholders based on each securityholder'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 securityholder to securityholder. If in any doubt as to the action they should take in relation to the Pipeline Partners Offer, securityholders should consult their own professional adviser.

Similarly, it is a matter for individual l securityholders as to whether to buy, hold or sell securities in HDUF. This is an investment decision independent of a decision on whether to accept or reject the Pipeline Partners Offer upon which Grant Samuel does not offer an opinion. Securityholders should consult their own professional adviser in this regard.

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7 Qualifications, Declarations and Consents

7.1 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), property advisory services, manages specialist funds 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 475 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 MCom (Hons) CA (NZ) SF Fin. Each has a significant number of years of experience in relevant corporate advisory matters. Chapman Li BCom AIAA 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.

7.2 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 Pipeline Partners Offer is fair and reasonable. Grant Samuel expressly disclaims any liability to any HDUF securityholder 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. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Target's Statement issued by HDUF and has not verified or approved any of the contents of the Target's Statement. Grant Samuel does not accept any responsibility for the contents of the Target's Statement (except for this report).

7.3 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 HDUF or Pipeline Partners 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 Pipeline Partners Offer.

Grant Samuel commenced analysis for the purposes of this report in December 2011 prior to the announcement of the Pipeline Partners Offer. This work did not involve Grant Samuel participating in the setting the terms of, or any negotiations leading to, the Pipeline Partners Offer.

Grant Samuel had no part in the formulation of the Pipeline Partners Offer. Its only role has been the preparation of this report.

Grant Samuel will receive a total fixed fee of $525,000 for the preparation of this report (including the preliminary work). This fee is not contingent on the outcome of the Pipeline Partners Offer. Grant Samuel's out of pocket expenses in relation to the preparation of the 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.

7.4 Declarations

HDUF 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. HDUF 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 HDUF are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been grossly 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 HDUF and its advisers. Advance drafts of Sections 1, 2, 3, 4 and 8 of this report were also provided by HDUF to Pipeline Partners in accordance with its obligations under the Bid Implementation Deed. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. In particular, following the provision of the full final draft report on 24 July 2012, Grant Samuel adjusted the valuation of HDUF to include other net creditors at 30 June 2012. This resulted in a $6 million reduction in the overall value of HDUF (1 cent per stapled security). There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

7.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Target's Statement to be sent to securityholders of HDUF. 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.

7.6 Other

The accompanying letter dated 3 August 2012 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
3 August 2012

Grant Samuel & Associates

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Appendix 1

HDUF - Broker Consensus Forecasts

HDUF has not publicly released earnings forecasts for the year ending 31 December 2012 or beyond. However, HDUF has recently provided the following guidance:

- in its Target's Statement dated 20 January 2012 HDUF stated "The recent completion of the SWQP Stage 3 Expansion *[footnote: Subject to final administrative sign off processes that are expected to occur in 2012]*, the commencement in 2015 of the Santos Easternhaul GTA and a new $460 million contract in respect of SWQP for a period of up to 15 years commencing in 2015 will provide significantly higher revenue growth in the short term (2012 to 2014) to medium term (2015 to 2017) with only modest additional capital expenditure. This is expected to translate into material distributable cash flow growth from 2015…". In this regard, HDUF has projected contracted revenues to grow at 10.4% per annum to 31 December 2015;
- on 22 February 2012 HDUF stated that the refinancing of Epic Energy's external debt would have an immediate cash flow benefit as a result of interest cost savings of approximately $20-25 million per year to 2015. The refinancing reached financial close on 26 March 2012;
- on 24 February 2012 HDUF advised:
  - an annual distribution of 10 cents per security for 2012 paid quarterly; and
  - distributions are expected to rise 1-2 cents per security in 2013; and
- an incentive fee of $55.9 million (pre GST) is payable to Hastings for the six months ended 30 June 2012. In view of the current corporate activity, Hastings has decided to defer its decision regarding payment of this amount. When considering payment of this fee, Hastings intends to take into account the same factors as for the deferred incentive fee for the six months ended 31 December 2011.

Accordingly, the prospective multiples implied by the valuation of HDUF in the Grant Samuel report are based on median broker forecasts. Set out below is a summary of forecasts prepared by brokers that follow HDUF in the Australian stockmarket. In Grant Samuel's opinion, these forecasts are sufficiently close to the forward looking information to be useful for analytical purposes. However, as indicated by HDUF's guidance, there is further contracted revenue growth to emerge in the period 2015 to 2017 which is not reflected in the broker forecasts.

HDUF – Broker Forecasts for the Year ending 31 December ($ millions)

Broker	Report Date	Epic Energy Operating Revenue			Epic Energy EBITDA[1]			Consolidated EBIT[2]			EPS (cents)			DPS (cents)		
		2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014
1	4 Jul 12	200.0	218.0	247.0	156.0	175.0	199.0	105.0	119.0	142.0	4.6	4.8	8.6	11.0	12.0	16.0
2	29 Jun 12	201.3	215.4	232.4	87.0	170.4	186.7	35.8	119.1	135.3	(28.3)	3.9	8.5	10.0	11.0	12.1
3	15 May 12	202.0	220.0	240.0	161.3	177.5	195.7	110.6	125.7	142.7	3.2	5.0	7.6	10.0	11.8	14.6
4	24 Feb 12	203.0	215.0	216.0	156.9	171.9	172.9	120.0	135.0	136.0	4.4	5.3	5.2	10.0	11.0	12.0
5	24 Feb 12	202.0	219.0	221.0	155.0	175.0	177.0	118.0	126.0	129.0	4.2	4.8	5.1	10.0	11.5	11.8
Minimum		*200.0*	*215.0*	*216.0*	*87.0*	*170.4*	*172.9*	*35.8*	*119.0*	*129.0*	*(28.3)*	*3.9*	*5.1*	*10.0*	*11.0*	*11.8*
Maximum		*203.0*	*220.0*	*247.0*	*161.3*	*177.5*	*199.0*	*120.0*	*135.0*	*142.7*	*4.6*	*5.3*	*8.6*	*11.0*	*12.0*	*16.0*
Median		***202.0***	***218.0***	***232.4***	***156.0***	***175.0***	***186.7***	***110.6***	***125.7***	***136.0***	***4.2***	***4.8***	***7.6***	***10.0***	***11.5***	***12.1***

Source: Brokers' reports, Grant Samuel analysis

When reviewing this data the following should be noted:

- as far as Grant Samuel is aware, HDUF is currently followed by five brokers. The forecasts presented above represent the latest available broker forecasts for HDUF and all were published after HDUF announced its results for the year ended 31 December 2011 on 24 February 2012; and
- as Grant Samuel has valued Epic Energy's assets separately responsible entity management fees and other fund operating expenses need to be excluded to derive Epic Energy EBITDA. Only brokers 1 and 5 provide an estimate for these fund expenses. In the table above, Grant Samuel has attempted to present the broker EBITDA earnings on a consistent basis by adjusting the other broker forecasts for fund expenses of $11.9 million in each year.

[1] Epic Energy EBITDA is earnings before net interest, tax, depreciation and amortisation, other income and non-recurring items, management fees and other fund operating expenses.

[2] Consolidated EBIT is earnings before net interest, tax and other income and non-recurring items and after management fees and other fund operating expenses.

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Appendix 2

Selection of Discount Rate

1 Overview

A discount rate in the range of 8.0-8.5% has been selected as appropriate to apply to the forecast nominal ungeared after tax cash flows of the business operations of Hastings Diversified Utilities Fund ("HDUF") (i.e. Epic Energy).

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;

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- 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, regulators such as the Australian Energy Regulator ("AER") and the Energy Regulatory Authority of Western Australia ("ERA") undertake detailed analysis of discount rate calculations and each of the relevant variables. Grant Samuel has had regard to this analysis 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 Epic Energy 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.

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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 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 2008[3] with the long term average declining to 7.1%. However, due to concerns about the earlier market data, Officer now places emphasis on the average risk premium since 1958 which is estimated to be 5.7% 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 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).

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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 R.R. Officer and S. Bishop, "Market Risk Premium: A Review Paper" (August 2008) and "Market Risk Premium: Further Comments" (January 2009), papers prepared for Energy Networks Association, Australian Pipeline Industry Australia and Grid Australia.

4 Where the market return explicitly includes a component for imputation benefits of 1.0 the market risk premium over the same period is 6.4%. Consequently, Officer and Bishop recommend that, if no allowance is made for imputation, the generally accepted level of 6% for the market risk premium is appropriate. In comparison, they recommend that where the market return explicitly includes a component for imputation benefits greater than 0.3 the market risk premium for Australia should be increased to 7%.

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 HDUF's beta as measured by the Australian Graduate School of Management ("AGSM") has varied between 0.13 and 0.33, and was 0.17 measured at December 2011; and
- the standard error of the AGSM's estimate of the HDUF's beta has generally been in the order of 0.49 meaning that for a beta of, say, 0.17 even at a 68% confidence level, the range is -0.32 to 0.65.

- **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 Epic Energy

3.1 Cost of Equity Capital

The cost of equity capital has been estimated by reference to the CAPM to be in the range 7.5-8.1% as follows:

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- **Risk Free Rate**

  Grant Samuel has adopted a risk free rate of 3.0%. 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, particularly in view of the general uncertainty, 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 0.75-0.85 for the purposes of valuing Epic Energy's operating business.

  Grant Samuel has considered the beta factors for a range of Australian and New Zealand energy infrastructure entities in determining an appropriate beta for Epic Energy. 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	
			Bloomberg[7]		Bloomberg	
		AGSM[6]	Local Index	MSCI[8]	Local Index	MSCI
HDUF	**A$938**	**0.17**	**0.53**	**0.82**	**0.85**	**0.75**
Australia -Gas						
APA Group	A$3,197	0.75	0.81	0.68	0.65	0.58
DUET Group	A$2,153	0.67	0.64	0.61	0.53	0.49
Envestra	A$1,329	0.74	0.81	0.79	0.77	0.71
Australia – Electricity						
SP AusNet	A$3,573	0.25	0.56	0.48	0.76	0.75
Spark	A$2,116	0.28	0.40	0.45	0.47	0.41
New Zealand						
Vector	NZ$2,708	na	0.62	0.36	0.48	0.42

Source: AGSM, Bloomberg

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5 Based on share prices as at 20 July 2012, except HDUF which is based on its share price as at 13 December 2011 (being the day prior to announcement of the APA Group Offer).

6 The Australian beta factors calculated by the Australian Graduate School of Management ("AGSM") as at March 2012, except for HDUF which is calculated up to December 2011. 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 20 July 2012, except for HDUF which is calculated up to 13 December 2011. 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.

The evidence suggests that relatively low betas are appropriate for energy infrastructure entities. However, considerable caution is warranted in selecting a beta for Epic Energy:

- individual company betas (for the same source/period) fall in a very wide range. For example, Bloomberg Four Year Local Index betas range from 0.40 (Spark) to 0.81 (APA Group and Envestra);
- all of the data is subject to significant statistical error. For example Envestra's AGSM beta has a standard error of 0.28 (i.e. even at a 68% confidence level it lies somewhere between 0.46 and 1.02) and HDUF's AGSM beta has a standard error of 0.49; and
- the betas for HDUF, SP AusNet and Spark vary significantly depending on the measurement source (AGSM and Bloomberg).

Having regard to the factors above, Grant Samuel has selected a beta factor in the range of 0.75-0.85 for Epic Energy.

A beta factor range of 0.75-0.85 is higher than most of the evidence in the above table would suggest, in particular for entities involved primarily in the gas transmission sector (HDUF, APA Group, DUET Group). However, this range encompasses the AER's July 2011 gas access arrangement decision for the Amadeus Gas Pipeline (0.8) and the ERA's October 2011 gas access arrangement decision for the Dampier to Bunbury Natural Gas Pipeline (0.8). In addition, it encompasses the beta (0.8) adopted by the AER in its determination of the WACC to adopt in reset determinations for electricity transmission and distribution assets from May 2009 until the next review (expected 2014).

- **Calculation**

  Using the estimates set out above, the cost of equity capital in the range 7.5-8.1% can be calculated as follows:

Low			**High**		
Re	=	*Rf + Beta (Rm-Rf)*	*Re*	=	*Rf + Beta (Rm-Rf)*
	=	*3.0% + (0.75 x 6.0%)*		=	*3.0% + (0.85 x 6.0%)*
	=	***7.5%***		**=**	***8.1%***

3.2 Cost of Debt

A cost of debt of 7.5% has been adopted. This figure represents the expected future cost of borrowing over the duration of the cash flow model. Grant Samuel believes that this would be a reasonable estimate of an average interest rate, including a margin, which would match the duration of the cash flows assuming that the operations were funded with a mixture of short term and long term debt.

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 HDUF and the peer group entities used in the beta analysis.

Gearing levels for these entities for the past four years are set out below:

Gearing Levels for Selected Listed Energy Infrastructure Entities							
		Net Debt/(Net Debt + Market Capitalisation)					
Entity	Year End	Financial Year Ended				Current[9]	*4 Year Average*
		Historical 4	Historical 3	Historical 2	Historical 1		
HDUF	**31 Dec**	**51.3%**	**35.1%**	**37.1%**	**50.1%**	**51.2%**	***43.4%***
Australia - Gas							
APA Group	30 Jun	71.1%	67.5%	59.9%	52.0%	46.3%	*62.2%*
DUET Group	30 Jun	71.2%	75.8%	75.8%	72.9%	71.0%	*73.9%*
Envestra	30 Jun	77.4%	75.0%	74.0%	65.8%	61.2%	*73.1%*
Australia - Electricity							
SP AusNet	31 Mar	69.9%	61.4%	63.7%	59.2%	56.4%	*63.6%*
Spark	31 Dec	82.7%	81.1%	74.6%	69.0%	65.7%	*76.8%*
New Zealand							
Vector	30 Jun	61.7%	55.7%	52.9%	47.2%	49.4%	*54.4%*

Source: Company Reports, IRESS, Bloomberg, Grant Samuel analysis

The table shows a range of gearing levels and a trend of decreasing leverage from levels in 2008 and 2009 (this reflects both the recovery in stockmarket values and corporate activity to strengthen balance sheets). 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 entities 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 45-55% debt and 45-55% equity. This is regarded as being broadly consistent with beta factors in the range 0.75-0.85.

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 6.3-6.8%:

Low

WACC = (Re x E/V) + (Rd x (1-t) x D/V)
= (7.5% x 45%) + (7.5% x 0.7 x 55%)
= 6.3%

High

WACC = (Re x E/V) + (Rd x (1-t) x D/V)
= (8.1% x 55%) + (7.5% x 0.7 x 45%)
= 6.8%

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 suggest higher rates than the 7.5-8.1% implied by the CAPM. Analysis of the entities most comparable to Epic Energy (i.e. APA Group, DUET Group and Envestra) using the Gordon Growth Model suggests costs of capital in the range 9.5-12% (yields mostly around 7.5% and growth of 2.0-3.0%) with a median of around 10.5%. 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

[9] Current gearing levels are based on the most recent balance sheet information and on share market prices as at 20 July 2012, except HDUF which is based on its share price as at 13 December 2011 (being the day prior to the announcement of the APA Group Offer).

the difficulties of putting the yields of the energy infrastructure entities on a comparable basis because of differing tax treatments;

- anecdotal information suggests that equity investors have substantially repriced risk since the global financial crisis (notwithstanding the uplift in equity markets since March 2009) and that acquirers are pricing offers on the basis of hurdle rates well above those implied by theoretical models. This can be evidenced through the decline in listed company earnings multiples (relative to the peak in 2007) although it has yet to be translated into the measures of market risk premium (at least those based on longer term historical data). Another way of looking at this is to note that while long term interest rates have fallen by approximately 150-200 basis points over the past 12 months there has been no corresponding lift in earnings multiples, suggesting investors have offset this reduction with an increase in their risk premium and/or a reduction in long term earnings growth rates. 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 6.6-7.2%;

- global interest rates, including long term bond rates, are at very 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 extremely low, if not negative in some cases (e.g. the United States). 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 7.2-7.9%; and

- analysis of research reports on Australian entities involved in gas transmission operations (i.e. HDUF, APA Group, DUET Group and Envestra) indicates that brokers are currently adopting costs of equity capital in the range 9.1-12.0%, with a median of 10.6% and WACC in the range 7.3-8.8%, with a median of 7.8%.

Having regard to these matters and the calculations set out above, Grant Samuel has selected a discount rate range of 8.0-8.5% for application in the discounted cash flow analysis.

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.

Appendix 3

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 Hastings Diversified Utilities Fund ("HDUF"). The number of transactions primarily focused on gas transmission infrastructure is more limited but are useful in reviewing the valuation of HDUF. Set out below is a summary of transactions involving gas transmission businesses in Australia since 2003 for which there is sufficient information to calculate meaningful valuation parameters:

Recent Transaction Evidence – Gas Transmission in Australia

Date	Target	Transaction	Consid-eration[1] (millions)	EBITDA Multiple[2] (times)		EBIT Multiple[3] (times)		Ungeared NTA Multiple[4] (times)
				Historical	Forecast	Historical	Forecast	
Jul 11	Tasmanian Gas Pipeline	Acquisition by Palisade Diversified Infrastructure Fund	$200	11.0	na[5]	16.4	na	0.7
Jul 11	Dampier Bunbury Pipeline	Acquisition of 20% by DUET Group	$840	9.6	9.2	13.2	na	1.3
Jun 11	Amadeus Gas Pipeline	Acquisition by APA Group	$63	2.6	4.2	7.9	7.5	0.6
Nov 10	SEA Gas Pipeline	Acquisition of 16.7% by APA Group and 16.7% by REST	$278	na	10.9	na	na	na
Mar 10	Berwyndale to Wallumbilla Pipeline	Acquisition by APA Group	$83	na	32.9	na	na	1.0
Dec 08	Various energy infrastructure assets of APA Group	Acquisition by Energy Infrastructure Investments Pty Limited	$165	na	10.6	na	na	1.0
Aug 08	Central Ranges Pipeline	Acquisition by APA Group	$24	na	32.2	na	na	1.0
Jun 08	North Queensland Gas Pipeline	Acquisition by Victorian Funds Management Corporation	$202	na	na	8.0	na	1.3
Apr 07	SEA Gas Pipeline	Acquisition of 33.3% by APA Group	$400	na	14.5	na	na	na
Nov 06	AIH	Acquisition by Alinta	$956	14.3	14.5	22.9	24.2	2.0
Aug 06	GasNet	Takeover by APA Group	$452	13.9	13.3	19.5	18.3	1.3
Feb 05	Carpentaria Gas Pipeline	Acquisition of 30% by APA Group	$327	na	na	11.8	11.4	na
Aug 04	Dampier to Bunbury Natural Gas Pipeline	Acquisition by DUET Group/Alinta/Alcoa Consortium	$1,860	na	11.1	na	na	na
Aug 04	45% of Southern Cross Pipelines and 100% of Parmelia Gas	Acquisition by APA Group	$206	8.3	na	na	na	na
Mar 04	Duke Energy Australian and New Zealand assets	Acquisition by Alinta	$1,690	17.0	15.5	na	na	na

Source: Grant Samuel analysis[6]

1 Implied equity value if 100% of the company or business had been acquired.

2 Represents gross consideration divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

3 Represents gross consideration divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

4 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).

5 na = not available

6 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.

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A brief summary of each transaction is set out below.

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.

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 the 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.

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 proforma forecast EBITDA multiple of 10.6 times. This multiple represents a blend of the businesses acquired.

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 Limited's ("Origin Energy") 33.3% interest in SEA Gas Pipeline for $133.2 million. The SEA Gas Pipeline is a 114 PJ 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.

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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.

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.

2 Valuation Evidence from Sharemarket Prices

The valuation of HDUF 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 HDUF, the sharemarket data provides some framework to assess valuation parameters for HDUF. 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 Capital-isation[7] (millions)	EBITDA Multiple[8] (times)				EBIT Multiple[9] (times)				Ungeared NTA[10] Multiple (times)
			Historical	Forecast Year 1	Forecast Year 2	Forecast Year 3	Historical	Forecast Year 1	Forecast Year 2	Forecast Year 3	
Australia - Gas											
APA Group	30 Jun	A$3,197	11.1	10.2	9.9	9.3	14.3	13.1	12.7	11.8	1.68[11]
DUET Group	30 Jun	A$2,153	10.2	9.9	9.8	9.3	14.3	14.1	13.8	13.3	1.60
Envestra	30 Jun	A$1,329	11.7	10.3	9.5	8.6	14.3	12.3	11.4	10.2	1.66
Australia - Electricity											
SP AusNet	31 Mar	A$3,573	9.0	8.3	7.8	7.3	13.3	12.1	11.4	10.7	1.08
Spark	31 Dec	A$2,116	9.3	8.8	8.1	7.8	12.8	12.5	11.5	11.1	1.14
New Zealand											
Vector	30 Jun	NZ$2,708	9.0	8.7	8.6	8.7	12.7	11.9	11.9	12.2	1.71

Source: Grant Samuel analysis[12]

The multiples shown above are based on sharemarket prices as at 20 July 2012 and do not reflect a premium for control.

All of the entities have a 30 June year end with the exception of SP AusNet which has a 31 March year end and Spark Infrastructure Trust 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 HDUF's financial information which is on a December year end. Under this alignment, the earnings forecast for SP AusNet for the year ending 31 March 2012 has been treated as its Forecast Year 1. 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 all its assets which include 12 gas transmission pipelines measuring 10,170 kilometres across all Australian mainland states and territories, two gas storage facilities in Western Australia and Victoria, a wind farm in Western Australia and a gas fired power station under construction in Queensland;

7 Market capitalisation based on sharemarket prices as at 20 July 2012.

8 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 and significant and non-recurring items.

9 Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

10 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).

11 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.

12 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.

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- Energy Investments: APA Group owns equity interests in energy infrastructure entities (both listed and unlisted) including gas distribution networks (Envestra (33%) and Allgas (20%)), gas pipelines (SEA Gas Pipeline (50%), Ethane Pipeline (6%) and HDUF (20.7%)) 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 the majority of its energy investments.

APA Group's multiples reflects the blend of its businesses and, in particular, the increasing income stream from asset management. On 1 May 2012 APA Group's only substantial shareholder Petronas Australia Pty Limited divested its long term 17.3% interest by way of an institutional placement.

DUET Group

DUET Group is an owner of energy utility assets in Australia. Its investments comprise Multinet Gas (gas distribution in Victoria), a 66% interest in United Energy (electricity distribution in Victoria) and a 80% interest in Dampier Bunbury Pipeline (gas transmission in Western Australia), all of which are regulated assets. DUET Group is externally managed by a 50/50 joint venture between AMP Capital Investors and Macquarie Funds Group.

Envestra Limited

Envestra Limited ("Envestra") owns and operates 1,120 kilometres of gas transmission pipelines and 22,200 kilometres of regulated gas distribution networks throughout Australia. Envestra derives its revenue by charging energy retailers to transport natural gas through these gas pipelines and networks. Envestra has outsourced operation and maintenance of all its assets to APA Group. Envestra's free float is restricted as APA Group owns a 33.01% interest and Cheung Kong Infrastructure owns a 19.5% interest.

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. Singapore Power Limited has a 51% controlling interest in the entity. SPI Management Services Pty Ltd, a wholly-owned subsidiary of Singapore Power Limited, manages the businesses and SP AusNet under a Management Services Agreement. In recent times, there has been a degree of uncertainty around SP AusNet's business (including a dispute with the regulator, a tax dispute, bushfire litigation and regulatory reviews).

Spark Infrastructure Trust

Spark Infrastructure Trust ("Spark") owns 49% interests in each of Citipower and Powercor (whose principal activities are electricity distribution in Victoria) and ETSA (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/Power Asset Holdings. During 2011 Spark internalised its management. The calculation of underlying multiples for Spark is complex because of the minority holdings and form of investment.

Vector Limited

Vector Limited ("Vector") owns and manages a portfolio of energy infrastructure networks in New Zealand including electricity distribution (approximately 57% of EBITDA), gas transmission (24%), gas distribution (10%) and electricity and gas metering installations and telecommunications (9%). In addition, Vector owns a 22% share of NZ Windfarms Limited and a 50% share in New Zealand's largest vegetation management company. The Auckland Energy Consumer Trust is Vector's majority shareholder with a 75.1% interest.

Corporate directory

HDUF Epic Trust
ARSN 109 770 961

HDUF Finance Trust
ARSN 109 770 765

HDUF Further Investments Trust
ARSN 109 897 921

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HFML Board of Directors
Alan Cameron AO, Chairman
Andrew Day, Chief Executive
James Evans
Liam Forde
Stephen Gibbs
James McDonald
Victoria Poole

Company Secretaries
Jane Frawley
Jefferson Petch

HDF Securityholder information

HDF has established a securityholder information line which HDF Securityholders may call if they have any queries in relation to the Offer. The telephone number for the HDF Securityholder Information Line is 1800 815 610 (a toll-free line for calls made from within Australia) or +61 2 8256 3357 (for calls made from outside Australia). Calls to the HDF Securityholder Information Line may be recorded.

For further information about HDF and HFML please view our website www.hfm.com.au.

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Hastings
Funds Management

Hastings Funds Management is a subsidiary of the Westpac Banking Corporation. Hastings is a specialist manager of infrastructure equity and infrastructure debt investments. As at 30 June 2012 Hastings had approximately $7.1 billion in funds under management.