

Ethane Pipeline Income Fund

Ethane Pipeline Income Trust
ARSN 118 961 167

Ethane Pipeline Income Financing Trust
ARSN 118 961 023

APA Ethane Limited
ACN 132 157 290

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ASX RELEASE

1 April 2016

The Manager

ASX Market Announcements
Australian Securities Exchange
4th Floor, 20 Bridge Street
Sydney NSW 2000

Ethane Pipeline Income Fund (ASX: EPX) – Takeover bid by Australian Pipeline Limited (ABN 99 091 344 704) as responsible entity of Australian Pipeline Trust (“APA”)

APA Ethane Limited (ABN 85 132 157 290) (“**EPX RE**”) as responsible entity of Ethane Pipeline Income Trust (ARSN 118 961 167) and Ethane Pipeline Income Financing Trust (ARSN 118 961 023), which together comprise Ethane Pipeline Income Fund (“**EPX**”), today lodged its target’s statement in relation to the off-market takeover bid by APA (“**Target’s Statement**”). A copy of the Target’s Statement is attached to this announcement.

The Target’s Statement has been sent to APA and lodged with the Australian Securities and Investments Commission today. It will be despatched to EPX securityholders over the coming days.

Yours sincerely



Amanda Keenan
Company Secretary
APA Ethane Limited

For further information please contact

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Chair of Independent Board Committee
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About the Ethane Pipeline Income Fund

The Fund’s core asset is the 1,375km Moomba to Sydney Ethane Pipeline that supplies ethane from the Cooper Basin production facility at Moomba, South Australia to Qenos’ Botany ethylene plant.

Ethane Pipeline Income Fund

ETHANE PIPELINE INCOME FUND TARGET'S STATEMENT

ACCEPT

The Independent Board Committee of EPX unanimously recommends that you ACCEPT the Offer by APA to acquire all of your securities for \$1.88 cash per security, in the absence of a superior proposal.

If you have any questions about the Offer, please call EPX Securityholder Information Line on 1300 222 378

Financial Adviser



RBC Capital Markets

Legal Adviser



1. IMPORTANT NOTICES

Nature of this document

This document is a Target's Statement issued by APA Ethane Limited (ABN 85 132 157 290) ("**EPX RE**") as responsible entity of Ethane Pipeline Income Trust (ARSN 118 961 167) ("**EPIT**") and Ethane Pipeline Income Financing Trust (ARSN 118 961 023) ("**EPIFT**"), which together comprise Ethane Pipeline Income Fund ("**EPX**"), under Part 6.5 Division 3 of the Corporations Act in response to the Offer by Australian Pipeline Limited (ABN 99 091 344 704) as responsible entity of Australian Pipeline Trust (ARSN 091 678 778) ("**APA**").

ASIC and ASX disclaimer

A copy of this Target's Statement has been lodged with ASIC and sent to ASX on 1 April 2016. None of ASIC, ASX or any of their respective officers takes any responsibility for the content of this Target's Statement.

Date of this Target's Statement

This Target's Statement is dated 1 April 2016.

Defined terms

Capitalised terms used in this Target's Statement are defined in Section 13. The rules of interpretation that apply to this Target's Statement are also set out in Section 13.

No account of personal circumstances

The information contained in this Target's Statement does not constitute financial product advice. In preparing this Target's Statement, EPX RE has not taken into account the objectives, financial situation or needs of individual EPX Securityholders. It is important that you consider the information in this Target's Statement in light of your particular circumstances. You should seek advice from your financial, legal or other professional adviser regarding your particular circumstances and the Offer or if you are in doubt as to the contents of this Target's Statement.

Forward-looking statements

This Target's Statement may contain forward-looking statements, including statements of current intention or expectation. As such forward-looking statements relate to future matters, they are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements to differ materially from the anticipated results, performance or achievements expressed, projected or implied by such forward-looking statements. None of EPX, EPX RE or its directors, officers and advisers give any representation, assurance or guarantee to EPX Securityholders or any other person that any forward-looking statements will actually occur or be achieved.

Disclaimer as to information

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

Independent Expert's Report

The Independent Expert's Report has been prepared by the Independent Expert for the purposes of this Target's Statement and the Independent Expert is responsible for that report. Neither EPX, EPX RE nor any of its officers or advisers assumes any responsibility for the accuracy or completeness of the Independent Expert's Report, except, in the case of EPX RE, in relation to information which it has provided to the Independent Expert.

Risk factors

EPX Securityholders should note that there are a number of risks associated with an investment in EPX. Section 12 of this Target's Statement sets out further information on those risks.

Foreign jurisdictions

The release, publication or distribution of this Target's Statement may be restricted by law or regulation in some jurisdictions outside Australia. Accordingly, persons outside Australia who come into possession of this Target's Statement should seek advice 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 laws and regulations outside Australia.

Privacy

EPX has collected your information from the Register for the purpose of providing you with this Target's Statement. Such information may include the name, contact details and Securityholdings of EPX Securityholders and the names of persons appointed to act as proxy, attorney or corporate representative of EPX Securityholders. Without this information, EPX 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. Personal information of the type described above may be disclosed to EPX, APA and their registries, print and mail and other service providers, authorised Securities brokers, Related Bodies Corporate of EPX and APA, and may be required to be disclosed to regulators, such as ASIC. EPX Securityholders have certain rights to access personal information that has been collected. EPX Securityholders should contact Link Market Services Limited being the EPX security registry (the "**EPX Registry**") in the first instance, if they wish to access their personal information. EPX Securityholders who appoint a named person to act as their proxy, attorney or corporate representative should ensure that they inform that person of these matters.

Tax implications of the Offer

There will be tax consequences for EPX Securityholders which may include tax being payable on any gain on disposal of EPX Securities. For further details regarding general Australian tax consequences of the Offer, refer to Section 10. The tax treatment may vary depending on the nature and characteristics of each EPX Securityholder and their specific circumstances. Accordingly, EPX Securityholders should seek professional tax advice in relation to their particular circumstances.

Diagrams

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

Rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Target's Statement are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Target's Statement.

EPX Securityholder Information Line

If you have any questions in relation to the Offer, please contact the EPX Securityholder Information Line on 1300 222 378 (within Australia) or +61 1300 222 378 (outside Australia) between 8:30am to 5:30pm Monday to Friday (Sydney time).

KEY DATES AND EVENTS

Offer received from APA	7 March 2016
Date Bidder's Statement lodged with ASIC	7 March 2016
Interim Distribution Record Date	16 March 2016
Date of the Offer	21 March 2016
Commencement of the Offer Period	21 March 2016
Date of this Target's Statement	1 April 2016
Interim Distribution payment date	15 April 2016
Close of Offer Period (unless extended)	2 May 2016

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2. LETTER FROM CHAIRMAN OF EPX'S INDEPENDENT BOARD COMMITTEE

1 April 2016

Dear fellow securityholders,

UNCONDITIONAL, ALL-CASH, OFF-MARKET TAKEOVER OFFER BY APA

On 7 March 2016, Australian Pipeline Limited as responsible entity of Australian Pipeline Trust ("**APA**"), announced an unconditional, all-cash, off-market takeover offer to acquire all of the securities in Ethane Pipeline Income Fund ("**EPX**") ("**EPX Securities**") that it does not currently own ("**Offer**"). APA is offering \$1.88 cash per EPX Security ("**Offer Price**"). In addition, EPX Securityholders are entitled to retain the declared interim distribution for the March 2016 quarter of 3.25 cents per EPX Security if eligible to receive that distribution on the record date (16 March 2016) ("**Interim Distribution**"). The Offer is unconditional and, EPX Securityholders who accept the Offer will receive the Offer Price for each EPX Security that they hold within 5 Business Days from receipt of the valid acceptance. APA has been acquiring EPX Securities on-market since announcing the Offer. Through these acquisitions and acceptances of the Offer, APA has increased its holding of EPX Securities from 6.08% on 7 March 2016 to 19.81% as at 30 March 2016.

INDEPENDENT BOARD COMMITTEE APPROACH TO THE OFFER

On receipt of the Offer, your board convened an Independent Board Committee ("**IBC**") to consider the Offer. The IBC consists of the directors of the EPX Responsible Entity ("**EPX RE**"), who are independent of APA, being Nancy Fox and Rick Coles. Robert Wright, EPX RE's Chairman, is not a member of the IBC as he was a director of APA Group RE until 22 October 2015 and was nominated as Chairman of EPX RE by APT Pipelines Limited, a member of APA Group.

The IBC appointed RBC Capital Markets as financial adviser and Gilbert + Tobin as legal adviser.

GOVERNANCE

EPX RE is APA Ethane Limited. EPX RE and other members of EPX's group are party to agreements with members of APA Group for the provision of management services, and operations and maintenance services in respect of the Pipeline.

EPX has implemented appropriate governance and protocols for officers and managers of EPX (as well as those possessing EPX confidential information) to ensure that the interests of EPX Securityholders are protected.

IBC RECOMMENDATION

The IBC has carefully considered the Offer and the choices available to EPX Securityholders and unanimously recommends the Offer in the absence of a superior proposal.

In making this unanimous recommendation the IBC has considered the following key supporting reasons:

- the Offer provides EPX Securityholders with the ability to realise a cash premium to the trading prices of EPX Securities over the 12 month period prior to 4 March 2016, being the last full trading day prior to the announcement of the Offer. In particular, the Offer Price of \$1.88 cash per EPX Security is:
 - a 27.9% premium to the closing price of \$1.47 per EPX Security on 4 March 2016, being the last full trading day prior to the announcement of the Offer;
 - a 31.5% premium to the one week Volume Weighted Average Price ("**VWAP**")⁽¹⁾ to 4 March 2016 of EPX Securities of \$1.43 per EPX Security;
 - a 35.3% premium to the one month VWAP⁽²⁾ to 4 March 2016 of EPX Securities of \$1.39 per EPX Security; and
 - a 28.8% premium to the three month VWAP⁽³⁾ to 4 March 2016 of EPX Securities of \$1.46 per EPX Security;
- the Offer Price of \$1.88 cash per EPX Security is above the highest price at which EPX Securities have traded in the 12 months prior to 4 March 2016;

(1) VWAPs are calculated on the basis of ASX trading data sourced from IRESS without the consent of IRESS to the use of data, as permitted by ASIC Corporations (Consent to Statements) Instrument 2016/72.

(2) See footnote 1.

(3) See footnote 1.

- the Offer removes the exposure to all the future risks associated with the EPX business and future distributions for those EPX Securityholders who accept the Offer;
- the Independent Expert has concluded that the Offer is fair and reasonable. The Independent Expert has assessed a valuation range for EPX of \$1.67 to \$1.82 per security. The Offer Price is above this range; and
- there is a risk that there will be limited liquidity in EPX Securities following the Offer, thereby making it more difficult for EPX Securityholders who do not accept the Offer to realise value for their EPX Securities. This is more likely if APA gains a majority securityholding in EPX but does not achieve the 90% securityholding required to entitle it to compulsorily acquire all outstanding EPX Securities. In this event, APA will be in a position to unilaterally pass ordinary resolutions of EPX Securityholders, including with respect to the removal or replacement of the responsible entity of EPX.

DIRECTORS' INTENTIONS

Each of the EPX RE Directors has a relevant interest in 50,000 EPX Securities. Each EPX RE Director intends to accept the Offer in respect of all of the EPX Securities in which they have a relevant interest in the absence of a superior proposal.

YOUR OPTIONS

As an EPX Securityholder you have a number of choices available to you in relation to the Offer. You can:

- accept the Offer with regard to all of your EPX Securities;
- sell all or some of your EPX Securities on-market (unless you have already accepted the Offer); or
- reject the Offer by doing nothing.

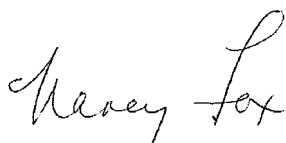
Further details in relation to the options available to you are set out in Section 7 of this Target's Statement along with the risks and considerations of remaining as an EPX Securityholder.

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** APA's Offer you should carefully follow the instructions outlined on page 13 of APA's Bidder's Statement and complete the applicable Acceptance Form enclosed within it. APA's Offer is scheduled to close at 7:00pm (Sydney time) on 2 May 2016 unless the Offer is extended in accordance with the Corporations Act.

If you have any further queries in relation to APA's Offer, please contact the EPX Securityholder Information Line on 1300 222 378 (within Australia) or +61 1300 222 378 (outside Australia) between 8:30am to 5:30pm Monday to Friday (Sydney time).

Yours sincerely,



Nancy Fox

Independent Director

Chairman of Independent Board Committee

APA Ethane Limited as Responsible Entity of the Ethane Pipeline Income Fund

REASONS WHY EPX SECURITYHOLDERS SHOULD **ACCEPT** THE OFFER

A

**THE OFFER HAS BEEN UNANIMOUSLY RECOMMENDED
BY THE IBC**

B

**THE INDEPENDENT EXPERT HAS CONCLUDED THAT THE
OFFER IS FAIR AND REASONABLE**

C

**THE OFFER REPRESENTS ATTRACTIVE VALUE FOR EPX
SECURITYHOLDERS AND IS AT A SIGNIFICANT PREMIUM
TO PRE-BID PRICES OF EPX SECURITIES**

D

**THERE ARE A NUMBER OF RISKS THAT WOULD
BE ASSOCIATED WITH BEING A MINORITY EPX
SECURITYHOLDER WHICH YOU MAY BE EXPOSED TO IF YOU
DO NOT ACCEPT THE OFFER**

E

**THE EPX SECURITY PRICE MAY TRADE BELOW THE APA
OFFER PRICE OF \$1.88 FOLLOWING CLOSE OF THE OFFER**

F

**THE IBC IS NOT AWARE OF ANY SUPERIOR PROPOSAL FOR
YOUR EPX SECURITIES AND THERE IS NO CERTAINTY THAT
ANY SUPERIOR PROPOSAL WILL EMERGE**

G

**THE OFFER REMOVES EXPOSURE TO ALL THE FUTURE
RISKS ASSOCIATED WITH THE EPX BUSINESS AND FUTURE
DISTRIBUTIONS FOR EPX SECURITYHOLDERS WHO ACCEPT
THE OFFER**

H

THE OFFER IS CAPABLE OF IMMEDIATE ACCEPTANCE

See Section 4 for more information.

POSSIBLE REASONS WHY EPX SECURITYHOLDERS MAY CHOOSE NOT TO ACCEPT THE OFFER

A **YOU MAY DISAGREE WITH THE IBC'S RECOMMENDATION OR THE CONCLUSION OF THE INDEPENDENT EXPERT AND BELIEVE THAT THE OFFER IS INADEQUATE**

B **BY ACCEPTING THE OFFER EPX SECURITYHOLDERS WILL LOSE EXPOSURE TO ANY POTENTIAL UPSIDE IN THE EPX SECURITY PRICE**

C **YOU MAY CONSIDER THAT THERE IS THE POTENTIAL FOR A SUPERIOR PROPOSAL TO BE MADE IN THE FORESEEABLE FUTURE**

D **THE POTENTIAL TAX CONSEQUENCES OF THE OFFER MAY NOT SUIT YOUR CURRENT FINANCIAL POSITION OR TAX CIRCUMSTANCES**

See Section 5 for more information.

3. INDEPENDENT DIRECTORS' RECOMMENDATION

DIRECTORS OF EPX RE

The EPX RE Directors, as at the date of this Target's Statement, are Robert Wright (Chairman), Nancy Fox, and Rick Coles.

Pursuant to the constitution of EPX RE, APT Pipelines Limited, a member of APA Group, is entitled to appoint one director for so long as it or any of its related bodies corporate owns not less than 49% of the issued capital in EPX RE, and any director so appointed serves as Chairman of the Board and may only be removed from office by APT Pipelines Limited. Robert Wright has been appointed by APT Pipelines Limited and is the current Chairman of EPX RE. Until 22 October 2015, Robert Wright was also a director of Australian Pipeline Limited, the Responsible Entity of the registered investment schemes that comprise APA Group. As a result of the foregoing, Robert Wright is not considered to be an independent director of EPX RE. Accordingly, the Independent Board Committee ("IBC") was established, comprising the Independent Directors, namely Nancy Fox (appointed Chairman of the IBC) and Rick Coles.

RECOMMENDATION OF THE IBC

This Target's Statement sets out the formal response of the IBC to the Offer, including the reasons why the Independent Directors unanimously recommend that you **ACCEPT** the Offer, in the absence of a superior proposal. The key reasons for the Independent Directors' unanimous recommendation are set out in Section 4.

INTENTIONS OF THE EPX RE DIRECTORS

You should note that each of the Independent Directors intends to accept the Offer in respect of the 50,000 EPX Securities in which they have a relevant interest, in the absence of a superior proposal. In addition, Robert Wright also intends to accept the Offer in respect of all of the EPX Securities in which he has a relevant interest in the absence of a superior proposal.

4. REASONS WHY EPX SECURITYHOLDERS SHOULD **ACCEPT** THE OFFER

A. THE OFFER HAS BEEN UNANIMOUSLY RECOMMENDED BY THE IBC

The IBC unanimously recommends that you **ACCEPT** the Offer in the absence of a superior proposal. In reaching their recommendation, the IBC has assessed the Offer, having regard to the reasons to accept, or to reject, the Offer, as set out in this Target's Statement.

B. THE INDEPENDENT EXPERT HAS CONCLUDED THAT THE OFFER IS FAIR AND REASONABLE

The IBC has appointed Lonergan Edwards & Associates Limited as Independent Expert to undertake an independent assessment of the Offer. The Independent Expert has assessed a valuation range for EPX Securities of \$1.67 to \$1.82 per security. The Offer Price is above this range. On this basis, the Independent Expert has concluded that the Offer is fair and reasonable.

Refer to Annexure A of this Target's Statement for the full Independent Expert's Report. The IBC recommends that you read the Independent Expert's Report carefully.

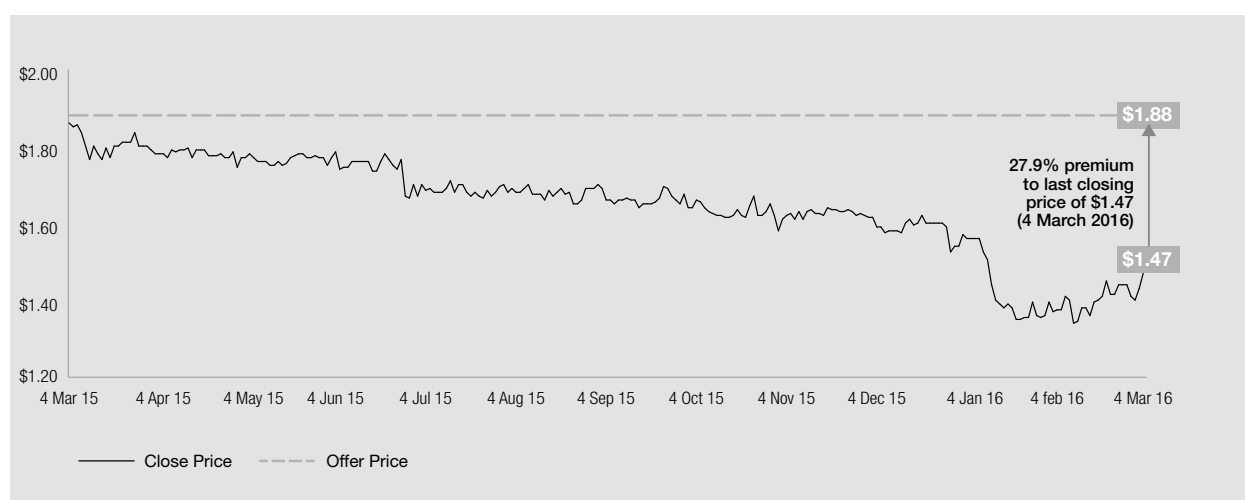
C. THE OFFER REPRESENTS ATTRACTIVE VALUE FOR EPX SECURITYHOLDERS AND IS AT A SIGNIFICANT PREMIUM TO PRE-BID PRICES OF EPX SECURITIES

The Offer Price of \$1.88 cash per EPX Security represents a premium over historical trading prices of EPX Securities. This includes:

- 27.9% to the closing price of \$1.47 per EPX Security on 4 March 2016, being the last full trading day prior to the announcement of the Offer;
- 31.5% to EPX one week VWAP¹ to 4 March 2016 of EPX Securities, of \$1.43 per EPX Security;
- 35.3% to EPX one month VWAP² to 4 March 2016 of EPX Securities, of \$1.39 per EPX Security; and
- 28.8% to EPX three month VWAP³ to 4 March 2016 of EPX Securities, of \$1.46 per EPX Security.

It is noted that at the time the Offer was announced, EPX Securities were trading on the ASX on a cum-distribution basis. EPX Securityholders are entitled to retain the declared EPX distribution for the March 2016 quarter of 3.25 cents per EPX Security ("**Interim Distribution**") if eligible on the Interim Distribution Record Date (16 March 2016).

Last 12 Months' Price Performance



(1) VWAPs are calculated on the basis of ASX trading data sourced from IRESS without the consent of IRESS to the use of data, as permitted by ASIC Corporations (Consents to Statements) Instrument 2016/72.

(2) See footnote 1.

(3) See footnote 1.

4. REASONS WHY EPX SECURITYHOLDERS SHOULD **ACCEPT** THE OFFER CONTINUED

Offer Price Comparison to VWAP



D. THERE ARE A NUMBER OF RISKS THAT WOULD BE ASSOCIATED WITH BEING A MINORITY EPX SECURITYHOLDER WHICH YOU MAY BE EXPOSED TO IF YOU DO NOT ACCEPT THE OFFER

If APA acquires more than 50.1% but less than 90% (threshold for compulsory acquisition of remaining Securities) of EPX Securities, APA would acquire a majority and controlling holding in EPX. In these circumstances, any EPX Securityholders who do not accept the Offer risk becoming a minority Securityholder in EPX. This could have a number of possible implications, including:

- APA would be in a position to cast the majority of votes at a general meeting of EPIT and EPIFT, the entities which comprise EPX. This will enable APA to control the appointment/replacement of the Responsible Entity of EPX and control the strategic direction of the business. In addition, if APA acquires 75% or more of EPX Securities, it will be able to pass a special resolution of EPIT and EPIFT, which would enable APA to, among other things, change EPIT and EPIFT's constitutions;
- if EPX remains listed on the ASX, the market for your EPX Securities is likely to be less liquid and less active than at present; and
- APA may seek to have EPX de-listed. As a result, any remaining EPX Securityholders will then hold securities in an unlisted vehicle, which are likely to be illiquid and have no active market. In addition, those securities would not be subject to the ASX Listing Rules which include various protections for securityholders, including requirements for securityholder approval in certain related party transactions.

E. THE EPX SECURITY PRICE MAY TRADE BELOW THE APA OFFER PRICE OF \$1.88 FOLLOWING CLOSE OF THE OFFER

The Offer Price of \$1.88 is above the highest price at which EPX Securities have traded in the 12 months to 4 March 2016, the last unaffected trading day prior to the announcement of the Offer. For the six month period prior to 4 March 2016, EPX's Security price traded between \$1.340 and \$1.695.

There are many factors that may affect EPX's Security price. However, the IBC considers that in the absence of a superior proposal, the EPX Security price may fall below current levels and below the Offer Price.

F. THE IBC IS NOT AWARE OF ANY SUPERIOR PROPOSAL FOR YOUR EPX SECURITIES AND THERE IS NO CERTAINTY THAT ANY SUPERIOR PROPOSAL WILL EMERGE

As at 31 March 2016, the IBC has not received any superior proposal for your EPX Securities and there is no certainty that any superior proposal will emerge.

G. THE OFFER REMOVES EXPOSURE TO ALL THE FUTURE RISKS ASSOCIATED WITH THE EPX BUSINESS AND FUTURE DISTRIBUTIONS FOR EPX SECURITYHOLDERS WHO ACCEPT THE OFFER

There are certain known risks, outlined in Section 12 of this Target's Statement, and unknown risks, in the EPX business. The cash, unconditional Offer removes those future risks associated with the EPX business and the future distributions.

H. THE OFFER IS CAPABLE OF IMMEDIATE ACCEPTANCE

The Offer is unconditional and payment will be received within 5 business days of receipt of your valid acceptance.

5. POSSIBLE REASONS WHY EPX SECURITYHOLDERS MAY CHOOSE NOT TO ACCEPT THE OFFER

A. YOU MAY DISAGREE WITH THE IBC'S RECOMMENDATION OR THE CONCLUSION OF THE INDEPENDENT EXPERT AND BELIEVE THAT THE OFFER IS INADEQUATE

You may disagree with the unanimous recommendation of the IBC and the Independent Expert's opinion that the Offer is fair and reasonable. As at 31 March 2016, no competing offer has emerged for consideration by the EPX RE Directors.

B. BY ACCEPTING THE OFFER EPX SECURITYHOLDERS WILL LOSE EXPOSURE TO ANY POTENTIAL UPSIDE IN THE EPX SECURITY PRICE

If you accept the Offer, you will give up your right to sell your EPX Securities on-market, accept a competing takeover proposal in relation to EPX, or otherwise deal with your EPX Securities. You will also lose your right to future EPX distributions. There are several implications in relation to each of the above choices. A summary of these implications is set out in Section 7 of this Target's Statement.

C. YOU MAY CONSIDER THAT THERE IS THE POTENTIAL FOR A SUPERIOR PROPOSAL TO BE MADE IN THE FORESEEABLE FUTURE

You may believe that there is a possibility that a superior proposal could be made in the foreseeable future. As at 31 March 2016, no competing offer has emerged for consideration by the EPX RE Directors.

D. THE POTENTIAL TAX CONSEQUENCES OF THE OFFER MAY NOT SUIT YOUR CURRENT FINANCIAL POSITION OR TAX CIRCUMSTANCES

Acceptance of the Offer may have potential tax consequences for EPX Securityholders. Some of the tax consequences that may arise as a result of the Offer (amongst others) are outlined in Section 10.

6. FREQUENTLY ASKED QUESTIONS

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

Question	Answer
OVERVIEW OF THE OFFER	
Who is making the Offer?	<p>Australian Pipeline Limited (ABN 99 091 344 704) as Responsible Entity of Australian Pipeline Trust (ARSN 091 678 778) ("APA").</p> <p>APA is part of APA Group, which is Australia's largest natural gas infrastructure business, owning and/or operating approximately \$19 billion of energy assets.</p> <p>Information in relation to APA and APA Group is set out in Section 9 of this Target's Statement and Section 4 of the Bidder's Statement.</p>
What is the Offer?	The Offer is an off-market takeover bid by APA for all EPX Securities not already held by it on the terms set out in Section 8 of the Bidder's Statement.
Why have I received this document?	<p>You have received this Target's Statement because you are an EPX Securityholder.</p> <p>This Target's Statement is the IBC's formal response to the Offer and the Bidder's Statement which was sent to EPX Securityholders shortly before this Target's Statement. The Bidder's Statement was prepared by APA and includes information about APA and APA Group, together with details of APA's Offer to acquire your EPX Securities.</p> <p>The Bidder's Statement and this Target's Statement contain important information in relation to your decision whether or not to accept the Offer.</p>
What will I receive for my EPX Securities if I accept the Offer?	<p>APA is offering cash of \$1.88 per EPX Security.</p> <p>In addition, EPX Securityholders are entitled to retain the declared EPX distribution for the March 2016 quarter of 3.25 cents per EPX Security ("Interim Distribution") if eligible on the Interim Distribution Record Date (16 March 2016).</p> <p>Please refer to public documents released by APA on the ASX and their website www.apa.com.au and, in particular, the Bidder's Statement for more information.</p>
Will I be eligible for the Interim Distribution?	<p>You will be entitled to receive the Interim Distribution if you were the registered holder of EPX Securities at the Interim Distribution Record Date, which was 16 March 2016. You will retain this entitlement even if you accept the Offer.</p> <p>The Interim Distribution will be paid on 15 April 2016.</p>
How long will the Offer be open for acceptance?	The Offer is scheduled to close at 7:00pm (Sydney time) on 2 May 2016 as specified in the Bidder's Statement, unless it is extended.
Can the Offer Period be extended?	<p>APA may extend the Offer Period at any time before the end of the Offer Period. The maximum Offer Period is 12 months.</p> <p>There will be an automatic extension if, within the last seven days of the Offer Period:</p> <ul style="list-style-type: none"> ■ APA increases the Offer Price; or ■ APA's voting power in EPX increases to more than 50%. <p>If either of those events occurs, the Offer is automatically extended so that it ends 14 days after the relevant event.</p>
Can the Offer be withdrawn?	<p>APA may only withdraw unaccepted Offers with the written consent of ASIC and subject to the conditions (if any) specified in such consent.</p> <p>APA cannot withdraw the Offer in respect of your EPX Securities after you have accepted it.</p>

6. FREQUENTLY ASKED QUESTIONS CONTINUED

Question	Answer
Can the Offer be varied?	APA may vary the Offer in any of the ways permitted by the Corporations Act, including by extending the Offer Period or by increasing the Offer Price. If APA varies the Offer in any of those ways, it must give written notice to ASIC and EPX RE and send you a copy of that notice (provided, however, that APA will not be required to send you a copy of the notice if, at the time of the variation, you have already accepted the Offer, the Offer is unconditional and the variation merely extends the Offer Period).
Is the Offer conditional?	No. The Offer is unconditional.
What does it mean that the Offer is unconditional?	The Offer is not be subject to any defeating conditions. That means that EPX Securityholders have the ability to accept the Offer immediately and will be paid the Offer Price (\$1.88 cash per EPX Security) within 5 Business Days from receipt of a valid acceptance.
HOW TO RESPOND TO THE OFFER	
What choices do I have as an EPX Securityholder?	<p>As an EPX Securityholder, you have the following choices in respect of your EPX Securities:</p> <ul style="list-style-type: none"> ■ accept the Offer for all of your EPX Securities; ■ sell some or all of your EPX Securities on-market (unless you have already accepted the Offer); or ■ reject the Offer by doing nothing. <p>There are several implications in relation to each of the above choices, as set out in Section 7.</p> <p>You should seek legal, financial and/or taxation advice before taking any action in relation to the Offer.</p>
How do I accept the Offer?	To accept the Offer, you need to follow the instructions set out in Section 9 of the Bidder's Statement and on the Acceptance Form.
Can I accept the Offer for some, but not all, of my EPX Securities?	No. You cannot accept the Offer for part of your EPX Securities. You can only accept the Offer for all of your EPX Securities.
What are the consequences of accepting the Offer now?	If you accept the Offer, you will give up your right to sell your EPX Securities on-market, accept a competing proposal in relation to EPX, or otherwise deal with your EPX Securities.
Can I withdraw my acceptance of the Offer?	No. This is because the Offer is unconditional.
What happens if APA improves the Offer after I have accepted?	If you accept the Offer and APA subsequently increases the Offer Price, you will be entitled to the increased Offer Price.

Question	Answer
What happens if I do nothing?	<p>The implications of you doing nothing will depend on the ultimate Securityholding in EPX achieved by APA. That is:</p> <ul style="list-style-type: none"> ■ if APA achieves a Securityholding of at least 90% and proceeds to compulsory acquisition of all outstanding EPX Securities in accordance with Part 6A.1 of the Corporations Act, then your EPX Securities will be acquired by APA for the Offer Price and you will cease to be an EPX Securityholder. APA has stated in Section 5.4 of the Bidder's Statement that it intends to proceed to compulsory acquisition of outstanding EPX Securities, if it becomes entitled to do so; ■ if APA achieves a Securityholding of less than 90% but gains control of EPX, you will remain an EPX Securityholder and will be exposed to the risks related to holding an investment in EPX (as described in Section 12) and being a minority Securityholder (as described in Section 4). Please also refer to Section 5.5 of the Bidder's Statement for details of APA's intentions in the event that it achieves a Securityholding of less than 90% but gains control of EPX; and ■ if APA does not gain control of EPX, it is likely that EPX will remain listed on the ASX and its current operations are expected to continue.
What if I want to sell my EPX Securities on-market?	<p>During the Offer Period, you may sell some or all of your EPX Securities on-market for cash provided you have not accepted the Offer for those EPX Securities.</p> <p>Before doing so, you should carefully consider the implications of this course of action, including that you would not receive the benefit of any increase in the Offer Price. You will also forfeit the ability to accept any superior proposal that may emerge. If you sell your EPX Securities on-market, you may incur a brokerage charge.</p>
Can I be forced to sell my EPX Securities?	<p>You cannot be forced to sell your EPX Securities unless APA receives acceptances giving it a relevant interest in at least 90% of all EPX Securities during or at the end of the Offer Period.</p> <p>If this occurs, APA will be entitled to proceed to compulsory acquisition of EPX Securities held by EPX Securityholders who did not accept the Offer. Such EPX Securityholders will receive the same consideration for their EPX Securities as they would have received under the Offer.</p> <p>APA has stated that it intends to exercise those compulsory acquisition rights if they become available.</p>
RECOMMENDATION OF THE IBC AND INDEPENDENT EXPERT	
What is the IBC?	<p>The Independent Board Committee ("IBC") will consider all aspects of the Offer. The IBC representatives are Nancy Fox (appointed Chairman of the IBC) and Rick Coles.</p> <p>Owing to the fact that Robert Wright, EPX RE's Chairman, was until recently a director of APA Group and was nominated as Chairman of EPX RE by APT Pipelines Limited, Robert Wright is not considered to be an independent director and accordingly the IBC was established.</p>
What does the IBC recommend?	<p>The IBC unanimously recommends that EPX Securityholders ACCEPT the Offer in the absence of a superior proposal.</p> <p>However, you should still seek legal, financial and/or taxation advice before taking any action in relation to the Offer.</p>

6. FREQUENTLY ASKED QUESTIONS CONTINUED

Question	Answer
Why should I accept the Offer?	<p>The IBC recommends that you accept the Offer for the following key reasons:</p> <ul style="list-style-type: none"> ■ the Offer has been unanimously recommended by the IBC; ■ the Independent Expert has concluded that the Offer is fair and reasonable; ■ the Offer represents an attractive value for EPX Securityholders and is at a significant premium to pre-bid prices of EPX Securities; ■ there are a number of risks that would be associated with being a minority EPX Securityholder which you may be exposed to if you do not accept the Offer; ■ the EPX Security price may trade below the APA Offer Price of \$1.88 following close of the Offer; ■ the IBC is not aware of any superior proposal for your EPX Securities and there is no certainty that any superior proposal will emerge; ■ the Offer removes exposure to all the future risks associated with the EPX business and future distributions for EPX Securityholders who accept the Offer; and ■ the Offer is capable of immediate acceptance. <p>See Section 4 of this Target's Statement for further details of why you should accept the Offer and the risks in not accepting the Offer.</p>
Why might I decline the Offer?	<p>Possible reasons for not accepting the offer are:</p> <ul style="list-style-type: none"> ■ you may disagree with the IBC's recommendation or the conclusion of the Independent Expert and believe that the Offer is inadequate; ■ by accepting the Offer EPX Securityholders will lose exposure to any potential upside in the EPX Security price; ■ you may consider that there is the potential for a superior proposal to be made in the foreseeable future; and ■ the potential tax consequences of the Offer may not suit your current financial position or tax circumstances. <p>See Section 5 of this Target's Statement for further details of the possible reasons for not accepting the Offer.</p>
What do the EPX RE Directors intend to do with their Securities?	<p>Each EPX RE Director who has a relevant interest in EPX Securities intends to accept the Offer in respect of those Securities.</p> <p>The EPX RE Directors' respective interests in EPX Securities are set out in Section 11.</p>
Is there an Independent Expert's Report?	<p>Yes. The IBC has engaged an independent expert, Lonergan Edwards & Associates Limited, to opine on whether the Offer is fair and reasonable and to prepare a report for inclusion in this Target's Statement. That report can be found at Annexure A, and EPX Securityholders are encouraged to read it carefully and in its entirety.</p> <p>The Independent Expert has concluded that the Offer is fair and reasonable.</p> <p>The reasons for this conclusion are set out in the Independent Expert's Report.</p>

Question	Answer
OTHER CONSIDERATIONS	
What existing commercial arrangements are in place with APA Group?	<p>There are commercial arrangements in place between APA Group and EPX with respect to:</p> <ul style="list-style-type: none"> ■ fund management and administrative services, and certain other services, pursuant to a management services agreement; ■ operations and maintenance services, pursuant to an operations and maintenance agreement; and ■ management and administrative services to the EPX RE pursuant to a separate services agreement. <p>The existing commercial arrangements are summarised in Section 11.</p>
What governance arrangements were put in place with the APA Group?	<p>EPX has implemented appropriate governance and protocols for officers and managers of EPX (as well as those possessing EPX confidential information) to ensure that the interests of EPX Securityholders are protected. Further background information is provided in Section 11.</p>
What are the intentions of Maven Investment Partners Ltd (“Maven”)?	<p>Maven has disclosed that as at 30 March 2016, it held a relevant interest in 9.9% of EPX Securities. Maven’s securityholding in EPX was acquired after the Offer was announced on 7 March 2016.</p> <p>If Maven acquires a relevant interest in more than 10% of EPX Securities, Maven will have the ability to unilaterally prevent APA from compulsorily acquiring 100% of EPX Securities.</p> <p>Maven’s intentions have not been disclosed to EPX.</p>
What are the tax implications of accepting the Offer?	<p>A general outline of the tax implications of accepting the Offer is set out in Section 10 of this Target’s Statement and Section 7 of the Bidder’s Statement.</p> <p>As those sections provide a general overview only, EPX Securityholders are encouraged to seek their own personal advice on the taxation implications applicable to their circumstances.</p>
Will I pay stamp duty or brokerage if I accept the Offer?	<p>You will not pay stamp duty on the disposal of your EPX Securities should you accept the Offer.</p> <p>If your EPX Securities are held on EPX’s issuer sponsored sub-register in your name and you deliver them directly to APA, you will not incur any brokerage in connection with your acceptance of the Offer.</p> <p>If your EPX Securities are registered in a CHESS Holding, or if you are a beneficial owner whose EPX 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.</p>
If I have further questions in relation to the Offer, what can I do?	<p>If you have any queries regarding the Offer, please contact the EPX Securityholder Information Line on 1300 222 378 (within Australia) or +61 1300 222 378 (outside Australia) at any time between 8:30am to 5:30pm Monday to Friday (Sydney time).</p>

7. YOUR CHOICES AS AN EPX SECURITYHOLDER

As an EPX Securityholder you have the following choices available to you:

A. ACCEPT THE OFFER

You may choose to accept the Offer. Details of how to accept the Offer are set out in Section 9 of the Bidder's Statement.

If you accept the Offer, you will not be able to sell your EPX Securities to anyone else, accept any superior proposal that may emerge from a third party, or otherwise deal with your EPX Securities.

The taxation implications of accepting the Offer depend on a number of factors and will vary according to your particular circumstances. A general outline of the Australian tax implications of accepting the Offer is set out in Section 7 of the Bidder's Statement and Section 10 of this Target's Statement. You should seek your own personal advice regarding the taxation consequences for you of accepting the Offer.

B. SELL SOME OR ALL OF YOUR EPX SECURITIES ON-MARKET

You remain free to sell some or all of your EPX Securities on the ASX, provided you have not already accepted the Offer.

On 31 March 2016 (the last practicable date prior to the finalisation of this Target's Statement), the closing price for EPX Securities on the ASX was \$1.88. The latest price for EPX Securities may be obtained from the ASX website at **www.asx.com.au**.

If you sell your EPX Securities on the ASX, you:

- are likely to incur a brokerage charge;
- will lose the ability to accept the Offer or any other offer for EPX Securities which may eventuate;
- may receive more or less for your EPX Securities than the Offer Price; and
- will be paid on the second Business Day after the sale.

EPX Securityholders who wish to sell their EPX Securities on the ASX should contact their broker for information on how to effect that sale. They should also contact their tax adviser to determine the tax implications for them of such a sale.

C. REJECT THE OFFER – DO NOTHING AND RETAIN YOUR EPX SECURITIES

If you do not wish to accept the Offer and want to retain your EPX Securities, you should simply do nothing.

However, you should note that:

- if APA has a relevant interest in at least 90% of all EPX Securities during or at the end of the Offer Period and is entitled to proceed to compulsory acquisition, it has stated its intention to compulsorily acquire all outstanding EPX Securities (see Section 5.4 of Bidder's Statement and Section 11 of this Target's Statement); and
- if APA does not become entitled to compulsorily acquire your EPX Securities, you may be exposed to the risks of being a minority Securityholder in EPX (see Section 4 of this Target's Statement).

8. INFORMATION RELATING TO EPX

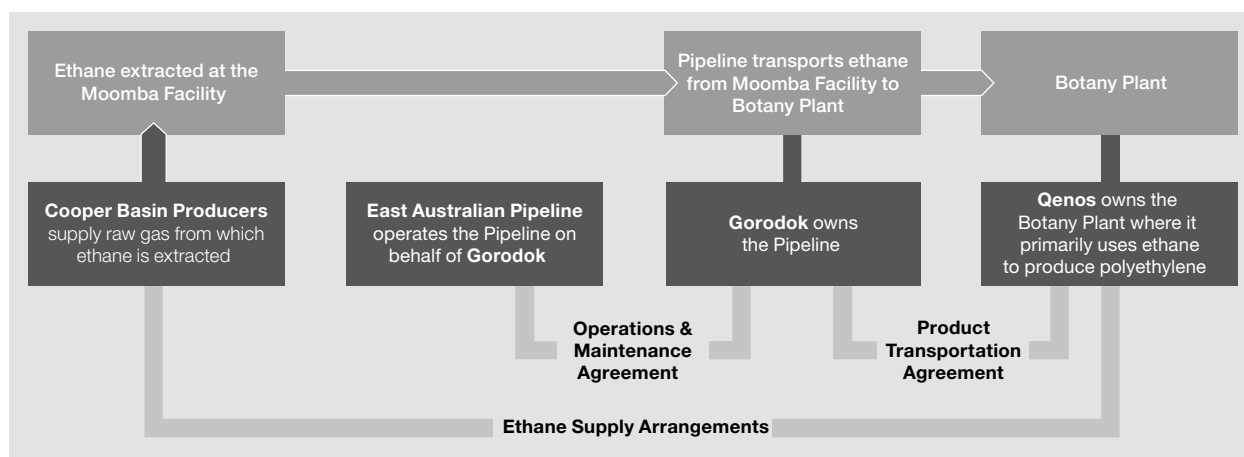
OVERVIEW OF EPX

EPX RE is the Responsible Entity of EPX. EPX's wholly owned subsidiary, Gorodok Pty. Ltd. ("**Gorodok**"), owns the Moomba to Sydney Ethane Pipeline ("**Pipeline**"). The Pipeline is a 1,375 km high pressure gas pipeline purpose-built to transport ethane from the gas processing facility at Moomba in South Australia's Cooper Basin ("**Moomba Facility**") to a petrochemical plant owned by Qenos Pty Ltd ("**Qenos**"), the sole customer of Gorodok. EPX's principal activity is its investment in the Pipeline.

Pursuant to a Product Transportation Agreement ("**PTA**") between Gorodok and Qenos, agreed in 2000, Gorodok provides capacity on the Pipeline for the transportation of ethane from the Moomba Facility in the Cooper Basin to Qenos at the Botany Plant.

East Australian Pipeline Pty Limited (which is part of APA Group) operates and maintains the Pipeline under a long term operations and maintenance agreement.

The supply and transportation of ethane from the Moomba Facility to the Botany Plant, and the operations and maintenance of the Pipeline is governed by the contractual arrangements summarised in the following diagram.



EPX's only significant source of revenue is from transporting ethane through the Pipeline pursuant to the PTA, which continues until 2030 (unless terminated earlier). On 13 November 2014, EPX announced that it had agreed to amend the PTA with Qenos with effect from 1 January 2015 ("**PTA Amendment**") with the changes as follows:

- imposition of a fixed minimum charge for the period from 1 January 2015 to 31 December 2018⁽¹⁾ of \$20 million per annum (adjusted annually by 50% of CPI), in place of the originally agreed tariff structure that comprised reservation charges and transportation charges which was dependent on the volume of ethane transported through the Pipeline;
- waiver of the transportation charge component calculated on the volume of ethane transported for the period from 1 January 2015 to 31 December 2018;
- variation of Qenos' right to terminate the PTA on 12 months' notice so that termination cannot take effect before 1 January 2019; and
- variation so that EPX is entitled to recover any shortfall in revenue for the period from 1 January 2015 to 31 December 2018 (i.e. the amount, if any, by which EPX's revenue for that period is less than the revenue that EPX would have been entitled to under the previously agreed tariff structure) if, in any calendar year in that period, ethane volumes and Qenos' EBITDA⁽²⁾ are greater than specified threshold levels.

From 1 January 2019, when the previously agreed tariff structure resumes effect, a new mechanism will apply to afford EPX another opportunity to recover the revenue shortfall.

Further detail of the PTA and the PTA Amendment can be found on the Key Fund Information section of the EPX website <http://www.ethanepipeline.com.au/key-fund-information.aspx>.

(1) If Qenos provides a termination notice prior to 1 January 2018, the tariff structure for the 2018 calendar year reverts to that previously agreed in the PTA.

(2) Earnings before interest, tax, depreciation and amortisation.

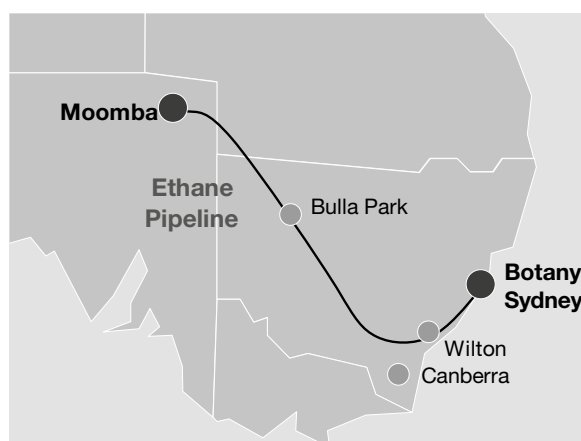
8. INFORMATION RELATING TO EPX CONTINUED

THE PIPELINE

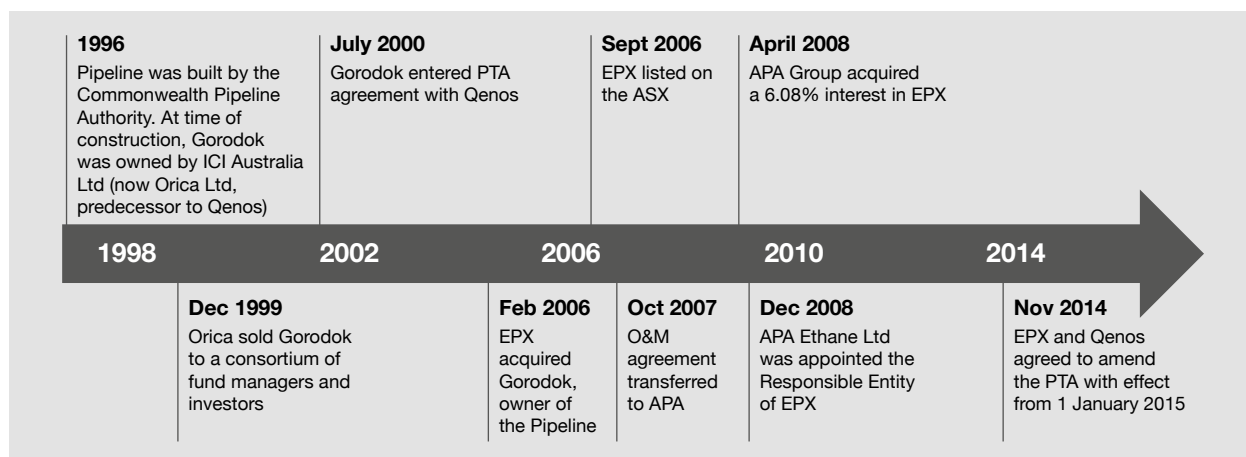
The Pipeline connects the Moomba Facility to the Botany Plant. It is 1,375km in length, running through regional NSW as well as the urban areas from Wilton into Botany. The Pipeline is underground for almost its entire length at a depth of around one metre. The Pipeline was commissioned in 1996 and has been operating for 20 years. The remaining technical life is expected to be approximately 50 years, however with appropriate long-term maintenance, it is anticipated to be in excess of that.

Pipeline design features

Length	1,375km
Diameter	21.9cm
Remaining technical life	50 years (estimate)
Design capacity	275,000 tonnes per annum
Pressure	8,000 – 15,000 kPag
Wall thickness	5.2 – 11.9 mm
Pump facilities	Pump station at Bulla Park in western New South Wales



HISTORY



EPX RE BOARD OF DIRECTORS

Name	Details
Robert Wright (Chairman) BComm FCPA	<p>Appointed 10 July 2008</p> <p>Robert Wright is the Chairman of the Board of Directors of EPX RE and a member of its Audit Committee. Robert Wright has over 35 years' financial management experience. During his executive career he was the Chief Financial Officer of several listed companies. He has also been both an Executive Director and Non-Executive Director of a number of listed companies.</p> <p>Robert is currently the Chairman of Super Retail Group Limited. He was previously a Director of APA RE (the responsible entity of the registered managed investment schemes that comprise APA Group), Chairman of SAI Global Limited, Dexion Limited and RCL Group Limited.</p>
Rick Coles (Independent Director) BSc (Hons) PhD	<p>Appointed 10 July 2008</p> <p>Dr Rick Coles is an independent Director of EPX RE and a member of the Board's Audit Committee. Rick has more than 30 years' experience in the petrochemical, gas and pipeline industries in Australia, the United States, Canada and Asia. He was ICI Australia Ltd's project manager for the Moomba to Sydney Ethane Gas Pipeline during its construction between 1994 and 1996 and worked in a number of roles in the ethylene business unit of ICI Australia, culminating in his 1996 appointment as the business manager of the unit.</p> <p>After leaving ICI Australia Ltd in 1997, Rick worked as a consultant to the oil, gas, petroleum and petrochemical industries in Australia and throughout Asia as the principal of his own consultancy firm. He also acted as Vice President, Asia of a variety of petrochemical products (including ethylene and polyethylene) for the Houston-based chemical consultants, DeWitt and Company Inc.</p>
Nancy Fox (Independent Director) BA JD (Law) FAICD	<p>Appointed 23 June 2011</p> <p>Nancy Fox is an independent Director of EPX RE and Chair of the Board's Audit Committee. Nancy has more than 25 years' experience in the financial services industry in Australia, Asia and the US. Nancy has held senior executive investment banking positions with Ambac Assurance Corporation, ABN Amro, AIDC Ltd and Citibank. She is a lawyer by training and admitted to the Bars of New York and New Jersey (now retired).</p> <p>Nancy is a Director of Perpetual Limited, HCF Life, Kinetic Superannuation Limited and the Australian Theatre for Young People and the Taronga Conservation Society. She was previously Chairman of Adelaide Managed Funds Ltd, a subsidiary of Bendigo and Adelaide Bank, a Director of ThinkSmart Limited and a member of the Energy Security Council. Nancy has had more than 10 years' experience as a Director, including a number of not-for-profit boards. She is a Fellow of the Australian Institute of Company Directors.</p>

HISTORICAL FINANCIAL AND OPERATIONAL REVIEW

On 20 August 2015, EPX announced its FY2015 financial results which are contained in the Appendix 4E and Annual Financial Reports for the year ended 30 June 2015. On 18 February 2016, EPX released its Interim Financial Report for the period ending 31 December 2015. The relevant EPX disclosures are available on EPX's website at www.ethanepipeline.com.au and on the ASX website at www.asx.com.au (under the code "EPX").

9. INFORMATION RELATING TO APA GROUP

OVERVIEW OF APA GROUP

APA Group is Australia's largest natural gas infrastructure business, owning and/or operating approximately \$19 billion of energy assets. Its gas transmission pipelines span every state and territory in mainland Australia, delivering approximately half of the nation's gas usage. APA Group has direct management and operational control over its assets and investments.

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

APA Group is listed on the ASX and is included in the S&P ASX 50 Index. Since listing in June 2000, its market capitalisation has increased from \$0.5 billion to over \$9.8 billion (as at 31 March 2016).

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

For further information on APA Group, please refer to the APA Group website www.apa.com.au and the Bidder's Statement.

BOARD OF DIRECTORS

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

- Leonard Bleasel AM (Independent Chairman)
- Michael McCormack (Chief Executive Officer and Managing Director)
- Steven Crane (Independent Director)
- John Fletcher (Independent Director)
- Michael Fraser (Non-Independent Director)
- Debbie Goodin (Independent Director)
- Russell Higgins AO (Independent Director)
- Patricia McKenzie (Independent Director)

SENIOR MANAGEMENT

As at the date of this Target's Statement, the members of APL's senior management team are:

- Nevenka Codevelle (Company Secretary and General Counsel)
- John Ferguson (Group Executive Networks)
- Peter Fredricson (Chief Financial Officer)
- Ross Gersbach (Chief Executive Strategy and Development)
- Kevin Lester (Group Executive Infrastructure Development)
- Elise Manns (Group Executive Human Resources)
- Rob Wheals (Group Executive Transmission)

10. TAXATION CONSIDERATIONS

INTRODUCTION

The following is a general summary of the Australian income tax, goods and services tax (“GST”) and stamp duty implications for EPX Securityholders who dispose of their EPX Securities pursuant to the Offer. EPX is a stapled entity comprising Ethane Pipeline Income Trust (ARSN 118 961 167) (“EPIT”) and Ethane Pipeline Income Financing Trust (ARSN 118 961 023) (“EPIFT”), and EPX Securities are stapled securities, each comprising one unit in EPIT and one unit in EPIFT.

This summary is not an exhaustive or authoritative statement of the Australian taxation laws applicable to the specific circumstances of EPX Securityholders. In particular, this summary is limited to EPX Securityholders who:

- hold their EPX Securities on capital account (i.e. do not hold them as part of a trading business or otherwise on revenue account);
- have not acquired their EPX Securities in respect of any employment or the provision of any services;
- are not subject to the ‘taxation of financial arrangements’ (“TOFA”) rules in Division 230 of the *Income Tax Assessment Act 1997* (Cth). We note that if the EPX Securityholder is an individual, the TOFA rules will generally not apply unless the individual has elected to be subject to the TOFA rules;
- are not banks, insurance companies, or exempt from Australian tax;
- in the case of non-resident EPX Securityholders, their EPX Securities are not held and have never been held, as an asset of a permanent establishment of that EPX Securityholder in Australia; and
- dispose of them to APA pursuant to the terms of the Offer.

This summary relies on the Australian laws in force as at 31 March 2016. It does not consider or anticipate any future changes in Australian laws.

This summary does not constitute taxation advice and should not be relied on as such.

EPX Securityholders are advised to seek professional taxation advice regarding the Australian taxation implications applicable to their particular circumstances prior to accepting the Offer.

INCOME TAX IMPLICATIONS FOR AUSTRALIAN RESIDENTS

The following is a general statement of the Australian income tax implications for EPX Securityholders who are Australian tax residents and who dispose of their EPX Securities pursuant to the terms of the Offer.

CAPITAL GAIN OR LOSS

The disposal of EPX Securities will constitute a capital gains tax (“CGT”) event which will trigger the operation of the CGT provisions.

Each EPX Security is a stapled security, which consists of one unit in EPIT and one unit in EPIFT, and as such, each EPX Security constitutes two separate assets for CGT purposes. Therefore, on accepting the Offer, each EPX Securityholder will dispose of their units in each of EPIT and EPIFT (each giving rise to a separate CGT event). The time of the CGT event in respect of the disposal should be the time when the Offer is accepted.

EPX Securityholders will make a capital gain if the capital proceeds from the disposal of each EPIT and EPIFT unit exceed the cost base of the EPIT and EPIFT unit, respectively. The capital gain less any applicable capital losses must be included in the assessable income of the EPX Securityholder for the income year. This amount can be reduced to the extent that the EPX Securityholder is entitled to the CGT discount (refer below).

EPX Securityholders will make a capital loss if the capital proceeds from the disposal of each EPIT and EPIFT unit are less than the reduced cost base of each EPIT and EPIFT unit, respectively. A capital loss can be offset against a capital gain made in the same income year or carried forward to be offset against capital gains in later years (subject to satisfying certain integrity rules relating to the recoupment of carried forward losses).

10. TAXATION CONSIDERATIONS CONTINUED

CAPITAL PROCEEDS

Broadly, the capital proceeds arising from a disposal of EPX Securities (which are used to determine a CGT liability) include the money and market value of any property received or entitled to be received in respect of the disposal.

For CGT purposes, the consideration received on disposal of each EPX Security will need to be apportioned between the unit in EPIT and the unit in EPIFT. The Commissioner of Taxation will generally accept an apportionment that has been done on a reasonable basis. A reasonable method of apportionment may be the net asset weighting between EPIT and EPIFT. EPX Securityholders will need to make their own decision regarding the reasonable basis they will apply in their own particular circumstances.

The Interim Distribution should not form part of the capital proceeds received in respect of the EPX Securities on the basis that these distributions are not consideration for the transfer of the EPX Securities themselves.

COST BASE AND REDUCED COST BASE

The cost base and reduced cost base of an EPX Securityholder's EPX Securities should generally include the acquisition cost of those EPX Securities in addition to any incidental costs associated with their acquisition and disposal.

Likewise, EPX Securityholders should apportion the cost base or reduced cost base of their EPX Securities between their units in each of EPIT and EPIFT, on a reasonable basis. As noted above, EPX Securityholders will need to make their own decision regarding the reasonable basis they will apply in their own particular circumstances.

Adjustments to the tax cost base may be required (and capital gains may arise) where EPIT or EPIFT has made any tax-deferred distributions or returns of capital on the respective units, while the units were held by the EPX Securityholder.

CGT DISCOUNT

Broadly, Australian resident EPX Securityholders who are individuals, trusts or complying superannuation funds may be entitled to the CGT discount on disposal of their EPX Securities if they have been held for at least 12 months.

If available, the CGT discount will reduce a net capital gain that would otherwise be assessable by:

- 50% for individuals and trusts; or
- 33.3% for complying superannuation entities.

The CGT discount will not be available for EPX Securityholders that are companies.

INTERIM DISTRIBUTION – AVAILABILITY OF FRANKING CREDIT OFFSET ON COMPONENT TAKEN TO BE A DIVIDEND FOR TAX PURPOSES

For the portion of the Interim Distribution which is taken to consist of an assessable dividend, Australian resident EPX Securityholders are expected to gross up that assessable dividend amount by the amount of franking credits attached to it, and include this in their assessable income. Subject to the comments below, they should be eligible for a tax offset equal to the amount of franking credits attached.

Individuals and complying superannuation entities may be entitled to a tax refund where the tax offset for any franked distribution exceeds their tax liability. Where the EPX Securityholder is a corporate Securityholder, a franked distribution will generally give rise to a franking credit in the company's franking account.

To be eligible for the franking credit and tax offset, an EPX Securityholder must generally satisfy the 'holding period' rule. Broadly, the holding period rule requires the EPX Securityholder to hold the shares (or, in this case, EPX Securities) in respect of which an otherwise frankable distribution has been paid, "at risk", for a minimum period of 45 days (not including the date of acquisition or date of disposal) during the relevant qualification period.

EPX Securityholders should seek independent tax advice regarding their ability to obtain the benefit of franking credits in relation to the Interim Distribution. It should be noted that EPX Securityholders who have not held a particular EPX Security “at risk” for at least 45 days before the date of accepting the Offer (excluding the date of accepting the Offer and the date of acquiring the relevant EPX Security), and whose total entitlement to franking credits in the year of income in which the Interim Distribution is received is greater than \$5,000, will not qualify for franking credits in respect of the Interim Distribution paid on that EPX Security.

EPX does not intend to seek a tax ruling from the Australian Taxation Office in relation to the income tax implications for EPX Securityholders of receiving the Interim Distribution.

INCOME TAX IMPLICATIONS FOR FOREIGN RESIDENTS

For non-resident EPX Securityholders, any capital gain or loss on sale of the EPX Securities will be disregarded unless the EPX Securityholder holds:

- a ‘non-portfolio’ interest in EPX Securities; and
- EPX Securities pass the ‘principal asset test’.

Generally, an EPX Securityholder will have a non-portfolio interest in EPX if:

- they (and their associates) hold 10% or more of all EPX Securities on the day the EPX Securityholder is taken to dispose of their EPX Securities; or
- they (and their associates) held 10% or more of all EPX Securities throughout a 12 month period during the 24 months prior to the date the EPX Securityholder is taken to have disposed of their EPX Securities.

Broadly, a unit in EPIT or EPIFT will pass the principal asset test if the market value of EPIT’s or EPIFT’s direct and indirect interests in ‘taxable Australian real property’ is greater than the market value of its remaining assets.

If an EPX Securityholder holds a non-portfolio interest in EPX, they should inquire whether EPX’s interests in ‘taxable Australian real property’ satisfy the principal asset test.

Non-resident EPX Securityholders are encouraged to seek professional advice for any potential CGT implications that may arise on the disposal of their EPX Securities.

GST IMPLICATIONS

The GST implications of the disposal by EPX Securityholders of their EPX Securities will depend on whether an EPX Securityholder is registered for GST or required to be registered for GST.

For EPX Securityholders who are registered for GST or required to be registered for GST, no GST will apply to the disposal of their EPX Securities as it will be an input taxed financial supply. In addition, depending on their particular circumstances, they may be restricted from claiming input tax credits for the GST cost of services acquired in connection with the Offer (such as fees for advisory services provided to EPX Securityholders).

For EPX Securityholders who are not registered for GST or required to be registered for GST, no GST will also apply to the disposal of their EPX Securities as it will be outside the scope of GST. As they are not registered for GST, they will have no entitlement to claim input tax credits for the GST cost of services acquired in connection with the Offer.

STAMP DUTY IMPLICATIONS

There will be no stamp duty payable by EPX Securityholders on the disposal of their EPX Securities to APA under the Offer.

FURTHER INFORMATION

For more information in relation to taxation, please refer to the EPX website www.ethanepipeline.com.au/investor-centre/tax-information.aspx

11. OTHER IMPORTANT INFORMATION

ISSUED CAPITAL

As at the date of this Target's Statement, EPX's issued capital comprises 69,302,275 EPX Securities.

SUBSTANTIAL HOLDERS

The substantial holders of EPX as at 31 March 2016 are as follows:

Name	Number of EPX Securities	Percentage of issued EPX Securities
APL	13,729,097	19.81%
Maven	6,862,781	9.90%

The Securityholdings listed in this Section are as disclosed to EPX RE by EPX Securityholders in substantial holding notices as at 31 March 2016.

EPX RE DIRECTORS' INTERESTS IN EPX SECURITIES

The table below sets out the number of EPX Securities in which each EPX RE Director has a relevant interest as at 31 March 2016.

EPX RE Director	Number of EPX Securities
Robert Wright	50,000
Rick Coles	50,000
Nancy Fox	50,000

The EPX RE Directors hold no other rights or options over EPX Securities. There are no contracts to which an EPX RE Director is a party or under which an EPX RE Director is entitled to a benefit, and that confer a right to call for or deliver EPX Securities.

EPX RE DIRECTORS' DEALINGS IN EPX SECURITIES

There have been no acquisitions or disposals of EPX Securities by any EPX RE Director in the four months ending on the date of this Target's Statement.

BENEFITS AND AGREEMENTS

Directorships

As at the date of this Target's Statement, no EPX RE Director is a director of a company in the APA Group. However, Robert Wright, EPX RE's Chairman, was a director of APA Group RE until 22 October 2015 and was nominated as Chairman of EPX RE by APT Pipelines Limited, a member of APA Group. Refer to Section 3 for further information.

Benefits in connection with retirement from office

No EPX RE Director, as a result of the Offer, 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 the board of EPX RE.

Agreements connected with or conditional on the Offer

Other than in their capacity as a holder of EPX Securities or as otherwise disclosed in this Target's Statement, there are no agreements made between any EPX RE Director and any other person in connection with, or conditional upon, the outcome of the Offer.

Benefits from the Offer

Other than as disclosed in this Target's Statement, no EPX RE Director has agreed to receive, or is entitled to receive, any benefit from APA which is conditional on, or is related to, the Offer, other than in their capacity as a holder of EPX Securities.

EXISTING COMMERCIAL ARRANGEMENTS WITH APA GROUP

APT (MIT) Services Pty Limited ("**APT (MIT)**"), a member of the APA Group, provides EPX with fund management and administrative services, and certain other services, pursuant to a management services agreement ("**MSA**"). APT (MIT) has given notice to EPX RE under the terms of the MSA requesting EPX RE to convene meetings of the unitholders in EPIT and EPIFT to approve a five year extension to the term of the MSA (which is due to expire on 25 July 2016). EPX RE is currently working towards preparing the necessary notices of meeting and explanatory materials such that the meetings of the unitholders in EPIT and EPIFT can be held before the expiry of the MSA.

East Australian Pipeline Pty Limited, a member of the APA Group, provides operations and maintenance services to Gorodok, a wholly owned subsidiary of EPX, pursuant to an operations and maintenance agreement. The term of this agreement ends in January 2017.

APT Management Services Pty Limited, a member of the APA Group, provides EPX RE with management and administrative services pursuant to a separate services agreement.

EXISTING GOVERNANCE ARRANGEMENTS WITH THE APA GROUP

APT Pipelines Limited, a member of the APA Group, owns 49.49% of the shares in EPX RE. The remaining 50.51% is held by the Independent Directors, namely Nancy Fox and Rick Coles (approximately 25.25% each), on behalf of securityholders in the APA Stapled Entity.

EPX RE has implemented appropriate governance and protocols for officers and managers of EPX (as well as those possessing EPX confidential information) to ensure that the interests of EPX Securityholders are protected.

POTENTIAL IMPACT OF OFFER ON MATERIAL CONTRACTS

The base fee payable to APA (MIT) under the MSA is determined having regard to the VWAP of EPX Securities over each month. As a result of the Offer, the price of EPX Securities has increased and consequently the base fee payable to APA (MIT) under the MSA has also increased.

COMPULSORY ACQUISITION

Compulsory acquisition in connection with the Offer

APA has stated in Section 5.4 of the Bidder's Statement that if it becomes entitled to do so under the Corporations Act, it intends to give notices to compulsorily acquire any outstanding EPX Securities in accordance with Part 6A.1 of the Corporations Act and procure the removal of EPX from the official list of ASX.

APA will be entitled to compulsorily acquire any EPX 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:

- APA (together with its associates) has a relevant interest in at least 90% (by number) of EPX Securities; and
- APA and its associates have acquired at least 75% (by number) of the EPX Securities that APA offered to acquire under the Offer.

If these thresholds are met, APA will have up to one month after the end of the Offer Period within which to give compulsory acquisition notices to EPX Securityholders who have not accepted the Offer. EPX Securityholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant EPX Securityholders to establish to the satisfaction of a Court that the consideration offered does not represent "fair value" for their EPX Securities.

EPX Securityholders who have their EPX Securities compulsorily acquired will be paid their consideration later than EPX Securityholders who accept the Offer.

11. OTHER IMPORTANT INFORMATION CONTINUED

General compulsory acquisition

If, following closure of the Offer Period, APA becomes the holder of full beneficial interests in at least 90% (by number) of the EPX Securities (for example, by subsequent acquisitions of EPX Securities), it will be entitled to compulsorily acquire any outstanding EPX Securities in accordance with Part 6A.2 of the Corporations Act. APA has stated in section 5.4 of the Bidder's Statement that if it becomes entitled to compulsorily acquire securities under Part 6A.2 of the Corporations Act, it intends to exercise those rights and procure the removal of EPX from the official list of ASX.

CONTINUOUS DISCLOSURE

EPX is a disclosing entity and is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules.

Copies of documents filed with ASX may be obtained from the ASX website at www.asx.com.au or from the EPX website at www.ethanepipeline.com.au.

Copies of documents lodged with ASIC may also be obtained from, or inspected at, an ASIC office.

CONSENTS

The following persons have given, and have not withdrawn before the date of this Target's Statement, their consent to be named in this Target's Statement in the form and context in which they are so named:

- Gilbert + Tobin as legal adviser;
- Link Market Services Limited as share registry; and
- RBC Capital Markets as financial adviser.

Each of the above persons:

- does not make, or purport to make, any statement in this Target's Statement; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement.

Lonergan Edwards & Associates Limited consents to be named as Independent Expert and to the inclusion of its Independent Expert's Report as Annexure A of 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 13/521, this Target's Statement contains statements which are made in, or based on statements made in, documents lodged with ASIC or given to ASX. Pursuant to the Class Order, the consent of APA and APA Group is not required for, and those persons have not consented to, the inclusion of such statements in this Target's Statement. EPX Securityholders may, during the Offer Period, obtain a copy of those documents (free of charge) by contacting the EPX Securityholder Information Line on 1300 222 378 (within Australia) or +61 1300 222 378 (outside Australia) at any time between 8:30am to 5:30pm Monday to Friday (Sydney time).

As permitted by ASIC Corporations (Consents to Statements) Instrument 2016/72:

- this Target's Statement may include or be accompanied by statements fairly representing a statement by an official person, or statements from a public official document or a published book, journal or comparable publication; and
- this Target's Statement contains security price data sourced from IRESS without its consent.

OTHER MATERIAL INFORMATION

This Target's Statement is required to include all information that EPX 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 the information in this Target's Statement; and
- only if the information is known to any of the EPX RE Directors.

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

- the Bidder's Statement (to the extent that the information is not inconsistent with or superseded by information in this Target's Statement);
- EPX's annual reports and releases to ASX before the date of this Target's Statement;
- documents lodged for EPX with ASIC before the date of this Target's Statement; and
- this Target's Statement.

The EPX RE Directors have assumed, for the purposes of preparing this Target's Statement, that the information contained in the Bidder's Statement is accurate. However, the EPX RE 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 of the statements contained in it.

In deciding what information should be included in this Target's Statement, the IBC has had regard to:

- the nature of the EPX Securities;
- the nature of EPX;
- the matters that EPX Securityholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to professional advisers of EPX Securityholders; and
- the time available to EPX RE to prepare this Target's Statement.

12. RISK FACTORS

EPX is currently exposed to a number of risks that EPX Securityholders should be aware of. A brief outline of these risks is set out below, which should be considered in conjunction with EPX's ongoing disclosure under ASX Listing Rules.

The following describes known principal risks and uncertainties that could materially affect EPX. There may be additional risks unknown to EPX and other general risks which may affect EPX.

SINGLE ASSET

The performance of EPX and its ability to pay distributions is reliant on the performance of a single asset, the Pipeline. If the Pipeline is damaged or its ability to transport ethane is otherwise curtailed, the revenues generated by EPX may reduce.

SINGLE REVENUE STREAM

EPX's only significant source of revenue is derived from transporting ethane through the Pipeline pursuant to the PTA which continues until 2030, but which may be terminated earlier in certain circumstances. Qenos may terminate the PTA by providing at least 12 months' notice, without compensation to EPX over and above reservation and transportation charges payable during the notice period, but such termination cannot take effect before 1 January 2019.

Qenos may also terminate the PTA if EPX breaches its obligations under the PTA and fails to cure the breach within a specified timetable.

In the event of a termination notice being issued on or before 1 January 2018 (which cannot be effective before 1 January 2019), the tariffs payable by Qenos during the 2018 calendar year will be based on the tariff structures agreed prior to the PTA Amendment (see Section 8 for details).

EXPOSURE TO VOLUME RISK

The basis of calculating revenue under the PTA (and the PTA Amendment) is as follows:

- for the period from 1 January 2015 to 31 December 2018, the revenue will be fixed at a minimum of \$20 million per annum (adjusted annually by 50% of CPI) irrespective of the volumes transported. If during this period, certain thresholds regarding the quantity of ethane transported and Qenos' EBITDA⁽¹⁾ are met, EPX will receive the same tariff as if the tariff structure had not changed on 1 January 2015 (as per below); and
- for the period after 31 December 2018, the tariff structure used to calculate revenue under the PTA will be based on a reservation charge and transportation charge dependent on the volume of ethane transported through the Pipeline. As a result, revenue during this period will be more dependent on the volume of ethane transported through the Pipeline.

RISKS TO ETHANE SUPPLY

The producers extracting ethane from the Cooper Basin may become unwilling or unable to supply Qenos the quantity of ethane it requires for its Botany Plant at a price acceptable to Qenos.

Risks to ethane supply include insufficient quantities of ethane being extracted at the Cooper Basin and a reduction in the incentive for the Cooper Basin producers to sell ethane separately to natural gas.

However, the risk to revenue associated with the volume of ethane transported through the Pipeline between 1 January 2015 and 31 December 2018 is ameliorated as described in "Exposure to volume risk" above.

SINGLE CUSTOMER

EPX is dependent on the creditworthiness of its single customer, Qenos, which may be unable to pay EPX for transportation of ethane through the Pipeline if it becomes insolvent or for other reasons.

If Qenos were to become insolvent, a sale of its Botany Plant may result in a purchaser resuming operation of the plant and wishing to use ethane transported through the Pipeline for that purpose.

(1) Earnings before interest, tax, depreciation and amortisation.

ETHANE DEMAND

The volume of ethane transported through the Pipeline may be reduced if the demand for ethane at Qenos' Botany plant reduces.

Such demand may be affected by a number of factors, including a planned or unplanned shut-down (for example, for maintenance purposes, closure or other restriction in Botany Plant Operations) of Qenos' Botany Plant, a reduction in the demand for ethylene and polyethylene manufactured by the Botany Plant or a decision to use a feedstock other than ethane in the manufacturing process.

However, the risk to revenue associated with the volume of ethane transported through the Pipeline between 1 January 2015 and 31 December 2018 is ameliorated as described in "Exposure to volume risk" above.

13. DEFINITIONS AND INTERPRETATION

Term	Definition
Acceptance Form	Form of acceptance and transfer enclosed with the Bidder's Statement or a replacement of that form.
APA	APL in its capacity as responsible entity of APT.
APA Group	APT, APTIT, APL and each of the entities controlled by the APA Group RE.
APA Group RE	APL in its capacity as responsible entity of APT and APTIT.
APA Stapled Entity	The stapled entity comprising APT and APTIT.
APL	Australian Pipeline Limited (ABN 99 091 344 704).
APT	Australian Pipeline Trust (ARSN 091 678 778), a registered managed investment scheme regulated by the Corporations Act.
APT (MIT)	APT (MIT) Services Pty Limited (ABN 82 117 635 677).
APTIT	APT Investment Trust (ARSN 115 585 441), a registered managed investment scheme regulated by the Corporations Act.
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited (ACN 008 624 691) or, as the context requires, the financial market operated by it.
ASX Listing Rules	The official listing rules of ASX as amended varied or waived from time to time.
ASX Settlement Operating Rules	The operating rules of the settlement facility provided by ASX Settlement Pty Limited (ACN 008 504 532).
Bidder's Statement	The statement of APA under Part 6.5 of the Corporations Act relating to the Offer.
Botany Plant	The ethylene plant at Botany owned by Qenos.
Business Day	A day on which banks are open for general banking business in Sydney, Australia (not being a Saturday, Sunday or public holiday in that place).
CGT	Capital gains tax.
CHESS	The Clearing House Electronic Subregister System, which provides for electronic transfer of listed Securities in Australia.
CHESS Holding	A holding of EPX Securities on the CHESS Subregister of EPX.
CHESS Subregister	ASX Settlement Operating Rules.
Controlling Participant	Has the meaning given in the ASX Settlement Operating Rules.
Corporations Act	<i>Corporations Act 2001</i> (Cth).
EPIFT	Ethane Pipeline Income Financing Trust (ARSN 118 961 023).
EPIT	Ethane Pipeline Income Trust (ARSN 118 961 167).
EPX	Ethane Pipeline Income Fund which comprises two stapled Australian registered managed investment schemes, EPIT and EPIFT.
EPX RE	APA Ethane Limited (ABN 85 132 157 290) as responsible entity of EPIT and EPIFT, being the two stapled Australian registered managed investment schemes which comprise EPX.
EPX RE Directors	The directors of EPX RE.
EPX Registry	Link Market Services Limited (ABN 54 083 214 537) being the EPX security registry.

Term	Definition
EPX Securities	The fully paid stapled units in EPX and all rights and entitlements attaching to them, each stapled unit being comprised of one unit in EPIT and one unit in EPIFT.
EPX Securityholder	A registered holder of an EPX Security.
Gorodok	Gorodok Pty. Ltd. (ABN 30 057 156 751).
IBC	Independent Board Committee.
Independent Directors	Nancy Fox and Rick Coles.
Independent Expert	Lonergan Edwards & Associates Limited (ABN 53 095 445 560).
Interim Distribution	The declared interim distribution for the March 2016 quarter of 3.25 cents per EPX Security.
Interim Distribution Record Date	16 March 2016.
Maven	Maven Investment Partners Ltd.
MSA	The management services agreement pursuant to which APT (MIT) provides EPX with fund management and administrative services, and certain other services.
Offer	The offer by APA under Chapter 6 of the Corporations Act contained in this document (or, if the context so requires, this document itself) and “ Offers ” means the offers dispatched or to be dispatched to EPX Securityholders.
Offer Period	The period commencing on 21 March 2016 and ending at 7:00pm (Sydney time) on 2 May 2016, or such later date to which the Offer has been extended during which the Offers will remain open for acceptance.
Offer Price	\$1.88 cash per EPX Security offered by APA at the date of the Bidder’s Statement.
Pipeline	The Moomba to Sydney Ethane Pipeline that supplies ethane from the Cooper Basin production facility at Moomba, South Australia to the ethylene plant at Botany which is owned by Qenos.
PTA	Product Transportation Agreement between Gorodok and Qenos.
PTA Amendment	Amendments to the PTA agreed on 13 November 2014.
Qenos	Qenos Pty Ltd (ABN 62 054 196 771).
Register	The EPX register of EPX Securityholders.
Register Date	The date set by APA under section 633(2) of the Corporations Act, being 7:00pm (Sydney time) on 11 March 2016.
relevant interest	Has the meaning given to it in the Corporations Act.
Responsible Entity	A person who acts as a responsible entity under Chapter 5C of the Corporations Act.
Target’s Statement	This statement issued by EPX RE as responsible entity of EPX under Part 6.5 of the Corporations Act relating to the Offer.
VWAP	Volume weighted average price.
your EPX Securities	The EPX Securities in respect of which you are registered or entitled to be registered as a holder in the register of Securityholders of EPX as at the Register Date, and in respect of which no other person becomes registered or entitled to be registered as a holder before you accept the Offer, and any other EPX Securities to which you are able to give good title at the time you accept the Offer.

13. DEFINITIONS AND INTERPRETATION CONTINUED

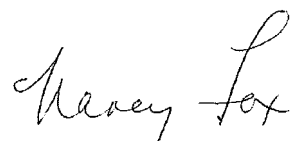
INTERPRETATION

- a. Words and phrases to which a meaning is given by the Corporations Act or the ASX Listing Rules have that meaning in this Target's Statement unless that meaning is inconsistent with the context in which the word or phrase is used.
- b. Headings are for convenience only and do not affect the interpretation of this Target's Statement.
- c. The singular includes the plural and vice versa and words importing any gender include the other gender, and references to persons include corporations, other bodies corporate, unincorporated bodies, partnership, joint ventures or associations.
- d. Where a term is defined, its other grammatical forms have a corresponding meaning.
- e. References to time are references to the time in Sydney, Australia on the relevant date, unless stated otherwise.
- f. A reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- g. "\$" or "A\$" or "AUD" is a reference to the lawful currency of Australia.

14. AUTHORISATION

This Target's Statement has been approved by a resolution passed by the directors of EPX RE. All EPX RE directors present and entitled to vote, voted in favour of that resolution.

Signed for and on behalf of APA Ethane Limited as Responsible Entity of the Ethane Pipeline Income Fund:

A handwritten signature in black ink, appearing to read "Nancy Fox". The signature is written in a cursive, flowing style.

Nancy Fox

Independent Director

Chairman of Independent Board Committee

APA Ethane Limited as Responsible Entity of the Ethane Pipeline Income Fund

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT

LONERGAN EDWARDS & ASSOCIATES LIMITED

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Sydney NSW 2000 Australia
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The Independent Board Committee
APA Ethane Limited
(as Responsible Entity of Ethane Pipeline Income Fund)
Level 19, HSBC Building
580 George Street
Sydney NSW 2000

31 March 2016

Subject: Takeover offer for the Ethane Pipeline Income Fund

Dear Independent Board Committee

Introduction

- 1 On 7 March 2016, Australian Pipeline Limited as responsible entity of Australian Pipeline Trust (APA)¹ announced an intention to make an off-market takeover offer for all of the securities that it did not already own² in the Ethane Pipeline Income Fund (EPX or the Fund) at an offer price of \$1.88 per security (the Offer). The Bidder's Statement in respect of the Offer was lodged on 7 March 2016 and subsequently despatched to EPX securityholders on 21 March 2016.
- 2 The Offer is unconditional. In addition, EPX securityholders are entitled to retain the declared EPX distribution for the March 2016 quarter of 3.25 cents per EPX security if eligible on the distribution record date³.
- 3 EPX owns the Moomba to Sydney ethane pipeline that supplies ethane from the Cooper Basin production facility at Moomba, South Australia to the ethylene plant at Botany owned by the Fund's sole customer, Qenos Pty Limited (Qenos). The pipeline was purpose-built to transport ethane gas from the Cooper Basin gas fields to Qenos, and was later sold with the current, long-term Product Transportation Agreement (PTA), agreed with Qenos in 2000, in place.
- 4 APA Group is Australia's largest natural gas infrastructure business. It has ownership interests in / or operates approximately \$19 billion of energy assets, principally for transporting and storing gas. APA owns and/or operates 15,000 kilometres (km) of natural

¹ APA is part of the APA Group, comprising Australian Pipeline Limited, APA and APT Investment Trust.

² As at 7 March 2016, APA held 6.08% of the securities in the Fund.

³ On 8 March 2016, EPX submitted an application to the Australian Securities Exchange (ASX) to amend the record date for eligibility to receive the distribution of 3.25 cents per EPX security from 30 March 2016 to 16 March 2016 to enable securityholders to receive the distribution and accept the Offer from the date the Offer was expected to open. The Offer subsequently opened on 21 March 2016.

gas transmission pipelines across mainland Australia, gas storage facilities and two gas distribution businesses.

- 5 APA is currently the largest securityholder in EPX with an interest of 19.81%⁴.
- 6 EPX's Chairman, Mr Robert Wright, was a director of Australian Pipeline Limited (the responsible entity (RE) of the registered managed investment schemes that comprise APA Group) until 22 October 2015 and was nominated as Chairman of APA Ethane Limited⁵ (APA Ethane) (EPX's RE). Given this relationship, the Independent Board Committee has been established to consider the Offer.
- 7 Whilst there is no specific requirement for an independent expert's report (IER), the Independent Directors of EPX have requested that Lonerган Edwards & Associates Limited (LEA) prepare an IER stating whether, in LEA's opinion, the Offer is fair and reasonable.
- 8 LEA is independent of EPX and APA and has no other involvement or interest in the outcome of the Offer, other than the preparation of this report.

Summary of opinion

- 9 LEA has concluded that the Offer is fair and reasonable. We have arrived at this conclusion for the reasons set out below.

Valuation of EPX

- 10 LEA has valued 100% of the securities in EPX at between \$1.67 and \$1.82 per security, as summarised below:

Value of EPX		
	Low	High
Enterprise value (\$m)	110.0	120.0
Add: net cash ⁽¹⁾ (\$m)	5.8	5.8
Equity value (\$m)	115.8	125.8
Securities on issue (million)	69.3	69.3
Value per EPX security (\$)	1.67	1.82

Note:

- 1 Funds that are detailed as quarantined in the EPX financial statements are included in the cash flow projections and hence to avoid double counting have not been adjusted in the net cash shown above.

Assessment of fairness

- 11 Pursuant to Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111), an offer is “fair” if:

“The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer.”

⁴ At 7 March 2016, the date of announcement of the Offer, APA held a 6.08% interest in the Fund. As at 30 March 2016, based on subsequent on-market purchases and acceptances under the Offer, APA had increased its interest in EPX to 19.81%.

⁵ A related party of APA.

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



- 12 This comparison is shown below:

Comparison of Offer consideration and EPX security value			
	Low \$ per security	High \$ per security	Mid-point \$ per security
Value of Offer consideration	1.88	1.88	1.88
Value of 100% of securities in EPX	1.67	1.82	1.74
Extent to which the Offer consideration exceeds the value of the securities in EPX	0.21	0.06	0.14

- 13 As the consideration offered by APA of \$1.88 cash per security is greater than our assessed value of the securities in EPX on a 100% controlling interest basis, in our opinion, the Offer is fair when assessed under the guidelines set out in RG 111.

Assessment of reasonableness

- 14 Pursuant to RG 111, an offer is reasonable if it is fair. Consequently, we have concluded that the Offer is reasonable.

Reasons to accept the Offer

- 15 In our opinion, there are also a number of other reasons why EPX securityholders may wish to accept the Offer, as summarised below:
- (a) the Offer plus the March 2016 quarter distribution (totalling \$1.9125 per security) represents a significant premium of 31.0% above the three months volume weighted average market price (VWAP) of EPX securities prior to the announcement of the Offer
 - (b) as at 30 March 2016, due to on-market purchases and acceptances under the Offer, APA had increased its securityholding in EPX to 19.81%
 - (c) a competing offer from another party has not been received subsequent to the announcement of the Offer and is unlikely given APA's securityholding in EPX and the services provided by APA Group to EPX⁶
 - (d) the unconditional cash consideration provides certainty and mitigates risks associated with EPX's operations
 - (e) historically, liquidity in EPX securities has been very low⁷. The Offer provides all EPX securityholders with the ability to realise their investment for cash at an attractive price.

Other matters

- 16 We note that in the period since the announcement of the Offer on 7 March 2016 to 30 March 2016, there have been on-market acquisitions of some 6.9 million EPX securities (some 9.90% of securities on issue) by Maven Investment Partners Ltd (Maven) at prices up to \$1.89 per security (on a March 2016 interim distribution adjusted basis). We understand that, to date, Maven has not sought engagement with EPX in respect of its acquired interest.

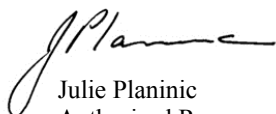
⁶ However, as noted below Maven Investment Partners Ltd (Maven) has acquired EPX securities on market subsequent to the announcement of the Offer at prices up to \$1.89 per security (on a March 2016 interim distribution adjusted basis) and on 30 March 2016 disclosed that it held a 9.90% interest in the Fund.

⁷ If APA gains a majority securityholding, but is not entitled to compulsorily acquire the remaining securities in EPX, EPX securityholders who retain their securities will hold a minority interest in a majority owned entity and the liquidity of EPX securities may be further reduced.

General

- 17 In preparing this report we have considered the interests of EPX securityholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual securityholders.
- 18 The taxation consequences of accepting the Offer depend on the individual circumstances of each investor. Securityholders should read the taxation advice set out in the Bidder's Statement and Target's Statement and should consult their own professional adviser if in doubt as to the taxation consequences of the Offer.
- 19 The ultimate decision whether to accept the Offer should be based on each securityholder's assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If securityholders are in doubt about the action they should take in relation to the Offer or matters dealt with in this report, securityholders should seek independent professional advice.
- 20 For our full opinion on the Offer, and the reasoning behind our opinion, we recommend that EPX securityholders read the remainder of our report.

Yours faithfully



Julie Planinic
Authorised Representative



Martin Holt
Authorised Representative

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED

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- B Qualifications, declarations and consents**
- C Assessment of appropriate discount rate**
- D Listed company multiples**
- E Glossary**

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



I Outline of the Offer

Overview

- 21 On 7 March 2016, Australian Pipeline Limited as RE of Australian Pipeline Trust (APA)⁸ announced an intention to make an off-market takeover offer for all of the securities that it did not already own⁹ in the Ethane Pipeline Income Fund (EPX or the Fund) at an offer price of \$1.88 per security (the Offer). The Bidder's Statement in respect of the Offer was lodged on 7 March 2016.

Conditions

- 22 The Offer is unconditional and the offer price of \$1.88 per EPX stapled security will be paid within five days of receipt of a valid acceptance. The Offer has not been declared final.
- 23 In addition, eligible securityholders on the Interim Distribution Record Date are entitled to retain the declared distribution of 3.25 cents for the March 2016 quarter.
- 24 EPX securityholders should also note that as the Offer is unconditional, it is not subject to any minimum acceptance condition.
- 25 Furthermore, given the unconditional nature of the Offer, APA can buy securities in EPX on market during the Offer period, at a price equal to or below the Offer Consideration of \$1.88 per security adjusted for the March 2016 quarter interim distribution entitlement¹⁰.

⁸ APA is part of the APA Group, comprising Australian Pipeline Limited, APA and APT Investment Trust.

⁹ As at 7 March 2016, APA held 6.08% of the securities in the Fund.

¹⁰ On 31 March 2016, being the latest ASX notification at the date of this report, APA announced that it had increased its interest in EPX to 19.81% (as at 30 March 2016).

II Scope of our report

Purpose

- 26 Section 640 of the *Corporations Act 2001* (Cth) requires a target company to commission an IER when the bidder's voting power in the target is at least 30% of the target or when the bidder and the target have common directors. Neither condition applies in the circumstances of EPX.
- 27 However, EPX's Chairman, Mr Robert Wright, was a director of Australian Pipeline Limited (the RE of the registered managed investment schemes that comprise APA Group) until 22 October 2015 and was nominated as Chairman of APA Ethane (EPX's RE) by APT Pipelines Limited, a member of APA Group. Accordingly, the EPX Board set up an Independent Board Committee to consider the Offer.
- 28 The Independent Directors of EPX have requested that LEA prepare an IER stating whether, in LEA's opinion, the Offer is fair and reasonable.
- 29 This report has been prepared to assist the Independent Directors of EPX in making their recommendation to EPX securityholders in relation to the Offer and to assist the securityholders of EPX assess the merits of the Offer. The sole purpose of this report is to set out LEA's opinion as to whether the Offer is fair and reasonable. This report should not be used for any other purpose.
- 30 The ultimate decision whether to accept the Offer should be based on each securityholder's assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Offer or matters dealt with in this report, securityholders should seek independent professional advice.

Basis of assessment

- 31 Our report has been prepared pursuant to s640 of the *Corporations Act 2001* (Cth). Consequently, in preparing our report we have given due consideration to the Regulatory Guides issued by ASIC, particularly RG 111.
- 32 RG 111 distinguishes "fair" from "reasonable" and considers:
 - (a) an offer to be "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. A comparison must be made assuming 100% ownership of the target company
 - (b) an offer to be "reasonable" if it is fair. An offer may also be "reasonable" if, despite not being "fair", the expert believes that there are sufficient reasons for securityholders to accept the offer in the absence of any higher bid before the close of the offer.
- 33 Our report has therefore considered:

Fairness

- (a) the market value of 100% of the securities in EPX
- (b) the value of the consideration offered i.e. \$1.88 cash per EPX security

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



- (c) the extent to which (a) and (b) differ (in order to assess whether the Offer is fair under RG 111)

Reasonableness

- (d) the extent to which a control premium is being paid to EPX securityholders
- (e) the level of synergies likely to be generated by APA and the extent to which a share of those synergies is being paid to EPX securityholders
- (f) the value of EPX to an alternative offeror and the likelihood of an alternative offer emerging, either prior to the close of the Offer, or sometime in the future
- (g) the position of EPX securityholders if APA increases its current securityholding but does not acquire 100% of the securities on issue
- (h) the listed market price of EPX securities:
 - (i) prior to and subsequent to the announcement of the Offer
 - (ii) if the Offer is not successful
- (i) other qualitative and strategic issues, risks, advantages and disadvantages associated with the Offer.

Limitations and reliance on information

- 34 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time and have been particularly volatile in recent times.
- 35 Our report is also based upon financial and other information provided by EPX and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 36 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Offer from the perspective of EPX securityholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose 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 IER.
- 37 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters.
- 38 An important part of the information base 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 has also been evaluated through analysis, enquiry and review to the extent

practical. However, it must be recognised that such information is not always capable of external verification or validation.

- 39 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.

Reliance on technical experts

- 40 No technical experts' reports have been commissioned by EPX for the purposes of consideration of the Offer. However, at the time of preparing the Product Disclosure Document for the Fund in 2006 (associated with the listing of EPX on the ASX), the following technical expert reports were obtained:
- (a) a technical and environmental due diligence report prepared by GHD Pty Ltd (GHD)
 - (b) an ethane supply study prepared by ACIL Tasman Pty Ltd¹¹.
- 41 Notwithstanding the passage of time, in preparing this report, LEA has had regard to the GHD report with respect to the estimated life of the pipeline. In 2006, GHD stated¹²:
- “Overall, GHD is of the opinion that overall the pipeline integrity appears to be appropriate to ensure an effective and efficient operation. The remaining life of the pipeline system can be expected to be in line with industry standards and is likely to be in excess of 60 years, provided the appropriate maintenance regimes are adhered to.”*
- 42 On the basis that EPX management has advised that the ethane pipeline has been appropriately maintained over the period from 2006 to date, and will continue to be consistently maintained, for the purposes of our report LEA consider it appropriate to assume that this conclusion still holds.

¹¹ In considering the appropriate assumptions to apply to future ethane supply for the purpose of our report, we have had regard to subsequent disclosures by Santos Limited (Santos) and its joint venture partners as to gas reserves.

¹² GHD Technical Due Diligence Report – page 5, dated December 2005. In the Mariner Pipeline Income Fund Product Disclosure Statement dated 27 July 2006, GHD provided a letter dated 15 June 2006 summarising its technical review which stated that *“From GHD experience and research of similar international and Australian pipelines, the life of the Gorodok pipeline may possibly exceed 70 years”*. We assume this refers to its useful life from commissioning in 1996.

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED

LONERGAN EDWARDS
& ASSOCIATES LIMITED

III Profile of EPX

Overview

- 43 EPX comprises two registered managed investment schemes including Ethane Pipeline Income Trust (EPIT) and Ethane Pipeline Income Financing Trust (EPIFT). The securities are stapled together and traded on the ASX. The sole asset owned by EPX is a 1,375 km high pressure gas transmission pipeline, purpose built to transport ethane from Santos Limited's (Santos) and the Cooper Basin Producers'¹³ gas processing facility at Moomba (Moomba Facility) in the Cooper Basin, to Qenos' ethylene plant located at Port Botany in Sydney.

History

- 44 Construction for the Moomba to Sydney ethane pipeline commenced in February 1995, with the pipeline commissioned in 1996. The pipeline cost some \$206 million to construct and, with appropriate long-term maintenance, was estimated by GHD in 2006 to have a technical life that could exceed 60 years from 2006. At the time of construction, both Gorodok Pty Ltd (Gorodok)¹⁴ and the Port Botany ethylene plant were owned by ICI Australia Ltd¹⁵.
- 45 Over 1999 to 2000 Orica Limited separated its ethane associated assets, being Qenos (which was a joint venture with Exxon Mobil Australia at the time), which held ethylene production assets and Gorodok. The shares in Gorodok were then sold to a consortium of investors¹⁶.
- 46 On 16 February 2006, Mariner Financial Limited, through its subsidiary, Mariner Securities Limited, entered into a contract to acquire Gorodok for \$97 million. Later that year (on 12 September 2006) the pipeline was listed on the ASX as an income fund, with Mariner Securities Limited remaining as the RE.
- 47 On 19 December 2008, APA Ethane replaced Mariner Securities Limited as the RE. Concurrently, the two trusts that comprised the Fund changed their names to EPIT and the EPIFT¹⁷. To date APA Ethane has continued to act as the RE of EPIT and EPIFT, being the stapled Australian registered managed investment schemes which comprise EPX.

Ethane

- 48 Ethane is an organic chemical compound with the chemical formula C_2H_6 . At standard temperature and pressure, ethane is a colourless, odourless gas. Like many hydrocarbons, ethane is sourced on an industrial scale from natural gas and/or as a petrochemical by-product of petroleum refining. Pure extracted ethane has virtually no other market than the petrochemical feedstock market. It may, however, be left combined (subject to specified levels) with methane and hydrogen and used as part of natural gas.
- 49 The primary use of ethane is the production of ethylene. Ethylene can also be produced by a number of alternative feedstock including naphtha, butane and propane. Globally, naphtha is

¹³ The gas processing facility at Moomba is owned (percentage ownership (%)) by the following Cooper Basin Producers; Santos (66.6%), Beach Energy Ltd (20.2%) and Origin Energy Ltd (13.2%).

¹⁴ The pipeline owner.

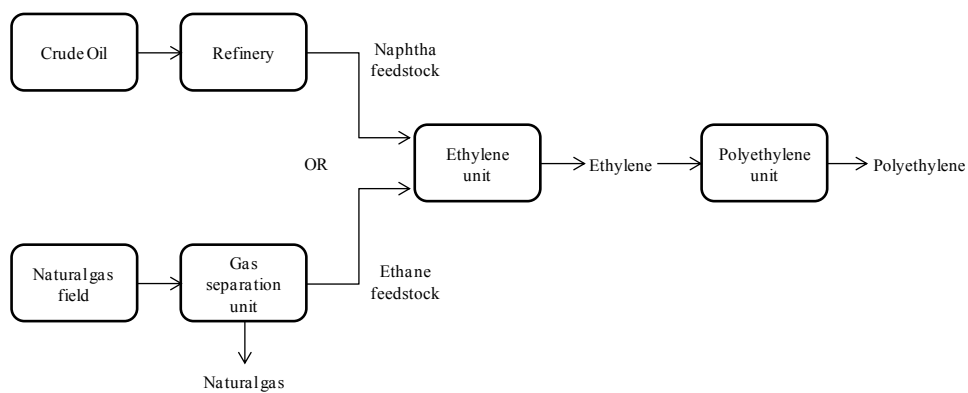
¹⁵ In 1998 ICI Australia Ltd changed its name to Orica Limited.

¹⁶ Gorodok was acquired by SSAU Pipeline Holdings Pty Ltd (49%), National Asset Management (31%) and John Laing Private Investments (20%). In 2002 Industry Funds Management (Nominees) Limited acquired John Laing Private Investment's 20% interest in the Pipeline.

¹⁷ Prior names were Mariner Pipeline Income Trust and the Mariner Pipeline Income Financing Trust.

the most commonly used feedstock to produce ethylene due to its availability and ease of transport. However, ethane generally yields more ethylene by volume than alternative feedstock, making ethylene derived from ethane more cost efficient. A diagram illustrating the production process is set out below:

Fully integrated polyethylene production



Source: CMAI.

- 50 Ethylene is then used to create polyethylene. The Australian market for polyethylene is diversified and supports manufacturers in diverse sectors such as packaging, mining, construction and telecommunications.

Ethane in the Cooper Basin

- 51 The Cooper Basin is one of a number of gas-bearing basins in Australia. Almost all of the current gas supply to Australia's key markets in southeast Australia comes from the Cooper Basin¹⁸, southwest Queensland, the Gippsland Basin and Bass Strait. A map showing the location of key basins and pipelines on Australia's east coast is set out below:

¹⁸ In the Cooper Basin, ethane occurs naturally within raw natural gas and to a lesser extent crude oil.

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED

LONERGAN EDWARDS
& ASSOCIATES LIMITED

Australia's east coast basins and gas pipelines



Source: NERA.

- 52 The Moomba Facility (operated by Santos and jointly owned by the Cooper Basin Producers) is some 800 km north of Adelaide in central Australia. It receives raw gas, hydrocarbon condensate and crude oil from the gas and oil fields in both the Cooper Basin and Eromanga Basin, and raw gas from southwest Queensland. The Moomba Facility separates the incoming raw compounds into ethane, natural gas (predominately methane), natural gas liquids (propane and butane and other light liquid hydrocarbons) and crude oil. Following extraction, ethane produced at the Moomba Facility is either transported through the ethane pipeline towards Sydney, injected into storage reservoirs or injected into natural gas.
- 53 As at 31 December 2015, Santos and its joint venture partners' Cooper Basin proven and probable raw gas reserves were estimated at 1,090 petajoules¹⁹. EPX has been advised by Qenos that the typical ethane content in natural gas (from the Cooper Basin) is approximately 10%, which equates to a remaining ethane supply of some 10.7 years for the pipeline²⁰. However, this does not allow for any material future exploration success. Further the depletion of reserves owned by the Cooper Basin joint venture partners does not necessarily mean that processing at the Moomba Facility will end (with other such options including the potential to transport gas from other basins to the Moomba Facility).

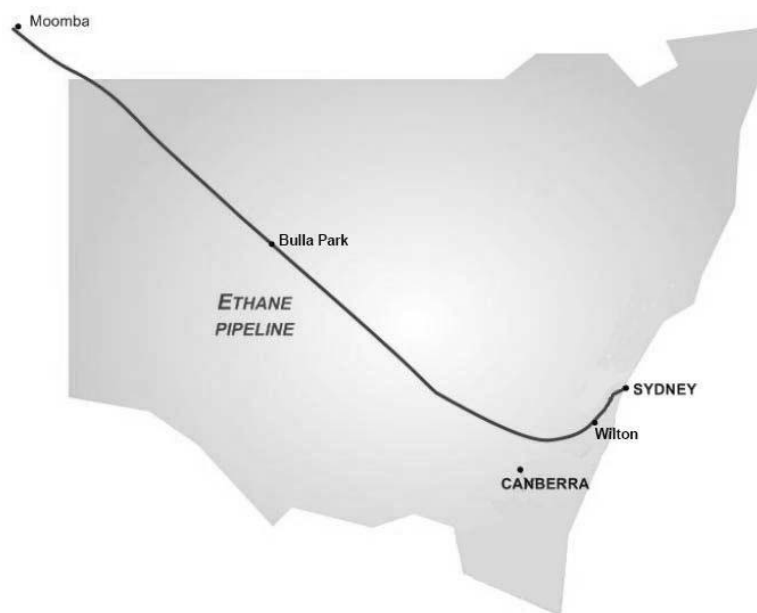
¹⁹ Inferred from Santos' Reserve Statement as at 31 December 2015 and Santos' 66.6% interest therein.

²⁰ Based on 197,000 tonnes per annum of ethane transported.

Current operations

- 54 Aside from the Board of Directors EPX does not employ any direct staff. As noted above, APA Ethane acts as RE of the Fund, with funds management services provided by APT (MIT) Services Pty Limited²¹ (APT) pursuant to the Management Services Agreement, and operations and maintenance services outsourced to East Australian Pipeline Pty Limited²² (East Australian Pipeline). East Australian Pipeline is also the operator of the Moomba Sydney Pipeline which runs parallel to the Moomba to Sydney ethane pipeline.
- 55 The Fund's sole source of revenue is derived from transporting ethane through the pipeline for Qenos, as governed by the PTA. A map showing the location of the pipeline is as follows:

EPX – Moomba to Sydney pipeline



Management Services Agreement

- 56 The Management Services Agreement between APT and EPX runs to 25 July 2016 and can be extended for a period of up to five years if agreed by the respective parties²³. In return for providing the following management services, APT receives a base fee of 0.5% per annum based on the Net Investment Value²⁴ that covers:
- (a) fund management and administration services

²¹ A subsidiary of APA.

²² A subsidiary of APA.

²³ A five year extension of the Management Services Agreement has been notified by APT, but requires approval of a resolution by the members of EPIT and EPIFT.

²⁴ The primary component of which is the monthly volume weighted equity of the Fund.

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



- (b) transaction services
- (c) risk management services; and
- (d) any other services reasonably requested.

Fee Sharing Deed

- 57 As the RE, EPX pays APA Ethane a fee of \$200,000 per annum. EPX RE is entitled to a fee of 2% per annum of the Gross Value of the assets of the Stapled Entities under the constitutions of EPIT and EPIFT. EPX RE has waived this fee, in lieu of an aggregate sum of \$200,000 per annum, so long as the Management Services Agreement, between the EPX and APT (MIT), remains on foot.

Operations and Maintenance Agreement

- 58 The Operations and Maintenance Agreement between EPX and East Australian Pipeline runs to 1 January 2017²⁵. Costs are generally based on agreed operational and maintenance rates, increased annually at (or slightly above) the consumer price index (CPI). The services covered by the agreement include, inter alia:
- (a) the transport of ethane from Moomba to Port Botany (as operator of the pipeline)
 - (b) the operation and monitoring of the pipeline in accordance with industry practice and applicable safety and statutory requirements
 - (c) routine and non-routine maintenance of the pipeline
 - (d) recertification of equipment; and
 - (e) recalibration and recertification of primary meters.

Product Transportation Agreement (PTA)

- 59 The PTA was entered into in 2000, prior to the appointment of APA Ethane as RE for the Fund in 2008. The PTA continues until 2030, but may be terminated earlier by Qenos providing at least 12 months' notice of termination (but not before 1 January 2019 as detailed below).
- 60 Under the terms of the PTA agreed in 2000:
- (a) the majority of revenue was based on a "reservation charge" (Reservation Charge), with a small component of revenue derived from a "throughput charge" (Throughput Charge), dependent on the volume of ethane transported
 - (b) the basis for calculating revenue changed from 1 October 2013, with the Reservation Charge reducing and the Throughput Charge increasing so that a greater proportion of revenue was dependent on the volume of ethane transported through the pipeline.
- 61 Following discussion between EPX and Qenos, the PTA was amended on 13 November 2014 with effect from 1 January 2015 (PTA Variation). The amendments delivered increased revenue certainty for the Fund by replacing the previous post 1 October 2013 arrangements

²⁵ Subsequent to this period it is anticipated that a similar arrangement will be entered into and agreed between EPX and East Australian Pipeline.

with a Reservation Charge only (up to 31 December 2018), and therefore reduced the risks associated with the volume linked Throughput Charge. The PTA Variation also removed the risk of Qenos unilaterality terminating the PTA prior to 31 December 2018.

62 A summary of the PTA and the PTA Variation is set out below:

EPX – PTA and PTA Variation			
	PTA Aug 2006 to Sep 2013	PTA Oct 2013 Onwards ⁽¹⁾⁽²⁾	PTA Variation Jan 2015 to Dec 2018 ⁽²⁾⁽³⁾
Reservation Charge (per annum)	\$24,080,000 base	\$13,222,774 base	\$20,000,000 base
Transportation Charge	\$0.5478 per tonne, base	\$38.90 per tonne base, not to exceed \$1,134,596 per month	None
Cap on increase to charges	Half the CPI increase (capped at 4% per annum)	Half the CPI increase applied annually on 1 April (CPI increase not capped)	Half the CPI increase applied annually on 1 January (CPI increase not capped)

Note:

- 1 Excluding the period 1 January 2015 to 31 December 2018 as a result of the PTA Variation.
- 2 Subject to there being no termination notice prior to 1 January 2017.
- 3 The Fund is entitled to recover any shortfall in revenue for this period (i.e. the amount, if any, by which the Fund's revenue for that period is less than the revenue the Fund would have been entitled to for the same period under the previous agreed tariff structure) if, in any calendar year in that period, ethane volumes and Qenos' earnings before interest, tax, depreciation and amortisation (EBITDA) are greater than pre-agreed specified thresholds levels.

63 On 1 January 2019, the tariff charges will revert back to the previously agreed charges under the PTA arrangements from October 2013 (i.e. a fixed Reservation Charge of \$13.2 million²⁶ and Transportation Charge of \$38.90²⁷ per tonne indexed in accordance with the terms of the PTA)²⁸.

Qenos

- 64 Qenos is owned by China National BlueStar (Group) Co, Ltd., a company 80% owned by China National Chemical Corporation (ChemChina), with Blackstone Group holding the remaining 20% interest. It is Australia's sole manufacturer and supplier of polyethylene and supplies manufacturers in a range of sectors including packaging (e.g. stretch wrapping and drink cartons), mining (e.g. storage tanks), construction (e.g. water pipes) and telecommunications.
- 65 In addition to the Botany site, Qenos operates a polyethylene production facility in Altona (Melbourne, Victoria). Together these facilities generate revenue of A\$700 million to A\$900 million and employ approximately 720 staff (280 at Botany) and 350 contractors (150 at Botany)²⁹.

²⁶ \$ real October 2013.

²⁷ \$ real October 2013.

²⁸ Further, the tariff will revert back to the 'previously agreed charges' should Qenos provide notice to terminate prior to 1 January 2018.

²⁹ As per the Qenos Site Visit presentation to Ethane Pipeline Investors dated 17 March 2015.

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



- 66 The Botany plant comprises an ethylene cracker and two downstream polyethylene units and covers 37 hectares. The EPX pipeline supplies ethane directly to the ethylene cracker, which is used as feedstock to produce olefins, polyethylene and other polymers. The immediate area around the Botany plant is also a major chemicals and plastics manufacturing location.

Financial performance

- 67 The financial performance of EPX for the three years ended 30 June 2015 (FY15) and the half year ended 31 December 2015 (1HY16) is set out below:

EPX – statement of financial performance ⁽¹⁾				
	FY13 Audited \$m	FY14 Audited \$m	FY15 Audited \$m	1HY16 Reviewed \$m
Reservation Charge	26.4	16.6	16.7	10.0
Throughput Charge	0.1	5.6	4.6	-
Other income ⁽²⁾	0.0	-	-	-
Total revenue	26.6	22.2	21.3	10.0
Operating expenses	(8.3)	(8.0)	(8.1)	(4.1)
EBITDA⁽³⁾	18.2	14.3	13.1	5.9
Depreciation	(2.7)	(2.8)	(2.9)	(1.5)
EBITA	15.5	11.4	10.2	4.4
Amortisation of intangibles	(3.5)	(3.5)	(3.5)	(1.7)
EBIT	12.0	8.0	6.8	2.7
Net finance income ⁽⁴⁾	(0.0)	(0.1)	(0.1)	(0.1)
Profit before tax	12.0	7.9	6.7	2.6
Income tax expense	(4.0)	(2.8)	(2.4)	(1.0)
Profit after tax	8.0	5.1	4.3	1.6
Ethane transported (000 tonnes)	221.9	202.3	227.7	96.5

Note:

- 1 Rounding differences exist.
- 2 Contribution for subsidence mitigation and other works.
- 3 EBITDA = earnings before interest, tax, depreciation and amortisation.
- 4 Financial expenses include the unwinding on the discount of provisions relating to pipeline abandonment.

- 68 Below is a summary of the key factors that have impacted the financial performance of EPX in FY14, FY15 and 1HY16.

Year to 30 June 2014 (FY14)

- total revenue reduced by 16.3%, which reflected the change in tariff calculation under the PTA from 1 October 2013 (with a greater proportion of revenue dependent on the Throughput Charge) combined with lower volumes transported through the pipeline
- operating expenses reduced by some 4.6%, however this was not enough to offset the decline in revenue and hence profitability was adversely impacted, with EBITDA reducing by 21.7%

Year to 30 June 2015 (FY15)

- notwithstanding higher volumes of ethane transported, total revenue reduced by 4.2% due to the PTA Variation (which took effect on 1 January 2015), pursuant to which revenue became totally dependent on the Reservation Charge³⁰
- Operating expenses rose slightly by 2.4% and as a result EBITDA reduced by 7.8%

Results for the half year ended 31 December 2015

- total revenue declined \$1.3 million (11.4%) and EBITDA decreased by 19.0% in comparison to the previous half year period due to the PTA Variation (which took effect on 1 January 2015), pursuant to which revenue became totally dependent on the Reservation Charge
- Qenos undertook significant maintenance of the Botany plant during October 2015 and November 2015, whereby the site was shut down for a six week period. Given current revenues are based only on the Reservation Charge this did not impact the financial performance of EPX, but did impact volumes transported.

Financial position

69 The financial position of EPX as at 30 June 2015 and 31 December 2015 is set out below:

EPX – statement of financial position⁽¹⁾		
	30 Jun 15	31 Dec 15
	Audited	Reviewed
	\$m	\$m
Debtors and prepayments	2.1	0.6
Creditors, accruals and provisions	(4.3)	(4.0)
Net working capital	(2.2)	(3.3)
Property, plant and equipment	30.9	29.5
Intangible assets	37.7	36.0
Deferred tax assets	0.4	0.7
Cash on deposit ⁽²⁾	2.2	2.2
Provisions (non-current)	(5.8)	(6.3)
Total funds employed	63.2	58.7
Cash and cash equivalents	6.5	8.1
Net cash	6.5	8.1
Net assets attributed to EPX securityholders	69.6	66.8

Note:

- 1 Rounding differences exist.
- 2 Relates to cash held to support bank guarantees in relation to various contractual agreements.

70 In respect of the above we note that:

- (a) whilst EPX has a history of reported negative net working capital, the Fund maintains adequate cash holdings to offset this

³⁰ This also impacted comparability between the previous year.

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



- (b) the Fund holds some \$2.2 million cash on deposit to support bank guarantees for various contractual agreements
- (c) EPX has quarantined funds for future known major expenditure in relation to mine subsidence monitoring (expected total cost of \$2.4 million to FY18) and magnetic flux leakage inspections (expected cost of \$2.5 million in FY17 and \$0.8 million in FY18).

Property, plant and equipment

71 The composition of EPX's property, plant and equipment is set out below:

EPX – property, plant and equipment		
	30 Jun 15	31 Dec 15
	\$m	\$m
Land and buildings	2.7	2.6
Plant and equipment	28.2	26.9
Total	30.9	29.5

72 The majority of the above relates to plant and equipment, which is the depreciated book value of the pipeline. The pipeline is depreciated on a straight line basis over its expected useful life for reporting purposes of 20 years.

Intangibles

73 The composition of EPX's intangible assets is set out below:

EPX – intangible assets		
	30 Jun 15	31 Dec 15
	\$m	\$m
Rights to receive tariff	37.3	35.6
Contract intangibles	0.4	0.4
Total	37.7	36.0

74 The rights to receive tariffs (as provided under the PTA) were recognised upon the acquisition of Gorodok in 2006. These tariff rights are amortised on a straight line basis over 20 years based on estimated ethane reserves.

Security capital and performance

75 As at 7 March 2016 (the date of the announcement of the Offer), EPX had approximately 69.3 million ordinary securities on issue.

Significant securityholders

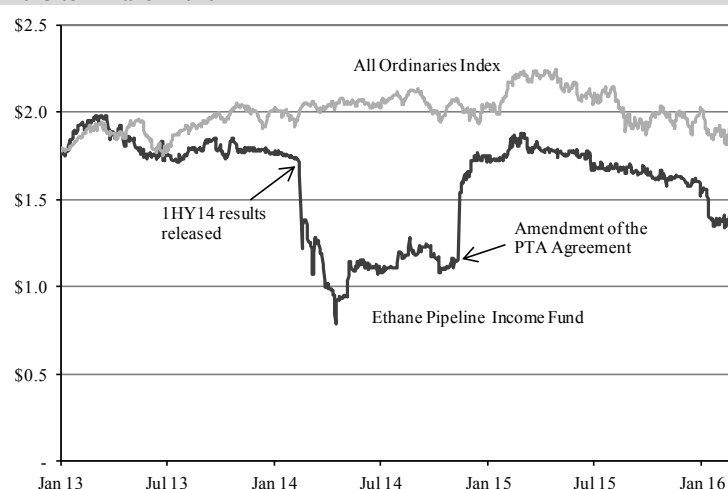
76 At the date of the announcement of the Offer, APA held approximately 4.2 million EPX securities (representing 6.08% of the securities in the Fund). As at 30 March 2016, based on subsequent on-market purchases and acceptances under the Offer, APA had increased its interest in EPX to 19.81%.

77 As announced on 30 March 2016 (i.e. post the announcement of the Offer), Maven has acquired some 6.9 million EPX securities, representing 9.90% of the EPX securities on issue.

Security price performance

- 78 The following chart illustrates the movement in the security price of EPX from 1 January 2013 to 4 March 2016³¹ in comparison to the All Ordinaries Index:

EPX – security price history
1 January 2013 to 4 March 2016



Source: Bloomberg.

- 79 On 11 February 2014, EPX reported a net profit of \$2.9 million for the six months ended 31 December 2013 (1HY14), a decrease of 29% on the previous corresponding period. The decrease was primarily attributable to the changes in the calculation of revenue under the PTA from 1 October 2013. As discussed above, the changes involved placing a greater weighting towards the volume of ethane transported. Further, at the time of the release of the Fund's 1HY14 results, Qenos remained in discussion with its ethane suppliers, and had not yet finalised its ethane supplies for the period beyond December 2014.
- 80 On 13 November 2014, Qenos announced that it had secured a five year contract extension for the supply of ethane to its Botany plant, and the PTA was amended to reflect a fixed minimum charge of \$20.0 million per annum for the period from 1 January 2015 to 31 December 2018. This removed any revenue uncertainty over this period and resulted in an uplift in the EPX security price.

Liquidity in EPX's securities

- 81 The liquidity in EPX's securities based on trading on the ASX over the 12 month period up to 4 March 2016³² is set out below:

³¹ Being the last trading day prior to the announcement of the Offer.

³² Being the last trading day prior to the announcement of the Offer.

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



EPX – liquidity in securities						
Period	Start date	End date	No of securities traded 000	WANOS ⁽¹⁾ outstanding 000	Implied level of liquidity Period ⁽²⁾ %	Annual ⁽³⁾ %
1 month	5 Feb 16	4 Mar 16	492	69,302	0.7	8.5
3 months	5 Dec 15	4 Mar 16	2,173	69,302	3.1	12.5
6 months	5 Sep 15	4 Mar 16	4,344	69,302	6.3	12.5
1 year	5 Mar 15	4 Mar 16	9,124	69,302	13.2	13.2

Note:

- 1 Weighted average number of securities outstanding (WANOS) during relevant period.
- 2 Number of securities traded during the period divided by WANOS.
- 3 Implied annualised figure based upon implied level of liquidity for the period.

- 82 In each of the periods disclosed, EPX's security turnover (on an annualised basis) has been low, indicating a low level of market liquidity. As disclosed in the FY15 annual report, the securityholders in EPX comprise a large number of retail investors with holdings up to 100,000 securities (comprising some 69% of the securities on issue).

IV Valuation approach

Valuation approaches

- 83 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology
 - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
 - (c) the amount that would be available for distribution to securityholders in an orderly realisation of assets
 - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
 - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.
- 84 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
- 85 Discounting of future cash flows is commonly used when valuing mining, infrastructure and utility assets or where an asset has a finite life and the future cash flows can be forecast with a degree of confidence. Additionally, this methodology is adopted for the valuation of projects and assets where it is not possible to estimate “maintainable” earnings as the business is in a state of transformation, start-up or period of rapid growth. Under this methodology, the value of an asset is calculated as the net present value of the estimated future cash flows including a terminal value, if appropriate. In order to arrive at the net present value, cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
- 86 Technically, the DCF approach is the superior methodology since it allows for fluctuations in future performance to be recognised.
- 87 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future “maintainable” earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.
- 88 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest, tax and amortisation (EBITA), earnings before interest and tax (EBIT) or net

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in securities in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

- 89 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company is adjusted for the time, cost and taxation consequences of realising the company's assets.

Methodology selected

- 90 The market value of EPX has been assessed by aggregating the market value of the business operations together with its cash holdings. The value of the business operations has been made on the basis of market value as a going concern.
- 91 Given the availability of a cash flow model prepared by EPX and its advisers (EPX Model), we have selected the DCF methodology as the primary valuation methodology. The use of DCF in valuing infrastructure assets is also generally accepted as being the most appropriate methodology given its strong theoretical basis.
- 92 We have cross-checked our valuation of the equity in EPX by considering:
- (a) implied EBITDA multiples; and
 - (b) the pre-bid market price of EPX securities adjusted for a premium for control.

V Valuation of 100% of EPX

Overview

- 93 As set out in Section IV, the market value of the securities in EPX has been assessed by determining the market value of the business operations and adding net cash. Under the DCF methodology the value of the business is equal to the NPV of the estimated future cash flows. In order to arrive at the NPV, the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.

Cash flow projections

- 94 Our DCF valuation is based on the free cash flow projections contained in the EPX Model. These projections extend to 2030, consistent with the PTA and based on the assumption of available ethane supplies to this date³³.
- 95 The free cash flow projections have been considered and adjusted / expanded where required based on discussions with EPX management regarding the outlook of the business, historical and forecast growth rates, profit margins and other relevant factors.
- 96 Whilst LEA believes the assumptions underlying the projections are reasonable and appropriate, it should be noted that in respect of these projections:
- (a) the major assumptions underlying the projections were formulated in the context of current economic, financial and other conditions
 - (b) the projections and the underlying assumptions have not been reviewed by either a technical expert or an investigating accountant for reasonableness or accuracy of compilation and application of assumptions
 - (c) future cash flows and profits are inherently uncertain
 - (d) the achievability of these projections is not warranted or guaranteed by EPX or LEA, as they are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of EPX
 - (e) actual results may be significantly more or less favourable.
- 97 Free cash flow represents the operating cash flows on an un-gearred basis (i.e. before interest) less taxation payments³⁴, capital expenditure and working capital requirements. The free cash flow on an ungeared basis is adopted to enable the value of the business to be determined irrespective of the level of debt funding (if any) employed.
- 98 As the detailed cash flow projections are commercially sensitive they have not been set out in our report. However, we set out below information on the major assumptions underlying the free cash flow projections.

³³ For financial reporting purposes, EPX has conservatively assumed ethane supplies are available to 2026.

³⁴ Also calculated on an ungeared basis.

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



Major assumptions

Tenure of cash flows

99 The Moomba to Sydney ethane pipeline was constructed in 1996 and has a prospective life that could extend to 2066, if adequately maintained. Notwithstanding the PTA expiry in 2030, for the purpose of our valuation we have therefore assumed a useful life of the pipeline to 2066 (i.e. a remaining useful life of 50 years)³⁵. This assumption has been adopted having regard to the following (which are discussed in more detail below):

- (a) the PTA and its tenure
- (b) the viability of Qenos
- (c) available ethane reserves; and
- (d) alternative uses for the pipeline.

PTA and its tenure

100 The PTA was signed in 2000 and continues to 2030. Qenos has the right to terminate the PTA by providing at least 12 months' notice, however termination cannot occur before 1 January 2019. In our view (subject to the availability of gas reserves and the viability of Qenos, refer below), it is unlikely that Qenos will terminate the PTA prior to 2030 because:

- (a) significant capital has been invested in the Qenos polyethylene manufacturing facilities at the Botany site
- (b) the EPX pipeline provides Qenos with a dedicated supply of ethane that supports its polyethylene manufacturing facilities at the Botany site
- (c) in the absence of the pipeline, to continue to manufacture polyethylene Qenos would require alternate supply arrangements and/or feedstock and alternative cost efficient transportation infrastructure would be required to allow ethane (or other alternative feedstock) imports; and
- (d) Qenos effectively renewed its commitment to the Botany facilities with the significant maintenance investment at the plant in the second half of 2015, which is expected to sustain operations for a further 10 to 12 years³⁶.

101 Subject to the continued availability of ethane supplies and the ability to negotiate a further supply agreement with Santos and its joint venture producers, there are reasonable grounds to assume that upon the expiry of the PTA (in 14 years), Qenos will seek to enter into another agreement with EPX for the transportation of ethane from the Moomba Facility.

Viability of Qenos

102 Qenos is the sole polyethylene producer in Australia and a key supplier to a host of industries including packaging, mining, construction and telecommunications. The products produced by Qenos form part of the raw materials used in numerous household, consumer and industrial products.

³⁵ Noting that the present value of any cash flows in the later years of and post this period are immaterial.

³⁶ At which point another maintenance investment programme may be considered.

- 103 Qenos is majority owned (80%) by ChemChina, a state owned chemical conglomerate that is ranked 265 on the “Fortune Global 500”. It is China’s largest chemical company, with revenues of \$45 billion and more than 140,000 employees (with approximately 48,000 outside China). The remaining 20% interest in Qenos is owned by the Blackstone Group, one of the world’s largest investment companies³⁷.
- 104 Based on publicly available information³⁸, including the substantial size of its owners and the range of industries supported by its products, we consider there are reasonable grounds to assume the ongoing financial viability of the Qenos Botany facility.

Available gas reserves

- 105 As at 31 December 2015, Santos and its joint venture partners’ Cooper Basin proven and probable raw gas reserves were estimated at 1,090 petajoules³⁹, which equates to an estimated remaining ethane supply for the pipeline of some 10.7 years⁴⁰. However, given the substantial size of and investment in the Moomba Facility, it is highly likely that its owners will seek to maximise its productive life for as long as economically possible post extraction of the current substantiated reserves. In this regard we understand additional gas and/or oil supplies could be sourced from any one (or a combination) of the following:
- (a) the addition of reserves from future exploration success in the Cooper Basin at the tenements owned by Santos and its joint venture partners
 - (b) the potential to process gas from other resources not owned by Santos and its joint venture partners, including:
 - (i) gas from other Cooper Basin exploration projects
 - (ii) unconventional gas resources in the Cooper Basin (noting that these sources of gas are yet to be economically proven and may not contain as much ethane as the gas currently feeding the Moomba Facility)
 - (iii) transporting gas from other gas producing basins around Australia (noting that there are some practical limitations to this and that gas from these other basins may already have been processed to Australian pipeline standards)
 - (iv) any future pipeline that is constructed to connect the gas resources of the north of Australia to the east coast pipeline network⁴¹.
- 106 Accordingly, whilst by no means certain, there would appear to be a number of possible options available to maintain and/or extend the life of the Moomba Facility and hence continue to provide ethane supplies to Qenos over a much longer period than that inferred from current gas reserves.

³⁷ Blackstone Group L.P is an investment manager listed on the New York Stock Exchange and has a market capitalisation of US\$18.1 billion (Capital IQ accessed on 28 March 2016).

³⁸ LEA has not had access to a technical assessment of the Botany facility, nor been provided with the financial statements of Qenos.

³⁹ Inferred from Santos’ Reserve Statement as at 31 December 2015 and Santos’ 66.6% interest therein.

⁴⁰ Based on assumed 10% ethane content in gas and 197,000 tonnes per annum of ethane transported.

⁴¹ While this is only a possibility at present, additional gas supplies from the north of Australia may be a solution to potential gas shortages envisaged across the east of Australia in the medium to longer term.

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



Alternative uses for the pipeline

- 107 Given the combination of the significant capital that would be required to replicate the pipeline, and the likelihood that another comparable pipeline could not be constructed economically at present, we consider it likely that should ethane supply to Qenos cease in 2030 (or prior to), the pipeline would have alternative uses.
- 108 In each of the following scenarios, we note that additional capital expenditure would be required (i.e. for conversion and connection) and that the economics are unlikely to be as favourable to the pipeline owner as the current PTA:
- (a) conversion to a liquids transport pipeline⁴², including a multi-product pipeline for condensate, propane and butane
 - (b) conversion to a gas transport pipeline and gas storage facility; and
 - (c) the use of the pipeline as a carbon dioxide geo-sequestration of greenhouse gas emissions from electricity production and/or other energy intensive activities (which would ultimately depend on any potential carbon related tax).
- 109 For the purpose of our valuation we have therefore assumed an ongoing arrangement with Qenos subsequent to expiry of the PTA in 2030.

Revenue assumptions

- 110 Under the PTA Variation signed on 13 November 2014, the following future revenue assumptions were agreed between Qenos and EPX:

EPX – PTA Variation		
	1 Jan 2015 to 31 Dec 2018⁽¹⁾⁽²⁾	1 Jan 2019 onwards⁽²⁾⁽³⁾
Reservation Charge (per annum)	\$20,000,000 base	\$13,222,774 base
Throughput Charge	None	\$38.90 per tonne base, not to exceed \$1,134,596 per month
Cap on increase to charges	Half the CPI increase applied annually on 1 January (CPI increase not capped)	Half the CPI increase applied annually on 1 April (CPI increase not capped)

Note:

- 1 Subject to there being no termination notice prior to 1 January 2017.
- 2 The Fund is entitled to recover any shortfall in revenue for this period (i.e. the amount, if any, by which the Fund's revenue for that period is less than the revenue the Fund would have been entitled to for the same period under the previous agreed tariff structure) if, in any calendar year in that period, ethane volumes and Qenos' EBITDA are greater than specified thresholds levels.
- 3 EPX is entitled to a surcharge of 20% of the Throughput Charge if monthly volumes transported exceed a specified threshold.

- 111 For the period up to 31 December 2018, EPX is only entitled to receive the Reservation Charge of \$20 million per annum. From 1 January 2019, revenue is based on a Reservation Charge of \$13.2 million⁴³ per annum plus the Throughput Charge of \$38.90⁴⁴ per tonne

⁴² As mentioned by APA in its investor presentation in respect of Offer for EPX on 7 March 2016.

⁴³ \$ real October 2013.

⁴⁴ \$ real October 2013.

(indexed at half the CPI). Accordingly, from 1 January 2019, pipeline revenue becomes more dependent on volumes transported.

- 112 For the purposes of our valuation, post the expiry of the PTA in 2030, we have assumed a contract containing terms at least equal to the terms set out in the PTA Variation is entered into, covering the period from 2031 to 2066. However, the exact terms of any PTA post 2030 will be the subject of negotiation and economic factors prevailing at the relevant time.
- 113 The current PTA includes allowance for indexing at 50% of the annual CPI for both the Reservation Charge and Throughput Charge. For the period subsequent to 2030 we have modelled both this assumption, as well as indexing at 100% of the assumed CPI.

Volumes transported

- 114 Recent pipeline volumes transported from Moomba to the Qenos Botany facility are set out below:

EPX – pipeline transport volumes			
Year to 31 December	tonnes	Year to 30 June	tonnes
2015	207,971 ⁽¹⁾	2015	227,715
2014	213,116	2014	202,346
2013	211,124	2013	221,868
2012	239,993	2012	254,738
2011	266,541	2011	282,702
Three year average	210,737		217,310
Five year average	227,749		237,874

Note:

- 1 This period was impacted by Qenos undertaking significant maintenance of the Botany plant, with the site shut down for a six week period during October 2015 to November 2015.

- 115 The EPX Model has been conservatively prepared with transport volumes of 197,000 tonnes per annum over the forecast period to 2030. Based on the three year average historical volumes, which are between 211,000 tonnes (to 31 December 2015) and 217,000 tonnes (to 30 June 2015) per annum, the EPX Model assumption appears conservative. We also note that over a five year period the average annual volumes are some 228,000 tonnes (to 31 December 2015) and 238,000 tonnes (to 30 June 2015).
- 116 Having regard to the historical volumes transported, for the purpose of our valuation we have adopted the following forecast pipeline volumes:
- (a) Conservative Case – 197,000 tonnes per annum
 - (b) Base Case – 215,000 tonnes per annum
 - (c) Upper Case – 230,000 tonnes per annum.

Operating expenditure

- 117 Operating costs allowed for in the cash flow projections include:

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



- (a) the Management Services Agreement between APT and EPX, whereby APT receives a base fee of 0.5% per annum based on the Net Investment Value⁴⁵, which covers a range of fund management, transaction, administration and risk management services
 - (b) the RE fee to APA Ethane of \$200,000 per annum
 - (c) the operations and maintenance services contract between EPX and East Australian Pipeline covering the key costs to operate and maintain the pipeline. Costs are largely fixed based on agreed operational and maintenance rates, increased annually at (or slightly above) the assumed CPI. Non-routine maintenance activities are a variable component of the contract
 - (d) other costs as listed below (which are increased at or above the assumed CPI rate):
 - (i) Directors' fees and expenses
 - (ii) professional fees and consultants (including auditing)
 - (iii) pipeline insurance costs; and
 - (iv) registration and ASX listing fees.
- 118 In addition, the cash flow projections include the contribution required by EPX towards mine subsidence rectification payments for the pipeline in 2017 and 2018, noting that the underground mine that caused the subsidence (the Appin coal mine) was in operation prior to the construction of the pipeline.
- 119 To allow for the synergies generally available to a standalone purchaser we have reduced the operating costs of EPX by \$0.5 million per annum (indexed at the assumed CPI rate). This is based on the assumption that a range of costs, including Directors' fees, registration and ASX listing fees and a proportion of other costs such as auditing, could be eliminated or reduced by a standalone purchaser.

Capital / significant maintenance expenditure

- 120 The cash flow projections include allowance for the following capital expenditure:
- (a) magnetic flux leakage inspections / intelligent pig runs, which is a process of cleaning and checking the integrity of the pipeline. This includes:
 - (i) \$2.5 million in FY17 which covers the section from Moomba to Wilton. This expenditure recurs at ten year intervals (inflated at the assumed CPI rate)
 - (ii) \$0.8 million in FY18 which covers the section from Wilton to Port Botany. This expenditure recurs at five year intervals (inflated at the assumed CPI rate)
 - (b) SCADA (communication systems) capital costs of \$1.0 million in FY20 and recurring at ten year intervals, inflated at the assumed CPI rate
 - (c) annual stay in business capital expenditure covering periodic replacement, refurbishment and improvements of various components of physical assets (i.e. pipeline or above ground facilities).

⁴⁵ The primary component of which is the monthly volume weighted equity of the Fund.

Remediation

- 121 We understand that as the pipeline is buried for its entire length, the cost for remediation at the end of its useful life is relatively low. EPX has provided an estimate of the cost of remediation in its FY15 annual report of \$7.9 million in 2026⁴⁶. We have therefore included remediation costs at the end of our valuation period based on the CPI inflated 2026 remediation costs estimate.

Other

- 122 The other major assumptions in the cash flow projections are as follows:
- (a) the corporate tax rate continues to be 30%. Further, no significant change in taxation legislation impacting the pipeline business is assumed
 - (b) an assumed annual CPI rate of 2.5% per annum
 - (c) tax depreciation of assets based on the EPX Model, extended to the end of the respective valuation periods
 - (d) no material changes to working capital requirements; and
 - (e) no significant change in legislation / regulation with respect to the pipeline.

Discount rates

- 123 Our detailed analysis supporting the use of the discount rates adopted is set out in Appendix C. In summary the discount rates have been derived using the capital asset pricing model (CAPM) and the weighted average cost of capital (WACC) formulae using the following inputs:

EPX – WACC (nominal)			
Parameters	Low %	Mid-point %	High %
Beta	0.8	0.85	0.90
MRP	6.0	6.0	6.0
Risk-free rate	4.0	4.0	4.0
Cost of equity	8.8	9.1	9.4
Cost of pre-tax debt	7.5	7.5	7.5
Tax rate	30.0	30.0	30.0
Cost of post tax debt	5.25	5.25	5.25
Proportion of equity funding	85.0	92.5	100.0
Proportion of debt funding	15.0	7.5	-
After tax nominal WACC	8.3	8.8	9.4
Adopted WACC	8.8		

- 124 In our opinion, it would be technically appropriate to apply a higher discount rate to the projected cash flows post 2030 (i.e. after the existing PTA period) to recognise the implicit risks associated with the currently uncontracted nature of these cash flows. However, as noted above, we consider there are reasonable grounds to assume the cash flows adopted,

⁴⁶ Being the conservative economic life of the pipeline adopted for financial reporting purposes.

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



including those that relate to the post 2030 period. For the purposes of assessing the value of EPX, therefore, a higher discount rate has not been applied.

Valuation scenarios considered

- 125 Having regard to the above, we have considered the following valuation scenarios for EPX which produce a range of NPVs:

EPX – valuation scenarios				
Scenario	Cash flow projection period end date	Tonnes per annum transported	CPI revenue assumption post 2030 %	NPV \$m
Conservative Case	2030	197,000	n/a	70.7
	2066	197,000	1.25	105.2
	2066	197,000	2.50	115.8
Base Case	2030	215,000	n/a	74.0
	2066	215,000	1.25	110.9
	2066	215,000	2.50	121.8
Upper Case	2030	230,000	n/a	76.7
	2066	230,000	1.25	115.5
	2066	230,000	2.50	126.7

Note:

- 1 None of the above scenarios reach the volume thresholds that would enable EPX to receive a surcharge on its Throughput Charge.
n/a – not applicable.

- 126 We have adopted an enterprise value for EPX within the range of \$110 million to \$120 million having particular regard to:
- (a) the Base Case Scenario with regards to volumes transported
 - (b) the potential to renegotiate the PTA post 2030 with an assumed higher percentage recovery of CPI increases (up to 100% of CPI, particularly after a long period of CPI under recovery). However, as noted in paragraph 112, the exact terms of any PTA post 2030 will be the subject of negotiation and economic factors prevailing at the relevant time.

Sensitivity analysis

- 127 As noted in paragraph 96 above, there are inherent qualifications that apply to cash flow projections on which DCF valuations are based. In addition, the cost of capital can vary between industry participants based on factors such as differing perceptions / acceptance of risk and willingness to assume debt funding obligations.
- 128 It is important therefore not to credit the output of DCF models with a precision it does not warrant. It follows that any DCF valuation process should consider a range of scenarios, having regard to the respective key valuation drivers of the business being valued.
- 129 We therefore set out below the sensitivity of the EPX business value (i.e. before allowance for net cash) to changes in the discount rate and level of volumes transported in our Base Case scenario, under both the 1.25% and 2.5% revenue inflation post 2030 assumptions:

EPX – valuation sensitivities (\$m)							
Discount rate	Annual volumes transported						
	190,000 tonnes	200,000 tonnes	210,000 tonnes	215,000 tonnes	220,000 tonnes	230,000 tonnes	240,000 tonnes
Base case with 1.25% inflation on revenue post 2030							
8.3%	108.8	112.1	115.4	117.1	118.7	122.1	125.4
8.8%	103.1	106.2	109.3	110.9	112.4	115.5	118.6
9.3%	98.0	100.9	103.8	105.3	106.7	109.6	112.5
Base case with 2.50% inflation on revenue post 2030							
8.3%	120.9	124.4	128.0	129.8	131.6	135.1	138.7
8.8%	113.5	116.8	120.1	121.8	123.4	126.7	130.0
9.3%	107.0	110.1	113.1	114.7	116.2	119.3	122.3

Cross-check to EBITDA multiple

130 The EBITDA multiples implied by our enterprise value range for EPX are shown below:

EPX – implied EBITDA multiple		
	Low \$m	High \$m
Enterprise value	110.0	120.0
FY15 EBITDA	13.1	13.1
1HY16 EBITDA annualised	11.8	11.8
Implied EBITDA multiples		
FY15 (x)	8.4	9.2
1HY16 annualised (x)	9.3	10.2

Sharemarket evidence

131 Given that the listed pipeline companies are significantly larger and tend to own a portfolio of pipeline assets as opposed to a single asset (like EPX), there are no directly comparable listed companies to EPX. Nonetheless, in order to get a broad indication of EBITDA multiples for pipeline assets, we set out below a summary of the implied EBITDA multiples for the Australian and internationally listed pipeline companies⁴⁷ (refer to Appendix D for further details and company descriptions):

⁴⁷ Given the limited sample size in Australia, we have also considered Australian utility companies with gas related operations.

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED

Listed multiples				
	Most recent full year	Enterprise value ⁽²⁾ \$m	EBITDA multiple Historical ⁽³⁾ FY15 x	Forecast ⁽⁴⁾ FY16 x
Ethane Pipeline Income Fund	30 Jun 15	94	7.3	na
Australian pipelines entities				
APA Group	30 Jun 15	18,435	22.5	14.1
DUET Group	30 Jun 15	11,172	14.2	11.9
Australian energy entities with gas related operations				
AGL Energy	30 Jun 15	15,492	10.4	9.0
AusNet Services	31 Mar 15	11,442	10.3	9.9
International pipelines entities				
Kinder Morgan	31 Dec 15	112,212	11.5	11.4
TransCanada Corp	31 Dec 15	72,527	12.7	12.0
Spectra Energy Partners	31 Dec 15	27,569	11.4	10.6
AGL Resources	31 Dec 15	17,422	10.7	10.9
Columbia Pipeline Group	31 Dec 15	14,177	16.5	15.2
Boardwalk Pipeline Partners	31 Dec 15	9,330	9.7	9.0
TC Pipelines	31 Dec 15	6,719	13.8	13.0

Note:

- 1 Enterprise value and earnings multiples calculated as at 28 March 2016, with the exception of EPX which is shown as at 4 March 2016 (being the last trading day prior to the announcement of the Offer) and Columbia Pipeline Partners, which is prior to speculation of the takeover offer from TransCanada Corp on 10 March 2016.
- 2 Enterprise value reflects market capitalisation plus net debt.
- 3 Historical earnings are based on latest statutory full year accounts and exclude non-recurring items.
- 4 Forecast earnings are based on Bloomberg broker average forecast (excluding outliers and outdated forecasts).

Source: Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements, LEA analysis.
na – not available.

132 In respect of the above we note that:

- (a) the above multiples are based on the listed (or portfolio) market price of each company's shares (and therefore exclude a premium for control). Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover). This broadly translates to a premium of 20% to 25% at the EBIT multiple or enterprise value level, although this varies depending on the level of debt funding employed in each company
- (b) all of the listed companies are larger and have more diverse operations than EPX. Smaller companies generally trade on lower multiples than larger companies provided the outlook for earnings growth and the market sectors in which the businesses operate are similar.

Transaction evidence

- 133 There have been a number of transactions in the Australian pipeline sector in recent years and the related implied EBITDA multiples are set out below:

Pipeline transaction evidence					
Date ⁽¹⁾	Target	Acquirer	Enterprise value ⁽²⁾ \$m	EBITDA multiple Historical x	Forecast x
Dec 14	QCLNG Pipeline	APA Group	4,597 ⁽³⁾	na	12.9
Apr 13	Moomba to Adelaide Pipeline System	QIC Global Infrastructure	401	na	10.8
Aug 12	Hastings Diversified Utilities Fund ⁽⁴⁾	APA Group	2,607	23.5	18.1
Sep 11	Tasmanian Gas Pipeline	Palisade Diversified Infrastructure Fund	200	11.0	na
Jul 11	Dampier Bunbury Pipeline ⁽⁵⁾	DUET Group	3,460	9.6	na
Jun 11	Amadeus Gas Pipeline	APA Group	63	na	4.8
Nov 10	SEA Gas Pipeline ⁽⁶⁾	APA Group	277	na	10.9
Average				14.7	11.5
Median				11.0	10.9

Note:

- 1 Date of announcement.
- 2 Enterprise value on a 100% basis. Shown in Australian dollars unless noted.
- 3 Enterprise value is shown in US dollars.
- 4 At the time the transaction occurred, increased income from the South West Queensland Pipeline was not included in the current or forecast earnings. The IER stated that the forecast FY16 EBITDA multiple was 9.9 times.
- 5 Acquisition of 20.0% interest.
- 6 Acquisition of 16.7% interest.
- na – not available.

- 134 Whilst the above transactions are not directly comparable to EPX's operations and the transaction price and implied EBITDA multiple are a function of (inter alia) the contract arrangements, tariff structures etc., they provide market based evidence of pipeline transactions against which we have cross-checked our valuation assessment.
- 135 In relation to the transaction evidence it should be noted that except where indicated, the transactions related to the acquisition of 100% of the businesses and therefore implicitly incorporate a premium for control.

Conclusion on EBITDA multiple cross-check

- 136 The EBITDA multiples implied by our valuation of EPX are generally lower than both the listed company portfolio and the transaction evidence implied EBITDA multiples. We consider this appropriate and to primarily reflect the fact that EPX has one customer and one asset and is therefore exposed to the comparatively higher risks that flow from its limited customer and asset diversification.

Net cash

- 137 As at 31 December 2015, EPX held cash of \$8.1 million. However, this is before allowance for the March 2016 quarter interim distribution of \$0.0325 per security that EPX

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



securityholders are entitled to receive under the Offer. This reduces available cash to \$5.8 million.

Valuation summary

- 138 Having regard to the above, the value of 100% of EPX on a controlling interest basis is as follows:

EPX – equity valuation		
	Low	High
Enterprise value (\$m)	110.0	120.0
Add net cash ⁽¹⁾ (\$m)	5.8	5.8
Equity value (\$m)	115.8	125.8
Securities on issue (million)	69.3	69.3
Value per EPX security (\$)	1.67	1.82

Note:

- 1 Funds that are detailed as quarantined in the EPX financial statements are included in the cash flow projections and hence to avoid double counting have not been adjusted in the net cash shown above.

Comparison with listed market price

- 139 Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover).
- 140 In the one month and three month periods prior to the announcement of the Offer, the VWAP of EPX securities was \$1.39 and \$1.46 respectively. Adjusting these security prices for a 30% to 35% control premium would therefore result in a “theoretical” control value of \$1.84 to \$1.93 per security⁴⁸.
- 141 However, we note that EPX securityholders are entitled to receive the March 2016 quarter interim distribution of \$0.0325 per security payable on 15 April 2016 and that the security prices prior to the ex date of 15 March 2016 traded with an entitlement to this interim distribution. In comparison, our valuation range excludes this interim distribution (i.e. we have deducted it from net cash). Therefore, to ensure a like for like comparison, we have added the March 2016 quarter interim distribution to our valuation range, as set out below:

EPX – valuation cross-check		
	Low \$	High \$
Value per EPX security (ex distribution)	1.67	1.82
March 2016 quarter interim distribution per security	0.0325	0.0325
Value per EPX security (cum distribution)	1.7025	1.8525
 VWAP plus control premium	 1.84	 1.93

- 142 Our assessed valuation range is below the VWAP adjusted for a control premium. However, we note that:

⁴⁸ Calculated using the mid-point of the control premium range of 32.5%.

- (a) as the Fund distributes the majority of its cash flow to securityholders on a quarterly basis, we would expect the control premium to be towards the lower end of observed implied premiums paid in successful takeovers generally
- (b) trading in EPX on the ASX over the last 12 months has been very illiquid (which inherently reduces the appropriateness of the VWAP as a value reference point).

143 Having regard to the above we consider our valuation range to be reasonable.

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



VI Evaluation of the Offer

Summary of opinion

144 LEA has concluded that the Offer is fair and reasonable. We have formed this opinion for the following reasons.

Assessment of fairness

145 Pursuant to RG 111, an offer is “fair” if:

“The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer.”

146 This comparison is shown below:

Comparison of Offer consideration and EPX security value			
	Low \$ per security	High \$ per security	Mid-point \$ per security
Value of Offer consideration	1.88	1.88	1.88
Value of 100% of securities in EPX	1.67	1.82	1.74
Extent to which the Offer consideration exceeds the value of the securities in EPX	0.21	0.06	0.14

147 As the consideration offered by APA of \$1.88 cash per security is greater than our assessed value of the securities in EPX on a 100% controlling interest basis, in our opinion, the Offer is fair when assessed under the guidelines set out in RG 111.

Assessment of reasonableness

148 Pursuant to RG 111, an offer is reasonable if it is fair. Consequently, we have concluded that the Offer is reasonable.

149 In concluding that the Offer is reasonable, LEA has also considered:

- (a) the extent to which a control premium is being paid to EPX securityholders
- (b) the level of synergies likely to be generated by APA and the extent to which a share of those synergies is being paid to EPX securityholders
- (c) the value of EPX to an alternative offeror and the likelihood of an alternative offer emerging, either prior to the close of the Offer, or sometime in the future
- (d) the position of EPX securityholders if APA increases its current securityholding but does not acquire 100% of the securities on issue
- (e) the listed market price of EPX securities:
 - (i) prior to and subsequent to the announcement of the Offer
 - (ii) if the Offer is not successful
- (f) other qualitative and strategic issues, risks, advantages and disadvantages associated with the Offer.

150 These issues are discussed in detail below.

Extent to which a control premium is being paid

151 Research undertaken by LEA indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company's shares three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). This premium reflects the fact that:

- (a) the owner of 100% of the securities in an entity obtains access to all the free cash flows of the entity being acquired, which it would otherwise be unable to do as a minority securityholder
- (b) the controlling securityholder can direct the disposal of surplus assets and the redeployment of the proceeds
- (c) a controlling securityholder can control the appointment of directors, management policy and the strategic direction of the entity
- (d) a controlling securityholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.

152 We have calculated the premium implied by the Offer consideration of \$1.88 per security by reference to the market prices of EPX securities up to 4 March 2016, being the last trading day prior to the announcement of APA's intention to make the Offer.

153 We note that EPX securityholders (including APA) are entitled to receive the March 2016 quarter interim distribution of \$0.0325 per security payable on 15 April 2016 and that the security prices prior to the ex date of 15 March 2016 (including the periods over which we have measured the premiums implied by the Offer consideration) traded with an entitlement to this distribution.

154 Accordingly, to ensure the implied premium is calculated on an appropriate basis we have therefore adopted a total consideration of \$1.9125 per security for implied offer premium calculation purposes, determined as follows:

Total consideration for offer premium calculations	
	\$
Offer consideration	1.8800
EPX interim distribution	0.0325
Total value to EPX securityholders	<u>1.9125</u>

155 The implied offer premium relative to EPX security prices prior to 7 March 2016 is shown below:

Implied offer premium relative to recent EPX security prices		
	EPX security price	Implied control premium ⁽²⁾
	\$	%
Closing security price on 4 March 2016 ⁽¹⁾	1.47	30.1
1 month VWAP to 4 March 2016	1.39	37.6
3 months VWAP to 4 March 2016	1.46	31.0

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



Note:

- 1 Being the last day of trading prior to the announcement of APA's intention to make the Offer.
 - 2 Including EPX March 2016 quarter interim distribution of \$0.0325 per security. This is appropriate so that both the Offer consideration and the security prices are compared on a consistent (cum distribution) basis.
-

- 156 The Offer consideration plus interim distribution totalling \$1.9125 per security represents a significant premium to the VWAP of EPX securities prior to the announcement of the Offer on 7 March 2016.
- 157 With respect to the implied premium, we note:
- (a) given that EPX distributes the majority of its free cash flow to securityholders on a quarterly basis, we would expect the implied control premium to be towards the low end of observed implied premiums paid in successful takeovers generally
 - (b) however, as noted in Section III, historically there has been a low level of liquidity in trading in EPX securities. In such circumstances we would regard an implied premium as a less reliable basis on which to assess the merits of an offer.

Extent to which securityholders are being paid a share of synergies

- 158 We consider APA to be the most likely purchaser of EPX due to its core business of owning and operating transmission pipeline assets. In addition, East Australian Pipeline (which is part of the APA Group) currently operates the pipeline on behalf of EPX under the operations and management agreement⁴⁹.
- 159 Based on our understanding of the respective operations, APA is likely to generate the following synergies from an acquisition of EPX:
- (a) funding of the pipeline at a lower WACC
 - (b) reducing the costs of operation and maintenance of the Moomba to Sydney ethane pipeline (as this is undertaken by a group company and APA Group owns the Moomba Sydney Pipeline which runs parallel to the Moomba to Sydney ethane pipeline)
 - (c) the ability to put the ethane pipeline to alternative use if the PTA is terminated, such as transporting liquids from the prospective Cooper Basin oil fields⁵⁰. Whilst the ability to put the ethane pipeline to alternate use is not limited to APA, alternate use will require capital expenditure and will depend on the market for alternate use at the relevant time. Given the proximity of the Moomba to Sydney ethane pipeline to APA Group's Moomba Sydney Pipeline, APA may be well placed to derive additional benefits from ownership of the Moomba to Sydney ethane pipeline.
- 160 In our opinion, APA is likely to be the only purchaser able to generate the benefits in (b) and (c) above. In such circumstances, we would expect that it would not pay away a significant share of these synergies to acquire control of EPX. Notwithstanding, given that the Offer

⁴⁹ Whilst the current agreement runs to 1 January 2017, it is anticipated that a similar agreement covering the period subsequent to that date will be entered into and agreed between EPX and East Australian Pipelines.

⁵⁰ As stated in the APA EPX Offer Investor Presentation. This alternative use has not been fully explored by EPX management.

exceeds our assessed value of EPX, it would appear that EPX securityholders are being paid (at least) an appropriate share of the synergy benefits.

APA's current securityholding in EPX

- 161 As at 30 March 2016, APA had a relevant interest in 19.81% of EPX securities, with approximately 9.5 million securities either purchased on market or acquired by way of acceptance under the Offer, subsequent to the announcement of the Offer. APA may acquire EPX securities on-market at prices at or below the Offer until the end of the Offer period⁵¹.

Likelihood of an alternative offer

- 162 We note that in the period since the announcement of the Offer on 7 March 2016 to 30 March 2016, there have been on-market acquisitions of some 6.9 million EPX securities (some 9.90% of securities on issue) by Maven at prices up to \$1.89 per security (on a March 2016 interim distribution adjusted basis)⁵². We understand that, to date, Maven has not sought engagement with EPX in respect of its acquired interest.
- 163 We have been advised by the Independent Directors of EPX that no formal alternative offers have been received subsequent to APA's announcement of its intention to make the Offer.
- 164 Further, notwithstanding the interest in the Fund acquired by Maven, in our view, a competing offer from another party is unlikely given APA's dominant industry position, its 19.81% holding in EPX and involvement in EPX's operations with respect to the Management Services Agreement and the Operations and Maintenance Agreement.

Position of EPX securityholders if APA does not acquire 100% of the securities on issue

- 165 If APA acquires a major securityholding in EPX, but does not acquire in excess of 90% and proceed to compulsory acquisition, EPX securityholders who do not accept the Offer will continue to hold a minority interest in the Fund with APA as the majority securityholder.
- 166 The liquidity of the securities is likely to be reduced as a result of APA's majority holding and/or the possibility that APA may seek to have the Fund removed from the Official List.

Recent prices subsequent to the announcement of the intention to make the Offer

- 167 Since the announcement of the Offer on 7 March 2016, as noted above securities in EPX have traded in the range of \$1.91 to \$1.92 (cum distribution) to 14 March 2016 and \$1.88 to \$1.89 (ex distribution) from 15 March 2016 to 30 March 2016.

Summary

Reasons to accept the offer

- 168 In addition to our assessment that the Offer is fair and reasonable, in our opinion, there are also a number of other reasons why EPX securityholders may wish to accept the Offer, as summarised below:

⁵¹ The Offer period ends at 7.00pm (Sydney time) on 2 May 2016 (unless extended).

⁵² At the date of this report, the last Notice of Change of Interest of a Substantial Shareholder was lodged by Maven on 30 March 2016.

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



- (a) the Offer plus the March 2016 quarter interim distribution (totalling \$1.9125 per security) represents a significant premium of 31.0% above the three months VWAP of EPX securities prior to the announcement of the Offer
- (b) as at 30 March 2016, due to on-market purchases and acceptances under the Offer, APA had increased its securityholding in EPX to 19.81%
- (c) a competing offer from another party has not been received subsequent to the announcement of the Offer and is unlikely given APA's securityholding in EPX and the services provided by the APA Group to EPX
- (d) the unconditional cash consideration provides certainty to EPX securityholders and mitigates risks associated with EPX's operations including:
 - (i) single asset
 - (ii) single customer
 - (iii) revenue uncertainty (as to annual quantum) given reliance on the volume of ethane transported from 1 January 2019
 - (iv) the Fund's continued operation as an ethane pipeline operator in the longer term due to ethane supply and demand
 - (v) the difficulties associated with identifying alternate uses for the pipeline in the event that Qenos terminates the PTA and the likely capital expenditure required for conversion
- (e) historically, liquidity in EPX securities has been very low. The Offer provides all EPX securityholders with the ability to realise their investment for cash at an attractive price. If APA gains a majority securityholding, but is not entitled to compulsorily acquire the remaining securities in EPX, EPX securityholders who retain their securities will hold a minority interest in a majority owned entity and the liquidity of EPX securities may be further reduced.

Appendix A

Financial Services Guide

Lonerган Edwards & Associates Limited

- 1 Lonerган Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

- 3 The Corporations Act 2001 authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Target's Statement to be sent to EPX securityholders in connection with the Offer.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at \$100,000 plus GST.
- 9 Neither LEA nor its directors and officers receive any commissions or other benefits, except for the fees for services referred to above.

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 7
64 Castlereagh Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared more than 100 independent expert's reports to securityholders.
- 2 This report was prepared by Ms Julie Planinic and Mr Martin Holt, who are each authorised representatives of LEA. Ms Planinic and Mr Holt have over 19 years and 30 years experience respectively in the provision of valuation advice (and related advisory services).

Declarations

- 3 This report has been prepared at the request of the Independent Directors of EPX to accompany the Target's Statement to be sent to EPX securityholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Offer is fair and reasonable to the securityholders of EPX.

Interests

- 4 At the date of this report, neither LEA, Ms Planinic nor Mr Holt have any interest in the outcome of the Offer. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 We have considered the matters described in ASIC RG 112 – *Independence of experts*, and consider that there are no circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective independent assistance in this engagement.

Indemnification

- 6 As a condition of LEA's agreement to prepare this report, EPX agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of EPX which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in EPX's Target Statement.

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED

Appendix C

Assessment of appropriate discount rate

- 1 The determination of the discount rate or cost of capital for an asset requires identification and consideration of the factors that affect the returns and risks of that asset, together with the application of widely accepted methodologies for determining the returns demanded by the debt and equity providers of the capital employed in the asset.
- 2 The discount rate applied to the projected cash flows from an asset represents the financial return that will be demanded before an investor would be prepared to acquire (or invest in) the asset.
- 3 Businesses are normally funded by a mix of debt and equity. The WACC is a widely used and accepted basis to calculate the “representative” rate of returns required by debt and equity investors. The required rate of return for equity is frequently evaluated using the CAPM and the required rate of return for debt funding is determined having regard to various factors such as current borrowing costs and prevailing credit ratings. The cost of equity and the cost of debt are weighted by the respective proportions of equity and debt funding to arrive at the WACC.
- 4 Consequently, we set out below an explanation of:
 - (a) the WACC and its elements (including the CAPM, its application in determining the cost of equity, the cost of debt and debt equity mix)
 - (b) our assessment of the appropriate parameters to be used in determining the discount rate to apply.

Weighted average cost of capital

- 5 The generally accepted WACC formula is the post-tax WACC, without adjustment for imputation⁵³ as shown below:

WACC formula

$$WACC = R_e \frac{E}{V} + R_d(1 - t) \frac{D}{V}$$

where:

R_e = expected equity investment return or cost of equity in nominal terms

R_d = interest rate on debt (pre-tax)

t = corporate tax rate

E = market value of equity

D = market value of debt

V = market value of debt plus equity

⁵³ Given free capital flows between developed countries and the small size of the Australian stock market (as a percentage of global markets), the cost of capital of listed companies (other than perhaps regulated infrastructure assets) should be assessed in a global context ignoring Australian imputation. This is the approach generally adopted by independent experts.

Appendix C

CAPM and the cost of equity

- 6 The CAPM stems from the theory that a prudent investor would price an investment so that the expected return is equal to the risk-free rate of return plus an appropriate premium for risk. The CAPM assumes that there is a positive relationship between risk and return. That is, rational investors are risk adverse and demand higher returns for accepting higher levels of risk.
- 7 The CAPM is based on the concept of non-diversifiable risk and calculates the cost of equity as follows:

Cost of equity calculation

$$R_e = R_f + \beta_e [E(R_m) - R_f]$$

where:

- R_e = expected equity investment return or cost of equity in nominal terms
- R_f = risk-free rate of return
- $E(R_m)$ = expected market return
- $E(R_m) - R_f$ = market risk premium (MRP)
- β_e = equity beta

- 8 The individual components of the CAPM are discussed below.

Risk-free rate

- 9 The Australian 10 year government bond rate since July 1969 to February 2016 is as follows:

Australian government bond yield – nominal 10-year bonds
Monthly data, July 1969 to February 2016



Source: RBA Table F02 downloaded 28 March 2016.

- 10 We have applied a risk-free rate of 4.0% per annum. This exceeds the average yield to maturity currently prevailing on 20 year Australian government bonds (of approximately 3.1% per annum as at 28 March 2015) as we believe current yields (notwithstanding their

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



Appendix C

long-term nature) remain at unsustainably low levels⁵⁴ due to, inter alia, the effect of quantitative easing measures by major overseas central banks to stimulate economic activity.

- 11 In our view, the application of the current (very low) government bond yields and long-term average MRP is inappropriate in the context of determining required equity rates of return (discount rates). Theoretically, the anomalous currently low government bond interest rates could be allowed for by increasing the MRP. However, as it is difficult to reliably measure short-term movements in the MRP, we have instead increased the risk-free rate for the purposes of estimating required rates of return. This is consistent with the approach adopted by other valuation experts.

Market risk premium

- 12 The MRP, $[E(R_m) - R_f]$, represents the additional return above the risk-free rate that investors require in order to invest in a well diversified portfolio of equity securities, i.e. the equity market as a whole. Strictly speaking, the MRP is equal to the expected return from holding shares over and above the return from holding risk-free government securities. Since expected returns are generally not observable, a common method of estimating the MRP is based on average realised (ex post) returns.
- 13 Because realised rates of return, especially for shares, are highly volatile over short periods, short-term average realised rates of return are unlikely to be a reliable estimate of the expected rate of return or MRP. Consequently the MRP is measured over a long period of time. It should also be noted that the standard error of the estimate of the mean for longer periods is typically lower than the standard error of the mean where a shorter period is used. This supports more reliance being placed on the average MRP calculated over the longer term.
- 14 Based on our review of empirical studies on the long-term MRP in Australia, the MRP used in Australian regulatory decisions and by valuation practitioners generally, we have adopted a MRP of 6.0%.

Equity beta

- 15 Beta is a measure of the expected volatility of the return on an investment relative to the market as a whole. The CAPM assumes that beta is the only reason expected returns on an asset differ from the expected return on the market as a whole. A beta greater than 1 suggests that an investment's returns are expected to be more volatile and risky than average (and accordingly a higher return than the market is required), whereas a beta less than 1 suggests that future returns will be less volatile and risky.
- 16 Similar to MRPs, expected equity betas are not observable. Historical betas are usually estimated and used as a reference to determine the appropriate forward-looking betas. In addition, factors such as betas of comparable companies and relevant industry sectors and a qualitative assessment of the systematic risks of the subject business are also considered. The determination of the appropriate beta to apply is, therefore, ultimately a matter of judgement.

⁵⁴ Particularly in real terms (after allowance for long-term inflation expectations).

Appendix C

- 17 In determining the appropriate equity beta for EPX we have considered, in particular, the following factors:
- (a) EPX transports ethane through its pipeline from the Moomba Facility to the Qenos Botany facility and therefore EPX has exposure to a single customer under a long-term contract (although we note that the contract is subject to termination upon 12 months' notice post 1 January 2019)
 - (b) the pipeline is the sole asset of EPX and is its only source of revenue
 - (c) the level of revenue derived from the Reservation Charge (which is generally fixed) vis-à-vis the Throughput Charge (which is dependent on volumes transported)
 - (d) the likelihood of availability of long-term ethane gas supplies
 - (e) the potential for and likelihood of alternate customers and alternative uses for the pipeline
 - (f) natural disasters or other catastrophic events which could impact the operations of the pipeline
 - (g) the pipeline not being a regulated asset
 - (h) the level of net tangible asset backing and the potential replacement cost of the pipeline
 - (i) the high barriers to entry into the industry.

Betas of comparable companies

- 18 In order to assess the appropriate equity beta for EPX, we have also had regard to the equity betas of listed companies involved in pipeline activities⁵⁵ as shown below:

Equity betas ⁽¹⁾						
Company	Market cap A\$m ⁽²⁾	Gearing % ⁽³⁾	beta ⁽⁴⁾	SIRCA R-square ⁽⁵⁾	Bloomberg beta ⁽⁶⁾	Bloomberg R-square ⁽⁵⁾
Australian pipelines entities						
APA Group	9,483	48.6	0.9	0.41	0.9	0.41
DUET Group	5,176	51.8	0.5	0.14	0.4	0.11
Australian energy entities with gas related operations						
AGL Energy	12,435	19.7	0.4	0.12	0.4	0.16
AusNet Services	5,342	53.3	0.7	0.37	0.7	0.45
International pipelines entities						
Kinder Morgan	53,091	52.3	na	na	0.6	0.05
TransCanada Corporation	35,478	49.4	na	na	0.6	0.13
Spectra Energy Partners	18,163	31.5	na	na	0.7	0.07
AGL Resources	10,424	39.8	na	na	nm	0.00
Boardwalk Pipeline Partners	4,627	50.4	na	na	0.7	0.04
TC Pipelines	4,209	37.4	na	na	1.0	0.20

⁵⁵ Given the limited sample size in Australia, we have also considered Australian utility companies with gas related operations.

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



Appendix C

Note:

- 1 We have excluded EPX on the basis that the low liquidity in the securities results in a non-meaningful beta estimate. We have also excluded Columbia Pipeline Group on the basis that there is an insufficient number of return observations.
- 2 As at 28 March 2016.
- 3 Gearing calculated as net debt divided by enterprise value.
- 4 SIRCA betas are estimated as at 31 December 2015 using four years of monthly data (the latest available).
- 5 R-square is a statistical measure of how well the regression line approximates the real data points. It has a value between zero and 1. The closer R-square is to 1, the more reliable the beta estimate.
- 6 Betas obtained from Bloomberg using four years of monthly data to 28 March 2016.

Source: SIRCA and Bloomberg.

nm – not meaningful.

- 19 No meaningful beta can be derived for EPX due to the very low level of trading in its securities. We also note that the majority of the above entities have R-square values that are close to zero, which indicates that the beta estimates are not reliable. Notwithstanding this, we note that the betas of these companies are generally less than the average market beta of 1.0, indicating a lower level of systematic risk for gas pipeline operations generally.
- 20 It should be noted that as the equity beta is a function of both business risk and financial risk (being the level of financial leverage or gearing), the above equity betas are levered betas and theoretically would need to be adjusted to reflect the different levels of gearing. However, this adjustment is subject to considerable estimation error. For example, gearing ratios are normally calculated at a point in time and therefore may not reflect the target or optimal capital structures of comparable companies in the long run. In addition, gearing ratios typically change over time. Further, the practice of adjusting equity betas for the difference in financial leverage also gives a misleading impression that the process provides precise comparable beta estimates.
- 21 Nevertheless, we have considered the following in determining the appropriate equity betas for EPX:
 - (a) the difference in gearing levels of comparable companies where these levels differ significantly
 - (b) the current gearing levels of EPX and the long-term gearing levels that we consider appropriate.

Industry betas

- 22 The table below shows the historical beta estimates for the Australian utilities sector as well as APA⁵⁶ over the three years to 31 December 2015:

⁵⁶ As a proxy for the Australian pipeline industry.

Appendix C

Australian utilities sector betas				
Data period ended ⁽¹⁾	APA Group		Utilities sector	
	beta	R-square	beta	R-square
31 December 2015	0.9	0.41	0.6	0.48
30 September 2015	0.9	0.37	0.5	0.43
30 June 2015	0.8	0.32	0.5	0.42
31 March 2015	0.7	0.33	0.5	0.37
31 December 2014	0.6	0.27	0.4	0.28
30 September 2014	0.6	0.24	0.4	0.27
30 June 2014	0.6	0.22	0.4	0.32
31 March 2014	0.5	0.21	0.5	0.41
31 December 2013	0.5	0.22	0.5	0.43
30 September 2013	0.6	0.24	0.5	0.43
30 June 2013	0.6	0.29	0.5	0.38
31 March 2013	0.5	0.20	0.5	0.32
Average	0.7		0.5	

Note:

1 Using four years of monthly returns.

Source: SIRCA.

- 23 As the utilities sector includes a range of entities covering power generation, transmission and distribution in addition to pipelines, we have also considered the betas for APA (given it is Australia's largest pipeline owner and operator). We note that while the betas for APA are higher in more recent periods, over a three year timeframe its beta has averaged 0.7.

Conclusion on beta

- 24 Having regard to the above, and in particular the reliability of beta estimates and the long-term beta estimates of APA and other pipeline entities, we have adopted an equity beta of 0.8 to 0.9 for EPX. This also reflects the lack of diversification of EPX (i.e. single asset and single customer).

Gearing

- 25 The gearing level adopted should represent the level of debt that the asset can reasonably sustain and is not necessarily equivalent to the gearing level of the entity owning the asset. The factors that affect the "optimum" level of gearing will differ between assets. Generally, the major issues to address in determining this optimum level will include:
- (a) the variability in earnings stream
 - (b) working capital requirements
 - (c) the level of investment in tangible assets
 - (d) the nature and risk profile of the tangible assets.
- 26 In general, the lower the expected volatility of cash flows (i.e. risk), the higher the debt levels which can be supported (and vice versa). Furthermore, as the equity beta is a function of both business risk and financial risk (being the level of financial leverage or gearing), it is important to adopt in the WACC calculation a level of gearing which is consistent with the

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



Appendix C

gearing ratios of the listed companies for which equity betas were used to assess the appropriate beta. If this is not done then, in theory, the equity beta would need to be adjusted to reflect the different level of gearing adopted. However, this adjustment is subject to considerable estimation error and is therefore not preferred. Consequently, when assessing the appropriate gearing level it is appropriate to consider the gearing levels of “comparable” listed companies over the period over which the beta estimates were calculated.

- 27 While the gearing levels of the listed pipeline operators are generally high (averaging some 40% for the companies shown above), we note that this is representative of a diversified portfolio of pipelines. Given that EPX owns one pipeline and its customer (Qenos) has the ability to terminate contracted supply arrangements by giving 12 months’ notice (noting that this cannot be before 1 January 2019 as per the PTA Variation), we understand that debt financiers have been reluctant to provide EPX with material levels of debt funding. However, in our opinion, a purchaser of the pipeline (holding a portfolio of assets) would seek to finance the purchase with some modest level of debt.
- 28 Accordingly, we have adopted a gearing ratio of 0% to 15% for EPX, which we consider appropriate.

Cost of debt

- 29 A cost of debt of 7.5% per annum has been adopted for EPX. This reflects a borrowing margin of 3.5%⁵⁷ above the adopted risk-free rate of 4.0%⁵⁸.

Calculation of nominal WACC

- 30 Based on the above we have adopted a discount rate of 8.8% per annum (after tax) for EPX:

⁵⁷ The margin exceeds the spread on corporate BBB rated bonds and 10 year government securities of 330.94 basis points as published by the Reserve Bank of Australia for February 2016 (Statistical Table F3 Aggregate Measures of Australian Corporate Bond Spreads And Yields: Non-Financial Corporate (NFC) Bonds). Standard & Poor’s state that an obligation rated ‘BBB’ exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

⁵⁸ The adopted risk-free rate is 90 basis points above the current yield to maturity on 20 year Australian government bonds.

Appendix C

EPX – WACC (nominal)			
Parameters	Low %	Mid-point %	High %
Beta	0.8	0.85	0.90
MRP	6.0	6.0	6.0
Risk-free rate	4.0	4.0	4.0
Cost of equity	8.8	9.1	9.4
Cost of pre-tax debt	7.5	7.5	7.5
Tax rate	30.0	30.0	30.0
Cost of post tax debt	5.25	5.25	5.25
Proportion of equity funding	85.0	92.5	100.0
Proportion of debt funding	15.0	7.5	-
After tax nominal WACC	8.3	8.8	9.4
Adopt	8.8		

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



Appendix D

Listed company multiples

- 1 The EBITDA multiples for the listed Australian and international pipeline infrastructure entities are set out below⁵⁹, with a brief description of their respective activities following. Whilst these entities are not directly comparable to EPX, the trading multiples of these entities provide a broad indication of EBITDA multiples for pipeline assets:

Listed multiples summary ⁽¹⁾						
	Most recent full year	Enterprise value ⁽²⁾ A\$m	Gearing ⁽³⁾ %	EBITDA Multiple Historical ⁽⁴⁾ FY15 x	Forecast ⁽⁵⁾ FY16 x	Forecast ⁽⁵⁾ FY17 x
Ethane Pipeline Income Fund	30 Jun 15	94	(8.6)	7.3	na	na
Australian pipelines entities						
APA Group	30 Jun 15	18,435	48.6	22.5	14.1	13.5
DUET Group	30 Jun 15	11,172	51.8	14.2	11.9	11.5
Australian energy entities with gas related operations						
AGL Energy	30 Jun 15	15,492	19.7	10.4	9.0	8.4
AusNet Services	31 Mar 15	11,442	53.3	10.3	9.9	10.5
International pipelines entities						
Kinder Morgan	31 Dec 15	112,212	52.3	11.5	11.4	10.7
TransCanada Corp	31 Dec 15	73,527	49.4	12.7	12.0	10.9
Spectra Energy Partners	31 Dec 15	27,569	31.5	11.4	10.6	9.4
AGL Resources	31 Dec 15	17,422	39.8	10.7	10.9	10.3
Columbia Pipeline Group	31 Dec 15	14,177	16.6	16.5	15.2	13.4
Boardwalk Pipeline Partners	31 Dec 15	9,330	51.0	9.7	9.0	8.4
TC Pipelines	31 Dec 15	6,719	37.8	13.8	13.0	11.4

Note:

- 1 Enterprise value and earnings multiples calculated as at 28 March 2016, with the exception of EPX which is shown as at 4 March 2016 (being the last trading day prior to the announcement of the Offer) and Columbia Pipeline Partners, which is prior to speculation of the takeover offer from TransCanada Corp on 10 March 2016.
- 2 Enterprise value includes net debt (interest bearing liabilities less non-restricted cash), preference shares, convertible notes, net derivative liabilities, net pension liabilities, market capitalisation adjusted for material option dilution, share placements (for the purpose of reducing debt) and buybacks and excludes surplus assets.
- 3 Gearing equals net debt (cash adjusted for the effect of share placements and buybacks, special dividends and option dilution) divided by enterprise value.
- 4 Historical earnings are based on latest statutory full year accounts and exclude non-recurring items, significant write downs, realised investment gains or losses, restructuring charges.
- 5 Forecast earnings are based on Bloomberg broker average forecasts (excluding outliers and outdated forecasts).

Source: Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements, LEA Analysis.
na – not available.

⁵⁹ Given the limited sample size in Australia, we have also considered Australian utility companies with gas related operations.

Appendix D

Australian pipeline entities

APA Group

- 2 APA Group is Australia's largest natural gas infrastructure business, owning and/or operating approximately \$19 billion of energy assets. The company owns and/or operates some 15,000 km of natural gas pipelines and gas storage facilities. Its gas transmission pipelines span every state and territory in mainland Australia, delivering approximately half of the nation's gas usage. APA Group also has direct management and operational control over its assets and investments.

DUET Group

- 3 DUET Group consists of four entities that are stapled together and trade on the ASX. The group's key investments include the Dampier Bunbury Pipeline (the natural gas pipeline connecting the Carnarvon and Browse basins in Western Australia to Perth and its surrounding regions), United Energy Distribution (an electricity distribution network covering 1,472 square kilometres in Victoria), Multinet Gas Group Holdings (a Victorian gas distribution company with a network covering 1,860 square kilometres) and Energy Developments (an international provider of low greenhouse gas emissions energy and remote energy solutions).

Australian energy related entities

AGL Energy Limited

- 4 AGL Energy is an integrated energy company and owner, operator and developer of renewable energy generation. The company owns a diverse power generation portfolio that includes base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, solar, landfill gas and biomass. AGL Energy also invests in natural gas exploration, development and production tenements and owns natural gas storage facilities.

AusNet Services Limited

- 5 AusNet Services (formerly SP AusNet) operates Victoria's primary electricity transmission network and electricity distribution network in eastern Victoria, plus a gas distribution network in western Victoria. AusNet Services has four main divisions, including Electricity Distribution, Gas Distribution, Electricity Transmission and Select Solution. The company's electricity distribution network covers some 49,816 km of power lines and its gas distribution network includes some 10,478 km of underground pipelines.

International pipeline companies

Kinder Morgan Inc.

- 6 Kinder Morgan is an energy infrastructure company that owns and/or operates some 84,000 miles of pipelines and 180 terminals for the transportation of natural gas, refined petroleum products, crude oil, carbon dioxide and other substances across the United States (US) and Canada. Its natural gas pipelines cover some 69,000 miles. The company operates

15. ANNEXURE A – INDEPENDENT EXPERT'S REPORT CONTINUED



Appendix D

across five key segments, being Natural Gas Pipelines, Carbon Dioxide, Terminals, Product Pipelines and Kinder Morgan Canada.

TransCanada Corporation

- 7 TransCanada Corporation is a Canadian energy infrastructure company whose primary activities are natural gas transmission and power services. The company operates across three key segments, being Natural Gas Pipelines, Liquids Pipelines and Energy. The Natural Gas Pipelines segment supplies natural gas to Canada, the US and Mexico via some 67,300 km of pipelines, of which 56,600 km is wholly owned with the remaining 10,700 km partially owned.

Spectra Energy Partners LP

- 8 Spectra Energy Partners is engaged in the transmission, storage and gathering of natural gas and the transportation and storage of crude oil. The company operates through two main segments, US Transmission and Liquids. The US Transmission segment transports natural gas for customers throughout the US via some 14,000 miles of pipelines. The Liquids segment transports and stores crude oil for customers in the US and Canada via the Express-Platte pipeline system that is some 1,700 miles in length.

AGL Resources Inc.

- 9 AGL Resources is an American company that distributes and stores natural gas. It operates across four key segments, being Distribution Operations, Retail Operations, Wholesale Services and Midstream Operations. Distribution Operations is the company's largest segment and involves the operation and maintenance of seven natural gas distribution systems, including 81,300 miles of natural gas pipelines and 14 storage facilities.

Columbia Pipeline Group Inc.

- 10 Columbia Pipeline Group is headquartered in Houston Texas and owns and operates some 15,000 miles of natural gas pipelines in the US, spanning from New York to the Gulf of Mexico. The Company provides approximately 1.3 trillion cubic feet of natural gas through its pipeline and storage systems each year, providing energy for millions of homes, businesses and industries. On 16 March 2016, the company received a takeover offer from TransCanada Corporation, valuing its equity at some US\$10 billion.

Boardwalk Pipeline Partners LP

- 11 Boardwalk Pipeline Partners provides transportation, storage, gathering, and processing services for natural gas, natural gas liquids and other hydrocarbons in the US. It operates some 14,525 miles of natural gas pipelines that serves customers across 13 states throughout the northeastern and southeastern US. The company also owns and operates 14 underground storage fields in four states.

TC Pipelines LP

- 12 TC Pipelines was formed by TransCanada Corporation to acquire and own US based natural gas pipelines and related assets. It is managed by General Partner, an indirect wholly owned subsidiary of TransCanada Corporation. The company owns four gas pipelines that total some 2,071 miles and has equity interests in three gas pipelines that total some 3,818 miles. It is capable of moving 9.1 billion cubic feet per day of natural gas.

Appendix E

Glossary

Term	Meaning
1HY	First half of financial year
APA	Australian Pipeline Limited as RE for the Australian Pipeline Trust
APA Ethane	APA Ethane Limited (EPX's RE)
APA Group	The group of entities comprised of APA, Australian Pipeline Limited and APT Investment Trust
APT	APT (MIT) Services Pty Limited
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
CAPM	Capital asset pricing model
ChemChina	China National Chemical Corporation
CPI	Consumer price index
DCF	Discounted cash flow
East Australian Pipeline	East Australian Pipeline Pty Limited
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPIFT	Ethane Pipeline Income Financing Trust
EPIT	Ethane Pipeline Income Trust
EPX Model	A cash flow model prepared by EPX and its advisers
EPX or the Fund	Ethane Pipeline Income Fund
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
GHD	GHD Pty Ltd
Gorodok	Gorodok Pty Ltd
IER	Independent expert's report
km	Kilometre
LEA	LonerGAN Edwards & Associates Limited
Maven	Maven Investment Partners Ltd
Moomba Facility	The Cooper Basin Producers' gas processing facility at Moomba in the Cooper Basin
MRP	Market risk premium
NPV	Net present value
Offer	APA's offer of \$1.88 cash per EPX security for all of the EPX securities that it does not already own
PTA	Product Transportation Agreement
PTA Variation	The PTA was amended on 13 November 2014 with effect from 1 January 2015
Qenos	Qenos Pty Limited
RBA	Reserve Bank of Australia
RE	Responsible entity
Reservation Charge	A charge payable by under clause 15.1 of the PTA
RG 111	ASIC Regulatory Guideline 111 – <i>Content of expert reports</i>
Santos	Santos Limited
Throughput Charge	A charge payable under clause 15.2 of the PTA
US	United States of America
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
WANOS	Weighted average number of securities outstanding

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