# ASX & SGX-ST Release

SP AusNet
A member of Singapore Power Group

9 November 2007

**TO:** ASX Limited
Singapore Exchange Securities Trading Limited

## Explanatory Memorandum and Notice of Meeting

Please find attached Explanatory Memorandum and Notice of Meeting dated 5 November 2007 being sent to securityholders today.

**Elizabeth Mildwater**
Company Secretary

**For further information contact:**

**Investor Relations**
Adrian Hill
General Manager, Corporate Development & Investor Relations
+61 3 9695 6701 or +61 438 533 193

Lucinda Kerr
Senior Analyst, Investor Relations
+61 3 9695 6633 or +61 421 387 687

**Media Relations**
Louisa Graham
Manager, Corporate Communications
+61 3 9695 6401 or + 61 418 358 327



**SP AusNet**

SP Australia Networks (Distribution) Ltd
ABN 37 108 788 245

SP Australia Networks (Transmission) Ltd
ABN 48 116 124 362

SP Australia Networks (Finance) Trust
ARSN 116 783 914

SP Australia Networks (RE) Ltd
ABN 46 109 977 371
AFS Licence No. 294117 as responsible entity for SP Australia Networks (Finance) Trust

Level 31
2 Southbank Boulevard Southbank
Victoria 3006 Australia

Locked Bag 14051
Melbourne City Mail Centre
Victoria 8001 Australia

Tel: +61 3 9695 6000
Fax: +61 3 9695 6666

**www.sp-ausnet.com.au**

SP AusNet
A member of Singapore Power Group

# EXPLANATORY MEMORANDUM
## AND NOTICE OF MEETING

**SP AusNet's Independent Directors unanimously recommend that you vote in favour of each of the Resolutions and approve the Transaction.**

This document is important and requires your immediate attention. You should read this document in its entirety before you decide how to vote in respect of the Resolutions.

If you have any questions in relation to the Resolutions, the Transaction or the Meeting, please contact your legal, investment or other professional adviser or telephone the Securityholder Information Line on: 1300 360 670 (from within Australia), +61 3 9415 4605 (from outside of Australia) or 6733 8873 (from within Singapore).

This document is neither an offer to sell, nor a solicitation of an offer to buy, securities, as those terms are defined under the US Securities Act.

**Date of Meeting**
11 December 2007

**Time of Meeting**
10.00am (Melbourne time)

**Location**
The Auditorium
Melbourne Exhibition Centre
2 Clarendon Street
Southbank, Victoria, Australia

**SP AusNet**

SP Australia Networks (Distribution) Ltd
(ABN 37 108 788 245)

SP Australia Networks (Transmission) Ltd
(ABN 48 116 124 362)

SP Australia Networks (Finance) Trust
(ARSN 116 783 914), the responsible entity of which is SP Australia Networks (RE) Ltd
(ABN 46 109 977 371) AFSL No. 294117

# IMPORTANT INFORMATION

## 1.1. READ THIS EXPLANATORY MEMORANDUM AND NOTICE OF MEETING

This Explanatory Memorandum and Notice of Meeting is important. You should read it in its entirety before deciding how to vote on the Resolutions. If you are in doubt as to what you should do, you should consult your legal, investment or other professional adviser immediately.

## 1.2. YOUR INVESTMENT DECISIONS

This Explanatory Memorandum and Notice of Meeting is intended for SP AusNet Securityholders collectively and does not take into account your individual objectives, financial situation and needs. If you are in any doubt about what you should do, you should seek independent advice before making any investment decision in relation to the Securities.

## 1.3. RESPONSIBILITY FOR INFORMATION

This Explanatory Memorandum and Notice of Meeting has been prepared by SP AusNet. SP AusNet does not assume responsibility for the accuracy and completeness of the Independent Expert's Report, the Investigating Accountant's Report on Historical and Pro Forma Historical Financial Information or the Investigating Accountant's Report on the Director's Forecasts and Financial Services Guide, except to the extent that any inaccuracy or incompleteness in those documents that arises directly from the inaccuracy or incompleteness of information given to the Independent Expert or the Investigating Accountants by SP AusNet.

## 1.4. ROLE OF ASIC AND ASX

A copy of this Explanatory Memorandum and Notice of Meeting has been examined by ASIC for the purposes of section 218 of the Corporations Act. Neither ASIC nor any of its officers take any responsibility for the contents of this Explanatory Memorandum and Notice of Meeting.

A copy of this Explanatory Memorandum and Notice of Meeting has been lodged with ASX. Neither ASX nor any of its officers take any responsibility for the contents of this Explanatory Memorandum and Notice of Meeting.

## 1.5. US SECURITYHOLDERS

This document is neither an offer to sell nor a solicitation of an offer to buy securities, as such terms are defined under the US Securities Act.

None of the SEC, any US state securities commission or any other US regulatory authority has passed comment upon or endorsed the merits of the Transaction or the accuracy, adequacy or completeness of this document. Any representation to the contrary is a criminal offence.

## 1.6. ISSUE OF SECURITIES - AUSTRALIAN AND SINGAPORE SECURITYHOLDERS

This document is not an offer to sell Securities. A combined Prospectus and PDS will be made available in Australia and an Offer Information Statement will be made available in Singapore when the Securities that are the subject of the Entitlement Offer are offered. Eligible Securityholders who wish to acquire Securities under the Entitlement Offer will need to follow the application procedures set out in the Prospectus and PDS or follow the application procedures set out in the Offer Information Statement (as applicable). See section 2.6 of this document for further information on the proposed Entitlement Offer.

## 1.7. FORWARD LOOKING STATEMENTS

Certain statements in this Explanatory Memorandum and Notice of Meeting are about the future, including forward looking statements relating to the financial position and strategy of SP AusNet. These forward looking statements are generally based on stated or implied assumptions. The assumptions may prove to be incorrect and involve known and unknown risks, uncertainties and other important factors (including general economic conditions, the regulatory environment and competitive pressures) that could cause the actual results, performance or achievements of SP AusNet to be materially different from the future conduct, results, performance or achievements, expressed or implied by such statements. Deviations as to future conduct, results, performance and achievements are both normal and to be expected.

None of SP AusNet, SPIAA, SPI or their respective officers and advisers, or any other person, gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this Explanatory Memorandum and Notice of Meeting will actually occur. You are cautioned about relying on these forward looking statements.

The forward looking statements in this Explanatory Memorandum and Notice of Meeting reflect the views held only as at the date of this Explanatory Memorandum and Notice of Meeting. Subject to the Corporations Act, the ASX Listing Rules and the SGX-ST Listing Manual, SP AusNet disclaims any duty to update the statements other than with respect to information that it becomes aware of prior to the Meeting which is material to the making of a decision by a Securityholder regarding whether or not to vote in favour of the Resolutions.

## 1.8. DEFINED TERMS AND INTERPRETATION

Terms used in this Explanatory Memorandum and Notice of Meeting are defined in the Glossary in section 11 of this document.

## 1.9. ROUNDING

Any discrepancies between totals in tables and sums of components in tables in this Explanatory Memorandum and Notice of Meeting and between those figures and figures referred to in other parts of this document are due to rounding.

## 1.10 DATE

This Explanatory Memorandum and Notice of Meeting is dated 5 November 2007.

SP AusNet
A member of Singapore Power Group

# DIRECTORS' LETTER

5 November 2007

Dear SP AusNet Securityholder,

On 20 September 2007, SP AusNet's Board announced the proposed acquisition of certain assets and businesses (**Transaction**) from our 51% Securityholder, Singapore Power International Pte Ltd (**SPI**). These assets and businesses (**Acquired Businesses**) were purchased by SPI as part of its joint acquisition of Alinta with Babcock & Brown in August 2007. SPI has made this offer of the Acquired Businesses to SP AusNet pursuant to SPI's intention, expressed at the time of SP AusNet's IPO in December 2005, to invest through SP AusNet in electricity and gas transmission and distribution growth opportunities in Australia and New Zealand.

As the Acquired Businesses are therefore being acquired from a related party, an extraordinary general meeting is to be held on 11 December 2007 to seek your approval of this Transaction. Only those SP AusNet Securityholders who are not associates of SPI are eligible to vote on the resolution to approve the proposed Transaction.

Approval is also being sought at the meeting for the issue of further Securities to fund the proposed acquisition, amendments to the management services arrangements and certain other resolutions relevant to the Transaction. In regard to the issue of further Securities, the issue price of the Securities is important. After having considered all relevant factors, the Board has decided that it will not issue New Securities at an issue price of less than $1.10. The Board will make a decision on the final issue price based on the Board's assessment of the interests of SP AusNet and its Securityholders at the time. If the Board is not satisfied with the issue price, it will not complete the issue of Securities.

Under the terms of the Transaction, SP AusNet proposes to purchase the interests and rights in the Acquired Businesses for the Acquisition Cost of approximately $8,322 million. This is the same price as was paid for those businesses by SPI (adjusted for SPI's recoverable costs, SP AusNet's transaction costs (excluding capital raising costs) and stamp duty). A detailed explanation of the Transaction is set out in section 2 of this Explanatory Memorandum.

The Transaction has been assessed by an Independent Expert, Grant Samuel, as being **fair and reasonable to** the Non-associated Securityholders of SP AusNet, and therefore in the best interests of those Securityholders. A copy of the Independent Expert's Report is contained in Appendix A of this Explanatory Memorandum.

The expected long term benefits of the Transaction provide the Board with the confidence to increase distributions. If approved by SP AusNet Securityholders, the Transaction is expected to be distributions accretive and have a positive impact for Securityholders.

The Transaction also provides SP AusNet with a complementary suite of high quality assets and provides access to new capabilities and enhanced opportunities for growth through asset expansion, increased energy demand and the provision of asset management services.

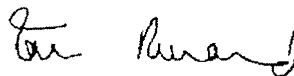
Your Independent Directors have unanimously recommended that you vote in favour of each of the Resolutions and approve the Transaction. All of the directors of SP AusNet believe the Transaction is in the best interests of SP AusNet and Securityholders.

This document contains important information that will assist you in making a decision about how to vote on the Resolutions at the Meeting to be held on 11 December 2007, and we urge you to take the time to read it carefully and in its entirety.

It is important that you cast your vote, either by attending the Meeting in person or by completing the proxy form or Voting Instruction Form (if your Securities are listed on SGX-ST and deposited with CDP) which accompany this Explanatory Memorandum and Notice of Meeting.

If you require any further information, please call the Securityholder Information Line on 1300 360 670 (from within Australia), +61 3 9415 4605 (from outside of Australia) or 6733 8873 (from within Singapore) or consult your legal, financial or other professional adviser.

**Ng Kee Choe**
**Chairman,**
**SP AusNet**



**Ian Renard**
**Chairman, Independent Directors' Committee**
**SP AusNet**

# IMPORTANT DATES AND TIMES FOR MEETING AND TRANSACTION

| DATE AND TIME | EVENT |
|---|---|
| 5 November 2007 | Date of Notice of Meeting and Explanatory Memorandum |
| 5.00pm (Singapore time), 5 December 2007 | If your Securities are listed on SGX-ST and deposited with CDP: Last date and time for the completed Voting Instruction Form to be received by CDP |
| 10.00am, 9 December 2007 | Last date and time for lodgement of proxy forms |
| | Time and date for determining eligibility to vote at the Meeting |
| 10.00am, 11 December 2007 | Time and date for the Meeting |
| 21 December 2007 | Expected Completion of the Transaction |

# IMPORTANT DATES AND TIMES FOR FUNDRAISING (IF THE TRANSACTION IS APPROVED BY SECURITYHOLDERS)

| DATE | EVENT |
|---|---|
| 11 December 2007 | Commence Entitlement Offer for eligible institutional investors |
| 13 December 2007 | Record date for Entitlement Offer |
| | Close Entitlement Offer for eligible institutional investors |
| | Institutional Placement conducted for eligible institutional investors |
| 14 December 2007 | Security price for Entitlement Offer announced |
| | Entitlement Offer for eligible retail Securityholders opens |
| 20 December 2007 | Subscription moneys for Institutional Placement and eligible retail Securityholders who participate in first allotment due |
| 21 December 2007 | Allot New Securities under Institutional Placement and first allotment under the Entitlement Offer |
| 8 February 2008 | Entitlement Offer closes |
| 14 February 2008 | Final allotment under Entitlement Offer |

**All times and dates referenced are Melbourne, Victoria, Australia times, unless otherwise indicated. The above timetables are indicative only. SP AusNet has the right, in its sole discretion, to vary any or all of these times as permitted under the Corporations Act and ASX Listing Rules. Any changes to the above timetables will be published on SP AusNet's website (www.sp-ausnet.com.au), announced to ASX and available on the ASX website (www.asx.com.au) and announced through SGXNET and available on the SGX-ST website (www.sgx.com).**

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GRANT SAMUEL & ASSOCIATES

LEVEL 19 GOVERNOR MACQUARIE TOWER
1 FARRER PLACE SYDNEY NSW 2000
GPO BOX 4301 SYDNEY NSW 2001
T: +61 2 9324 4211 / F: +61 2 9324 4301
www.grantsamuel.com.au

5 November 2007

The Directors
SP Australia Networks (RE) Ltd
as responsible entity for
SP Australia Networks (Finance) Trust
Level 31
2 Southbank Boulevard
Southbank VIC 3006

The Directors
SP Australia Networks (Transmission) Ltd
Level 31
2 Southbank Boulevard
Southbank VIC 3006

The Directors
SP Australia Networks (Distribution) Ltd
Level 31
2 Southbank Boulevard
Southbank VIC 3006

Dear Directors

**Acquisition of the Alinta Assets**

## 1 Introduction

On 31 August 2007, a consortium comprising Babcock & Brown International Pty Limited and Singapore Power International Pte Ltd ("SPI") ("the Consortium") completed the acquisition of Alinta Limited ("Alinta"). SPI is a wholly owned subsidiary of Singapore Power Limited, the largest electricity and gas utility company in Singapore.

The Consortium is in the process of distributing the assets and liabilities of Alinta between its members. Under this process SPI is to acquire various interests in a number of Alinta's transmission and distribution assets and the Alinta asset management business outside of Western Australia (the "Alinta Assets"). The Alinta Assets comprise:

- New South Wales Gas Distribution Network ("NSW Gas Network");
- Alinta Victorian Electricity Network ("Victorian Electricity Network");
- a 50% interest in ActewAGL Distribution Partnership ("ActewAGL Distribution") including 7.6% of TransACT;
- a 34.1% interest in United Energy Electricity Distribution Network[1] ("United Energy");
- Queensland Gas Pipeline;
- Eastern Gas Pipeline;
- VicHub Interconnect Facility ("VicHub"); and
- Eastern States Asset Management[2] ("Asset Management").

SP AusNet is an Australian based 51% owned subsidiary of SPI. It listed on the Australian Securities Exchange ("ASX")[3] in December 2005. SPI Management Services Pty Limited ("SPIMS"), a wholly owned subsidiary of SPI, provides management services to SP AusNet. SP AusNet is a triple stapled group and the boards of directors of each of the three entities are the same. At the time of SP AusNet's listing, SPI expressed its intention to invest in electricity and gas transmission and distribution growth opportunities in Australia and New Zealand through SP AusNet.

On 20 September 2007, SP AusNet announced that it had agreed to acquire the Alinta Assets from SPI ("the Transaction"). Under the terms of the Transaction:

- SP AusNet will acquire all of the shares in the SPI subsidiary which owns the Alinta Assets;
- SP AusNet will be entitled to the economic benefits and risks of the Alinta Assets from 1 September 2007;

[1] Subject to claimed pre-emptive rights.

[2] Transfer of control of part of Asset Management is subject to certain customer consents.

[3] SP AusNet has a secondary listing on the main board of the Singapore Exchange Securities Trading Limited ("SGX-ST").

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ABN 28 050 036 372 AFS LICENCE NO 240985

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- the consideration payable to SPI is a cash payment equal to $8,142 million less $975 million of existing debt plus transaction costs incurred by SPI in developing and implementing the Alinta transaction[4];
- the amount payable to SPI is subject to a number of adjustments as follows:
  - for adjustments arising under the Consortium agreement including adjustments to enterprise values and SPI's 65% share of unallocated liabilities and transaction costs;
  - for SPI's holding costs from 1 September 2007 to completion. Holding costs represent SPI's financing costs and interest income forgone plus establishment and other fees incurred by SPI prior to 1 September 2007;
  - for SPI's transaction costs in excess of the current estimate of $133 million; and
  - if completion is delayed beyond the target date of 31 December 2007 SP AusNet is to pay SPI a deferral fee calculated as 2% per annum of the enterprise value of the Alinta Assets from 31 January 2008;
- the management services agreement between SP AusNet and SPIMS is to be amended to encompass the Alinta Assets and the services that those businesses may require; and
- SPI will provide no substantive warranties.

SP AusNet plans to fund the payment for the acquisition of the Alinta Assets (including transaction costs) by way of a $3.0 billion equity raising and a $4.3 billion debt raising. The equity raising is planned to include:

- a non-renounceable pro-rata entitlement offer to eligible existing securityholders ("Entitlement Offer"). In the event of an overall undersubscription, eligible securityholders will have the right to elect to receive more securities than their entitlement. The institutional component of the Entitlement Offer is to be underwritten; and
- a placement of securities to eligible institutional and professional investors ("Institutional Placement"). The Institutional Placement is to be underwritten.

The equity issues have not yet been underwritten and their exact and relative sizes (including pricing) have not yet been determined and will only be determined closer to the time of the offering (which may not be until after the securityholder meeting to approve the Transaction). In this regard, the board of SP AusNet has decided that it will not issue securities for the equity raising at a price less than $1.10.

SPI intends (subject to obtaining relevant approvals) to take up its pro-rata rights under the Entitlement Offer and to apply for 51% of the securities offered under the Institutional Placement (thereby maintaining its interest in SP AusNet at a minimum of 51%)[5].

The $4.3 billion debt raising will include a syndicated facility and a 12 month bridge facility. SP AusNet has received signed letters of commitment (with attached term sheets) in respect of a $2.5 billion syndicated facility and a $3.7 billion bridge facility (of which $1.9 billion and $2.5 billion respectively will be used for the Transaction)[6]. It is intended that the bridge facility will be refinanced during 2008.

The elements of the Transaction are subject to the approval of SP AusNet stapled securityholders. Securityholders will be asked to approve three ordinary resolutions and two special resolutions. Failure to approve any of the resolutions will result in the Transaction not proceeding. SPI is not entitled to vote on two of the ordinary resolutions (i.e. in relation to the related party aspects of the Transaction and in relation to the potential increase in its voting power). In addition, if the Entitlement Offer ratio is greater than 1 for 1 then any underwriter or sub-underwriter of the Entitlement Offer may also not vote on the related party ordinary resolution.

[4] SP AusNet's total acquisition price is currently estimated at $8,322 million being the enterprise value of $8,142 million plus the reimbursement of SPI's transaction costs ($133 million) and transaction costs (including stamp duty) incurred directly by SP AusNet ($47 million). Costs associated with the capital raising ($50 million) are to be offset against the amount of equity or debt raised (as the case may be).

[5] Depending on the extent to which retail securityholders subscribe to the Entitlement Offer, SPI's interest may exceed 51%.

[6] The bridge facility will be used to temporarily fund any amount required to cover the proceeds of the retail component of the Entitlement Offer which will not close under early 2008 and to fund any shortfall in the retail component of the Entitlement Offer.

In addition to securityholder approval, the Transaction is conditional upon:

- SP AusNet obtaining committed funding arrangements to underwrite the capital raising to fund the acquisition of the Alinta Assets by the date of the securityholders meeting to approve the Transaction; and
- approval under the Foreign Acquisitions and Takeovers Act, 1995 (Cth).

If these conditions precedent are satisfied but SPI does not fully subscribe for its pro rata entitlement under the Entitlement Offer and for 51% of the securities offered under the Institutional Placement, then SP AusNet will not be required to complete the acquisition. The Transaction may also be terminated by either SP AusNet or SPI without liability (apart from any breach prior to termination) if any condition is not satisfied or waived by 28 February 2008.

The directors of SP AusNet have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report stating whether, in its opinion, the Transaction is fair and reasonable to, and in the best interests of, the non associated securityholders for the purposes of Listing Rule 10.1 and Section 208. A copy of the report is to accompany the Notice of Meeting and Explanatory Memorandum ("the Explanatory Memorandum") to be sent to securityholders by SP AusNet. This letter contains a summary of Grant Samuel's opinion and main conclusions.

## 2 Opinion

**In Grant Samuel's opinion, the Transaction is fair and reasonable to the non associated securityholders and, therefore, in the best interests of those securityholders.**

## 3 Summary of Conclusions

The acquisition of the Alinta Assets transforms SP AusNet into one of the largest energy infrastructure owners in Australia. The acquisition meets a number of SP AusNet's strategic objectives, providing revenue diversification and enhancing its growth outlook without significantly increasing risk. Key attractions for SP AusNet securityholders include the following:

- the quality of the Alinta Assets;
- the Alinta Assets complement SP AusNet's existing portfolio of assets;
- the benefits of increased diversity of asset exposure (geographic mix, operational mix, regulatory arrangements);
- the potential to capture substantial synergies through merging the asset management activities and reducing duplication in corporate overheads; and
- an enhanced growth profile and growth platform.

Grant Samuel has estimated the value of the Alinta Assets to be in the range of $7,485-8,365 million (before deducting the $975 million of debt to be assumed). This is a standalone valuation of the Alinta Assets and does not reflect any value for synergies and cost savings specific to SP AusNet. The value attributed to the various operating businesses is an overall judgement having regard to a number of valuation methodologies and parameters, including capitalisation of earnings or cash flows (multiples of EBITDA and EBIT), discounted cash flow analysis and other measures commonly used in the energy infrastructure sector (including multiples of regulated asset base and customer accounts). The valuation is summarised below:

**Alinta Assets - Valuation Summary ($ millions)**

| | Report Section Reference | Value Range | |
|---|---|---|---|
| | | Low | High |
| Transmission and Distribution | 8.3 | 6,050 | 6,650 |
| Asset Management | 8.4 | 1,900 | 2,100 |
| Corporate overheads | 8.5 | (480) | (400) |
| **Value of operations** | | **7,470** | **8,350** |
| Other assets and liabilities | 8.6 | 15 | 15 |
| **Ungeared value of Alinta Assets** | | **7,485** | **8,365** |

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As the price to be paid to SPI for the Alinta Assets of $8,142 million (before the debt to be assumed) is within Grant Samuel's value range, the purchase price represents fair value to SP AusNet. The purchase price is at the top of Grant Samuel's value range but this is justifiable given the strategic benefits of the acquisition for SP AusNet and the level of cost savings and synergies expected (around $90 million per annum by the year ending 31 March 2010). Other factors that are relevant to SP AusNet securityholders in considering the financial terms of the Transaction include:

- the price to be paid is effectively the same price paid by SPI under the Consortium arrangements;
- the price paid by the Consortium for Alinta was the result of a competitive arm's length process;
- SPI will derive no profit or fees from the Transaction (unless completion is delayed beyond 31 January 2008 but that fee is not material); and
- the reimbursement of SPI's transaction and holding costs in relation to the Alinta Assets is reasonable as:
  - SP AusNet would have incurred a similar level of transaction costs if it had participated directly in the Consortium;
  - SPI's participation in the Consortium was critical to the successful acquisition of Alinta. It is unlikely that SP AusNet would have been able to participate in the Consortium on its own account within the timeframe and structure of that transaction; and
  - SP AusNet is entitled to the economic benefits and risks of the Alinta Assets from 1 September 2007.

A number of other benefits for SP AusNet securityholders will result from the Transaction:

- securityholders are expected to enjoy an uplift in distributions per security;
- the larger market capitalisation and the position as a leading energy infrastructure owner should lead to greater investor interest and analyst focus which should ultimately enhance share trading liquidity although its restricted free float (due to SPI's 51% interest) will continue to affect liquidity;
- there is no change in control of SP AusNet despite an increase in SPI's ownership interests (depending on the participation of retail investors in the Entitlement Offer); and
- there is no substantial increase in financial risk (except that the absolute quantum of indebtedness has grown substantially).

The Transaction is to be funded by one of the largest capital raisings in the Australian capital markets in the last year. The capital raising includes a $3.0 billion equity raising and a $4.3 billion debt raising. SP AusNet has received signed letters of commitment (with attached term sheets) for the debt raising. Therefore, the terms and pricing for the debt raising are, for practical purposes, determined (although subject to movement in market interest rates and certain "out clauses"). In comparison, neither the institutional component of the Entitlement Offer nor the Institutional Placement are currently underwritten and the exact and relative sizes and the terms (including pricing) of the equity raising are not yet determined and may not be "locked in" until after the securityholder meeting to approve the Transaction. This is an unusual circumstance in the Australian capital markets and is a result of SP AusNet being subject to Singaporean law in relation to the offering of securities.

The terms of the equity raising are important to existing securityholders as the placement will have a dilutionary impact, involves significant cost and the Entitlement Offer is non-renounceable (i.e. securityholders will receive no value for their entitlement). The financial implications of the Transaction for securityholders have been presented in the Explanatory Memorandum based on a subscription price for the equity raising of $1.20. An analysis of the implications for distribution based on a range of pricing from $1.10 to $1.30 has also been presented. Furthermore, if any of the debt commitments or underwriting arrangements (once entered into) are terminated prior to completion of the Transaction and SPI fully subscribes for its pro rata entitlement under the Entitlement Offer and 51% of the Institutional Placement, then SP AusNet may still be obliged to complete the purchase of the Alinta Assets with implications for New SP AusNet's forecast earnings.

Consequently, the outcome of the capital raising (both debt and equity) and the Transaction may be more or less favourable for securityholders than that set out in the Explanatory Memorandum. However, the

Board of SP AusNet has decided not to issue securities in the equity raising at a price of less than $1.10. Therefore, in relation to price, downside risk for securityholders is limited. Furthermore, the Board retains the ability to postpone or cancel the equity raising if not satisfied with the overall terms. Securityholders should monitor the position in relation to the capital raising up until the date of the meeting but, in view of the timing issues, there may be no greater certainty at that time.

There are a number of other costs, disadvantages and risks for securityholders including:

- the decrease in earnings per security. However, distributions paid by SP AusNet are based on free cash flow (not accounting profits) which are expected to increase;
- the dilution in ownership interests of existing (non SPI) securityholders unless they are in a position to participate in the Institutional Placement or they subscribe for more securities in the event of an overall undersubscription;
- the potential increase in SPI's ownership interest above 51% (but to no more than 60%);
- the potential for continued weakness in the SP AusNet security price as the capital raising is digested by the market;
- the possibility that SP AusNet's future sharemarket rating may not appropriately reflect the growth profile implicit in its business mix (from the acquisition of the higher growth asset management business);
- integration risk exists to the extent to which estimated costs savings and synergies are not achieved or take longer to achieve or that issues during integration of the businesses may impact on SP AusNet's existing operations; and
- regulatory uncertainty in relation to the separation of asset ownership and management may be exacerbated by the intended integration of the asset management activities.

Furthermore, securityholders need to recognise that there will be complications for SP AusNet in relation to management of its existing assets and future growth opportunities if the Transaction does not proceed and SPI continues to own and/or manage the Alinta Assets while at the same time managing (and owning a 51% interest in) SP AusNet.

In Grant Samuel's opinion, these risks and disadvantages are not insignificant but do not outweigh the benefits of the Transaction.

In summary, notwithstanding the relatively full price being paid for the Alinta Assets and the uncertainties associated with the capital raising, Grant Samuel considers that non associated securityholders are likely to be better off if the Transaction proceeds than if it does not.

## 4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual SP AusNet securityholders. Accordingly, before acting in relation to their investment, securityholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Securityholders should read the Explanatory Memorandum issued by SP AusNet in relation to the Transaction.

The decision of each securityholder as to whether to vote in favour of the Transaction is a matter for individual securityholders based on each securityholder's views as to value and future market conditions, risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from securityholder to securityholder. If in any doubt, securityholders should consult an independent professional adviser.

The report does not address the investment merits of SP AusNet and New SP AusNet, make any recommendation for securityholders in relation to their rights under the entitlement offer or address factors relevant to any person participating in the capital raising including the provision of financial accommodation to SP AusNet. Whether to buy, hold or sell securities in SP AusNet or New SP AusNet (including participation in the Entitlement Offer or the Institutional Placement) or to provide financial

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accommodation to SP AusNet is a separate investment decision upon which Grant Samuel does not offer an opinion. Securityholders should consult their own professional adviser in this regard.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully
**GRANT SAMUEL & ASSOCIATES PTY LIMITED**

Grant Samuel & Associates

# Financial Services Guide
# and
# Independent Expert's Report
# in relation to the Proposed Acquisition of
# the Alinta Assets
# from
# Singapore Power International Pte Limited

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

5 November 2007

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GRANT SAMUEL & ASSOCIATES

LEVEL 19 GOVERNOR MACQUARIE TOWER
1 FARRER PLACE SYDNEY NSW 2000
GPO BOX 4301 SYDNEY NSW 2001
T: +61 2 9324 4211 / F: +61 2 9324 4301
www.grantsamuel.com.au

## Financial Services Guide

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The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for SP AusNet in relation to the proposed acquisition of the Alinta Assets from Singapore Power International Pte Limited ("SPI") ("the SP AusNet Report"), Grant Samuel will receive a fixed fee of $1,250,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 9.3 of the SP AusNet Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guideline 42 issued by the Australian Securities Commission (the predecessor to the Australian Securities & Investments Commission) on 8 December 1993. The following information in relation to the independence of Grant Samuel is stated in Section 9.3 of the SP AusNet Report:

*"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with SP AusNet or SPI that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Transaction. Grant Samuel advises that it:*

- *prepared an independent expert's report dated 2 July 2007 for Alinta shareholders in relation to the proposed acquisition of Alinta by the Consortium;*
- *prepared an independent expert's report dated 4 December 2006 for AIH securityholders in relation to a takeover offer by Alinta;*
- *was appointed by AIH to prepare a review of certain aspects of a tax consolidation valuation of its initial assets in September 2006. The fees involved were less than $30,000;*
- *prepared independent expert's reports dated 28 August 2006 for the shareholders of Alinta and AGL in relation to the transaction to merge their respective infrastructure businesses and enter into a retail energy joint venture in Western Australia;*
- *commenced work on an independent valuation of AGL in April 2006 in relation to a takeover offer by Alinta. This assignment was not completed and was terminated following the announcement of the Alinta/AGL merger on 26 April 2006;*
- *prepared an independent expert's report dated 13 February 2006 for AGL shareholders in relation to a transaction to demerge AGL into two new listed entities by separating its retail and merchant energy assets from its infrastructure assets; and*
- *provided non-public independent reviews for an Australian institution in 2003 of the Aquila transaction (which encompassed a series of transactions involving Aquila Inc, United Energy, AMP Henderson Global Investors and Alinta) and of a third party valuation of Multinet Gas.*

*Grant Samuel commenced analysis for the purposes of this report in September 2007 prior to the announcement of the Transaction. This work did not involve Grant Samuel participating in the setting the terms of, or any negotiations leading to, the Transaction.*

*Grant Samuel had no part in the formulation of the Transaction. Its only role has been the preparation of this report.*

*Grant Samuel will receive a fixed fee of $1,250,000 for the preparation of this report. This fee is not contingent on the outcome of the Transaction. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.*

*Grant Samuel considers itself to be independent in terms of Regulatory Guideline 42 issued by the ASIC (previously known as Australian Securities Commission) on 8 December 1993."*

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Industry Complaints Services' Complaints Handling Tribunal, No. F 4197.

Grant Samuel is only responsible for the Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

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ABN 28 050 036 372 AFS LICENCE NO 240985

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## 1 Terms of the Transaction

### *Background*

On 31 August 2007, a consortium comprising Babcock & Brown International Pty Limited and Singapore Power International Pte Ltd ("SPI") ("the Consortium") completed the acquisition of Alinta Limited ("Alinta"). SPI is a wholly owned subsidiary of Singapore Power Limited, the largest electricity and gas utility company in Singapore. Singapore Power Limited is wholly owned by Temasek Holdings (Private) Limited ("Temasek"), an investment company whose sole shareholder is a body corporate constituted under the Minister for Finance (Incorporation) Act, Chapter 183 of Singapore.

The Consortium is in the process of distributing the assets and liabilities of Alinta between its members. Under this process SPI is to acquire interests in a number of Alinta's transmission and distribution assets and the Alinta asset management business outside of Western Australia (the "Alinta Assets"). The Alinta Assets comprise:

- New South Wales Gas Distribution Network ("NSW Gas Network");
- Alinta Victorian Electricity Network ("Victorian Electricity Network");
- ActewAGL Distribution Partnership[1] ("ActewAGL Distribution") (50%);
- United Energy Electricity Distribution Network[2] ("United Energy") (34.1%);
- Queensland Gas Pipeline;
- Eastern Gas Pipeline;
- VicHub Interconnect Facility ("VicHub"); and
- Eastern States Asset Management[3] ("Asset Management").

SP AusNet is an Australian based 51% owned subsidiary of SPI. It listed on the Australian Securities Exchange ("ASX")[4] in December 2005. SPI Management Services Pty Limited ("SPIMS"), a wholly owned subsidiary of SPI, provides management services to SP AusNet. SP AusNet is a triple stapled group that comprises SP Australia Networks (Transmission) Ltd ("SP AusNet Transmission"), SP Australia Networks (Distribution) Ltd ("SP AusNet Distribution") and SP Australia Networks (Finance) Trust ("SP AusNet Finance Trust") (for which SP Australia Networks (RE) Ltd ("SP AusNet RE") acts as responsible entity). The boards of directors of each of these entities are the same.

At the time of SP AusNet's initial public offering in December 2005, SPI expressed its intention to invest in electricity and gas transmission and distribution growth opportunities in Australia and New Zealand through SP AusNet. Consequently, on 30 March 2007 SP AusNet announced that discussions had commenced with SPI and that it was establishing a process to assess the opportunity to invest in the Alinta Assets.

### *Overview of the Transaction*

On 20 September 2007, SP AusNet announced that it had agreed to acquire the Alinta Assets[5] from SPI ("the Transaction"). Under the terms of the Transaction:

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[1] Including 7.6% of TransACT, a broadband communications network operator in Canberra and surrounding areas.

[2] The 34.1% interest in United Energy has not yet been transferred within the Consortium as DUET, the co-owner of United Energy, had claimed that pre-emptive rights under the United Energy shareholders' agreement would be triggered if the proposed transactions are effected allowing DUET to acquire the 34.1% interest for fair value. The Consortium and SP AusNet do not consider that the pre-emptive rights will be triggered. This matter remains under discussion between the parties. Arrangements have been put in place such that a revenue stream which largely reflects the earnings from the interest is received by SPI. SP AusNet would receive the benefit of those arrangements.

[3] Asset Management includes a 50% interest in the Camellia Project and excludes the agreements with APA Group for services in relation to the Moomba-to-Sydney Pipeline, Parmelia Gas Pipeline and associated infrastructure assets which were terminated under separate arrangements on 2 October 2007. The transfer of control of part of Asset Management requires customer consents (including from DUET, the majority owner of United Energy and Multinet Gas). Such consents are outstanding and subject to discussions between the parties. Arrangements have been put in place such that a revenue stream which largely reflects the earnings of the relevant component of Asset Management is received by SPI. SP AusNet would receive the benefits of those arrangements.

[4] SP AusNet has a secondary listing on the main board of the Singapore Exchange Securities Trading Limited ("SGX-ST").

[5] Former Alinta management executives allocated to SPI under the Consortium agreement do not form part of the Alinta Assets and are to be offered employment by SPIMS.

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- SP AusNet will acquire all of the shares in the SPI subsidiary which owns the Alinta Assets;
- SP AusNet will be entitled to the economic benefits and risks of the Alinta Assets from 1 September 2007;
- the consideration payable to SPI is a cash payment equal to $8,142 million[6] less $975 million of existing debt[7] plus transaction costs incurred by SPI in developing and implementing the Alinta transaction (estimated at $133 million)[8];
- the amount payable to SPI is subject to a number of adjustments (as detailed in Section 10.3 of the Explanatory Memorandum) as follows:
  - for adjustments arising under the Consortium agreement including adjustments to enterprise values and SPI's 65% share of unallocated liabilities and transaction costs;
  - for SPI's holding costs from 1 September 2007 to completion (estimated at $165 million). Holding costs represent SPI's financing costs and interest income forgone plus establishment and other fees incurred by SPI prior to 1 September 2007;
  - for SPI's transaction costs in excess of the current estimate of $133 million; and
  - if completion is delayed beyond the target date of 31 December 2007 SP AusNet is to pay SPI a deferral fee calculated as 2% per annum of the enterprise value of the Alinta Assets from 31 January 2008;
- the management services agreement between SP AusNet and SPIMS is to be amended to encompass the Alinta Assets and the services that those businesses may require. As a consequence, the management services charge paid by SP AusNet (which effectively represents the remuneration cost of senior management, see Section 4.3) will increase to take account of the additional management personnel employed by SPIMS to manage the Alinta Assets. SP AusNet will receive the benefit of any synergies derived by SPIMS in combining the management teams and it will also bear the costs associated with those savings. The calculation basis for the performance fee is to be amended to adjust the capital works management component such that it also applies to capital expenditure on unregulated assets and acquisitions by New SP AusNet. However, the annual performance fee will remain capped at 0.75% of market capitalisation; and
- SPI will provide no substantive warranties in relation to the Alinta Assets. However, SPI has provided access for SP AusNet to all of its due diligence materials in relation to the Alinta Assets (subject to necessary confidentiality undertakings and, in some cases, non-reliance letters).

SP AusNet plans to fund the acquisition of the Alinta Assets (including transaction costs) by way of a $3.0 billion equity raising and a $4.3 billion debt raising (the "Capital Raising"). The equity raising is planned to include:

- a non-renounceable pro-rata entitlement offer to eligible existing securityholders ("Entitlement Offer"). In the event of an overall undersubscription, eligible securityholders will have the right to elect to receive more securities than their entitlement. The institutional component of the Entitlement Offer is to be underwritten; and
- a placement of securities to eligible institutional and professional investors ("Institutional Placement"). The Institutional Placement is to be underwritten.

The equity issues have not yet been underwritten and their relative and exact sizes (including pricing terms) have not yet been determined and will only be determined closer to the time of the offering (which may not be until after the securityholder meeting to approve the Transaction). In this regard, the Board of SP AusNet has decided that it will not issue securities for the equity raising at a price of less than $1.10.

SPI intends (subject to obtaining relevant approvals) to take up its pro-rata rights under the Entitlement Offer and to apply for 51% of the securities offered under the Institutional Placement (thereby

[6] Equal to the enterprise value of the Alinta Assets except for the 34.1% interest in United Energy which is an equity value.

[7] Incorporating the value of associated derivative instruments.

[8] SP AusNet's total acquisition price is currently estimated at $8,322 million being the enterprise value of $8,142 million plus the reimbursement of SPI's transaction costs ($133 million) and transaction costs (including stamp duty) incurred directly by SP AusNet ($47 million). Costs associated with the capital raising ($50 million) are to be offset against the amount of equity raised or debt raised (as the case may be).

maintaining its interest in SP AusNet at a minimum of 51%)[9].

The $4.3 billion debt raising will include a syndicated facility and a 12 month bridge facility. SP AusNet has received letters of commitment in respect of a $2.5 billion syndicated facility and a $3.7 billion bridge facility (of which $1.9 billion and $2.4 billion respectively will be used to fund the Transaction)[10]. It is intended that the bridge facility will be refinanced during 2008 by accessing local and international capital markets. This refinancing may include a hybrid offering, senior bank facilities, bonds and other debt capital markets instruments.

*Approvals Required*

The elements of the Transaction are subject to the approval of SP AusNet stapled securityholders. Securityholders will be asked to approve three ordinary resolutions in relation to:

- the related party aspects of the Transaction including:
  - the acquisition of the Alinta Assets from SPI pursuant to Listing Rule 10.1 of the ASX Listing Rules and Section 208 of the Corporations Act, 2001 ("Corporations Act");
  - the amendment of the Management Services Agreement pursuant to Section 208 of the Corporations Act; and
  - the issue to SPI of securities up to such number that equals 51% of the Institutional Placement and any other issue of securities conducted to fund the Transaction pursuant to Listing Rule 10.11 of the ASX Listing Rules;
- the issue of new stapled securities under the Entitlement Offer, the Institutional Placement and the possible hybrid offer pursuant to Listing Rule 7.1 of the ASX Listing Rules and Singaporean law; and
- the increase of SPI's interest in SP AusNet as a direct result of SPI's participation in any issue of securities to fund the Transaction up to a maximum of 60% pursuant to Item 7 of Section 611 of the Corporations Act;

Securityholders will also be asked to approve two special resolutions in relation to:

- the provision of financial assistance that may result from the debt raisings and the giving of financial guarantees by the SPI subsidiary which owns the Alinta Assets (and certain of its subsidiaries) in respect of the syndicated debt facilities and other existing debt of SP AusNet pursuant to Section 260B(2) of the Corporations Act; and
- the amendment of the SP AusNet Finance Trust constitution to enable the Entitlement Offer and Institutional Placement.

Each of these resolutions is interdependent. Failure to approve any of the resolutions will result in the Transaction not proceeding. SPI is not entitled to vote on the first ordinary resolution (i.e. in relation to the related party aspects of the Transaction) or the third ordinary resolution (i.e. in relation to the potential increase in its voting power). In addition, if the Entitlement Offer ratio is greater than 1 for 1 then any underwriter or sub-underwriter of the Entitlement Offer may also not vote on the first ordinary resolution.

In addition to securityholder approval, the Transaction is conditional upon:

- SP AusNet obtaining committed funding arrangements to underwrite the Capital Raising to fund the acquisition of the Alinta Assets by the date of the securityholders meeting to approve the Transaction; and
- approval under the Foreign Acquisitions and Takeovers Act, 1995 (Cth).

If these conditions precedent are satisfied but SPI does not fully subscribe for its pro rata entitlement under the Entitlement Offer and for 51% of the securities offered under the Institutional Placement, then SP AusNet will not be required to complete the acquisition. The Transaction may also be terminated by either SP AusNet or SPI without liability (apart from any breach prior to termination) if any condition is not satisfied or waived by 28 February 2008.

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[9] Depending on the extent to which retail securityholders subscribe to the Entitlement Offer and if the Institutional Placement is not underwritten and is not fully subscribed, SPI's securityholding may increase to in excess of 51%.

[10] The bridge facility will be used to temporarily fund any amount required to cover the proceeds of the retail component of the Entitlement Offer which will not close under early 2008 and to fund any shortfall in the retail component of the Entitlement Offer.

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## 2 Scope of the Report

### 2.1 Purpose of the Report

The Transaction is subject to the approval of SP AusNet securityholders other than SPI ("the non associated securityholders") in accordance with:

- Listing Rule 7.1 of the ASX Listing Rules ("Listing Rule 7.1");
- Listing Rule 10.1 of the ASX Listing Rules ("Listing Rule 10.1");
- Listing Rule 10.11 of the ASX Listing Rules ("Listing Rule 10.11");
- Section 208 of the Corporations Act ("Section 208");
- Section 260B(2) of the Corporations Act ("Section 260B(2)"); and
- Item 7 of Section 611 of the Corporations Act ("Item 7 of Section 611").

Listing Rule 7.1 prohibits, subject to a number of exceptions, a public entity from issuing equity securities in excess of 15% of the existing equity securities on issue in any 12 month period. In addition, under Singaporean law applicable due to SP AusNet's secondary listing on SGX-ST, securityholder approval for any issue of securities is required. In this regard, SP AusNet has already obtained securityholder approval to issue up to 15% of securities per annum. However, securities exceeding 15% of existing securities on issue are to be issued under the proposed equity raising and it is possible that other securities (e.g. hybrid securities) may be issued in order to refinance the bridge debt facility. Therefore, SP AusNet is seeking approval for the issue of securities under the Entitlement Offer, the Institutional Placement and any subsequent hybrid offer. An independent expert's report is not required for the purpose of Listing Rule 7.1.

Listing Rule 10.1 prohibits an entity from acquiring an asset worth more than 5% of its net assets from a related party without the prior approval of non associated securityholders. In this case, the consideration to be paid for the Alinta Assets amounts to an acquisition of greater than 5% of SP AusNet's net assets of $2,652.6 million as at 31 March 2007 and the approval of non associated securityholders is required. Listing Rule 10.10 requires the notice of meeting at which such approval is sought to include an independent expert's report stating whether the Transaction is fair and reasonable having regard to the interests of non associated securityholders.

Listing Rule 10.11 prohibits, subject to a number of exceptions, an entity from issuing equity securities to a related party or a person whose relationship to the listed entity or related party is such that, in the opinion of the ASX, approval should be obtained. Therefore, in order for SPI to participate in the Institutional Placement securityholder approval is required. An independent expert's report is not required for the purpose of Listing Rule 10.11.

Section 208 prohibits a public entity giving a financial benefit to a related party unless the giving of the benefit is approved by securityholders or it falls within specified exceptions. The Transaction involves the provision of financial benefits to SPI, a 51% securityholder, including the payment of the consideration, transaction costs and holding costs and amendments to the Management Services Agreement (including an increase in the management services charge). Therefore, SP AusNet is seeking approval of non associated securityholders under Section 208 for the giving of those financial benefits. An independent expert's report is not required for the purpose of Section 208.

Section 260B(2) prohibits an entity providing financial assistance to a person to acquire securities in the entity unless the giving of the assistance is approved by securityholders or it falls within specified exceptions. The Transaction involves the provision of financial assistance by the SPI subsidiary which owns the Alinta Assets (and certain of its subsidiaries) in connection with the debt raising and refinancing of existing debt. Therefore, SP AusNet is seeking approval of non associated securityholders under Section 260B(2) for the giving of that financial assistance. An independent expert's report is not required for the purpose of Section 260B(2).

Section 606 of the Corporations Act effectively prohibits a person from acquiring a relevant interest in a public company where that person's voting power increases from 20% or below to in excess of 20% or, if that person already has voting power in excess of 20%, their voting power would increase further, except in certain limited circumstances. Depending on the take up of the Entitlement Offer by retail securityholders, SPI's interest in SP AusNet may increase above 51% and therefore breach Section 606. Item 7 of Section 611 allows non associated securityholders to waive the Section 606 prohibition by passing a resolution in a general meeting. Consequently, SP AusNet is seeking securityholder approval for any increase in SPI's interest (up to a limit of 60%) that may result upon implementation of the Transaction. Item 7(b) of Section 611 requires that securityholders voting pursuant to Item 7 of Section 611) be provided with a comprehensive analysis of the proposed transaction. The directors of the entity may satisfy their obligations to provide such an analysis by commissioning an independent expert's report.

The directors of SP AusNet have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report stating whether, in its opinion, the Transaction is fair and reasonable to, and in the best interests of, the non associated securityholders for the purposes of Listing Rule 10.1 and Section 208. A copy of the report is to accompany the Notice of Meeting and Explanatory Memorandum ("the Explanatory Memorandum") to be sent to securityholders by SP AusNet.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual SP AusNet securityholders. Accordingly, before acting in relation to their investment, securityholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Securityholders should read the Explanatory Memorandum issued by SP AusNet in relation to the Transaction.

Approval or rejection of the Transaction is a matter for individual securityholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Securityholders who are in doubt as to the action they should take in relation to the Transaction should consult their own professional adviser.

### 2.2 Basis of Evaluation

The term "fair and reasonable" has no legal definition although over time a commonly accepted interpretation has evolved. However, fair and reasonable has different meanings for different regulatory purposes.

The assessment of whether a proposed transaction is fair and reasonable to non associated securityholders for the purposes of Listing Rule 10.1 has, historically, involved a comparison of the likely advantages and disadvantages for non associated shareholders if the proposed transaction is implemented with the advantages and disadvantages to those shareholders if it is not. In the absence of guidance from the ASX as to the meaning of the phrase "fair and reasonable", assessments for the purpose of Listing Rule 10.1 have been undertaken in accordance with paragraphs 74.20-74.29 of ASIC Regulatory Guideline 74. These paragraphs implied that "fair and reasonable" was a single concept to be judged in all the circumstances of the transaction. In essence, the proposal will be "fair and reasonable" if the non associated shareholders are better off if the proposal is implemented. They will be better off if the expected benefits to the non associated shareholders outweigh the disadvantages that might result.

ASIC Regulatory Guideline 111 (issued 30 October 2007 and which replaced, amongst other matters, paragraphs 74.20-74.29 of ASIC Regulatory Guideline 74) provides that an Item 7 of Section 611 proposal involving the issue of shares to the vendor of a business should be analysed as if it were a takeover bid (i.e. a distinction is to be drawn between the terms "fair" and "reasonable"). In contrast, in relation to an Item 7 of Section 611 proposal involving the sale of securities, ASIC Regulatory Guideline 111 requires an expert to provide an opinion as to whether the advantages of the proposal outweigh the disadvantages (i.e. there is no mention of the phrase "fair and reasonable").

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In Grant Samuel's opinion, the most appropriate basis on which to evaluate the Transaction for the purposes of Listing Rule 10.1 is to assess its overall impact on SP AusNet securityholders and to form a judgement as to whether the expected benefits to the non associated securityholders outweigh any disadvantages that might result. As the requirement for approval under Item 7 of Section 611 is technical (i.e. it comes about primarily because it is anticipated that the Entitlement Offer will be conducted on an accelerated basis and, as a consequence, the exemption under Item 10 of Section 611 is not available), in Grant Samuel's opinion, it is not appropriate to assess the Transaction as a takeover bid in accordance with ASIC Regulatory Guideline 111. Accordingly, Grant Samuel has assessed the Transaction for the purposes of Item 7 of Section 611 on the same basis as Listing Rule 10.1 (i.e. to form a judgement as to whether the expected benefits to non associated shareholders outweigh any disadvantages).

In forming its opinion as to whether the Transaction is fair and reasonable having regard to the interests of the non associated securityholders, Grant Samuel has considered the following:

- the terms of the Transaction;
- the value of the Alinta Assets compared to the consideration to be paid by SP AusNet;
- the impact on SP AusNet's business, its market position and its risk profile;
- the impact on the earnings, distributions and assets attributable to SP AusNet securityholders;
- the likely impact on the market for SP AusNet stapled securities;
- the impact on ownership and control of SP AusNet; and
- any other benefits or disadvantages of the Transaction.

If the Transaction is fair and reasonable to the non associated securityholders, it will also be in the best interests of those securityholders.

### 2.3 Sources of the Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

***Publicly Available Information***

- the Explanatory Memorandum (including earlier drafts);
- annual reports of SP AusNet for the two years ended 31 March 2007;
- the prospectus and product disclosure statement dated 4 November 2005 in relation to the initial public offering for SP AusNet ("IPO Prospectus");
- press releases, public announcements, media and analyst presentation material and other public filings by SP AusNet including information available on its website;
- brokers' reports and recent press articles on SP AusNet and the energy and energy infrastructure sectors;
- sharemarket data and related information on Australian and New Zealand listed companies engaged in the energy and energy infrastructure sectors and on acquisitions of companies and businesses in this sector; and
- information relating to the Australian energy and energy infrastructure sectors including demand/supply forecasts and regulatory decisions and pronouncements.

***Non Public Information provided by SP AusNet***

- management accounts for SP AusNet for the period five months to 31 August 2007;
- long term financial models for certain of the Alinta Assets; and
- other confidential documents, presentations and working papers.

Grant Samuel has also held discussions with, and obtained information from, senior management of SP AusNet and its advisers and senior management of the Alinta Assets.

## 2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances. However, except as required by law, Grant Samuel has no obligation or undertaking to advise any person of any change in circumstances which has come to its attention after the date of this report or to review, revise or update its report or opinion.

This report is also based upon financial and other information provided by SP AusNet and its advisers. Grant Samuel has considered and relied upon this information. SP AusNet has represented in writing to Grant Samuel that to its knowledge the information provided by it was complete and not incorrect or misleading in any material aspect. Grant Samuel has no reason to believe that any material facts have been withheld or that the financial and other information provided to it by SP AusNet and its advisers may in any way be incorrect or misleading.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Transaction is fair and reasonable having regard to the interests of the non associated securityholders of SP AusNet for the purposes of Listing Rule 10.1 and Section 208. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert. In this context, Grant Samuel advises that:

- SP AusNet has advised Grant Samuel that it has agreed to acquire the Alinta Assets on an "as is where is" basis and no warranties in relation to the Alinta Assets will be provided by SPI and that this is consistent with the basis upon which SPI acquired the Alinta Assets;
- it is not in a position nor is it practicable to undertake its own "due diligence" investigation of the type undertaken by accountants, lawyers or other advisers; and
- it has therefore relied on the fact that SP AusNet:
  - has confirmed to Grant Samuel that the directors of SP AusNet are satisfied with the results of the due diligence process that has been undertaken by it and its advisers; and
  - has obtained review opinions in relation to the financial information set out in the Explanatory Memorandum:
    - the Investigating Accountant's Report prepared by KPMG on the historical and pro forma historical financial information of SP AusNet, the Alinta Assets and New SP AusNet which is set out as Appendix B to the Explanatory Memorandum; and
    - the Investigating Accountant's Report prepared by KPMG Transaction Services (Australia) Pty Limited ("KPMG Transaction Services") on the forecast financial information for SP AusNet, the Alinta Assets and New SP AusNet which is set out as Appendix C to the Explanatory Memorandum.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

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An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of the Alinta Assets or SP AusNet. It is understood that the accounting information that was provided by SP AusNet was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).
The information provided to Grant Samuel by SP AusNet included:

- the pro forma historical income statements before interest and tax for the two years ending 31 March 2006 for SP AusNet (the "SP AusNet Historicals");
- the forecast financial information for SP AusNet for the two years ending 31 March 2009 (the "SP AusNet Forecast");
- the financial position as at 31 August 2007 for SP AusNet (the "SP AusNet Financial Position");
- the pro forma historical income statements before interest and tax for the two years ended 31 December 2006 and the eight months ended 31 August 2007 (the "Alinta Assets Historicals");
- the pro forma financial position as at 31 December 2006 and 31 August 2007 for the Alinta Assets (the "Alinta Assets Financial Position");
- the pro forma forecast financial performance of the Alinta Assets for the two years ending 31 March 2009 (the "Alinta Assets Forecast");
- the pro forma historical income statement before interest and tax for New SP AusNet for the year ended 31 March 2007 assuming the Transaction was implemented on 1 April 2006 (the "New SP AusNet Historicals");
- the pro forma and statutory forecast income statement for New SP AusNet for the year ending 31 March 2008 and the forecast income statement for the year ending 31 March 2009 (the "New SP AusNet Forecasts"); and
- the pro forma financial position of New SP AusNet as at 31 August 2007 assuming the Transaction was implemented on 31 August 2007 (the "New SP AusNet Financial Position").

SP AusNet is responsible for this financial information. Grant Samuel has used and relied on this financial information for the purposes of its analysis. Grant Samuel has not investigated this financial information in terms of the reasonableness of the underlying assumptions, accuracy of compilation or application of assumptions. However, Grant Samuel considers that, based on the inquiries it has undertaken and only for the purposes of its analysis for this report (which do not constitute, and are not as extensive as, an audit or accountant's examination), there are reasonable grounds to believe that the financial information has been prepared on a reasonable basis. In forming this view, Grant Samuel has taken the following factors, inter alia, into account:

- the SP AusNet Historicals, SP AusNet Financial Position, the Alinta Assets Historicals, the Alinta Assets Financial Position, the New SP AusNet Historicals and the New SP AusNet Financial Position have been subject to review by KPMG and its opinion is set out in the letter included as Appendix B to the Explanatory Memorandum;
- the SP AusNet Forecast, the Alinta Assets Forecast and the New SP AusNet Forecast have been subject to review by KPMG Transaction Services and its opinion is set out in the letter included as Appendix C to the Explanatory Memorandum;
- the SP AusNet and New SP AusNet financial information has been endorsed by the directors of SP AusNet; and

- SP AusNet and the Alinta Assets have sophisticated management and financial reporting processes. The prospective financial information has been prepared through a detailed budgeting process involving preparation of "ground up" forecasts by management and is subject to ongoing analysis and revision to reflect the impact of actual performance or assessments of likely future performance. In any event, SP AusNet's businesses and the Alinta Assets are well established and generate relatively predictable earnings and cash flows.

The information provided to Grant Samuel also included longer term management projections for certain of the Alinta Assets and longer term projections for SP AusNet and New SP AusNet (collectively the "Projections"). SP AusNet is responsible for the Projections. Grant Samuel has not relied on the Projections for the purposes of its report but has used this information in developing financial models for certain of the Alinta Assets as discussed in Section 7 of this report. However, Grant Samuel has not had access to the flexible financial models for the Alinta Assets originally prepared by the financial advisers to SPI in the course of the Consortium's acquisition of Alinta (and subsequently modified by SP AusNet and its financial adviser) as SPI's financial adviser has not given SP AusNet consent to do so.

Grant Samuel has no reason to believe that the financial information provided by SP AusNet reflects any material bias, either positive or negative. However, the achievability of the forecast financial information is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable.

As part of its analysis, Grant Samuel has reviewed the sensitivity of net present values to changes in key variables. The sensitivity analysis isolates a limited number of assumptions and shows the impact of the expressed variations to those assumptions. No opinion is expressed as to the probability or otherwise of those expressed variations occurring. Actual variations may be greater or less than those modelled. In addition to not representing best and worst outcomes, the sensitivity analysis does not, and does not purport to, show the impact of all possible variations to the business model. The actual performance of the business may be negatively or positively impacted by a range of factors including, but not limited to:

- changes to the assumptions other than those considered in the sensitivity analysis;
- greater or lesser variations to the assumptions considered in the sensitivity analysis than those modelled; and
- combinations of different variations to a number of different assumptions that may produce outcomes different to the combinations modelled.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the information set out in the Explanatory Memorandum sent by SP AusNet to its securityholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Transaction will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Transaction are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

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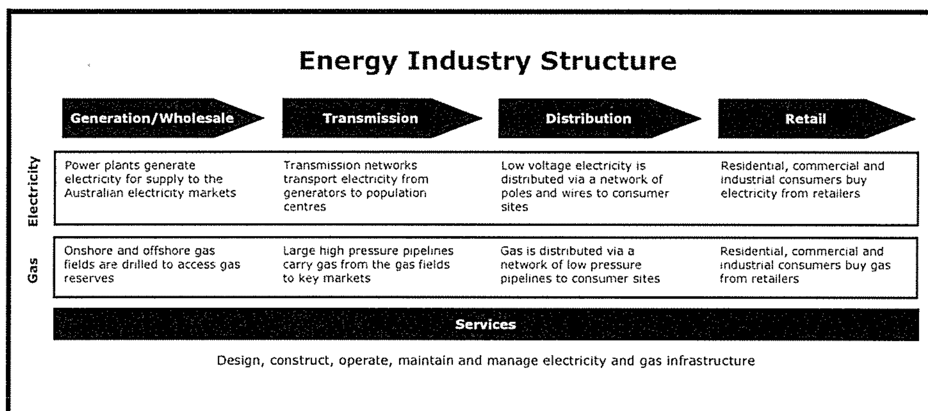
## 3 Energy Industry Overview

*Overview*

Energy consumption in Australia is expected to continue to grow in the foreseeable future driven by a number of factors including general economic growth, population growth, growth in new housing, increasing installation and usage of air conditioners and growth in other electrical appliances sales.

In summary, the segments of, and services to, the electricity and gas sectors can be depicted as follows:



Source: Grant Samuel

SP AusNet's assets and the Alinta Assets include energy transmission and distribution assets and energy infrastructure services. The remainder of this section provides an overview of these segments of the energy industry and the regulatory environment.

***Regulatory Environment***

Historically, Australia's energy sector comprised state based enterprises. It is only in recent decades that, as a consequence of economic and legislative changes, the energy sectors have become more integrated. However, as the management of energy resources, production and supply of energy and stability of energy markets are critical to the economy, the energy sector has historically been the subject of substantial regulation. The regulatory environment is currently undergoing reform.

On 30 June 2004, the Australian Government and each of the states and territories agreed to redesign the regulatory functions for the energy sector and establish two new national regulatory bodies: the Australian Energy Market Commission ("AEMC"), responsible for rule making and market development, and the Australian Energy Regulator ("AER"), responsible for monitoring and regulating electricity and gas transmission and distribution networks and retail markets.

The AER is part of the Australian Competition and Consumer Commission ("ACCC") and its formation has drawn on experienced regulatory personnel from both the ACCC and the state based regulators. Regulation of electricity and gas transmission networks was handed over to the AER during 2005 and regulation of electricity and gas distribution networks is to be handed over to the AER in January 2008. Western Australia has currently opted not to transfer regulatory responsibility for its energy markets to the AER. However, it is expected that the AER will be the sole regulator for the electricity and gas sectors nationally by 2010.

***Electricity Transmission and Distribution***

Electricity is generated by energy extracted from sources such as coal and gas combustion, nuclear fission, running water and wind. Australia is currently heavily reliant upon coal power with gas and hydro power providing most of the remaining generation.

Prior to industry reforms in the 1990s, the Australian electricity sector generally consisted of state owned, vertically integrated electricity enterprises. During the 1990's a number of states disaggregated these enterprises with a view to establishing competitive generation and retail sectors and regulated (price and access) monopoly transmission and distribution network assets. Since the 1990's Victoria, New South Wales, the Australian Capital Territory, South Australia, Queensland and Tasmania progressively established an interconnected National Electricity Market ("NEM") which has resulted in the formation of a competitive wholesale spot market. The NEM has a total generation capacity of in excess of 42 GW[11]. Western Australia and the Northern Territory are not expected to join the NEM in the near future due to geographical and physical constraints.

Electricity is transmitted via high voltage transmission lines to population centres where it is delivered to customers via local distribution networks. The transmission network of the NEM operates as a connected system (with high voltage interconnector cables running between states) whereas the transmission networks of the Northern Territory and Western Australia are isolated systems. In Australia, transmission lines are primarily owned by state government entities, except in Victoria where SP AusNet owns the electricity transmission network and South Australia where Electranet Pty Limited owns and operates the electricity transmission network. In addition, DirectLink and Murraylink (two major interconnector cables) are owned by APA Group and another interconnector cable (Basslink) is owned by CitySpring Infrastructure Trust (a Singaporean entity). There is a greater proportion of private ownership of distribution networks with the major private owners being SP AusNet and Spark.

Electricity transmission lines and distribution networks are subject to substantial monitoring and economic regulation. Transmission line owners charge regulated tariffs to distributors, who in turn charge regulated tariffs to retailers and other wholesale electricity purchasers.

The current (and expected under AER) regulatory regime provides for periodic reviews under which the regulator assesses the terms of network access proposed by the network operator and can approve or vary the terms. A "building block" approach is used by which tariffs in access arrangements are based on the estimated efficient costs of providing the services including operating and maintenance costs, depreciation and a return on assets calculated by reference to a weighted average cost of capital applied to a regulated asset base. This process determines an appropriate level of revenue for the asset, which is then used to fix transmission or distribution reference tariffs for the period. In this way, asset owners are incentivised to improve efficiency and thereby retain profits earned by outperforming the forecasts of costs and volumes on which the regulatory tariffs were based. However, any change in demand or cost efficiency will be taken into account at the next regulatory review, potentially reducing the tariff.

***Gas Transmission and Distribution***

Australia has extensive reserves of natural gas. The largest reserves are off the north west Australian coast and in the Timor Sea. Eastern state reserves are estimated to amount to between 20-30 years of supply at current production levels although considerable potential remains to develop new reserves (e.g. Gippsland Basin, Otway Basin). Australian domestic consumption of gas is forecast to grow at 2.5% per annum out to 2030. With eastern market demand projected to outstrip local supply from 2013 alternative sources of gas are important in eastern Australia. To this extent, given the large coal resources in eastern Australia, coal seam methane represents a growing source of gas. It is also anticipated that, in the future, significant gas reserves may be accessed from Papua New Guinea, off the north west Australian coast and in the Timor Sea (although significant capital expenditure will be required to deliver this gas to the eastern seaboard).

Large scale commercial gas usage in Australia commenced in the early 1970's and, as most Australian production fields are located in areas remote from major retail load centres, a high pressure pipeline infrastructure network was developed to bring gas to market. Gas distribution networks connect with the transmission system to distribute gas to the premises of residential, commercial and industrial customers. Large industrial users may connect directly to the high pressure transmission network.

[11] GW = gigawatts (i.e. 1,000 MW)

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Initially the major Australian gas markets were supplied from single production basins via sole purpose monopoly pipelines. However, in the last 20 years, expenditure on pipeline infrastructure and the discovery of new gas reserves has seen the development of an integrated natural gas market in south east Australia and the extension of gas supply into Tasmania. Planning work is currently underway for a transmission pipeline to connect the transmission network in Queensland with those in the south east. The transmission network of the Northern Territory may eventually be connected to the eastern network via Queensland. Although Western Australia remains isolated from this integrated network, the development of its natural resources has led it to become the largest market for natural gas in Australia.

As a result of industry reforms over the last decade, all major gas transmission pipelines and the majority of gas distribution networks in Australia are now owned by the private sector. As transmission and distribution networks generally have natural monopoly characteristics, they are subject to a regulatory regime to ensure non discriminatory third party access. The major owners of Australian gas transmission pipelines include APA Group, Hastings Diversified Utilities Fund ("HDUF"), Diversified Utility and Energy Trusts ("DUET") and the Consortium (although these assets are to be split between parties to the Consortium). The major owners of Australian gas distribution networks include DUET and Envestra Limited ("Envestra") and the Consortium.

The regulatory regime for natural gas transmission pipelines and distribution networks in Australia is detailed in the Gas Access Regime ("GAR") and is given effect by legislation in each state and territory enacting the National Third Party Access Code for Natural Gas Pipeline Systems ("Gas Code"). Regulatory responsibility for all gas transmission assets (except for Western Australia) was transferred to the AER in mid 2005. Regulatory responsibility for gas distribution networks (except for Western Australia) is to be transferred to the AER by January 2008.

Gas pipelines and networks can be "covered" or "uncovered" under the Gas Code according to the application of statutory criteria. Owners of covered pipelines must submit access arrangements (i.e. the provisions under which access to a pipeline can be granted) and periodic revisions to their arrangements for approval by regulators. Access arrangements generally include reference tariffs for the services to be offered and are approved for a period of time (typically five years) after which they are reviewed. In Queensland, however, pipeline tariffs have been derogated for a period and are not subject to review until the end of the derogation period applicable to the specific pipeline. Uncovered pipelines are free to determine prices and other terms and conditions on a commercial basis (subject to the general anti-competitive provisions of the Trade Practices Act, 1974 (Cth)).

Reference tariffs in access arrangements are based on a building blocks approach. Tariffs are based on estimated efficient costs of providing the services including operating and maintenance costs, depreciation and a return on assets calculated by reference to a weighted average cost of capital applied to a regulated asset base. Gas network owners are incentivised to improve cost efficiency and grow demand over each regulatory review period.

A recent decision of the Supreme Court of Victoria (presently subject to appeal) has raised the possibility that managers of regulated gas distribution assets may be required to be licensed and therefore lodge access arrangements under the Gas Code. This decision may have implications for the operating structure of the energy infrastructure sector.

## 4 Profile of SP AusNet

### 4.1 Background

SP AusNet is a triple stapled group established to invest in energy and utility assets and businesses in Australia and New Zealand. It was formed by SPI in October 2005 and listed on the ASX on 14 December 2005 (with a secondary listing on the SGX-ST) with SPI retaining a 51% interest. Prior to the announcement of the Transaction, SP AusNet had a market capitalisation of approximately $2.9 billion.

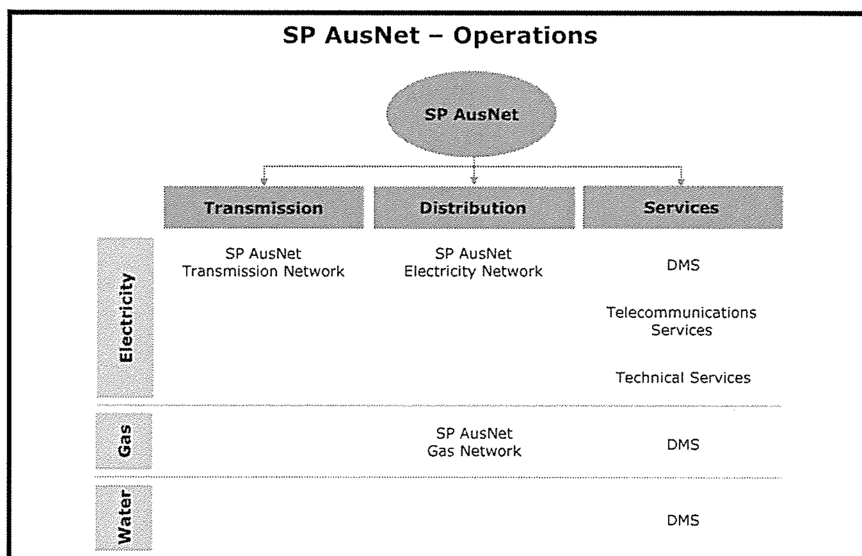
SP AusNet currently owns and operates regulated electricity transmission and electricity and gas distribution assets in Victoria. The three businesses that comprise SP AusNet were acquired by Singapore Power Limited in the 2000-2004 period and since then have experienced steady demand growth.

The objective of SP AusNet is to provide stapled securityholders with stable and predictable distributions structured on a tax-efficient basis. Each stapled security in SP AusNet comprises one share in SP AusNet Transmission, one share in SP AusNet Distribution and one unit in SP AusNet Finance Trust. The shares and unit are "stapled" to each other and trade on the stockmarket as a single security. Within the group structure, SP AusNet Transmission and SP AusNet Distribution own and operate the businesses and SP AusNet Finance Trust finances the companies. This structure enables securityholders to receive cash distributions in excess of accounting profits in the form of pre-tax interest income, franked dividends and capital returns.

SP AusNet is managed by SPIMS, a wholly owned subsidiary of SPI. The agreements covering the provision of services to SP AusNet are summarised in Section 4.3 of this report.

### 4.2 Business Operations

SP AusNet's operations consist of the businesses at listing (i.e. no acquisitions or divestments have occurred since then) as follows:




Source: Grant Samuel

SP AusNet's businesses are:

- **SP AusNet Transmission:** which is the owner and manager of almost all of the high voltage electricity transmission network in Victoria. The network is approximately 6,548 kilometres

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in length and in the year ended 31 March 2007 carried 51,815 GWh[12] of electricity. The business earns regulated revenue from annual network and connection charges and from network availability and reliability incentive payments, returns on capital expenditure for electricity transmission customer works ("excluded services") and other revenue including leasing access to its infrastructure for third party equipment (e.g. telecommunications antennae). The current regulatory period ends on 31 March 2008 and negotiations are underway with the AER for the five year period from 1 April 2008 (although SP AusNet has requested a six year regulatory period). The regulated asset base for the network at 31 March 2007 was $2.2 billion (in nominal terms); and

- **SP AusNet Distribution:** which is the owner and operator of two energy distribution networks in Victoria:
  - **Electricity Distribution:** the network distributes electricity to over 589,392 customer connections over an area of approximately 80,000 square kilometres. It is one of five licenced electricity distribution networks in Victoria. The network includes major population growth corridors on the eastern outskirts of Melbourne and eastern Victoria. In the year ended 31 March 2007 the network distributed 7,436 GWh of electricity.

    The business earns regulated distribution network charges from electricity retailers, customer contributions (i.e. some of the costs of building new distribution assets), excluded services (including fees for meter reading, meter data management) and other revenue (including charges to other distribution businesses for shared use of assets). The current regulatory period commenced on 1 January 2006. The regulated asset base for the network at 31 March 2007 was $1.5 billion (in nominal terms).

    The Victorian Government has determined that customer electricity meters are to be replaced with "smart meters" beginning in 2008. Smart meters enable remote meter reading, improved fault reporting and allow retailers to apply differential tariffs for different times of the day. The rollout involves significant capital expenditure and is subject to an additional round of regulatory negotiation. The Victorian Essential Services Commission is expected to publish its framework for formulating price controls for metering in November 2007; and
  - **Gas Distribution:** the network is one of three licenced gas distribution networks in Victoria and comprises 9,076 kilometres of distribution mains. It distributes gas to 523,458 customer connections over an area of approximately 60,000 square kilometres in central and western Victoria. It also owns 183 kilometres of transmission pipelines. The network spans some of the major growth areas in Melbourne and its surrounding areas. In the year ended 31 March 2007 the network distributed 71.7 PJ[13] of gas.

    The business earns regulated distribution network charges from gas retailers and some large distribution customers, customer contributions, excluded services and other revenue. The current regulatory period ends on 31 December 2007 and negotiations with the Victorian Essential Services Commission are underway for gas access arrangements for the five years commencing 1 January 2008. The regulated asset base for the network at 31 March 2007 was $1.0 billion (in nominal terms).

  SP AusNet Distribution also operates Data and Measurement Solutions ("DMS"), a metering business which provides meter data agency, meter provisioning, franchise data and network new connections services. DMS provides services to both SP AusNet and other infrastructure owners both in the energy sector and the water industry.

SPIMS provides SP AusNet with management services as described in Section 4.3. SP AusNet directly employs approximately 1,200 people, the majority of which are involved in operating and servicing the transmission and distribution networks although it does have some arrangements whereby outside parties provide services to its operations.

[12] GWh = gigawatt hours

[13] PJ = petajoules

SP AusNet's strategy is to grow its existing assets organically and to seek acquisitions. Each of its existing assets is strategically located to benefit from the growth in demand both as a result of increased energy usage and population growth. In addition, SP AusNet is seeking to:

- leverage its existing assets and capabilities to create new unregulated revenue streams (e.g. third party operation and servicing of energy infrastructure, expansion of DMS's business, leasing access to its infrastructure to the telecommunications sector and the provision of testing and diagnostic services to the electricity industry); and
- acquire infrastructure assets in Australia and New Zealand (such as the Alinta Assets).

### 4.3 Relationship with SPI

SP AusNet is closely associated with SPI both through ownership and contractual arrangements.

On listing SPI retained a 51% interest in SP AusNet and currently controls the SP AusNet boards with only three of the eight non-executive directors considered independent and the Managing Director an employee of SPIMS.

SPIMS has entered into agreements to manage SP AusNet. SPIMS personnel are currently engaged predominantly in managing SP AusNet. However, under the Management Services Agreement, SPIMS may also provide services to third parties. In summary the arrangements are:

**SP AusNet – Operating Arrangements**

| Agreement | Purpose | Term | Fees |
|---|---|---|---|
| Management Services Agreement (with SP AusNet Transmission and SP AusNet Distribution) | Governs the provision of management services to SP AusNet. SPIMS employs the senior executive team and staff and provides all management services including:<br>▪ employee and business management<br>▪ evaluation of business opportunities<br>▪ regulatory compliance and relations<br>▪ financial and accounting management<br>▪ management of IT<br>▪ management and coordination of maintenance and engineering services<br>▪ public and investor relations<br>▪ legal and company secretarial<br>▪ general administration and company reporting | 10 years from 1 October 2005 (options to renew for two further 10 year periods held by SP AusNet Transmission and SP AusNet Distribution)[14] | **Management Services Charge:** $21.3 million per annum[15] adjusted by CPI plus 3% at the end of each financial year. Subject to review by Board every 5 years (first review 1 April 2011). Payable monthly in advance.<br>**Performance Fee:** comprised of five components (network performance, financial performance, capital works management, business incentive and capital efficiency incentive fees). Subject to an annual cap of 0.75% of market capitalisation. Each fee payable at different times during the year in arrears.<br>**Cost reimbursement:** for expenditure reasonably incurred by manager (other than cost of employees). Reimbursed monthly. |
| RE Management Services Agreement (with SP AusNet RE) | Governs the provision of management and administrative services to the RE including investment, management consultation and advisory services and other services to assist in performing its role as responsible entity. | 10 years from 1 October 2005 (options to renew for two further 10 year periods held by SP AusNet RE) | **Management Fee:** $100,000 per annum. Payable monthly in arrears.<br>**Cost reimbursement:** for expenditure reasonably incurred by manager (other than cost of employees). Reimbursed monthly. |

Singapore Power Limited has also granted SP AusNet a licence to use its "flame logo" and the letters "SP" for $1 million per annum. This licence may be terminated if SPI is no longer the majority owner of SP AusNet or SPIMS is no longer its manager.

14 Non-renewal in the absence of a terminable breach by SPIMS will result in a termination fee equal to the previous financial year's management services charge.

15 Represents cost of remuneration of SPIMS' staff including employee entitlements and benefits ($21.3 million per annum as stated in Section 8 of the IPO Prospectus). That is, SPIMS makes no profit on the provision of these services to SP AusNet.

Under the Management Services Agreement SPIMS is to notify and provide a report to SP AusNet of any potential investment opportunities in Australia or New Zealand in electricity and gas transmission and distribution businesses and SP AusNet will be first offered the chance to consider any such investment opportunity.

### 4.4 Financial Performance

The historical and forecast financial performance of SP AusNet for the seven years ending 31 March 2009 is summarised below:

**SP AusNet - Financial Performance[16] ($ millions)**

| | Year end 31 March | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2003 actual proforma | 2004 actual proforma | 2005 actual proforma | 2006 actual restated | 2006 actual proforma | 2007 actual | 2008 forecast | 2009 forecast |
| Transmission | 277.9 | 289.1 | 336.0 | 146.3 | 388.6 | 411.0 | 424.4 | 438.6 |
| Distribution | 506.6 | 544.9 | 569.1 | 591.2 | 589.4 | 608.5 | 628.8 | 647.8 |
| **Total revenue** | **784.5** | **834.0** | **905.1** | **737.5** | **978.0** | **1,019.5** | **1,053.2** | **1,086.4** |
| **EBITDA[17]** | **569.3** | **599.1** | **614.7** | **491.4** | **638.8** | **635.4** | **646.0** | **669.3** |
| Depreciation and amortisation | (167.6) | (174.7) | (175.3) | (148.6) | (191.4) | (200.0) | (202.3) | (214.6) |
| **EBIT[18]** | **401.7** | **424.4** | **439.4** | **342.8** | **447.4** | **435.4** | **443.7** | **454.7** |
| Net interest expense | | | | (165.3) | | (219.5) | (235.4) | (273.7) |
| Significant and non-recurring items | | | | - | | (10.7)[19] | - | - |
| **Operating profit before tax** | | | | **177.5** | | **205.2** | **208.3** | **181.0** |
| Income tax expense[20] | | | | (40.6) | | (44.0) | (41.0) | (33.5) |
| Discontinued operations (after tax)[21] | | | | 230.7 | | 17.1 | - | - |
| **Profit after tax attributable to SP AusNet securityholders** | | | | **367.6** | | **178.3** | **167.3** | **147.5** |
| ***Statistics*** | | | | | | | | |
| *Basic earnings per security* | | | | *6.54c* | | *7.71c* | *8.00c* | *7.05c* |
| *Free cash flow per security[22]* | | | | *10.85c* | | *10.91c* | *11.73c* | *11.80c* |
| *Distribution from capital* | | | | *2.21c* | | *7.16c* | | |
| *Dividend* | | | | *0.15c* | | *1.01c* | | |
| *Assessable interest* | | | | *0.89c* | | *3.09c* | | |
| *Total distribution per security* | | | | *3.25c* | | *11.27c* | *11.56c* | *11.85c* |
| *Cash yield[23]* | | | | *8.45%[24]* | | *7.94%* | *9.10%* | *9.33%* |
| *Total revenue growth* | | *6.3%* | *8.5%* | | *8.1%* | *4.2%* | *3.3%* | *3.1%* |
| *EBITDA growth* | | *5.2%* | *2.6%* | | *3.9%* | *(0.5%)* | *1.7%* | *3.6%* |
| *EBIT growth* | | *5.7%* | *3.5%* | | *1.8%* | *(2.7%)* | *1.9%* | *2.5%* |
| *EBITDA margin* | *72.6%* | *71.8%* | *67.9%* | *66.6%* | *65.3%* | *62.3%* | *61.3%* | *61.6%* |
| *EBIT margin* | *51.2%* | *50.9%* | *48.5%* | *46.5%* | *45.7%* | *42.7%* | *42.1%* | *41.9%* |
| *Interest cover[25]* | | | | *3.0x* | | *2.9x* | *2.7x* | *2.4x* |
| *Capital expenditure[26]* | *223.7* | *247.1* | *323.8* | *320.4* | *375.3* | *406.1* | *392.5* | *417.7* |

Source: SP AusNet and Grant Samuel analysis

16 All financial information has been prepared in accordance with the Australian equivalent to international financial reporting standards ("AIFRS").

17 EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

18 EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

19 Final settlement of court proceedings regarding claims in relation to the 1999 and 2000 years.

20 Following the formation of the stapled group, the effective tax rate is less than 30% due to the deductibility of interest paid to securityholders by SP AusNet Finance Trust.

21 SP AusNet sold its merchant energy business on 31 May 2005. The profit from discontinued operations in the 2007 year relates to the updating of certain estimates relating to the sale in the prior year.

22 Free cash flow per security is cash flow from operations before interest and tax less capital expenditure.

23 Represents cash distribution per security (i.e. ignoring any tax benefits derived by securityholders) divided by the security price at period end. Forecast yields calculated by reference to the SP AusNet security price on 26 October 2007 ($1.27).

24 Annualised yield based on SP AusNet security price on 31 March 2006 ($1.30).

25 Interest cover is EBITDA divided by net interest.

26 Cash paid on capital expenditure in the relevant period.

SP AusNet was formed as a stapled entity on 21 October 2005 and listed on the ASX on 14 December 2005. The pro forma earnings for SP AusNet's transmission and distribution assets for the three years ended 31 March 2005 presented above have been extracted from the IPO Prospectus. A detailed discussion of operating performance over that period was set out in the IPO Prospectus. The actual result for the year ended 31 March 2006 comprises the full year results for the distribution assets and the contribution of the transmission assets and the financing structure from the date of stapling (21 October 2005) to 31 March 2006 (i.e. approximately five months). In addition, SP AusNet has restated the 2006 reported result for adjustments in the calculation of deferred tax liabilities. The pro forma actual result of SP AusNet for the year ended 31 March 2006 has been prepared by SP AusNet on the basis that the stapling occurred on 1 April 2005 and therefore reflects the operating results of all of its businesses for a full year.

SP AusNet derives revenue from carrying gas and electricity, it does not purchase or sell gas or electricity. Total revenue growth in the five years to 31 March 2007 has been primarily driven by load growth and increased customer connections with revenue growth in 2007 also reflecting favourable weather conditions. In addition, transmission revenue has grown as a result of an increase in regulated revenue due to an increase in land tax on easements which the regulator has permitted to be passed through to customers. Approximately 89% of SP AusNet's total revenue in 2007 was regulated and approximately 60% of total revenue was derived from distribution activities.

EBITDA and EBIT have generally grown over the period although margins have declined. The movements in margins primarily reflects the impact of:

- non-recurring maintenance costs in SP AusNet Transmission Network in the period 2003-2005 offset in 2004 by one-off property revenue;
- the introduction of the land tax pass through in mid 2005; and
- the introduction of the SPI performance fee arrangement at the end of the 2006 year.

The SP AusNet Forecast (including the assumptions underlying it) is set out in Section 8.2 of the Explanatory Memorandum. The SP AusNet Forecast has been prepared by SP AusNet and reviewed by KPMG Transaction Services. KPMG Transaction Services' Investigating Accountant's Report is set out as Appendix C to the Explanatory Memorandum.

Forecast revenue growth reflects regulated price paths (including allowance for the outcome for the current regulatory reset processes for SP AusNet Transmission and SP AusNet Gas Network), volume growth and growth in revenue from the rollout of "smart meters" as required by the Victorian Government (related capital expenditure is reflected in the increase in capital expenditure in the 2007-2009 period). The increase in capital expenditure since 2006 (particularly for the distribution activities) has resulted in higher forecast depreciation and interest charges. This will result in a decrease in net profit after tax notwithstanding an increase in EBITDA in 2009 (both in absolute terms and as a percentage of revenue). As a consequence, SP AusNet's earnings per security is forecast to decrease. Profit margins are expected to decline slightly from 2007.

SP AusNet is structured to provide tax effective returns to securityholders and distributions are not limited to accounting profits. SP AusNet's distributions are comprised of a combination of returns of capital and interest payments from SP AusNet Finance Trust and franked dividends from SP AusNet Transmission and SP AusNet Distribution. SP AusNet pays distributions twice yearly in respect of the six months ended 31 March and 30 September. SP AusNet has provided distribution guidance to the market indicating that it expects distributions to grow by around 2.5% per annum (as reflected in the above table).

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### 4.5 Financial Position

The financial position of SP AusNet as at 31 March 2007 and 31 August 2007 is summarised below:

| SP AusNet - Financial Position ($ millions) | | |
|---|---|---|
| | As at 31 March 2007 actual audited | As at 31 August 2007 actual unaudited |
| Debtors and prepayments | 148.3 | 172.6 |
| Inventories | 5.9 | 6.9 |
| Creditors, accruals and provisions | (210.4) | (194.5) |
| **Net working capital** | **(56.2)** | **(15.0)** |
| Property, plant and equipment (net) | 6,312.2 | 6,367.5 |
| Distribution licences | 354.5 | 354.5 |
| Inventories | 12.8 | 12.8 |
| Other assets | 30.3 | 31.2 |
| Derivative financial liabilities (net) | (60.4) | (92.5) |
| Tax provision | (18.9) | (17.7) |
| Deferred tax liabilities (net) | (348.3) | (371.6) |
| Provisions and other liabilities | (22.3) | (22.8) |
| **Total funds employed** | **6,203.7** | **6,246.4** |
| Cash and deposits | 9.1 | 9.3 |
| Interest bearing liabilities | (3,560.2) | (3,608.9) |
| **Net borrowings** | **(3,551.1)** | **(3,599.6)** |
| **Net assets attributable to SP AusNet securityholders** | **2,652.6** | **2,646.8** |
| ***Statistics*** | | |
| *Securities on issue at period end (million)* | *2,092.7* | *2,092.7* |
| *Net assets per security* | *$1.27* | *$1.26* |
| *NTA[27] per security* | *$1.10* | *$1.10* |
| *Book gearing[28]* | *57.2%[29]* | *57.8%* |
| *Market gearing[30]* | *54.4%* | *56.4%* |

Source: SP AusNet and Grant Samuel analysis

Other assets include prepayments and defined benefit fund surpluses. SP AusNet makes contributions to two closed defined superannuation plans. A surplus totalling around $29 million exists in the funds and SP AusNet will benefit from the surplus by way of a reduction in the required contribution rate for a period of time.

At 31 March 2007 SP AusNet's book gearing was 57.2%. Its interest bearing liabilities are comprised of a combination of unsecured facilities including bank debt, commercial paper, domestic medium term notes and US senior notes. At 31 March 2007 it had $324.8 million of unused financing facilities.

SP AusNet enters into interest rate swap contracts, forward foreign exchange contracts and cross currency swaps to manage its exposure to movements in interest rates under its finance facilities and movements in relation to contracts denominated in foreign currencies (including under its finance facilities). At 31 August 2007 these derivative financial instruments had a net negative value of $92.5 million.

SP AusNet has investment grade credit ratings from Standard & Poor's (rating of A/A-1) and Moody's Investor Service. Both agencies have SP AusNet on review pending the outcome of the Transaction.

The detailed SP AusNet Financial Position at 31 August 2007 is set out in Section 7.3.3 of the Explanatory Memorandum. The SP AusNet Financial Position has been prepared by SP AusNet and reviewed by KPMG. KPMG's Investigating Accountant's Report is set out as Appendix B to the Explanatory Memorandum.

[27] NTA is net tangible assets, which is calculated as net assets less distribution licences.

[28] Book gearing is net borrowings divided by net assets plus net borrowings.

[29] 58.2% including associated hedge liabilities.

[30] Market gearing is net borrowings divided by market capitalisation at period end (31 March 2007 and 31 August 2007 respectively).

Under the Australian tax consolidation regime, SP AusNet Transmission and SP AusNet Distribution are the head entities of two separate tax consolidated groups. At 31 March 2007 SP AusNet had carried forward income tax losses of approximately $177 million, which were recognised in the balance sheet. These losses are expected to be utilised over the three years to 31 March 2010.

At 31 March 2007, SP AusNet had approximately $22.5 million in accumulated franking credits prior to the use of $10.6 million in relation to the distribution paid on 28 June 2007.

### 4.6 Capital Structure and Ownership

SP AusNet has 2,092,680,010 stapled securities on issue. Each stapled security comprises one share in SP AusNet Transmission, one share in SP AusNet Distribution and one unit in SP AusNet Finance Trust.

At 30 September 2007 there were 8,491 registered securityholders in SP AusNet. The top ten securityholders accounted for approximately 88.5% of the stapled securities on issue:

**SP AusNet - Major Securityholders as at 30 September 2007**

| | Number of Shares | Percentage |
|---|---|---|
| SPI | 1,067,266,805 | 51.00% |
| JP Morgan Nominees Australia Limited | 164,064,835 | 7.84% |
| HSBC Custody Nominees (Australia) Limited | 154,960,877 | 7.40% |
| Citicorp Nominees Pty Limited | 123,018,197 | 5.88% |
| The Central Depository (Pte) Limited | 112,782,000 | 5.39% |
| National Nominees Limited | 87,701,844 | 4.19% |
| RBC Dexia Investor Services Australia Nominees Pty Limited | 69,609,458 | 3.33% |
| HSBC Custody Nominees (Australia) Limited | 29,131,392 | 1.39% |
| UBS Wealth Management Australia Nominees Pty Ltd | 22,719,191 | 1.09% |
| ANZ Nominees Limited | 21,365,166 | 1.02% |
| **Subtotal - Top 10 securityholders** | **1,852,619,765** | **88.53%** |
| Other securityholders (8,481 securityholders) | 240,060,245 | 11.47% |
| **Total** | **2,092,680,010** | **100.00%** |

Source: SP AusNet

Other than SPI and The Central Depositary (Pte) Limited ("CDP"), the top ten registered securityholders are institutional nominee or custodian companies. CDP is the means through which investors trade SP AusNet securities on the SGX-ST. The securities are registered in the name of CDP but are held on behalf of persons who maintain securities accounts with CDP. At 30 September 2007 CDP was holding securities on behalf of 7,795 investors (i.e. on a "see through" basis there are a total of 16,285 securityholders in SP AusNet).

SP AusNet has a significant retail investor base with 98% of registered securityholders holding less than 100,000 securities although this represents less than 5% of securities on issue (this does not change materially on a "see through" basis). Australian based investors account for approximately 50% of securityholders and 43% of securities on issue on a "see through" basis.

SP AusNet has received notices from the following substantial securityholders:

**SP AusNet – Substantial Securityholders as at 30 September 2007**

| Securityholder | Date of Notice | Number of Shares | Percentage |
|---|---|---|---|
| Temasek[31] | 23 June 2006 | 1,097,391,620 | 52.44% |
| Macquarie Bank Limited | 30 May 2007 | 136,879,325 | 6.54% |
| The Capital Group Companies Inc | 11 July 2007 | 127,193,825 | 6.08% |
| Maple-Brown Abbott Limited | 5 February 2007 | 116,161,821 | 5.55% |

Source: SP AusNet

[31] Includes SPI's 51% direct interest and 1.44% attributable to associates of Temasek.

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### 4.7 Security Price Performance

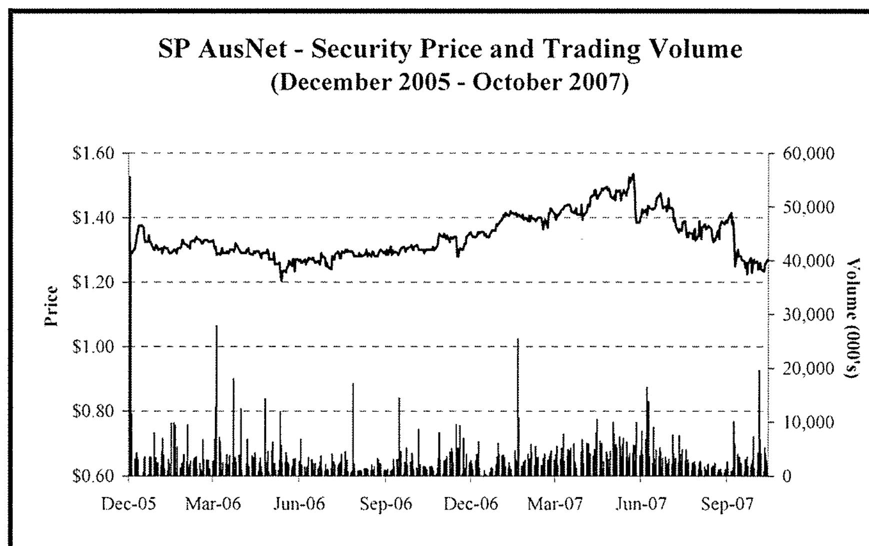
A summary of the price and trading history of SP AusNet on the ASX since listing on 14 December 2005 is set out below:

**SP AusNet - Security Price History**

| | Stapled Security Price ($) | | | Average Weekly Volume (000's) | Average Weekly Transactions |
|---|---|---|---|---|---|
| | High | Low | Close | | |
| **Year ended 31 December** | | | | | |
| 2005 (from 14 December) | 1.38 | 1.26 | 1.33 | 51,721 | 803 |
| 2006 | 1.37 | 1.21 | 1.34 | 14,735 | 871 |
| **Quarter ended** | | | | | |
| 31 March 2007 | 1.45 | 1.34 | 1.42 | 17,909 | 1,321 |
| 30 June 2007 | 1.55 | 1.38 | 1.46 | 24,182 | 1,660 |
| 30 September 2007 | 1.49 | 1.25 | 1.27 | 12,931 | 1,929 |
| **Week ended** | | | | | |
| 5 October 2007 | 1.28 | 1.23 | 1.26 | 11,060 | 1,935 |
| 12 October 2007 | 1.28 | 1.23 | 1.26 | 15,532 | 2,107 |
| 19 October 2007 | 1.27 | 1.24 | 1.24 | 35,803 | 1,888 |
| 26 October 2007 | 1.27 | 1.24 | 1.27 | 14,744 | 1,588 |

Source: IRESS

The following graph illustrates the movement in the SP AusNet security price and trading volumes on the ASX since listing:




Source: IRESS

SP AusNet securities were issued at a price of $1.38 per security (S$1.75 per security) and listed at a discount to that price. In the period from listing to 31 December 2006, SP AusNet securities traded below issue price in a range of $1.205-$1.375 (at a volume weighted price of approximately $1.30).

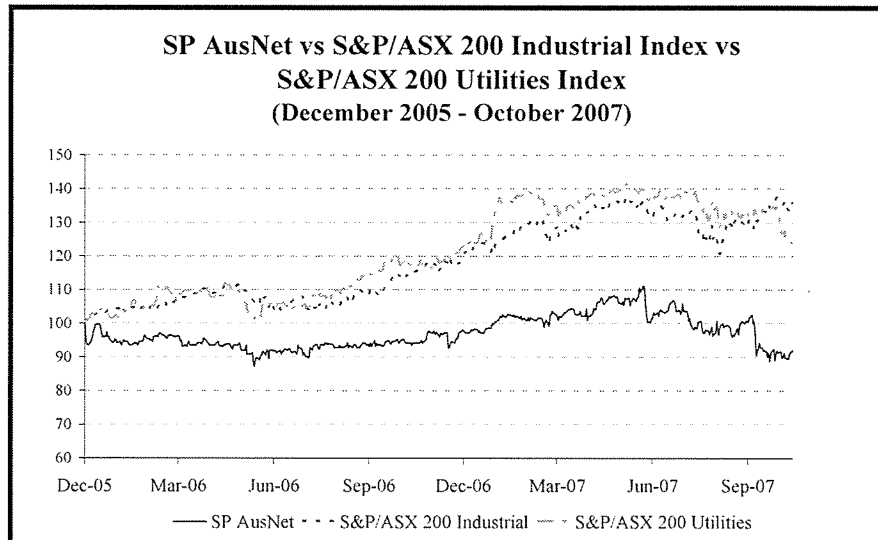
Following the announcement by Alinta of a management buyout approach on 9 January 2007, SP AusNet securities traded higher to around $1.40, possibly in expectation that SP AusNet may participate in the acquisition of Alinta. This expectation was confirmed following the announcement of the Consortium as the successful party on 30 March 2007. Subsequently,

SP AusNet traded in the range of $1.38-$1.55 (at a volume weighted price of $1.45) until early July 2007. The security price peaked at $1.55 in intraday trade on 1 June 2007 and declined sharply to around $1.40 after SP AusNet went ex-distribution (5.635 cents) on 6 June 2007.

From early July, the SP AusNet security price has gradually declined and closed at $1.39 on 19 September 2007 (the day prior to the announcement of the Transaction). The market reaction to the announcement was somewhat negative primarily due to the lack of financial information. In the two days after the announcement the security price decreased by around 7% to less than $1.30 on relatively high turnover. The price decline reflects both the market reaction and that SP AusNet is cum a substantial equity issue as a consequence of the Transaction. Since then SP AusNet has traded in the range of $1.225 to $1.305 (at a volume weighted price of $1.26) and closed at $1.27 on 26 October 2007.

SP AusNet is not a liquid stock primarily due to its limited free float (49%). Average weekly volume over the twelve months prior to the announcement of the Transaction represented less than 1% of average shares on issue or annual turnover of around 43% of total average issued capital (87% of free float).

SP AusNet is a member of various indices including the S&P/ASX 200 Industrial Index and the S&P/ASX 200 Utilities Index. At October 2007 its weighting in these indices was approximately 0.13% and 5.8% respectively. The following graph illustrates the performance of SP AusNet securities since listing relative to these indices:




Source: IRESS

SP AusNet has underperformed these indices since listing in part due to the level of corporate activity in the energy infrastructure sector since late 2005, its minor weighting in each index and its limited free float. From January 2007 to announcement of the Transaction on 19 September 2007, SP AusNet's performance was generally in line with each index. However, since the announcement it has underperformed these indices.

## 5 Profile of the Alinta Assets

### 5.1 Background

The assets and businesses which comprise the Alinta Assets have been subject to significant corporate activity within the last five years including:

- the acquisition in July 2003 by Alinta of a number of interests in energy distribution assets (including the 34% interest in United Energy and certain of the asset management activities) through a series of transactions;
- the acquisition in April 2004 by Alinta of a portfolio of nine gas transmission and power generation assets (including Queensland Gas Pipeline, Eastern Gas Pipeline and the VicHub Interconnect Facility) and the initial public offering of the same assets as Alinta Infrastructure Holdings ("AIH") in October 2005;
- the acquisition in October 2006 by Alinta of the infrastructure assets of The Australian Gas Light Company ("AGL") (including NSW Gas Network, Victorian Electricity Network, ActewAGL Distribution and the Agility asset management business); and
- the takeover of AIH by Alinta in December 2006.

By February 2007, all of the assets comprising the Alinta Assets were owned by Alinta. Following a process by which interested parties were invited to put forward proposals to acquire Alinta, the Consortium completed the acquisition of Alinta on 31 August 2007.

### 5.2 Description

Detailed descriptions of the Alinta Assets are set out in Section 5 of the Explanatory Memorandum and summarised below:

**Alinta Assets**

| | Transmission | Distribution | Services |
|---|---|---|---|
| Electricity | | VIC Electricity Network<br>ActewAGL Distribution (50%)<br>United Energy (34.1%) | Asset Management |
| Gas | Queensland Gas Pipeline<br>Eastern Gas Pipeline<br>VicHub | NSW Gas Network<br>ActewAGL Distribution (50%) | Asset Management |
| Water | | ActewAGL Distribution (50%) | Asset Management |

Source: Grant Samuel
Note: For the purposes of this report, ActewAGL Distribution incorporates a 7.6% interest in TransACT and Asset Management incorporates the Camellia Project.

*Distribution Assets*

The energy distribution assets comprise regulated energy infrastructure which derive revenue from network tariffs, connection charges and other charges for services to users of the networks:

- **NSW Gas Network**

  The NSW Gas Network was established in 1837 with the development of the first reticulated gas network in the Sydney central business district. This network has grown through a combination of extensions, new developments and acquisitions to service most major population centres in New South Wales. The network provides gas to more than 980,000 users across Sydney, Newcastle, Wollongong and over 20 country centres. It is managed by Asset Management.

  Since 1976, the network has distributed natural gas transported by the Moomba-to-Sydney high pressure transmission system (owned by APA Group). A number of additional supply sources have subsequently been added including natural gas from Bass Strait and coal seam methane gas to provide diversity of supply. A 30 kilometre looping project ("Sydney Primary Loop project") to provide additional capacity into Sydney and to reduce reliance on a single primary main pipeline is underway and due to be substantially complete by the end of January 2008.

  The gas network has been actively expanded into new population centres. While there are no direct regulatory barriers, the scale of the gas network and the need for new entrants to duplicate infrastructure represents a significant barrier to entry. Notwithstanding the network's "natural monopoly", household penetration in New South Wales remains relatively low at about 35%, representing a source of potential growth above population growth.

  The prices (or tariffs) Alinta charges for distributing gas, as well as the terms of access to the network, are regulated and reviewed on a five-yearly basis. The current regulatory period commenced on 1 July 2005. The regulated asset base for the network at 30 June 2007 was $2.168 billion (in nominal terms). Its regulatory function is to be transferred to AER by January 2008.

  Domestic gas usage is principally for home heating, water heating and cooking. Accordingly, demand levels are directly impacted by climate and can be negatively affected by warm winter weather. Industrial gas usage is primarily as a source of energy for production processes, but may also act as feedstock for fertiliser or petrochemical products. AGL Energy Limited ("AGL Energy"), as the largest gas retailer in New South Wales, is the largest user of the network.

- **Victorian Electricity Network**

  The Victorian Electricity Network (formerly known as Solaris) distributes electricity to over 295,000 customer sites over 950 square kilometres of north-west greater Melbourne, Victoria. It is one of five licensed electricity distribution networks in Victoria and is managed by Asset Management.

  The network footprint incorporates a mix of major industrial areas, residential growth areas, established inner suburbs and Melbourne International Airport. Residential and small business customers accounted for approximately 64% of 2007 network revenue with large business customers accounting for the remainder. Victoria's retail electricity market is fully contestable, with a large number of retailers competing for customer accounts. Most of these retailers are active in the network's licence area although AGL Energy is the largest user of the network.

  Distribution prices for transporting electricity over the network and access to the network are regulated. In October 2005, distribution prices for the five years to December 2010 were determined. The regulated asset base for the network at 30 June 2007 was $589.9 million in December 2004 dollars. In accordance with the recent decision by the Victorian Government, the Victorian Electricity Network has commenced a programme to replace existing customer electricity meters with "smart meters". The rollout involves significant capital expenditure and is subject to an additional round of regulatory negotiation.

  Electricity distribution in Victoria is generally confined to specific geographic areas determined by distribution licences and there is limited overlap with competing networks.

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Penetration of electricity networks is approximately 100%. Growth in revenue is therefore driven primarily by increasing usage, population growth or new industrial or residential developments in the designated area. In recent years, unusually warm weather in Victoria has contributed to strong increases in summer electricity consumption. The Victorian Electricity Network's distribution area is one of the faster growing regions in Melbourne.

- **ActewAGL Distribution (50%)**

SPI holds a 50% interest in the distribution business and assets of ActewAGL, an energy distribution and retail joint venture with the government of the Australian Capital Territory (ACTEW Corporation). The retailing business relating to ActewAGL is 50% owned by each of AGL Energy and ACTEW Corporation. ActewAGL Distribution's principal activities include:

- ownership and operation of the electricity distribution network in the Australian Capital Territory (with 155,000 end users);
- ownership and operation of the gas distribution network in the Australian Capital Territory, Queanbeyan, Nowra and the former Yarralumla Shire in New South Wales (totalling 104,000 end users);
- operation and maintenance of the Australian Capital Territory's water and sewerage networks; and
- provision of management services to TransACT (a telecommunications services provider in the Australian Capital Territory).

Through this joint venture, SPI also holds a 7.6% interest in TransACT and a 50% interest in Ecowise Environmental (an environmental consulting business).

ActewAGL Distribution is a standalone operating business except that the gas distribution network is managed under contract by Asset Management.

The large majority of end users for the gas and electricity networks are residential and small business customers, with only limited industrial usage. Tariffs for the networks are regulated by the Australian Capital Territory's Independent Competitive and Regulatory Commission and are subject to five yearly reviews. The most recent price determinations were set in 2004 and 2005 and expire in June 2009 and 2010 for electricity and gas, respectively. The combined regulated asset base for the two networks at 30 June 2007 was $808.7 million (in nominal terms).

High penetration rates for both networks results in growth broadly consistent with population growth. Limited opportunities exist to expand the network beyond the existing population areas.

- **United Energy (34.1%)**

United Energy owns the electricity distribution network servicing the south-eastern suburbs of Melbourne and the Mornington Peninsula. Its licence area is largely urban in nature.

The network had 614,382 customer connections at 30 June 2007 and carried a load of 7,881 GWh in the twelve months to 30 June 2007. Although the large majority of connections are residential, network load is spread roughly equally between industrial, commercial and residential customers.

United Energy's network is currently regulated by the Victorian Essential Services Commission but will be transferred to AER during 2007. United Energy's last regulatory reset occurred in 2005, with revenues set for the five years to 31 December 2010.

United Energy reported total revenue of $420 million, EBITDA of $253 million and EBIT of $184 million in the twelve months to 30 June 2007[32]. Its regulated asset base at 30 June 2007 (in December 2004 dollars) was $1.229 billion based on its most recent determination[33]. In accordance with the recent decision by the Victorian Government, United Energy has commenced a programme to replace existing customer electricity meters with "smart meters". The rollout involves significant capital expenditure and is subject to an additional round of regulatory negotiation. In addition, United Energy is entering a period in which asset replacement expenditure will increase as a consequence of the age profile of its infrastructure assets.

Asset Management is the prime contractor for the United Energy network. The 34.1% interest in United Energy is governed by a shareholders' agreement with co-owner DUET. DUET has advised that it considers that the pre-emptive rights under the shareholders' agreement would be triggered if the interest was transferred by the Consortium. The Consortium and SP AusNet do not agree. The matter remains under discussion between the parties. Nevertheless, arrangements have been put in place such that a revenue stream which largely reflects the earnings from the 34.1% interest is received by SPI. SP AusNet would receive the benefit of those arrangements upon acquisition of the Alinta Assets.

***Transmission Assets***

The energy transmission assets comprise both regulated and unregulated gas transmission pipelines:

- **Queensland Gas Pipeline**

  The Queensland Gas Pipeline is a natural gas and coal seam gas transmission pipeline which links both the Ballera to Roma pipeline (owned by HDUF) and the Roma to Brisbane pipeline (owned by APA Group) (both of which source natural gas from the Surat and Cooper basins) at Wallumbilla to large industrial users in Gladstone and Rockhampton, in central Queensland. Coal seam gas enters the pipeline from gas fields along its route.

  The main pipeline was constructed in 1989 by the Queensland Government and commissioned in 1990. The 627 kilometre pipeline is a free flow high pressure pipeline with a current capacity of approximately 27 PJ per annum. The pipeline may be expanded via compression and looping up to its current licence limit of 52 PJ per annum (at which time a higher licence limit will need to be requested). It has a design life of 50 years and a remaining life of 33 years.

  The pipeline provides both forward haul and back haul services. The primary demand for gas transportation comes from large industrial customers (particularly alumina production, aluminium and magnesium smelting and chemical manufacturing) in and around Gladstone and Rockhampton.

  Foundation customer Queensland Alumina Limited is expected to account for approximately 56% of 2008 revenue under a take-or-pay contract which was renewed to 31 December 2016 in 2006. Other major end users include Queensland Magnesia, Origin Energy Limited, Orica Limited, AGL Energy, Boyne Smelters Limited and Comalco Limited (for which a number of long term contracts have been renewed during 2006 and 2007). Over 95% of the pipeline's current forward capacity is subject to long term contracts with terms out to 2014-2017.

  The Queensland Gas Pipeline is "covered" for the purposes of the Gas Code with terms of access by third parties regulated under access arrangements approved by the ACCC. Under the terms of the access arrangement, the tariff cap applicable to firm forward haulage

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[32] As reported by DUET.

[33] The regulated asset based at 30 June 2007 as reported by DUET was $1.285 billion. It is unclear if that figure is in nominal or real dollars terms.

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agreements steps down if firm forward gas throughput moves above 25 PJ on an annualised basis. The existing access arrangement applies until 31 August 2016 or until such time that the capacity of the pipeline exceeds 52 PJ per annum.

Significant potential for growth in demand has been identified in particular for power generation and minerals refining as a consequence of continued industrial development in the Gladstone and Rockhampton regions. As the current sole means of transporting gas to the Gladstone region, the Queensland Gas Pipeline is well placed to capture these growth opportunities. Although there is some bypass risk these projects involve lead times which, based on current indications, are unlikely to meet customer requirements.

The Queensland Gas Pipeline is currently operating at near to capacity. It is proposed to undertake a compression and looping program which would increase pipeline capacity by approximately 22 PJ per annum to accommodate the expected continued growth in demand. The expansion is expected to be completed by mid 2010.

- **Eastern Gas Pipeline**

The Eastern Gas Pipeline transports natural gas from the Gippsland Basin in Victoria to markets in Sydney and regional centres (including Wollongong and Canberra) along the route. Gas enters the pipeline at the Longford Compressor Station (which primarily sources gas from the Esso/BHP Billiton gas processing plant at Longford), the Patricia Baleen site at Orbost and through the VicHub Interconnect Facility. The pipeline (which includes the Longford Compressor Station) was commissioned in 2000, is 797 kilometres long and incorporates a number of lateral pipelines connecting to major industrial users.

The Eastern Gas Pipeline has a current capacity of 73 PJ of gas per annum. Capacity could be increased to an estimated 125 PJ per annum by the addition of compressor stations along the pipeline, the sites for which were identified during design and construction. The pipeline has a design life of 40 years and a remaining life of 33 years.

The Gippsland area has substantial gas reserves and any dependency risk is considered low for the short to medium term. Should additional gas be supplied to Victoria from the Otway and Bass Basins, more Gippsland production may be available to the Eastern Gas Pipeline for the Sydney market. The Otway Basin could also serve as an additional source of gas for the pipeline.

The Eastern Gas Pipeline provides forward haul, back haul and park services to customers. The primary demand for gas transportation services on the pipeline comes from industrial customers, power generation and retailers supplying smaller industrial, commercial and residential consumers in New South Wales and the Australian Capital Territory. As the Eastern Gas Pipeline passes through regions not serviced by reticulated gas, it is expected that over time further local markets will develop along the route.

The Eastern Gas Pipeline competes with APA Group's Moomba-to-Sydney Pipeline (which sources gas from the Cooper-Eromanga Basin in South Australia/Queensland) to supply gas into the Sydney market.

The major end users of gas transported by the pipeline are the BlueScope Steel facilities at Port Kembla, Marubeni's Smithfield Power Station and the Bairnsdale Power Station (owned by Babcock & Brown Power) in addition to retailers supplying smaller industrial, commercial and domestic end users in Sydney. The Eastern Gas Pipeline operated at capacity over winter 2007 and approximately 85% of forecast 2008 revenue is subject to existing firm contracts. From the end of 2008 100% of the Eastern Gas Pipeline's current capacity will be subject to long term contracts with terms out to 2016-2018. The major customer of the Eastern Gas Pipeline is Esso/BHP Billiton which is expected to account for over approximately 51% of 2008 revenue under a take-or-pay contract with a term until 31 December 2016. The other major customer is the former Alinta Wholesale (now owned by Babcock & Brown Power) which is expected to account for 16% of 2008 forecast revenue.

The Eastern Gas Pipeline is currently "uncovered" and not regulated by the Gas Code.

Tariffs on the pipelines are negotiated on a commercial basis on the basis of a non-discriminatory access policy.

Growth in the pipeline's traditional industrial and domestic markets has been relatively slow, however, growth in demand over the medium term is expected to derive primarily from gas-fired generation projects to support growing demand for electricity in New South Wales. (e.g. in May 2006, Alinta (then AIH) agreed to provide gas transportation services for TRUenergy Pty Limited's proposed Tallawarra gas-fired power station). The Eastern Gas Pipeline currently has a range of other power generation and retail supply expansion potential opportunities. In addition, further development of gas fields in the northern Gippsland Basin may enable the Eastern Gas Pipeline to increase backhaul activity for customers in Southern Victoria and Tasmania. Bypass risk for the Eastern Gas Pipeline is relatively low.

Pipeline capacity has the potential to be enhanced through nominal compression. An expansion project due for completion in the second half of 2008 will increase capacity to 93 PJ per annum with further compression projects to be undertaken in 2011. The land along the pipeline route upon which additional compression plants will be constructed is already owned.

- **VicHub**

  VicHub is a pipeline interconnect facility located in Longford, Victoria. The facility was commissioned in January 2003 and enables gas to flow between the Eastern Gas Pipeline, Babcock & Brown Infrastructure's ("BBI") Tasmanian Gas Pipeline and APA Group's Victorian gas transmission system (without passing through the Longford Compressor Station). VicHub has a design life of 40 years and a remaining life of 38 years.

  VicHub is currently "uncovered" and not regulated by the Gas Code. Tariffs are negotiated on a commercial basis. VicHub has a nominal daily capacity of 150 TJ[34] per day for injections into the Victorian market and 135 TJ per day for withdrawals from Victoria. Of this capacity, 135 TJ per day is contracted to the former Alinta Wholesale (now owned by Babcock & Brown Power) until 31 December 2018. The remaining injection capacity of 15 TJ per day has to date been successfully tendered to the market on an annual basis.

*Asset Management*

Asset Management is a specialist provider of infrastructure management and services to asset owners across the gas, electricity and water sectors. Its service offering includes design, engineering, construction, operation and maintenance of greenfield, brownfield and mature infrastructure assets. The business employs approximately 1,700 people on the east coast of Australia.

Asset Management provides services to all of the infrastructure assets acquired by the Consortium, with the exception of the AlintaAGL cogeneration facilities constructed on the Alcoa sites and the power generation assets. It provides a comprehensive suite of services to manage both assets and businesses, including asset management, operations, commercial, management of capital works, corporate support, maintenance and engineering.

Asset Management also provides services to external clients (i.e. infrastructure owners other than SPI). External clients represent approximately 30% of revenue and are principally gas and electricity infrastructure assets. External clients include Western Power, Hamersley Iron and Dampier Bunbury Pipeline in Western Australia, Energex and Ergon Energy in Queensland, Transgrid, Country Energy, Integral Energy and Sydney Water Corporation in New South Wales, Mainco, Multinet Gas Network ("Multinet Gas") (now owned by BBI/DUET), Telstra and Australian Pacific Airports Corporation in Victoria and Powerco and Aurora Energy in Tasmania.

External service agreements may be comprehensive or for a specific service or project, and may be limited in time or scope. Asset Management seeks to expand its portfolio of clients, service

[34] TJ = terajoules

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agreements and activities in order to diversify its portfolio by asset type, owner and geography, smooth the renewal profile of contracts over time and achieve economies of scale.

Operating service agreements held by Asset Management for the assets in which Alinta held ownership interests are generally long term (typically five years plus five year renewal periods and subsequent rights to match) and struck at fixed prices for specified services. Asset Management therefore realises the full benefit of any cost savings it is able to achieve (and suffers the full extent of cost over-runs). The portfolio of external agreements is critical to improving profitability as cost savings can be achieved through economies of scale.

Some of Asset Management's contracts provide for price (and some other terms) to be renegotiated at regular intervals. In particular, the United Energy contract has a provision for renegotiation for the five years commencing 30 June 2006 (and this negotiation has not yet concluded) and the Multinet Gas contract has a renegotiation for the five years from 30 June 2008. The prices for services under such contracts are influenced by the fact that regulators have sought to ensure that any profit margins associated with efficient delivery of the services are not reflected in the regulated tariff. This impacts the future earnings to be generated by asset managers from efficient delivery of services.

The transfer of control of part of Asset Management requires customer consents (including from DUET, the majority owner of United Energy and Multinet Gas). Such consents are outstanding and subject to discussions between the parties. Arrangements have been put in place such that a revenue stream which largely reflects the earnings of the relevant component of Asset Management is received by SPI. SP AusNet would receive the benefits of those arrangements.

A recent decision by the Supreme Court of Victoria (presently subject to appeal) found that Asset Management was required to hold a gas distribution licence and lodge an access undertaking in connection with its delivery of services to Multinet Gas, one of the three licenced gas distribution networks in Victoria. If the decision is upheld, Asset Management may need to provide additional information to the Essential Services Commission and may need to hold other licences in connection with other similar service contracts.

Asset Management has substantially completed the integration of the Agility business which was acquired by Alinta in October 2006. The targeted cost savings of approximately $75 million per annum by 2009 are expected from the integration. Asset Management is currently on track to achieve the targeted savings.

Demand for Asset Management's services is expected to continue to grow in the short to medium term driven by increasing investment in the Australian infrastructure sector and the need to maintain and augment ageing transmission and distribution networks. Many networks are government owned and are seeking third party service providers to undertake large capital works programs. For example, in May 2006, Sydney Water Corporation sought tenders for the construction of a water recycling plant and associated distribution network in the area surrounding Camellia, an industrial district in the western suburbs of Sydney. The tender was for applicants to build, own and operate the system. Asset Management submitted a proposal in conjunction with Veolia Water Australia Pty Ltd ("Veolia Water") whereby reticulation of the treated water would utilise refitted and disused gas mains (owned by NSW Gas Network) as well as newly installed water reticulation assets[35]. No preferred tenderer has been selected as yet. Success in this tender is important in Asset Management's strategy to expand its infrastructure ownership and asset management capabilities in the water sector. Other potential recycled water infrastructure projects in the Sydney region have been identified.

While Asset Management's growth is expected to be principally organic, it also intends to expand its capabilities through targeted acquisitions. These acquisitions would be relatively small businesses, with skills relating to specific services or asset types.

[35] SPI and BBI have agreed to enter into a 50:50 joint venture (the "Camellia Project") in relation to the operation of Stage 1 of the project if the tender is successful. Veolia Water would construct and operate the plant. The joint venturers have also agreed to consider similar opportunities for the balance of the disused gas network.

### 5.3 Financial Performance

The pro forma financial performance for the Alinta Assets is summarised below:

**Alinta Assets – Pro Forma Financial Performance[36] ($ millions)**

| | Year ended 31 December | | Year ending 31 March | |
|---|---|---|---|---|
| | **2005 actual** pro forma | **2006 actual** pro forma | **2008 forecast** | **2009 forecast** |
| **Revenue[37]** | **1,039.0** | **1,090.9** | **1,120.7** | **1,187.5** |
| **EBITDA** | | | | |
| - Transmission and Distribution | 385.4 | 358.3 | 398.9 | 406.4 |
| - Asset Management | 81.4 | 90.6 | 139.8 | 173.6 |
| - Unallocated and corporate costs | (37.4) | (38.4) | (39.7) | (40.7) |
| **EBITDA[37]** | **429.4** | **410.5** | **499.0** | **539.4** |
| Depreciation and amortisation | (130.3) | (132.5) | (141.8) | (144.5) |
| **EBIT[37]** | **299.1** | **278.0** | **357.3** | **394.9** |
| United Energy preference dividends | 16.3 | 16.3 | 16.3 | 16.3 |
| Equity accounted profits (ActewAGL Distribution[38] and United Energy) | 41.9 | 40.5 | 40.1 | 38.7 |
| Significant and non-recurring items[39] | - | (43.5) | (26.0) | (6.3) |
| **Operating profit before interest and tax** | **357.3** | **291.3** | **387.7** | **443.6** |
| ***Statistics*** | | | | |
| *Revenue growth* | | *5.0%* | | *6.0%* |
| *EBITDA growth* | | *(4.4%)* | | *8.1%* |
| *EBIT growth* | | *(7.1%)* | | *10.5%* |
| *Operating profit growth* | | *(18.5%)* | | *14.4%* |
| *EBITDA margin* | *41.3%* | *37.6%* | *44.5%* | *45.4%* |
| *EBIT margin* | *28.8%* | *25.5%* | *31.9%* | *33.3%* |

Source: Explanatory Memorandum and Grant Samuel analysis

The financial information for the Alinta Assets has been presented by SP AusNet only to operating profit before interest and tax level as the future funding structure will differ to prior years, notwithstanding that SP AusNet is to assume $975 million of existing debt.

The historical information has been sourced from the audited results of Alinta for the two years ended 31 December 2006 and has been prepared on the following basis:

- unallocated corporate costs have been attributed to the Alinta Assets on a basis reflecting a reasonable share of Alinta's total costs and are not necessarily indicative of the costs that would have been incurred if the Alinta Assets had been operated on a standalone basis;
- the AGL infrastructure assets and the AIH pipeline assets were owned from 1 January 2005;
- depreciation and impairment charges have been adjusted on the assumption that the fair values of the Alinta Assets at 31 August 2007 are a reasonable approximation of fair value at 1 January 2005;
- an impairment charge recorded in respect of the Queensland Gas Pipeline in the year ended 31 December 2006 has been reversed as it is no longer relevant following the subsequent renegotiation of a long term gas transportation contract;
- restructure costs and impairment charges associated with the integration of AGL's Agility business (totalling $43.5 million) incurred in the year ended 31 December 2006 have been excluded; and
- the APA Group agreements terminated on 2 October 2007 have been excluded.

[36] The earnings for the Alinta Assets reflect all employees including the personnel who have been offered positions with SPIMS.

[37] Differs to revenue, EBITDA and EBIT of the Alinta Assets shown in Sections 7 and 8 of the Explanatory Memorandum as excludes the United Energy preference dividend and equity accounted profits (ActewAGL Distribution and United Energy).

[38] ActewAGL Distribution earnings are a 50% share of EBIT of the joint venture.

[39] Significant items reflect costs associated with the integration of Agility by Asset Management.

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Detailed historical financial information for the Alinta Assets (including details of adjustments) is set out in Section 7.4 of the Explanatory Memorandum. The pro forma financial information in relation to the Alinta Assets has been reviewed by KPMG. KPMG's Investigating Accountant's Report is set out as Appendix B to the Explanatory Memorandum.

The decline in earnings and profit margins in 2006 reflect a number of factors including:

- the price reset for Victorian Electricity Network that came into effect in that year;
- flat growth in pipeline revenue due to Eastern Gas Pipeline and Queensland Gas Pipeline operating at close to full capacity;
- increased asset services provided to external parties; and
- an increase in expenses following the acquisition of National Power Services.

The forecast financial information has been prepared on a 31 March year end basis. Detailed forecast financial information for the Alinta Assets (including detailed assumptions underlying the forecasts) is set out in Section 8.3 of the Explanatory Memorandum. The pro forma forecast financial information in relation to the Alinta Assets has been reviewed by KPMG Transaction Services. KPMG Transaction Services' Investigating Accountant's Report is set out as Appendix C to the Explanatory Memorandum.

Forecast revenue growth reflects regulated price paths, increased gas throughput following capital expenditure on compression and asset management fees from services provided to external customers in relation to the smart meter roll out in Victoria. Forecast growth in profit primarily reflects cost savings emerging from the integration of Agility (AGL's asset management business). Asset Management is on track to achieve the targeted cost savings of approximately $75 million per annum by 2009. The forecast for 2008 reflects approximately $56 million in cost savings and approximately $76 million in 2009.

### 5.4 Financial Position

The pro forma financial position of the Alinta Assets as at 31 August 2007 is summarised below:

**Alinta Assets – Pro Forma Financial Position ($ millions)**

| | Pro Forma as at 31 August 2007 |
|---|---|
| Debtors (net), prepayments and other assets | 230.2 |
| Inventories (net) | 4.0 |
| Creditors, provisions and other liabilities | (166.4) |
| **Net working capital** | **67.8** |
| Property, plant and equipment (net) | 4,460.9 |
| Equity accounted investments | 542.9 |
| United Energy redeemable preference shares | 124.5 |
| Goodwill | 1,648.8 |
| Other intangibles | 31.5 |
| Derivative financial assets (net) | 15.4 |
| Deferred tax liabilities (net) | (183.3) |
| Tax provision | (29.3) |
| Provisions | (40.2) |
| Other assets (net) | 30.4 |
| **Total funds employed** | **6,669.4** |
| Cash | 16.7 |
| Interest bearing liabilities (including associated hedges) | (975.0) |
| **Net borrowings** | **(958.3)** |
| **Net assets** | **5,711.1** |

Source: Explanatory Memorandum and Grant Samuel analysis

A detailed pro forma financial position (including a description of the assumptions and adjustments made) is set out in Section 7.4 of the Explanatory Memorandum. The pro forma financial position of the Alinta Assets is based on data provided by SPI following the allocation of

Alinta's assets and liabilities by the Consortium. KPMG has reviewed the financial position. KPMG's Investigating Accountant's Report is set out as Appendix B to the Explanatory Memorandum.

Equity accounted investments include the 34.1% interest in United Energy ($31.5 million) and the 50% interest in ActewAGL Distribution ($511.4 million).

United Energy issued $124.5 million of redeemable preference shares to Alinta as part of the Aquila Transaction in July 2003. Each redeemable preference share was issued at $99 and was stapled to an ordinary share at a $1.00 issue price. The preference shares are redeemable 20 years from the date of issue and attracts dividend income of approximately $16.3 million per annum (see Section 5.3. The redeemable preference shares together with the equity accounted investment in ordinary shares represent the 34.1% equity interest in United Energy.

Goodwill primarily reflects goodwill as a consequence of the Alinta/AGL Transaction and in relation to Alinta's takeover of AIH.

Provisions include employee benefits, decommissioning costs, land remediation costs and an allowance for a 65% share of an unallocated liability identified by the Consortium at 31 August 2007.

Other assets include a defined benefit fund surplus of $28.3 million. The Alinta Assets will benefit from the surplus by way of a reduction in the required contribution rate for a period of time.

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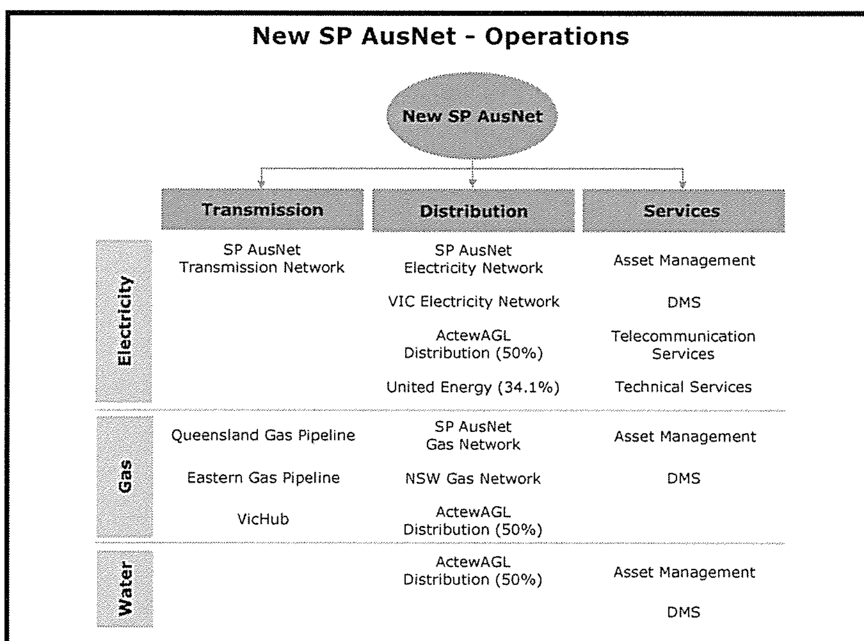
## 6 Profile of New SP AusNet

### 6.1 Operations and Strategy

New SP AusNet will be a large Australian energy infrastructure business with over $15 billion of total assets. Its operations will be focussed on the east coast of Australia and encompass interests in gas and electricity distribution and transmission and energy infrastructure management and services. Immediately following implementation of the Transaction New SP AusNet will have approximately 2,700 employees.




Source: Grant Samuel

New SP AusNet will continue to pursue the objective of providing stapled securityholders with stable and predictable distributions by maximising the value and performance of its assets (both regulated and unregulated) and leveraging its asset management capabilities.

New SP AusNet intends to initially focus on:

- maximising the performance of the regulatory networks;
- implementing an operating model that provides a balance between the objectives of the regulators and the needs of the new unregulated assets and businesses; and
- leveraging the combination of the new asset management business with SP AusNet's current infrastructure development, construction and maintenance capabilities. These services will be available to the existing infrastructure assets but there will be a focus on providing services to external parties.

New SP AusNet expects future growth to be derived from:

- ongoing investment in its asset base;
- investment in new asset types such as water infrastructure;
- leveraging energy volume growth through the gas transmission pipelines as well as its regulated assets; and
- growth in infrastructure services provided to third parties. The growth in this business should enable efficiencies from economies of scale and enhance profitability.

The management arrangements with SPIMS will be consistent with the existing arrangements. However:

- the management services charge will increase to take account of the additional management personnel employed by SPI to manage the Alinta Assets. New SP AusNet will receive the benefit of synergies that are derived by SPIMS (through the management services charge) following combining its management teams although it will carry the costs associated with those savings; and
- the calculation basis for the capital works component of the performance fee will be amended to include capital expenditure with respect to unregulated assets. There will be no change to the calculation basis for any of the other components of the performance fee or other fees and the performance fee will remain capped at 0.75% of market capitalisation.

### 6.2 Earnings and Distributions

The pro forma financial performance of New SP AusNet for the three years ending 31 March 2009 is summarised below:

**New SP AusNet – Pro Forma Financial Performance ($ millions)**

| | Year end 31 March | | |
|---|---|---|---|
| | **2007 actual** pro forma | **2008 forecast** pro forma | **2009 forecast** |
| **Total revenue**[40] | **2,100.2** | **2,168.1** | **2,273.9** |
| **EBITDA**[40] | **1,045.9** | **1,148.6** | **1,241.7** |
| Depreciation and amortisation | (332.5) | (344.1) | (358.5) |
| **EBIT**[40] | **713.4** | **804.5** | **883.2** |
| United Energy preference dividends | 16.3 | 16.2 | 16.3 |
| Equity accounted profits[41] | 40.5 | 40.1 | 38.7 |
| Significant and non-recurring items[42] | (54.2) | (37.4) | (26.7) |
| **Operating profit before interest and tax** | **716.0** | **823.4** | **911.5** |
| Net interest expense[43] | | (613.9) | (676.0) |
| **Operating profit before tax** | | **209.5** | **235.5** |
| Income tax expense | | (14.2) | (16.0) |
| **Profit after tax attributable to New SP AusNet securityholders** | | **195.3** | **219.5** |
| ***Statistics*** | | | |
| *Basic earnings per security*[44] | | *4.21c* | *4.74c* |
| *Free cash flow per security*[44] | | *12.98c* | *11.87c* |
| *Total distribution per security*[44] | | *11.56c* | *12.14c* |
| *Cash yield*[45] | | *9.64%* | *10.12%* |
| *Total revenue growth* | | *3.2%* | *4.9%* |
| *EBITDA growth* | | *9.8%* | *8.1%* |
| *EBIT growth* | | *12.8%* | *9.8%* |
| *EBITDA margin* | *49.8%* | *53.0%* | *54.6%* |
| *EBIT margin* | *34.0%* | *37.1%* | *38.8%* |
| *Interest cover* | | *1.9x* | *1.8x* |

Source: Explanatory Memorandum and Grant Samuel analysis

[40] Differs to revenue, EBITDA and EBIT of New SP AusNet shown in Sections 7 and 8 of the Explanatory Memorandum as excludes the United Energy preference dividend and equity accounted profits (ActewAGL Distribution and United Energy).

[41] Including a share of profits of ActewAGL Distribution (50%) and United Energy (34.1%).

[42] Significant items in 2007 relate to a final settlement of court proceedings by SP AusNet ($10.7 million) and one-off restructuring costs incurred by the Alinta Assets in relation to the integration of Agility ($43.5 million). Forecast significant items include one-off restructuring costs (including redundancy costs and implementation costs) to be incurred by the Alinta Assets (in relation to the integration of Agility) and by New SP AusNet (in relation to the integration of the Alinta Assets).

[43] Based on net debt of $8.5 billion at an average interest rate of 7.15%.

[44] Per security data calculated assuming 4,635.3 million stapled securities on issue.

[45] Based on an assumed SP AusNet security price of $1.20.

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The New SP AusNet pro forma historical financial information represents the aggregate of the pro forma actual results of SP AusNet for the year ended 31 March 2007 and the pro forma actual results of the Alinta Assets for the year ended 31 December 2006.

The New SP AusNet Forecast has been prepared on the following basis:

- assumes the Transaction was completed on 1 April 2007 including the acquisition of 34.1% interest in United Energy and all of Asset Management;
- includes the financial performance for Alinta Assets including the cost savings (and associated cost) relating to the integration of Agility (as set out in Section 5.3);
- includes forecast operating cost savings and synergies from the acquisition of the Alinta Assets of $5.9 million in 2008 and $45.0 million in 2009 (see Section 6.6) and associated costs to implement ($11.4 million in 2008 and $20.4 million in 2009);
- does not reflect the effect of AASB139 (Financial Instruments) in the pro forma forecast for 2008. The forecast financial information for 2009 has been prepared on a statutory basis; and
- excludes any costs associated with the Transaction (which are assumed to be capitalised).

Detailed pro forma forecast financial information for New SP AusNet is set out in Section 8 of the Explanatory Memorandum. The pro forma financial information has been prepared by SP AusNet and reviewed by KPMG Transaction Services. KPMG Transaction Services' Investigating Accountant's Report is set out as Appendix C to the Explanatory Memorandum.

The level of future distribution payments is a matter for the Board of New SP AusNet depending on financial and other circumstances at the time. Distributions are anticipated to be paid twice yearly (in respect of the periods ending March and September) within 90 days of period end. New SP AusNet's first distribution will be paid by June 2008 in relation to the period ending 31 March 2008 and all new stapled securities issued on completion of the Transaction will participate in that distribution. Distributions are expected to continue to be a combination of capital returns, interest payments and franked dividends. Distributions are generally forecast to grow by 2.5% per annum (consistent with previous distribution guidance). However, in 2009 a 5% increase in distribution is proposed.

### 6.3 Financial Position

The pro forma financial position of New SP AusNet as at 31 August 2007 is summarised below:

| New SP AusNet – Pro Forma Financial Position ($ millions) | Pro Forma as at 31 August 2007 |
|---|---|
| Debtors and prepayments | 402.8 |
| Inventories | 10.9 |
| Creditors, accruals and provisions | (360.9) |
| **Net working capital** | **52.8** |
| Property, plant and equipment (net) | 10,828.4 |
| Goodwill | 2,717.7 |
| Distribution licences | 516.5 |
| Other intangibles | 211.5 |
| United Energy redeemable preference shares | 124.5 |
| Equity accounted investments | 751.5 |
| Inventories | 14.7 |
| Other assets | 61.5 |
| Derivative financial liabilities (net) | (125.7)[46] |
| Tax provision | (47.0) |
| Deferred tax liabilities (net) | (407.6) |
| Provisions and other liabilities | (64.8) |
| Provision for unallocated liabilities | (130.9) |
| **Total funds employed** | **14,503.1** |
| Cash and deposits | 26.0 |
| Interest bearing liabilities | (8,861.3)[47] |
| **Net borrowings** | **(8,853.3)** |
| **Net assets attributable to New SP AusNet securityholders** | **5,667.8** |
| ***Statistics*** | |
| *Securities on issue at period end (million)* | *4,635.3* |
| *Net assets per security* | *$1.22* |
| *NTA[48] per security* | *$0.48* |
| *Book gearing* | *60.9%[49]* |
| *Market gearing[50]* | *61.3%* |

Source: Explanatory Memorandum and Grant Samuel analysis

The pro forma financial position of New SP AusNet has been prepared on the basis that the proposed transaction was implemented on 31 August 2007. Specifically:

- it recognises all aspects of the Transaction including the acquisition of the Alinta Assets, the reimbursement of transaction and holding costs to SPI, the assumption of debt of $975 million and all aspects of the Capital Raising;
- it is assumed that the Capital Raising comprises the issue of 2,542.5 million new stapled securities at $1.20 raising $3,051 million in equity and that $4,346 million of new debt is drawn down;
- it is based on a provisional fair value assessment at 31 August. The actual completion date is expected to be 31 December 2007;
- an allowance of $130.9 million for a 65% share of unallocated Consortium assets and liabilities; and

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46 Including the hedges associated with the debt assumed under the Transaction.

47 Net of deferred borrowing costs.

48 NTA is calculated as net assets less distribution licences, goodwill and other intangibles.

49 61.3% including associated hedge liabilities.

50 Based on an assumed SP AusNet security price of $1.20.

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- transaction costs of $50 million relating to the Capital Raising are recorded as an offset against the amount of equity raised or debt raised (as the case may be). SP AusNet's other transaction costs (including stamp duty) of $47 million plus the transaction costs of SPI to be reimbursed by SP AusNet ($133 million) are capitalised in the cost of acquisition.

A detailed pro forma financial position (including a description of the assumptions and adjustments made) is set out in Section 7 of the Explanatory Memorandum. The pro forma financial position has been prepared by SP AusNet and reviewed by KPMG. KPMG's Investigating Accountant's Report is set out as Appendix B to the Explanatory Memorandum.

The pro forma financial position shows New SP AusNet will have net borrowing of approximately $8.9 billion and book gearing of 61%. SP AusNet has sought and obtained a long term "investment grade" corporate credit rating for New SP AusNet from ratings agencies Standard & Poor's and Moody's Investor Services. However, the ratings obtained are one notch below SP AusNet's current ratings.

New SP AusNet proposes to continue to manage its financial risks in line with current board policies. In this regard, it will enter into forward foreign exchange contracts and cross currency swap contracts to manage its exposure to foreign currency movements and manage its exposure to changes in interest rates by matching the actual cost of debt with the cost of debt reflected in regulatory determinations by maintaining a mix of fixed and floating rate borrowings and the use of interest rate swap contracts. New SP AusNet is assumed to remain 90% hedged against interest rate movements.

### 6.4 Directors and Management

There will be no change to the composition of the SP AusNet boards as a consequence of the Transaction. There is however an intention to increase the size of the boards in the future. Following implementation of the Transaction it is proposed that the senior management of SP AusNet (who are employed by SPIMS) will comprise a combination of existing SP AusNet and former Alinta senior management.

### 6.5 Capital Structure and Ownership

Following implementation of the Transaction New SP AusNet will have 4,635.3 million stapled securities on issue.

Assuming a 100% take up by retail securityholders under the Entitlement Offer, former SP AusNet securityholders will collectively hold approximately 94% of the New SP AusNet stapled securities and SPI will remain the largest securityholder with a 51% interest. However, if there is less than 100% take up of the Entitlement Offer by retail securityholders, SPI's securityholding will increase above 51%.

### 6.6 Cost Savings and Synergy Benefits

The integration of SP AusNet and the Alinta Assets is expected to deliver substantial cost savings and synergy benefits. Following an initial review SP AusNet has estimated that operating cost savings of approximately $90 million per annum will be realised by the year ending 31 March 2010. These synergies are expected to be derived primarily in the asset management and corporate office areas from reductions in staffing, elimination of duplication (e.g. in corporate offices) and changes to corporate support functions such as information technology ("IT") (see Section 6.2.4 of the Explanatory Memorandum). The aggregate one-off costs to achieve these operating synergies have been estimated at $46 million (primarily relating to redundancies) and will be incurred over the period. In addition, SP AusNet expects to derive savings from reductions in forecast capital expenditure (e.g. in IT capital projects).

## 7 Evaluation of the Transaction

### 7.1 Conclusion

In Grant Samuel's opinion, the Transaction is fair and reasonable to the non associated securityholders and, therefore, in the best interests of those securityholders.

The acquisition of the Alinta Assets transforms SP AusNet into one of the largest energy infrastructure owners in Australia. The acquisition meets a number of SP AusNet's strategic objectives, providing revenue diversification and enhancing its growth outlook without significantly increasing risk. Key attractions for SP AusNet securityholders include the following:

- the quality of the Alinta Assets;
- the Alinta Assets complement SP AusNet's existing portfolio of assets;
- the benefits of increased diversity of asset exposure (geographic mix, operational mix, regulatory arrangements);
- the potential to capture substantial synergies through merging the asset management activities and reducing duplication in corporate overheads; and
- an enhanced growth profile and growth platform.

Grant Samuel has estimated the value of the Alinta Assets to be in the range of $7,485-8,365 million (before deducting the $975 million of debt to be assumed). As the price to be paid to SPI for the Alinta Assets of $8,142 million (before the debt to be assumed) is within Grant Samuel's value range, the purchase price represents fair value to SP AusNet. The purchase price is at the top of Grant Samuel's value range but this is justifiable given the strategic benefits of the acquisition for SP AusNet and the level of cost savings and synergies expected (around $90 million per annum by the year ending 31 March 2010). Other factors that are relevant to SP AusNet securityholders in considering the financial terms of the Transaction include:

- the price to be paid is effectively the same price paid by SPI under the Consortium arrangements;
- the price paid by the Consortium for Alinta was the result of a competitive arm's length process;
- SPI will derive no profit or fees from the Transaction (unless completion is delayed beyond 31 January 2008 but that fee is not material); and
- the reimbursement of SPI's transaction and holding costs in relation to the Alinta Assets is reasonable as:
  - SP AusNet would have incurred a similar level of transaction costs if it had participated directly in the Consortium;
  - SPI's participation in the Consortium was critical to the successful acquisition of Alinta. It is unlikely that SP AusNet would have been able to participate in the Consortium on its own account within the timeframe and structure of that transaction; and
  - SP AusNet is entitled to the economic benefits and risks of the Alinta Assets from 1 September 2007.

A number of other benefits for SP AusNet securityholders will result from the Transaction:

- securityholders are expected to enjoy an uplift in distributions per security;
- the larger market capitalisation and the position as a leading energy infrastructure owner should lead to greater investor interest and analyst focus which should ultimately enhance share trading liquidity although its restricted free float (due to SPI's 51% interest) will continue to affect liquidity;
- there is no change in control of SP AusNet despite an increase in SPI's ownership interests (depending on the participation of retail investors in the Entitlement Offer); and
- there is no substantial increase in financial risk (except that the absolute quantum of indebtedness has grown substantially).

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The Transaction is to be funded by one of the largest capital raisings in the Australian capital markets in the last year. The Capital Raising includes a $3.0 billion equity raising and a $4.3 billion debt raising. SP AusNet has received signed letters of commitment (with attached term sheets) for the debt raising. Therefore, the terms and pricing for the debt raising are, for practical purposes, determined (although subject to movement in market interest rates and certain "out clauses"). In comparison, neither the institutional component of the Entitlement Offer nor the Institutional Placement are currently underwritten and the exact and relative sizes and the terms (including pricing) of the equity raising are not yet determined and may not be "locked in" until after the securityholder meeting to approve the Transaction. This is an unusual circumstance in the Australian capital markets and is a result of SP AusNet being subject to Singaporean law in relation to the offering of securities.

The terms of the equity raising are important to existing securityholders as the placement will have a dilutionary impact, involves significant cost and the Entitlement Offer is non-renounceable (i.e. securityholders will receive no value for their entitlement). The financial implications of the Transaction for securityholders have been presented in the Explanatory Memorandum based on a subscription price for the equity raising of $1.20. An analysis of the implications for distribution based on a range of pricing from $1.10 to $1.30 has also been presented. Furthermore, if any of the debt commitments or underwriting arrangements (once entered into) are terminated prior to completion of the Transaction and SPI fully subscribes for its pro rata entitlement under the Entitlement Offer and 51% of the Institutional Placement, then SP AusNet may still be obliged to complete the purchase of the Alinta Assets with implications for New SP AusNet's forecast earnings.

Consequently, the outcome of the Capital Raising (both debt and equity) and the Transaction may be more or less favourable for securityholders than that set out in the Explanatory Memorandum. However, the Board of SP AusNet has decided not to issue securities in the equity raising at a price of less than $1.10. Therefore, in relation to price, downside risk for securityholders is limited. Furthermore, the Board retains the ability to postpone or cancel the equity raising if not satisfied with the overall terms. Securityholders should monitor the position in relation to the Capital Raising up until the date of the meeting but, in view of the timing issues, there may be no greater certainty at that time.

There are a number of other costs, disadvantages and risks for securityholders including:

- the decrease in earnings per security. However, distributions paid by SP AusNet are based on free cash flow (not accounting profits) which are expected to increase;
- the dilution in ownership interests of existing (non SPI) securityholders unless they are in a position to participate in the Institutional Placement or they subscribe for more securities in the event of an overall undersubscription;
- the potential increase in SPI's ownership interest above 51% (but to no more than 60%);
- the potential for continued weakness in the SP AusNet security price as the Capital Raising is digested by the market;
- the possibility that SP AusNet's future sharemarket rating may not appropriately reflect the growth profile implicit in its business mix (from the acquisition of the higher growth asset management business);
- integration risk exists to the extent to which estimated costs savings and synergies are not achieved or take longer to achieve or that issues during integration of the businesses may impact on SP AusNet's existing operations; and
- the risks associated with regulatory uncertainty in relation to the separation of asset ownership and management may be exacerbated by the intended integration of the asset management activities.

Furthermore, securityholders need to recognise that there will be complications for SP AusNet in relation to management of its existing assets and future growth opportunities if the Transaction does not proceed and SPI continues to own and/or manage the Alinta Assets while at the same

time managing (and owning a 51% interest in) SP AusNet.

In Grant Samuel's opinion, these risks and disadvantages are not insignificant but do not outweigh the benefits of the Transaction.

In summary, notwithstanding the relatively full price being paid for the Alinta Assets and the uncertainties associated with the Capital Raising, Grant Samuel considers that non associated securityholders are likely to be better off if the Transaction proceeds than if it does not.

### 7.2 Strategic Rationale and Benefits

The Transaction meets a number of SP AusNet's strategic objectives, providing revenue diversification and enhancing its growth outlook without significantly increasing risk. The Transaction:

- is a quantum leap in scale. It represents a unique opportunity to transform SP AusNet into the largest energy infrastructure owner in Australia with over $15 billion of assets. New SP AusNet will have:
  - 100% ownership of the Victorian electricity transmission network;
  - ownership interests in three of the five licenced electricity distribution networks in Victoria (two 100% interests and one 34% interest) and 50% of the Australian Capital Territory electricity distribution network;
  - 100% ownership of the gas distribution network in New South Wales (the largest single network in the country), 100% of one of three licenced Victorian gas distribution networks and 50% of the Australian Capital Territory's gas distribution network;
  - 100% ownership of two gas transmission pipelines and a gas pipeline interconnect in Victoria, all of which are unregulated; and
  - a substantial eastern states asset management business which, together with SP AusNet's existing management and services capabilities, represents a significant platform for growth.

  In the absence of the Transaction, SP AusNet's growth may have been more limited and gradual. Substantial consolidation of ownership of Australian energy infrastructure in recent years has reduced the potential pool of acquisition targets, unless there is an increase in the privatisation of government owned infrastructure. The competition for any infrastructure asset that does become available will be fierce;

- brings a portfolio of energy infrastructure assets that are high quality with substantial scale and that are underpinned by natural monopolies, established regulatory determinations and/or long term contracts. The Alinta Assets complement SP AusNet's existing portfolio of energy transmission and distribution assets and:
  - expands SP AusNet's footprint beyond Victoria into New South Wales, the Australian Capital Territory and Queensland;
  - results in greater stability in revenue and earnings as a result of a more diversified asset base in terms of:
    - geographic mix, introducing a substantial exposure to New South Wales, increasing the exposure in Victoria and acquiring an initial asset in Queensland;
    - product sector, increasing SP AusNet's exposure to electricity and gas distribution, introducing gas transmission and a small exposure to water;
    - regulatory risk, decreasing the proportion of regulated revenue from 90% to 67%, spreading regulatory reset dates, diluting the impact of individual regulatory decisions and increasing longer term revenue certainty due to contracted revenue; and
    - operational risks (e.g. volume shifts, supply problems, catastrophes) although there is an increased exposure to the Victorian electricity market.

- enhances SP AusNet's growth profile. SP AusNet has made no acquisitions since listing and has been restricted to organic growth from continued investment in its existing assets, increased demand for energy, population growth and incremental revenue from leveraging its existing activities. The Alinta Assets bring their own organic growth potential but also include two strategically located unregulated gas transmission assets (albeit regulated by market forces), a higher growth asset management business (particularly given the increase in infrastructure expenditure Australia wide) and the opportunity to expand into new infrastructure sectors (e.g. water).

  New SP AusNet will have a substantial platform from which to pursue further opportunities in Australia and New Zealand. For example:

  - the increased geographic exposure, the expanded electricity distribution activities and asset management services improves New SP AusNet's positioning, particularly for any future privatisation of energy infrastructure assets in New South Wales and Queensland;
  - through ActewAGL Distribution and the Camellia Project, New SP AusNet will have some exposure to, and experience of, the water industry which it regards as a natural extension of the asset management business; and
  - the larger size will make it easier from a financial risk perspective to contemplate acquisition of larger assets; and

- represents an opportunity to increase the efficiency of SP AusNet's existing activities (by introducing Alinta's asset management expertise) and to generate economies of scale.

If the Transaction does not proceed, SP AusNet would continue to operate in its current form seeking organic growth (from increased energy usage and leveraging its existing capabilities) and growth from acquisitions. However, it is unlikely to make acquisitions offering similar scale and benefits as the Alinta Assets as:

- there has been substantial consolidation in the private ownership of infrastructure assets in recent years and, unless further privatisations occur, investment opportunities will be limited; and

- not only do the Alinta Assets offer a range of strategic attractions in terms of asset ownership (e.g. increased revenue and regulatory diversification) but they provide an enhanced growth profile (in the form of unregulated assets and the higher growth asset management business).

Moreover, if the Transaction does not proceed[51], SPI will be under no further obligations to SP AusNet in relation to the Alinta Assets and would be free to explore all strategic options for them (e.g. continued ownership, divestment, listing). It is possible that SPI could continue to own and/or manage the Alinta Assets while at the same time managing (and owning a 51% interest in) SP AusNet. This could have adverse implications for SP AusNet securityholders. In particular, it would lead to complications in relation to the management of its existing assets and future growth opportunities.

In this regard, securityholders should take into consideration that:

- the Transaction represents a unique opportunity to transform SP AusNet in a quantum leap rather than incremental steps; and

- the directors have stated that they are not aware of any better alternative investment opportunity at the present time and nor do they consider that implementing the Transaction would preclude SP AusNet from pursing any other business opportunity it is currently considering.

[51] In some circumstances, even if approved by securityholders, the Transaction may not proceed (e.g. if SPI does not subscribe for its full entitlement under the Entitlement Offer or for 51% of the Institutional Placement).

## 7.3 Assessment of the Purchase Price

### 7.3.1 Value Analysis

Under the terms of the Transaction, SP AusNet is to pay SPI a cash amount equal to $8,142 million for the Alinta Assets less $975 million in assumed debt. SP AusNet is also to reimburse SPI for its transaction and holding costs.

Grant Samuel has estimated the value of the Alinta Assets to be in the range of $7,485-8,365 million (before deducting the $975 million of debt to be assumed). This is a standalone valuation of the Alinta Assets and does not reflect any value for synergies and cost savings specific to SP AusNet.

As the estimated cash amount to be paid to SPI for the Alinta Assets is within Grant Samuel's value range the Transaction represents fair value to SP AusNet. That the purchase price is towards the top end of the range is not unexpected. The price paid for Alinta by the Consortium was the result of a competitive process. In such situations, in order to succeed, the bidder will often have to pay away a proportion of the benefits that it can derive from the acquisition.

The amount payable by SP AusNet is subject to a number of adjustments the most important of which is for adjustments arising under the Consortium arrangements and therefore outside the control of SP AusNet. In particular, SP AusNet will be exposed to 65% of any liability for stamp duty, income tax, other tax liability or other unidentified unallocated liabilities. In this regard, in preparing the pro forma financial position for New SP AusNet (see Section 6.3), a provision of $130.9 million has been taken up to recognise certain identified unallocated liabilities. The final amount of any adjustment to the purchase price could eventually be higher or lower than the provision and the amounts involved are not inconsequential. However, the purchase price would have to increase by over $200 million (or 2.5%) for it to exceed Grant Samuel's value estimate.

Although it is possible that the final purchase price may exceed Grant Samuel's value range due to significant adjustments, there is substantial offsetting value in the cost savings and synergies currently identified by SP AusNet. An initial review by SP AusNet has indicated operating cost savings of around $90 million per annum by the year ending 31 March 2010. If achieved these synergies represent value of in excess of $1 billion. These synergies therefore reduce the risk associated with SP AusNet's exposure to subsequent adjustments to the purchase price arising under the Consortium arrangements.

### 7.3.2 Arm's Length Terms

The acquisition of the Alinta Assets from SPI is a "related party transaction". An important consideration in such situations is whether the terms of the proposed transaction are no more favourable than would have been negotiated between parties dealing at arm's length. In this regard:

- the price to be paid by SP AusNet for the Alinta Assets is the price paid by SPI under the Consortium arrangements (including any adjustments that may occur under those arrangements) and the price paid by the Consortium for Alinta was the result of a competitive arm's length process.

  The Consortium acquired Alinta on 31 August 2007 following a process commenced in January 2007, through which potentially interested parties were invited to put forward expressions of interest to acquire the company. Following a period for due diligence, proposals to acquire all of Alinta were received from two consortia and, following negotiations with both, Alinta announced on 30 March 2007 that it had signed an agreement with the Consortium. On 4 May 2007, Alinta received a revised proposal from the unsuccessful consortium (Macquarie Consortium) and, after considering the revised proposal, requested the Consortium to submit its best revised proposal. Following negotiations with both consortia, Alinta announced on 11 May 2007 that the Consortium's proposal was recommended;

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- SP AusNet has undertaken a separate independent review of the Alinta Assets in reaching its investment decision. This review was conducted by an Independent Directors' Committee ("Committee") which was advised by separate financial, accounting and legal advisers. In reaching its recommendation to acquire the Alinta Assets the Committee:
  - received access to SPI's due diligence materials in relation to the Alinta Assets (subject to necessary confidentiality undertakings and, in some cases, non-reliance letters);
  - considered the options available to SP AusNet and the long term benefits for securityholders of the Transaction. This included consideration of the acquisition price which was considered "fair and reasonable", particularly in light of market valuation parameters; and
  - received access to the Consortium agreement and the process by which the assets and liabilities of Alinta are being distributed between the Consortium members; and
- SPI will derive no profit or fees from the Transaction (unless completion is delayed beyond 31 January 2008 but that fee is not material).

In addition to the purchase price, SP AusNet is to reimburse SPI for its transaction and holding costs in relation to the Alinta Assets. This approach is reasonable as:

- SPI's participation in the Consortium has given SP AusNet the opportunity to acquire a substantial portfolio of high quality assets. The Alinta acquisition process required a corporate nimbleness that SP AusNet did not have at the time. The window of opportunity to bid for Alinta was narrow and the process competitive. The high proportion of cash in the consideration (approximately 60%) and certainty of completion were critical factors to the success of the Consortium's proposal. In this regard, the Consortium's proposal was not subject to funding primarily as SPI funded the majority of the cash component from internal cash resources and corporate debt facilities.

  Given the scale of Alinta and the nature of the transaction, SP AusNet was unable to participate in the Consortium on the same basis as SPI (i.e. it would have needed to raise a substantial amount of capital on a "stand by" basis to do so). Furthermore, when the opportunity arose SP AusNet was participating in another sales process (although it was ultimately unsuccessful);
- if SP AusNet had participated in the Consortium it would have incurred a similar level of transaction costs (both on its own account and its share of the Consortium's costs). There may be some double up of costs but, given the scale of the transaction, any such doubling up would be minor; and
- SP AusNet is entitled to the economic benefits and risks of the Alinta Assets (including the interest rate swaps that SPI has in place) from 1 September 2007. On that basis, it is appropriate that SP AusNet reimburses SPI for its holding costs (including financing costs, interest forgone plus establishment and other finance fees) from 1 September 2007 to completion of the Transaction.

At any rate, SPI will carry a share of transaction and holding costs through its 51% interest.

## 7.4 Financial Impact on SP AusNet

### 7.4.1 Earnings

The impact of the Transaction on earnings per security for SP AusNet is demonstrated by calculating the pro forma earnings per security assuming that it was completed on 1 April 2006. This analysis assumes that the equity raisings take place at a price of $1.20. The net effects are summarised below:

| SP AusNet – Pro Forma Impact on Earnings per Security[52] | | | |
|---|---|---|---|
| | Year end 31 March | | |
| | 2007 actual | 2008 forecast | 2009 forecast |
| SP AusNet (no transaction) | 7.71¢ | 8.00¢ | 7.05¢ |
| *Growth* | | *3.8%* | *(11.9%)* |
| New SP AusNet | | 4.21¢ | 4.74¢ |
| *Growth* | | *na* | *12.6%* |
| *Increase (decrease)* | | *(47.4%)* | *(32.8%)* |

Note: Assumes the Transaction completed on 1 April 2006 and the equity raisings take place at a price of $1.20.

Although there is a substantial increase in the quantum of earnings for SP AusNet (reflecting the acquisition of the Alinta Assets and the identified merger synergies) the substantial issue of securities under the Transaction results in a decrease in pro forma earnings per security in excess of 30%. Excluding the synergy implementation costs associated with the Transaction the decrease in earnings per security in 2009 is 24%.

However, SP AusNet's distributions are not dependent on accounting profits but free cash flow and therefore a decline in earnings per security should not affect SP AusNet's market rating. In that regard, the pro forma impact of the Transaction on free cash flow per security is summarised below:

| SP AusNet – Pro Forma Impact on Free Cash Flow per Security[52] | | | |
|---|---|---|---|
| | Year end 31 March | | |
| | 2007 actual | 2008 forecast | 2009 forecast |
| SP AusNet (no transaction) | 10.91¢ | 11.73¢ | 11.80¢ |
| *Growth* | *0.6%* | *7.5%* | *0.6%* |
| New SP AusNet | | 12.98¢ | 11.87¢ |
| *Growth* | | | *(8.5%)* |
| *Increase (decrease)* | | *10.6%* | *0.6%* |

Note: Assumes the Transaction completed on 1 April 2006 and the equity raisings take place at a price of $1.20.

Although the positive impact on free cash flow per security is small in 2009, on a normalised basis (i.e. excluding synergy implementation costs) the increase in free cash flow per security increases to 7.4%.

### 7.4.2 Distributions

Distributions paid to New SP AusNet securityholders will depend on the performance of the stapled group. However, distributions guidance has been provided in the Explanatory Memorandum. Based on the pro forma forecast distributions SP AusNet securityholders will benefit from a 2.4% uplift in distributions per security under the Transaction (notwithstanding the substantial increase in the number of stapled securities on issue):

[52] After synergy implementation costs.

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| SP AusNet – Pro Forma Impact on Forecast Distributions[52] | | | |
|---|---|---|---|
| | Year end 31 March | | |
| | 2007 actual | 2008 forecast | 2009 forecast |
| SP AusNet (no transaction) | 11.27¢ | 11.56¢ | 11.85¢ |
| *Growth* | | *2.6%* | *2.5%* |
| New SP AusNet | | 11.56¢ | 12.14¢ |
| *Growth* | | *na* | *5.0%* |
| *Increase (decrease)* | | - | *2.4%* |

Note: Assumes that the Transaction completed on 1 April 2006 and the distributions proposed in the Explanatory Memorandum.

SP AusNet's distributions comprise a mix of dividends, interest payments and capital returns. The mix of distribution components may change as a consequence of the Transaction due to the changes in SP AusNet's revenue mix. Such a change could have net tax consequences for investors, however, this depends on the circumstances of each investor.

### 7.4.3 Financial Position

The pro forma financial position of New SP AusNet as at 31 August 2007 on the basis that the Transaction was implemented on that date is set out in Section 6.3 of this report. The net effects are summarised below:

| SP AusNet – Pro Forma Impact on Financial Position at 31 August 2007 | | | | |
|---|---|---|---|---|
| Parameter | SP AusNet Before Transaction | New SP AusNet After Transaction | | |
| | | Amount | Change | |
| | | | Amount | Percentage |
| Total assets ($ million) | 7,100 | 15,827 | +8,727 | 122.9% |
| Equity attributable to securityholders ($ million) | 2,647 | 5,668 | +3,021 | 114.1% |
| Net assets per security | $1.26 | $1.22 | -$0.04 | (3.2%) |
| NTA per security | $1.10 | $0.48 | -$0.62 | (56.4%) |
| Book gearing[53] | 57.6% | 60.9% | +3.3% | 5.7% |
| Market gearing[54] | 58.9% | 61.4% | +2.5% | 4.2% |

Note: Assumes that the Transaction completed on 31 August 2007 and the equity raisings take place at a price of $1.20.

In view of the size of the Alinta Assets and the related Capital Raising, the Transaction substantially impacts SP AusNet's financial position. Whilst equity attributable to securityholders and total assets more than double, net assets per security decline by approximately 3%. Further, and more importantly, the Transaction results in a decrease in SP AusNet's pro forma NTA backing. The Transaction results in no material change in the absolute value of NTA but, due to the substantial issue of securities, New SP AusNet's NTA backing more than halves to $0.48 per security (a 56% decrease). This reflects the substantial goodwill paid primarily as a consequence of the low capital intensive asset management business.

New SP AusNet's pro forma book gearing increases marginally to around 61% which is consistent with its Australian infrastructure peers:

[53] Book gearing is net borrowings divided by net assets plus net borrowings.

[54] Market gearing is net borrowings divided by market capitalisation based on $1.20 per security.

| Gearing for Selected Energy Infrastructure Entities | | |
|---|---|---|
| **Entity** | **Book Gearing** | **Market Gearing**[55] |
| **New SP AusNet** | **60.9%** | **61.4%** |
| DUET | 74.2% | 67.9% |
| Spark[56] | 36.6% | 44.6% |
| Envestra | 90.2% | 67.7% |
| Vector | 62.2% | 57.0% |
| APA Group | 73.4% | 66.7% |
| HDUF | 46.3% | 34.3% |
| BBI | 66.5% | 62.7% |

Although NTA backing will be diluted it is unlikely to have a material impact on SP AusNet's market rating as its price is (and is likely to continue to be) driven by distribution yield not NTA. Furthermore, NTA will become even less of a determinant of market price over time as a substantial component of SP AusNet's business will be the low capital intensive (i.e. high goodwill) asset management activities.

### 7.4.4 Capital Structure and Ownership

The impact of the Transaction on capital structure is material. The number of stapled securities issued pursuant to the Transaction will represent over 120% of SP AusNet's existing issued securities (55% of the expanded capital).

SPI's direct interest in SP AusNet will remain at least at 51% and could rise to as high as 55% if there is less than 100% participation by retail investors in the Entitlement Offer. The Transaction therefore has no impact on control of SP AusNet. SPI will continue to be the major securityholder, it will continue to control the boards of directors and the existing management arrangements will remain.

## 7.5 Impact on Market Rating

SP AusNet currently has a market capitalisation of approximately $2.7 billion and is a member of various indices including the S&P/ASX 200 Industrial Index and the S&P/ASX 200 Utilities Index. However, its weighting in these indices is not material primarily as a result of its restricted free float. New SP AusNet will be substantially larger than SP AusNet today. Market capitalisation should double (to around $5.5 billion based on $1.20 per security) and New SP AusNet's weighting in its current indices should increase. There is also a possibility that New SP AusNet could move into the S&P/ASX 100 Index.

From a financial perspective, SP AusNet will be substantially larger (not least in terms of market capitalisation) than the other listed energy infrastructure entities:

| Financial Comparison of Listed Australian Energy Infrastructure Entities[57] ($ millions) | | | | |
|---|---|---|---|---|
| **Entity** | **EBITDA** | **Total Assets** | **Net Assets** | **Market Capitalisation** |
| **New SP AusNet** | **1,149** | **15,821** | **5,668** | **5,500** |
| DUET | 565 | 7,112 | 1,489 | 2,026 |
| Spark | 532 | 2,379 | 634 | 1,987 |
| APA Group | 385 | 4,899 | 1,161 | 1,604 |
| Envestra | 238 | 2,539 | 210 | 925 |
| HDUF | 88 | 978 | 434 | 716 |
| BBI | 750 | 11,487 | 3,106 | 3,675 |

Source: Grant Samuel analysis

[55] Based on most recent balance sheet and on sharemarket prices as at 19 October.

[56] The calculation of value parameters for Spark is made complex by the minority holdings and form of investment. The gearing shown for Spark reflects the gearing of the entity itself and not that of the underlying assets. If the debt of the underlying assets is allowed for Spark's gearing would increase to around 60%.

[57] Based on year 1 forecast EBITDA, last reported balance sheet and security prices as at 19 October 2007.

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The acquisition of the Alinta Assets enhances SP AusNet's ability to deliver stable cash distributions (as a consequence of greater revenue and regulatory diversification) and provides an opportunity to grow distributions at rates higher than it otherwise would be possible (from contracted unregulated asset earnings and growth in the asset management business). There is an immediate uplift in cash distributions in 2009 although the components of distributions may change.

The larger market capitalisation and the position as the leading energy infrastructure owner should lead to greater investor interest and analyst focus which should ultimately enhance share trading liquidity although SP AusNet's restricted free float will continue to affect liquidity.

There is some risk of a period of continued security price weakness while the market absorbs the Transaction and the major equity raising. The security price has been weak since the announcement of the Transaction in part due to a lack of detailed information at the time and the expectation of the equity raising. The security price had declined from record highs in June 2007 to around $1.40 prior to the announcement of the Transaction. The security price declined by around 7% to less than $1.30 and has drifted down to trade in the range of $1.23-1.28.

The security price weakness is likely to continue in the short term at least until the Explanatory Memorandum is publicly released and the terms of the equity raising set. Even after announcement of the terms of the equity raising, the security price may drift down to the placement price (and potentially below). The outlook for the security price is dependent on the success or otherwise of the equity raising. It may also take some time for the benefits of the Transaction to be reflected in the security price.

New SP AusNet will continue to be rated in the market on the basis of its cash yield in comparison to its peer group which, with the exception of APA Group, are externally managed asset owners. In this regard, New SP AusNet's forecast yield is relatively high but not inconsistent with cash distribution yields of listed energy infrastructure entities (indeed the yield based on current prices implies some potential price upside):

**Cash Distribution Yield of Listed Australian Energy Infrastructure Entities**

| Entity | Distribution Yield[58] Historical/ Current | Forecast Year 1 | Forecast Year 2 |
|---|---|---|---|
| **New SP AusNet - based on $1.20** | **9.4%** | **9.6%** | **10.1%** |
| **- based on price on 26 October 2007 ($1.27)** | **8.9%** | **9.1%** | **9.6%** |
| DUET | 7.3% | 8.0% | 8.5% |
| Spark | 9.2% | 9.4% | 9.6% |
| APA Group | 7.6% | 7.8% | 8.0% |
| Envestra | 8.8% | 8.8% | 8.8% |
| HDUF | 7.7% | 8.0% | 8.5% |
| BBI | 8.6% | 9.1% | 9.7% |

Source: Grant Samuel analysis

New SP AusNet will own a substantial asset management business of which approximately 30% of revenue will be derived from external sources. APA Group will also derive revenue from external sources following the acquisition of Origin Energy Asset Management (which manages Envestra's assets) in April 2007 but to a significantly lower extent (probably less than 10% of total revenue). Therefore, New SP AusNet is expected to have a higher growth profile than its peer group.

New SP AusNet's high growth profile should justify a higher market rating (i.e. a lower yield than its peers) but that may not occur. This is a similar situation to that faced by Alinta following the acquisition AGL's infrastructure assets in October 2006. Prior to being acquired by the Consortium, Alinta was progressing a corporate restructure to split the company into two separate listed companies (i.e. an asset owner and a growth company focussed on asset management) in order to better deliver shareholder value.

[58] Based on New SP AusNet security price of $1.20.

### 7.6 Capital Raising

The acquisition of the Alinta Assets is to be funded by a $3.0 billion equity raising and a $4.3[59] billion debt raising. The equity raising will comprise an entitlement offer (rights issue) and a placement. These are substantial sums in the context of the Australian capital markets:

- the debt raising is the one of the largest in Australia during 2007 with other significant raisings by Wesfarmers Limited ($10 billion), Westfield Group ($4.7 billion) and Asciano ($5.2 billion); and
- the largest secondary market equity raising in Australia during 2007 so far was undertaken by Westfield Group (a $3 billion underwritten non-renounceable entitlement offer). The Westfield Group raising was for refinancing purposes, was on a 2 for 23 ratio and represented less than 8% of market capitalisation.

SP AusNet has (and expects to retain) an investment grade credit rating. It has received signed letters of commitment (with attached term sheets) for the respective components of the debt raising. These commitments are subject to the satisfaction of conditions precedent including that the proceeds of the equity issuance to SPI and institutional equity investors (being an amount not less than $2.5 billion) has been received in full by SP AusNet. The remaining conditions precedent are customary for facilities of this nature and will be based on the existing financing documentation for SP AusNet. Consequently, the terms and pricing for the debt raising are determined (although subject to movements in market interest rates and certain "out clauses"). However, the debt raising is dependent on the success of the equity raising.

Consequently, the equity raising is critical to the funding of the Transaction. However, neither the institutional component of the Entitlement Offer nor the Institutional Placement are currently underwritten. SP AusNet will enter into an underwriting agreement pursuant to which the underwriters have agreed to manage the Entitlement Offer and to underwrite the Institutional Placement and the institutional portion of the Entitlement Offer. There will be no underwriting of SPI's pro rata share of the Entitlement Offer or the Institutional Placement and the retail portion of the Entitlement Offer is unlikely to be underwritten. Under the terms of the underwriting, SP AusNet and the underwriters will need to agree the price and the ratio at which securities will be underwritten. If a price and ratio cannot be agreed, the underwriting will not proceed. In addition, the underwriting agreement will be able to be terminated by the underwriters for a number of reasons including if SPI does not subscribe for its pro rata share of the Entitlement Offer and the Institutional Placement or if a debt commitment ceases to be in effect.

Accordingly, the exact and relative sizes and the terms (including the ratio and pricing) of the equity raising are not yet determined and are only likely to be set closer to the offering, and possibly not until after the securityholder meeting to approve the Transaction. This is an extremely unusual circumstance in the Australian capital markets and is a result of SP AusNet being subject to Singaporean law in respect of the offering of securities (i.e. in Singapore an entity is unable to offer new securities to investors without first obtaining existing securityholder approval).

The terms of the equity raising are important to existing securityholders as:

- the equity raising includes a placement and will be dilutionary for existing securityholders (even if they take up their entitlement). The degree of dilution depends on the extent to which the subscription price is below fair value (or the pre offer market price);
- in relation to the Entitlement Offer, securityholders can protect themselves from any dilution by taking up their rights. However, an entitlement ratio of (at least) 1 for 1 is expected and consequently, the cost involved for securityholders in maintaining their interest is material (i.e. doubling their investment); and
- the Entitlement Offer is non-renounceable and existing securityholders will receive no value for their rights. Securityholders who do not take up their entitlement will therefore be

[59] SP AusNet is raising a total $6.3 billion in debt of which $4.3 billion is for the Transaction with the balance to refinance existing debt.

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affected by the terms of both the Entitlement Offer and the Institutional Placement. This will particularly impact ineligible foreign securityholders.

Furthermore, if any of the debt commitments or underwriting arrangements (once entered into) are terminated prior to completion of the Transaction and SPI fully subscribes for its pro rata entitlement under the Entitlement Offer and 51% of the Institutional Placement, then SP AusNet may still be obliged to complete the purchase of the Alinta Assets. New SP AusNet may be required to seek more expensive sources of funds which would impact the financial forecast.

The financial implications of the Transaction for securityholders have been presented in the Explanatory Memorandum based on the following key assumptions:

- the Entitlement Offer is on a 1 for 1 basis at a price of $1.20. It is assumed that the institutional portion of the Entitlement Offer is underwritten and there is a 50% take up of entitlements by retail securityholders;
- the Institutional Placement occurs at a price of $1.20 and is underwritten; and
- interest rates of 7.03% per annum (on a blended basis) apply throughout the forecast period.

The New SP AusNet Forecast and New SP AusNet Financial Position summarised in Section 6 of this report are based on these assumptions and have been used for the purposes of analysis for this report.

An analysis of the implications for distributions based on a range of pricing from $1.10 to $1.30 in five cent increments has also been presented in the Explanatory Memorandum (see Section 2.4). That analysis reflects only the impact on implied cash yield of a change in subscription price. It assumes that, irrespective of the subscription price, distributions will be 12.14 cents per security in 2009. It does not consider the other implications for existing SP AusNet securityholders including increased dilution and future market rating.

Consequently, the outcome of the Capital Raising (both debt and equity) and the Transaction may be more or less favourable for securityholders than that set out in the Explanatory Memorandum. However, the Board of SP AusNet has decided that it will not issue securities for the equity raising at a price of less than $1.10. Therefore, in relation to price, downside risk for securityholders is limited. Furthermore, the Board retains the ability to postpone or cancel the equity raisings (e.g. by not agreeing the price or ratio with the underwriters) if not satisfied with the overall terms. Securityholders should monitor the position in relation to the Capital Raising up until the date of the meeting but, in view of the timing issues, there may be no greater certainty at that time.

## 7.7 Other Costs, Disadvantages and Risks

### 7.7.1 Risks

***Acquisition Risks***

Any business acquisition involves risks for the acquirer, primarily that the business does not perform in line with expectations at the time of purchase. In this case, acquisition risks are accentuated as:

- New SP AusNet is acquiring the Alinta Assets for close to three times its reported net assets at 31 March 2007 ($2.7 billion);
- implementation of the Transaction is dependent on the outcome of a substantial capital raising, aspects of which are currently uncertain (see Section 7.6);
- SPI is providing no warranties;
- New SP AusNet will be liable to a 65% share in any residual unallocated liabilities and risks of the Consortium. A provision of $130.9 million has already been raised in the preparation of the pro forma financial position at 31 August 2007 to allow for certain unallocated liabilities;

- the acquisition of significant unregulated activities (i.e. gas transmission pipelines and asset management activities) introduces new business risks to SP AusNet's asset portfolio;
- the transfer of the interest in United Energy is subject to pre-emptive rights claimed by co-owner DUET. If these claims are successful New SP AusNet will not acquire an interest in United Energy although it will receive value for the asset; and
- the transfer of control of part of the Asset Management business is subject to customer consents which have not yet been obtained. If the consents are not obtained, opportunities for integration synergies may be more difficult to achieve. If the current arrangements were successfully challenged, the benefit of certain agreements may be lost to the detriment of earnings.

The acquisition risks are, in part, mitigated as:

- SP AusNet has conducted its own independent investigation, assessment and appraisal of the Alinta Assets (and SPI has provided access to all of its due diligence materials);
- the lack of warranties from SPI mirrors the basis upon which SPI acquired the Alinta Assets on 31 August 2007 and SP AusNet is entitled to all economic benefits and risks from 1 September 2007;
- the purchase price is effectively the same as paid by SPI under the Consortium arrangements;
- the Alinta Assets are long established businesses with track records. In particular, the network businesses are regulated activities with a high level of transparency and operational certainty. Consequently, the limited due diligence is less of a concern than if SP AusNet was acquiring a less transparent business;
- the Alinta Assets are in asset categories with which SP AusNet is familiar;
- the Alinta Assets have been subject to substantial corporate activity in recent times. In particular, as Alinta was subject to the continuous disclosure regime, any matter in relation to these assets which had the potential to have a material impact on the market value of Alinta should already be known to the market (at least until the date of the scheme meeting in August 2007) and included in recent shareholder documents (i.e. Scheme Booklet) for which Alinta was under a legal obligation to include all information that would be material for shareholders in making a decision; and
- while the issues associated with the transfer of the interests in United Energy and control of part of Asset Management are being worked through, arrangements have been put in place such that SPI (and on completion of the Transaction, New SP AusNet) receive revenue streams which largely reflect the earnings of those assets. Furthermore:
  - if the interest in United Energy does become subject to the operation of the pre-emptive rights, New SP AusNet will receive value for the interest although it may be more or less than the price paid for that asset; and
  - the consents in relation to Asset Management cannot be unreasonably withheld under the relevant contracts and this matter may proceed to a dispute resolution process.

To the extent that any risk crystallises it will be a cost to all SP AusNet securityholders including SPI.

***Integration Risks***

Any merger of two businesses faces some integration risks that may affect the ability to extract the expected synergies or could even adversely impact on the existing business

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operations. Despite the obvious similarities of SP AusNet and the Alinta Assets there are material risks for securityholders in integrating the two businesses. These include:

- the potential for "culture clashes". SP AusNet's business has primarily been focussed on regulated infrastructure assets (although it has commenced leveraging its capabilities into non regulated activities including the provision of services to third parties). In comparison, Alinta had, for a number of years, placed emphasis on providing services to "clients" both internally and externally. Although the merger of the two cultures represents an opportunity for future growth for New SP AusNet, the risk of "culture clashes" remains; and
- the integration of Asset Management with the operations and management activities of SP AusNet and the reduction of duplication (particularly in corporate overheads) are the potential source of significant synergies in the transaction. Management restructures have the potential to create disharmony, distraction and conflict and lead to loss of focus on key performance factors.

Further, any estimate of merger synergies is inherently uncertain and subject to risk. To the extent that the estimated synergies are not achieved or take longer to achieve, all SP AusNet securityholders (including SPI) will share the cost. On the other hand, the estimate of merger cost savings and synergies of around $90 million per annum by 31 March 2010 is considered realistic (if not conservative) although there is some risk that some of these benefits may be required to be shared with customers of its regulated assets (see below). To the extent that more than the estimated synergies are achieved, all securityholders will share in the benefit.

***Regulatory Uncertainty***

SP AusNet's existing operating structure is effectively a modified internal asset management model. Operations and management personnel are employed within SP AusNet's businesses with senior management employed by SPIMS and recharged to SP AusNet via the management services charge. This charge is earnings neutral to SP AusNet as SPIMS derives no profit from these services. However, SPIMS does share in improved performance by SP AusNet's businesses via the performance fee which is capped at 0.75% of market capitalisation.

The management arrangements with SPIMS following implementation of the Transaction are generally consistent with past practice. It is proposed to integrate Asset Management with SP AusNet's operations and maintenance activities. Leveraging those asset management capabilities (both internally and externally) is expected to result in substantial cost savings and synergies. As approximately 65% of revenue will be from regulated sources post implementation (down from 90%), the extent to which those benefits will be retained by New SP AusNet over the long term will depend on the regulator's approach.

Furthermore, a recent decision of the Supreme Court of Victoria (which is subject to appeal) has raised the possibility that asset managers of regulated gas distribution assets may be required to be licenced and therefore lodge access arrangements under the Gas Code. Such an outcome may have adverse implications for New SP AusNet, particularly in relation to customer contract price negotiations and for the profit margins of the asset management business.

Although SP AusNet already faces these regulatory issues with its current business strategy (i.e. it has increasingly been seeking to leverage its existing capabilities), the issue is likely to be exacerbated by the Transaction.

Grant Samuel's valuation of Asset Management is premised on no adverse implications of the current regulatory uncertainty. If the regulatory uncertainty crystallises in an adverse manner the value of Asset Management on a standalone basis would be lower and there would be other value implications for New SP AusNet.

### 7.7.2 Costs and Disadvantages

***Dilution of Securityholder Interests***

SP AusNet will issue new stapled securities to eligible existing securityholders under the Entitlement Offer and to eligible institutional investors under the Institutional Placement. SPI intends to participate in both equity raisings in order to maintain its 51% interest. If existing securityholders do not, or are not eligible to, participate in the Entitlement Offer their interest in SP AusNet will be diluted. However, irrespective of participation in the Entitlement Offer, existing securityholders (other than SPI) will be diluted by the Institutional Placement to the extent that they do not, or are not eligible, to participate in the placement. The level of dilution will, in the event of an overall undersubscription, be offset to the extent that a securityholder subscribes for more securities than their entitlement.

The extent to which existing securityholders will be diluted is not certain as the relative sizes of the equity raisings have not yet been finalised, the ratio for the Entitlement Offer has not been set and the participation rate of existing securityholders is unknown. However, by way of example, assuming a 1 for 1 entitlement ratio, a 100% take up by existing securityholders and all new investors under the Institutional Placement, existing securityholders would be diluted from 100% to around 94% (excluding SPI from 49% to 42.6%) as follows:

**New SP AusNet – Dilution of Securityholder Interests**

| Securityholder | Pre Transaction | | Post Transaction | |
|---|---|---|---|---|
| | Securities on Issue (million) | % | Securities on Issue (million) | % |
| SPI | 1,067.3 | 51.0 | 2,454.7 | 51.0 |
| Existing securityholders (non SPI) | 1,025.4 | 49.0 | 2,050.8 | 42.6 |
| New securityholders (Institutional Placement) | - | - | 307.6 | 6.4 |
| **Total** | **2,092.7** | **100.0** | **4,813.1** | **100.0** |

However, the level of dilution is dependent on the level of take up by retail investors of their entitlements. Based on the same assumptions but a 50% take up results in existing securityholders being diluted from 100% to 93.4% (excluding SPI from 49% to 40.4%).

Irrespective of the extent of dilution, an important issue for existing securityholders is the quantum of the amount required to participate in the Entitlement Offer to maintain their interest in SP AusNet (as the entitlement ratio is expected to be at least 1 for 1 and could be higher). Furthermore, as the Entitlement Offer is to be non-renounceable, existing securityholders will have no opportunity to receive value for their entitlement.

To the extent that existing securityholders are not eligible to participate in the Institutional Placement, existing securityholders face dilution of their interests even if they participate in the Entitlement Offer. For existing institutional securityholders to avoid dilution from the Institutional Placement they will have to invest a further amount. The total amount required to maintain an existing institutional interest in SP AusNet is not insignificant.

On the other hand, the Transaction represents a quantum leap in SP AusNet's business. Based on a 100% take up by retail investors, existing (non SPI) securityholders will have an estimated 42.6% share in the combined business and will benefit from greater stability in earnings.

***Transaction Costs***

SP AusNet is responsible for its own transaction costs as well as SPI's costs associated with acquiring the Alinta Assets (including its share of the Consortium's transaction costs). Total transaction costs are currently estimated to be $230 million being $97 million to be

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incurred by SP AusNet directly (including $50 million in relation to the debt and equity raising) and $133 million incurred by SPI (both directly and its share of Consortium transaction costs). SP AusNet is also responsible for any increase in SPI's transaction costs above the current estimate. If the Transaction proceeds transaction costs will be capitalised.

Given the terms of the Transaction, total transaction costs are more than likely to be higher than if SP AusNet had participated directly in the Consortium. However, at 2.8% of the purchase price of $8,142 million, the level of transaction costs is not inconsistent with similar sized transactions (as they incorporate costs associated with the Capital Raising).

Of the transaction costs directly incurred by SP AusNet, approximately $25-26 million are expected to have already been incurred by the time securityholders vote on the Transaction. If the Transaction does not proceed these costs would be expensed by SP AusNet and recognised as a significant item in the year ended 31 March 2008. In this case, SPI would be responsible for its own costs.

### 7.8 Other Matters

***Changes to the Management Services Agreement***

Under the terms of the Transaction the Management Services Agreement is to be amended to encompass the Alinta Assets and the service that those assets may require. As a consequence:

- the management services charge will increase; and
- the capital works management component of the performance fee will apply to capital expenditure on unregulated as well as regulated assets.

Therefore, the quantum of fees that SPIMS can earn under the Management Services Agreement will increase (both from the provision of services and as a result of the increase in market capitalisation). However:

- the basis of the relationship between SPIMS and New SP AusNet will remain unchanged;
- the management services charge will increase but:
  - this reflects the additional resources required by SPIMS to manage the enlarged group;
  - the fee is effectively a cost recovery charge (i.e. it is essentially the same as if New SP AusNet employed the management personnel directly); and
  - New SP AusNet is to benefit from any synergies derived by SPIMS in combining the management teams via an adjustment to the management services charge (although it will bear the costs associated with deriving those savings).

  Overtime there is expected to be small differences in the management services charge and the employment costs as the scheduled increases in the management services charge are not directly proportional to increases in employee costs; and
- the total performance fee will remain capped at 0.75% of market capitalisation (and the percentage of each securityholders interest that SPIMS can take remains the same) although the dollar value of the cap will have effectively doubled. Furthermore, if performance fees are paid (and if the cap is reached), implicitly securityholders will also have benefited from improved network and financial performance of New SP AusNet.

***Ineligible Foreign Securityholders***

Certain overseas securityholders will not be entitled to participate in the Entitlement Offer. As a consequence, they will be diluted both by the Entitlement Offer and the Institutional Placement (i.e. by more than 50%) and, as the Entitlement Offer is to be non-renounceable, they will receive no value for their entitlement. However,

- they will retain a diluted interest in the enlarged group;

- they will benefit from a 2.4% uplift in distributions per security;
- they can acquire New SP AusNet securities through the ASX following completion if they wish to reinstate their percentage interest; and
- securityholders representing less than 0.5% of SP AusNet's issued capital are expected to be impacted by this issue.

***Potential increase in SPI's Securityholding***

It is SPI's intention to maintain (at least) its 51% direct interest in New SP AusNet. SPI proposes to participate for its pro rata share of the Entitlement Offer and Institutional Placement. However, as it is planned that the Institutional Placement and institutional component of the Entitlement Offer are to be underwritten, SPI's interest in New SP AusNet will exceed 51% if there is less than 100% take up of retail investors in the Entitlement Offer. Furthermore, if the Institutional Placement is not underwritten and it is not fully subscribed, SPI's direct interest in New SP AusNet will increase further. SP AusNet considers that it is unlikely that these factors could combine to increase SPI's direct interest in New SP AusNet above 55%[60].

An increase in SPI's interest will reduce free float and have implications for New SP AusNet's market rating and index inclusion. However, there is no change in control. SPI will continue to be the largest securityholder, to control the board and provide contracted management services.

### 7.9 Securityholder Decision

The decision of each securityholder as to whether to vote in favour of the Transaction is a matter for individual securityholders based on each securityholder's views as to value and future market conditions, risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from securityholder to securityholder. If in any doubt, securityholders should consult an independent professional adviser.

This report does not purport to consider the investment merits of SP AusNet or New SP AusNet. Whether to buy, hold or sell securities in SP AusNet or New SP AusNet (including participation in the Entitlement Offer or the Institutional Placement) is a separate investment decision upon which Grant Samuel does not offer an opinion. Securityholders should consult their own professional adviser in this regard.

[60] It should be noted that SPI's voting power in SP AusNet is 52.44% (i.e. equal to the relevant interest of Temasek in SP AusNet) and includes the interests of associates totaling 1.44%. As a consequence, SPI's voting power in SP AusNet could increase above 55%. In this regard, securityholder approval is being sought under Item 7 of Section 611 to allow SPI's voting power to increase to a maximum of 60%.

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## 8 Valuation of the Alinta Assets

### 8.1 Valuation Summary

The Alinta Assets have been valued in the range $7,485-8,365 billion. The value for the Alinta Assets is the aggregate of the estimated market value of each of the assets and operating businesses plus other assets and liabilities and is before the $975 million in debt to be assumed under the Transaction. The valuation is summarised below:

**Alinta Assets - Valuation Summary ($ millions)**

| | Section Reference | Value Range Low | Value Range High |
|---|---|---|---|
| Transmission and Distribution[61] | 8.3 | 6,050 | 6,650 |
| Asset Management[62] | 8.4 | 1,900 | 2,100 |
| Corporate overheads | 8.5 | (480) | (400) |
| **Value of operations** | | **7,470** | **8,350** |
| Other assets and liabilities | 8.6 | 15 | 15 |
| **Ungeared value of Alinta Assets** | | **7,485** | **8,365** |

The value attributed to the various operating businesses is an overall judgement having regard to a number of valuation methodologies and parameters, including capitalisation of earnings or cash flows (multiples of EBITDA and EBIT), discounted cash flow ("DCF") analysis and other measures commonly used in the energy infrastructure sector (including multiples of regulated asset base and customer accounts).

The DCF analysis undertaken by Grant Samuel was based on the Projections provided by SP AusNet. The financial models developed by Grant Samuel project cash flows from 1 March 2007. Projected ungeared after tax cash flows were discounted to a net present value ("NPV") using nominal after tax discount rates appropriate for each business. Appendix 1 sets out a detailed analysis of the selection of the discount rates used in this report.

The overall earnings multiples implied by the valuation of the Alinta Assets are summarised below:

**Alinta Assets – Implied Valuation Parameters**

| | Value Range Low | Value Range High |
|---|---|---|
| **Multiple of EBITDA (adjusted)[63]** | | |
| Year ended 31 December 2006 (pro forma actual) | 14.4 | 16.0 |
| Year ending 31 March 2008 (forecast) | 13.0 | 14.4 |
| Year ending 31 March 2009 (forecast) | 12.2 | 13.5 |
| **Multiple of EBIT (adjusted)[63]** | | |
| Year ended 31 December 2006 (pro forma actual) | 22.5 | 25.0 |
| Year ending 31 March 2008 (forecast) | 18.7 | 20.8 |
| Year ending 31 March 2009 (forecast) | 17.0 | 18.9 |
| **Multiple of NTA at 31 August 2007[64]** | | |
| Geared | 1.6 | 1.8 |
| Ungeared | 1.5 | 1.7 |

Grant Samuel believes that the multiples implied by the valuation are reasonable. There are several important factors which support the multiples:

61 Including 7.6% interest in TransACT.

62 Including 50% interest in the Camellia Project.

63 The multiples of EBITDA and EBIT reflect the proportionate earnings of ActewAGL Distribution (50%) and United Energy (34.1%).

64 Based on pro forma Alinta Asset balance sheet at 31 August 2007 (see Section 5.4).

- the market evidence in terms of multiples implied by the acquisitions of other Australian energy infrastructure owners and infrastructure management businesses and the share prices of listed Australian entities in the energy infrastructure sector.

  The multiples reflect the blend of the various businesses (i.e. energy transmission and distribution, and an infrastructure services business). There is no single entity to which the total Alinta Assets can be directly compared but there are comparables for its key components. For example:

  - Envestra and APA Group are primarily gas distribution and transmission businesses (respectively) and are trading in excess of 12 times forecast EBITDA; and
  - WorleyParsons, United Group and Transfield Services are infrastructure service providers and are generally trading at in excess of 13 times forecast EBITDA.

  Transaction evidence indicates that gas transmission and distribution entities and electricity distribution assets have generally been acquired in the range of 12-14 times and in excess of 11 times prospective EBITDA respectively. In particular, it is noted that the Consortium acquired Alinta on 31 August 2007 at a blended forecast EBITDA multiple of 14 times (14.5 times forecast EBITDA at announcement of the revised proposal in May 2007);

- the strategic attractions of certain of the assets including:
  - 100% ownership of the gas distribution network in New South Wales (the largest single network in the country);
  - an attractive portfolio of gas transmission pipelines underpinned by long term customer agreements; and
  - a substantial energy infrastructure services business which has a stronger growth profile than regulated infrastructure assets; and
- significant cost savings that are expected to flow through the business in the year ending 31 March 2008 from the acquisition of the Agility business in 2006 with more savings to emerge in 2009. $75 million of total annual savings have been identified and are considered to be achievable by 2009.

The detailed value analysis for each component of this valuation is set out in the following sections.

## 8.2 Methodology

### 8.2.1 Overview

Grant Samuel's valuation of the Alinta Assets has been estimated by aggregating the estimated market value of each of the assets and operating businesses. The value of the operating businesses have been estimated on the basis of fair market value as a going concern, defined as the maximum price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies that are commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

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Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

Nevertheless, valuations are generally based on either or both discounted cash flow or multiples of earnings and Grant Samuel has had regard to both methodologies in the valuation of the Alinta Assets. In addition, for the regulated transmission and distribution assets some weight has also been given to the implied multiples of regulated asset base ("RAB") which is the value of the fixed assets set by the relevant regulator as the basis for determining tariffs.

### 8.2.2 Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, including resources, and for the valuation of start-up projects where earnings during the first few years can be negative but it is also widely used in the valuation of established industrial businesses. Discounted cash flow valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture the effect of the fixed term contracts which form the basis of infrastructure assets, the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate which reflects the risk associated with the cash flow stream.

Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgement. In addition, even where cash flow forecasts are available, the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a "de facto" cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, discounted cash flow valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions as to expected future performance need to be made.

Financial models for certain of the operating businesses have been developed by Grant Samuel from Projections provided by SP AusNet. These models allow the key drivers of value (e.g. revenues, costs and capital expenditure) to be varied. The models are based on a range of assumptions and are subject to significant uncertainty and contingencies, many of which are outside the control of management. A number of different scenarios have been developed and analysed to reflect the impact on value of various key value drivers. The financial models are discussed in more detail in the following sections of this report.

### 8.2.3 Capitalisation of Earnings or Cash Flows

Capitalisation of earnings or cash flows is the most commonly used method for valuation of industrial businesses. This methodology is most appropriate for industrial businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual capital expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of

different earnings or cash flow measures including EBITDA, EBIT or net profit after tax. These are referred to respectively as EBITDA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the sharemarket. EBITDA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer but are also used extensively in sharemarket analysis.

Where an ongoing business with relatively stable and predictable cash flows is being valued, Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point.

Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between parameters is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable to EBIT if depreciation or non-cash charges distort earnings or make comparisons between companies difficult. On the other hand, EBIT can better adjust for differences in relative capital expenditure intensity.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers it is necessary to infer the appropriate multiple from other evidence.

The usual approach used by valuers is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. However, share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor.

In interpreting and evaluating such data it is necessary to recognise that:

- multiples based on listed company share prices do not include a premium for control and are therefore often (but not always) less than multiples that would apply to acquisitions of similar companies. However, while the premium paid to obtain control in takeovers is observable (typically in the range 20-35%) it is inappropriate to simply add a premium to listed multiples. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by sharemarket investors;

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- acquisition multiples from comparable transactions are therefore usually seen as a better guide when valuing 100% of a business but the data tends to be less transparent and information on forecast earnings is often unavailable;
- the analysis will give a range of outcomes from which averages or medians can be determined but it is not appropriate to simply apply such measures to the company being valued. The most important part of valuation is to evaluate the attributes of the specific company being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it appropriately belongs;
- acquisition multiples are a product of the economic and other circumstances at the time of the transaction. However, each transaction will be the product of a unique combination of factors, including:
  - economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
  - strategic attractions of the business - its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
  - the company's own performance and growth trajectory;
  - rationalisation or synergy benefits available to the acquirer;
  - the structural and regulatory framework;
  - investment and sharemarket conditions at the time; and
  - the number of competing buyers for a business;
- acquisitions and listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall sharemarket levels and ratings between countries, economic factors (economic growth, inflation, interest rates) and market structures (competition etc) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or sharemarket levels;
- acquisition multiples are based on the target's earnings but the price paid normally reflects the fact that there were synergies available to the acquirer (at least if the acquirer is a "trade buyer" with existing businesses in the same or a related industry). If the target's earnings were adjusted for these synergies, the effective multiple paid by the acquirer would be lower than that calculated on the target's earnings; and
- while EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. In this respect:
  - EBIT multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for capital expenditure) they effectively adjust for relative capital intensity and present a better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable guide. In addition, there can be differences between companies in the basis of calculation of depreciation; and
  - businesses that generate higher EBITDA margins than their peer group companies will, all other things being equal, warrant higher EBITDA multiples because free cash flow will, in relative terms, be higher (as capital expenditure is a smaller proportion of earnings).

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the

business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

In determining values for the Alinta Assets, Grant Samuel has placed particular reliance on the EBITDA and EBIT multiples implied by the valuation range compared to the EBITDA and EBIT multiples derived from an analysis of comparable listed companies and transactions involving comparable businesses.

#### 8.2.4 Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used as a "cross check" of the result determined by a capitalised earnings valuation or by discounting cash flows. While they are only used as a cross check in most cases, industry rules of thumb can be the primary basis on which buyers determine prices in some industries. In the case of energy infrastructure businesses a common rule of thumb is the multiple of RAB which is the value of the fixed assets set by the relevant regulator as the basis for determining tariffs. However, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

#### 8.2.5 Net Assets/Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Such an approach is not appropriate in the case of the Alinta Assets.

### 8.3 Transmission and Distribution

#### 8.3.1 Overview

Grant Samuel estimates the value of the transmission and distribution assets to be in the range of $6,050-6,650 million:

**Transmission and Distribution - Valuation Summary ($ millions)**

| Asset | Section Reference | Value Range | |
|---|---|---|---|
| | | Low | High |
| Gas and Electricity Distribution Networks | 7.3.3 | 4,500 | 4,800 |
| Gas Transmission Pipelines | 7.3.4 | 1,310 | 1,540 |
| United Energy | 7.3.5 | 240 | 310 |
| **Total** | | **6,050** | **6,650** |

For the purposes of this valuation the transmission and distribution assets are:

- *Gas and Electricity Distribution Networks*
  - NSW Gas Network;
  - Victorian Electricity Network; and
  - ActewAGL Distribution (50%) including a 7.6% interest in TransACT.
- *Gas Transmission Pipelines*
  - Queensland Gas Pipeline;
  - Eastern Gas Pipeline; and
  - VicHub.
- *United Energy (34.1%)*

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In determining these values, Grant Samuel had regard to DCF analysis, multiples of EBITDA and multiples of RAB (as appropriate). All three approaches give results that are broadly consistent with the selected value ranges.

This value is the aggregate of the values attributed by Grant Samuel to each of the transmission and distribution assets. Individual asset values have not been disclosed in this report.

### 8.3.2 Market Valuation Parameters

The most common valuation metric for energy infrastructure businesses, other than distribution yield, is EBITDA multiples (rather than EBIT).

In recent times, the multiples paid for energy infrastructure assets either in the public listed market or in private treaty acquisitions have been relatively high particularly having regard to the modest growth profile of these businesses. The majority of the assets are regulated and long run growth is generally limited to population growth and inflation (with some potential for increased utilisation or penetration). However, cash flows of the assets are very stable and predictable and therefore the entities are able to use high degrees of leverage to produce attractive returns to equity investors. Coupled with tax efficient structures, this combination results in relatively high EBITDA multiples for listed entities which is also reflected in acquisitions (see below).

In addition, infrastructure assets are reasonably transparent, with a considerable level of publicly available information on revenues, volumes, operating costs and capital investment. Moreover, the assets are "ring fenced" with little opportunity for integration with other assets (particularly in revenue terms). There are some operating cost synergies available for acquirers but, in the long term, these will be shared with the infrastructure customers.

In this respect, it is Grant Samuel's view that listed infrastructure assets trade on the ASX at close to their full underlying value. Accordingly, there is unlikely to be a material premium for control of the extent often seen in takeover transactions. This is broadly confirmed by historical transaction evidence, although, since 2004 there has been a greater propensity to pay premiums above listed entity multiples (possibly due to the increased market interest in this investment class). That said, there exists a degree of uncertainty as to whether or not there will be any long term impacts on the price paid for such assets as a result of the recent global debt market volatility.

The market valuation parameters relevant for an assessment of the transmission and distribution assets are summarised below.

***Transaction Evidence***

The table below sets out the EBITDA multiples implied by selected transactions involving the acquisition of energy infrastructure assets in Australia and New Zealand since 2002:

**Recent Transaction Evidence**

| Date | Target | Type[65] | Transaction | Consid-eration[66] (millions) | EBITDA Multiple[67] (times) Historical | Forecast |
|---|---|---|---|---|---|---|
| **Energy** | | | | | | |
| May 07 | Alinta | G/R/I | Acquisition by the Consortium | A$8,040[68] | 15.4 | 14.5 |
| **Electricity** | | | | | | |
| Jul 07 | Basslink | I | Acquisition by CitySpring Infrastructure Trust | A$1,175 | 16.4 | 15.1 |
| Dec 06 | DirectLink | I | Acquisition by APA Group | A$170 | na[69] | 15.3 |
| Mar 06 | Murraylink | I | Acquisition by APA Group | A$153 | na | 15.8 |
| Dec 05 | SP AusNet | I | IPO | A$2,888 | 13.3 | 13.1 |
| Nov 05 | Spark | I | IPO | A$2,017 | 9.9 | 10.7 |
| Aug 04 | Powerco | I | Acquisition by BBI | NZ$680 | 9.4 | 9.0 |
| Apr 04 | TXU Australia | G/R/I | Acquisition by SPI | A$5,100 | 9.2 | 8.6 |
| Jul 03 | United Energy | I | Scheme with Alinta | A$1,340 | 8.1 | 7.5 |
| **Gas** | | | | | | |
| Apr 07 | Envestra Limited | I | Acquisition of 17.2% by APA Group | A$990 | 12.7 | 13.1 |
| Apr 07 | SEA Gas Pipeline | I | Acquisition of 33.3% by APA Group | A$400 | na | 14.5 |
| Nov 06 | AIH | I | Acquisition by Alinta | A$956 | 14.3 | 14.5 |
| Oct 06 | AllGas | I | Acquisition by APA Group | A$521 | na | 18.1 |
| Aug 06 | GasNet | I | Takeover by APA Group | A$452 | 13.9 | 13.3 |
| Apr 06 | AGL Infrastructure | I | Acquisition by Alinta | A$6,500 | 13.0 | 12.6 |
| Sep 05 | AIH | I | IPO | A$926 | 17.4 | 14.2 |
| Feb 05 | Carpentaria Gas Pipeline | I | Acquisition of 30% by APA Group | A$327 | na | na |
| Aug 04 | Dampier to Bunbury Natural Gas Pipeline | I | Acquisition by DUET/Alinta/Alcoa | A$1,860 | na | 11.1 |
| Aug 04 | 45% of Southern Cross Pipelines/100% of Parmelia Gas | I | Acquisition by APA Group | A$206 | 8.3 | na |
| Mar 04 | Duke Energy Australian and New Zealand assets | I | Acquisition by Alinta | A$1,690 | 17.0 | 15.5 |

Source: Grant Samuel analysis (see Appendix 3)

Further details on these transactions are set out in Appendix 3. The following factors are relevant to consideration of the transaction evidence:

- since 2005 there has been a marked increase in the multiples paid for energy infrastructure assets in Australia, possibly due to the scarcity of assets available for acquisition. Furthermore, APA Group has been the most prominent and aggressive acquirer during the period;
- transactions involving both infrastructure and generation/retail assets will have multiples that represent a blend of these two businesses. Similarly, a number of the transactions involve entities with both distribution and transmission assets (e.g. SP AusNet) or transmission and generation assets (e.g. AIH) and these multiples will represent a blend of the relevant businesses;
- the Consortium's acquisition of Alinta is the major energy sector transaction of recent times. As Alinta owned 29 energy businesses and assets (including gas transmission

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[65] G = Generation; R = Retail; I = Infrastructure

[66] Implied equity value if 100% of the company or business had been acquired.

[67] Represents gross consideration divided by EBITDA.

[68] As a result of movements in the value of the scrip components of the consideration for Alinta, the price received by Alinta shareholders had declined to $7,573 million at completion on 31 August 2007. As a consequence, the EBITDA multiples implied by the final transaction were lower (than at announcement) at 14.8 and 14.0 times.

[69] na = not available

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and distribution assets, electricity distribution assets, power generation assets, energy retail assets and asset management businesses) the multiples implied by this transaction reflect the blend of businesses and are not specifically meaningful as market evidence for the valuation of transmission and distribution assets;

- the gas transactions involve predominantly transmission pipelines rather than distribution assets. The AllGas transaction reflects a gas distribution asset and is at higher multiples than recent gas transmission transactions;
- while APA Group's acquisition of a 17.2% interest in Envestra and a 33.3% interest in SEA Gas Pipeline are for minority interests, they are both strategic interests; and
- the IPOs of AIH, SP AusNet and Spark reflect portfolio interests and therefore the implied multiples, theoretically, do not include a premium for control. The forecast EBITDA multiples for the AIH and SP AusNet listings are nevertheless relatively high. In comparison, the Spark listing multiples are low which could reflect its minority holdings and the complexity of its corporate structure.

*Sharemarket Evidence*

The following table sets out the implied EBITDA multiples for a range of listed energy infrastructure entities based on security prices as at 19 October 2007[70]:

**Sharemarket Ratings of Selected Listed Energy Infrastructure Entities**

| Entity | Type[71] | Market Capitalisation (millions) | EBITDA Multiple[72] (times) | | |
|---|---|---|---|---|---|
| | | | Historical / Current | Forecast Year 1 | Forecast Year 2 |
| **Distribution Infrastructure** | | | | | |
| SP AusNet[73] | E/G | A$2,909 | 10.2 | 9.9 | 9.7 |
| DUET | E/G | A$2,026 | 12.5 | 10.9 | 10.2 |
| Spark | E | A$1,987 | 10.0 | 9.3 | 9.4 |
| Envestra | G | A$925 | 13.0 | 12.3 | 12.2 |
| Vector | E/G | NZ$2,360 | 8.8 | 8.6 | 8.3 |
| **Transmission Infrastructure** | | | | | |
| APA Group | G/E | A$1,604 | 16.4 | 12.5 | 11.7 |
| HDUF | E/G/W/H | A$716 | 12.5 | 12.3 | 11.6 |
| **Other Energy Infrastructure** | | | | | |
| BBI | E/G/T | A$3,675 | 18.8 | 12.8 | 12.1 |

Source: Grant Samuel analysis (see Appendix 3)

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

The following factors are relevant to consideration of these multiples:

- the multiples for the listed entities are based on share prices and therefore do not include a premium for control;

[70] Except for SP AusNet which is based on the sharemarket price on 19 September 2007 (the day prior to the announcement of the Transaction).

[71] E = Electricity; G = Gas; W = Wind; H = Water; T = Transport

[72] Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA. Spark and HDUF have 31 December year ends and SP AusNet has a 31 March year end. For the purposes of this analysis the forecast earnings for the year ending 31 December 2007 for Spark and HDUF have been treated as equivalent to actual results for the year ended 30 June 2007. While relatively crude, this alignment is arguably more useful for the purpose of analysis than leaving the data unadjusted.

[73] SP AusNet's assets comprise both transmission and distribution assets. Distribution assets contributed approximately 55% of EBIT in the year ended 31 March 2007.

- the selected entities generally exhibit characteristics and value drivers similar to the transmission and distribution assets. The least comparable entities are Vector (a New Zealand company with non energy activities), BBI (with substantial international activities and transport infrastructure assets) and HDUF (with substantial interests in United Kingdom water assets in addition to Australia energy assets). In relation to the remaining entities the following should be noted:
  - SP AusNet owns electricity and gas distribution assets in Victoria as well as electricity transmission in Victoria;
  - Spark owns 49% interests in electricity distribution networks in Victoria and South Australia. The calculation of underlying multiples for Spark is complex because of the minority holdings and form of investment. Caution should be applied in relying on them;
  - DUET owns majority interests in gas distribution in Victoria, gas transmission in Western Australia and electricity distribution in Victoria and a minority interest in gas distribution in Western Australia. It has recently acquired a minority interest in a United States electricity distribution and transmission company;
  - Envestra owns over 19,000 kilometres of gas distribution networks throughout Australia and over 1,000 kilometres of gas transmission pipelines; and
  - APA Group owns over 10,000 kilometres of gas transmission pipelines in Australia and has recently acquired electricity transmission assets and a gas distribution network;
- three of the listed distribution infrastructure entities trade at prospective EBITDA multiples of broadly between 9.3 and 10.2 times. However, these are predominantly electricity distributors. EBITDA multiples are heavily influenced by capital expenditure requirements (relative to EBITDA) as the listed infrastructure entities effectively distribute EBITDA less capital expenditure to investors. Electricity distributors are generally capital intensive and, accordingly, their EBITDA multiples are lower than, say, those of gas distributors or gas transmission pipeline entities. This can be seen from the fact that APA Group (predominantly gas transmission) and Envestra (predominantly gas distribution) are trading on prospective EBITDA multiples of around 12 times;
- a number of the entities, notably APA Group and DUET, have experienced significant earnings growth, making comparison to historical multiples less relevant. In addition, there is expectation of significant earnings growth for BBI;
- most of the listed entities are passive in nature with external parties (often related) providing infrastructure, operation and management services to the entity (although APA Group has been growing its internal management capabilities). A number of the entities are also administratively managed by external parties; and
- the implied multiples for the Alinta Assets have been calculated on 31 March year end earnings while the peer group forecast is predominantly for 30 June year ends (although SP AusNet has a 31 March year end). However, in general terms, any realignment to a 31 March year end would make relatively little difference to the multiples (approximately 0.2 adjustment to the multiple in most cases).

***RAB Multiples***[74]

A common rule of thumb parameter used in the valuation of energy infrastructure businesses is RAB multiples. The RAB (or regulated asset base) is determined by the relevant regulator using concepts such as depreciated optimised replacement cost to determine an appropriate investment value for the asset (for its current and forecast

[74] Represents enterprise value (i.e. business value before debt) divided by RAB. RAB means regulated asset base and is the value of the fixed assets set by the relevant regulator as the basis for determining tariffs.

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workload). This investment base is then combined with a determination of the appropriate return on capital (usually a weighted average cost of capital) to develop a tariff structure designed to deliver that return over the regulatory period.

Theoretically, listed infrastructure entities should trade at, and assets should be acquired at, 1.0 times RAB. However, that does not occur and, in fact, most assets generally trade at a premium to RAB. The precise reasons for this are uncertain but contributing factors probably include:

- expectations of volume growth above the levels used by regulators (at least until the next regulatory reset);
- expectations of savings relative to the level of operating and capital costs assumed by regulators;
- a cost of capital less than that assumed by regulators. Reasons for this might include:
  - benefits from tax efficient structuring;
  - the benefits of diversification. Most of the listed entities own a number of different assets which dilutes the exposure to any one asset in terms of operating and regulatory risks. Regulators only calculate the cost of capital for individual assets rather than a portfolio of assets (although theoretically there should be no difference); and
  - use of higher levels of gearing than regulators assume (50-60%). There is some evidence that the energy infrastructure sector has been utilising higher debt levels than previously. The analysis in Appendix 1 indicates a number of entities with current gearing levels over 60%;
- the valuable growth options that may be available to the listed entity (e.g. potential acquisitions) and reflected in its market capitalisation; and
- profit streams from other businesses (although these should be backed out in any analysis).

Summarised below are RAB multiples for those Australian listed entities which have a relatively high proportion of regulated revenue and for which meaningful RAB multiples can be calculated from publicly available information:

**Selected Listed Entities – RAB Multiples[75]**

| Entity | Type | Average RAB for year end 31 December | |
|---|---|---|---|
| | | 2006 | 2007 |
| SP AusNet[76] | E/G | 1.54 | 1.48 |
| Spark | E | 1.87 | 1.79 |
| DUET | E/G | 1.49 | 1.32 |
| Envestra | G | 1.58 | 1.52 |

Source: Grant Samuel analysis

Some caution is necessary in relying on this data as it is difficult to isolate the full effects of other activities and to determine what adjustments may be necessary. In particular, the calculation of RAB multiples for Spark are subject to considerable uncertainty.

The RAB multiples implied by recent acquisitions of regulated energy infrastructure assets in Australia (for which sufficient information is available to do so) are set out below. This data should also be treated with caution:

[75] Based on share prices at 19 October 2007 (except SP AusNet which is based on the sharemarket price of 19 September 2007, (the day prior to announcement of the Transaction) and average nominal RAB for relevant year. RAB is based on the respective regulatory determinations except for DUET which allows for the $430 million expenditure during 2006 on the Stage 4 expansion of the Dampier to Bunbury Natural Gas Pipeline.

[76] SP AusNet's RAB multiple is lower (at 1.38 times) based on SP AusNet's stated regulated asset base at 31 March 2007 of $4.7 billion (see Section 4.1 of the Explanatory Memorandum).

| Selected Acquisitions – RAB Multiples | | | |
|---|---|---|---|
| Date | Acquirer | Entity/Asset Acquired | RAB Multiple[77] (times) |
| Dec 06 | APA Group | DirectLink | 1.45 |
| Oct 06 | APA Group | AllGas | 1.64 |
| Aug 06 | APA Group | GasNet | 2.19[78] |
| Apr 06 | Alinta | AGL Infrastructure assets | 1.41-1.52[79] |
| Mar 06 | APA Group | Murraylink | 1.47 |
| Aug 04 | DUET | Dampier to Bunbury Natural Gas Pipeline | 1.20 |
| Jul 04 | APA Group | SCP No 1 (Goldfields Gas Pipeline and Parmelia Pipeline) | 1.47 |
| Apr 03 | Alinta/AMP/Aquila | AlintaGas Networks | 1.35 |
| Apr 03 | Alinta/AMP/Aquila | Multinet Gas | 1.44 |
| Apr 03 | Alinta/AMP/Aquila | United Energy | 1.52 |
| Aug 02 | CKI/HEH | Citipower | 1.69 |
| Oct 00 | Consortium | ElectraNet | 1.37 |
| Sep 00 | CKI/HEH | Powercor | 1.71 |
| Jun 00 | SPI | PowerNet | 1.49 |
| Dec 99 | CKI/HEH | ETSA Utilities | 1.26 |
| Jul 99 | CKI | 19.97% of Envestra | 1.49 |
| Jun 99 | GPU | GasNet | 1.72 |
| Mar 99 | Envestra/Boral | Stratus Networks | 1.99 |
| Jan 99 | Texas Utilities | Westar | 1.86 |
| *Minimum* | | | *1.20* |
| *Maximum* | | | *2.19* |
| *Median* | | | *1.49* |

Source: Grant Samuel analysis

The transactions show a diversity of RAB multiples and arguably demonstrate a slight downward trend from the peak levels of 1.5-2.0 times during the restructuring of the Victorian electricity industry in 1999 (although recent transactions have generally been at RAB multiples in excess of 1.4 times). In any event, the evidence is certainly supportive of RAB multiples of at least 1.3 times.

***Interpretation***

Prior to 2005 transaction multiples for transmission and distribution assets were generally less than 10 times prospective EBITDA with little discernible difference between the type of asset or sector. More recently, Australian transaction multiples have risen as investor interest in the energy infrastructure asset class has increased. Moreover, recent market evidence indicates that some difference is emerging in the market pricing for the electricity and gas sectors but there is no clear evidence to indicate that pricing differs between transmission and distribution assets (except that multiples in excess of 15 times EBITDA have been paid for transmission interconnectors possibly reflecting lower capital intensity for these assets compared to an electricity distribution network). To this extent:

- electricity transmission and distribution assets trade at multiples of around 9-10 times prospective EBITDA and prospective RAB multiples of in excess of 1.5 times. Although recent transaction evidence in the electricity sector is limited it would imply multiples in excess of 11 times prospective EBITDA (and potentially more for electricity transmission assets); and
- gas transmission and distribution entities trade at multiples of in excess of 10-11 times prospective EBITDA and prospective RAB multiples of around 1.5 times. Transaction evidence in the gas sector is reasonably extensive and indicates that assets have generally been acquired at multiples in the range of 12-14 times prospective EBITDA and RAB multiples of 1.2-1.6 times. The AllGas acquisition reflects a gas

[77] Calculated by reference to total price announced (i.e. no adjustment has been made for any unregulated assets or other activities).

[78] RAB multiple is 1.64x if adjusted for unregulated assets which are assumed to represent approximately 25% of total enterprise value.

[79] Based on valuation attributed to gas and electricity networks by the independent expert in its report dated 28 August 2006.

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distribution network but is a transaction outlier (at 18.1 times EBITDA) which may reflect APA Group's willingness to pay higher prices in order to strategically redirect its asset base and business.

### 8.3.3 Value of Gas and Electricity Distribution Networks

***Summary***

Grant Samuel has estimated the value of the Gas and Electricity Distribution Networks (including its 50% interest in ActewAGL Distribution) to be in the range of $4,500-4,800 million.

The value range is the aggregate of the values attributed by Grant Samuel to each of the gas and electricity distribution networks. Grant Samuel has valued each asset having regard to multiples of EBITDA, DCF analysis and multiples of RAB. Values for individual networks have not been disclosed in this report.

***DCF Analysis***

Grant Samuel has prepared a DCF analysis for each of the gas and electricity distribution networks. DCF models have been developed by Grant Samuel with reference to the Projections provided by SP AusNet. Grant Samuel has made adjustments to the Projections to reflect its judgement on certain matters.

The DCF Models are long term commencing at 1 April 2007 and extending for 20 years. Net present values were calculated on an ungeared after tax basis using a nominal after tax discount rate of 6.75-7.00%. Appendix 1 sets out a detailed analysis of the selection of this discount rate. The ungeared after tax cash flows assume that tax at the corporate tax rate is paid in cash as appropriate. The key general and specific operational and asset assumptions underlying the base case DCF models are set out in Appendix 2.

The aggregate outcome of the base case DCF analysis is net present values in the range of $4,265-4,552 million. This range is broadly consistent with Grant Samuel's valuation range for the gas and electricity distribution network assets.

As with any long term projections, there are inherent uncertainties about future events and outcomes. Small changes in certain assumptions can have disproportionate impacts on the calculated values. Accordingly, Grant Samuel has undertaken an analysis of the sensitivity of the net present value to movements in key assumptions:

**Gas and Electricity Distribution Networks – NPV Sensitivity Analysis ($ millions)**

| Sensitivity | Discount Rate | |
|---|---|---|
| | **7.00%** | **6.75%** |
| **Base case** | **4,265** | **4,552** |
| Revenues 2% higher than Base Case (throughout forecast period) | 4,516 | 4,820 |
| Revenues 2% lower than Base Case (throughout forecast period) | 4,014 | 4,284 |
| Operating costs 2% higher than Base Case (throughout forecast period) | 4,169 | 4,450 |
| Operating costs 2% lower than Base Case (throughout forecast period) | 4,361 | 4,654 |
| Capital expenditure 2% higher than Base Case (throughout forecast period) | 4,186 | 4,468 |
| Capital expenditure 2% lower than Base Case (throughout forecast period) | 4,344 | 4,636 |
| Perpetual growth rate 0.25% higher than Base Case | 4,412 | 4,728 |
| Perpetual growth rate 0.25% lower than Base Case | 4,211 | 4,398 |

Under the current regulatory framework, changes in market dynamics or operating characteristics of the regulated assets are reflected in revised tariffs at each "reset". Accordingly, the impact of any such changes on returns should be limited to the regulatory

period in which they occur (that is, prior to the next "reset"). A sensitivity analysis of these impacts would require a series of highly specific assumptions regarding size, nature, timing and duration. Grant Samuel has undertaken its analysis on the basis that long run returns should tend towards the regulators' target returns. This is reflected in the relatively narrow sensitivity ranges selected, which are designed to illustrate a general trend of under or over performance relative to the regulators' determinations, rather than one off events.

The results of the sensitivity analysis indicate that:

- the NPV is sensitive to movements in revenue. The operating cost base of the networks is largely fixed such that any increase or decrease in revenues will flow almost directly to the bottom line. However, the sensitivity analysis will potentially overstate the impact as it is likely that any over or under performance will be "captured" and adjusted for at each tariff reset date (i.e. it could only occur for, at most, a five year period);
- the NPV is also sensitive to the perpetual growth rate assumption. While it is not possible to precisely forecast growth rates in perpetuity, the selected ranges appear reasonable in light of forecast growth in cash flows prior to calculation of terminal value and given that industry regulators will be required to provide owners of critical infrastructure with sufficient returns to justify ongoing investment; and
- the NPV is not particularly sensitive to movements in operating costs or capital expenditure. Further, the value impact of movements in capital expenditure is potentially overstated in the models as capital expenditure in excess of forecasts will result in an increase in the RAB, which would be expected to result in higher subsequent tariffs to compensate the asset owner. On the other hand, lower capital expenditure will, in the long term, be offset by reduced regulated returns.

In interpreting the above analysis, it should be noted that these sensitivities do not, and do not purport to, represent the range of potential value outcomes for the gas and electricity distribution network assets. They are simply theoretical indicators of the sensitivity of the net present values derived from the DCF analysis.

***Earnings Multiple Analysis***

The aggregate valuation of $4,500-4,800 million implies the following multiples:

**Gas and Electricity Distribution Networks – Implied EBITDA Multiples**

| | Value Range | |
|---|---|---|
| | **Low** | **High** |
| **Value range ($ millions)** | **4,500** | **4,800** |
| **Multiple of EBITDA** | | |
| Year ended 31 December 2006 (pro forma actual) | 13.3 | 14.2 |
| Year ending 31 March 2008 (forecast) | 12.1 | 12.9 |
| Year ending 31 March 2009 (forecast) | 11.8 | 12.6 |
| **RAB Multiple** | | |
| Regulated asset base at 30 June 2007 (nominal) | 1.42 | 1.52 |

Grant Samuel has reviewed these implied multiples having regard to EBITDA multiples for comparable listed entities and transactions involving energy infrastructure entities or assets in Australia and New Zealand (see above). Grant Samuel has also reviewed the values attributed to each asset by reference to those EBITDA multiples (see below).

The overall multiples are effectively a blend of higher multiples for the gas distribution businesses (the majority of the value) and lower multiples for the electricity businesses (including ActewAGL Distribution's electricity network) because of their higher capital expenditure requirements (typically over 50% of EBITDA compared to around 35% for the gas networks).

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*Earnings Multiples Analysis by Asset*

The values attributed to individual assets was also assessed by reference to the implied EBITDA multiples:

- *NSW Gas Network*

| NSW Gas Network – Implied EBITDA Multiples | | |
|---|---|---|
| Period | Value Range | |
| | Low | High |
| Year ended 31 December 2006 (pro forma actual) | 16.6 | 17.7 |
| Year ending 31 March 2008 (forecast) | 14.7 | 15.7 |
| Year ending 31 March 2009 (forecast) | 14.3 | 15.2 |

The implied EBITDA multiples are high in comparison to trading multiples for gas distribution entities (prospective multiples in excess of 10-11 times) but low relative to some of the recent transaction evidence (e.g. APA Group's acquisition of AllGas at 18.1 times EBITDA but caution is appropriate when considering APA Group's recent transactions). In Grant Samuel's view these multiples are appropriate as:

- the NSW Gas Network is the largest gas distribution network in New South Wales. It is a high quality strategic energy infrastructure asset that would be attractive to a number of acquirers if it was freely available for sale (although its sheer size in value terms may limit the pool of potential purchasers);
- the valuation reflects the material uplift in the tax cost base following Alinta's acquisition of the network in October 2006. This has resulted in an increase in tax depreciation which substantially reduces cash tax payments for a period of around 20 years. This cash flow benefit is not reflected in EBITDA but supports the relatively high multiples;
- the network generates strong and predictable cash flows due to the high proportion of regulated tariff revenue (around 85%) and predictable annual capital expenditure requirements (due to a low average asset age as a result of systemwide refurbishment in 1980s and 1990s); and
- there is some growth expectation through increased residential gas penetration and the development of further gas fired power generation capacity in New South Wales. This potential is partly offset by increased use of reverse cycle electric air conditioners for home heating.

- *Victorian Electricity Network*

| Victorian Electricity Network – Implied EBITDA Multiples | | |
|---|---|---|
| Period | Value Range | |
| | Low | High |
| Year ended 31 December 2006 (pro forma actual) | 8.7 | 9.2 |
| Year ending 31 March 2008 (forecast) | 7.9 | 8.3 |
| Year ending 31 March 2009 (forecast) | 8.1 | 8.6 |

The electricity network in Victoria is a mature network generating stable and predominantly regulated returns. Its network footprint is in an area showing reasonably strong population growth and industrial development and the network is expected to experience growth in the medium term. However, capital expenditure forecasts are relatively high in the short to medium term reflecting investment in improving the condition of the network (as opposed to growth) as well as the roll out of smart meters. Consequently, the implied multiples are relatively low in comparison to market evidence.

- *ActewAGL Distribution (50%)*

| ActewAGL Distribution – Implied EBITDA Multiples | | |
|---|---|---|
| Period | Value Range | |
| | Low | High |
| Year ended 31 December 2006 (pro forma actual) | 11.0 | 11.9 |
| Year ending 31 March 2008 (forecast) | 11.0 | 12.0 |
| Year ending 31 March 2009 (forecast) | 10.1 | 11.0 |

These EBITDA multiples are considered reasonable as:

- ActewAGL Distribution is a strategically attractive infrastructure business. It is the sole owner of the Australian Capital Territory's electricity and gas distribution networks and operates and maintains the water and sewerage networks. However, it is a mature and relatively low growth distribution business with already high penetration rates;
- the valuation reflects a blend of multiples applicable to electricity and gas distribution networks;
- the implied multiples are relatively low compared with multiples implied by recent transactions, primarily reflecting the relatively low growth outlook and the relatively small scale of the distribution networks; and
- the valuation incorporates ActewAGL's minority interest in the TransACT broadband business.

*RAB Multiples*

The valuation range for each of the assets implies multiples of RAB at 30 June 2007 consistent with market evidence.

### 8.3.4 Gas Transmission Pipelines

*Summary*

Grant Samuel has estimated the value of the gas transmission pipelines to be in the range of $1,310-1,540 million. This value range is an overall judgement having regard to DCF analysis and multiples of EBITDA.

The value is the aggregate of the values attributed by Grant Samuel to each of the gas transmission pipelines. Values for individual pipelines have not been disclosed in this report.

*DCF Analysis*

DCF models for each of the gas transmission pipelines have been developed by Grant Samuel with reference to the Projections. Grant Samuel has made adjustments to the Projections to reflect its judgement on certain matters.

The DCF models are long term commencing at 1 April 2007 and extending to the expected design life for Eastern Gas Pipeline and Queensland Gas Pipeline (2040) and 20 years for VicHub. Net present values were calculated on an ungeared after tax basis using a nominal after tax discount rate range of 7.00-7.25%. Appendix 1 sets out a detailed analysis of the selection of this discount rate. The ungeared after tax cash flows assume that tax at the corporate rate of 30% is paid in cash as appropriate. The key general and specific operation and asset assumptions underlying the DCF models are set out in Appendix 2.

A number of different scenarios have been developed and analysed to reflect the impact on value of selected key assumptions, particularly expansion and growth opportunities, the potential useful life of the assets and discount rates:

- Scenario A – Base Case with full allowance for growth options (see Appendix 2). Assets decommissioned at end of design life, with no terminal value;
- Scenario B – Scenario A with no allowance for growth options;
- Scenario C – Scenario A with risk weighted allowance for growth options;
- Scenario D – Scenario A with a terminal value[80] and no decommissioning;
- Scenario E – Scenario B with a terminal value[80] and no decommissioning; and
- Scenario F – Scenario C with a terminal value[80] and no decommissioning.

The aggregate outputs of the model are summarised below:

**Gas Transmission Pipelines – Net Present Value Outcomes ($ millions)**

| Scenario | Discount Rate | | | |
|---|---|---|---|---|
| | 6.75% | 7.00% | 7.25% | 7.50% |
| Scenario A | 1,357 | 1,313 | 1,270 | 1,229 |
| Scenario B | 1,030 | 999 | 970 | 942 |
| Scenario C | 1,306 | 1,264 | 1,223 | 1,185 |
| Scenario D | 1,606 | 1,543 | 1,483 | 1,426 |
| Scenario E | 1,196 | 1,153 | 1,113 | 1,074 |
| Scenario F | 1,541 | 1,481 | 1,425 | 1,371 |

As discussed above, net present values from DCF analysis are subject to significant limitations and should always be treated with considerable caution. The net present values show a relatively wide range across the different scenarios, highlighting the sensitivity to relatively small changes in assumptions.

The following factors are relevant to consideration of the net present value outcomes:

- assuming decommissioning of the pipeline at the end of design life (Scenarios A, B and C) is conservative. The pipelines are subject to rigorous long term asset management plans and would reasonably be expected to operate in excess of design life. Evidence from overseas indicates that pipeline assets may have useful lives of up to 70 years;
- assuming no growth is inherently conservative (Scenarios B and E) given the advanced stage of the current growth opportunities under consideration; and
- only growth opportunities currently identified with a high probability of proceeding have been incorporated in the analysis (i.e. no allowance for unspecified growth). Given the demand outlook for gas (particularly in relation to the Eastern Gas Pipeline) some allowance for "blue sky" growth is appropriate, regardless of whether or not the current identified expansion opportunities proceed.

On that basis and as the pipelines are strategically important assets, the selected value range for the gas transmission pipelines is towards the top end of the net present value outcomes.

***Earnings Multiple Analysis***

The valuation of the gas transmission pipelines of $1,310-1,540 million implies the following multiples of EBITDA:

[80] Terminal values calculated based on an EBITDA multiple of 9.0 times.

| Gas Transmission Pipelines – Implied EBITDA Multiples | | |
|---|---|---|
| | Value Range | |
| **Period** | **Low** | **High** |
| Year ended 31 December 2006 (pro forma actual) | 17.5 | 20.6 |
| Year ending 31 March 2008 (forecast) | 16.1 | 18.9 |
| Year ending 31 March 2009 (forecast) | 15.3 | 18.0 |

The implied multiples are high in comparison to the market evidence (gas transmission entities trade at prospective multiples of around 9-10 times prospective EBITDA and acquirers have been willing to pay prospective multiples of 12-14 times EBITDA). This reflects that the multiples for the gas transmission pipelines are calculated by reference to earnings which do not reflect the impact of the expansions being undertaken in both of the pipelines in the period to 2010. The implied multiples beyond 2009 decline to be more in line with market evidence.

*RAB Multiples*

RAB multiples have not been considered as the gas transmission pipelines are predominantly unregulated assets.

### 8.3.5 United Energy (34.1%)

The 34.1% interest in the equity of United Energy has been valued at $240-310 million. The equity value allows for external net debt at 30 June 2007 of $1,339.8 million as reported by DUET.

The value range implies the following multiples of regulated asset base and earnings:

| United Energy – Implied Multiples | | | |
|---|---|---|---|
| **Parameter** | **Variable ($ millions)** | **Value Range** | |
| | | **Low** | **High** |
| **Multiple of EBITDA** | | | |
| Year ending 30 June 2007 (actual) | 253.0[32] | 8.3 | 9.1 |
| **RAB Multiple** | | | |
| Regulated asset base at 30 June 2007 | 1,285.0[81] | 1.63 | 1.79 |

The implied EBITDA multiples are low compared to market evidence. However, it should be noted that United Energy's licence area is fixed in size (with limited growth potential beyond increasing population density) and that EBITDA for the year ending 30 June 2007 may include a portion of the one-off efficiency bonus carried over from prior years (approximately $24 million forecast in United Energy's regulatory determination). Even if the full amount of this one-off bonus is allowed for, the EBITDA multiples only increase to around 9-10 times which is still relatively low compared to market evidence.

Although the EBITDA multiple range is relatively low, the implied RAB multiples are high in comparison to market evidence. This reflects the forecast decline in earnings in United Energy's current regulatory determination.

Grant Samuel has not explicitly attributed value to the increase in United Energy's asset base as a result of the roll out of smart meters. It is likely that this capital expenditure will lead to a reduction in operating expenses. However, for the purposes of the valuation, it has been assumed that the regulatory outcome of this project will not deliver excess or reduced returns to United Energy.

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[81] Regulated asset base as at 30 June 2007 as disclosed by DUET.

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SPI holds a minority interest but also holds a management contract in relation to the network. The United Energy shareholders' agreement contains pre-emptive rights which DUET considers will be triggered if the Consortium transfers the interest under the Consortium agreements. This matter is under discussion between the parties.

### 8.4 Asset Management

Grant Samuel has estimated the value of Asset Management to be in the range $1,900-2,100 million. For the purposes of this report Asset Management includes the 50% interest in the Camellia Project. The value estimate is also premised that no adverse value implications result from current regulatory uncertainties (see Section 8.6.1).

In determining this value, Grant Samuel has had regard to earnings multiples, in particular EBITDA. The value range represents the following multiples of earnings:

**Asset Management– Implied EBITDA Multiples**

| Parameter | Variable ($ millions) | Value Range | |
|---|---|---|---|
| | | Low | High |
| **Value range ($ millions)** | | **1,900** | **2,100** |
| **Multiple of EBITDA** | | | |
| Year ended 31 December 2006 (pro forma actual)[82] | 90.6 | 21.0 | 23.2 |
| Year ending 31 March 2008 (forecast)[83] | 139.8 | 13.6 | 15.0 |
| Year ending 31 March 2009 (forecast)[84] | 173.6 | 10.9 | 12.1 |
| **Multiple of EBITDA (including full forecast cost savings)**[85] | | | |
| Year ended 31 December 2006 (pro forma actual) | 166.6 | 11.4 | 12.6 |
| Year ending 31 March 2008 (forecast) | 160.4 | 11.8 | 13.1 |
| Year ending 31 March 2009 (forecast) | 173.6 | 10.9 | 12.1 |

In Grant Samuel's opinion, the multiples are appropriate having regard to:

- the growth potential for the business. Asset Management is the largest utility asset manager in Australia and its earnings are forecast to grow strongly (in excess of 5% per annum) in the medium term reflecting both expansion of existing "internal" assets (e.g. Eastern Gas Pipeline and Queensland Gas Pipeline) and further development of its portfolio of third party contracts. Growth over the next few years should also be underpinned by:
  - the extent of infrastructure refurbishment required across Australia. A substantial amount of key infrastructure is now aged and in need of serious refurbishment or replacement;
  - the trend to more complex multi-utility services for new developments requiring high levels of expertise and execution capability;
  - increased levels of outsourcing by infrastructure owners to capture the efficiency and broader expertise of service providers. Moreover, owners are increasingly looking for a large scale, integrated service provider rather than a series of smaller independent contractors; and
  - population growth.

  However, it should also be recognised that:

  - the majority of the earnings are derived from "internal" customers and some of the arrangements underlying these earnings are due for renegotiation within the next three years;

[82] Excluding $43.5 million of implementation costs associated with the integration of Agility.

[83] Reflecting cost savings and synergies from the integration of Agility of $55.7 million and excluding implementation costs.

[84] Reflecting cost savings and synergies from the integration of Agility of $76.3 million and excluding implementation costs.

[85] Earnings adjusted to reflect the full anticipated cost savings by 2009 (i.e. $76.3 million)

- the business faces potential cost increases as a shortage of skilled labour across most states of Australia causing material increases in remuneration costs while much of asset management income is derived from fixed price contracts;
- although the scale of the asset management operations represents a competitive advantage, capital intensity and barriers to entry in the industry are relatively low;

- the substantial cost savings expected over the next two years, principally from the integration of Agility. Asset Management has increased its target cost savings to around $75 million per annum by 31 March 2009. A substantial proportion of these savings ($56 million) have already been achieved and are reflected in the 2008 forecast. The lower multiples calculated after allowing for the full cost savings and synergies are appropriate as a significant proportion of the cost savings are yet to be achieved;
- the low renewal risk for operating service agreements with Alinta's wholly or partly owned assets (approximately 80% of revenue). This provides a strong underlying revenue base for Asset Management;
- the potential for the business to extend its skill set into other infrastructure categories, (e.g. water and wastewater). Alinta acquired some exposure to water assets through the Agility acquisition and projects such as the Camellia Project demonstrate the potential in this segment;
- recent transaction evidence for infrastructure services providers:

**Recent Transaction Evidence**

| Date | Target | Transaction | Consid-eration (millions) | EBITDA Multiple (times) | |
|---|---|---|---|---|---|
| | | | | Historical | Forecast |
| May 07 | Alinta's Asset Management Services (including APA Group contracts) | Acquisition by Consortium | A$2,700[86] | 13.9 | 12.2 |
| Apr 07 | Origin Energy Asset Management | Acquisition by APA Group | A$253 | na | 13.1 |
| Apr 06 | Agility | Acquisition by Alinta | A$1,050[87] | 13.8 | 12.3 |

Source: Grant Samuel analysis (see Appendix 3

The multiples implied by the value range are relatively high (on a pre full cost savings basis). In Grant Samuel's opinion, these multiples are realistic in comparison to transaction evidence as a further $10 million in cost savings are targeted for the year ending 31 March 2011 and due to the scale of this business it is likely to be an attractive acquisition target; and

- the earnings multiples for listed companies that can be compared to Alinta's asset management businesses based on share prices at 19 October 2007 are:

**Share Market Ratings of Selected Listed Infrastructure Service Companies**

| Entity | Market Capitalisation ($ millions) | EBITDA Multiples (times) | | | EBIT Multiples (times) | | |
|---|---|---|---|---|---|---|---|
| | | Historical | Forecast Year 1 | Forecast Year 2 | Historical | Forecast Year 1 | Forecast Year 2 |
| WorleyParsons | $11,241 | 34.6 | 22.3 | 19.2 | 38.5 | 24.7 | 20.8 |
| United Group | $3,366 | 19.1 | 13.3 | 11.8 | 23.0 | 15.2 | 13.2 |
| Transfield Services | $2,955 | 26.2 | 19.3 | 17.1 | 42.8 | 24.2 | 21.1 |

Source: Grant Samuel analysis (see Appendix 3)

[86] Based in the standalone valuation by the independent expert for the acquisition of Alinta of A$2,600-2,800 million and EBITDA excluding costs savings yet to emerge. Value also allows for the APA Group operating contacts which are being terminated.

[87] Based on the standalone valuation by the independent expert for the Alinta/AGL Transaction of A$1,000-1,100 million and EBITDA excluding any of the cost savings previously identified by AGL. If AGL's forecast cost savings are allowed for then the EBITDA multiples fall to 11.3 and 10.8 times respectively.

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Each of these companies provides services to a wide range of sectors and has substantial international operations. The multiples for WorleyParsons and Transfield Services reflect recent high growth and prospects for continued growth (for WorleyParsons from what is now a global platform predominantly servicing the hydrocarbons sector (72% of 2006 revenue) and for Transfield Services as a consequence of the spin off of its infrastructure assets).

However, each of the companies has much broader businesses than Asset Management primarily based on "external" contracts. On the other hand, the extent that earnings are derived from "internal" medium to long term contracts makes the asset management business an attractive acquisition target.

The implied multiples for Asset Management have been calculated on 31 March year end earnings while each of the comparable entities has a 30 June year end. The peer group forecasts have not been realigned to a 31 March year end basis. However, even based on portfolio share prices (i.e. excluding a premium for control), the rating of these listed companies would support the implied 2009 EBITDA multiples of 10.9-12.1 times for Asset Management.

### 8.5 Corporate Overheads

The unallocated corporate overheads associated with the Alinta Assets are approximately $40 million. This amount represents costs associated with managing the portfolio of businesses (including the senior management team), which have not been recharged to the individual assets or businesses.

Grant Samuel has allowed $(400)-(480) million for the capitalised value of the corporate overheads in its valuation of the Alinta Assets. This represents multiples 10-12 times which is reasonable having regard to the mix of assets.

### 8.6 Other Assets and Liabilities

Other assets and liabilities total $15 million and comprise:

- cash at 31 August 2007 ($16.7 million);
- the fair value of derivative instruments (excluding the swaps reflected below in net borrowings) at 31 August 2007 ($15.4 million, taxed at 30%);
- defined benefit fund surplus at 31 August 2007 ($25.6 million, taxed at 30%); and
- the Alinta Asset's recognition of its 65% share in certain liabilities not able to be allocated to specific businesses by the Consortium per the balance sheet at 31 August 2007 ($30 million).

### 8.7 Previous Valuation

Grant Samuel has prepared independent valuations of the assets and businesses comprising the Alinta Assets for the purposes of other transactions in the last 12-18 months (in some instances more than once). In particular, Grant Samuel valued these assets in an independent expert's report dated 2 July 2007 for Alinta shareholders in relation to the Consortium's proposal to acquire Alinta.

For commercial confidentiality reasons, values for individual assets were not separately disclosed in that report and it is not possible for a reader to determine the value attributed by Grant Samuel to the Alinta Assets. However, set out below is a comparison of the previous valuation of the Alinta Assets to the current assessment of value for the Alinta Assets:

| Alinta Assets – Comparison of Grant Samuel Valuations ($ million) | | | | |
|---|---|---|---|---|
| | Grant Samuel Valuation Report | | | |
| | 2 July 2007[88] | | October 2007 | |
| | Low | High | Low | High |
| Transmission and Distribution | 6,020 | 6,480 | 6,050 | 6,650 |
| Asset Management | 2,100 | 2,200 | 1,900 | 2,100 |
| | 8,120 | 8,680 | 7,950 | 8,750 |
| Corporate costs | (245) | (205) | (480) | (400) |
| Other assets and liabilities | (72) | (22) | 15 | 15 |
| **Total** | **7,803** | **8,453** | **7,485** | **8,365** |

This analysis indicates that there has been no material change in Grant Samuel's valuation of the Alinta Assets since the report dated 2 July 2007. This is appropriate as a significant proportion of the Alinta Assets are regulated and there have been no material changes in the commercial outlook for any of the assets in the period. The major movements relate to:

- an increase in the value attributed to Eastern Gas Pipeline reflecting an increase in the range of potential growth opportunity for the pipeline as well as evidence of significant potential demand;
- a decrease in the value attributed to Asset Management as a consequence of a decline in forecast revenue from lower than forecast external works contracts, additional property expenses and lower margins on some construction activities;
- an increase in the unallocated corporate costs reflecting:
  - a decision by Alinta management to no longer allocate a proportion of corporate costs to each asset via a management charge. The elimination of this charge is reflected in the individual asset values;
  - that an expected reduction in corporate overheads of $15 million per annum from 2008 has not been achieved due to the Consortium acquisition of Alinta.

  The ongoing level of corporate overhead costs used for valuation purposes in the July 2007 report was $30 million per annum (down from $45 million after allowance for the $15 million in cost savings). This compares with an amount of $40 million per annum advised as the ongoing level of corporate overheads for the current valuation. Due to this difference and after adopting the same capitalisation multiples of 10-12 times, the negative value attributed to corporate costs in this valuation has doubled in comparison to the July 2007 valuation; and
- other assets and liabilities at July 2007 include allowance for certain matters previously recognised in the Alinta balance sheet. These items are now being allowed for in the Consortium's unallocated liabilities and the Alinta Assets will be responsible for a 65% share of those liabilities. In addition, other assets and liabilities in the current valuation include cash balances held by the Alinta Assets.

[88] After making the following adjustments:
- Asset Management excludes the APA Group contracts and Asset Management West;
- a 65% share of negative value attributed to corporate costs; and
- national allocation of other assets and liabilities to the Alinta Assets.

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## 9 Qualifications, Declarations and Consents

### 9.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally), property advisory services and manages specialist funds. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 395 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Caleena Stilwell BBus CA F Fin and Stephen Wilson MCom (Hons) CA (NZ) SF Fin. Each has a significant number of years of experience in relevant corporate advisory matters. Damien Elias BSc (Psychol.) (Hons) MCom, Tim Archer BE (Hons) BSc and Luke Hawksford BCom CA MBA assisted in the preparation of the report. Each of the above persons is an authorised representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

### 9.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Transaction is fair and reasonable to, and in the best interests of, the non associated securityholders for the purposes of Listing Rule 10.1 and Section 208. Grant Samuel expressly disclaims any liability to any SP AusNet securityholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever. In particular, the report does not address the investment merits of SP AusNet and New SP AusNet, make any recommendation for securityholders in relation to their rights under the entitlement offer or address factors relevant to any person participating in the Capital Raising including the provision of financial accommodation to SP AusNet. Whether to buy, hold or sell securities in SP AusNet or New SP AusNet or to provide financial accommodation to SP AusNet is a separate investment decision upon which Grant Samuel does not offer an opinion.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Explanatory Memorandum issued by SP AusNet and has not verified or approved any of the contents of the Explanatory Memorandum. Grant Samuel does not accept any responsibility for the contents of the Explanatory Memorandum (except for this report).

Grant Samuel has had no involvement in SP AusNet's due diligence investigation in relation to the Alinta Assets and the Explanatory Memorandum or for the purposes of the Capital Raising and does not accept any responsibility for the completeness or reliability of the process which is the responsibility of SP AusNet.

### 9.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with SP AusNet or SPI that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Transaction. Grant Samuel advises that it:

- prepared an independent expert's report dated 2 July 2007 for Alinta shareholders in relation to the proposed acquisition of Alinta by the Consortium;
- prepared an independent expert's report dated 4 December 2006 for AIH securityholders in relation to a takeover offer by Alinta;
- was appointed by AIH to prepare a review of certain aspects of a tax consolidation valuation of its initial assets in September 2006. The fees involved were less than $30,000;
- prepared independent expert's reports dated 28 August 2006 for the shareholders of Alinta and AGL in relation to the transaction to merge their respective infrastructure businesses and enter into a retail energy joint venture in Western Australia;
- commenced work on an independent valuation of AGL in April 2006 in relation to a takeover offer by Alinta. This assignment was not completed and was terminated following the announcement of the Alinta/AGL merger on 26 April 2006;
- prepared an independent expert's report dated 13 February 2006 for AGL shareholders in relation to a transaction to demerge AGL into two new listed entities by separating its retail and merchant energy assets from its infrastructure assets; and
- provided non-public independent reviews for an Australian institution in 2003 of the Aquila transaction (which encompassed a series of transactions involving Aquila Inc, United Energy, AMP Henderson Global Investors and Alinta) and of a third party valuation of Multinet Gas.

Grant Samuel commenced analysis for the purposes of this report in September 2007 prior to the announcement of the Transaction. This work did not involve Grant Samuel participating in the setting the terms of, or any negotiations leading to, the Transaction.

Grant Samuel had no part in the formulation of the Transaction. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of $1,250,000 for the preparation of this report. This fee is not contingent on the outcome of the Transaction. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guideline 42 issued by the ASIC (previously known as Australian Securities Commission) on 8 December 1993.

### 9.4 Declarations

SP AusNet has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving negligence or wilful misconduct by Grant Samuel. SP AusNet has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where Grant Samuel or its employees and officers are found to have been negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action. Any claims by SP AusNet are limited to an amount equal to the fees paid to Grant Samuel.

Advance drafts of this report were provided to SP AusNet and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. In particular, following the provision of a full final draft report dated 26 October 2007, a revised draft of the Explanatory Memorandum was issued which included clarifying statements as to the Board's intentions with regard to the equity raising and an amended Alinta Assets financial position as at 31 August 2007. The clarifying statements resulted in drafting edits to Grant Samuel's evaluation and the revised financial position resulted in a decrease in Grant Samuel's valuation for the Alinta Assets of $23 million. However, there was no alteration to the methodology, evaluation or overall conclusions as a result of issuing the drafts.

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### 9.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Explanatory Memorandum to be sent to securityholders of SP AusNet. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

### 9.6 Other

The accompanying letter dated 5 November 2007 and the Appendices form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

**GRANT SAMUEL & ASSOCIATES PTY LIMITED**
5 November 2007

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## Appendix 1

## Selection of Discount Rates

### 1 Overview

The following discount rates have been selected by Grant Samuel to apply to the forecast nominal ungeared after tax cash flows of the transmission and distribution assets encompassed by Alinta Assets:

- gas transmission pipelines 7.0-7.25%
- gas and electricity distribution networks 6.75-7.0%

Different discount rates have been selected for each business unit because they have differing risk profiles.

Selection of the appropriate discount rate to apply to the forecast cash flows of any business enterprise is fundamentally a matter of judgement. The valuation of an asset or business involves judgements about the discount rates that may be utilised by potential acquirers of that asset. There is a body of theory which can be used to support that judgement. However, a mechanistic application of formulae derived from that theory can obscure the reality that there is no "correct" discount rate. Despite the growing acceptance and application of various theoretical models, it is Grant Samuel's experience that many companies rely on less sophisticated approaches. Many businesses use relatively arbitrary "hurdle rates" which do not vary significantly from investment to investment or change significantly over time despite interest rate movements. Valuation is an estimate of what real world buyers and sellers of assets would pay and must therefore reflect criteria that will be applied in practice even if they are not theoretically correct. Grant Samuel considers the rates adopted to be reasonable discount rates that acquirers would use irrespective of the outcome or shortcomings of applying any particular theoretical model.

The discount rate that Grant Samuel has adopted is reasonable relative to the rates derived from theoretical models. The discount rate represents an estimate of the weighted average cost of capital ("WACC") appropriate for these assets. Grant Samuel has calculated a WACC based on a weighted average of the cost of equity and the cost of debt. This is the relevant rate to apply to ungeared cash flows. There are three main elements to the determination of an appropriate WACC. These are:

- cost of equity;
- cost of debt; and
- debt/equity mix.

WACC is a commonly used basis but it should be recognised that it has shortcomings in that it:

- represents a simplification of what are usually much more complex financial structures; and
- assumes a constant degree of leverage which is seldom correct.

The cost of equity has principally been derived from application of the Capital Asset Pricing Model ("CAPM") methodology. However, regard was also had to other methods such as the implied cost of equity based on the Gordon Growth Model (or perpetuity formula).

The CAPM is probably the most widely accepted and used methodology for determining the cost of equity capital. There are more sophisticated multivariate models which utilise additional risk factors but these models have not achieved any significant degree of usage or acceptance in practice. However, while the theory underlying the CAPM is rigorous the practical application is subject to shortcomings and limitations and the results of applying the CAPM model should only be regarded as providing a general guide. There is a tendency to regard the rates calculated using CAPM as inviolate. To do so is to misunderstand the limitations of the model.

For example:

- the CAPM theory is based on expectations but uses historical data as a proxy. The future is not necessarily the same as the past;

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- the measurement of historical data such as risk premia and beta factors is subject to very high levels of statistical error. Measurements vary widely depending on factors such as source, time period and sampling frequency;
- the measurement of beta is often based on comparisons with other companies. None of these companies is likely to be directly comparable to the entity for which the discount rate is being calculated and may operate in widely varying markets;
- parameters such as the debt/equity ratio and risk premium are based on subjective judgements; and
- there is not unanimous agreement as to how the model should adjust for factors such as taxation. The CAPM was developed in the context of a "classical" tax system. Australia's system of dividend imputation has a significant impact on the measurement of net returns to investors.

In this context, regulators such as the Australian Competition & Consumer Commission ("ACCC") and the various state regulatory bodies undertake extremely detailed analysis of discount rate calculations and each of the relevant variables. Grant Samuel has had regard to this analysis (particularly in relation to Alinta's businesses) but in Grant Samuel's view it can give a misleading impression of the precision about what is, in reality, a relatively crude tool of unproven accuracy that gives, at best, a broad approximation of the cost of capital.

The cost of debt has been determined by reference to the pricing implied by the debt markets in Australia. The cost of debt represents an estimate of the expected future returns required by debt providers. In determining the appropriate cost of debt over this forecast period, regard was had to debt ratings of comparable companies.

Selection of an appropriate debt/equity mix is a matter of judgement. The debt/equity mix represents an appropriate level of gearing, stated in market value terms, for the business over the forecast period. The relevant proportions of debt and equity have been determined having regard to the financial gearing of the industry in general and comparable companies, and judgements as to the appropriate level of gearing considering the nature and quality of the cash flow stream.

The following sections set out the basis for Grant Samuel's determination of the discount rates for the Alinta Assets and the factors which limit the accuracy and reliability of the estimates.

## 2 Definition and Limitations of the CAPM and WACC

The CAPM provides a theoretical basis for determining a discount rate that reflects the returns required by diversified investors in equities. The rate of return required by equity investors represents the cost of equity of a company and is therefore the relevant measure for estimating a company's weighted average cost of capital. CAPM is based on the assumption that investors require a premium for investing in equities rather than in risk free investments (such as government bonds). The premium is commonly known as the market risk premium and notionally represents the premium required to compensate for investment in the equity market in general.

The risks relating to a company or business may be divided into specific risks and systematic risks. Specific risks are risks that are specific to a particular company or business and are unrelated to movements in equity markets generally. While specific risks will result in actual returns varying from expected returns, it is assumed that diversified investors require no additional returns to compensate for specific risk, because the net effect of specific risks across a diversified portfolio will, on average, be zero. Portfolio investors can diversify away all specific risk.

However, investors cannot diversify away the systematic risk of a particular investment or business operation. Systematic risk is the risk that the return from an investment or business operation will vary with the market return in general. If the return on an investment was expected to be completely correlated with the return from the market in general, then the return required on the investment would be equal to the return required from the market in general (i.e. the risk free rate plus the market risk premium).

Systematic risk is affected by the following factors:

- financial leverage: additional debt will increase the impact of changes in returns on underlying assets and therefore increase systematic risk;
- cyclicality of revenue: projects and companies with cyclical revenues will generally be subject to greater systematic risk than those with non-cyclical revenues; and
- operating leverage: projects and companies with greater proportions of fixed costs in their cost structure will generally be subject to more systematic risk than those with lesser proportions of fixed costs.

CAPM postulates that the return required on an investment or asset can be estimated by applying to the market risk premium a measure of systematic risk described as the beta factor. The beta for an investment reflects the covariance of the return from that investment with the return from the market as a whole. Covariance is a measure of relative volatility and correlation. The beta of an investment represents its systematic risk only. It is not a measure of the total risk of a particular investment. An investment with a beta of more than one is riskier than the market and an investment with a beta of less than one is less risky. The discount rate appropriate for an investment which involves zero systematic risk would be equal to the risk free rate.

The formula for deriving the cost of equity using CAPM is as follows:

$$Re = Rf + Beta\ (Rm - Rf)$$

where:

| | | |
|---|---|---|
| *Re* | = | the cost of equity capital; |
| *Rf* | = | the risk free rate; |
| *Beta* | = | the beta factor; |
| *Rm* | = | the expected market return; and |
| *Rm - Rf* | = | the market risk premium. |

The beta for a company or business operation is normally estimated by observing the historical relationship between returns from the company or comparable companies and returns from the market in general. The market risk premium is estimated by reference to the actual long run premium earned on equity investments by comparison with the return on risk free investments.

The formula conventionally used to calculate a WACC under a classical tax system is as follows:

$$WACC = (Re \times E/V) + (Rd \times (1-t) \times D/V)$$

where:

| | | |
|---|---|---|
| *E/V* | = | the proportion of equity to total value (where V = D + E); |
| *D/V* | = | the proportion of debt to total value; |
| *Re* | = | the cost of equity capital; |
| *Rd* | = | the cost of debt capital; and |
| *t* | = | the corporate tax rate |

The models, while simple, are based on a sophisticated and rigorous theoretical analysis. Nevertheless, application of the theory is not straightforward and the discount rate calculated should be treated as no more than a general guide. The reliability of any estimate derived from the model is limited. Some of the issues are discussed below:

- **Risk Free Rate**

  Theoretically, the risk free rate used should be an estimate of the risk free rate in each future period (i.e. the one year spot rate in that year if annual cash flows are used). There is no official "risk free" rate but rates on government securities are typically used as an acceptable substitute. More importantly, forecast rates for each future period are not readily available. In practice, the long term Commonwealth Government Bond rate is used as a substitute in Australia and medium to long term Treasury Bond rates are used in the United States. It should be recognised that the yield to maturity

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of a long term bond is only an average rate and where the yield curve is strongly positive (i.e. longer term rates are significantly above short term rates) the adoption of a single long term bond rate has the effect of reducing the net present value where the major positive cash flows are in the initial years. The long term bond rate is therefore only an approximation.

The ten year bond rate is a widely used and accepted benchmark for the risk free rate. Where the forecast period exceeds ten years, an issue arises as to the appropriate bond to use. While longer term bond rates are available, the ten year bond market is the deepest long term bond market in Australia and is a widely used and recognised benchmark. There is a very limited market for bonds of more than ten years. In the United States, there are deeper markets for longer term bonds. The 30 year bond rate is a widely used benchmark. However, long term rates accentuate the distortions of the yield curve on cash flows in early years. In any event, a single long term bond rate matching the term of the cash flows is no more theoretically correct than using a ten year rate. More importantly, the ten year rate is the standard benchmark used in practice.

Where cash flows are less than ten years in duration the opposite issue arises. An argument could be made that shorter term, and therefore lower, bond rates should be used in determining the discount rate for there assets. While Grant Samuel believes this is a legitimate argument, an adjustment may give a misleading impression of precision for the whole methodology. In any event, the impact on valuation would usually be trivial.

In practice, Grant Samuel believes acquirers would use a common rate. The ten year bond rate can be regarded as an acceptable standard risk free rate for medium to long term cash flows, particularly given its wide use.

- **Market Risk Premium**

The market risk premium *(Rm - Rf)* represents the "extra" return that investors require to invest in equity securities as a whole over risk free investments. This is an "ex-ante" concept. It is the expected premium and as such it is not an observable phenomenon. The historical premium is therefore used as a proxy measure. The premium earned historically by equity investments is calculated over a time period of many years, typically at least 30 years. This long time frame is used on the basis that short term numbers are highly volatile and that a long term average return would be a fair indication of what most investors would expect to earn in the future from an investment in equities with a 5-10 year time frame.

In the United States it is generally believed that the premium is in the range of 5-6% but there are widely varying assessments (from 3% to 9%). Australian studies have been more limited but indicate that the long run average premium has been in the order of 6% using a geometric average (and is in the order of 8% using an arithmetic average) measured over more than 100 years of data[1]. Even an estimate based over a very long period such as 100 years is subject to significant statistical error. Given the volatility of equity market returns it is only possible to state that the "true" figure lies within a range of approximately 2-10% at a 95% confidence level (using the geometric average).

In addition, the market risk premium is not constant and changes over time. At various stages of the market cycle investors perceive that equities are more risky than at other times and will increase or decrease their expected premium. Indeed, there are arguments being put forward at the present time that the risk premium is now lower than it has been historically. This view is reflected in the recent update of the Officer Study[2] which indicates that (based on the addition of 17 years of data to 2004) the long term arithmetic average has declined to 7.17% from 7.94%.

In the absence of controls over capital flows, differences in taxation and other regulatory and institutional differences, it is reasonable to assume that the market risk premium should be approximately equal across markets which exhibit similar risk characteristics after adjusting for the

[1] See, for example, R.R. Officer in Ball, R., Brown, P., Finn, F. J. & Officer, R. R., "Share Market and Portfolio Theory: Readings and Australian Evidence" (second edition). University of Queensland Press, 1989 ("Officer Study") which was based on data for the period 1883 to 1987 and therefore was undertaken prior to the introduction of dividend imputation in Australia.

[2] Gray, S. and Officer, R.R., "A Review of the Market Risk Premium and Commentary on Two Recent Papers: A Report prepared for the Energy Networks Association", August 2005.

effects of expected inflation differentials. Accordingly, it is reasonable to assume similar market risk premiums for first world countries enjoying political economic stability, such as Australia, New Zealand, the United States, Japan, the United Kingdom and various western European countries.

In practice, market risk premiums of 5-7% are typically adopted in Australia.

- **Beta Factor**

  The beta factor is a measure of the expected covariance (i.e. volatility and correlation of returns) between the return on an investment and the return from the market as a whole. The expected beta factor cannot be observed. The conventional practice is to calculate an historical beta from past share price data and use it as a proxy for the future but it must be recognised that the expected beta is not necessarily the same as the historical beta. A company's relative risk does change over time.

  The appropriate beta is the beta of the company being acquired rather than the beta of the acquirer (which may be in a different business with different risks). Betas for the particular subject company may be utilised. However, it is also appropriate (and may be necessary if the investment is not listed) to utilise betas for comparable companies and sector averages (particularly as those may be more reliable).

  However, there are very significant measurement issues with betas which mean that only limited reliance can be placed on such statistics. Even measurement of historical betas is subject to considerable variation. There is no "correct" beta.

- **Debt/Equity Mix**

  The tax deductibility of the cost of debt means that the higher the proportion of debt the lower the WACC, although this would be offset, at least in part, by an increase in the beta factor as leverage increases.

  The debt/equity mix assumed in calculating the discount rate should be consistent with the level implicit in the measurement of the beta factor. Typically, the debt/equity mix changes over time and there is significant diversity in the levels of leverage across companies in a sector. There is a tendency to calculate leverage at a point in time whereas the leverage should represent the average over the period the beta was measured. This can be difficult to assess with a meaningful degree of accuracy.

  The measured beta factors for listed companies are "equity" betas and reflect the financial leverage of the individual companies. It is possible to unleverage beta factors to derive asset betas and releverage betas to reflect a more appropriate or comparable financial structure. In Grant Samuel's view this technique is subject to considerable estimation error. Deleveraging and releveraging betas exacerbates the estimation errors in the original beta calculation and gives a misleading impression as to the precision of the methodology. Deleveraging and releveraging is also incorrectly calculated based on debt levels at a single point in time.

  In addition, the actual debt and equity structures of most companies are typically relatively complex. It is necessary to simplify this for practical purposes in this kind of analysis.

  Finally, it should be noted that, for this purpose, the relevant measure of the debt/equity mix is based on market values not book values.

- **Specific Risk**

  The WACC is designed to be applied to "expected cash flows" which are effectively a weighted average of the likely scenarios. To the extent that a business is perceived as being particularly risky, this specific risk should be dealt with by adjusting the cash flow scenarios. This avoids the need to make arbitrary adjustments to the discount rate which can dramatically affect estimated values, particularly when the cash flows are of extended duration or much of the business value reflects future growth in cash flows. In addition, risk adjusting the cash flows requires a more disciplined analysis of the risks that the valuer is trying to reflect in the valuation.

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However, it is also common in practice to allow for certain classes of specific risk (particularly sovereign and other country specific risks) in a different way by adjusting the discount rate applied to forecast cash flows.

## 3 Calculation of WACC

### 3.1 Cost of Equity Capital

The cost of equity capital has been estimated by reference to the CAPM. Grant Samuel has adopted a cost of capital of:

- gas transmission pipelines 10.9-11.5%
- gas and electricity distribution networks 10.9-11.5%

The assumptions, judgements and estimates upon which the costs of equity were based are as follows:

- **Risk-Free Rate**

  Grant Samuel has adopted a risk free rate of 6.1%. The risk free rate approximates the current yield to maturity on ten year Australian Government bonds. The forecast period for the cash flow models exceed ten years. However, ten year bonds are the accepted market benchmark and is typically used as a proxy for the long term risk free rate even where the forecast period exceeds ten years.

- **Market Risk Premium**

  Grant Samuel has consistently adopted a market risk premium of 6.0% for Australia and believes that, particularly in view of the general uncertainty, this continues to be a reasonable estimate. It is:

  - not statistically significantly different to the premium suggested by the historical data;
  - similar to that used by a wide variety of analysts and practitioners (typically in the range 5-7%); and
  - the same as that adopted by most regulatory authorities in Australia.

  Some research analysts and other valuers may use even lower premiums. Overall, Grant Samuel believes 6.0% to be a reasonable, if not conservative, estimate.

- **Beta Factor**

  Grant Samuel has adopted the beta factors in the following ranges for the purposes of valuing Alinta's business operations:

  - gas transmission pipelines 0.8-0.9
  - gas and electricity distribution networks 0.8-0.9

  Grant Samuel has considered the beta factors for a wide range of companies in determining an appropriate beta. The betas have been calculated on two bases, relative to the entity's local index and relative to the Morgan Stanley Capital International Developed World Index ("MSCI"), an international equities market index that is widely used as a proxy for the global stockmarket as a whole.

  A summary of betas for selected comparable listed entities is set out in the table below:

| Equity Beta Factors for Selected Listed Energy Infrastructure Entities | | | | | | |
|---|---|---|---|---|---|---|
| Entity | Market Capitalisation[3] (millions) | Monthly Observations over 4 years | | | Weekly Observations over 2 years | |
| | | AGSM[4] | Bloomberg[5] Local Index | Bloomberg[5] MSCI[6] | Bloomberg Local Index | Bloomberg MSCI |
| SP AusNet | A$2,909 | na | na | na | 0.39 | 0.40 |
| DUET | A$2,026 | na | na | na | 0.85 | 0.64 |
| Spark | A$1,987 | na | na | na | 0.56 | 0.47 |
| Envestra | A$925 | (0.01) | 0.53 | 0.52 | 0.66 | 0.64 |
| Vector | NZ$2,360 | na | na | na | 0.77 | 0.51 |
| APA Group | A$1,604 | 0.53 | 0.63 | 0.76 | 0.79 | 0.79 |
| HDUF | A$716 | na | na | na | 0.52 | 0.47 |
| BBI | A$3,675 | 0.18 | 0.47 | 0.40 | 0.81 | 0.61 |

Source: AGSM, Bloomberg, IRESS

The evidence suggests relatively low betas are appropriate for energy infrastructure assets. However, considerable caution is warranted in selecting a beta for Alinta's businesses:

- individual company betas (for the same source/period) fall in a very wide range. For example, Bloomberg Four Year MSCI betas generally range from 0.40 (BBI) to 0.76 (APA Group);
- all of the data is subject to significant statistical error. For example, APA Group's AGSM beta has a standard error of 0.32 (i.e. even at a 67% confidence level it lies somewhere between 0.21 and 0.85) and BBI has a standard error of 0.35;
- in many cases there is a substantial difference between the beta measured by AGSM and the beta measured by using Bloomberg. There are also substantial variations depending on the index used (Local or MSCI); and
- many of the entities involved in energy infrastructure are relatively recently listed (five within the last four years) and, accordingly, limited reliable data is available for these entities.

Grant Samuel has selected a range for beta of 0.8-0.9 for the gas and electricity distribution networks and gas transmission pipelines. This is lower than the beta adopted by the ACCC. In its recent "Statement of Principles for the Regulation of Transmission Revenues", the ACCC announced it intended to maintain the use of a beta of 1.0 despite acknowledging that empirical market evidence would suggest a beta of less than 1.0.

On the other hand, a range of 0.8-0.9:

- overlaps with the range of 0.5-0.8 proposed by the Essential Services Commission ("ESC") (the Victorian regulator) in its draft decision on the gas access arrangements for 2008-2012 for the three Victorian gas distributors (Envestra, SP AusNet and MultiNet) dated August 2007;

[3] Based on share prices as at 19 October 2007 except for SP AusNet which is based on the share price as at 19 September 2007 (the day prior to the announcement of the Proposal).

[4] The Australian beta factors calculated by the Australian Graduate School of Management ("AGSM") are as at 30 June 2007 over a period of 48 months using ordinary least squares regression or the Scholes-Williams technique where the stock is thinly traded (e.g. for Envestra).

[5] Bloomberg's betas have been calculated up to 19 October 2007. Grant Samuel understands that betas estimated by Bloomberg are not calculated strictly in conformity with accepted theoretical approaches to the estimation of betas (i.e. they are based on regressing total returns rather than the excess return over the risk free rate). However, in Grant Samuel's view the Bloomberg beta estimates can still provide a useful insight into the systematic risks associated with companies and industries. The figures used are the Bloomberg "adjusted" betas.

[6] MSCI is calculated using local currency so that there is no impact of currency changes in the performance of the index.

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- overlaps with the range of 0.8-1.0 suggested by the Independent Pricing and Regulatory Tribunal ("IPART"), the New South Wales regulator responsible for the New South Wales gas distribution network;
- is lower than the beta of 1.0 adopted by the Economic Regulation Authority ("ERA") (the Western Australian regulator responsible for AlintaGas Networks now owned by BBI/DUET) and the Australian Energy Regulator in its draft decision dated August 2007 in relation to SP AusNet's Victorian transmission network;
- is higher than the 0.7 level derived from empirical information by Allen Consulting Group ("Allens") in its extensive studies on the gas industry betas[7] and the electricity industry betas[8] in Australia; and
- is higher than almost all the evidence in the above table would suggest.

To this extent the range of 0.8-0.9 for gas and electricity distribution networks and gas transmission pipelines can be considered conservative.

- **Cost of equity capital**

Using the CAPM formula of $Re = Rf + Beta\ (Rm - Rf)$ and the estimates set out above, the costs of equity capital can be calculated as follows:

***(i) Gas Transmission Assets***

| | | **Low** | | | **High** |
|---|---|---|---|---|---|
| *Re* | = | *Rf + Beta (Rm-Rf)* | *Re* | = | *Rf + Beta (Rm-Rf)* |
| | = | *6.1% + (0.8 x 6%)* | | = | *6.1% + (0.9 x 6%)* |
| | = | *10.9%* | | = | *11.5%* |

***(ii) Gas and Electricity Distribution Networks***

| | | **Low** | | | **High** |
|---|---|---|---|---|---|
| *Re* | = | *Rf + Beta (Rm-Rf)* | *Re* | = | *Rf + Beta (Rm-Rf)* |
| | = | *6.1% + (0.8 x 6%)* | | = | *6.1% + (0.9 x 6%)* |
| | = | *10.9%* | | = | *11.5%* |

In addition, Grant Samuel considered the cost of capital relative to the implied cost of equity based on the Gordon Growth Model for the gas and electricity distribution networks and gas transmission assets. Essentially,

$$\text{Present Value (or Price)} = \frac{Dividends\ (Year\ 1)}{Re - g}$$

where $Re$ = cost of equity capital
$g$ = perpetual growth rate

Turning this formula around:

$$Re = \frac{Dividends}{Price} + g$$

In other words, the cost of equity capital is the current forecast yield plus the expected long term growth rate.

[7] Allen Consulting Group, "Empirical Evidence on Proxy Beta Values for Regulated Gas Transmissions Activities", Final report for the ACCC, July 2002, p.43.

[8] Allen Consulting Group, "Electricity Networks Access Code 2004: Advance Determination of a WACC Methodology", Report to the Economic Regulation Authority Western Australia, January 2005, p.38.

Analysis of entities comparable to Alinta's gas and electricity distribution and transmission networks (i.e. APA Group, DUET, Envestra, Spark, HDUF and SP AusNet) would suggest costs of capital in the range 10.5-11.5% (yields mostly around 8.5% and growth of 2-3%) with a median of around 10.5%.

This analysis is not inconsistent with the ranges set out above, although considerable caution is warranted because of the difficulties of putting all the yields on a comparable basis (because of differing tax treatments).

### 3.2 Cost of Debt

A cost of debt of 7.1% has been adopted. These figures represent the expected future cost of borrowing over the duration of the cash flow model. Grant Samuel believes that this would be a reasonable estimate of an average interest rate, including margin, that would match the duration of the cash flows assuming that the operations were funded with a mixture of short term and long term debt. The costs of debt represent a margin of 1.0% over the risk free rate which allows for the margin over bank rates that SP AusNet would expect to pay together with an allowance for the difference between bank rates and government bonds.

### 3.3 Debt/Equity Mix

The selection of the appropriate debt/equity ratio involves perhaps the most subjectivity of discount rate selection analysis. In determining an appropriate debt/equity mix, regard was had to gearing levels of selected comparable listed Australian entities and the nature and quality of the cash flow stream of the relevant businesses.

Gearing levels for selected listed entities in the Australian utility sector over the past four years are set out below:

**Gearing Levels for Selected Listed Energy Infrastructure Entities**

| Entity | Net Debt/(Net Debt + Market Capitalisation) | | | | | |
|---|---|---|---|---|---|---|
| | Year End 30 June | | | | Current[9] | 4 Year Average |
| | 2004 | 2005 | 2006 | 2007 | | |
| SP AusNet | na | na | 57.8% | 53.8% | 55.0% | 55.8% |
| DUET | na | 79.1% | 77.4% | 65.9% | 67.9% | 74.1% |
| Spark[10] | na | na | 50.6% | 45.4% | 44.6% | 48.0% |
| Envestra | 70.9% | 70.4% | 67.7% | 66.3% | 67.7% | 68.8% |
| Vector | na | na | 55.8% | 54.7% | 57.0% | 55.3% |
| APA Group | 50.7% | 48.5% | 50.1% | 58.3% | 66.7% | 51.9% |
| HDUF | na | 36.6% | 42.8% | 42.5% | 34.3% | 40.6% |
| BBI | 52.2% | 58.5% | 64.6% | 58.4% | 62.7% | 58.4% |
| *Minimum* | *50.7%* | *36.6%* | *42.8%* | *42.5%* | *34.3%* | *40.6%* |
| *Maximum* | *70.9%* | *79.1%* | *77.4%* | *66.3%* | *67.9%* | *74.1%* |
| *Median* | *52.2%* | *58.5%* | *56.8%* | *56.5%* | *59.8%* | *55.5%* |

Source: Entity Reports, IRESS, Bloomberg

The table shows a range of gearing levels. Moreover, these do not always bear any relationship to the betas of the individual companies. In some cases highly geared companies have equity betas towards the lower end of the range (e.g. Envestra). In this case the selection of gearing levels is highly judgemental. Further, the debt levels should actually be the weighted average measured over the same period as the beta factor rather than just at the current point in time.

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[9] Current gearing levels are based on the most recent balance sheet information and on sharemarket prices as at 19 October 2007 except for SP AusNet which is based on sharemarket prices as at 19 September 2007 (the day prior to the announcement of the Proposal).

[10] The calculation of value parameters for Spark is made complex by the minority holdings and form of investment. The gearing shown for Spark reflects the gearing of the entity itself and not that of the underlying assets. It is estimated that if the debt of the underlying assets is allowed for Spark's gearing would increase to around 60%. Spark confirmed this when it announced that on a "see through" basis its book gearing at 30 June 2007 was 57.5%.

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Having regard to this data, Grant Samuel has adopted debt/equity ratios as follows:

- gas transmission pipelines 55-65%
- gas and electricity distribution networks 60-70%

The debt/equity ratios adopted for the gas and electricity distribution networks and the gas transmission pipelines are higher than the 50-60% typically allowed for by regulators. However, there is some evidence of increasing leverage in the sector. The gearing of Spark (on an underlying basis), DUET and Envestra exceed 60% while the gearing of all other comparable entities except HDUF exceed 50%.

### 3.4 WACC

On the basis of the parameters outlined above and assuming a corporate tax rate of 30%, nominal WACC for Alinta's businesses are calculated as follows:

*(i) Gas Transmission Pipelines*

| Low | High |
|---|---|
| = *(35% x 10.9%) + (65% x 7.1% x 0.7)* | = *(45% x 11.5%) + (55% x 7.1% x 0.7)* |
| = *3.8% + 3.2%* | = *5.2% + 2.7%* |
| = *7.0%* | = *7.9%* |

*(ii) Gas and Electricity Distribution Networks*

| Low | High |
|---|---|
| = *(30% x 10.9%) + (70% x 7.1% x 0.7)* | = *(40% x 11.5%) + (60% x 7.1% x 0.7)* |
| = *3.3% + 3.4%* | = *4.6% + 3.0%* |
| = *6.7%* | = *7.6%* |

These are after tax discount rates to be applied to nominal ungeared after tax cash flows. However, it must be recognised that this is a very crude calculation based on statistics of limited reliability and involving a multitude of assumptions.

Having regard to these matters and the calculations and data set out above, Grant Samuel has concluded that reasonable discount rates for the purposes of the valuation of Alinta are:

- gas transmission pipelines 7.0-7.25%
- gas and electricity distribution networks 6.75-7.0%

## 4 Dividend Imputation

The conventional WACC formula set out above was formulated under a "classical" tax system. The CAPM model is constructed to derive returns to investors after corporate taxes but before personal taxes. Under a classical tax system, interest expense is deductible to a company but dividends are not. Investors are also taxed on dividends received. Accordingly, there is a benefit to equity investors from increased gearing.

Under Australia's dividend imputation system, domestic equity investors now receive a taxation credit (franking credit) for any tax paid by a company. The franking credit attaches to any dividends paid out by a company and the franking credit offsets personal tax. To the extent the investor can utilise the franking credit to offset personal tax, then the corporate tax is not a real impost. It is best considered as a withholding tax for personal taxes. It can therefore be argued that the benefit of dividend imputation should be added into any analysis of value.

There is no generally accepted method of allowing for dividend imputation. In fact, there is considerable debate within the academic community as to the appropriate adjustment or even whether any adjustment is required at all. Some suggest that it is appropriate to discount pre tax cash flows, with an increase in the discount rate to "gross up" the market risk premium for the benefit of franking credits that are on average received by shareholders. On this basis, the discount rate might increase by approximately 2% but it would be applied to pre tax cash flows. However, not all of the necessary conditions for this approach exist in practice:

- not all shareholders can use franking credits. In particular, foreign investors gain no benefit from franking credits. If foreign investors are the marginal price setters in the Australian market there should be no adjustment for dividend imputation;
- not all franking credits are distributed to shareholders; and
- capital gains tax operates on a different basis to income tax. Investors with high marginal personal tax rates will prefer cash to be retained and returns to be generated by way of a capital gain.

Others have proposed a different approach involving an adjustment to the tax rate in the discount rate by a factor reflecting the effective use or value of franking credits. If the credits can be used, the tax rate is reduced towards zero. The proponents of this approach have in the past suggested a factor of up to 50% as representing the appropriate adjustment (gamma). Alternatively, the tax charge in the forecast cash flows can be decreased to incorporate the expected value of franking credits distributed.

There is undoubtedly merit in the proposition that dividend imputation affects value. Over time dividend imputation will become factored into the determination of discount rates by corporations and investors. In Grant Samuel's view, however, the evidence gathered to date as to the value the market attributes to franking credits is insufficient to rely on for valuation purposes. More importantly, Grant Samuel does not believe that such adjustments are widely used by acquirers of assets at present. While acquirers are undoubtedly attracted by franking credits there is no clear evidence that they will actually pay extra for them or build it into values based on long term cash flows. The studies that measure the value attributed to franking credits are based on the immediate value of franking credits distributed and do not address the risk and other issues associated with the ability to utilise them over the longer term. Accordingly it is Grant Samuel's opinion that it is not appropriate to make any such adjustments in the valuation methodology. This is a conservative approach.

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## Appendix 2

## DCF Model Assumptions

### 1 General Assumptions

The following general assumptions have been made in the DCF Models developed to value certain of the Alinta Assets:

- inflation rate of 2.5% per annum;
- corporate tax rate of 30%. There is no change in taxation legislation that has a material impact on the assets;
- no material changes to working capital from year to year throughout the forecast period; and
- no significant changes in legislation, or in the policies or procedures of the various regulatory bodies.

### 2 Gas and Electricity Distribution Networks

#### 2.1 General Assumptions

- a discount rate of 6.75-7.0% has been applied to the nominal after tax cash flows; and
- perpetual growth rate of 3.0% for the purposes of calculating the terminal value.

#### 2.2 NSW Gas Network

- average revenue growth of approximately 3.6% over the 20 year forecast period, which includes the expected regulatory tariff reset in 2010 and network connections growth;
- average operating expenditure growth of 3.0% reflecting cost inflation and network growth;
- capital expenditure to reduce from $129 million in 2007 (which includes final development of the Sydney Primary Loop) to around $100 million in 2008. Long term capital expenditure of approximately $100 million from 2011 growing at inflation of 2.5%; and
- tax depreciation on existing and future capital expenditure forecast on a diminishing value basis using a useful life of 20 years and a diminishing value factor of 150%.

#### 2.3 Victorian Electricity Network

- average revenue growth of 3.0% over the forecast period, reflecting expectations of the regulatory reset in 2010, network expansion and volume growth;
- operating expenditure growth of approximately 5.0% per annum over the first five years reducing to 2.5% from 2012;
- capital expenditure approximately $100 million per annum until 2013, then reducing to approximately $70 million in 2014 and growing thereafter at approximately 5.0% per annum; and
- tax depreciation on existing assets and future capital expenditure calculated on a diminishing value basis using an average estimated life of 30 years and a diminishing value factor of 150%.

#### 2.4 ActewAGL Distribution

- average revenue growth of 3.5% up to 2011 and 3.0% thereafter;
- average operating expenditure growth of 3.5% over the three years to 2010 and 3.0% thereafter; and
- capital expenditure based on the four year budget at approximately $50 million per annum.

## 3 Gas Transmission Assets

### 3.1 General Assumptions

- a discount rate of 7.0-7.25% has been applied to the nominal after tax cashflows;
- tax depreciation is based on the asset tax cost bases as at 5 October 2005 depreciated on a straight line basis for a period of 20 years;
- new capital expenditure is depreciated for tax purposes on a straight line basis for 20 years;
- all licences are renewed on expiry;
- decommissioning costs (where applicable) are based on independent advice received by the Alinta Assets; and
- sufficient gas supplies will be available from either existing or new suppliers to meet the forecast demand for pipeline transportation services.

### 3.2 Queensland Gas Pipeline

- current contracts are renewed on expiry in line with current terms;
- additional power and co-generation contracts of approximately 25 PJ per annum plus potential cogeneration expansion opportunity of approximately 12 PJ per annum expected to commence mid to late 2010;
- tariffs capped at $0.795/GJ, then reduced to $0.710/GJ when capacity exceeds 25 PJ per annum (in accordance with current access arrangements);
- no change in access arrangements post-expiry of the current arrangements in 2016;
- capital expenditure on capacity expansion for current contracts of approximately $114 million from 2008 to 2010, plus potential additional expenditure of approximately $90 million for expansion opportunities; and
- maintenance and investment costs based on asset management plans escalated at inflation including:
  - four-yearly compressor overhauls; and
  - routine diagnostic assessment of pipeline condition (through a process called "intelligent pigging") forecast to occur in 2010, 2018, 2026 and 2030.

### 3.3 Eastern Gas Pipeline

- current contracts are renewed on expiry or replaced with agreements on equivalent terms;
- tariffs escalate annually at 75% of inflation;
- demand growth including:
  - additional take-or-pay agreements for approximately 19 PJ per annum for gas-fired power generation and retail usage commencing in 2008; plus
  - potential gas-fired power generation, co-generation and retail expansion opportunities of approximately 40 PJ per annum commencing from late 2009 and reaching steady state in 2011 based on currently identified growth opportunities;
- maintenance and investment costs based on asset management plans, escalated at inflation including:
  - two to three-yearly compressor overhauls;
  - pigging forecast for 2016 and 2026; and
- capital expenditure of approximately $60 million in the period to 2010 to support current capacity commitment plus additional compressor expansion of up to $80 million to support the identified growth opportunities.

### 3.4 VicHub

- revenues are escalated at inflation;
- operating and maintenance costs escalated at inflation; and
- capital expenditure and decommissioning costs are assumed to be negligible.

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## Appendix 3

## Market Evidence

### 1 Valuation Evidence from Transactions

There have been a large number of well documented transactions in the energy sector in Australia and New Zealand in recent years. The major energy sector transaction of recent times was the acquisition of Alinta Limited ("Alinta") by the Babcock & Brown/Singapore Power Consortium. Alinta owned 29 energy businesses and assets including gas transmission and distribution assets, electricity distribution assets, power generation assets, energy retail assets and asset management businesses. The final terms of the transaction announced in May 2007 valued Alinta at approximately $8 billion ($16.06 per Alinta share) and implied a current year multiple of 15.4 times EBITDA. As a result of movements in the value of the scrip portions of the consideration, the value received by Alinta shareholders on completion of the transaction on 31 August 2007 had declined to $7.6 billion (a current year multiple of EBITDA of 14.8 times). As these multiples reflect the blend of Alinta's various businesses, the transaction is not specifically meaningful in assessing appropriate valuation parameters for individual Alinta Assets but is useful in reviewing the valuation of the Alinta Assets in total[1].

Market evidence of transactions in the Australian infrastructure services sector is limited. While there have been a few Australian acquisitions the majority of transactions have generally involved relatively small infrastructure services businesses (for which there is insufficient information with which to calculate transaction multiples) or involved the acquisition of international businesses.

A selection of relevant Australian and New Zealand energy transactions since 2002 is set out below:

**Recent Transaction Evidence**

| Date | Target | Type[2] | Transaction | Consid-eration[3] (millions) | Revenue Multiple[4] (times) | | EBITDA Multiple[5] (times) | | EBIT Multiple[6] (times) | | Ungeared NTA Multiple[7] (times) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Historical[8] | Forecast[8] | Historical | Forecast | Historical | Forecast | |
| **Electricity** | | | | | | | | | | | |
| Jul 07 | Basslink | I | Acquisition by CitySpring Infrastructure Trust | A$1,175 | 16.9 | 16.8 | 16.4 | 15.1[9] | 22.5 | na[10] | 1.5 |
| Dec 06 | DirectLink | I | Acquisition by APA Group | A$170 | na | 14.2 | na | 15.3 | na | na | na |
| Mar 06 | Murraylink | I | Acquisition by APA Group | A$153 | na | 11.8 | na | 15.8 | na | 16.3 | na |
| Dec 05 | SP AusNet | I | IPO | A$2,888 | 9.0 | 8.4 | 13.3 | 13.1 | 18.6 | 19.0 | 1.5 |
| Nov 05 | Spark Infrastructure | I | IPO | A$2,017 | na | na | 9.9 | 10.7 | na | na | 1.3 |

1 Singapore Power acquired the Alinta Assets for $8.142 billion but there is no earnings information in the public arena by which to calculate multiples for that acquisition. However, the multiples implied by Singapore Power's acquisition have been calculated in the detailed report based on current and forecast earnings for the Alinta Assets as disclosed in the Explanatory Memorandum.

2 G = Generation; R = Retail; I = Infrastructure

3 Implied equity value if 100% of the company or business had been acquired.

4 Represents gross consideration divided by revenue. The gross consideration is the sum of the equity and/or cash consideration plus borrowings net of cash.

5 Represents gross consideration divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant items.

6 Represents gross consideration divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant items.

7 Represents gross consideration divided by ungeared net tangible assets (i.e. net assets less intangibles plus borrowings less cash as at latest balance date).

8 Historical multiples are based on the most recent publicly available full year earnings prior to the transaction announcement date. Forecast multiples are based on earnings forecasts from a range of brokers' reports available at transaction announcement date.

9 Forecast EBITDA used to calculate multiple includes revenue forecast to be received in 2008 under a commercial risk sharing mechanism the intention of which is to be neutral between Basslink and Hydro Tasmania. If the receipt is excluded the forecast EBITDA multiple increase to 19.3 times.

10 na = not available.

**Recent Transaction Evidence**

| Date | Target | Type[2] | Transaction | Consideration[3] (millions) | Revenue Multiple[4] (times) Historical | Revenue Multiple[4] (times) Forecast | EBITDA Multiple[5] (times) Historical | EBITDA Multiple[5] (times) Forecast | EBIT Multiple[6] (times) Historical | EBIT Multiple[6] (times) Forecast | Ungeared NTA Multiple[7] (times) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Aug 04 | Powerco | I | Acquisition by Prime Infrastructure | NZ$680 | 5.5 | 5.2 | 9.4 | 9.0 | 14.2 | 13.2 | 1.1 |
| Apr 04 | TXU Australia | G/R/I | Acquisition by Singapore Power | A$5,100 | na | na | 9.2 | 8.6 | na | na | na |
| Jul 03 | United Energy | I | Scheme of arrangement with Alinta | A$1,340 | 4.0 | 4.3 | 8.1 | 7.5 | 11.8 | 10.8 | 1.6 |
| **Gas** | | | | | | | | | | | |
| Apr 07 | Envestra Limited | I | Acquisition of 17.2% by APA Group | A$990 | 8.8 | 8.7 | 12.7 | 13.1 | 16.7 | 16.7 | 1.9 |
| Apr 07 | SEA Gas Pipeline | I | Acquisition of 33.3% by APA Group | A$400 | na | na | na | 14.5 | na | na | na |
| Nov 06 | Alinta Infrastructure Holdings | I | Acquisition by Alinta | A$956 | 9.0 | 9.0 | 14.3 | 14.5 | 22.9 | 24.2 | 2.0 |
| Oct 06 | Allgas Energy Pty Ltd | I | Acquisition by APA Group | A$521 | na | 12.5 | na | 18.1 | na | 25.5 | na |
| Aug 06 | GasNet Australia Group | I | Takeover by APA Group | A$452 | 10.4 | 9.5 | 13.9 | 13.3 | 19.5 | 18.3 | 1.3 |
| Apr 06 | AGL Infrastructure Assets | I | Acquisition by Alinta | A$6,500 | 7.6 | 6.8 | 13.0 | 12.6 | 18.4 | 18.1 | 7.3 |
| Sep 05 | Alinta Infrastructure Holdings | I | IPO | A$926 | 10.8 | 9.3 | 17.4 | 14.2 | 31.2 | 22.4 | 2.0 |
| Jun 05 | NGC Holdings | I | Acquisition of 32.8% interest by Vector | NZ$1,506 | 4.3 | 4.1 | 10.7 | 10.1 | 14.0 | 12.8 | 2.5 |
| Feb 05 | Carpentaria Gas Pipeline | I | Acquisition of 30% by APA Group | A$327 | 8.5 | 8.4 | na | na | 11.8 | 11.4 | na |
| Oct 04 | NGC Holdings | I | Acquisition of 67.2% interest by Vector | NZ$866 | 3.8 | 3.7 | 9.6 | 9.2 | 12.6 | 11.8 | 2.3 |
| Aug 04 | Dampier to Bunbury Natural Gas Pipeline | I | Acquisition by DUET/Alinta/Alcoa Consortium | A$1,860 | na | 9.3 | na | 11.1 | na | na | na |
| Aug 04 | 45% of Southern Cross Pipelines and 100% of Parmelia Gas | I | Acquisition by APA Group | A$206 | na | na | 8.3 | na | na | na | na |
| Mar 04 | Duke Energy Australian and New Zealand assets | I | Acquisition by Alinta | A$1,690 | 6.3 | 5.7 | 17.0 | 15.5 | na | na | na |
| **Infrastructure Services** | | | | | | | | | | | |
| May 07 | Alinta's Asset Management Services (including APA Group O&M contracts) | | Acquisition by Babcock & Brown/Singapore Power Consortium | A$2,600-2,800 | na | na | 13.4-14.4 | 11.7-12.6 | na | na | na |
| Apr 07 | Origin Energy Asset Management | | Acquisition by APA Group | A$252.9 | na | 1.1 | na | 13.1 | na | na | na |
| Apr 06 | Agility | | Acquisition by Alinta | A$1,050 | 2.0 | 1.7 | 13.8 | 12.3 | na | na | na |

Source: Grant Samuel analysis[11]

A brief summary of each transaction is set out below.

[11] Grant Samuel analysis based on data obtained from IRESS, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.

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**Electricity**

***Basslink / CitySpring Infrastructure Trust***

On 31 July 2007, CitySpring Infrastructure Management Pte Ltd as trustee-manager of CitySpring Infrastructure Trust ("CitySpring") entered into an agreement to acquire Basslink Pty Ltd ("Basslink") from National Grid plc for $1.175 billion. Basslink is a 370 kilometre electricity interconnector between Tasmania and Victoria which began operations in April 2006. It is currently the world's longest subsea electricity transmission cable. Basslink was constructed to allow Tasmania to participate in the National Electricity Market and provide power stability. Based in Singapore, CitySpring is a publicly owned infrastructure business trust and Temasek Holdings (Private) Limited (which is ultimately owned by the Government of the Republic of Singapore is CitySpring's largest unitholder with a 27.8% interest. The transaction was completed on 31 August 2007.

***DirectLink / APA Group***

In February 2007, APA Group (formerly known as Australian Pipeline Trust) acquired the DirectLink electricity transmission asset linking the New South Wales and Queensland power grids for $170 million. APA Group acquired DirectLink from the DirectLink joint venture, which comprised Country Energy, Hydro Quebec International Group and Fonds de Solidarite des Travailleurs de Quebec. The acquisition price represented a regulated asset base ("RAB") multiple of 1.44x based on 31 December 2006 forecast RAB.

***Murraylink / APA Group***

In March 2006, APA Group announced it would acquire the Murraylink electricity transmission assets ("Murraylink") for A$153 million. Murraylink is a 180 kilometre underground high voltage direct current cable interconnector between South Australia and Victoria with a capacity of 220MW. APA Group has interests in approximately 7,500 kilometres of gas transmission pipelines throughout Australia but is pursuing a strategy of making value-accretive acquisitions in complementary asset classes. Murraylink is APA Group's first significant acquisition of a non-gas transmission asset. This acquisition represents a forecast EBITDA multiple of 15.8 times and a RAB multiple of 1.47 times.

***SP AusNet***

SP AusNet was formed to house the Australasian assets of Singapore Power Limited ("Singapore Power"). The company was listed on the Australian Stock Exchange ("ASX") on 14 December 2005. SP AusNet is the primary electricity transmission provider and electricity and gas distribution business in Victoria. In 2005, 87% of revenues were regulated. Singapore Power has retained a 51% interest in SP AusNet.

***Spark Infrastructure***

Spark Infrastructure ("Spark") was formed to hold a diversified portfolio of regulated utility infrastructure assets in Australia. Spark was listed on the ASX on 16 December 2005 with a market capitalisation of approximately $2.0 billion. It is managed by a company owned jointly by Cheung Kong Infrastructure Holdings Limited ("CKI"), a listed company in Hong Kong with a portfolio of over $33 billion in utility and infrastructure investments, and RREEF Infrastructure ("RREEF"), the infrastructure investment business of Deutsche Asset Management. Spark's initial portfolio comprises a 49% interest in each of CitiPower, Powercor and ETSA, with the remaining 51% interest being held by CKI and its affiliate, Hongkong Electric ("HKE"). CitiPower and Powercor are electricity distributors operating in Victoria and ETSA is an electricity distributor in South Australia. The calculation of underlying multiples for Spark is complex because of the minority holdings and form of investment.

***Powerco Limited / Prime Infrastructure Networks (New Zealand) Limited***

In September 2004, Prime Infrastructure Networks (New Zealand) Limited ("Prime Infrastructure") made an offer to acquire all of the ordinary shares and capital bonds of Powerco Limited ("Powerco") at NZ$2.15 per share, to be paid using a mix of cash and a subordinated debt security. The structure of the offer was highly complex and significant uncertainty surrounded the volume and underlying value of the subordinated debt securities to be issued under the offer. Powerco was New Zealand's second largest electricity and gas distribution company. It had a network servicing approximately 400,000 consumers in the North Island, representing 46% of the gas connections and 16% of the electricity connections in New Zealand.

*Texas Utilities' Australian Assets / Singapore Power*

In April 2004 Singapore Power acquired Texas Utilities' Australian assets ("TXU Australia") for A$5.1 billion. These assets included significant electricity and gas networks in Victoria and a retail business supplying approximately one million customers in Victoria and South Australia.

*United Energy Limited / Alinta Limited*

United Energy Limited ("United Energy") owned and operated an electricity distribution network in the south eastern suburbs of Melbourne and the Mornington Peninsula in Victoria. It also had investments in a number of other Australian utility businesses including the listed companies Alinta and Uecomm Limited. On 23 April 2003, Alinta announced that through a complex series of transactions, it would acquire a 34% interest in United Energy's distribution assets and a 100% interest in its non-distribution assets. To complete the transaction, Alinta and AMP Henderson Global Investors acquired the 43% of United Energy held by the public through a scheme of arrangement. The consideration paid was A$3.15 per share.

**Gas**

*Envestra Limited / APA Group*

In April 2007, APA Group announced it had entered into a conditional agreement with Origin Energy to acquire its 17.2% stake in Envestra Limited ("Envestra") for $170.4 million, or $1.20 per security. This represented a 4.4% discount to the closing price at 3 April 2007. Envestra is Australia's largest natural gas distributor, with 19,100 kilometres of natural gas distribution networks and 1,029 kilometres of natural gas transmission pipelines, and over 95% of Envestra's revenue is regulated. APA Group became Envestra's largest shareholder on completion of the acquisition. As the transaction involves a minority interest the implied multiples do not include a premium for control. However, it should be noted that the interest acquired is strategic.

*SEA Gas Pipeline / APA Group*

In April 2007, APA Group announced it had entered into a conditional agreement with Origin Energy to acquire Origin Energy's 33.3% interest in SEA Gas Pipeline for $133.2 million. The SEA Gas Pipeline is a 114 PJ p.a. capacity, 680 kilometres pipeline linking the Victorian gas fields to South Australian markets which became operational in January 2004. APA Group is responsible for operating and maintaining the pipeline.

It is noted that in March 2005, CLP Holdings Ltd ("CLP") acquired Singapore Power's Australian merchant energy business for A$2.128 billion. This business included the fifth-largest energy retailer in Australia, a 1,280MW gas-fired power plant in South Australia, a 33% interest in the SEA Gas pipeline and an underground gas storage plant. CLP disclosed that its 33% interest in SEA Gas Partnership was acquired for A$195 million. This price implied a value of $585 million for 100% of SEA Gas Partnership and a multiple of 1.3 times the cost to construct the pipeline system (estimated at A$450 million).

*Alinta Infrastructure Holdings Limited / Alinta Limited*

On 15 November 2006, Alinta announced an unconditional cash takeover offer for the 80% of securities in Alinta Infrastructure Holdings Limited ("AIH") that Alinta did not already own. Alinta formed AIH in August 2005 from a portfolio of nine gas transmission infrastructure and power generation assets. The initial public offering of AIH in October 2005 took the form of a partly paid issue, with $2.00 per stapled security payable on application and $1.20 per stapled security payable on 29 December 2006 ("the second instalment"). Alinta retained a 20% interest in AIH at listing, with an agreement to maintain an interest of at least 15%. Alinta's offer was $2.06 cash per partly paid security (pre second instalment) or $3.26 post the second instalment. Alinta completed the acquisition of AIH in February 2007.

*Allgas Energy Pty Ltd / APA Group*

In October 2006, APA Group announced it would acquire Allgas Energy Pty Ltd ("Allgas") from ENERGEX Limited for A$521 million. Allgas is one of two gas distribution businesses in South East Queensland and has a 2,300 kilometres regulated gas network spanning Brisbane, the Gold Coast, Northern New South Wales, Toowoomba and Oakey that supplies approximately 65,000 customers. The Allgas network is supplied by APA Group's Roma to Brisbane Pipeline and is a complementary infrastructure to APA Group's gas transmission businesses. APA Group plans to expand the Allgas distribution network and increase network utilisation.

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*GasNet Australia Group / APA Group*

In June 2006, BBI announced, in association with APA Group, it would make a scrip takeover offer for GasNet Australia Group ("GasNet"). The consideration offered was 1.545 BBI stapled securities for each GasNet stapled security not already owned by BBI and APA Group (together 14.2%). The offer represented A$2.45 per GasNet stapled security, excluding the estimated 6.75 cents final distribution announced by BBI (A$2.55 cum dividend). GasNet directors rejected the offer on the basis that it materially undervalued the company and was highly conditional. On 15 August 2006, Colonial First State Global Asset Management announced a counter recommended offer of A$2.88 cash per stapled security (A$2.77 after adjusting for the proposed 11 cent distribution for the six months to 30 June 2006). On 22 August 2006, BBI and APA Group announced the termination of their joint bidding agreement and therefore their bid will lapse. In addition, APA Group announced an offer of $3.10 cash per stapled security valuing GasNet at A$452 million. GasNet owns and operates 1,930 kilometres of pipelines and a LNG storage facility in Victoria as well as a 450 kilometres pipeline in Western Australia. The APA Group offer represents a RAB multiple of 1.64x assuming regulated assets represent 75% of total assets.

*AGL Infrastructure Assets / Alinta Limited*

On 26 April 2006, AGL and Alinta announced an agreement to merge and restructure their respective businesses to create two separated listed companies, Alinta Limited ("New Alinta") (focused on the ownership and management of energy infrastructure assets) and AGL Energy Limited (focused on energy retailing, trading and generation). One component of the transaction involved the acquisition of AGL's infrastructure and asset management businesses for A$6.5 billion. The businesses acquired included a gas network in New South Wales, an electricity network in Victoria and 50% of the ActewAGL Distribution Partnership, the Agility infrastructure management and services business, Wattle Point Wind Farm in South Australia, the Cawse Cogeneration facility in Western Australia, Gas Valpo a regional gas distribution and retailing business in Chile and a 30% interest in APA Group. The gas and electricity networks (including ActewAGL) represented 65-70% of the value attributed to the AGL Infrastructure Assets and the New South Wales gas network is the major component of those assets. The multiples calculated for the transaction reflect the blend of businesses (including a substantial asset management business), that the network assets are substantial, high quality assets and that the AGL Infrastructure business on a standalone basis has a lower relative tax cost basis than its peers.

*Alinta Infrastructure Holdings*

In September 2005, Alinta announced that it would spin off infrastructure assets into a separately listed stapled entity, Alinta Infrastructure Holdings ("Alinta Infrastructure"). Alinta Infrastructure's initial assets consisted of the gas pipeline and electricity generation assets acquired by Alinta from Duke Energy in March 2004 (see below). The multiples calculated are based on the application price of A$3.20 per stapled security. As the offering reflects sharemarket prices gas transmission and electricity generation assets the implied multiples do not include a premium for control. The earnings have been adjusted to reverse the impact of accounting for Glenbrook Power Station as a finance lease.

*NGC Holdings Limited / Vector Limited*

On 27 June 2005, Vector announced a takeover offer for the 32.8% of the shares that it did not already own in NGC Holdings Limited ("NGC") and provided details of its proposed initial public offering. Vector had previously acquired a 67.2% shareholding in NGC following a takeover offer made in December 2004. The consideration offered for NGC was NZ$2.62 worth of Vector shares and NZ$0.78 cash for each share in NGC. NGC's operations comprised gas transmission and distribution services, energy sales and processing of natural gas, LPG and gas liquids, ownership and management of electricity and gas meters and the provision of related metering services. Vector also operated businesses that delivered high-speed voice and data communications. It was the largest owner and manager of electricity infrastructure networks in New Zealand with electricity networks in Auckland and Wellington serving over 644,000 customers. NGC's business activities were complementary to Vector's own electricity, gas, metering and telecommunications assets in terms of location, market position and scale.

*Carpentaria Gas Pipeline / APA Group*

In February 2005, APA Group purchased the remaining 30% of Carpentaria Gas Pipeline that it did not already own from Santos Limited, Origin Energy and Delhi Petroleum for A$98 million cash. Carpentaria Gas Pipeline is an 840 kilometres gas pipeline which connects the Ballera gas fields in south west Queensland to Mt Isa in north west Queensland. The customers at Mt Isa were WMC, BHP Billiton, Xstrata and CS Energy.

*NGC Holdings Limited / Vector Limited*

On 11 October 2004, Vector announced that it had entered into an agreement to acquire AGL's 66.05% stake in NGC at a price of NZ$3.00 per share. Completion of the sale was subject to an exemption being granted by the Takeovers' Panel which would allow AGL to sell its New Zealand holding company, AGL NZ Limited, to Vector rather than the shares in NGC. The exemption was not granted and on 19 November 2004 Vector issued a notice of intention to make a takeover offer for all of the shares in NGC. The takeover offer closed on 4 February 2005 with Vector having gained acceptances for a further 1.2% of NGC shares on top of the 66.05% acquired from AGL. The cash consideration paid to AGL under the takeover offer was reduced from NZ$3.00 to NZ$2.91 due to the payment of a NZ$0.09 special dividend on 3 November 2004.

***Dampier to Bunbury Natural Gas Pipeline / DUET / Alinta / Alcoa Consortium***

In August 2004, the receivers and managers of the Dampier to Bunbury Natural Gas Pipeline ("DBNGP") announced that a consortium comprising Diversified Utility and Energy Trusts ("DUET") (60%), Alinta (20%) and Alcoa of Australia Limited ("Alcoa") (20%) had been named as the preferred bidder for the purchase of 100% of DBNGP and its associated assets. The consortium's bidding price was approximately A$1.86 billion (excluding transaction costs and proposed capital expenditure). The acquisition further diversified DUET's portfolio of regulated energy utility businesses and added a strategic gas transmission asset.

***Southern Cross Pipelines and Parmelia Gas Business / APA Group***

In August 2004, APA Group purchased the remaining 45% of Southern Cross Pipelines ("SCP") that it did not already own and 100% of the Parmelia Gas business ("Parmelia") from CMS Energy. SCP is the 88.2% owner of the 1,380 kilometre Goldfield Gas Transmission Pipeline in Western Australia. Parmelia owns and operates a transmission pipeline, a gas processing facility and storage facilities in Western Australia. The assets were purchased for a A$206 million cash and included the assumption of 45% of SCP's A$250 million of debt.

***Duke Energy's Australian and New Zealand Assets / Alinta Limited***

In March 2004, Alinta announced that it had reached an agreement to purchase the Australian and New Zealand gas assets of Duke Energy, following Duke Energy's decision to exit the Asia-Pacific region. The assets acquired were three gas transmission pipelines and three gas-fired power stations in Australia and one gas-fired power station in New Zealand. The pipelines had a combined length of 2,156 kilometres and the power plants had a combined capacity of 686MW. The acquisition provided Alinta with a stable and secure income stream and strong potential for volume growth, particularly from the pipeline assets on Australia's east coast.

**Infrastructure Services**

***Alinta's Asset Management Services business / Babcock & Brown/Singapore Power Consortium***

One of the assets acquired by the Babcock & Brown/Singapore Power Consortium in its acquisition of Alinta was the Asset Management Services business (comprising Alinta Asset Management (including the APA Group O&M contracts subject to divestment orders by the Australian Consumer & Competition Commission) and Alinta Energy). These business units were specialist providers of infrastructure management and other services to assets owners across the gas, electricity and water sectors and in the development and operation of power generation assets. The multiples presented in the table are based on the value attributed by the independent expert for the transaction. The multiples are relatively high reflecting the integration cost savings that were expected to emerge in the business by 2009 following Alinta's acquisition of Agility from AGL in 2006.

On 29 June 2007 Alinta and APA Group announced that they had agreed arrangements to terminate the pipeline management and operating arrangements held by Alinta in relation to various APA Group gas transmission pipelines (including the Moomba to Sydney Pipeline) for A$210 million. No earnings information is publicly available by which to calculate the multiples implied by this transaction.

***Origin Energy Asset Management / APA Group***

In April 2007, APA Group announced it had entered into a conditional agreement with Origin Energy to purchase Origin Energy Asset Management and associated businesses ("OEAM") for $252.9 million. OEAM provides a full range of services to operate and manage gas and other energy and water infrastructure in Australia. Over 90% of OEAM's revenue is derived from its operating and management agreements with Envestra.

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*Agility / Alinta Limited*

In April 2006, Alinta and AGL announced an agreement to merge and restructure their businesses to create two separate listed companies, Alinta and AGL Energy. As part of the restructure Alinta acquired AGL's infrastructure management and services business, Agility. The independent expert valued Agility at $1-1.1 billion on a standalone basis. Multiples shown in the table exclude any allowance for costs savings previously identified by AGL. If AGL's forecast cost savings are included the EBITDA multiples fall to 11.3 and 10.8 times respectively.

## 2 Valuation Evidence from Sharemarket Prices

The valuation of the Alinta Assets has been considered in the context of the sharemarket ratings of listed Australian and New Zealand energy infrastructure service providers. The sharemarket data provides some framework to assess valuation parameters for the Alinta Assets.

**Sharemarket Ratings of Selected Listed Entities**

| Entity | Market Capital-isation[12] (millions) | EBITDA Multiple[13] (times) | | | EBIT Multiple[14] (times) | | | Price Earnings Multiple[15] (times) | | | Ungeared NTA Multiple[16] (times) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Historical/ Current | Forecast Year 1 | Forecast Year 2 | Historical/ Current | Forecast Year 1 | Forecast Year 2 | Historical/ Current | Forecast Year 1 | Forecast Year 2 | |
| **Distribution Infrastructure** | | | | | | | | | | | |
| SP AusNet | A$2,909 | 10.2 | 9.9 | 9.7 | 14.8 | 14.5 | 14.3 | 17.0 | 17.4 | 17.3 | 1.1 |
| DUET | A$2,026 | 12.5 | 10.9 | 10.2 | 17.7 | 15.4 | 14.2 | nmf[17] | 21.5 | 19.9 | 1.6 |
| Spark | A$1,987 | 10.0 | 9.3 | 9.4 | 14.2 | 13.0 | 13.2 | 28.8 | 27.9 | 26.0 | 1.4 |
| Envestra | A$925 | 13.0 | 12.3 | 12.2 | 17.4 | 16.3 | 16.4 | nmf | nmf | nmf | 1.9 |
| Vector | NZ$2,360 | 8.8 | 8.6 | 8.3 | 11.6 | 11.4 | 11.1 | 11.6 | 15.4 | 14.3 | 1.6 |
| *Minimum* | | *8.8* | *8.6* | *8.3* | *11.6* | *11.4* | *11.1* | *11.6* | *15.4* | *14.3* | *1.1* |
| *Maximum* | | *13.0* | *12.3* | *12.2* | *17.7* | *16.3* | *16.4* | *28.8* | *27.9* | *26.0* | *1.9* |
| *Median* | | *10.2* | *9.9* | *9.7* | *14.8* | *14.5* | *12.8* | *17.0* | *19.5* | *18.6* | *1.6* |
| **Transmission Infrastructure** | | | | | | | | | | | |
| APA Group | A$1,604 | 16.4 | 12.5 | 11.7 | 21.3 | 16.0 | 15.1 | 25.2 | 24.0 | 21.4 | 1.2 |
| HDUF | A$716 | 12.5 | 12.3 | 11.6 | 15.6 | 15.3 | 14.5 | 35.7 | 31.8 | 31.1 | 1.3 |
| *Median* | | *14.5* | *12.4* | *11.6* | *18.5* | *15.6* | *14.8* | *30.4* | *27.9* | *26.2* | *1.3* |
| **Other Energy Infrastructure** | | | | | | | | | | | |
| BBI | A$3,675 | 18.8 | 12.8 | 12.1 | 28.6 | 19.6 | 18.0 | 63.5 | 44.4 | 25.4 | 1.7 |
| **Services** | | | | | | | | | | | |
| WorleyParsons | A$11,241 | 34.6 | 22.3 | 19.2 | 38.5 | 24.7 | 20.8 | 50.0 | 34.0 | 28.2 | 38.7 |
| United Group | A$3,366 | 19.1 | 13.3 | 11.8 | 23.0 | 15.2 | 13.2 | 31.2 | 22.8 | 20.0 | 16.7 |
| Transfield Services | A$2,955 | 26.2 | 19.3 | 17.1 | 42.8 | 24.2 | 21.1 | 60.4 | 25.1 | 23.0 | 9.8 |
| *Minimum* | | *19.1* | *13.3* | *11.8* | *23.0* | *15.2* | *13.2* | *31.2* | *22.8* | *20.0* | *9.8* |
| *Maximum* | | *34.6* | *22.3* | *19.2* | *42.8* | *24.7* | *21.1* | *60.4* | *34.0* | *28.2* | *38.7* |
| *Median* | | *26.2* | *19.3* | *17.1* | *38.5* | *24.2* | *20.8* | *50.0* | *25.1* | *23.0* | *16.7* |

Source: Grant Samuel analysis[18]

[12] Market capitalisation based on sharemarket prices as at 19 October 2007, except for SP AusNet which is based on the sharemarket price as at 19 September 2007 (the day prior to the announcement of the Proposal).

[13] Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

[14] Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

[15] Represents market capitalisation divided by net profit after tax (before significant and non-recurring items).

[16] Represents gross capitalisation divided by ungeared net tangible assets (that is, shareholders' funds less intangibles, plus borrowings less cash as at the latest balance date).

[17] nmf = not meaningful.

[18] Grant Samuel analysis based on data obtained from IRESS, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

The multiples shown above are based on sharemarket prices as at 12 October 2007 except for SP AusNet which is based on the sharemarket price as at 19 September 2007 (the day prior to the announcement of the Proposal) and do not reflect a premium for control.

All of the companies have a 30 June year end with the exception of Spark Infrastructure Trust ("Spark") and Hastings Diversified Utilities Fund ("HDUF") which have a 31 December year end and SP AusNet which has a 31 March year end. For the purposes of this analysis the 2007 forecast for entities with 31 December year ends are treated as the current result (i.e. the forecasts for the year ending 31 December 2007 for Spark and HDUF have been treated as equivalent to actual results for the year ended 30 June 2007). While relatively crude, this alignment is arguably more useful for the purposes of analysis than leaving the data unadjusted.

A brief description of each company is set out below:

**Distribution Infrastructure**

***SP AusNet***

SP AusNet listed on the ASX in December 2005 and comprises two regulated energy network companies, SP Australia Networks (Transmission) Ltd (Victoria's state wide high voltage electricity transmission network provider) and SP Australia Networks (Distribution) Ltd (owner and operator of an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria). Singapore Power Limited has a 51% controlling interest in the entity. SPI Management Services Pty Ltd, a wholly-owned subsidiary of Singapore Power Limited, manages the transmission and distribution networks, business and finances of SP AusNet under a Management Services Agreement. On 20 September 2007, SP AusNet announced the proposal to acquire the Alinta Assets from Singapore Power.

***Diversified Utility and Energy Trusts***

Diversified Utility and Energy Trusts ("DUET") is a diversified portfolio of energy utility assets with predictable cash flows. Management is provided by a 50:50 joint venture between AMP Capital Investors and Macquarie Bank Limited. DUET has interests in electricity and natural gas distributors in Victoria and Western Australia, all of which are fully regulated. Its interests include a 66% interest in United Energy Distribution (electricity distribution in Victoria), a 79.9% interest in Multinet Gas (gas distribution in Victoria), a 25.9% interest in AlintaGas Networks (gas distribution in Western Australia) and a 68.6% interest in the Dampier Bunbury Pipeline (gas transmission in Western Australia). DUET's interest in the Dampier Bunbury Pipeline is expected to decline to 60% by 2008 as a consequence of capital contributions from other shareholders. DUET has recently acquired a 29% equity interest in a consortium that has acquired 100% of the shares in Duquesne Light Holdings Inc ("Duquesne") for US$1.75 billion. Duquesne is a publicly listed energy business based in Pittsburgh, providing electricity distribution and transmission to more than 587,000 customers in and around Pittsburgh.

***Spark Infrastructure Trust***

Spark was established to develop a diversified portfolio of regulated utility infrastructure assets and listed on the ASX in December 2005. It holds a 49% interest in each of Citipower and Powercor (whose principal activities are electricity distribution in Victoria) and ETSA (whose principal activity is electricity distribution in South Australia). This portfolio of Australian electricity distribution assets provides the company with stable and predictable cash flows. The group plans to grow through the acquisition of additional Australian and international regulated utility infrastructure assets. The Manager and Responsible Entity of Spark is jointly 50% owned by Cheung Kong Infrastructure (CKI) and RREEF Infrastructure (RREEF). The calculation of underlying multiples for Spark is complex because of the minority holdings and form of investment.

***Envestra Limited***

Envestra was listed on the ASX in 1997 following Boral Limited's decision to spin off its energy assets. It owns and operates approximately 1,029 kilometres of gas transmission pipelines and 19,100 kilometres of gas distribution networks throughout Australia. Envestra derives its revenue by charging energy retailers to transport natural gas through these networks. Each Envestra security is comprised of a share and a loan note. Interest and principal are paid on the loan notes and therefore net profit after tax is relatively low (if not negative) and the

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price earnings multiples calculated for Envestra are not meaningful. In July 2007, Origin Energy Limited ("Origin Energy") completed the sale of its 17.2% interest in Envestra to APA Group. As a consequence, the ownership of Victoria Gas Distribution Pty Ltd ("Victoria Gas") and its subsidiary The Albury Gas Company Ltd ("Albury Gas") have transferred from Origin Energy to Envestra. The effect will be that Victoria Gas and Albury Gas join the Envestra tax consolidated group and the tax base of Envestra's distribution assets will increase.

*Vector Limited*

Vector Limited ("Vector") owns and manages a portfolio of energy infrastructure networks in New Zealand including electricity distribution, gas transmission and distribution, electricity and gas metering installations, data management services and natural gas and LPG distribution (including a 60.25% interest in bulk LPG distributor Liquigas). In addition, Vector owns fibre-optic networks in Auckland and Wellington, a utilities training business and a 50% share in New Zealand's largest arboriculture and vegetation management company. Vector listed on the NZX in August 2005. The Auckland Energy Consumer Trust is Vector's majority shareholder with a 75.1% interest.

**Transmission Infrastructure**

*APA Group*

APA Group ("APA") (formerly known as Australian Pipeline Trust) has interests in over 10,000 kilometres of gas transmission pipelines, transporting around 40% of Australia's natural gas consumption, as well as gas processing and storage facilities, gas fired power generation and electricity transmission. The largest asset in APA's portfolio is the Moomba to Sydney pipeline, which contributes approximately 50% of EBITDA. APA Group was formed in mid 2000 through the spin-off and public listing of AGL's gas pipeline assets. It was established as a single taxpaying trust, which was required to pay tax on its profits. In January 2007, the trust was restructured from a single unit trust to a stapled unit structure with the aim of making returns to security holders more tax effective. APA Group has been highly acquisitive since 30 June 2006 (e.g. it has acquired Murraylink, GasNet, Allgas and Origin Energy Networks) and therefore its historical multiples are not meaningful. Since 30 June 2007 APA Group has acquired Origin Energy's energy networks business, Alinta Limited's ("Alinta") 35.2% interest in APA has been distributed in-specie to Alinta shareholders and APA has terminated the pipeline management contracts held by Alinta Limited.

*Hastings Diversified Utilities Fund*

HDUF invests in utility infrastructure assets that have a moderate risk profile and provide predictable cash flows. Such investments include gas transmission and distribution assets, electricity generation, transmission and distribution assets and hydro and wind power generation assets. Its initial investment was a 100% interest in Epic Energy Holdings which holds pipeline assets in South Australia, Queensland and Western Australia (contracted gas transmission). It also owns the South East Pipeline in South Australia. In February 2005, HDUF acquired a 50% interest in Swan Group which owns the United Kingdom water utility Mid Kent Water. In October 2006, HDUF announced the acquisition of a 50% interest in water utility South East Water in the United Kingdom and a proposal to merge the operations of this asset with that of Mid Kent Water. The merger is subject to procedural and regulatory requirements.

**Other Energy Infrastructure**

*Babcock & Brown Infrastructure*

BBI is an infrastructure investment fund focused on energy transmission and distribution and transport infrastructure. BBI listed on the ASX in 2002 (at which time it was known as Prime Infrastructure Group) with one of Australia's largest coal export facilities, Dalrymple Bay Coal Terminal, as its foundation asset. The group was restructured and rebranded BBI in July 2005. Since then it has made a number of acquisitions and its portfolio is now comprised of transportation infrastructure assets (e.g. Dalrymple Bay Coal Terminal, PD Ports, WestNet Rail (51%)) and energy transmission and distribution infrastructure assets (e.g. Powerco, IEG, Cross Sound Cable). BBI acquired a number of gas transmission and distribution assets following the takeover of Alinta by the Babcock & Brown/Singapore Power Consortium that was implemented on 31 August 2007. As a consequence, the historical and year 1 forecast multiples calculated for BBI are not meaningful.

**Infrastructure Services**

***WorleyParsons Limited***

WorleyParsons Limited ("WorleyParsons") provides professional services to the hydrocarbons, minerals and metals, infrastructure and power industries globally. The hydrocarbons business is the largest contributor generating 72% of the Group's revenue in 2007, followed by the power business and its international operations now contribute more than 70% of revenue. WorleyParsons has been highly acquisitive in recent years and therefore the historical and forecast year 1 multiples calculated for WorleyParsons are not meaningful. WorleyParsons multiples are relatively high reflecting market expectation that recent high growth will continue.

***United Group Limited***

United Group Limited ("United Group") is a diversified infrastructure services group with operations in Australia, New Zealand, Asia, America and Europe. The company has five operating businesses, United Group Transport & Systems, United Group Water & Energy, United Group Rail, United Group Resources and United Group Services. In September 2007, United Group completed the $477 million acquisition of UNICCO, a United States integrated facilities management services company. In comparison to its peers, United Group's activities are predominantly (over 70%) within Australia although recent acquisitions have been offshore.

***Transfield Services Limited***

Transfield Services Limited ("Transfield Services") has contracts to provide operations, maintenance and asset management services across Australia, New Zealand, the United States, South East Asia and the Gulf region. The company operates across a number of industries including mining and process, hydrocarbons, roads, rail and public transport, water, power, telecommunications, facilities management and defense. It has been highly acquisitive in recent years (particularly internationally). In addition, in June 2007, Transfield Services spun-off its investments in five power stations and two water filtration plants as an ASX listed entity and retained asset and fund management services. As a consequence, the historical and forecast year 1 multiples calculated for Transfield Services are not meaningful. In addition, its multiples are relatively high reflecting market expectation that recent high growth will continue (particularly following the creation of the satellite infrastructure fund).