

21 September 2021

ASX ANNOUNCEMENT

APT Pipelines Limited (ASX: AP2)

APA Group Confirmation of Proposal to AusNet Services

Attached is an announcement made by APA Group (ASX: APA) which is provided for the information of APT Pipelines Limited securityholders.



Authorised for release by Nevenka Codevelle

Company Secretary
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About APA Group (APA)

APA is a leading Australian Securities Exchange (ASX) listed energy infrastructure business. We own and/or manage and operate a diverse, \$21 billion portfolio of gas, electricity, solar and wind assets. Consistent with our purpose to strengthen communities through responsible energy, we deliver approximately half of the nation's gas usage and connect Victoria with South Australia and New South Wales with Queensland through our investments in electricity transmission assets. We are also one of the largest owners and operators of renewable power generation assets in Australia, with wind and solar projects across the country.



APT Pipelines Limited is a wholly owned subsidiary of Australian Pipeline Trust and is the borrowing entity of APA Group.

For more information visit APA's website, apa.com.au.

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APA Group (ASX: APA)

Confirmation of Proposal to AusNet Services

APA Group (ASX: APA) announces that it has made a non-binding indicative proposal to the Board of AusNet Services Ltd ("**AusNet**") (ASX: AST) to acquire all the issued shares in AusNet (the "**Superior Proposal**") by way of a scheme of arrangement for \$2.60 per share in cash and scrip¹. The proposal would bring together two high quality businesses and create a listed flagship Australian group with the scale and capability to accelerate the \$20 billion growth in electricity transmission infrastructure needed to support the decarbonisation of Australia's economy.

APA notes the announcement from AusNet yesterday of an indicative, non-binding and highly conditional proposal made by Brookfield Asset Management (together with its affiliates and related managed vehicles, collectively, "**Brookfield**"), (the "**Brookfield Scheme**").

APA confirms that on 1 September 2021 it approached **AusNet** with a confidential non-binding indicative proposal to acquire all of the issued shares in AusNet by way of scheme of arrangement (the "**Original Proposal**") for a consideration of \$2.32 per share. APA and AusNet had engaged in discussions about the Original Proposal and APA had made AusNet aware on Thursday 16 September 2021 that it intended to make a revised proposal.

APA canvassed AusNet's major shareholders prior to approaching AusNet with the Original Proposal. APA understands that Singapore Power was supportive of APA and AusNet engaging in discussions to determine whether a transaction could be agreed. APA has also discussed the Original Proposal directly with State Grid.

APA is disappointed that AusNet has purported to enter into a period of exclusivity with Brookfield for effectively eight weeks, notwithstanding AusNet's knowledge of the pending revised, and potentially superior proposal, from APA.

Superior Proposal

APA considers its Superior Proposal is more attractive than the Brookfield Scheme for the following reasons:

- **Higher price:** Represents an offer price for AusNet of \$2.60 per share ("**Offer Price**");
- **Retains ASX Listing:** Retains the opportunity for ASX listed investors to invest in AusNet via APA securities, and participate in the benefits of the combined business;
- **Synergy benefits:** AusNet shareholders who accept APA securities can participate in the combined synergies to be obtained through the combination with APA, that are not currently available to AusNet shareholders;
- **CGT rollover relief:** AusNet shareholders will be able to obtain CGT rollover relief for that component of the Offer Price that is represented by Australian Pipeline Trust securities;
- **No FIRB conditionality:** APA's proposal is not subject to a FIRB approval and, in contrast to the Brookfield Scheme, allows key electricity transmission infrastructure to remain in an Australian public listed vehicle. By comparison, when taken together with the current ownership structure of TransGrid and the announced Spark Infrastructure transaction, the Brookfield Scheme would result in all electricity transmission infrastructure in NSW and Victoria being foreign controlled and held in private unlisted vehicles. It would also result in 100% of Victorian electricity distribution and gas distribution assets being foreign controlled;

¹ Based on APA's security price as at close on 20 September 2021 of \$8.88.

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- **Faster:** The Superior Proposal is subject to a four-week confirmatory due diligence period, which is far shorter than the exclusivity period granted for the **Brookfield Scheme**.

Compelling Strategic Rationale

APA considers that the strategic rationale for combining APA and AusNet is compelling:

- Brings together two established and complementary Australian energy infrastructure businesses to create Australia's largest energy transmission and distribution infrastructure utility, with total assets of \$29 billion.
- Creates a flagship Australian company with the scale and capability to accelerate the \$20 billion growth in electricity transmission infrastructure needed to support the decarbonisation of Australia's economy.
- The combined entity would be able to access cost synergies and revenue growth opportunities not currently available to AusNet shareholders, by integrating operations, and by leveraging the world-class operational and development capabilities of the two businesses to expand AusNet's infrastructure interests beyond Victoria.
- The combination would also release certain existing AusNet constitutional constraints which potentially limit the growth of its business by restricting AusNet's ability to raise capital.
- The combination would provide customers and the community with a range of safe, clean and reliable energy solutions across electricity, gas, renewables, storage and other emerging technologies and would offer employees career opportunities in a larger, more diverse organisation.
- The combined entity would have substantially greater liquidity and free float, ranking in the top 40 ASX companies by market capitalisation.

APA Managing Director and CEO, Rob Wheals, said: "Unlike many OECD countries, Australia lacks a locally owned and controlled energy utility with capabilities across critical energy infrastructure and with the size and strength to partner with government and the community to deliver the energy transition."

"The combination of APA and AusNet is a unique opportunity to deliver that vision and retain a proudly Australian controlled combined group listed on the ASX."

Details of the Superior Proposal

In addition to the strategic rationale, the Superior Proposal is expected to deliver strong returns for APA over the long term. Subject to APA's confirmatory due diligence, the Superior Proposal is expected to exceed our return hurdles, be free cash flow per security accretive over the long-term and is expected to be free cash flow per security accretive in the first financial year post acquisition². APA remains committed to its minimum target credit rating of Baa2 (Moody's) / BBB (S&P).

Under the Superior Proposal, in aggregate AusNet shareholders would receive \$1.820 cash and 0.0878 stapled securities in the Australian Pipeline Trust and APT Investment Trust ("securities") for each AusNet share held, with a mix and match facility enabling shareholders to elect more cash or more securities, subject to aggregate caps in each.

The Superior Proposal represents compelling value for AusNet shareholders. Based on APA's closing price on 20 September 2021 of \$8.88 per security, the Offer Price is equivalent to \$2.60 per AusNet share and represents a:

- 31% premium to the undisturbed closing price of AusNet shares of \$1.98 on 17 September 2021;
- 33% premium to the undisturbed 30-trading day VWAP of AusNet shares of \$1.95 as at 17 September 2021;
- 41% premium to the undisturbed 90-trading day VWAP of AusNet shares of \$1.85 as at 17 September 2021;
- An EV / RCAB multiple of 1.57x.

AusNet shareholders will have the flexibility to elect to receive cash or securities consideration or a mixture of both. Should they choose securities consideration, AusNet shareholders, together with APA securityholders, will share in the future growth and value-creation opportunities of the combined group.

APA expects that AusNet shareholders will be able to obtain CGT rollover relief for that proportion of the Offer Price that reflects an exchange of securities into units of Australian Pipeline Trust.

² Free cash flow per security accretive based on market available information for the AusNet's regulated assets, 45% of regulatory capital expenditure deemed as stay-in-business capex, approximate CPI escalation on FY21 non-regulated asset's free cash flow, historical net working capital, tax payable based on PPE tax step up uplift, proposed funding and pricing structure and 100% ownership

Subject to agreement of terms with AusNet, APA expects to finance the cash consideration under the Superior Proposal with a combination of existing cash and debt facilities on hand, new bridging facilities and an equity raising. The equity raising is expected to be approximately \$1.5 billion and anticipated to be offered to eligible existing securityholders on a functionally pro-rata basis at the time of launch³. The equity raising component is underwritten.

The Superior Proposal is conditional on, among other things, confirmation by Tuesday 28 September 2021 from AusNet of granting due diligence access, completion of a targeted due diligence review and entry into a satisfactory scheme implementation deed. Completion of any transaction will be subject to Australian Competition and Consumer Commission approval.

APA has offered to engage the Board of AusNet in relation to the Superior Proposal and the opportunity for AusNet shareholders to participate in the value created by combining APA and AusNet. There is no certainty that the Superior Proposal, or any transaction, will be agreed or will proceed.

APA is being advised by Aquasia, Goldman Sachs, J.P. Morgan, and Macquarie as financial advisers and King & Wood Mallesons as legal adviser.



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Company Secretary
Australian Pipeline Limited

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FORWARD LOOKING STATEMENTS

This announcement contains certain “forward-looking statements”, including statements regarding the outcome of the Proposal and equity raising. The words “anticipate”, “believe”, “continue”, “expect”, “project”, “forecast”, “estimate”, “likely”, “intend”, “objectives”, “outlook”, “should”, “could”, “may”, “will”, “target”, “plan”, “guidance” and other similar expressions are intended to identify forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of APA, and its related bodies corporate, affiliates and advisers, and each of their respective directors, officers, partners, employees, agents, consultants, contractors, advisers, representatives and associates, that may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements. There are usually differences between forecast and actual results because events and actual circumstances frequently do not occur as predicted and their differences may be material.

NOT AN OFFER

³ In a functionally pro rata offer, it is expected that APA and the underwriters would use best endeavours to allocate securities to eligible institutional / professional investors via a pro rata placement, but no formal reconciliation process would be undertaken. In addition, it is expected that an SPP of approximately \$300 million would be made available for eligible existing securityholders. It is estimated that 97% of the APA register would be able to take up a pro rata (or higher) stake. An eligible securityholder's existing holding will be estimated by reference to APA's latest available beneficial register. No verification or reconciliation of the holdings as shown in the historical beneficial register will be undertaken.

This Announcement is not a disclosure document and should not be considered as investment advice. The information contained in this Announcement is for information purposes only and nothing in this Announcement should be read or understood as an offer, invitation, solicitation, inducement or recommendation to buy or sell APA securities, or be treated or relied upon as advice by APA. In particular, this Announcement does not constitute an offer to sell, or a solicitation of any offer to buy, any securities in the United States or to any person who is acting for the account or benefit of any person in the United States. No APA securities to be issued in any equity raising have been, or will be, registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), or the securities laws of any state or other jurisdiction of the United States, and therefore may not be offered or sold to any person in the United States or any person that is acting for the account or benefit of a person in the United States except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act and any other applicable securities laws of any state or other jurisdiction of the United States.