

ASX RELEASE

13 November 2014

PRODUCT TRANSPORTATION AGREEMENT VARIATION

APA Ethane Limited, the responsible entity of Ethane Pipeline Income Fund (ASX: EPX) ("Fund") advises that the Fund's only customer, Qenos Pty Limited ("Qenos") has informed the Fund that it has reached agreement with its ethane suppliers for the supply of ethane to Qenos' Botany operations for a further term of five years from 1 January 2015.

The Fund's primary source of revenue is the Product Transportation Agreement ("PTA") with Qenos. The PTA was entered into in 2000 and continues until 2030, but could be terminated earlier by Qenos giving at least 12 months' notice of termination.

As part of a program to improve the performance of its Botany operations, Qenos had sought variations to contractual terms from its major suppliers (including the Fund) that are aligned to the likely ethane volumes, which Qenos advises are currently at historical lows and forecast to increase over the term of its ethane supply arrangements.

Following negotiations with Qenos, the Fund has achieved an outcome which, until at least 2018, will:

- deliver increased revenue certainty for the Fund by removing the risk to revenue associated with the volume of ethane transported through the pipeline; and
- remove the risk of Qenos unilaterally terminating the PTA as referred to above.

The Fund and Qenos have agreed to amend the PTA, with effect from 1 January 2015, as summarised in the Attachment. The effect of these changes is, broadly, as follows:

- imposition of a fixed minimum charge for the period from 1 January 2015 to 31 December 2018¹ of \$20 million per annum (the "Fixed Minimum Charge") that is not dependent on the volume of ethane transported through the pipeline;
- waiver of the Transportation charge component calculated on the volume of ethane transported for the same period;
- Qenos' right to terminate the PTA on 12 months' notice is varied so that termination cannot take effect before 1 January 2019;
- the Fund is entitled to recover any shortfall in revenue for the period from 1 January 2015 to 31 December 2018 (i.e. the amount, if any, by which the Fund's revenue for that period is less than the revenue the Fund would have been entitled to for the same period under the previously agreed tariff structure) if, in any calendar year in that period, ethane volumes and Qenos' EBITDA² are greater than specified threshold levels; and

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

² Earnings before income tax, depreciation and amortisation.

- from 1 January 2019, the tariff reverts to that previously agreed under the PTA, instead of the Fixed Minimum Charge, and there is a mechanism that affords the Fund another opportunity to recover the revenue shortfall referred to above.

On the basis of Qenos having reached agreement on variations to its contracts with major suppliers, including the Fund, Qenos has advised the Fund that it will make a significant financial investment and undertake a major maintenance program on its Botany plant commencing in 2015.

Taking into account the agreed variations to the PTA summarised in this release, and barring unforeseen circumstances, the Fund expects:

- quarterly cash distributions for the three remaining distributions for FY2015 to be between 3.0 and 3.25 cents per security, plus franking credits of approximately 1 cent per security; and
- quarterly distributions for the period following the end of FY2015 to December 2018 to be in line with the distributions indicated above for the remainder of FY2015.

There is no change to the Fund's distribution policy of paying quarterly distributions from available net cash. Further distribution guidance will be provided on an annual basis, in keeping with prior practice.

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About the Ethane Pipeline Income Fund

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

ATTACHMENT

Summary of key changes to PTA with effect from 1 January 2015

1 January 2015 – 31 December 2018

- For the period from 1 January 2015 to 31 December 2018, the tariff structure is adjusted so that the Fund's revenue depends on the following annual thresholds:
 - the quantity of ethane transported under the PTA; and
 - the annual earnings of Qenos' Botany plant determined by reference to EBITDA.
- If either of those thresholds is not reached in a calendar year between 2015 and 2018:
 - the Reservation charge for the year is set to a fixed level of \$20 million p.a. (adjusted annually by 50% of CPI); and
 - the Transportation charge for the year is reduced to nil.
- If both thresholds are reached in a calendar year between 2015 and 2018, the Fund will receive the same economic benefit as if the Reservation charge and Transportation charge (adjusted annually by 50% of CPI), previously agreed in the PTA, applied in that year.

From 1 January 2019

- From 1 January 2019, the tariff reverts to the Reservation charge and the Transportation charge previously agreed under the PTA (adjusted annually by 50% of CPI).
- In addition, a surcharge will apply from 1 January 2019 so that in certain circumstances the Fund can recover the amount, if any, by which the revenue it was paid under the PTA for the period from 1 January 2015 to 31 December 2018 is less than it would have been entitled to for the same period under the previously agreed tariff structure. The surcharge will be payable by Qenos in each month after 1 January 2019 during which the volume of ethane transported through the pipeline exceeds a specified threshold, and is calculated as 20% of the Transportation charge for the month.

Termination Mechanism Adjustment

- The amendment to the PTA also varies the rights to Qenos to terminate the agreement. Under the new mechanism, Qenos must provide 12 months' written notice to terminate the PTA and termination cannot occur before 1 January 2019, and may not withdraw or rescind that notice (without agreement from the Fund to do so).
- A termination notice may affect the adjusted tariff regime, depending on when the notice is issued. In the event of a termination notice being issued on or before 1 January 2018 (which cannot be effective before 1 January 2019), the tariff during the 2018 calendar year will be based on the previously agreed tariff structure. In all other circumstances, the adjusted tariff regime (i.e. the fixed fee and threshold arrangements referred to above) will apply through to 31 December 2018.