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APA Group



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ASX RELEASE

17 August 2012

The Manager

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

Electronic Lodgement

Dear Sir or Madam

Company Announcement

I attach the following announcement for release to the market:

- APA announces a further cash increase in its offer for HDF

Yours sincerely

Mark Knapman
Company Secretary



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APA announces a further cash increase in its offer for HDF

APA Group (ASX:APA) today announced a further increase in its offer for Hastings Diversified Utilities Fund (ASX:HDF).

Further cash increase in offer consideration

APA will increase its offer by a further \$0.18 cash to \$0.80 in cash and 0.390 APA securities for each HDF security if it becomes entitled to proceed to compulsory acquisition ("90% Offer").

Regardless of whether APA is entitled to proceed to compulsory acquisition, APA's offer is increased by \$0.10 cash to \$0.72 in cash and 0.390 APA securities for each HDF security ("Minimum Offer").

Based on yesterday's closing price of \$4.70 for APA securities, the implied value of the 90% Offer is \$2.63 per HDF security, and the implied value of the Minimum Offer is \$2.55 per HDF security.

The implied value of APA's offer is superior to the offer from Pipeline Partners Australia (PPA) of \$2.43, announced on 15 August 2012, representing a premium of

- 8.4% based on the 90% Offer; and
- 5.1% based on the Minimum Offer.

APA Group Chairman, Mr Len Bleasel said: "APA's offer is clearly superior to the current PPA offer now on the table for HDF. This is the case when using any price at which APA securities have traded since APA announced its takeover offer on 14 December 2011 – from \$4.46 to \$5.34 – as well as when using the value range for APA securities of \$4.80 to \$5.00 determined by Grant Samuel, the independent expert.

"We expect the independent directors to seek the opinion of the independent expert on the comparative values of the APA offer and the PPA offer as soon as possible."

Using the 3-month VWAP of APA securities on 16 August 2012 of \$4.96, the implied value of APA's 90% Offer is \$2.73 and the implied value of APA's Minimum Offer is \$2.65.

Mr Bleasel said: "As our offer contains APA securities, the long-term benefits derived from the integrated APA portfolio, which will include the majority of HDF's assets, will accrue to all APA securityholders, including HDF investors who retain an investment in APA.

"APA has a track record of delivering strong and consistent returns for investors, and we believe that our offer containing APA securities will be attractive to, and appropriately valued by, HDF investors who wish to retain an ownership interest in the HDF pipelines.

"We anticipate our increased offer will be formally recommended by the independent directors of HDF."



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APA's increased offer triggers the two business day notice period under which PPA has the right to match this offer in accordance with the takeover bid implementation deed between HDF and PPA. After this period the independent directors of HDF are able to publicly change, withdraw or modify their recommendation of the PPA offer and recommend APA's increased offer.

The offer consideration will be reduced by any further HDF distributions paid to HDF securityholders during the offer period, but there is no reduction for any HDF distributions paid prior to 8 August 2012.

Retain investment in the energy infrastructure sector

Mr Bleasel added: "Unlike the alternative offer, APA's increased offer continues to provide HDF securityholders the opportunity to retain exposure to the majority of the HDF assets and thereby continue to benefit from the future growth prospects of these assets. They will also benefit from APA's integrated asset portfolio, proven management and securityholder returns.

APA intends to continue to pay distributions from operating cash flow with a view to growing distributions over the longer term. If APA's offer succeeds, and the offer consideration is paid on or before 31 December 2012, HDF securityholders who continue to hold APA securities at that date will also receive APA's FY13 interim distribution.

Reduction in offer conditions

Following discussions with its own financiers, APA now intends to waive the conditions of its offer relating to change of control and other matters pertaining to HDUF's financing arrangements (conditions (i), (j) and (k) of the offer). APA confirms that in the event that it moves to compulsory acquisition of HDF, APA has sufficient funding resources available to fully repay all HDF debt whilst retaining prudent headroom for ongoing APA Group operations. In those circumstances the "change in control" provisions within HDF's funding will be of no consequence to APA.

APA also confirms that it would be prepared to waive condition (s) (payments to and undertaking by the HDF Responsible Entity) of its offer if Hastings Funds Management Limited (HFML) as responsible entity makes an announcement that it agrees to limit its performance fee for the period ended 30 June 2012 to \$50 million, and agrees that it will not accept any performance fee for any period commencing on or after 1 July 2012 while the APA offer remains open or APA has a relevant interest in more than 50% of HDF securities. HFML has already agreed to this arrangement in relation to the PPA offer.

Next steps

A formal notice varying the offer will be lodged. APA previously advised the market that it intended to lodge and send to HDF securityholders a supplementary bidder's statement reflecting its improved offer announced on 9 August 2012. APA notes that it intends to defer dispatch of any supplementary bidder's statement in relation to the increased offer until HDF's response to its increased offer announced today is known or as otherwise appropriate to keep the market informed.



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The offer is scheduled to close at 7.00 pm (Sydney) on 4 September 2012 unless further extended. If HDF securityholders have any questions in relation to the offer, they can contact the APA Offer Information Line on 1800 129 431 (within Australia), or +61 2 9280 7731 (outside Australia).

For further information please contact:

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About APA Group (APA)

APA is Australia's largest natural gas infrastructure business, owning and/or operating more than \$8 billion of gas transmission and distribution assets. Its pipelines and assets span every state and territory on mainland Australia, delivering 50% of the nation's gas usage. Unique amongst its peers, APA has direct management and operational control over its assets and the majority of its investments. APA also holds minority interests in energy infrastructure enterprises including Envestra, SEA Gas Pipeline, Hastings Diversified Utilities Fund and Energy Infrastructure Investments.

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



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APPENDIX – Value of APA’s increased offer

90% Offer – Implied value of APA’s 90% Offer based on \$0.80 cash and 0.390 APA securities if APA becomes entitled to proceed to compulsory acquisition

APA security price	Implied value of the Offer Consideration			Implied premium of the Offer Consideration		
	Value of APA security	Cash	Total offer consideration	To 5 day VWAP* of HDF securities of \$1.78	To 3 month VWAP* of HDF securities of \$1.66	To PPA offer of \$2.43
\$4.46 Lowest closing price since 14 Dec 2011	\$1.74	\$0.80	\$2.54	43.0%	53.2%	4.5%
\$4.60	\$1.79	\$0.80	\$2.59	46.0%	56.5%	6.7%
\$4.70 Closing price on 16 Aug 2012	\$1.83	\$0.80	\$2.63	48.2%	58.8%	8.4%
\$4.80 Lower end of IE APA value range**	\$1.87	\$0.80	\$2.67	50.4%	61.2%	10.0%
\$4.96 3 month VWAP on 16 Aug 2012	\$1.93	\$0.80	\$2.73	53.9%	64.9%	12.5%
\$5.00 Upper end of IE APA value range**	\$1.95	\$0.80	\$2.75	54.8%	65.9%	13.2%
\$5.20	\$2.03	\$0.80	\$2.83	59.2%	70.6%	16.4%
\$5.27 Highest closing price since 14 Dec 2011	\$2.06	\$0.80	\$2.86	60.8%	72.2%	17.5%

* VWAP of HDF securities is on 13 December 2011 – the day before APA announced its initial takeover offer.

** See the independent expert’s report contained in the target’s statement released by HDF on 3 August 2012 in relation to the PPA offer.

APA’s increased offer will not be reduced for any HDF distributions paid since the initial offer was announced on 14 December 2011. However, the value of the offer will be reduced by the amount of any HDF distribution which is paid to HDF securityholders after 8 August 2012.



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Minimum Offer – Implied value of APA's Minimum Offer based on \$0.72 cash and 0.390 APA securities regardless of whether APA is entitled to proceed to compulsory acquisition

APA security price	Implied value of the Offer Consideration			Implied premium of the Offer Consideration		
	Value of APA security	Cash	Total offer consideration	To 5 day VWAP* of HDF securities of \$1.78	To 3 month VWAP* of HDF securities of \$1.66	To PPA offer of \$2.43
\$4.46 Lowest closing price since 14 Dec 2011	\$1.74	\$0.72	\$2.46	38.5%	48.3%	1.2%
\$4.60	\$1.79	\$0.72	\$2.51	41.5%	51.6%	3.5%
\$4.70 Closing price on 16 Aug 2012	\$1.83	\$0.72	\$2.55	43.7%	54.0%	5.1%
\$4.80 Lower end of IE APA value range**	\$1.87	\$0.72	\$2.59	45.9%	56.3%	6.7%
\$4.96 3 month VWAP on 16 Aug 2012	\$1.93	\$0.72	\$2.65	49.4%	60.1%	9.2%
\$5.00 Upper end of IE APA value range**	\$1.95	\$0.72	\$2.67	50.3%	61.0%	9.9%
\$5.20	\$2.03	\$0.72	\$2.75	54.7%	65.7%	13.1%
\$5.27 Highest closing price since 14 Dec 2011	\$2.06	\$0.72	\$2.78	56.3%	67.4%	14.2%

* VWAP of HDF securities is on 13 December 2011 – the day before APA announced its initial takeover offer.

** See the independent expert's report contained in the target's statement released by HDF on 3 August 2012 in relation to the PPA offer.

APA's increased offer will not be reduced for any HDF distributions paid since the initial offer was announced on 14 December 2011. However, the value of the offer will be reduced by the amount of any HDF distribution which is paid to HDF securityholders after 8 August 2012.