Alinta

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To: Company Announcements Office
ASX

By: Electronic Lodgement

Open Briefing – Alinta CEO on Duke Asset Purchase

Attached is an Open Briefing dated 30 April 2004 regarding the above matter.

Murray King
Company Secretary

Attention ASX Company Announcements Platform
Lodgement of Open Briefing

Alinta

open briefing

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Date of lodgement: 30-Apr-2004

Title: Open Briefing. Alinta. CEO on Duke Asset Purchase

Record of interview:

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Alinta Limited recently announced that it had completed the acquisition of gas infrastructure and power generation assets from Duke Energy for $1.85 billion (including transaction costs). A number of analysts have said you've paid too much for the assets, particularly given we might be at the bottom of the interest rate cycle and that it is a high EV/EBITDA multiple compared with recent sector transactions. Can you explain the process by which you valued the assets and your conclusions?

CEO Bob Browning
Our business model values and operates each asset in our total portfolio individually, taking into account such things as the debt exposure to interest rate changes. We relied on a number of expert consultants familiar with the assets as well as members of our internal team, who are also familiar with assets within the portfolio, in arriving at the value paid. We're confident of the valuation we placed on each of the assets and believe the Duke portfolio brings quality assets with significant growth potential.

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Can you explain why you've paid an EV/EBITDA multiple a good deal higher than Alinta's historic EV/EBITDA multiple of less than 10 times. Doesn't that undermine shareholder value?

CEO Bob Browning
The Duke acquisition provides us with significant growth over the short to medium term through exposure to the rapidly growing natural gas market on the east coast. We'll be able to capitalise on this growth with minimal capital outlays as the Duke assets are in excellent condition, in many cases near new, with substantial unutilised capacity. The existing long-term contracts with industry leaders provide a solid platform for this growth.

It's this growth, significantly in excess of our existing business and our peer group, combined with the certainty provided by the long-term contracts, that contribute to an increased multiple relative to our existing business.

Our challenge for the medium term is to ensure the promise is converted into growth in shareholder returns and financial performance as the acquisition matures. We expect that as the portfolio of assets matures, and the pipelines in particular reach capacity, the multiples should return to more normal levels.

We're proposing to increase our cash distribution to 38 cents per share in FY2004, up from 33 cents per share. We expect cash distributions and EBITDA to continue to grow post 2004. The proposed stapling of the separate Alinta Infrastructure Trust units to our ordinary shares will allow us to manage the distribution of the surplus cash from these assets in a tax-effective way.

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How then do you explain the fact that the institutional placement on March 17, 2004, to help pay for the acquisition, was made at a significant discount to Alinta's share price before the deal was announced?

CEO Bob Browning
The placement of 29 million ordinary shares was successful in raising a total of $195.75 million to assist the funding of the Duke acquisition.

The institutional share placement was the first significant opportunity we've had to broaden our institutional shareholder base since listing. The discount offered represented a realistic assessment of the market valuation of our shares once they'd been discounted for the dilution due to the institutional share placement and the shareholder rights issue.

It's also important to recognise that the shares were trading cum dividend prior to the announcement of the deal. Therefore, when looking at the pre-announcement price, the fully franked dividend of 21 cents needs to be considered. The institutional placement, however, was made ex-dividend.

Furthermore, the discount needs to be considered in the broader context of our share price having risen rapidly during the first quarter of 2004. December 2003 had a month's volume weighted average price (VWAP) of $5.996, a high of $6.32 and a low of $5.86.

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Can you comment on speculation that the competing bids were no higher than $1.5 billion and how that reconciles with your bid?

CEO Bob Browning
Media reports, including one in The Australian on March 18, quoted JP Morgan, which acted for Duke, as denying claims that our offer was substantially higher than the under-bidder and confirming it was a competitive tender process.

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What incremental EBITDA or cash flow will the investment provide and what impact will it have on EPS?

CEO Bob Browning
For the year ended December 31, 2003, we generated $560.6 million in revenue from operating activities and EBITDA of $178.7 million.

In our recently released prospectus for the renounceable rights issue, we disclosed that post the Duke acquisition, pro forma revenue for 2004 from continuing operations is expected to be $1.076 billion with pro forma EBITDA of $303 million before net profit from associates. This pro forma EBITDA was prepared as if we'd acquired the Duke assets on January 1, 2004. The fact that the acquisition took place on April 24, 2004, needs to be considered when referring to this forecast.

We anticipate EBITDA will grow beyond 2004. In our view, it's this growth profile of the assets that outweighs the short-term negative impact on EPS.

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Can you explain the impact on Alinta's gearing and interest cover? How comfortable you are with those ratios and how quickly will those measures improve?

CEO Bob Browning
Gearing following the rights issue and the acquisition will increase to 61.4 percent from 57.8 per cent. It's not unusual for an infrastructure company to have gearing at this level, particularly post a large acquisition. In addition, the debt incurred by the trust to enable the acquisition of the Duke assets will be serviced solely by income derived from those assets, and the required gearing ratios and interest cover ratios under the Duke acquisition financing documents recognise that this is the case. We'll closely monitor our gearing and associated banking covenants to ensure that the BBB/A-2/Stable rating assigned by Standard & Poor's to both Alinta Limited and Alinta Energy Holdings Pty Ltd is not compromised.

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Given the balance sheet impact discussed above, will you be able to achieve your objective of building a series of electricity cogeneration projects in Western Australia?

CEO Bob Browning
Development of the first cogeneration plant at Alcoa's Pinjarra alumina refinery was underpinned by pre-sales of more than 110 MW of electricity. The rollout of further cogeneration units at Alcoa's alumina refineries will depend on demand as well as other factors. Electricity sales for Unit 2 are progressing well and we hope to make a decision on this over the next few months. The overall level of interest from potential consumers indicates a strong desire for cheaper and cleaner electricity.

The first cogeneration plant has been project financed and the financial structure for subsequent units will be assessed after considering the risk profile for that unit. Generally however, we'd look to project-finance future cogeneration projects.

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Can you explain the extent to which your earnings will diversify geographically as a result of this acquisition?

CEO Bob Browning
Our diversified asset portfolio and customer base reduces our exposure to volatility in any particular geography or energy market. Our three major gas infrastructure pipelines and four power stations spread across Western Australia, New South Wales, Victoria, Queensland, Tasmania, and New Zealand.

In addition, this acquisition will bring further diversity with respect to weather, regulatory regimes and income sources.

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You've stated that the investment will underpin Alinta's ability to increase distributions to shareholders to a forecast level of 38 cents per share in FY2004. How certain are you of achieving that distribution forecast?

CEO Bob Browning
Distributions will be supported by strong underlying cash flows from the Duke assets. This 38 cents is expected to be paid per share or in the case of restructuring, per stapled security.

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Alinta intends to convert from an investment in a single company structure to an investment in a stapled security structure comprising a share in Alinta and a unit in the Alinta Infrastructure Trust. How does this structure allow Alinta to more efficiently distribute tax-effective returns to shareholders?

CEO Bob Browning
We'll be asking shareholders to vote on this restructure. Essentially, it will put us in a similar position to when we first listed and issued stapled securities. This structure will allow us to more efficiently distribute returns to shareholders in a tax-effective manner. This is accomplished through a combination of a cash distribution by way of a return of capital out of the Alinta Infrastructure Trust, which holds most of the Duke assets, and our normal dividend generated from the profits of the other assets.

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The portfolio of assets which Alinta has agreed to acquire comprises the Queensland Gas Pipeline, the Eastern Gas Pipeline, the Tasmanian Gas Pipeline, four power stations and a stake in the Goldfields Gas Pipeline. Which of these offer the most revenue growth, when do you expect that growth and what amount of capital expenditure will it require?

CEO Bob Browning

All of the newly acquired assets have a long remaining useful life and relatively low maintenance expenditure requirements.

The three pipeline assets are strategically located and we believe they all have strong volume growth potential. While each pipeline is underpinned by a long term foundation contract, we expect the throughput of the EGP, QGP and TGP to grow steadily over the next eight years.

We've put in place a $135 million loan facility to take care of anticipated capital expenditure associated with the growth of the pipeline assets during that period.

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To what extent are these assets regulated and how do you assess the regulatory risk?

CEO Bob Browning

The QGP is regulated by the Gas Code with access arrangements in place until August 31, 2016. The EGP, TGP and VicHub are not regulated. Therefore, we assess the regulated risk as low.

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You've publicly stated that Alinta's earnings profile was quite negative in the absence of the Duke acquisition. Can you outline the extent to which the new assets are expected to improve that profile?

CEO Bob Browning

2005 would have seen a number of events take place that would have had a potentially negative impact on EPS. These include the AlintaGas Networks regulatory reset, the renegotiation of the Wesfarmers LPG contract and a full-year impact of full retail contestability.

The Duke acquisition will allow us to continue to increase distributions to our shareholders in spite of these events. The growth potential of these assets will also allow us to improve profitability going forward in a more stable and long-term fashion than if the acquisition had not occurred.

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Upon the release of your full-year financial results for 2003, there was some confusion over how you had disclosed divisional results. That is to say, it was difficult to match the divisions as presented in your roadshow presentations with the segments disclosed in your annual financial statements. Can you give some clarity on this and also how Alinta may segment its business in future, as a result of the Duke acquisition?

CEO Bob Browning
The disclosures were not materially different however, the summary headings used within the roadshow presentations can be further explained to provide a read-across to the financial statements. Firstly, the division entitled "Energy Networks" in the roadshow presentation comprises Energy Distribution (AlintaGas Networks, Multinet and United Energy Distribution) and Asset Management Services (Alinta Network Services and National Power Services) as per the financial statements' segmentation.

Secondly, "Energy Supply" is represented by the Cogeneration segment in the financial statements. Operationally, "Energy Supply" also includes negotiations for gas procurement and transport and negotiations with Epic regarding the DBNGP transport.

Thirdly, "Energy Sales" consists of the Energy Retail and WLPG segments. Finally, "Other" consists of Uecomm and Other as per the financial statement segments.

As a result of the Duke acquisition, we'll be completing a thorough assessment of our divisional disclosures with respect to our segmental reporting obligations in our statutory reports.

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It has been mooted that Alinta is looking at options to divest some of the newly acquired assets. Can you outline which assets this might include?

CEO Bob Browning
Whilst parties may express their interest in acquiring assets within the portfolio, we have no plans to divest any of the newly acquired assets at this stage. We'll be focusing on engaging the quality team of employees within Duke that will continue to manage the assets for us.

In the future, we may elect to partially sell down some of these assets as we did with our own gas distribution network in Western Australia. If a sell-down did take place, we'd retain the asset management and operational control of those assets. This approach would be consistent with our asset ownership and asset management strategies for these types of assets.

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On April 28, 2004 receivers were appointed to Epic Energy's Dampier-to-Bunbury gas pipeline. What are the implications for Alinta?

CEO Bob Browning
We don't consider the DBNGP receivership is likely to have an adverse impact on us. We continue to negotiate transportation contracts that, if signed, will facilitate the sale and resolve the current dispute regarding the statutory price. Until the revised contracts are concluded, we'll continue to transport gas under our existing contract with Epic Energy, which extends until mid 2010. We have an option to extend to 2015. The price under our existing contract is determined by reference to the statutory price. However, we're in dispute with Epic as to whether or not the price under our contract is the statutory price. We're seeking to resolve this dispute in the context of our broader contract negotiations.

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Thank you Bob.

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