

ASX Announcement



30 June 2008

Arrow – AGL joint venture sells North Queensland Gas Pipeline

Arrow Energy Ltd (Arrow) and its 50/50 joint venture partner, AGL Energy Limited (AGL), have entered into a sale and purchase agreement with Victorian Funds Management Corporation (VFMC) for the sale of the North Queensland Gas Pipeline (NQGP¹) for a total consideration of approximately \$205 million² (Arrow share \$102.5 million).

This sale follows the purchase by Arrow and AGL of the Enertrade gas assets (NQGP, Moranbah gas compression facilities, Central Queensland Gas Pipeline development opportunity and North Queensland Gas Merchant Business) in November 2007 for approximately \$280m (Arrow share \$140m), and relates to the on-sale of the North Queensland gas pipeline asset only. The Arrow/AGL JV will retain ownership of the Central Queensland Gas Pipeline development opportunity and the gas processing and compression facilities located at Moranbah, which will be integrated into the Moranbah Gas Project infrastructure and operated by Arrow. The Arrow/AGL JV ownership of the North Queensland Gas Merchant Business acquired from Enertrade which includes the right to toll gas through and dispatch electricity from the 230MW Yabulu Power Station in Townsville and the wholesale supply of gas to Queensland Nickel and Copper Refineries also remains unchanged by this transaction.

The long term gas transportation agreement that Arrow/AGL have for the NQGP has also been varied to provide additional gas haulage capacity to accommodate future gas market growth in North Queensland as well as scope for further contract extensions of up to 10 years beyond the current 17 year term.

Under the terms of the sale, Arrow and AGL will continue to operate the pipeline through a 50/50 jointly owned pipeline management company which will provide contracted operating and maintenance services to VFMC under a long term operations and maintenance agreement.

Arrow Managing Director, Nick Davies said "We are extremely pleased with the outcome, as the structure of the sale largely enables Arrow to retain the same commercial position with respect to gas throughput and storage rights as ownership of the pipeline but without having significant capital tied up in a non-core asset. VFMC is the logical owner of this type of asset and we welcome them as a strategic long term partner in the region."

VFMC Joint Head of Private Markets, Andrew Elliott, said "The NQGP is a perfect addition to our growing portfolio of directly owned core infrastructure assets. We are delighted to be working with partners of the calibre of AGL and Arrow. I am confident that this asset will deliver long term benefits to our clients and our partners."

The sale will result in a pre-tax profit to Arrow of approximately \$25 million. Financial close is scheduled for late July 2008.

1. The NQGP was part of the Enertrade acquisition by the AGL/Arrow JV announced 7 November 2007.
2. Before transaction costs.

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About VFMC

Victorian Funds Management Corporation (VFMC) is responsible for managing investments of approximately \$38.1 billion for Victorian Government entities. Clients include pension fund ESSSuper Emergency Services & State Super and insurers Transport Accident Commission, Victorian WorkCover Authority and Victorian Managed Insurance Authority.

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