

**Contact Energy Limited**

Proposed Acquisition of Rockgas Limited  
Fairness Opinion

February 2007

The Independent Directors  
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23 February 2007

Dear Sirs

**Independent Appraisal of the Acquisition Price for Rockgas Limited**

In accordance with our engagement letter, we have undertaken an assessment of the fairness of the price at which Contact Energy Limited intends to purchase the entire share capital of Origin Energy Industries Limited, the holding company of Rockgas Limited, from Origin Energy Limited.

Our opinion is set out in the attached report.

Please do not hesitate to contact us if you have any questions or require any further information.

Yours sincerely

*Bruce Wattie*

Bruce Wattie  
Partner

## Glossary of Terms

Contact	Contact Energy Limited
DCF	Discounted cash flow
EBITDA	Earnings before interest, tax, depreciation and amortisation
LPG	Liquefied Petroleum Gas
OEIL	Origin Energy Industries Limited
Origin Energy	Origin Energy Limited
Rockgas or the Company	Rockgas Limited

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# 1 Introduction

## Background

1.1 Origin Energy Industries Limited (“OEIL”) is a 100% owned subsidiary of Origin Energy Limited (“Origin Energy”). OEIL is a holding company for Origin Energy’s 100% ownership of Rockgas Limited (“Rockgas” or “the Company”). OEIL’s only operating asset is its investment in Rockgas.

1.2 Origin Energy and Contact Energy Limited (“Contact”) are entering into an agreement for the sale of all of the shares in OEIL to Contact (“the Transaction”). The agreed purchase price for the shares is \$156 million (“the Purchase Price”) as at 1 July 2007. The sale and purchase agreement incorporates a mechanism for adjusting the Purchase Price if the completion date differs from 1 July 2007.

## Purpose of this Report

1.3 The New Zealand Stock Exchange Listing Rules require Material Transactions between an Issuer (in this case Contact) and a related party (Origin Energy, being Contact’s parent company) to be approved by an Ordinary Resolution of the Issuer. The Notice of Meeting containing the text of the ordinary resolution to approve the Material Transaction must be accompanied by an appraisal report. The appraisal report must be prepared by an independent party and state whether the consideration and the terms and conditions of the proposed Material Transaction are fair to the holders of equity securities of the Issuer other than the Related Party (“the Shareholders”).

1.4 The definition of a Material Transaction includes the purchase of assets with a value<sup>1</sup> in excess of 5% of the average market capitalisation<sup>2</sup> of the Issuer. The volume weighted average market price for Contact’s shares over the 20 day period before 16 February 2007 was \$8.65. Contact had 576,633,982 shares on issue on that date giving a volume weighted average market capitalisation of \$4.99 billion. The Purchase Price of \$156 million is 3.1% of the volume weighted average market capitalisation and so falls below the threshold for Material Transactions requiring shareholder approval and the issue of an appraisal report.

1.5 Notwithstanding that the Purchase Price is below the 5% Material Transaction threshold, the independent directors of Contact (“the Independent Directors”) have requested that we review the Transaction and prepare a report that complies in all material respects with Listing Rule 1.2.2, which governs the contents of an appraisal report.

1.6 Accordingly, and in accordance with our engagement letter, we have prepared this report for the Independent Directors. The purpose of the report is to provide our opinion on whether the Purchase Price of \$156 million is fair to Contact’s shareholders other than Origin Energy.

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<sup>1</sup> The listing rules refer to the Aggregate Net Value of the asset, being the greater of the net tangible asset backing or market value.

<sup>2</sup> The volume weighted average market capitalisation of the Issuers equity over the 20 days before the earlier of the date on which the transaction is entered into or is announced to the market.

1.7 While there is no requirement for the Independent Directors to provide our report to the Shareholders, we understand that they may decide to do so.

## The Concept of Fairness

1.8 The Listing Rules do not provide detailed guidance on what will determine whether the Purchase Price is “fair” to the Shareholders. However, in accordance with common practice developed in relation to Material Transactions and transactions governed by the Takeovers Code, our assessment of fairness of the Purchase Price has been undertaken by comparing our assessment of the current “fair market value” of Rockgas to the Purchase Price.

1.9 For the purpose of this report, fair market value is defined as:

*The amount for which an asset might be expected to exchange on the valuation date, between a willing buyer and a willing seller, in an arms’ length transaction, after proper marketing, if the parties to the transaction had each acted knowledgeably, prudently and without compulsion.*

1.10 This definition of “fair market value” is reasonably standard. It does not require further definition, other than to say that:

- It rules out assessing the value that a special purpose purchaser might be prepared to pay for the asset. A special purpose purchaser is characterised as having a special interest in an asset and by a willingness to pay a premium for the asset over and above the price that other buyers are prepared to pay.
- The value will not be influenced by the identity of the buyer and seller.
- The value will encompass synergies and other buyer benefits to the extent that they are common to more than one buyer.
- The value will be influenced by the highest and best alternative use for the asset.

## Rockgas and OEIL

1.11 Although the Transaction involves the purchase of shares in OEIL by Contact, this report is focussed primarily on the valuation of Rockgas. OEIL does not have any substantive operating assets, liabilities, revenue or costs in its own right.

## Information

1.12 The sources of information that we have had access to and relied upon in preparing this report are listed in Appendix A.

## Declarations, Qualifications, Disclaimer and Restrictions

1.13 This Report should be read in conjunction with the statements and declarations set out in Appendix B regarding our independence, qualifications, disclaimer, restrictions upon the use of this Report, reliance on information and indemnity.

## Currency and Financial Years

1.14 All monetary amounts in this Report are expressed in New Zealand currency and are stated exclusive of Goods and Services Tax (GST), unless indicated to the contrary.

1.15 Generally, references to “year” should be taken as referring to the Company’s financial year ending on 30 June. For example, references to the “2008 year” refer to the year ending 30 June 2008. References to YTD refer to the six months ended 31 December 2006. References to years in the form 2007/08 are to financial years (e.g. 2008 financial year).

## 2 The Transaction and Opinion on the Fairness of the Purchase Price

### The Transaction

2.1 Origin Energy has offered to sell and Contact has agreed to buy 100% of the shares in OEIL, which in turn owns 100% of the shares in Rockgas. The key terms of the Transaction are summarised in the following table:

**Table 1: Transaction Summary**

Asset	100% of the shares in OEIL.
Transaction date	1 July 2007.
Agreed price	\$156 million, subject to adjustment if the transaction date is earlier than 1 July 2007.
Consideration	Cash, payable in full on the transaction date.
Other key conditions	There will be no interest bearing debt or surplus cash in the OEIL group as at the date of the Transaction.

### Summary Opinion

2.2 We have concluded that the Purchase Price is fair to the Shareholders in Contact, being the shareholders other than Origin Energy. Our conclusion is based on the following:

- The Purchase Price falls within our estimate of the fair market value of Rockgas taking into account a base DCF value for Rockgas, the impact on the base value of changes to key cash flow assumptions and, importantly, the potential acquisition benefits that can be extracted from the combination of Rockgas with an electricity retailer such as Contact.
- Comparison of the Purchase Price to market multiples does not indicate any overstatement of value.

## 3 LPG and the LPG Industry

### Industry Structure

3.1 Rockgas is a significant distributor and retailer of liquefied petroleum gas (“LPG”)<sup>3</sup> in New Zealand. The LPG industry in New Zealand comprises three main sectors:

- **LPG Supply:** The majority of New Zealand’s LPG requirements have been and are currently supplied from domestic production. However, in recent years LPG imports have been increasing as domestic demand has continued to grow while domestic supply has declined.
- **Bulk Storage:** Liquigas Limited (“Liquigas”) owns and operates bulk LPG storage facilities at Port Taranaki, Oaonui, Auckland, Christchurch and Dunedin. Liquigas’ historical role has been the distribution of bulk LPG supplies from domestic gas fields, principally located in Taranaki, to retailers. Liquigas also acts as a supply management co-ordinator by aggregating demand for the purchase of imported LPG. Liquigas is owned by the four principal domestic LPG retailers (see below). Rockgas’ ownership share is 8.5%.
- **Retail and Distribution:** There are four significant LPG retailers and distributors in New Zealand: Rockgas, On Gas, Shell/BOC and Nova Gas.

### LPG Supply

3.2 LPG supply is a critical issue for the industry. For Rockgas, expected changes in the cost of supply will have an important influence on its earnings over the short to medium term.

3.3 LPG is essentially a by-product of the oil and gas industries. Almost all LPG consumed in New Zealand historically has been produced by the domestic natural gas industry. As natural gas production has increased so has the availability of LPG. Domestic production historically has exceeded domestic demand and New Zealand has been a net exporter of LPG since 1987, although this is no longer the case.

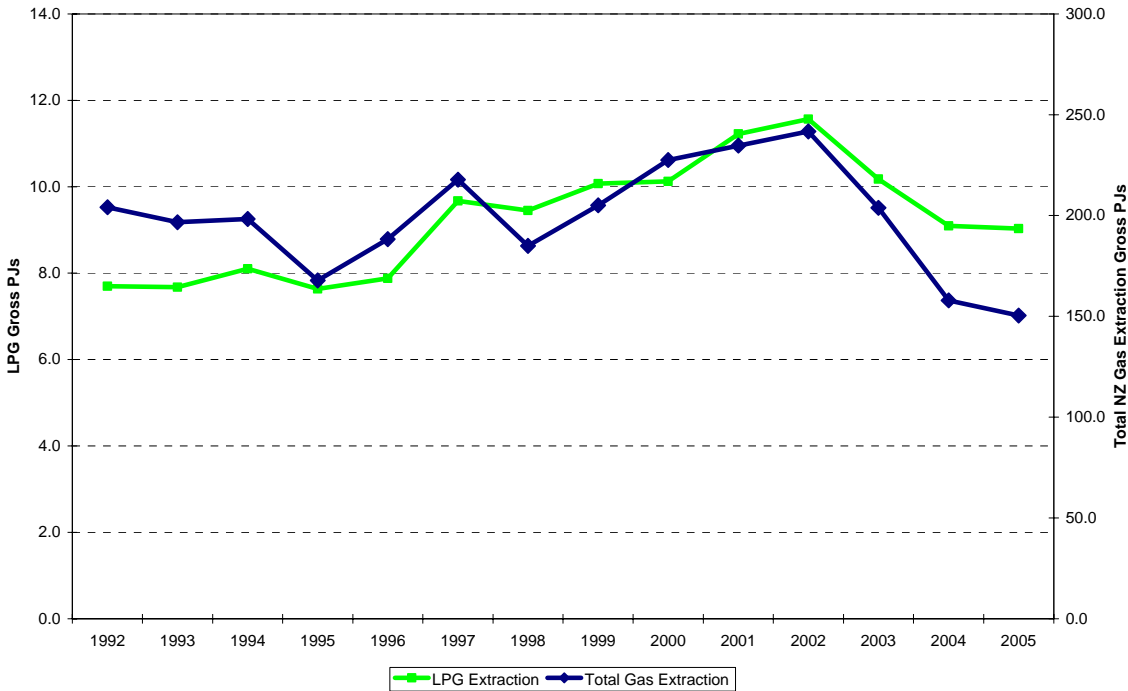
3.4 The following two figures show:

- Total natural gas and total LPG production for the years 1992 to 2005. This illustrates the relatively close relationship between natural gas and LPG production.
- Gas production from New Zealand gas fields. This shows the significant impact Maui has had on gas supply and, importantly, the decrease in gas from Maui in recent years, which is the cause of the declines since 2002 illustrated in Figure 1.

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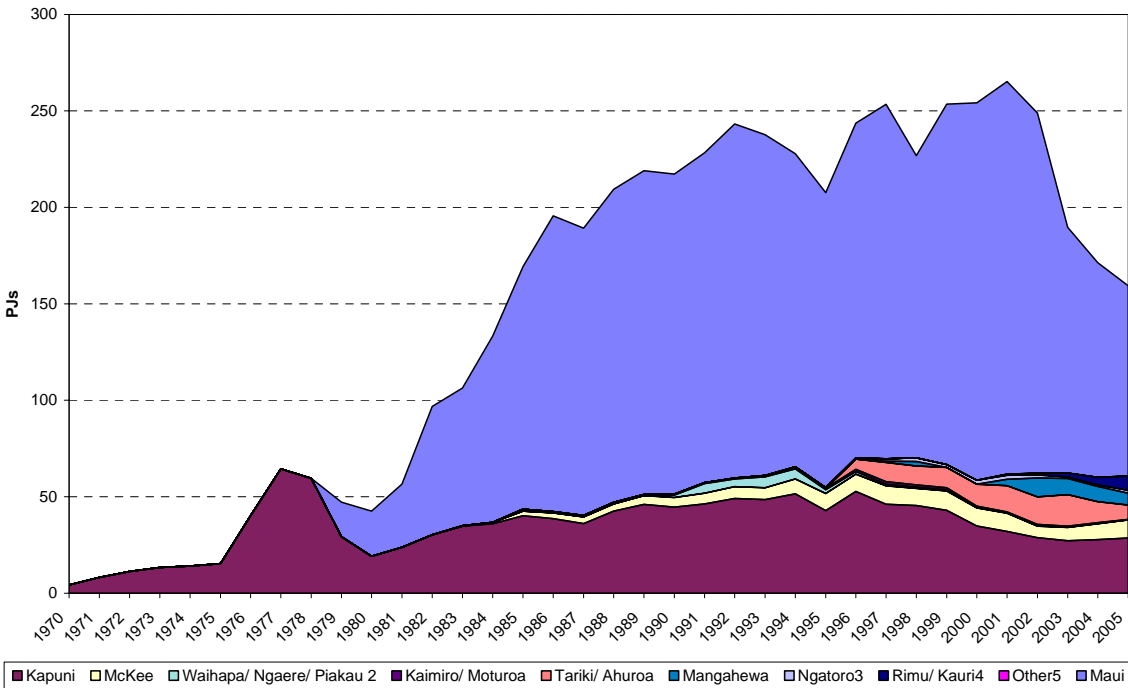
<sup>3</sup> LPG is a generic name for mixtures of hydrocarbons (mainly propane and butane). These are hydrocarbon products produced by the oil and gas industries. Both exist as a gas at normal atmospheric pressure, only existing in a liquid form at very low temperatures or under pressure.

**Figure 1: LPG and Natural Gas Production**



Source: Ministry of Economic Development, Energy Data File, September 2006; PwC analysis

**Figure 2: Natural Gas Production by Field**

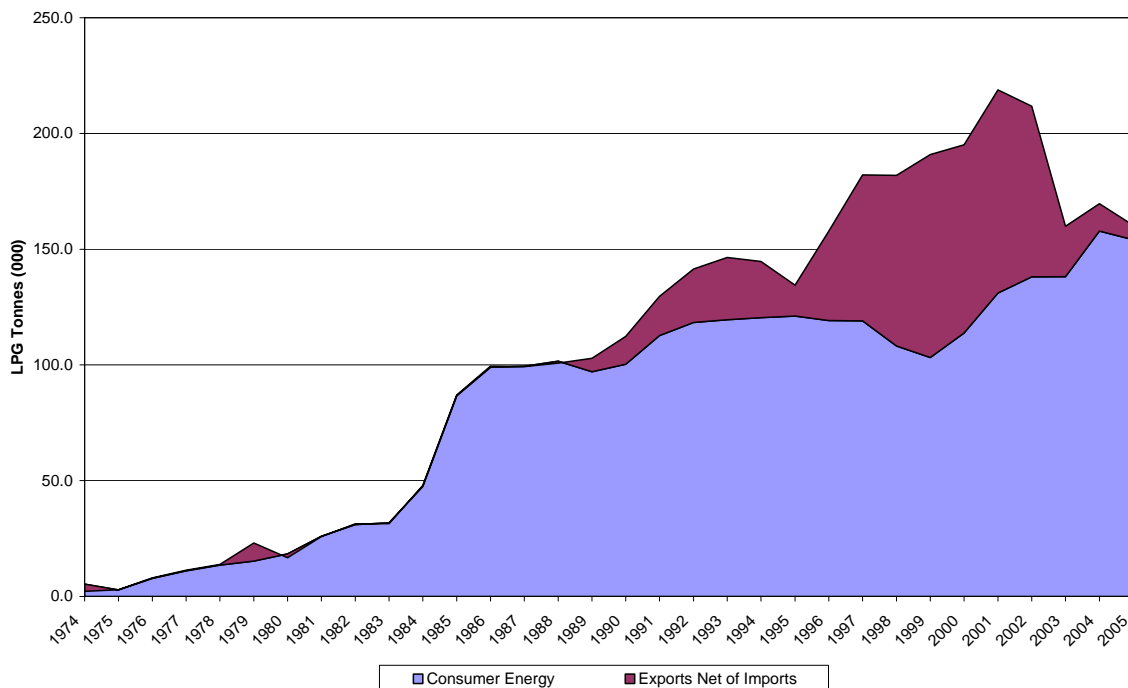


Source: Ministry of Economic Development, Energy Data File, September 2006; PwC analysis

3.5 Figure 3 and Figure 4, which follow, illustrate the relationship between LPG<sup>4</sup> supply and demand:

- Figure 3 shows total LPG production, total consumption and net LPG exports. This illustrates that New Zealand has been producing more LPG than has been needed to meet domestic demand and so the country has been a net exporter of LPG. However, as domestic production has declined, so has the level of net exports.
- Figure 4 shows total gross exports and imports. Exports and imports will occur in the same year because of the mismatch between the timing of gas production (which determines the amount of LPG available for supply) and demand<sup>5</sup>. When LPG is produced in excess of current demand it is exported. Conversely, imports occur when supply is less than current demand. Importantly, Figure 4 shows that prior to 2003, New Zealand did not import LPG. Importations have occurred as domestic LPG production has reduced.

**Figure 3: LPG Supply and Demand**

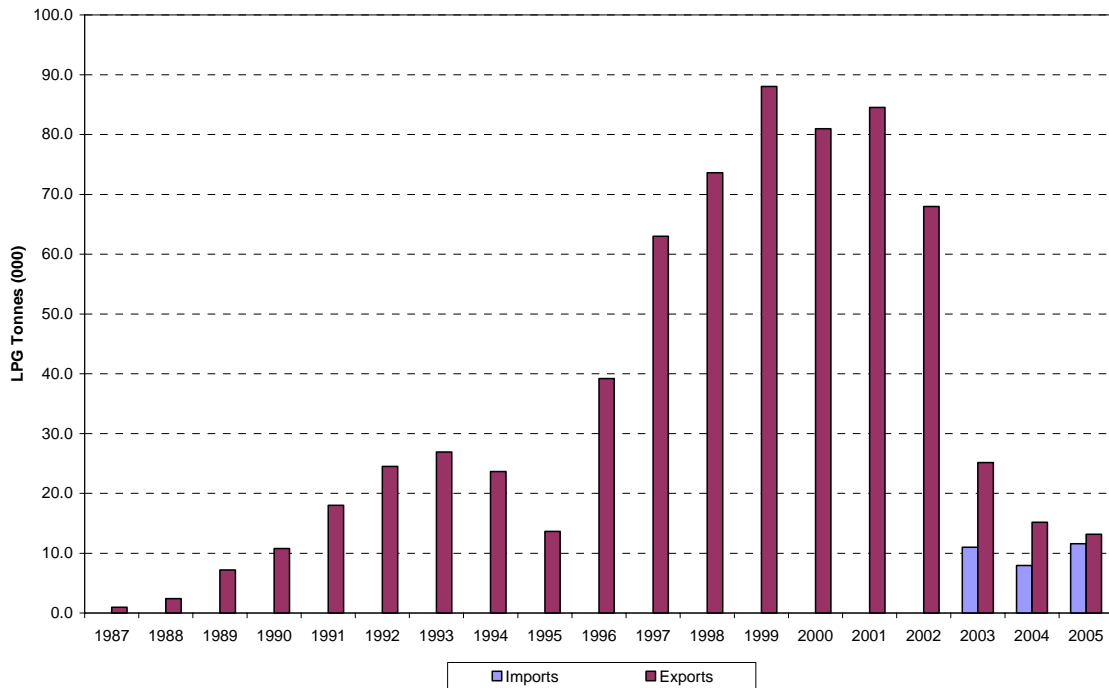


Source: Ministry of Economic Development, Energy Data File, September 2006; PwC Analysis

<sup>4</sup> The data on which these charts are based includes natural gas liquids (NGL) which accounts for a small proportion of volume (7% – 9% over the last five years)

<sup>5</sup> Demand peaks during the winter months.

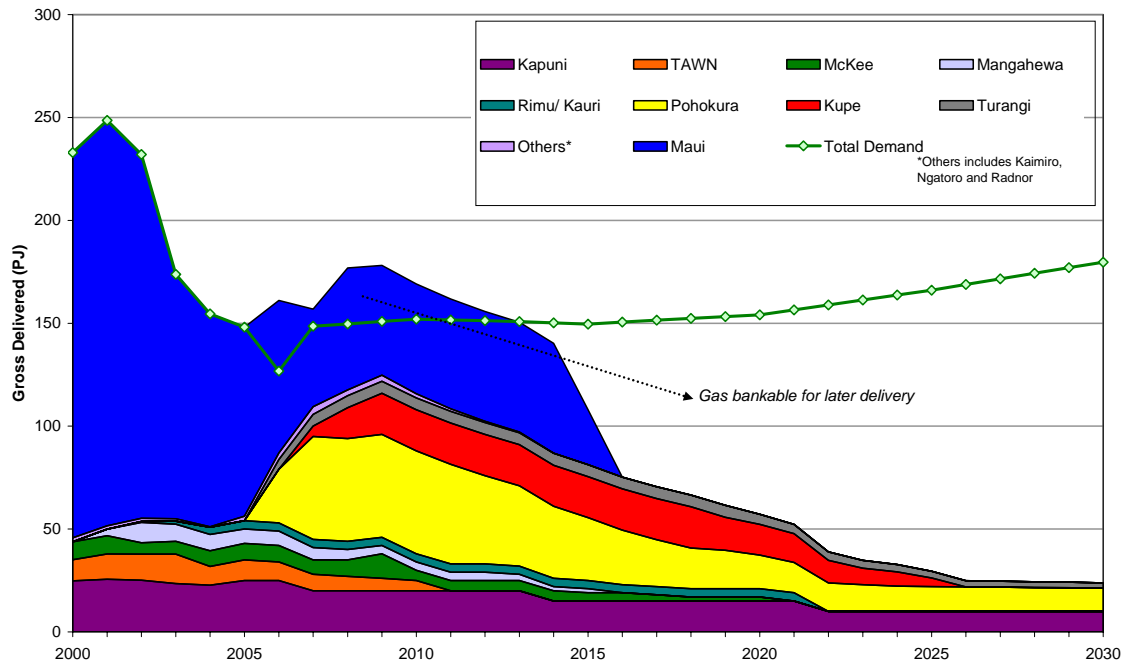
**Figure 4: LPG Imports and Exports**



Source: Ministry of Economic Development, Energy Data File, September 2006; PwC Analysis

3.6 The current forecast for domestic natural gas supply is for a short term reduction in supply followed by surplus, relative to demand, as known new fields are brought into production. However, in the absence of a major new gas find, this surplus will diminish as Maui production continues to decline and eventually domestic supply will fall below demand.

**Figure 5 Domestic Natural Gas Supply**



Source: Ministry of Economic Development, New Zealand's Energy Outlook to 2030, September 2006

3.7 LPG supply from domestic gas fields will follow the trend in natural gas supply. LPG supply will decline through to 2008 – 2009 with the reduction in Maui supply. Imports will be required to fill the gap between supply and demand.

3.8 LPG from the Kupe field and Maui ROFR<sup>6</sup> will reduce the dependency on imports to some extent, although this will be relatively short lived. In the absence of another major natural gas find, imported LPG will be a permanent component of the country's LPG supply mix.

3.9 The implications of the gas supply profile for individual LPG retailers depends to a large extent on their supply contracts, particularly access to LPG that is favourably priced relative to alternative supplies, principally imported LPG which is priced at the going international price plus transportation costs.

3.10 In the past, the arrangements in relation to Maui have provided both the natural gas and LPG sectors with low cost gas supplies relative to new fields and to imports. As these existing contractual arrangements come to an end, it is expected that the pricing of LPG in New Zealand will become more closely aligned to international prices, being the alternative source of supply for retailers (in times of excess demand relative to domestic supply) and the alternative market for gas producers (in times of excess supply).

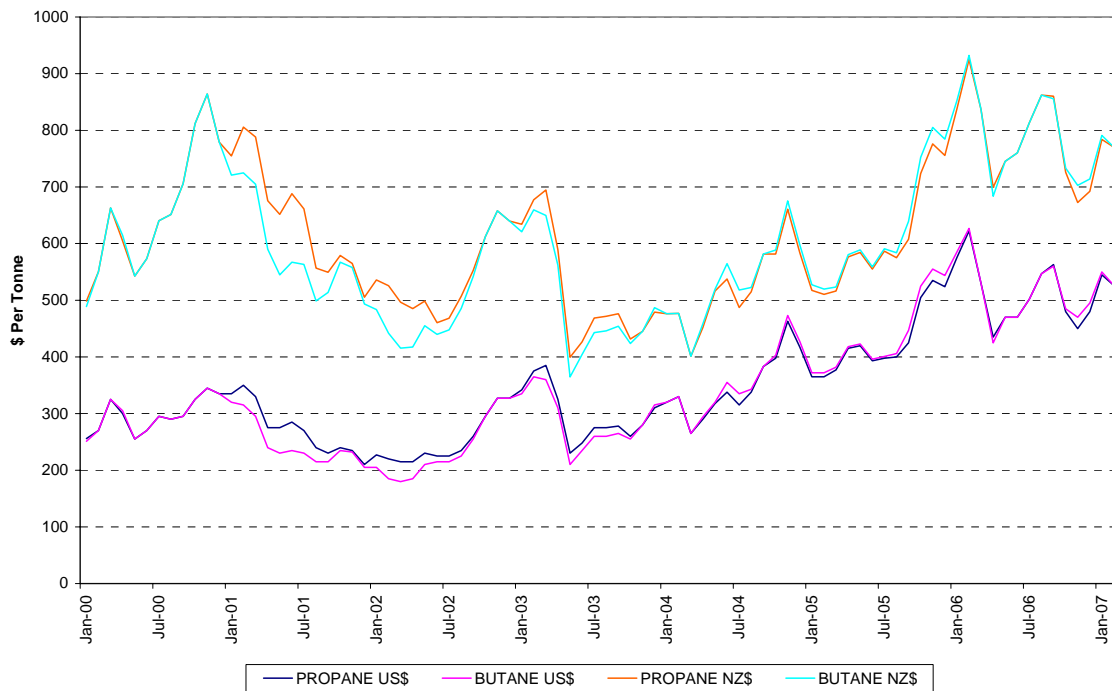
3.11 Rockgas will face a position over the next few years where it will have to rely increasingly on imported LPG to supplement its domestic LPG supply to meet customer demand. It will not have the same level of access to favourably priced domestic LPG as

<sup>6</sup> Right of first refusal

some of its competitors. However, this will be a temporary set of circumstances and all retailers are expected to face similar LPG supply costs by the end of 2009.

3.12 LPG is a globally traded and priced commodity. The international LPG price is referred to as the Saudi Contract Price (which is quoted in US dollars). International prices have historically been highly variable, due to international supply and demand movements, and movements in international exchange rates.

**Figure 6: Saudi Aramco Contract Price for LPG**



Source: LPG Australia

3.13 The prices in Figure 6 are for LPG only.

### Bulk Storage

3.14 Liquigas is owned by four shareholders – Vector/NGC (60.3%), Shell (18.7%), Todd (12.5%) and Rockgas (8.5%). Liquigas sells LPG to its shareholders at the wholesale level. Shareholders are not required to purchase LPG that is offered to them by Liquigas. Detailed contractual arrangements govern the relationship between Liquigas shareholders and the management of Liquigas.

3.15 Liquigas sources LPG as a by-product from the Maui field at a fixed price. Liquigas determines its own wholesale price based on current market conditions and prevailing export and import prices.

3.16 Liquigas also acts in a supply management capacity by supplementing LPG supply from Maui with imported LPG to meet aggregate demand. Liquigas coordinates the sale and transport of imported LPG for its shareholders.

3.17 Liquigas supplies LPG directly to its shareholders from its Oaonui storage facilities and pipes LPG to Port Taranaki, where it is shipped to its storage facilities in Christchurch

and Dunedin and to export markets. Liquigas also operates a storage facility in Auckland on a tolling basis.

3.18 The future for Liquigas is somewhat uncertain. Its role supplying LPG once the existing Maui arrangements expire will change. It will no longer have access to lower cost Maui LPG but it will still have ownership of the bulk storage facilities.

## **Retail and Distribution**

3.19 There are four significant LPG retailers and distributors in New Zealand: Rockgas, On Gas, Shell/BOC and Nova Gas.

3.20 Shell has entered into an agreement to sell its LPG business to BOC. The Commerce Commission cleared BOC to acquire Shell's LPG business and shares in Liquigas on 22 February 2007. BOC is a member of The Linde Group, a global industrial gases and engineering company.

3.21 Nova LPG, Nova Gas's LPG arm, was formed through the acquisition in 2000 of HulmeGas in the greater Bay of Plenty region and Citigas in Dunedin, which includes a reticulated LPG pipeline network in Dunedin.

3.22 Nova Gas is part of the Todd Energy group. Todd Energy, in conjunction with various joint venture partners, owns a number of oil and gas production facilities that supply a significant percentage of New Zealand's hydrocarbon energy needs. These include interests in Maui, Kapuni, Mangahewa and McKee fields.

3.23 On Gas is a nationwide supplier of reticulated natural gas and bottled LPG to homes and businesses. On Gas also has a supply agreement with BP and provides LPG to approximately 190 BP outlets throughout New Zealand. On Gas is owned by Vector Limited.

3.24 The retail LPG market can be viewed as comprising a number of regional geographical markets. The drivers of this regional perspective is that LPG must be stored close to customers for cost effective and timely supply, and that retail customers are unlikely to travel significant distances to purchase LPG. As a result, different price differentials between retailers can be observed in different geographical markets.

3.25 The retail market can also be segmented by the different users of LPG. Buyers of LPG for domestic use tend to make purchases on the basis of price. Larger commercial/industrial buyers make their purchase decisions on the basis of price and specific service requirements, such as delivery equipment options, safety practices and technical support. Automotive users of LPG are influenced by the LPG/petrol price differential.

## **Competitive Position**

3.26 The competitive position of participants in the LPG industry in New Zealand is in part influenced by the nature of the wholesale supply arrangements. LPG supply prices have been dominated by the low price of LPG from the Maui field ("Blue Book" arrangement). This price advantage, relative to imported LPG, is expected to diminish as the industry transitions to a new set of supply arrangements. Key changes to supply arrangements will include:

- Maui Blue Book arrangements are expected to end in December 2009. Any additional Maui LPG sold will be supplied at new prices.

- Kapuni LPG price, which is currently sold at 98% of the Blue Book contract price, will end when the Maui arrangements cease.

3.27 It is reasonable to forecast that post 2009 LPG supply prices will converge with LPG import prices. The two major domestic gas fields expected to come online over the medium term are Pohokura and Kupe. It is currently uncertain when or if LPG from Pohokura will be made available to the market. Kupe, which is expected to come on-stream in 2009, is forecast to produce 90,000 tonnes of LPG per annum.

3.28 This transition will alter the current competitive position of LPG market participants. It is likely that all market participants will face a higher and more variable gas cost, which is likely to be indexed to international prices.

### **LPG in the Wider Energy Sector**

3.29 Given the variety of uses for LPG, and in particular that it is used as an automotive fuel as well as a source of energy for a variety of other uses, it faces competition from different energy sources in different market segments. In the automotive sector, it competes with diesel and petrol. In the residential and commercial sectors it competes with natural gas and electricity. In the industrial sector it competes with natural gas, electricity, diesel and other light fuel oils. The competition with natural gas is important and is reflected in Rockgas' strong presence in the South Island where there is no significant reticulation of natural gas.

3.30 LPG is a relatively cheaper fuel choice, compared with some other sources of energy. In addition, it is also relatively cleaner in terms of carbon emissions. The likely introduction of a carbon charge in the future may benefit the competitive position of LPG in the wider energy market.

## 4 Background to Rockgas

### Ownership

4.1 Rockgas is a New Zealand incorporated company. It has 6,000,002 fully paid ordinary shares on issue, all of which are owned by OEIL. OEIL is also a New Zealand incorporated company and is a wholly owned subsidiary of Origin Energy. OEIL has 3,000,000 fully paid ordinary shares on issue.

### Business Activities

#### Introduction

4.2 Rockgas supplies LPG to industrial, commercial and residential customers. Rockgas:

- Supplies over 50% of the New Zealand LPG market.
- Distributes to approximately 300 automotive LPG refuelling outlets around New Zealand (Caltex, Mobil and Challenge).
- Has an increasing number of LPG reticulation networks.
- Has an extensive branch and franchise network, and a chain of regional cylinder distribution agents.
- Employs over 150 staff.

#### Products and Distribution

4.3 Rockgas is both a wholesaler and retailer of LPG. It supplies industrial, commercial and residential customers through a range of distribution channels:

**Table 2: Distribution Channels**

Distribution Channel	Description	End Use Customers	Usage (Examples)
Bulk	Direct supply by Rockgas to bulk storage tanks usually located on customer premises	Industrial	Heat for boilers and industrial processes
Reticulation	Localised reticulation networks supplied from bulk storage tanks	Industrial, commercial and residential	All
Service Stations	Direct supply by Rockgas to bulk storage tanks usually located on customer premises	Retail	<ul style="list-style-type: none"> <li>• Transport</li> <li>• 9.5 kg bottle refills (domestic cooking (barbecues) and heating)</li> </ul>
Cylinder Distribution	Cylinders delivered to customer premises. Distribution is through: <ul style="list-style-type: none"> <li>• Rockgas branches (8)</li> <li>• Franchise operators(24)</li> <li>• Resellers (2)</li> </ul>	Industrial Commercial Residential	<ul style="list-style-type: none"> <li>• Forklift motive fuel</li> <li>• Forklift motive fuel</li> <li>• Cooking, heating</li> <li>• Cooking, heating, water heating</li> </ul>

4.4 Rockgas has taken a strategic decision to focus on distribution, wholesale and larger scale retail operations, and to use franchise arrangements to service smaller country-wide retail opportunities. Rockgas' franchises are primarily cylinder businesses and offer a comparable range of products and services to Rockgas branches.

4.5 Rockgas' franchise and branch network gives it a national distribution network. There are no major gaps in the distribution network.

4.6 Rockgas has relationships with Caltex and Mobil to provide wholesale LPG for automotive and 9.5 kg cylinder use. Under these agreements, Rockgas owns and maintains the bulk LPG storage facility and cylinders at individual service stations, while service stations are responsible for retail price setting.

### **Gas Supply**

4.7 Rockgas obtains LPG from a number of sources. These sources include supply from domestic gas fields and imported gas.

### **Financial Performance**

4.8 The Company has adopted the New Zealand equivalent of International Financial Reporting Standards ("NZ IFRS"). Information for 2005 and 2006 presented in this section has been prepared on the basis of NZ IFRS. Financial information for earlier periods has been prepared on the basis of the then prevailing New Zealand GAAP. The adoption of NZ IFRS does not significantly impact on the comparability of the financial information pre and post adoption.

4.9 The Company changed its balance date from 31 December to 30 June during 2004. Consequently, its statement of financial performance for the period ended 30 June 2004 is for a six month period.

4.10 The Company's financial performance for the years ended 31 December 2002 and 2003, six months ended 30 June 2004 and the years ended 30 June 2005 and 2006 is summarised in Table 3<sup>7</sup>.

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<sup>7</sup> The financial performance summary has been extracted from the Company's audited financial statements.

**Table 3: Historical Financial Performance**

MONTHS	NOTE	Dec-02	Dec-03	Jun-04	Jun-05	Jun-06
		12	12	6	12	12
		\$000	\$000	\$000	\$000	\$000
Revenue	1	70,564	77,901	35,618	86,539	95,489
Cost of Sales		(38,434)	(41,545)	(23,005)	(53,488)	(61,301)
<b>Gross Profit</b>		<b>32,130</b>	<b>36,356</b>	<b>12,613</b>	<b>33,051</b>	<b>34,188</b>
Other Income	1	-	-	2,505	3,568	3,966
		32,130	36,356	15,118	36,619	38,154
Operating Expenses		(19,042)	(20,817)	(7,606)	(16,507)	(18,749)
<b>Operating EBITDA</b>		<b>13,088</b>	<b>15,539</b>	<b>7,512</b>	<b>20,112</b>	<b>19,405</b>
Depreciation		6,000	6,042	2,901	4,293	5,073
Amortisation	2	482	428	148	379	1,094
<b>Operating EBIT</b>		<b>6,606</b>	<b>9,069</b>	<b>4,463</b>	<b>15,440</b>	<b>13,238</b>
Dividends from Liquigas	3	-	-	383	892	689
Net Interest (Expense) / Income	4	(1,457)	(1,434)	(780)	(1,917)	(1,907)
		5,149	7,635	4,066	14,415	12,020
Associates		-	140	26	72	102
<b>Profit before Tax</b>		<b>5,149</b>	<b>7,775</b>	<b>4,092</b>	<b>14,487</b>	<b>12,122</b>
Tax		(1,759)	(2,511)	(1,214)	(4,585)	(3,596)
<b>Profit After Tax</b>		<b>3,390</b>	<b>5,264</b>	<b>2,878</b>	<b>9,902</b>	<b>8,526</b>

**NOTE**

- 1 There was no separate disclosure of Other Income in the 2002 and 2003 financial statements  
 2 Amortisation in 2006 includes \$600,000 for an impairment expense  
 3 There was no separate disclosure of Dividends in the 2002 and 2003 financial statements  
 4 There was no separate disclosure of Interest Income in the 2002 and 2003 financial statements.

4.11 The Company has experienced sustained growth. This is consistent with the growth in LPG market generally, which has grown at an average of just under 3% per annum in the 10 years to 2005.

4.12 The Company's strategic focus is producing a change in business mix. Significant investment in localised reticulation networks is resulting in considerable volume growth in this segment. While there is some switching of bulk customers from tanks to reticulation, the growth in reticulation segment is generally from new connections.

4.13 The Company's margins have remained relatively stable, reflecting Rockgas' policy of protecting its dollar gross margins.

4.14 The Company expects earnings to grow again in 2007. Trading conditions to date have been favourable and increased cost of product has been recovered through varying prices in retail markets.

## Financial Position

4.15 The Company's statement of financial position at 31 December 2002 and 2003, 30 June 2004, 2005 and 2006 and 31 December 2006 is summarised in the following table<sup>8</sup>.

<sup>8</sup> The financial position summary has been extracted from the Company's audited financial statements.

**Table 4: Financial Position**

	Dec-02 \$000	Dec-03 \$000	Jun-04 \$000	Jun-05 \$000	Jun-06 \$000
<b>Current Assets</b>					
Cash and Cash Equivalents	187	1,244	5,086	4	3,079
Receivables	7,952	7,380	10,587	12,088	15,777
Inventories	1,448	453	1,412	2,099	2,070
<i>Total Current Assets</i>	<b>9,587</b>	<b>9,077</b>	<b>17,085</b>	<b>14,191</b>	<b>20,926</b>
<b>Non Current Assets</b>					
Plant, Property & Equipment	32,660	32,946	33,553	42,168	48,828
Intangible Assets	1,422	994	846	2,991	2,008
Loans To Related Parties	-	-	4,191	13,192	7,549
Investment in Liquigas Ltd	2,935	2,935	2,935	2,935	2,935
Interest in Rockgas Timaru Ltd	5	145	171	168	180
Other Non Current Assets	1,010	1,353	1,292	1,600	1,681
<i>Total Non Current Assets</i>	<b>38,032</b>	<b>38,373</b>	<b>42,988</b>	<b>63,054</b>	<b>63,181</b>
<b>TOTAL ASSETS</b>	<b>47,619</b>	<b>47,450</b>	<b>60,073</b>	<b>77,245</b>	<b>84,107</b>
<b>Current Liabilities</b>					
Interest Bearing Loans & Liabilities	10,800	5,000	9181	12,000	-
Trade and Payables	6,945	7,294	12,709	16,297	17,991
Other Current Liabilities	273	291	440	1,369	3,672
<i>Total Current Liabilities</i>	<b>18,018</b>	<b>12,585</b>	<b>22,330</b>	<b>29,666</b>	<b>21,663</b>
<b>Non Current Liabilities</b>					
Term Liabilities	10,000	10,000	10,000	-	-
Shareholder Advance	7,244	7,244	18,744	27,682	33,971
Other Non Current Assets	-	-	-	2,236	2,286
<i>Total Non Current Liabilities</i>	<b>17,244</b>	<b>17,244</b>	<b>28,744</b>	<b>29,918</b>	<b>36,257</b>
<b>TOTAL LIABILITIES</b>	<b>35,262</b>	<b>29,829</b>	<b>51,074</b>	<b>59,584</b>	<b>57,920</b>
<b>Equity</b>					
Share Capital	6,000	6,000	6,000	6,000	6,000
Retained Earnings	6,357	11,621	2,999	11,661	20,187
<b>TOTAL EQUITY</b>	<b>12,357</b>	<b>17,621</b>	<b>8,999</b>	<b>17,661</b>	<b>26,187</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>47,619</b>	<b>47,450</b>	<b>60,073</b>	<b>77,245</b>	<b>84,107</b>

4.16 The Company's investment in Liquigas is carried at a directors' estimate of fair value.

4.17 Rockgas is an asset intensive business, although the investment in tangible assets is not as significant as some sectors of the energy industry. Its assets are primarily used for storage and distribution and reflect the nature of LPG as a distributive energy source. Rockgas' principal assets are:

- Bulk storage tanks and related facilities. These are located at Rockgas' branches, bulk supply customers' sites, franchises' sites and as part of local reticulation systems.
- A stock of cylinders.
- Trucks, including bulk tankers and cylinder delivery trucks.
- Reticulation networks, principally comprising pipes, customer connections and meters.

4.18 There has been a substantial increase in fixed assets, primarily as a consequence of investment in reticulation assets:

**Table 5: Capital Expenditure**

	2005	2006
	\$000	\$000
Reticulation capital expenditure	7,641	6,669
Other capital expenditure	5,680	5,303
	13,321	11,972

4.19 The reticulation capital expenditure underpins the growth in reticulation volumes.

4.20 We have been advised that there will be no significant cash assets or other assets that are surplus to operating requirements and could be liquidated and the cash returned to the shareholders as at the date of the Transaction. We have also been advised that, for the purpose of the valuation, there will be no interest bearing debt in the OEIL group at the date of the Transaction.

## Prospects

4.21 The Company's earnings over the medium to long term will be dependent on:

- The general trend in demand for LPG. The company expects that LPG demand will continue to grow at least at the rates experienced in recent years.
- The changing mix of sources of supply and the implications for the cost of LPG, prices and competitive positioning. The ability to pass on increases in the cost of gas to end users will vary among market segments. Increasing LPG prices are likely to see volume loss in the automotive and bulk segments where customers can switch to alternative fuels. The impact will be less significant in other segments.
- The relationship between prices and demand within individual segments. While higher prices to end users will be a dominant feature as the industry moves to import parity pricing, it is not the only factor that will influence demand.

Reticulation will grow in response to the investment in networks. Growth in the cylinder market will be influenced by the positioning of LPG as a convenient and reliable energy source, as well general growth in energy consumption. The automotive market will be influenced by the relativity between LPG and petrol/diesel prices as well as the availability of dual fuel vehicles, either factory fitted or converted vehicles. Bulk customers are price sensitive but other factors such as security of supply and general economic growth will ensure continuing demand. Overriding all these factors is the positioning of LPG as a lower emissions energy source relative to other liquid hydrocarbon fuels

- The level of investment in assets and operating resources needed to support the sales volume and pricing assumptions. As signalled above, this is a particular issue for the reticulation segment where building and expanding networks is necessary to secure volume growth. Rockgas maintains a policy of building in conjunction with demand rather than in anticipation of demand. Investment is also important for other market segments. As a distributive energy source, demand growth must be accompanied by storage capacity.

4.22 In summary, Rockgas' prospects over the medium term will be influenced by continuation of demand growth in most market segments, changing cost of supply and investment in infrastructure. The combination of these factors is likely to produce a cash flow profile that reduces in the short term but grows strongly over time.

## 5 Acquisition Benefits

### Fair Market Value and Acquisition Benefits

5.1 We have stated in Section 1 that the fairness of the Purchase Price will be judged by reference to the fair market value of Rockgas. Fair market value was defined in Section 1 as the price that would be agreed between a willing but not anxious seller and a willing but not anxious buyer.

5.2 A willing but not anxious seller of an asset would seek out buyers able to put the asset to its highest value use. Buyers must be in a position to pay a value based on the highest value use to secure the asset – the market value definition assumes that there is more than one buyer that will be able to put the asset to its highest value use.

5.3 One important factor that will affect the highest alternative use value is the extent of value benefits that a buyer might be able to extract from the asset by combining or using the asset in conjunction with other assets owned by the buyer. These synergy or acquisition benefits will be incorporated into the “market value” to the extent that they are available to two or more buyers and not specific to a single buyer. The competitive nature of the market will ensure these benefits are imputed into the market value. Acquisition benefits are often the rationale for a takeover premium.

5.4 Contact has identified a range of benefits which it considers it will derive from the acquisition. These benefits are not unique to Contact and are likely to be available to any large energy company.

5.5 Acquisition benefits are an important rationale for the Transaction. These benefits underpin the logic of the Transaction for Contact and reflect the belief of both Origin Energy and Contact that Rockgas will create more value under Contact ownership than under direct Origin Energy ownership.

### Quantified Acquisition Benefits

5.6 The quantified acquisition benefits comprise:

- Cross-selling opportunities for new and existing customers created by having a dual-fuel (electricity and LPG) service offering; and
- Cost savings from elimination of some duplicated costs.

### Cross Selling Opportunities

5.7 Contact is currently able to offer dual-fuel services in areas where reticulated natural gas is available. Adding Rockgas LPG to Contact’s fuel ‘portfolio’ will give it national dual-fuel coverage.

5.8 Contact has observed that its existing dual-fuel customers tend to have the lowest switching rates of its customer groups. There is, therefore, considerable benefit in pursuing dual-fuel opportunities.

### Cost Savings

5.9 Contact has assumed that some operational expense reductions will be achieved through the acquisition of Rockgas. A limited number of expense categories have been

identified as possible areas of cost savings. The annual savings after 2008 are approximately \$1.2 million per annum, representing less than 7% of Rockgas' total operating expenses. The cost savings do not assume any reduction in staff numbers.

### **Unquantified Benefits**

5.10 There are acquisition benefits that have not been included in the valuation:

- The potential to offer a 'total energy solution' service product to commercial customers (optimising the fuel mix supplied to a business based on its energy requirements).
- Opportunities for Contact to improve its energy risk management options, to reduce exposure to peak pricing in both energy and transmission / distribution charges.
- Finance cost savings: Contact has noted that it will be able to achieve finance cost savings through the merger of the two organisations.

## 6 Valuation Approach

### Valuation Methodologies

6.1 There are four principal methodologies commonly used for valuing a business or shares in a trading enterprise:

- Discounted cash flow analysis (DCF).
- Capitalisation of earnings.
- Industry rules of thumb.
- Notional realisation of assets.

6.2 Each of these methodologies has application in different circumstances. A key factor in determining the appropriate methodology is the practice commonly adopted by purchasers of the type of business involved.

6.3 It is a fundamental principle that the value of an asset or business is represented by its expected future cash flows, discounted to present value at a rate that reflects the risk inherent in those cash flows. This approach, referred to as the DCF methodology, is particularly suited to situations where a business is in a growth phase or requires significant additional investment to achieve its projected earnings.

6.4 The capitalisation of earnings methodology requires an assessment of the maintainable earnings of the business and the selection of an appropriate capitalisation rate, or earnings multiple. This methodology is most appropriate where there is a long history of relatively stable returns and capital expenditure requirements are neither large nor irregular. In practice, it can be difficult to obtain accurate forecasts of future cash flows and therefore the capitalisation of earnings methodology is often used as a surrogate for the DCF methodology.

6.5 In some industries businesses are valued using well established “rules of thumb”. Generally these rules of thumb are used as a cross check for a primary valuation methodology such as capitalisation of earnings or DCF.

6.6 Notional realisation of assets assumes that the value of a business is equal to the realisable value of its individual assets. This is generally used either in relation to businesses holding readily marketable assets with little or no intangible value attaching to the business or where liquidation will yield a higher value than a going concern value.

### Selected Valuation Approach

6.7 Rockgas’ strategic plan indicates that its earnings will grow over the medium term. However, while there will be a general upward trend in earnings, there will be some cash flow volatility as a consequence of planned capital expenditure, the volume growth profile and the profile of gas supply costs.

6.8 We have used the DCF methodology as our primary valuation approach. DCF has enabled us to incorporate the cash flow variability into the valuation. Capitalisation of earnings could be applied to Rockgas. However, it is not as transparent as, and less robust than, DCF in dealing with cash flow variability. Hence, we consider that the DCF methodology is superior in the circumstances.

6.9 In accordance with good practice, we have not relied solely on DCF. We have cross checked the DCF valuation by comparing the earnings multiples implied by the DCF valuation to market based evidence of comparable multiples.

6.10 We have valued Rockgas' investment in Liquigas separately to its core LPG business. Rockgas is a small minority shareholder in Liquigas with the right to appoint a director.

6.11 We have considered the value of Liquigas by capitalising estimated future dividends. We have also referred to Rockgas' own estimate of the fair value of its investment in Liquigas.

## 7 Valuation of Rockgas

### Valuation Date

7.1 The date on which the Transaction is expected to occur is 30 June 2007. If completion occurs earlier the purchase price will be adjusted. Our valuation has been carried out, effectively, as at 30 June 2007. In calculating the discount rate for the DCF valuation we have used risk free rates effective as at 16 February 2007.

### Discounted Cash Flow of Rockgas

7.2 The key elements of the DCF valuation approach are:

- Forecasts of the future cash flows of the Company.
- An appropriate discount rate that reflects the time value of money and the risks associated with receipt of the forecasts of future cash flows.
- The valuation calculation.

### Cash Flow Forecasts

7.3 We have been provided with a financial model of Rockgas' business by Contact. This incorporates a ten year financial forecast based on operating and financial forecasts sourced from Rockgas and Origin Energy. We have reviewed the forecasts taking into account the outlook for the LPG sector and Rockgas' position within the sector. We have identified risks with some of the underlying assumptions. These include both upside risks, where alternative assumptions would produce higher cash flows, and downside risks, where alternative assumptions would produce lower cash flows.

7.4 The risks we have identified relate more to the later years in the forecasts than the earlier years. In view of these risks we have tested the valuation for following changes in key assumptions:

- The first five years of the forecast period have been based on a more detailed assessment of the underlying business and economic drivers than the second five years. This is not necessarily unreasonable given the uncertainties about gas supply and other cash flow value drivers in five to ten years time. We have reviewed the impact of valuing the first five years of the forecast period only and calculating a terminal value at the end of year 5.
- A small increase in the dollar gross margin after 2011/12.
- Lower volume growth rates after 2011/12.
- An increase in the level of reticulation capital expenditure in the terminal value.
- A more positive forecast for growth in the automotive segment.
- A modest reduction in the forecast growth in operating expenses per tonne.

7.5 We have also considered the valuation implications of the acquisition benefits outlined in Section 5. These are important in assessing the fairness of the Purchase Price.

## Discount Rate

7.6 We have discounted the forecast net operating cash flows using our assessment of an appropriate WACC for Rockgas as the discount rate. The WACC for any particular business is an amalgamation of the rates of return required by providers of both debt and equity capital, weighted by their respective contributions to the total capital structure.

7.7 For equity investors, the cost of their capital has two components; an explicit opportunity cost such as dividend payments and an implicit opportunity cost in the form of an expected cash equivalent gain in share price. By comparison, the return to debt providers is simply in the form of interest payments.

7.8 The cost of capital has regard to certain risk characteristics inherent in a business' operations. It is the economic "price" investors require to commit capital to a project or business and is measured relative to the "riskiness" and returns available from other investment opportunities.

7.9 The asset beta is the primary measure of relative risk in the WACC calculation and is most often the source of debate about the appropriateness or otherwise of the absolute number. We have derived the asset beta by reference to the available evidence of betas for energy related businesses. The observable betas for energy companies lie in a wide range. We have assessed an asset beta for Rockgas in the range 0.50 to 0.55 and a WACC in the range of approximately 8.1% to 8.5%<sup>9</sup>.

## Valuation Calculation

7.10 The valuation calculation comprises three parts:

- The present value of the operating cash flows over the forecast period.
- The terminal value. This is the value of Rockgas at the end of the forecast period (June 2017). It recognises that Rockgas' business and its operating cash flows are expected to continue beyond the end of the forecast period for an indefinite period.
- Adjustments for the market value of any surplus assets, being assets not required for the ongoing operations of the business, and the market value of interest bearing debt. We have been advised to assume that there will be no cash or other surplus assets and no interest bearing debt in the OEIL group for the purpose of the valuation.

7.11 The terminal value is calculated as the present value of the cash flows that are expected to be generated by the Company beyond the forecast period. This typically involves an assessment of a normalised level of cash flows at the end of the forecast period and of the rate at which the cash flows are expected to grow into perpetuity.

7.12 Normalisation of cash flows for the terminal value calculation needs to consider the level of earnings the business can reasonably expect to generate and the ongoing capital investment needed to sustain those cash flows. Sustainability must also take into account

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<sup>9</sup> We have used one-year government bond yields expected in each of the years of the forecast period as the risk free rate in the WACC calculation. Consequently the WACC varies over the forecast period.

whether there is any element of above average returns in the cash flow that will not be maintainable into perpetuity.

7.13 There are two components to the terminal value growth assumption: the extent to which the net operating cash flows can be expected to grow by inflation into perpetuity and the extent of any real growth that might be reasonably incorporated into the terminal value calculation. For the purpose of the Rockgas DCF calculation we have assumed a terminal value growth rate of 2% per annum, representing nominal (inflationary) growth only.

## Base Valuation Calculation Summary

7.14 In the following table we summarise:

- The base DCF valuation of the Rockgas business (and including the value of Rockgas' investment in Liquigas) before acquisition benefits.
- The value of equity before the acquisition benefits.
- The acquisition benefits and the value of equity including the acquisition benefits.

7.15 The valuation calculation in Table 6 does not incorporate any of the cash flow sensitivities discussed in paragraph 7.4. The low and high values reflect the impact of changes to the discount rate for changes in the asset beta (0.50 and 0.55).

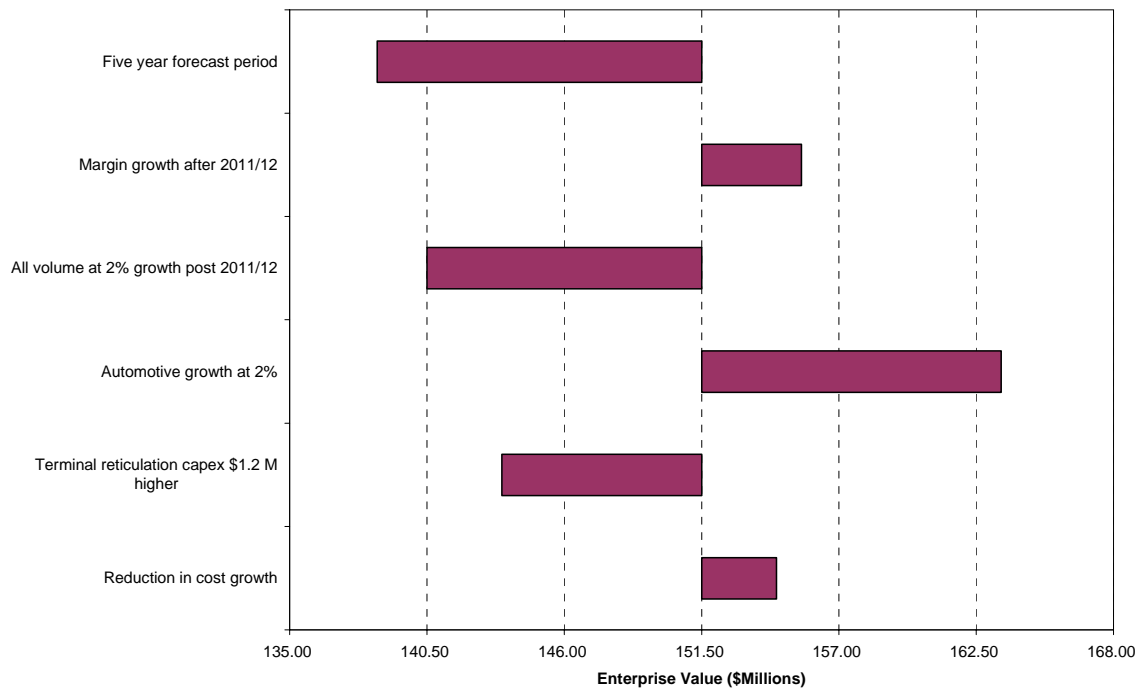
**Table 6: Rock Gas DCF Valuation Summary**

	\$M	\$M
	Low	High
<b>Rockgas Valuation</b>	140.2	151.5
Add surplus assets	0.0	0.0
	140.2	151.5
Deduct interest bearing debt	0.0	0.0
<b>Equity value before acquisition benefits</b>	<b>140.2</b>	<b>151.5</b>
<b>Acquisition benefits</b>	31.0	33.0
<b>Equity value including acquisition benefits</b>	<b>171.2</b>	<b>184.5</b>

## Sensitivities

7.16 We have signalled that there are a number of uncertainties in the base forecasts. The following figure shows the impact on the base Rockgas valuation (low asset beta valuation of \$151.5 million) of the changes in key assumptions discussed earlier:

**Figure 7: Rockgas DCF Valuation Sensitivities**



7.17 We note the following:

- Restricting the valuation to a five year forecast period produces a lower valuation because the growth rate included in the terminal value (2%) is lower than the volume growth rate during the second five years of the forecast period (volume is the primary driver of cash flow growth during the second five years of the forecast period).
- The margin growth is relatively small and the valuation impact is correspondingly not particularly significant.
- Adopting a more positive view on automotive volumes is of significant value. However, this is based on an assumption that no change to prices will be required to stimulate demand. This may not necessarily be a reasonable assumption, although the sensitivity adjustment to the volume has been made to the forecasts from the period when prices are held constant in nominal terms.
- The negative impact of applying a lower than forecast growth rate to all segments post 2012 demonstrates the significance of the growth assumptions in the base forecasts for the non-automotive segments.

### Earnings Multiple Comparison

7.18 We have compared EBITDA multiples implicit in the base Rockgas DCF valuation to multiples for listed companies and to available transaction multiples.

7.19 Presented in the following table are:

- The EBITDA multiples implied by the range for the base Rockgas DCF valuation.

- EBITDA multiples for energy companies listed on the New Zealand Stock Exchange.
- EBITDA multiples for energy companies listed on the Australian Stock Exchange.

7.20 As with any benchmarking exercise, finding a sufficiently deep sample of directly comparable companies is challenging<sup>10</sup>. This is the case with Rockgas, which is solely a wholesaler and retailer of LPG. Nevertheless, the comparison provides an indicator of the reasonableness of the assessed value range.

7.21 The EBITDA multiples for listed companies in the table are for trades of minority parcels. They do not incorporate any explicit premium that might be appropriate for valuing a 100% interest in the companies<sup>11</sup>. The DCF calculation of Rockgas in the table does not include any of the acquisition benefits. However, it also does not explicitly recognise the value discount that applies to a minority shareholding.

**Table 7: Valuation Comparison to Market Multiples**

	Before Acquisition Benefits	
	Low	High
<b>Rockgas valuation excluding acquisition benefits (\$M)</b>	140.2	151.5
<b>Rockgas Implied EBITDA Multiples</b>		
2006 Actual	6.8	7.3
2007 Forecast	6.8	7.4
2008 Forecast	8.6	9.2
<b>Listed Companies EBITDA Multiples</b>		
<b>Market</b>	<b>New Zealand</b>	<b>Australia</b>
Latest actual	10.2	10.7
Forecast	10.2	10.0
Forecast + 1	9.5	8.9

7.22 The fall in the EDITDA multiple in 2008 reflects the steep, but temporary, decline in earnings forecast for 2008, as explained earlier.

7.23 We have had access to acquisition multiples from two sources. The Independent Advisers report issued in late 2006 in relation to the takeover offer for King Country Energy Limited by Todd Energy Limited included an analysis of EBITDA multiples for transactions in Australia and New Zealand involving energy companies. Again, comparability is an issue, but this suggests EBITDA multiples of 12.1 on historical earnings and 10.8 on forecast earnings.

7.24 We have also been provided with brokers' reports analysing energy company transactions in Australasia and internationally. Subject to comparability caveats, this indicates average EBITDA transaction multiples of 13 and more.

<sup>10</sup> Refer to Appendix C for a list of companies used to derive the market multiples.

<sup>11</sup> We note that the energy sector is a very active sector for mergers and acquisitions. At any time there will be companies in the sector that might have market capitalisations affected by potential takeover activity.

## 8 Fairness of the Purchase Price

### Comparison to Fair Market value

8.1 The agreed purchase price is \$156 million. This is moderately above the base DCF value range for Rockgas excluding the potential acquisition benefits of \$140.2 million to \$151.5 million. It is below the value range including the potential acquisition benefits of \$171.2 million to \$184.5 million.

8.2 In Figure 7 we presented the impact of changes to certain key cash flow assumptions on the base DCF valuation of Rockgas. These sensitivity calculations were based on the valuation before including the acquisition benefits. The sensitivities resulted in increases and decreases to the valuation. Adding the acquisition benefits to the sensitivity calculations will increase the resulting values. The Purchase Price would be in the range of values generated by the sensitivities.

### Comparison of Purchase Price to Market Multiples

8.3 We have compared the agreed purchase price to market EBITDA multiples. Assuming that the purchase price meets the definition of fair market value discussed in Section 1, then it will, in theory, incorporate the potential acquisition benefits. To compare the Purchase Price to the market multiples included in Table 7, which are for trades of minority parcels of shares without any specific takeover premium, we have deducted the acquisition benefits from the Purchase Price to derive a notional value underpinning the Purchase Price excluding the acquisition benefits. The EBITDA multiples implicit in this notional value have been calculated and compared to the market multiples. The notional Purchase Price multiples are below the market multiples. They are also below the acquisition multiples presented in the previous section.

**Table 8: Purchase Price Comparison to Market Multiples**

	Low	High
<b>Agreed purchase price</b>	156.0	156.0
<b>Less potential acquisition benefits</b>	(31.0)	(33.0)
<b>Agreed purchase price less potential acquisition benefits</b>	125.0	123.0
<b>Rockgas Implied EBITDA Multiples</b>		
2006 Actual	6.2	6.1
2007 Forecast	6.2	6.1
2008 Forecast	7.9	7.7
<b>Listed Companies EBITDA Multiples</b>		
<b>Market</b>	<b>New Zealand</b>	<b>Australia</b>
Latest actual	10.2	10.7
Forecast	10.2	10.0
Forecast + 1	9.5	8.9

### Conclusion

8.4 We have concluded that the Purchase Price is fair to the Shareholders in Contact, being the shareholders other than Origin Energy. Our conclusion is based on the following:

- The Purchase Price falls within our estimate of the fair market value of Rockgas taking into account the base DCF value for Rockgas, the impact on the base value of changes to key cash flow assumptions and, importantly, the potential acquisition benefits that can be extracted from the combination of Rockgas with an electricity retailer.
- Comparison of the Purchase Price to market multiples does not indicate any overstatement of value.

## Appendix A: Information

Sources of Information
Bloomberg for financial data on comparable companies
Commerce Commission (2006) <i>Commerce Act 1986: Business Acquisition Section 66: Notice Seeking Clearance – BOC Limited acquisition of Shell's LPG Portfolio</i>
Contact Management Presentation (2007) <i>Synergies Presentation</i>
Contact Rockgas Valuation Model
Deed of Variation of Contract for Distribution Services between Rockgas Limited and Hooker Brothers Holdings Limited
Factiva.com for LPG industry information and company announcements
Ferrier Hodgson (2006) <i>Trustpower Ltd – Independent Adviser's Report</i>
Grant Samuel (2006) <i>King Country Electricity Ltd – Independent Adviser's Report</i>
Last five years Statutory Accounts for Rockgas 2002 – 2006
Last four years Management Accounts for Rockgas – Commentary and Financials for 2003 – 2006
Letter dated 24 October 2002 from Hooker Pacific to Rockgas Limited referring to Bulk LPG Distribution
Liquigas Amendment to Articles
Liquigas Head Agreement
Liquigas Limited and Rockgas Limited (2001) <i>LPG Tolling and Services Agreement</i>
Liquigas Limited Constitution 1997
Liquified Petroleum Gas Association of New Zealand ( <a href="http://www.lpga.co.nz">www.lpga.co.nz</a> )
LPG Australia ( <a href="http://www.lpgaaustralia.com.au">www.lpgaaustralia.com.au</a> )
LPG Sale Agreement between Rockgas Limited and Swift Energy Limited 21 June 2006
LPG Sale and Purchase Agreement between Rockgas Limited and Nova Gas
Ministry of Economic Development <i>Energy Data File September 2006</i>
Ministry of Economic Development <i>New Zealand's Energy Outlook to 2030</i>
Origin Energy Industries Limited Group – Consolidated Annual Reports 2002 – 2006
Rockgas 2006 Strategic Plan Financial Summary
Rockgas Franchise Agreement and Terms and Conditions for all Franchise sites
Rockgas Management Presentation (2007) <i>Rockgas LPG Business</i>
Rockgas Reseller Agreement and Terms and Conditions for all Reseller sites
Rockgas Service Station Contract Summary 17 January 2007

## Appendix B: Important Notice

### Declarations

This Report has been prepared by PricewaterhouseCoopers (PwC) at the request of the Independent Directors of Contact for the benefit the Shareholders not associated with Origin Energy. The terms of our engagement as agreed with Contact require us to provide an independent assessment of the fairness of the Purchase Price to the Shareholders.

This Report should not be used for any other purpose. This Report is not an investment recommendation. Shareholders should consult a finance professional with regard to their investment portfolio.

PricewaterhouseCoopers consents to this Report being placed on Contact's website.

### Qualifications

This Report has been prepared by the Corporate Finance division of PricewaterhouseCoopers, which provides advice on mergers, acquisitions and divestments, valuations, independent expert's reports and appraisals, financial investigations and strategic corporate advice.

### Independence

PricewaterhouseCoopers considers itself independent of Contact and Origin Energy. We confirm that:

- We have not had any part in formulation of the proposed transaction; and
- Our fee for preparation of this report is based on the time required for its completion, and it is not contingent on the success or implementation of the proposed transaction.

We do not currently provide services to Contact. We have in the past provided limited, one-off taxation advice and internal audit advice to Contact. We do not provide services to Origin Energy in New Zealand other than limited advice in relation to tax return filings for its New Zealand holding companies. We have audited the financial statements of the joint venture between Alpine Energy Limited and Rockgas in relation to the Timaru LPG business by virtue of our role as auditor of Alpine Energy Limited (which is not associated with Contact or Origin Energy).

We believe that the independence of PricewaterhouseCoopers asserted in relation to this Report has not been impaired by our other work undertaken for Origin Energy or Contact and its related entities.

### Disclaimer and Restrictions on Scope of Our Work

The statements and opinions expressed in this Report are based on information available as at the date of the Report.

In preparing this Report, we have not independently verified the accuracy of information provided to us, and have not conducted any form of audit of Rockgas.

In forming our opinion, we have relied on forecasts and assumptions prepared by Rockgas, Origin Energy and Contact Energy about future events which by their nature are not able to be independently verified. Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts upon which we have relied. These variations may be material.

The statements and opinions expressed in this Report have been made in good faith and on the basis that all relevant information for the purposes of preparing this Report has been provided by Contact and/or its Directors and advisors, and that all such information is true and accurate in all material aspects and not misleading by reason of omission or otherwise. Accordingly, neither PricewaterhouseCoopers nor its partners, employees or agents accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this Report resulting directly or indirectly from any such circumstances or from any assumptions upon which this Report is based proving unjustified.

Our opinion has been arrived at based on economic, market and other conditions prevailing at the date of this Report. Such conditions may change significantly over relatively short periods of time.

We reserve the right, but will be under no obligation, to review or amend our Report if any additional information, which was in existence on the date of this Report, was not brought to our attention, or subsequently comes to light.

### **Limitation of Liability**

PricewaterhouseCoopers will accept liability to pay damages for losses arising as a direct result of breach of contract or negligence on our part in respect of services provided in connection with, or arising out of, this engagement but, to the extent permitted by law, any liability of PricewaterhouseCoopers, its partners and staff (whether in contract, negligence or otherwise) shall in no circumstances exceed five times the fees paid in the aggregate in respect of all such services.

### **Indemnity**

Contact has agreed that, to the extent permitted by law, it will indemnify PricewaterhouseCoopers and its partners, employees and consultants in respect of any liability suffered or incurred as a result of or in connection with the preparation of the Report. This indemnity will not apply in respect of any negligence, wilful misconduct or breach of law by PricewaterhouseCoopers. Contact has also agreed to indemnify PricewaterhouseCoopers and its partners and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where PricewaterhouseCoopers or its employees and officers are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, PricewaterhouseCoopers shall reimburse such costs.

## Appendix C: Companies Used to Derive Market Multiples

Ticker	Name	Description
<b>New Zealand Companies</b>		
CEN	Contact Energy Ltd	Contact is a diversified and integrated energy company focused on the generation of electricity and the sale of electricity and gas in New Zealand
HED	Horizon Energy Distribution Ltd	Horizon Energy Distribution Limited is an electricity lines company which distributes electricity throughout the Eastern Bay of Plenty.
TPW	Trustpower New Zealand Ltd	TrustPower Limited operates electricity generation assets and has operations in retailing electricity throughout New Zealand.
VCT	Vector Ltd	Vector Limited is an energy infrastructure company in New Zealand. The Company is also a wholesaler of LPG and natural gas.
<b>Australian Companies</b>		
AGK	AGL Energy Ltd	AGL Energy Limited sells and distributes gas and electricity. The Company retails and wholesales energy and fuel products throughout Australia.
AAN	Alinta Ltd	Alinta Ltd is a natural gas distribution and gas retail company in Western Australia. The company delivers natural gas to approximately 450,000 Western Australian households through its network of pipelines.
APA	APA Group	APA Group has interests in a portfolio of high-pressure gas transmission pipelines in Australia covering four states and two territories which transport natural gas.
BBI	Babcock and Brown Infrastructure Group	Babcock & Brown Infrastructure Group owns a portfolio of infrastructure assets. The Company owns electricity generating and energy transmission and distribution facilities, a coal export terminal, a port, and a railroad.
CTX	Caltex Australia Ltd	Caltex Australia Limited purchases, refines, distributes and markets petroleum products in Australia. Caltex also operates convenience stores, fast food stores and service stations throughout Australia.
DUE	Duet Group	DUET Group invests in energy utility assets located in Australia and New Zealand
ENE	Energy Development Ltd	Energy Developments Limited provides renewable energy and low greenhouse gas emission energy. Energy Developments has operations in Australia, the United States, Europe, and Asia.
ENV	Envestra Ltd	Envestra Limited operates natural gas distribution networks and transmission pipelines in South Australia, Queensland and the Northern Territory.
ORG	Origin Energy Ltd	Origin Energy Limited is involved in the exploration and production of oil and gas and the retailing of natural gas, liquefied petroleum gas (LPG) and electricity. The Company also participates in natural gas-fired cogeneration and power generation along with infrastructure investment and management services