



Dear Unitholder,

Welcome to the latest edition of *In the Pipeline*.

IN THE PIPELINE

On 26 February 2004, Australian Pipeline Trust released its half-year results to the market. This newsletter sets out a summary of the results. If you wish to review the detailed financial information, which includes copies of the ASX Company Announcement, Half Yearly Results setting out financial information for the period to 31 December 2003 and Presentation to Market, they are all available and downloadable from our website – www.pipelinetrust.com.au.

Half Year Results – 31 December 2003

Profit after tax and minorities for the period to 31 December 2003 was \$22.148 million, an increase of \$0.862 million on the previous corresponding period (pcp), result of \$21.286 million.

The second interim distribution for the financial year ending 30 June 2004 is 5 cents per unit (cpu), comprised of an unfranked income distribution of 3.6cpu and 1.4cpu of capital distribution and payable on 29 March 2004. The record date for the distribution was 9 March 2004.

The Board has determined to make a further issue of units under the Plan. Units will be issued at a discount to market of 2.5%.

SUMMARY OF RESULTS

Six Months Ended	31 Dec 2003 \$m	31 Dec 2002 (pcp) \$m	Changes on pcp	
			\$m	%
Pipeline Revenue	93.399	95.866	(2.467)	(2.57)
Other Pipeline Revenue	38.434	35.508	2.926	8.24
Other Revenue	9.174	7.008	2.166	30.91
Total Revenue	141.007	138.382	2.625	1.90
EBITDA	70.082	70.163	(0.081)	(0.12)
EBIT	57.848	57.882	(0.034)	(0.06)
Pre tax Profit	35.183	33.691	1.492	4.43
Income Tax Expense	12.814	12.264	(0.550)	4.48
Operating Profit after Tax and Minorities	22.148	21.286	0.862	4.05
Earnings Per Unit (cents)	9.04	8.72	0.32	3.67
Net Tangible Asset Backing per unit (after capital distributions)	1.77	1.80	(0.03)	(1.67)
Operating Cash Flow per unit (cents)	20.55	19.28	1.27	6.59
Interest Cover Ratio	2.4	2.5	-	-
Gearing Ratio (%)	63.1	62.7	-	-

**COMMENTARY**

In respect of the six months ending 31 December 2003, APA delivered net profit after tax and minorities of \$22.148 million, an increase of 4.05% on the previous corresponding period (pcp) of \$21.286 million. The following is a commentary on the operating results for the period:

Revenue

Total Revenue grew by 1.90% from \$138.382 million to \$141.007 million. Pipeline Revenue fell by 2.57% from \$95.866 million in the pcp to \$93.399 million in the current period. Excluding the one-off receipt of \$1.886 million in the pcp in relation to termination of Westlime contract, the actual Pipeline Revenue was lower by 0.62%, principally as a result of lower revenue from the major pipeline asset of APA, the Moomba to Sydney Pipeline (MSP).

As outlined in the Annual Report 2003, transportation revenue from the MSP reduces under the Gas Transportation Deed (GTD) over the next few years till 2007. This reflects the view of the negotiators of the GTD, that the impact of competition and retail contestability in the energy market would be firmly established. Despite the delayed introduction of competition reforms and full retail contestability in the energy market, it is now expected that alternative gas aggregators and major gas users will emerge with requirements for additional MSP capacity. It is anticipated that this will help offset the impact of the reduction in the future contracted capacity position under the GTD. APA is already dealing with enquiries from various interested parties.

Further, APA is an active participant in the rationalisation that is occurring within the gas transmission industry and a successful acquisition will not only increase and diversify APA's asset base but will also reduce its reliance on MSP revenues by increasing total revenue.

Pipeline revenue from other major pipeline assets of APA, (the Roma to Brisbane pipeline and the Carpentaria pipeline), increased compared to pcp, following capacity expansion programmes undertaken in the previous financial periods.

The share of net profits from associates (which is included in Pipeline Revenue) increased by 30.0% from \$6.024 million in the pcp to \$7.831 million in the current period. This was a result of the acquisition of TransAlta Corporation's interest in the Goldfields Gas Transmission pipeline in April 2003, and lower underlying costs.

Expenses

The Pipeline operating and management expenses reduced from \$21.166 million to \$19.072 million in the current period, a reduction of 9.89% on pcp, mainly due to a one-off adjustment from Amadeus Gas Trust.

The net borrowing cost reduced from \$24.191 million in the pcp to \$22.665 million, a reduction of 6.31%. This reduction resulted from the re-negotiation of various hedge contracts following the recent issue (in September 2003) of Guaranteed Senior Notes ("Notes") in the United States Private Placement market. The issue, which was in dual currency involving Australian dollar ("A\$") and US dollar ("US\$"), has a tenor which extends up to 15 years. An amount of A\$102 million and US\$259 million was raised from the Note issue. The US\$ exposure has been fully hedged.

The Note issue has increased the over-all term of APA's debt, which is consistent with the business profile of the group ie involvement with long-life infrastructure assets.

Cash Flow and Debt

Cash generated from operating activities was \$50.828 million, which was an increase of \$3.777 million over the pcp as discussed.

Cash at the end of the period increased by \$16.316 million to \$31.083 million after net debt repayment of \$12.120 million and distribution to APA Unitholders of \$28.146 million.

The US\$ Private Placement in September 2003 raised \$496.036 million, which was utilised to repay the existing unsecured borrowing.

**Distribution Reinvestment Plan and Earnings Per Unit**

The Distribution Reinvestment Plan which was operational for the final distribution of financial year ended 30 June 2003 and first interim distribution of the current financial year raised \$8.488 million, net of costs, from the 3.271 million units that were issued. As at 31 December 2003, 247.271 million units are on issue.

The Earnings Per Unit, calculated on a weighted average basis, for the current period was 9.04 cpu compared to pcp figure of 8.72 cpu, an increase of 3.67% reflecting the higher profit after tax and minorities.

Seasonal Factors

Gas transmission is a seasonal industry with the transportation in winter months (first half of the financial year) being higher than the summer months. However, the firm long-term contracts that have been entered into by APA limit the level of variability in relation to revenues and operating profits.

SIGNIFICANT EVENTS

A summary of the significant events during the six month period to 31 December 2003 is set out below: -

- **Directors Activate Distribution Reinvestment Plan (DRP) – August 2003**
Directors introduced the DRP in August 2003 with an initial discount to market of 2.5%. The two issues to date have raised in excess of \$8.488 million, net of costs (3,271,329 units)
- **US Private Placement – September 2003**
APA successfully raised the equivalent of AUD496 million (USD325 million) in the US Private Placement market issuing to both Australian and US investors in AUD and USD. The proceeds have been used to re-finance bank debt and have extended the average tenor of APA's debt. The borrowings are fully hedged to mitigate exchange risk.
- **Change to Governance Arrangements Announced – October 2003**
APA announced that it was intending to change the voting arrangements in relation to the responsible entity to effectively allow unitholders to elect the directors of Australian Pipeline Limited (other than the two directors nominated by Australian Gas Light Company and the one director nominated by Petronas). Work is still being undertaken to implement these changes which are intended to be in place by the next general meeting;
- **Revocation on Moomba to Sydney Pipeline System (MSP) – November 2003.**

The Honourable Ian Macfarlane, Minister for Industry, Tourism and Resources, decided that coverage of the MSP should be partially revoked under the National Third Party Access Code for Natural Gas Pipeline Systems. A detailed review is included under "Regulatory Matters".

- **Final Determination on Access Arrangement on MSP released - December 2003**

The ACCC released its final determination of the access arrangement on MSP, notwithstanding the Minister's decision to partially revoke coverage. A detailed review is included under "Regulatory Matters"

- **Maintaining of services on MSP**

On 1 January 2004, a fire at the Santos Production Plant at Moomba resulted in gas deliveries into the MSP being temporarily terminated. Domestic and small users services were maintained throughout the crisis, however supply to industrial users was temporarily interrupted. APA representatives worked with all stakeholders to assist in reducing the impact of interruption of supplies to all users and providing innovative use of the pipeline to increase the availability of natural gas to gas users. The revenue impact of the incident on APA is not material as the revenue and receipts are covered under the GTD.

**ASSET ACQUISITIONS**

As detailed in the Release for the full year results YEJ 2003, APA is currently bidding for a number of pipeline assets across Australia, including acquiring minority interests in partly owned pipelines. These sales processes are subject to confidentiality regimes that preclude any discussion of the sales. Because of delays in the various sales processes, the financial benefits of any acquisition may not be felt this financial year. APA will keep the market informed as information comes to hand.

REGULATORY MATTERS

Discussions with, and submissions to, governments and regulators on regulation of gas transmission pipelines continued to have a significant impact on APA's resources. A number of very significant regulatory matters addressed during the period included:

- Revocation decision on Moomba to Sydney Pipeline System

The Minister's decision on 19 November 2003 to partially uncover the MSP was consistent with the approach adopted by APA and the gas transmission pipeline industry. The decision revokes regulatory coverage over most of the MSP. In the Minister's view, pipelines which deliver gas to regional areas of New South Wales and the Australian Capital Territory do have some monopoly characteristics, and therefore regulatory coverage of those areas is appropriate for the present.

Following the release of the Minister's decision, several parties have requested that the Australian Competition Tribunal review the Minister's decision. APA has joined these proceedings to protect its interests. Proceedings are unlikely to commence prior to June 2004 and it is expected that resolution of this matter may take several months.

- Merits Review of ACCC Final Access Arrangement on MSP

East Australian Pipeline Limited (EAPL), a wholly-owned subsidiary of APA, has requested the Australian Competition Tribunal to review the final access arrangement issued by the ACCC on MSP in December 2003. There are a number of grounds upon which EAPL is requesting the review. EAPL is encouraged by the recent decisions on access arrangements on the GasNet pipeline system and the Epic Moomba to Adelaide Pipeline.

It is likely that this matter will be resolved prior to the question of revocation being concluded.

- Review of Goldfields Gas Transmission (GGT) Pipeline Access Arrangement

On 2 December 2003, the Full Court of the Supreme Court of Western Australia found that the State Agreement was unenforceable, in so far as the owners of the GGT were attempting to compel the Western Australian Parliament to circumscribe the operation of the Access Law in considering the GGT access arrangement. Since then the owners of the GGT have been in discussion with Government to address the matters raised in the Full Court decision.

- National Competition Council Recommendation on Queensland Pipelines

APA and the Queensland Government continue to oppose the recommendation by the National Competition Council to the Honourable Ian Campbell, Parliamentary Secretary to the Treasurer, that the Queensland Gas Access Regime is "not effective". If the recommendation is upheld, it may destabilise the existing contractual arrangements on the RBP and CGP.

- Productivity Commission

The Productivity Commission released its draft report on the National Gas Access Regime on 15 December 2003. The draft report highlighted the need for light-handed monitoring by regulators as an alternative to the current regime, improved guidance to regulators for approvals of access arrangements and reference tariffs and "greenfields" regulations to apply to prospective new pipelines.



Public submissions have been sought with a closing date towards the end of March 2004. Following consultation and input, it is expected that the Commission will finalise its report to the Federal Government by June 2004.

APA welcomes the direction of the draft report and looks forward to participating in the development of a better and more workable gas access regime.

OUTLOOK

As advised at the release of results for YEJ 2003, APA is likely to have a flat full year compared to the pcp and is pursuing a number of acquisition processes with the objective of securing new sources of revenue growth. To date, APA is on track to be in line with the previous full year profit after tax, however, it should be noted that the external costs of mounting several bids for assets will impact on profit should APA not be successful in these bids.

APA is confident that there is no reason to believe that it will not be able to maintain the current quantum of distribution.

As previously stated, the benefits of any successful acquisition will flow into future years' earnings.

SPONSORSHIPS AND DONATIONS

Harpsichord

Darwin's first quality harpsichord was launched at a private function last month with the Australian Brandenburg Orchestra's Artistic Director Paul Dyer giving a cameo performance alongside some local performers.

APA managing director Jim McDonald was there as a founder and major sponsor of the Harpsichord Fund which was launched two years ago to build the harpsichord.

"This harpsichord is a wonderful example of how community and business can work together for important social outcomes," said Mr McDonald. "Not only is it a stunning instrument but it is a valuable addition to Darwin's musical future. I am extremely proud that APA could be part of its creation."

Acclaimed instrument maker Alistair McAlister who delivered it to the Northern Territory from Melbourne by car built the harpsichord from a German "Kit", for around \$42,000.00.

Anne Walter of the Charles Darwin School of Music said the instrument was being especially housed in air conditioning in order to stay tuned. "It has been very well received and other community groups have shown an interest in wanting to use it at their performances," she said. Ms Walter said the harpsichord would open up a wide range of musical repertoires that could now be performed in the Northern Territory.

The official public launch of the harpsichord will be on April 17 at a concert called the French Connection.

Flying Fruit Flies

The Flying Fruit Fly Circus has had an impressive start to its silver jubilee year. In its new show, *Skipping On Stars*, the 'fruities' dazzled crowds from Canberra to Cabramatta throughout the summer. Media reviews of the performances were full of praise with the Sydney Morning Herald review commenting: "The young performers of the Fruit Fly Circus are, as always, a joy to watch."

With help from APA's major sponsorship of the company, the troupe enchanted audiences with the story of Col Colleano, told through dazzling tumbling acts, tightwire, trapeze and daring aerial circus. The performance featured a back drop screen with film footage of Colleano performing his forward somersault, filmed by Colleano himself on Super 8, and recently featured on ABC TV in a documentary of his life.



Colleano, was an indigenous Australian who became internationally famous as the "The Wizard of the Wire". In 1924, in New York, Colleano was the first performer in circus history to successfully perform a feet-to-feet forward somersault on a tightwire. The mere thought of that frightens us here at APA!

We are proud to be a sponsor of this thrilling troupe which is carving out a fine reputation for its adventurous and engaging work.

JK McDonald
Managing Director
Australian Pipeline Trust.

**Questions or feedback please email to:
feedback@pipelinetrust.com.au**