In the Pipeline

ISSUE 12 | MARCH 2005

Australian Pipeline Trust

ARSN 091 678 778

www.pipelinetrust.com.au

Dear Unitholder,

Welcome to the latest issue of *In the Pipeline*. This issue addresses the half year results, some recent acquisitions, and a report on our ongoing pipeline operations.

Net profit after tax and minorities for the period to 31 December 2004 was $25.718 million, an increase of 16.12% over the previous corresponding period's ("pcp") figure of $22.148 million. Australian Pipeline Trust ("APA") has consistently increased its reported profit in every reporting period since its listing in June 2000. It is an enviable record and we are proud of it.

The improved performance this period was due to APA's acquisition of CMS Energy Corporation's ("CMS") interest in Parmelia and Goldfields Gas Transmission Pipeline assets in Western Australia ("SCP Gas Business Acquisition"), increased pipeline transportation revenue in Roma to Brisbane Pipeline ("RBP") and a lower effective tax rate due to the increased tax base of assets following implementation of tax consolidation.

You will note that a number of reported figures vary significantly from the pcp. In the main, these changes result from consolidating the SCP gas business into APA's reported results, following completion of the acquisition of the remaining 45% interest in SCP Investments No. 1 Pty Ltd ("SCP") and the Parmelia gas assets in August 2004. APA invested $209.067 million, including working capital adjustments in the acquisition.

Prior to the acquisition, APA had equity accounted financial results of SCP, the 88.2% owner of Goldfields Gas Transmission Pipeline.

SUMMARY OF RESULTS

Six Months Ended	31 Dec 2004 $m	31 Dec 2003 $m	Changes on pcp $m	Changes on pcp %
Pipeline Transportation Revenue	**124.483**	85.568	38.915	45.48
Share of Net Profits of Associates	**2.148**	7.831	(5.683)	(72.57)
Other Pipeline Revenue	**40.994**	38.434	2.560	6.67
Other Revenue	**11.525**	9.174	2.350	25.62
Total Revenue	**179.150**	141.007	38.143	27.05
EBITDA	**88.555**	70.082	18.473	26.36
EBIT	**70.664**	57.848	12.816	22.16
Pre tax Profit	**38.175**	35.183	2.992	8.50
Income Tax Expense	**(12.300)**	(12.814)	0.514	4.00
Profit after income tax and minorities	**25.718**	22.148	3.570	16.12

Financial Ratios

			Changes on pcp %	
Earnings Per Unit (cents)	**9.48**	9.04	0.44	4.87
Net Tangible Asset Backing per unit (after capital distributions)	**$2.20**	$1.77	0.43	24.29
Operating Cash Flow excluding interest and tax (cents)	**33.57**	27.94	5.63	20.15
Interest Cover Ratio	**2.2**	2.4	-	-
Gearing Ratio (%)	**62.47**	63.1	-	-

Distribution to Unitholders

On 28 February 2005, the Directors declared a second interim profit distribution of 5.5 cents per unit (cpu) franked to 40%. You should have received payment confirmation with this letter. The total profit distribution to date for YEJ 2005 is 11 cents per unit, 40% franked at the corporate income tax rate. This is an increase of 1.0 cpu over the pcp. It is APA's intention to at least maintain this distribution level and franking percentage for YEJ 2005.

HIGHLIGHTS

A summary of the major achievements for the period is set out below:

- Sale agreement entered into in December 2004 to acquire remaining 30% interest in the Carpentaria Gas Pipeline in Queensland for $98 million. Completion occurred on 25 February 2005. The acquisition was funded from existing debt facilities and will be cash flow and earnings per unit accretive from year one;
- APA entered into a ten year transportation agreement with Incitec Pivot Limited ("IPL") to transport up to 16 petajoules ("PJ") of gas through the RBP in Queensland to IPL's urea plant at Gibson Island. The agreement will commence in 2007;
- The syndicated borrowing, due to expire in June 2005, has been re-negotiated on a bilateral basis with the lenders for a term extending up to 5 years. Project debt under SCP has also been re-financed under the bilateral facility. The new facility which will lower borrowing costs in future periods, is on more favourable terms than the previous facilities; and
- APA has advanced planning to expand its Mondarra gas storage facilities in Western Australia following the gas storage optimisation agreement signed with Western Power.

In February 2005, APA entered into a variation agreement with CS Energy to increase transportation volumes to greater than 15 PJ pa, to deliver to CS Energy's Swanbank E Power Station on the RBP. The amended agreement starts immediately and will operate for the next 12.5 years.

COMMENTARY

Revenue from ordinary activities grew by 32.91% from $133.176 million to $177.002 million. The margin-bearing Pipeline transportation revenue increased by 45.48% from $85.568 million in the pcp to $124.483 million in the current period. The major components of this increase are:

Revenue from acquired entities	$40.360 million
RBP revenue increase	$1.677 million
Gas Transportation Deed-contracted reduction	($2.696) million
Additional third party revenue in Moomba to Sydney	$0.467 million

The full impact of the reduction in Gas Transportation Deed (GTD) revenue was mitigated by additional revenue from other customers, a sign that deregulation in gas markets is gradually encouraging the emergence of alternate gas aggregators. APA believes that this trend will continue. Nonetheless, APA has actively pursued asset diversification to mitigate the foreshadowed reduction from the GTD.

Other pipeline revenue, which is passthrough in nature and bears no margin, increased by $2.560 million to $40.994 million.

Other revenue largely includes interest.

Expenses

The pipeline operating and management expenses increased from $19.072 million in the pcp to $35.434 million in the current period, an increase of 85.79%, mainly due to the impact of consolidating the acquired entities. The expenses for the current period include an amount of $1.163 million incurred in relation to the investigation of stress corrosion cracking on the Moomba to Sydney Pipeline ("MSP").

The net borrowing cost increased by $9.824 million from the pcp figure of $22.665 million, to $32.489 million due to additional borrowings to fund the SCP Gas Business Acquisition.

Operating Cash Flow and Debt

The net cash from operating activities before interest and tax increased by 33.08% from $68.427 million in the pcp to $91.061 million as a consequence of the SCP Gas Business Acquisition.

APA invested $209.067 million on the SCP Gas Business Acquisition. This was funded via an institutional equity placement of $61.189 million (net of costs), borrowings, and cash reserves. The acquired cash of $116.424 million was subsequently utilised to reduce acquisition borrowings.

Distribution Reinvestment Plan ("DRP")

The DRP was operational for the final distribution in respect of the financial year ended 30 June 2004 and first interim distribution of the current financial year and raised $11.524 million, net of costs, issuing 4.059 million units. The DRP has now been suspended and will be reactivated should an additional requirement for capital arise. As at 31 December 2004, 278.895 million units were on issue.

Regulatory Matters

Interaction with governments and regulators on regulation of gas transmission pipelines continued to play a significant role in APA's business. The key regulatory matters addressed during the period included:

- **Merits review on ACCC Final Access Arrangement for Moomba to Sydney Pipeline System**

  East Australian Pipeline Limited ("EAPL"), a wholly-owned subsidiary of APA, requested the Australian Competition Tribunal review the final access arrangement issued by the ACCC on MSP in December 2003. On 8 July 2004, the Tribunal held the ACCC's decision to write its own Access Arrangement was unreasonable, and that the value of the Initial Capital Base and the rate of return determined by the ACCC were to be corrected.

  The Tribunal directed EAPL and the ACCC to agree a value for the Initial Capital Base according to specified methodology. As EAPL and ACCC have been unable to agree on a value, the matter was heard by the Tribunal in February 2005. On 18 March 2005, the Tribunal determined an Initial Capital Base of $834.66 million, a good outcome for APA.

  Following the Tribunal's decision on 8 July 2004, the ACCC lodged an appeal with the Federal Court seeking to have the Tribunal's decision overturned. The matter will be heard by the Full Court of the Federal Court in mid to late 2005. APA remains confident that the Tribunal's decision is correct.

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

  On 29 July 2004, the Economic Regulation Authority ("ERA") of WA issued an amended draft decision concerning the Access Arrangement for the GGT

(88.2% owned by APA). Submissions have been lodged demonstrating errors in the amended draft decision and addressing a number of factual inaccuracies. A revised Access Arrangement has been lodged with the ERA for consideration and the ERA is expected to issue a Final Decision shortly.

GGT continues to discuss with the WA Government the establishment of a mechanism to reinstate the intention under the Goldfields Gas Pipeline State Agreement Act that the introduction of the National Access Code would not have a material adverse effect on GGT's legitimate business interests.

- **National Competition Council Recommendation on Queensland Pipelines**

  APA and the Queensland Government continue to oppose the recommendation by the National Competition Council, that the Queensland Gas Access Regime is "not effective". The outcome of this process will not have an impact on APA's position under existing contracts.

- **Productivity Commission**

  The Productivity Commission's final report on the National Gas Access Regime was released on 10 August 2004. APA welcomes the direction of the final report and looks forward to participating in the development of a better and more workable gas access regime.

OTHER ISSUES

PNG Gas Pipeline Project

Progress has been made to bring the Papua New Guinea ("PNG") Gas Development Project ("Project") to fruition. ExxonMobil has appointed a front end engineering design ("FEED") contractor to carry out the preparatory work necessary to progress the Project and are targeting December 2005 as the Project approval date. Gas delivery, if the Project proceeds, is being targeted for end of 2008.

The Australian Gas Light Company and Petronas Consortium has announced its intention to call for tenders for the FEED phase of the Australian component of the Project, a pipeline from PNG to Queensland. A final investment decision will be undertaken at the completion of the FEED program with the key issue continuing to be the establishment of a foundation market to support the economics of the pipeline.

APA continues to support the Project, which has the potential to be an important part of the long-term gas supply solution for eastern Australia.

Update on Stress Corrosion Cracking on the MSP

As foreshadowed, testing on the MSP for stress corrosion cracking ("SCC") was undertaken in January 2005. The results of this testing are still being analysed and a further test has been scheduled at no additional cost to APA. Following conclusion of the testing, a formal repair and replacement plan for damaged pipe will be finalised.

Repairs have already been effected on the pipeline at five locations.

APA's pressure management plan ensures that MSP will be able to meet its contractual obligations to market, especially during the critical winter peak period.

OUTLOOK

APA expects that in respect of YEJ 2005, the additional profit contributed as a result of the acquisition of the SCP gas business, the purchase of the remaining 30% interest in the Carpentaria Gas Pipeline and the additional volumes contracted with CS Energy will more than offset the contracted reduction in GTD payments. As a result, directors are confident that APA will be able to, at least, maintain its current distribution levels. As previously noted, distributions are expected to be partially franked going forward.

AUSTRALIAN BRANDENBURG ORCHESTRA

APA was a major sponsor of the Australian Brandenburg Orchestra's ("ABO") national tour of Australia in early March 2005. The ABO, Australia's finest period instrument orchestra, toured through Western Australia, Northern Territory and Queensland.

In a first, the ABO performed at Kalgoorlie-Boulder. It is important to provide the local community with the opportunity to see and hear concert tours that are often confined to Australia's largest cities.

APA has a strong presence in the Goldfields mineral region near Kalgoorlie-Boulder, through the Goldfields Gas Transmission Pipeline, of which APA owns 88.2 per cent.

The Darwin leg of the tour saw the ABO again performing with the handcrafted harpsichord built to withstand Darwin's tropical climate and sponsored primarily by APA. ABO last toured the Northern Territory in 2001 when the harpsichord was commissioned.

Sponsorship such as the ABO tour help build strong relationships with governments and individuals in places where APA has a substantial investment position.

Board Changes

Directors Les Fisk and Tom Ford both retired from the Board during the period and were replaced respectively by Ross Gersbach and Russell Higgins. Biographical details are available on the APA website www.pipelinestrust.com.au

Management Changes

This is my last edition of *In the Pipeline*. I will be retiring at the end of June 2005. Michael (Mick) J McCormack has been appointed as your chief executive officer and will lead APA into the future. From April, Mick will be acting Chief Executive Officer. Mick will take up his new position from July 2005.

Mick has been in the pipeline industry for almost 20 years, has formal qualifications in business, engineering and science and has been with APA since listing. He is uniquely qualified for the job and I am delighted that your Board chose him to lead APA into the future.

The (almost) five years since listing have seen the business grow substantially, and we have several exciting projects in prospect.

I leave with mixed emotions: first, a sense of satisfaction that our people have managed the business well, with integrity, skill and dedication.

Second, there are unfinished matters which need to be addressed. We are about to embark upon great greenfields projects and further to diversify APA. In that regard, it is never a good time to leave. I leave, knowing your Trust is in good hands and confident of its prospects for the future.

I have thoroughly enjoyed my time in the pipeline industry and as your chief executive: it has been a privilege for me to serve in that capacity, and I thank you for your continued support of APA.

Jim McDonald
Managing Director

Questions or feedback please email to:

feedback@pipelinetrust.com.au

Australian Pipeline Limited
ACN 091 344 704
PO Box 934 Mascot NSW 2020
Phone: 61 2 9693 0000
Fax: 61 2 8339 0005