

in the Pipeline

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Australian
Pipeline Trust

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Welcome to the first issue of In the Pipeline for 2006. In this issue, I will briefly review our strong half-year results and the factors that contributed to them. Full details of our half-year result can be found on our website – www.pipelinetrust.com.au.

I will also outline Australian Pipeline Trust's ("APA") strategic direction and how it establishes the platform for APA to continue to deliver strong results for our unitholders. And, in conjunction with our sponsorship of the Australian Brandenburg Orchestra, we are very pleased to offer unitholders a "special offer" to experience this world class orchestra when they tour nationally in August this year.

Half-Year Result – Period to 31 December 2005

APA reported a net profit after tax and minorities ("NPATM") of \$33.5 million for the half year period to 31 December 2005, an increase of 29.0% over the previous corresponding period's ("pcp") NPATM of \$26.0 million. All previous year figures quoted have been restated in accordance with the Australian equivalents to International Financial Reporting Standards ("A-IFRS").

The improved performance was mainly a result of:

- Full six month contributions from the two acquisitions in the previous financial year, ie. the acquisition of the remaining 45% of SCP Investments (No. 1) Pty Limited ("SCP") (SCP holds 88.2% of the Goldfields Gas Transmission Pipeline) and 100% of the Parmelia Gas Business on 17 August 2004, and the acquisition of the remaining 30% interest in the Carpentaria Gas Pipeline joint venture on 25 February 2005;
- Increased pipeline transportation revenue from the WA Gas Business;
- Settlement of an 'acquired' dispute regarding tariffs, resulting in a provision of \$3,262,000 being released to profit; and
- Effective control of costs across the business, and efficiency savings achieved through the integration of the WA Gas Business.

Summary of Result

Six Months Ended	31 Dec 2005	31 Dec 2004	Changes to pcp	
	\$m	\$m	\$m	%
Pipeline Transportation Revenue	142.5	124.5	18.0	14.5
Other Pipeline Revenue	42.6	41.0	1.6	4.0
Other Revenue	8.6	11.3	(2.7)	(24.1)
Total Revenue	193.7	176.8	16.9	9.6
Share of Net Profits of Associates	–	2.1	(2.1)	(100.0)
EBITDA	103.3	88.6	14.7	16.7
EBIT	84.5	70.9	13.6	19.3
Pre tax Profit	49.8	38.3	11.5	29.9
Income Tax Expense	(16.1)	(12.2)	(3.9)	(32.1)
Profit after income tax and minorities	33.5	26.0	7.5	29.0

Financial Ratios

Six Months Ended	31 Dec 2005	31 Dec 2004	Changes to pcp	
				%
Earnings Per Unit (cents)	12.02c	9.58c	2.44c	25.5
Net Tangible Asset Backing per unit	\$2.11	\$2.05	\$0.06	2.6
Operating Cash Flow per unit – excluding interest and tax (cents)	34.7c	33.6c	1.1c	3.3
Interest Cover Ratio (x)	2.6	2.2	–	–
Gearing Ratio (%)	64.68	62.47	–	–

Distributions, Earnings per Unit and Distribution Reinvestment Plan ("DRP")

Profits of \$33,468,000 (pcp: \$33,107,000) were distributed to unitholders in the period to 31 December 2005. The second interim distribution of 6.0 cents per unit, franked to 30% at the corporate income tax rate and paid on 30 March 2006, is an increase of 0.5 cpu over the second interim distribution in pcp.

This takes the total distributions for the current period to 12.0 cpu an increase of 1.0 cpu over pcp, reflecting the improved performance

and strong cash flows. The directors have indicated that the current level of distribution will be maintained for the remainder of the financial year, barring unforeseen circumstances. This will result in a full year increase in distribution of one and one half cents over the previous corresponding period.

No further franking credits are expected to be available for the remainder of the financial year as a consequence of the additional tax deductions arising from APA's entry into the tax consolidation regime in 2005.

The strategy for returning cash to unitholders in the most tax-effective manner is a matter that is regularly reviewed by the Board.

Earnings per Unit, calculated on a weighted average basis, for the current period was 12.02 cpu compared to pcp figure of 9.58 cpu, an increase of 25.5%, reflecting improved performance and higher net profit after tax. The weighted average number of units on issue during the current period was 278,895,000.

The distribution reinvestment plan remains suspended and will only be reactivated should an additional requirement for capital arise.

OPERATIONAL HIGHLIGHTS

A significant feature of the result was the increased utilisation of core assets. We achieved increased pipeline transportation revenue in both Western Australia and Queensland. Both these states are booming and the performance of our assets there more than offset the reduction in the contracted revenues under the Gas Transportation Deed on the Moomba to Sydney Pipeline.

In Western Australia, we began construction of a \$15 million compressor expansion of the Goldfields Gas Transmission Pipeline. The expansion has allowed APA to enter into a 16 year contract with Hamersley Iron's Paraburdoo mine on Goldfields Gas Transmission Pipeline, we have also signed a seven year agreement with Arc Energy to supply gas on the Parmelia Gas Pipeline.

In February 2006, we announced that APA will expand the capacity of the Mondarra gas storage facility. Expansion of the facility will help Verve Energy (previously the generation division of Western Power) to manage gas supplies to Perth more effectively during peak periods and will lead to increased utilisation of the Parmelia Gas Pipeline. A five year contract has been negotiated with Verve Energy.

In Queensland, revenue on the Roma to Brisbane Pipeline increased in line with gas transportation contracts. APA also invested in a coal seam gas processing facility at Kogan North on the Roma to Brisbane Pipeline. To date, \$11.5 million has been invested in building this facility.

In February 2006, we entered into a heads of agreement with Arrow Energy to develop complementary coal seam methane and power generation infrastructure.

In January 2006, APA lodged its access arrangement for the Roma to Brisbane Pipeline with the ACCC, although there will be no revenue impact until, at least 2012.

In New South Wales, the emergence of retail contestability in the gas markets has seen an increase in additional revenues from third parties through the Moomba to Sydney Pipeline. This will assist in offsetting the reduction in contracted revenue under the Gas Transportation Deed.

We are still awaiting a judgement from the Federal Court on the appeal by ACCC on the Australian Competition Tribunal decision on aspects of the Moomba to Sydney Pipeline access arrangement.

As previously advised a program of repairs and further investigation has been undertaken to manage incidences of stress corrosion cracking ("SCC") on the Moomba to Sydney Pipeline. APA completed its November 2005 repair program without interruption. Further repair work, which is covered by the provision set up in the 2005 financial year, is scheduled for later this financial year. We're addressing the issue of SCC to ensure a safe pipeline and so that we can meet our contractual obligations. Independent reviews state that APA is managing SCC to world best practice.

APA has recently investigated two further sections downstream of Moomba. The intelligent pigging has only just been completed on the second and third sections investigated, and the analysis will take around six months to complete. As previously advised, we expected some SCC in these sections, and very preliminary analysis indicates that it appears to be less severe than in the first section. However, APA needs to undertake a complete analysis before determining the remedial action and costs required. There may be additional costs above the provision provided in the 2005 financial year, although we can't say how much at this stage.

In the Northern Territory, APA is happy that the Amadeus Gas Pipeline is operating according to plan. Additionally, we believe that APA is in a good position to be involved in any Northern Territory pipeline project which may arise out of the heads of agreement recently entered into between Power Water Corporation and ENI for the future supply of gas from Blacktip.

APA has also reviewed its business operations to ensure that we function like a national business should. The review of business processes identified synergies and cost savings which we are capturing. APA has also successfully integrated the new businesses in Western Australia and reduced its cost base.

STRATEGIC DIRECTION

The proof of our success is seen in our headline key indicators. Our compound average rate of profit growth is around 13% per annum. APA has more than doubled in market capitalisation since listing in 2000 based on successfully executing a program of buying out minority interests in our assets. With that in mind, the APA Board and I have given great thought to where we need the business to be directed in order to continue to achieve strong repeatable results for our unitholders.

During the initial period of my term as Chief Executive Officer, my first task was to identify efficiencies and improve the business. Since then, I have concentrated on developing a strategy to take APA into the future. After reviewing the business and identifying efficiencies and short term improvements, I have concentrated on developing a strategy that goes to the heart of why you invest in APA.

To stay relevant to unitholders, I believe that what APA should offer is a relatively safe investment in which distributions to unitholders will grow annually, by at least CPI. To achieve this, APA has developed a two pronged approach, which leverages off our existing assets and expertise to build APA into the leading energy transporter in Australia.

First, we have identified natural gas pipeline opportunities on our existing pipelines and potential acquisitions that we will pursue over the next few years. Additionally, we are pursuing complementary assets such as underground cables and gas fired power generation that may be close or linked to, our existing assets and where we can leverage our existing skill and experience. As we have

consistently stated, we will only buy assets which fit within APA's investment criteria.

Examples of the type of complementary assets APA has acquired or are considering, include the Mondarra gas storage facility in Western Australia and the Kogan North gas processing facility in Queensland. We are also examining whether to invest into a similar gas processing facility and gas fired power station at Daandine, just west of Kogan North.

Second, we are becoming confident that the PNG gas pipeline project will reach financial close this year. That should allow APA to invest in, at least, 20% of the project and have the pipeline built by the end of this decade.

Building the PNG gas pipeline will not only be a major new investment opportunity for APA it will also benefit our major pipelines such as the Moomba to Sydney Pipeline, the Roma to Brisbane Pipeline and the Carpentaria Gas Pipeline.

We believe that the strategy outlined above will enable APA to grow unitholder distributions annually by at least CPI, well into the future and cement our position as the leading energy transporter in Australia.

OUTLOOK AND FUTURE MATTERS

For the current financial year, the business is on track to increase NPATM by between 10% to 13% on prior year NAPTM before significant items.

As you will have seen in the press and elsewhere, 2006 is shaping up to be a very busy year for Australian Pipeline Trust (APA). While there are a number of consolidation and rationalisation issues happening elsewhere in the market place - and speculation about possible mergers and takeovers, APA intends to continue doing what it has successfully done over the past (nearly) six years – build its business in a sensible and sustainable fashion.

It's clear that the long term growth of the business is heavily reliant on the success of the PNG Gas Project and that project will provide the biggest impetus for long term growth. Nevertheless, we've evolved from the simple premise that our best growth opportunities are through developing our core assets. Those core assets are serving growing markets and we're also now pursuing complementary assets.

AUSTRALIAN BRANDENBURG ORCHESTRA

APA is the major sponsor of the Australian Brandenburg Orchestra ("ABO") and the principal sponsor of the Australian Brandenburg Ensemble. The ABO is Australia's finest period instrument orchestra, made up of leading specialists in the performance of baroque and classical music from the 17 and 18 centuries. The Orchestra is committed to energetic and lively programming, with premiere Australian performances of seldom heard masterpieces. The musicians play from original edition scores and on instruments of the period. This energy and professionalism leads to an extremely strong partnership between our two companies, for the mutual benefit of both.

Through the long time support from the APA, the ABO has been able to extend its reach and take these seldom heard original music scores around Australia, including regional centres. APA will once again, support a national tour of this ensemble to:

- Brisbane – 31 July, 2006
- Darwin – 2 August, 2006
- Perth – 3 August, 2006
- Adelaide – 6 August, 2006

"Without a major sponsor, such as APA, we would not be able to bring our music to the Australian people outside of Sydney," says Paul Dyer, Artistic Director. "For this, we are extremely grateful. After such an outstanding reception at cities such as Darwin and Perth, we can not wait to perform within those cities again!"

APA will be making an exclusive offer to unitholders when tickets for the national tour concerts go on sale in July. Stay tuned for our next newsletter for more details. For further information on the ABO, visit: www.brandenburg.com.au

INFORMATION MEETING

APA is investigating the possibility of providing an information meeting for unitholders to hear key executives discussing APA's plans, on the nights when the Australian Brandenburg Orchestra is performing.

Look for details in the next addition of In the Pipeline.