

WHAT'S IN THE PIPELINE?



**APA GROUP
SUSTAINABILITY REPORT
2011**

WWW.APA.COM.AU

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MESSAGE FROM MANAGING DIRECTOR

“This year APA has demonstrated its leadership in the energy infrastructure sector by innovation and continuous improvement in meeting its stakeholder expectations.”



Mick McCormack
Managing Director

It is a great pleasure to update stakeholders on APA's sustainability initiatives over the past 12 months. This year APA has demonstrated its leadership in the energy infrastructure sector by innovation and continuous improvement in meeting its stakeholder expectations.

We have continued to focus on building a sustainable business through strategic investment in attractive long-term assets such as the Amadeus Gas Pipeline and the Emu Downs wind farm.

In 2011 APA engaged with its customers to deliver infrastructure solutions that provide flexibility and energy security. This involved the expansion of our pipeline infrastructure in east Australia and the expansion of our Mondarra Gas Storage Facility in Western Australia.

APA successfully differentiates itself from market peers with the direct operational and management control over its assets, and this generates value from efficiencies and rewards investors. Our people have an industry-leading understanding of the Australian energy infrastructure sector and have maintained APA's number one position in our market.

APA launched the National Health Safety and Environment Management System, "Safeguard" to deliver on APA's commitment to a zero harm work environment to ensure that all business activities are conducted in a manner that protects all of our people, the environment and the greater community.

APA launched an exciting community investment program "Building Brighter Futures". Our assets and employees are located across the country and our involvement with charities and local programs continues to build APA's goodwill in the community.

With our interest in, and operation of more than \$8 billion of energy infrastructure assets, we are responsible for delivering low emission and sustainable energy across the country.

APA supports a national carbon policy that provides an economic incentive for large energy users to adopt cleaner fuels. This will fundamentally change our energy landscape and will see natural gas play a significant role as a transition fuel in the medium term, as well as supporting intermittent renewable energy technologies in the medium to longer term needed to meet the carbon reduction targets set by the Commonwealth Government.

Over the coming years, APA remains well positioned to play a major role in providing supporting gas infrastructure to facilitate Australia's transition to low emission energy and thus providing attractive returns to our securityholders.

A handwritten signature in black ink, appearing to read 'M. McCormack'. The signature is stylized and fluid.

Mick McCormack
Managing Director

OUR SCORECARD

OBJECTIVES, PERFORMANCE AND KEY ACTIONS

Our purpose: To be Australia's number one energy infrastructure business. Our success will be founded upon the strengthening of our asset footprint.

| Stakeholder strategic objectives | 2011 performance | Actions for 2012 |
|--|--|--|
| <h3>CUSTOMERS</h3> <p>We will deliver value to our customers and create responsive solutions to their needs by:</p> <ol style="list-style-type: none"> 1. Providing our customers a market-leading service, including responding to critical events when our customers are negatively impacted. 2. Delivering value to customers by utilising the capacity of APA's assets. 3. Working with customers to provide optimal investment and energy market solutions to maintain a pipeline of growth projects. | <p>Effective and timely response to pipelines and networks affected by extreme weather and flooding events. Pipeline damage and repair during the 2011 Queensland floods caused minimal disruptions to gas supply and all major repairs were completed within the year.</p> <p>Continued development of integrated customer management system.</p> <p>Developed unique gas storage solutions for customers as part of services on the Moomba Sydney Pipeline System.</p> <p>Ongoing commitment to expand infrastructure to meet additional transport and storage capacity requirements, including the Roma Brisbane Pipeline, Victorian Transmission System and Mondarra Gas Storage Facility.</p> | <p>Respond to customer needs and continue to develop optimal energy solutions.</p> <p>Launch the integrated customer management system.</p> <p>Cost efficiency to meet customer growth requirements – maximising use of existing assets and profitably expanding APA's asset portfolio.</p> <p>Continue to develop flexible transportation and storage services.</p> |
| Stakeholder strategic objectives | 2011 performance | Actions for 2012 |
| <h3>EMPLOYEES</h3> <p>We will provide a safe, stimulating and rewarding workplace where our employees can learn and grow by:</p> <ol style="list-style-type: none"> 1. Committing to a long-term LTI¹ target of 'Zero Harm' by continually improving safety in the workplace. 2. Providing employees with a stimulating and rewarding environment such that they would recommend APA as a great place to work. 3. Providing learning and development programs to attract, retain and develop employees. | <p>LTI of 6.2, higher than last year (2010: 4.9) and 2011 target of 4.0.</p> <p>Sponsorship of health focused activities for employees including the Global Corporate Challenge.</p> <p>204 senior leaders participated in APA's Leadership Program and 123 supervisors participated in APA's Frontline Leadership Program.</p> | <p>LTI target of 3.2. Continue work injury prevention program.</p> <p>Develop an employee engagement survey tool.</p> <p>Continue technical, learning and development programs to all employees.</p> <p>Develop a diversity policy.</p> |

¹ Lost Time Injury rate is measured as the number of lost time claims per million hours worked

| Stakeholder strategic objectives | 2011 performance | Actions for 2012 |
|--|--|--|
| <p>ENVIRONMENT</p> <p>We will continue to deliver an environmentally responsible, safe and essential service by:</p> <ol style="list-style-type: none"> 1. Contributing to policy and responding to climate change initiatives to promote the use of gas as essential to a cleaner energy mix. 2. Including the environment in all investment and procurement decision-making, complying with our emissions reporting obligations, and conserving and rehabilitating the natural state of the land we disturb. 3. Evaluating complementary clean energy projects. | <p>Engaged with government at federal and state levels to promote the role of gas in the carbon-constrained economy, directly and via industry associations.</p> <p>Contributed to the federal government's review of carbon emissions and energy measurement methods.</p> <p>Investment in renewable generation – Emu Downs wind farm and North Brown Hill wind farm.</p> | <p>Contribute to carbon policy discussions and promote the role of gas in emission reduction.</p> <p>Contribute to the review of the National Greenhouse and Energy Reporting (Measurement) Determination.</p> <p>Formulate a water management strategy.</p> <p>Participate in the Australian Pipeline Industry Association (APIA) Carbon and Energy Efficiency Opportunities Program.</p> <p>Evaluate energy project opportunities arising from the shift to renewable energy, particularly projects that enhance APA's current assets.</p> |
| <p>COMMUNITY</p> <p>We will positively engage the communities within which we operate by:</p> <ol style="list-style-type: none"> 1. Building long-term strategic community relationships to maintain community support and goodwill for APA's activities. 2. Increasing employee connection with local communities through sponsorships, employee volunteering and giving programs targeting our vulnerable communities. | <p>\$50,000 donated to the Queensland Premier's 2011 Flood Campaign.</p> <p>Implemented APA's Building Brighter Futures community program (giving program) including a commitment to support NAPCAN, Exodus Foundation and Clontarf Foundation.</p> <p>Employees' participation in community fund-raising events together with APA matching funds raised up to a \$4,000 limit per event.</p> <p>Total community investment and sponsorship for the 2011 financial year was \$263,170.</p> | <p>Enhance APA's Community Investment Program.</p> <p>Ongoing support for APA's Building Brighter Futures community program.</p> <p>Ongoing financial support for employee participation in community events.</p> |
| <p>INVESTORS</p> <p>We will continue to be a reliable and attractive investment which delivers superior returns for securityholders by:</p> <ol style="list-style-type: none"> 1. Achieving reliable and sustainable earnings growth by focusing on long-term revenue and costs. 2. Maintaining a strong and robust balance sheet. 3. Identifying and evaluating additional attractive infrastructure-style investments in related energy businesses. | <p>Total securityholder return of 23.1% for 2011.</p> <p>Maintained investment grade credit rating (BBB/Baa2).</p> <p>Successful debt raising of \$300 million MTN, \$225 million bank facilities, replacing bank facilities maturing in 2011.</p> <p>Successful capital raising of \$352 million, through operation of the DRP and institutional placement.</p> <p>\$498 million of organic growth capital expenditure, acquisitions and investments.</p> | <p>Maintain credit rating levels.</p> <p>Continue to evaluate additional revenue streams in related energy businesses.</p> |

OUR CUSTOMERS

DELIVERING VALUE TO OUR CUSTOMERS AND CREATING RESPONSIVE SOLUTIONS TO THEIR NEEDS

APA provides an industry-leading service by maintaining a close relationship with its customers.

APA offers its customers the unique value proposition of flexible and cost effective multi pipeline services derived from its geographically diverse asset footprint. Over the past eleven years APA has grown into Australia's largest natural gas infrastructure business delivering over half the natural gas consumed in Australia through more than 12,800 km of pipelines. Working together with our customers we deliver optimal solutions with quality and timely customer services and cost efficient use of capital.

APA has long-term relationships with large, creditworthy energy retailers and producers such as AGL Energy, Origin Energy, TRUenergy, Synergy, Verve Energy and Santos. APA also operates in the mineral provinces in Western Australia and Queensland providing services to major mining companies such as BHP Billiton, Newmont, Xstrata and Rio Tinto.

APA is continuing to enhance the east coast gas pipeline grid through physical expansion of its pipelines and the ongoing development of new customer management and information systems. This is improving our ability to provide a seamless service for customers to efficiently satisfy their gas demand requirements sourced from multiple gas supply points across multiple pipelines. APA has developed pipeline services to assist customers manage their requirements under the new east coast short-term gas trading market.

DELIVERING VALUE AND ENERGY SOLUTIONS

Verve Energy

APA is undertaking a significant capital program over the next 18 months to expand the Mondarra Gas Storage Facility. APA has been working closely with the major energy providers in the Western Australian market to provide them with flexible gas storage services. These services have been designed so that customers can cost effectively inject gas into the storage facility throughout the year and withdraw this gas in times of high demand or when upstream gas supply disruptions occur. Verve Energy, the WA state government owned electricity generator, is a foundation customer and has contracted a significant share of the storage capacity.

Jason Waters, General Manager Trading and Fuel, Verve Energy said "In response to the increasing requirements for energy security and gas storage services in Western Australia, APA and Verve Energy have worked together to develop a cost effective storage solution at the Mondarra Gas Storage Facility."

Promoting natural gas to end users

APA delivers natural gas to 1.2 million homes and businesses in east Australia through the gas distribution networks in which it invests and operates.

APA, together with industry associations, promotes the use of gas appliances in homes and businesses. Gas appliances are generally cheaper to run and more environmentally friendly than electric systems that source electricity from grids supplied predominately by coal-fired generators. Initiatives promoting the use of gas appliances include state-based regulatory phase-outs of conventional electric hot water systems, state-based gas appliance rebates, gas air conditioning and embedded gas generation.



"In response to the increasing requirements for energy security and gas storage services in Western Australia, APA and Verve Energy have worked together to develop a cost effective storage solution at the Mondarra Gas Storage Facility."

Jason Waters, General Manager Trading and Fuel, Verve Energy



Reliable and environmentally efficient gas-fired air conditioning.



Drilling rig at the Mondarra Gas Storage Facility.

| Key APA Customer risks | Risk mitigation |
|---|---|
| <p>Reduced gas volumes</p> | <p>APA's revenue is relatively insensitive to fluctuations in gas volumes with contracts based on pipeline capacity reservations and regulatory revenue based on asset values.</p> <p>Revenue upside exists for additional pipeline and storage capacity services to meet growth in gas-fired generation.</p> |
| <p>Cost to serve increases</p> | <p>APA's integrated portfolio of gas pipeline assets provides revenue and operating synergies. Costs to serve are largely fixed with appropriate escalations in costs recovered in revenue settings.</p> |
| <p>Customer retention</p> | <p>APA has an unrivalled gas asset footprint and the internal capability and industry 'know-how' to develop and deliver customer solutions.</p> |
| <p>Changes to regulation impacting revenue</p> | <p>The regulatory regime is well understood, encapsulated in national law. The process for determining regulatory tariffs is transparent with the right to appeal decisions. The reset dates of APA's price regulated assets are staggered, with on average one review per year.</p> |

OUR EMPLOYEES

PROVIDE A SAFE, STIMULATING AND REWARDING WORKPLACE WHERE OUR EMPLOYEES CAN LEARN AND GROW

APA employs over 1,200 skilled and experienced people to manage its assets and investments and as our business continues to grow, we want our people to grow with it.

APA offers a work environment conducive to high performance and a culture where the safety of our people is paramount.

HEALTH AND SAFETY

Safety is central to APA's culture and operations. APA is accountable for ensuring our employees, contractors and others in our workplaces return home safely at the end of every working day. Through continuous improvement, APA aspires to a long-term "Zero Harm" goal in respect of employee safety.

The Lost Time Injury ("LTI") rate in FY2011 increased to 6.2 compared with 4.9 last year and above our target of 4.0. This consisted of 13 lost time injuries reported, 46% of which were back injuries and 31% of which were knee injuries. APA continually assesses the cause of these injuries and has subsequently modified a number of work practices including the introduction of mechanical aids to assist with manual handling tasks. We have also implemented a number of new training and awareness programs to prevent the recurrence of similar injuries.

APA has partnered with Russell Williams Injury Prevention Specialists and introduced the "posture @ work" injury prevention program which to date has been accessible to approximately half of the workforce. This will be rolled out to all locations across the APA Group by December 2011. A comprehensive manual handling risk assessment program has also commenced across the business to identify any potential areas for improvement. APA is committed to progressively reducing its LTI rate, targeting a significant improvement to 3.2 for the next year to 30 June 2012.

TABLE 1: APA GROUP'S LTI RECENT PERFORMANCE

| LTI rate | FY09 | FY10 | FY11 | FY12 |
|---------------|------|------|------|------|
| Result | 7.3 | 4.9 | 6.2 | |
| Target | - | - | 4.0 | 3.2 |

APA launched the National Health Safety and Environment Management System, "Safeguard". Safeguard aims to deliver on APA's commitments of a zero harm work environment and a sustainable future by maintaining a positive culture based on continuous improvement and ensuring that all business activities are conducted in a manner that protects its entire people, the environment and the greater community with which we interact.

The Health, Safety and Environment Committee of the APA Board oversees this commitment to ensuring that the health, safety and wellbeing of APA's people, contractors, customers and the general public are embedded within all levels of the business.

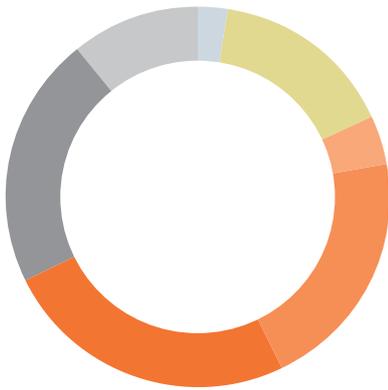


APA is integrating best practice Health, Safety and Environment ("HSE") standards in all its activities across every part of the business, including:

- HSE management systems for all controlled activities and controlled sites, based on the accreditation standards of ISO 14001, AS/NZS 13000:2009 and AS/NZS 4801;
- ongoing identification of the potential exposures to health and safety hazards of all employees and contractors;
- fatigue management programs to minimise the risks of fatigue related incidents and injuries;
- drug and alcohol programs; and
- HSE requirements included in all agreements prior to engagement of suppliers, contractors and partners.

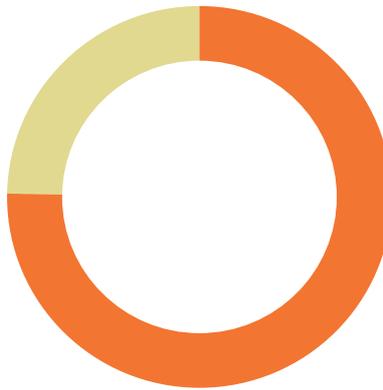
APA EMPLOYEE STATISTICS BY LOCATION, GENDER AND AGE AS AT 30 JUNE 2011

APA EMPLOYEES BY LOCATION



| Total employees | 1226 |
|-----------------|------|
| ACT | 32 |
| NSW | 191 |
| NT | 52 |
| QLD | 252 |
| SA | 305 |
| VIC | 262 |
| WA | 132 |

APA EMPLOYEES BY GENDER



| Total employees | 1226 |
|-----------------|------|
| MEN | 924 |
| WOMEN | 302 |

APA EMPLOYEES BY AGE



| Total employees | 1226 |
|-----------------|------|
| LESS THAN 35 | 247 |
| BETWEEN 35-54 | 712 |
| 55 AND OVER | 267 |

LEARNING AND DEVELOPMENT

APA strives to create a rewarding and enjoyable workplace. APA invests in training and development programs to provide its employees with career opportunities and encourage them to accept greater challenges and responsibility along their career path.

During the past 12 months, 204 leaders at APA completed the first of three modules of the APA Leadership Development Program and 123 leaders in the field attended the Frontline Leaders Program. Both programs focus on increasing self-awareness and leading people.

APA's National Technical Training department established a project to introduce a new enterprise wide Learning Management System to APA. The objectives of the National Training Project are:

- Development of Competency Framework;
- Consistent Process for all training;
- Visibility of what Training is available in your area;
- Access to Training Material; and
- Single Source of Truth for Records.

Following detailed user acceptance testing and the rollout of training on the use of the system nationally, the Learning Management System was successfully delivered within budget and agreed timeframes by mid June 2011. The system now allows for the effective and sustainable capture and management of employee and contractor information and training in relation individual's qualifications, licenses and competencies. Employees and contractors are also able to browse catalogues, access training material and enrol in required training, on-line.

APA WORKPLACE INITIATIVES

APA has the following workplace initiatives in place:

- Silver membership of the Australian Employers Network on Disability;
- "Fair treatment @ APA" provides a range of programs and memberships to ensure equal opportunity for all employees;

- Employee assistance program which provides access to advice with confidential counselling on work related or personal issues;
- Health and wellbeing initiatives, including flu vaccinations and information on health awareness, dealing with depression, and preparing for emergencies such as bush fires;
- Other initiatives including flexible work practices, 14 weeks paid parental leave, Australian Breastfeeding Association accreditation and assisted education program.

For the 3rd year in a row APA employees participated in the Global Corporate Challenge where they were able to raise their fitness levels, improve their overall health and participate in some healthy competition with their colleagues.

Under APA's equal employment opportunity policy, employment-related decisions are based on merit, with an additional emphasis towards proactively seeking to increase the female participation rate in senior management. With respect to the board, it is APA's intention, when looking to fill a board position, to always have at least one qualified female candidate on the short-list of candidates.

Patricia McKenzie was appointed as a non-executive director to the APA board on 1 January 2011. Patricia brings further significant energy market and policy expertise to the APA board. Patricia was previously a director of Australian Energy Market Operator Limited (AEMO), the national energy market operator for electricity and gas, and was also formerly the Chief Executive Officer of Gas Market Company Limited, the market administrator for retail competition in the gas industry in New South Wales and the Australian Capital Territory.

APA will develop a diversity policy over the course of the current financial year.



“I am grateful to APA for the skills and knowledge I’ve gained working at the company over the past two years and for allowing me to attend the conference in India where I was able to discuss and share different welding techniques from around the world that apply to the work I enjoy doing here at APA with many of my peers from around the world.”

Aaron Heritage



“What I most appreciate as a young engineer in APA is the fact that I have many opportunities to make a difference and APA supports me by providing many development opportunities that will help enrich my career.”

Kavitha Susibalan

EMPLOYEE STORIES

Aaron Heritage, APA Welding Technical, South Australia
 In January 2009 Aaron started working with APA as a welder and learned a lot about welding on live gas mains. Earlier this year Aaron won the award for Young Tradesperson of the Year, submitting a report about the challenges of welding on in-service gas mains. As a reward for his efforts the Welding Technology Institute of Australia (WTIA) and Coregas sponsored Aaron’s attendance to the 64th annual assembly and conference of the International Institute of Welding held in Chennai India.

Kavitha Susibalan, APA Pipeline Modelling Engineer, New South Wales
 Kavitha started at APA in 2010 in the APA engineering department. Kavitha said “I come from an LNG plant processing background, so my position as a pipeline modelling engineer in APA is an entirely new ball game for me. It’s exciting to be doing pipeline designs as it allows me to see and be involved in APA’s growth.”

| Key APA Employee risks | Risk mitigation |
|--|--|
| Maintain high levels of employee engagement | Ongoing employee programs are in place to maintain and enhance job satisfaction. |
| Skill shortages and an ageing workforce | Investment in internal formal qualifications in a competency framework. Ongoing leadership and management development. Enhancing the APA employee value proposition. |

OUR ENVIRONMENT

CONTINUE TO DELIVER AN ENVIRONMENTALLY RESPONSIBLE, SAFE AND ESSENTIAL SERVICE

APA minimises the impact of its activities on the environment by integrating considerations of environmental sustainability, including site rehabilitation, waste minimisation, efficient water use, energy efficiency and protection of cultural heritage.

ENVIRONMENTAL PRINCIPLES

APA adheres to a clear set of environmental principles in carrying out all of its activities.

COMPLIANCE

APA will meet or exceed statutory obligations and relevant codes of conduct and standards. APA is a member of the APIA Environmental Committee; a copy of the APIA Code of Environmental Practice can be found on the APIA web site: www.apia.net.au/issues/environment.

IMPACT MINIMISATION AND RISK MITIGATION

APA minimises the impact of its activities on the environment by integrating considerations of environmental sustainability, including site rehabilitation, waste minimisation, efficient water use, energy efficiency and protection of cultural heritage.

APA includes all carbon related costs in its contracting strategies, regulatory assets review processes and investment decisions.

MONITORING AND REPORTING

APA's environmental performance and reporting will be consistent with recognised Australian reporting standards and, if necessary, include assurance and verification.

STAKEHOLDER ENGAGEMENT

APA will actively participate in policy debate on energy and environmental matters by engaging with federal and state governments, industry participants, customers, communities and employees.

CLIMATE CHANGE

APA supports reducing carbon emissions as a responsible risk mitigation response to climate change. In APA's view, gas-fired generation and renewable energy, predominately wind-powered generation, are the most economic and currently the only technologies that can materially reduce Australia's emissions compared to the current generation mix. Gas-fired peaking generation will play an increasingly important role as back-up generation to intermittent renewables.

APA supports those government environmental schemes that reduce emissions efficiently, and further supports incentives that promote large and small-scale gas technologies to replace less carbon efficient fuels such as coal and oil. APA also supports the Large-scale Renewable Energy Target which will make up 41,000 GWh per annum of the total Renewable Energy Target (45,000 GWh per annum) by 2020. APA believes that this will largely be met by wind-powered generation and supported by gas-fired generation.

APA considers the climate change risks during the design phase and construction of new and expanded assets and when acquiring assets and businesses, as well as in respect of its ongoing operations. Operating and climate change risks are included in the APA Risk Register.

Climate change risks and opportunities are assessed by each business unit and include the impact to the business of regulatory changes, carbon pricing and physical impacts of extreme weather events. Risks at both the company and asset level are assessed in terms of financial impact, meeting customer obligations and impact on the communities we operate within.

APA is well positioned to benefit from carbon reduction and renewable energy policies as it plays a major role in providing gas infrastructure to facilitate Australia's transition to cleaner fuels.

NATIONAL GREENHOUSE AND ENERGY REPORTING ACT 2007 (NGERS)

NGERS introduced a national framework for the reporting and dissemination of information about greenhouse gas emissions, greenhouse gas projects, and energy use and production of corporations. One of the objectives of NGERS is to underpin the introduction of an emissions trading scheme.

Last year APA reported scope 1 emissions of 305,076 tonnes of CO₂-e complying with NGERS measurement methodologies. All of these emissions were associated with the transportation of gas through APA's transmission and distribution assets. Through APIA, APA is working closely with the Department of Climate Change and Energy Efficiency to refine emission measurement methods to ensure accuracy and transparency for the gas transmission and distribution sector.

CARBON COST PASS-THROUGH

Under the proposed federal government's carbon reduction policy, APA expects to pass any carbon related costs associated with transporting natural gas through to its customers.

For APA's assets which are expected to acquire permits (under the current form of the proposed carbon legislation), cost recovery mechanisms are in place:

- **price regulated assets** have provisions within the regulatory framework to enable APA to recover the efficient cost of acquiring permits;
- **non-regulated assets** include carbon cost recovery mechanisms within contractual arrangements to pass-through or recover nearly all carbon related costs.

CARBON DISCLOSURE PROJECT (CDP)

APA is a voluntary participant in the global not-for-profit CDP, a well regarded format for disclosure on business exposures to climate change. APA will benefit from participating in the CDP and any recognition that climate change policies present opportunities for gas infrastructure businesses.

NATIONAL POLLUTANT INVENTORY (NPI)

The NPI provides the community, industry and government with free information about substance emissions in Australia. APA complies with its obligations under the NPI and this data is made available on the NPI web site: www.npi.gov.au.

ENERGY EFFICIENCY

Through its APIA membership, APA will participate in the Carbon and Energy Efficiency Opportunities Program. Participants will act as a self help group, sharing knowledge to identify viable opportunities.

Last year APA undertook an energy efficiency initiative to convert instrument gas systems to compressed air at its Dalby (Queensland) and Wollert (Victoria) compressor stations. These initiatives will reduce emissions and have a small economic pay back period.

WATER USAGE

APA is currently developing a water management strategy for FY 2013.

WASTE REDUCTION IN OFFICES

There are many ways in which we can reduce our environmental footprint, not just in the things we build, but also in the products we buy and the things we do every day. At APA, we believe even a small change can make a big difference and encourages all employees to minimise waste, recycle material and save costs.



Short Beaked Echidna at Taronga Zoo.

AN EYE ON OUR ENVIRONMENT – SHORT BEAKED ECHIDNA

APA is sponsoring the newly constructed Short Beaked Echidna exhibit at the Taronga Zoo. Taronga Conservation Society Australia also runs education programs on conserving the habitat of these uniquely Australian native mammals that are known for their shy and fairly placid nature. APA has committed \$50,000 per annum for next 3 years.

| Key APA Environment risks | Risk mitigation |
|---|---|
| Impact of cost on carbon | Under current carbon policy proposals, APA expects to pass through or recover the majority of the carbon related costs. APA continues to evaluate energy efficiency opportunities to reduce its carbon footprint. |
| Changing energy market due to environmental policy | Environmental policies will drive investment in gas-fired generation and renewables, presenting significant growth opportunities in supporting gas infrastructure. APA will continue to evaluate opportunities to enhance its gas infrastructure portfolio arising from growth in renewable energy. |

OUR COMMUNITY

POSITIVELY ENGAGE THE COMMUNITIES WITHIN WHICH WE OPERATE

APA respects the rights and interests of the communities in which it operates. We do this by engaging with members of the community, minimising social and environmental impacts and working to ensure the safety of all concerned.

APA was highly effective in responding to the 2011 floods in Brisbane and the surrounding South East Queensland community. APA managed repairs to gas infrastructure with minimum disruption to gas supply. APA supported its employees affected by the floods and also donated \$50,000 to the Queensland Premier's 2011 Flood Campaign.

As an organisation, we continue to build on our long-term strategic community partnerships. In 2011 APA launched the "Building Brighter Futures" community investment program which connects our business and our people to the communities in which we work and live by supporting initiatives to improve the future work and life prospects of less fortunate Australians.

Our community partnerships with three indigenous organisations reflect our commitment to help build brighter futures for indigenous Australians. APA supports:

- NAPCAN Aboriginal Girls Circle (AGC): a residential camp program to build resilience, self-esteem, social connections and confidence for Aboriginal girls in regional and remote areas;
- Clontarf Foundation: a program based around Aboriginal boys' passion for football, to improve the education, self-esteem and employment prospects of young Aboriginal men; and
- Exodus Foundation: various programs including literacy program to teach functional literacy to children with severely compromised reading ability.

Building Brighter Futures also supports a number of causes close to the hearts of APA people through our annual employee community event calendar, by capped matching of funds raised by APA employees. Supported events include: Laugh for Kids on Wish Day (Make a Wish Foundation); Starlight Day (Starlight Children's Foundation); Australia's Biggest Morning Tea (Cancer Council); Pink Ribbon Day (Cancer Council); and Movember (Movember Foundation).

NAPCAN's National Child Protection Week campaign for 2011 asks all Australians to "Play their Part in keeping children safe". Madelene McGrath, AGC Program Manager, commends APA employees for their ongoing support of NAPCAN's AGC program. Ms McGrath says "The APA team's commitment to these young women is already making a difference through their increased confidence and change of attitude in realising they too can play a part in shaping their communities."

At a local level, employees can participate in events within their communities with support from APA where appropriate. This year, our employees participated in the Variety Club Santa Fun Run, National Walk to Work Day, Global Corporate Challenge, Anaconda Adventure race, triathlons, softball and fun runs. APA participation in these events fosters good community relationships and employee health and well-being.

APA will continue to enhance its Community Investment Program with a more structured approach to sponsorships in 2012 and also create further opportunities for employees to engage with APA communities. This program will align with our business strategy to ensure that we continue to realise our goal to give something back to the communities in which we operate.

APA continued its support for the arts in 2011 with its sponsorship of the Darwin Symphony Orchestra.

Total community investment and sponsorship for the 2011 financial year was \$263,170.



The exposed Rocky Creek RBP 16" transmission line at the base of the Toowoomba Range is normally buried more than under 1.2 metres underground.

QUEENSLAND FLOOD REPORT

Sashie Naidoo, Manager QLD Networks

Following the flash flooding in Toowoomba and the predicted flooding in Brisbane, an emergency response team was hastily convened. Our priority was to protect the two gate stations on either side of the river and prepare the greater network for a major shut down as a worst case scenario. Within 24 hours, everything to mitigate the anticipated damage was in place for the expected river peak. As we watched the rise of the river and the subsequent devastation unfold, we set about planning the Network recovery operation. Our objective: ensure that every residential, industrial and commercial customer on our flood affected network has a safe supply of gas.

An emergency control centre was established in Banyo to simultaneously co-ordinate network recovery efforts in Toowoomba, Rockhampton, Maryborough and Bundaberg. To my team's credit, people from all over the business worked tirelessly 24 hours a day, side by side to plan for the most significant operation the network had ever faced.



AGC participants in a National Child Protection Week event in Dubbo, 6 September 2011.

| Key APA Community risks | Risk mitigation |
|---|--|
| <p>Maintaining community support and goodwill for APA’s activities</p> | <p>APA engages with its communities and follows industry recognised standards or better in the operation of its assets to minimise any impact of its activities.</p> |

OUR INVESTORS

CONTINUE TO BE A RELIABLE AND ATTRACTIVE INVESTMENT WHICH DELIVERS SUPERIOR RETURNS TO SECURITYHOLDERS

APA's distributions have grown sustainably year on year, fully covered by operating cash flow.

APA INVESTMENT STRATEGY

APA delivers long-term value to securityholders through both sustainable distributions and capital growth, with total securityholder return (distributions and security price) since inception of, on average, 16 per cent per annum.

APA's distributions have grown sustainably year on year, fully covered by operating cash flow. APA's recent review of its distribution policy confirmed the following objectives that it has pursued since listing in 2000:

- distributions should continue to be sustainable over time and to be funded from operating cash flows;
- growth in total distributions should ordinarily not exceed the growth in underlying total operating cash flows; and
- distributions should grow in step with the business and the demand on cash flow required to be reinvested in the business.

APA is the industry leader in the energy infrastructure sector. When considering investments, APA identifies the value it brings in owning an asset, assessed against the following criteria:

- its level of understanding of the commercial drivers of the asset class;
- its ability to efficiently manage and operate that asset;
- potential synergies with existing assets in APA's portfolio;
- ability for the asset category to provide a meaningful contribution to APA; and
- its ability to manage the risks commensurate with our growth targets.

APA rigorously assesses any potential investment or development opportunity from a **strategic, economic, risk** and **funding** viewpoint:

Strategic

- Focus on gas and complementary infrastructure that enhances APA's portfolio.

Economic

- Cash flows over the life of a project will positively impact APA's operating cash flow;
- Project returns will meet appropriate target rates of return with consideration to all risks.

Risk

- Assess all risks using APA's proven internal capabilities, policies and processes - financial, operational, project delivery, counterparty, regulatory, reputational and business risks;
- Asset expansions and acquisitions will be underpinned by revenue contracts and market conditions;
- APA will use external expert advice where appropriate.

Funding and prudent capital management

- Optimise funding options and maintain investment grade credit ratings;
- Align debt maturity profiles with long-term asset profiles.



Emu Downs wind farm.

ENHANCING THE VALUE OF EXISTING ASSET PORTFOLIO Acquisition of Emu Downs and Badgingarra wind farms

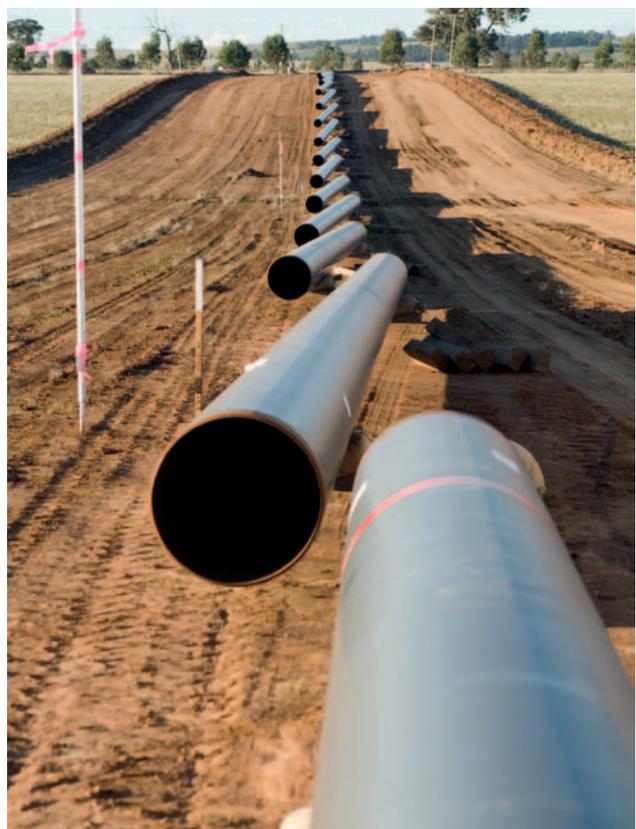
On 30 June 2011 APA completed the acquisition of the 79.2 MW Emu Downs wind farm and adjacent 130 MW Badgingarra wind development site for a total of \$172 million. This acquisition further enhances the value of and provides leverage off our adjacent gas infrastructure assets.

Wind generation together with gas-fired electricity generation provides a low emissions energy solution to match the demand profile of electricity users. The variability in wind generation production can be supported by gas generation to match consumption. APA can leverage its ownership of the Parmelia Gas Pipeline and Mondarra Gas Storage Facility to provide back-up services to gas generation to support the intra-day variability of the generation output from the wind farms.

GROWTH – EXPANDING APA’S PORTFOLIO

Growth Projects:

- **Mondarra Gas Storage Project** – APA is undertaking a significant capital program over the next 18 months to expand the Mondarra Gas Storage Facility. Verve Energy, the WA state government owned electricity generator, is a foundation customer and has contracted a significant share of the storage capacity.
- **Moomba to Sydney Pipeline** – APA has completed the last in a series of three capacity expansions on the Moomba to Sydney Pipeline with the installation of a compressor at Marsden and augmentation of the compressors at Young. The pipeline is contracted at its current capacity and APA is investigating the next capacity increase to meet the anticipated development of new gas-fired generation projects.
- **Roma to Brisbane Pipeline** – APA is well advanced in delivering the \$50 million expansion of the Roma to Brisbane Pipeline to meet customer demand for a 10% increase in pipeline capacity. The work which includes the installation of a new compressor and pipeline augmentation and is scheduled to be complete by July 2012.



Capacity expansion on the Moomba to Sydney pipeline, Young looping, NSW.

| Key APA Investment risks | Risk mitigation |
|---|--|
| <p>Attracting equity investors and debt providers to participate in growth opportunities</p> | <p>APA provides equity and debt investors with an attractive growth outlook for the investment in new projects and expansion of existing assets.</p> |

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