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APA Group

Australian Pipeline Ltd
ACN 091 344 704

Australian Pipeline Trust
ARSN 091 678 778

APT Investment Trust
ARSN 115 585 441

26 February 2008

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

*This announcement refers to the results of Australian Pipeline Trust ("APT") and APT Investment Trust ("APTIT") (together "APA") as detailed in the Half-Yearly Reports provided to the ASX for the period 1 July 2007 to 31 December 2007 ("the current period").*

## HIGHLIGHT FINANCIAL RESULTS

- **Total Revenue** - $443.0 million, **up 82.1%** on the pcp;
- **EBITDA** - $214.7 million, **up 59.1%** on pcp;
- **Operating Profit after income tax and minorities** - $44.7 million, **up 37.0%** on pcp;
- **Operating Cash Flow** - $109.3 million, **up 48.2%** on pcp;
- **Operating Cash Flow per security** - 25.0 cps, **up 11.3%** pcp;
- **APA Distribution for the current period** - 14.5 cps, **up 3.6%** on pcp.

*All figures above are referred to as "underlying results" and exclude one-off significant items ($4.4 million or $3.1 million after tax) and reflect two accounting adjustments to revenue and earnings caused by the introduction of the new international accounting standards (AIFRS), as follows:*

*i. The entire distribution received from Envestra has been included in the underlying results. Accordingly, the interest ($1.3 million) and capital ($5.7 million) components of the distribution received from Envestra have been reclassified to revenue and earnings; and*

*ii. A number of complementary assets are treated as finance leases under AIFRS. Accordingly, the results from these assets are recorded in finance lease (interest) income ($3.5 million) and principal reduction ($1.3 million). These amounts have been reclassified to revenue and earnings in the underlying results.*

The results reflect six months of consolidation and efficient integration of the businesses and assets recently acquired or developed. This includes the integration of over 1,000 staff, to internally manage and operate all of APA's assets.

The businesses acquired are contributing strongly to the consolidated result for the current period. Operating profit was $39.0 million, an increase of 19.6% on the previous corresponding period. Increased performance is due to:

- Increased pipeline transportation revenue from the Western Australia and New South Wales gas businesses;
- Six month contribution from the Victorian Transmission System (previously the GasNet Victorian business) and the APT Allgas gas distribution business, acquired part way through the previous corresponding period ("pcp");
- Six month contribution (2006: nil) from the Directlink electricity transmission business acquired in February 2007;
- Six month contribution (2006: nil) of the Origin Energy Network business acquired in July 2007;
- Contributions from complementary assets, with full six month operation of the Tipton West coal seam gas processing facility (2006: nil) and one month operation of the Xstrata Power Station and associated pipelines; and
- Asset operating and maintenance cost savings achieved through direct control of all APA's assets, rather than being managed by a third party.

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After significant items, profit attributable to securityholders of APA for the current period was $35.9 million ($32.3 million in pcp).

**Distribution to Securityholders**

On 26 February 2008, the Directors declared a total distribution for APA for the current period of 14.5 cents per security ("cps") (2007: 14.0 cps) to be paid on 28 March 2008. This is made up of an APT interim profit distribution of 9.8 cps unfranked and an APTIT interim distribution of 4.7 cps comprising a 2.0 cent unfranked interest income distribution and a 2.7 cent tax deferred capital distribution.

Record date for determining securityholders' entitlement to the distributions will be the close of business on 7 March 2008 with Ex Date being 3 March 2008.

**Distribution Reinvestment Plan ("DRP")**

The Board has determined that a further issue of securities under the DRP will be made at a discount to market of 2.5%. The last date for receipt of election notices for the DRP is 5pm on 7 March 2008. Details of the Plan are available from the Registry at Link Market Services Limited (ph 1800 992 312) or on the APA website – www.pipelinetrust.com.au.

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## FINANCIAL SUMMARY

The following table provides a summary of the key underlying results and ratios. The underlying results and ratios exclude one-off significant items ($4.4 million or $3.1 million after tax) and reflect two accounting adjustments to revenue and earnings caused by the introduction of the new international accounting standards (AIFRS), as follows:

i. The entire distribution received from Envestra has been included in the underlying results. Accordingly, the interest ($1.3 million) and capital ($5.7 million) components of the distribution received from Envestra have been reclassified to revenue and earnings; and

ii. A number of complementary assets are treated as finance leases under AIFRS. Accordingly, the results from these assets are recorded in finance lease (interest) income ($3.5 million) and principal reduction ($1.3 million). These amounts have been reclassified to revenue and earnings in the underlying results.

| Underlying Results - Six Months ended | 31 Dec 2007 | 31 Dec 2006 | Changes on pcp | |
|---|---|---|---|---|
| | $m | $m | $m | % |
| Total revenue | **443.0** | 243.3 | 199.7 | 82.1 |
| EBITDA | **214.7** | 134.9 | 79.7 | 59.1 |
| Operating profit after tax and minorities | **44.7** | 32.6 | 12.1 | 37.0 |
| Operating cash flow | **109.3** | 73.8 | 35.6 | 48.2 |

| Financial Measures | 31 Dec 2007 | 31 Dec 2006 | Changes on pcp | |
|---|---|---|---|---|
| Underlying OCF per security (cents) | **25.0** | 22.5 | 2.5 | 11.3% |
| Underlying earnings per security (cents) | **10.2** | 9.9 | 0.3 | 2.9% |
| Interest Cover Ratio (x) | **1.8** | 2.3 | - | - |
| Gearing Ratio (%) | **71.6** | 66.0 | - | - |
| Payout Ratio (%) | **60.8** | 72.2 | - | - |

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The following table provides a summary of key financial data as reported in the Half Year Report adjusted for significant items:

| Six Months ended | 31 Dec 2007 | 31 Dec 2006 | Changes on pcp | |
|---|---|---|---|---|
| | $m | $m | $m | % |
| **Operating results before significant items** | | | | |
| Gas transportation revenue | **303.1** | 229.3 | 73.8 | 32.2 |
| Electricity transmission revenue | **12.6** | 6.4 | 6.2 | 96.6 |
| Asset management revenue | **99.3** | - | 99.3 | - |
| Complementary / Other revenue | **14.5** | 1.1 | 13.3 | - |
| Other income – interest | **6.6** | 6.5 | 0.1 | 1.5 |
| **Total revenue** | **436.0** | **243.3** | **192.8** | **79.2** |
| EBITDA | **207.7** | 134.9 | 72.8 | 54.0 |
| Depreciation and amortisation | **(45.1)** | (29.2) | (15.9) | 54.6 |
| EBIT | **162.6** | 105.8 | 56.9 | 53.8 |
| Net interest expense | **(110.4)** | (57.1) | (53.3) | 93.3 |
| Pre-tax profit | **52.2** | 48.6 | 3.6 | 7.4 |
| Income tax expense | **(13.2)** | (15.9) | 2.7 | (17.1) |
| **Operating profit after tax and minorities, before significant items** | **39.0** | **32.6** | **6.4** | **19.6** |
| Significant items after income tax | **(3.1)** | (0.4) | (2.7) | - |
| **Profit after income tax and minorities** | **35.9** | **32.3** | **3.7** | **11.4** |

## OPERATIONAL HIGHLIGHTS

APA has continued to integrate and consolidate its Australia wide portfolio of energy infrastructure assets and its workforce of highly skilled and experienced personnel and is pursuing a program to achieve synergy benefits identified during the acquisition due diligence processes.

The integration programme has progressed well during the current period without impact to the operation of APA's existing and new assets. The potential cost savings and synergy benefits identified by APA during the acquisition due diligence processes have contributed to APA's strong financial performance in the current period and will continue to be realised over the next 18 months. These include reduced management costs of the assets, rationalisation and improved efficiency of operations, and optimisation of the use of interconnected infrastructure.

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

### Acquisitions and Investments

During the current period, APA:

- Purchased the Origin Energy Networks assets for $554.6 million, comprising Origin Energy Asset Management which provides management and operations services to Envestra, a 17.2% stake in Envestra, a one-third interest in the SEAGas Pipeline and a number of other smaller business. The acquisition of the one-third interest in SEAGas was completed on 29 June 2007, while the remainder of the acquisition was completed on 2 July 2007. The acquisition increased APA revenues by more than 25% and expands its footprint in Australia to include every mainland State and Territory; and

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- Completed the arrangements with Alinta and the Babcock & Brown/Singapore Power Consortium to terminate or transfer the operating and maintenance services previously provided by Alinta for many of APA's gas transmission pipelines and a number of smaller operating and maintenance contracts. These arrangements were completed on 2 October 2007. APA paid $207 million, resulting in the elimination of all fees that were paid to Alinta, as well as the transfer to APA of associated property, plant and equipment. As a result, the operation and maintenance of all of APA's assets are now under its direct control.

## Operations

### *Gas Transmission and Distribution*

- APA continues work on the expansion of the Moomba Sydney Pipeline ("MSP") southern lateral as part of its agreement with NewGen Power to supply gas transportation services to NewGen's open cycle peaking power station being constructed near Uranquinty in south central NSW. The expansion on the MSP includes the construction of compressors at Culcairn, with commissioning scheduled to start June 2008;
- Capital expansions of its Victorian Transmission System continued, including compressor station upgrades and the Brooklyn to Lara Pipeline project;
- In Queensland, APA signed new transportation agreements on the Carpentaria Gas Pipeline, and development commenced for a new compressor station on the pipeline at Davenport Downs, which will increase pipeline capacity by a further 15% to meet additional demand of new and existing customers;
- In Western Australia, a new transportation agreement was signed with Pilbara Iron Company on the Goldfields Gas Pipeline, and development commenced for two new compressor stations at Wyloo West and Ned's Creek, which will increase pipeline capacity by a further 20% to meet additional contracted demand;
- In the Northern Territory, construction and major procurement contracts were awarded for the Bonaparte Gas Pipeline project. This 285km, 300mm nominal bore pipeline will transport gas from Wadeye to the Amadeus Gas Pipeline under a 25 year Gas Transportation Agreement with Power Water Corporation. Construction is scheduled to commence May 2008, and the project is on schedule to deliver gas commencing 1 January 2009. Agreements for land access, which are the final condition precedent to the gas transportation agreement becoming unconditional, are on track and expected to be finalised shortly; and
- APT Allgas distribution network connections increased by approximately 2,000 in the period, in line with the acquisition case. Throughput was 5.7 PJ for the period, above the acquisition case. APA systems and policies have been implemented, and all transitional services from Energex terminated as scheduled.

### *Electricity Transmission*

- The operations of APA's two electricity transmission assets, Directlink and Murraylink, were integrated, utilising common services and resources where possible.

### *Asset Management*

- Over 700 employees were transferred and integrated into APA following acquisition of the Origin Energy asset management group and termination or transfer of the Alinta asset management services, bringing a wealth of experience and knowledge in the management and operation of APA's and other energy infrastructure assets; and

- APA operated and managed the Envestra assets across five states and territories (Queensland, Victoria, New South Wales, the Northern Territory and South Australia). APA systems were implemented and all transitional services from Origin Energy terminated as scheduled, effective 31 December 2007.

***Complementary Assets***

- APA constructed its 30 MW gas-fired low emission power station (Xstrata Power Station) at Mt Isa Queensland, which provides additional power to Xstrata's upgraded and expanded minerals processing facilities. The Xstrata Power Station, fuelled by natural gas transported on the Carpentaria Gas Pipeline, was commissioned in November 2007 and will operate for 15 years.

## FINANCIAL SUMMARY

### Earnings

APA recorded an underlying operating profit after tax and minorities before significant items of $44.7 million for the current period, an increase of 37.0% over the pcp of $32.6 million.

The increased performance, was mainly due to:

- Increased pipeline transportation revenue from the Western Australia and New South Wales gas businesses;
- Six month contributions from APT Allgas and the GasNet business, acquired part way through the pcp;
- Six month contributions (2006: nil) from the Directlink business acquired in February 2007 and the Origin Energy Networks business acquired in July 2007, including distributions of $5.0 million and $8.4 million from investments in SEAGas and Envestra respectively;
- Increased contributions from complementary assets, with six month operations of the Tipton West coal seam gas processing facility (2006: nil) and one month operation of the Xstrata Power Station and associated pipelines; and
- Asset operating and maintenance cost savings achieved through direct control of all APA assets, rather than being managed by a third party.

Significant items in the current period amounting to $4.4 million ($3.1 million after tax) related to "one-off" costs associated with the integration of the newly acquired businesses, unsuccessful acquisition due diligence costs and net of a small revaluation gain on interest rate hedges, which are deemed ineffective, acquired as part of the GasNet acquisition. After significant items, profit attributable to securityholders of APA for the current period was $35.9 million (2006: $32.3 million).

### Revenue

Underlying revenue grew by 82.1% from $243.3 million in the previous corresponding period to $443.0 million.

Gas transportation revenue (excluding passthrough revenue) increased by 43.7% from $181.5 million in the pcp to $260.8 million, principally due to a six month contribution from the acquisitions of the GasNet and Allgas businesses in the current period, and increased revenues across the majority of pipelines.

Major components were:

- Increased pipeline transportation revenue in Western Australia and New South Wales ($6.4 million);
- Additional revenue from a six month contribution from the GasNet business ($37.9 million) and APT Allgas ($20.9 million) businesses; and
- Contributions (distributions) from the SEAGas ($5.0 million) and Envestra ($8.4 million) gas transportation businesses.

Revenue from the MSP increased by $2.0 million due to additional pipeline services primarily as a result of cold weather in July and August 2007. Gas transportation revenues in Western Australia increased by $4.4 million due to increased third party demand, particularly from the mining sector.

Electricity transmission revenue increased over the pcp, principally due to a six month contribution from the Directlink business acquired in February 2007.

Other / complementary revenue reflects six month contributions from the Tipton West gas processing facility and Daandine Power Station, and a one month contribution from the Xstrata Power Station and associated pipelines, which commenced operation early in December 2007.

Asset management revenue reflects six months of revenue (including cost recovery revenue) from providing asset operating and maintenance services over the Envestra gas assets.

**Expenses**

Total operating costs have increased due to the inclusion of operations of newly acquired businesses. Net operating costs of APA's continuing businesses owned in the pcp have been reduced through efficiency gains.

**Capital Management Activities**

During the past six months, APA has undertaken capital raising activities to fund the continuing growth of the business. APA raised $96 million in equity through two offerings as detailed below:

- In September 2007, $10.9 million was raised from securityholders through continued operation of the DRP resulting in the issue of 2.98 million new securities; and
- In November 2007, the security purchase plan (SPP) raised over $85 million from existing securityholders, resulting in the issue of 23.66 million securities.

APA completed the refinancing of a number of its debt facilities in July 2007. APA's new syndicated debt facility was oversubscribed and subsequently increased to $2.0 billion. APA's next refinancing requirements arise in the 2009 financial year – in August 2008 ($150 million) and March 2009 ($300 million). APA's debt portfolio has a healthy spread of tenors extending out to 2022 and is geared at 71.6% at 31 December 2007 (as defined in APA's debt agreements). Under the new syndicated facility, APA has over $500 million of committed undrawn facilities available at the contracted margins to meet the needs of the business, as and when they arise.

APA has a prudent treasury policy which requires conservative levels of hedging of interest rate exposures to minimise the potential impacts from adverse movements in rates. All interest rates on project debt and US private placement facilities have been fixed for the life of the respective facilities. APA also enters into interest rate hedges which fix a proportion of the interest rate exposure on the syndicated debt facility. In addition the regulatory frameworks under which many of APA's assets operate provide a level of interest rate protection through their revenue setting process. At 31 December 2007, 69.1% of all interest rate exposures were either explicitly hedged or at fixed interest rates, for varying periods extending out as far as 15 years.

At 31 December 2007, APA has sufficient undrawn facilities available and financing flexibility to meet estimated capital growth needs of the business for at least the next 12 months.

**Borrowings and Finance Costs**

As at 31 December 2007, APA had borrowings of $3,231 million, principally from new syndicated debt facilities, US Private Placement notes and other medium-term notes, compared to $2,720 million as at 30 June 2007. Borrowings increased due to the funding of acquisitions of the Origin Energy Networks business and the Alinta operating and maintenance activities. Finance costs have increased by $53.4 million or 84.0% to $116.9 million in the current period. The increase is a direct result of additional borrowings to fund the current period acquisitions, the six month impact from the acquisition related borrowings in the pcp, and from recent rises in interest rates impacting on the unhedged portion of the debt portfolio.

**Income Tax**

The effective tax rate before significant items has decreased in the current period (25.2%) in comparison to the pcp (32.7%), largely due to the operation of APTIT which is a passthrough entity for tax purposes.

**Earnings per Security**

Underlying earnings per security ("EPS") calculated on a weighted average basis, for the current period was 10.2 cps, a 2.9% increase over the prior year of 9.9 cps. The weighted average number of securities on issue during the current period was 437.4 million, up from 328.5 million in the pcp. Reported EPS (including significant items) was 8.2 cps for the current period.

**Operating cash flow**

Operating cash flow available for distribution to securityholders is a key metric for the business. The growth in operating cash flow has come from organic growth on APA's existing pipelines, recent acquisitions (GasNet, Allgas, Directlink and Origin Energy Networks businesses) and complementary assets. The termination of the Alinta operating and maintenance agreements for APA's pipeline assets has also resulted in a reduction in operating costs. Reported operating cash flow for the current period was $104.9 million, an increase of $34.4 million or 48.7% on pcp.

Underlying operating cash flow per security grew by 2.5 cps, to 25.0 cps up 11.4% on pcp, which further demonstrates APA's ability to pay fully funded distributions out of operating cash flows each year

Recognising APA's commitment to return fully funded healthy distributions to its securityholders, the distribution payout ratio for the half year was 61% and is expected to be around 70% of underlying operating cash flow for the full year (full year FY2007: 72.3%).

### Distributions and Securityholder Base

On 31 August 2007, Alinta's 35% equity interest in APA Group was distributed in-specie to Alinta shareholders. As a result, APA's securityholder base expanded from approximately 28,000 to 110,000. Following the in-specie distribution, the Board determined to change the frequency of distributions from quarterly to semi-annually which will reduce the cost of managing the larger securityholder base by approximately $0.4 million per annum.

The semi-annual declaration of distributions will be 26 February 2008 with payment occurring on 28 March 2008. Changing to a semi-annual payment will not reduce the total annual distribution payment.

As at 31 December 2007, 458.3 million APA Group securities were on issue (30 June 2007: 431.7 million).

## REGULATORY MATTERS

Key regulatory matters addressed during the current period included:

### MSP Access Arrangement

In September 2007, the long running proceedings between APA and ACCC in relation to the Access Arrangement for the MSP was resolved in APA's favour by the High Court of Australia.

This decision has no material impact on MSP revenues since the pipeline is substantially unregulated and tariffs are set by negotiation. However, this decision provides important clarification of the limits on regulatory discretion under the Code, and confirmation that regulatory decisions must be reasonable.

### Access Arrangement for the Victorian Transmission System

The existing Access Arrangement for the Victorian Transmission System (part of the GasNet business) expired on 31 December 2007. APA submitted a proposed revised Access Arrangement to the ACCC in April 2007 and the ACCC released its Draft Decision in November 2007.

The ACCC has indicated it expects to make a final decision during March 2008. The new Access Arrangement, when determined, will have effect for the five years commencing 1 January 2008.

## OTHER ISSUES

### Gas Supply

The securing of future natural gas supplies to eastern Australia continues to be a key issue. APA Group has been active in supporting alternate gas sources, in particular the development of CSG production is playing a far greater role in the Australian energy market

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over the medium to longer term, together with continued supply of conventional gas sourced from Victoria's off-shore basins.

Very large CSG reserves potentially exist in several coalfield areas of Queensland and NSW, with in situ resource estimates in excess of 100,000 PJ. Proven and probable CSG reserves in eastern Australia have more than doubled in the last two years to over 6,000 PJ, and several producers have committed to exploration programs over the next few years to further increase reserves for future domestic demand and potential LNG proposals.

APA expects that these extensive CSG resources, together with conventional gas resources, will be sufficient to meet demand in eastern Australia for the medium to longer term.

## OUTLOOK

The Directors are pleased with the performance of the APA business in the current period. The initial contributions from the new businesses during the period are in line with acquisition assumptions and there is real progress on integration activities. In the Directors' opinion, the fundamentals of the business are solid and Management has appropriate strategies in place to continue growth and profit.

Underlying operating cash flow was robust during the period, and is expected to continue to be strong in the second half, with the increased contributions from the recently acquired businesses coming through. As a result, APA advises an increase to its market guidance for underlying EBITDA including Envestra distribution for the full financial year to a range of $400 million to $410 million, up from $380 million to $390 million previously, barring unforseen circumstances.

The Directors also announce their intention, barring unforseen circumstances, to target an increase in full year distribution for the 2008 financial year by at least 5%.

About APA Group (APA)

APA Group, comprised of Australian Pipeline Trust and APT Investment Trust, is the major ASX-listed energy transmission company in Australia with interests in almost 12,000 kms of natural gas pipeline infrastructure, over 2,300 kms of gas distribution networks in south east Queensland, Coal Seam Gas processing plants, gas fired power stations, gas storage facilities and two high voltage direct current interconnector systems.

APA manages and operates all its assets and also provides management and operation services to gas distribution and transmission company Envestra (which owns 19,100 km of natural gas distribution networks and 1,029 km of natural gas transmission pipelines). It also holds a 17.2 percent stake in Envestra and a one-third interest in the SEAGas pipeline. APA Group has a varied and quality customer base including AGL Energy, Cooper Eromanga Basin Producers, Xstrata, Newmont, CS Energy, BHP Billiton, Zinifex, Incitec Pivot, Origin, RioTinto, Nickel West, Synergy and Verve Energy.

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