



Australian Pipeline Trust

Annual Meeting

Carlton Crest Hotel, Sydney

11.30 am 20 October 2004

[SLIDE 1]

MANAGING DIRECTOR'S SPEECH -

Thank you Chairman for your kind comments regarding the results and good morning ladies and gentlemen. Before commencing with my portion of the presentation, I would like to take a moment to introduce you to our other senior management team sitting in the front row - Graeme Williams – our chief financial officer, Sandra Dureau – our General Counsel, Mick McCormack – our chief operating officer and David King – General Manager, GGT.

The 2004 financial year was a year in which many of the issues of interest to APA reached major milestones. These issues - industry rationalisation, future gas supply for eastern Australia, fair and reasonable economic regulation and the importance of natural gas in the energy mix of this great nation, continue to be important to the future prospects of the natural gas transmission industry.

The Chairman has spoken about the changes in the regulatory environment, the finalisation of the Productivity Commission report and our continuing strong business performance. I am proud that APA has achieved its fourth year of compound annual growth in its net profit and at the same time put considerable effort into managing its capital. I am delighted with the acquisition of the Southern Cross Pipeline Group assets. This balances our pipeline portfolio and I believe we are in good shape for the future.

[SLIDE 2]

Today I would like to discuss several matters. First, - some operational issues which arose during the 2004 financial year.

Second - the acquisition of the Southern Cross Pipeline Group assets and industry rationalisation generally.

Third - the continuing challenge of gas supply for south-east Australia.

Finally I would like to talk about APA's strategy going forward. Now that the gas transmission industry rationalisation is largely complete, it is time to consider consolidation of major players and to recognise that further opportunities for APA to grow may not come within the traditional gas transmission industry but from diversification into complementary energy endeavours.

[SLIDE 3- OPERATIONAL REVIEW – Map of Australia’s Gas Pipelines]

APA has over 7,500 kilometres of natural gas transmission pipelines delivering gas in all states except Victoria, Tasmania and South Australia. APA prides itself on its technical and operational capabilities to ensure that its assets are well maintained and protected for its owners – the unitholders. Both APA and its primary contractor, Agility, provide high standards of knowledge and care of your business’s main assets. I am pleased to say that all of APA’s pipelines performed according to expectations and within technical specifications.

[SLIDE 4 - INNOVATIVE HAULAGE CONTRACTS]

On 30 September 2004, APA entered into a firm gas transportation agreement with Incitec Pivot. Transportation under the agreement will commence on 1 October 2007. Gas supply for the contract has been sourced from several coal bed methane producers and is a further indication of the emerging position of coal bed methane in the natural gas market.

A gas transportation agreement was entered into with Energex on the Roma to Brisbane Pipeline. While small, the contract heralds the potential of innovative contracts in the future and the potential for swap contracts with New South Wales.

The potential for innovative contracts may also arise out of the swap contracts entered into between Santos and Origin Energy for delivery of contracted coal bed methane to AGL at Moomba for the New South Wales market post-2006.

Recently, APA has signed several contracts with new entrants to the New South Wales and Australian Capital Territory market, to ship gas through the Moomba to Sydney Pipeline. This is indicative that the creation of a competitive gas market in NSW and ACT is finally occurring.

However, there are a few things which occurred during 2004 which did not go our way and which need some explanation.

[SLIDE 5 - Operation Review continued]

[Moomba Gas Plant Fire]

The fire at the Santos Moomba gas plant in January 2004 saw gas supplies into the Moomba to Sydney Pipeline disrupted for several days. Shippers sought alternative gas supplies, however, Santos recommenced regular gas production on 5 January 2004. Our interconnect, with GasNet’s Victorian pipeline, was used by several shippers and provided a small amount of unbudgeted revenue.

Both the competing Eastern Gas Pipeline and the SEAGas Pipeline used the opportunity to provide alternative supply options to Cooper basin gas for New South Wales and South Australia.

It was an excellent opportunity to test the crisis management plan for our business. Our team and contractors rolled into action and immediately implemented the crisis management plan to ensure minimal loss of supply for customers.

The Moomba gas plant has now returned to full operation.

APA did not experience any financial impact as a consequence of the fire because of the operation of the Gas Transportation Deed with AGL. Nor did any customer suffer any load shortage as a consequence of the fire.

[SLIDE 6 – Operational Review Cont'd]

[Windimurra ceases operation]

During the 2004 financial year, Xstrata announced that it was closing down its vanadium mine in Windimurra, Western Australia. As a consequence, the decision was taken by the Board to write off the Mid West Pipeline. This resulted in a \$19.9 million reduction to Group profit. No revenue was brought to account from this contract during the current financial year.

Mid West Pipeline's other customer (Hill 60 Gold Mine at Mt. Magnet) continues to use the pipeline and the proportional carrying value in relation to this customer has been maintained.

The Meekathara mineral province, near the Xstrata mine, has many potential mining opportunities and we remain hopeful that we will find additional load from further mine development.

[SLIDE 7 – Operational Review Cont'd]

[Stress Corrosion Cracking]

Stress Corrosion Cracking or SCC is not uncommon in natural gas pipelines and investigation and removal of SCC is an on-going operational activity for our business. SCC is a condition which may develop in steel pipelines subject to several of the following pre-conditions: -

- (a) Exposure to high PH Soils
- (b) Elevated and fluctuating pressures
- (c) Elevated temperatures

SCC manifests as minute hairline cracks in the steel pipe wall, and left unchecked may develop over time to critical length.

The MSP was constructed in the 1970's using the technology of the time, which has proven susceptible to SCC. Contemporary coating systems were generally applied on site over low-grade steel, were difficult to apply, and unreliable over time. Modern pipelines are constructed from higher-grade steel and employ superior factory applied coating systems, eliminating the incidence of SCC.

SCC has been identified on the Moomba to Sydney Pipeline in a remote area of South Australia. Repairs have been effected on the pipeline in 5 locations by the installation of steel sleeves to restore pipeline integrity. Further investigative and repair work is planned during this summer, with the results expected in mid-February 2005. This work will include the insertion of a "liquid couplant ultrasonic axial crack detection pig" or intelligent pig as it is commonly known, which travels in the gas stream and records irregularities in the steel wall of the pipe.

This report should clarify the extent and risk of stress corrosion cracking. APA will then develop a remedial plan based on the findings in the report. It is intended that all remedial action to ensure continuity of supply will be completed prior to next winter, or at least sufficiently advanced so that there will be no failure of delivery obligations.

We have kept the technical regulators in South Australia and New South Wales fully informed of our actions and work plans.

[SLIDE 8 - INDUSTRY RATIONALISATION]

With the imminent sale of the Dampier to Bunbury Natural Gas Pipeline to another consortium, industry rationalisation is now almost complete. As well as the Dampier to Bunbury Natural Gas Pipeline, APA bid for a number of assets including the South West Queensland Pipeline, the Pilbara Pipeline System and the Roma to Gladstone pipeline. The total estimated value of these assets was in excess of \$2.3 billion.

The cost of bidding for these assets was approximately \$5.8 million, including external consultants' costs, but such costs are necessary to complete adequate due diligence to confirm our bid.

A highlight of the year was the acquisition of the Southern Cross Pipeline group gas assets for an enterprise value of \$318 million. These assets included the remaining interest in SCP Investments (No 1) Pty Limited, the entity owning 88.2% of the Goldfields Gas Transmission Pipeline, and the Parmelia gas business.

[SLIDE 9 - CONSOLIDATION AND DIVERSITY]

The acquisition of the Southern Cross Pipeline group gas assets met our investment criteria and was right on strategy. The total cost of \$206 million including transaction costs, plus any working capital adjustments, makes the acquisition very reasonably priced. The acquisition, which was completed on 17 August 2004, is a major plank in APA's strategy to balance our portfolio risks through providing consolidation of ownership and diversity of assets.

The acquisition means that we will now consolidate Southern Cross Pipeline group onto the APA balance sheet.

I will talk a little more about this acquisition shortly.

Before I do so, it is worthwhile considering the possibilities for the gas transmission industry in the next few years. I believe that industry rationalisation is likely to develop into a consolidation of various players – that is, a further rationalisation of existing pipeline ownership. It is also likely that we will continue to see institutions taking ownership positions in gas transmission infrastructure.

Because the major gas pipelines have now been sold, it is likely that diversity of infrastructure ownership may occur - that is, the traditional separation of ownership by asset type (such as portfolios of pipeline assets) will give way to a broader categorisation (for instance, a portfolio of infrastructure assets including different fluid pipelines, gas treatment and storage, power generation and transmission etc). APA is now considering such opportunities to diversify.

While diversity will require APA to have new skills to ensure the proper management of the infrastructure, it will also provide for greater diversity to balance the limitations inherent in holding one class of asset.

[SLIDE 10 – ACQUISITION OF THE Southern Cross Pipeline Group Assets

SLIDE SHOWING WHERE GGT AND PARMELIA ARE]

Returning to our successful acquisition of the remaining interest in Southern Cross Pipeline group, let me talk about what these businesses are and what we believe they can offer APA.

These assets are both in Western Australia, which is an economy driven by gas and gas-fired power generation. It is a world class mineral province and the accessibility of gas through the Varanus Island hub, and the elevated price of liquid fuel, will better position gas in power generation.

[SLIDE 11 - ACQUISITION OVERVIEW]

[Goldfields Gas Transmission Pipeline]

SCP Investments (No 1) Pty Limited owns 88.2% of the 1,380 kilometre Goldfields Gas Transmission pipeline which transports competing gas streams from Harriet and East Spar, North West Shelf to the north eastern and the eastern Goldfields regions in Western Australia.

The pipeline has a present capacity of 105 terrajoules per day, which can be increased to 164 terrajoules under full compression. We are running fully contracted and are planning additional compression on the pipeline.

The major customers of the pipeline are WMC Resources which has a maximum daily quantity of 45.8 terrajoules per day, Newmont Australia, which has a maximum daily quantity of 20.4 terrajoules per day and the balance of deliveries are for numerous third parties.

[SLIDE 12 - GGT GROWTH]

This slide outlines the likely areas of growth potential for the Goldfields Gas Transmission pipeline.

- Several projects under active consideration: -

Thunderbox Gold which is a conversion of diesel generation to dual fuel

systems (that is gas and diesel) and is well advanced, with a 1.5Terrajoule per day transport contract expected to be finalised before end of 2004.

- Esperance lateral opportunities

A number of projects including pumping desalinated water from Esperance to Goldfields industrial customers is reported to be under active consideration, which may result in additional loads of up to 5 - 7 Terrajoule per day by early 2006. The development of the Ravensthorpe laterite nickel resource could also result in a further 4 – 5 Terrajoule per day load to Esperance

- Paraburdoo Iron Ore

Discussions are currently progressing for the transport of approximately 8 Terrajoules per day to Paraburdoo to supply the first of two proposed gas-fired power generation unit which is expected to be required by the end of 2005

- Murrin Murrin Expansion

There has been some discussion of another large autoclave at Murrin Murrin and if approved may require another 4 - 5 Terrajoules per day.

- Spot Market Development

The shortage of gas transport on the Dampier to Bunbury Natural Gas Pipeline, and the resulting limitation on Western Power Corporation's peak generation capacity during the hotter months, has been widely reported. A new opportunity to develop a daily spot market for unused GGT capacity to be used to generate additional power generated from Kalgoorlie to the Perth region has been identified and is being pursued.

[SLIDE 13 – Acquisition Overview Cont'd]

[Parmelia gas business]

The Parmelia gas business is made up of four businesses – a 416 kilometre gas pipeline, which has a capacity of 70 terrajoules per day, the Mondarra gas storage facility which has a capacity of 6 to 9 petajoules, the Dongarra gas processing plant and a small gas retail business.

There are currently 24 active transportation contracts on the pipeline which total about 35 terrajoules per day. There is active exploration and recent success from both ARC Energy and Origin has led to additional hydrocarbon discoveries in the Perth basin, which the Parmelia gas pipeline services.

The Dongarra gas processing plant has in place long-term contracts to process Perth Basin gas and the Parmelia business offers a delivered gas service to commercial and industrial customers in the Perth region.

The depleted Mondarra gas field has been used for limited storage and load management services for a number of years.

[SLIDE 14 – Parmelia Growth Potential]

[Spot market for natural gas]

The spot market for gas transportation services is generally used for Western Power generation for peak loads, as the Parmelia is connected to the Kwinana Power station. There has also been some spot load generated by the recent constraints on the Dampier Bunbury Natural Gas Pipeline.

[Connection to Alinta Network planned]

A second interconnect agreement which would allow Parmelia to connect into the southern network providing long term access to industrial customers in the southern metro area, has been under negotiation and is expected to be executed in the next few months.

[Pipeline connection between Perth Basin to Perth and Southern industrial centres]

The Parmelia pipeline route services all Perth Basin producers and is connected to the Dampier Bunbury Natural Gas Pipeline at Mondarra. This provides the opportunity to provide bypass services to some common Dampier Bunbury Natural Gas Pipeline users such as Alcoa and Western Power. This service may come at a premium, as capacity constraints on the Dampier Bunbury Natural Gas Pipeline become more evident in times of peak demand.

[Mondarra Gas Storage Services]

APA has identified a significant new opportunity to expand the storage business which is currently under-utilised. We intend to fast-track de-bottlenecking the underground storage to provide peak shaving loads for power generation in times of high electricity demand to assist in meeting power demands in 2005 and 2006.

[SLIDE 15 - BENEFITS of ACQUISITION]

The major benefits of the Southern Cross Pipeline Group acquisition are that: -

- it is cash and earnings accretive from day one;
- it provides APA with an enhanced footprint in Western Australia;
- the business is underscored by sound long-term prospects; and
- APA now has operational and commercial control of the Goldfields Gas Transmission pipeline.

A major strategic benefit of the acquisition is that it provides diversification of APA's asset portfolio and the opportunity for APA to be a significant beneficiary from the expansion of gas-fired power generation in Western Australia.

[SLIDE 16 - PORTFOLIO DIVERSIFICATION]

Prior to the acquisition of the Southern Cross Pipeline Group assets, the Moomba to Sydney Pipeline provided the major source of revenue to the APA Group.

The Moomba to Sydney Pipeline is a good pipeline asset and will continue to perform over the coming years. However, while there are signs that third party competition is now emerging, which may reduce the effect of the contracted reduction from the Gas Transportation Deed, it is prudent for APA to diversify its asset portfolio. As you can see in the Slide, the acquisition of these assets re-balances the business away from reliance on the Moomba to Sydney Pipeline as our primary source of revenue.

[SLIDE 17 - Gas Supply to south-east Australia]

Sourcing a major new gas supply to south-east Australia by the end of this decade continues to be a prime task. The recent announcement to develop the Casino gas field off Victoria may lead to gas otherwise destined for Adelaide being freed for use in the NSW and ACT markets. This will assist in the short-term, but does not remove the need for a major new source of gas.

[Coal bed methane]

Coal bed methane is now becoming commercially viable and producers are increasingly becoming optimistic of its commercial sustainability. Origin and Santos have announced gas swap contracts earlier this year, which reflect Origin's confidence in its ability to source coal bed methane in Queensland.

[PNG Gas project]

Notwithstanding these positive developments, APA still believes that a pipeline delivering natural gas from northern sources is essential for the provision of competitive natural gas supplies past the end of this decade.

APA congratulates Oil Search and its partners, who have announced that they are moving to the front-end engineering and design or FEED stage on the Papua New Guinea Highlands Gas Project. The Highlands Gas Project, is a gas production project to deliver a natural gas stream to an offshore facility where the gas will be cleaned and then be available for gas supply to be delivered into Australia.

The project to build the pipeline that accompanies the Highlands project was awarded to the AGL and Petronas Consortium. APA has a first right to purchase at least 20% of the gas pipeline project.

The initial FEED stage will take between 12 to 18 months to complete and there are a number of milestones to be achieved before the work to construct the pipeline can begin. APA, however, believes that the recent announcement is a positive step towards addressing gas supplies to south-east Australia by the end of this decade.

It is likely that during the FEED stage that APA will be invited to participate in the development of the pipeline.

[SLIDE 18 – Our strategy]

APA is well positioned. We have a strong portfolio of pipeline assets, our balance sheet is in good shape and we continue to seek growth opportunities. In summary, our strategy continues to be: -

- Fill our existing pipelines and expand their capacity

APA gets its best returns from its existing pipelines and will continue to pursue opportunities to fill and expand them. Nowhere is this more evident than in the recent successes in our existing pipelines in Queensland and Western Australia

- Acquiring remaining minority interest

Our work is nearly done in this regard. I have, on previous occasions, talked about our desire to acquire the 30% interest in Carpentaria Gas Pipeline .

- Participating in industry consolidation

Industry rationalisation has now entered a new phase which APA is calling consolidation of the transmission industry.

- Diversification

Diversifying into other transmission pipelines and complementary industries (gas treatment, water, power)

APA's strategy recognises that its core business is natural gas transmission and APA intends to remain the leading gas transmission pipeline business in Australia. As I have outlined to you today, APA is managing the risk of its portfolio of natural gas pipelines by engaging in a two-pronged diversification strategy: -

- First, diversify the portfolio through acquisitions of gas pipelines to reduce the dominance of the Moomba to Sydney Pipeline in the overall revenue mix.
- Second- diversification into other transmission pipelines and investment opportunities. Investments being considered include other fluid systems such as water or oil pipelines. Gas treatment and storage is another obvious area which is complementary to our business. Power generation, which is linked to our pipeline systems, is under consideration, and for growth to be achieved we may need to consider other types of investments such as power transmission.

Our object in considering investment in any of these complementary growth areas, would be as asset owners – not necessarily as operator - in businesses where we believe we can extract value, both in increased profitability and/or from fully utilising the capacity of our pipelines, and where the risk profile for these businesses is consistent with our investment criteria.

[SLIDE 19 – Summary]

In summary, the 2004 financial year saw APA achieve: -

- The fourth year of net profit growth, delivering a compound average growth rate: of 13.56%;
- Acquisitions which enhance and balance the strength of APA's asset portfolio;
- Strong balance sheet, and
- Positioning ourselves for industry consolidation and diversification of our asset base.

[SLIDE 20 – WE DELIVER – www.pipelinetrust.com.au]

In closing, I wish to extend my thanks to my colleagues for their support and application to their work and to join our chairman in thanking unitholders for their continued support.

[THE END]