Australian Pipeline Trust

Annual Meeting 2006

Chairman's Address

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I would now like to give you a short presentation highlighting APA's achievements and financial results for the 2006 financial year and then Managing Director Mick McCormack will give a more detailed presentation on APA's significant operational and financial performance over the year.

By any measure, this has been an outstanding year for APA.

It was a year of earnings growth and operational improvements, as well as a year in which we began to roll out our growth strategy in earnest and deliver on our commitment to grow distributions by at least CPI each year.

This distribution commitment is key when we are making decisions about where we invest our capital and how we drive the business to lock in growth for the future.

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Firstly, I want to highlight our financial results for the 2006 financial year.

In the 2006 financial year we recorded:

- Core revenue growth (excluding pass-through revenue, on which there is no margin) of $15.3 million or 5.5% on the previous financial year, driven by an increase in gas transportation revenue of $11.7 million or (4.4%);
- Operational cost savings in the areas of lower operating and management fees and lower service expenses;
- Offset by higher interest expense on increased borrowings and higher tax, this resulted in a $9.3 million or 18.1% increase in net profit before significant items to $60.7 million;
- A full year distribution of 24 cents per unit, which represents a 6.7% increase from last year.

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Unitholders should note that significant one off tax benefits recorded in the prior year, largely as a result of entry into the new tax consolidation regime, only recurred to a smaller extent in 2006.

Offset by stress corrosion cracking expenses, which were lower than the previous year, profit from significant items fell by $56.3 million resulting in a reduction in headline net profit of 42%. Let me emphasise, that the underlying profit, disregarding one-off items, was up 18.1% in comparison to the previous year.

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As previously communicated, APA has entered into the new tax consolidation regime which has resulted in an increased tax cost base and increased ongoing tax deductions. Accordingly in 2006 APA distributed all its available franking credits to its unitholders, and is unlikely to generate further franking credits in 2007. That being said, the upside of not paying tax is that APA has more cash available to pursue growth opportunities for the business and generate higher distributions in the future.

The Board is aware of unitholder views on franking credits and regularly reviews its distribution strategy to unitholders. In this regard the recent successful acquisition of GasNet has provided the Board with an opportunity to consider other tax effective means of distributing cash back to its unitholders, which it will do in due course.

The higher earnings reflect an increase in pipeline transportation revenue as a result of new capacity contracts, the acquisition of Murraylink in March (which Mick will discuss further) and a full 12 months contribution from the acquisitions of the previous year – namely the Goldfields Gas Transmission Pipeline, the Parmelia Gas Business and the minority interest in Carpentaria Gas Pipeline.

The reduction in transportation revenue on the Moomba to Sydney Pipeline under the Gas Transportation Deed, which was foreshadowed in previous financial reports, was largely mitigated by additional revenue from other customers.

Without a doubt, the strong 2006 performance demonstrates our strategy is working and we are delivering.

APA’s focus on its core gas transmission business is delivering organic growth, our investment in expanding capacity on our existing transmission assets and is expected to continue to flow through to earnings in the short to medium term, and our more recent acquisitions will provide further earnings upside in the future as well as giving us even greater balance sheet strength to pursue further growth initiatives.

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APA regularly reviews its short, medium and long term strategy. Appropriate assets which either enhance our core business or are complementary to it are identified for future consideration as and when they become available.

This year, we targeted acquisition and expansion opportunities for a number of previously identified assets that became available in the energy infrastructure sector which continues to consolidate and change at a rapid pace.

During the year, we diversified into a number of areas within the energy transmission sector in line with our strategy to secure a future of solid yields from a diverse portfolio of infrastructure assets.

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The developments and acquisitions we undertook in the 2006 financial year include:

- The Kogan North coal seam gas processing facility
- The Murraylink electricity transmission network which links South Australia and Victoria and which complements our existing stable of transmission assets.
- An expansion of the Goldfields Gas Transmission Pipeline in Western Australia

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- The takeover of GasNet – a highly complementary business which will enable APA to further develop a gas transmission grid on the eastern seaboard. As of 27 October 2006, we have acquired over 94.5% of the GasNet securities; and

- Earlier this month – we announced an agreement to acquire the Allgas gas distribution business in South East Queensland from the Queensland Government.

APA continues to be one of the leading ASX listed energy transmission businesses in Australia with interests in more than 10,000 kilometres of natural gas pipeline infrastructure, a coal seam gas processing plant, gas storage facilities and a high voltage direct current interconnector system including a 180 km underground electricity transmission cable. With the successful tender for Allgas, APA now also has over 2,304 kilometres of distribution mains.

APA's objective in acquiring businesses and greenfields growth, is to deliver on the strategy we have previously articulated to you – sensible and profitable investment in both existing and new pipeline infrastructure as well as investment in complementary businesses which drive increasing distributions for all unitholders.

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In addition, the strong cash flows and assets recently acquired have improved balance sheet scale to pursue other projects which will facilitate getting northern gas into south-east Australian markets. Mick will talk more of the need to identify a major new source of gas for eastern Australia

Subsequent to 30 June, APA conducted a placement and Security Purchase Plan issue, which was well supported and raised in total over $200 million. In addition, APA reinstated the distribution reinvestment plan during the 2006 year.

APA is a trade player focussed on growing energy transmission infrastructure over the long term. Growth opportunities are expected to come from expansion and potential interconnection of existing pipelines, the acquisition of new pipelines and complementary infrastructure and the projected increase in energy market share by natural gas from 20% to 28% over the next 15 years.

We believe that the PNG gas project will also be a major opportunity for the Business. You will recall that APA has an option to acquire up to 20% of the PNG gas pipeline.
We have made clear our desire to advance the PNG project. Our larger asset base and cash flows provide an enhanced platform for playing a major role in ensuring PNG gas comes into south east Australian markets.

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There has been a significant amount of attention on and corporate activity in the energy sector in the past year, some of which directly relates to, or impacts on, APA. In particular the AGL/Alinta merger has resulted in changes for APA. Obviously, the change in the ultimate ownership of AGL's cornerstone investment in APA is one example.

However, we have not been distracted by this. The Board and Management of APA have continued throughout the year to remain focused on running our business efficiently and profitably and for the benefit of our unitholders.

I have already spoken about some of the changes brought about by the merger between AGL and Alinta.

One of them relates to the manner in which APL, the responsible entity of the trust, meets its licensing conditions.

Previously APL relied on an undertaking from AGL to meet the "net asset" test it required to meet its licensing conditions. With the delisting of AGL, alternative means were explored to allow these conditions to be met.

The Board sought advice and determined that the best way to achieve this and for future certainty, was for APL to be capitalised so that it did not have to rely on the support of outside parties.

APL has now been capitalised, with $5 million being injected into the company by an APT group company.

When you read the newspapers and see some comments about the price and value of acquisitions in this sector, I would like you to remember that the APA Board thoroughly considers and analyses all its investments and capital spending initiatives before proceeding.

It is also important to note that we can bid very competitively for acquisitions because of our unique business model. We have a transparent, low cost, and internally managed business which provides us with the flexibility to pursue and extract cost savings from targeted assets which others are less able to achieve.

We at APA are dedicated to our unitholders. No one group of stakeholders takes precedence over another group.

We do not pay high fees to external managers and that means we are very competitive in the market while generating the appropriate returns from acquisitions back to you, our unitholders.

Shortly, Mick will go into the detail of the changing industry dynamics and the leading role APA is taking in growing a competitive energy market in Australia. In particular, Mick will address the situation regarding Alinta in more detail.

It is important to be clear about one thing, however.

As I stand here today, no one has made an offer to buy Australian Pipeline Trust. We are an independent entity owned by, and run for the benefit of, all our unitholders.

There seems to have been some misapprehension that the recent actions we have taken in response to Alinta's purchase of a substantial stake in APA is about making a takeover offer go away. Our concern is to ensure you, our unitholders are all treated equally and that you receive the best return on your investment that we, the Board and Management, can deliver.

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APA is an actively managed business that is operating in a dynamic environment that is growing, evolving and developing. The Board and Management are working hard to ensure APA is well positioned to maximise the opportunities that this changing environment presents.

APA Management has grown the business strongly over the past few years and APA now has a truly national footprint with significant investments in all mainland states.

We have a number of opportunities to grow the business both organically, through expansion of our existing transmission assets and acquisitions of complementary assets.

We are building a skill base beyond gas pipelines to include complementary assets. This is a deliberate strategy to diversify and open up a wider range of business opportunities. The Board is encouraged about our growth prospects and delivering value to our unitholders.

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The Board is pleased with the performance in the current financial year so far. Despite the falloff in revenues from the cessation of the GTD return tariff on the Amadeus Basin Gas Pipeline, operating cash flows from the business are strong and accordingly, APA is on track to achieve its commitment to increase cash distribution annually by at least CPI.

The 2006 financial year's results again demonstrate APA's ability to deliver on its promises. Six years of growth and six years of increased profits.

Going forward, APA is a strong and secure business with excellent prospects.

On behalf of the Board, I would like to thank the APA management and staff for their considerable efforts over the past very busy year and we would also like to thank you, our unitholders, for your continued support.

I will now hand over to APA Managing Director Mick McCormack.