

## **MANAGING DIRECTOR’S ADDRESS – MICK McCORMACK**

Thank you Chairman and good morning ladies and gentlemen. May I open my remarks today by thanking you, Chairman, for your commitment to, and hard work for, APA over the past seven years.

Thank you all for joining us today to reflect on APA’s efforts and achievements over the past year – as I said when reporting our results at the end of August, this has been a watershed year for the APA Group.

Over the past 12 months APA has undergone unprecedented expansion through acquisition as well as investing in complementary businesses and our core assets in gas transmission pipelines. This has resulted in strong growth in revenue and cash flow, enabling APA to deliver on its commitment to securityholders to grow distributions by at least CPI each year. I am very proud of what we have achieved for securityholders over the past year and continue to be excited about APA’s future.

The strength of APA’s business model is that it is low cost, transparent and competitive. The way we run this business differs fundamentally from a number of our competitors in the infrastructure sector that operate a fee based model designed to benefit the managers first, and shareholders second.

Today I would like to summarise the acquisitions made and address some of the regulatory and environmental issues facing APA and the energy industry.

Finally I will talk about how the business has been tracking in the first four months of this financial year and provide an overview of what I see to be a very positive outlook for the Group.

### ***Acquisitions***

As you know, APA has been actively and successfully making new acquisitions over the last 12 months. In total we have expanded our total asset base to around \$4 billion, and we have assets under management of over \$8 billion. This activity reflects the ongoing ownership changes within the Australian energy infrastructure sector, as institutional investors and private equity compete for assets with established players. Our ability to compete is enhanced by our low cost competitive business model and our demonstrated knowledge of the industry.

Our acquisitions during the past 12 months include:

- the **Allgas Energy gas distribution business** which was acquired in November 2006. The Allgas distribution system extends throughout the high growth population areas of south east Queensland and northern New South Wales. The natural gas network comprises over 2,300 km

of distribution mains and supplies approximately 65,000 customers. The value to APA in buying this asset is that not only does it provide us with extensive regulated, capital growth, but we are able to further leverage that growth through our ownership of the RBP as well the opportunities arising from our 17% interest in Envestra. Together this provides us with a very firm footprint in south east Queensland in gas distribution and transmission - the fastest growing market in the country.

- the acquisition of **GasNet Australia Group** was completed in December 2006. GasNet - or APA Victoria as it is now known - owns and maintains 1,935 km of high-pressure gas transmission pipelines throughout Victoria, serving a total consumption base of approximately 1.4 million residential consumers and approximately 43,000 industrial and commercial users. Almost all the natural gas consumed in Victoria is transported through APA Victoria's pipeline assets. This acquisition is delivering benefits to APA, including maximising the utilisation of the Interconnect between Victoria and New South Wales, and enhancing the competitiveness of the Moomba to Sydney Pipeline and APA Victoria pipeline network against the Eastern Gas Pipeline.
- the acquisition of the **Directlink electricity interconnector** was completed in February 2007. This acquisition continues APA's strategy of acquiring complementary energy transmission assets and follows the acquisition of Murraylink in March 2006. Directlink is one of only two electricity transmission links between the New South Wales and Queensland power grids and finally;
- **Origin Energy Networks** which we acquired in July 2007. The acquisition of Origin Energy Networks comprised:
  - o Origin Energy Asset Management, or OEAM, which provides operations and maintenance services to gas distribution and transmission company Envestra Ltd;
  - o a 17% stake in Envestra, and
  - o a one-third interest in the SEAGas Pipeline.

OEAM also includes a range of smaller complementary assets including Natural Gas Vehicle stations, cogeneration facilities and an interest in a services provider to the water industry.

One of the major values of OEAM is that it expands our in-house capabilities to include asset operations, ensuring APA has direct control over all its businesses. This initiative was further consolidated in October with the termination of the previous operations outsourcing arrangements with Alinta. These services are now provided from within the Business and have increased employee numbers to over 1000.

As a result of all this activity, APA is now in a multiple transition and integration phase. We are well on our way to achieving a fully integrated APA

with a strong, diversified workforce that is utilised across both asset and geographic boundaries.

APA now has a truly national energy footprint, predominantly in transmission assets, but with investments in major distribution businesses and a range of complementary assets. We are pleased with where we are on our growth path and we will continue to pursue opportunities to participate in further consolidation in the energy sector. Importantly, acquisitions will only be pursued if they meet our strategic criteria – positioning us for future growth and enhancing our balance sheet.

Our view is that Australia is too large geographically and too small in population to support more than a handful of major energy transmission and distribution businesses. APA's intention is to continue to be one of those businesses.

### ***Environment***

As the Chairman stated, APA is well-placed to grow in this increasingly carbon constrained environment where there is also a growing awareness of the need to care for our natural environment.

Gas is clearly a fuel of transition as we move to a cleaner energy burning future. Gas has a lower carbon impact than coal and this has been recognised by governments including the Queensland Government which has announced its Climate Smart 2050 Policy, encouraging gas usage.

The New South Wales Government commissioned the Owen Inquiry into electricity supply in NSW and released its report on 9 September 2007. The report reviewed the need and timing for new baseload electricity generation as well as the State's investment in generation capacity that directly addresses its commitment to reducing greenhouse gas emissions.

In relation to additional baseload electricity generation, the Inquiry concluded that new investment would be required from 2013-14 with the most efficient means for providing that capacity being through the privatisation of all State owned electricity enterprises in both retail and generation.

The report also noted that most of NSW's extra baseload needs are likely to be met by coal-fired and/or gas-fired generation, as other technologies can only contribute on a relatively small scale or will not mature until 2020 at the earliest. APA carries 60% of gas in NSW and will be a major beneficiary of additional investment in gas-fired power generation. Apart from the increased throughput in APA's existing pipelines, we envisage opportunities will arise to build new pipelines, expand capacity through looping or increased compression and to invest in gas processing facilities and gas-fired power stations – as we have already done in Queensland.

In terms of investing in alternative forms of generation capacity with the direct objective of reducing the State's green house gas emissions, the Inquiry recommended that the NSW Government continue to actively engage with the Australian Government in seeking a shorter timetable for the introduction of a national carbon trading scheme. It also recommended that steps be taken to anticipate the national scheme by putting in place transitional arrangements for NSW's existing greenhouse gas and emissions schemes.

The Owen Inquiry's recommendations are consistent with APA's long standing view that gas-fired power generation not only has an important role to play in meeting Australia's additional baseload generation capacity but also as a viable and greener alternative to coal-fired power generation.

In addition to the role APA believes it can play in reducing Australia's carbon emissions, we are also committed to protecting and managing the environment in which we work. We spend a great deal of time and energy regenerating those areas where construction takes place, and are mindful of limiting adverse effects upon flora and fauna during the development process.

One such example is the four hectare nature reserve of native red gum eucalypts indigenous to the area beside the Dandenong LNG facility in Victoria. When we recently upgraded the LNG Tanker Loading Facilities, the fence line was required to be moved one metre into the nature reserve. Following consultation with the local council, APA committed to replant eight trees for every tree felled. The nature reserve today remains a haven for local wildlife.

Our concern for the environment continues over the many years that our assets are in operation. We adhere to strict operating guidelines, including monitoring of any impact of our activities on the environment. A further example highlights this. Nifty Copper Operations on the western fringe of the Great Sandy Desert in Western Australia commissioned the construction of a natural gas pipeline for onsite power generation. The 45 kilometre pipeline is a lateral off the Telfer Gas Pipeline. Construction commenced in September 2005 and was completed in January 2006.

It required crossing large and small interdunal swales and three sand dunes, disturbing in the process around 100 hectares of an area known to be the habitat of a number of protected fauna species. Following the laying of pipe, reinstatement was required to be completed prior to the start of the wet season to ensure effective rehabilitation of the pipeline corridor, particularly for the disturbed sand dunes.

Construction of the Telfer Gas Pipeline in 2004 gave rise to considerable stakeholder concern regarding fauna management, disturbed area rehabilitation and dune stabilisation. As a consequence the four parties involved in the design and construction of this Project worked in close co-operation, implementing stringent environmental management measures during all stages of the project. As a result fauna mortalities were very low,

disturbed areas were rapidly and effectively rehabilitated, and disturbed dunes were stabilised.

### **Regulation**

Government regulation of assets of course continues to play a significant role in APA’s business.

I wish to touch on 2 matters relating to regulation.

Firstly, I am pleased to report on the High Court’s decision in relation to the Moomba to Sydney Pipeline. Put simply, the High Court agreed with APA’s submission that the Australian Competition Tribunal was correct in overturning the ACCC’s 2003 decision on the Access Arrangement for the MSP. It is pleasing that our views on this matter have been vindicated by the High Court’s decision and this long running matter is almost at an end. More importantly the High Court’s decision provides clarity regarding the manner in which regulatory discretion can be exercised in determining revenues for regulated gas infrastructure. Given the significant impact on investment of regulatory decisions, this clarity is important and we hope it will contribute to a more positive regulatory environment.

And this brings me to the second point.

It is well known that Australia needs significant on-going investment in energy infrastructure. The question is not whether investment is needed, but how much and who by. It is disappointing that after 10 years of regulation of energy infrastructure, the regulatory agencies are still offering no real incentive to invest. Importantly, industry needs positive signals to encourage investments, not ongoing reductions in regulated returns.

It is very positive that the new national gas regime is going to include what is being called the “light-handed” option for certain pipelines. And this is one step towards providing the incentive for investment that is needed. Unfortunately, the encouragement which might have arisen from this option is heavily tempered by two matters – the first is that the thresholds for pipelines to achieve “light handed” status are higher than they needed to be; but perhaps more importantly, the recent draft decision by the Victorian Essential Services Commission suggests that there is still a strong desire among regulatory agencies to further reduce returns from regulated businesses.

Similarly, it is pleasing that rights of appeal have also been preserved under the new gas regime, and have been introduced into the national electricity regime. However, it is disappointing that new restraints and thresholds have been imposed, which are designed to limit parties’ ability to seek an independent review of decisions which are unreasonable.

APA will continue to work with government and regulatory agencies in a positive and constructive manner, including seeking to achieve a fairer balance between the social benefits of regulation and the unnecessary cost and harm that unnecessary or wrong regulation can impose on asset owners and society.

During the year APA also contributed substantially to ongoing energy reform, and in particular to the development of the proposed new National Gas Law and Rules. In a very positive move, the new legislation will contain recognition of the need for lighter, less-intrusive regulation of pipelines which do not have significant market power. While rights of appeal have also been preserved under the new Law, it is disappointing that new restraints and thresholds have been imposed, which are designed to limit parties' ability to seek an independent review of decisions which are unreasonable.

### **Outlook**

As mentioned at the time of our full year results announcement, APA's businesses, including its new acquisitions, are performing in line with expectations. Cash flows are forecast to continue growing strongly, supplemented by full year contributions from acquisitions made during 2007 together with initial contributions from the new Asset Management businesses acquired from Origin and Alinta early in the 2008 financial year. We confirm our guidance to the market for the year to June 2008 of Earnings before Interest, Tax and Depreciation in the range of \$380-390 million, an increase of 28-31% on 2007. We remain committed to growing distributions by at least CPI annually.

Our primary focus over the current year will be on the integration and consolidation of acquisitions made over the past year. We will nevertheless continue to investigate growth opportunities as they arise and participate in the ongoing consolidation of the industry.

The fundamentals of the Business remain solid and I am confident we have the right strategies in place to ensure continued growth. The outlook for APA is very positive.

As you heard earlier, APL's Chairman, George Bennett, has announced his retirement effective from today.

I would like to take this opportunity to farewell Mr Bennett and thank him for his efforts since APA floated in 2000. APA has undergone significant change during this period to become the leading Australian energy transmission and distribution business. I would also like to thank George for his support and counsel during my time as Managing Director of APA.

I welcome Mr Len Bleasel AM, APL's Chairman Elect, who brings substantial industry experience, having held the position of Managing Director of AGL for a number of years and a variety of senior non-executive directorships over the

last decade. I look forward to working with Mr Bleasel to take APA into a new era.

I would now like to invite APA non-executive Director, Mr Robert Wright, to speak. Mr Wright will formally thank our outgoing Chairman, Mr George Bennett, before conducting the formal proceedings required to re-elect directors, including Mr Len Bleasel, APA Group’s Chairman Elect.