

in the Pipeline

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Australian
Pipeline Trust

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Dear Unitholder,

Welcome to the latest issue of In the Pipeline. I trust you all had a very happy Christmas and we wish you a prosperous New Year.

This issue will address a change to the board, the annual results, recent acquisitions and report on our ongoing pipeline operations.

2004 Annual results

In August, APA announced a full-year net profit, after tax and minorities of \$44.98 million (excluding non-recurring items), a 9.6% increase on the previous financial year.

It was the fourth consecutive profit increase since listing.

The actual net profit after tax was \$121.29 million, an increase of 195.5 % on the previous period's \$41.05 million.

The result included \$76.3 million in non-recurring items, including a one-off income tax benefit of \$92.9 million for APA and \$7 million for APA's interest in the Southern Cross Pipeline Group due to tax consolidation measures.

Also included as a non-recurring item was a \$19.9 million write-off of the Mid West Pipeline, acquisition costs of \$5.8 million and \$2.1 million of tax benefits arising from the non-recurring items.

Full details of the annual results can be found on our website: **www.pipelinetrust.com.au**.

Acquisition of the Southern Cross Group pipeline assets

In August, APA purchased CMS Energy Corporation's interest in the Goldfields Gas Transmission (GGT) and Parmelia natural gas pipeline assets (the Southern Cross Group Pipeline Assets) in Western Australia for \$206 million, including all transaction costs plus any working capital adjustments. The sale was funded by a combination of cash, existing facilities and a successful equity raising by way of a private placement of approximately \$60 million.

APA already owned a 48.51% indirect interest of the 1380km GGT pipeline. The acquisition gives APA a total of 88.2% interest in the GGT and operating control. The GGT pipeline serves a world-class mineral province and is fully utilised in the short term. APA has plans to add capacity via additional compression.

The Parmelia business, including the 420km Parmelia pipeline which supplies gas to Perth from the Perth basin, has an associated gas processing and storage infrastructure, and a small gas retail business.

The acquisition of Parmelia has allowed APA to move into gas storage and processing.

APA has signed a storage optimisation agreement with Western Power, which will help Western Power address Perth's power needs for the 2005/06 summer. The project requires an additional dedicated gas storage well at the Mondarra Storage Facility, and additional gas compression and metering facilities.

The transaction met APA's strategy of paying fair value for assets, and for buying out minority positions in its pipelines.

The acquisition is cash flow and earnings per unit accretive from year one. The acquisition re-balances APA's pipeline portfolio and strengthens the core business.

Distribution Reinvestment Plan (DRP)

After a review of capital requirements, the Board has made a decision to suspend the operation of the DRP with effect from the second interim distribution which is payable in March 2005.

If our capital requirements change, the Board will review its decision.

Consolidation and Diversification

As you will be aware, APA was unsuccessful in its bid for the Dampier to Bunbury Natural Gas Pipeline in Western Australia.

The cost of bidding for this and other pipeline assets was approximately \$5.8 million, including external consultant's costs, but such costs are necessary to complete adequate due diligence to ensure our bid was prudent.

The acquisition of Parmelia has allowed APA to move into gas storage and processing.

With the sale of the DBNGP, APA believes the rationalisation of the gas transmission industry is complete. APA believes that in the next few years we are likely to see a consolidation of various players. It is also likely that we will continue to see institutions taking ownership positions in gas transmission infrastructure.

Some diversity of infrastructure ownership will 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 pipelines and other assets such as power stations).

This diversity will require APA to have new skills to ensure the proper management of the expanded portfolio, but it will also provide for greater diversity to balance the risks inherent in holding one class of asset.

Incitec Pivot agreement

In September, APA entered into a 10-year gas transportation agreement with Incitec Pivot (IPL). 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.

IPL's plant at Gibson Island is the only domestic Australian manufacturer of urea fertiliser and its products are sold throughout Australia.



APA has also 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.

A gas transportation agreement was also 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 additional swap contracts with New South Wales.

Pipeline operations

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 sometimes develops in steel pipelines which have exposure to high-PH soils, elevated or fluctuating pressures and elevated temperatures.

SCC manifests as minute hairline cracks in the steel pipe wall, and if left unchecked they may develop over several years to a critical length.

The Moomba to Sydney Pipeline, which was constructed in the 1970s, has some sections which are susceptible to SCC. Contemporary coating systems which 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.

We have identified some SCC on the Moomba to Sydney Pipeline in a remote area of South Australia. We have installed steel sleeves over the existing pipe to restore integrity. During summer we will carry out further investigations and repairs if necessary. This work will include the insertion of an "intelligent pig" – a recording device which travels in the gas stream and records irregularities in the steel wall of the pipe.

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Due to the possibility that further irregularities may exist, we have been prudent in limiting the operating pressure in the affected area. Our compressors at Bulla Park were re-configured and enabled us to manage pressure during the peak winter period.

We expect a full report by mid-February 2005.

Changes to the Board

Tom Ford, foundation director, retired from the board on 7 December 2004 and has been replaced by Russell Higgins.

Mr Higgins strengthens the board's experience in the area of government policy and energy supply. He is the former Chairman of the Australian Government's Energy Task Force, and CEO of the Department of Industry, Science and Resources, and a former Associate Secretary for the Department of Prime Minister and Cabinet.

A detailed biography of Russell Higgins can be found on our website: www.pipelinetrust.com.au.

Outlook

APA expects that in respect of YEJ 2005, the additional contribution from the acquisition of the SCP Group will more than offset the contracted reduction in the Gas Transportation Deed. As you are aware APA's first interim distribution for YEJ 2005 was 5.5 cents franked to 40%. It is expected that APA will be able to, at least, maintain this distribution profile and continue to partially frank distributions going forward.



JK McDonald
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Questions or feedback please email to:

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