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Australian Pipeline Trust
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The Australian Pipeline Trust (APA) recently announced a net profit after tax and minorities of $33.5 million for the half year to 31 December 2005, up 29%. What were the major influences on operating profit including from new investments?

CEO Mick McCormack
Essentially, there were three major drivers for the strong result; increased revenues, cost efficiencies and our new corporate strategy that we've begun to execute.

The first half result included consolidating for the full six months the CMS assets in Western Australia (an increased share in the Goldfields Gas Transmission pipeline (GGT) plus the Parmelia gas business) and the remaining 30% minority interest in the Carpentaria Gas Pipeline (CGP) in Queensland. We acquired these assets in the previous financial year.

Another feature of the result was the increased utilization of core assets. We achieved increased pipeline transportation revenue in both Western Australia and Queensland. Both those states are booming and the performance of our assets there more than offsets the reduction in the contracted revenues under the Gas Transportation Deed (GTD) on the Moomba to Sydney pipeline (MSP).

We're also effectively controlling costs. We're starting to really function like a national business and one of my first tasks was to look at our business processes to identify synergies and extract cost savings. We've integrated the new businesses and reduced our cost base.

Since becoming CEO I've also spent a lot of time planning our short and long term strategies and we're only just starting to roll those out. The most important objective of the strategy is to increase our distribution by at least CPI each year. We increased distributions in FY05 and are increasing distributions again in FY06, which are already one cent higher for the first half year compared with the previous corresponding period (pcp).

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EBITDA of $103.3 million was up 16.7% from $88.6 million in the pcp. Which assets contributed to that increase in EBITDA and can you give some detail on how you were able to achieve it?

CEO Mick McCormack
We're particularly pleased with our Western Australian and Queensland businesses although all our assets performed according to plan during the first half of the year. EBITDA for the GGT was up about $13.1 million due to the consolidation of the new WA businesses, the recognition of $3.3 million after the finalisation of tariff disputes and about $2 million related to additional throughput contracts. The Roma to Brisbane Pipeline (RBP) was up by about $0.3 million due to the new contract with CS Energy. The CGP was up by about $3.8 million, which was mainly due to the additional contribution impact. We've been able to nearly maintain EBITDA for the MSP (down by $0.4m) by managing the reduction in contracted GTD revenues through lowering things like pipeline operating costs. EBITDA on the Parmelia Gas Pipeline (PGP) fell by about $0.9 million primarily because we sold the non-core Dongara gas process facility.

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The distribution of 12 cents per unit was up from 11 cents in the pcp. What is the earnings outlook and what distributions do you expect for the full year including the level of franking?

CEO Mick McCormack
For the first time since listing in 2000 we're providing a narrow range for our earnings outlook. In light of the strong first half and subject to unforeseen circumstances, the business is on track for net profit after tax for FY06 to increase by between 10-13% on the prior year before significant items. That would enable us to maintain the same level of distributions for the remainder of the financial year and effectively put us one and a half cents ahead of FY05. We won't be able to continue franking for the remainder of the year because we will have distributed all franking credits after we pay this latest distribution.

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Can you talk through some of the specific opportunities in the short and long term that will enable you to grow distributions?

CEO Mick McCormack
The primary focus for growth in the short term will be to leverage our existing assets by building on our expertise, experience and particularly on the geographical location of our assets. There are several growth opportunities in Western Australia. On the GGT we recently signed a 16 year contract to deliver gas to Hamersley Iron at Paraburdoo and for the PGP we also recently signed a seven year deal with ARC Energy.

We're also on the hunt for complementary assets and we announced in late February that we'll be expanding the Mondarra gas storage facility. We've been working on that for about 18 months and it will help Verve Energy (previously the generation division of Western Power) to manage gas supplies to Perth more effectively during peak periods.

In Queensland, we recently announced a Heads of Agreement with Arrow Energy to negotiate agreements to fund, own and operate the 27.4MW Daandine Power Station project. This is adjacent to APA's Kogan North Central Gas Processing Facility which we're in the process of commissioning. This facility processes Arrow's coal seam gas. These are both examples of us applying our expertise and experience together with our geographical locations to build businesses that are complementary to our core gas transmission business.

In NSW, greater retail contestability in gas markets is starting to deliver us meaningful revenue offsets to the reduction in revenue under our GTD. In the Northern Territory we're also exploring some very good opportunities.

In the medium to longer term the PNG Gas Project will have a very significant impact both on our existing business and in facilitating new projects. That could include the development of a pipeline interconnection between Queensland and NSW. We have a right to at least 20% of the PNG project and it will underwrite APA's future by bringing gas into Moomba and also underpinning the long term future of the RBP and the CGP.

The relative importance of the MSP within our pipeline portfolio has reduced in recent years with its contribution to our total pipeline revenue falling from around 40% in FY04 to around 30% currently. However, we're looking forward to the MSP having a greater prominence in our portfolio when PNG gas comes on-line.

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When will you get a clearer understanding of your participation in the PNG Gas Project?

CEO Mick McCormack
I can only speculate because we're not part of the consortium managing the project. However, we do have a contractual right to take at least 20% of the project. That right will be exercised sometime between now and when the project is commissioned. We're hopeful that project go-ahead will be declared this

calendar year and if that’s the case, PNG gas should be flowing to Moomba in 2009.

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Given the size and cost of the PNG Gas Project, will APA’s involvement threaten your ability to grow unit distributions in the early stages of that project?

CEO Mick McCormack
We don’t expect that our involvement in the project will threaten our ability to grow dividends because we don’t want to be involved in the development phase of the project as we don’t want the development and construction risk. We would prefer to buy into the project closer to commissioning after those risks have been crystallised, and when the revenues which will underpin future distributions are about to start.

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What’s your view on the ability of eastern states gas markets to absorb that additional supply from PNG?

CEO Mick McCormack
For quite some time now, probably at least ten years, research groups like ABARE have been forecasting that gas demand in the eastern states could double in a relatively short period. The last forecast I saw was for it to double by 2030. There is a growing awareness of the environmental benefits of gas relative to other fossil fuels. Environmental pressures will mount and we believe that if more gas is made available the market will grow to absorb it, whereas for the last 30 years or so gas has only been made available to those who have asked for it. PNG gas will result in a step change in supply and also a step change in demand as people realise it is available.

We aren’t concerned where the gas will come from. For example, we’ve been a major player in the development of the coal seam methane industry in Queensland. We simply want to see as many gas suppliers in the market as possible and help them transport their gas to market. As Australia’s largest gas transmission company, we are well placed to capture some of that growing gas market.

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APA’s largest shareholder at 30%, The Australian Gas Light Company (AGL), is the subject of a merger proposal from Alinta Limited. Some utilities in the energy sector have an aggressive appetite for growth and some very large companies could emerge. What threats or opportunities does potential large scale consolidation in the sector pose for APA?

CEO Mick McCormack
We’re a listed entity and we operate in a free enterprise democracy which means that just about everything is for sale at a price. However, we believe that APA offers long term growth in unit distributions from a safe, reliable and transparent business. Since listing, APA has grown its business by filling its existing pipeline capacity, by adding capacity, by acquiring minority stakes in its existing pipelines

and by acquiring new assets. That strategy has translated into very strong capital and distribution growth for unitholders. The strength of our business is apparent and it's clear that we have a host of growth opportunities to pursue.

We're monitoring the corporate activity and the additional opportunities it could provide, but we're also determined to get on with growing the business as we've successfully done in the past. We have a very solid and experienced management team and I'm very happy that the board has endorsed the strategy we put to it.

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Net cash from operations of $54.6 million was up from $40.8 million in the pcp. Capital expenditure for the period was $70.6 million. Can you explain the major items split between stay in business and growth capex and also your major forecast expenditure?

CEO Mick McCormack
Stay-in-business expenditure during the half was $2.1 million down from $4.9 million in the pcp. Growth capex of $68.5 million accounted for the balance. During the half we spent a further $7.7 million completing the construction of the Kogan North gas processing facility and $3.3 million has been spent to date on the compressor expansion on the Goldfields Pipeline in WA. We spent $23 million acquiring a stake in Gasnet and paid $35.9 million to settle the capital component of the tariff dispute acquired through the WA gas business acquisition in August 2004.

In the second half of the year we will continue to grow the business. We have prospective spend of over $50 million in relation to completion of the compressor expansion at Paraburdoo, the Mondarra gas storage facility expansion and a possible power station at Daandine in Queensland.

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In FY05, you established a $20.12 million provision to cover further possible expenditure on the stress corrosion cracking (SCC) repair program on the MSP in addition to the $3.4 million already incurred. What amount has been spent on the program so far? What additional amounts do you expect and how successful has the program been?

CEO Mick McCormack
By March 2006 we will have spent about $15 million of the provision so far. We're addressing the issue of SCC to ensure a safe pipeline and so that we can meet our contractual obligations. The repair work has been successful to date and independent reviews say that we're managing SCC to world best practice. We recently investigated several sections downstream of Moomba. The first section required significant repair work. That has been completed and the costs were within the original provision. Further repair work is scheduled later this financial year, which again is covered by the provision.

The intelligent pigging has only just been completed on the second and third sections and the analysis will take around six months to complete. We expected some SCC in these sections, but it appears to be less severe than in the first section. However, we need to undertake a complete analysis before determining the remedial action and costs required. There may be additional costs above the provision, although we can't say how much at this stage.

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Can you comment generally on the financial strength of the company and your ability to implement your strategic direction? What is your longer term target for growth in unit distributions?

CEO Mick McCormack
APA is very sound financially and we have the financial clout to pursue most growth options put to us. Cash flow from operations was up 34% over the half year and our gearing/capitalisation ratio of 64.6% (31 December 2005) is conservative.

Our strategic direction is to provide long term growth in distributions. We're on the lookout to acquire businesses that are complementary to our core business if they meet our investment criteria. We've set a target of growing distributions by at least CPI. In the latest half year we've already increased distributions by a cent and, if we meet our earnings forecast for FY06, distributions will probably be one and a half cents up on FY05. That's a rate of increase of around double CPI.

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In summing up, which of your growth initiatives could have the greatest impact on your financial performance?

CEO Mick McCormack
Each component of our strategy is designed to achieve the fundamental goal of increasing distributions.

It's clear that the long term growth of the business is reliant on the success of the PNG Gas Project and that project will provide the biggest impetus for growth and longevity. Nevertheless, we've evolved from the simple premise that our best growth opportunities are through developing our core assets. Those core assets are serving growing markets and we're also now pursuing complementary assets.

All up we think there are more growth opportunities than threats for APA. We have no control over what happens in the corporate world, but we will be ready to take any opportunities as a result of that activity and conversely the best way to protect the value of our business is to grow in the same way as we've successfully done in the past.

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Thank you Mick.

For further information on Australian Pipeline Trust please visit www.pipelinetrust.com.au or call Mick McCormack on (02) 9693 0011.

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