

# Australian Pipeline Trust

ARSN 091 678 778



ANNUAL REPORT 2005





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PICTURED ABOVE: The Roma to Brisbane Pipeline ("RBP") in Queensland runs below The Cascades at Forest Lake, a suburb 25 kilometres outside of Brisbane.

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# CORPORATE HIGHLIGHTS

## FINANCIAL SUMMARY

FOR THE YEAR ENDED 30 JUNE

	Year ended 30 June 2005	Year ended 30 June 2004	Change
Operating Results	\$m	\$m	%
Pipeline revenue	<b>267.2</b>	185.6	44.0
Other pipeline revenue	<b>89.3</b>	74.6	19.7
Other revenue	<b>19.3</b>	17.9	7.3
Total revenue	<b>375.8</b>	278.1	35.1
EBITDA	<b>178.9</b>	133.9	33.6
EBIT	<b>142.1</b>	111.4	27.6
Pre-tax profit	<b>77.8</b>	65.0	19.6
Income tax expense	<b>(26.4)</b>	(19.8)	(33.3)
Operating profit after income tax and minorities	<b>51.0</b>	45.0	13.4
Significant items after income tax	<b>18.7</b>	76.3	(75.5)
Net profit attributable to unitholders	<b>69.7</b>	121.3	(42.6)

### Financial Ratios

Earnings per unit (cents) – before significant items	<b>18.55</b>	18.25	1.6
Earnings per unit (cents) – after significant items	<b>25.33</b>	49.20	(48.5)
Net tangible asset backing per unit	<b>\$2.19</b>	\$2.08	5.3
Free cash flow per unit (cents)	<b>37.59</b>	31.76	18.4
Interest cover ratio – before significant items	<b>2.33</b>	2.26	–
Gearing ratio (%)	<b>63.53</b>	58.37	–

## KEY OPERATING HIGHLIGHTS

- Acquisition and integration into APA business structure completed for SCP Investments (No.1) Pty Limited, owner of 88.2% of Goldfields Gas Transmission Pipeline, and the Parmelia gas business.
- Acquisition of remaining 30% of Carpentaria Gas Pipeline in February 2005.
- Increased utilisation of pipeline assets, generating increased revenue.
- Capital management including private placement (\$61.7 million) in August 2004 and re-negotiating syndicated borrowings on more favourable terms.

WE CONTINUE TO PROMOTE THE IMPORTANCE OF "CLEAN" NATURAL GAS TO AUSTRALIA, AND ESPECIALLY TO THE OUTLYING AND ISOLATED PARTS OF THE COUNTRY WHERE NATURAL GAS AND PIPELINES DELIVER JOBS AND PROSPERITY.



# PERFORMANCE HIGHLIGHTS FOR PAST FIVE YEARS

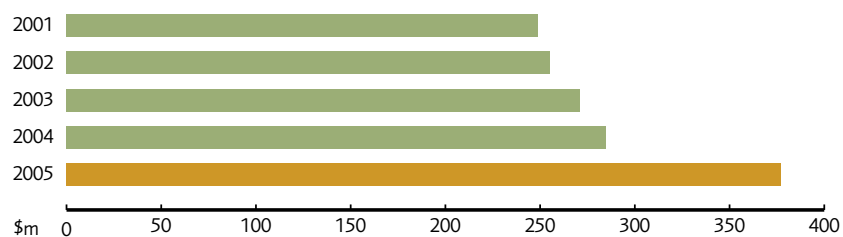
THE FUNDAMENTALS OF THE BUSINESS ARE SOUND AND MANAGEMENT HAS THE APPROPRIATE STRATEGIES IN PLACE TO ENSURE CONTINUED GROWTH IN THE UNDERLYING BUSINESS. George Bennett, Chairman.

The substantial growth in various key performance indicators below is primarily a result of the SCP gas business acquisition and the Carpentaria Gas Pipeline acquisition.



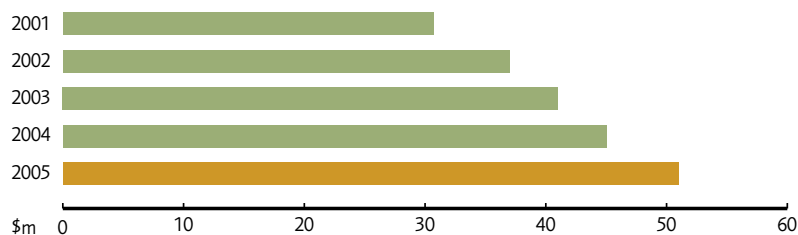
THE RBP SYSTEM LOOPING STAGE FIVE  
(WALLUMBILLA TO IPSWICH) DURING  
AND AFTER CONSTRUCTION

## TOTAL REVENUE – BEFORE SIGNIFICANT ITEMS



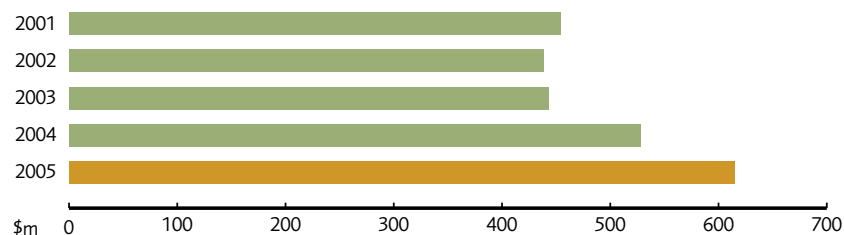
Total revenue increased significantly in 2005.

## NET PROFIT AFTER TAX – BEFORE SIGNIFICANT ITEMS

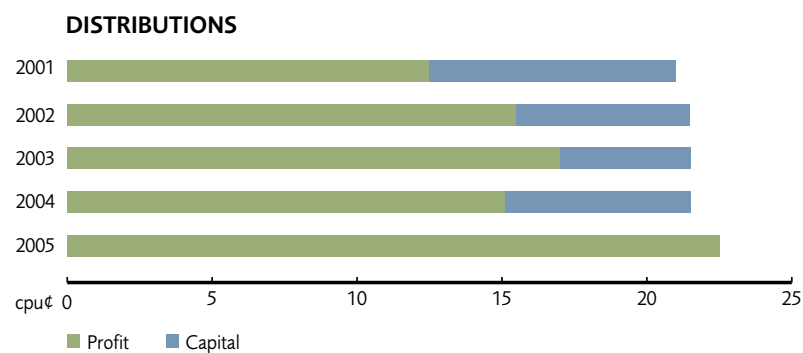
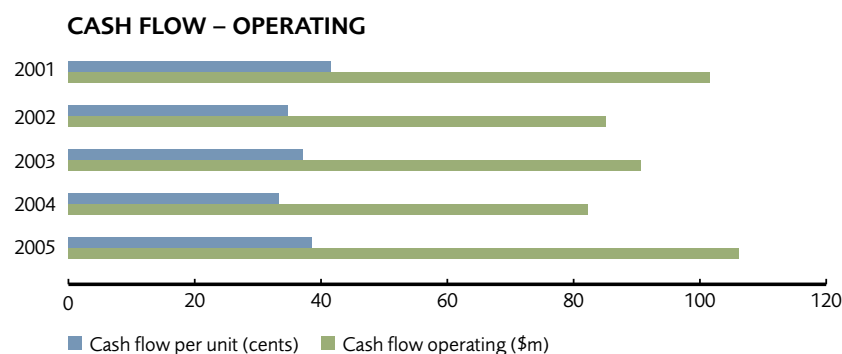
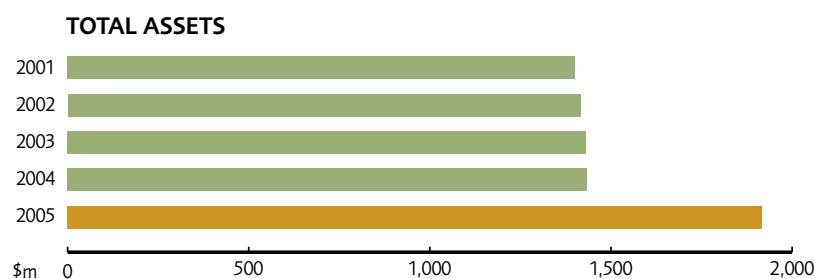


Net profit after outside equity interest increased by 13.4% in 2005.

## TOTAL EQUITY



Increases in equity in the last two years arose from: substantial increases in net profits, including significant items in 2004 and 2005; and a private placement of 24.5 million units for \$61.7 million in August 2004.



APA has maintained a competitive distribution policy over the past five years. This year, APA increased its distribution to 22.5 cpu in consideration of stronger profits and cash flows.

Subject to unforeseen circumstances, it is expected that APA will be able to, at least, maintain current operating profit and cash distributions for 2006 financial year.



THE CASCADES WATER  
FEATURE AT FOREST LAKE

# CHAIRMAN'S REPORT



GEORGE H BENNETT

I believe APA has achieved its early promise to unitholders, and I am very proud to be part of the team that has guided this business through this key period in its development and growth.

I am pleased to present my fifth chairman's report to the unitholders of Australian Pipeline Trust ("APA"). APA's main objective is to profitably focus on investments in gas transmission infrastructure. The board remains positive and enthusiastic about the future of APA and the role of natural gas in the Australian energy mix.

## Financial Performance

APA has again delivered. Operating profit after tax and minority interests before significant items increased 13.4% to \$51.01 million, compared with \$44.98 million for the year ended 30 June 2004. The improved performance resulted from acquisitions and increased pipeline transportation revenue, principally on the Roma to Brisbane Pipeline. After significant items, net profit attributable to unitholders of APA for the financial year was \$69.68 million (2004: \$121.29 million).

The board is pleased that APA has achieved a satisfactory and increasing operating profit after tax over each of the last five years.

## People and Management

APA's success is due to the calibre and enthusiasm of our people. We are a natural gas infrastructure business, and our staff has long experience in the energy industry and pipeline infrastructure in particular.

The board thanks directors, Les Fisk, John Fletcher and Tom Ford, who all retired during the financial year, for their contribution since APA was publicly listed.

On behalf of the board, I also welcome new board members Ross Gersbach, Russell Higgins and Jane McAloon, who joined during the year.

The board sincerely thanks Jim McDonald, who retired as of 1 July 2005, for his positive contribution to APA's success. Jim, who joined APA from AGL, brought unparalleled gas pipeline knowledge to our business.

Newly appointed chief executive officer ("CEO"), Michael ("Mick") McCormack, continues the theme of bringing broad experience in the energy transmission industry to the position, after meritorious service in the key role of chief operating officer. We welcome Mick to his new role.

## Regulatory Matters

Let me briefly note the advances APA has achieved in addressing regulatory issues this financial year. The Australian Competition Tribunal ("Tribunal") Merits Review on the Moomba to Sydney Pipeline ("MSP") confirmed that the Australian Competition and Consumer Commission ("ACCC") decision on the MSP access arrangement was unreasonable, and affirmed our approach on determining the Initial Capital Base.

The ACCC has appealed the decision and the matter went before the Federal Court in mid-August 2005. APA expects that the Court is unlikely to set aside the essence of the Tribunal's decision.

After almost six years, an access arrangement has been finalised for the Goldfields Gas Transmission Pipeline in Western Australia. The access arrangement now provides certainty on regulated tariffs on the pipeline. We believe that APA can now focus on addressing the many opportunities that exist in Western Australia, several of which, including capacity expansion, are well advanced.

## Strategic Direction

Over the past few years, APA has successfully managed to acquire most of the remaining minority interests in its pipeline assets, and increased utilisation of its existing assets. The development of new pipelines within Australia remains a long term goal. While APA is well positioned, the opportunities are few with generally long development timeframes.

APA has long supported the need for a pipeline connecting Queensland gas supplies to South Australia and New South Wales. The absence of this physical link is being managed through gas swap agreements between our customers, which enables Queensland gas to be sold in New South Wales.

The Papua New Guinea ("PNG") gas project provides an opportunity to link the eastern coast gas market to northern gas and create the long touted "east coast gas grid", and to address the gas supply issue facing south-eastern Australia by the end of this decade.

Coal bed methane ("CBM") production partially addresses this natural gas shortfall and has proven to be a useful adjunct energy source. Its development continues to be fully supported by APA. While recognising the value of CBM, south-eastern and northern Australia needs a major gas supply solution for the provision of competitive natural gas supplies. APA believes that the PNG gas project will provide a solution.

While disappointed to see the proposed Wadeye to Gove pipeline project in Northern Territory fail in its current form, APA is pleased that the PNG gas project producers have entered into a conditional long term agreement with Alcan Gove Pty Ltd to deliver gas for its Northern Territory based Gove alumina business.

This news, together with AGL's announcement of a conditional long term gas supply agreement with the PNG gas project producers to purchase very significant quantities of gas over 20 years from 2009, increases the likelihood that a PNG gas pipeline to Australia will finally become a reality.

APA, as part of its initial agreements with AGL when it floated in June 2000, has a right to purchase at least a 20% interest in the PNG gas pipeline. We understand that the PNG gas project participants intend to make a final investment decision in late 2006. APA welcomes these developments and looks forward to this exciting project finally becoming a reality.

## Natural Gas

The natural gas industry requires a peak council to champion its benefits as part of the energy mix for Australia. Certainly, bodies such as Australian Pipeline Industry Association play an important role in representing various aspects of the industry (such as pipelines) however, there is no single voice representing natural gas in its entirety in the same way that, for instance, coal is represented. I believe that such a council will have an important voice in representing natural gas in Australia in the future.

We continue to promote the importance of "clean" natural gas to Australia, and especially to the outlying and isolated parts of the country where natural gas and pipelines deliver jobs and prosperity.

## Outlook

APA has previously advised of the contracted reduction in revenue under the GTD on the MSP revenues post 31 December 2006 when it terminates. The GTD will be replaced by a long term arrangement with AGL and additional revenue from third parties as retail contestability develops.

In the medium term, APA is confident that it will be able to pursue innovative services to encourage the development of aggregator and retail competition in eastern Australia, and thereby enhance the utilisation of the MSP after the GTD expires.

The board remains confident that APA is well positioned to pursue strategies to maintain, at least, the current level of profitability and distributions.

On behalf of the board, I thank management and staff for their efforts, and all unitholders for their support.



George H Bennett  
Chairman



## SPONSORSHIPS

### Australian Brandenburg Orchestra

A hand-crafted harpsichord, built to withstand Darwin's tropical climate, took pride of place when the Australian Brandenburg Orchestra ("ABO") performed in Darwin in March this year as part of a national tour, thanks to APA's sponsorship.

"Our sponsorship provides a chance to give something back by enriching the cultural experiences available to Territorians. We are proud to sponsor such a prestigious orchestra" said APA's CEO, Mick McCormack.

Paul Dyer, the ABO artistic director, said that with APA as a major sponsor, the ABO had been able to reach Australian audiences in remote areas such as Kalgoorlie:

"One of the missions of the ABO is providing top quality music to all Australians. APA's support assists the ABO in realising that goal. In doing so, we're creating a national footprint, like APA, and this would not have been possible without APA's support."



# CHIEF EXECUTIVE OFFICER'S REPORT



MICK McCORMACK

People are our greatest asset. Our business is based on the strength of real people, with years of experience in the energy and gas pipelines business, and we make real profits for our unitholders by knowing that business.

It is with great pleasure that I introduce myself. As your new CEO, I hope to continue delivering the success that APA has enjoyed since listing. APA has grown, both in revenue and size, and I am confident it is well positioned for continued growth.

## A New Phase of Growth

I am proud that the APL board has demonstrated its support for me by appointing me as the successor chief executive officer. I am determined to take APA to new levels, both through asset growth and diversification.

Our core business is natural gas transmission pipelines and we are good at developing, owning, operating and managing them. We have some challenges ahead of us, both in terms of developing our business and the regulatory environment, but we are well placed to deliver the right results for our unitholders.

2005 will remain in my memory as an exciting and interesting year. Not only does it mark a "changing of the guard" at APA, with significant changes in both the senior management team and board, it also underscores five good years of a profitable business.

Jim McDonald's retirement on 1 July 2005 is bittersweet. I have worked with Jim, who was founding CEO, for some 20 years and he was both a friend and mentor to me. Jim's expertise will be missed now that he has retired. He cast a lasting influence over the Australian natural gas industry.

I welcome Richard Francis, our new chief financial officer ("CFO"). Richard has significant financial and commercial experience and will bring new ideas and knowledge to our business.

## Operational Review

APA has delivered on a number of fronts this year. The results underscore the strength of our business and its challenges. I am pleased that many of the projects I managed, including the acquisitions of the minority interests in SCP (No.1) Pty Limited which holds 88.2% of the Goldfields Gas Transmission Pipeline ("GGT"), the Parmelia gas business and the minority interest in the Carpentaria Gas Pipeline, contributed to this year's results.

In April, APA entered into a ten year contract to transport six PJ of CBM per annum through the RBP to the new Braemar power station in Queensland. This agreement offers a firm service with a fixed revenue component, which provides APA with certainty for the contracted load and allows an interruptible service with a variable revenue component.

On the Parmelia Gas Pipeline, APA has signed a new four year contract with Western Power to transport gas to Austral Bricks in Western Australia.

During the financial year, APA acquired a 5.3% holding in the units of GasNet Australia Group ("GasNet"). APA is considering its options for this investment and is prepared to be a long term investor in GasNet.

On the MSP, we are continuing to address the contracted reduction in revenues arising under the GTD. I am confident that as full retail contestability increases, both existing and new customers will increase utilisation of the existing pipeline.



As an example, APA gained additional revenue from Origin Energy and TXU Australia during the financial year.

As previously reported, stress corrosion cracking ("SCC") has been identified as a significant issue on the MSP. APA has carried out extensive investigation and analysis of the incidence and impact of SCC on the MSP. We have concentrated on the first 162 kilometres of the MSP, where the ground and pipeline operating conditions under which SCC can develop, exist. The information gained through applying very recent technological advances, including the running of two "intelligent pigs" through the pipeline and recording irregularities in the steel wall of the pipe, was completed in March 2005 and the data has now been analysed.

From this data, six sites were identified for immediate work. In May 2005, these sites were excavated and work successfully carried out to ensure that the MSP continued to operate safely at a sufficient pressure to meet expected loads for winter 2005. The final inspection data report has been received. APA has identified a program of work which will be carried out during the course of 2005 – 06. APA will ensure the continued safe and reliable operation of the MSP, while meeting its contractual obligations.

## Regulatory Matters

Energy market reform and the regulation of essential infrastructure, including gas pipelines, have been on the national policy agenda during this financial year. APA has been actively seeking support for regulatory change, which will encourage efficient and effective development of infrastructure.

In my view, Australia has too many regulators, operating too many disparate regimes, under statutes that are prescriptive in some respects, and vague in others. This does not encourage the large scale investment necessary to address Australia's need for environmentally acceptable energy infrastructure.

I believe that regulators should have clearer goals and processes should be completed in a more timely manner. Australia only needs one layer of regulation, which balances the needs of all stakeholders and encourages new energy infrastructure.

In June 2004, the Productivity Commission released its final report into the National Gas Access Regime. The report's recommendations will positively impact

on stakeholders, the development of "greenfields" projects and business efficiency. Without these changes, it will be difficult for businesses to justify large scale gas infrastructure investment in Australia. APA strongly supports the report's full implementation.

As well, the Council of Australian Governments signed the Australian Energy Market Agreement. This agreement seeks to implement national arrangements that further integrate the electricity, gas and renewable energy sectors under two new regulatory bodies, the Australian Energy Regulator and the Australian Energy Market Commission, during 2006.

We look forward to the Australian Government's response to the Productivity Commission report and the Australian Energy Market Agreement. APA supports the implementation of these regulatory changes, which seek to reduce intrusive regulation and remove disincentives to the development of new pipelines and the expansion of existing pipelines.

## PROFILE

### Mick McCormack

BSurv, GradDipEng, MBA, FAICD

Mr McCormack is the chief executive officer of Australian Pipeline Trust. He carries overall responsibility for the performance of APA and its management team. Mr McCormack has extensive senior management experience in all aspects of gas transmission in Australia, his entire career has been based in the pipeline industry and he has worked on the development of new and existing pipelines across Australia. Mr McCormack holds office in various joint venture committees and subsidiary boards. Prior to joining APA on its float in 2000, Mr McCormack was responsible for regulatory management of AGL's pipelines. Mr McCormack has tertiary qualifications in science, engineering and business.

Mr McCormack is a director on the board of Australian Pipeline Industry Association and is a fellow of the Australia Institute of Company Directors.



RBP GATTON COMPRESSOR STATION

## CHIEF EXECUTIVE OFFICER'S REPORT



"INTELLIGENT PIG" BEING REMOVED  
FROM THE MOOMBA TO SYDNEY  
PIPELINE



### Strategy

Incremental growth of our assets is still the best way to add value to our bottom line. We continue to find innovative ways to increase utilisation of our assets. Diversification of our asset portfolio through acquisition also remains a strategy. Though the opportunities to acquire existing natural gas pipelines are limited, we continue to monitor those of which we are aware and are well placed to pursue them.

Greenfields gas projects remain a major plank of our strategic plan. There are also complementary assets, such as CBM processing facilities and power generation, that APA would consider. However, we maintain our policy of looking for value propositions, and will only purchase assets at the right price, not any price.

As the chairman has discussed, the developments for the PNG gas project and the PNG to Australia natural gas pipeline are encouraging. The challenges for this project are immense, as are the benefits of the project to Australia and PNG. APA continues to believe that the PNG gas project offers a real option to ensure the continuation of supply of natural gas to south-east and northern Australia over the coming decades.

The cost of building the PNG natural gas pipeline could be several billion dollars, and is scheduled to be completed by the end of this decade. A "green" light for this project will provide major opportunities for APA.

### Natural Gas and the Environment

There is mounting scientific evidence that climate change may be occurring as a consequence of carbon dioxide emissions on our environment. APA believes that a socially responsible position for all industries, is to take action to reduce that impact. Australia needs a national energy strategy that tackles this important issue.

APA encourages the use of natural gas over other fossil fuels. It is a fuel of transition and will assist in the reduction of CO<sub>2</sub> emissions. Natural gas is the right choice as a transitional fuel to satisfy Australian energy demands for the next generation, while an economically and environmentally sustainable solution is developed to reduce CO<sub>2</sub> emissions. Renewable fuel sources such as wind power and solar may have value in the energy mix in the future – natural gas can make a difference now.

### The Future

I am very positive about the future, and excited by the prospects for growth and expansion that are available to APA. We continue to grow and develop new markets because APA's business model is based on real world experience, expertise and industry skills.

People are our greatest asset. Our business is based on the strength of real people, with years of experience in the energy and gas pipelines business, and we make real profits for our unitholders by knowing that business.

I thank the board for their trust in me, and my colleagues for their dedication and performance. Most importantly, I thank unitholders for the opportunity to serve them.

A handwritten signature in dark ink, appearing to read 'm.j.c.'.

M J McCormack  
Chief Executive Officer

NATURAL GAS IS THE RIGHT CHOICE AS A "TRANSITIONAL" FUEL TO SATISFY AUSTRALIAN ENERGY DEMANDS FOR THE NEXT GENERATION.



# ACQUISITIONS

In 2005, APA completed two major acquisitions. The \$209 million acquisition of the Goldfields and Parmelia Pipelines in August 2004, was previously reported in the 2004 Annual Report. In February 2005, APA acquired the remaining minority interests in the Carpentaria Gas Pipeline for \$97 million.

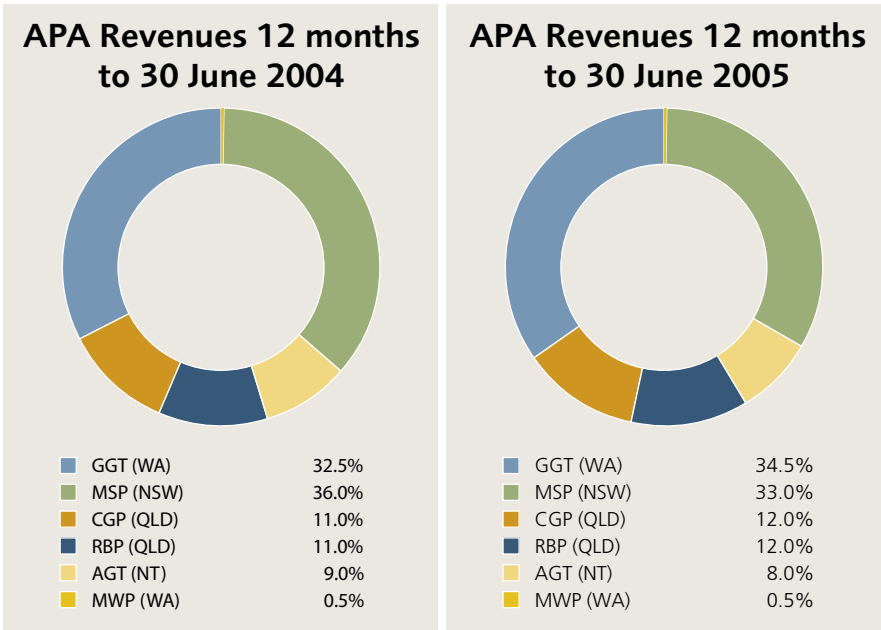


In February 2005, APA acquired the 30% minority interest in the Carpentaria Gas Pipeline ("CGP") for \$97 million, including transaction costs. The purchase was funded from existing debt facilities and the acquisition is earnings and cash flow accretive from day one, and contributed four months revenue to the financial year result. It will be a strong contributor to future results.

The Carpentaria region, through which the CGP traverses, is renowned for its resource wealth and has world class deposits of copper, silver, lead and zinc. The region has high prospectivity and is likely to be the source of many new mining operations in the future.

The CGP links the Ballera gas fields in south-west Queensland to WMC Fertilizers' Phosphate Hill operations, BHP Billiton's Cannington mine (via APA's 100% owned Cannington lateral pipeline), Xstrata's Mt Isa mine and CS Energy's Mica Creek power station near Mt Isa. The pipeline is 840 kilometres long with one mid-line compressor station and has a capacity of approximately 38 PJ per annum in its current configuration. The pipeline can be further expanded through the installation of additional compressor stations to reach its fully licensed capacity of approximately 63 PJ per annum.

## Continuing Revenue Diversification



Derogations under the National Gas Access Code provide a degree of tariff certainty until 2023.

Strategically, the CGP is the only pipeline supplying the mineral-rich Carpentaria region. It is well placed to play a key role in delivering gas in the future either from existing Queensland sources or proposed sources such as PNG gas or Queensland CBM developments.

The acquisition of the CGP interest is consistent with APA's strategy of acquiring the minority interests in our existing pipelines. This acquisition, combined with our acquisition of the GGT and Parmelia gas assets in Western Australia, further diversifies our portfolio of pipelines and our overall revenue mix.

# BOARD OF DIRECTORS



FROM LEFT TO RIGHT: ROSS GERSBACH, JANE McALOON, RUSSELL HIGGINS, MURI MUHAMMAD, ROBERT WRIGHT AND GEORGE BENNETT.

## **Ross M Gersbach** BBus, CPA

### **NON-EXECUTIVE DIRECTOR**

Appointed 26 August 2004

Mr Ross Gersbach is group manager, infrastructure investments with AGL. Mr Gersbach was appointed to this position in 2004, prior to which he held the position of group manager, corporate development.

Mr Gersbach has been with AGL since 1986 and has had senior roles across a number of AGL's operating units, including AGL's pipeline division.

Mr Gersbach is a director of Elgas Limited, ActewAGL and a number of AGL investment subsidiaries.

Mr Gersbach is a member of the Nominations and Remuneration Committee and the Audit and Risk Management Committee.

## **Jane F McAloon** BEc (Hons), LLB

### **NON-EXECUTIVE DIRECTOR**

Appointed 23 March 2005

Ms Jane McAloon is currently group manager, corporate and external services with AGL and was appointed company secretary of AGL in August 2004.

She has previously held the positions of deputy director general of the NSW Cabinet Office, director general of the NSW Ministry of Energy and Utilities and executive director strategy, NSW Co-ordinator of Rail.



**Russell A Higgins** BEc, FAICD  
INDEPENDENT NON-EXECUTIVE DIRECTOR  
Appointed 7 December 2004

Mr Russell Higgins was most recently the chairman of the Australian Government's Energy Task Force and associate secretary in the Department of the Prime Minister and Cabinet.

Mr Higgins has had extensive experience both locally and internationally in the energy sector and in economic and fiscal policy. Among his many roles, Mr Higgins was secretary and chief executive officer of the Department of Industry, Science and Resources from 1997 to 2002, and the Australian Government's representative on the National Grid Management Council and on the Council of Australian Governments Gas Reform Task Force.

Mr Higgins is the chairman of the Co-operative Research Centre for Coal in Sustainable Development and chairman of the CSIRO Energy Transformed Flagship Advisory Committee. He is a former chairman of the Snowy Mountains Council, former chairman of the Australian Government's Management Improvement Advisory Committee and a former director of EFIC, CSIRO, Austrade, the Australian Industry and Development Corporation, the Australian Tourist Commission, and the Australian Sports Commission as well as former member of the Australian Government's Joint Economic Forecasting Group.

Mr Higgins is a member of the Audit and Risk Management Committee.

**Muri Muhammad** MSc  
INDEPENDENT NON-EXECUTIVE DIRECTOR  
Appointed 8 March 2000

Mr Muri Muhammad retired from Petronas in August 2002 and was re-appointed as adviser, gas business in the President's Office (Petronas) until 30 March 2005. He brings to the responsible entity 30 years' experience in the chemicals and petroleum industry as well as expertise in the domestic and international gas transmission and distribution, gas utilisation, co-generation and conversion businesses where he has held various senior executive positions.

He was appointed vice president for gas business in 1998 until his retirement in August 2002.

In that role, he was involved in Petronas' gas development projects in Iran, India, Algeria, Myanmar, Pakistan, Vietnam and China. He has held several directorships including chairman of the board of Petronas' subsidiaries and associate companies in Malaysia and abroad. He has been involved in district cooling co-generation; pipeline gas transmission and distribution; liquefied natural gas production and marketing; and urea/ammonia production and marketing. He currently sits on the boards of Transportadora de Gas Del Norte (Argentina) and Petronas Gas Berhad.

Mr Muhammad is a member of the Nominations and Remuneration Committee.

**Robert J Wright** BCom, FCPA  
INDEPENDENT NON-EXECUTIVE DIRECTOR  
Appointed 11 February 2000

Mr Robert Wright has over 30 years' financial management experience, having held a number of chief financial officer positions, including finance director of David Jones Limited. He is currently the chairman of Dexion Limited and a director of SAI Global Limited, Super Cheap Auto Group Limited and the reconstructed Harris Scarfe Australia Pty Limited.

Mr Wright is the chairman of the Audit and Risk Management Committee.

**George H Bennett** FCA  
INDEPENDENT CHAIRMAN  
Appointed 11 February 2000

Mr George Bennett is a company director with almost 40 years' experience at accounting services firm KPMG.

Mr Bennett retired as national executive chairman of KPMG and chairman of the KPMG Asia Pacific board in 1993. His other directorships include Brazil Limited, Fantastic Holdings Limited, Macquarie Leisure Management Limited and Macquarie Office Management Limited.

Mr Bennett is also the chairman of the Nominations and Remuneration Committee.



FROM TOP: WILUNA  
COMPRESSOR STATION IN  
WESTERN AUSTRALIA AND  
THE CONSTRUCTION OF  
CARPENTARIA GAS PIPELINE  
IN QUEENSLAND

# MANAGEMENT TEAM



**Stephen P Ohl** BEng, GradDipMan,  
MIEAust, FAICD

## GENERAL MANAGER—OPERATIONS

Mr Ohl is responsible for the business performance of all APA assets. This includes primary responsibility for the operation, contract management, commercial development and technical regulation of all pipeline and related assets. Mr Ohl is also a director on a number of subsidiary companies within the APA group.

Mr Ohl has over 30 years experience in the petrochemical, oil and gas and pipeline industries of which 15 years was spent managing and operating APA assets which were previously owned by AGL. Mr Ohl has tertiary qualifications in engineering and management and is a member of the Institution of Engineers Australia, fellow of the Australian Institute of Company Directors and past president of Australian Pipeline Industry Association.

**Sandra M Dureau** BA (Asian Studies), LLB  
GENERAL COUNSEL

Ms Dureau is responsible for the management of legal and economic regulatory matters affecting APA assets. This includes responsibility for the outcome of regulatory processes under the National Gas Access Code. Ms Dureau has extensive legal and regulatory experience in energy infrastructure, including gas pipelines, having worked in the industry since 1996 in legal, regulatory and commercial roles. Prior to moving in-house, Ms Dureau worked as a solicitor for 10 years. Ms Dureau is a director on a number of subsidiary companies within the APA group.





**Michael J McCormack**  
CHIEF EXECUTIVE OFFICER

Read Mr Mick McCormack's profile in the Chief Executive Officer's Report, on page 5.

**Richard F Francis** BCom, CA, MBA  
CHIEF FINANCIAL OFFICER

Mr Francis joined APA on 1 August 2005. Mr Francis is responsible for the financial management of APA. This includes accounting and financial reporting, financial compliance and governance, taxation and treasury functions. Mr Francis has 23 years accounting experience, including 15 years in chartered accounting in Australia and the UK and eight years in commerce. Prior to joining APA, Mr Francis was the group financial controller of Origin Energy for over five years from its initial listing in early 2000. He also held a number of divisional senior management positions in Boral Energy and Boral, including commercial manager, trading & development and operations manager, Energy Trading Group. Mr Francis is a chartered accountant. Mr Francis is also a director on a number of subsidiary companies within the APA group.

**Austin J V James** LLB  
COMPANY SECRETARY/GENERAL MANAGER  
– CORPORATE

Mr James is responsible for the management of corporate services functions including public and unitholder relations, and administration, and has been the company secretary for the APA group for the last five years. Mr James has substantial experience in corporate, legal and regulatory roles. Prior to APA, Mr James worked for AGL, where he held senior management positions including manager finance and planning, manager taxation and manager development projects. Mr James has been admitted to the Supreme Court of New South Wales as a barrister.

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# CORPORATE GOVERNANCE

The board of directors ("board" or "directors") of Australian Pipeline Limited ("APL" or "responsible entity"), as responsible entity for Australian Pipeline Trust ("APA" or "Trust") and its controlled entities (together "consolidated entity"), is responsible for the consolidated entity's corporate governance practices.

The board had conducted a review of the corporate governance practices following the publication of the ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" ("Principles"), which became applicable to APA in the financial year ended 30 June 2004. APA reviews its governance practices on an ongoing basis against the Principles.

For maximum transparency, each of the ten Principles issued by the Australian Stock Exchange ("ASX") has been responded to in turn:

## Principle 1: Lay solid foundations for management and oversight by the board

The board's responsibilities are encompassed in a charter, which is published on APA's website ("website"). The major roles it has defined to fulfil its responsibilities to APA unitholders ("unitholders") and the community are to:

- (a) set the strategic direction of the consolidated entity with management and monitor management's implementation of that strategy;
- (b) select and appoint (and, if appropriate, remove from office) the managing director ("MD")/CEO, determine his conditions of service and monitor his performance against established objectives;
- (c) ratify the appointment (and, if appropriate, the removal from office) of the CFO and the company secretary;
- (d) approve conditions of service and performance monitoring procedures to apply to senior management;
- (e) monitor financial outcomes and the integrity of reporting (in particular approve annual budgets and longer term strategic and business plans);
- (f) set specific limits of authority for management to commit to new expenditure, enter contracts or acquire businesses without prior board approval;
- (g) ensure that effective audit, risk management and compliance systems are in place to protect the consolidated entity's assets and to minimise the possibility of APA operating beyond the constitution or beyond acceptable risk parameters;
- (h) establish and maintain a code of conduct ("code");
- (i) monitor compliance with regulatory requirements (including continuous disclosure) and code;
- (j) review senior management succession planning and development on a regular basis; and
- (k) provide effective and timely reporting to unitholders.

To assist it in carrying out its responsibilities, the board has established standing committees of its members. They are:

- Audit and Risk Management Committee; and
- Nominations and Remuneration Committee. Note that the Nominations Committee amalgamated with the Remuneration Committee during the year.

Directors appointed at the time of the public float in 2000, have not received formal letters of appointment, though they have received less formal letters from the chairman in response to their letter of consent to act as a director. All independent directors appointed since, have received formal appointment letters.

The board delegates responsibility for implementing the strategic direction and for managing the day-to-day operations of the consolidated entity to the MD/CEO. There are clear lines of communication established between the chairman and MD/CEO to ensure that the responsibilities and accountabilities of each are clearly understood.

The MD/CEO and the CFO (and other senior management) have service contracts setting out their duties, responsibilities, conditions of service and termination entitlements.



# CORPORATE GOVERNANCE

## Principle 2: Structure the board to add value

The board determines its size and composition, subject to limits imposed by APL's constitution. The constitution provides for a minimum of three directors and a maximum of 12. Up to 1 July 2005, the board determined that there would be seven directors, including the MD. With the retirement of the MD as of 1 July 2005, the board has reduced its number to six directors, all of whom are non-executive. The current CEO is not a director of APA.

Since July 2005, the board consists of three non-corporate directors (all independents), a representative of Petronas (also an independent) and two representatives of The Australian Gas Light Company ("AGL").

From June 2004, unitholders have the ability to nominate candidates for the three non-corporate independent director positions, upon retirement or vacancy of the existing incumbents. The three non-corporate directors nominated by unitholders, will retire on a rotating annual basis and may stand for re-election. In August each year, unitholders will be notified by announcement to ASX that they may nominate a person(s) for election to the board as a non-corporate director. Unitholders will have 15 days from the date of announcement to ASX to lodge a nomination form together with the relevant consent to act as a director.

Once nominations are received by the required date, APL will advise unitholders of all candidates who have been validly nominated and present its nominations to unitholders at the APA annual meeting, which is generally held in October each year.

A majority resolution by unitholders on nominations presented to the APA meeting will confirm unitholders' intentions.

Unitholders will not be able to vote for the two directors appointed by AGL, the one director appointed by Petronas, or the managing director (if any).

A majority of the current members of the board are "independent" within the ASX definition. Those members are Messrs G H Bennett (chairman of the board), R J Wright (chairman of the Audit and Risk Management Committee), R A Higgins and M Muhammad (the Petronas representative). Mr R M Gersbach and Ms J F McAloon are not considered to be independent by virtue of their positions as directors appointed by AGL (which owns 30% of the units on issue in the Trust). Mr J K McDonald, the former MD, was also not considered to be independent.

The Nominations and Remuneration Committee ("committee") of the board comprises three non-executive directors, Messrs G H Bennett (chairman), R M Gersbach and M Muhammad. The terms of reference of the committee are set out in Note 38 to the financial statements.

The committee met five times during the year ended 30 June 2005. Details of attendance are set out on page 28. The committee may make use of external consultants if that is deemed appropriate.

Succession planning for the board is reviewed regularly, first by the committee and then by the board. In considering potential new non-corporate directors to commend to shareholders and unitholders, the board seeks to identify candidates with appropriate skills and experience to contribute to the effective direction of APL, who can exercise an independent and informed judgement on matters which come to the board, and who are free of any business or other relationship that may interfere materially with the exercise of that independent judgement.

The chairman is selected by the full board.

The MD (if any) is an executive director of APL and CEO of the consolidated entity.

The directors, at any time during the financial year, or since, are listed below with a brief description of their qualifications, experience and special responsibilities:

Mr G H Bennett FCA – Independent Chairman

Mr R M Gersbach BBus, CPA – Non-Executive Director

Mr R A Higgins BEc, FAICD – Independent Non-Executive Director

Ms J F McAloon BEc (Hons), LLB – Non-Executive Director

Mr M Muhammad, MSc – Independent Non-Executive Director

Mr R J Wright BCom, FCPA – Independent Non-Executive Director

(See biographies for existing directors on pages 8 and 9).

# CORPORATE GOVERNANCE

Biographies of directors who serve as alternate directors, or who retired during the financial year are set out below.

## **Mr Ed Osman Ridzwan BSc, MBA**

### **Alternate Non-Executive Director for Mr M Muhammad. Appointed 25 September 2003.**

Mr Ed Osman Ridzwan has been with Petronas for more than 18 years. His career has included roles as process engineer in Asean Bintulu Fertilizer's ammonia plant in Sarawak, manager for liquefied natural gas marketing and sales in Malaysia LNG Sdn Bhd and manager in Petronas' business evaluation unit, which has provided him with sound knowledge and experience in the oil and gas industry, especially in the area of strategy and development of global liquid natural gas.

In June 2003, he was promoted to general manager of business development unit, corporate planning and development division, a position he currently holds. As general manager, Mr Ridzwan co-ordinates Petronas' mergers and acquisition efforts and is responsible for the evaluation and development of business opportunities worldwide and in accordance with Petronas' corporate strategies and targets.

Mr Ridzwan sits on the boards of several of Petronas' domestic and international subsidiaries and associate companies either as a full or alternate member.

## **Mr L J Fisk FAICD, FCICS, FCPA**

### **Non-Executive Director. Appointed 11 February 2000. Retired 26 August 2004.**

Mr Les Fisk was group manager, corporate services and company secretary with AGL. He was appointed to this position in 1997, having joined AGL as company secretary in 1995. Prior to joining AGL, Mr Fisk had a 25 year career with Qantas Airways Limited, culminating in the position of director of corporate services and company secretary.

Mr Fisk was a director of Elgas Limited.

## **Mr J A Fletcher BSc, MBA**

### **Non-Executive Director. Appointed 11 February 2000. Retired 23 March 2005.**

Mr John Fletcher has over 30 years' experience in finance and commerce and retired in August 2003 after a distinguished career of 24 years with AGL. During that time, Mr Fletcher held the position of group general manager, finance for seven years. Prior to that, Mr Fletcher held a number of senior positions including group controller, treasurer and group manager, finance. His most recent position, prior to retiring, was as group manager, asset management.

Mr Fletcher is a director of Foodland Associated Limited.

## **Mr T C Ford FAICD**

### **Independent Non-Executive Director. Appointed 11 February 2000. Retired 7 December 2004.**

Mr Tom Ford is an investment banker and consultant, with over 30 years experience in stockbroking and banking. Mr Ford is chairman of RESIMAC Limited. He is also a director of Amalgamated Holdings Limited and Resolute Mining Limited. Mr Ford is a former director of Credit Union Financial Services (Australia) Limited.

Mr Ford is a member of Finance and Treasury Association Limited and on the committee of Australian Business Economists. Mr Ford retired in 1991 as a senior executive director of Capel Court Corporation Limited and as an executive director of Capel Court Securities Limited.

## **Mr J K McDonald FAICD**

### **Managing Director. Appointed MD 3 June 2002. Retired as of 1 July 2005.**

Mr James ("Jim") McDonald has extensive experience in general management in the gas transmission industry. He joined APA from AGL, where he was divisional general manager pipeline operations in Australia. Prior to his roles with AGL, Mr McDonald spent 15 years with Esso Australia's Gippsland Production Group, including several years in senior management positions.

Mr McDonald was president and member of the Pipeline Owners Committee of Australian Pipeline Industry Association ("APIA"), having served as past chairman of the Environment Affairs Committee of APIA. He was also a member of the board of Australian Gas Association ("AGA") and Australian Council for Infrastructure Development. He was past chairman of the Gas Transmission Committee of AGA.

In February 2005, Mr McDonald announced his intention to retire as of 1 July 2005 and Mr Mick McCormack was appointed as CEO from that date.

# CORPORATE GOVERNANCE

## Principle 3: Promote ethical and responsible decision making

APA has policies on ethical and responsible decision making, including policies on unit trading by directors and senior managers, and on conflicts of interest. APA's Code of Conduct ("code"), which applies to directors as well as employees, is available on the website.

The code is important, but equally important is the encouragement of ethical conduct not just by edict, but also by example, from all involved in APA.

It is the board's objective that all dealings with staff, with customers, with regulatory authorities and with the community should be conducted honestly, fairly, diligently and in accordance with all applicable laws. Any departure from such practice is treated very seriously.

APA has a formal policy on dealing in units. The policy provides that directors and staff may buy and sell APA units only during the four week periods following the release to ASX of the half year and full year results and the annual meeting of APA, unless exceptional circumstances apply. In any case, directors and staff are precluded from buying or selling units at any time if they are aware of any price-sensitive information which has not been made public.

## Principle 4: Safeguard integrity in financial reporting

APA complies with all the ASX recommendations under this Principle.

The MD/CEO and the CFO have, for many years, provided detailed written undertakings to the board providing assurances that the consolidated entity's financial reports present a "true and fair view" and are in accordance with relevant accounting standards.

The board has established an Audit and Risk Management Committee ("committee"), comprising three non-executive directors, all with appropriate experience. They are Messrs R J Wright (chairman), R M Gersbach and R A Higgins. Mr T C Ford was a member until his retirement on 7 December 2004 and Mr J A Fletcher was a member until his retirement on 23 March 2005. Committee members' qualifications are disclosed on pages 8 and 9.

The MD/CEO, CFO, company secretary/general manager-corporate, general manager-operations and the external auditor attend committee meetings at the discretion of the committee. The committee also meets privately with the external auditor without management presence.

The minutes of each committee meeting are reviewed at the subsequent meeting of the board and the chairman of the committee reports on the committee's conclusions and recommendations. The committee held five meetings during the year ended 30 June 2005. The details of meetings attended by each member are set out in the Directors' Report on page 28.

The role and responsibilities of the committee are to:

(a) recommend to the board the appointment of the external auditor and its fees;

(b) review and/or evaluate:

- the audit plan of the external auditor;
- the performance of the external auditor;
- the provision of non-audit services by the external auditor, including the quantum of fees and the types of activities performed;
- the effectiveness of the internal review processes;
- the management letters from the external auditor and management's responses;
- the adequacy and effectiveness of the reporting and accounting controls of the consolidated entity;
- the financial reports to be made to unitholders and/or the public prior to their release;
- the consolidated entity's exposure to business risks;



# CORPORATE GOVERNANCE

- reports from management, the compliance service provider and/or the external auditor concerning any significant regulatory, accounting or reporting development to assess potential financial reporting issues;
  - the adequacy of risk management strategies in relation to the maintenance, operations or replacement of assets of the consolidated entity (and make recommendations to the board); and
  - the adequacy of risk management strategies in relation to any statutory or policy requirements, including environment, and occupational health and safety (and make recommendations to the board);
- (c) approve and recommend acceptance to the board of:
- all significant accounting policy changes;
  - the consolidated entity's taxation position; and
  - half yearly and annual financial statements;
- (d) determine that no restrictions are being placed upon either the internal review processes or the external auditor;
- (e) monitor the standard of corporate conduct in areas such as arms length dealings and likely conflicts of interest;
- (f) direct any special projects on investigations deemed necessary by the board; and
- (g) perform other duties as directed by the board, from time to time.

## Principle 5: Make timely and balanced disclosure

A continuous disclosure regime operates throughout APA. The continuous disclosure policy is posted on the website. Policies and procedures are in place to ensure matters that a person could reasonably expect to have a material effect on the unit price are announced to ASX in a timely manner. The company secretary is the nominated continuous disclosure officer and he reports to the board quarterly on matters notified to ASX.

In addition, direct reports to the MD/CEO also confirm in writing to the board, on a quarterly basis, that matters which might need to be disclosed have been brought to the attention of the continuous disclosure officer for review.

In the event a decision is made not to notify ASX of a particular event or development, the reasons for non-notification are advised to the board. Directors receive copies of all announcements immediately after notification to ASX. All announcements are posted on the website.

## Principle 6: Respect the rights of unitholders

APA endeavours to keep its unitholders fully informed of matters likely to be of interest to them. It does this through:

- reports to ASX and the press;
- half year and full year profit announcements;
- a periodic newsletter;
- annual reports;
- release to ASX of information provided to analysts; and
- webcasting of half year and full year accounts presentations.

All the above are notified on the website. Unitholders are given the opportunity to provide their e-mail addresses to APA to enable them to receive reports and announcements to ASX without delay.

At the annual meeting, the chairman encourages questions and comments from unitholders and seeks to ensure the meeting is managed to give the maximum number of unitholders an opportunity to participate. In the interests of clarity, questions on operational matters may be answered by the MD/CEO or another appropriate member of senior management.

The external auditor attends APA's annual meeting and is available to respond to questions about the conduct of the audit and the preparation and content of the Independent Audit Report.

# CORPORATE GOVERNANCE

## Principle 7: Recognise and manage risk

Any business faces a wide variety of risks depending on the nature of its operations and the regions within which it operates. APA has a formal enterprise-wide risk program based on Standards Australia's AS/NZS 4360:1999 (Risk Management). This program is supported by APA's Risk Management Statement, which has been endorsed by the board on the recommendation of the MD/CEO and the Audit and Risk Management Committee.

All outstanding audit issues are monitored through to satisfactory completion. The external auditor also reports findings on relevant risk issues to the Audit and Risk Management Committee and to the board on a half yearly basis.

The system of risk management and internal control ensures compliance with the policies established by the board. This system underpins the integrity of the financial statements and the operations and management of APA assets.

### FINANCIAL RISK MANAGEMENT

The ongoing review of control systems that is undertaken is supported by a system of regular internal reviews to ensure that the outsourced components of the accounting function operate effectively. This review, which is performed on a half year basis, ensures that the financial systems and controls and procedures, operate in accordance with the Pipeline Management Agreement.

### OPERATIONAL AND ASSET MANAGEMENT

APA ensures the integrity of pipeline assets through the implementation of asset specific Safety and Operating Plans ("SAOPs") complying with the conditions of the relevant pipeline licence and Australian Standard AS 2885.3 Pipelines – Gas and Liquid Petroleum Part 3: Operations and Maintenance. These SAOPs detail the policy for personnel, the public and environmental protection as identified in risk assessments satisfying Australian Standard AS 2885.1 Pipelines – Gas and Liquid Petroleum Part 1: Design and Construction.

The plans include measures to protect pipeline assets, promote public awareness of the pipelines, operate and maintain the pipelines safely, respond to emergencies, prevent gas escapes, carry out inspections and ensure that plans and procedures continue to comply with engineering design. Each SAOP is reviewed every two years and updated if significant incremental change has occurred. The risk assessments are reviewed and updated to coincide with any change in use of the relevant pipeline and at intervals not exceeding five years.

The SAOP for each of the New South Wales and Queensland pipelines is audited annually by qualified external auditors. In Western Australia the requirements of SAOP are met in the Safety Case that is prepared for each pipeline. Each Safety Case is audited regularly by the Western Australia technical regulator.

### CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER CERTIFICATION

As noted in the Directors' Declaration on page 73, the CEO and CFO have provided the board with written declarations that:

- the statement given to the board on the integrity of APA's financial statement, operating and asset management is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board; and
- APA's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

# CORPORATE GOVERNANCE

## Principle 8: Encourage enhanced performance

A formal review process to assess board performance was introduced during the year ended 30 June 2005. The review involved completion of a questionnaire by each board member to assess the performance of the board as a whole and board committees. Using the services of an independent third party to collate the responses, the board then met to discuss and consider the results and make recommendations.

The performance review covers the role of the board and its committees, their composition, how the board operates, how board members interact, the effectiveness of the chairman in leading the board and board performance generally. The review indicated a sound operation in all key areas.

APA has processes in place to review the performance of senior management. Arrangements are formal and quantitative. Each senior manager, including the MD/CEO, has personal objectives as well as objectives related to business units and APA as a whole. They are assessed against those objectives on an annual basis, or more frequently if that is indicated. A more detailed outline is set out in Note 38 to the financial statements.

The assessment and monitoring of the MD/CEO are handled by the chairman with the assistance of the Nominations and Remuneration Committee. A full report is provided to, and discussed in detail by, the board. Assessment and monitoring of other senior managers are handled by the MD/CEO who reports in detail to the chairman and the Nominations and Remuneration Committee.

Each year, the board devotes time to consider broad corporate governance matters, including the continuing relevance of existing committees and to reviewing its own performance. The chairman is responsible, in the first instance, for monitoring the contribution of individual directors and counselling them on any areas for improvement.

Subject to normal privacy requirements, directors have unfettered access to the consolidated entity's records and information, and to the company secretary and other relevant senior officers. They receive regular detailed reports on financial and operational aspects of APA's business and may request elaboration or explanation of those reports at any time. Each director has the added right to seek independent professional advice at APA's expense. Prior approval of the chairman is required, but this may not be unreasonably withheld.

Directors and senior management are encouraged to broaden their knowledge of APA's business and to keep abreast of developments in business more generally by attendance at relevant courses, seminars and conferences both in Australia and overseas. APA meets expenses involved in such activities.

## Principle 9: Remunerate fairly and responsibly

A detailed outline of the remuneration and reward principles for directors and senior staff is set in Note 38 to the financial statements.

## Principle 10: Recognise the legitimate interests of stakeholders

APA's code sets out the behaviour required of directors, employees and contractors. The code provides a mechanism to enable employees to report breaches of the code without any fear of retribution. The full code is published on the website.



# CORPORATE GOVERNANCE

## ASX Corporate Governance Council's Best Practice Recommendations

The following table provides a summary of APA's compliance with the Principles:

	ASX PRINCIPLE	COMPLY (YES/NO)
<b>Principle 1:</b>	<b>Lay solid foundations for management and oversight by the board</b>	
1.1	Formalise and disclose the functions reserved to the board and those delegated to the management	Yes
<b>Principle 2:</b>	<b>Structure the board to add value</b>	
2.1	A majority of the board should be independent directors	Yes
2.2	The chairman should be an independent director	Yes
2.3	The roles of the chairman and MD/CEO should not be exercised by the same individual	Yes
2.4	The board should establish a nomination committee	Yes
2.5	Provide the information indicated in the guide to reporting on Principle 2	Yes
<b>Principle 3:</b>	<b>Promote ethical and responsible decision making</b>	
3.1	Establish a code of conduct to guide the directors, the MD/CEO, the CFO, and any other key executives as to:	
	3.1.1 the practices necessary to maintain confidence in APA's integrity; and	Yes
	3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices	Yes
3.2	Disclose the policy concerning trading in APA securities by directors, officers and employees	Yes
3.3	Provide the information indicated in the guide to reporting on Principle 3	Yes
<b>Principle 4:</b>	<b>Safeguard integrity in financial reporting</b>	
4.1	Require the MD/CEO and the CFO to state in writing to the board that the financial reports present a true and fair view, in all material respects, of APA's financial condition and operational results and are in accordance with relevant accounting standards	Yes
4.2	The board should establish an audit committee	Yes
4.3	Structure the audit committee so that it consists of:	
	■ only non-executive directors;	Yes
	■ a majority of independent directors;	Yes
	■ an independent chairperson, who is not chairperson of the board; and	Yes
	■ at least three members	Yes
4.4	The audit committee should have a formal charter	Yes
4.5	Provide the information indicated in the guide to reporting on Principle 4	Yes

# CORPORATE GOVERNANCE

	ASX PRINCIPLE	COMPLY (YES/NO)
<b>Principle 5:</b>	<b>Make timely and balanced disclosure</b>	
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior management level for that compliance	Yes
5.2	Provide the information indicated in the guide to reporting on Principle 5	Yes
<b>Principle 6:</b>	<b>Respect the rights of unitholders</b>	
6.1	Design and disclose a communications strategy to promote effective communication with unitholders and encourage effective participation at general meetings	Yes
6.2	Request the external auditor to attend the annual general meeting and be available to answer unitholder questions about the conduct of the audit and the preparation and content of the auditor's report	Yes
<b>Principle 7:</b>	<b>Recognise and manage risk</b>	
7.1	The board or appropriate board committee should establish policies on risk oversight and management	Yes
7.2	The MD/CEO and the CFO (or equivalent) should state to the board in writing that:	
	7.2.1 the statement given in accordance with best practice recommendation 4.1 is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board; and	Yes
	7.2.2. APA's risk management and internal compliance and control system is operating efficiently and effectively in all material respects	Yes
7.3	Provide the information indicated in the guide to reporting on Principle 7	Yes
<b>Principle 8:</b>	<b>Encourage enhanced performance</b>	
8.1	Disclose the process for performance evaluation of the board, its committees and individual directors and key executives	Yes
<b>Principle 9:</b>	<b>Remunerate fairly and responsibly</b>	
9.1	Provide disclosure in relation to the company's remuneration policies to enable investors to understand:	
	■ the costs and benefits of these policies; and	Yes
	■ the link between remuneration paid to directors and key executives and corporate performance	Yes
9.2	The board should establish a remuneration committee	Yes
9.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executives	Yes
9.4	Ensure that the payment of equity based executive remuneration is made in accordance with thresholds set in plans approved by shareholders	N/A
9.5	Provide the information in the guide to reporting on Principle 9	Yes
<b>Principle 10:</b>	<b>Recognise the legitimate interests of stakeholders</b>	
10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations	Yes

# DIRECTORS' REPORT

The directors of Australian Pipeline Limited ("APL" or "responsible entity") submit herewith the annual financial report of Australian Pipeline Trust ("APA" or "Trust") and its controlled entities (together "consolidated entity") for the financial year ended 30 June 2005 ("financial year" or "current financial year"). In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

## Directors

The names of the directors of the responsible entity during and since the end of the financial year are as follows. The directors held office for the entire period, unless stated otherwise:

Mr G H Bennett (Chairman)

Mr R M Gersbach (appointed 26 August 2004)

Mr R A Higgins (appointed 7 December 2004)

Ms J F McAloon (appointed 23 March 2005)

Mr M Muhammad

Mr R J Wright

Mr L J Fisk (retired 26 August 2004)

Mr J A Fletcher (retired 23 March 2005)

Mr T C Ford (retired 7 December 2004)

Mr Ed Osman Ridzwan (alternate for Mr M Muhammad)

Mr J K McDonald – MD (retired as of 1 July 2005).

The directors' qualifications, experience and special responsibilities are provided on pages 8 to 9 and on page 15.

## Secretary

Mr A J V James LLB

The secretary's qualifications, experience and special responsibilities are provided on page 11.

## Principal Activities

The principal activity of the consolidated entity during the course of the financial year was the ownership of gas transmission pipelines located throughout Australia. The consolidated entity undertook the sale of transportation and related services to the producers, consumers and aggregators of gas through these gas transmission pipelines.

There has been no significant change in the activities of the consolidated entity during the financial year.

## Operating and Financial Review

### FINANCIAL PERFORMANCE

Operating profit after tax and minorities but before significant items for the year ended 30 June 2005 was \$51,014,000, which was an increase of 13.4% on the prior year of \$44,984,000. The improved performance resulted from acquisitions (as noted below) and increased pipeline transportation revenue principally in the Roma to Brisbane Pipeline ("RBP"). After significant items, net profit attributable to unitholders of APA for the financial year was \$69,681,000 (2004: \$121,292,000).



# DIRECTORS' REPORT

## DISTRIBUTION TO UNITHOLDERS

On 30 August 2005, the directors declared a final profit distribution of 6.0 cents per unit ("cpu") franked to 40% at the corporate income tax rate, which takes the total distribution in respect of the financial year to 22.5 cpu. This is an increase of 1.0 cpu over the previous financial year, reflecting improved operating performance.

## HIGHLIGHTS

### Acquisitions and Investments

- APA acquired the remaining 45% interest in SCP Investments (No.1) Pty Limited ("SCP"), the 88.2% owner of Goldfields Gas Transmission Pipeline ("GGT"), and Parmelia gas business from CMS (together the "SCP gas business") on 17 August 2004. APA paid \$209,213,000 for the acquisition including a working capital adjustment. Prior to the acquisition, APA had equity accounted SCP's financial results. From the date of the acquisition, the results of the SCP gas business have been consolidated into APA's figures.
- On 25 February 2005, APA acquired the remaining 30% minority interest in Carpentaria Gas Pipeline ("CGP") joint venture for \$97,238,000.
- Subsequent to year end, APA acquired a 5.3% holding in the issued units of GasNet Australia Group, a gas transmission business listed on ASX.

## OTHER HIGHLIGHTS

In Queensland, APA entered into:

- a ten year transportation agreement with Incitec Pivot Limited ("IPL") to transport up to 16 PJ per annum of gas through the RBP to IPL's fertiliser plant at Gibson Island. The agreement will commence in 2007;
- a variation agreement with CS Energy to increase transportation volumes through the RBP to over 15 PJ per annum, to deliver to CS Energy's Swanbank E power station. The agreement is for a period of 12.5 years and commences immediately; and
- a ten year transportation agreement to the new Braemar power station. Starting in 2006, APA will transport six PJ of gas per annum via the RBP.

In Western Australia, APA:

- has advanced planning to expand its Mondarra gas storage facilities following the gas storage optimisation agreement signed with Western Power. Gas storage optimisation is intended to assist Western Power to meet its power requirements in the Perth region; and
- signed a four year contract with Western Power to transport gas through the Parmelia Gas Pipeline to Austral Bricks.

In addition, APA renegotiated the syndicated borrowing, which was due to expire in June 2005, on a bilateral basis with the lenders for a term extending up to five years. Project debt under SCP has also been re-financed under the bilateral facility. The new facility is on terms more favourable than the previous facility, which will lower borrowing costs in future periods.

During the year, an APA backed consortium was named preferred bidder to build, own and operate the Trans Territory Pipeline ("TTP") in Northern Territory for Alcan. However, following termination of negotiations between Alcan and the Blacktip Joint Venture (which was to supply gas to Alcan), the construction of TTP has been indefinitely delayed. All associated costs have been written off.

## MOOMBA TO SYDNEY PIPELINE – STRESS CORROSION CRACKING

As previously reported, APA has carried out extensive investigation and analysis of the incidence and impact of SCC on the MSP. The work has concentrated on the first 162 kilometres of the MSP where the conditions under which SCC can develop, are most likely to be found. The first 162 kilometres of pipeline run through the remote northern parts of South Australia and New South Wales and cross a small section of south-western Queensland. The main investigation included the running of two "intelligent pigs" through the gas stream in the pipeline to measure and record irregularities in the steel wall of the pipe. This was carried out in January and March 2005 and preliminary data obtained.

# DIRECTORS' REPORT

From this preliminary data, six sites were identified which required further investigation. In May 2005, these sites were excavated and work successfully carried out which ensured that the MSP continued to operate safely at a sufficient pressure to meet expected load requirements for winter 2005.

A final inspection data report has been received. On the basis of this report, it has been established that there is a higher occurrence of SCC towards the beginning of the 162 kilometres of pipeline which declines in severity toward the end of this section.

APA is planning to carry out the additional work needed to ensure the continued safe and reliable operation of the MSP. APA is confident that it will continue to meet its contractual obligations. APA has provided \$23,530,000 in relation to SCC during the year. Of this amount, approximately \$12,120,000 will be applied to remediation work, and \$8,000,000 has been provided for additional intelligent pigging exercises, while SCC investigative work during the year of \$3,410,000 has been written off.

## FINANCIAL SUMMARY

The following table provides a summary of key financial data as applicable to the current financial year:

	Year ended 30 June 2005 \$'000	Year ended 30 June 2004 \$'000	Change Compared to 2004 \$'000	%
<b>Operating Results</b>				
Pipeline revenue	267,235	185,591	81,644	44.0
Other pipeline revenue	89,304	74,577	14,727	19.7
Other revenue	19,251	17,940	1,311	7.3
Total revenue	375,790	278,108	97,682	35.1
EBITDA	178,876	133,935	44,941	33.6
EBIT	142,058	111,368	30,690	27.6
Pre-tax profit	77,754	65,021	12,733	19.6
Income tax expense	(26,430)	(19,825)	(6,605)	(33.3)
Operating profit after tax and minorities, before significant items	51,014	44,984	6,030	13.4
<b>Significant Items</b>				
SCC repair and investigative work	(23,530)	–	(23,530)	–
Due diligence costs on capital acquisition projects recovered/(written off)	2,000	(5,763)	7,763	–
Mid West Pipeline written off	–	(19,943)	19,943	–
Tax consolidation benefit – SCP group	–	6,964	(6,964)	–
Significant items before income tax	(21,530)	(18,742)	(2,788)	–
Tax effect of significant items	6,459	2,138	4,321	–
Tax consolidation benefit – APA	33,738	92,912	(59,174)	–
Significant items after tax	18,667	76,308	(57,641)	(75.5)
Profit after income tax and minorities	69,681	121,292	(51,611)	(42.6)
Earnings per unit, before significant items	18.55c	18.25c	0.30c	1.6
Earnings per unit	25.33c	49.20c	(23.87)c	(48.5)

# DIRECTORS' REPORT

## COMMENTARY

### Revenue

Pipeline revenue grew by 44.0% from \$185,591,000 to \$267,235,000 which was principally due to consolidation into APA of the SCP gas business revenue, which had been previously equity accounted. Excluding the acquired entities' share, the Pipeline revenue fell 2.2% to \$181,514,000 a reduction of \$4,077,000 compared to last year. The lower revenue is a direct consequence of the reduction in the transportation revenue on the MSP under the Gas Transportation Deed ("GTD"), which was foreshadowed in previous financial reports. The full impact of GTD reduction of \$5,621,000 was mitigated by additional revenue from other customers, indicating that the increased competition in gas markets is encouraging the emergence of alternate retailers and aggregators.

The revenue from the RBP increased by 11.5% from \$27,098,000 to \$30,213,000 due to an increase in capacity contracted and higher throughput to existing customers.

### Expenses

Pipeline operating and management expenses increased from \$42,521,000 in the previous financial year to \$74,879,000 on an operating basis, an increase of 76.1%, mainly due to the impact of consolidating the newly acquired entities for the first time in 2005. Excluding the Pipeline operating and management expenses of the acquired entities and a "one-off" adjustment to expenses of the Amadeus Gas Trust in the previous year, expenses were higher by \$2,752,000 to \$45,273,000.

The net borrowing cost increased by \$17,958,000 to \$64,305,000 in the current year due to additional borrowing to fund the acquisitions. Interest expense also benefited from an "one-off" reduction resulting from the re-negotiation of various hedge contracts following the issue of Guaranteed Senior Notes in the United States private placement market in the previous financial year.

### Income Tax

Income tax expense is higher as a percentage of pre-tax profit in comparison to the previous financial year, as the share of net profit of joint venture entities (included in Pipeline revenue) is not tax effected to the extent that such profit is not received as cash dividends.

### Earnings per Unit

Earnings per unit ("EPU") before significant items increased from 18.25 cpu to 18.55 cpu. Including significant items, EPU decreased from 49.20 cpu to 25.33 cpu. The equity raised through the private placement of units to fund the SCP gas business acquisition and Distribution Re-investment Plan ("DRP") increased the number of units on issue, which impacted EPU.

### Cash Flow

Cash flow from operating activities of \$106,220,000 was \$23,905,000 higher than the previous year of \$82,315,000 as a consequence of acquisitions, which were cash flow accretive.

APA paid \$209,213,000 on the SCP gas business acquisition and \$97,238,000 on the CGP acquisition. The SCP gas business acquisition was funded by a private equity placement of \$61,740,000, operating cash flows and borrowings. The cash from acquired entities of \$116,424,000 was subsequently utilised to repay part of the additional borrowing.

APA entered into new bilateral debt arrangements for tenures of three and five years. This increases the total unsecured bank facility to \$700 million from \$500 million at 30 June 2004.

Unitholder distributions increased from \$52,950,000 in the previous financial year to \$63,786,000, as a consequence of a higher number of units issued and an increase in distributions per unit.

### Distribution Re-investment Plan

The DRP that was operational for the final distribution for the year ended 30 June 2004 and first interim distribution of the current financial year raised \$11,511,000, net of costs, from the 4,059,000 units that were issued. The DRP has now been suspended and will be reactivated when an additional requirement for capital arises. As at 30 June 2005, 278,895,434 units were on issue.

# DIRECTORS' REPORT

## Significant Items

The results of the current financial year were impacted by following significant items:

- based on the investigation and analysis carried out in relation to SCC, APA has identified various sites where repair work needs to be undertaken. As there is a legal and constructive obligation to carry out the repair and further investigative work, an amount of \$20,120,000 has been provided at 30 June 2005. Expenses for SCC investigative work conducted during the year of \$3,410,000 have been written off;
- APA negotiated with the administrators of Dampier to Bunbury Natural Gas Pipeline to recover \$2,000,000 towards costs of APA's unsuccessful bid for the pipeline. The costs incurred in relation to the bid were written off in the previous financial year; and
- as outlined in the 2004 annual report, the Business Tax Reform legislation, of which tax consolidation is a part, was being enacted through a series of successive legislation. The tax consolidation benefit of \$92,912,000 that was taken into account in the previous financial year was based on the prevailing legislation. In March 2005, Tax Laws Amendment (2004 Measures No. 6) Act, 2005 received Royal Assent. The Act amended the basis of calculation of tax bases of assets of transitional entities such as APA, consequently increasing the tax base of assets further. This resulted in the further release of deferred tax liabilities and a corresponding income tax benefit of \$33,738,000.

## Regulatory Matters

Key regulatory matters addressed during the financial year included:

- the appeal to the Tribunal against the ACCC's decision on the access arrangements for the MSP system was finalised in June 2005. The tribunal ordered that the regulatory value for MSP be set at \$834.7 million at 1 July 2003. The ACCC has appealed to the Full Court of the Federal Court against the decision of the Tribunal, on the basis that the Tribunal's decision contained errors of law. The hearing of the appeal occurred in mid-August 2005. APA expects the Federal Court to uphold the Tribunal's decision;
- approval by the Economic Regulation Authority of the GGT access arrangements finalises the regulatory process effective 1 August 2005. Additionally, the appeal against the Minister's decision that the pipeline should not be regulated under the Gas Code has been discontinued. With the regulatory process finally complete, APA will pursue new pipeline opportunities in Western Australia; and
- APA and the gas transmission industry await the Australian and State Governments' implementation of the recommendation contained in the Productivity Commission Final Report on the National Gas Access Regime. The recommendations recognise the need for a simpler, fairer and more efficient regulatory regime than presently exists. APA continues to work with Australian Pipeline Industry Association and other industry bodies to ensure the recommendations are introduced in a timely manner.

## Gas Supply

The question of sourcing of future natural gas supplies to south-east and northern Australia from the end of this decade continues to be a major issue. APA has made the decision to support the development of CBM production as a means of partially addressing a conventional natural gas shortfall. CBM has proven to be a useful adjunct energy source and its development will continue to be fully supported by APA.

There has been a "missing link" in connecting Queensland gas supplies to South Australia and New South Wales. The absence of a physical link is being managed through gas swap agreements between APA's customers, which enables Queensland gas to be sold in New South Wales. The PNG gas pipeline project provides an opportunity to connect the eastern coast gas market to northern gas and create the long touted "east coast gas grid".

The announcement by the PNG gas project participants, that they had entered into a conditional agreement with Alcan to deliver 43.5 PJ of gas over 20 years for its Northern Territory based Gove alumina project is real progress for the PNG gas pipeline project.

This news, together with AGL's announcement of a conditional gas supply agreement with the PNG gas project producers to purchase around 1,500 PJ of gas over 20 years from 2009, adds strength to the likelihood that the PNG gas pipeline project will finally become a reality.

Under the Pipeline Development Agreement ("PDA") between APA and AGL, APA has the first right to purchase at least 20% of the aggregate ownership interest in the proposed PNG gas pipeline, on normal commercial terms, as well as any other future gas transmission projects that AGL intends to sell. APA understands that the PNG gas project participants are looking to make a final investment decision in the second half of 2006. APA welcomes these developments and looks forward to the PNG gas project becoming a reality.



# DIRECTORS' REPORT

## Investment

APA has previously advised the market on the reduction in revenues post December 2006, arising from the contracted reduction in the GTD on the MSP. APA is confident that the potential reduction in revenue will be offset by opportunities to increase the utilisation of the existing portfolio of pipelines assets, and through targeted acquisitions of pipelines and complementary assets which will enhance unitholder value.

## Changes in State of Affairs

During the financial year, there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements or notes thereto.

## Subsequent Events

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

## Future Developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

## Environmental Regulations

All pipeline assets owned by APA are designed, constructed, tested, operated and maintained in accordance with pipeline licences issued by the relevant State and Territory technical regulators. All licences require compliance with relevant Australian, State and Territory environmental legislation and Australian standards.

The licences also require compliance with the Australian Standard AS 2885 "Pipelines – Gas and Liquid Petroleum", which has specific requirements for the management of environmental matters associated with all aspects of the high pressure pipeline industry.

Environmental plans satisfying Part A of the Australian Pipeline Industry Association Code of Environmental Practice ("Code") are prepared and independently audited for construction activities. In accordance with Part 3 of AS 2885, environmental plans satisfying Part B of the Code are in place for most operating pipelines and are managed in accordance with APA's contracts and the terms and conditions of the licences that APA has been issued. Ongoing monitoring of these requirements is achieved through an environmental audit process carried out by an accredited independent auditor.

The board reviews external audit reports and, on a monthly basis, the internal reports prepared relating to environmental issues. No breaches have been reported during the financial year and APA has complied fully with the environmental management plans that are in place.

## Distributions

During the financial year, the following distributions were made to the unitholders:

Relevant Period	Date Paid	Profit Distribution <sup>a</sup>		Capital Distribution	
		cpu	\$'000	cpu	\$'000
Final distribution for financial year ended 30 June 2004	27 September 2004	6.5	17,864	–	–
<b>Interim distributions for the financial year</b>					
First interim distribution	30 December 2004	5.5	15,244	–	–
Second interim distribution	30 March 2005	5.5	15,339	–	–
Third interim distribution	28 June 2005	5.5	15,339	–	–

<sup>a</sup> All the profit distributions were franked to 40%.

A final profit distribution for the financial year of 6.0 cpu, franked to 40% at the corporate income tax rate, was declared on 30 August 2005. This distribution will be paid on 29 September 2005 and equates to a cash distribution of \$16,734,000.

# DIRECTORS' REPORT

## Options Granted

No options were granted during or since the end of the financial year:

- over unissued units in APA; and
- to the responsible entity.

No unissued units in APA were under option as at the date on which this report was made.

No units were issued in APA during or since the end of the financial year as a result of the exercise of an option over unissued units in APA.

## Indemnification of Officers and External Auditor

During the financial year, the responsible entity paid a premium in respect of a contract insuring the directors of the responsible entity, the responsible entity's secretary, Mr A J V James, and all executive officers of the responsible entity and of any related body corporate of APA against any liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The responsible entity has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or external auditor of the responsible entity or of any related body corporate of APA against a liability incurred as such an officer or auditor.

## Directors' Meetings

The following table sets out the number of directors' meetings (including meetings of committees of the directors) held during the financial year and the number of meetings attended by each director (while they were a director or a committee member). During the financial year, 15 board meetings, and five meetings each of Nominations and Remuneration Committee and Audit and Risk Management Committee were held:

Directors	Board of Directors		Nominations and Remuneration Committee		Audit and Risk Management Committee	
	Held	Attended	Held	Attended	Held	Attended
G H Bennett	15	15	5	5	–	–
R M Gersbach	12	12	4	4	2	2
R A Higgins	7	7	–	–	2	2
J F McAloon	2	2	–	–	–	–
M Muhammad	11	11	4	4	–	–
R J Wright	15	14	–	–	5	5
Ed Osman Ridzwan <sup>a</sup>	4	4	1	1	–	–
L J Fisk	3	3	1	1	–	–
J A Fletcher	11	9	–	–	3	3
T C Ford	7	4	–	–	2	2
J K McDonald	14	12	–	–	–	–

<sup>a</sup> Alternate for Mr M Muhammad.

# DIRECTORS' REPORT

## Directors' Unitholdings

The following table sets out each director's relevant interest in units of APA as at the date of this report:

Directors	Fully Paid Units as at 30 June 2004	Units Acquired during the Financial Year	Units Disposed of during the Financial Year	Fully Paid Units as at 30 June 2005
G H Bennett	16,276	695	–	16,971
R M Gersbach	–	–	–	–
R A Higgins	–	6,609	–	6,609
J F McAloon	–	–	–	–
M Muhammad	10,556	319	–	10,875
R J Wright	10,851	463	–	11,314
Ed Osman Ridzwan	–	–	–	–
L J Fisk	5,425	232	–	5,657
J A Fletcher	4,340	186	–	4,526
T C Ford	10,000	–	–	10,000
J K McDonald	16,275	694	–	16,969

There are no contracts to which a director is a party or under which the director is entitled to a benefit and that confer a right to call for or deliver interests in the scheme.

## Remuneration Report

The remuneration report in relation to directors and executives is disclosed in Note 38 to the financial statements.

## Information Required for Registered Schemes

Fees paid to the responsible entity and its associates (including directors and secretaries of the responsible entity, related bodies corporate and directors and secretaries of related bodies corporate) out of APA property during the financial year are disclosed in this report and Note 40 to the financial statements.

The responsible entity does not hold any units in APA. AGL, a 50% shareholder in the responsible entity, holds 30% of the units in APA. The number of units in APA issued during the financial year, withdrawals from APA during the financial year, and the number of units in APA at the end of the financial year are disclosed in Note 27 to the financial statements.

The value of APA's assets as at the end of the financial year is disclosed in the statement of financial position in total assets, and the basis of valuation is included in Note 1 to the financial statements.

## Auditor Independence and Non-Audit Services

APA may decide to employ the auditor, Deloitte Touche Tohmatsu ("Deloitte"), on assignments additional to its statutory audit duties where the auditor's expertise and experience with the consolidated entity are relevant.

The board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit and Risk Management Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

# DIRECTORS' REPORT

- all non-audit services were subject to the corporate governance procedures adopted by APA and have been reviewed by the Audit and Risk Management Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 "Professional Independence", as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for APA, acting as an advocate for APA or jointly sharing risks and rewards.

A copy of the auditor's independence declaration as required under section 307C of the Corporation Act 2001 is included in on page 74.

Deloitte received, or is due to receive, the following amounts for the provision of non-audit services:

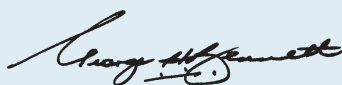
Tax consolidation project	\$474,715
Due diligence reporting on acquisitions	\$218,835
Other accounting and assurance services	\$197,435
Total	<u>\$890,985</u>

## Rounding

APA is an entity of the kind referred to in Australian Securities and Investments Commission ("ASIC") Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in this report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of the directors of the responsible entity made pursuant to section 298(2) of the Corporations Act 2001:

On behalf of the directors



G H Bennett  
Chairman  
SYDNEY, 30 August 2005



R J Wright  
Director



# STATEMENT OF FINANCIAL PERFORMANCE

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

	Note	Consolidated		Trust	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from ordinary activities		375,642	262,082	65,141	1,038
Share of net profits of joint venture entity accounted for using the equity method		2,148	22,990	–	–
		377,790	285,072	65,141	1,038
Pipeline operation and management expenses		(98,409)	(42,521)	–	–
Depreciation and amortisation expense		(36,818)	(22,567)	–	–
Impairment of non-current assets		–	(19,943)	–	–
Other pipeline costs		(89,304)	(74,577)	–	–
Borrowing costs		(82,157)	(63,084)	(22)	(20)
Other expenses from ordinary activities		(14,879)	(16,101)	(1,292)	(1,012)
<b>Profit from Ordinary Activities before Income Tax Expense</b>	2	<b>56,223</b>	46,279	<b>63,827</b>	6
Income tax benefit/(expense) relating to ordinary activities	4	13,768	75,225	(12)	(2)
<b>Profit from Ordinary Activities after Related Income Tax Benefit/(Expense)</b>		<b>69,991</b>	121,504	<b>63,815</b>	4
Net Profit Attributable to Outside Equity Interests		(310)	(212)	–	–
<b>Net Profit Attributable to Unitholders of the Parent Entity</b>		<b>69,681</b>	121,292	<b>63,815</b>	4
Increase in asset revaluation reserve arising from revaluation of non-current assets	28	8,669	–	–	–
<b>Total Changes in Equity other than those Resulting from Transactions with Unitholders as Owners</b>		<b>78,350</b>	121,292	<b>63,815</b>	4
Earnings per unit:					
Earnings used to calculate earnings per unit (\$'000)		69,681	121,292		
Basic earnings per unit based on profit from ordinary activities after income tax expense, attributable to unitholders of the parent entity (cpu)		25.33	49.20		
Weighted average number of units on issue used in the calculation of basic earnings per unit (million)		275.05	246.50		

Diluted earnings per unit is exactly the same as basic earnings per unit.

Notes to the financial statements are included on pages 34 to 72.

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2005

	Note	Consolidated		Trust	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Current Assets</b>					
Cash		22,373	44,251	173	134
Receivables	6	30,636	12,095	124	96
Inventories	7	3,121	50	–	–
Other	8	2,224	1,472	–	–
<b>Total Current Assets</b>		<b>58,354</b>	<b>57,868</b>	<b>297</b>	<b>230</b>
<b>Non-Current Assets</b>					
Receivables	9	2	1	–	–
Investments accounted for using the equity method	10	–	171,137	–	–
Other financial assets	11	–	–	584,393	535,687
Property, plant and equipment	12	1,818,308	1,184,862	–	–
Intangibles	13	5,024	6,188	–	–
Deferred tax assets	14	31,458	10,077	31,458	10,077
Other	15	3,375	3,538	–	–
<b>Total Non-Current Assets</b>		<b>1,858,167</b>	<b>1,375,803</b>	<b>615,851</b>	<b>545,764</b>
<b>Total Assets</b>		<b>1,916,521</b>	<b>1,433,671</b>	<b>616,148</b>	<b>545,994</b>
<b>Current Liabilities</b>					
Payables	16	63,242	53,929	18,006	18,052
Interest-bearing liabilities	17	188	180	–	–
Tax liabilities	18	1,187	5,938	1,187	5,938
Provisions	19	23,325	1,902	–	–
Other	20	56,601	7,327	–	–
<b>Total Current Liabilities</b>		<b>144,543</b>	<b>69,276</b>	<b>19,193</b>	<b>23,990</b>
<b>Non-Current Liabilities</b>					
Payables	21	54,920	17,938	8,461	7,406
Interest-bearing liabilities	22	1,011,105	730,225	–	–
Deferred tax liabilities	23	88,123	86,956	88,123	86,956
Provisions	24	74	143	–	–
Other	25	2,533	1,127	–	–
<b>Total Non-Current Liabilities</b>		<b>1,156,755</b>	<b>836,389</b>	<b>96,584</b>	<b>94,362</b>
<b>Total Liabilities</b>		<b>1,301,298</b>	<b>905,665</b>	<b>115,777</b>	<b>118,352</b>
<b>Net Assets</b>		<b>615,223</b>	<b>528,006</b>	<b>500,371</b>	<b>427,642</b>
<b>Equity</b>					
Contributed equity	27	500,135	427,435	500,135	427,435
Asset revaluation reserve	28	8,669	–	–	–
Retained profits	29	106,334	100,439	236	207
<b>Parent Entity Interest</b>		<b>615,138</b>	<b>527,874</b>	<b>500,371</b>	<b>427,642</b>
Outside equity interests	30	85	132	–	–
<b>Total Equity</b>		<b>615,223</b>	<b>528,006</b>	<b>500,371</b>	<b>427,642</b>

Notes to the financial statements are included on pages 34 to 72.

# STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

	Note	Consolidated		Trust	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Cash Flows from Operating Activities</b>					
Receipts from customers		392,808	275,813	1,288	1,002
Payments to suppliers and employees		(207,831)	(162,483)	(1,366)	(1,087)
Dividends received from joint venture entity		–	7,667	–	–
Dividends received for controlled entities		–	–	63,786	–
Interest received		11,054	10,129	67	36
Interest and other costs of finance paid		(75,363)	(45,942)	(22)	(20)
Income tax paid		(14,448)	(2,869)	(9,819)	–
<b>Net Cash from/(Used in) Operating Activities</b>	41(d)	<b>106,220</b>	<b>82,315</b>	<b>53,934</b>	<b>(69)</b>
<b>Cash Flows from Investing Activities</b>					
Payment for investments in joint venture entity		–	(7)	–	–
Payment for property, plant and equipment		(12,825)	(2,752)	–	–
Proceeds from sale of property, plant and equipment		89	278	–	–
Purchase of controlled entities – SCP gas business		(209,213)	–	–	–
Purchase of joint venture interest – Carpentaria Gas Pipeline		(97,238)	–	–	–
Cash from entities acquired		116,424	–	–	–
<b>Net Cash Used in Investing Activities</b>		<b>(202,763)</b>	<b>(2,481)</b>	<b>–</b>	<b>–</b>
<b>Cash Flows from Financing Activities</b>					
Proceeds from borrowing		810,000	16,000	–	–
Repayment of borrowing		(742,593)	(524,292)	–	–
Proceeds from issue of units		73,278	16,496	73,278	16,496
Proceeds from issue of notes		–	496,036	–	–
Payment of unit issue costs		(578)	(122)	(578)	(122)
Payment of debt issue costs		(1,166)	(2,806)	–	–
Proceeds from related parties		–	–	(62,809)	36,675
Distributions paid to:					
Unitholders of Trust		(63,786)	(52,950)	(63,786)	(52,950)
Outside equity interests		(490)	(261)	–	–
<b>Net Cash from/(Used in) Financing Activities</b>		<b>74,665</b>	<b>(51,899)</b>	<b>(53,895)</b>	<b>99</b>
<b>Net (Decrease)/Increase in Cash Held</b>		<b>(21,878)</b>	<b>27,935</b>	<b>39</b>	<b>30</b>
Cash at the beginning of the financial year		44,251	16,316	134	104
<b>Cash at the End of the Financial Year</b>	41(a)	<b>22,373</b>	<b>44,251</b>	<b>173</b>	<b>134</b>

Notes to the financial statements are included on pages 34 to 72.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 1. Summary of Accounting Policies

### FINANCIAL REPORTING FRAMEWORK

This financial report is a general purpose financial report which has been prepared in accordance with the constitution, the Corporations Act 2001, applicable accounting standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

The financial report has been prepared on the basis of historical cost and except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

### SIGNIFICANT ACCOUNTING POLICIES

Accounting policies are selected and applied in a manner, which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is effectively reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

#### (a) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being Australian Pipeline Trust ("head entity") and its controlled entities as defined in AASB 1024 "Consolidated Accounts".

A list of controlled entities appears in Note 36. Consistent accounting policies have been employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which APA obtains control and until such time as APA ceases to control such entity.

In preparing the consolidated financial statements, all inter-entity balances and transactions, and unrealised profits arising, within the consolidated entity are eliminated in full.

#### (b) Payables

Trade payables and other payables are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

#### (c) Acquisition of Assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present values as at the date of acquisition.

#### (d) Interest-Bearing Liabilities

Bank loans and other loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accrual basis.

Ancillary costs incurred in connection with the arrangement of interest-bearing liabilities are deferred and amortised over the period of the interest-bearing liability.

#### (e) Capitalisation of Borrowing Costs

Borrowing costs directly attributable to assets under construction are capitalised as part of the cost of those assets.

#### (f) Depreciation

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on either a straight-line or throughput basis depending on the nature of the asset so as to write off the net cost of each asset over its estimated useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The following estimated useful lives are used in the calculation of depreciation:



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 1. Summary of Accounting Policies (continued)

### (f) Depreciation (continued)

- buildings 50 years;
- compressors up to 25 years;
- pipelines up to 65 years; and
- other plant and equipment 3 – 20 years.

### (g) Intangibles

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable net assets acquired, is amortised on a straight-line basis over a period of 20 years.

The right to receive a pipeline tariff is being amortised on a straight-line basis until 2011, being the termination date of the contract to which the right relates.

### (h) Derivative Financial Instruments

The consolidated entity uses derivative financial instruments ("derivatives") to hedge exposures to interest rate and foreign exchange risk. In order to be designated as a hedge, at inception and during the term of the hedging instrument, it must be expected that the hedge will be effective in reducing exposure to the risks being hedged. Derivatives are not entered into for speculative purposes.

#### Interest Rate

Interest rate swaps are used to vary the consolidated entity's mix of fixed and variable rate borrowing. These derivatives are accounted for on an accrual basis consistent with the accounting treatment of the underlying borrowing. Both payments and receipts under the swaps are included in interest expense. The related amount receivable from or payable to counterparties, is included in other receivables or other payables.

#### Foreign Exchange

Cross currency swaps are used to hedge foreign currency borrowings. Derivatives that hedge the borrowings are measured at the spot rate and included in non-current receivables or payables. Gains or losses are recognised in net profit or loss as they occur and offset translation gains and losses on the underlying hedged item. If a derivative is terminated and the anticipated transaction is no longer probable, all gains and losses are recognised immediately in the statement of financial performance. Further details are disclosed in Note 44.

### (i) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave, and other employee benefits (long service leave) expected to be settled within 12 months, are measured at their nominal values using the remuneration rates expected to apply at the time of settlement.

Provisions made in respect of other employee benefits (long service leave) which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to the end of the financial year.

### (j) Financial Instruments Issued by APA

#### Debt and Equity Instruments

Debt and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement.

#### Transaction Costs on the Issue of Equity Instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 1. Summary of Accounting Policies (continued)

### (j) Financial Instruments Issued by APA (continued)

#### Interest and Distributions

Interest and distributions are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments or component parts of compound instruments.

### (k) Foreign Currency Transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date and resulting exchange differences are recognised in the statement of financial performance in the period in which they arise.

### (l) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST, except for accrued revenue and accrued expense at balance date which exclude GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

GST receivable or GST payable is only recognised once a tax invoice has been issued or received.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

### (m) Income Tax

Tax effect accounting principles have been adopted whereby income tax expense has been calculated on pre-tax profit after adjustment for permanent differences. The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in deferred tax liabilities and deferred tax assets, as applicable.

During the previous financial year, the directors elected that APA and all its wholly-owned Australian tax resident entities would join a tax consolidated group. As a result, all income tax expenses, revenues, assets and liabilities of the members of the tax consolidated group are recognised in the financial statements of the head entity.

Due to the existence of a tax sharing agreement between the entities in the tax consolidated group, the income tax expense/revenue of APA includes the tax contribution amounts paid or payable between the head entity and wholly-owned entities made in accordance with the agreement. Further information about the tax sharing agreement is detailed in Note 4.

The current and deferred tax assets and liabilities of the head entity are not reduced by any amounts owing from or to wholly owned entities in accordance with the tax sharing agreement as these amounts are recognised as inter-entity receivables and payables.

### (n) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories on hand by the method most appropriate to each particular class of inventories, with the majority being valued on a first-in, first-out basis.

### (o) Investments

Investments in controlled entities are recorded at cost. Investments in the joint venture entity has been accounted for under the equity method in the consolidated financial statements. Other investments are recorded at cost.

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on an accrual basis.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 1. Summary of Accounting Policies (continued)

### (p) Joint Ventures

#### Joint Venture Operations

Interests in joint venture operations are reported in the financial statements by including the consolidated entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to joint ventures and the share of any expenses incurred in relation to joint ventures in their respective classification categories.

#### Joint Venture Entity

Interest in a joint venture entity, which is not a partnership, is accounted for under the equity method in the consolidated financial statements and the cost method in APA's financial statements.

### (q) Leased Assets

Leased assets classified as finance leases are capitalised. The amount initially brought to account is the present value of the minimum lease payments.

A finance lease is one which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property.

Capitalised leased assets are amortised on a straight-line basis over the estimated useful life of the asset.

Finance lease payments are allocated between interest expense and reduction of the lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

Operating lease payments are charged as an expense in the period in which they are incurred.

### (r) Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event, it is probable that a future sacrifice of economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the financial year, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

### (s) Distributions

A provision is recognised for distributions only when they have been declared, determined or publicly recommended by the directors.

### (t) Receivables

Trade receivables and other receivables are recorded at amounts due less any allowance for doubtful debts.

### (u) Recoverable Amount of Non-Current Assets

Non-current assets are written down to recoverable amount where the carrying value of any non-current asset exceeds its recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have been discounted to their present value.

### (v) Revenue Recognition

#### Rendering of Services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

#### Disposal of Assets

Revenue from the disposal of assets is recognised when the consolidated entity has passed control of the assets to the buyer.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 2. Profit from Ordinary Activities

	Consolidated		Trust	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Profit from ordinary activities before income tax expense includes the following items of revenue and expense:				
<b>(a) Operating Revenue</b>				
Sales revenue:				
Pipeline transportation revenue	265,087	169,565	–	–
Other pipeline revenue – passthrough	89,304	74,577	–	–
	354,391	244,142	–	–
Interest revenue:				
Other entities	17,852	16,737	67	36
Dividends – wholly-owned controlled entities	–	–	63,786	–
Share of net profits from joint venture entities accounted for using the equity method (Note 43(c))	2,148	22,990	–	–
Other	3,310	925	1,288	1,002
	377,701	284,794	65,141	1,038
<b>(b) Non-Operating Revenue</b>				
Proceeds from disposal of property, plant and equipment	89	278	–	–
	377,790	285,072	65,141	1,038
<b>(c) Expenses</b>				
Borrowing costs:				
Interest:				
Other entities	78,783	60,360	22	20
Amortisation of deferred borrowing costs	2,672	1,980	–	–
Finance lease charges	57	58	–	–
Other borrowing costs	645	686	–	–
	82,157	63,084	22	20
Net bad and doubtful debts/(recoveries) arising from other entities	133	(137)	–	–
Depreciation of non-current assets:				
Property, plant and equipment	35,370	21,225	–	–
Amortisation of non-current assets:				
Goodwill	464	464	–	–
Leased assets	284	178	–	–
Right to receive pipeline tariff	700	700	–	–
	36,818	22,567	–	–
Other pipeline costs – passthrough:				
Operating lease rental expense	16,973	15,345	–	–
Gas pipeline costs	72,331	59,232	–	–
	89,304	74,577	–	–
Net transfers to provisions:				
Employee benefits	182	80	–	–
<b>(d) Other</b>				
Profit from sale of property, plant and equipment	70	128	–	–



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 3. Significant Items

	Consolidated		Trust	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Individually significant revenue/(expenses) included in profit from ordinary activities after related income tax expense are as follows:				
Stress corrosion cracking repair and investigative work	(23,530)	–	–	–
Mid West Pipeline written off	–	(19,943)	–	–
Due diligence costs on capital acquisition projects recovered/(written off)	2,000	(5,763)	–	–
Equity accounted tax consolidation benefit – SCP group	–	6,964	–	–
Loss from significant items before related income tax	(21,530)	(18,742)	–	–
Income tax related to significant items above	6,459	2,138	–	–
Tax consolidation benefit – APA	33,738	92,912	–	–
<b>Profit from Significant Items after Related Income Tax</b>	<b>18,667</b>	<b>76,308</b>	<b>–</b>	<b>–</b>

## 4. Income Tax

- (a) The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax (benefit)/expense in the financial statements as follows:

<b>Profit from Ordinary Activities</b>	<b>56,223</b>	<b>46,279</b>	<b>63,827</b>	<b>6</b>
Income tax expense calculated at 30%	<b>16,867</b>	13,884	<b>19,148</b>	2
<b>Permanent Differences</b>				
Non-allowable depreciation	<b>744</b>	451	–	–
Non-allowable interest expense	<b>2,145</b>	2,060	–	–
Amortisation of intangible assets	<b>349</b>	349	–	–
Equity share of joint venture entities' net profits (less unfranked dividends received)	<b>(644)</b>	(4,597)	–	–
Rebateable dividends	–	–	<b>(19,136)</b>	–
Deferred tax assets not brought to account	–	5,540	–	–
Other	<b>509</b>	–	–	–
<b>Impact of the Tax Consolidation System</b>				
Initial recognition of deferred tax balances of wholly-owned entities on implementation of the tax consolidation system	<b>(33,738)</b>	(92,912)	<b>(33,738)</b>	–
Consideration payable/(receivable) from wholly-owned entities in respect of transferred deferred tax balances	–	–	<b>33,621</b>	(69,110)
Recognition of deferred tax balances of wholly-owned entities	–	–	<b>117</b>	69,110
<b>Income Tax (Benefit)/Expense Relating to Ordinary Activities</b>	<b>(13,768)</b>	<b>(75,225)</b>	<b>12</b>	<b>2</b>
(b) Future income tax benefits not brought to account as assets:				
Tax losses – revenue	<b>972</b>	958	–	–
Tax losses – capital <sup>a</sup>	–	90,341	–	90,341
	<b>972</b>	<b>91,299</b>	<b>–</b>	<b>90,341</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 4. Income Tax (continued)

The taxation benefit of tax losses not brought to account will only be obtained if:

- the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss to be realised;
- the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and
- no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the loss.

The tax liability pursuant to the financial year's income tax expense, excluding tax consolidation benefits, is included in the deferred tax liabilities in Note 23, as a result of accelerated tax depreciation on the consolidated entity's pipeline assets.

### <sup>a</sup> Tax Losses – Capital

For the purpose of tax consolidation, the capital losses are classified as losses that were incurred before the head entity acquired the companies that incurred such losses. Consequently, the head entity has the option to either take these losses into the consolidated group and reduce the relevant Allocated Cost Amount ("ACA") or cancel the capital losses, rather than reduce the ACA. APA has chosen to cancel the capital losses for the following reasons:

- the reduction in ACA will reduce the tax cost setting amount of pipelines which reduces annual tax depreciation available;
- the capital losses, if transferred, are only able to be offset against future taxable capital gains; and
- there are restrictions in the rate of utilisation of the capital losses, which could result in only a fraction of the potential capital losses being available for utilisation.

### Tax Consolidation System

Legislation to allow groups, comprising a head entity and its wholly-owned Australian tax resident entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002.

APA and its wholly-owned Australian tax resident entities are eligible to consolidate for tax purposes under this legislation and elected to be taxed as a single entity from 1 July 2003. The head entity within the tax consolidated group for the purposes of the tax consolidation system is APA.

Entities within the tax consolidated group have entered into a tax sharing agreement with the head entity. Under the terms of this agreement, APA and each of the entities in the tax consolidated group have agreed to pay a tax equivalent payment to or from the head entity, based on the net accounting profit or loss of the entity and the current tax rate. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 5. Distributions

	Consolidated and Trust			
	2005		2004	
	Cents per Unit	Total \$'000	Cents per Unit	Total \$'000
<b>(a) Recognised Amounts</b>				
<b>Final distribution paid on 27 September 2004</b>				
(2004: 25 September 2003)				
Profit distribution <sup>a</sup>	6.5	17,864	6.5	15,860
Capital distribution	–	–	–	–
<b>First interim distribution paid on 30 December 2004</b>				
(2004: 29 December 2003)				
Profit distribution <sup>a</sup>	5.5	15,244	5.0	12,286
Capital distribution	–	–	–	–
<b>Second interim distribution paid on 30 March 2005</b>				
(2004: 29 March 2004)				
Profit distribution <sup>a</sup>	5.5	15,339	3.6	8,902
Capital distribution	–	–	1.4	3,462
<b>Third interim distribution paid on 28 June 2005</b>				
(2004: 24 June 2004)				
Profit distribution <sup>a</sup>	5.5	15,339	–	–
Capital distribution	–	–	5.0	12,440
	<b>23.0</b>	<b>63,786</b>	<b>21.5</b>	<b>52,950</b>
<b>(b) Unrecognised Amounts</b>				
<b>Final distribution payable on 29 September 2005</b>				
(2004: 27 September 2004)				
Profit distribution <sup>b</sup>	6.0	16,734	6.5	17,864
Capital distribution	–	–	–	–
	<b>6.0</b>	<b>16,734</b>	<b>6.5</b>	<b>17,864</b>

<sup>a</sup> Profit distributions were franked to 40% at the corporate income tax rate (2004: unfranked).

<sup>b</sup> Profit distribution franked to 40% at the corporate income tax rate (2004: 40% franked).

The final distribution in respect of the financial year has not been recognised in this financial report because the final distribution was not declared, determined or publicly recommended prior to the end of the financial year.

	Consolidated		Trust	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Adjusted franking account balance (tax paid basis)	10,606	11,461	10,606	11,461

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 6. Current Receivables

	Consolidated		Trust	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Trade receivables	30,844	12,133	–	–
Less: allowance for doubtful debts	(208)	(75)	–	–
	30,636	12,058	–	–
Goods and services tax recoverable	–	–	124	96
Other receivables	–	37	–	–
	30,636	12,095	124	96

## 7. Current Inventories

Finished goods – at cost	3,121	50	–	–
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## 8. Other Current Assets

Prepayments	1,548	1,053	–	–
Other	676	419	–	–
	2,224	1,472	–	–

## 9. Non-Current Receivables

Other receivables	2	1	–	–
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## 10. Investments Accounted for Using the Equity Method

Joint venture entity – not quoted on stock exchange (Note 43)	–	171,137	–	–
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## 11. Other Non-Current Financial Assets

Shares in controlled entities – at cost (Note 36)	–	–	371,551	371,551
Non-trade receivables from:				
Wholly-owned controlled entities <sup>a</sup>	–	–	212,842	164,136
	–	–	584,393	535,687

<sup>a</sup> Includes amounts arising from APA's tax sharing agreement between APA and each of the entities in the tax consolidated group (Note 4).



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 12. Property, Plant and Equipment

	Consolidated					
	Freehold Land and Buildings at Cost \$'000	Leasehold Improvements at Cost \$'000	Pipeline Assets at Cost \$'000	Plant and Equipment at Cost \$'000	Work in Progress at Cost \$'000	Total \$'000
<b>Gross Carrying Amount</b>						
Balance at 30 June 2004	6,163	435	1,254,106	8,009	2,289	1,271,002
Additions	189	15	4,655	2,841	6,552	14,252
Acquisition of business	29,261	6	606,145	16,578	2,877	654,867
Disposals	–	–	–	(202)	–	(202)
Transfers	(11)	–	2,473	973	(3,435)	–
<b>Balance at 30 June 2005</b>	<b>35,602</b>	<b>456</b>	<b>1,867,379</b>	<b>28,199</b>	<b>8,283</b>	<b>1,939,919</b>
<b>Accumulated Depreciation</b>						
Balance at 30 June 2004	(518)	(431)	(81,275)	(3,916)	–	(86,140)
Depreciation expense	(1,698)	(7)	(31,309)	(2,640)	–	(35,654)
Disposals	–	–	–	183	–	183
Transfers	–	–	–	–	–	–
<b>Balance at 30 June 2005</b>	<b>(2,216)</b>	<b>(438)</b>	<b>(112,584)</b>	<b>(6,373)</b>	<b>–</b>	<b>(121,611)</b>
<b>Net Book Value</b>						
As at 30 June 2004	5,645	4	1,172,831	4,093	2,289	1,184,862
<b>As at 30 June 2005</b>	<b>33,386</b>	<b>18</b>	<b>1,754,795</b>	<b>21,826</b>	<b>8,283</b>	<b>1,818,308</b>

The freehold land and buildings of the consolidated entity were valued on a "market value – in use" basis at \$36,852,000 in 2005 by independent licensed valuers.

The Trust has no property, plant and equipment.

## 13. Intangibles

	Consolidated		Trust	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Goodwill	7,916	7,916	–	–
Less: accumulated amortisation	(7,445)	(6,981)	–	–
	471	935	–	–
Right to receive pipeline tariff	15,677	15,677	–	–
Less: accumulated amortisation	(11,124)	(10,424)	–	–
	4,553	5,253	–	–
	5,024	6,188	–	–

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 14. Deferred Tax Assets

	Consolidated		Trust	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Future income tax benefit:				
Timing differences	31,458	10,077	31,458	10,077
	31,458	10,077	31,458	10,077

## 15. Other Non-Current Assets

Debt issue costs	12,423	11,256	–	–
Less: accumulated amortisation	(9,098)	(7,718)	–	–
	3,325	3,538	–	–
Other	50	–	–	–
	3,375	3,538	–	–

## 16. Current Payables

Trade payables	25,494	19,300	12	12
Other payables	37,748	34,629	17,994	18,040
	63,242	53,929	18,006	18,052

## 17. Current Interest-Bearing Liabilities

Finance lease liabilities <sup>a</sup> (Note 34)	188	180	–	–
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<sup>a</sup> Secured by the assets leased, the current market value of which exceeds the value of the finance lease liability.

## 18. Current Tax Liabilities

Income tax payable attributable to:				
Parent entity	12	2	12	2
Other entities in the tax consolidated group <sup>a</sup>	1,175	5,936	1,175	5,936
	1,187	5,938	1,187	5,938

<sup>a</sup> Entities in the tax consolidated group have entered into a tax sharing agreement with APA (Note 4).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 19. Current Provisions

	Consolidated		Trust	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Employee benefits (Note 26)	1,414	824	–	–
Other (Note 31)	21,911	1,078	–	–
	23,325	1,902	–	–

## 20. Other Current Liabilities

Unearned revenue – interest	7,465	7,151	–	–
Unearned revenue – other	49,136	176	–	–
	56,601	7,327	–	–

## 21. Non-Current Payables

Non-trade payables to:

Wholly-owned controlled entities <sup>a</sup>	–	–	8,461	7,406
Other	54,920	17,938	–	–
	54,920	17,938	8,461	7,406

<sup>a</sup> Includes amounts arising from APA's tax sharing agreement between APA and each of the entities in the tax consolidated group (Note 4).

## 22. Non-Current Interest-Bearing Liabilities

### (a) Unsecured

Bank borrowings	568,000	250,000	–	–
Guaranteed Senior Notes <sup>a</sup>	441,116	478,098	–	–
	1,009,116	728,098	–	–

### (b) Secured

Bank borrowings <sup>b</sup>	1,645	1,645	–	–
Finance lease liabilities <sup>c</sup> (Note 34)	344	482	–	–
	1,989	2,127	–	–
	1,011,105	730,225	–	–

<sup>a</sup> As measured at reporting date.

<sup>b</sup> Secured over buildings located in the Northern Territory.

<sup>c</sup> Secured by the assets leased, the current market value of which exceeds the value of the finance lease liability.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 23. Deferred Tax Liabilities

	Consolidated		Trust	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Deferred income tax attributable to:				
Entities in the tax consolidated group <sup>a</sup>	<b>88,123</b>	86,956	<b>88,123</b>	86,956
	<b>88,123</b>	86,956	<b>88,123</b>	86,956

<sup>a</sup> Entities in the tax consolidated group have entered into a tax sharing agreement with APA (Note 4).

## 24. Non-Current Provisions

Employee benefits (Note 26)	<b>74</b>	143	–	–
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## 25. Other Non-Current Liabilities

Unearned revenue – other	<b>2,533</b>	1,127	–	–
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## 26. Employee Benefits

The aggregate employee benefit liability recognised and included in the financial statements is as follows:

Provision for employee benefits

Current (Note 19)				
Incentives	<b>889</b>	600	–	–
Other	<b>525</b>	224	–	–
	<b>1,414</b>	824	–	–
Non-current (Note 24)	<b>74</b>	143	–	–
	<b>1,488</b>	967	–	–

	Consolidated		Trust	
	2005 No.	2004 No.	2005 No.	2004 No.
Number of employees at the end of the financial year	<b>31</b>	17	–	–

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 27. Contributed Equity

	Consolidated		Trust	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>(a) Contributed Equity</b>				
Balance at the beginning of the financial year	427,435	426,963	427,435	426,963
Private placement of APA units	61,740	–	61,740	–
Issued under DRP	11,538	16,496	11,538	16,496
Capital distributions (Note 5)	–	(15,902)	–	(15,902)
Issue costs of units	(578)	(122)	(578)	(122)
Balance at the end of the financial year	500,135	427,435	500,135	427,435
	2005 No.'000	2004 No.'000	2005 No.'000	2004 No.'000
<b>(b) Fully Paid Units<sup>a</sup></b>				
Balance at the beginning of the financial year	250,336	244,000	250,336	244,000
Private placement units	24,500	–	24,500	–
Issues under DRP	4,059	6,336	4,059	6,336
Balance at the end of the financial year	278,895	250,336	278,895	250,336

<sup>a</sup> Fully paid units carry one vote per unit and carry the right to distributions.

## 28. Asset Revaluation Reserve

	Consolidated		Trust	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Balance at the beginning of the financial year	–	–	–	–
Additions – SCP gas business acquisition	8,669	–	–	–
Balance at the end of the financial year	8,669	–	–	–

The asset revaluation reserve relates to fair valuation of non-current assets of SCP on acquisition. Where a revalued asset is sold, that portion of the asset revaluation reserve which relates to that asset, and is effectively realised, is transferred to retained profits.

## 29. Retained Profits

Balance at the beginning of the financial year	100,439	16,195	207	37,251
Net profit attributable to unitholders	69,681	121,292	63,815	4
Distributions provided for or paid (Note 5)	(63,786)	(37,048)	(63,786)	(37,048)
Balance at the end of the financial year	106,334	100,439	236	207



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 30. Outside Equity Interests

	Consolidated		Trust	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Outside equity interests in controlled entities comprise:				
Issued capital	4	4	–	–
Reserves	1	1	–	–
Retained profits	80	127	–	–
	85	132	–	–

## 31. Provisions

	Consolidated			
	Force Majeure Claims <sup>a</sup> \$'000	SCC Repair Provision \$'000	Other \$'000	Total \$'000
Balance at 30 June 2004	346	–	732	1,078
Additional provisions recognised	7	20,120	1,230	21,357
Reductions arising from payments/other sacrifices of future economic benefits	–	–	(524)	(524)
<b>Balance as at 30 June 2005</b>	<b>353</b>	<b>20,120</b>	<b>1,438</b>	<b>21,911</b>
Current (Note 19)	353	20,120	1,438	21,911

<sup>a</sup> The force majeure provision represents claims made by certain customers on the consolidated entity for disruption to their business by extraneous events. The directors had provided for these claims in full.

The Trust has no provisions.

## 32. Commitments for Expenditure

	Consolidated		Trust	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>(a) Capital Expenditure Commitments</b>				
<b>Plant and Equipment</b>				
Not longer than 1 year	15,693	514	–	–
	15,693	514	–	–
<b>Consolidated Entity's Share of Joint Venture Entity's Commitments</b>				
Not longer than 1 year	–	88	–	–
	–	88	–	–
<b>(b) Other Expenditure Commitments</b>				
<b>Consolidated Entity's Share of Joint Venture Entity's Commitments</b>				
Not longer than 1 year	–	1,258	–	–
Longer than 1 year but not longer than 5 years	–	200	–	–
Longer than 5 years	–	632	–	–
	–	2,090	–	–

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 33. Contingent Liabilities and Contingent Assets

	Consolidated		Trust	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>(a) Contingent Liabilities</b>				
Bank guarantees	78	78	–	–
Contingent liability arising from provision of financial support to wholly-owned controlled entities <sup>a</sup>	–	–	159,846	154,619
<b>(b) Contingent Assets</b>	–	–	–	–

<sup>a</sup> APA has agreed to provide financial support, when and as required, to all wholly-owned controlled entities with either a deficit in shareholders' funds or an excess of current liabilities over current assets. The amount disclosed as a contingent liability is the total deficit in shareholders' funds of such wholly-owned controlled entities. The extent of cash outflow that will be required is dependent on future operations of the relevant entities.

## 34. Leases

### (a) Finance Leases

#### Leasing Arrangements

Finance leases relate to leases of general property, plant and equipment. There are no contingent rental payments due or payable. There are no renewal or purchase options and escalation clauses or restrictions imposed by the lease arrangements concerning distributions, additional debt and further leasing.

#### Finance Lease Liabilities

Not longer than 1 year	224	229	–	–
Longer than 1 year but not longer than 5 years	376	547	–	–
Minimum finance lease payments	600	776	–	–
Less: future finance charges	(68)	(114)	–	–
Present value of lease payments	532	662	–	–
Included in the financial statements as:				
Current interest-bearing liabilities (Note 17)	188	180	–	–
Non-current interest-bearing liabilities (Note 22)	344	482	–	–

### (b) Non-Cancellable Operating Leases

#### Leasing Arrangements

Operating leases relate to leases of office space and the lease of transmission pipelines in the Northern Territory. There are no renewal or purchase options and escalation clauses or restrictions imposed by the lease arrangements concerning distributions, additional debt and further leasing. Various operating leases have standard lease renewal options. Office space lease is subject to annual increases based on the Consumer Price Index ("CPI").

In respect of the transmission pipelines, the Northern Territory Government has guaranteed a minimum income to APA to meet the operating lease commitments as detailed below:

#### Non-Cancellable Operating Leases – Transmission Pipelines

Not longer than 1 year	17,812	16,672	–	–
Longer than 1 year but not longer than 5 years	72,228	69,546	–	–
Longer than 5 years	81,892	98,313	–	–
	171,932	184,531	–	–

#### Non-Cancellable Operating Leases – Other

Not longer than 1 year	1,062	267	–	–
Longer than 1 year but not longer than 5 years	1,143	780	–	–
Longer than 5 years	768	26	–	–
	2,973	1,073	–	–

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 35. Joint Venture Operations

Joint Venture	Principal Activity	Interest of Consolidated Entity	
		2005 (%)	2004 (%)
Goldfields Gas Transmission	Gas pipeline operation – Western Australia	88.2 <sup>a</sup>	–
Mid West Pipeline	Gas pipeline operation – Western Australia	50.0 <sup>b</sup>	50.0 <sup>b</sup>
Carpentaria Gas Pipeline	Gas pipeline operation – Queensland	– <sup>c</sup>	70.0

<sup>a</sup> On 17 August 2004, APA acquired a direct interest in the GGT joint venture as a part of the SCP gas business acquisition.

<sup>b</sup> Pursuant to the joint venture agreement, the consolidated entity receives a 70.8% share of operating income and expenses.

<sup>c</sup> On 25 February 2005, APA acquired the remaining 30% interest in the CGP moving to 100% ownership of the pipeline.

The consolidated entity's interest in assets employed in the above joint venture operations is detailed below. The amounts are included in the consolidated financial statements under their respective asset categories:

	2005 \$'000	2004 \$'000
<b>Current Assets</b>		
Cash	730	264
Receivables	1,809	196
Inventories	1,340	–
Other	925	137
<b>Non-Current Assets</b>		
Property, plant and equipment	448,262	154,715
Total assets	453,066	155,312

## 36. Controlled Entities

Name of Entity	Country of Registration/ Incorporation	Ownership Interest 2005 (%)	Ownership Interest 2004 (%)
<b>Parent Entity</b>			
Australian Pipeline Trust <sup>a</sup>	Australia		
<b>Controlled Entities</b>			
APT Pipelines Limited <sup>b</sup>	Australia	100	100
Agex Pty Ltd <sup>b</sup>	Australia	100	100
Amadeus Gas Trust	Australia	96	96
APT Management Services Pty Limited <sup>b</sup>	Australia	100	100
APT Petroleum Pipelines Holdings Pty Limited <sup>b</sup>	Australia	100	100
APT Petroleum Pipelines Limited <sup>b</sup>	Australia	100	100
APT Pipelines (NSW) Pty Limited <sup>b</sup>	Australia	100	100
APT Pipelines (NT) Pty Limited <sup>b</sup>	Australia	100	100
APT Pipelines (Qld) Pty Limited <sup>b</sup>	Australia	100	100
APT Pipelines (WA) Pty Limited <sup>b</sup>	Australia	100	100
APT Pipelines Investments (NSW) Pty Ltd <sup>b</sup>	Australia	100	100

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 36. Controlled Entities (continued)

Name of Entity	Country of Registration/ Incorporation	Ownership Interest 2005 (%)	Ownership Interest 2004 (%)
APT Pipelines Investments (WA) Pty Ltd <sup>b</sup>	Australia	100	100
East Australian Pipeline Limited <sup>b</sup>	Australia	100	100
Gasinvest Australia Pty Limited <sup>b</sup>	Australia	100	100
NT Gas Distribution Pty Limited	Australia	96	96
NT Gas Easements Pty Limited <sup>b</sup>	Australia	100	100
NT Gas Pty Limited	Australia	96	96
Roverton Pty Ltd <sup>b</sup>	Australia	100	100
Sopic Pty Ltd <sup>b</sup>	Australia	100	100
Trans Australia Pipeline Pty Limited <sup>b</sup>	Australia	100	100
APT Pipelines (TTP Investments) Pty Limited <sup>b</sup> (formerly WA Pipelines (Investments) Pty Limited)	Australia	100	100
APT Pipelines (TTP) Pty Limited <sup>b</sup> (formerly WA Pipelines Pty Limited)	Australia	100	100
SCP Investments (No.1) Pty Limited <sup>b</sup>	Australia	100	55
SCP Investments (No.2) Pty Limited <sup>b</sup>	Australia	100	55
SCP Investments (No.3) Pty Limited <sup>b</sup>	Australia	100	55
Southern Cross Pipelines (NPL) Australia Pty Limited <sup>b</sup>	Australia	100	55
Southern Cross Pipelines Australia Pty Limited <sup>b</sup>	Australia	100	55
Goldfields Gas Transmission Pty Ltd <sup>b</sup>	Australia	100	55
APT Goldfields Pty Ltd <sup>b</sup> (formerly known as CMS Goldfields Gas Transmission Pty Ltd)	Australia	100	–
APT Parmelia <sup>b</sup> (formerly known as CMS Gas Transmission of Australia)	Australia	100	–
APT Parmelia Gas Pty Ltd <sup>b</sup> (formerly known as CMS Parmelia Gas Transmission Pty Limited)	Australia	100	–
Western Australia Gas Transmission Company 1 <sup>b</sup>	Australia	100	–
APT Parmelia Holdings <sup>b</sup> (formerly known as CMS Gas Transmission of Australia Holdings)	Australia	100	–
APT Parmelia Trust <sup>b</sup> (formerly known as CMS Gas Transmission of Australia Trust)	Australia	100	–
APT Pipelines (Operations) Pty Limited <sup>b</sup>	Australia	100	–

<sup>a</sup> Australian Pipeline Trust is the head entity within the tax consolidated group.

<sup>b</sup> These entities are members of the tax consolidated group.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 37. Segment Information

The consolidated entity operates predominantly in one business segment, being gas transmission infrastructure, and one geographical segment, being Australia. The consolidated entity earns revenue by selling transportation and related services to the producers, consumers and aggregators of gas.

## 38. Remuneration Report for Directors and Executives

This report outlines the remuneration arrangements in place for directors and executives of APL.

The board has established a Nominations and Remuneration Committee ("committee") to consider and report on, among other things, remuneration policies and packages applicable to board members and to senior managers of APA. Three non-executive directors, Messrs G H Bennett (chairman), R M Gersbach and M Muhammad are members of the committee, which meets at least twice each year.

The terms of reference of the committee are to:

- (a) ensure long term people needs are met through effective talent management and succession planning;
- (b) ensure clear alignment between the needs and requirements of key stakeholder groups (ie customers, unitholders and communities) and the objectives and values of APA;
- (c) reward APA people for high performance, and keep them committed and motivated;
- (d) encourage teamwork and shared learning;
- (e) foster growth of APA people to enable them to reach their full potential through performance management, development and training;
- (f) ensure compliance with relevant legislation and corporate governance principles on remuneration practices and employment policies; and
- (g) effectively overview remuneration, including incentives and retirement benefits, for people at all levels, enabling APA to attract and retain people who create value for unitholders.

The MD/CEO attends meetings of the committee by invitation when required to report on, and discuss, senior management performance and other remuneration matters.

The committee can seek external professional advice on any matter within its terms of reference. Egan Associates was engaged to review non-executive director and executive compensation and benchmarking during the financial year.

AGL was also engaged to review the short term incentive plan and advise on whether APA should introduce a long term incentive plan. The board approved AGL services in advance.

### REMUNERATION OF NON-EXECUTIVE DIRECTORS

Non-executive directors receive fees determined by the board, acting on advice of the committee. External professional advice is sought in determining directors' fees to ensure they are appropriate relative to fees paid by comparable listed companies. The board has available to it data on fees paid by a wide range of companies.

Non-executive director remuneration comprises a base fee, superannuation guarantee contributions, a due diligence committee attendance fee and an additional fee for the chairman of the Audit and Risk Management Committee.

The directors of the responsible entity, who are the specified directors, during the financial year were:

**Mr G H Bennett (chairman, non-executive);**

**Mr R M Gersbach (non-executive), appointed 26 August 2004;**

**Mr R A Higgins (non-executive), appointed 7 December 2004;**

**Ms J F McAloon (non-executive), appointed 23 March 2005;**

**Mr M Muhammad (non-executive);**



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 38. Remuneration Report for Directors and Executives (continued)

Mr R J Wright (non-executive);

Mr Ed Osman Ridzwan (non-executive), alternate for Mr M Muhammad;

Mr L J Fisk (non-executive), retired 26 August 2004;

Mr J A Fletcher (non-executive), retired 23 March 2005;

Mr T C Ford (non-executive), retired 7 December 2004; and

Mr J K McDonald (MD, executive), retired as of 1 July 2005.

### Executives

The executives of APA with the greatest authority ("specified executives") during the financial year were:

Mr M J McCormack (chief operating officer, CEO from 1 July 2005);

Mr A J V James (company secretary/general manager-corporate);

Mr S P Ohl (general manager-operations), commenced 2 May 2005;

Ms S M Dureau (general counsel), commenced 1 August 2004;

Mr G N Williams (CFO), employment terminated as of 1 July 2005; and

Mr K F Dixon (general manager-strategic planning), employment terminated on 30 April 2005.

The table below sets out the remuneration for the directors for the financial year:

	Primary				Post-Employment		
	Salary/ Fees \$	Due Diligence Committee Fees \$	Incentive Scheme \$	Non Monetary \$	Superannuation \$	Other Benefits \$	Total \$
<b>2005</b>							
<b>Non-Executive Directors</b>							
G H Bennett	90,000	21,400	–	–	10,026	–	121,426
R M Gersbach	37,500	–	–	–	–	–	37,500
R A Higgins	26,250	–	–	–	2,363	–	28,613
J F McAloon	11,250	–	–	–	–	–	11,250
M Muhammad	45,000	20,700	–	–	–	–	65,700
R J Wright	50,000	27,100	–	–	6,939	–	84,039
Ed Osman Ridzwan	–	–	–	–	–	–	–
L J Fisk	7,500	–	–	–	–	–	7,500
J A Fletcher	33,750	–	–	–	–	–	33,750
T C Ford	22,500	18,400	–	–	2,088	–	42,988
<b>Executive Director</b>							
J K McDonald <sup>a</sup>	419,410	–	247,143	33,948	91,732	400,000	1,192,233
<b>Total</b>	<b>743,160</b>	<b>87,600</b>	<b>247,143</b>	<b>33,948</b>	<b>113,148</b>	<b>400,000</b>	<b>1,624,999</b>

<sup>a</sup> MD until 1 July 2005. Other benefits relate to a retirement payment.

Fee increases of the non-executive directors of APL are approved by the shareholders of APL. The last increase in fees to directors was made in July 2002. Based on independent advice provided by Egan Associates, the board, subject to APL shareholder approval, has increased base fees by 42%. The aggregate amount of base fees paid to directors in the year ending 30 June 2006 will be \$455,000.

Non-executive directors do not receive incentive payments of any type.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 38. Remuneration Report for Directors and Executives (continued)

Three of the directors, Messrs G H Bennett, T C Ford and R J Wright, had as a condition of their service with APL, an entitlement to a deferred benefit payable at retirement from the board. After three years' service, a director was entitled to the equivalent of the emoluments received over the most recent 12 months. After ten years' service, the entitlement rose to the equivalent of emoluments received during the most recent three years. No additional entitlement accrued after ten years. For periods between three and ten years, the entitlement was calculated on a pro-rata basis.

In 2003, the board terminated the retirement benefit program. The benefits that had already accrued under the program are now payable on retirement of the directors who participated in the retirement benefit program. Mr Ford was paid his entitlement upon retirement.

No options or units have been issued to APL directors as a consequence of their position as directors.

### REMUNERATION OF MD AND OTHER SENIOR EXECUTIVES

For the purposes of this report, the remuneration details of the MD have been considered here as the basis of remuneration is similar to other senior executives. The following table details the fixed and variable components of remuneration for senior executives.

The following table discloses the remuneration of all the senior executives of the consolidated entity for the financial year:

	Primary			Post-Employment		
	Salary \$	Incentive Scheme \$	Non Monetary \$	Superannuation \$	Other Benefits \$	Total \$
<b>2005</b>						
<b>Executives</b>						
J K McDonald <sup>a</sup>	419,410	247,143	33,948	91,732	400,000	1,192,233
M J McCormack <sup>b</sup>	260,022	84,000	45,769	18,785	–	408,576
A J V James <sup>c</sup>	208,590	80,500	12,752	28,658	–	330,500
S P Ohi <sup>d</sup>	86,204	–	25,882	4,931	–	117,017
S M Dureau <sup>e</sup>	170,468	64,078	1,329	10,619	–	246,494
G N Williams <sup>f</sup>	215,359	101,500	31,257	41,585	350,000	739,701
K F Dixon <sup>g</sup>	212,335	65,000	1,208	9,654	230,000	518,197
<b>Total</b>	<b>1,152,978</b>	<b>395,078</b>	<b>118,197</b>	<b>114,232</b>	<b>580,000</b>	<b>2,360,485</b>

<sup>a</sup> MD until 1 July 2005. Other benefits relate to a retirement payment.

<sup>b</sup> Chief operating officer during the financial year. Appointed CEO from 1 July 2005.

<sup>c</sup> Company secretary/general manager-corporate.

<sup>d</sup> General manager-operations, commenced on 2 May 2005.

<sup>e</sup> General counsel, commenced on 1 August 2004.

<sup>f</sup> CFO until 1 July 2005. Other benefits relate to termination payments, as per contract terms.

<sup>g</sup> General manager-strategic planning until 30 April 2005. Other benefits relate to termination payment, as per contract terms.

APA operates in a highly competitive national environment, and the board has adopted policies and processes which:

- enable APA to attract and retain key executives who will create sustainable value for unitholders;
- properly motivate and reward executives having regard to the overall performance of APA, the performance of the executive measured against pre-determined objectives and the external compensation environment;
- appropriately align the interests of executives with unitholders; and
- comply with applicable legal requirements and appropriate standards of governance.

All senior executives of APA receive a combination of fixed and variable (at risk) remuneration. Fixed remuneration is made up of base salary and other incidental benefits. Total fixed remuneration ("TFR") is determined by reference to appropriate benchmark information, taking into account an individual's responsibilities, performance, qualifications and experience.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 38. Remuneration Report for Directors and Executives (continued)

Variable remuneration is in the form of a short term incentive, payable in cash. The board believes that well designed and managed short term incentive plans are important elements of employee remuneration, providing tangible incentives for employees to strive to improve APA's performance to the benefit of unitholders. The aggregate of short term incentives is subject to a maximum limit. The proportions vary at different levels within APA, reflecting the capacity of the staff to influence the overall outcome of APA's operations and returns to unitholders. The variable component is based on the financial performance of APA and a series of personal key performance indicators.

The short term incentive plan ("STI") is based on APA achieving specific financial goals, reinforcing a culture that is ethical and values based. All senior executives have their STIs based on achieving financial and personal performance goals.

For the MD/CEO, the maximum STI is 45% of total fixed remuneration. For other senior executives, the maximum STI is 35% of total fixed remuneration.

At the beginning of each financial year, the committee considers the appropriate financial and non-financial performance targets to be met for the senior executives. The actual entitlement is based on the achievement of financial and non-financial goals.

At the end of each financial year, the committee compares the financial results to the agreed financial goals to determine what levels, in relation to those targets, have been achieved. The chairman then advises the committee on the success of the MD/CEO in meeting his non-financial goals.

The MD/CEO is then invited to present his report of the success of his senior executives in meeting their non-financial goals.

The committee then makes the appropriate recommendation to the board.

The MD/CEO and senior executives are measured against a "financial gate" – the minimum necessary to qualify for a STI award. This "financial gate" is based on achieving the net profit after tax of the previous financial year, after removing non-recurring items.

To obtain the maximum award in relation to financial goals for the year ended 30 June 2005, APA had to achieve an operating profit after tax of \$50.6 million, earnings per unit of 18.3 cpu and an operating cash flow of \$102.3 million.

To obtain the maximum award in relation to non-financial goals, senior executives must meet the non-financial goals agreed with the senior executive at the beginning of the relevant financial year.

The board reviews the recommendations of the committee and then resolves to make the award. Once approved by the board, the STI awards are paid to the participants in cash. Based on the performance of APA during the financial year, as measured by the financial results, the financial goals were fully met.

### LONG TERM INCENTIVE PLANS

APA does not currently offer long term incentive plans. The committee has requested a review of the current remuneration package to determine whether a long term incentive should now be provided for selected senior executives.

No options or other equity instruments are issued to APA employees or directors.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 38. Remuneration Report for Directors and Executives (continued)

The following table discloses the remuneration for specified directors and executives for the previous financial year:

	Primary			Post-Employment	
	Salary/Fees \$	Incentive Scheme \$	Non Monetary \$	Superannuation \$	Total \$
<b>2004</b>					
<b>Specified Directors</b>					
G H Bennett	90,000	–	–	8,100	98,100
M Muhammad	45,000	–	–	–	45,000
R J Wright	50,000	–	–	4,500	54,500
R A Casamento <sup>a</sup>	–	–	–	–	–
Ed Osman Ridzwan <sup>b</sup>	–	–	–	–	–
Ng Chong Wah <sup>b</sup>	–	–	–	–	–
L J Fisk	45,000	–	–	–	45,000
J A Fletcher	45,000	–	–	–	45,000
T C Ford	45,000	–	–	4,050	49,050
J K McDonald	358,673	198,605	52,214	91,149	700,641
Total	678,673	198,605	52,214	107,799	1,037,291
<b>Specified Executives</b>					
M J McCormack	190,304	70,840	45,088	18,202	324,434
A J V James	200,229	71,102	15,353	27,075	313,759
G N Williams	184,985	80,080	40,762	36,859	342,686
K F Dixon	209,219	60,858	1,450	11,002	282,529
Total	784,737	282,880	102,653	93,138	1,263,408

<sup>a</sup> Alternate for Mr J A Fletcher.

<sup>b</sup> Alternate for Mr M Muhammad.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 38. Remuneration Report for Directors and Executives (continued)

### PERFORMANCE OF APA

Movement in APA's unit price over the period from initial public offering in June 2000 to 30 June 2005



### APA – PERFORMANCE AGAINST THE S&P/ASX 200 INDEX



### NET PROFIT AFTER TAX AND MINORITIES

The net profit after tax and minorities ("NPATM") for the last five financial years was as follows:

Financial Year ended 30 June	NPATM before Significant Items \$'000	NPATM \$'000
2001	30,714	30,714
2002	37,001	37,001
2003	41,044	41,044
2004	44,984	121,292
<b>2005</b>	<b>51,014</b>	<b>69,681</b>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 38. Remuneration Report for Directors and Executives (continued)

### DISTRIBUTIONS

The distribution paid to unitholders in respect of each of the last five financial years is as follows:

Distribution Paid/Payable in Respect of Financial Year ended 30 June	Distribution (cpu)			Total \$'000
	Profit	Capital	Total	
2001	12.5	8.5	21.0	51,240
2002	15.5	6.0	21.5	52,460
2003	17.0	4.5	21.5	52,460
2004	15.1	6.4	21.5	54,954
<b>2005</b>	<b>22.5<sup>a</sup></b>	<b>0.0</b>	<b>22.5</b>	<b>62,656</b>

<sup>a</sup> Includes final distribution of 6.0 cpu declared on 30 August 2005.

### CONTRACTUAL TERMS OF SPECIFIED EXECUTIVES

The termination payments in relation to specified executives are set out below:

Name and Title	Employing Company	Commencement Date	Term	Termination Provisions/Benefits
J K McDonald – MD until 1 July 2005	APT Management Services Pty Limited ("Company")	Commenced 1 March 2000. Retired 1 July 2005.	Term ending 1 July 2005	No termination provisions under service agreement.
M J McCormack – chief operating officer until 30 June 2005; CEO from 1 July 2005	APT Management Services Pty Limited	Commenced 1 March 2000. Commenced in position as CEO on 1 July 2005.	Minimum term of two years from 1 July 2005	On termination with cause or following certain long term illness, the Company will pay any TFR due and owing at the date of termination and any accrued leave entitlements. On termination without cause, the Company will pay 52 weeks TFR, any bonus earned but not paid and any accrued leave entitlement. The Company will also pay any TFR due and owing at the date of termination.
A J V James – company secretary/ general manager- corporate	APT Management Services Pty Limited	Commenced 1 March 2000.	No defined term	On termination with cause or following certain long term illness, the Company will pay any TFR due and owing at the date of termination and any accrued leave entitlements. On termination without cause, the Company will pay 52 weeks TFR, any bonus earned but not paid and any accrued leave entitlement. The Company will also pay any TFR due and owing at the date of termination.
S P Ohl – general manager- operations	APT Management Services Pty Limited	Commenced 2 May 2005.	No defined term	On termination with cause or following certain long term illness, the Company will pay any TFR due and owing at the date of termination and any accrued leave entitlements. On termination without cause, the Company will pay 26 weeks TFR, any bonus earned but not paid and any accrued leave entitlement. The Company will also pay any TFR due and owing at the date of termination.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 38. Remuneration Report for Directors and Executives (continued)

Name and Title	Employing Company	Commencement Date	Term	Termination Provisions/Benefits
S M Dureau – general counsel	APT Management Services Pty Limited	Commenced 1 August 2004.	No defined term	On termination with cause or following certain long term illness, the Company will pay any TFR due and owing at the date of termination and any accrued leave entitlements. On termination without cause, the Company will pay 26 weeks TFR, any bonus earned but not paid and any accrued leave entitlement. The Company will also pay any TFR due and owing at the date of termination.
G N Williams – CFO until 1 July 2005	APT Management Services Pty Limited	Commenced 3 April 2000. Terminated as of 1 July 2005.	No defined term	On termination with cause or following certain long term illness, the Company will pay any TFR due and owing at the date of termination and any accrued leave entitlements. On termination without cause, the Company will pay 52 weeks TFR, any bonus earned but not paid and any accrued leave entitlement. The Company will also pay any TFR due and owing at the date of termination.
K F Dixon – general manager-strategic planning until 30 April 2005	APT Management Services Pty Limited	Commenced 2 April 2001. Terminated 30 April 2005.	No defined term	On termination with cause or following certain long term illness, the Company will pay any TFR due and owing at the date of termination and any accrued leave entitlements. On termination without cause, the Company will pay 52 weeks TFR, any bonus earned but not paid and any accrued leave entitlement. The Company will also pay any TFR due and owing at the date of termination.

### REMUNERATION OF THE CHIEF EXECUTIVE OFFICER FROM 1 JULY 2005

Mr M J McCormack commenced in the position of CEO on 1 July 2005. Mr McCormack has executed a written service agreement under which he has agreed to be employed in the position of CEO of APA by APT Management Services Pty Limited.

Mr McCormack has agreed to a contract with APA for a minimum term of two years. During that time, he will be entitled to an annual fixed remuneration of \$485,000 per annum inclusive of superannuation benefits plus leave benefits. The total remuneration is subject to annual review, which is to be conducted as close as possible to 1 July each year.

In addition to the total remuneration described above, Mr McCormack is eligible to receive an annual incentive of up to 45% of his remuneration subject to satisfaction of certain key performance indicators ("KPIs"). The KPIs will be determined by the board and will relate to the particular responsibilities of Mr McCormack outlined in the service agreement.

Mr McCormack has not been granted any options over units in APA. He is entitled to participate in any future long term incentive scheme adopted by APA, and implementation of such a scheme will be subject to appropriate unitholder approval.

Mr McCormack's agreement post 30 June 2007, can be terminated on one month's notice by him or APA.

If APA terminates Mr McCormack's employment without cause at any time, Mr McCormack will be entitled to a termination payment equivalent to one year's remuneration. He will not be entitled to such a payment where the termination is with cause or following certain long term illness.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 38. Remuneration Report for Directors and Executives (continued)

If APA terminates Mr McCormack's employment before expiry of the fixed two year term without cause, and does not have him serve out his notice period, he will be entitled to be paid what he would have been entitled to under his agreement until expiration of the fixed two year term, in addition to any normal termination payment.

APA may, at its discretion, also agree to pay Mr McCormack a termination payment if he chooses to terminate his employment after 30 June 2007.

All termination payments to Mr McCormack are subject to the limits under the Corporations Act 2001.

## 39. Remuneration of External Auditor

	Consolidated		Trust	
	2005 \$	2004 \$	2005 \$	2004 \$
Remuneration of the external auditor of APA for:				
Auditing of the financial report	215,700	169,541	4,550	4,550
Compliance plan audit	11,000	11,000	–	–
Due diligence reporting on acquisitions <sup>a</sup>	218,835	1,041,308	–	–
Tax consolidation project <sup>a</sup>	474,715	162,000	–	–
Other accounting and assurance services <sup>a</sup>	197,435	37,850	–	–
	1,117,685	1,421,699	4,550	4,550

<sup>a</sup> Services provided were in accordance with the external auditor independence policy.

## 40. Related Party and Specified Executive Disclosures

### (a) Responsible Entity – Australian Pipeline Limited

The responsible entity is 50% owned by AGL and 50% owned by unrelated parties.

### (b) Equity Interests in Related Parties

Details of the percentage of ordinary securities held in controlled entities are disclosed in Note 36 and the details of the percentage of ordinary shares held in the joint venture entity is disclosed in Note 43.

### (c) Specified Directors' and Specified Executives' Remuneration

Details of specified directors' and specified executives' remuneration is disclosed in Note 38.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 40. Related Party and Specified Executive Disclosures (continued)

### (d) Specified Directors' and Specified Executives' Unit Holdings

The unitholdings of specified directors and specified executives are as follows:

	Fully Paid Units as at 30 June 2004	Units Acquired during the Financial Year	Units Disposed of during the Financial Year	Fully Paid Units as at 30 June 2005
<b>Specified Directors</b>				
G H Bennett	16,276	695	–	16,971
R M Gersbach	–	–	–	–
R A Higgins	–	6,609	–	6,609
J F McAloon	–	–	–	–
M Muhammad	10,556	319	–	10,875
R J Wright	10,851	463	–	11,314
Ed Osman Ridzwan	–	–	–	–
L J Fisk	5,425	232	–	5,657
J A Fletcher	4,340	186	–	4,526
T C Ford	10,000	–	–	10,000
J K McDonald	16,275	694	–	16,969
<b>Specified Executives</b>				
M J McCormack	2,000	8,000	–	10,000
A J V James	3,000	–	–	3,000
S P Ohl	–	–	–	–
S M Dureau	–	1,000	–	1,000
G N Williams	3,255	139	–	3,394
K F Dixon	–	–	–	–

### (e) Transactions between APA and Controlled Entities

Details of dividend revenue from controlled entities are disclosed in Note 2. Aggregate amounts receivable from and payable to controlled entities are disclosed in Notes 11 and 21 respectively.

In the year ended 30 June 2004, the directors elected for wholly-owned Australian tax resident entities within the consolidated entity to be taxed as a single entity from 1 July 2003. APA has recognised all tax balances and expenses in relation to those entities, and a corresponding payable has been recognised in those entities to compensate APA for tax paid on their behalf.

### (f) Transactions with Other Related Parties

Transactions with related parties have taken place at arms length and in the ordinary course of business.

#### Australian Pipeline Limited

Management fees of \$1,287,000 (2004: \$1,006,000) were paid to the responsible entity as reimbursement of costs incurred on behalf of APA. No amounts were paid directly by APA to the directors of the responsible entity.

Australian Pipeline Limited, in its capacity as trustee and responsible entity of the Trust, has guaranteed the payment of principal, interest and other amounts as provided in the Note and Guarantee Agreement relating to issue of Guaranteed Senior Notes.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 40. Related Party and Specified Executive Disclosures (continued)

### (f) Transactions with Other Related Parties (continued)

#### AGL

The relationship between APA and AGL is governed by a number of agreements including the Pipeline Management Agreement ("PMA") and the Pipeline Development Agreement ("PDA").

Under the PMA, a controlled entity of AGL, Agility Management Pty Limited, provides technical services and certain marketing and transitional services in respect of the consolidated entity's gas transmission assets. Compensation for these services is a combination of agreed costs and an annual management fee partially indexed to CPI. The initial term of the PMA is 20 years and rolling five year terms thereafter, terminable on 12 months notice. The costs for specified technical and marketing services are fixed until 1 July 2005, but are reviewable thereafter. After 30 June 2005, the consolidated entity may request Agility Management Pty Limited to introduce contestability in the provision of certain of the services.

The PDA sets out the terms governing the future transfer of assets between APA and AGL. Pursuant to the PDA, both parties agree that they will jointly seek out and examine opportunities to develop projects. The PDA provides the consolidated entity with a first right to purchase at least 20% of the Papua New Guinea Gas Pipeline, and AGL's entire interest in other future gas transmission projects in Australia that AGL intends to sell. Under the PDA, the board of the responsible entity will review any future project offered to APA and determine whether or not to purchase the project on terms negotiated with AGL. The annual amount payable for these services is the greater of costs (determined by reference to hourly rates) and \$250,000 (increasing in accordance with CPI) during the first five years. The initial term of the PDA is 20 years and rolling five year terms thereafter, terminable on 12 months notice.

During the financial year, various controlled entities of AGL provided services to the consolidated entity as follows:

Controlled Entity of AGL	Nature of Services	2005 \$'000	2004 \$'000
Agility Management Pty Limited	Technical/marketing services under PMA	30,220	29,586
Agility Management Pty Limited	Pipeline maintenance and operating services	14,461	4,801
Agility Management Pty Limited	Other services	6,533	7,224
Other AGL controlled entities	Advisory and other services	835	129
	Total operating costs	52,049	41,740
Agility Management Pty Limited	Capital construction projects	815	1,802
	Total costs	52,864	43,542

The GTD between East Australian Pipeline Limited ("EAPL"), an entity in the wholly-owned group, and AGL Wholesale Gas Limited is the main revenue contract for the MSP system and expires on 1 January 2017. Until 1 January 2007, AGL Wholesale Gas Limited will, pursuant to the GTD, pay a series of minimum monthly payments to EAPL to be offset against AGL Wholesale Gas Limited's liability to pay for gas transported, determined using the minimum published reference tariff from time to time. As at 1 January 2007, any amounts that are not required to satisfy AGL Wholesale Gas Limited's liability to pay for transportation services are retained by EAPL.

For the period from 1 January 2007 until 1 January 2017, EAPL must provide AGL Wholesale Gas Limited a firm transportation service with a grant of transportation reservation to a defined maximum daily quantity. The tariff for this service will be the minimum published reference tariff from time to time.

During the financial year, APA provided gas transportation and other services to AGL and its controlled entities. The total gas transportation and related services revenue was \$86,032,000 (2004: \$91,137,000). Of this amount, transportation revenue under the GTD with AGL Wholesale Gas Limited was \$82,059,000 (2004: \$87,680,000).

AGL has provided a \$5 million Eligible Undertaking, as defined under ASIC Policy Statement 166, to APL to enable the responsible entity to meet its financial requirements as the holder of an Australian financial services licence.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 41. Notes to the Statement of Cash Flows

	Consolidated		Trust	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>(a) Reconciliation of Cash</b>				
For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:				
Cash at bank and on hand	20,978	14,607	173	134
Short term deposits	1,395	29,644	–	–
	22,373	44,251	173	134
<b>(b) Financing Facilities (Unsecured)</b>				
Bank borrowings:				
Amount used	568,000	250,000	–	–
Amount unused	132,000	250,000	–	–
	700,000	500,000	–	–
Guaranteed Senior Notes <sup>a</sup> :				
Amount used	441,116	478,098	–	–
Amount unused	–	–	–	–
	441,116	478,098	–	–

<sup>a</sup> APT Pipelines Limited issued notes in the US Private Placement market during the previous financial year. The issue was in dual currencies involving the Australian dollar and the US dollar. The disclosed amount represents the Australian dollar equivalent of notes issued as measured at the reporting date. The maturity date and interest rates payable are disclosed in Note 44(d).

### (c) Businesses Acquired

During the financial year, APA acquired the SCP gas business and the remaining interest in Carpentaria Gas Pipeline Joint Venture. Details of the acquisitions are as follows:

Consideration:

Cash	306,451	–	–	–
Fair value of net assets acquired				
Current assets:				
Cash	58,314	–	–	–
Receivables	8,141	–	–	–
Inventories	2,920	–	–	–
Other	2,123	–	–	–
Non-current assets:				
Property, plant and equipment	376,413	–	–	–
Future income tax benefits	5,719	–	–	–
Deferred expenditure	581	–	–	–
Total assets	454,211	–	–	–

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 41. Notes to the Statement of Cash Flows (continued)

	Consolidated		Trust	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>(c) Businesses Acquired (continued)</b>				
Current liabilities:				
Payables	(23,222)	–	–	–
Interest-bearing liabilities	(11,438)	–	–	–
Current tax liabilities	(2,714)	–	–	–
Non-current liabilities				
Interest-bearing liabilities	(101,243)	–	–	–
Deferred tax liabilities	(7,812)	–	–	–
Other	(1,331)	–	–	–
Net assets acquired	306,451	–	–	–
Net cash outflow on acquisition				
Cash consideration	306,451	–	–	–
Less: cash balances acquired	(58,314)	–	–	–
	248,137	–	–	–
<b>(d) Reconciliation of Profit from Ordinary Activities after Related Income Tax Benefit/Expense to Net Cash from/(Used in) Operating Activities</b>				
Profit from ordinary activities after related income tax benefit/expense	69,991	121,504	63,815	4
Profit on sale of non-current assets	(70)	(128)	–	–
Share of joint venture entity net profits (net of dividends received)	(2,148)	(15,323)	–	–
Depreciation, amortisation and write-downs of non-current assets	39,490	44,490	–	–
Effect of tax consolidation regime on tax balances	–	–	–	69,110
Changes in assets and liabilities:				
Current receivables	(6,101)	7,469	(28)	(9)
Current inventories	1,135	25	–	–
Other current assets	1,846	(287)	–	–
Current payables	(3,824)	1,597	(46)	(65)
Other current liabilities	32,963	1,192	–	–
Non-current assets	(52)	34	–	–
Non-current liabilities	1,206	(164)	–	–
Income tax balances	(28,216)	(78,094)	(9,807)	(69,109)
Net cash from/(used in) operating activities	106,220	82,315	53,934	(69)

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 42. Economic Dependency

- (a) A significant amount of the consolidated entity's revenues is derived pursuant to the GTD between AGL Wholesale Gas Limited and a wholly-owned controlled entity of APA, as disclosed in Note 40.
- (b) The consolidated entity is dependent to a significant extent on the technical and marketing services provided by Agility Management Pty Limited pursuant to the PMA that covers certain of the consolidated entity's gas transmission pipelines, as disclosed in Note 40.

## 43. Investments Accounted for Using the Equity Method

Name of Entity	Principal Activity	Ownership Interest 2005 (%)	Ownership Interest 2004 (%)
SCP Investments (No.1) Pty Limited <sup>a</sup> ("SCP")	Transmission of natural gas	–	55

<sup>a</sup> On 17 August 2004, APA acquired the remaining 45% interest in SCP. Accordingly, the results of SCP have been equity accounted until that date and consolidated into APA's result thereafter.

Even though APA had a 55% ownership interest until 17 August 2004, the investment in SCP was equity accounted as APA, pursuant to the Shareholders Agreement, did not control nor have the capacity to carry any resolution at a meeting of the directors, which required a higher majority of the total number of votes which may be cast in relation to the resolution than that controlled by APA.

	Consolidated	
	2005 \$'000	2004 \$'000
<b>(a) Movement in Investment in Joint Venture Entity</b>		
Equity accounted amount of investment at the beginning of the financial year	171,137	155,808
Acquisition of additional interest	–	7
Share of net profit from ordinary activities after related income tax expense	2,148	22,990
Share of dividends received	–	(7,668)
Impact of SCP gas business acquisition	(173,285)	–
Equity accounted amount of investment at the end of the financial year	–	171,137
<b>(b) Share of Assets and Liabilities of Joint Venture Entity</b>		
Assets:		
Cash	–	50,864
Other current assets	–	7,555
Property, plant and equipment	–	279,524
Liabilities:		
Current payables	–	(16,336)
Current interest-bearing liabilities	–	(13,979)
Non-current liabilities	–	(155,688)
Net assets	–	151,940
<b>(c) Share of Net Profit of Joint Venture Entity</b>		
Revenues from ordinary activities	6,795	49,095
Expenses from ordinary activities	(3,648)	(26,455)
Profit from ordinary activities before income tax (expense)	3,147	22,640
Income tax (expense)/benefit relating to ordinary activities	(999)	350
Profit from ordinary activities after related income tax expense	2,148	22,990

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 43. Investments Accounted for Using the Equity Method (continued)

	Consolidated	
	2005 \$'000	2004 \$'000
<b>(d) Share of Reserves of Joint Venture Entity</b>		
Retained profits:		
At the beginning of the financial year	19,359	4,201
At the end of the financial year	–	19,359

The consolidated entity's share of capital commitments and other expenditure commitments from the interest in joint venture entities is disclosed in Note 32.

## 44. Financial Instruments

### (a) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1.

### (b) Derivative Instruments

#### Interest Rate Contracts

The consolidated entity enters into various types of interest rate contracts in managing interest rate exposure, including interest rate swap contracts. The consolidated entity's risk management policy strictly prohibits it from entering into such instruments for speculative purposes.

Under interest rate swap contracts, the consolidated entity agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the consolidated entity to mitigate the risk of rising interest rates.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts and forward interest rate contracts outstanding as at the end of the financial year:

Outstanding Contracts	Weighted Average Interest Rate	Notional Principal Amount	Weighted Average Interest Rate	Notional Principal Amount
	2005 % pa	2005 \$'000	2004 % pa	2004 \$'000
<b>Pay Fixed Interest/Receive Floating Interest</b>				
Less than 1 year	–	–	5.7333	295,000
1 year to 2 years	–	–	–	–
2 years to 5 years	6.6775	362,582	8.2875	100,000
5 years and more	7.5078	381,454	6.4928	294,036
		744,036		689,036
<b>Pay Floating Interest/Receive Fixed Interest</b>	BBSW	–	BBSW	102,000

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 44. Financial Instruments (continued)

### (b) Derivative Instruments (continued)

#### Cross Currency Swap Contracts

Under cross currency swap contracts, the consolidated entity agrees to exchange specified principal and interest foreign currency amounts at agreed future dates at a specified exchange rate. Such contracts enable the consolidated entity to mitigate the risk of adverse movements in foreign exchange rates in relation to principal and interest payments arising under the note issue. The entire US dollar cash flows arising from the note issue have been swapped, and as such the consolidated entity has no currency risk.

The consolidated entity pays variable interest rate (based on BBSW) and receives fixed amounts in US dollars.

The following table details the undiscovered amounts receivable over various durations as at reporting date:

	Exchange Rate		Principal Amount	
	2005 \$	2004 \$	2005 \$'000	2004 \$'000
<b>Buy US Dollars</b>				
Less than 1 year	0.6573	0.6573	(22,863)	(22,863)
1 year to 2 years	0.6573	0.6573	(22,863)	(22,863)
2 years to 5 years	0.6573	0.6573	(68,589)	(68,589)
5 years and more	0.6573	0.6573	(130,289)	(153,152)
<b>Sell US Dollars</b>				
5 years and more	0.6573	0.6573	394,036	394,036

### (c) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The consolidated entity measures credit risk on a fair value basis. The consolidated entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics, other than those referred to in Note 42.

The carrying amount of financial assets recorded in the financial statements, net of any allowances, represents the consolidated entity's maximum exposure to credit risk in relation to those assets.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 44. Financial Instruments (continued)

### (d) Interest Rate Risk

The consolidated entity's exposure to interest rate risk and the effective interest rate on financial instruments at the end of the financial year are detailed in the following table:

2005	Average Interest Rate % pa	Variable Interest Rate \$'000	Fixed Interest Rate Less than 1 Year \$'000	Maturity 1 to 5 Years \$'000	More than 5 Years \$'000	Non-Interest Bearing \$'000	Total \$'000
<b>Financial Assets</b>							
Cash	4.99	22,373	–	–	–	–	22,373
Receivables	–	–	–	–	–	30,636	30,636
	–	22,373	–	–	–	30,636	53,009
<b>Financial Liabilities</b>							
Payables –	–	–	–	–	–	118,162	118,162
Unsecured bank borrowing	6.29	568,000	–	–	–	–	568,000
Secured bank loan <sup>a</sup>	–	–	–	–	–	1,645	1,645
Interest rate contracts – fixed	7.10	(744,036)	–	362,582	381,454	–	–
Cross currency swaps	7.74	339,116	–	–	(339,116)	–	–
Guaranteed Senior Notes:							
Denominated in A\$							
Series A <sup>b</sup>	6.66	–	–	–	102,000	–	102,000
Denominated in US\$							
Series B <sup>c</sup>	5.67	–	–	–	96,890	–	96,890
Series C <sup>d</sup>	5.77	–	–	–	159,738	–	159,738
Series D <sup>e</sup>	6.02	–	–	–	82,488	–	82,488
Finance lease liabilities	7.89	532	–	–	–	–	532
Employee benefits	–	–	–	–	–	1,488	1,488
Other:							
Unearned interest	–	–	–	–	–	7,465	7,465
Unearned revenue	–	–	–	–	–	51,669	51,669
		163,612	–	362,582	483,454	180,429	1,190,077

<sup>a</sup> Residual payment due to financiers on expiration of lease.

<sup>b</sup> Matures on 9 September 2010.

<sup>c</sup> Matures on 9 September 2013.

<sup>d</sup> Matures on 9 September 2015.

<sup>e</sup> Matures on 9 September 2018.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 44. Financial Instruments (continued)

### (d) Interest Rate Risk (continued)

	Average Interest Rate % pa	Variable Interest Rate \$'000	Fixed Interest Rate Maturity			Non- Interest Bearing \$'000	Total \$'000
2004			Less than 1 Year \$'000	1 to 5 Years \$'000	More than 5 Years \$'000		
Financial Assets							
Cash	5.05	44,251	–	–	–	–	44,251
Receivables	–	–	–	–	–	12,095	12,095
	–	44,251	–	–	–	12,095	56,346
Financial Liabilities							
Payables	–	–	–	–	–	71,867	71,867
Syndicated bank borrowing	6.34	250,000	–	–	–	–	250,000
Secured bank loan <sup>a</sup>	–	–	–	–	–	1,645	1,645
Interest rate contracts – variable	5.36	102,000	(102,000)	–	–	–	–
Interest rate contracts – fixed	5.73	(295,000)	295,000	–	–	–	–
Cross currency swaps	7.74	376,098	–	–	(376,098)	–	–
Guaranteed Senior Notes:							
Denominated in A\$							
Series A <sup>b</sup>	6.66	–	–	–	102,000	–	102,000
Denominated in US\$							
Series B <sup>c</sup>	5.67	–	–	–	107,457	–	107,457
Series C <sup>d</sup>	5.77	–	–	–	177,158	–	177,158
Series D <sup>e</sup>	6.02	–	–	–	91,483	–	91,483
Finance lease liabilities	8.19	662	–	–	–	–	662
Employee benefits	–	–	–	–	–	967	967
Other:							
Unearned interest	–	–	–	–	–	7,151	7,151
Unearned revenue	–	–	–	–	–	1,303	1,303
		433,760	193,000	–	102,000	82,933	811,693

<sup>a</sup> Residual payment due to financiers on expiration of lease.

<sup>b</sup> Matures on 9 September 2010.

<sup>c</sup> Matures on 9 September 2013.

<sup>d</sup> Matures on 9 September 2015.

<sup>e</sup> Matures on 9 September 2018.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 44. Financial Instruments (continued)

### (e) Net Fair Values

Except as detailed in the following table, the carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1.

The net fair value of financial assets and liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow theory.

The following table details the net fair value of financial assets and financial liabilities:

	Carrying Amount		Net Fair Value	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Financial Assets – Not Readily Traded</b>				
Interest rate swap contracts	(9)	(42)	280	1,413
Cross currency swap contracts	–	–	–	–
<b>Financial Liabilities – Not Readily Traded</b>				
Interest rate swap contracts	(1,220)	(1,702)	(36,979)	(16,256)
Cross currency swap contracts	(8,356)	(7,956)	(47,140)	(28,306)

## 45. Impact of Adopting Australian Equivalents to International Financial Reporting Standards

APA will be required to prepare financial statements that comply with Australian equivalents to International Financial Reporting Standards ("A-IFRS") for annual reporting periods beginning on or after 1 January 2005. Accordingly, APA's first report prepared under A-IFRS will be for the half year reporting period ending 31 December 2005.

At the date of this financial report, APA has substantially completed assessment of accounting policy alternatives on transition to A-IFRS, the finalisation of the A-IFRS accounting policies that will be adopted from 1 July 2004 ("transition date"), and the determination of the likely impact on the results and financial position of APA and the consolidated entity.

The following reconciliations outline the likely impacts on the current financial year result and financial position of the consolidated entity had the financial statements been prepared using A-IFRS, based on the directors' accounting policy decisions current at the date of this financial report. The figures disclosed are the best estimates of the quantitative impact of the changes as at the date of preparing this report. The actual effects of transition to A-IFRS may differ from the estimates disclosed due to:

- ongoing work being undertaken on A-IFRS;
- potential amendments to A-IFRS and Interpretations thereof being issued by the standard-setters;
- emerging accepted practice in the interpretation and application of A-IFRS and Urgent Issues Group Interpretations; and
- any change to accounting policy made by the directors.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 45. Impact of Adopting Australian Equivalents to International Financial Reporting Standards (continued)

### Reconciliation of AGAAP Total Equity, Total Assets, Total Liabilities and Earnings to A-IFRS – 30 June 2005

Note	Total Equity \$'000	Total Assets \$'000	Total Liabilities \$'000	EBIT \$'000	Net Profit after Tax and Minorities \$'000
<b>Total reported under total AGAAP</b>	<b>615,223</b>	<b>1,916,521</b>	<b>1,301,298</b>	<b>120,528</b>	<b>69,681</b>
A-IFRS adjustments:					
Recognise restoration obligation i	(246)	834	1,080	–	–
Restoration obligation – unwinding discount i	(156)	–	156	–	(156)
Depreciation of restoration obligation i, ii	(13)	(13)	–	(19)	(13)
Tax impact of restoration obligation iv	47	47	–	–	47
Amortisation of goodwill iii	464	464	–	464	464
Intangibles – tax impact iv	(1,366)	–	1,366	–	210
Deferred tax liabilities iv	(3,208)	–	3,208	–	–
<b>Total A-IFRS adjustments</b>	<b>(4,478)</b>	<b>1,332</b>	<b>5,810</b>	<b>445</b>	<b>552</b>
<b>Total restated under A-IFRS</b>	<b>610,745</b>	<b>1,917,853</b>	<b>1,307,108</b>	<b>120,973</b>	<b>70,233</b>

- (i) AASB 116 "Property, Plant and Equipment" requires the inclusion of the estimated costs of dismantling the pipelines and restoring the site on which pipelines are located to be included in the cost of the asset. The obligation is required to be accounted for in accordance with AASB 137 "Provisions, Contingent Liabilities and Contingent Assets" and is therefore recognised as the present value of the future cash outflows. In accordance with AASB 137, the increase in restoration obligations relating to unwinding of the discount is recognised as interest expense in the income statement.
- (ii) The restoration obligation included in cost of pipelines under AASB 116 (note (i) above) is depreciated over the useful life of the pipeline.
- (iii) The adoption of A-IFRS will not significantly impact the carrying amount of goodwill as the directors have decided not to restate past business combinations. Under A-IFRS, goodwill is not subject to amortisation, but must be tested for impairment annually and whenever there is an indication that goodwill may be impaired.
- (iv) AASB 112 "Income Taxes" requires the use of a "balance sheet liability method", rather than the current "income statement method". The balance sheet liability method effectively recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. This results in the recognition of deferred tax assets and liabilities in relation to the assets whose carrying value and tax base are different.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

## 45. Impact of Adopting Australian Equivalents to International Financial Reporting Standards (continued)

APA has decided to apply the exemptions provided in AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" which permits entities not to:

- restate previous business combinations that occurred before the transition date. As there are no material differences in accounting between AGAAP and A-IFRS for acquisitions that occurred after the transition date, there is no impact from application of AASB 3 'Business Combinations'; and
- apply the requirements of AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement" for the financial year ended 30 June 2005. The standards will be applied from 1 July 2005. Accordingly, there is no quantitative impact on these financial statements from these standards.

Application of AASB 139 will result in recognition of new assets and liabilities on the statement of financial position, representing fair value of derivatives. To the extent that such derivatives are "effective", any changes in fair value will be accounted for in an equity reserve account in the statement of financial position.

### Restated A-IFRS Statement of Cash Flows for the Financial Year ended 30 June 2005

No material impacts are expected on the cash flows presented under AGAAP on the adoption of A-IFRS.

### Impact of A-IFRS on APA

The statement of financial performance, statement of financial position and statement of cash flows of the Trust are not impacted by A-IFRS.

# DIRECTORS' DECLARATION

The financial statements and notes thereto of Australian Pipeline Trust ("APA") for the financial year ended 30 June 2005 have been prepared by Australian Pipeline Limited ("responsible entity") in accordance with the Corporations Act 2001.

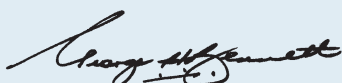
The directors of the responsible entity declare that:

- (a) the attached financial statements and notes thereto comply with accounting standards;
- (b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of APA and the consolidated entity;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001; and
- (d) in the directors' opinion, there are reasonable grounds to believe that APA will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the CEO and CFO required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors of the responsible entity made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors



G H Bennett  
Chairman



R J Wright  
Director

SYDNEY, 30 August 2005

# AUDITOR'S DECLARATION OF INDEPENDENCE

## Deloitte.

Deloitte Touche Tohmatsu  
A.C.N. 74 490 121 060

Grosvenor Place  
225 George Street  
Sydney NSW 2000  
PO Box N250 Grosvenor Place  
Sydney NSW 1217 Australia

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[www.deloitte.com.au](http://www.deloitte.com.au)

30 August 2005

The Directors  
Australian Pipeline Limited  
As responsible entity for  
Australian Pipeline Trust  
Level 5, Airport Central Tower  
241 O'Riordan Street  
Mascot NSW 2020

Dear Directors,

### Independence Declaration

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Australian Pipeline Limited.

As lead audit partner for the audit of the financial statements of Australian Pipeline Trust for the financial year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully  
DELOITTE TOUCHE TOHMATSU



J H W Riddell  
Partner

Member of  
Deloitte Touche Tohmatsu

Liability limited by the Accountant's Scheme,  
approved under the Professional Standards Act 1994 (NSW).



# INDEPENDENT AUDIT REPORT



Deloitte Touche Tohmatsu  
A.C.N. 74 490 121 060

Grosvenor Place  
225 George Street  
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## Independent Audit Report to the Unitholders Of Australian Pipeline Trust

### SCOPE

#### The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Australian Pipeline Trust (the "Trust") and the consolidated entity, for the financial year ended 30 June 2005 as set out on pages 31 to 73. The consolidated entity comprises the Trust and the entities it controlled at the year's end or from time to time during the financial year.

The directors of Australian Pipeline Limited as responsible entity for the Trust are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Trust. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with our understanding of the Trust's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

Member of  
Deloitte Touche Tohmatsu

Liability limited by the Accountant's Scheme,  
approved under the Professional Standards Act 1994 (NSW).

# INDEPENDENT AUDIT REPORT

## INDEPENDENCE

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

## AUDIT OPINION

In our opinion, the financial report of Australian Pipeline Trust is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Trust's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.



DELOITTE TOUCHE TOHMATSU



J H W Riddell  
Partner  
Chartered Accountants

SYDNEY, 30 August 2005

Member of  
Deloitte Touche Tohmatsu

Liability limited by the Accountant's Scheme,  
approved under the Professional Standards Act 1994 (NSW).

# ADDITIONAL STOCK EXCHANGE INFORMATION

1. There were 28,339 holders of ordinary units as at 2 September 2005.
2. The 20 largest holders represented 49.95% of the total issued capital.
3. The distribution of holders was:

Ranges	No. of Holders	%	No. of Units	%
1-1,000 units	2,795	9.86	2,231,497	0.80
1,001-5,000 units	18,699	65.98	51,119,442	18.32
5,001-10,000 units	4,568	16.12	34,797,417	12.48
10,001-100,000 units	2,223	7.84	44,720,425	16.04
100,001 units and over	54	0.20	146,026,653	52.36
	<b>28,339</b>	<b>100.00</b>	<b>278,895,434</b>	<b>100.00</b>

4. There were 214 holders of less than 134 units each.
5. Holders by address were:

## Addresses

Australia	27,521	97.11	272,378,768	97.66
USA and Canada	34	0.12	154,852	0.06
United Kingdom	20	0.07	56,820	0.02
New Zealand	718	2.54	5,938,911	2.13
Others	46	0.16	366,083	0.13
	<b>28,339</b>	<b>100.00</b>	<b>278,895,434</b>	<b>100.00</b>

6. Holders by class were:

## Class of Holder

Individuals	23,879	84.26	101,889,862	36.53
Companies and other	4,460	15.74	177,005,572	63.47
	<b>28,339</b>	<b>100.00</b>	<b>278,895,434</b>	<b>100.00</b>

7. Twenty largest holders as at 2 September 2005

The Australian Gas Light Company	83,668,630	30.00
Petronas Australia Pty Ltd	30,309,001	10.87
J P Morgan Nominees Australia	3,713,342	1.33
RBC Global Services Australia Nominees Pty Limited <BKCUST A/C>	3,496,573	1.25
National Nominees Limited	3,076,601	1.10
Questor Financial Services <TPS RF A/C>	2,818,311	1.01
ANZ Nominees Limited	2,004,262	0.72
Custodial Services Limited	1,818,481	0.65
Citicorp Nominees Pty Limited	1,494,828	0.54
Westpac Custodian Nominees	1,374,127	0.49
Sandhurst Trustees Ltd <Aust Ethical Equities A/C>	973,459	0.35
Sandhurst Trustees Ltd <Aust Ethical Balanced A/C>	682,820	0.24
Cogent Nominees Pty Limited	649,402	0.23
Huntley Investment Company	628,170	0.23
Sandhurst Trustees Ltd <Aust Ethical Large Co A/C>	533,874	0.19
Ms Thelma Joan Martin-Weber	505,000	0.18
Australian Executor Trustees	420,154	0.15
Mr David William Wheldon	408,836	0.15
Questor Financial Services (TPS PIP A/C)	387,141	0.14
Westpac Financial Services	356,232	0.13
	<b>139,319,244</b>	<b>49.95</b>

# UNITHOLDER INFORMATION

## Enquiries

Unitholders with enquiries about their unitholdings should contact the unit registry:

Telephone: +61 2 8280 7132  
Facsimile: + 61 2 9287 0303  
E-mail: [registrars@asxperpetual.com.au](mailto:registrars@asxperpetual.com.au)

Address:  
APA Unit Registry  
C/-ASX Perpetual Registrars Limited  
Locked Bag A14  
Sydney South, NSW 1235

## Distribution

The 2005 final income distribution of 6.0 cents per unit, franked to 40% at the corporate income tax rate, is to be paid on 29 September 2005.

## Change of Address

Unitholders who have changed their address should advise the registry in writing.

## Direct Payment to Bank Accounts

Distributions may be paid direct to bank, building society or credit union accounts in Australia. Payments are electronically credited on the distribution payment date and confirmed by post. Unitholders who wish their distributions to be paid electronically must advise the registry in writing prior to the record date of the first distribution payment they wish to be paid by direct credit.

## Consolidation of Unitholdings

Unitholders who wish to consolidate their separate unitholdings into one account should advise the registry in writing.

## Annual Report Mailing List

The unitholders have the discretion to decide their preferred arrangements for receipt of APA's annual report and other documents.

With the distribution received in September 2005, an Annual Report Election and E-mail Notification Service form will be sent to you. This gives you the option to receive notification that the annual report is

available to view on APA's website and be informed when the Trust makes major public announcements regarding APA and its business activities. If you do not wish to receive an e-mail notification or you do not wish to receive a report, please advise the registry by phone or in writing.

## Tax File Numbers

Australian tax resident unitholders, including minors, should advise their Tax File Number ("TFN"), Australian Business Number ("ABN") or exemption details to the unit registry either by phone or in writing. If a TFN or ABN is not quoted and no exemption details are provided by a unitholder, APA is required by law to deduct tax at the top marginal rate of tax plus medicare levy from the unfranked part of distributions paid to that unitholder.

## You Can Do So Much More Online

Did you know that you can access, and even update information about your holdings in Australia Pipeline Trust via the internet?

Visit ASX Perpetual's website [www.asxperpetual.com.au](http://www.asxperpetual.com.au) and access a wide variety of holdings information, make some changes online or download forms. You can:

- check your current and previous holdings balances;
- choose your preferred annual report option;
- update your address details;
- update your bank details;
- confirm whether you have lodged your TFN, ABN or exemption;
- check transaction and distribution history;
- enter your e-mail address;
- check unit prices and graphs; and
- download a variety of instruction forms.

You can access this information via a security login using your Securityholder Reference Number ("SRN") or Holder Identification Number ("HIN") as well as your surname (or company name) and postcode (must be the postcode recorded on your holding record).

# UNITHOLDER INFORMATION

## Don't Miss Out on Your Distributions

Distribution cheques that are not banked are required to be handed over to the State Trustee under the Unclaimed Monies Act. You are reminded to bank cheques immediately.

### Better still, why not have us bank your distribution payments for you

How would you like to have immediate access to your distribution payments? Your distribution payments can be credited directly into any nominated bank, building society or credit union account in Australia. Not only can we do your banking for you, distributions paid by direct credit reach your account as cleared funds, allowing you to access them on payment date.

### Distribution Re-Investment Plan ("DRP")

After a review of capital requirements, the board made a decision to suspend the operation of the DRP with effect from the second interim distribution, paid in March 2005.

If APA capital requirements change, the board will review its decision.

## Election of Directors

In August each year, unitholders will be notified by announcement to ASX that they may nominate a person for election to the Australian Pipeline Limited ("APL") board as a non-corporate director.

Once all nominations are received by the required date, APL will advise unitholders of all candidates and present its nominations to the unitholders at the APL annual meeting. A majority resolution by unitholders on nominations will confirm unitholders' intentions. APL will then ensure that the successful candidates are elected to its board.

## Terms and Abbreviations

This annual report uses terms and abbreviations relevant to APA's activities and financial accounts. A glossary of the terms and abbreviations used in this report is provided on this page.

## Glossary of Terms and Abbreviations

**ACCC** – Australian Competition and Consumer Commission

**AGAAP** – Australian generally accepted accounting principles

**AGL** – The Australian Gas Light Company

**APL** – Australian Pipeline Limited

**APA or Trust** – Australian Pipeline Trust

**ASX** – Australian Stock Exchange

**BBSW** – Bank Bill Swap Reference Rate

**CBM** – Coal bed methane – The extraction of natural gas from a coal seam

**Co-generation** – The simultaneous production of electrical energy plus heat from a single fuel source, such as natural gas

**EBIT** – Earnings before interest and tax

**EBITDA** – Earnings before interest, tax, depreciation and amortisation

**Financial Year** – The 12 months to 30 June

**GGT** – Goldfields Gas Transmission Pipeline

**GTD** – Gas Transportation Deed

**LNG** – Liquid natural gas

**MSP** – Moomba to Sydney Pipeline System

**National Gas Access Code** – National third party access code for natural gas pipeline systems

**Natural Gas** – Naturally occurring hydrocarbons consisting mainly of methane, often associated with petroleum

**Parmelia gas business** – Made up of the Parmelia Gas Pipeline, gas storage and gas processing businesses

**PJ** – Petajoule

**PJ/d** – Petajoule per day

**RBP** – Roma to Brisbane Pipeline System

**SCP** – SCP Investments (No.1) Pty Limited

**SCP gas business** – refers to SCP Investments (No.1) Pty Limited, the 88.2% owner of GGT, and the Parmelia gas business.

**TJ** – Terajoule

**TJ/d** – Terajoule per day

# DIRECTORY AND FINANCIAL CALENDAR

## Responsible Entity and Registered Office

Australian Pipeline Limited  
ABN 99 091 344 704  
Level 5, Airport Central Tower  
241 O'Riordan Street  
(PO Box 934), Mascot NSW 2020

Telephone: +61 2 9693 0000  
Facsimile: +61 2 8339 0005  
Website address: [www.pipelinetrust.com.au](http://www.pipelinetrust.com.au)

## Directors of the Responsible Entity (current)

Mr George H Bennett (chairman)  
Mr Ross M Gersbach  
Mr Russell A Higgins  
Ms Jane F McAloon  
Mr Muri Muhammad  
Mr Robert J Wright  
Mr Ed Osman Ridzwan (alternate for Muri Muhammad)

## Chief Executive Officer

Mr Mick J McCormack

## Chief Financial Officer

Mr Richard F Francis

## Company Secretary

Mr Austin J V James

## Auditor of the Trust

Deloitte Touche Tohmatsu

## ASX Code

APA

## Financial Calendar

At the time of printing, dates are as follows:

### September 2005

Final distribution payable

### October 2005

Annual Meeting – InterContinental Sydney

### December 2005

Interim distribution payable

### February 2006

Half year results announced

### March 2006

Interim distribution payable

### June 2006

Interim distribution payable

### Financial year end

### Invitation to the Unitholder Annual Meeting

The annual meeting will be held at the InterContinental Sydney, 117 Macquarie Street, Sydney, on Friday 21 October 2005 at 11.00 am. The formal Notice of Meeting is enclosed with this annual report.

### Australian Pipeline Trust Online

For an overview of APA and access to its announcements, investor information and financial performance, visit [www.pipelinetrust.com.au](http://www.pipelinetrust.com.au)

Australian Pipeline Trust ARSN 091 678 778 and ABN 21 858 175 226



The Cascades at Forest Lake





