

In the Pipeline

ISSUE 2 | 2007

IN THE PIPELINE

Welcome to the third issue of "In the Pipeline" for 2007. APA Group ("APA") does not usually provide a newsletter for this quarter. However, given the large number of new securityholders who have come on board, we thought it was a good opportunity to welcome them. This newsletter will not be sent to securityholders, but will be placed on the APA website.

A lot has happened at APA since our last issue in June. We have a busy period ahead with our Annual Meeting scheduled for 30 October 2007 and the ongoing integration of our recently acquired businesses.

Recapping the main events since our last issue, APA released its full year results on 29 August 2007, reporting a 40% rise in underlying operating cash flow fuelled by growth in our asset base and healthy throughput on our existing pipelines.

APA exceeded its goal of growing distributions annually by at least CPI, with a 16.7% increase in full year distributions as a consequence of increased cash flow from our recent acquisitions.

APA also announced an important change to the frequency of distribution payments and unveiled some key changes to the composition of the APA Board.

Before updating you in more detail on these events and changes, I would like to welcome the former Alinta shareholders to the APA register. You have joined APA at an exciting time and we are very pleased to have you on board.

FINANCIAL HIGHLIGHTS

APA delivered above market guidance (\$58 million to \$61 million) with net profit after tax before significant items, coming in at \$64.5 million for the 2007 financial year. Cash flow is a key metric for APA and initial contributions from acquisitions during the period helped drive underlying operating cash flow up 40.0% to \$157 million.

Our revenue result was also very strong. Contributions from gas transmission business GasNet Australia (Victoria and Western Australia) and the gas distribution business Allgas (Queensland) were the primary drivers of a 40.5% increase in total revenue over the year to \$532.7 million.

APA securityholders enjoyed another strong increase in distributions with Directors declaring a final distribution of 7.0 cents per security ("cps"). Total distributions for the financial year increased to 28.0 cents up 4.0 cps or 16.7% on the previous year.

Operating cash flows for the business are expected to remain strong in financial year 2008 and the business is on track to grow cash distributions by at least CPI.

As well as building its asset base in the 2007 financial year, APA substantially strengthened its balance sheet, raising more than \$600 million in equity through a variety of offerings, and refinancing more than \$2.8 billion in debt prior to the current upheavals in the debt and equity capital markets. APA has no exposure to the sub-prime market, and through its extensive interest rate hedge book is well protected against rising interest rates.

The business is tracking well to date for financial year 2008 and APA confirms market consensus for EBITDA (Earnings Before Interest Tax Depreciation and Amortisation) in a range of \$380 million to \$390 million.

A full report on APA's financial results can be found in our Annual Report which is posted on our Website www.pipelinetrust.com.au.

BOARD CHANGES

Since our last newsletter, APA announced two significant changes to the composition of the Board – the appointment of Leonard ("Len") Bleasel AM as Chairman elect and Manharlal ("George") Ratilal as an independent director.

Mr Bleasel brings substantial industry experience to APA at a time when the group is positioning itself as a top 150 ASX business. He will replace long standing Chairman George Bennett who will step down as a Director and Chairman of the Board at the AGM on 30 October.

Mr Ratilal, who is a Petronas representative on the Board, brings significant corporate finance and merger and acquisition experience.

ALINTA'S SEPARATION FROM APA

In a major development since our last newsletter, APA entered into separation arrangements with Alinta which resolved a lot of uncertainty for your company/business

Under these arrangements it was agreed that:

- The operating and maintenance function performed by Alinta on key APA pipelines would be terminated. This means the operation and maintenance of all APA assets are now undertaken by APA, rather than a third party;
- All litigation between APA and Alinta would be terminated; and
- APA securities owned by Alinta (approximately 35%) would be widely distributed to shareholders of Alinta. This happened on 31 August when the takeover of Alinta by the Babcock & Brown and Singapore Power Consortium became effective.

We are very pleased that these matters have been resolved and APA can now focus on growing the business to the benefit of security holders.

APA Group



TIMING OF DISTRIBUTION PAYMENTS

In an important change for securityholders, APA has announced distributions will be paid semi-annually instead of quarterly. The next distribution will be a six-monthly distribution payable in March 2008. This will not reduce the total annual distribution security holders will receive, nor does it change APA's commitment to grow distributions annually by at least CPI.

The change will, however, result in potential annual savings for APA of \$400,000 and brings it in line with most of its peers. We expect distributions will be declared in February and August each year.

SECURITYHOLDER DETAILS

If you are a new APA securityholder, please ensure you have provided your TFN (Tax File Number) and direct payment details to our unit registry Link Market Services Limited (Link). We encourage all investors to receive distributions by direct credit as a way of ensuring receipt of your distribution, enhancing the security and efficiency of the payment.

You can notify Link of the Australian bank account, building society or credit union into which you would like your payments to be made by visiting the Link Website www.linkmarketservices.com.au, downloading a form and mailing it to Link at:

Locked Bag A14,
SYDNEY SOUTH NSW 1235.

As an alternative to receiving cash distributions, securityholders may elect to participate in the APA Distribution Reinvestment Plan. The Distribution Reinvestment Plan enables securityholders to use distributions to purchase additional fully paid APA securities. If you would like to participate in the Distribution Reinvestment Plan, contact Link either through their website or phone 1800 992 312 to arrange a form to be sent out to you.

LOOKING AHEAD

The 2007 financial year was an extremely eventful and successful one for APA. The assets we acquired contributed to a significant increase in underlying cash flow which meant we exceeded our aim of growing distributions to security holders by CPI.

We are focussed on integrating those assets during financial year 2007 and – as we have always said – we will continue to examine investment opportunities as they arise.

Cash flows from operations are expected to be strong in financial year 2008, strengthened by recent acquisitions.

We have a new Chairman elect who brings substantial industry experience to APA, the fundamentals of our business remain solid and we have the right strategies in place to ensure growth continues whether through acquisition, investing in brownfields or greenfields projects and organically.

I look forward to updating you on the business and key milestones in our next issue and at the Annual Meeting in October.

A handwritten signature in black ink, appearing to read 'm.j.c.c.' or similar initials.

Mick McCormack
Managing Director

3 October 2007

APA Group