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Australian Pipeline Trust

Australian Pipeline Ltd
ACN 091 344 704
ARSN 091 678 778

3rd September, 2003

ASX Company Announcement

RESULTS FOR ANNOUNCEMENT TO THE MARKET
AUSTRALIAN PIPELINE TRUST - PROFIT UP 10.6%:

This announcement refers to the results of Australian Pipeline Trust (APA) as detailed in the Appendix 4E– Preliminary Final Report for the period 1 July 2002 to 30 June 2003.

The directors of Australian Pipeline Limited as responsible entity for Australian Pipeline Trust (APA) are pleased to announce the audited full year results for the year ended 30 June 2003 (YEJ 2003) for APA.

Full year profit after tax and minorities for YEJ 2003 was $41.046 million, up 10.63% on the previous corresponding period, (pcp) result of $37.101 million.

	YEJ 2003 $'000	YEJ 2002 (pcp) $'000	Change compared to YEJ 2002 $'000	%
Pipeline Revenue	189.210	180.421	8.789	4.87
Other Pipeline Revenue	67.990	61.053	6.937	11.36
Other Revenue	14.712	13.938	0.774	5.55
Total Revenue	271.912	255.412	16.500	6.46
EBITDA	137.807	132.227	5.580	4.22
EBIT	113.724	105.889	7.835	7.40
Pre tax Profit	65.128	59.097	6.031	10.21
Income Tax Expense	(23.804)	(21.723)	(2.081)	(9.58)
Operating Profit after Tax and Minorities	41.046	37.101	3.945	10.63
Earnings Per Unit (cents)	16.82	15.21	1.61	10.63
Net Tangible Asset Backing per unit (after capital distributions)	$1.79	$1.76	0.03	1.70
Operating Cash Flow per unit – excluding interest (cents)	56.41	53.23	3.18	5.97
Interest Cover Ratio	2.4	2.4		
Gearing Ratio (%)	63.3	63.4		

The main factors contributing to the result were higher revenues from pipeline asset expansion programs, primarily in Queensland, additional equity accounted profit contribution from Goldfields Gas Transmission (Western Australia) as a consequence of increased ownership of the pipeline by APA, and increased revenue on that pipeline.

Distribution

The distribution for the quarter ended 30 June 2003 will be 6.5 cents per unit, comprised entirely of an unfranked income distribution of 6.5 cents per unit. The record date for the distribution is 12 September 2003 and the "ex" date will be 8 September 2003. The date for payment of the distribution is 25 September 2003.

This takes the total distribution for YEJ 2003 to 21.5 cpu, which is consistent with the pcp. The income component of the distributions has increased from 15.5 cpu in the pcp to 17.0 cpu, an increase of 9.68%, which reflects the higher earnings during the financial year. As previously indicated, APA is not expected to have significant franking credits until after 2004 financial year.

Distribution Reinvestment Plan

In response to unitholder requests, the Board has now activated the distribution reinvestment plan (Plan). The Board has determined that the first issue of units under the Plan will be at a discount to market of 2.5%. The last date for receipt of election notices for the Plan is 5pm on 12 September 2003. Details of the Plan are available from the Registry at ASX Perpetual (ph 02 8280 7132) or on the APA website – www.pipelinetrust.com.au

COMMENTARY

Revenue

Total revenue of $271.912 million was $16.500 million, 6.46%, above the pcp. Pipeline revenue, excluding Other pipeline revenue which is in the nature of passthrough revenue, was $189.210 million, up $8.789 million (4.87%), on the pcp.

The increase in Pipeline Revenue was a result of: -

- increased revenue on the Roma to Brisbane Pipeline (Qld) during YEJ 2003, largely reflecting the first full year impact of looping stage 5 expansion;
- higher revenue on the Carpentaria Gas Pipeline (Qld) due to increased throughput to customers;
- the equity profits from Goldfields Gas Transmission pipeline (in WA) was $13.546 million, an increase of $2.608 million (23.84%), over pcp due to increased underlying profits and an increase in APA's ownership of the pipeline to 48.5% in April 2003; and
- an increase in transportation revenue from railway sleeper factories in Northern Territory.

During the financial year, APA received an amount of $1.886 million as settlement for the termination of contract on the Westlime lateral in Western Australia. The settlement with

AGL Gas Trading Pty Limited, the customer on the lateral, was reached so as to take account of all costs associated with its closure, including the write-down of $1.480 million on asset value. The transaction had no impact on the consolidated entity's reported profit. Excluding the settlement revenue, pipeline transportation revenue was $187.324 million, an increase of $6.903 million (3.83%) on the pcp.

The above increases in revenue were offset by the effect of predicted loss of revenue on the Moomba to Sydney Pipeline (MSP), due to the impact of the Eastern Gas Pipeline - the competing pipeline into the Sydney and Canberra markets. Revenue was also impacted by the temporary closure of the Xstrata owned vanadium mine at Windamurra on the Mid West pipeline in WA. Prior to the closure, the mine was the largest customer on the pipeline. APA is confident that the continued exploration of the area will produce additional load from future mining developments. No adjustment to the asset value of the Mid West pipeline is considered necessary at this stage.

Expenses

Pipeline operation and management expenses of $42.936 million increased by $2.440 million, or 6.03% over the pcp due to increases in insurance costs and additional expenses associated with operation and management of capital expansion.

Depreciation and amortisation expenses of $24.083 million were lower by $2.255 million (8.56%), compared to the pcp due to lower throughput on the MSP as a result of a mild winter, and an upward revision in lifetime throughput on the RBP following completion of looping stages 5 and 6.

The net interest and borrowing expense was $1.804 million higher than the pcp due to the general increase in interest rates, higher borrowing to fund capital expansion projects, and the expiry of certain hedges which were at favourable rates.

The effective tax rate (ie. tax expense calculated as a percentage of pre-tax profit) of 36.55% is consistent with the pcp. The effective tax rate is higher than the corporate tax rate of 30% as a consequence of the non-deductibility of interest on infrastructure bonds and certain depreciation and amortisation charges, for tax purposes.

Borrowings

As at 30 June 2003, the principal source of debt funding for APA was the unsecured bank borrowing of $758 million in term and revolving facility. In order to limit the volatility to earnings that could be caused by fluctuations to interest rates, APA utilises derivative financial instruments, particularly interest rate swap contracts. As at the end of the financial year, 92.81% of the term loan facility was hedged. The gearing ratio was 63.32%, which is consistent with the business profile of APA ie. involvement with long-life infrastructure assets.

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Tax

A significant item of liability in APA's balance sheet is deferred tax liabilities, which represents the potential future tax payments resulting from accelerated tax depreciation compared to accounting depreciation on transmission pipelines. Changes to tax legislation can have a material impact on future investment and cash flows of APA. In view of its significance, APA closely monitors and maintains dialogue with government in relation to the changes that might occur to the tax regime on long-life assets.

As a part of the Business Tax Reform, the Commonwealth Government has introduced consolidated income taxation for corporate groups, such as APA. The reform, referred to as the "Tax Consolidation System", has been enacted through a series of successive legislations. Entry into the consolidation system is optional. APA is assessing the impact of the legislation and will make a decision on consolidation once the impact study is completed.

Operating Cash Flow

The cash flow from operating activities of $90.589 million increased by $5.503 million or 6.47% over the pcp. This is in line with the increase in earnings before interest, tax, deprecation and amortisation (EBITDA).

During the financial year, $41.037 million was invested in additions to plant and equipment and acquisitions. A further $52.460 million was paid in distributions to unitholders of APA.

Earnings per Unit

Earnings per unit increased by 10.63% to 16.82 cents per unit, reflecting increased profitability.

Highlights

A summary of the major achievements during YEJ 2003 is set out below: -

- construction of looping stage 6 on Roma to Brisbane ("RBP") in Queensland to satisfy growing customer demand. The looping was commissioned in October 2002;
- agreeing to innovative interruptible and firm haulage contracts with existing customers on the RBP to increase utilisation of the pipeline;
- installation of a compressor on the Carpenteria Gas Pipeline ("CGP") in Queensland to increase throughput capacity on the pipeline. The compressor was commissioned in December 2002;
- acquisition of TransAlta Energy Corporation's interest in Goldfields Gas Transmission ("GGT") pipeline in Western Australia was completed in April 2003. This acquisition takes APA's effective ownership in GGT from 39.7% to 48.5%; and
- agreement, reached with AGL Wholesale Gas Limited to transport gas in the Moomba to Sydney Pipeline ("MSP") post 2006, in addition to quantities previously agreed under the Gas Transportation Deed ("GTD").

REGULATORY MATTERS

Discussion with and submissions to governments and regulators on regulation of gas transmission pipelines continued to have a significant impact on APA's resources.

Key regulatory matters addressed during the financial year included:

- review of the Gas Access Regime by the Productivity Commission, with a final report due for release in June 2004. This review was foreshadowed in the Review of Operations last financial year. APA welcomes the opportunity to participate in the review process, which is critical to ensuring that the future regulatory environment is conducive to investment in gas transmission pipelines.
- submission on revocation of coverage over the MSP system following the Australian Competition Tribunal's decision to revoke regulatory coverage over the competing Eastern Gas Pipeline. In November 2002, the National Competition Council made a final recommendation to the Minister for Industry Tourism and Resources, the Honourable Ian Macfarlane, that the MSP should remain covered. At the time of writing, the Minister was still considering the recommendation, with a decision expected in the near future.
- the National Competition Council has recommended to the Honourable Ian Campbell, Secretary to the Treasurer, that the Queensland Gas Access Regime is "not effective". If the recommendation is upheld, it may lead to the upset of the existing contractual arrangements on the RBP and CGP. Both the Queensland Government and APA will be vigorously opposing the recommendation. It is not expected that a final determination is likely in the short term.
- litigation concerning the Western Australian Office of Gas Access Regulation (OFFgar), which did not take account of the existence of certain conditions in the State Agreement between the Western Australian Government and GGT in its regulatory review of the GGT. The State Agreement was designed to protect the interest of the GGT owners. Litigation has been suspended while the GGT owners await a further draft determination by OFFGAR. Indications are that a draft determination should be released prior to December 2003.

OTHER ISSUES

Gas supply into south-eastern Australia continues to dominate the development and expansion of the natural gas industry. ABARE's latest modelling of supply and demand into eastern Australia indicates that natural gas supply will become a critical issue by the end of the decade. Alternative gas supplies will need to be developed to replace the declining Moomba supply.

Coal bed methane, (CBM) is emerging as a viable component of the solution to gas supply in south-east Australia and APA is encouraged by progress to date. But, northern gas remains the most likely long-term solution to the gas supply equation. It is clear that the project will not proceed until the necessary foundation loads and incentives to underpin the capital required are established.

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OUTLOOK

APA has enjoyed three years of profit growth, largely as a consequence of the stable and dependable revenues from its pipeline assets. The MSP system provides 39% of the gross pipeline transportation revenue of APA under the Gas Transportation Deed (GTD) with AGL Wholesale Gas Limited (AGL).

The GTD was negotiated in an environment when full retail contestability was being introduced and reflects the conservative estimates of AGL's capacity and volume requirements for New South Wales and the Australian Capital Territory. Consequently AGL's contracted position reduces over the next few years until 2007, with a corresponding reduction in revenue.

While APA is exploring marketing opportunities to improve the contracted position, it is also looking to diversify its revenue base away from reliance on the MSP.

In that context, the development of the Queensland and Western Australian pipelines is important. Each year has seen a growth in revenue from these pipelines and opportunities exist to continue to expand these assets. However, APA also needs to acquire additional assets if it is to maintain the current trend in profit growth.

Industry rationalisation provides APA with significant opportunities. Overseas asset owners have reassessed their investment decisions within Australia and are now looking to exit. There has been substantial media speculation that EPIC Energy will be put up for sale on some basis, and it can be expected that APA will be keen to participate.

Acquisition of all or part of EPIC's assets, which include the Dampier to Bunbury Pipeline, the South West Queensland Pipeline and the Moomba to Adelaide Pipeline, would address APA growth strategies.

Minority interests in the GGT pipeline, have also expressed an intention to divest themselves of their interest in that pipeline.

No formal process has been announced in respect of the EPIC and GGT assets, although current indications are that a process is likely within the next six months.

APA expects that NPAT for YEJ 2004 will be in line with YEJ 2003, unless a major acquisition is achieved. APA will be able to, at least, maintain its current distribution levels.

APA will keep the market informed of developments.

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UNITHOLDER INFORMATION MEETING

APA will be holding a unitholder information meeting at the Avillion Hotel, Sydney on Tuesday 21 October 2003 at 11.30am to offer the opportunity for unitholders to meet and discuss our performance in this full year.

George H. Bennett
Chairman

About Australian Pipeline Trust (APA)
The Australian Pipeline Trust is the major ASX listed natural gas Pipeline Company in Australia with interests in over 7,000km of pipeline infrastructure. The Trust has a varied and quality customer base including AGL, Cooper Eromanga Basin Producers, MIM, Normandy, Origin Energy, BHP Minerals, Pasminco, Incitec and WMC.

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