# CONNECTING OPPORTUNITIES

APA GROUP ANNUAL REPORT 2013

# MORE THAN THE SUM OF OUR PARTS

APA Group

# AUSTRALIAN PIPELINE TRUST AND ITS CONTROLLED ENTITIES
# ARSN 091 678 778

## DIRECTORS' REPORT

The Directors of Australian Pipeline Limited ("Responsible Entity") submit their report and the annual financial report of Australian Pipeline Trust ("APT") and its controlled entities (together "APA" or "Consolidated Entity") for the financial year ended 30 June 2013. This report refers to the consolidated results of APT and APT Investment Trust ("APTIT").

### DIRECTORS

The names of the Directors of the Responsible Entity during the year and since the year end are:

| | |
|---|---|
| **Leonard Bleasel AM** | Chairman |
| **Michael McCormack** | Chief Executive Officer and Managing Director |
| **Steven Crane** | |
| **John Fletcher** | |
| **Russell Higgins AO** | |
| **Patricia McKenzie** | |
| **Muri Muhammad** | (retired 24 October 2012) |
| **Robert Wright** | |

Details of the Directors, their qualifications, experience, special responsibilities and Directorships of other listed entities are set out on pages 14 to 16.

### PRINCIPAL ACTIVITIES

The principal activities of APA during the course of the year were the ownership and operation of energy infrastructure assets and businesses, including:

- energy infrastructure, primarily gas transmission businesses located across Australia and the Emu Downs Wind Farm in Western Australia;
- asset management and operations services for the majority of APA's energy investments and for third parties; and
- energy investments in listed and unlisted entities.

### FINANCIAL AND OPERATIONAL REVIEW

#### APA OVERVIEW

APA is Australia's largest natural gas infrastructure business. It owns or has an interest in approximately $12 billion of energy infrastructure across Australia, and operates these with a skilled workforce in excess of 1,500 people.

APA has a diverse portfolio of 14,100 kilometres of gas transmission pipelines that span every state and territory on mainland Australia and deliver about half the nation's natural gas usage. It also owns other related energy infrastructure assets such as gas storage facilities and power generation assets.

APA has ownership interests in, and operates, the Envestra Limited ("Envestra") and the GDI (EII) Pty Ltd ("GDI") gas distribution networks, which together have approximately 25,000 kilometres of gas mains and approximately 1.2 million gas consumer connections. It also has minority interests in and operates other energy infrastructure assets and businesses, including SEA Gas Pipeline, Energy Infrastructure Investments, EII2 and Ethane Pipeline Income Fund.

APA's objective of maximising securityholder value is achieved through expanding and enhancing its infrastructure portfolio, securing low risk, long-term revenue on its assets, operating the business safely and efficiently and generating further value through its service offerings.

APA is listed on ASX and is included in the S&P ASX 50 Index. Since listing in June 2000, its market capitalisation has increased ten-fold to over $5 billion (as at 30 June 2013), and it has achieved total securityholder returns of 787% or annual compound growth rate of 18.2%.[1]

#### APA regulated and contracted revenue

APA derives its revenue streams through a mix of regulated revenue, long-term negotiated revenue contracts, asset management fees and investments. Earnings are underpinned by strong cash flows generated from high quality, well positioned, geographically diversified assets and a small portfolio of creditworthy customers.

A national regulatory regime provides mechanisms for regulatory pricing amongst other things, which is encapsulated in the National Gas Law and National Gas Rules. The economic regulation aspects of the regime apply to most gas distribution networks and a number of gas transmission pipelines in Australia.

The regime provides for two forms of regulation based on a pipeline's relative market power – full regulation and light regulation. For assets under full regulation the regulator determines price and other terms of access for standard ("reference") services as part of an access arrangement process, such that the asset owner has a reasonable opportunity to recover at least the efficient costs of owning and operating the asset to provide the reference services. Access arrangement periods usually run for five years. For assets under light regulation, contractual terms (including price) are negotiated between the service provider and customer with recourse to arbitration by the regulator in the absence of agreement. APA assets subject to full regulation or light regulation are detailed below.

Contracted revenues are sourced from unregulated assets, assets under light regulation as well as assets under full regulation. Contracts are generally for a reservation of capacity, with a majority of the revenue fixed. Average contract term is greater than 10 years, and where new infrastructure is required, terms tend to be 15 years or greater.

Approximately 25% of APA's FY2013 revenue (excluding pass-through revenue) was subject to prices determined under full regulation. The majority of the remaining 75% of APA's revenue is generated from contracts which have set terms, including negotiated pricing for the life of the contract.

#### APA assets and operations

APA is a major participant in developing, owning and operating natural gas transportation infrastructure across Australia.

APA's assets and operations are reported in three principal business segments:

- Energy Infrastructure, which includes all APA's wholly or majority owned pipelines, gas storage assets and the Emu Downs Wind Farm;
- Asset Management, which provides commercial, operating services and/or asset maintenance services to the majority of its energy investments for appropriate fees; and
- Energy Investments, which includes APA's strategic stakes in a number of investment vehicles that house energy infrastructure assets, generally characterised by long-term secure cash flows, with low capital expenditure requirements.

1 Total securityholder return is the capital appreciation of the company's security price, adjusted for capital management (such as security splits and consolidations) and assuming reinvestment of distribution at the declared distribution rate per security. Figures quoted are sourced from IRESS.

# DIRECTORS' REPORT
## CONTINUED

### Energy Infrastructure assets

| | LENGTH/CAPACITY | REGULATORY STATUS |
|---|---|---|
| **East coast gas grid** | | |
| Roma Brisbane Pipeline | 582 km | Full regulation |
| South West Queensland Pipeline | 936 km | Not regulated |
| Carpentaria Gas Pipeline | 944 km | Light regulation |
| Berwyndale Wallumbilla Pipeline | 112 km | Not regulated |
| Moomba Sydney Pipeline | 2,028 km | Light regulation (partial) |
| Central West Pipeline | 255 km | Light regulation |
| Central Ranges Pipeline and distribution network | 294 km | Full regulation |
| Victorian Transmission System | 1,842 km | Full regulation |
| Dandenong LNG Storage Facility | 12,000 tonnes | Not regulated |
| SESA Pipeline | 45 km | Not regulated |
| | Total 7,038 km | |
| **West Australian and Northern Territory assets** | | |
| Goldfields Gas Pipeline (88.2%) | 1,546 km | Full regulation |
| Kalgoorlie to Kambalda | 44 km | Light regulation |
| Pilbara Pipeline System | 328 km | Not regulated |
| Parmelia Gas Pipeline | 446 km | Not regulated |
| Mid West Pipeline (50%) | 363 km | Not regulated |
| Mondarra Gas Storage Facility | 15 PJ | Not regulated |
| Emu Downs Wind Farm | 80 MW | Not regulated |
| Amadeus Gas Pipeline | 1,671 km | Full regulation |
| | Total 4,398 km | |

### Energy Investments and Asset Management

| ENERGY INVESTMENT | OWNERSHIP INTEREST | DETAIL | ASSET MANAGEMENT |
|---|---|---|---|
| Envestra | 33.0% | **Gas distribution:** 22,500 km of gas mains, 1.14 million gas consumer connections, 1,124 km of pipelines across SA, Vic, NSW, Qld and NT | Operational services |
| GDI | 20.0% | **Gas distribution:** 2,800 km of gas mains, 83,000 gas consumer connections in Qld | Operational services; Investment management services |
| SEA Gas Pipeline | 50.0% | **Gas pipeline:** 687 km pipeline from Iona and Port Campbell, Vic to Adelaide, SA | Maintenance services only |
| Energy Infrastructure Investments | 19.9% | **Gas pipelines:** Telfer Gas Pipeline and lateral - 488 km; Bonaparte Gas Pipeline -286 km; Wickham Point Pipeline - 12 km<br>**Electricity transmission cables:** Murraylink (176 km) and Directlink (63 km)<br>**Gas-fired power stations:** Daandine power station (27MW) and X41 power station (32 MW)<br>**Gas processing facilities:** Kogan North (12 TJ/day) Tipton West (29 TJ/day) | Operational services; Investment management services |
| EII2 | 20.2% | **Wind generation:** North Brown Hill Wind Farm (132MW), SA | Investment management services |
| Ethane Pipeline Income Fund | 6.1% | **Ethane pipeline:** 1,375 km from Moomba to Port Botany, Sydney | Operational services; Investment management services |
| Diamantina Power Station | 50.0% | **Gas-fired power stations:** Diamantina Power Station (242 MW) and Leichhardt Power Station (60 MW) currently under development | NA |

**APA objective and strategy**

APA's objective to maximise the value of APA for its investors is supported by its strategy to:

- focus on expanding and enhancing its natural gas infrastructure portfolio to meet the increasing demand for natural gas services;
- capture revenue and operational synergies from its significant asset base;
- pursue asset development opportunities which leverage APA's existing assets and utilise the depth of its comprehensive asset management and operational skills;
- enhance APA's services to customers, including the development of more flexible and tailored services to better satisfy customer requirements; and
- strengthen its financial capability.

This strategy has been relatively unchanged since listing. Consistent with this strategy, over the 2013 financial year APA commenced, continued or completed the following growth development projects and acquisitions:

- acquisition of the South West Queensland Pipeline and Pilbara Pipeline System through its takeover of Hastings Diversified Utilities Fund ("HDF");
- pipeline capacity expansions on the Victorian Transmission System, Moomba Sydney Pipeline, Goldfields Gas Pipeline and Roma Brisbane Pipeline;
- expansion of the Mondarra Gas Storage Facility;
- development of the Diamantina and Leichhardt gas fired power stations;
- compression projects at Wallumbilla and Moomba; and
- development of the east coast grid services and operating framework.

**FINANCIAL REVIEW**

The following table provides a summary of key financial data for the year:

| YEAR ENDED 30 JUNE | 2013 $000 | 2012 $000 | CHANGES $000 | CHANGES % |
|---|---|---|---|---|
| **Operating results including significant items** | | | | |
| Total revenue | **1,272,267** | 1,060,661 | 211,606 | 20.0 |
| Pass-through revenue (1) | **352,743** | 302,633 | 50,110 | 16.6 |
| **Total revenue excluding pass-through** | **919,524** | 758,028 | 161,496 | 21.3 |
| **EBITDA** | **768,801** | 525,825 | 242,976 | 46.2 |
| Depreciation and amortisation expense | **(130,461)** | (110,409) | (20,052) | (18.2) |
| **EBIT** | **638,340** | 415,416 | 222,924 | 53.7 |
| Net interest expense | **(290,916)** | (234,326) | (56,590) | (24.2) |
| Pre-tax profit | **347,424** | 181,090 | 166,334 | 91.9 |
| Income tax expense | **(51,421)** | (50,435) | (986) | (2.0) |
| Minorities | **2,764** | (5) | 2,769 | - |
| **Profit after tax and minorities, including significant items** | **298,767** | 130,650 | 168,117 | 128.7 |
| Significant items after income tax (2) | **120,030** | (9,663) | 129,693 | - |
| **Profit after income tax and minorities, excluding significant items** | **178,737** | 140,313 | 38,423 | 27.4 |
| Operating cash flow (3) | **374,381** | 335,569 | 38,812 | 11.6 |
| Operating cash flow per security (cents) | **48.5** | 52.5 | (4.0) | (7.6) |
| Normalised operating cash flow (4) | **432,639** | 335,569 | 97,070 | 28.9 |
| Normalised operating cash flow per security (cents) (4) | **56.0** | 52.5 | 3.5 | 6.8 |
| Earnings per security – reported (cents) | **38.7** | 20.4 | 18.3 | 89.4 |
| Earnings per security – normalised (cents) (5) | **23.1** | 21.9 | 1.2 | 5.5 |
| Distribution per security (cents) | **35.5** | 35.0 | 0.5 | 1.4 |
| Distribution payout ratio (6) | **68.2%** | 67.0% | | |
| Net tangible asset per security | **1.42** | 1.58 | (0.16) | (10.3) |
| Weighted average number of securities (000) | **772,314** | 639,743 | | |

(1) Pass-through revenue is revenue on which no margin is earned. Pass-through revenue arises in the asset management operations in respect of costs incurred in, and passed on to Envestra and GDI in respect of, the operation of the Envestra and GDI assets.

(2) Significant items: see summary table (page 5).

(3) Operating cash flow = net cash from operations after interest and tax payments.

(4) Normalised operating cash flow excludes significant items.

(5) Normalised earnings per security excludes significant items.

(6) Distribution payout ratio = total distribution payments as a percentage of normalised operating cash flow.

# DIRECTORS' REPORT
## CONTINUED

APA reported profit after tax and minorities and including significant items of $298.8 million, an increase of 129% compared with $130.7 million reported last year. APA's profit includes the earnings of HDF which was acquired in the financial year and consolidated from 9 October 2012.

APA's profit also contained a number of significant items (tabled below) relating to APA's acquisition of HDF, fees paid by HDF to Hastings Funds Management and the reversal of costs booked against the sale of APA Gas Networks (Qld) ("Allgas") to GDI (December 2011), with a net positive after tax impact of $120.0 million.

| SIGNIFICANT ITEMS | 2013 $000 | 2012 $000 |
|---|---|---|
| **Significant items impacting EBITDA** | | |
| Write back of transaction costs in respect of Allgas sale (1) | **18,588** | (9,663) |
| Gain on APA's previously held interest in HDF | **142,333** | - |
| Transaction costs on acquisition of HDF | **(12,404)** | - |
| Integration costs on acquisition of HDF | **(4,481)** | - |
| **Significant items incurred by APA** | **144,036** | (9,633) |
| Management and Performance Fees charged to HDF by Hastings Funds Management | **(35,438)** | - |
| Takeover response costs incurred by HDF | **(6,913)** | - |
| **Significant items incurred and paid by HDF** | **(42,351)** | - |
| **Total significant items impacting EBITDA** | **101,685** | (9,633) |
| **Significant items impacting finance costs** | | |
| Gain on settlement of HDF interest rate swaps | **8,713** | - |
| **Total significant items before tax** | **110,398** | (9,633) |
| Income tax related to significant items | **9,632** | - |
| **Total significant items after tax** | **120,030** | (9,633) |

(1) Prior year significant item reflects profit on Allgas sale less transaction costs.

Net profit after tax (excluding the significant items) of $178.7 million was up 27.4% on last year ($140.3 million).

Revenue (excluding pass-through) increased by $161.5 million to $919.5 million, an increase of 21.3% on last year. Earnings before interest, tax, depreciation and amortisation ("EBITDA") increased by $243.0 million to $768.8 million, an increase of 46.2%. This was in line with APA's EBITDA guidance for the 2013 financial year of $755 million to $770 million.

The main factors driving the increase in profit and EBITDA, excluding the significant items, include:

- additional earnings from the new expansion on the Roma Brisbane Pipeline (commissioned September 2012);
- increased performance of investments, in particular Envestra;
- increased asset management earnings from operating the Envestra assets, full year's earnings from operating the GDI assets and increased customer contribution work; and
- nine months' contribution of the South West Queensland Pipeline and the Pilbara Pipeline System and seven months' contribution of the Moomba Adelaide Pipeline System ("MAPS") divested 1 May 2013 .

The increase was partially offset by the removal of contributions from Allgas.

Operating cash flow increased by 11.6% to $374.4 million while operating cash flow per security decreased by 7.6% or 4.0 cents to 48.5 cents per security. The drop in operating cash flow per security is primarily due to the increase in securities on issue, as well as the inclusion of operating cash flows from HDF for the period from 9 October 2012 (which included some $58.3 million of fees paid by HDF to Hastings Funds Management and HDF's advisers in respect of the takeover by APA).

Normalised operating cash flow, that is, excluding the HDF significant one off payments, was up 28.9% on last year at $432.6 million, and corresponding operating cash flow per security was up 6.8% or 3.5 cents to 56.0 cents per security.

APA's distributions for the financial year totalled 35.5 cents per security, an increase of 1.4% or 0.5 cents on last year. APA achieved its guidance of paying distributions in the 2013 financial year at least equal to distributions in the 2012 financial year. The distribution payout ratio of 68.2% based on normalised operating cash flow, was slightly higher than the 67.0% ratio last year, mainly due to the increased securities on issue. APA continues to fully fund its distributions out of operating cash flows whilst also retaining significant cash in the business to support ongoing growth.

### CAPITAL MANAGEMENT

APA issued a total of 191,265,224 securities since 30 June 2012. The issues comprised:

- 7,147,485 new securities issued under the APA Distribution Reinvestment Plan ("DRP") on 14 September 2012, at $4.69 per security, raising $33.5 million;
- 175,717,257 new securities as part of the offer consideration for HDF, issued between 9 October and 24 December 2012 inclusively, at an average weighted cost per security of $5.035; and
- 8,400,482 new securities issued under the DRP on 13 March 2013 at $5.91 per security, raising $49.6 million.

At 30 June 2013, there were 835,750,807 securities on issue (30 June 2012: 644,485,583), an increase of 29.7%.

On 19 June 2013, having reviewed APA's financial position and funding requirements, the Board advised of its decision to suspend the DRP with immediate effect and until further notice.

During the year APA completed the following financings:

- On 18 September 2012, APA completed an offer of long-dated, unsecured, subordinated and cumulative notes ("Notes"), raising $515 million. The Notes have a face value of $100 per Note, with a first call date of 31 March 2018 and final maturity date of 30 September 2072. Note holders receive floating rate, cumulative interest payments quarterly in arrears; interest is the sum of the 90 day Bank Bill Rate plus a 4.5% margin. The Notes are ascribed 50% equity credit from Standard & Poor's and Moody's and are not convertible into stapled securities or any other securities. The Notes began trading on the ASX under the code "AQHHA" on 19 September 2012;
- On 11 October 2012, APA issued US$750 million (A$735 million) of 3.875% senior guaranteed notes into the United States 144A debt capital market, maturing in October 2022. The principal and interest obligations have been hedged into A$ obligations under the terms of cross-currency interest rate swap transactions, with quarterly A$ payments set at an average fixed rate of 6.68% per annum; and
- On 26 November 2012, APA issued GBP 350 million (A$536 million) of 12-year fixed rate medium term notes ("MTN") utilising documentation in place under its established European MTN program. The MTNs have a fixed annual GBP coupon of 4.25% per annum and will mature on 26 November 2024. The principal and interest obligations have been hedged into A$ obligations under the terms of cross-currency interest rate swap transactions, with quarterly A$ payments set at an average fixed rate of 7.36% per annum.

The proceeds from the Notes and debt facilities were used largely to assist in the acquisition of HDF, the repayment of HDF's short term bank debt and for general corporate purposes.

Between 20 December and 24 December 2012 APA effected the full repayment and cancellation of all of HDF's debt facilities, totalling $1,325 million and terminated all interest rate swaps associated with those facilities.

At 30 June 2013, APA's debt portfolio has a broad spread of maturities extending out to 2024, with an average maturity of drawn debt of 6.2 years. APA's gearing[2] of 62.8% at 30 June 2013 was down from 65.0% at 30 June 2012, primarily due to the reduction in net debt following receipt of funds from the sale of MAPS in May 2013.

At 30 June 2013, APA had $972 million in cash and committed undrawn facilities available to meet the continued capital growth needs of the business.

APA has a prudent treasury policy which requires conservative levels of hedging of interest rate exposures to minimise the potential impacts from adverse movements in interest rates. All interest rate and foreign currency exposures on debt raised in foreign currencies have been hedged. APA also enters into interest rate hedges for a proportion of the interest rate exposure on its floating rate borrowings. As at 30 June 2013, 83.2% of interest obligations on gross borrowings were either hedged or issued at fixed interest rates for varying periods extending out in excess of 11 years.

**BORROWINGS AND FINANCE COSTS**

As at 30 June 2013, APA had borrowings of $4,412 million ($3,224 million at 30 June 2012), principally from syndicated bank debt facilities, bilateral debt facilities, US Private Placement notes, European MTN in several currencies, Australian MTN, United States 144A notes and APA subordinated notes.

The increase in borrowings since 30 June 2012 is primarily related to the acquisition of HDF, including the repayment of HDF's debt facilities, payment of the cash component of the takeover offer, net of cash from the sale of MAPS.

Net finance costs increased by $56.6 million, or 24.2%, to $290.9 million (30 June 2012: $234.3 million). The increase is primarily due to consolidation of the HDF business into APA from 9 October 2012. The average interest rate (including credit margins) applying to drawn debt was 7.35% for the year (2012: 7.39%).

APA's interest cover ratio for the year decreased to 2.30 times from 2.48 times last year, remaining well in excess of its debt covenant default ratio of 1.1 times, and distribution lock up ratio of 1.3 times. The calculation of interest cover does not include the significant items in EBITDA and includes only nine months' contribution to EBITDA from the HDF business.

**CREDIT RATINGS**

APT Pipelines Limited, the borrowing entity of APA, maintained the following two investment grade credit ratings during the year:

- BBB long-term corporate credit rating (outlook Stable) assigned by Standard & Poor's (S&P)in June 2009; and
- Baa2 long-term corporate credit rating (outlook Stable) assigned by Moody's Investors Service (Moody's) in April 2010.

On 27 March 2013, S&P issued a report following its annual review of APA's borrowing entity, APT Pipelines Limited, stating that the stable rating outlook reflects APA's "excellent" business profile and S&P's expectation that APA will manage its capital structure to sustain the credit metrics expected for the BBB rating. The rating reflects S&P's opinion of the stable and predictable cash flow generated from the APA's ownership of a mix of more than a dozen regulated and unregulated (albeit highly contracted) gas transmission assets; its strong market position, stemming from its natural-monopoly assets; and low operating risk, underpinned by an in-house operating model.

Further, on 28 June 2013, Moody's released its latest credit opinion on APT Pipelines Limited, stating that its Baa2 senior unsecured issuer rating reflects the stable operating cash flows from APA's portfolio of quality gas infrastructure assets, which are predominantly gas pipelines with long-term transportation contracts and regulated network assets. The strong market position of the contracted assets and the fixed tariff for the regulated network over five-year regulatory periods support APA's ability to generate predictable revenues. Furthermore, its integrated transmission network enhances its operational flexibility, whilst the large number of assets within its diversified portfolio improves the group's cash flows and operational stability.

**INCOME TAX**

The effective income tax rate for the year was 14.8%, lower than 27.9% last year, primarily due to a number of significant items being capital in nature and therefore having little or no tax effect. The effective income tax rate before significant items is 25.8%, slightly lower than 26.4% last year.

**CAPITAL AND INVESTMENT EXPENDITURE**

Capital and investment expenditure for the year totalled $728.2 million compared with $295.5 million last year. Growth project expenditure of $372.7 million was in respect of pipeline capacity expansion in Queensland, New South Wales, Victoria and Western Australia, and the expansion of the Mondarra Gas Storage Facility. This expenditure was generally either fully underwritten through long-term gas transportation agreements or had regulatory approval through a relevant access arrangement.

Acquisitions and investments totalled $330.8 million, with the majority relating to the acquisition of HDF. Net cash consideration for the acquisition of HDF was $257.0 million. APA maintained its interest in Envestra at 33.0% for $65.5 million, by participating in Envestra's dividend reinvestment plan and its April 2013 equity placement.

2 Gearing ratio determined in accordance with covenants in certain senior debt facilities as net debt to net debt plus book equity.

# DIRECTORS' REPORT
## CONTINUED

Capital and investment expenditure for the year is detailed in the table below.

| CAPITAL AND INVESTMENT EXPENDITURE (1) | DESCRIPTION OF 2013 MAJOR PROJECTS | 2013 $ million | 2012 $ million |
|---|---|---|---|
| **Growth expenditure** | | | |
| *Regulated* | | | |
| Victorian Transmission System | Euroa compression; Sunbury lateral looping project, Longford meter station upgrade | **22.6** | 35.1 |
| Allgas (2) | | **-** | 8.4 |
| | | **22.6** | 43.5 |
| *Major projects* | | | |
| Queensland | Wallumbilla and Moomba compression; Roma Brisbane Pipeline expansion | **80.8** | 35.7 |
| New South Wales | Moomba Sydney Pipeline expansion | **24.1** | 18.9 |
| Western Australia | Mondarra Gas Storage Facility; Goldfields Gas Pipeline expansions; | **213.7** | 116.4 |
| Other | Victorian metering and LNG; NT pipelines | **31.5** | 10.2 |
| | | **350.1** | 181.2 |
| *Acquisitions* | | | |
| Energy Infrastructure | HDF acquisition net of cash acquired; Emu Downs Wind Farm stamp duty | **265.3** | 6.0 |
| Energy Investments | Increased interest in Envestra | **65.5** | 40.4 |
| | | **330.8** | 46.4 |
| **Total growth capex** | | **703.5** | 271.1 |
| **Stay in business capex** | | **24.7** | 24.4 |
| **Total capex** | | **728.2** | 295.5 |

(1) The capital expenditure shown in this table represents actual cash payments as disclosed in the cash flow statement; it excludes accruals brought forward from the prior year and carried forward to next year.

(2) Capital expenditure prior to the sale of Allgas to GDI in December 2011.

### DISTRIBUTIONS

Distributions paid to Securityholders during the year were:

| | FINAL FY2012 DISTRIBUTION PAID 14 SEPTEMBER 2012 | | INTERIM FY2013 DISTRIBUTION PAID 13 MARCH 2013 | |
|---|---|---|---|---|
| | Cents per security | Total distribution $000 | **Cents per security** | **Total distribution $000** |
| APT profit distribution | 5.09 | 32,786 | **14.74** | **121,930** |
| APT capital distribution | 7.32 | 47,182 | **-** | **-** |
| APTIT profit distribution | 3.28 | 21,160 | **2.26** | **18,719** |
| APTIT capital distribution | 2.31 | 14,879 | **-** | **-** |
| **Total** | 18.00 | 116,007 | **17.00** | **140,649** |

On 21 August 2013, the Directors declared a final distribution for APA for the year of 18.5 cents per security which is payable on 11 September 2013, and will comprise the following components:

| | FINAL FY2013 DISTRIBUTION PAYABLE 11 SEPTEMBER 2013 | |
|---|---|---|
| | **Cents per security** | **Total distribution $000** |
| APT profit distribution | **16.02** | **133,877** |
| APT capital distribution | **-** | **-** |
| APTIT profit distribution | **2.32** | **19,424** |
| APTIT capital distribution | **0.16** | **1,313** |
| **Total** | **18.50** | **154,614** |

Total distribution for the financial year ended 30 June 2013 is 35.5 cents per security, an increase of 0.5 cents, or 1.4%, on the year ended 30 June 2012.

Distribution information is presented on an accounting classification basis. The APA Group Annual Tax Statement and Annual Tax Return Guide (to be released in September 2013) will provide the classification of distribution components for the purposes of preparation of securityholder income tax returns.

# DIRECTORS' REPORT
## CONTINUED

**SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

In December 2012 APA completed the takeover of HDF, an ASX-listed investment vehicle whose assets included three natural gas transmission pipeline systems – the South West Queensland Pipeline, MAPS and the Pilbara Pipeline System. In May 2013 APA completed the divestment of MAPS consistent with the undertaking given to the Australian Competition and Consumer Commission ("ACCC"). Further information on the acquisition and divestment is found on page 11.

**BUSINESS SEGMENT PERFORMANCES AND OPERATIONAL REVIEW**

Statutory reported revenue and EBITDA performance of APA's business segments is set out in the table below.

| | | | CHANGES | |
|---|---|---|---|---|
| **YEAR ENDED 30 JUNE** | **2013 $000** | 2012 $000 | $000 | % |
| **Revenue (continuing business)** | | | | |
| ***Energy Infrastructure*** | | | | |
| Queensland (1) | **217,530** | 112,225 | 105,305 | 93.8 |
| New South Wales | **139,321** | 138,443 | 878 | 0.6 |
| Victoria | **162,582** | 161,297 | 1,285 | 0.8 |
| South Australia | **2,164** | 2,109 | 55 | 2.6 |
| Western Australia (2) | **196,878** | 174,166 | 22,712 | 13.0 |
| Northern Territory | **23,001** | 21,734 | 1,267 | 5.8 |
| Energy Infrastructure total | **741,476** | 609,974 | 131,502 | 21.6 |
| Asset Management | **82,293** | 69,295 | 12,998 | 18.8 |
| Energy Investments | **51,180** | 41,747 | 9,433 | 22.6 |
| **Total segment revenue** | **874,949** | 721,016 | 153,933 | 21.3 |
| Pass-through revenue | **352,743** | 302,633 | 50,110 | 16.6 |
| Unallocated revenue (interest income) | **11,697** | 6,317 | 5,380 | 85.2 |
| Divested business (3) | **32,878** | 30,695 | 2,183 | 7.1 |
| **Total revenue** | **1,272,267** | 1,060,661 | 211,606 | 20.0 |
| **EBITDA (continuing business)** | | | | |
| ***Energy Infrastructure*** | | | | |
| Queensland (1) | **163,748** | 79,566 | 84,182 | 105.8 |
| New South Wales | **112,659** | 113,098 | (439) | -0.4 |
| Victoria | **124,014** | 121,549 | 2,465 | 2.0 |
| South Australia | **1,732** | 1,521 | 211 | 13.9 |
| Western Australia (2) | **135,980** | 117,397 | 18,583 | 15.8 |
| Northern Territory | **11,748** | 8,541 | 3,207 | 37.5 |
| Energy Infrastructure total | **549,881** | 441,672 | 108,209 | 24.5 |
| Asset Management | **45,447** | 31,910 | 13,537 | 42.4 |
| Energy Investments | **51,177** | 41,751 | 9,426 | 22.6 |
| **Total segment EBITDA** | **646,505** | 515,333 | 131,172 | 25.5 |
| Divested business (3) | **20,611** | 20,155 | | |
| **Total EBITDA before significant items** | **667,116** | 535,488 | 131,628 | 24.6 |
| Significant items (4) | **101,685** | (9,663) | | |
| **Total EBITDA** | **768,801** | 525,825 | 242,976 | 46.2 |

(1) Includes the South West Queensland Pipeline revenue and EBITDA contributions from 9 October 2012 and excludes the Allgas business contribution in 2012.

(2) Includes the Pilbara Pipeline System revenue and EBITDA contributions from 9 October 2012.

(3) 2013: MAPS consolidation on 9 October 2012 to sale of the business on 1 May 2013. 2012: Allgas sold to GDI in December 2011.

(4) See page 5 for significant items.

# DIRECTORS' REPORT
## CONTINUED

APA's operations and financial result in the period reflect steady growth across APA's portfolio, and includes nine months of earnings of the South West Queensland Pipeline and the Pilbara Pipeline System, and seven months earnings of MAPS which was sold 1 May 2013.

The table below provides additional information with respect to EBITDA performance of APA's continuing business prior to HDF consolidation.

| YEAR ENDED 30 JUNE | 2013 $000 | 2012 $000 | CHANGES $000 | % |
|---|---|---|---|---|
| **EBITDA** | | | | |
| APA continuing business | **551,943** | 515,333 | 36,610 | 7.1 |
| HDF (retained business) | **94,562** | - | 94,562 | - |
| **Continuing business EBITDA** | **646,505** | 515,333 | 131,172 | 25.5 |
| Divested business (1) | **20,611** | 20,155 | 456 | - |
| Significant items - APA | **144,036** | (9,663) | 153,699 | - |
| Significant items - HDF | **(42,351)** | - | (42,351) | - |
| **Total EBITDA** | **768,801** | 525,825 | 242,976 | 46.2 |

(1) 2013: MAPS consolidation on 9 October 2012 to sale of the business on 1 May 2013. 2012: Allgas sold to GDI in December 2011.

EBITDA in APA's continuing business, prior to the acquisition of HDF assets, and excluding the divested business, increased by 7.1% to $551.9 million.

### ENERGY INFRASTRUCTURE

The Energy Infrastructure segment includes gas transmission and storage assets and the Emu Downs Wind Farm. Revenue from these assets is derived from either regulatory arrangements or capacity-based contracts. Regulatory arrangements on major assets are reviewed every five years. Contracts have a weighted average length in excess of 10 years.

The Energy Infrastructure segment (continuing business) contributed 83.6% of total normalised revenue (excluding pass through revenue) and 85.1% of total normalised EBITDA. Revenue (excluding pass-through revenue) was $741.5 an increase of 21.6% on the $610.0 million reported last year. EBITDA increased by 24.5% to $549.9 million (2012: $441.7 million).

The following key factors contributed to this result:

– nine months' contribution from the increased Roma Brisbane Pipeline capacity;
– increase in volumes through the Victorian Transmission System in the first six months due to cooler weather, offset by the reduced regulatory tariffs of the new access arrangement applied to the second half of the year;
– increased operating margin on the Amadeus Pipeline; and
– nine months' contribution from the South West Queensland Pipeline and the Pilbara Pipeline System.

New South Wales revenue and EBITDA in 2013 was lower than last year predominantly due to the expiry of a gas transportation agreement early in the financial year, which partly offset the impact of tariff increases. This capacity was recontracted mid-year.

APA continues to focus on the operation, development and enhancement of its gas transmission and distribution assets across mainland Australia.

**East coast gas grid**

With the addition of the South West Queensland Pipeline as part of the acquisition of HDF, APA now has a 7,000 km integrated pipeline grid on the east coast of Australia, with the ability to transport gas seamlessly from multiple gas production facilities to gas users across four states.

Customers using the grid now have flexibility in relation to receipt and delivery points, with the potential to move between 30 receipt points and about 100 delivery points on the east coast. APA is developing the commercial and operational framework to deliver these and other related services to APA's customer base, such as storage, gas-parking facilities and multi-directional flows.

In May 2013, APA executed a gas transmission agreement across three pipelines to transport gas seamlessly from Moomba directly to Brisbane under a single contract. APA is currently trialling a number of similar trans-pipeline services with its customers. APA is also in discussion with customers to move gas from Victoria into New South Wales and further north.

In August 2013, APA completed the software interface between the South West Queensland Pipeline and the Roma Brisbane Pipeline, enabling the two pipelines to work as one system and facilitating both optimised operations control as well as a single customer interface.

**Queensland**

– ***Roma Brisbane Pipeline***

APA commissioned the expansion of the pipeline in September 2012, increasing capacity by approximately 10%. The project included additional compression, pipeline pressure upgrades and augmentation of the pipeline in the Brisbane metropolitan area. The additional capacity has been substantially contracted under long-term transportation agreements with an energy retailer and a major industrial gas user.

– ***South West Queensland Pipeline***

APA's acquisition of HDF included the South West Queensland Pipeline. The 937 km pipeline connects Wallumbilla (Roma) in Queensland with Moomba in South Australia. The pipeline has long-term gas transportation agreements for both western haul and eastern haul services.

APA has completed the integration of the pipeline's commercial and field operations into APA's east coast transmission pipeline business. South West Queensland Pipeline revenue and EBITDA contributions for the current period is from the date of consolidation of HDF (see page 11).

– ***Wallumbilla compression facilities***

In December 2012 APA announced it will proceed with the development of expanded compression capacity and associated services at Wallumbilla in Queensland. The capital investment of up to $200 million over the next two years is underpinned by a long-term agreement.

The capital works will increase compression capacity at Wallumbilla and provide the option for further compression services in the future. Design and procurement activities have commenced, with the compression and associated services to be available at the start of 2015.

- ***Moomba compression facilities***
  APA has continued the $125 million compression capacity expansion project on the Moomba end of the South West Queensland Pipeline. The project, which commenced during HDF ownership of the asset, will support the west to east gas transportation agreements on the South West Queensland Pipeline, and is due to commence in the second half of the 2014 calendar year.

**New South Wales**

- ***Moomba Sydney Pipeline***
  APA is at the final stage of completing its five-year capacity expansion program of the Moomba Sydney Pipeline for a total cost of $96 million.

  APA is actively marketing capacity in the medium term to replace contracts expiring in 2016. Options include delivery of supplies from new fields, storage services and the potential for the delivery of southern sourced gas to northern markets.

**Victoria**

- ***Victorian Transmission System***
  Total gas volume transported through the Victorian Transmission System was 240.5 PJ, up 4.7% on last year (229.7 PJ) due to colder weather and increased gas exports into New South Wales. Peak day volume of 1,212 TJ was up 5.3% on last year (1,151 TJ).

  APA continued work on capital projects which provide both additional capacity and security of supply for the Victorian Transmission System. APA completed an upgrade of the Longford Meter Station through which the majority of Victoria's gas is delivered. APA also commissioned a new compressor at Euroa, part of the northern augmentation project and the Sunbury lateral expansion with funding approved within the system's current (2008-2013) regulatory arrangements.

  In March 2013, the Australian Energy Regulator ("AER") issued its final decision which did not accept APA's revised access arrangement proposal. The AER published its own access arrangement for the Victorian Transmission System. See 'Regulatory matters' on page 11 for further details.

**South Australia**

- ***Moomba Adelaide Pipeline System***
  APA's acquisition of HDF included MAPS. On 1 May 2013, in accordance with its undertaking to the ACCC as part of the acquisition of HDF, APA sold MAPS to QIC Global Infrastructure for $400.6 million.

**Western Australia**

- ***Goldfields Gas Pipeline***
  In December 2011 and January 2012, APA announced two new capacity expansions on the pipeline totalling 44 TJ/day, an increase of 28% of the pipeline's capacity. These expansions are underpinned by a new 20-year gas transportation agreement with Rio Tinto and a new 15-year gas transportation agreement with the Mount Newman Joint Venture (85% BHP Billiton).

  During the year, the $150 million compression expansion projects on the Goldfields Pipeline progressed. Commissioning of APA's works is expected in the second and third quarters of the 2014 financial year.

  APA is managing the construction project on behalf of the Goldfields Gas Transmission Joint Venture through which APA owns 88.2% of the Goldfields Gas Pipeline.

- ***Mondarra Gas Storage Facility***
  APA completed the expansion of its Mondarra Gas Storage Facility, with commercial operations commencing 23 July 2013. Work commenced following execution of a long-term foundation contract for storage capacity with Verve Energy in May 2011. The Facility's storage capacity has been increased by five times and provides APA's customers with supply options and flexibility to better manage their gas supply and demand portfolios.

  Forecast contracted revenue for 2014 financial year is approximately $30 million, increasing as more capacity is sold. Most of the Facility's capacity is contracted for at least 20 years, and APA continues to actively market storage services for the remaining capacity to other potential users of the Facility.

  The overall cost of the expansion was higher than initial estimates, reflecting increased labour costs in Western Australia experienced by industry, largely due to the mining boom, during the peak construction period, together with changes in the design of the surface facility to deliver increased injection rate capacity and increased overall reliability.

- ***Pilbara Pipeline System***
  APA's acquisition of HDF included the Pilbara Pipeline System, four connected pipelines in the Pilbara region. APA completed integration of the system's commercial and field operations into APA's Western Australian transmission pipeline business. The Pilbara Pipeline System revenue and EBITDA contributions for the current period is from the date of consolidation of HDF (see page 11).

**Northern Territory**

- ***Potential Katherine to Gove gas pipeline and expansion of the Amadeus Gas Pipeline***
  APA has commenced discussions with the Northern Territory government and Pacific Aluminium (PacAl), owner of the alumina refinery at Gove, on the Gulf of Carpentaria, in relation to infrastructure required to supply gas to Gove. The new supply of gas will require capital works on APA's Amadeus Gas Pipeline and Energy Infrastructure Investment's Bonaparte Gas Pipeline. APA is also interested in developing and owning the Katherine to Gove pipeline, if the project proceeds.

- ***Armour Energy Heads of Agreement***
  In June 2013, APA and Armour Energy have entered into a non-binding Heads of Agreement to work together to facilitate the potential transportation of gas from Armour's North Australian gas projects to eastern Australia and Northern Territory gas markets. Infrastructure development will possibly include new pipelines connecting to APA's Carpentaria Gas Pipeline and the expansion of existing APA assets.

**ASSET MANAGEMENT**

APA provides asset management and operational services to the majority of its energy investments and a number of third parties. Its main customers are Envestra, Ethane Pipeline Income Fund, SEA Gas Pipeline, the Diamantina Power Station joint venture, Energy Infrastructure Investments, GDI and EII2. Asset management and operational services are provided to these customers under long-term contracts.

Revenue (excluding pass-through revenue) from such services increased by 18.8% to $82.3 million (2012: $69.3 million) while EBITDA increased by 42.4% to $45.5 million, (2012: $31.9 million). The increase is due to a number of factors, including:

- customer contributions totalling $10.2 million (2012: $1.8 million);
- full year contribution of GDI asset management fees (six months in 2012); and
- increased fees for operating Envestra's assets due to increases in Envestra's revenues.

## ENERGY INVESTMENTS

APA has an interest in a number of energy investments across Australia, including Envestra, SEA Gas Pipeline, Energy Infrastructure Investments, Ethane Pipeline Income Fund, EII2 and GDI. HDF distributions contributed to Energy Investments until 9 October 2012, when APA's interest exceeded 50%. Since that date, HDF's assets form part of the Energy Infrastructure segment.

APA holds a number of roles in respect of the majority of these investments, in addition to its ownership interest.

All investments are equity accounted, with the exception of APA's interests in Ethane Pipeline Income Fund and HDF (up to 9 October 2012).

EBITDA in this segment increased by 22.6% to $51.2 million, up from $41.8 million last year, mainly due to an increase in Envestra's profitability, as well as increases across all APA's investments, and partially offset by the reduced distributions received from HDF (one quarter's distributions in 2013 compared with four quarter's in the 2012 financial year).

APA participated in Envestra's dividend reinvestment plan in October 2012 and April 2013, with the total value of dividends reinvested of $31.6 million. APA also participated in Envestra's equity placement in April 2013, purchasing 34.2 million Envestra shares for $33.9 million. At 30 June 2013 APA's interest in Envestra was 33.0%.

## PROJECT UNDER DEVELOPMENT – DIAMANTINA AND LEICHHARDT POWER STATIONS

APA and AGL Energy are jointly developing the Diamantina and Leichardt power stations at Mount Isa, Queensland through a 50:50 owned joint venture. The Diamantina Power Station is a 242 MW combined cycle gas-fired power station; the adjacent Leichhardt Power Station is 60 MW open-cycle gas-fired power station which will provide back-up generation for Mount Isa. The power stations will be supplied with gas via APA's Carpentaria Gas Pipeline.

The power stations are underpinned by 17-year energy supply agreements with Mount Isa Mines Limited, a wholly owned subsidiary of Xstrata, and Ergon Energy, Queensland's state-owned regional electricity supplier. Under the arrangements, AGL has contracted transportation capacity in the Carpentaria Gas Pipeline for an initial ten-year period.

On 20 December 2012, APA and AGL Energy completed limited-recourse project financing for the project. The total capital expenditure, including the back-up generation, is expected to be approximately $570 million (before financing costs). APA's equity contribution is expected to be about $100 million and will be funded from available cash and committed facilities, after completion of construction.

The Diamantina and Leichhardt power stations are being constructed under a turn-key contract with Forge Group Power Pty Limited and Leighton Contractors Pty Limited respectively, and are expected to be operational in the first half of calendar 2014.

## ACQUISITION OF HASTINGS DIVERSIFIED UTILITIES FUND AND SALE OF MOOMBA ADELAIDE PIPELINE SYSTEM

In December 2012 APA completed the takeover of HDF. HDF was an ASX listed investment vehicle whose assets included Epic Energy's three natural gas transmission pipeline systems – the South West Queensland Pipeline, MAPS and the Pilbara Pipeline System – and was managed by Hastings Funds Management Limited.

On 14 December 2011, APA announced an off-market takeover offer for HDF through APT Pipelines Limited for all the HDF securities which APA did not then own. At that time APA owned 20.7% of HDF securities.

On 9 October 2012, APA declared its offer unconditional, at the time that APA's interest in HDF exceeded 50%. On 16 November 2012, APA announced that its interest in HDF exceeded 90% and it would proceed to compulsorily acquire the remaining HDF securities. Compulsory acquisition of the remaining securities in HDF was completed on 24 December 2012.

The takeover consideration, consisting of $0.775 cash and 0.39 APA securities for each HDF security which APA did not own, totalled $1,234 million (the value of the scrip component is based on the market price of APA at the time new securities were issued). APA arranged for the repayment of all HDF debt facilities totalling $1,325 million by 24 December 2012.

On 19 July 2012, the Australian Competition and Consumer Commission announced that it would not oppose the proposed acquisition by APA of HDF on the basis of an undertaking from APA to divest MAPS following APA obtaining effective control of HDF. Australian Pipeline Limited, the responsible entity of APA, became the responsible entity of HDF on 17 December 2012.

On 1 May 2013, APA completed the divestment of MAPS to QIC Global Infrastructure for $400.6 million.

## MERGER PROPOSAL FOR ENVESTRA

On 16 July 2013, APA proposed an all-share merger with Envestra. Under the proposal, Envestra shareholders would receive 0.1678 new APA securities for each Envestra share they owned, and would be entitled to any final Envestra dividend for the 2013 financial year of up to 3.0 cents per share. As at 30 June 2013 APA held 33.0% of Envestra shares and is its largest shareholder.

The APA proposal was subject to a number of pre-conditions, including satisfactory completion of limited due diligence, finalising financing arrangements that address Envestra's resultant and ongoing debt requirements and the unanimous recommendation of Envestra's Board of Directors.

On 5 August 2013, Envestra announced that its independent Board committee had decided to reject APA's proposal.

## TOTAL SECURITYHOLDER RETURNS

During the year APA's market capitalisation increased by 55.7% to $5.01 billion at 30 June 2013. Distributions declared during the year amounted to $0.355 per APA security. APA's total securityholder returns for the year, which accounts for the capital appreciation of APA's security price and assumes the reinvestment of distributions at the declared time, was 30.5%, placing APA in the top 39th percentile of one-year total shareholder returns for the year and top 10th percentile of three-year total shareholder returns for ASX 100 listed companies.

## REGULATORY MATTERS

Key regulatory matters addressed during the current period included:

### Roma Brisbane Pipeline access arrangement

On 12 October 2011, APA submitted a revised access arrangement proposal for the Roma Brisbane Pipeline for the period September 2012 to June 2017 to the AER. The AER issued its final decision on 10 August 2012 in which it determined to approve and publish its own access arrangement for the pipeline.

The AER's decision provides for an initial 8.75% increase in the reference tariff followed by annual increases thereafter. This decision has minimal impact on APA's revenue. The majority of APA's Roma Brisbane Pipeline revenue is derived from haulage contracts which have set terms, including pricing for the life of the contract, and therefore is not impacted by the AER's decision.

### Victorian Transmission System access arrangement

In April 2012, APA submitted a revised access arrangement proposal for the Victorian Transmission System for the period 2013 to 2017. The AER issued its final decision in March 2013 which did not accept APA's proposal. The AER published its own access arrangement for the Victorian Transmission System.

The AER's final decision includes a 21.5% nominal reduction in revenue in the first year of the new access arrangement period compared to revenue for the final year of the previous access arrangement, followed by a further two nominal reductions of 14% and 3% respectively in the second and third year of the new access arrangement period. These reductions resulted from a number of matters, including a lower capital base reflecting lower actual capital expenditure in the previous access arrangement period and a significantly lower allowed rate of return.

APA has lodged an application to the Australian Competition Tribunal to appeal four matters in the AER's final decision, including the indexation of regulated asset base and the AER's allowed rate of return. A decision on these matters is expected later in 2013.

**Proposed changes to the National Gas Rules**

In October 2011, the AER proposed amendments to the National Gas Rules that would change the process and methodology to determine the allowed rate of return. APA, together with other industry participants, opposed the proposed amendments and proposed an alternate approach incorporating a wide range of relevant market information. The Australian Energy Market Commission, the rule making authority, undertook an extensive review of the proposed amendments prior to making a final determination in November 2012. The Australian Energy Market Commission rejected the AER's proposal and made its own preferred rule amendments, which largely adopted APA's recommendations. In summary, the new Rules require the AER, and the Economic Regulation Authority ("ERA") in Western Australia, to assess the rate of return by having regard to the cost of capital in the marketplace, rather than mere application of the Capital Asset Pricing Model. The AER and ERA must publish a cost of capital guideline every three years outlining how they propose to assess the rate of return. This guideline is not binding and service providers in their access arrangements proposals to the AER and ERA can argue for departure from the guideline. The AER and ERA have commenced the consultative process as an initial step in developing the first guideline, which is required to be published by 29 November 2013.

**SCER Review of Limited Merits Review**

In December 2012, the Standing Council on Energy and Resources ("SCER") advanced its scheduled review of the Limited Merits Review framework applicable to regulated gas and electricity assets. It appointed a panel of experts to review the matter and conduct an extensive consultation process, and in June 2013, released its policy conclusion, retaining the existing grounds for merits review and the Australian Competition Tribunal as the review body, and adding a new requirement for the applicant to demonstrate, and the Tribunal to agree, that there is a prima facie case that a materially preferable decision could result from the review. As at June 2013, the amending legislation to give effect to this policy amendment was in the consultation stage.

**HEALTH, SAFETY AND ENVIRONMENT**

**Health and safety reporting**

The Lost Time Injury Frequency Rate ("LTIFR")[3] for APA employees was 2.1 for the year, down from 2.2 last year. There were five reportable lost time injuries during the year. For contractors there were four reportable lost time injuries, down from seven reported in 2012.

APA continues to aim to be a zero harm workplace for its employees, contractors and the broader communities in which it operates. In the reporting year, APA's Safety Management System (Safeguard) was implemented ahead of plan. This system sets the minimum standards required to effectively manage safety and the environment in APA, and has been complemented by the development of a three-year Safety Improvement Strategy.

Key components of the strategy focus on improving APA's understanding of the hazards and risks in its business, identifying the controls needed to eliminate or mitigate these risks and validating this with a robust assurance framework. There are 17 specific focus areas to build on this risk, control, assure foundation. For example, the strategy focuses on the leadership behaviours needed to drive towards a zero safety culture and this is being supported by a survey of employees on safety leadership. This survey interviewed, either one-on-one or in focus groups, more than 500 employees. The results will provide further focus for APA's health and safety efforts and guide its leadership development plans.

From July 2013, APA has also adopted a new suite of safety performance measures. These are a combination of current lag frequency measures, which capture the number of injuries, and a range of new lead indicators, which measure performance against the pro-active things we say we will do to improve safety. One example of this would be the number of safety audits completed compared to plan. These measures provide additional good data against which to measure APA's health and safety performance and to focus attention on areas for further improvement.

APA encourages healthy living and for the fifth year sponsored employees are participating in the Global Corporate challenge. 46 teams (322 APA people) have commenced a 16 week walking challenge with the aim of increasing the number of steps they take and improving overall physical fitness. Health initiatives also include an annual flu vaccination programme and a confidential employee assistance programme which provides services to employees and their immediate family.

**Environmental regulations**

All pipeline, distribution and gas processing assets owned and/or operated by APA are designed, constructed, tested, operated and maintained in accordance with pipeline and distribution licences issued by the relevant state and territory technical regulators. All licences require compliance with relevant federal, state and territory environmental legislation and Australian standards.

The pipeline 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 management plans satisfying Part A of the Australian Pipeline Industry Association Code of Environmental Practice are prepared and independently audited for construction activities. In accordance with Part 3 of AS 2885, environmental management plans satisfying Part B of the Code are in place for all operating pipelines and are managed in accordance with APA's contracts and the terms and conditions of the licences that APA has been issued.

The Safety and Operating Plan for APA's distribution network has been audited in accordance with New South Wales technical regulatory requirements.

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 year and APA has managed its assets in accordance with the environmental management plans that are in place.

**Environmental reporting**

In October 2012, APA complied with Australia's National Greenhouse and Energy Reporting obligations for the 2012 financial year. Energy reporting for financial year 2013 will be submitted in October 2013.

3 Lost Time Injury Frequency Rate is calculated as the work hours lost as a result of injury at work, multiplied by one million, divided by the total hours worked.

# DIRECTORS' REPORT
## CONTINUED

APA's performance on two key measures for the 2012 financial year is set out in the following table:

| FINANCIAL YEAR | 2012 | 2011 | CHANGE | |
|---|---|---|---|---|
| Scope 1 $CO_2$ emissions (tonnes) | **327,239** | 297,099 | 30,140 | 10.1% |
| Energy consumption (GJ) | **3,675,398** | 3,361,679 | 313,719 | 9.3% |

**Introduction of carbon legislation**

A major element of the Clean Energy Act 2011, passed by the Senate on 8 November 2011, is the introduction of legislation to reduce carbon emissions. The legislation put a price on carbon emissions from 1 July 2012. It is intended that this carbon price mechanism will act as an incentive for major emitters to switch to less carbon intensive ways of doing business, such as switching from coal-fired generation to gas-fired and renewable generation.

APA's main sources of emissions are from the combustion of natural gas in compressor stations and from fugitive emissions associated with natural gas pipelines. APA compiles National Greenhouse and Energy Reporting Scheme compliance reporting for assets under its operational control which include the following assets impacted by the new carbon legislation: Roma Brisbane Pipeline, Moomba Sydney Pipeline, South-West Queensland Pipeline, Goldfields Gas Pipeline (88.2% ownership), the Victorian Transmission System and Allgas (20% equity ownership).

APA's carbon costs exposure is immaterial. APA expects to recover all carbon related costs from its regulated assets under the access arrangement review process. For unregulated assets, APA has implemented changes to its contracts with carbon pass-through clauses included in all new contracts. APA has also implemented changes to systems and processes across the business to meet the requirements of the new legislation.

**RISK OVERVIEW**

APA identifies risks to the business and puts in place mitigation actions to remove or minimise the negative impact of these risks. Risks are reviewed regularly by APA's Executive Risk Management Committee and the Board Audit and Risk Management Committee, together with the relevant business units and internal experts. Further information on this process is provided in APA's Corporate Governance Statement (refer to Principle 7).

Risk assessment considers a combination of the probability of the risk occurring and the severity of its impact if it occurs. Listed below are the key risks identified that could materially affect APA. However, the materiality of risks may change and previously unidentified risks may emerge. These risks should be considered in connection with any forward looking statement by APA in this document or elsewhere.

**Key risks**

***Economic regulation***

APA has a number of price regulated assets and investments in its portfolio. Regulatory pricing periods generally run for five years and reflect the regulator's determination, amongst other matters, of APA's projected operating and capital costs, and weighted average cost of capital. The price regulation outcomes determined by the AER or ERA (for Western Australia) under an access arrangement process for a full regulation asset may adversely affect APA's revenue in respect of that asset.

***Bypass and competitive risk***

Bypass and competitive risk occurs when a new transmission pipeline offers gas transportation services to the same end market serviced by existing pipelines. If a bypass risk eventuates, APA's future earnings could be reduced if customers purchase gas transportation services from new pipelines rather than from APA's existing pipelines.

***Gas demand risk***

Reduced demand for gas, increased use of gas swap contracts by customers, and increased use of non-APA gas storage facilities may reduce the future demand for pipeline capacity and transportation services and adversely impact APA's future revenue, profits and financial position.

***Gas supply risk***

A long-term shortage of competitively priced gas, either as a result of gas reserve depletion, allocation of gas to other markets, or the unwillingness or inability of gas production companies to produce gas, may materially adversely affect APA's revenue and the carrying value of APA's assets.

***Counterparty risk***

The failure of a counterparty to meet its contractual commitments to APA, whether in whole or in part, would reduce future anticipated revenue unless and until APA is able to secure an alternative customer. Counterparty risk also arises when contracts are entered into for derivatives with financial institutions. Exposures are regularly monitored in accordance with APA's treasury risk management policy.

***Interest rates and refinancing risks***

APA is exposed to movements in interest rates where floating interest rate funds are not effectively hedged. There is a risk that adverse interest rate movements may affect APA's earnings, both directly (through increased interest payments) and indirectly (through the impact on asset carrying values).

APA has borrowings extending through to 2022. Access to continuing financing sources to extend and/or refinance debt facilities will be important. An inability to secure new debt facilities at a similar quantum and cost to existing debt facilities may materially and adversely affect APA's operations and/or financial position and performance.

***Investment risk***

APA may acquire infrastructure and related assets or undertake additional or incremental investment in its existing assets. There is a risk that assumptions and forecasts used in making investment decisions may ultimately not be realised, and this may adversely affect APA's financial position and performance.

***Contract renewal risk***

A large part of APA's revenues are the subject of long-term negotiated revenue contracts with end customers. Due to a range of factors including customer demand risk, gas supply risk, counterparty risk, shorter term contracts, bypass and competitive risk, APA may not be successful in recontracting the available pipeline capacity when it comes due for contract renewal, and consequently may adversely impact APA's future revenue, profits and financial position.

***Operational risk***

APA is exposed to a number of operational risks such as equipment failures or breakdowns, rupture of pipelines, information technology systems failures or breakdowns, employee or equipment shortages, contractor default, unplanned interruptions, damage by third parties and unforeseen accidents. Operational disruption, or the cost of repairing or replacing damaged assets, could adversely impact APA's earnings. Insurance policies may only provide protection for some, but not all, of the costs that may arise from unforeseen events.

*Construction and development risk*

APA develops new assets and undertakes expansion to its existing assets. This involves a number of typical construction risks including the failure to obtain necessary approvals, employee or equipment shortages, higher than budgeted construction costs and project delays, which may impact the commerciality and economics of the development or otherwise impact on APA's other assets. If these risks materialise, this may adversely affect APA's operations and/or financial position and performance.

*Disputes and litigation risks*

In the course of its operations, APA may be involved in disputes and litigation. There is a risk that material or costly disputes or litigation could affect APA's financial position and performance.

**GUIDANCE FOR 2014 FINANCIAL YEAR**

Based on available information, APA Group expects EBITDA for the full year to 30 June 2014 to be in a range of $715 million to $730 million, which represents an increase of approximately 11% to 13% over the 2013 financial year EBITDA adjusted to remove the contribution of MAPS during the 2013 financial year.

Net interest cost is expected to be in a range of $330 million to $340 million.

Distribution per security for the 2014 year is expected to be at least equal to those paid in respect of the 2013 financial year, that is, at least 35.5 cents per security.

## SUBSEQUENT EVENTS

Except as disclosed elsewhere in this report, the Directors are unaware of any matter or circumstance that has occurred since the end of the year that has significantly affected or may significantly affect the operations of APA, the results of those operations or the state of affairs of APA in future years.

## INFORMATION ON DIRECTORS AND COMPANY SECRETARY

Information relating to the qualifications and experience of the Directors and Company Secretary is set out below:

| | |
|---|---|
| **Leonard Bleasel AM**<br>**FAICD FAIM**<br>***Independent Chairman***<br>Appointed 28 August 2007<br><br>***Appointed Chairman***<br>30 October 2007 | Leonard (Len) Bleasel had a long career in the energy industry before retiring from management in 2001. He started his career in AGL in 1958 and worked in a variety of roles, culminating in the position of Managing Director and CEO from 1990 to 2001.<br><br>Len is a Director of O'Connell Street Associates Pty Limited and Chairman of the Taronga Conservation Society Australia and the Advisory Council for CIMB Securities International (Australia) Pty Limited.<br><br>Len's past appointments have included lead non-executive Director of QBE Insurance Group Limited, Chairman of Foodland Associated Limited, ABN AMRO Australia Holdings Pty Limited, Solaris Power, the Australian Gas Association, Natural Gas Corporation Holdings Ltd (New Zealand), Elgas Ltd, Auscom Holdings Pty Ltd, Industrial Pipe Systems Pty Ltd and East Australian Pipeline Ltd, a Director of St George Bank Limited and Gas Valpo (Chile), and Vice President of the Royal Blind Society.<br><br>Len was awarded an AM in the General Division of the Order of Australia for services to the Australian gas and energy industries and the community. |
| **Michael McCormack**<br>**BSurv GradDipEng**<br>**MBA FAICD**<br>***Chief Executive Officer and Managing Director***<br>Appointed Managing Director<br>1 July 2006 | Michael (Mick) McCormack has been Chief Executive Officer of APA since 1 July 2005 and Managing Director since 1 July 2006. Mick has over 25 years' experience in the gas infrastructure sector in Australia, and his career has encompassed all aspects of the sector, including commercial development, design, construction, operation and management of most of Australia's natural gas pipelines and gas distribution systems.<br><br>Mick is a Director of Envestra Limited and formerly a Director of the Australian Pipeline Industry Association. |
| **Steven Crane**<br>**BComm FAICD SF Fin**<br>***Independent Director***<br>Appointed 1 January 2011 | Steven Crane has over 30 years' experience in the financial services industry. Steven's background is in investment banking, having previously been Chief Executive Officer of ABN AMRO Australia and BZW Australia.<br><br>He has considerable experience as a non-executive Director of listed entities. He is currently Chairman of nib holdings limited, a Director of Bank of Queensland Limited, Transfield Services Limited and Taronga Conservation Society Australia and a member of the Advisory Council for CIMB Securities International (Australia) Pty Limited, and was formerly Chairman of Adelaide Managed Funds Limited and Investa Property Group Limited, a Director of Adelaide Bank Limited, Foodland Associated Limited and APA Ethane Limited, the responsible entity of Ethane Pipeline Income Fund, and a member of the Advisory Council for RBS Group (Australia) Pty Limited.<br><br>Steven is a member of the Audit and Risk Management Committee and the Remuneration Committee. |

# DIRECTORS' REPORT
## CONTINUED

| | |
|---|---|
| **John Fletcher**<br>**BSc MBA FAICD**<br>*Independent Director*<br>Appointed 27 February 2008 | John Fletcher has over 35 years' experience in the energy industry, having held a number of executive positions in AGL prior to his retirement in 2003, including Chief Financial Officer. John has previously been a Director of Integral Energy, Natural Gas Corporation Holdings Ltd (New Zealand), Foodland Associated Limited and Alinta Energy Group. He brings a wide commercial and financial practical knowledge to the Board.<br><br>John was previously an AGL appointed Director of Australian Pipeline Limited from 2000 to 2005. He is a Director of Sydney Water Corporation.<br><br>John is the Chairman of the Remuneration Committee and a member of the Audit and Risk Management Committee. |
| **Russell Higgins AO**<br>**BEc FAICD**<br>*Independent Director*<br>Appointed 7 December 2004 | Russell Higgins has extensive experience both locally and internationally in the energy sector and in economic and fiscal policy. He was Secretary and Chief Executive Officer of the Department of Industry, Science and Resources from 1997 to 2002 and Chairman of the Australian Government's Energy Task Force from 2003 to 2004.<br><br>Russell is a Director of Telstra Corporation Limited, Argo Investments Limited, Leighton Holdings Limited, the St James Ethics Foundation and Chairman of the CSIRO Energy Transformed Flagship Advisory Committee.<br><br>He is a former Chairman of the Snowy Mountains Council and the Australian Government's Management Improvement Advisory Committee and a former Director of Australian Biodiesel Group Limited, EFIC, CSIRO, Austrade, the Australian Industry and Development Corporation, Ricegrowers Limited (trading as SunRice), as well as a former member of the Australian Government's Joint Economic Forecasting Group. In 2006-07, he was a member of the Prime Ministerial Task Group on Emissions Trading.<br><br>Russell is Chairman of the Health Safety and Environment Committee and a member of the Audit and Risk Management Committee. |
| **Patricia McKenzie**<br>**LLB FAICD**<br>*Independent Director*<br>Appointed 1 January 2011 | Patricia McKenzie has considerable expertise and experience in energy market regulation and, as a qualified solicitor, extensive corporate legal experience. She is currently a Director of Macquarie Generation and was formerly a Director of Australian Energy Market Operator Limited (AEMO), the national energy market operator for electricity and gas, and the Chief Executive Officer of Gas Market Company Limited, the market administrator for retail competition in the gas industry in New South Wales and the Australian Capital Territory. Patricia is also a Director of Healthdirect (National Health Call Centre Network Limited).<br><br>Patricia is a member of the Health Safety and Environment Committee and the Remuneration Committee. |
| **Robert Wright**<br>**BComm FCPA**<br>*Independent Director*<br>Appointed 11 February 2000 | 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 SAI Global Limited, Super Retail Group Limited and APA Ethane Limited, the responsible entity of Ethane Pipeline Income Fund, and was previously Chairman of Dexion Limited and RCL Group Limited.<br><br>Robert is the Chairman of the Audit and Risk Management Committee and a member of the Health Safety and Environment Committee. |
| **Mark Knapman**<br>**BComm LLB FCSA FCIS**<br>*Company Secretary*<br>Appointed 16 July 2008 | In addition to being responsible for the secretariat function, Mark oversees corporate governance and the legal, internal audit and financial services compliance functions.<br><br>Mark has extensive experience as a Company Secretary. He was Company Secretary and General Counsel of an ASX-listed company and Asia Pacific Legal Counsel and Company Secretary for a US multinational company prior to joining APA. Prior to those roles he was a partner of an Australian law firm.<br><br>Mark is a Fellow of Chartered Secretaries Australia and the Institute of Company Secretaries and Administrators, and is admitted to practice as a solicitor. |

# DIRECTORS' REPORT
CONTINUED

## DIRECTORSHIPS OF OTHER LISTED COMPANIES

Directorships of other listed companies held by Directors at any time in the three years immediately before the end of the year are as follows:

| NAME | COMPANY | PERIOD OF DIRECTORSHIP |
|---|---|---|
| Leonard Bleasel AM | QBE Insurance Group Limited | January 2001 to September 2013 |
| Michael McCormack | Envestra Limited | Since July 2007 |
| Steven Crane | Transfield Services Limited | Since February 2008 |
| | Bank of Queensland Limited | Since December 2008 |
| | nib holdings limited | Since September 2010 |
| | APA Ethane Limited (1) | July 2008 to June 2011 |
| John Fletcher | - | - |
| Russell Higgins AO | Telstra Corporation Limited | Since September 2009 |
| | Argo Investments Limited | Since September 2011 |
| | Leighton Holdings Limited | Since June 2013 |
| | Ricegrowers Limited | December 2005 to August 2012 |
| Patricia McKenzie | - | - |
| Robert Wright | SAI Global Limited | Since October 2003 |
| | Super Retail Group Limited | Since May 2004 |
| | APA Ethane Limited (1) | Since July 2008 |
| | Dexion Limited | March 2005 to August 2010 |
| | RCL Group Limited | May 2006 to February 2012 |

(1) APA Ethane Limited is the responsible entity of the registered managed investment schemes that comprise Ethane Pipeline Income Fund, the securities in which are quoted on the ASX.

## OPTIONS GRANTED

In this report, the term "APA securities" refers to the stapled securities each comprising a unit in Australian Pipeline Trust stapled to a unit in APT Investment Trust and traded on the Australian Securities Exchange ("ASX") under the code "APA".

No options over unissued APA securities were granted during or since the end of the year, no unissued APA securities were under option as at the date of this report, and no APA securities were issued during or since the end of the year as a result of the exercise of an option over unissued APA securities.

## INDEMNIFICATION OF OFFICERS AND EXTERNAL AUDITOR

During the year, the Responsible Entity paid a premium in respect of a contract insuring the Directors and officers of the Responsible Entity and any APA Group entity against any liability incurred in performing those roles 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.

Australian Pipeline Limited, in its capacity as Responsible Entity of Australian Pipeline Trust and APT Investment Trust, indemnifies each person who is or has been a Director or Company Secretary of the Responsible Entity or any APA Group entity under a range of deed polls and indemnity agreements which have been in place since 1 July 2000. This indemnity may extend to such other officers or former officers of APA Group entities as the Board, in its discretion, in each case determines. The indemnity operates to the full extent allowed by law but only to the extent not covered by insurance, and is on terms the Board considers usual for arrangements of this type.

Under its constitution, Australian Pipeline Limited (in its personal capacity) indemnifies each person who is or has been a Director, Company Secretary or executive officer of that company.

The Responsible Entity has not otherwise, during or since the end of the year, indemnified or agreed to indemnify an officer or external auditor of the Responsible Entity or any APA Group entity against a liability incurred as such an officer or auditor.

# DIRECTORS' REPORT
CONTINUED

## DIRECTORS' MEETINGS

During the year, 20 Board meetings, three Remuneration Committee meetings, four Audit and Risk Management Committee meetings and three Health Safety and Environment Committee meetings were held. The following table sets out the number of meetings attended by each Director while they were a Director or a committee member:

| | BOARD | | REMUNERATION COMMITTEE | | AUDIT AND RISK MANAGEMENT COMMITTEE | | HEALTH SAFETY AND ENVIRONMENT COMMITTEE | |
|---|---|---|---|---|---|---|---|---|
| DIRECTORS | A | B | A | B | A | B | A | B |
| Leonard Bleasel AM (1) | 20 | 20 | - | - | - | - | - | - |
| Michael McCormack | 20 | 20 | - | - | - | - | - | - |
| Steven Crane | 20 | 20 | 3 | 3 | 4 | 4 | - | - |
| John Fletcher | 20 | 20 | 3 | 3 | 4 | 4 | - | - |
| Russell Higgins AO | 20 | 19 | - | - | 4 | 4 | 3 | 3 |
| Patricia McKenzie | 20 | 19 | 3 | 3 | - | - | 3 | 3 |
| Robert Wright | 20 | 20 | - | - | 4 | 4 | 3 | 2 |

A: Number of meetings held during the time the Director held office or was a member of the committee during the year.

B: Number of meetings attended.

(1) The Chairman is entitled to attend all committee meetings ex officio.

## DIRECTORS' SECURITYHOLDINGS

The aggregate number of APA securities held directly, indirectly or beneficially by Directors or their Director related entities at the 30 June 2013 is 979,426 (2012: 937,239).

The following table sets out Directors' relevant interests in APA securities as at 30 June 2013:

| DIRECTORS | FULLY PAID SECURITIES AS AT 1 JULY 2012 | SECURITIES ACQUIRED | SECURITIES DISPOSED | FULLY PAID SECURITIES AS AT 30 JUNE 2013 |
|---|---|---|---|---|
| Leonard Bleasel AM | 443,093 | 17,571 | - | 460,664 |
| Michael McCormack | 195,264 | 13,326 | - | 208,590 |
| Steven Crane | 100,000 | - | - | 100,000 |
| John Fletcher | 63,298 | 2,890 | - | 66,188 |
| Russell Higgins AO | 86,160 | 5,880 | - | 92,040 |
| Patricia McKenzie | 12,500 | - | - | 12,500 |
| Robert Wright | 36,924 | 2,520 | - | 39,444 |
| | 937,239 | 42,187 | - | 979,426 |

The Directors hold no other rights or options over APA securities. 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 APA securities.

# DIRECTORS' REPORT
CONTINUED

## REMUNERATION REPORT

The remuneration report is attached to and forms part of this report.

## AUDITOR

### AUDITOR'S INDEPENDENCE DECLARATION

A copy of the independence declaration of the auditor, Deloitte Touche Tohmatsu ("Auditor") as required under section 307C of the Corporations Act 2001 is included at page 99.

### NON-AUDIT SERVICES

Non-audit services have been provided during the year by the Auditor. A description of those services and the amounts paid or payable to the Auditor for the services are set out in Note 44 to the financial statements .

The Board has considered those non-audit services provided by the Auditor and, in accordance with written advice from the Audit and Risk Management Committee ("Committee"), is satisfied that the provision of those services by the Auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 and did not compromise the auditor independence requirements of the Act. The Board's reasons for concluding that the non-audit services provided did not compromise the Auditor's independence are:

- all non-audit services were subject to APA's corporate governance procedures with respect to such matters and have been reviewed by the Committee to ensure they do not impact on the impartiality and objectivity of the Auditor;
- the non-audit services provided did not undermine the general principles relating to auditor 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; and
- the Auditor has provided a letter to the Committee with respect to the Auditor's independence and the Auditor's independence declaration referred to above.

## 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 scheme property during the year are disclosed in Note 47 to the financial statements.

Except as disclosed in this report, neither the Responsible Entity nor any of its associates holds any APA securities.

The number of APA securities issued during the year, and the number of APA securities at the end of the year, are disclosed in Note 29 to the financial statements.

The value of APA's assets as at the end of the year is disclosed in the balance sheet in total assets, and the basis of valuation is included in Note 3 to the financial statements.

## ROUNDING OF AMOUNTS

APA is an entity of the kind referred to in ASIC Class Order 98/0100 dated 10 July 1998 and, in accordance with that Class Order, amounts in the Directors' report and the financial report are rounded 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

| | |
|---|---|
| **Leonard Bleasel AM** | **Robert Wright** |
| Chairman | Director |

SYDNEY, 21 August 2013

# REMUNERATION REPORT

## INTRODUCTION

At APA, we are committed to disclosing a clear and transparent summary of our remuneration arrangements.

This report explains our approach to remuneration and sets out key 2013 remuneration details for the Directors of the Responsible Entity and key management personnel of APA.

The people in these positions during or since the end of the financial year are listed below:

| DIRECTORS OF THE RESPONSIBLE ENTITY | |
|---|---|
| **Leonard Bleasel AM** | Chairman APA Group |
| **Michael McCormack** | Chief Executive Officer and Managing Director |
| **Steven Crane** | |
| **John Fletcher** | Chairman Remuneration Committee |
| **Russell Higgins AO** | Chairman Health Safety and Environment Committee |
| **Patricia McKenzie** | |
| **Muri Muhammad (retired 24 October 2012)** | |
| **Robert Wright** | Chairman Audit and Risk Management Committee |

| KEY MANAGEMENT PERSONNEL | |
|---|---|
| **Michael McCormack** | Chief Executive Officer and Managing Director |
| **Peter Fredricson** | Chief Financial Officer |
| **Ross Gersbach** | Chief Executive Strategy and Development |
| **Robert Wheals** | Group Executive Transmission |
| **John Ferguson** | Group Executive Networks |
| **Kevin Lester (1)** | Group Executive Infrastructure Development |
| **Stephen Ohl (2)** | Group Executive Strategic Projects |
| **Mark Knapman** | Company Secretary |
| **Peter Wallace** | Group Executive Human Resources |

(1) Kevin Lester joined APA as Group Executive Infrastructure Development on 6 August 2012.

(2) Stephen Ohl retired with effect from 1 July 2013.

### HAVE THERE BEEN ANY CHANGES TO THE EXECUTIVE REMUNERATION STRUCTURE DURING FY2013?

As noted last year the Board has implemented changes from 1 July 2012 to the Long Term Incentive ("LTI") component of the Total Package Opportunity Incentive Plan ("TPOI Plan"). These changes have been made to more directly align the interests of plan participants and Securityholders, and secondly to allow the Board to reward superior performance.

The LTI plan has adopted two new hurdles in place of the previous hurdle, Operating Cash Flow Per Security ("OCFPS"). These hurdles, which will be weighted equally, will firstly be Total Shareholder Return ("TSR") performance against the S&P ASX 100 comparator group and secondly, performance against targets set for growth in Earnings Before Interest, Tax, Depreciation and Amortisation divided by Funds Employed ("EBITDA/FE").

Both the STI measure (OCFPS) and the two new LTI measures (EBITDA/FE and TSR) have a new maximum opportunity of 150% based on achieving exceptional or superior performance to the benefit of Securityholders.

Consistent with emerging good governance, the Board has also introduced an executive remuneration claw back policy which provides, in the event of a material misstatement in the year end accounts for the preceding three years (which may affect one or all key management personnel ("KMP")) then the Board at its discretion may clawback some or all of any STI or LTI award or LTI grant not yet vested. The APA clawback policy and details appear on the APA Group website.

There have been no other changes to the remuneration structure during FY2013.

## REMUNERATION COMMITTEE

### WHAT IS THE ROLE OF THE REMUNERATION COMMITTEE?

The Remuneration Committee has been established by the Board to govern and oversee Director and executive remuneration. The role of the Remuneration Committee is to:

- ensure the provision of a robust remuneration and reward system that provides for the alignment of employee and securityholder interests;
- consider and make recommendations to the Board on remuneration policies and packages applicable to Directors and to senior executives of APA;
- facilitate effective attraction, retention and development of talented employees;
- ensure compliance with relevant legislation and corporate governance principles on remuneration practices and employment policies; and
- promote diversity, on the basis of gender and other factors, in APA Group's workforce and to review the effectiveness of diversity practices and initiatives.

The members of the Remuneration Committee, all of whom are non-executive Directors, are:

- John Fletcher (Chairman);
- Steven Crane; and
- Patricia McKenzie.

Muri Muhammad retired as Director and member of the Remuneration Committee on 24 October 2012.

# REMUNERATION REPORT CONTINUED

The Chairman of the Board attends all meetings of the Remuneration Committee and the Managing Director attends by invitation. The Remuneration Committee met three times during the year.

The Remuneration Committee may seek external professional advice on any matter within its terms of reference.

**OUR APPROACH TO NON-EXECUTIVE DIRECTOR REMUNERATION**

We seek to attract and retain high calibre Directors who are equipped with diverse skills to oversee all functions of APA in an increasingly complex environment.

We aim to fairly remunerate Directors for their services relative to similar sized organisations.

Non-executive Director remuneration comprises:

– a base Board fee;
– an additional fee for serving on a committee of the Board; and
– superannuation contributions.

The Board determines base Board fees and committee fees annually. It acts on advice from the Remuneration Committee which obtains external benchmark information from independent remuneration specialists. Such information includes market comparisons paid by comparable companies in the ASX 200.

Non-executive Directors do not receive incentive payments of any type. One off 'per diems' may be paid in exceptional circumstances. No payments have been made under this arrangement in this reporting period.

In 2003, the Board terminated the non-executive Directors' retirement benefit plan so that the benefits to participating Directors that had accrued up to that termination date were then quantified and preserved for payment on retirement of those Directors. Robert Wright is the only current Director entitled to benefits under the plan on his retirement from the Board.

**Board approved fees and committee fees**

Following external benchmarking and a review of APA's performance relative to other companies, base Board fees and fees for serving on a committee of the Board were increased effective 1 January 2013.

Base Board fees and committee fees are outlined below:

| | FEES (1) | CHAIRMAN $000/PA | MEMBER $000/PA |
|---|---|---|---|
| *Effective 1 January 2013* | Board fees | 330 | 120 |
| | Remuneration Committee fees | 31 | 15.5 |
| | Audit and Risk Management Committee fees | 37 | 18.5 |
| | Health Safety and Environment Committee fees | 31 | 15.5 |
| *Effective 1 January 2012 to 31 December 2012* | Board fees | 298 | 110 |
| | Remuneration Committee fees | 26 | 13 |
| | Audit and Risk Management Committee fees | 34 | 17 |
| | Health Safety and Environment Committee fees | 24 | 12 |

(1) Excludes superannuation guarantee levy.

**Actual payments for period**

Actual remuneration received by non-executive Directors during the year is outlined in the table below:

| NON-EXECUTIVE DIRECTORS (1) | FEES $ | SUPERANNUATION $ | **TOTAL PAID 2013 $** | TOTAL PAID 2012 $ |
|---|---|---|---|---|
| Leonard Bleasel AM | 317,252 | 24,998 | **342,250** | 313,400 |
| Steven Crane | 146,970 | 13,230 | **160,200** | 146,878 |
| John Fletcher | 156,723 | 19,012 | **175,735** | 160,250 |
| Russell Higgins AO | 160,223 | 14,427 | **174,650** | 159,145 |
| Patricia McKenzie | 143,000 | 12,850 | **155,850** | 141,675 |
| Muri Muhammad (2) | 43,043 | - | **43,043** | 130,000 |
| Robert Wright | 164,238 | 14,763 | **179,001** | 164,300 |
| Total | 1,131,449 | 99,280 | **1,230,729** | 1,215,648 |

(1) The remuneration for the Chief Executive Officer and Managing Director, Michael McCormack, is included with the actual remuneration disclosures for key management personnel for FY2013 on page 24.

(2) Muri Muhammad resigned as a Director on 24 October 2012.

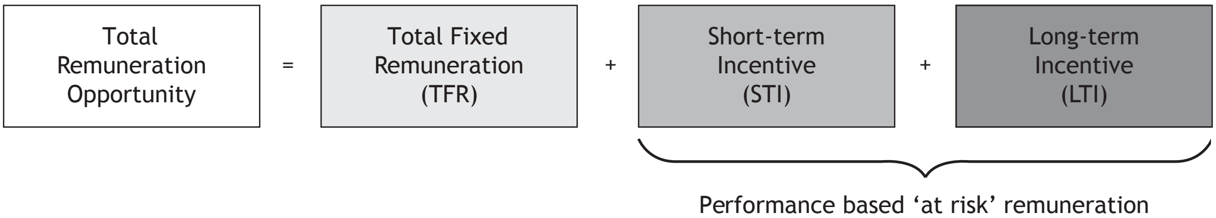
**OUR APPROACH TO EXECUTIVE REMUNERATION**

**What is our executive remuneration strategy?**

Our executive remuneration strategy is to:

- attract and retain key executives who will create long-term sustainable value for Securityholders;
- 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;
- target at least the market median using external benchmark data;
- appropriately align the interests of executives with those of Securityholders; and
- comply with applicable legal requirements and appropriate standards of governance.

We aim to pay competitive remuneration and this is communicated as Total Remuneration Opportunity ("TRO").

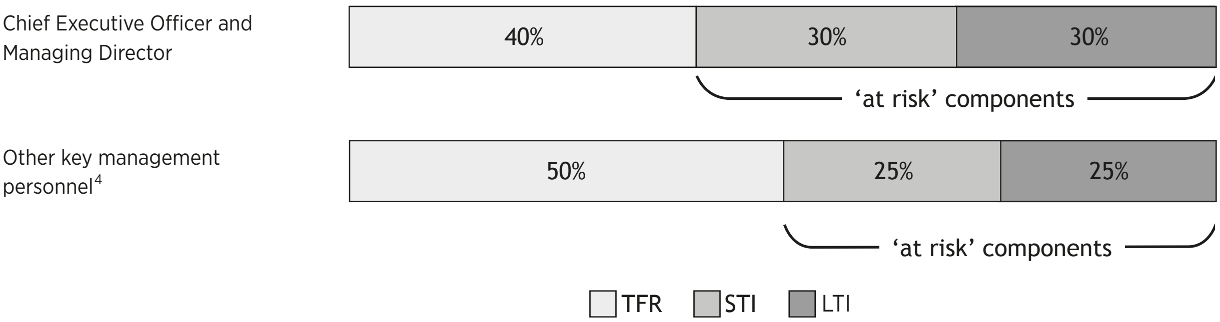



Each individual's TRO is dependent on their level in the organisation and their capacity to influence outcomes.

**What is the remuneration mix?**

APA's remuneration mix for senior executives is structured as a mix of fixed remuneration and 'at risk' short and long-term incentive components. The proportion of fixed versus 'at risk' remuneration varies at different levels within APA, reflecting the varying capacity of employees to influence APA's operational performance and returns to Securityholders.

For the Managing Director and other key management personnel, the remuneration mix is:




**An overview of remuneration components**

Each remuneration component has a different purpose:

| REMUNERATION COMPONENT | PURPOSE | HOW REWARD IS DELIVERED |
|---|---|---|
| Total Fixed Remuneration ("TFR") | To reflect the market value of the role and the individual's skills and experience. | The total of base salary (which includes cash, superannuation guarantee levy, vehicles and parking) and incidental benefits paid in monthly instalments. |
| **'AT RISK' COMPONENTS** | | |
| Short-term incentive ("STI") | To reward strong performance against the achievement of specific business objectives. | Cash-based incentive based on a mix of financial and non-financial key performance indicators paid annually after the audited accounts are approved. |
| Long-term incentive ("LTI") | To link executive reward with securityholder value. | Cash-settled incentive based on achievement of an annual Board-mandated set of performance hurdles paid in three equal annual instalments starting one year after the year of allocation. |

4 Other than the Company Secretary who has a mix of 58%, 21% and 21%.

# REMUNERATION REPORT CONTINUED

**TOTAL FIXED REMUNERATION ("TFR")**

*The total of base salary, including cash, superannuation guarantee levy, vehicles and parking and incidental benefits.*

TFR is reviewed annually and is determined by reference to independent external remuneration benchmarking information, taking into account an individual's responsibilities, performance, qualifications and experience.

**'AT RISK' REMUNERATION**

'At risk' remuneration is made up of two elements, STI and LTI. Before any STI payments or LTI allocations are made the organisation must achieve at least the Board-approved performance hurdles. Each of these components is discussed in more detail below.

**SHORT-TERM INCENTIVE ("STI")**

*A cash-based incentive used to reward strong performance against the achievement of financial and non-financial targets or key performance indicators.*

**What is the key performance hurdle of the STI plan?**

The key performance hurdle for the STI component of the 'at risk' remuneration is OCFPS performance against set targets. This is directly linked to APA's strategic goal of increasing operating cash flows over the medium term, thereby improving total securityholder value. Using OCFPS as the key performance hurdle ensures the interests of executives and Securityholders are aligned. If the security price rises over the period of allocation, both parties benefit and likewise if it falls, both are similarly affected.

At the start of the year, the Board, having regard to the strategy and annual budget, established the OCFPS gateway that needs to be achieved before any STI is triggered.

**What is the purpose of the STI plan?**

The STI plan is designed to put a proportion of executive remuneration 'at risk' against meeting key performance indicators ("KPIs") linked to:

- various financial measures such as cost control, revenue and cash generation and capital expenditure management. This reflects APA's strategic goal of increasing OCFPS over the medium term, thereby increasing securityholder returns and aligning the interests of STI participants with those of Securityholders; and
- non-financial targets through the delivery of individual KPIs linked to long-term strategic measures including health, safety and environment targets, project delivery and reinforcement of an ethical and values-based culture.

**How is performance measured?**

At the beginning of the financial year, the Board, at the recommendation of the Remuneration Committee, determines the appropriate financial and non-financial KPIs for the Chief Executive Officer. The Board also reviews the KPIs the Chief Executive Officer will use to assess the performance of his direct reports.

At the end of the financial year, after the audited financial results are available and provided that the performance hurdle is met, the Board determines the performance against KPIs of the Chief Executive Officer and the Chief Executive Officer's direct reports and approves the STI amounts to be paid.

**What is the value of the STI opportunity?**

The STI amount payable is capped at the STI Maximum Possible amount. The Chief Executive Officer's STI is capped at 150% of 30% of TRO and for his direct reports at 150% of 25% of TRO[5].

**How is the STI reward delivered?**

All STI payments are made in cash and paid in September of the new financial year following the completion of audit of the annual accounts.

For FY2013, the STI outcomes are shown in the table below for all key management personnel:

| KEY MANAGEMENT PERSONNEL | STI EARNED ($) | STI EARNED (%) | STI FORFEITED ($) | STI FORFEITED (%) |
|---|---|---|---|---|
| Michael McCormack | 1,132,313 | 84.4 | 209,250 | 15.6 |
| Peter Fredricson | 477,375 | 95.0 | 25,125 | 5.0 |
| Ross Gersbach | 505,080 | 91.5 | 46,920 | 8.5 |
| Robert Wheals | 239,663 | 77.0 | 71,588 | 23.0 |
| John Ferguson | 267,143 | 93.0 | 20,108 | 7.0 |
| Kevin Lester (1) | 180,216 | 84.5 | 33,057 | 15.5 |
| Stephen Ohl (2) | 312,375 | 85.0 | 55,125 | 15.0 |
| Mark Knapman | 215,482 | 91.0 | 21,311 | 9.0 |
| Peter Wallace | 237,263 | 85.5 | 40,238 | 14.5 |

(1) Kevin Lester joined APA as Group Executive Infrastructure Development on 6 August 2012. STI has been prorated.

(2) Stephen Ohl retired with effect from 1 July 2013.

5 Other than for the Company Secretary whose STI is capped at 150% of 21% of TRO.

# REMUNERATION REPORT CONTINUED

**LONG-TERM INCENTIVE ("LTI")**

*A cash-settled incentive based on the APA Group security price which links executive reward to securityholder value based on the achievement of key financial and comparator group measures.*

**What are the key performance hurdles of the LTI plan?**

From 1 July 2012, the LTI component of 'at risk' remuneration is subject to two equally weighted performance hurdles. The first hurdle is Total Securityholder Return ("TSR") (being growth in security price plus distributions) performance against the S&P ASX 100 comparator group and the second hurdle is performance against target Earnings Before Interest, Tax, Depreciation and Amortisation divided by Funds Employed ("EBITDA/FE").

These LTI measures of TSR and EBITDA/FE are appropriate longer term award hurdles based on the experience of APA Securityholders compared to the general shareholder market and the integrity of earnings performance against the funds employed.

The TSR hurdle is linked to APA's ranking relative to the S&P ASX 100. Rewards do not commence until APA achieves a relative position of at least the median of the S&P ASX 100 group of companies (P50). On achieving P50 the executive awards increase as the APA performance increases relative to the S&P ASX 100.

The EBITDA/FE hurdle has been set to reflect improvement on the previous year. Awards do not commence until this improvement has been achieved. On achieving this improvement the executive awards increase as the EBITDA/FE performance increases.

**What is the purpose of the LTI?**

The LTI plan is designed to put a proportion of executive remuneration at risk against meeting longer term financial targets linked to TSR and EBITDA/FE.

This directly aligns the interests of plan participants and Securityholders and allows the Board to reward superior performance.

**What form does the LTI take?**

Eligible participants are entitled to an LTI allocation in the form of reference units which exactly mirror the value of APA securities. The reference units allocated under the LTI plan are not actual APA securities, but notional securities with a value equivalent to the LTI allocation.

Each reference unit is valued at the equivalent of the 30 trading day volume weighted average market price ("VWAP") of an APA security immediately prior to the opening of the APA security trading window, following the announcement of APA's annual financial results to the ASX.

**What is the value of the LTI opportunity?**

LTI participants are advised of their maximum LTI opportunity, expressed as a percentage of their TRO. The actual individual LTI allocation is determined at the completion of the financial year and is based on TSR performance against the S&P ASX 100 comparator group and growth in EBITDA/FE performance.

The maximum LTI allocation is capped at 150% of the participant's maximum LTI opportunity.

**How are the LTI allocations delivered?**

An LTI allocation vests in three equal instalments over the three financial years following the allocation, with the initial one-third vesting at the end of the first financial year, one-third at the end of the second financial year, and one-third at the end of the third financial year.

As LTI allocations are subject to the achievement of a pre-allocation performance hurdle, they are not subject to further performance tests at the vesting dates. However, participants must remain employed by APA to access the vested benefit.

Upon vesting, the LTI is delivered in cash. The cash payment is equal to the number of reference units vesting on the vesting date multiplied by the 30 trading day VWAP of APA securities immediately prior to the opening of the APA security trading window, following the announcement of APA's annual financial results to the ASX. APA provides fully in its accounts for the obligations of the LTI in the year in which the LTI allocation is made.

For FY2013, the actual LTI performance achieved was 83.14% for TSR against S&P ASX 100 and 150% for EBITDA/FE growth. LTI allocations are shown in the table below for all key management personnel:

| KEY MANAGEMENT PERSONNEL | LTI EARNED ($) | LTI FORFEITED ($) |
|---|---|---|
| Michael McCormack | 1,066,616 | 274,947 |
| Peter Fredricson | 390,510 | 111,990 |
| Ross Gersbach | 428,978 | 123,022 |
| Robert Wheals | 241,883 | 69,367 |
| John Ferguson | 223,232 | 64,018 |
| Kevin Lester (1) | 183,353 | 52,582 |
| Stephen Ohl (2) | 285,597 | 81,903 |
| Mark Knapman | 184,020 | 52,773 |
| Peter Wallace | 215,655 | 61,845 |

(1) Kevin Lester joined APA as Group Executive Infrastructure Development on 6 August 2012. LTI has been prorated.

(2) Stephen Ohl retired with effect from 1 July 2013.

**What rights are attached to an LTI reference unit?**

The LTI is a cash-settled plan and participants are not allocated APA securities. LTI allocations do not entitle participants to vote at Securityholders meetings or to be paid distributions.

No options or other equity instruments are issued to APA employees or Directors under the LTI plan.

**Movements in LTI and current LTI reference units outstanding**

The following table sets out the movements in the number of reference units and the number of reference units that have been allocated to key management personnel but have not yet vested or been paid, and the years in which they will vest:

| KEY MANAGEMENT PERSONNEL | GRANT DATE | OPENING BALANCE AT 1 JULY 2012 | ALLOCATED | PAID | FORFEITED | CLOSING BALANCE AT 30 JUNE 2013 | REFERENCE UNITS SUBJECT TO ALLOCATION BY THE BOARD IN AUGUST 2013 (1) | BALANCE OF REFERENCE UNITS (2) | REFERENCE UNITS ALLOCATED THAT HAVE NOT YET VESTED OR BEEN PAID AND THE YEARS IN WHICH THEY WILL VEST (2) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | 2013 (3) | 2014 | 2015 | 2016 |
| Michael McCormack | 2009 | 84,995 | - | (84,995) | - | - | | | - | - | - | - |
| | 2010 | 132,454 | - | (66,227) | - | 66,227 | | | 66,227 | - | - | - |
| | 2011 | 208,119 | - | (69,373) | - | 138,746 | | | 69,373 | 69,373 | - | - |
| | 2012 | - | 191,016 | - | - | 191,016 | | | 63,672 | 63,672 | 63,672 | - |
| | 2013 | - | - | - | - | - | 177,390 | | - | 59,130 | 59,130 | 59,130 |
| | | | | | | | | **573,379** | **199,272** | **192,175** | **122,802** | **59,130** |
| Peter Fredricson | 2010 | 53,844 | - | (26,921) | - | 26,923 | | | 26,923 | - | - | - |
| | 2011 | 85,962 | - | (28,654) | - | 57,308 | | | 28,654 | 28,654 | - | - |
| | 2012 | - | 76,029 | - | - | 76,029 | | | 25,343 | 25,343 | 25,343 | - |
| | 2013 | - | - | - | - | - | 64,944 | | - | 21,648 | 21,648 | 21,648 |
| | | | | | | | | **225,204** | **80,920** | **75,645** | **46,991** | **21,648** |
| Ross Gersbach | 2009 | 40,212 | - | (40,212) | - | - | | | - | - | - | - |
| | 2010 | 61,382 | - | (30,690) | - | 30,692 | | | 30,692 | - | - | - |
| | 2011 | 98,027 | - | (32,675) | - | 65,352 | | | 32,676 | 32,676 | - | - |
| | 2012 | - | 86,067 | - | - | 86,067 | | | 28,689 | 28,689 | 28,689 | - |
| | 2013 | - | - | - | - | - | 71,343 | | - | 23,781 | 23,781 | 23,781 |
| | | | | | | | | **253,454** | **92,057** | **85,146** | **52,470** | **23,781** |
| Robert Wheals | 2009 | 11,419 | - | (11,419) | - | - | | | - | - | - | - |
| | 2010 | 22,614 | - | (11,307) | - | 11,307 | | | 11,307 | - | - | - |
| | 2011 | 33,254 | - | (11,084) | - | 22,170 | | | 11,085 | 11,085 | - | - |
| | 2012 | - | 32,723 | - | - | 32,723 | | | 10,907 | 10,908 | 10,908 | - |
| | 2013 | - | - | - | - | - | 40,227 | | - | 13,409 | 13,409 | 13,409 |
| | | | | | | | | **106,427** | **33,299** | **35,402** | **24,317** | **13,409** |

**Movements in LTI and current LTI reference units outstanding**
Continued

| KEY MANAGEMENT PERSONNEL | GRANT DATE | OPENING BALANCE AT 1 JULY 2012 | ALLOCATED | PAID | FORFEITED | CLOSING BALANCE AT 30 JUNE 2013 | REFERENCE UNITS SUBJECT TO ALLOCATION BY THE BOARD IN AUGUST 2013 (1) | BALANCE OF REFERENCE UNITS (2) | REFERENCE UNITS ALLOCATED THAT HAVE NOT YET VESTED OR BEEN PAID AND THE YEARS IN WHICH THEY WILL VEST (2) 2013 (3) | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| John Ferguson | 2009 | 14,379 | - | (14,379) | - | - | | | - | - | - | - |
| | 2010 | 22,126 | - | (11,063) | - | 11,063 | | | 11,063 | - | - | - |
| | 2011 | 32,381 | - | (10,793) | - | 21,588 | | | 10,794 | 10,794 | - | - |
| | 2012 | - | 31,965 | - | - | 31,965 | | | 10,655 | 10,655 | 10,655 | - |
| | 2013 | - | - | - | - | - | 37,125 | | - | 12,375 | 12,375 | 12,375 |
| | | | | | | | | **101,741** | **32,512** | **33,824** | **23,030** | **12,375** |
| Kevin Lester (4) | 2013 | - | - | - | - | - | 30,492 | | - | 10,164 | 10,164 | 10,164 |
| | | | | | | | | **30,492** | **-** | **10,164** | **10,164** | **10,164** |
| Stephen Ohl (5) | 2009 | 29,245 | - | (29,245) | - | - | | | - | - | - | - |
| | 2010 | 44,690 | - | (22,344) | - | 22,346 | | | 22,346 | - | - | - |
| | 2011 | 67,864 | - | (22,621) | - | 45,243 | | | 22,621 | 22,622 | - | - |
| | 2012 | - | 58,967 | - | - | 58,967 | | | 19,655 | 19,656 | 19,656 | - |
| | 2013 | - | - | - | - | - | 47,496 | | - | 15,832 | 15,832 | 15,832 |
| | | | | | | | | **174,052** | **64,622** | **58,110** | **35,488** | **15,832** |
| Mark Knapman | 2009 | 18,280 | - | (18,280) | - | - | | | - | - | - | - |
| | 2010 | 29,243 | - | (14,621) | - | 14,622 | | | 14,622 | - | - | - |
| | 2011 | 43,683 | - | (14,561) | - | 29,122 | | | 14,561 | 14,561 | - | - |
| | 2012 | - | 37,794 | - | - | 37,794 | | | 12,598 | 12,598 | 12,598 | - |
| | 2013 | - | - | - | - | - | 30,603 | | - | 10,201 | 10,201 | 10,201 |
| | | | | | | | | **112,141** | **41,781** | **37,360** | **22,799** | **10,201** |
| Peter Wallace | 2011 | 10,913 | - | (3,637) | - | 7,276 | | | 3,638 | 3,638 | - | - |
| | 2012 | - | 39,332 | - | - | 39,332 | | | 13,110 | 13,111 | 13,111 | - |
| | 2013 | - | - | - | - | - | 35,865 | | - | 11,955 | 11,955 | 11,955 |
| | | | | | | | | **82,473** | **16,748** | **28,704** | **25,066** | **11,955** |

(1) Reference units subject to Board allocation in August 2013 based on an estimated VWAP of $6.0128.
(2) Includes reference units subject to allocation by the Board in August 2013.
(3) Reference units multiplied by 30 trading days VWAP to be paid as cash in September 2013.
(4) Kevin Lester joined APA on 6 August 2012.
(5) Stephen Ohl retired with effect from 1 July 2013.

# REMUNERATION REPORT CONTINUED

## REMUNERATION DURING FY2013

### ACTUAL REMUNERATION

Actual remuneration received by the Managing Director and other key management personnel is defined as the 'take home' pay received by them in the relevant year.

The table below sets out **actual cash payments** made to the relevant key management personnel during FY2013. This table differs from the information provided below which reflects the total remuneration earned by key management personnel in a year some of which will only be paid in later years.

Actual LTI payments represent the amount of reference units that vested and were converted to cash payments to the individual during the year, regardless of when the LTI was initially allocated.

The table below does not show LTI allocations in FY2013 or previous years that are still subject to performance or employment conditions because those LTI allocations are still at-risk of forfeiture.

The actual STI payments represent the amounts earned by the key management personnel in the prior financial year (2011) but only paid in August 2012 (as they are dependent on the approval by the Board of the annual audited accounts).

The following table outlines the actual remuneration received by key management personnel during FY2013:

| KEY MANAGEMENT PERSONNEL | TOTAL FIXED REMUNERATION $ | STI $ | LTI $ | OTHER | TOTAL PAID 2013 $ | TOTAL PAID 2012 $ |
|---|---|---|---|---|---|---|
| Michael McCormack | 1,192,500 | 700,350 | 1,054,951 | - | **2,947,801** | 2,391,517 |
| Peter Fredricson | 670,000 | 292,395 | 265,776 | 202,000 (1) | **1,430,171** | 983,855 |
| Ross Gersbach | 736,000 | 321,563 | 495,336 | 228,667 (1) | **1,781,566** | 1,323,207 |
| Robert Wheals | 415,000 | 117,369 | 161,690 | 60,000 (1) | **754,059** | 537,387 |
| John Ferguson | 383,000 | 127,286 | 173,287 | 130,000 (2) | **813,573** | 533,244 |
| Kevin Lester (3) | 320,833 | - | - | - | **320,833** | - |
| Stephen Ohl (4) | 490,000 | 182,125 | 354,894 | - | **1,027,020** | 919,709 |
| Mark Knapman | 436,000 | 132,922 | 226,978 | - | **795,900** | 677,383 |
| Peter Wallace | 370,148 | 147,345 | 17,393 | - | **534,886** | 339,228 |
| **Total** | 5,013,481 | 2,021,355 | 2,750,305 | 620,667 | **10,405,808** | 7,705,530 |

(1) First instalment of a Loyalty Payment. Refer to "Executive contracts" section for more information.

(2) First Instalment of $60,000 as a Loyalty Payment plus $70,000 as an ex-gratia payment for acting in the position of Group Executive Operations. Refer to "Executive contracts" section for more information.

(3) Kevin Lester joined APA as Group Executive Infrastructure Development on 6 August 2012. A Sign-On/Enticement payment of $100,000 was not paid in FY2013. The payment will be made in future years and is disclosed in the financial report.

(4) Stephen Ohl retired with effect from 1 July 2013. The termination payment of $353,716 (representing the termination benefit of $245,000 plus statutory entitlements) was not paid in FY2013. The payment will be made in future years and is disclosed in the financial report.

# REMUNERATION REPORT
## CONTINUED

### TOTAL REMUNERATION EARNED

The following table outlines the total remuneration earned by key management personnel during FY2013, calculated in accordance with accounting standards:

| | SHORT-TERM EMPLOYMENT BENEFITS | | | POST-EMPLOYMENT | LONG-TERM INCENTIVE PLANS | | |
|---|---|---|---|---|---|---|---|
| | SALARY/FEES $ | SHORT-TERM INCENTIVE SCHEME $ | NON-MONETARY $ | SUPERANNUATION $ | SHARE-BASED PAYMENTS (1) $ | OTHER PAYMENTS (2) $ | TOTAL $ |
| **KEY MANAGEMENT PERSONNEL** | | | | | | | |
| M J McCormack | | | | | | | |
| **2013** | **1,167,500** | **1,132,313** | **-** | **25,000** | **1,165,290** | **-** | **3,490,103** |
| 2012 | 965,000 | 700,350 | - | 50,000 | 1,021,548 | - | 2,736,898 |
| P J Fredricson | | | | | | | |
| **2013** | **653,530** | **477,375** | **-** | **16,470** | **462,536** | **202,000** | **1,811,911** |
| 2012 | 590,225 | 292,395 | - | 15,775 | 290,755 | - | 1,189,150 |
| R M Gersbach | | | | | | | |
| **2013** | **707,608** | **505,080** | **11,922** | **16,470** | **522,376** | **228,667** | **1,992,123** |
| 2012 | 658,303 | 321,563 | 11,922 | 15,775 | 475,330 | - | 1,482,893 |
| R A Wheals | | | | | | | |
| **2013** | **390,000** | **239,663** | **-** | **25,000** | **193,639** | **60,000** | **908,302** |
| 2012 | 329,000 | 117,369 | - | 25,000 | 119,753 | - | 591,122 |
| J L Ferguson | | | | | | | |
| **2013** | **358,130** | **267,143** | **-** | **24,870** | **185,791** | **130,000** | **965,934** |
| 2012 | 295,422 | 119,747 | - | 50,578 | 117,801 | - | 583,548 |
| K Lester (3) | | | | | | | |
| **2013** | **299,905** | **180,216** | **-** | **20,928** | **45,835** | **100,000** | **646,884** |
| 2012 | - | - | - | - | - | - | - |
| S P Ohl (4) | | | | | | | |
| **2013** | **465,530** | **312,375** | **-** | **24,470** | **362,815** | **245,000** | **1,410,190** |
| 2012 | 415,377 | 182,125 | 4,848 | 49,775 | 337,336 | - | 989,461 |
| M T Knapman | | | | | | | |
| **2013** | **411,000** | **215,482** | **-** | **25,000** | **234,415** | **-** | **885,897** |
| 2012 | 366,000 | 132,922 | - | 50,000 | 215,843 | - | 764,765 |
| P J Wallace | | | | | | | |
| **2013** | **345,149** | **237,263** | **-** | **24,999** | **129,441** | **-** | **736,852** |
| 2012 | 272,243 | 147,345 | - | 41,257 | 60,110 | - | 520,955 |
| **TOTAL REMUNERATION** | | | | | | | |
| **2013** | **4,798,352** | **3,566,910** | **11,922** | **203,207** | **3,302,138** | **965,667** | **12,848,196** |
| 2012 | 3,891,570 | 2,013,816 | 16,770 | 298,160 | 2,638,476 | - | 8,858,792 |

(1) Cash settled share-based payments.

(2) Other payments include the first instalment of Loyalty Payment. Refer to “Executive contracts” section for more information.

(3) Kevin Lester joined APA as Group Executive Infrastructure Development on 6 August 2012.

(4) Stephen Ohl retired with effect from 1 July 2013. A termination payment of $353,716 (representing the termination benefit of $245,000 plus statutory entitlements) was not paid in FY2013. The payment will be made in future years and is disclosed in the financial report.

## LINK BETWEEN REMUNERATION AND APA'S PERFORMANCE

The Board's key principle in establishing the remuneration structure of key management personnel is that remuneration should be linked to performance.

The following table provides financial information for the last five years reflecting the link between performance and remuneration:

| YEAR ENDED 30 JUNE | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| EBITDA before significant items ($m) | 667.1 | 535.5 | 489.6 | 460.0 | 444.4 |
| Profit before significant items ($m) | 178.7 | 140.3 | 108.9 | 100.4 | 99.7 |
| Profit after significant items ($m) | 298.8 | 130.7 | 108.5 | 100.4 | 78.8 |
| Earnings per security - normalised (cents) | 23.1 | 21.9 | 19.7 | 19.4 | 22.7 |
| Earnings per security - reported (cents) | 38.7 | 20.4 | 19.7 | 19.4 | 16.2 |
| OCFPS (cents) | 56.0 | 52.5 | 52.6 | 51.9 | 48.2 |
| Distribution per security (cents) | 35.5 | 35.0 | 34.4 | 32.8 | 31.0 |
| Closing security price at 30 June ($) | 5.99 | 4.99 | 4.07 | 3.60 | 2.75 |

## EXECUTIVE CONTRACTS

The terms of the contractual arrangements for each of the key management personnel are set out below:

| NAME AND TITLE AND COMMENCEMENT DATE | TERM AND TERMINATION PROVISIONS/BENEFITS |
|---|---|
| **Michael McCormack**<br>*Managing Director*<br>since 1 July 2006<br>*Chief Executive Officer*<br>1 July 2005 to 30 June 2006<br>Commenced 1 March 2000 | No defined term.<br>On termination with cause APA will pay any TFR due and owing at the date of termination and any accrued leave entitlements.<br>On termination without cause, APA will pay 52 weeks TRO, any incentives earned but not paid and all leave entitlements. APA will also pay any TRO due and owing at the date of termination.<br>Mr McCormack is required to give APA twelve months' notice. |
| **Peter Fredricson**<br>*Chief Financial Officer*<br>Commenced 1 June 2009 | No defined term.<br>On termination with cause, APA will pay any TFR due and owing at the date of termination and any accrued leave entitlements.<br>On termination without cause, APA will pay 13 weeks TFR, any notice period not worked, any bonus entitlement not yet paid and any accrued leave entitlement. APA will also pay any TRO due and owing at the date of termination.<br>Mr Fredricson is required to give APA six months' notice.<br>In return for increased notice, non-compete and non-solicitation provisions, and due to the critical nature of the role of Chief Financial Officer over the next three years with regard to the growth, integration and financial challenges facing APA, Mr Fredricson was placed on a loyalty and performance bonus for three years and became entitled to the payment of the first instalment in April 2013. |
| **Ross Gersbach**<br>*Chief Executive Strategy and Development*<br>Commenced 1 February 2008 | No defined term.<br>On termination with cause, APA will pay any TFR due and owing at the date of termination and any accrued leave entitlements.<br>On termination without cause, APA will pay 13 weeks TFR, any notice period not worked, any bonus entitlement not yet paid and any accrued leave entitlement. APA will also pay any TRO due and owing at the date of termination.<br>Mr Gersbach is required to give APA six months' notice.<br>In return for increased notice, non-compete and non-solicitation provisions, and due to the critical nature of the role of Chief Executive Strategy and Development over the next three years with regard to the growth, integration and financial challenges facing APA, Mr Gersbach was placed on a loyalty and performance bonus for three years and became entitled to the first instalment in April 2013. |
| **Mark Knapman**<br>*Company Secretary*<br>Commenced 16 July 2008 | No defined term.<br>On termination with cause or following long-term illness or incapacity, APA will pay any TFR due and owing at the date of termination and any accrued leave entitlements.<br>On termination without cause, APA will pay 26 weeks TFR, any incentives earned but not paid on their due date and any accrued leave entitlement. APA will also pay any TRO due and owing at the date of termination.<br>Mr Knapman is required to give APA three months' notice. |

# REMUNERATION REPORT
# CONTINUED

| NAME AND TITLE AND COMMENCEMENT DATE | TERM AND TERMINATION PROVISIONS/BENEFITS |
|---|---|
| **Robert Wheals**<br>*Group Executive Transmission*<br>Commenced 22 September 2008 | No defined term.<br><br>On termination with cause, APA will pay any TFR due and owing at the date of termination and any accrued leave entitlements.<br><br>On termination without cause, APA will pay 13 weeks TFR, any notice period not worked, any bonus entitlement not yet paid and any accrued leave entitlement. APA will also pay any TRO due and owing at the date of termination.<br><br>Mr Wheals is required to give APA six months' notice.<br><br>In return for increased notice, non-compete and non-solicitation provisions, and due to the critical nature of the role of Group Executive Transmission under the major restructure of the business, Mr Wheals was placed on a loyalty and performance bonus for two years and became entitled to the first instalment in April 2013. |
| **John Ferguson**<br>*Group Executive Networks*<br>Commenced 29 September 2008 | No defined term.<br><br>On termination with cause, APA will pay any TFR due and owing at the date of termination and any accrued leave entitlements.<br><br>On termination without cause, APA will pay 13 weeks TFR, any notice period not worked, any bonus entitlement not yet paid and any accrued leave entitlement. APA will also pay any TRO due and owing at the date of termination.<br><br>Mr Ferguson is required to give APA six months' notice.<br><br>In return for increased notice, non-compete and non-solicitation provisions, and due to the critical nature of the role of Group Executive Networks under the major restructure of the business, Mr Ferguson was placed on a loyalty and performance bonus for two years and became entitled to the first instalment in April 2013. |
| **Kevin Lester**<br>*Group Executive Infrastructure Development*<br>Commenced 6 August 2012 | No defined term.<br><br>On termination with cause, APA will pay any TFR due and owing at the date of termination and any accrued leave entitlements.<br><br>On termination without cause, APA will pay 13 weeks TFR, any notice period not worked, any bonus entitlement not yet paid and any accrued leave entitlement. APA will also pay any TRO due and owing at the date of termination.<br><br>Mr Lester is required to give APA six months' notice. |
| **Peter Wallace**<br>*Group Executive Human Resources*<br>Commenced 4 April 2011 | No defined term.<br><br>On termination with cause, APA will pay any TFR due and owing at the date of termination and any accrued leave entitlements.<br><br>On termination without cause, APA will pay 13 weeks TFR, any notice period not worked, any bonus entitlement not yet paid and any accrued leave entitlement. APA will also pay any TRO due and owing at the date of termination.<br><br>Mr Wallace is required to give APA six months' notice. |
| **Stephen Ohl**<br>*Group Executive Strategic Projects*<br>Commenced 2 May 2005<br><br>Retired 1 July 2013 | No defined term.<br><br>On termination with cause, APA will pay any TFR due and owing at the date of termination and any accrued leave entitlements.<br><br>On termination without cause, APA will pay 26 weeks TFR, any incentives earned but not paid on their due date and any accrued leave entitlement. APA will also pay any TRO due and owing at the date of termination.<br><br>Mr Ohl was required to give APA six months' notice. |

## REMUNERATION ADVISERS

During FY2013, the following remuneration information was obtained:

- Egan & Associates were appointed by the Chairman of the Remuneration Committee to provide remuneration benchmarking information for all Directors;
- Ernst & Young were appointed by the Chairman of the Remuneration Committee to provide benchmarking information for the Chief Executive Officer and Managing Director and key management personnel; and
- CIMB Capital Markets (Australia) Limited were appointed by the Chairman of the Remuneration Committee for TSR information.

All these advisers were engaged directly on instruction from, and reported directly to, the Remuneration Committee and were independent and free from influence by key management personnel.

# CORPORATE GOVERNANCE STATEMENT

APA Group ("APA") comprises two registered investment schemes, Australian Pipeline Trust and APT Investment Trust, the securities in which are "stapled" together, and their controlled entities.

Australian Pipeline Limited ("Responsible Entity") is the responsible entity of those trusts and is responsible for APA's corporate governance practices.

The ASX Corporate Governance Council's Corporate Governance Principles and Recommendations articulate eight core principles of good corporate governance and, for each of those principles, recommendations as to their implementation. Adoption of the Council's recommendations is not compulsory. However, under the Listing Rules of ASX Limited ("ASX") companies are required to provide a statement in their annual report disclosing the extent to which they have followed the recommendations in the reporting period and, where companies have not followed all the recommendations, they must identify which ones they have not followed and give reasons for not following them.

Each of the principles of good corporate governance has been responded to in turn in this statement and the table at the rear of this statement provides a checklist of APA's adoption of the ASX Corporate Governance Council's recommendations. Explanations for departures from the recommendations are set out in this statement.

Various references are made below to APA's website as a source of information on corporate governance practices and documentation. The home page for APA's website is **www.apa.com.au**, and the link entitled "About APA" leads to the corporate governance material. Securityholders who do not have internet access but wish to read that material should telephone 1800 992 312 (or +61 1800 992 312, if calling from outside Australia) and ask for a copy of the relevant material to be sent to them.

In this statement the term "Reporting Period" means the period of 12 months to 30 June 2013.

**PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT**

**Board and its committees**

The Board of Directors of the Responsible Entity ("Board") is accountable to Securityholders for the proper management of APA's business and affairs. It operates in accordance with a charter, which is published on APA's web site.

The Board normally meets 11 times each year, with additional meetings being held as required. The number of times it met during the Reporting Period and Directors' attendance at those meetings are set out in the Directors' report for the Reporting Period.

To assist the Board in carrying out its responsibilities, the following standing committees of its members have been established:

- Audit and Risk Management Committee;
- Remuneration Committee; and
- Health Safety and Environment Committee.

Each committee has its own charter that describes the roles and responsibilities delegated to the committee by the Board, and those charters are published on APA's web site. The charters for the Board and its committees are reviewed by the Board annually, and were last reviewed in July 2013.

The Board delegates responsibility for implementing the strategic direction and managing the day-to-day operations of APA to the Managing Director. The Managing Director consults with the Chairman, in the first instance, on matters that are sensitive, extraordinary or of a strategic nature. The Board has approved specific limits of authority for management with respect to approval of expenditure, contracts and other matters, and regularly reviews those limits.

**Non-executive Directors' letter of appointment**

The current non-executive Directors have each received a letter of appointment documenting, among other issues:

- the roles and responsibilities of the Board and each of its committees;
- expectations of the time commitment to be made by Directors in serving on the Board and its committees, and of their participation in an annual review of the Board, its committees and individual Directors;
- requirements with respect to the disclosure of Directors' interests;
- the fees payable to the Directors; and
- key policies that Directors are required to comply with, such as APA's securities trading policy.

**Management: service contracts, induction and performance evaluations**

The Managing Director, Chief Financial Officer and other senior management have service contracts setting out their responsibilities, conditions of service and termination entitlements.

Newly appointed senior executives complete an induction program on the management of the business covering topics that include financial matters, strategic direction, operations, risk management, health and safety, environmental issues and governance matters. APA also conducts annual processes relating to talent and succession management, and the development of leadership capabilities.

APA has processes in place to review the performance of senior management. Each senior executive, including the Managing Director, has personal objectives as well as objectives related to the performance of business or functional units and APA as a whole. They are reviewed against those objectives at least annually. A performance review of senior management has been conducted during the Reporting Period in accordance with that process.

Performance evaluation of the Managing Director is handled by the Chairman with the assistance of the Remuneration Committee and a report is provided to and reviewed by the Board. Assessment and monitoring of the performance of other senior executives are handled by the Managing Director who reports on those matters to the Chairman and the Remuneration Committee.

**PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE**

**Board membership**

The Board determines its size and composition, subject to limits imposed by the Responsible Entity's constitution. The constitution provides for a minimum of three Directors and a maximum of 12.

The names of the current Directors and their experience, terms of office and membership of Board committees are set out in the Directors' report for the Reporting Period.

The composition of the Board is determined in accordance with the following principles:

- a majority of the Board will be comprised of independent Directors;
- the Chairman will be an independent Director; and
- a person cannot hold the positions of both Chairman and Chief Executive Officer.

The Responsible Entity's constitution requires one-third of its Directors (excluding the Managing Director and any Director who is standing for re-election after having been appointed as an additional Director or to fill a vacancy) to retire from office at the annual general meeting of the Responsible Entity each year. If the calculation of that one-third is not a whole number, the number of Directors required to retire by this "rotation" process is rounded to the nearest whole number. Retiring Directors are eligible for re-election.

The Responsible Entity's constitution also provides that if the Board appoints a Director to fill a vacancy or as an addition to the Board, the new Director will hold office until the end of the next annual general meeting of the Responsible Entity and is eligible for re-election.

**Securityholders' right to nominate a Director and to vote on nominees**
The Deed Poll initially executed by the Responsible Entity in 2004 and amended with APA Securityholders' approval in 2011 (a copy of which is available on APA's web site) affords APA Securityholders certain rights in respect to nominees for the position of Director on the Board.

At least 75 days before annual general meetings of the Responsible Entity, Securityholders are notified by an announcement to ASX that they may nominate a person to fill a vacancy on the Board that arises on retirement of either a Director under the "rotation" process or a Director appointed by the Board since the last annual general meeting.

If Securityholders wish to exercise that right, at least 60 days before the annual general meeting they must send the Responsible Entity a signed nomination form and the nominee's signed consent to act as a Director.

The Responsible Entity advises Securityholders of all candidates who have been validly nominated and presents its nominations to the annual meeting of Securityholders.

**Independence of Directors**
The Board assesses the independence of non-executive Directors on appointment and annually having regard to the independence of Directors policy (published on APA's web site).

The Directors' report for the Reporting Period identifies which Directors are considered to be independent at the date of the report. A majority of the current Directors are independent.

**Selection and appointment of Directors**
The former Nominations and Remuneration Committee of the Board became the Remuneration Committee in early 2008 so that the functions with respect to selection and appointment of new Directors and related matters previously handled by that committee then reverted to the Board. Ultimate responsibility for such matters rests with the full Board and the Board considers the efficient handling of those matters is not diminished by the absence of a Nominations Committee.

The Board considers that a diverse range of skills, experience and backgrounds is required on the Board to effectively govern the business. It determines and reviews from time to time the mix of skills and diversity that it looks to achieve in its membership. Having regard to the nature of APA's business, that mix includes financial, strategic, operational, legal, regulatory and general commercial expertise.

When looking to appoint a new Director, the Board predefines the skills and experience required of candidates for the role to ensure that the required mix of skills and experience will be represented on the Board and, based on that work, seeks a list of potential candidates believed to satisfy those requirements.

If the Board is not satisfied with the quality or diversity of the candidates identified in that process, it may consider it appropriate to instruct a search firm to identify additional suitable candidates. The Board recognises that an experienced search firm with a clear brief from the Board as to the required characteristics of candidates can assist in identifying potentially suitable candidates from diverse backgrounds.

The Chairman conducts an initial interview of the short-listed candidates and, subject to them being available for and interested in the position, they are then interviewed by the Board. The Board assesses potential candidates against the predefined requirements and also considers their qualifications, backgrounds and personal qualities before the new Director is appointed.

In the interest of gender diversity, the Board has determined that the short-listed candidates for an available Board position must include at least one qualified female candidate and, where a search firm is engaged, the Board will instruct them accordingly.

**Annual review of performance of the Board, its committees and Directors**
A review process to assess the performance of the Board, its committees and individual Directors is undertaken each year. The last review was conducted in October 2012 and the review for the Reporting Period will be completed in October 2013.

Each Director completes a questionnaire, the responses are collated and the Board then meets to discuss and consider the results of that process and to determine any actions arising from the review. The Chairman also meets with each Director to discuss the review and the Director's own performance.

Matters covered by the review include the role and performance of the Board and its committees, Directors' understanding of APA's long-term objectives and key risks to the business and achievement of those objectives, succession planning and the effectiveness of the Chairman in leading the Board.

**Directors' access to records and information, management and professional advice**
Subject to normal privacy requirements, Directors have access to APA's records and information, and to the Company Secretary and other relevant senior management personnel. They receive regular detailed reports on financial and operational aspects of APA's business and may request elaboration or explanation of those reports.

While most Board meetings are held in Sydney, where APA's head office is located, some are held in other locations where APA has a presence, providing Directors with the opportunity to receive presentations from and speak to local APA employees about the business and to inspect APA's assets and facilities.

The Board collectively, and each Director individually, may 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 attending relevant courses, seminars and conferences. Where appropriate, APA will meet expenses involved in such activities.

**PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING**
**Code of conduct and policies**
The Board and senior management are firmly committed to ensuring that they and all employees observe high standards of ethical behaviour and conduct.

APA's code of conduct sets out the behaviour required of Directors and employees and recognises the responsibilities of APA and its personnel to Securityholders, customers, suppliers, employees and the community. It also requires that breaches of the code are reported and provides a mechanism to enable breaches to be reported without fear of retribution. The code is published on APA's web site.

A number of APA's policies aim to foster a culture of compliance and ethical and responsible decision-making. APA's whistleblower policy encourages the reporting of matters of concern and suspected wrongdoing, such as dishonest or fraudulent conduct, breaches of legislation and other conduct that may cause financial loss to APA or be otherwise detrimental to its reputation or interests, and describes the protection to be afforded to whistleblowers who report such conduct against reprisals, discrimination, harassment or other disadvantage resulting from their reports.

APA's securities trading policy, published on its web site, provides that subject to some exceptions Directors and designated management personnel must not buy or sell APA securities during either of the following "closed periods":

- in the period starting 1 January and ending on the second business day after the release of APA's half yearly results to the ASX, or
- in the period starting 1 July and ending on the second business day after the release of APA's annual results to the ASX,

unless exceptional circumstances apply, and they may only buy or sell APA securities outside those closed periods if they obtain clearance to do so in accordance with the process described in the policy. Directors and employees are precluded from buying or selling securities at any time if they are aware of any price-sensitive information which has not been made public.

**Diversity**

APA values diversity and recognises that to continue to be a relevant and innovative organisation, it must leverage the full potential of its people. Embracing individual diversity encourages diversity of thought, which is conducive to better decision making and opportunity for innovation. It is also about taking advantage of all available talent for the benefit of the organisation. APA also recognises that creating sustainable shareholder wealth depends on its ability to attract and retain an engaged, highly skilled and motivated workforce. Therefore, diversity makes good business sense.

APA's diversity policy is available on its website.

**Diversity objectives (2013)**

While the APA workforce gender profile is consistent with organisations within APA's industry and similar male dominated sectors, APA is committed to increasing the participation of women in the workforce in order to broaden the talent pool from which leaders can be drawn and strengthen the diversity of APA.

In 2012 APA's key objectives for diversity and inclusion were to focus on attracting and retaining a diversity of talented employees and providing opportunities for women. Outlined below is a status update for each objective and progress towards implementation of relevant initiatives (the sections in italics being the objectives and initiatives stated in the 2012 corporate governance statement).

***Attraction – focus on attracting new talent into APA***

A review of APA's current recruitment process and procedures has been commenced, an objective of the review being to attract a more diverse candidate pool into the organisation.

The following developments are part of the review:

- *Wherever possible, include at least one woman on the shortlist of applicants for all management roles.* Generally, senior roles have been recruited using employment agencies and APA has been working with the agencies to ensure that women are included in long and short lists of applicants. In some cases, where women have not been identified initially, a more detailed search has been undertaken. During the past 12 months, five women have been employed in leadership roles[6] in APA.
- *Include at least one woman in the selection panel for all leadership roles.* Since July 2012 it has been standard practice to have at least one woman included on the selection panel for all leadership roles in APA.
- *Expand recruitment training materials to include diversity awareness and the value of a diverse workforce.* No formal internal recruitment training has taken place since the last reporting period. A component of the recruitment project is to refresh the training module to include diversity and inclusion awareness. Training materials will be updated prior to a course being scheduled.

***Retention – focus on retaining talent in APA***

- *Continue to offer flexible work arrangements through part time hours, job sharing, flexible start and finish times and purchase of additional annual leave.* Over 90% of all flexible work arrangement requests have been approved during the Reporting Period. This includes a job share arrangement approved for two senior women in leadership roles. APA will continue to support such requests, where possible and appropriate.

  During the Reporting Period, 27 women either commenced or returned from maternity leave. Six worked part time prior to taking maternity leave and returned to part time work; six returned to full time work; two returned with flexible work arrangements; and two returned on flexible work arrangements and progressively returned to full time work.
- *Maintain breastfeeding accreditation in relevant APA offices.* APA's application for re-accreditation as a breastfeeding friendly work environment was approved in March 2013.

***Opportunities – provide both career and development opportunities for women***

- *Implement an APA Women in Leadership seminar at least annually.* APA held the first Women in Leadership seminar in November 2012. A second seminar will be held in 2013.
- *Maintain or improve women's participation rates in leadership and management development programmes.* Women's participation in leadership and management development remains high. 27% of the participants were women, compared to 19% for the previous year.
- *All nominees in the talent pool, both male and female, to have a completed development plan.* At the time of reporting, a 77% completion rate has been achieved.

The following initiatives were also implemented during the Reporting Period:

- a Diversity and Inclusion Committee was established to identify, review and develop ways of improving diversity and inclusion at APA. Committee members will sponsor and champion diversity initiatives within the business;
- a pay equity review was completed and, where appropriate, anomalies were rectified. A further equity review will be completed as part of the annual salary review process in 2013; and
- a Transition to Retirement Workshop was designed and rolled out to support employees who are preparing for retirement. APA has an ageing workforce with over 23% of employees over the age of 55, and APA intends to continue to support those transitioning to retirement.

In 2014, as well as embedding the above initiatives across the organisation, APA will focus its diversity and inclusion efforts on:

- raising awareness of the benefits of diversity and inclusion within APA through an education program. An awareness session will be included in the next Annual Leadership Conference in October 2013 that will be attended by 110 conference delegates;
- implementing a graduate programme with a target of at least 50% female participants by March 2014;
- designing an employee value proposition, with an element on attracting women to APA into non-traditional roles, by December 2013; and
- developing the APA brand with a focus on raising APA's profile for attracting women through social media such as LinkedIn, e-recruitment tools, network groups and sponsorships. These programs will be fully operational by June 2014.

In 2014 APA will report on progress in achieving these objectives and, where appropriate, will implement additional initiatives to support gender diversity and inclusion in APA.

6 Leadership roles are defined as being those in the top three levels of management.

**APA workforce gender profile (2013)**

The following table sets out APA's current workforce gender profile:

| | |
|---|---|
| Percentage of workforce who are women | 27% |
| Percentage of Directors who are women | 17% |
| Percentage of leadership roles[7] filled by women | 15% |
| Percentage of technical roles filled by women | 3% |

**Diversity aspirations**

In addition to the above objectives and consistent with its policy on diversity, APA will continue to explore its workforce and identify opportunities for improvement with regard to age profile, workforce demographics, equity of pay and benefits and broader community demographics. These will be analysed and, where specific initiatives are undertaken, reported in subsequent reporting periods.

**PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

**Audit and Risk Management Committee**

The Board has established an Audit and Risk Management Committee, the composition of which is determined in accordance with the following principles:

– the committee will have at least three members;
– all members of the committee will be independent, non-executive Directors; and
– the committee Chairman cannot also be the Chairman of the Board.

The Directors' report for the Reporting Period identifies the current members of the committee and their qualifications and experience. The Chairman of the Board, although not a member of the committee, usually attends committee meetings.

The roles and responsibilities delegated to the committee are set out in the committee's charter which is published on APA's web site.

The Managing Director, Chief Financial Officer, Company Secretary, Head of Risk and Insurance, other senior management personnel, as required, and the external and internal auditors attend committee meetings at the discretion of the committee. The external and internal auditors receive all committee papers and regularly meet with the committee, without management present, at committee meetings.

The minutes of each meeting of the Audit and Risk Management Committee are reviewed at the subsequent meeting of the Board and the committee Chairman reports to the Board on the committee's activities and recommendations.

The committee is required by its charter to meet at least four times each year. The number of times it met during the Reporting Period and the committee members' attendance at those meetings are set out in the Directors' report for the Reporting Period.

**Audit functions and independence of external auditor**

Apart from reviewing the integrity of APA's financial reporting, the committee receives reports from the external and internal auditors, monitors their effectiveness and the independence of the external auditor, and makes recommendations to the Board on the appointment or replacement (subject to Securityholders' approval, if applicable) of the external auditor.

The external auditor appointment and independence policy (published on APA's web site) documents the process for appointment of the auditor and for monitoring the auditor's independence. Pursuant to that policy, the lead partner and the review or concurring partner of the external auditor must be rotated at least every five years, followed by a two year minimum time-out period during which they may not take part in the audit. APA's auditor is Deloitte Touche Tohmatsu and Greg Couttas of that firm was appointed the lead audit partner for the APA audit in December 2009, so it is expected he will be replaced after finalisation of the audit of APA's June 2014 financial statements.

The external auditor's independence could be impaired or compromised, or be interpreted as being impaired or compromised, through the provision of some non-audit services or by the quantum of fees paid to the auditor for such services. Accordingly, the Audit and Risk Management Committee has approved a list of non-audit services that the external auditor may perform and the process for those services being approved, identified a list of prohibited services and determined a maximum dollar limit on non-audit services provided by the auditor in any financial year. The Directors' report for the Reporting Period contains a section on non-audit services provided by the auditor that includes an explanation of the basis on which the Board remains satisfied as to the auditor's independence.

**Reimbursement of Responsible Entity's costs**

The Responsible Entity's costs incurred in acting as responsible entity of Australian Pipeline Trust and APT Investment Trust are reimbursed by APA. The actual cost recovery in the Reporting Period was $2,728,000. The Responsible Entity does not make a profit, nor seek performance fees.

The constitutions of Australian Pipeline Trust and APT Investment Trust enable the Responsible Entity to charge fees up to 0.5% per annum of the value of gross assets; however, the right to charge such fees has been waived to the extent it exceeds the Responsible Entity's costs.

**PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE**

APA's market disclosure policy, published on APA's web site, aims to ensure that information that a person could reasonably expect to have a material effect on the APA security price, whether the information is positive or negative, is announced to the market by release to ASX in accordance with the ASX Listing Rules and the Corporations Act 2001.

The Company Secretary is the nominated continuous disclosure officer.

All ASX announcements are posted on APA's web site as soon as reasonably possible after notification to ASX.

**PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS**

**Communications with Securityholders**

APA aims to ensure its Securityholders are informed of all significant developments affecting APA's state of affairs and business. Information is communicated to Securityholders by a number of means, including the following:

– an annual statutory report (comprising the financial report, Directors' report and audit report) sent to Securityholders who have elected to receive the report;
– an annual review sent to Securityholders who elect to receive either the statutory report or the annual review alone;
– a biannual newsletter sent to Securityholders who have not elected to receive the annual report, and to all Securityholders on the announcement of the half year results;
– the interim (half yearly) report and Directors' commentary on that report;
– announcements to ASX and media releases;
– "Open Briefings" prepared from time to time to provide an update to investors, and released to ASX;
– investor presentations released to ASX;
– the Investor Centre section of APA's web site on which the reports, ASX and media releases, presentations and other documents referred to above are posted;
– the annual meeting of Securityholders; and
– webcasting of half year and full year results presentations, the annual meeting and announcements of major events.

7 Leadership roles are defined as being those in the top three levels of management.

Securityholders and others may elect on APA's web site to receive ASX and media announcements and newsletters by email.

**Annual meeting of Securityholders**

APA encourages Securityholders to participate in its annual meetings. A notice of annual meeting setting out the agenda for the meeting and explaining resolutions on which Securityholders may vote is sent to all Securityholders and to ASX prior to the meeting. Securityholders who cannot attend a meeting in person may appoint a proxy and may also read the Chairman and Managing Directors' addresses that are sent to ASX and posted on APA's web site, and listen to a web cast of the meeting available through the web site.

At the annual meeting the Chairman encourages questions and comments from Securityholders and seeks to ensure the meeting is managed to give Securityholders an opportunity to participate. In the interests of clarity, questions on operational matters may be answered by the Managing Director or another appropriate member of senior management. Securityholders are also invited to send written questions ahead of the meeting and, where there is a common theme to a number of questions, either the Chairman or the Managing Director will commonly seek to provide an answer in their address.

The external auditor attends the annual meetings and is available to respond to questions from Securityholders about the conduct of the audit and the preparation and content of the independent audit report.

The 2013 annual meeting of Securityholders will be held in Sydney on 24 October 2013. A notice of that meeting and a proxy form will be sent to Securityholders some weeks before the meeting, and details of the meeting are also available from APA's web site.

**PRINCIPLE 7: RECOGNISE AND MANAGE RISK**

The identification and effective management of risk, including calculated risk-taking, are viewed as an essential part of APA's approach to creating long-term securityholder value.

The Board is responsible for adopting and reviewing APA's approach to the identification, evaluation and management of risks that are material to the fulfilment of APA's objectives.

The Board has delegated certain activities to its Audit and Risk Management Committee, the charter for which is published on APA's web site. The committee's primary function with respect to risk is to maintain and oversee a sound system of internal risk management controls based on the Board's adopted risk management approach.

Specific risk management responsibilities of the Audit and Risk Management Committee include:

– reviewing and approving APA's updated risk profile, and risk management policy and framework;
– reviewing at least annually APA's implementation of the risk management policy and framework; and
– receiving and reviewing management's report on the effectiveness of risk management and internal control systems and otherwise monitoring the effectiveness of the risk management framework and the system of internal control, and progress against agreed risk management plans.

The Managing Director is accountable for ensuring that a risk management system is established, implemented and maintained in accordance with APA's risk management policy and framework.

Senior management is accountable for risk management within the areas under their control, including devolution of the risk management process to operational managers, and is responsible for:

– reviewing the measures of risk impact severity that underlies the identification of material risks, to ensure the measures remain current to APA's context;
– identifying material risks that may impact on APA's business plans and objectives and the development, implementation, performance and review of risk management plans. In doing so, senior management considers both financial risk and non-financial risk, including operational, environmental, strategic, market-related, compliance and reputation risk;
– confirming the effectiveness of controls in management of risks within the defined appetite for retention of risk;
– aggregating operational risk data across APA, and monitoring external factors, to facilitate monitoring of APA's risk profile; and
– contributing advice, leadership and facilitation in the development of group-wide risk control solutions.

The Head of Risk and Insurance, who reports to the Chief Financial Officer and usually attends meetings of the Audit and Risk Management Committee, is responsible for:

– overseeing and facilitating the co-ordination of the risk management activities of senior management;
– reporting regularly to the Audit and Risk Management Committee on APA's risk profile and the implementation and effectiveness of risk management plans;
– contributing leadership and facilitation of the implementation of group-wide risk control solutions; and
– working with senior management to design and develop risk education and communication forums.

APA's management has reported to the Audit and Risk Management Committee as to its assessment of the effectiveness of management by APA of its material risks.

In the course of approving the financial statements for the Reporting Period, the Board considered a written statement from the Chief Executive Officer and the Chief Financial Officer to the effect that, to the best of their knowledge and belief, their declaration pursuant to section 295A of the Corporations Act 2001 (broadly, that the financial statements give a true and fair view in all material respects of APA's financial position and comply in all material respects with relevant accounting standards) is founded on a sound system of risk management and internal control and that system is operating effectively in all material respects in relation to financial reporting risks, based on the management framework adopted by APA.

**PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY**

**Remuneration Committee**

The Board has established a Remuneration Committee to consider and make recommendations to the Board on, among other things, remuneration policies applicable to Board members and senior management.

The composition of the Remuneration Committee is determined in accordance with the following principles:

– the committee will have at least three members;
– all members of the committee will be non-executive Directors and a majority of them will be independent Directors; and
– the committee Chairman will be an independent Director.

The Directors' report for the Reporting Period identifies the current members of the committee and their qualifications and experience. The Chairman of the Board, although not a member of the committee, usually attends committee meetings.

The roles and responsibilities delegated to the Remuneration Committee are set out in the committee's charter which is published on APA's web site.

The Managing Director attends meetings of the committee by invitation when required to report on and discuss senior management performance and other remuneration matters.

The committee Chairman reports to the Board on the committee's activities and recommendations.

The committee is required by its charter to meet at least twice each year. The number of times it met during the Reporting Period and the committee members' attendance at those meetings are set out in the Directors' report for the Reporting Period.

**External advice**

The committee may seek external professional advice on any matter within its terms of reference. As stated in APA's remuneration report referred to below, independent remuneration consultants were engaged by the Chairman of the Remuneration Committee to provide comparative market data with respect to non-executive Director and executive remuneration during the Reporting Period.

**Remuneration report**

The Corporations Act 2001 does not require registered investment schemes like Australian Pipeline Trust and APT Investment Trust to include a remuneration report as part of the annual Directors' report, but APA has chosen to do so for the Reporting Period and prior periods.

The remuneration report distinguishes the structure of non-executive Directors' remuneration from that of the Managing Director and other senior executives, and sets out details of the components of remuneration and total remuneration paid to those individuals over the Reporting Period.

**Unvested benefits under APA's long term incentive plan**

The remuneration report also describes the APA long term incentive ("LTI") plan under which the benefits to executives who participate in the plan are related to the price of APA securities and vest over three years. An aim of the LTI plan is to align the interests of the LTI participants with the interests of APA Securityholders. APA recognises that the use of arrangements such as hedging or derivative financial products that operate to limit for LTI participants the economic risk of their unvested LTI benefits are likely to reduce the intended alignment of those interests. Consequently, it is APA policy that LTI participants must not use, nor allow to be used, any such arrangements in relation to their unvested LTI benefits.

**Retirement benefits**

In 2003 the Board terminated the non-executive Directors' retirement benefit plan so that the benefits to participating Directors that had accrued up to termination were then quantified and preserved for payment on retirement of those Directors. Under the plan, after three years service a Director was entitled to the equivalent of the emoluments received over the most recent 12 months. After 10 years service, the entitlement increased to the equivalent of emoluments received during the most recent three years. No additional entitlement accrued after 10 years. For periods between three and 10 years, the entitlement was calculated on a pro-rata basis.

Robert Wright is the only current Director entitled to benefit under the plan on retirement from the Board.

**CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS ISSUED BY ASX CORPORATE GOVERNANCE COUNCIL**

| | | COMPLY YES/NO |
|---|---|---|
| **PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT** | | |
| 1.1 | Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions | Yes |
| 1.2 | Companies should disclose the process for evaluating the performance of senior executives | Yes |
| 1.3 | Companies should provide the information indicated in the Guide to reporting on Principle 1 | Yes |
| **PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE** | | |
| 2.1 | A majority of the Board should be independent Directors | Yes |
| 2.2 | The chair should be an independent Director | Yes |
| 2.3 | The roles of Chair and Chief Executive Officer should not be exercised by the same individual | Yes |
| 2.4 | The Board should establish a nomination committee | No (1) |
| 2.5 | Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors | Yes |
| 2.6 | Companies should provide the information indicated in the Guide to reporting on Principle 2 | Yes |
| **PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING** | | |
| 3.1 | Companies should establish a code of conduct and disclose the code or a summary of that code as to:<br>– the practices necessary to maintain confidence in the company's integrity<br>– the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders<br>– the responsibility and accountability of individuals for reporting and investigating reports of unethical practices | Yes |
| 3.2 | Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them | Yes |
| 3.3 | Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them | Yes |
| 3.4 | Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior management positions and women on the Board. | Yes |
| 3.5 | Companies should provide the information indicated in the Guide to reporting on Principle 3 | Yes |

(1) The Board has chosen not to have a separate nomination committee, as explained in the section of this statement entitled "Principle 2: Structure the Board to add value" under the heading "Selection and appointment of Directors".

| | | COMPLY YES/NO |
|---|---|---|
| **PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING** | | |
| 4.1 | The Board should establish an audit committee | Yes |
| 4.2 | The audit committee should be structured so that it:<br>– consists only of non-executive Directors<br>– consists of a majority of independent Directors<br>– is chaired by an independent chair, who is not chair of the Board<br>– has at least three members | Yes |
| 4.3 | The audit committee should have a formal charter | Yes |
| 4.4 | Companies should provide the information indicated in the Guide to reporting on Principle 4 | Yes |
| **PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE** | | |
| 5.1 | Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies | Yes |
| 5.2 | Companies should provide the information indicated in the Guide to reporting on Principle 5 | Yes |
| **PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS** | | |
| 6.1 | Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy | Yes |
| 6.2 | Companies should provide the information indicated in the Guide to reporting on Principle 6 | Yes |
| **PRINCIPLE 7: RECOGNISE AND MANAGE RISK** | | |
| 7.1 | Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies | Yes |
| 7.2 | The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks | Yes |
| 7.3 | The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks | Yes |
| 7.4 | Companies should provide the information indicated in the Guide to reporting on Principle 7 | Yes |
| **PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY** | | |
| 8.1 | The Board should establish a remuneration committee | Yes |
| 8.2 | The Remuneration Committee should be structured so that it:<br>– consists of a majority of independent Directors<br>– is chaired by an independent Director<br>– has at least three members | Yes |
| 8.3 | Companies should clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives | Yes |
| 8.4 | Companies should provide the information indicated in the Guide to reporting on Principle 8 | Yes |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 30 June 2013

| | Note | 2013 $000 | 2012 $000 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Revenue | 6 | **1,227,399** | 1,032,398 |
| Share of net profits of associates and jointly controlled entities accounted for using the equity method | 6 | **44,868** | 28,263 |
| | | **1,272,267** | 1,060,661 |
| Gain on previously held interest in HDF on obtaining control | | **142,333** | - |
| Asset operation and management expenses | | **(96,903)** | (75,522) |
| Depreciation and amortisation expense | 7 | **(130,461)** | (110,409) |
| Other operating costs - pass-through | 7 | **(352,743)** | (302,633) |
| Finance costs | 7 | **(302,613)** | (240,643) |
| Employee benefit expense | 7 | **(169,323)** | (132,913) |
| Other expenses | 7 | **(15,133)** | (17,451) |
| Profit before tax | | **347,424** | 181,090 |
| Income tax expense | 9 | **(51,421)** | (50,435) |
| **Profit for the year** | | **296,003** | 130,655 |
| **Other comprehensive income, net of income tax** | | | |
| **Items that will not be reclassified subsequently to profit or loss:** | | | |
| Actuarial gain/(loss) on defined benefit plan | | **13,166** | (32,677) |
| Income tax relating to items that will not be reclassified subsequently | | **(3,950)** | 9,803 |
| | | **9,216** | (22,874) |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Gain on available-for-sale investments taken to equity | | **25,519** | 93,189 |
| Gain on available-for-sale investment reclassified to profit or loss | | **(142,333)** | - |
| Transfer of gain on cash flow hedges to profit or loss | | **91,438** | 48,983 |
| Loss on cash flow hedges taken to equity | | **(144,702)** | (116,624) |
| Gain/(Loss) on associate hedges taken to equity | | **14,316** | (22,666) |
| Income tax relating to items that may be reclassified subsequently | | **46,382** | (538) |
| | | **(109,380)** | 2,344 |
| **Other comprehensive income for the year (net of tax)** | | **(100,164)** | (20,530) |
| **Total comprehensive income for the year** | | **195,839** | 110,125 |
| **Profit attributable to:** | | | |
| Equityholders of the parent | | **260,624** | 84,693 |
| Non-controlling interest - APT Investment Trust equityholders | | **38,143** | 45,957 |
| APA stapled Securityholders | | **298,767** | 130,650 |
| Non-controlling interest - other | | **(2,764)** | 5 |
| | | **296,003** | 130,655 |
| **Total comprehensive income attributable to:** | | | |
| Equityholders of the parent | | **161,617** | 63,073 |
| Non-controlling interest - APT Investment Trust equityholders | | **36,986** | 47,047 |
| APA stapled Securityholders | | **198,603** | 110,120 |
| Non-controlling interest - other | | **(2,764)** | 5 |
| | | **195,839** | 110,125 |
| **EARNINGS PER SECURITY** | | | |
| Basic and diluted (cents per security) | 36 | **38.7** | 20.4 |

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

*The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.*

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

| | Note | **2013 $000** | 2012 $000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 37 | **80,955** | 329,934 |
| Trade and other receivables | 11 | **164,569** | 238,519 |
| Other financial assets | 12 | **16,469** | 420 |
| Inventories | 13 | **12,726** | 11,504 |
| Other | 14 | **5,662** | 4,134 |
| **Total current assets** | | **280,381** | 584,511 |
| **NON-CURRENT ASSETS** | | | |
| Receivables | 15 | **34,318** | 22,244 |
| Other financial assets | 16 | **168,540** | 299,070 |
| Investments accounted for using the equity method | 17 | **589,131** | 512,948 |
| Property, plant and equipment | 18 | **5,280,411** | 3,472,198 |
| Goodwill | 19 | **1,150,500** | 411,883 |
| Other intangible assets | 20 | **177,015** | 183,659 |
| Other | 21 | **18,632** | 9,541 |
| **Total non-current assets** | | **7,418,547** | 4,911,543 |
| **Total assets** | | **7,698,928** | 5,496,054 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 22 | **190,062** | 173,445 |
| Borrowings | 23 | **80,910** | - |
| Other financial liabilities | 24 | **126,385** | 59,307 |
| Provisions | 25 | **81,943** | 67,466 |
| Other | 26 | **12,921** | 761 |
| **Total current liabilities** | | **492,221** | 300,979 |
| **NON-CURRENT LIABILITIES** | | | |
| Trade and other payables | 22 | **3,749** | 1,068 |
| Borrowings | 27 | **4,233,242** | 2,905,946 |
| Other financial liabilities | 28 | **177,256** | 286,592 |
| Deferred tax liabilities | 9 | **213,238** | 319,282 |
| Provisions | 25 | **50,242** | 64,067 |
| Other | 26 | **16,669** | 4,078 |
| **Total non-current liabilities** | | **4,694,396** | 3,581,033 |
| **Total liabilities** | | **5,186,617** | 3,882,012 |
| **Net assets** | | **2,512,311** | 1,614,042 |

*The above consolidated statement of financial position should be read in conjunction with the accompanying notes.*

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION CONTINUED

As at 30 June 2013

| | Note | **2013 $000** | 2012 $000 |
|---|---|---|---|
| **EQUITY** | | | |
| Australian Pipeline Trust equity: | | | |
| Issued capital | 29 | **1,820,516** | 1,138,205 |
| Reserves | 30 | **(52,070)** | 56,153 |
| Retained earnings | 31 | **145,144** | 32,785 |
| Equity attributable to Securityholders of the parent | | **1,913,590** | 1,227,143 |
| Non-controlling interests: | | | |
| APT Investment Trust: | | | |
| Issued capital | 32 | **578,780** | 364,066 |
| Reserves | 32 | **467** | 1,624 |
| Retained earnings | 32 | **19,424** | 21,160 |
| Equity attributable to Securityholders of APT Investment Trust | | **598,671** | 386,850 |
| Other non-controlling interest | 32 | **50** | 49 |
| Total non-controlling interests | | **598,721** | 386,899 |
| **Total equity** | | **2,512,311** | 1,614,042 |

*The above consolidated statement of financial position should be read in conjunction with the accompanying notes.*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June 2013

| | AUSTRALIAN PIPELINE TRUST | | | | | | | APT INVESTMENT TRUST | | | | OTHER NON-CONTROLLING INTEREST | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | ISSUED CAPITAL $000 | ASSET REVALUATION RESERVE $000 | AVAILABLE-FOR-SALE INVESTMENT REVALUATION RESERVE $000 | HEDGING RESERVE $000 | OTHER RESERVES $000 | RETAINED EARNINGS $000 | ATTRIBUTABLE TO OWNER OF THE PARENT $000 | ISSUED CAPITAL $000 | AVAILABLE-FOR-SALE INVESTMENT REVALUATION RESERVE $000 | RETAINED EARNINGS $000 | APT INVESTMENT TRUST $000 | ISSUED CAPITAL $000 | OTHER $000 | RETAINED EARNINGS $000 | OTHER NON-CONTROLLING INTEREST $000 | TOTAL $000 |
| **Balance at 1 July 2011** | 1,192,779 | 8,669 | 18,227 | 28,003 | - | 19,054 | 1,266,732 | 382,001 | 534 | 18,295 | 400,830 | 4 | 1 | 278 | 283 | 1,667,845 |
| Profit for the year | - | - | - | - | - | 84,693 | 84,693 | - | - | 45,957 | 45,957 | - | - | 5 | 5 | 130,655 |
| Other comprehensive income | - | - | 64,469 | (63,215) | - | (22,874) | (21,620) | - | 1,090 | - | 1,090 | - | - | - | - | (20,530) |
| Total comprehensive income for the year | - | - | 64,469 | (63,215) | - | 61,819 | 63,073 | - | 1,090 | 45,957 | 47,047 | - | - | 5 | 5 | 110,125 |
| Payment of distributions | - | - | - | - | - | (48,088) | (48,088) | - | - | (43,092) | (43,092) | - | - | (239) | (239) | (91,419) |
| Issued under distribution reinvestment plan | 33,879 | - | - | - | - | - | 33,879 | 10,733 | - | - | 10,733 | - | - | - | - | 44,612 |
| Issue cost of securities | (53) | - | - | - | - | - | (53) | (18) | - | - | (18) | - | - | - | - | (71) |
| Tax relating to security issue costs | 16 | - | - | - | - | - | 16 | - | - | - | - | - | - | - | - | 16 |
| Capital return to Securityholders | (88,416) | - | - | - | - | - | (88,416) | (28,650) | - | - | (28,650) | - | - | - | - | (117,066) |
| **Balance at 30 June 2012** | 1,138,205 | 8,669 | 82,696 | (35,212) | - | 32,785 | 1,227,143 | 364,066 | 1,624 | 21,160 | 386,850 | 4 | 1 | 44 | 49 | 1,614,042 |
| **Balance at 1 July 2012** | **1,138,205** | **8,669** | **82,696** | **(35,212)** | **-** | **32,785** | **1,227,143** | **364,066** | **1,624** | **21,160** | **386,850** | **4** | **1** | **44** | **49** | **1,614,042** |
| Profit for the year | **-** | **-** | **-** | **-** | **-** | **260,624** | **260,624** | **-** | **-** | **38,143** | **38,143** | **-** | **-** | **(2,764)** | **(2,764)** | **296,003** |
| Other comprehensive income | **-** | **-** | **(80,960)** | **(27,263)** | **-** | **9,216** | **(99,007)** | **-** | **(1,157)** | **-** | **(1,157)** | **-** | **-** | **-** | **-** | **(100,164)** |
| Total comprehensive income for the year | **-** | **-** | **(80,960)** | **(27,263)** | **-** | **269,840** | **161,617** | **-** | **(1,157)** | **38,143** | **36,986** | **-** | **-** | **(2,764)** | **(2,764)** | **195,839** |
| Non-controlling interest on obtaining control of HDF | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **713,069** | **-** | | **713,069** | **713,069** |
| Acquisition of non-controlling interest | **-** | **-** | **-** | **-** | **(2,765)** | **-** | **(2,765)** | **-** | **-** | **-** | **-** | **(713,069)** | **-** | **2,765** | **(710,304)** | **(713,069)** |
| Transfer to retained earnings | **-** | **-** | **-** | **-** | **2,765** | **(2,765)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Payment of distributions | **-** | **-** | **-** | **-** | **-** | **(154,716)** | **(154,716)** | **-** | **-** | **(39,879)** | **(39,879)** | **-** | **-** | **-** | **-** | **(194,595)** |
| Issued under distribution reinvestment plan | **63,503** | **-** | **-** | **-** | **-** | **-** | **63,503** | **19,663** | **-** | **-** | **19,663** | **-** | **-** | **-** | **-** | **83,166** |
| Issued in business combination | **672,630** | **-** | **-** | **-** | **-** | **-** | **672,630** | **212,035** | **-** | **-** | **212,035** | **-** | **-** | **-** | **-** | **884,665** |
| Issue cost of securities | **(6,672)** | **-** | **-** | **-** | **-** | **-** | **(6,672)** | **(2,105)** | **-** | **-** | **(2,105)** | **-** | **-** | **-** | **-** | **(8,777)** |
| Tax relating to security issue costs | **32** | **-** | **-** | **-** | **-** | **-** | **32** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **32** |
| Capital return to Securityholders | **(47,182)** | **-** | **-** | **-** | **-** | **-** | **(47,182)** | **(14,879)** | **-** | **-** | **(14,879)** | **-** | **-** | **-** | **-** | **(62,061)** |
| **Balance at 30 June 2013** | **1,820,516** | **8,669** | **1,736** | **(62,475)** | **-** | **145,144** | **1,913,590** | **578,780** | **467** | **19,424** | **598,671** | **4** | **1** | **45** | **50** | **2,512,311** |

*The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.*

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 30 June 2013

| | Note | **2013 $000** | 2012 $000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | **1,347,848** | 1,104,107 |
| Payments to suppliers and employees | | **(703,790)** | (604,786) |
| Payments by HDF to Hastings Funds Management for management and performance fees | | **(31,590)** | - |
| Payments by HDF for takeover defense costs | | **(26,668)** | - |
| Dividends received | | **54,615** | 51,294 |
| Proceeds from repayment of finance leases | | **4,724** | 3,131 |
| Interest received | | **19,335** | 7,198 |
| Interest and other costs of finance paid | | **(289,952)** | (225,375) |
| Income tax paid | | **(141)** | - |
| **Net cash provided by operating activities** | 37(c) | **374,381** | 335,569 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payments for property, plant and equipment | | **(397,451)** | (249,112) |
| Proceeds from sale of property, plant and equipment | | **605** | 522 |
| Payments for available-for-sale investments | 37(b) | **-** | (11,665) |
| Payments for equity accounted investments | 37(b) | **(65,451)** | (28,548) |
| Payments for controlled entities net of cash acquired | 41 | **(265,321)** | (5,714) |
| Payments for intangible assets | | **(1,107)** | (443) |
| Proceeds from sale of businesses | 42 | **411,364** | 475,523 |
| **Net cash (used in)/provided by investing activities** | | **(317,361)** | 180,563 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from borrowings | | **2,822,243** | 1,999,697 |
| Repayments of borrowings | | **(2,872,000)** | (2,103,500) |
| Proceeds from issue of securities | | **83,166** | 44,612 |
| Payment of debt issue costs | | **(25,867)** | (13,819) |
| Payments of security issue costs | | **(8,717)** | (72) |
| Payments for early settlement of loans and derivatives | | **(34,919)** | - |
| Distributions paid to: | | | |
| Securityholders of APT | | **(201,898)** | (136,504) |
| Securityholders of non-controlling - APTIT | | **(54,758)** | (71,741) |
| Securityholders of other non-controlling interests | | **(13,249)** | (239) |
| **Net cash used in financing activities** | | **(305,999)** | (281,566) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(248,979)** | 234,566 |
| Cash and cash equivalents at beginning of financial year | | **329,934** | 95,368 |
| **Cash and cash equivalents at end of financial year** | 37(a) | **80,955** | 329,934 |

*The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 30 June 2013

## 1. GENERAL INFORMATION

Australian Pipeline Trust ("APT") is one of two stapled entities of APA Group ("APA"). The other stapled entity is APT Investment Trust ("APTIT"). APA is listed on the Australian Securities Exchange (trading under the code 'APA'), registered in Australia and operating in Australia.

The financial statements represent the consolidated financial results of the two stapled entities Australian Pipeline Trust and APT Investment Trust, together "APA".

APT's registered office and principal place of business is as follows:

**Registered office and principal place of business**
Level 19, HSBC Building
580 George Street, SYDNEY NSW 2000
Tel: (02) 9693 0000

The principal activities of the Consolidated Entity during the course of the year were the ownership and operation of energy infrastructure, including:

- Energy infrastructure businesses located across Australia;
- Energy investments, including Envestra Limited ("Envestra"), SEA Gas Pipeline, Ethane Pipeline Income Fund ("EPX"), Energy Infrastructure Investments Pty Limited ("EII"), EII 2 Pty Limited ("EII2"), GDI (EII) Pty Ltd ("GDI"), Diamantina Power Station ("DPS"); and
- Asset management and operations services for the majority of APA's energy investments and other third parties.

## 2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

**(a) Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)**

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in part b.

***Standards affecting presentation and disclosure***

| STANDARD | IMPACT |
|---|---|
| – Amendments to AASB 101 'Presentation of Financial Statements' | The amendments (part of AASB 2011-9 'Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income') introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to AASB 101, the statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and the income statement is renamed as a statement of profit or loss. The amendments to AASB 101 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be located on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income. |
| – Amendments to AASB 101 'Presentation of Financial Statements' | The amendments (part of AASB 2012-5 'Further Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle') requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position), when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The related notes to the third statement of financial position are not required to be disclosed. |

**(b) Standards and Interpretations affecting the reported results or financial position**

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

### 2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (CONTINUED)

**(c) Standards and Interpretations issued not yet adopted**

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

| STANDARD/INTERPRETATION | EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER | EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING |
|---|---|---|
| – AASB 9 'Financial Instruments', and the relevant amending standards | 1 January 2015 | 30 June 2016 |
| – AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards' | 1 January 2013 | 30 June 2014 |
| – AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards' | 1 January 2013 | 30 June 2014 |
| – AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards' | 1 January 2013 | 30 June 2014 |
| – AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards' | 1 January 2013 | 30 June 2014 |
| – AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards' | 1 January 2013 | 30 June 2014 |
| – AASB 13 Fair Value Measurement and AASB 2010-8 'Amendments to Australian Accounting Standards arising from AASB 13' | 1 January 2013 | 30 June 2014 |
| – AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)' | 1 January 2013 | 30 June 2014 |
| – AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements' | 1 July 2013 | 30 June 2014 |
| – AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities' | 1 January 2013 | 30 June 2014 |
| – AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities' | 1 January 2014 | 30 June 2015 |
| – AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle' | 1 January 2013 | 30 June 2014 |
| – AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments' | 1 January 2013 | 30 June 2014 |
| – AASB 2013-3 'Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets' | 1 January 2014 | 30 June 2015 |

APA has yet to determine any change in accounting for existing arrangements under AASB 10, 11 and 12. In addition, should any arrangements take place which change existing interests and create new interests in controlled entities, the accounting for such transactions, may be different to that applied to transactions in the past.

Implementation of AASB 119 is expected to result in changes to the accounting treatment for APA's defined benefit superannuation plans. Under the revised standard, return on plan assets will be calculated based on the rate used to discount the obligations rather than the expected rate of return of these assets, which will have an impact on profit or loss. APA has obtained actuarial assessments which estimate the impact of the revised standard will be a $5.2 million decrease in profit before tax for the financial year.

The potential impact of the initial application of the remaining above Standards has not yet been determined.

## 3. SIGNIFICANT ACCOUNTING POLICIES

**Statement of compliance**

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial report represents the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial report, the Group is a for-profit entity.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ("A-IFRS"). Compliance with A-IFRS ensures that the financial report and notes of the Consolidated Entity comply with International Financial Reporting Standards ("IFRS").

The financial report was authorised for issue by the Directors on 21 August 2013.

**Basis of preparation**

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated under the option available to APA under ASIC Class Order 98/0100. APA is an entity to which the class order applies.

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

**(a) Working Capital Position**

The working capital position as at 30 June 2013 for the Consolidated Entity is a surplus of current liabilities over current assets of $211.8 million primarily as a result of $80.9 million (AUD equivalent) of USD denominated private placement notes due to mature on 9 September 2013 and $126.4 million of cash flow hedge liabilities. APA's refinancing strategies have ensured the Group has access to available committed, un-drawn bank facilities and a broad cross section of global debt capital markets out of which to achieve refinancing of its financing facilities.

The Directors continually monitor the Consolidated Entity's working capital position, including forecast working capital requirements and have ensured that there are appropriate refinancing strategies and adequate committed funding facilities in place to accommodate debt repayments as and when they fall due.

**(b) Basis of consolidation**

The financial report represents the consolidated financial statements of the Trust and entities (including special purpose entities) controlled by the Trust (its controlled entities) (referred to as the "Consolidated Entity", "Group" or "APA Group" in this financial report). Control is achieved where the Trust has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of controlled entities acquired during the financial year are included in the statement of comprehensive income from the effective date of acquisition.

Where necessary, adjustments are made to the financial reports of controlled entities to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Where the transaction value of common control transactions differs from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transaction entities.

Non-controlling interests in the net assets (excluding goodwill) of consolidated controlled entities are identified separately from the Consolidated Entity's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest's share in the controlled entity's equity are allocated against the interests of the Consolidated Entity except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

**(c) Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Consolidated Entity in exchange for control of the acquiree. Acquisition costs directly attributable to the business combination are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Consolidated Entity's previously held interests in the acquired entity are remeasured to fair value at the acquisition date and the resulting gains or losses, if any, are recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits' respectively;
- liabilities or equity instruments related to the replacement by the consolidated entity of an acquiree's share-based payment awards are measured in accordance with AASB 2 'Share-based Payment'; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that standard.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Business combinations (continued)**

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Consolidated Entity reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted for during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date, that, if known, would have affected the amounts recognised as at that date.

The measurement period is the period from the date of acquisition to the date the Consolidated Entity obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

**(d) Joint venture arrangements**

***Jointly controlled operations***

Interests in jointly controlled operations are reported in the financial report 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.

***Jointly controlled entities***

Interests in jointly controlled entities are accounted for under the equity method in the consolidated financial report and the cost method in APT's financial report.

**(e) Investments in associates**

An associate is an entity over which the Consolidated Entity has significant influence and that is neither a subsidiary nor a joint venture. The results and assets and liabilities of associates are accounted for using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Consolidated Entity's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Consolidated Entity's interest are recognised only to the extent that there is a legal or constructive obligation or the Consolidated Entity has made payments on behalf of the associate.

Any excess of the cost of acquisition over the Consolidated Entity's share of the net fair value of identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. This is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Consolidated Entity's share of the net fair value of assets and liabilities over the cost of acquisition after reassessment is recognised immediately in profit or loss.

**(f) Financial assets and liabilities**

***Available-for-sale financial assets***

Certain shares and redeemable notes held by the Group are classified as being available-for-sale and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale investment revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the available-for-sale investment revaluation reserve is included in profit or loss for the period. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

***Loans and receivables***

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Trade and other receivables are stated at their amortised cost less impairment.

***Trade and other payables***

Trade and other payables are recognised when the Consolidated Entity becomes obliged to make future payments resulting from the purchase of goods and services. Trade and other payables are stated at amortised cost.

***Impairment of financial assets***

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investments have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed, does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised in other comprehensive income.

**(g) Cash and cash equivalents**

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to insignificant risk of changes in values.

**(h) Acquisition of assets**

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition. Cost includes expenditure that is directly attributable to the acquisition or construction of the asset.

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.

**(i) Borrowings**

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the statement of profit or loss and other comprehensive income over the period of the borrowing using the effective interest method.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(j) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**(k) Property, plant and equipment**

Land and buildings held for use are carried in the consolidated statement of financial position at cost, less any subsequent accumulated depreciation and impairment losses.

Leasehold improvements and plant and equipment are stated at cost less accumulated depreciation and impairment. Work in progress is stated at cost. Cost includes expenditure that is directly attributable to the acquisition or construction of the item.

**(l) 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 estimated useful lives and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes recognised on a prospective basis. The following estimated useful lives are used in the calculation of depreciation:

| | |
|---|---|
| – buildings | 30 - 50 years; |
| – compressors | 10 - 50 years; |
| – gas transportation systems | 10 - 80 years; |
| – meters | 20 - 30 years; and |
| – other plant and equipment | 3 - 20 years. |

**(m) Employee benefits**

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

***Defined contribution plans***

Contributions to defined contribution plans are expensed when incurred.

***Defined benefit plans***

For defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses are recognised directly to retained earnings in the period in which they occur.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise amortised on a straight-line basis over the average period until the benefits become vested.

The defined benefit obligation recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation, adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, net of the fair value of the plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

**(n) Intangible assets**

***Intangible assets acquired separately***

Intangible assets acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effects of any changes in estimate being accounted for on a prospective basis.

***Intangible assets acquired in a business combination***

Intangible assets acquired in a business combination are identified and recognised separately from goodwill and are initially recognised at their fair value at the acquisition date. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

**(o) Derivative financial instruments**

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in Note 38.

Derivatives are initially recognised at fair value at the date a derivatives contract is entered into and subsequently remeasured to their fair value at each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Consolidated Entity designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges) or, hedges of highly probable forecast transactions or of foreign currency risk of firm commitments (cash flow hedges).

The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than 12 months and as a current asset or a current liability if the remaining maturity of the hedge relationship is less than 12 months. Derivatives not designated into an effective hedge relationship are classified as a current asset or a current liability.

***Embedded derivatives***

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(o) Derivative financial instruments (continued)**

***Hedge accounting***

The Consolidated Entity designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges.

Hedges of foreign exchange and interest rate risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Consolidated Entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Consolidated Entity documents whether the hedging instrument that is used in the hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 38 contains details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in Note 30.

***Fair value hedges***

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk. Hedge accounting is discontinued when the Consolidated Entity revokes the hedging relationship or the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

***Cash flow hedges***

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other expenses or other income.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss in the same line of the statement of comprehensive income as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Consolidated Entity revokes the hedging relationship or the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

**(p) Financial instruments issued by the Consolidated Entity**

***Debt and equity instruments***

Debt and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Consolidated Entity are recorded at the proceeds received, net of direct issue costs.

***Financial guarantee contract liabilities***

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies.

***Transaction costs arising 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.

***Interest and distributions***

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

**(q) Foreign currency transactions**

Both the functional and presentation currency of the Consolidated Entity and the Trust is Australian dollars (A$). 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 profit or loss in the period in which they arise.

**(r) 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 dates 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 within operating cash flows.

**(s) Goodwill**

Goodwill arising in a business combination is recognised as an asset at the acquisition date. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Consolidated Entity's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest, the excess is recognised immediately in the profit or loss as a bargain purchase gain.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(t) Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

**(u) Distributions**

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

**(v) Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to each particular class of inventory, with the majority being valued on a first-in, first-out basis. Net realisable value represents the estimated selling price for the inventories less all estimated costs of completion and costs necessary to make the sale.

**(w) Security-based payments**

The Group provides benefits to certain employees in the form of cash settled security-based payments. For cash settled security-based payments, a liability equal to the portion of services received is recognised at the current fair value determined at each reporting date.

**(x) Income tax**

Income tax on the profit or loss for the financial year comprises current and deferred tax. Income tax is recognised in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the financial year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in wholly-owned entities to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the tax rates enacted or substantively enacted by the end of the reporting period.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

*Tax consolidation*

The Trust and its wholly-owned Australian tax resident entities are part of a tax-consolidated group under Australian taxation law. The head entity within the tax-consolidated group is Australian Pipeline Trust.

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial reports of the members of the tax-consolidated group using the 'separate taxpayer within group' approach, by reference to the carrying amounts in the separate financial reports of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the wholly-owned entities are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts.

The head entity recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the assets can be utilised.

**(y) Leased assets**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to the ownership of the leased asset to the lessee. All other leases are classified as operating leases.

***Group as lessor***

Amounts due from a lessee under finance leases are recorded as receivables. Finance lease receivables are initially recognised at amounts equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases.

***Group as lessee***

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are allocated between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time patterns in which economic benefits from the leased asset are consumed.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (z) 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.

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.

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.

### (aa) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Consolidated Entity and the revenue can be reliably measured. Amounts disclosed as revenue are net of duties and taxes paid. Revenue is recognised for the major business activities as follows:

***Sales revenue***

Sales revenue represents revenue earned for the transportation of gas, generation of electricity and other related services and is recognised when the services are provided.

***Pass-through revenue***

Pass-through revenue is revenue on which no margin is earned and is offset by corresponding pass-through costs.

***Interest revenue***

Interest revenue is recognised as it accrues using the effective interest method.

***Sale of non-current assets***

The net gain or loss on sale of a non-current asset is included as income at the date control of an asset passes to the buyer. This is usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

***Dividend revenue***

Dividend revenue is recognised when the right to receive a dividend has been established.

***Finance lease income***

Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Consolidated Entity's accounting policies, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Impairment of assets

Determining whether property, plant and equipment, identifiable intangible assets and goodwill are impaired requires an estimation of the value-in-use or fair value of the cash-generating units. The calculations require the Consolidated Entity to estimate the future cash flows expected to arise from cash-generating units and suitable discount rates in order to calculate the present value of cash-generating units.

Estimates and assumptions used are reviewed on an ongoing basis.

Determining whether available-for-sale investments are impaired requires an assessment as to whether declines in value are significant or prolonged. Management has taken into account a number of qualitative and quantitative factors in making this assessment. Any assessment of whether a decline in value represents an impairment would result in the transfer of the decrement from reserves to the statement of profit or loss and other comprehensive income.

### Useful lives of non-current assets

The Consolidated Entity reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. Any reassessment of useful lives in a particular year will affect the depreciation or amortisation expense.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

### 5. SEGMENT INFORMATION

The Consolidated Entity operates in one geographical segment, being Australia.

**(a) Description of reportable segments**

The Consolidated Entity comprises the following reportable segments:

- energy infrastructure;
- asset management; and
- energy investments.

**(b) Reportable segments**

| | ENERGY INFRASTRUCTURE (a) $000 | ASSET MANAGEMENT $000 | ENERGY INVESTMENTS (f) $000 | CONSOLIDATED $000 |
|---|---|---|---|---|
| **2013** | | | | |
| **SEGMENT REVENUE (b)** | | | | |
| External sales revenue | 770,532 | 82,293 | - | 852,825 |
| Equity accounted net profits | - | - | 44,868 | 44,868 |
| Pass-through revenue | 8,449 | 344,294 | - | 352,743 |
| Finance lease and investment interest income | 3,822 | - | 3,069 | 6,891 |
| Distribution - other entities | - | - | 3,243 | 3,243 |
| **Total segment revenue** | 782,803 | 426,587 | 51,180 | 1,260,570 |
| Other interest income | | | | 11,697 |
| **Consolidated revenue** | | | | 1,272,267 |
| **SEGMENT RESULT** | | | | |
| Earnings before interest, tax, depreciation and amortisation ("EBITDA") | 526,022 | 45,447 | 145,573 | 717,042 |
| Share of net profits of associates and jointly controlled entities accounted for using the equity method | - | - | 44,868 | 44,868 |
| Finance lease and investment interest income | 3,822 | - | 3,069 | 6,891 |
| Total EBITDA | 529,844 | 45,447 | 193,510 | 768,801 |
| Depreciation and amortisation | (125,671) | (4,790) | - | (130,461) |
| Earnings before interest and tax ("EBIT") | 404,173 | 40,657 | 193,510 | 638,340 |
| Net finance costs (c) | | | | (290,916) |
| **Profit before tax** | | | | 347,424 |
| Income tax expense | | | | (51,421) |
| **Profit for the year** | | | | 296,003 |
| **SEGMENT ASSETS AND LIABILITIES** | | | | |
| Segment assets | 6,608,054 | 235,631 | 35,490 | 6,879,175 |
| Carrying value of investments accounted for using the equity method | | | 589,131 | 589,131 |
| Unallocated assets (d) | | | | 230,622 |
| **Total assets** | | | | 7,698,928 |
| Segment liabilities | 284,700 | 70,885 | - | 355,585 |
| Unallocated liabilities (e) | | | | 4,831,032 |
| **Total liabilities** | | | | 5,186,617 |

(a) Revenue of $32.9 million, expenses of $12.3 million, profit before income tax of $18.2 million, profit after income tax of $13.4 million are attributable to the Moomba Adelaide Pipeline System which was acquired in October 2012 divested in May 2013. Included within asset operation and management expenses are significant items of $18.6 million resulting from the write back of transaction costs relating to the prior year divestment of the APA Gas Networks business and $12.4 million of transaction costs on acquisition of HDF.

(b) The revenue reported above represents revenue generated from external customers, any intersegment sales were immaterial.

(c) Excluding finance lease and investment interest income, and any gains or losses on revaluation of derivatives included as part of EBIT for segment reporting purposes, but including other interest income.

(d) Unallocated assets consist of cash and cash equivalents, fair value of interest rate swaps, foreign exchange contracts and equity forwards.

(e) Unallocated liabilities consist of current and non-current borrowings, deferred tax liabilities, fair value of interest rate swaps and foreign exchange contracts.

(f) Included in EBITDA for energy investments is a significant item of $142.3 million gain on the previously held interest in HDF on obtaining control.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

**5. SEGMENT INFORMATION (CONTINUED)**

**(b) Reportable segments (continued)**

| | ENERGY INFRASTRUCTURE [(a)] $000 | ASSET MANAGEMENT $000 | ENERGY INVESTMENTS $000 | CONSOLIDATED $000 |
|---|---|---|---|---|
| **2012** | | | | |
| **SEGMENT REVENUE [(b)]** | | | | |
| External sales revenue | 637,851 | 69,296 | - | 707,147 |
| Equity accounted net profits | - | - | 28,263 | 28,263 |
| Pass-through revenue | 6,626 | 296,007 | - | 302,633 |
| Finance lease and investment interest income | 2,817 | - | 2,331 | 5,148 |
| Distribution - other entities | - | - | 11,153 | 11,153 |
| **Total segment revenue** | 647,294 | 365,303 | 41,747 | 1,054,344 |
| Other interest income | | | | 6,317 |
| **Consolidated revenue** | | | | 1,060,661 |
| **SEGMENT RESULT** | | | | |
| Earnings before interest, tax, depreciation and amortisation (“EBITDA”) | 449,347 | 31,910 | 11,157 | 492,414 |
| Share of net profits of associates and jointly controlled entities accounted for using the equity method | - | - | 28,263 | 28,263 |
| Finance lease and investment interest income | 2,817 | - | 2,331 | 5,148 |
| Total EBITDA | 452,164 | 31,910 | 41,751 | 525,825 |
| Depreciation and amortisation | (105,620) | (4,789) | - | (110,409) |
| Earnings before interest and tax (“EBIT”) | 346,544 | 27,121 | 41,751 | 415,416 |
| Net finance costs [(c)] | | | | (234,326) |
| **Profit before tax** | | | | 181,090 |
| Income tax expense | | | | (50,435) |
| **Profit for the year** | | | | 130,655 |
| **SEGMENT ASSETS AND LIABILITIES** | | | | |
| Segment assets | 4,016,910 | 244,106 | 391,737 | 4,652,753 |
| Carrying value of investments accounted for using the equity method | | | 512,948 | 512,948 |
| Unallocated assets [(d)] | | | | 330,353 |
| **Total assets** | | | | 5,496,054 |
| Segment liabilities | 229,613 | 81,272 | - | 310,885 |
| Unallocated liabilities [(e)] | | | | 3,571,127 |
| **Total liabilities** | | | | 3,882,012 |

(a) Revenue of $30.7 million, expenses of $10.5 million, profit before income tax of $14.2 million, profit after income tax of $10.0 million are attributable to the Allgas business which was divested into the APA minority owned unlisted investment vehicle GDI (EII) Pty Ltd in December 2011. Within Asset operation and management expenses a significant item of $9.7 million results from transaction costs incurred on the divestment of the APA Gas Networks business of $21.7 million offsetting a gain on sale of $12.0 million.

(b) The revenue reported above represents revenue generated from external customers, any intersegment sales were immaterial.

(c) Excluding finance lease and investment interest income, and any gains or losses on revaluation of derivatives included as part of EBIT for segment reporting purposes, but including other interest income.

(d) Unallocated assets consist of cash and cash equivalents, current tax assets, fair value of interest rate swaps and foreign exchange contracts.

(e) Unallocated liabilities consist of current and non-current borrowings, deferred tax liabilities, fair value of interest rate swaps and foreign exchange contracts.

**(c) Other segment information**

***Revenue from major products and services***

The revenue from major products and services is shown by the reportable segments. No further analysis is required.

***Information about major customers***

Included in revenues arising from energy infrastructure of $770.5 million (2012: $637.9 million) are revenues of approximately $373.8 million (2012: $266.6 million) which arose from sales to the Consolidated Entity’s top three customers.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

## 6. REVENUE

An analysis of the Consolidated Entity's revenue for the year is as follows:

**Continuing operations**

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **OPERATING REVENUE** | | |
| Energy infrastructure revenue: | | |
| – energy infrastructure revenue | **769,895** | 637,316 |
| – pass-through revenue | **8,449** | 6,626 |
| | **778,344** | 643,942 |
| Asset management revenue: | | |
| – asset management revenue | **82,293** | 69,296 |
| – pass-through revenue | **344,294** | 296,007 |
| | **426,587** | 365,303 |
| | **1,204,931** | 1,009,245 |
| **FINANCE INCOME** | | |
| Interest | **11,697** | 6,317 |
| Redeemable ordinary shares (EII) and redeemable preference shares (GDI) interest income | **3,069** | 2,331 |
| Finance lease income | **3,822** | 2,817 |
| | **18,588** | 11,465 |
| **OTHER INCOME** | | |
| Dividends | **3,243** | 11,153 |
| Rental income | **637** | 535 |
| | **1,227,399** | 1,032,398 |
| Share of net profits of associates and jointly controlled entities accounted for using the equity method | **44,868** | 28,263 |
| | **1,272,267** | 1,060,661 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

## 7. EXPENSES

Profit before tax includes the following expenses:

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **DEPRECIATION AND AMORTISATION EXPENSE** | | |
| Depreciation of non-current assets | **124,787** | 104,459 |
| Amortisation of non-current assets | **5,674** | 5,950 |
| | **130,461** | 110,409 |
| **OTHER OPERATING COSTS - PASS-THROUGH** | | |
| Gas pipeline costs | **8,449** | 6,626 |
| Management, operating and maintenance costs | **344,294** | 296,007 |
| | **352,743** | 302,633 |
| **FINANCE COSTS** | | |
| Interest on bank overdrafts and borrowings | **316,438** | 225,517 |
| Amortisation of deferred borrowing costs | **9,257** | 16,013 |
| Other finance costs | **9,378** | 9,061 |
| | **335,073** | 250,591 |
| Less: amounts included in the cost of qualifying assets | **(25,020)** | (11,136) |
| | **310,053** | 239,455 |
| (Gain)/loss on derivatives | **(8,179)** | 507 |
| Unwinding of discount on non-current liabilities | **739** | 681 |
| | **302,613** | 240,643 |

The average interest rate on funds borrowed is 7.77% p.a. (2012: 8.14% p.a.) including amortisation of borrowing costs and other finance costs.

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **EMPLOYEE BENEFIT EXPENSE** | | |
| Post-employment benefits: | | |
| Defined contribution plans | **9,176** | 6,863 |
| Defined benefit plans | **(45)** | 1,145 |
| | **9,131** | 8,008 |
| Termination benefits | **4,941** | 1,384 |
| Cash settled share-based payments | **26,568** | 17,843 |
| Other employee benefits | **128,683** | 105,678 |
| | **169,323** | 132,913 |
| **OTHER EXPENSES** | | |
| Doubtful debts | **805** | - |
| Impairment of intangibles | **2,075** | 473 |
| Impairment of goodwill [a] | **1,867** | - |
| Loss on disposal of property, plant and equipment | **480** | 278 |
| Other | **9,906** | 16,700 |
| | **15,133** | 17,451 |

(a) Impairment relates to a reassessment of renewal opportunities beyond current contracted terms for minor contracts in the asset management business.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

## 8. SIGNIFICANT ITEMS

Individually significant income/(expenses) included in profit after related income tax expense are as follows:

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **SIGNIFICANT INCOME/(EXPENSE) ITEMS** | | |
| Profit on sale of Allgas Distribution Network before transaction costs | - | 12,032 |
| Write back/(transaction costs) on sale of Allgas Distribution Network | 18,588 | (21,695) |
| Gain on previously held interest in HDF on obtaining control | 142,333 | - |
| Transaction costs on acquisition of HDF | (12,404) | - |
| Integration costs on acquisition of HDF | (4,481) | - |
| **Significant items incurred by APA Group** | **144,036** | (9,663) |
| Management and performance fees charged to HDF by Hastings Funds Management | (35,438) | - |
| Takeover response costs incurred by HDF | (6,913) | - |
| **Significant items incurred by HDF** | **(42,351)** | - |
| **Total significant items impacting EBITDA** | **101,685** | (9,663) |
| Significant items impacting finance costs: | | |
| Gain on settlement of HDF interest rate swaps | 8,713 | - |
| **Profit/(loss) from significant items before income tax** | **110,398** | (9,663) |
| Income tax related to significant items above | 2,818 | |
| Write back of deferred tax on obtaining control of HDF | 6,814 | - |
| **Profit/(loss) from significant items after income tax** | **120,030** | (9,663) |

## 9. INCOME TAX

**Income tax recognised in profit or loss**

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **TAX EXPENSE/(INCOME) COMPRISES:** | | |
| Current tax expense/(income) in respect of the current year | 7,313 | (1,418) |
| Adjustments recognised in the current year in relation to current tax of prior years | (7,518) | 482 |
| | (205) | (936) |
| Deferred tax expense relating to the origination and reversal of temporary differences | 51,626 | 51,371 |
| **Total tax expense** | **51,421** | 50,435 |
| **ATTRIBUTABLE TO:** | | |
| Profit from continuing operations | 51,421 | 50,435 |

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Profit before tax | 347,424 | 181,090 |
| Income tax expense calculated at 30% | 104,227 | 54,327 |
| Non-assessable trust distribution | (11,443) | (13,787) |
| Non deductible expenses | 15,629 | 7,185 |
| Non assessable income | (58,939) | (6,400) |
| Unfranked dividends from associates | 9,465 | 8,626 |
| Other | - | 2 |
| | 58,939 | 49,953 |
| Adjustment recognised in the current year in relation to the current tax of prior years | (7,518) | 482 |
| | 51,421 | 50,435 |

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under the Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

## 9. INCOME TAX (CONTINUED)

**Income tax recognised directly in equity**

The following deferred amounts were charged/(credited) directly to equity during the period:

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **DEFERRED INCOME TAX** | | |
| Revaluation of financial instruments treated as cash flow hedges | **(11,685)** | (27,091) |
| Actuarial movements on defined benefit plans | **3,950** | (9,803) |
| Revaluation of available-for-sale financial assets | **(34,697)** | 27,631 |
| Security issue costs | **(32)** | (16) |
| Income tax (benefit)/expense reported in equity | **(42,464)** | (9,279) |
| **DEFERRED TAX BALANCES** | | |
| **Deferred tax liabilities** | | |
| Temporary differences | **(553,626)** | (512,520) |
| | **(553,626)** | (512,520) |
| **Deferred tax assets** | | |
| Temporary differences | **71,701** | 43,004 |
| Tax losses | **268,687** | 150,234 |
| | **340,388** | 193,238 |
| | **(213,238)** | (319,282) |

**Deferred tax balances**

Deferred tax (liabilities)/assets arise from the following:

| | OPENING BALANCE $000 | CHARGED TO INCOME $000 | CHARGED TO EQUITY $000 | ACQUISITIONS/ DISPOSALS $000 | CLOSING BALANCE $000 |
|---|---|---|---|---|---|
| **2013** | | | | | |
| **GROSS DEFERRED TAX LIABILITIES** | | | | | |
| Intangible assets | **(4,598)** | **623** | **-** | **-** | **(3,975)** |
| Property, plant and equipment | **(418,239)** | **(46,493)** | **-** | **(33,193)** | **(497,925)** |
| Deferred expenses | **(59,132)** | **(7,741)** | **-** | **19,338** | **(47,535)** |
| Investments equity accounted | **(440)** | **290** | **(3,295)** | **-** | **(3,445)** |
| Available for sale investments | **(35,443)** | **-** | **34,697** | **-** | **(746)** |
| | **(517,852)** | **(53,321)** | **31,402** | **(13,855)** | **(553,626)** |
| **GROSS DEFERRED TAX ASSETS** | | | | | |
| Provisions | **30,084** | **5,244** | **-** | **1,033** | **36,361** |
| Cash flow hedges | **12,410** | **(12,926)** | **14,980** | **13,063** | **27,527** |
| Defined benefit obligation | **12,389** | **(1,520)** | **(3,950)** | **-** | **6,919** |
| Security issue costs | **531** | **(195)** | **32** | **-** | **368** |
| Deferred revenue | **(511)** | **978** | **-** | **-** | **467** |
| Other | **(6,567)** | **6,580** | **-** | **46** | **59** |
| Tax losses | **150,234** | **3,534** | **-** | **114,919** | **268,687** |
| | **198,570** | **1,695** | **11,062** | **129,061** | **340,388** |
| | **(319,282)** | **(51,626)** | **42,464** | **115,206** | **(213,238)** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

**9. INCOME TAX (CONTINUED)**

**Deferred tax balances (continued)**

| | **2013 $000** | 2012 $000 |
|---|---|---|
| **Presented in the statement of financial position as follows:** | | |
| Deferred tax liabilities attributable to: | | |
| Continuing operations | **(213,238)** | (319,282) |
| | **(213,238)** | (319,282) |
| Deferred tax assets attributable to: | | |
| Continuing operations | **-** | - |
| | **-** | - |
| | **(213,238)** | (319,282) |

Deferred tax (liabilities)/assets arise from the following:

| | OPENING BALANCE $000 | CHARGED TO INCOME $000 | CHARGED TO EQUITY $000 | ACQUISITIONS/ DISPOSALS $000 | CLOSING BALANCE $000 |
|---|---|---|---|---|---|
| **2012** | | | | | |
| **GROSS DEFERRED TAX LIABILITIES** | | | | | |
| Intangible assets | (4,740) | 142 | - | - | (4,598) |
| Property, plant and equipment | (442,189) | (34,840) | - | 58,790 | (418,239) |
| Deferred revenue | (892) | 381 | - | - | (511) |
| Deferred expenses | (41,243) | (18,079) | - | 190 | (59,132) |
| Cash flow hedges | (7,875) | (449) | 20,734 | - | 12,410 |
| Investments equity accounted | (6,533) | (264) | 6,357 | - | (440) |
| Available for sale investments | (7,812) | - | (27,631) | - | (35,443) |
| Other | (4,298) | (2,269) | - | - | (6,567) |
| | (515,582) | (55,378) | (540) | 58,980 | (512,520) |
| **GROSS DEFERRED TAX ASSETS** | | | | | |
| Provisions | 26,928 | 3,156 | - | - | 30,084 |
| Defined benefit obligation | 3,770 | (1,185) | 9,804 | - | 12,389 |
| Security issue costs | 659 | (144) | 16 | - | 531 |
| Tax losses | 148,054 | 2,180 | - | - | 150,234 |
| | 179,411 | 4,007 | 9,820 | - | 193,238 |
| | (336,171) | (51,371) | 9,280 | 58,980 | (319,282) |

**Unrecognised deferred tax assets**

| | **2013 $000** | 2012 $000 |
|---|---|---|
| The following deferred tax assets have not been brought to account as assets: | | |
| Tax losses - capital | **30,044** | 16,875 |

### 9. INCOME TAX (CONTINUED)

**Tax consolidation**

***Relevance of tax consolidation to the Group***

The Trust and its wholly-owned Australian resident entities formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Australian Pipeline Trust. The members of the tax-consolidated group are identified at Note 40.

***Nature of tax funding arrangement and tax sharing agreement***

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, Australian Pipeline Trust 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 current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's liability for the tax payable by the tax-consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

### 10. DISTRIBUTIONS

| | APT AND APTIT | | | |
|---|---|---|---|---|
| | **2013 CENTS PER SECURITY** | **2013 TOTAL $000** | 2012 CENTS PER SECURITY | 2012 TOTAL $000 |
| **RECOGNISED AMOUNTS** | | | | |
| **Final distribution paid on 14 September 2012** | | | | |
| (2011: 15 September 2011) | | | | |
| Profit distribution - APT [(a)] | **5.09** | **32,786** | 3.42 | 19,054 |
| Profit distribution - APTIT [(a)] (Note 32) | **3.28** | **21,160** | 3.41 | 18,295 |
| Capital distribution - APT (Note 29) | **7.32** | **47,182** | 8.41 | 46,761 |
| Capital distribution - APTIT (Note 32) | **2.31** | **14,879** | 2.66 | 15,449 |
| **Interim distribution paid on 13 March 2013** | | | | |
| (2011: 15 March 2012) | | | | |
| Profit distribution - APT [(a)] | **14.74** | **121,930** | 4.54 | 29,034 |
| Profit distribution - APTIT [(a)] (Note 32) | **2.26** | **18,719** | 3.88 | 24,797 |
| Capital distribution - APT (Note 29) | **-** | **-** | 6.52 | 41,655 |
| Capital distribution - APTIT (Note 32) | **-** | **-** | 2.06 | 13,201 |
| | **35.00** | **256,656** | 34.90 | 208,246 |
| **UNRECOGNISED AMOUNTS** | | | | |
| **Final distribution payable on 11 September 2013** | | | | |
| (2012: 14 September 2012) | | | | |
| Profit distribution - APT [(a)] | **16.02** | **133,877** | 5.09 | 32,786 |
| Profit distribution - APTIT [(a)] | **2.32** | **19,424** | 3.28 | 21,160 |
| Capital distribution - APT | **-** | **-** | 7.32 | 47,182 |
| Capital distribution - APTIT | **0.16** | **1,313** | 2.31 | 14,879 |
| | **18.50** | **154,614** | 18.00 | 116,007 |

(a) Profit distributions were unfranked (2012: unfranked).

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 confirmed prior to the end of the financial year.

| | **2013 $000** | 2012 $000 |
|---|---|---|
| Adjusted franking account balance (tax paid basis) | **3,609** | 3,522 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

## 11. TRADE AND OTHER RECEIVABLES

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Trade receivables | **104,483** | 90,747 |
| Allowance for doubtful debts | **(805)** | - |
| | **103,678** | 90,747 |
| Receivables from associates and related parties | **55,931** | 143,922 |
| Finance lease receivables (Note 33) | **4,744** | 3,590 |
| Interest receivable | **146** | 239 |
| Other debtors | **70** | 21 |
| | **164,569** | 238,519 |

Trade receivables are non-interest bearing and are generally on 30 day terms.

| **Ageing of past due but not impaired** | | |
|---|---|---|
| 30 - 60 days | **5,806** | 4,367 |
| 60 - 90 days | **1,167** | 139 |
| 90 - 120 days | **3,037** | 2,266 |
| Total | **10,010** | 6,772 |

| **Movement in the allowance for doubtful debts** | | |
|---|---|---|
| Balance at beginning of year | **-** | - |
| Charged to profit or loss | **805** | - |
| Balance at end of year | **805** | - |

In determining the recoverability of a trade receivable, the Consolidated Entity considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

| **Ageing of impaired receivables** | | |
|---|---|---|
| Not past due | **32** | - |
| 30 - 60 days | **219** | - |
| 60 - 90 days | **232** | - |
| 90 - 120 days | **322** | - |
| Total | **805** | - |

## 12. OTHER CURRENT FINANCIAL ASSETS

| | | |
|---|---|---|
| Derivatives at fair value: | | |
| Equity forward contracts | **1,927** | 9 |
| Foreign exchange contracts - cash flow hedges | **1,788** | 126 |
| Cross currency interest rate swaps - cash flow hedges | **12,469** | - |
| Financial assets carried at amortised cost: | | |
| Redeemable preference share interest | **285** | 285 |
| | **16,469** | 420 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

## 13. INVENTORIES

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Spare parts - at cost | **11,860** | 10,759 |
| Gas stock | **866** | 745 |
| | **12,726** | 11,504 |

## 14. OTHER CURRENT ASSETS

| | | |
|---|---|---|
| Prepayments | **5,662** | 4,134 |

## 15. NON-CURRENT RECEIVABLES

| | | |
|---|---|---|
| Finance lease receivables (Note 33) | **34,318** | 22,244 |
| | **34,318** | 22,244 |

## 16. OTHER NON-CURRENT FINANCIAL ASSETS

| | | |
|---|---|---|
| Available-for-sale investments carried at fair value: | | |
| Ethane Pipeline Income Fund | **7,394** | 9,564 |
| Hastings Diversified Utilities Fund | **-** | 263,441 |
| Financial assets carried at amortised cost: | | |
| Redeemable ordinary shares | **17,264** | 15,339 |
| Redeemable preference shares | **10,400** | 10,400 |
| Derivatives - at fair value: | | |
| Equity forward contracts | **1,894** | 326 |
| Cross currency interest rate swaps - cash flow hedges | **131,588** | - |
| | **168,540** | 299,070 |

Available-for-sale investments consist of investments in ordinary securities, and therefore have no fixed maturity date or coupon rate. The fair value of listed available-for-sale investments has been determined directly by reference to published price quotations in an active market.

Redeemable ordinary shares relate to APA Group's 19.9% investment in Energy Infrastructure Investments Pty Ltd where APL, as responsible entity for APTIT, acquired the redeemable ordinary shares, which include a debt component. This debt component amortises over ten years from December 2008 at 12% per annum.

Redeemable preference shares relate to APA Group's 20% interest in GDI (EII) Pty Ltd. In December 2011, APA sold 80% of its gas distribution network in South East Queensland (Allgas) into an unlisted investment vehicle, GDI (EII) Pty Ltd. At that date GDI issued 52 million Redeemable Preference Shares (RPS) to its owners. The shares attract periodic interest payments and have a redemption date 10 years from issue.

### 17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| NAME OF ENTITY | PRINCIPAL ACTIVITY | COUNTRY OF INCORPORATION | OWNERSHIP INTEREST % 2013 | OWNERSHIP INTEREST % 2012 |
|---|---|---|---|---|
| Jointly Controlled entities: | | | | |
| SEA Gas | Gas transmission | Australia | **50.00** | 50.00 |
| GDI (EII) | Gas distribution | Australia | **20.00** | 20.00 |
| Diamantina Power Station | Power generation (gas) | Australia | **50.00** | 50.00 |
| Energy Infrastructure Investments | Unlisted energy vehicle | Australia | **19.90** | 19.90 |
| EII 2 | Power generation (wind) | Australia | **20.20** | 20.20 |
| Associates: | | | | |
| Envestra Limited [(a)] | Gas distribution | Australia | **33.05** | 33.44 |

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Investments in jointly controlled entities and associates | **589,131** | 512,948 |

Reconciliation of movements in investments accounted for using the equity method:

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Balance at 1 July | **512,948** | 479,409 |
| Acquisitions during the year | **65,451** | 67,768 |
| Share of net profit for the year | **44,868** | 28,263 |
| Disposal | **-** | - |
| Movement in reserves | **14,316** | (22,666) |
| | **637,583** | 552,774 |
| Dividends | **(48,452)** | (39,826) |
| Balance at 30 June | **589,131** | 512,948 |

Summarised financial information in respect of the jointly controlled entities and associates is set out below:

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **FINANCIAL POSITION** | | |
| Total assets | **5,745,562** | 5,415,250 |
| Total liabilities | **4,824,283** | 4,558,821 |
| Net assets | **921,279** | 856,429 |
| Consolidated Entity's share of jointly controlled entities and associates net assets | **285,719** | 257,824 |
| **FINANCIAL PERFORMANCE** | | |
| Total revenue | **862,778** | 725,723 |
| Total profit for the year | **147,606** | 102,732 |
| Consolidated Entity's share of jointly controlled entities and associates profit | **44,868** | 28,263 |

(a) APA participated in Envestra's Distribution Reinvestment Plan for Envestra's October 2012 and April 2013 Distributions. APA purchased further securities in the April 2013 Envestra share placement equivalent to its interest at the time however APA's interest has diluted over the financial year due to non-participation in the May 2013 share purchase plan issue.

**Contingent liabilities and capital commitments**

The Consolidated Entity's share of the contingent liabilities, capital commitments and other expenditure commitments of joint venture entities is disclosed in Notes 49 and 43 respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

## 18. PROPERTY, PLANT AND EQUIPMENT

| | FREEHOLD LAND AND BUILDINGS - AT COST $000 | LEASEHOLD IMPROVEMENTS - AT COST $000 | PLANT AND EQUIPMENT - AT COST $000 | WORK IN PROGRESS - AT COST $000 | TOTAL $000 |
|---|---|---|---|---|---|
| **GROSS CARRYING AMOUNT** | | | | | |
| **Balance at 1 July 2011** | 119,251 | 2,431 | 4,039,560 | 125,832 | 4,287,074 |
| Additions | - | - | 6,877 | 273,198 | 280,075 |
| Disposals | (9) | (15) | (15,876) | - | (15,900) |
| Derecognised on disposal of subsidiary | (4,363) | (227) | (520,891) | (1,868) | (527,349) |
| Transfers | 2,716 | 33 | 69,363 | (72,113) | (1) |
| **Balance at 1 July 2012** | 117,595 | 2,222 | 3,579,033 | 325,049 | 4,023,899 |
| Additions | **8,537** | **2,717** | **4,562** | **368,231** | **384,047** |
| Disposals | **(7,573)** | **-** | **(4,597)** | **-** | **(12,170)** |
| Derecognised on disposal of subsidiary (Note 42) | **(3,648)** | **-** | **(372,380)** | **(327)** | **(376,355)** |
| Acquisitions through business combinations (Note 41) | **16,190** | **-** | **1,896,192** | **20,972** | **1,933,354** |
| Transfers | **-** | **-** | **216,777** | **(219,571)** | **(2,794)** |
| **Balance at 30 June 2013** | **131,101** | **4,939** | **5,319,587** | **494,354** | **5,949,981** |
| **ACCUMULATED DEPRECIATION** | | | | | |
| **Balance at 1 July 2011** | (15,537) | (1,840) | (501,355) | - | (518,732) |
| Disposals | 1 | 15 | 15,131 | - | 15,147 |
| Derecognised on disposal of subsidiary | 270 | 206 | 55,867 | - | 56,343 |
| Depreciation expense | (2,126) | (308) | (102,025) | - | (104,459) |
| **Balance at 1 July 2012** | (17,392) | (1,927) | (532,382) | - | (551,701) |
| Disposals | **200** | **-** | **3,470** | **-** | **3,670** |
| Derecognised on disposal of subsidiaries (Note 42) | **19** | **-** | **3,108** | **-** | **3,127** |
| Depreciation expense | **(2,376)** | **(233)** | **(122,178)** | **-** | **(124,787)** |
| Transfers | **473** | **-** | **(352)** | | **121** |
| **Balance at 30 June 2013** | **(19,076)** | **(2,160)** | **(648,334)** | **-** | **(669,570)** |
| **NET BOOK VALUE** | | | | | |
| As at 30 June 2012 | 100,203 | 295 | 3,046,651 | 325,049 | 3,472,198 |
| **As at 30 June 2013** | **112,025** | **2,779** | **4,671,253** | **494,354** | **5,280,411** |

## 19. GOODWILL

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **GROSS CARRYING AMOUNT** | | |
| Balance at beginning of financial year | **411,883** | 515,344 |
| Acquisitions (Note 41) | **765,476** | 802 |
| Disposals (Note 42) | **(24,992)** | (104,263) |
| Goodwill impairment | **(1,867)** | - |
| Balance at end of financial year | **1,150,500** | 411,883 |

**ALLOCATION OF GOODWILL TO CASH-GENERATING UNITS**

***Goodwill has been allocated for impairment testing purposes to the following individual cash-generating units: Individual cash-generating units***

– Asset management business;
– Energy infrastructure:
  • New South Wales pipelines;
  • Victorian Transmission System;
  • South West Queensland Pipeline;
  • Other energy infrastructure.

The carrying amount of goodwill allocated to cash-generating units that are significant individually or in aggregate is as follows:

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Asset management business | **31,456** | 33,323 |
| Energy infrastructure | | |
| New South Wales pipelines | **146,008** | 146,008 |
| Victorian Transmission System | **105,061** | 105,061 |
| South West Queensland Pipeline | **663,268** | - |
| Other energy infrastructure [(a)] | **204,707** | 127,491 |
| | **1,150,500** | 411,883 |

(a) Primarily represents goodwill relating to the Roma to Brisbane Pipeline ($76.4m) and the Pilbara Pipeline System ($77.2m).

The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations use cash flow projections based on a five year financial business plan and thereafter a further 15 year financial model, being the basis of the Group's forecasting and planning processes.

For fully regulated assets, cash flows have been extrapolated on the basis of existing transportation contracts and government policy settings, and expected contract renewals with a resulting average annual growth rate of 1.8% p.a. These expected cash flows are factored into the regulated asset base and do not exceed management's expectations of the long-term average growth rate for the market in which the CGU operates.

For non-regulated assets, APA has assumed no capacity expansion beyond installed and committed levels; utilisation of capacity is based on existing contracts, government policy settings and expected market outcomes.

As contracts mature, given ongoing demand for capacity, it is assumed that capacity is resold.

Asset management cash flow projections reflect long term agreements with assumptions of renewal on similar terms and conditions based on management expectations.

Cash flow projections are estimated for a period of up to 20 years, with a terminal value, recognising the long term nature of the assets. The pre-tax discount rates used are 8.25% p.a. (2012: 8.5% p.a.) for energy infrastructure assets and 8.25% p.a. (2012: 8.5% p.a.) for asset management.

These assumptions have been determined with reference to historic information, current performance and expected changes taking into account external information.

### 20. OTHER INTANGIBLE ASSETS

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **CONTRACT AND OTHER INTANGIBLES** | | |
| **Gross carrying amount** | | |
| Balance at beginning of financial year | **207,031** | 210,389 |
| Adjustments to amounts recognised from business combinations | **-** | (2,632) |
| Acquisitions | **1,105** | 443 |
| Impairment | **(2,075)** | (473) |
| Disposals | **-** | (697) |
| Balance at end of financial year | **206,061** | 207,031 |
| **Accumulated amortisation and impairment** | | |
| Balance at beginning of financial year | **(23,372)** | (17,486) |
| Amortisation expense | **(5,674)** | (5,950) |
| Disposals | **-** | 64 |
| Balance at end of financial year | **(29,046)** | (23,372) |
| **Net book value** | **177,015** | 183,659 |

The Consolidated Entity holds various third party operating and maintenance contracts. The combined gross carrying amount of $206.061 million amortises over terms ranging from one to 60 years. Useful life is determined based on the underlying contractual terms plus estimations of renewal of up to two terms where considered probable by management. Amortisation expense is included in the line item of depreciation and amortisation expense in the statement of profit or loss and other comprehensive income.

### 21. OTHER NON-CURRENT ASSETS

| | | |
|---|---|---|
| Line pack gas | **10,922** | 4,356 |
| Gas held in storage | **5,085** | 4,993 |
| Other assets | **2,625** | 192 |
| | **18,632** | 9,541 |

### 22. TRADE AND OTHER PAYABLES

| | | |
|---|---|---|
| **CURRENT** | | |
| Trade payables [(a)] | **28,427** | 14,347 |
| Other payables [(b)] | **161,635** | 159,098 |
| | **190,062** | 173,445 |
| **NON-CURRENT** | | |
| Other payables | **3,749** | 1,068 |
| | **3,749** | 1,068 |

(a) Trade payables are non-interest bearing and are normally settled on 15 - 30 day terms.

(b) Predominantly consists of capital expenditure accruals and external interest payable accruals.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

## 23. CURRENT BORROWINGS

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **UNSECURED - AT AMORTISED COST** | | |
| Bank borrowings | **-** | - |
| Guaranteed Senior Notes [(a)] | **80,910** | - |
| **SECURED - AT AMORTISED COST** | | |
| Bank Borrowings | **-** | - |
| | **-** | - |
| | **80,910** | - |

(a) Represents USD denominated private placement notes of US$74 million measured at the exchange rate at reporting date which matures 9 September 2013.

## 24. OTHER CURRENT FINANCIAL LIABILITIES

**Derivatives**

Derivatives that are designated and effective as hedging instruments carried at fair value:

| | | |
|---|---|---|
| Forward foreign exchange contracts - cash flow hedges | **-** | 365 |
| Interest rate swaps - cash flow hedges | **22,500** | 21,832 |
| Cross currency interest rate swaps - cash flow hedges | **103,885** | 37,110 |
| | **126,385** | 59,307 |

## 25. PROVISIONS

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **CURRENT** | | |
| Employee benefits [(a)] | **71,098** | 55,117 |
| Other (Note 34) | **10,845** | 12,349 |
| | **81,943** | 67,466 |
| **NON-CURRENT** | | |
| Employee benefits [(a)] | **45,307** | 59,667 |
| Other (Note 34) | **4,935** | 4,400 |
| | **50,242** | 64,067 |

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

| | | |
|---|---|---|
| **CURRENT** | | |
| Incentives | **23,042** | 13,430 |
| Cash settled security-based payments | **8,193** | 6,263 |
| Leave balances | **38,030** | 35,424 |
| Termination benefits | **1,833** | - |
| | **71,098** | 55,117 |
| **NON-CURRENT** | | |
| Cash settled security-based payments | **15,215** | 12,875 |
| Retirement benefit obligation (Note 35) | **23,061** | 41,295 |
| Leave balances | **7,031** | 5,497 |
| | **45,307** | 59,667 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

## 26. OTHER LIABILITIES

| | | |
|---|---|---|
| **CURRENT** | | |
| Unearned revenue - other | **12,921** | 761 |
| | **12,921** | 761 |
| **NON-CURRENT** | | |
| Unearned revenue - other | **16,669** | 4,078 |
| | **16,669** | 4,078 |

## 27. NON-CURRENT BORROWINGS

| | **2013 $000** | 2012 $000 |
|---|---|---|
| **UNSECURED - AT AMORTISED COST** | | |
| Bank borrowings [(a)] | **525,000** | 1,123,667 |
| Guaranteed Senior Notes [(b)] | **3,227,340** | 1,801,175 |
| Subordinated Notes [(c)] | **515,000** | - |
| Less: unamortised borrowing costs | **(34,098)** | (18,896) |
| | **4,233,242** | 2,905,946 |

(a) Relates to the non-current portion of long-term borrowings. Refer to Note 38 for details of interest rates.

(b) Represents USD denominated private placement notes of US$725 million (2012: US$799 million) measured at the exchange rate at reporting date, A$314.9 million of AUD denominated private placement notes (2012: A$314.9 million), AUD medium term notes (MTN) of A$300 million, CAD MTN of C$300 million, GBP MTN of £350 million, JPY MTN of ¥10,000 million and US notes issued under 144a of US$750 million. Refer to Note 38 for details of interest rates and maturity profiles.

(c) Represents AUD denominated subordinated notes. Refer to Note 38 for details of interest rates and maturity profiles.

## 28. OTHER NON-CURRENT FINANCIAL LIABILITIES

**Derivatives**

Derivatives that are designated and effective as hedging instruments carried at fair value:

| | | |
|---|---|---|
| Interest rate swaps - cash flow hedges | **29,512** | 44,081 |
| Cross currency interest rate swaps - cash flow hedges | **147,744** | 242,511 |
| | **177,256** | 286,592 |

## 29. ISSUED CAPITAL

**Securities**

| | | |
|---|---|---|
| 835,750,807 securities, fully paid (2012: 644,485,583 securities, fully paid) [(a)] | **1,820,516** | 1,138,205 |

| | **2013 NO. OF SECURITIES 000** | **2013 $000** | 2012 NO. OF SECURITIES 000 | 2012 $000 |
|---|---|---|---|---|
| **Movements** | | | | |
| Balance at beginning of financial year | **644,486** | **1,138,205** | 634,116 | 1,192,779 |
| Issue of securities under Distribution Reinvestment Plan | **15,548** | **63,503** | 10,370 | 33,879 |
| Issue of securities in business combination | **175,717** | **672,630** | - | - |
| Capital return to Securityholders (Note 10) | **-** | **(47,182)** | - | (88,416) |
| Issue cost of securities | **-** | **(6,672)** | - | (53) |
| Tax relating to security issue costs | **-** | **32** | - | 16 |
| Balance at end of financial year | **835,751** | **1,820,516** | 644,486 | 1,138,205 |

(a) Fully paid securities carry one vote per security and carry the right to distributions.

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to issued capital from 1 July 1998. Therefore, the Trust does not have a limited amount of authorised capital and issued securities do not have a par value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

## 30. RESERVES

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Hedging | **(62,475)** | (35,212) |
| Asset revaluation | **8,669** | 8,669 |
| Available-for-sale investment revaluation | **1,736** | 82,696 |
| | **(52,070)** | 56,153 |

### HEDGING RESERVE

| | | |
|---|---|---|
| Balance at beginning of financial year | **(35,212)** | 28,003 |
| Gain/(loss) recognised: | | |
| Interest rate swaps/currency swaps | **(144,702)** | (116,624) |
| Deferred tax related to gains/losses recognised | **43,411** | 34,987 |
| Transferred to profit or loss: | | |
| Interest rate swaps/currency swaps | **91,438** | 48,983 |
| Deferred tax related to amounts transferred to profit or loss | **(27,431)** | (14,695) |
| Share of hedge reserve of associate | **14,316** | (22,666) |
| Deferred tax related to share of hedge reserve | **(4,295)** | 6,800 |
| **Balance at end of financial year** | **(62,475)** | (35,212) |

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts profit or loss, or is included as a basis adjustment to the non-financial hedge item, consistent with the applicable accounting policy.

### ASSET REVALUATION RESERVE

| | | |
|---|---|---|
| Balance at beginning of financial year | **8,669** | 8,669 |
| **Balance at end of financial year** | **8,669** | 8,669 |

The asset revaluation reserve arose on the revaluation of the existing interest in a pipeline as a result of a business combination. Where revalued pipelines are sold, the portion of the asset revaluation reserve which relates to that asset is effectively realised and is transferred directly to retained earnings. The reserve can be used to pay distributions only in limited circumstances.

### AVAILABLE-FOR-SALE INVESTMENT REVALUATION RESERVE

| | | |
|---|---|---|
| Balance at beginning of financial year | **82,696** | 18,227 |
| Revaluation gain recognised | **26,676** | 92,099 |
| Gain transferred to profit or loss | **(142,333)** | - |
| Deferred tax related to gains/losses recognised | **34,697** | (27,630) |
| **Balance at end of financial year** | **1,736** | 82,696 |

The available-for-sale investment revaluation reserve arises on the revaluation of available-for-sale financial assets. Where a revalued financial asset is sold, the portion of the reserve which relates to that financial asset is effectively realised and is recognised in profit or loss. Where a revalued financial asset is impaired, that portion of the reserve which relates to that financial asset is recognised in profit or loss.

### OTHER RESERVES

| | | |
|---|---|---|
| Balance at beginning of financial year | **-** | - |
| Acquisition of non-controlling interest | **(2,765)** | - |
| Transfer to retained earnings | **2,765** | - |
| **Balance at end of financial year** | **-** | - |

The other reserves balance arose on acquiring the remaining interest in the Hastings Diversified Utilities Fund following control being obtained on 9 October 2013. The balance of the reserve was transferred to retained earnings on completion of the acquisition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

## 31. RETAINED EARNINGS

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Balance at beginning of financial year | **32,785** | 19,054 |
| Net profit attributable to Securityholders | **260,624** | 84,693 |
| Distributions paid (Note 10) | **(154,716)** | (48,088) |
| Transfer from reserves on acquisition of non-controlling interest in HDF | **(2,765)** | - |
| Actuarial gain/(loss) on defined benefit plans recognised directly to retained earnings after tax | **9,216** | (22,874) |
| | **145,144** | 32,785 |

## 32. NON-CONTROLLING INTERESTS

| | 2013 $000 | 2012 $000 |
|---|---|---|
| APT Investment Trust | **598,671** | 386,850 |
| Other non-controlling interest | **50** | 49 |
| | **598,721** | 386,899 |

**APT INVESTMENT TRUST**

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **Issued capital:** | | |
| Balance at beginning of financial year | **364,066** | 382,001 |
| Issue of securities under distribution reinvestment plan | **19,663** | 10,733 |
| Issue of securities in business combination | **212,035** | - |
| Distribution - capital return (Note 10) | **(14,879)** | (28,650) |
| Issue cost of securities | **(2,105)** | (18) |
| Tax relating to security issue costs | **-** | - |
| **Balance at end of financial year** | **578,780** | 364,066 |
| **Reserves:** | | |
| Available for sale investment revaluation reserve: | | |
| Balance at beginning of financial year | **1,624** | 534 |
| Valuation gain recognised | **(1,157)** | 1,090 |
| | **467** | 1,624 |
| **Retained earnings:** | | |
| Balance at beginning of financial year | **21,160** | 18,295 |
| Net profit attributable to APTIT equityholders | **38,143** | 45,957 |
| Distributions paid (Note 10) | **(39,879)** | (43,092) |
| **Balance at end of financial year** | **19,424** | 21,160 |

**OTHER NON-CONTROLLING INTEREST**

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Issued capital | **4** | 4 |
| Reserves | **1** | 1 |
| Retained earnings | **45** | 44 |
| | **50** | 49 |

## 33. LEASES

**Leasing arrangements - receivables**

Finance lease receivables relate to the lease of a metering station, natural gas vehicle facilities, X41 power station expansion and two pipeline laterals.

| | **2013 $000** | 2012 $000 |
|---|---|---|
| **FINANCE LEASE RECEIVABLES** | | |
| Not longer than 1 year | **8,336** | 6,071 |
| Longer than 1 year and not longer than 5 years | **24,249** | 19,946 |
| Longer than 5 years | **30,324** | 10,767 |
| Minimum future lease payments receivable (a) | **62,909** | 36,784 |
| Gross finance lease receivables | **62,909** | 36,784 |
| Less: unearned finance lease receivables | **(23,847)** | (10,950) |
| Present value of lease receivables | **39,062** | 25,834 |
| Included in the financial statements as part of: | | |
| Current trade and other receivables (Note 11) | **4,744** | 3,590 |
| Non-current receivables (Note 15) | **34,318** | 22,244 |
| | **39,062** | 25,834 |

(a) Minimum future lease payments receivable include the aggregate of all lease payments receivable and any guaranteed residual.

| | **2013 $000** | 2012 $000 |
|---|---|---|
| **NON-CANCELLABLE OPERATING LEASES – OTHER** | | |
| Not longer than 1 year | **9,120** | 7,435 |
| Longer than 1 year and not longer than 5 years | **23,200** | 20,238 |
| Longer than 5 years | **25,066** | 11,285 |
| | **57,386** | 38,958 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

### 34. PROVISIONS

| | ABANDONMENT [(a)] $000 | OTHER [(b)] $000 | TOTAL $000 |
|---|---|---|---|
| **Balance at 30 June 2012** | 4,354 | 12,395 | 16,749 |
| Additional provisions recognised | 294 | 2,905 | 3,199 |
| Unwinding of discount | 287 | - | 287 |
| Reductions arising from payments/other sacrifices of future economic benefits | - | (2,455) | (2,455) |
| Reductions resulting from re-measurement or settlement without cost | - | (2,000) | (2,000) |
| **Balance at 30 June 2013** | **4,935** | **10,845** | **15,780** |
| Current (Note 25) | **-** | **10,845** | **10,845** |
| Non-current (Note 25) | **4,935** | **-** | **4,935** |
| | **4,935** | **10,845** | **15,780** |
| **Balance at 30 June 2011** | 4,015 | 6,452 | 10,467 |
| Additional provisions recognised | 57 | 6,599 | 6,656 |
| Unwinding of discount | 282 | - | 282 |
| Reductions arising from payments/other sacrifices of future economic benefits | - | (656) | (656) |
| **Balance at 30 June 2012** | 4,354 | 12,395 | 16,749 |
| Current (Note 25) | - | 12,349 | 12,349 |
| Non-current (Note 25) | 4,354 | 46 | 4,400 |
| | 4,354 | 12,395 | 16,749 |

(a) Costs of dismantling pipelines and restoring the sites on which the pipelines are located, and costs of dismantling leasehold improvements restoring leased premises are to be included in the cost of the assets at inception and required to be accounted for in accordance with AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'.

(b) Includes rectification works due to Queensland floods.

### 35. EMPLOYEE SUPERANNUATION PLANS

All employees of the Consolidated Entity are entitled to benefits on retirement, disability or death from an industry sponsored fund, or an alternative fund of their choice. The Consolidated Entity has three plans with defined benefit sections (due to the acquisition of businesses) and a number of other plans with defined contribution sections. The defined benefit sections provide lump sum benefits upon retirement based on years of service. The defined contribution sections receive fixed contributions from the Consolidated Entity and the Consolidated Entity's legal and constructive obligations are limited to these amounts.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2013 by Mercer (Australia) Pty Ltd and Russell Investments (2012: Mercer (Australia) Pty Ltd and Russell Investments). The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The following sets out details in respect of the defined benefit plans only:

| | **2013 $000** | 2012 $000 |
|---|---|---|
| **AMOUNTS RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME** | | |
| Current service cost | **3,376** | 2,980 |
| Interest cost on benefit obligation | **3,356** | 4,889 |
| Expected return on plan assets | **(6,777)** | (6,724) |
| Total included in superannuation costs which form part of employee benefit expense | **(45)** | 1,145 |
| Actual return on plan assets | **16,824** | 1 |
| Actuarial gains/(losses) incurred during the year and recognised in the statement of profit or loss and other comprehensive income | **13,166** | (32,677) |
| **AMOUNTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION** | | |
| Fair value of plan assets | **118,404** | 100,658 |
| Present value of benefit obligation | **(141,465)** | (141,953) |
| Net liability - non-current (Note 25) | **(23,061)** | (41,295) |
| **MOVEMENTS IN LIABILITY DURING THE YEAR** | | |
| Balance at beginning of year | **(41,295)** | (12,567) |
| Gain/(expense) recognised in profit or loss | **45** | (1,145) |
| Amount recognised in retained earnings (prior to tax effect) | **13,166** | (32,677) |
| Contributions from employer | **5,023** | 5,094 |
| Balance at end of year [(a)] | **(23,061)** | (41,295) |

(a) The above balances are recorded within the provisions section of the statement of financial position; refer to Note 25.

Movements in the present value of the defined benefit obligations in the current period were as follows:

| | | |
|---|---|---|
| Opening defined benefit obligation | **141,953** | 111,325 |
| Current service cost | **3,376** | 2,980 |
| Interest cost | **3,356** | 4,889 |
| Contributions from plan participants | **1,442** | 1,563 |
| Actuarial (gains)/losses | **(3,119)** | 25,955 |
| Benefits paid | **(4,786)** | (4,046) |
| Taxes and premiums paid | **(757)** | (713) |
| **Closing defined benefit obligation** | **141,465** | 141,953 |

**35. EMPLOYEE SUPERANNUATION PLANS (CONTINUED)**

Movements in the present value of the plan assets in the current period were as follows:

| | **2013 $000** | 2012 $000 |
|---|---|---|
| Opening fair value of plan assets | **100,658** | 98,758 |
| Expected return on plan assets | **6,777** | 6,724 |
| Actuarial gains/(losses) | **10,047** | (6,722) |
| Contributions from employer | **5,023** | 5,094 |
| Contributions from plan participants | **1,442** | 1,563 |
| Benefits paid | **(4,786)** | (4,046) |
| Taxes and premiums paid | **(757)** | (713) |
| **Closing fair value of plan assets** | **118,404** | 100,658 |

The average principal actuarial assumptions used in determining post-employment obligations for the Consolidated Entity's plans are shown below (expressed as weighted averages):

| | **2013 %** | 2012 % |
|---|---|---|
| Discount rate (p.a.) | **3.2** | 2.6 |
| Expected return on plan assets (p.a.) | **6.8** | 6.8 |
| Expected salary rate increase (p.a.) | **4.0** | 4.0 |

The invested defined benefit assets were held in the following classes:

| | | |
|---|---|---|
| Australian equities | **29.2** | 33.7 |
| International equities | **29.8** | 27.2 |
| Fixed income | **11.7** | 11.8 |
| Property | **7.3** | 8.2 |
| Alternatives | **16.5** | 13.1 |
| Cash | **5.5** | 6.0 |

The history of experience adjustments is as follows:

| | **2013 $000** | 2012 $000 | 2011 $000 | 2010 $000 | 2009 $000 |
|---|---|---|---|---|---|
| Fair value of plan assets | **118,404** | 100,658 | 98,758 | 91,346 | 84,023 |
| Present value of defined benefit obligation | **141,465** | 141,953 | 111,325 | 109,640 | 98,679 |
| (Deficit)/surplus | **(23,061)** | (41,295) | (12,567) | (18,294) | (14,656) |
| Experience adjustments (gains)/losses - plan liabilities | **2,389** | 2,313 | 3,090 | 4,739 | (6,753) |
| Experience adjustments (gains)/losses - plan assets | **(7,055)** | 4,766 | (3,167) | (821) | 8,450 |

The Consolidated Entity expects $4,090,000 in contributions to be paid to the defined benefit plans during the year ending 30 June 2014.

## 36. EARNINGS PER SECURITY

| | 2013 | 2012 |
|---|---|---|
| Basic and diluted earnings per security (cents) | **38.7** | 20.4 |

The earnings and weighted average number of ordinary securities used in the calculation of basic and diluted earnings per security are as follows:

| | | |
|---|---|---|
| Net profit attributable to Securityholders for calculating basic and diluted earnings per security ($000) | **298,767** | 130,650 |

| | NO. OF SECURITIES | |
|---|---|---|
| Adjusted weighted average number of ordinary securities used in the calculation of basic and diluted earnings per security (000) | **772,314** | 639,743 |

## 37. NOTES TO THE STATEMENT OF CASH FLOWS

### (a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents 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:

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Cash at bank and on hand [(a)] | **79,931** | 88,944 |
| Short-term deposits | **1,024** | 240,990 |
| | **80,955** | 329,934 |

Restricted cash

(a) As at 30 June 2013, Australian Pipeline Limited held $5.0 million (2012: $5.0 million) on deposit to meet its financial requirements as the holder of an Australian Financial Services Licence.

### (b) Investments acquired and disposed of

***Equity accounted investments***

$31,551,000 has been invested in Envestra through the Dividend Reinvestment Plan and an additional amount of $33,900,000 was invested in Envestra through a share placement.

In the prior financial year, $28,755,000 was invested in Envestra through the Dividend Reinvestment Plan, $5,000 was invested in Diamantina Power Station and $211,800 was recovered from the finalisation of fees recoverable from REST following the SEA Gas transaction in the preceding year.

***Available-for-sale investments***

In the prior financial year, $11,669,000 was invested in the purchase of shares in Hastings Diversified Utilities Fund.

### 37. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

**(c) Reconciliation of profit for the year to the net cash provided by operating activities**

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Profit for the year | **296,003** | 130,655 |
| Gain on on previously held interest in HDF on obtaining control | **(142,333)** | - |
| Acquisition costs on business combinations | **12,408** | - |
| Profit on sale of Allgas Distribution Network before transaction costs | **-** | (12,032) |
| (Write back)/transaction costs on sale of Allgas Distribution Network | **(18,483)** | 21,695 |
| Impairment of intangible | **-** | 473 |
| Loss on disposal of property, plant and equipment | **480** | 278 |
| Impairment of goodwill | **1,867** | - |
| Share of net profits of jointly controlled entities accounted for using the equity method | **(44,868)** | (28,263) |
| Dividends/distributions received | **48,452** | 39,826 |
| Depreciation and amortisation expense | **130,461** | 110,409 |
| Finance costs | **1,481** | 16,919 |
| Changes in assets and liabilities: | | |
| Trade and other receivables | **4,248** | (19,669) |
| Inventories | **706** | (428) |
| Other assets | **(1,605)** | 25,168 |
| Trade and other payables | **(5,407)** | 8,078 |
| Provisions | **12,093** | 12,416 |
| Other liabilities | **27,141** | (23,038) |
| Income tax balances | **51,737** | 53,082 |
| Net cash provided by operating activities | **374,381** | 335,569 |

**(d) Financing facilities**

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **UNSECURED FACILITIES** | | |
| **Bank borrowings** [(a)] | | |
| Amounts used | **525,000** | 1,123,667 |
| Amounts unused | **891,667** | 776,333 |
| | **1,416,667** | 1,900,000 |
| **Guaranteed Senior Notes** [(b)] | | |
| Amounts used | **3,308,250** | 1,801,175 |
| Amounts unused | **-** | - |
| | **3,308,250** | 1,801,175 |
| **Subordinated Notes** [(c)] | | |
| Amounts used | **515,000** | - |
| Amounts unused | **-** | - |
| | **515,000** | - |
| **SECURED FACILITIES** | | |
| **Bank borrowings** | | |
| Amounts used | **-** | - |
| Amounts unused | **-** | - |
| | **-** | - |

(a) Relates to the non-current portion of long-term borrowings. Refer to Note 38 for details of interest rates.

(b) Represents USD denominated private placement notes of US$725 million (2012: US$799 million) measured at the exchange rate at reporting date, A$314.9 million of AUD denominated private placement notes (2012: A$314.9 million), A$ medium term notes (MTN) of A$300 million, CAD MTN of C$300 million, GBP MTN of £350 million, JPY MTN of ¥10,000 million and US notes issued under US144a of US$ 750 million. Refer to Note 38 for details of interest rates and maturity profiles.

(c) Represents AUD denominated subordinated notes. Refer to Note 38 for details of interest rates and maturity profiles.

**38. FINANCIAL INSTRUMENTS**

**(a) Capital risk management**

The Consolidated Entity manages its capital structure to ensure that entities in the Group will be able to continue as a going concern while maximising the return to security holders through the optimisation of the debt to equity structure.

The Consolidated Entity's overall capital management strategy is to continue to target strong BBB/Baa2 investment grade ratings through maintaining sufficient flexibility to fund organic growth and investment from internally generated and retained cash flows, equity and, where appropriate, additional debt funding.

The capital structure of the Consolidated Entity consists of debt, which includes borrowings disclosed in Notes 23 and 27, cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 29, 30 and 31 respectively.

The Consolidated Entity's operations are conducted primarily through its subsidiaries.

Operating cash flows are used to maintain and expand the Consolidated Entity's assets, as well as to make distributions to security holders and to repay maturing debt.

The Consolidated Entity's policy is to borrow from overseas and locally, using a variety of capital markets and bank loan facilities, to meet anticipated funding requirements.

Controlled entities are subject to externally imposed capital requirements. These relate to the Australian Financial Services Licence held by Australian Pipeline Limited, the Responsible Entity of the Consolidated Entity and were adhered to for the entirety of the 2012 and 2013 periods.

The Consolidated Entity's capital risk management strategy remains unchanged from the previous period.

*Gearing ratio*

The Consolidated Entity's Board of Directors reviews the capital structure on a regular basis. As part of the review, the Board considers the cost of capital and the state of the markets. The Consolidated Entity targets gearing in a range of 65% to 68%. Gearing is determined as the proportion of net debt to net debt plus equity. Based on recommendations of the Board, the Consolidated Entity balances its overall capital structure through new equity issues, through the issue of new debt or the redemption of existing debt, and through a disciplined distribution payment policy.

**(b) Financial risk management objectives**

APA's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, and monitors and manages the financial risks relating to the operations of the Consolidated Entity. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Consolidated Entity seeks to minimise the effects of these risks through natural hedges and by using derivative instruments to directly hedge the exposures. The use of financial derivatives is governed by the Consolidated Entity's Board approved Treasury Risk Management Policy, which provides written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Consolidated Entity does not enter into or trade financial instruments, including derivative financial instruments for speculative purposes.

The Corporate Treasury function reports monthly to the Consolidated Entity's Board of Directors, which monitors risks and policies implemented to mitigate risk exposures.

**(c) Market risk management**

The Consolidated Entity's exposure is primarily to the financial risk of changes in interest rates and foreign currency exchange rates. The Consolidated Entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- foreign exchange forward contracts to hedge the exchange rate risk arising on the importation of equipment from a range of international suppliers;
- currency swaps to manage the foreign currency risk associated with foreign currency denominated borrowings; and
- interest rate swaps to mitigate the risk of rising interest rates.

There has been no change to the nature of the Consolidated Entity's exposure to market risks or the manner in which it manages and measures the risks from the previous period.

The Consolidated Entity is also exposed to price risk arising from its investments in and forward purchase contracts over listed equities. The majority of this exposure arises from the Consolidated Entity's investment in Ethane Pipeline Income Fund which is publicly traded on the Australian Securities Exchange (ASX).

**(d) Foreign currency risk management**

The Consolidated Entity undertakes certain transactions denominated in foreign currencies and hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising foreign exchange contracts, including forward contracts and cross currency contracts. All foreign currency exposure was managed in accordance with the Treasury Risk Management Policy in both 2012 and 2013.

The carrying amount of the Consolidated Entity's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

**38. FINANCIAL INSTRUMENTS (CONTINUED)**

**(d) Foreign currency risk management (continued)**

| | LIABILITIES | | ASSETS | |
|---|---|---|---|---|
| | **2013 $000** | 2012 $000 | **2013 $000** | 2012 $000 |
| US dollar borrowings | **1,693,637** | 780,731 | **-** | - |
| Cross currency swaps | **(1,693,637)** | (780,731) | **-** | - |
| Japanese yen borrowings | **110,203** | 122,256 | **-** | - |
| Cross currency swaps | **(110,203)** | (122,256) | **-** | - |
| Canadian dollar borrowings | **311,947** | 287,986 | **-** | - |
| Cross currency swaps | **(311,947)** | (287,986) | **-** | - |
| British pound borrowings | **581,866** | - | **-** | - |
| Cross currency swaps | **(581,866)** | - | **-** | - |
| | **-** | - | **-** | - |
| Foreign exchange contracts | **-** | 365 | **1,788** | 126 |
| | **-** | 365 | **1,788** | 126 |

***Forward foreign exchange contracts***

It is the policy of the Consolidated Entity to enter into various foreign exchange contracts to cover 100% of all foreign currency exposures in excess of US$1million that are certain. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated purchase takes place.

The following table details the forward foreign currency contracts outstanding at reporting date:

| OUTSTANDING CONTRACTS | AVERAGE EXCHANGE RATE | FOREIGN CURRENCY US$000 | CONTRACT VALUE $000 | FAIR VALUE $000 |
|---|---|---|---|---|
| **2013** | | | | |
| **Buy US dollars** | | | | |
| Less than 3 months | **0.9966** | **12,910** | **12,954** | **1,222** |
| 3 to 6 months | **1.0155** | **2,990** | **2,944** | **358** |
| 6 to 12 months | **0.9500** | **3,585** | **3,774** | **208** |
| | | **19,485** | **19,672** | **1,788** |
| **2012** | | | | |
| **Buy US dollars** | | | | |
| Less than 3 months | 0.9480 | 4,675 | 4,931 | (350) |
| 3 to 6 months | 1.0297 | 3,660 | 3,555 | 75 |
| 6 to 12 months | 1.0257 | 1,485 | 1,448 | 36 |
| | | 9,820 | 9,934 | (239) |

The Consolidated Entity has entered into contracts to purchase equipment in foreign currencies from overseas suppliers. The Consolidated Entity has entered into forward foreign exchange contracts to hedge the exchange rate risk arising from these anticipated future transactions, which are designated as cash flow hedges.

As at reporting date, the aggregate amount of unrealised profit under forward foreign exchange contracts deferred in the hedging reserve relating to these anticipated future transactions is $1,788,000 (2012: unrealised losses of $239,000). It is anticipated that the capital purchases will take place within the next financial year at which stage unrealised mark to market amounts in equity will be included in the carrying amount of the asset being purchased.

**38. FINANCIAL INSTRUMENTS (CONTINUED)**

**(d) Foreign currency risk management (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 2003, 2007, 2009 and 2012 US dollar note issues, the 2012 Japanese yen, the 2012 Canadian dollar and the 2012 British pound medium term note issues.

The Consolidated Entity receives fixed amounts in the various foreign currencies and pays both variable interest rates (based on Australian BBSW) and fixed interest rates based on agreed interest rate swap rates.

The following table details the swap contracts principal and interest payments over various durations as at the reporting date:

| | EXCHANGE RATE | | AMOUNT | |
|---|---|---|---|---|
| | **2013 $** | 2012 $ | **2013 $000** | 2012 $000 |
| **2003 USPP NOTE ISSUE** | | | | |
| **Buy US dollars - interest** | | | | |
| Less than 1 year | **0.6573** | 0.6573 | **(19,671)** | (22,863) |
| 1 year to 2 years | **0.6573** | 0.6573 | **(16,480)** | (19,671) |
| 2 years to 5 years | **0.6573** | 0.6573 | **(22,665)** | (33,374) |
| 5 years and more | **0.6573** | 0.6573 | **(2,885)** | (8,655) |
| | | | **(61,701)** | (84,563) |
| **Buy US dollars - principal** | | | | |
| Less than 1 year | **0.6573** | - | **(112,582)** | - |
| 1 year to 2 years | **0.6573** | 0.6573 | **-** | (112,582) |
| 2 years to 5 years | **0.6573** | 0.6573 | **(185,608)** | (185,608) |
| 5 years and more | **0.6573** | 0.6573 | **(95,847)** | (95,847) |
| | | | **(394,037)** | (394,037) |
| **2007 USPP NOTE ISSUE** | | | | |
| **Buy US dollars - interest** | | | | |
| Less than 1 year | **0.8068** | 0.8068 | **(29,737)** | (29,737) |
| 1 year to 2 years | **0.8068** | 0.8068 | **(29,737)** | (29,737) |
| 2 years to 5 years | **0.8068** | 0.8068 | **(77,969)** | (89,212) |
| 5 years and more | **0.8068** | 0.8068 | **(46,805)** | (65,299) |
| | | | **(184,248)** | (213,985) |
| **Buy US dollars - principal** | | | | |
| 2 years to 5 years | **0.8068** | 0.8068 | **(190,878)** | (190,878) |
| 5 years and more | **0.8068** | 0.8068 | **(304,908)** | (304,908) |
| | | | **(495,786)** | (495,786) |
| **2009 USPP NOTE ISSUE** | | | | |
| **Buy US dollars - interest** | | | | |
| Less than 1 year | **0.7576** | 0.7576 | **(15,934)** | (15,934) |
| 1 year to 2 years | **0.7576** | 0.7576 | **(15,934)** | (15,934) |
| 2 years to 5 years | **0.7576** | 0.7576 | **(37,057)** | (44,221) |
| 5 years and more | **0.7576** | 0.7576 | **(13,156)** | (21,927) |
| | | | **(82,081)** | (98,016) |
| **Buy US dollars - principal** | | | | |
| 2 years to 5 years | **0.7576** | 0.7576 | **(85,787)** | (85,787) |
| 5 years and more | **0.7576** | 0.7576 | **(98,997)** | (98,997) |
| | | | **(184,784)** | (184,784) |

### 38. FINANCIAL INSTRUMENTS (CONTINUED)

**(d) Foreign currency risk management (continued)**

| | EXCHANGE RATE | | AMOUNT | |
|---|---|---|---|---|
| | **2013 $** | 2012 $ | **2013 $000** | 2012 $000 |
| **2012 JPY MTN ISSUE** | | | | |
| **Buy Japanese yen - interest** | | | | |
| Less than 1 year | **79.4502** | 79.4502 | **(1,543)** | (1,543) |
| 1 year to 2 years | **79.4502** | 79.4502 | **(1,543)** | (1,543) |
| 2 years to 5 years | **79.4502** | 79.4502 | **(4,629)** | (4,629) |
| 5 years and more | **-** | 79.4502 | **-** | (1,543) |
| | | | **(7,715)** | (9,258) |
| **Buy Japanese yen - principal** | | | | |
| 2 years to 5 years | **79.4502** | - | **(125,865)** | - |
| 5 years and more | **-** | 79.4502 | **-** | (125,865) |
| **2012 CAD MTN ISSUE** | | | | |
| **Buy Canadian dollars - interest** | | | | |
| Less than 1 year | **1.0363** | 1.0363 | **(12,289)** | (12,289) |
| 1 year to 2 years | **1.0363** | 1.0363 | **(12,289)** | (12,289) |
| 2 years to 5 years | **1.0363** | 1.0363 | **(36,867)** | (36,867) |
| 5 years and more | **1.0363** | 1.0363 | **(18,434)** | (30,723) |
| | | | **(79,879)** | (92,168) |
| **Buy Canadian dollars - principal** | | | | |
| 5 years and more | **1.0363** | 1.0363 | **(289,494)** | (289,494) |
| **2012 US144A ISSUE** | | | | |
| **Buy US dollars - interest** | | | | |
| Less than 1 year | **1.0198** | - | **(28,498)** | - |
| 1 year to 2 years | **1.0198** | - | **(28,498)** | - |
| 2 years to 5 years | **1.0198** | - | **(85,495)** | - |
| 5 years and more | **1.0198** | - | **(128,242)** | - |
| | | | **(270,733)** | - |
| **Buy US dollars - principal** | | | | |
| 5 years and more | **1.0198** | - | **(735,438)** | - |
| **2012 GBP MTN ISSUE** | | | | |
| **Buy British pounds - interest** | | | | |
| Less than 1 year | **0.6530** | - | **(22,779)** | - |
| 1 year to 2 years | **0.6530** | - | **(22,779)** | - |
| 2 years to 5 years | **0.6530** | - | **(68,338)** | - |
| 5 years and more | **0.6530** | - | **(159,456)** | - |
| | | | **(273,352)** | - |
| **Buy British pounds - principal** | | | | |
| 5 years and more | **0.6530** | - | **(535,988)** | - |

### 38. FINANCIAL INSTRUMENTS (CONTINUED)

**(d) Foreign currency risk management (continued)**

***Foreign currency sensitivity analysis***

The Consolidated Entity is exposed to movements in the USD, JPY, CAD and GBP through its fully hedged borrowings from global debt capital markets and its current obligations for future purchases of capital equipment. The entire foreign currency cash flows arising from the USPP, US144A and MTN issues have been swapped; as such, the Consolidated Entity has no currency risk associated with those note issues. Therefore, the sensitivity analysis has only been performed on the forward foreign exchange contracts. The following table details the Consolidated Entity's sensitivity to a 10% decrease and increase in the Australian dollar against the relevant foreign currencies. The sensitivity rate used is 10% and represents management's assessment of the greatest possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

| | **2013 $000** | 2012 $000 |
|---|---|---|
| **A$ depreciating by 10%** | | |
| Profit | **-** | - |
| Other equity [(a)] | **(2,365)** | (1,065) |
| **A$ appreciating by 10%** | | |
| Profit | **-** | - |
| Other equity [(a)] | **1,935** | 871 |

(a) This is as a result of the changes to the fair value of forward foreign exchange contracts designated as cash flow hedges. Negative amounts denote a credit to equity.

**(e) Interest rate risk management**

The Consolidated Entity is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. This risk is managed by the Consolidated Entity by maintaining an appropriate mix between fixed and floating rate borrowings, and through the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined policy, ensuring appropriate hedging strategies are applied. Hedging activity is complemented by "natural hedges" from regulatory resets and CPI adjusted revenues.

The Consolidated Entity's exposures to interest rate risk on financial liabilities are detailed in the liquidity risk management section of this note. Exposure to financial assets is limited to cash and cash equivalents amounting to $80.6 million as at 30 June 2013 (2012: $329.9 million).

***Interest rate swap contracts***

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 cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the yield curves at reporting date. The average interest rate is based on the outstanding balances at the end of the financial year.

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

| | **WEIGHTED AVERAGE INTEREST RATE** | | **NOTIONAL PRINCIPAL AMOUNT** | | **FAIR VALUE** | |
|---|---|---|---|---|---|---|
| | **2013 % p.a.** | 2012 % p.a. | **2013 $000** | 2012 $000 | **2013 $000** | 2012 $000 |
| **CASH FLOW HEDGES** | | | | | | |
| **Pay fixed AUD interest - receive floating AUD or fixed/floating foreign currency** | | | | | | |
| Less than 1 year | **7.03** | 5.39 | **187,582** | 200,000 | **(34,411)** | (2,760) |
| 1 year to 2 years | **5.90** | 7.03 | **100,000** | 187,582 | **(4,804)** | (45,620) |
| 2 years to 5 years | **7.62** | 7.52 | **713,137** | 687,272 | **(128,246)** | (151,358) |
| 5 years and more | **7.24** | 7.57 | **2,060,672** | 915,111 | **13,426** | (133,806) |
| | | | **3,061,391** | 1,989,965 | **(154,035)** | (333,544) |

**38. FINANCIAL INSTRUMENTS (CONTINUED)**

**(e) Interest rate risk management (continued)**

The Consolidated Entity had no fair value hedges in 2012 or 2013.

The interest rate swaps settle on a quarterly or semi-annual basis. The floating rate benchmark on the interest rate swaps is Australian BBSW. The Consolidated Entity will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Consolidated Entity's cash flow exposure resulting from variable interest rates on borrowings.

***Interest rate sensitivity analysis***

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments held. A 100 basis point increase or decrease is used and represents management's assessment of the greatest possible change in interest rates. At reporting date, if interest rates had been 100 basis points higher or lower and all other variables were held constant, the Consolidated Entity's:

- net profit would decrease by $2,250,000 or increase by $2,250,000 (2012: decrease by $6,237,000 or increase by $6,237,000). This is mainly attributable to the Consolidated Entity's exposure to interest rates on its variable rate borrowings; and
- equity reserves would increase by $13,360,000 with a 100 basis point decrease in interest rates or decrease by $10,972,000 with a 100 basis point increase in interest rates (2012: decrease by $17,960,000 or increase by $17,387,000 respectively). This is due to the changes in the fair value of derivative interest instruments.

The Consolidated Entity's profit sensitivity to interest rates has decreased during the current period due to the overall decrease in the level of the Consolidated Entity's unhedged floating rate borrowings. The valuation of the increase/decrease in equity reserves is based on 1.00% p.a. increase/decrease in the yield curve at the reporting date. The decrease in sensitivity in equity is due to a decrease in the notional value of interest rate swaps with an increase in fixed for fixed cross currency interest rate swaps.

**(f) Price risk management**

The Consolidated Entity is exposed to price risk arising from its investments in and forward purchase contracts over listed equities. The investments and forward purchase contracts are held to meet strategic or hedging objectives rather than for trading purposes. The Consolidated Entity does not actively trade any of these holdings.

***Equity price sensitivity***

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date. At the reporting date, if the prices of the Consolidated Entity's equity investments had been 5% p.a. higher or lower:

- net profit would have been unaffected as the equity investments are classified as available-for-sale and no investments were disposed of or impaired, there is also nil effect from the forwards as the corresponding exposure will offset in full (2012: $nil); and
- equity reserves would decrease/increase by $219,000 (2012: $5,947,000), due to the changes in the fair value of available-for-sale shares.

The Consolidated Entity's analysis of its exposure to equity prices has established that, overall, its sensitivity declined during the current period compared to the prior period. This outcome is largely a result of the full acquisition of Hastings Diversified Utilities Fund thereby removing the sensitivity to price variations on APA's prior year holdings.

**(g) Credit risk management**

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 bank guarantees where appropriate as a means of mitigating any risk of loss. For financial investments or market risk hedging, the Consolidated Entity's policy is to deal with highly rated counterparties. As at the reporting date, all counterparties of this type were A- (Standard & Poor's)/A3 (Moody's) or higher. The Consolidated Entity's exposure to financial instrument and deposit credit risk is closely monitored against counterparty credit limits imposed by the Treasury Risk Management Policy approved by the Board. These limits are regularly reviewed by the Board.

Trade receivables consist of mainly corporate customers which are diverse and geographically spread. Most significant customers have an investment grade rating from either Standard & Poor's or Moody's. Ongoing credit monitoring of the financial position of customers is maintained.

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.

***Cross guarantee***

In accordance with a deed of cross guarantee, APT Pipelines Limited, a subsidiary of APA Group, has agreed to provide financial support, when and as required, to certain wholly-owned controlled entities with either a deficit in shareholders' funds or an excess of current liabilities over current assets. The fair value of the financial guarantee as at 30 June 2013 has been determined to be immaterial and no liability has been recorded (2012: $nil). Refer to Note 40 for details of entities included in the guarantee.

**(h) Liquidity risk management**

The Consolidated Entity has a policy dealing with liquidity risk which requires an appropriate liquidity risk management framework for the management of the Consolidated Entity's short, medium and long-term funding and liquidity management requirements. Liquidity risk is managed by maintaining adequate cash reserves and banking facilities, by monitoring and forecasting cash flow and where possible arranging liabilities with longer maturities to more closely match the underlying assets of the Consolidated Entity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

## 38. FINANCIAL INSTRUMENTS (CONTINUED)

### (h) Liquidity risk management (continued)

Details of undrawn facilities available to the Consolidated Entity are shown in the table below:

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **FINANCING FACILITIES** | | |
| Unsecured bank facilities with various maturity dates through to 2016 | | |
| – amount used | **525,000** | 1,123,667 |
| – amount unused | **891,667** | 776,333 |
| | **1,416,667** | 1,900,000 |
| Unsecured long term private placement notes with various maturity dates through to 2022 | | |
| – amount used | **1,188,472** | 1,095,597 |
| – amount unused | **-** | - |
| | **1,188,472** | 1,095,597 |
| Unsecured Australian Dollar medium term note with maturity in 2020 | | |
| – amount used | **300,000** | 300,000 |
| – amount unused | **-** | - |
| | **300,000** | 300,000 |
| Unsecured Japanese Yen medium term note with maturity in 2018 | | |
| – amount used | **110,203** | 122,256 |
| – amount unused | **-** | - |
| | **110,203** | 122,256 |
| Unsecured Canadian Dollar medium term notes with maturity in 2019 | | |
| – amount used | **311,947** | 287,986 |
| – amount unused | **-** | - |
| | **311,947** | 287,986 |
| Unsecured Australian Dollar subordinated notes with maturity in 2072 | | |
| – amount used | **515,000** | - |
| – amount unused | **-** | - |
| | **515,000** | - |
| Unsecured US144a medium term notes with maturity in 2022 | | |
| – amount used | **820,031** | - |
| – amount unused | **-** | - |
| | **820,031** | - |
| Unsecured British Pound medium term notes with maturity in 2024 | | |
| – amount used | **581,866** | - |
| – amount unused | **-** | - |
| | **581,866** | - |

### 38. FINANCIAL INSTRUMENTS (CONTINUED)

**(h) Liquidity risk management (continued)**

***Liquidity and interest risk table***

Included in the following table are the Consolidated Entity's remaining contractual maturities for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities taking account of the earliest date on which the Consolidated Entity can be required to pay. The table includes both interest and principal cash flows.

All foreign currency note exposures (both principal and interest) have been fully hedged back into Australian dollars at fixed interest rates for the entire duration of the note exposure. Therefore the table below shows the undiscounted Australian dollar cash flows associated with the foreign currency notes, cross currency interest rate swaps and fixed interest rate swaps in aggregate.

| | AVERAGE INTEREST RATE % p.a. | LESS THAN 1 YEAR $000 | 1 - 5 YEARS $000 | MORE THAN 5 years $000 |
|---|---|---|---|---|
| **2013** | | | | |
| **FINANCIAL LIABILITIES** | | | | |
| Trade and other payables | - | 190,062 | - | - |
| Unsecured bank borrowings [(a)] | 4.53 | 22,747 | 534,564 | - |
| 2012 Subordinated Notes [(b)] | 3.05 | 27,712 | 167,966 | 3,113,913 |
| Interest Rate Swaps (Net Settled) | 6.15 | 10,300 | 9,641 | - |
| **Guaranteed Senior Notes:** | | | | |
| **Denominated in A$** | | | | |
| 2007 Series A [(c)] | 7.33 | 367 | 6,100 | - |
| 2007 Series C [(c)] | 7.38 | 7,318 | 121,111 | - |
| 2007 Series E [(d)] | 7.40 | 5,045 | 20,178 | 73,215 |
| 2007 Series G [(e)] | 7.45 | 6,002 | 24,008 | 104,590 |
| 2007 Series H [(e)] | 7.45 | 4,617 | 18,468 | 80,454 |
| 2010 AUD Medium Term Note [(f)] | 7.75 | 23,250 | 93,000 | 358,125 |
| **Denominated in US$ (rates shown are the coupon rate of the US dollar notes)** | | | | |
| 2003 Series B [(g)] | 5.67 | 116,813 | - | - |
| 2003 Series C [(h)] | 5.77 | 14,175 | 206,948 | - |
| 2003 Series D [(i)] | 6.02 | 6,911 | 27,721 | 99,359 |
| 2007 Series B [(c)] | 5.89 | 13,986 | 232,837 | - |
| 2007 Series D [(d)] | 5.99 | 11,111 | 44,442 | 162,325 |
| 2007 Series F [(e)] | 6.14 | 11,354 | 45,416 | 199,142 |
| 2009 Series A [(j)] | 8.35 | 9,752 | 110,127 | - |
| 2009 Series B [(k)] | 8.86 | 11,761 | 47,075 | 116,558 |
| 2012 US 144a [(l)] | 3.88 | 49,123 | 196,627 | 956,694 |
| **Denominated in stated foreign currency** | | | | |
| 2012 JPY Medium Term Note [(m)] | 1.23 | 8,535 | 160,100 | - |
| 2012 CAD Medium Term Note [(n)] | 4.25 | 19,529 | 78,171 | 318,708 |
| 2012 GBP Medium Term Note [(o)] | 4.25 | 39,351 | 158,159 | 792,524 |
| | | **609,820** | **2,302,660** | **6,375,607** |

(a) Facilities mature on 15 July 2014 ($225 million limit), 24 August 2014 ($75 million limit), 2 November 2014 ($483 million limit), 2 November 2015 ($483 million limit, undrawn at year end) and 12 October 2016 ($150 million limit, undrawn at year end).

(b) Matures on 1 October 2072.

(c) Matures on 15 May 2017.

(d) Matures on 15 May 2019.

(e) Matures on 15 May 2022.

(f) Matures on 22 July 2020.

(g) Matures on 9 September 2013.

(h) Matures on 9 September 2015.

(i) Matures on 9 September 2018.

(j) Matures on 1 July 2016.

(k) Matures on 1 July 2019.

(l) Matures on 11 October 2022.

(m) Matures on 22 June 2018.

(n) Matures on 24 July 2019.

(o) Matures on 26 November 2024.

**38. FINANCIAL INSTRUMENTS (CONTINUED)**

**(h) Liquidity risk management (continued)**

***Liquidity and interest risk table (continued)***

| | AVERAGE INTEREST RATE % p.a. | LESS THAN 1 YEAR $000 | 1 - 5 YEARS $000 | MORE THAN 5 YEARS $000 |
|---|---|---|---|---|
| **2012** | | | | |
| **FINANCIAL LIABILITIES** | | | | |
| Trade and other payables | - | 173,445 | - | - |
| Unsecured bank borrowings [(a)] | 5.24 | 55,246 | 1,179,453 | - |
| Interest Rate Swaps (Net Settled) | - | 11,624 | 17,123 | - |
| **Guaranteed Senior Notes:** | | | | |
| **Denominated in A$** | | | | |
| 2007 Series A [(b)] | 7.33 | 367 | 6,466 | - |
| 2007 Series C [(b)] | 7.38 | 7,318 | 128,428 | - |
| 2007 Series E [(c)] | 7.40 | 5,045 | 20,178 | 78,260 |
| 2007 Series G [(d)] | 7.45 | 6,002 | 24,008 | 110,592 |
| 2007 Series H [(d)] | 7.45 | 4,617 | 18,468 | 85,071 |
| 2010 AUD Medium Term Note [(j)] | 7.75 | 23,250 | 93,000 | 381,375 |
| **Denominated in US$ (rates shown are the coupon rate of the US dollar notes)** | | | | |
| 2003 Series B [(e)] | 5.67 | 8,532 | 116,813 | - |
| 2003 Series C [(f)] | 5.77 | 14,292 | 221,123 | - |
| 2003 Series D [(g)] | 6.02 | 6,968 | 27,702 | 106,290 |
| 2007 Series B [(b)] | 5.89 | 13,986 | 246,824 | - |
| 2007 Series D [(c)] | 5.99 | 11,111 | 44,442 | 173,436 |
| 2007 Series F [(d)] | 6.14 | 11,354 | 45,416 | 210,496 |
| 2009 Series A [(h)] | 8.35 | 9,752 | 119,879 | - |
| 2009 Series B [(i)] | 8.86 | 11,761 | 47,108 | 128,286 |
| **Denominated in stated foreign currency** | | | | |
| 2012 JPY Medium Term Note [(k)] | 1.23 | 8,606 | 34,212 | 134,424 |
| 2012 CAD Medium Term Note [(l)] | 4.25 | 11,248 | 78,171 | 338,237 |
| | | 394,523 | 2,468,814 | 1,746,466 |

(a) Facilities mature on 2 November 2013 ($483 million limit), 15 July 2014 ($225 million limit), 24 August 2014 ($75 million limit), 2 November 2014 ($483 million limit), 2 November 2015 ($483 million limit, undrawn at year end) and 12 October 2016 ($150 million limit, undrawn at year end).

(b) Matures on 15 May 2017.

(c) Matures on 15 May 2019.

(d) Matures on 15 May 2022.

(e) Matures on 9 September 2013.

(f) Matures on 9 September 2015.

(g) Matures on 9 September 2018.

(h) Matures on 1 July 2016.

(i) Matures on 1 July 2019.

(j) Matures on 22 July 2020.

(k) Matures on 22 June 2018.

(l) Matures on 24 July 2019.

### 38. FINANCIAL INSTRUMENTS (CONTINUED)

#### (i) Fair value of financial instruments

***Fair value of financial instruments carried at amortised cost***

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current markets;
- the fair values of derivative instruments, included in hedging assets and liabilities, are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments; and
- the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

***Fair value measurements recognised in the statement of financial position***

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | LEVEL 1 $000 | LEVEL 2 $000 | LEVEL 3 $000 | TOTAL $000 |
|---|---|---|---|---|
| **2013** | | | | |
| **Financial assets measured at fair value** | | | | |
| Available-for-sale listed equity securities | | | | |
| Ethane Pipeline Income Fund | **7,394** | **-** | **-** | **7,394** |
| Equity forwards designated as fair value through profit and loss | **-** | **3,822** | **-** | **3,822** |
| Forward foreign exchange contracts used for hedging | **-** | **1,788** | **-** | **1,788** |
| Total | **7,394** | **5,609** | **-** | **13,003** |
| **Financial liabilities measured at fair value** | | | | |
| Interest rate swaps used for hedging | **-** | **47,088** | **-** | **47,088** |
| Cross Currency Interest Rate Swaps used for hedging | **-** | **106,947** | **-** | **106,947** |
| Total | **-** | **154,035** | **-** | **154,035** |
| **2012** | | | | |
| **Financial assets measured at fair value** | | | | |
| Available-for-sale listed equity securities | | | | |
| Hastings Diversified Utilities Fund | 263,442 | - | - | 263,442 |
| Ethane Pipeline Income Fund | 9,564 | - | - | 9,564 |
| Equity forwards designated as fair value through profit and loss | - | 259 | - | 259 |
| Forward foreign exchange contracts used for hedging | - | 126 | - | 126 |
| Total | 273,005 | 385 | - | 273,390 |
| **Financial liabilities measured at fair value** | | | | |
| Interest rate swaps used for hedging | - | 62,699 | - | 62,699 |
| Cross Currency Interest Rate Swaps used for hedging | - | 270,844 | - | 270,844 |
| Forward foreign exchange contracts used for hedging | - | 365 | - | 365 |
| Total | - | 333,909 | - | 333,909 |

**38. FINANCIAL INSTRUMENTS (CONTINUED)**

**(i) Fair value of financial instruments (continued)**

***Derivatives***

Equity forward contracts are measured by reference to quoted equity prices and discounted using yield curves with tenors matching maturities of the contracts.

Foreign currency forward contracts are measured using quoted exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The carrying value of financial assets and liabilities recorded at amortised cost in the financial statements approximate their fair value having regard to the specific terms of the agreements underlying those assets and liabilities.

***Fair value measurements of financial instruments measured at amortised cost***

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

| | CARRYING AMOUNT | | FAIR VALUE | |
|---|---|---|---|---|
| | **2013 $000** | 2012 $000 | **2013 $000** | 2012 $000 |
| **FINANCIAL LIABILITIES** | | | | |
| Unsecured long term private placement notes | **1,188,472** | 1,095,597 | **1,434,441** | 1,389,909 |
| Unsecured Australian Dollar medium term notes | **300,000** | 300,000 | **371,212** | 382,457 |
| Unsecured Japanese Yen medium term note | **110,203** | 122,256 | **114,146** | 127,752 |
| Unsecured Canadian Dollar medium term notes | **311,947** | 287,986 | **344,358** | 334,037 |
| Unsecured US Dollar 144a medium term notes | **820,031** | - | **757,775** | - |
| Unsecured British Pound medium term note | **581,866** | - | **550,282** | - |
| Total | **3,312,519** | 1,805,839 | **3,572,214** | 2,234,155 |

The financial liabilities included in the table above are fixed rate borrowings. Other debts held by the Consolidated Entity are floating rate debts and amortised cost approximates its fair value.

**39. JOINTLY CONTROLLED OPERATIONS AND ASSETS**

The Consolidated Entity is a venturer in the following jointly controlled operations and assets:

| | | OUTPUT INTEREST | |
|---|---|---|---|
| **NAME OF VENTURE** | **PRINCIPAL ACTIVITY** | **2013 %** | 2012 % |
| Goldfields Gas Transmission | Gas pipeline operation - Western Australia | **88.2 [a]** | 88.2 [a] |
| Mid West Pipeline | Gas pipeline operation - Western Australia | **50.0 [b]** | 50.0 [b] |

(a) On 17 August 2004, APA acquired a direct interest in the Goldfields Gas Transmission jointly controlled operations as part of the SCP Gas Business acquisition.

(b) Pursuant to the joint venture agreement, the Consolidated Entity receives a 70.8% share of operating income and expenses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

### 39. JOINTLY CONTROLLED OPERATIONS AND ASSETS (CONTINUED)

The Consolidated Entity's interest, as a venturer, in assets employed in the above jointly controlled operations and assets is detailed below. The amounts are included in the consolidated financial statements under their respective asset categories:

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | **2,547** | 6,510 |
| Trade and other receivables | **12,724** | 1,397 |
| Inventories | **2,385** | 2,391 |
| Other | **49** | 143 |
| **Total current assets** | **17,705** | 10,441 |
| **NON-CURRENT ASSETS** | | |
| Property, plant and equipment | **604,075** | 543,214 |
| Other | **-** | 765 |
| **Total non-current assets** | **604,075** | 543,979 |
| **Total assets** | **621,780** | 554,420 |

**Contingent liabilities and capital commitments**

Contingent liabilities and capital commitments arising from the Consolidated Entity's interest in jointly controlled operations are disclosed in Notes 49 and 43 respectively.

### 40. SUBSIDIARIES

| NAME OF ENTITY | COUNTRY OF REGISTRATION/ INCORPORATION | OWNERSHIP INTEREST 2013 % | OWNERSHIP INTEREST 2012 % |
|---|---|---|---|
| **PARENT ENTITY** | | | |
| Australian Pipeline Trust [(a)] | | | |
| **SUBSIDIARIES** | | | |
| APT Pipelines Limited [(b),(c)] | Australia | **100** | 100 |
| Agex Pty Ltd [(b),(c)] | Australia | **100** | 100 |
| Amadeus Gas Trust | Australia | **96** | 96 |
| APT Goldfields Pty Ltd [(b),(c)] | Australia | **100** | 100 |
| APT Management Services Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APT Parmelia Gas Pty Ltd [(b),(c)] | Australia | **100** | 100 |
| APT Parmelia Holdings Pty Ltd [(b),(c)] | Australia | **100** | 100 |
| APT Parmelia Pty Ltd [(b),(c)] | Australia | **100** | 100 |
| APT Parmelia Trust [(b)] | Cayman Islands | **100** | 100 |
| APT Petroleum Pipelines Holdings Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APT Petroleum Pipelines Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APT Pipelines (NSW) Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APT Pipelines (NT) Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APT Pipelines (QLD) Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APT Pipelines (WA) Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APT Pipelines Investments (NSW) Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APT Pipelines Investments (WA) Pty Limited [(b),(c)] | Australia | **100** | 100 |
| East Australian Pipeline Pty Limited [(b),(c)] | Australia | **100** | 100 |
| Gasinvest Australia Pty Ltd [(b),(c)] | Australia | **100** | 100 |
| Goldfields Gas Transmission Pty Ltd [(b)] | Australia | **100** | 100 |

### 40. SUBSIDIARIES (CONTINUED)

| NAME OF ENTITY | COUNTRY OF REGISTRATION/ INCORPORATION | OWNERSHIP INTEREST 2013 % | 2012 % |
|---|---|---|---|
| N.T. Gas Distribution Pty Limited [(b),(c)] | Australia | **100** | 100 |
| N.T. Gas Easements Pty Limited [(b),(c)] | Australia | **100** | 100 |
| N.T. Gas Pty Limited | Australia | **96** | 96 |
| Roverton Pty Ltd [(b),(c)] | Australia | **100** | 100 |
| SCP Investments (No. 1) Pty Limited [(b),(c)] | Australia | **100** | 100 |
| SCP Investments (No. 2) Pty Limited [(b),(c)] | Australia | **100** | 100 |
| SCP Investments (No. 3) Pty Limited [(b),(c)] | Australia | **100** | 100 |
| Sopic Pty Ltd [(b),(c)] | Australia | **100** | 100 |
| Southern Cross Pipelines (NPL) Australia Pty Ltd [(b),(c)] | Australia | **100** | 100 |
| Southern Cross Pipelines Australia Pty Limited [(b),(c)] | Australia | **100** | 100 |
| Trans Australia Pipeline Pty Ltd [(b),(c)] | Australia | **100** | 100 |
| Western Australian Gas Transmission Company 1 Pty Ltd [(b),(c)] | Australia | **100** | 100 |
| GasNet Australia Trust [(b)] | Australia | **100** | 100 |
| APA GasNet Australia (Holdings) Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APA GasNet Australia (Operations) Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APA GasNet A Pty Limited [(b),(c)] | Australia | **100** | 100 |
| GasNet A Trust | Australia | **100** | 100 |
| APA GasNet Australia (NSW) Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APA GasNet B Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APA GasNet Australia Pty Limited [(b),(c)] | Australia | **100** | 100 |
| GasNet B Trust [(b)] | Australia | **100** | 100 |
| GasNet Australia Investments Trust | Australia | **100** | 100 |
| Allgas Pipelines Operations Pty Limited [(d)] | Australia | **-** | 100 |
| APA Operations Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APT AM Holdings Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APT O&M Holdings Pty Ltd [(b),(c)] | Australia | **100** | 100 |
| APT O&M Services Pty Ltd [(b),(c)] | Australia | **100** | 100 |
| APT O&M Services (QLD) Pty Ltd [(b),(c)] | Australia | **100** | 100 |
| APT Water Management Pty Ltd [(b),(c)] | Australia | **100** | 100 |
| APT Water Management Holdings Pty Ltd [(b),(c)] | Australia | **100** | 100 |
| APT AM (Stratus) Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APT Facility Management Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APT AM Employment Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APT Sea Gas Holdings Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APT SPV2 Pty Ltd [(b)] | Australia | **100** | 100 |
| APT SPV3 Pty Ltd [(b)] | Australia | **100** | 100 |
| APT Pipelines (SA) Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APT (MIT) Services Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APA Operations (EII) Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APA Pipelines (QNSW) Pty Limited [(b),(c)] | Australia | **100** | 100 |
| Central Ranges Pipeline Pty Ltd [(b),(c)] | Australia | **100** | 100 |
| APA Country Pipelines Pty Limited [(b),(c)] | Australia | **100** | 100 |
| North Western Natural Gas Company Pty Limited [(b),(c)] | Australia | **100** | 100 |
| APA Facilities Management Pty Limited [(b),(c)] | Australia | **100** | 100 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

### 40. SUBSIDIARIES (CONTINUED)

| NAME OF ENTITY | COUNTRY OF REGISTRATION/ INCORPORATION | OWNERSHIP INTEREST 2013 % | 2012 % |
|---|---|---|---|
| APA (NBH) Pty Limited (b),(c) | Australia | **100** | 100 |
| APA Pipelines Investments (BWP) Pty Limited (b),(c) | Australia | **100** | 100 |
| APA Power Holdings Pty Limited (b),(c) | Australia | **100** | 100 |
| APA (EDWF Holdco) Pty Ltd (b),(c) | Australia | **100** | 100 |
| APA (BWF Holdco) Pty Ltd (b),(c) | Australia | **100** | 100 |
| EDWF Holdings 1 Pty Ltd (b),(c) | Australia | **100** | 100 |
| EDWF Holdings 2 Pty Ltd (b),(c) | Australia | **100** | 100 |
| EDWF Manager Pty Ltd (b),(c) | Australia | **100** | 100 |
| Wind Portfolio Pty Ltd (b),(c) | Australia | **100** | 100 |
| Griffin Windfarm 2 Pty Ltd (b) | Australia | **100** | 100 |
| APA AM (Allgas) Pty Limited (b),(c) | Australia | **100** | 100 |
| APA DPS Holdings Pty Limited (b),(c) | Australia | **100** | 100 |
| APA Power PF Pty Limited (b),(c) | Australia | **100** | 100 |
| APA Sub Trust No 1 (b) | Australia | **100** | - |
| APA Sub Trust No 2 (b) | Australia | **100** | - |
| APA Sub Trust No 3 (b) | Australia | **100** | - |
| APA (Pilbara Pipeline) Pty Ltd (b),(c) | Australia | **100** | - |
| APA (Sub No 3) International Holdings 1 Pty Ltd (b),(c) | Australia | **100** | - |
| APA (Sub No 3) International Holdings 2 Pty Ltd (b),(c) | Australia | **100** | - |
| APA (Sub No 3) International Nominees Pty Ltd (b),(c) | Australia | **100** | - |
| APA (SWQP) Pty Limited (b),(c) | Australia | **100** | - |
| APA (WA) One Pty Limited (b),(c) | Australia | **100** | - |
| APA AIS 1 Pty Limited (b),(c) | Australia | **100** | - |
| APA AIS 2 Pty Ltd (b),(c) | Australia | **100** | - |
| APA AIS Pty Limited (b),(c) | Australia | **100** | - |
| APA Biobond Pty Limited (b),(c) | Australia | **100** | - |
| APA East One Pty Limited (b),(c) | Australia | **100** | - |
| APA East Pipelines Pty Limited (b),(c) | Australia | **100** | - |
| APA EE Pty Limited (b),(c) | Australia | **100** | - |
| APA EE Australia Pty Limited (b),(c) | Australia | **100** | - |
| APA EE Corporate Shared Services Pty Limited (b),(c) | Australia | **100** | - |
| APA EE Holdings Pty Limited (b),(c) | Australia | **100** | - |
| Epic Energy East Pipelines Trust (b) | Australia | **100** | - |
| APA (NT) Pty Limited (b),(c) | Australia | **100** | - |
| Epic Energy South Australia Pty Limited (e) | Australia | **-** | - |
| MAPS FinCo Pty Limited | Australia | **100** | - |

(a) Australian Pipeline Trust is the head entity within the tax-consolidated group.

(b) These entities are members of the tax-consolidated group.

(c) These wholly-owned subsidiaries have entered into a deed of cross guarantee with APT Pipelines Limited pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare and lodge an audited financial report.

(d) These entities were disposed of during the year.

(e) Entity was acquired and disposed of during the year.

### 41. ACQUISITION OF BUSINESSES

On 9 October 2012, APA obtained control of the Hastings Diversified Utilities Fund (HDF) when the takeover offer was declared unconditional. APA held a controlling interest of 54.94% on the acquisition date resulting in a non-controlling interest of 45.06%. The non-controlling interest was acquired over the period from 10 October 2012 to 24 December 2012 when compulsory acquisition was completed.

The acquisition was paid for by cash and securities issued. Acquisition-related costs of $21,037,000 were incurred during the period of which $12,404,000 of the costs have been recognised as an expense and $8,633,000 of the costs have been recognised in equity relating to the securities issued.

Revenue for the financial year includes $152,938,000 in respect of HDF. Included in profit before non-controlling interests for the financial year is a loss of $10,458,000 attributable to HDF, as below:

| | $000 |
|---|---|
| **EBITDA from HDF's Epic Energy pipeline assets** | **115,171** |
| Management and performance fees charged by Hastings Funds Management | (35,438) |
| Takeover response costs paid by HDF | (6,913) |
| Integration costs on acquisition | (4,481) |
| **EBITDA for HDF Group** | **68,339** |
| HDF Depreciation | (19,366) |
| HDF Net finance costs | (51,548) |
| HDF Income tax expense | (7,883) |
| **Net loss after tax attributable to HDF Group** | **(10,458)** |

Due to the impact of a number of one-off items in the year (including takeover defence costs, debt facility refinancing costs and swap break costs), implementation of an internalised management model following the change of responsible entity, and the divestment of the Moomba-Adelaide Pipeline System, it is not practical to present meaningful pro-forma results reflecting HDF as if it had been acquired on 1 July 2012.

The accounting for the acquisition of HDF has been provisionally determined at reporting date.

### 41. ACQUISITION OF BUSINESSES (CONTINUED)

| NAMES OF BUSINESS ACQUIRED | PRINCIPAL ACTIVITY | DATE OF ACQUISITION | PROPORTION ACQUIRED % | COST OF ACQUISITION $000 |
|---|---|---|---|---|
| **During the financial year ended 30 June 2013** | | | | |
| Hastings Diversified Utilities Fund (HDF) | Gas Transmission | 9 October 2012 - 24 December 2012 | 100 | 1,233,847 |

| HASTINGS DIVERSIFIED UTILITIES FUND | PROVISIONAL FAIR VALUE ON ACQUISITION $000 |
|---|---|
| **Net assets acquired** | |
| **Current assets** | |
| Cash and cash equivalents | 104,500 |
| Trade and other receivables | 23,963 |
| Other financial assets | 79 |
| Inventories | 1,930 |
| Deferred tax assets | 104,408 |
| Other | 1,727 |
| **Non-current assets** | |
| Receivables | 15,278 |
| Property, plant and equipment | 1,933,354 |
| Goodwill | 765,476 |
| Other | 8,090 |
| **Current liabilities** | |
| Trade and other payables | (44,190) |
| Current borrowings | (1,325,000) |
| Other financial liabilities | (43,897) |
| Provisions | (19,044) |
| Other | (644) |
| **Non-current liabilities** | |
| Provisions | (1,201) |
| **Fair value of net assets acquired** | **1,524,829** |
| Previously held interest | (290,982) |
| **Cost of acquisition** | **1,233,847** |
| Cash balances acquired | (104,500) |
| Securities issued as part consideration | (884,665) |
| Transaction costs paid | 12,380 |
| **Net cash outflow on acquisition - current period** | **257,062** |
| Prior year transaction costs paid | 8,259 |
| **Total cash outflow on acquisitions** | **265,321** |

## 42. DISPOSAL OF BUSINESSES

On 1 May 2013, pursuant to the undertaking provided to the Australian Consumer and Competition Commission as part of the acquisition of HDF, APA completed the sale of the Moomba Adelaide Pipeline System (MAPS). The net proceeds received from Queensland Investment Corporation totalled $391.7 million net of cash balances sold and after transaction costs.

During the prior financial year APA divested its gas distribution network in South East Queensland (Allgas) into the APA minority owned unlisted investment vehicle GDI (EII) Pty Ltd. APA established GDI in December 2011. APA retains a 20.0% interest in GDI and remains operator of the assets. The net proceeds received from the new equity partners, Marubeni Corporation and RREEF totalled $475.7 million after transaction costs.

| | 2013<br>MOOMBA ADELAIDE PIPELINE SYSTEM<br>1 MAY 2013<br>$000 | 2012<br>ALLGAS DISTRIBUTION NETWORK<br>16 DECEMBER 2011<br>$000 |
|---|---|---|
| **NET ASSETS DISPOSED** | | |
| **Current assets** | | |
| Cash and cash equivalents | **3,546** | - |
| Trade and other receivables | **5,453** | 13,770 |
| Inventories | **1,350** | - |
| Other | **294** | - |
| **Non-current assets** | | |
| Property, plant and equipment | **373,228** | 471,006 |
| Goodwill | **24,992** | 104,263 |
| Intangibles | **-** | 633 |
| Other | **1,811** | - |
| **Total assets** | **410,674** | 589,672 |
| **Current liabilities** | | |
| Trade and other payables | **(3,229)** | (1,266) |
| Provisions | **(1,659)** | - |
| Other | **-** | (1,086) |
| **Non-current liabilities** | | |
| Deferred tax liabilities | **(10,798)** | (58,979) |
| Provisions | **(311)** | - |
| **Total liabilities** | **(15,997)** | (61,331) |
| **Net assets** | **394,677** | 528,341 |
| Profit on sale before transaction costs | **5,807** | 12,032 |
| Transactions costs | **(5,807)** | (21,695) |
| Loss on disposal (after transaction costs) | **-** | (9,663) |
| Less: Cash and cash equivalents disposed | **(3,546)** | - |
| Redeemable preference shares acquired | **-** | (10,400) |
| Fair value of equity accounted interest retained | **-** | (39,020) |
| Payables - sale of business | **595** | 6,420 |
| **Net cash inflow on disposal** | **391,726** | 475,678 |
| Net cash inflow/(outflow) on transaction costs relating to prior year disposal | **19,638** | (155) |
| **Total proceeds on sale of businesses** | **411,364** | 475,523 |

### 43. COMMITMENTS FOR EXPENDITURE

**Capital expenditure commitments**

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **PLANT AND EQUIPMENT** | | |
| Not longer than 1 year | **119,413** | 55,087 |
| Longer than 1 year and not longer than 5 years | **-** | - |
| Longer than 5 years | **-** | - |
| | **119,413** | 55,087 |
| **CONSOLIDATED ENTITY'S SHARE OF JOINTLY CONTROLLED OPERATION'S COMMITMENTS** | | |
| Not longer than 1 year | **45,637** | 79,806 |
| Longer than 1 year and not longer than 5 years | **-** | 49,655 |
| Longer than 5 years | - | - |
| | **45,637** | 129,461 |

### 44. REMUNERATION OF EXTERNAL AUDITOR

| | 2013 $ | 2012 $ |
|---|---|---|
| **Amounts received or due and receivable by Deloitte Touche Tohmatsu for:** | | |
| Auditing the financial report | **765,300** | 570,300 |
| Compliance plan audit | **20,700** | 20,700 |
| Tax compliance and advice [(a)] | **193,305** | 5,500 |
| Other assurance services [(a)] | **505,000** | 646,400 |
| | **1,484,305** | 1,242,900 |

(a) Services provided were in accordance with the external auditor independence policy. Other assurance services comprise financial due diligence, preparation of investigating accountants reports and assurance services in relation to debt raisings and a takeover offer.

### 45. DIRECTOR COMPENSATION

**(a) Details of Directors**

The Directors of the APA group of entities during the financial year were:

***L F Bleasel AM*** (Independent, Non-Executive Chairman)

***M J McCormack*** (Managing Director/Chief Executive Officer)

***S Crane*** (Independent Non-Executive Director)

***J A Fletcher*** (Independent Non-Executive Director)

***R A Higgins AO*** (Independent Non-Executive Director)

***P M McKenzie*** (Independent Non-Executive Director)

***M Muhammad*** (Non-Executive Director, resigned 24 October 2012)

***R J Wright*** (Independent Non-Executive Director)

**(b) Director compensation**

The aggregate compensation made to Directors of the Consolidated Entity is set out below:

| | 2013 $ | 2012 $ |
|---|---|---|
| Short-term employment benefits | **3,431,262** | 2,762,850 |
| Post-employment benefits | **124,280** | 168,148 |
| Cash settled share-based payments | **1,165,290** | 1,021,548 |
| | **4,720,832** | 3,952,546 |

### 45. DIRECTOR COMPENSATION (CONTINUED)

**(b) Director compensation (continued)**

The compensation of each Director of the Consolidated Entity is set out below.

| | SHORT-TERM EMPLOYMENT BENEFITS | | POST-EMPLOYMENT | LONG-TERM INCENTIVE PLANS | |
|---|---|---|---|---|---|
| | SALARY/FEES $ | SHORT-TERM INCENTIVE SCHEME $ | SUPER-ANNUATION $ | SHARE-BASED PAYMENTS [a] $ | TOTAL $ |
| **NON-EXECUTIVE DIRECTORS** | | | | | |
| L F Bleasel AM | | | | | |
| **2013** | **317,252** | **-** | **24,998** | **-** | **342,250** |
| 2012 | 289,000 | - | 24,400 | - | 313,400 |
| S Crane | | | | | |
| **2013** | **146,970** | **-** | **13,230** | **-** | **160,200** |
| 2012 | 134,750 | - | 12,128 | - | 146,878 |
| J A Fletcher | | | | | |
| **2013** | **156,723** | **-** | **19,012** | **-** | **175,735** |
| 2012 | 117,000 | - | 43,250 | - | 160,250 |
| R A Higgins AO | | | | | |
| **2013** | **160,223** | **-** | **14,427** | **-** | **174,650** |
| 2012 | 146,000 | - | 13,145 | - | 159,145 |
| P M McKenzie | | | | | |
| **2013** | **143,000** | **-** | **12,850** | **-** | **155,850** |
| 2012 | 130,000 | - | 11,675 | - | 141,675 |
| M Muhammad [b] | | | | | |
| **2013** | **43,043** | **-** | **-** | **-** | **43,043** |
| 2012 | 130,000 | - | - | - | 130,000 |
| R J Wright | | | | | |
| **2013** | **164,238** | **-** | **14,763** | **-** | **179,001** |
| 2012 | 150,750 | - | 13,550 | - | 164,300 |
| **TOTAL REMUNERATION: NON-EXECUTIVE DIRECTORS** | | | | | |
| **2013** | **1,131,449** | **-** | **99,280** | **-** | **1,230,729** |
| 2012 | 1,097,500 | - | 118,148 | - | 1,215,648 |
| **EXECUTIVE DIRECTORS** | | | | | |
| M J McCormack | | | | | |
| **2013** | **1,167,500** | **1,132,313** | **25,000** | **1,165,290** | **3,490,103** |
| 2012 | 965,000 | 700,350 | 50,000 | 1,021,548 | 2,736,898 |
| **TOTAL REMUNERATION: DIRECTORS** | | | | | |
| **2013** | **2,298,949** | **1,132,313** | **124,280** | **1,165,290** | **4,720,832** |
| 2012 | 2,062,500 | 700,350 | 168,148 | 1,021,548 | 3,952,546 |

(a) Cash settled share-based payments.

(b) Muri Muhammad resigned as a Director on 24 October 2012.

## 46. KEY MANAGEMENT PERSONNEL COMPENSATION

### (a) Details of key management personnel

The members of key management personnel of the APA group of entities during the financial year were:

***M J McCormack*** (Managing Director/Chief Executive Officer)

***P J Fredricson*** (Chief Financial Officer)

***R M Gersbach*** (Chief Executive Strategy and Development)

***S P Ohl*** (Group Executive Strategic Projects, retired 1 July 2013)

***M T Knapman*** (Company Secretary)

***P J Wallace*** (Group Executive Human Resources)

***R A Wheals*** (Group Executive Transmission)

***J L Ferguson*** (Group Executive Networks)

***K Lester*** (Group Executive Infrastructure Development, appointed 6 August 2012)

### (b) Key management personnel compensation

The aggregate compensation made to key management personnel of the Consolidated Entity is set out below:

| | **2013 $** | 2012 $ |
|---|---|---|
| Short-term employment benefits | **8,377,184** | 5,922,156 |
| Post-employment benefits | **203,207** | 298,160 |
| Cash settled share-based payments | **3,302,138** | 2,638,476 |
| Retention award | **720,667** | - |
| Termination payments | **245,000** | - |
| | **12,848,196** | 8,858,792 |

The executive remuneration strategy is to:

– attract and retain key executives who will create long-term sustainable value for Securityholders;
– 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 those of Securityholders; and
– comply with applicable legal requirements and appropriate standards of governance.

APA's remuneration mix is structured as a mix of base pay and 'at risk' short and long-term incentive components.

Total fixed remuneration is reviewed annually and is determined by reference to appropriate remuneration benchmarking information, taking into account an individual's responsibilities, performance, qualifications and experience.

Operating cash flow per security has been chosen by the Board as the key performance measure for the short-term incentive scheme. This is directly linked to the strategic goal of increasing operating cash flows over the medium term, thereby improving returns to Securityholders.

The key performance measures for the long-term incentive scheme are Total Securityholder Returns performance against the ASX 100 comparator group and Earnings Before Interest, Tax, Depreciation and Amortisation divided by Funds Employed. These measures are directly linked to the experience of APA Securityholders compared to the general shareholder market.

Refer to the Remuneration Report for further details of APA's executive remuneration policy.

**46. KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)**

**(b) Key management personnel compensation (continued)**

The compensation of each member of the key management personnel of the Consolidated Entity is set out below.

| | SHORT-TERM EMPLOYMENT BENEFITS | | | POST-EMPLOYMENT | LONG-TERM INCENTIVE PLANS | | |
|---|---|---|---|---|---|---|---|
| | SALARY/FEES $ | SHORT-TERM INCENTIVE SCHEME $ | NON-MONETARY $ | SUPER-ANNUATION $ | SHARE-BASED PAYMENTS [a] $ | OTHER PAYMENTS [b] $ | TOTAL $ |
| **KEY MANAGEMENT PERSONNEL** | | | | | | | |
| M J McCormack | | | | | | | |
| **2013** | **1,167,500** | **1,132,313** | **-** | **25,000** | **1,165,290** | **-** | **3,490,103** |
| 2012 | 965,000 | 700,350 | - | 50,000 | 1,021,548 | - | 2,736,898 |
| P J Fredricson | | | | | | | |
| **2013** | **653,530** | **477,375** | **-** | **16,470** | **462,536** | **202,000** | **1,811,911** |
| 2012 | 590,225 | 292,395 | - | 15,775 | 290,755 | - | 1,189,150 |
| R M Gersbach | | | | | | | |
| **2013** | **707,608** | **505,080** | **11,922** | **16,470** | **522,376** | **228,667** | **1,992,123** |
| 2012 | 658,303 | 321,563 | 11,922 | 15,775 | 475,330 | - | 1,482,893 |
| S P Ohl [c] | | | | | | | |
| **2013** | **465,530** | **312,375** | **-** | **24,470** | **362,815** | **245,000** | **1,410,190** |
| 2012 | 415,377 | 182,125 | 4,848 | 49,775 | 337,336 | - | 989,461 |
| M T Knapman | | | | | | | |
| **2013** | **411,000** | **215,482** | **-** | **25,000** | **234,415** | **-** | **885,897** |
| 2012 | 366,000 | 132,922 | - | 50,000 | 215,843 | - | 764,765 |
| P J Wallace | | | | | | | |
| **2013** | **345,149** | **237,263** | **-** | **24,999** | **129,441** | **-** | **736,852** |
| 2012 | 272,243 | 147,345 | - | 41,257 | 60,110 | - | 520,955 |
| R A Wheals | | | | | | | |
| **2013** | **390,000** | **239,663** | **-** | **25,000** | **193,639** | **60,000** | **908,302** |
| 2012 | 329,000 | 117,369 | - | 25,000 | 119,753 | - | 591,122 |
| J L Ferguson [e] | | | | | | | |
| **2013** | **358,130** | **267,143** | **-** | **24,870** | **185,791** | **130,000** | **965,934** |
| 2012 | 295,422 | 119,747 | - | 50,578 | 117,801 | - | 583,548 |
| K Lester [d] | | | | | | | |
| **2013** | **299,905** | **180,216** | **-** | **20,928** | **45,835** | **100,000** | **646,884** |
| 2012 | - | - | - | - | - | - | - |
| **TOTAL REMUNERATION** | | | | | | | |
| **2013** | **4,798,352** | **3,566,910** | **11,922** | **203,207** | **3,302,138** | **965,667** | **12,848,196** |
| 2012 | 3,891,570 | 2,013,816 | 16,770 | 298,160 | 2,638,476 | - | 8,858,792 |

(a) Cash settled share-based payments.

(b) Other payments include the first instalment of Loyalty Payment.

(c) S Ohl retired with effect 1 July 2013. A termination payment of $353,716 (representing the termination benefit of $245,000 plus statutory entitlements) has not been paid in the financial year 2013. The payment will be made in future years.

(d) Kevin Lester joined APA Group as Group Executive Infrastructure Development on 6 August 2012 and received a Sign-On/Enticement payment.

(e) Other payments include the first instalment of Loyalty Payment and an ex-gratia payment for acting in the position of Group Executive Operations.

## 47. RELATED PARTY TRANSACTIONS

### (a) Equity interest in related parties

Details of the percentage of ordinary securities held in subsidiaries are disclosed in Note 40 and the details of the percentage held in jointly controlled operations are disclosed in Note 39. Details of interests in jointly controlled entities and associates are disclosed in Note 17.

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

The Responsible Entity is wholly owned by APT Pipelines Limited.

### (c) Transactions with key management personnel

Details of Directors and key management personnel compensation are disclosed in Note 45 and 46 respectively.

***(i) Loans to key management personnel***

No loans have been made to key management personnel.

***(ii) Key management personnel equity holdings***

| | FULLY PAID SECURITIES OPENING BALANCE | SECURITIES ACQUIRED DURING THE FINANCIAL YEAR | SECURITIES DISPOSED DURING THE FINANCIAL YEAR | FULLY PAID SECURITIES CLOSING BALANCE |
|---|---|---|---|---|
| **2013** | | | | |
| L F Bleasel AM | **443,093** | **17,571** | **-** | **460,664** |
| S Crane | **100,000** | **-** | **-** | **100,000** |
| J A Fletcher | **63,298** | **2,890** | **-** | **66,188** |
| R A Higgins AO | **86,160** | **5,880** | **-** | **92,040** |
| P M McKenzie | **12,500** | **-** | **-** | **12,500** |
| M Muhammad [(a)] | **42,818** | **-** | **-** | **42,818** |
| R J Wright | **36,924** | **2,520** | **-** | **39,444** |
| M J McCormack | **195,264** | **13,326** | **-** | **208,590** |
| P J Fredricson | **6,216** | **1,500** | **-** | **7,716** |
| R M Gersbach | **454** | **31** | **-** | **485** |
| S P Ohl | **14,896** | **-** | **-** | **14,896** |
| M T Knapman | **7,000** | **201** | **-** | **7,201** |
| P J Wallace | **-** | **6,000** | **-** | **6,000** |
| R A Wheals | **1,500** | **-** | **-** | **1,500** |
| J L Ferguson | **1,967** | **-** | **-** | **1,967** |

(a) M Muhammad resigned effective 24 October 2012. Closing balance represents balance at that date.

| | | | | |
|---|---|---|---|---|
| **2012** | | | | |
| L F Bleasel AM | 375,405 | 67,688 | - | 443,093 |
| S Crane | 100,000 | - | - | 100,000 |
| J A Fletcher | 60,026 | 3,272 | - | 63,298 |
| R A Higgins AO | 79,503 | 6,657 | - | 86,160 |
| P M McKenzie | - | 12,500 | | 12,500 |
| M Muhammad | 42,818 | - | - | 42,818 |
| R J Wright | 34,071 | 2,853 | - | 36,924 |
| M J McCormack | 170,619 | 24,645 | - | 195,264 |
| P J Fredricson | 3,269 | 2,947 | - | 6,216 |
| R M Gersbach | 9,796 | 454 | 9,796 | 454 |
| S P Ohl | 14,896 | - | - | 14,896 |
| M T Knapman | 4,484 | 2,516 | - | 7,000 |
| P J Wallace | - | - | - | - |
| R A Wheals | 1,500 | - | - | 1,500 |
| J L Ferguson | 1,967 | - | - | 1,967 |

## 47. RELATED PARTY TRANSACTIONS (CONTINUED)

### (c) Transactions with key management personnel (continued)

***(iii) Other transactions with key management personnel of the Group and the Responsible Entity***

Other than Directors compensation (Note 45) and key management personnel compensation (Note 46) and equity holdings (Note 47(c)(ii)), there are no other transactions with key management personnel of the Group and the Responsible Entity.

### (d) Transactions with related parties within APA Group

Transactions between the entities that comprise APA Group during the financial year consisted of:

- dividends;
- asset lease rentals;
- loans advanced and payments received on long-term inter-entity loans;
- management fees;
- operational services provided between entities;
- payments of distributions;
- payments of capital distributions (returns of capital); and
- equity issues.

The above transactions were made on normal commercial terms and conditions. The Group charges interest on inter-entity loans from time to time.

All transactions between the entities that comprise APA Group have been eliminated on consolidation. Refer to Note 40 for details of the entities that comprise APA Group.

***Australian Pipeline Limited***

Management fees of $2,727,683 (2012: $2,559,434) 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, except as disclosed at Note 45(b).

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 the issue of Guaranteed Senior Notes.

### (e) Transactions with other related parties

***Transactions with associates and jointly controlled entities***

The following transactions occurred with the APA Group's associates on normal market terms and conditions:

| | PURCHASES SALES TO RELATED PARTIES $ | AMOUNT FROM RELATED PARTIES $ | AMOUNT OWED BY RELATED PARTIES $ | OWED TO RELATED PARTIES $ |
|---|---|---|---|---|
| **2013** | | | | |
| SEA Gas | **3,121,756** | **4,844** | **106,596** | **-** |
| Energy Infrastructure Investments | **23,316,649** | **-** | **5,910,899** | **-** |
| EII 2 | **654,438** | **-** | **40,197** | **-** |
| APA Ethane Ltd | **200,000** | **-** | **-** | **-** |
| Diamantina Power Station | **4,392,146** | **-** | **142,617** | **-** |
| GDI (EII) | **39,626,374** | **-** | **5,077,118** | **-** |
| Envestra Limited | **326,934,622** | **1,255,441** | **35,644,118** | **-** |
| | **398,245,985** | **1,260,285** | **46,921,545** | **-** |

Interest income on a shareholder loan to Diamantina during the year was $3,630,160. At year end, APA had receivables with other related parties of $9,009,417.

| | PURCHASES SALES TO RELATED PARTIES $ | AMOUNT FROM RELATED PARTIES $ | AMOUNT OWED BY RELATED PARTIES $ | OWED TO RELATED PARTIES $ |
|---|---|---|---|---|
| **2012** | | | | |
| SEA Gas | 2,602,524 | - | 78,326 | - |
| Energy Infrastructure Investments | 28,509,775 | - | 5,130,619 | - |
| EII 2 | 637,376 | - | - | - |
| APA Ethane Ltd | 200,000 | - | - | - |
| Diamantina Power Station | 5,385,943 | - | 89,749,008 | - |
| GDI (EII) | 21,050,337 | - | 3,907,990 | - |
| Envestra Limited | 296,428,404 | 566,250 | 38,311,409 | - |
| | 354,814,359 | 566,250 | 137,177,352 | - |

Interest income on a shareholder loan to Diamantina during the year was $2,265,286. At year end, APA had receivables with other related parties of $6,744,692.

Transactions with all related parties have taken place at arm's length and in the ordinary course of business.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

## 48. PARENT ENTITY INFORMATION

The accounting policies of the parent entity, which have been applied in determining the financial information below, are the same as those applied in the consolidated financial statements. Refer to note 3 for a summary of significant accounting policies relating to the Group.

| | **2013 $000** | 2012 $000 |
|---|---|---|
| **FINANCIAL POSITION** | | |
| **Assets** | | |
| Current assets | **902,410** | 402,383 |
| Non-current assets | **1,029,610** | 846,475 |
| Total assets | **1,932,020** | 1,248,858 |
| **Liabilities** | | |
| Current liabilities | **98,473** | 98,427 |
| Non-current liabilities | **-** | - |
| Total liabilities | **98,473** | 98,427 |
| Net Assets | **1,833,547** | 1,150,431 |
| **Equity** | | |
| Issued capital | **1,820,516** | 1,138,205 |
| Retained earnings | **11,294** | 9,881 |
| Reserves | | |
| Available-for-sale investment revaluation reserve | **1,737** | 2,345 |
| Total equity | **1,833,547** | 1,150,431 |
| **FINANCIAL PERFORMANCE** | | |
| Profit for the year | **156,128** | 49,363 |
| Other comprehensive income | **(607)** | 1,583 |
| Total comprehensive income | **155,521** | 50,946 |

**Guarantees entered into by the parent entity in relation to the debts of its subsidiaries**

No guarantees have been entered into by the parent entity in relation to the debts of its subsidiaries.

**Contingent liabilities of the parent entity**

No contingent liabilities have been identified in relation to the parent entity.

## 49. CONTINGENCIES

| | **2013 $000** | 2012 $000 |
|---|---|---|
| **CONTINGENT LIABILITIES** | | |
| Bank guarantees | **157,200** | 31,632 |
| **CONTINGENT ASSETS** | **-** | - |

## 50. EVENTS OCCURRING AFTER REPORTING DATE

On 16 July 2013, APA announced that an indicative and non-binding all-share merger proposal has been submitted to the Board of Envestra Limited. Under the proposal Envestra shareholders would receive 0.1678 new APA stapled securities for each Envestra share they own. On 5 August 2013, Envestra announced that it had decided to reject the APA proposal. APA continues to consider its position on this proposed transaction.

On 21 August 2013, the Directors declared a final distribution of 18.5 cents per security ($154.6 million) for the APA Group (comprising a distribution of 16.02 cents per security from APT and a distribution of 2.48 cents per security from APTIT), made up of 18.34 cents per security profit distribution (unfranked) and 0.16 cents per security capital distribution. The distribution will be paid on 11 September 2013.

Other than the events disclosed above, there have not been any events or transactions that have occurred subsequent to year end that would require adjustment to or disclosure in the accounts.

# DECLARATION BY THE DIRECTORS OF AUSTRALIAN PIPELINE LIMITED

For the financial year ended 30 June 2013

The Directors declare that:

(a) in the Directors' opinion, there are reasonable grounds to believe that Australian Pipeline Trust will be able to pay its debts as and when they become due and payable;

(b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with Accounting Standards and giving a true and fair view of the financial position and performance of the Consolidated Entity;

(c) in the Directors' opinion, the financial statements and notes thereto are in accordance with International Financial Reporting Standards as stated in Note 3 to the financial statements; and

(d) the Directors have been given the declarations by the Managing Director and Chief Financial Officer 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

**Leonard Bleasel AM**
Chairman

**Robert Wright**
Director

SYDNEY, 21 August 2013

# AUDITOR'S INDEPENDENCE DECLARATION

For the financial year ended 30 June 2013

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
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Sydney NSW 2000
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The Directors
Australian Pipeline Limited as responsible entity for
Australian Pipeline Trust
HSBC Building
Level 19, 580 George Street
Sydney NSW 2000

21 August 2013

Dear Directors

**Auditors Independence Declaration to Australian Pipeline Limited as responsible entity for Australian Pipeline Trust**

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 responsible entity for Australian Pipeline Trust.

As lead audit partner for the audit of the financial statements of Australian Pipeline Trust for the financial year ended 30 June 2013, 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 sincerely

DELOITTE TOUCHE TOHMATSU

G Couttas
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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# Independent Auditor's Report to the Unitholders of Australian Pipeline Trust

We have audited the accompanying financial report of Australian Pipeline Trust, which comprises the statement of financial position as at 30 June 2013, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the Trust and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 37 to 98.

*Directors' Responsibility for the Financial Report*

The directors of Australian Pipeline Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

*Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Australian Pipeline Limited as responsible entity for Australian Pipeline Trust would be in the same terms if given to the directors as at the time of this auditor's report.

*Opinion*

In our opinion:

(a) the financial report of Australian Pipeline Trust is in accordance with the *Corporations Act 2001*, including:

 (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

 (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 3.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

G. Couttas

G Couttas
Partner
Chartered Accountants
Sydney, 21 August 2013

# APT INVESTMENT TRUST AND ITS CONTROLLED ENTITIES ARSN 115 585 441

## DIRECTORS' REPORT

The Directors of Australian Pipeline Limited ("Responsible Entity") submit their report and the annual financial report of APT Investment Trust ("APTIT") and its controlled entities (together "Consolidated Entity") for the financial year ended 30 June 2013. This report refers to the consolidated results of APTIT, one of the two stapled entities of APA Group, with the other stapled entity being Australian Pipeline Trust (together "APA").

### DIRECTORS

The names of the Directors of the Responsible Entity during the year and since the year end are:

| | |
|---|---|
| **Leonard Bleasel AM** | Chairman |
| **Michael McCormack** | Chief Executive Officer and Managing Director |
| **Steven Crane** | |
| **John Fletcher** | |
| **Russell Higgins AO** | |
| **Patricia McKenzie** | |
| **Muri Muhammad (retired 24 October 2012)** | |
| **Robert Wright** | |

Details of the Directors, their qualifications, experience, special responsibilities and Directorships of other listed entities are set out on pages 14 to 16.

### PRINCIPAL ACTIVITIES

APTIT operates as an investment and financing entity within the Australian Pipeline Trust stapled group.

### REVIEW AND RESULTS OF OPERATIONS

APTIT reported net profit after tax of $38.1 million (2012: $46.0 million) for the year ended 30 June 2013 on total revenue of $38.1 million (2012: $46.0 million).

### SIGNIFICANT CHANGES IN STATE OF AFFAIRS

In December 2012 APA completed the takeover of Hastings Diversified Utilities Fund ("HDF"), an ASX-listed investment vehicle whose assets included three natural gas transmission pipeline systems – the South West Queensland Pipeline, the Moomba Adelaide Pipeline System ("MAPS") and the Pilbara Pipeline System. In May 2013 APA completed the divestment of MAPS consistent with the undertaking given to the Australian Competition and Consumer Commission.

### DISTRIBUTIONS

Distributions paid to Securityholders during the year were:

| | FINAL FY2012 DISTRIBUTION PAID 14 SEPTEMBER 2012 | | **INTERIM FY2013 DISTRIBUTION PAID 13 MARCH 2013** | |
|---|---|---|---|---|
| | Cents per security | Total distribution $000 | **Cents per security** | **Total distribution $000** |
| APTIT profit distribution | 3.28 | 21,160 | **2.26** | **18,719** |
| APTIT capital distribution | 2.31 | 14,879 | **-** | **-** |
| Total | 5.59 | 36,039 | **2.26** | **18,719** |

On 21 August 2013, the Directors declared a final distribution for APTIT for the year of 2.48 cents per security which is payable on 11 September 2013 and will comprise the following components:

| | **FINAL FY2013 DISTRIBUTION PAYABLE 11 SEPTEMBER 2013** | |
|---|---|---|
| | **Cents per security** | **Total distribution $000** |
| APTIT profit distribution | **2.32** | **19,424** |
| APTIT capital distribution | **0.16** | **1,313** |
| Total | **2.48** | **20,737** |

Distribution information is presented on an accounting classification basis. The APA Annual Tax Statement and Annual Tax Return Guide (to be released in September 2013) provide the classification of distribution components for the purposes of preparation of securityholder income tax returns.

# DIRECTORS' REPORT
CONTINUED

## SUBSEQUENT EVENTS

Except as disclosed elsewhere in this report, the Directors are unaware of any matter or circumstance that has occurred since the end of the 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 years.

## OTHER INFORMATION

Details of the Directors and Company Secretary of the Responsible Entity are set out in the Australian Pipeline Trust Directors' report at pages 2 to 18. That report also contains information on the Directors' directorships of other listed companies, their attendance at meetings and securityholdings, options, indemnification of officers, remuneration and the auditor's provision of non-audit services and independence.

## 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 scheme property during the year are disclosed in Note 17 to the financial statements.

Except as disclosed in this report, neither the Responsible Entity nor any of its associates holds any APA securities.

The number of APA securities issued during the year, and the number of APA securities at the end of the year, are disclosed in Note 10 to the financial statements.

The value of APA's assets as at the end of the year is disclosed in the balance sheet in total assets, and the basis of valuation is included in Note 3 to the financial statements.

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included on page 124.

## ROUNDING OF AMOUNTS

APA is an entity of the kind referred to in ASIC Class Order 98/0100 dated 10 July 1998 and, in accordance with that Class Order, amounts in the Directors' report and the financial report are rounded 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

**Leonard Bleasel AM**
Chairman

**Robert Wright**
Director

SYDNEY, 21 August 2013

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 30 June 2013

| | Note | **2013 $000** | 2012 $000 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Revenue | 4 | **38,155** | 45,969 |
| Expenses | 4 | **(12)** | (12) |
| Profit before tax | | **38,143** | 45,957 |
| Income tax expense | | **-** | - |
| **Profit for the year** | | **38,143** | 45,957 |
| **Other comprehensive income** | | | |
| **Items that may be reclassified to profit and loss:** | | | |
| (Loss)/gain on available-for-sale investments taken to equity | | **(1,157)** | 1,090 |
| Other comprehensive income for the year (net of tax) | | **(1,157)** | 1,090 |
| **Total comprehensive income for the year** | | **36,986** | 47,047 |
| **Profit Attributable to:** | | | |
| Equityholders of the parent | | **38,143** | 45,957 |
| | | **38,143** | 45,957 |
| **Total comprehensive income attributable to:** | | | |
| Equityholders of the parent | | **36,986** | 47,047 |
| **EARNINGS PER SECURITY** | | | |
| Basic and diluted earnings per security (cents) | 12 | **4.9** | 7.2 |

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

*The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.*

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

| | Note | 2013 $000 | 2012 $000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Receivables | 6 | **641** | 755 |
| **NON-CURRENT ASSETS** | | | |
| Receivables | 7 | **11,260** | 11,869 |
| Other financial assets | 8 | **586,794** | 374,236 |
| **Total non-current assets** | | **598,054** | 386,105 |
| **Total assets** | | **598,695** | 386,860 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 9 | **24** | 10 |
| **Total liabilities** | | **24** | 10 |
| **Net assets** | | **598,671** | 386,850 |
| **EQUITY** | | | |
| Issued capital | 10 | **578,780** | 364,066 |
| Reserves | 11 | **467** | 1,624 |
| Retained earnings | | **19,424** | 21,160 |
| **Total equity** | | **598,671** | 386,850 |

*The above consolidated statement of financial position should be read in conjunction with the accompanying notes.*

APT INVESTMENT TRUST AND ITS CONTROLLED ENTITIES

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June 2013

| | Note | ISSUED CAPITAL $000 | RESERVES $000 | RETAINED EARNINGS $000 | TOTAL $000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2011** | | 382,001 | 534 | 18,295 | 400,830 |
| Profit for the year | | - | - | 45,957 | 45,957 |
| Other comprehensive income for the period (net of tax) | 11 | - | 1,090 | - | 1,090 |
| Total comprehensive income for the year | | - | 1,090 | 45,957 | 47,047 |
| Issue of capital (net of issue costs) | 10 | 10,715 | - | - | 10,715 |
| Distributions to Securityholders | 5 | (28,650) | - | (43,092) | (71,742) |
| **Balance at 30 June 2012** | | 364,066 | 1,624 | 21,160 | 386,850 |
| **Balance at 1 July 2012** | | 364,066 | 1,624 | 21,160 | 386,850 |
| Profit for the year | | - | - | 38,143 | 38,143 |
| Other comprehensive income for the period (net of tax) | 11 | - | (1,157) | - | (1,157) |
| Total comprehensive income for the year | | - | (1,157) | 38,143 | 36,986 |
| Issue of capital (net of issue costs) | 10 | 229,593 | - | - | 229,593 |
| Distributions to Securityholders | 5 | (14,879) | - | (39,879) | (54,758) |
| **Balance at 30 June 2013** | | **578,780** | **467** | **19,424** | **598,671** |

*The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.*

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 30 June 2013

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Trust distribution - related party | **25,190** | 31,270 |
| Capital distribution received - external | **271** | 521 |
| Dividends received | **150** | 152 |
| Interest received - related parties | **13,888** | 9,906 |
| Finance lease receivable repayments | **1,167** | 1,167 |
| Receipts from customers | **167** | 150 |
| Payments to suppliers | **(12)** | (12) |
| **Net cash provided by operating activities** | **40,821** | 43,154 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| (Advances to)/repayment received from related parties | **(3,635)** | 17,873 |
| **Net cash (used in)/provided by investing activities** | **(3,635)** | 17,873 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from issue of securities | **19,663** | 10,715 |
| Payments of security issue costs | **(2,091)** | - |
| Distributions to Securityholders | **(54,758)** | (71,742) |
| **Net cash used in financing activities** | **(37,186)** | (61,027) |
| **Net increase in cash and cash equivalents** | **-** | - |
| Cash and cash equivalents at beginning of financial year | **-** | - |
| **Cash and cash equivalents at end of financial year** | **-** | - |

*The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 30 June 2013

## 1. GENERAL INFORMATION

APT Investment Trust ("APTIT" or "Trust") is one of the two stapled entities of APA Group ("APA"), the other stapled entity being Australian Pipeline Trust ("APT"), listed on the Australian Securities Exchange (trading under the symbol 'APA'), registered in Australia and operating in Australia.

APTIT's registered office and its principal place of business are as follows:

**Registered office and principal place of business**

Level 19
HSBC Building
580 George Street
SYDNEY NSW 2000
Tel: (02) 9693 0000

APTIT operates as an investment and financing entity within the Australian Pipeline Trust stapled group.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Statement of compliance**

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial report represents the consolidated financial statements of the Consolidated Entity. For the purposes of preparing the consolidated financial report, the Consolidated Entity is a for-profit entity. Accounting Standards include Australian equivalents to International Financial Reporting Standards ("A-IFRS"). Compliance with A-IFRS ensures that the financial statements and notes of the Trust and the Consolidated Entity comply with International Financial Reporting Standards ("IFRS").

The financial statements were authorised for issue by the Directors on 21 August 2013.

**Basis of preparation**

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated under the option available to APTIT under ASIC Class Order 98/0100. APTIT is an entity to which the class order applies.

**Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Consolidated Entity's accounting policies, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Refer to Note 3 for a discussion of critical judgements in applying the entity's accounting policies, and key sources of estimation uncertainty.

**Adoption of new and revised Accounting Standards**

In the current year, the Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to its operations and effective for the current annual reporting period. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below:

***(a) Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)***

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in part b.

***Standards affecting presentation and disclosure***

| STANDARD | IMPACT |
|---|---|
| – Amendments to AASB 101 'Presentation of Financial Statements' | The amendments (part of AASB 2011-9 'Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income') introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to AASB 101, the statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and the income statement is renamed as a statement of profit or loss. The amendments to AASB 101 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be located on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income. |

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

| STANDARD | IMPACT |
|---|---|
| – Amendments to AASB 101 'Presentation of Financial Statements' | The amendments (part of AASB 2012-5 'Further Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle') requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position), when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The related notes to the third statement of financial position are not required to be disclosed. |

***(b) Standards and Interpretations affecting the reported results or financial position***

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position.

***(c) Standards and Interpretations issued not yet adopted***

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

| STANDARD/INTERPRETATION | EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER | EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING |
|---|---|---|
| – AASB 9 'Financial Instruments', and the relevant amending standards | 1 January 2015 | 30 June 2016 |
| – AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards' | 1 January 2013 | 30 June 2014 |
| – AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards' | 1 January 2013 | 30 June 2014 |
| – AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards' | 1 January 2013 | 30 June 2014 |
| – AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards' | 1 January 2013 | 30 June 2014 |
| – AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards' | 1 January 2013 | 30 June 2014 |
| – AASB 13 Fair Value Measurement and AASB 2010-8 'Amendments to Australian Accounting Standards arising from AASB 13' | 1 January 2013 | 30 June 2014 |
| – AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)' | 1 January 2013 | 30 June 2014 |
| – AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements' | 1 July 2013 | 30 June 2014 |
| – AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities' | 1 January 2013 | 30 June 2014 |
| – AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities' | 1 January 2014 | 30 June 2015 |
| – AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle' | 1 January 2013 | 30 June 2014 |
| – AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments' | 1 January 2013 | 30 June 2014 |
| – AASB 2013-3 'Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets' | 1 January 2014 | 30 June 2015 |

APA has yet to determine any change in accounting for existing arrangements under AASB 10, 11 and 12. In addition, should any arrangements take place which change existing interests and create new interests in controlled entities, the accounting for such transactions, may be different to that applied to transactions in the past.

The potential impact of the initial application of the remaining above Standards has not yet been determined.

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(a) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Trust and entities controlled by the Trust (its subsidiaries) (referred to as the Consolidated Entity in these financial statements). Control is achieved where the Trust has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired during the financial year are included in the statement of comprehensive income from the effective date of acquisition. Where necessary, adjustments are made to financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Consolidated Entity. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets (excluding goodwill) of consolidated controlled entities are identified separately from the Consolidated Entity's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest's share in the controlled entity's equity are allocated against the interests of the Consolidated Entity except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

**(b) Cash and cash equivalents**

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to insignificant risk of changes in values.

**(c) Trade and other payables**

Trade and other payables are recognised when the Consolidated Entity becomes obliged to make future payments resulting from the purchase of goods and services. Trade and other payables are stated at amortised cost.

**(d) Acquisition of assets**

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition. Cost includes expenditure that is directly attributable to the acquisition or construction of the asset.

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.

**(e) Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Consolidated Entity in exchange for control of the acquiree. Acquisition costs directly attributable to the business combination are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the consolidated entity's previously held interests in the acquired entity are remeasured to fair value at the acquisition date and the resulting gains or losses, if any, are recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised in accordance with AASB 112 'Income Taxes' and AASB '119 Employee Benefits' respectively;
- liabilities or equity instruments related to the replacement by the Consolidated Entity of an acquiree's share-based payment awards are measured in accordance with AASB 2 'Share-based payments'; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Consolidated Entity reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted for during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date, that, if known, would have affected the amounts recognised as at that date.

The measurement period is the period from the date of acquisition to the date the Consolidated Entity obtains complete information about facts and circumstances that existed as of the acquisition date - and is subject to a maximum of one year.

**(f) Financial instruments issued by the Consolidated Entity**

***Debt and equity instruments***

Debt and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Consolidated Entity are recorded at the proceeds received, net of direct issue costs.

***Transaction costs arising 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.

***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.

**(g) 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 expenses at balance dates which exclude GST.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Goods and services tax (continued)

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 within operating cash flows.

### (h) Impairment of assets

Assets are reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets: (cash-generating units). Assets other than goodwill that have previously suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### (i) Income tax

Income tax expense is not brought to account in respect of APTIT as, pursuant to the Australian taxation laws APTIT is not liable for income tax provided that its realised taxable income (including any assessable realised capital gains) is fully distributed to its Securityholders each year.

### (j) Financial assets and liabilities

Financial assets are classified into the following specified categories: financial assets 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

***Fair value through profit or loss***

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

***Available-for-sale financial assets***

Financial assets classified as being available-for-sale are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale investment revaluation reserve.

***Receivables and loans***

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Trade and other receivables are stated at their amortised cost less impairment.

***Impairment of financial assets***

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

### (k) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Consolidated Entity and the revenue can be reliably measured. Amounts disclosed as revenue are net of duties and taxes paid. Revenue is recognised for the major business activities as follows:

***Interest revenue***

Interest is recognised by applying the effective interest method, agreed between the parties at the end of each month and is determined by reference to market rates.

***Distribution revenue***

Distribution revenue is recognised when the right to receive a distribution has been established.

***Dividend revenue***

Dividend revenue is recognised when the right to receive a dividend has been established.

***Finance lease income***

Finance lease income is recognised when receivable.

### (l) Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to the ownership of the leased asset to the lessee. All other leases are classified as operating leases.

***Consolidated Entity as lessor***

Amounts due from a lessee under a finance lease are recorded as receivables. Finance lease receivables are initially recognised at the amount equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease receipts are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

### (m) Segment information

APTIT has one reportable segment being energy infrastructure investment and operation.

APTIT is an investing and financing entity within the Australian Pipeline Trust stapled group. As the Trust only operates in one segment, it has not disclosed segment information separately.

## 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Consolidated Entity's accounting policies, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

**Impairment of assets**

Determining whether property, plant and equipment, identifiable intangible assets and goodwill are impaired requires an estimation of the value-in-use or fair value of the cash-generating units. The calculations require the Consolidated Entity to estimate the future cash flows expected to arise from cash-generating units and suitable discount rates in order to calculate the present value of cash-generating units.

Estimates and assumptions used are reviewed on an ongoing basis.

Determining whether available-for-sale investments are impaired requires an assessment as to whether declines in value are significant or prolonged. Management has taken into account a number of qualitative and quantitative factors in making this assessment. Any assessment of whether a decline in value represents an impairment would result in the transfer of the decrement from reserves to the statement of comprehensive income.

**Useful lives of non-current assets**

The Consolidated Entity reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. Any reassessment of useful lives in a particular year will affect the depreciation or amortisation expense.

### 4. PROFIT FROM OPERATIONS

Profit before income tax includes the following items of income and expense:

| | **2013 $000** | 2012 $000 |
|---|---|---|
| **REVENUE** | | |
| **Distributions** | | |
| Trust distribution - related party | **25,190** | 31,270 |
| Other entities | **130** | 177 |
| | **25,320** | 31,447 |
| **FINANCE INCOME** | | |
| Interest - related parties | **13,541** | 9,758 |
| (Loss)/gain on financial asset held at fair value through profit and loss | **(1,460)** | 4,000 |
| Finance lease income - related party | **587** | 614 |
| | **12,668** | 14,372 |
| **OTHER REVENUE** | | |
| Other | **167** | 150 |
| **Total revenue** | **38,155** | 45,969 |
| **EXPENSES** | | |
| Audit fees | **(12)** | (12) |
| **Total expenses** | **(12)** | (12) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

## 5. DISTRIBUTIONS

| | 2013 CENTS PER SECURITY | 2013 TOTAL $000 | 2012 CENTS PER SECURITY | 2012 TOTAL $000 |
|---|---|---|---|---|
| **RECOGNISED AMOUNTS:** | | | | |
| **Final distribution paid on 15 September 2012** | | | | |
| (2012: 15 September 2011) | | | | |
| Profit distribution [(a)] | **3.28** | **21,160** | 3.41 | 18,295 |
| Capital distribution | **2.31** | **14,879** | 2.66 | 15,449 |
| | **5.59** | **36,039** | 6.07 | 33,744 |
| **Interim distribution paid on 13 March 2013** | | | | |
| (2012: 15 March 2012) | | | | |
| Profit distribution [(a)] | **2.26** | **18,719** | 3.88 | 24,797 |
| Capital distribution | **-** | **-** | 2.06 | 13,201 |
| | **2.26** | **18,719** | 5.94 | 37,998 |
| **UNRECOGNISED AMOUNTS:** | | | | |
| **Final distribution payable on 11 September 2013** [(b)] | | | | |
| (2012: 14 September 2012) | | | | |
| Profit distribution [(a)] | **2.32** | **19,424** | 3.28 | 21,160 |
| Capital distribution | **0.16** | **1,313** | 2.31 | 14,879 |
| | **2.48** | **20,737** | 5.59 | 36,039 |

(a) Profit distributions unfranked (2012: unfranked).

(b) Record date 28 June 2013.

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 confirmed prior to the end of the financial year.

## 6. CURRENT RECEIVABLES

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Other debtors | **32** | 175 |
| Finance lease receivable - related party (Note 14) | **609** | 580 |
| | **641** | 755 |

In determining the recoverability of a receivable, the Consolidated Entity considers any change in the credit quality of the receivable from the date the credit was initially granted up to the reporting date. The Directors believe that there is no credit provision required.

None of the above receivables is past due.

## 7. NON-CURRENT RECEIVABLES

| | | |
|---|---|---|
| Finance lease receivable - related party (Note 14) | **11,260** | 11,869 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

## 8. NON-CURRENT OTHER FINANCIAL ASSETS

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Advance to related party | **442,225** | 226,556 |
| Investments carried at cost: | | |
| Investment in related party [(a)] | **107,379** | 107,379 |
| | **549,604** | 333,935 |
| Financial assets carried at fair value: | | |
| Redeemable ordinary shares [(b)] | **34,807** | 36,614 |
| Available-for-sale investments carried at fair value [(c)] | **2,383** | 3,687 |
| | **586,794** | 374,236 |

(a) The investment in related party reflects GasNet Australia Investments Trust's ("GAIT") investment in 100% of the B Class units in GasNet A Trust. The B Class units give GAIT rights to the income and capital of GasNet A Trust, but hold no voting rights. As such, GAIT neither controls nor has a significant influence over GasNet A Trust. GasNet Australia Trust, a related party wholly owned by APA, owns 100% of the A Class units in GasNet A Trust and, accordingly, GasNet A Trust is included in the consolidation of the APA entities. The investment has not been measured at fair value as the units of GasNet A Trust are not available for trade on an active market and as such, the fair value of the units cannot be "reliably determined. The Consolidated Entity does not intend to dispose of its interest in GasNet A Trust.

(b) Financial assets carried at fair value relate to APA Group's 19.9% investment in Energy Infrastructure Investments Pty Ltd where APL, as Responsible Entity for APTIT, acquired the redeemable ordinary shares.

(c) Available-for-sale investments reflect a 6% unitholding in Ethane Pipeline Income Fund. Capital distributions of $270,899 were received during the year.

## 9. TRADE AND OTHER PAYABLES

| | 2013 | 2012 |
|---|---|---|
| Other payables | **24** | 10 |

## 10. ISSUED CAPITAL

| | 2013 | 2012 |
|---|---|---|
| 835,751,807 securities, fully paid (2012: 644,485,583 securities, fully paid) [(a)] | **578,780** | 364,066 |

| | 2013 NO. OF UNITS 000 | 2013 $000 | 2012 NO. OF UNITS 000 | 2012 $000 |
|---|---|---|---|---|
| **MOVEMENTS** | | | | |
| Balance at beginning of financial year | **644,486** | **364,066** | 634,116 | 382,001 |
| Issue of securities under Distribution Reinvestment Plan | **15,548** | **19,663** | 10,370 | 10,733 |
| Issue of securities as consideration for related party acquisition [(b)] | **175,717** | **212,035** | - | - |
| Issue cost of securities | **-** | **(2,105)** | - | (18) |
| Capital distributions paid (Note 5) | **-** | **(14,879)** | - | (28,650) |
| **Balance at end of financial year** | **835,751** | **578,780** | 644,486 | 364,066 |

(a) Fully paid securities carry one vote per security and carry the right to distributions.

(b) APTIT issued securities as part consideration for APT Pipelines Ltd's acquisition of the Hastings Diversified Utilities Fund during the year.

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to issued capital from 1 July 1998. Therefore, the Trust does not have a limited amount of authorised capital and issued securities do not have a par value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

## 11. RESERVES

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **Available-for-sale investment revaluation reserve** | | |
| Balance at beginning of financial year | **1,624** | 534 |
| Valuation (loss)/gain recognised | **(1,157)** | 1,090 |
| **Balance at end of financial year** | **467** | 1,624 |

The available-for-sale investment revaluation reserve arises on the revaluation of available-for-sale financial assets. When a revalued financial asset is sold, the portion of the reserve which relates to that financial asset is effectively realised, and is recognised in profit or loss. When a revalued financial asset is impaired, the portion of the reserve which relates to that financial asset is recognised in profit or loss.

## 12. EARNINGS PER SECURITY

| | | |
|---|---|---|
| Basic and diluted earnings per security (cents) | **4.9** | 7.2 |

The earnings and weighted average number of ordinary securities used in the calculation of basic and diluted earnings per security are as follows:

| | | |
|---|---|---|
| Net profit attributable to Securityholders for calculating basic and diluted earnings per security ($'000) | **38,143** | 45,957 |

| | NO. OF SECURITIES | |
|---|---|---|
| | **2013** | 2012 |
| Weighted average number of ordinary securities on issue used in the calculation (000) | **772,314** | 639,743 |

## 13. REMUNERATION OF EXTERNAL AUDITOR

| | 2013 $ | 2012 $ |
|---|---|---|
| **Amounts received or due and receivable by Deloitte Touche Tohmatsu for:** | | |
| Auditing the financial report | **11,958** | 11,958 |

## 14. LEASES

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **FINANCE LEASES** | | |
| **Leasing arrangements - receivables** | | |
| Finance lease receivables relate to the lease of a pipeline lateral. There are no contingent rental payments due. | | |
| **Finance lease receivables** | | |
| Not longer than 1 year | **1,167** | 1,167 |
| Longer than 1 year and not longer than 5 years | **4,669** | 4,669 |
| Longer than 5 years | **10,506** | 11,673 |
| Minimum future lease payments receivable [(a)] | **16,342** | 17,509 |
| Gross finance lease receivables | **16,342** | 17,509 |
| Less: unearned finance lease receivables | **(4,473)** | (5,060) |
| Present value of lease receivables | **11,869** | 12,449 |
| Included in the financial statements as part of: | | |
| Current receivables (Note 6) | **609** | 580 |
| Non-current receivables (Note 7) | **11,260** | 11,869 |
| | **11,869** | 12,449 |

(a) Minimum future lease payments receivable include the aggregate of all lease payments receivable and any guaranteed residual.

## 15. FINANCIAL INSTRUMENTS

### (a) Financial risk management objectives

APA's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, and monitors and manages the financial risks relating to the operations of the Consolidated Entity. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Consolidated Entity seeks to minimise the effects of these risks through natural hedges and by using derivative instruments to directly hedge the exposures. The use of financial derivatives is governed by the Consolidated Entity's Board approved Treasury Risk Management Policy, which provides written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Consolidated Entity does not enter into or trade financial instruments, including derivative financial instruments for speculative purposes.

The Consolidated Entity had no derivative instruments in place in the current or prior period.

The Corporate Treasury function, via the CFO, reports regularly to APA Group's Audit and Risk Management independent body that monitors risks and policies implemented to mitigate risk exposures.

### (b) Liquidity risk management

The Consolidated Entity has a policy dealing with liquidity risk which requires an appropriate liquidity risk management framework for the management of the Consolidated Entity's short, medium and long-term funding and liquidity management requirements. Liquidity risk is managed by maintaining adequate cash reserves and banking facilities, by monitoring and forecasting cash flow and where possible arranging liabilities with longer maturities to more closely match the underlying assets and revenue streams of the Consolidated Entity.

### (c) Credit risk management

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 bank guarantees where appropriate as a means of mitigating the risk of any loss. The carrying amount of financial assets recorded in the statement of financial position, net of any allowances, represents the Consolidated Entity's maximum exposure to credit risk in relation to those assets.

### (d) Market risk management

The Consolidated Entity's activities exposure is primarily to the financial risk of changes in interest rates. There has been no change to the Consolidated Entity's exposure to market risk or the manner in which it manages and measures the risk from the previous period. The Consolidated Entity is also exposed to price risk from its investments in listed equities. The majority of the shareholdings rest with one company that is publicly traded in the major financial markets.

***Equity price sensitivity***

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date.

At the reporting date, if the prices of the Consolidated Entity's equity investments had been 5% p.a. higher or lower:

- net profit would have been unaffected as the equity investments are classified as available-for-sale and no material investments were disposed of or impaired (2012: $nil); and
- equity reserves would decrease/increase by $71,000 (2012: $173,000), due to the changes in the fair value of available-for-sale shares.

### 15. FINANCIAL INSTRUMENTS (CONTINUED)

**(d) Market risk management (continued)**

The Consolidated Entity's analysis of its exposure to equity prices has established that, overall, its sensitivity declined during the current period compared to the prior period. This outcome is largely a result of a significantly lower beta value on Ethane Pipeline Income Fund shares.

**(e) Fair values of financial instruments**

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or that are not based on observable market data (unobservable inputs).

| | Level 1 $000 | Level 2 $000 | Level 3 $000 | Total $000 |
|---|---|---|---|---|
| **2013** | | | | |
| **Financial assets measured at fair value** | | | | |
| Available-for-sale listed equity securities | | | | |
| Ethane Pipeline Income Fund | **2,383** | **-** | **-** | **2,383** |
| Unlisted Redeemable Ordinary Shares | | | | |
| Energy Infrastructure Investments Pty Limited | **-** | **-** | **34,807** | **34,807** |
| **Total** | **2,383** | **-** | **34,807** | **37,190** |
| **2012** | | | | |
| **Financial assets measured at fair value** | | | | |
| Available-for-sale listed equity securities | | | | |
| Ethane Pipeline Income Fund | 3,685 | - | - | 3,685 |
| Hastings Diversified Utilities Fund | 2 | - | - | 2 |
| Unlisted Redeemable Ordinary Shares | | | | |
| Energy Infrastructure Investments Pty Limited | - | - | 36,614 | 36,614 |
| **Total** | 3,687 | - | 36,614 | 40,301 |

***Reconciliation of Level 3 fair value measurements of financial assets***

| | FAIR VALUE THROUGH PROFIT OR LOSS | |
|---|---|---|
| | **2013 $000** | 2012 $000 |
| **Opening balance** | **36,614** | 32,761 |
| Total gains or losses: | | |
| – in profit or loss: Interest - related parties | **3,949** | 3,894 |
| – in profit or loss: (Loss)/gain on financial asset held at fair value through profit and loss | **(1,460)** | 4,000 |
| Distributions | **(4,296)** | (4,041) |
| **Closing balance** | **34,807** | 36,614 |

**15. FINANCIAL INSTRUMENTS (CONTINUED)**

**(e) Fair values of financial instruments (continued)**

***Significant assumptions used in determining fair value of financial assets and liabilities***

*Redeemable ordinary shares*

The financial statements include redeemable ordinary shares ("ROS") held in an unlisted entity which are measured at fair value (Note 8). The fair market value of the ROS is derived from a binomial tree model, which includes some assumptions that are not able to be supported by observable market prices or rates. The model maps different possible valuation paths of three distinct components:

– value of the debt component;
– value of the ROS discretionary dividends; and
– value of the option to convert to ordinary shares.

In determining the fair value, the following assumptions were used:

– the risk adjusted rate for the ROS is estimated as the required rate of return based on projected cash flows to equity at issuance assuming the ROS price at issuance ($0.99) (2012: $0.99) and the ordinary price at issuance ($0.01) (2012: $0.01) are at their fair value;
– the risk free rate of return is 3.19% (2012: 2.72%) per annum and is based upon an interpolation of the five and ten year Government bond rates at the valuation date;
– the ROS discretionary dividends are estimated based on an internal forecasted cash flow model; and
– the value of the option to convert is deemed to be zero (2012: zero). For conversion to occur, a number of conditions must be met. At the reporting date, it was deemed highly unlikely these conditions would occur based on an internal forecasting model.

**(f) Interest rate sensitivity analysis**

The sensitivity analysis below has been determined based on the exposure to interest rates on loans with related parties. A 100 basis points increase or decrease is used and represents management's assessment of the greatest possible change in interest rates. At reporting date, if interest rates had been 100 basis points higher or lower and all other variables were constant, the Consolidated Entity's net profit would increase by $485,000 or decrease by $412,000 (2012: decrease by $709,000 or increase by $814,000 respectively). This is mainly attributable to the Consolidated Entity's exposure to interest rates on its variable rate inter-entity balances and the fair value movement on the ROS. The sensitivity has reversed from the prior year due to higher inter-entity balances resulting in interest income sensitivity which is greater than the ROS sensitivity.

**16. SUBSIDIARIES**

| | | OWNERSHIP INTEREST | |
|---|---|---|---|
| | COUNTRY OF REGISTRATION | **2013 %** | 2012 % |
| **NAME OF ENTITY** | | | |
| **Parent entity** | | | |
| APT Investment Trust | | | |
| **Controlled entity** | | | |
| GasNet Australia Investments Trust | Australia | **100** | 100 |

**17. DIRECTOR COMPENSATION**

**(a) Details of Directors**

The Directors of the APA group of entities during the financial year were:

***L F Bleasel AM*** (Independent, Non-Executive Chairman)

***M J McCormack*** (Managing Director/Chief Executive Officer)

***S Crane*** (Independent Non-Executive Director)

***J A Fletcher*** (Independent Non-Executive Director)

***R A Higgins AO*** (Independent Non-Executive Director)

***P M McKenzie*** (Independent Non-Executive Director)

***M Muhammad*** (Non-Executive Director, resigned 24 October 2012)

***R J Wright*** (Independent Non-Executive Director)

**(b) Director compensation**

The aggregate compensation made to Directors of the Consolidated Entity is set out below:

| | **2013 $** | 2012 $ |
|---|---|---|
| Short-term employment benefits | **3,431,262** | 2,762,850 |
| Post-employment benefits | **124,280** | 168,148 |
| Cash settled share-based payments | **1,165,290** | 1,021,548 |
| | **4,720,832** | 3,952,546 |

### 17. DIRECTOR COMPENSATION (CONTINUED)

**(b) Director compensation (continued)**

The compensation of each Director of the Consolidated Entity is set out below.

| | SHORT-TERM EMPLOYMENT BENEFITS | | POST-EMPLOYMENT | INCENTIVE PLANS | |
|---|---|---|---|---|---|
| | SALARY/FEES $ | SHORT-TERM INCENTIVE SCHEME $ | SUPERANNUATION $ | SHARE-BASED PAYMENTS [a] $ | TOTAL $ |
| **NON-EXECUTIVE DIRECTORS** | | | | | |
| L F Bleasel AM | | | | | |
| **2013** | **317,252** | **-** | **24,998** | **-** | **342,250** |
| 2012 | 289,000 | - | 24,400 | - | 313,400 |
| S Crane | | | | | |
| **2013** | **146,970** | **-** | **13,230** | **-** | **160,200** |
| 2012 | 134,750 | - | 12,128 | - | 146,878 |
| J A Fletcher | | | | | |
| **2013** | **156,723** | **-** | **19,012** | **-** | **175,735** |
| 2012 | 117,000 | - | 43,250 | - | 160,250 |
| R A Higgins AO | | | | | |
| **2013** | **160,223** | **-** | **14,427** | **-** | **174,650** |
| 2012 | 146,000 | - | 13,145 | - | 159,145 |
| P M McKenzie | | | | | |
| **2013** | **143,000** | **-** | **12,850** | **-** | **155,850** |
| 2012 | 130,000 | - | 11,675 | - | 141,675 |
| M Muhammad [b] | | | | | |
| **2013** | **43,043** | **-** | **-** | **-** | **43,043** |
| 2012 | 130,000 | - | - | - | 130,000 |
| R J Wright | | | | | |
| **2013** | **164,238** | **-** | **14,763** | **-** | **179,001** |
| 2012 | 150,750 | - | 13,550 | - | 164,300 |
| **TOTAL REMUNERATION: NON-EXECUTIVE DIRECTORS** | | | | | |
| **2013** | **1,131,449** | **-** | **99,280** | **-** | **1,230,729** |
| 2012 | 1,097,500 | - | 118,148 | - | 1,215,648 |
| **EXECUTIVE DIRECTOR** | | | | | |
| M J McCormack | | | | | |
| **2013** | **1,167,500** | **1,132,313** | **25,000** | **1,165,290** | **3,490,103** |
| 2012 | 965,000 | 700,350 | 50,000 | 1,021,548 | 2,736,898 |
| **TOTAL REMUNERATION: DIRECTORS** | | | | | |
| **2013** | **2,298,949** | **1,132,313** | **124,280** | **1,165,290** | **4,720,832** |
| 2012 | 2,062,500 | 700,350 | 168,148 | 1,021,548 | 3,952,546 |

(a) Cash settled share-based payments.

(b) Muri Muhammad resigned as a Director on 24 October 2012.

## 18. KEY MANAGEMENT PERSONNEL COMPENSATION

### (a) Details of key management personnel

The members of key management personnel of the APA group of entities during the financial year were:

***M J McCormack*** (Managing Director/Chief Executive Officer)

***P J Fredricson*** (Chief Financial Officer)

***R M Gersbach*** (Chief Executive Strategy and Development)

***S P Ohl*** (Group Executive Strategic Projects, retired 1 July 2013)

***M T Knapman*** (Company Secretary)

***P J Wallace*** (Group Executive Human Resources)

***R A Wheals*** (Group Executive Transmission)

***J L Ferguson*** (Group Executive Networks)

***K Lester*** (Group Executive Infrastructure Development, appointed 6 August 2012)

### (b) Key management personnel compensation

The aggregate compensation made to key management personnel of the Consolidated Entity is set out below:

| | **2013** **$** | 2012 $ |
|---|---|---|
| Short-term employment benefits | **8,377,184** | 5,922,156 |
| Post-employment benefits | **203,207** | 298,160 |
| Cash settled share-based payments | **3,302,138** | 2,638,476 |
| Retention award | **720,667** | - |
| Termination payments | **245,000** | - |
| | **12,848,196** | 8,858,792 |

The executive remuneration strategy is to:

- attract and retain key executives who will create long-term sustainable value for Securityholders;
- 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 those of Securityholders; and
- comply with applicable legal requirements and appropriate standards of governance.

APA's remuneration mix is structured as a mix of base pay and 'at risk' short and long-term incentive components.

Total fixed remuneration is reviewed annually and is determined by reference to appropriate remuneration benchmarking information, taking into account an individual's responsibilities, performance, qualifications and experience.

Operating cash flow per security has been chosen by the Board as the key performance measure for 'at risk' remuneration. This is directly linked to the strategic goal of increasing operating cash flows over the medium term thereby improving returns to Securityholders.

**18. KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)**

**(b) Key management personnel compensation (continued)**

Compensation for each member of the key management personnel of the Consolidated Entity is set out below.

| | SHORT-TERM EMPLOYMENT BENEFITS | | | POST-EMPLOYMENT | LONG-TERM INCENTIVE PLANS | | |
|---|---|---|---|---|---|---|---|
| | SALARY/FEES $ | SHORT-TERM INCENTIVE SCHEME $ | NON-MONETARY $ | SUPER-ANNUATION $ | SHARE-BASED PAYMENTS (a) $ | OTHER PAYMENTS (b) $ | TOTAL $ |
| **KEY MANAGEMENT PERSONNEL** | | | | | | | |
| M J McCormack | | | | | | | |
| **2013** | **1,167,500** | **1,132,313** | **-** | **25,000** | **1,165,290** | **-** | **3,490,103** |
| 2012 | 965,000 | 700,350 | - | 50,000 | 1,021,548 | - | 2,736,898 |
| P J Fredricson | | | | | | | |
| **2013** | **653,530** | **477,375** | **-** | **16,470** | **462,536** | **202,000** | **1,811,911** |
| 2012 | 590,225 | 292,395 | - | 15,775 | 290,755 | - | 1,189,150 |
| R M Gersbach | | | | | | | |
| **2013** | **707,608** | **505,080** | **11,922** | **16,470** | **522,376** | **228,667** | **1,992,123** |
| 2012 | 658,303 | 321,563 | 11,922 | 15,775 | 475,330 | - | 1,482,893 |
| S P Ohl (c) | | | | | | | |
| **2013** | **465,530** | **312,375** | **-** | **24,470** | **362,815** | **245,000** | **1,410,190** |
| 2012 | 415,377 | 182,125 | 4,848 | 49,775 | 337,336 | - | 989,461 |
| M T Knapman | | | | | | | |
| **2013** | **411,000** | **215,482** | **-** | **25,000** | **234,415** | **-** | **885,897** |
| 2012 | 366,000 | 132,922 | - | 50,000 | 215,843 | - | 764,765 |
| P J Wallace | | | | | | | |
| **2013** | **345,149** | **237,263** | **-** | **24,999** | **129,441** | **-** | **736,852** |
| 2012 | 272,243 | 147,345 | - | 41,257 | 60,110 | - | 520,955 |
| R A Wheals | | | | | | | |
| **2013** | **390,000** | **239,663** | **-** | **25,000** | **193,639** | **60,000** | **908,302** |
| 2012 | 329,000 | 117,369 | - | 25,000 | 119,753 | - | 591,122 |
| J L Ferguson (e) | | | | | | | |
| **2013** | **358,130** | **267,143** | **-** | **24,870** | **185,791** | **130,000** | **965,934** |
| 2012 | 295,422 | 119,747 | - | 50,578 | 117,801 | - | 583,548 |
| K Lester (d) | | | | | | | |
| **2013** | **299,905** | **180,216** | **-** | **20,928** | **45,835** | **100,000** | **646,884** |
| 2012 | - | - | - | - | - | - | - |
| **TOTAL REMUNERATION** | | | | | | | |
| **2013** | **4,798,352** | **3,566,910** | **11,922** | **203,207** | **3,302,138** | **965,667** | **12,848,196** |
| 2012 | 3,891,570 | 2,013,816 | 16,770 | 298,160 | 2,638,476 | - | 8,858,792 |

(a) Cash settled share-based payments.

(b) Other payments include the first instalment of Loyalty Payment.

(c) S Ohl retired with effect 1 July 2013. A termination payment of $353,716 (representing the termination benefit of $245,000 plus statutory entitlements) has not been paid in the financial year 2013. The payment will be made in future years.

(d) Kevin Lester joined APA Group as Group Executive Infrastructure Development on 6 August 2012 and received a Sign-On/Enticement payment.

(e) Other payments include the first instalment of Loyalty Payment and an Ex-gratia payment for acting in the position of Group Executive Operations.

## 19. RELATED PARTY TRANSACTIONS

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

The Responsible Entity is wholly owned by APT Pipelines Limited (2012: 100% owned by APT Pipelines Limited).

### (b) Equity interest in related parties

Details of the percentage of ordinary securities held in subsidiaries are disclosed in Note 16.

### (c) Transactions with key management personnel

Details of Directors and key management personnel compensation are disclosed in Note 17 and 18 respectively.

***(i) Loans to key management personnel***

No loans have been made to key management personnel.

***(ii) Key management personnel equity holdings in APTIT***

| | FULLY PAID SECURITIES OPENING BALANCE | SECURITIES ACQUIRED DURING THE FINANCIAL YEAR | SECURITIES DISPOSED DURING THE FINANCIAL YEAR | FULLY PAID SECURITIES CLOSING BALANCE |
|---|---|---|---|---|
| **2013** | | | | |
| L F Bleasel AM | **443,093** | **17,571** | **-** | **460,664** |
| S Crane | **100,000** | **-** | **-** | **100,000** |
| J A Fletcher | **63,298** | **2,890** | **-** | **66,188** |
| R A Higgins AO | **86,160** | **5,880** | **-** | **92,040** |
| P M McKenzie | **12,500** | **-** | **-** | **12,500** |
| M Muhammad [(a)] | **42,818** | **-** | **-** | **42,818** |
| R J Wright | **36,924** | **2,520** | **-** | **39,444** |
| M J McCormack | **195,264** | **13,326** | **-** | **208,590** |
| P J Fredricson | **6,216** | **1,500** | **-** | **7,716** |
| R M Gersbach | **454** | **31** | **-** | **485** |
| S P Ohl | **14,896** | **-** | **-** | **14,896** |
| M T Knapman | **7,000** | **201** | **-** | **7,201** |
| P J Wallace | **-** | **6,000** | **-** | **6,000** |
| R A Wheals | **1,500** | **-** | **-** | **1,500** |
| J L Ferguson | **1,967** | **-** | **-** | **1,967** |

(a) M Muhammad resigned effective 24 October 2012. Closing balance represents balance at that date.

| | | | | |
|---|---|---|---|---|
| **2012** | | | | |
| L F Bleasel AM | 375,405 | 67,688 | - | 443,093 |
| M J McCormack | 170,619 | 24,645 | - | 195,264 |
| S Crane | 100,000 | - | - | 100,000 |
| J A Fletcher | 60,026 | 3,272 | - | 63,298 |
| R A Higgins AO | 79,503 | 6,657 | - | 86,160 |
| P M McKenzie | - | 12,500 | | 12,500 |
| M Muhammad | 42,818 | - | - | 42,818 |
| R J Wright | 34,071 | 2,853 | - | 36,924 |
| P J Fredricson | 3,269 | 2,947 | - | 6,216 |
| R M Gersbach | 9,796 | 454 | 9,796 | 454 |
| R A Wheals | 1,500 | - | - | 1,500 |
| J L Ferguson | 1,967 | - | - | 1,967 |
| S P Ohl | 14,896 | - | - | 14,896 |
| M T Knapman | 4,484 | 2,516 | - | 7,000 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

## 19. RELATED PARTY TRANSACTIONS (CONTINUED)

**(d) Transaction with related parties within the Consolidated Entity**

During the financial year, the following transactions occurred between the Trust and its other related parties:

- loans advanced and payments received on long-term inter-entity loans; and
- payments of distributions.

All transactions between the entities that comprise the Consolidated Entity have been eliminated on consolidation.

Refer to Note 16 for details of the entities that comprise the Consolidated Entity.

**(e) Transactions with other related parties**

APTIT and its controlled entity have a number of loan receivable balances with other entities in APA. These loans have various terms; however, they can be repayable on agreement of the parties. Interest is recognised by applying the effective interest method, agreed between the parties at the end of each month and is determined by reference to market rates.

The following balances arising from transactions between the Trust and its other related parties are outstanding at reporting date:

- current receivables totalling $608,644 are owing from a subsidiary of APT for amounts due under a finance lease arrangement (2012: $580,065);
- non-current receivables totalling $11,259,628 are owing from a subsidiary of APT for amounts due under a finance lease arrangement (2012: $11,868,272); and
- non-current receivables totalling $442,224,745 (2012: $226,556,406) are owing from a subsidiary of APT.

***Australian Pipeline Limited***

Management fees of $670,741 (2012: $630,345) were paid to the Responsible Entity as reimbursement of costs incurred on behalf of APTIT. No amounts were paid directly by APTIT to the Directors of the Responsible Entity.

***Australian Pipeline Trust***

Management fees of $670,741 (2012: $630,345) were reimbursed by APT.

## 20. PARENT ENTITY INFORMATION

The accounting policies of the parent entity, which have been applied in determining the financial information below, are the same as those applied in the consolidated financial statements. Refer to note 3 for a summary of significant accounting policies relating to the Group.

| | **2013 $000** | 2012 $000 |
|---|---|---|
| **FINANCIAL POSITION** | | |
| **Assets** | | |
| Current assets | **641** | 755 |
| Non-current assets | **598,054** | 386,105 |
| **Total assets** | **598,695** | 386,860 |
| **Liabilities** | | |
| Current liabilities | **24** | 10 |
| Non-current liabilities | **-** | - |
| **Total liabilities** | **24** | 10 |
| **Net Assets** | **598,671** | 386,850 |
| **Equity** | | |
| Issued capital | **578,780** | 364,066 |
| Retained earnings | **19,424** | 21,160 |
| Reserves | | |
| Available-for-sale investment revaluation reserve | **467** | 1,624 |
| **Total equity** | **598,671** | 386,850 |
| **FINANCIAL PERFORMANCE** | | |
| Profit for the year | **38,143** | 45,957 |
| Other comprehensive income | **(1,157)** | 1,090 |
| **Total comprehensive income** | **36,986** | 47,047 |

***Guarantees entered into by the parent entity in relation to the debts of its subsidiaries***

No guarantees have been entered into by the parent entity in relation to the debts of its subsidiaries.

***Contingent liabilities of the parent entity***

No contingent liabilities have been identified in relation to the parent entity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 June 2013

**21. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

At 30 June 2013, there are no material contingent liabilities or contingent assets (2012: $nil).

**22. SUBSEQUENT EVENTS**

On 16 July 2013, APA announced that an indicative and non-binding all-share merger proposal has been submitted to the Board of Envestra Limited. Under the proposal Envestra shareholders would receive 0.1678 new APA stapled securities for each Envestra share they own. On 5 August 2013, Envestra announced that it had decided to reject the APA proposal. APA continues to consider its position on this proposed transaction.

On 21 August 2013, the Directors declared a final distribution for the 2013 financial year of 2.48 cents per security ($20.7 million). The distribution represents a 2.32 cents per security unfranked profit distribution and 0.16 cents per security capital distribution. The distribution will be paid on 11 September 2013.

Other than the events disclosed above, there have not been any events or transactions that have occurred subsequent to year end that would require adjustment to or disclosure in the accounts.

APT INVESTMENT TRUST AND ITS CONTROLLED ENTITIES

# DECLARATION BY THE DIRECTORS OF AUSTRALIAN PIPELINE LIMITED

For the financial year ended 30 June 2013

The Directors declare that:

(a) in the Directors' opinion, there are reasonable grounds to believe that APT Investment Trust will be able to pay its debts as and when they become due and payable;

(b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with Accounting Standards and giving a true and fair view of the financial position and performance of the Consolidated Entity;

(c) in the Directors' opinion, the financial statements and notes thereto are in accordance with International Financial Reporting Standards as stated in Note 2 to the financial statements; and

(d) the Directors have been given the declarations by the Managing Director and Chief Financial Officer 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

**Leonard Bleasel AM**
Chairman

**Robert Wright**
Director

SYDNEY, 21 August 2013

# AUDITOR'S INDEPENDENCE DECLARATION

For the financial year ended 30 June 2013

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
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Sydney NSW 2000
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The Directors
Australian Pipeline Limited as responsible entity for
APT Investment Trust
HSBC Building
Level 19, 580 George Street
Sydney NSW 2000

21 August 2013

Dear Directors

**Auditors Independence Declaration to Australian Pipeline Limited as responsible entity for APT Investment Trust**

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 responsible entity for APT Investment Trust.

As lead audit partner for the audit of the financial statements of APT Investment Trust for the financial year ended 30 June 2013, 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 sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

G. Couttas

G Couttas
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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# Independent Auditor's Report to the Unitholders of APT Investment Trust

We have audited the accompanying financial report of APT Investment Trust, which comprises the statement of financial position as at 30 June 2013, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the Trust and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 104 to 123.

*Directors' Responsibility for the Financial Report*

The directors of Australian Pipeline Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# INDEPENDENT AUDITOR'S REPORT
## CONTINUED

For the financial year ended 30 June 2013

Deloitte.

*Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Australian Pipeline Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

*Opinion*

In our opinion:

(a) the financial report of APT Investment Trust is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

DELOITTE TOUCHE TOHMATSU

G Couttas
Partner
Chartered Accountants
Sydney, 21 August 2013

# ADDITIONAL INFORMATION

Additional information required by the Listing Rules of Australian Securities Exchange Limited and not provided elsewhere in this report (the information is applicable as at 30 August 2013).

| **TWENTY LARGEST HOLDERS** | NO. OF SECURITIES | % |
|---|---|---|
| National Nominees Limited | 127,588,539 | 15.27 |
| HSBC Custody Nominees (Australia) Limited | 123,941,379 | 14.83 |
| J P Morgan Nominees Australia Limited | 80,336,881 | 9.61 |
| Citicorp Nominees Pty Limited | 31,910,809 | 3.82 |
| Credit Suisse Securities (Europe) Ltd | 16,297,000 | 1.95 |
| Custodial Services Limited | 16,228,161 | 1.94 |
| Australian Foundation Investment Company Limited | 11,643,321 | 1.39 |
| AMP Life Limited | 11,051,086 | 1.32 |
| BNP Paribas Noms Pty Ltd | 9,575,196 | 1.15 |
| Argo Investments Limited | 7,358,455 | 0.88 |
| Bond Street Custodians Limited | 3,833,178 | 0.46 |
| RBC Dexia Investor Services Australia Nominees Pty Limited | 3,097,734 | 0.37 |
| Djerriwarrh Investments Limited | 2,865,000 | 0.34 |
| QIC Limited | 2,405,728 | 0.29 |
| UBS Nominees Pty Ltd | 2,171,948 | 0.26 |
| Questor Financial Services Limited | 1,923,370 | 0.23 |
| Share Direct Nominees Pty Ltd | 1,794,678 | 0.21 |
| CS Fourth Nominees Pty Ltd | 1,741,586 | 0.21 |
| Navigator Australia Limited | 1,624,876 | 0.19 |
| BKI Investment Company Limited | 1,554,452 | 0.19 |
| **Total for top 20** | **458,943,377** | **54.91** |

**DISTRIBUTION OF HOLDERS**

| RANGES | NO. OF HOLDERS | % | NO. OF SECURITIES | % |
|---|---|---|---|---|
| 100,001 and Over | 173 | 0.22 | 491,082,836 | 58.76 |
| 10,001 to 100,000 | 8,398 | 10.45 | 164,413,738 | 19.67 |
| 5,001 to 10,000 | 11,854 | 14.74 | 85,573,019 | 10.24 |
| 1,001 to 5,000 | 31,282 | 38.91 | 83,612,809 | 10.01 |
| 1 to 1,000 | 28,688 | 35.68 | 11,068,405 | 1.32 |
| **Total** | **80,395** | **100.00** | **835,750,807** | **100.00** |

2,694 holders hold less than a marketable parcel of securities (market value less than $500 or 84 securities based on a market price on 30 August 2013 of $5.99).

**SUBSTANTIAL HOLDERS**

No substantial holder notices had been received as at 30 August 2013.

**VOTING RIGHTS**

On a show of hands, each holder has one vote.

On a poll, each holder has one vote for each dollar of the value of the total interests they have in the scheme.

**ON-MARKET BUY-BACK**

There is no current on-market buy-back.

# ADDITIONAL INFORMATION
## CONTINUED

**CALENDAR OF EVENTS**

| | |
|---|---|
| Final distribution FY2013 record date | 28 June 2013 |
| Final distribution FY2013 payment date | 11 September 2013 |
| Annual meeting | 24 October 2013 |
| Interim result announcement | 19 February 2014* |
| Interim distribution FY2014 record date | 31 December 2013* |
| Interim distribution FY2014 payment date | 12 March 2014* |

*Subject to change

**ANNUAL MEETING DETAILS**

**Date:** **Thursday 24 October 2013**

**Venue:** **City Recital Hall**
**2 Angel Place, Sydney NSW**

**Time:** **10.30am**

**Registration commences at 10.00am**

**ASX LISTING**

An APA Group security comprises a unit in Australian Pipeline Trust and a unit in APT Investment Trust. These units are stapled together to form a stapled security which is listed on the ASX (ASX Code: APA). Australian Pipeline Limited is the Responsible Entity of those trusts.

**APA GROUP RESPONSIBLE ENTITY AND REGISTERED OFFICE**

Australian Pipeline Limited
ACN 091 344 704
Level 19, 580 George Street
Sydney NSW 2000
PO Box R41
Royal Exchange NSW 1225
Telephone: +61 2 9693 0000
Facsimile: +61 2 9693 0093
Website: www.apa.com.au

**APA GROUP REGISTRY**

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
Locked Bag A14
Sydney South NSW 1235
Telephone: +61 1800 992 312
Facsimile: +61 2 9287 0303
Email: apagroup@linkmarketservices.com.au
Website: www.linkmarketservices.com.au

**SECURITYHOLDER DETAILS**

It is important that Securityholders notify the APA Group registry immediately if there is a change to their address or banking arrangements. Securityholders with enquiries should also contact the APA Group registry.

**DISTRIBUTION PAYMENTS**

Distributions will be paid semi-annually in March and September. Securityholders will receive annual tax statements with the final distribution in September.

Direct payment can be made to an Australian or New Zealand bank account. If you would like to arrange direct payment, please contact the APA Group registry.

**ONLINE INTERACTIVE REPORTS**

APA Group's 2013 Annual Report, Annual Review and Sustainability Report are available in an easy to view interactive format at www.apa.com.au.

**ONLINE INFORMATION**

Further information on APA is available at www.apa.com.au, including:

- Results, market releases and news
- Asset and business information
- Corporate responsibility and sustainability reporting
- Securityholder information such as the current APA security price, distribution and tax information.

**ELECTRONIC COMMUNICATION**

Securityholders can elect to receive communication from APA electronically by registering their email address with the APA Group registry.
Electing to receive annual reports electronically will reduce the adverse impact we have on the environment.

APA.COM.AU