more than...

pipelines: redefining our potential

Annual Review and Sustainability Report 2012

APA Group

today

Right now, Australia's gas sector is growing rapidly. Demand is set to double over the next 20 years[1] with gas-fired electricity generation a key growth driver in the transition to lower carbon emission energy sources. As this country's largest transporter of natural gas across Australia, we are committed to making best use of our 1,400 highly skilled and experienced people, our $9 billion of energy infrastructure assets and investments, our proven strategic skills and our prudently structured capital base to enhance and develop our business in line with increasing market demand.

Consistent strong performances are hallmarks of APA Group. Ninety-five per cent of our revenue is derived from regulated assets and from long-term contracts with large creditworthy customers. Many of our gas infrastructure assets and investments are connected to each other, providing robust revenue and operating synergies.

At the same time, we recognise that no business can afford to rest on its laurels. If we are to continue delivering securityholders attractive returns, we need to be building a national company that will continue to deliver superior solutions in a dynamic energy market. And we must safeguard investor capital and protect securityholder interests through prudent risk management.

1 ABARE, "Australian energy projections to 2029-30", March 2010

beyond today

The APA Group of tomorrow must deliver investors even more than it delivers today.

That's why:

- We keep looking for investment opportunities that enable us to enhance and leverage our existing assets;
- We actively pursue our three key outcomes of growth, security and value;
- We continue to tap the extraordinary people talent at all levels that give this business its strength, stability and innovation;
- We never take our eyes off ways to increase our efficiencies, reduce costs and improve our services to customers; and
- We continue to develop and grow our business, to meet the growing demand for gas.

Everything we do is about consistently, strategically and competitively building an APA that is even better tomorrow: better for investors, better for our customers and a better and more satisfying company for our employees.

Contents

Information contained in this document is current as at 22 August 2012 unless otherwise stated.

Highlights we did what we said we would do

Our core business centres on gas transportation infrastructure. Our strength lies in our scale and skills in managing, operating and developing these assets and related gas assets. Our strategy is to enhance the value of our assets and grow the business profitably and sustainably. We are focused on optimising returns to our securityholders through a mix of distributions and capital growth over the longer term.

Financial achievements

	2012 $ million	2011 $ million	Change %
FINANCIAL RESULTS			
Revenue	**1,060.7**	1,102.0	(3.8)
Revenue excluding pass-through[2]	**758.0**	720.3	5.2
EBITDA including significant items	**525.8**	492.1	6.9
Profit after tax and minorities, including significant items	**130.7**	108.5	20.4
Operating cash flow	**335.6**	290.0	15.7
FINANCIAL POSITION			
Total assets	**5,496**	5,428	1.3
Debt	**3,224**	3,240	(0.5)
Securityholders' equity	**1,614**	1,668	(3.2)
FINANCIAL RATIOS			
Operating cash flow per security (cents)	**52.5**	52.6	(0.2)
Earnings per security (cents)	**20.4**	19.7	3.6
Distribution per security (cents)	**35.0**	34.4	1.7
Distribution payout ratio	**67.0%**	65.7%	
Gearing (net debt to net debt plus equity)	**65.0%**	66.2%	
Interest cover ratio (times)	**2.48**	2.03	

Key business achievements

EXPANDING OUR PIPELINES

— Commenced two expansions on the Goldfields Gas Pipeline, in Western Australia
— Completing the expansion project on the Roma Brisbane Pipeline, Queensland
— Continuing our five year expansion of the Moomba Sydney Pipeline, including construction of a new compressor on the Young to Lithgow lateral, New South Wales
— Augmenting the northern section of the Victorian Transmission System with a new compression station at Euroa, and looping the Sunbury lateral in Victoria

ENHANCING OUR ASSETS

— Commenced construction of the 242 megawatt gas-fired Diamantina Power Station, Queensland – a joint venture with AGL Energy
— Continued the significant expansion of the Mondarra Gas Storage Facility, Western Australia
— Launched the off-market takeover offer for Hastings Diversified Utilities Fund, owner of the Epic Energy pipelines

STRENGTHENING GAS NETWORKS

— Multiple projects to increase the rate of mains replacement on Queensland, Victorian and South Australian networks
— Expanding distribution networks to outer Adelaide suburbs, southern Brisbane and northern and south-eastern Victoria
— Building a gas transmission lateral off the Palm Valley to Alice Springs Pipeline

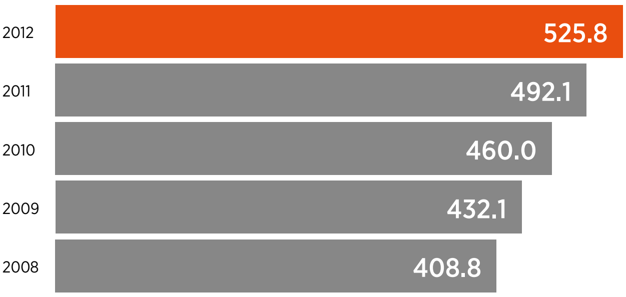
IMPROVING OUR SERVICES TO CUSTOMERS

— Rolled out the APA Grid – integrated systems across our pipelines that allow a simple, seamless sales and service experience for customers
— Restructured APA's organisational structure to allow us to manage the discrete aspects of our business more effectively

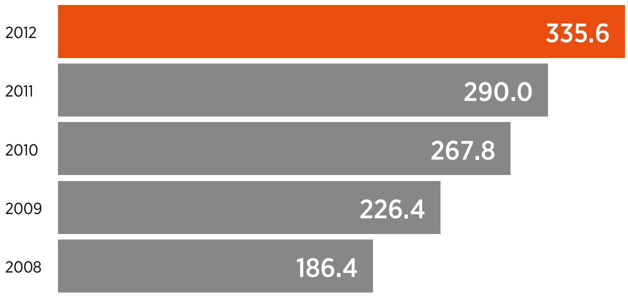
2 Pass-through revenue is revenue on which no margin is earned.

Business performance 2012

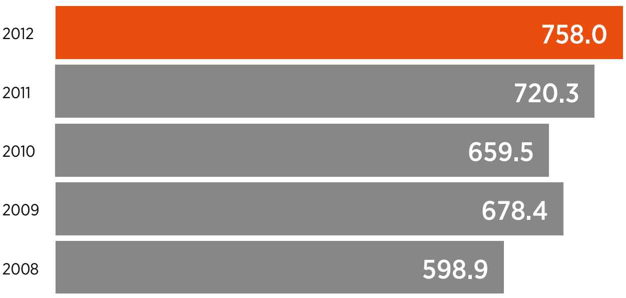
EBITDA[3] ($M)



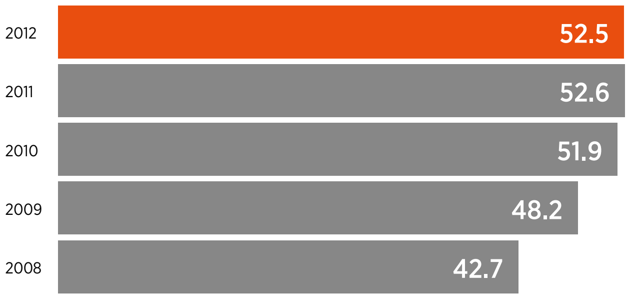
OPERATING CASH FLOW ($M)



TOTAL REVENUE EXCLUDING PASS-THROUGH[3] ($M)



OPERATING CASH FLOW PER SECURITY (CENTS)



DISTRIBUTIONS PER SECURITY (CENTS)

TOTAL ASSETS ($M)

3 EBITDA and revenue include significant items.

Continuing to lead

Len Bleasel AM
Chairman, APA Group

During the 2012 financial year, APA grew its core business of gas transmission infrastructure profitably and sustainably. At the same time, APA further enhanced these assets through related projects and investments.

I am pleased to report APA has delivered another good result, with growth across all our key financial measures, and across our portfolio of quality energy infrastructure. Operating profit for the 2012 financial year of $130.7 million was up 20.4 per cent on last year while operating cash flow of $335.6 million represents a year on year increase of 15.7 per cent. Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 6.9 per cent to $525.8 million, a strong result considering there was only a six month's contribution from the Allgas business in 2012 compared with a full year's contribution in 2011. APA is diversified for EBITDA by both asset and geography: no single asset in the APA portfolio and no single region, contributes more than 25 per cent of EBITDA.

A TRACK RECORD OF CONSISTENTLY GROWING DISTRIBUTIONS

APA continues to look for ways to deliver investors growth, security and value. We have a measured approach to growing our business, and this has served our securityholders well, with total securityholder return, which accounts for both capital growth and distributions, outperforming market indices since we listed in 2000.

This year, the board declared a final distribution of 18 cents per stapled security for the six months to 30 June 2012. Together with the interim distribution of 17 cents paid in March 2012, distributions for the 2012 financial year totalled 35 cents per security. This represents an increase of 1.7 per cent over the previous year, consistent with APA's guidance for this year's total distributions of at least 34.4 cents. The increase recognises the growth that has occurred, and at the same time, it ensures we retain enough cash to responsibly grow our business.

As we have always done, we will continue to set distributions at a level that we believe to be sustainable and well-funded from operating cash flows. As in past years, this year's distributions are well covered by operating cash flow, with operating cash flow of 52.5 cents per security.

We have been consistent in delivering growing distributions year on year. In 12 years as a listed business, we have never reduced distributions nor traded below our listing price. Since listing, APA has delivered total securityholder returns of 595 per cent, a compound annual growth rate of 17.5 per cent over this time. The total securityholder return delivered this year was 32.6 per cent.

FUNDING OUR STRATEGY

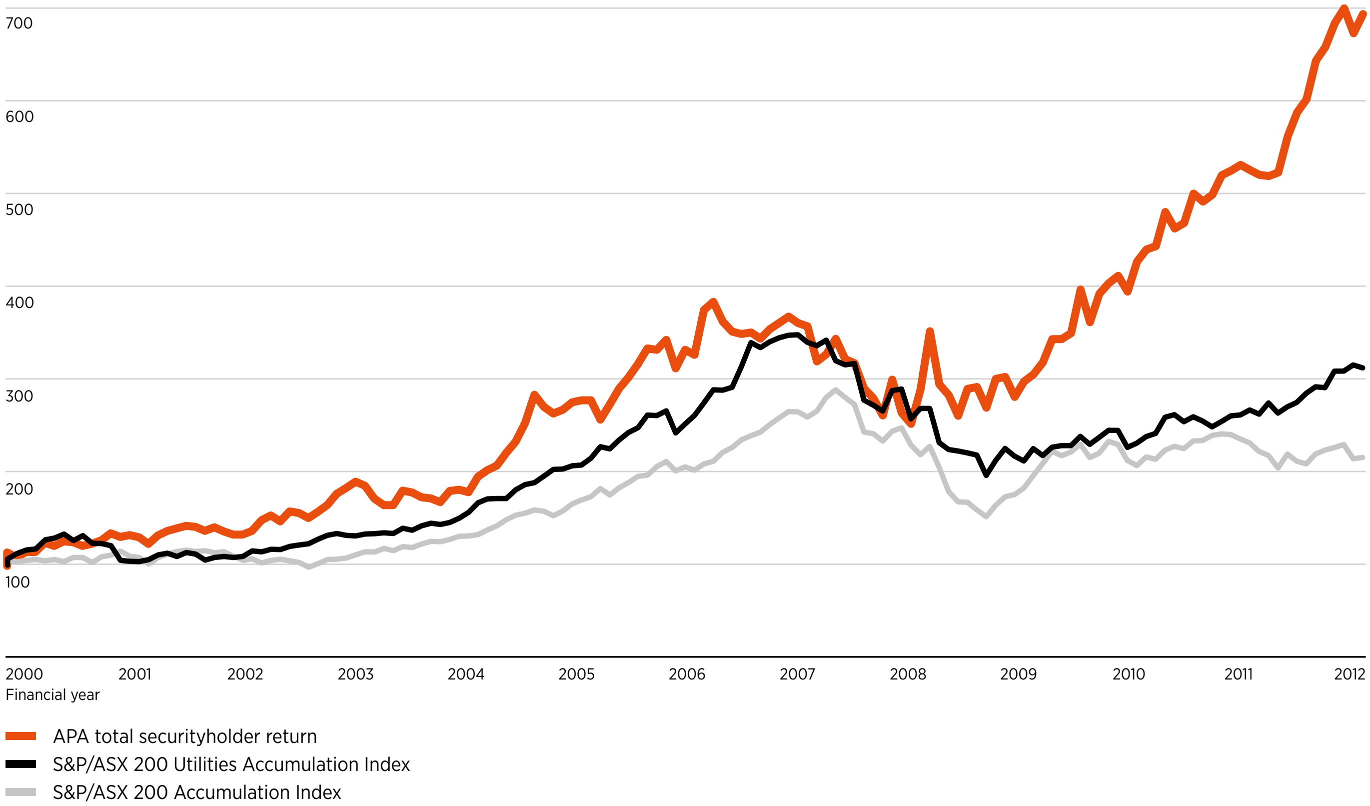
Our strategy of expanding and enhancing our energy infrastructure portfolio resulted in growth capital expenditure of $271 million this year. We have used this money to expand our pipeline assets and to progress the Mondarra Gas Storage Facility expansion.

As in previous years, funding for growth came from cash, equity and debt. In November 2011, we secured a new debt refinancing program with a syndicate of 15 domestic and foreign banks totalling $1.45 billion. The new facility was oversubscribed by almost three times the initial launch of $500 million, demonstrating the strong support that lenders continue to show APA. Furthermore, this facility's pricing is below the average pricing incorporated in APA's market guidance for this year. This has meant that interest costs for the current financial year have come in below expected. APA now has no further debt refinancing obligations until the maturity of a tranche of its 2003 US Private Placement Notes in September 2013 ($AUD 113 million).

During the year, we also sourced $415 million from two fixed rate Medium Term Note (MTN) issues which help extend the average term of APA's drawn debt portfolio and create additional headroom to support APA's ongoing investment in the growth of its infrastructure assets, the acquisition of Hastings Diversified Utilities Fund, as required, and for general corporate purposes. More recently, APA issued a prospectus in respect of $475 million of Subordinated Notes to further support the funding of this growth. These MTNs and notes further demonstrate the attractiveness of APA's energy infrastructure business and strategy to debt investors.

The board is confident that the Group retains the right balance of equity and debt and that our balance sheet is making efficient use of funds. We have maintained both our investment grade credit ratings.

Total securityholder return since listing
(Total return indexed to 100 from date of APA listing, 13 June 2000 to 30 June 2012)



STRATEGIC ACTIVITIES

During the year, APA announced a number of strategic initiatives, namely the joint development of the gas-fired Diamantina Power Station in Mount Isa, the sale of 80 per cent of APA's gas distribution network business in south east Queensland (Allgas) and an off-market takeover offer for Hastings Diversified Utilities Fund (HDF).

The Diamantina Power Station complements APA's Carpentaria Gas Pipeline and provides a new and secure revenue stream.

The Allgas assets were sold into a new joint venture, with APA retaining a minority equity interest of 20 per cent, together with a long term asset management and operating agreement. The sale achieved net proceeds after transaction costs of $476 million.

APA's move to acquire HDF is in line with our strategy of enhancing our gas infrastructure portfolio. HDF would form a natural fit with our business, and would enable us to provide more flexible and tailored services to our customers as well as deliver further value to APA securityholders.

In May 2012, Petronas Australia Pty Ltd (Petronas) sold the 111.3 million securities it held in APA, equivalent to 17.3 per cent of APA's issued capital. These securities were very quickly taken up by a broad spread of domestic and international institutional investors. Petronas is pursuing some strategic imperatives that don't include passive holdings in companies like APA, and so chose to redirect their investment to fund those plans. It brings to an end a mutually successful twelve-year relationship between our two businesses. We thank Petronas for their support of us over that time.

"The total securityholder return delivered this year was 32.6%... In 12 years as a listed business, we have never reduced distributions nor traded below our listing price."

A BUSY YEAR

2012 has been another busy year for the board, with regular meetings and committee meetings for board members augmented by participation in strategy and planning reviews, site visits to a number of our operations, and regular meetings with management throughout the year. Once again, I thank all my fellow directors for their commitment and dedication.

OUTLOOK

The board is confident that APA remains well positioned to grow sustainably and responsibly. It has delivered another strong performance this year and has further strengthened its balance sheet and financial flexibility.

APA will continue to optimise the value of its assets and business, develop the profitable and secure growth opportunities within its portfolio and extract the benefits of its scale and industry skills.

Barring unforeseen circumstances, APA Group expects EBITDA for the full year to 30 June 2013 to be in the range of $540 million to $550 million. This range reflects APA's continuing business, and represents an increase of approximately 6 per cent over the previous year when EBITDA is adjusted for the sale of the Allgas gas distribution network in December 2011. This guidance does not take into consideration the potential acquisition of HDF.

Total distributions for the full year to 30 June 2013 are expected to be at least at the level of distributions paid in the 2012 financial year – that is, at least 35 cents per APA security. Distribution guidance is expected to remain unchanged if APA is successful in acquiring HDF.

On behalf of the board, I wish to thank our Managing Director, Mick McCormack, his leadership team and APA's people for another year of strong financial performance and growth. Of course, I also thank you, our investors, for your continued support and confidence.

Len Bleasel AM
Chairman, APA Group

Optimising everything we do

Mick McCormack
Managing Director
and Chief Executive Officer

APA has an energy infrastructure portfolio that spans mainland Australia. The size and breadth of our portfolio offers us the capabilities and the opportunities to further expand and enhance our pipelines and related assets in line with growing energy demand. We do so always with security and value in mind for our investors, customers, employees and the communities we interact with.

SOLID FINANCIAL RESULT

This year, we once again executed a proven strategy well and reaped the rewards operationally and financially. Strong financial performance came from all parts of our energy infrastructure business as well as from returns on our investments. We had signalled to the market that we expected EBITDA before significant items to be between $530 million and $540 million. The end result was at the mid-range – $535.5 million before significant items. That's good growth of 9.4 per cent on last year's result, despite having sold down 80 per cent of our Queensland gas distribution business in December 2011.

The impact of our growth activities during the last few years – both organic expansions, such as those on our New South Wales pipelines and acquisitions, including Emu Downs wind farm and the Amadeus Gas Pipeline – is reflected in the growth of our operating cash flow, up 15.7 per cent to $335.6 million.

The successful completion of our funding programs through the year, including our recent issue of APA Subordinated Notes, are signs of the strong support we're seeing from lenders and debt investors for our growth plans. Together, these issues mean we have a substantial reserve in cash and undrawn committed facilities for organic growth and acquisitions. At the same time, investors can be assured that our level of debt is appropriate for our capital intensive business – we retain our investment grade credit rating and maintain a strong balance sheet.

CONTINUING INVESTMENT, RELIABLY UNDERPINNED

I have, in times past, referred to this being the golden age of gas. Globally, demand and supply drivers are converging to make gas the most prominent energy source going forward – and in Australia the story is no different. Australia's proven and probable natural gas reserves are now at 140,000 petajoules and demand is forecast to double from present levels to 2,575 petajoules by 2029-30.[4] Our responsibility is to be a central player in meeting the next era of demand – particularly as it relates to gas-fired electricity generation - which, in Australia, is currently growing, driven by both policy initiatives supporting gas use as a relatively clean energy source, as well as investment in gas-fired power generation.[5] It's a good time to be the largest transporter of natural gas across Australia, and it's also a good time to be developing an integrated portfolio of assets that provide revenue both individually, as well as through operating synergies. Growth capital expenditure, underpinned by the regulatory framework or long term contractual arrangements, is a prudent way for us to leverage additional value. It's the continuation of a model that has been very successful for us in encouraging investment, developing assets and ultimately improving gas supply for Australians.

Our assets have continued to operate at near full capacity. In fact, we are increasing capacity on our pipelines and storage systems to satisfy growing demand. In the last five years, in eastern Australia alone, APA has spent close to half a billion dollars to do this. Projects this year have included the expansion work on the Roma Brisbane Pipeline, the ongoing expansion of the Moomba Sydney Pipeline and the capacity upgrade of the Victorian Transmission System. In Western Australia we commenced work on two expansion projects on the Goldfields Gas Pipeline.

At the same time as we have made good progress with growing the current business, the expansion work at Mondarra Gas Storage Facility and our construction of Diamantina Power Station signal a company preparing for the future.

Success for us is about focusing on our core skills, and systematically applying our experience and reading of market demand to continue to maximise value for securityholders. We do this by serving our customers well, optimising the use of our infrastructure and enhancing our portfolio through pipeline portfolio extensions, pipeline expansions and gas storage. Where we have stepped out from our traditional business lines, such as our moves into wind and gas-fired power generation, we've done so to optimise our existing core asset base. In every case, we have

4 ABARE, "Australian energy projections to 2029-30", March 2010.
5 Geoscience Australia and ABARE, March 2010, Australian Energy Resource Assessment, Canberra.

leveraged our internal capabilities and our existing infrastructure, and have done so carefully, preserving the low risk nature of our business, both in staged and incremental ways.

LEVERAGING CORE SKILLS

As growth in demand for gas matures, it's critical that we optimise our position to take full advantage of what's available to us. Over the last couple of years, we've aligned our processes and systems to be more efficient and effective. This year, we've adjusted our organisational structure to better fit our business model – making sure we have the right functions with the right people and the right skills in place. Continuing our program of operational excellence means we steadily improve operations and maintenance services, and reduce both capital and long-term operational costs. Most importantly, it frees up resources to invest in people and systems that help us retain and further develop our internal expertise and industry know-how.

Our recent organisational changes are an extension of our faith in what our people can do. They're about organising our highly skilled and experienced workforce so that we are in the best position to leverage their skills and experience to expand and integrate our asset portfolio. Our expanded executive team reflects our strategic direction and gives us better overviews of our business and support activities. Investors should read these changes as signs of the overall business doing well.

We've now aligned our core businesses into three areas: Transmission combines the sales and operations of our pipelines, and enables it to be run end-to-end; Networks is responsible for running all facets of managing the gas networks of our two investments, Envestra and GDI (EII); and Strategy and Development oversees our new non-regulated businesses like power generation as well as APA's investments in listed companies and partnerships, ensures we get optimal regulatory outcomes for our regulated assets, and helps APA capitalise on the carbon-constrained world. Rob Wheals, John Ferguson and Ross Gersbach are responsible for each of these areas respectively, and there are interviews with each of them in this Review.

$336M

Operating cash flow

+15.7%

To ensure we have the focus and capacity to drive and deliver our significant plans for enhancement and expansion of our assets, we have established two business divisions to oversee our capital works. Infrastructure Development focuses on delivering the many multi-million dollar infrastructure expansion projects we have on the go each year, and is led by Kevin Lester. Our Strategic Projects division looks after our major capital works projects, including the Mondarra Gas Storage Facility and Diamantina Power Station, and is led by Stephen Ohl. Our corporate service teams, including Finance, Human Resources and Company Secretariat, complete the new way we work.

COMMITMENT TO SAFETY AND THE COMMUNITY

Safety is and always will be a priority for APA, with the goal of achieving a "zero harm" workplace. It was encouraging to see our employee Lost Time Injury Frequency Rate (LTIFR) decrease this year to 2.2 overall, down from 6.2 last year, partly because of how we addressed the cause of these injuries.

We have now integrated best practice Health, Safety and Environment standards into all activities across every part of the business, and our new management and reporting system "Safeguard" is facilitating monitoring, analysis and improvement of our workplace in this regard.

This year we again supported community partnerships with four indigenous organisations as part of our "Building Brighter Futures" community investment program – NAPCAN Aboriginal Girls Circle; Clontarf Foundation; Exodus Foundation; and Beyond Empathy. We provide funding for programs focused on improving the future work and life prospects of young Australians.

THE BID FOR HASTINGS DIVERSIFIED FUND

As at the date of this report, we own 20.7 per cent of HDF. As many of you will be aware, we are currently bidding to acquire all of the securities in HDF. This is another indication of the exciting future that lies ahead for us, and makes it more important than ever for us to be in the right organisational shape. HDF is an investment vehicle managed by Hastings Funds Management Limited, whose assets include Epic Energy's three pipeline systems – the Moomba to Adelaide Pipeline System (MAPS), the South West Queensland Pipeline and the Pilbara Pipeline System.

In December last year we made an off-market takeover offer to acquire all the HDF securities that we don't already own. HDF's assets form a natural fit with our own pipeline assets as they are able to be connected to one or more of our pipelines.

In July of this year, the ACCC gave APA clearance which enabled us to proceed with our takeover bid on the basis that, if it was successful, APA would be required to sell the Moomba to Adelaide Pipeline System.

Portfolio diversity

Continuing business – 2012 EBITDA

Energy Infrastructure	**85.7%**
QLD	15.4%
NSW	22.0%
VIC & SA	23.9%
WA & NT	24.4%
Asset Management	**6.2%**
Energy Investments	**8.1%**

The combined group of APA and HDF's South West Queensland Pipeline and Pilbara Pipeline System will form a unique asset footprint of infrastructure assets, with over 14,000 km of owned and/or operated gas transmission pipelines across mainland Australia. The acquisition is also aligned with a core plank of our strategy – to enhance our portfolio of gas infrastructure assets. The takeover will benefit both APA and HDF securityholders, who will become investors in a significantly larger and more geographically diversified infrastructure business. It will also allow us to provide a better service to our customers, providing a more seamless offering across pipelines and jurisdictions that is more flexible and more tailored. Rob Wheals talks more about the importance of this in his interview.

"...demand and supply drivers are converging to make gas the most prominent energy source going forward... Our responsibility is to be a central player in meeting the next era of demand..."

Our view is that this strategic acquisition, should it be successful, will provide attractive long term returns and can be funded while maintaining distributions that are consistent with our distribution policy. APA has a great track record of delivering returns for investors and we want HDF securityholders to be part of our future and expanding success.

Around the same time as we made the bid for control of HDF, we completed the sale of 80 per cent of the Allgas gas distribution network in southeast Queensland for $476 million after transaction costs. We have used these funds to repay current APA debt and provide further headroom to support our growth strategy. The resulting drop in gearing from the sale allows APA to build resources in preparation for the HDF transaction. APA retains a 20 per cent investment in the network and also remains as the asset manager and operator of the network.

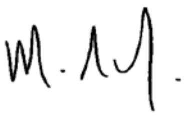
We anticipate successful acquisition of HDF imminently, with the integration of the assets and business into APA to follow.

OUTLOOK

Our focus has always been on striking the right balance between the needs of today and requirements beyond today. We've funded almost $1 billion of asset portfolio expansions across Australia over the last four years, and we've done so because of increasing demand for gas, secured by long-term revenue agreements or regulatory arrangements. Five years ago, I said that success hinged on prioritising stability over uncertainty, execution over hype and long-term value over short-term gain. It's still true.

As I reflect this year on how we've restructured our business to make our revenue lines even more accountable, how we've consolidated our core business and stepped out carefully through strategic development and acquisition of related projects to preserve and increase the value of our energy infrastructure portfolio, we are well positioned.

Leveraging our existing assets, pursuing growth, security and value, and making the most of how our people think, have got us to this point. Increasing our efficiencies where we can, acquiring businesses that make sense for us to own, and adapting our structure as required, will take us forward.



Mick McCormack
Managing Director and Chief Executive Officer

Transmission more than reliable

1

A conversation with Rob Wheals – Group Executive Transmission

APA's Transmission division is responsible for optimising APA's gas transportation services, via operation, management and development of its pipelines. With over 12,800 kilometres of pipelines traversing mainland Australia, APA's transmission footprint is a substantial one. Delivering seamless and flexible service, reliably and cost effectively, and capturing future growth opportunities, are the keys to optimising the future potential of Australia's growing gas transportation market.

Q: How significant is APA's transmission system in terms of size?
We're the largest transporter of natural gas across Australia. Our 12,800 kilometres of pipelines – both the pipelines we own outright, as well as those we operate and have an interest in – represents around 65 per cent of Australia's gas transmission pipelines, and transports around half the gas that the country uses. So, it's quite a substantial footprint. On the east coast of the country, three-quarters of the gas used moves through our pipeline systems.

Q: Are the markets very different?
Common to all customers is the requirement for a reliable gas supply to support their business. However, each market APA serves, and in particular the services provided, differ based on what the end use of the gas is. Generally speaking there are three market segments: namely retail and industrial, power generation, that is gas supply to gas powered electricity generation for the electricity markets, and finally the mining segment. Gas supply supporting mining activities can be in the form of gas used for processing or for remote electricity generation.

So, yes, different markets broadly speaking, and pockets of differences within a particular market. In colder regions such as Victoria, there are big demand peaks during winter given the colder climate, whereas seasonal demand in Brisbane is flatter with less of a winter peak. Mining regions and large industrials typically have a consistent, steady load. And finally, gas-fired power generators have an altogether unique load requirement, and generally follow the price signals in the National Electricity Market (NEM).

Q: How do you manage these different requirements?
Early on in the development of a new service, APA spends a lot of time understanding each unique customer requirements, and then uses its engineering, commercial and operating know-how to design a service tailored to deliver to these unique needs. Once the service is up and running, APA has skilled people dedicated to ensuring a seamless and reliable supply.

Q: Is your share of the market growing?
It's growing in two ways: Firstly we've grown substantially through either acquiring pipelines or physically constructing new pipelines. Twelve years ago, for example, we were only responsible for 25 per cent of the natural gas used in Australia. Now, it's around 50 per cent.

The second way we grow is through expanding our existing pipelines to carry more gas – so as demand for gas increases, capacity in our pipelines increases too. This financial year we've been expanding four of our pipeline systems. Our Roma Brisbane Pipeline expansion program was commissioned in August this year, and two of our customers will use that additional 10 per cent capacity. In Victoria, we're in the final stages of commissioning the new compressor station at Euroa, as part of the second stage of our Northern Augmentation. We continued the expansion work on the Moomba Sydney Pipeline, which included an upgrade of a compressor on the Young to Lithgow lateral. We've also commenced work to expand the Goldfields Gas Pipeline for two customers. Together, the expansions on the Goldfields Gas Pipeline will deliver 44 terajoules per day of additional capacity – that's a 28 per cent capacity increase – as well as providing APA with additional secure contracted revenue.

In addition to expanding our pipeline systems, we are well underway with the expansion of the Mondarra Gas Storage Facility, with this project scheduled to complete in mid to late 2013. The storage capacity of the facility will be expanded by more than five times its current capacity to 15 petajoules, with the expansion underpinned by a 20-year foundation contract for storage capacity with Verve Energy.

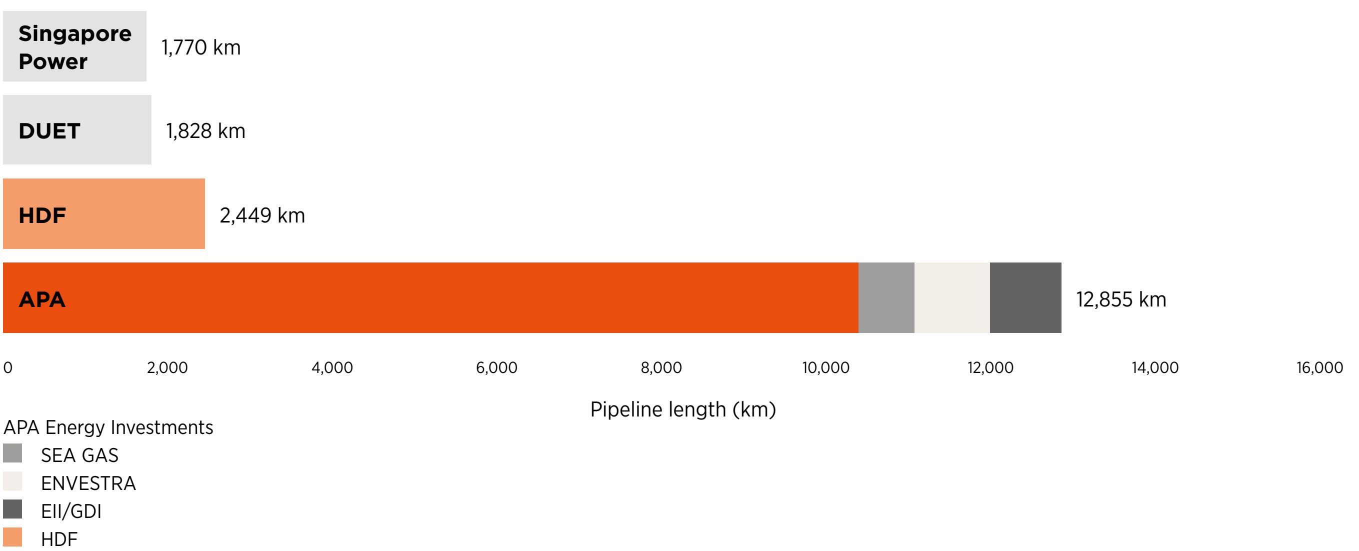
Q: What's driving growth?
Looking ahead, there are a number of key drivers that we believe will see demand for gas continue to climb. The first is the Clean Energy Act. Electricity generators will look to replace old electricity generation plants with cleaner, less carbon intensive alternatives that will cost them less in emissions charges. Gas is the most practical and widely available fuel option, so we expect to see an increase in gas-fired electricity generation over time.

Secondly, growth is driven by our customers and the services they require. More generally, this growth is driven by underlying population and GDP growth. In addition, owners of peaking power stations need ready access to large volumes of gas to generate electricity on demand, often at short notice. Large gas retailers are also looking for services that provide flexibility and integration to best manage their business. So we're developing infrastructure and services to store and transport gas efficiently and reliably so as to meet our customers' changing needs.

The third key area of potential growth comes from providing services to support growth industries, including the export LNG business in Queensland, and the Australian mining sector.

1. Rob Wheals – Group Executive Transmission.

Australia's largest natural gas transmission pipeline owners
Source: APA, HDUF, ESAA, Dampier to Bunbury Natural Gas Pipeline



Q: How do you co-ordinate the transport of gas to ensure security of supply?
Firstly, we're growing the pipeline assets themselves. Secondly, we're actually rethinking our whole view of how pipelines transportation services can work. Increasingly, we're taking a portfolio approach that focuses on delivering a more simple and integrated service for our customers, connecting their gas supply portfolios with end markets. So it's about ensuring we have a seamless and flexible, end-to-end service, with access to interconnecting pipelines to meet changing needs. We're putting ourselves in the shoes of our customers and using standard systems and processes to deliver an end-to-end service experience that is consistent and high quality.

Q: So, reliability and flexibility …?
Exactly – right the way down to how we think about and plan for maintenance. Optimising and prioritising maintenance means striking the right balance between keeping our assets maintained so that they function reliably, which also involves taking them offline periodically, and yet working them to capacity when they are online to generate the best levels of revenue. So that's all about ensuring the highest level of service reliability to meet customer and regulatory requirements, and, at the same time, doing this cost effectively, with clear accountabilities for performance across the Transmission business nationally.

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1. The new C50 compressor station at Dalby, Queensland. Part of the Roma to Brisbane Pipeline expansion project completed in August 2012.

2. Pipeline Technician, Brock Roseberry is the Permit Issuing Officer for the Dalby compressor station.

3. Andrew Furminger, Construction Manager for the Dalby compressor station. Andrew was seconded from our Networks business to oversee the Dalby expansion project.

4. Plant air system receivers (foreground), construction crane (midground) and Silica Gel system towers (background) rise above the Mondarra Gas Storage site.

APA's major gas transmission pipelines

Asset	Length	Year commissioned	Regulation
Roma Brisbane Pipeline	582 km Wallumbilla to Brisbane, including the Peat Lateral	1969	Full regulation
Carpentaria Gas Pipeline	944 km Ballera to Mount Isa	1998	Light regulation
Moomba Sydney Pipeline	2,028 km Moomba to Sydney, Laterals and NSW–Vic Interconnect	1976, with extensions in 1980s and 1990s	Not regulated to Marsden Light regulation downstream of Marsden
Victorian Transmission System	1,842 km across Victoria	Late 1960s	Full regulation
Goldfields Gas Pipeline	1,590 km Yarraloola to Kalgoorlie mainline, laterals and Kalgoorlie Kambalda Pipeline	1996	Full regulation Light regulation for Kalgoorlie Kambalda Pipeline
Amadeus Gas Pipeline	1,671 km Amadeus gas basin to Darwin	1986	Full regulation

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Mondarra Gas Storage Facility: Expanding gas capacity in a high-demand state

At Mondarra, we are expanding the storage capacity of a depleted gas reservoir which is connected to the Parmelia Gas and Dampier Bunbury pipelines. Operating capacity will increase by more than five times to 15 petajoules, and withdrawal capacity will increase by ten times to 150 terajoules per day.

This project is being driven by three key market factors:

— Increasing demand for gas storage services for the Western Australia market to meet power generation and peak supply demands
— A response to the Western Australia crisis of September 2010 that saw gas supplies to the area cut for a sustained period. This facility will help mitigate the impact of any future events
— Anticipated future demand for temporary storage from gas users

Construction on the project is 30 per cent complete, with commissioning expected during calendar year 2013.

Networks
more than extensive

Talking to John Ferguson – Group Executive Networks

APA's Networks division is responsible for managing the reliable transportation of gas to the end consumers, connected to gas distribution networks in eastern, central and northern Australia, on behalf of the network owners, Envestra and GDI, in which APA holds minority interests. High standard, processes, meeting statutory, legislative and market obligations, and pursuing growth opportunities are the keys to this division's success.

Q: How extensive are the networks APA operates?
We operate networks in South Australia, Victoria, Queensland, rural areas of New South Wales and the Northern Territory. The networks comprise around 25,000 kilometres of pipelines.

Q: Are the customers mainly residential?
Yes, there are around 1.2 million homes connected to these networks, although we also supply industrial, commercial and high demand businesses.

Q: What are the challenges of running these networks?
Our work is largely about efficiently transporting gas to consumers but also maintaining the networks, to ensure a safe and reliable supply. We deal with a large volume of transactional activities across the business.

Because we operate within high density areas, we've got to be responsive to interruptions of supply, and in ways that don't compromise community or employee safety. We're operating in a market regulated environment where gas users and members of the community believe they have a relationship with us simply because of where and when they see us. We're the ones connecting their service, or digging up areas or answering their calls about gas. And of course that means we're continually being judged by gas users and non-gas users alike on what we do and how we do it. That's why it's so important that our people are trained in customer service. Networks really are a market delivery service.

Q: Is that complicated?
It is in the sense that our people are always wearing three hats. First up, we have a responsibility to Envestra and to GDI as the network owners. We have an asset management contract to operate their assets. We also have an interest as an investor in these companies.

Then, the network owners in turn have contracts with retailers for delivery of gas and as I said, we often need to respond to end consumers on our retailer clients' behalf. We also do things like read the gas meters and send that billing data to the retailers. Finally, we have a responsibility to the end consumers themselves, and more broadly, to the community. So, we supply gas to 1.2 million consumers, many living within very large, densely populated communities, and we need to ensure that we act responsibly, safely and courteously with them at all times.

Q: How do you grow a business like this?
We enjoy organic growth of 25,000 to 30,000 customers annually. On top of that, we look to market gas as a fuel of choice within communities for services like cooking, heating and hot water. We market to developers to encourage them to include gas as a fuel option for new developments. We encourage gas connections with appliance manufacturers and plumbers. We talk to industrial consumers about alternative uses for gas, such as cogeneration options, particularly in areas where electricity supply is constrained.

2012 Networks Statistics
Assets managed and operated by APA for Envestra and GDI (EII)

Customers connected (new)	28,092
Customers managed	1.2 million
Meters installed (new)	32,027
Meters replaced	53,366
Networks managed	25,000 kilometres
Mains laid (new)	258 kilometres
Mains replaced	348 kilometres
Gas transported	121 petajoules

1. John Ferguson – Group Executive Networks.

2. Graduate Project Engineer Robert Davis inspecting an underground Network field regulator in Melbourne.

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We also work with high demand industrial gas users, such as foundries and manufacturing plants.

At a broader level, however, networks are located at the end of pipelines, so a key focus for us is looking for opportunities as new pipeline expansion occurs. Ross Gersbach and his team help us find merger and acquisition opportunities. We also look for new opportunities for gas reticulation in country towns where there's presently no natural gas. Expanding urban areas is certainly on our radar – places in Queensland, South Australia and Victoria where we can economically extend current networks to include customers who until now, have been beyond our reach.

Q: Tell us a bit more about the Mains Renewal Program.
One of the best ways to improve supply reliability is to improve existing assets. With the Mains Renewal Program, we're rehabilitating cast iron mains by inserting a polyethylene pipeline into the ageing mains. This not only helps stop leaks, it also enhances supply so we can increase capacity and look after more potential customers. Improvements like this also reduce the service and break down frequency. This year, we've undertaken around 350 kilometres of pipe renewal. Next year, we expect to do another 500 kilometres… and we will continue the program at this rate into the future.

Q: What's the connection between Networks and the rest of APA's business?
The Networks business is about getting gas from the transmission pipelines through to the end consumers, so we're a key component of the gas transportation process. We're actually a large throughput for the transmission pipelines. For every gigajoule of gas that we can get into the network, that's a gigajoule that needs to be transmitted, usually by APA. Our role is to maximise the value of APA's network investments, to encourage transportation of gas through our pipelines and, by extension, to grow the network owners in which APA has a stake.

Energy more than transporting gas

Ross Gersbach – Chief Executive Strategy and Development

A key part of this group is shaping what APA will look like in five years' time and longer – setting APA's strategy. Driving the growth of APA's asset portfolio, via smart and well-executed acquisitions, managing and growing its non-regulated businesses, optimising regulatory outcomes for regulated assets and helping APA to capitalise on the carbon-constrained world, are also core priorities.

Q: Does APA need to look beyond its core business in order to grow?
We continue to refine APA's corporate strategy so that we are in the best position to benefit from gas growth and expand our investments in energy infrastructure. We also need to be able to ensure not only that we receive appropriate returns from our regulated assets but that the amount invested in such assets makes sense compared to other asset categories in the sector. Both of these aspects are fundamental to delivering our investors capital growth and consistent returns on their investments. Given the significant new investment likely to be needed across the energy sector, APA must remain disciplined on where it directs its capital in order to provide predictable earnings at an appropriate rate of return. It makes sense to identify and develop complementary business opportunities such as power generation that leverage our core skills.

Q: Why is APA now looking at alternative generation options? How risky is that?
APA's focus remains on our core business, gas transportation infrastructure. Our objective is to optimise the value of these assets by maintaining and increasing revenue.

But we're also well positioned to benefit from growth opportunities that arise as energy generation shifts from coal to gas, as the carbon policy incentivises the shift to cleaner fuels. APA has made infrastructure-style investments in two wind farms for precisely this reason and we'll continue to evaluate further investments in the renewable energy sector. We're also developing a large carbon efficient combined cycle gas power station that will displace load that may otherwise have been sourced via coal-fired generation.

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1. Ross Gersbach – Chief Executive Strategy and Development.

APA's Energy Investments

Asset/business	APA ownership	APA services
Envestra Limited Gas distribution networks in South Australia, Victoria, Queensland, country New South Wales and Northern Territory	33.4%	Asset management and operation
GDI (EII) Pty Limited Allgas – gas distribution network in south east Queensland	20.0%	Asset management and operation Corporate services
SEA Gas Pipeline 680 km pipeline from Port Campbell to Adelaide	50.0%	Asset maintenance services
Ethane Pipeline Income Fund 1,375 km ethane pipeline from Moomba to Port Botany	6.1%	Asset management and operation Corporate services
Energy Infrastructure Investments Gas transmission pipelines, gas-fired power generation, gas processing facilities and electricity transmission cables	19.9%	Asset management and operation Corporate services
EII2 North Brown Hill wind farm	20.2%	Corporate services
Hastings Diversified Utilities Fund Epic Energy assets – South West Queensland Pipeline, Moomba to Adelaide Pipeline System, and Pilbara Pipeline System	20.7%	-

Q: How far out does APA need to be looking?
APA's business is about owning and operating quality long term assets. Investment decisions need to predict not only the shape of the industry in five years but also structure the investment returns for over 20 years. We commit considerable time to understanding the potential changes in our sector as well as structuring our contractual arrangements to minimise the risks in the long term.

Q: What progress has APA made in terms of making the most of climate change policy opportunities?
The most substantial climate change policy business decisions we've made this reporting year have been the integration of the acquisition of the 79 megawatt Emu Downs Wind Farm and progressing the potential 130 megawatt Badgingarra wind development project. As well, we have continued discussions with the Department of Climate Change to formulate an appropriate method of emissions measurement for the gas industry; and submitted a response to the federal government's Draft Energy White Paper promoting low emission technologies.

Although I've talked about Emu Downs as being a climate change policy opportunity, this wind farm is a sound investment in its own right. In fact, it's consistent with our other gas infrastructure investments in terms of expected return. In addition to the revenue contract, we have extensive wind farm data – including almost five years' worth of operating wind data – that provides us with a high level of certainty of its generating and operating performance. The adjacent 130 megawatt Badgingarra development site will also represent additional upside value to APA when it is developed. The Badgingarra development is contingent on Western Power's Mid-West Energy Project transmission upgrade. In that regard, we were particularly pleased to see Western Power gaining the rights to expand its transmission line earlier this year.

Even more importantly, Emu Downs is located alongside APA's existing assets north of Perth Basin. Gas storage infrastructure supporting gas-fired generation complements wind generation. Intermittent wind generation and fast-start gas-fired electricity generation work very well together to deliver sustainable and reliable electricity output. So the combination of our gas assets in the region – the Parmelia gas pipeline and the Mondarra Gas Storage Facility – together with the Emu Downs operating wind farm and adjacent development site, gives us options to develop wind generation and facilitate gas generation to deliver the energy solutions needed in the state.

Q: How do projects like Diamantina fit with APA's core business?
While this is a step out of business as usual, Diamantina addresses issues that affect our transmission business. Diamantina ensures that we continue to transport gas to Mount Isa and so safeguards our investment in the Carpentaria Gas Pipeline. At the same time we are developing a power station that is meeting the precise energy needs of our customers and we're doing that on a sound commercial basis together with AGL Energy, our partner on the project.

Q: So this is part of APA's strategic development?
Very much so. For a start, Emu Downs and Diamantina expand our asset base and will deliver returns for the business. They are strongly related to what we do. We are very much drawing on the skills and knowledge we have at APA to make them happen. Like all our projects, they are underpinned by contracts that will deliver returns that are consistent with rest of the business. What they add is better service, and more services, for the customers we have.

Diamantina Power Station: A project that complements existing pipeline assets
The Diamantina Power Station is a jointly developed, 242 megawatt gas-fired power station at Mount Isa, Queensland. It will ensure the Mount Isa region continues to have the option of a local gas-fired electricity solution, using gas delivered by the Carpentaria Gas Pipeline. That pipeline has serviced Mount Isa since it was commissioned, in 1998.

With the incumbent generator not wanting to upgrade the existing power station, there was a real threat that gas would no longer be used to generate electricity for the region. That concern prompted APA to partner with AGL Energy to develop a private industry solution that required no government subsidies to meet the future electricity needs of North West Queensland.

Diamantina Power Station is a modern, low-emission, efficient combined cycle power station, delivering competitive and reliable energy supply to the region. It is underpinned by contracts with Mount Isa Mines (Xstrata) and other major energy users through to 2030. The power station will produce sufficient electricity to supply mines and communities in the region, with scope for further expansion in line with energy demand increases.

For APA investors, that means attractive returns from the power station itself, as well as securing future value for the established Carpentaria Gas Pipeline.

Diamantina's detailed design is complete and construction activity well advanced, with partial commissioning targeted for the first half of 2013, and full commissioning in the first half of the following year.

2. Construction is underway at the Diamantina Power Station in Mount Isa Queensland. The project is a joint venture between APA and AGL Energy that will secure the long term energy supply needs for north west Queensland.

Capital management
access to the funds we need

Over the past three years, we have continued to broaden the funding options for the business going forward. The funding strategy itself hasn't changed. We continue to fund our expansions and investments with a mixture of free cash flow generated by the business, equity and appropriate levels of new debt, and do so in ways that safeguard our investment grade credit ratings at BBB/Baa2 metrics or better.

Our debt program focuses on getting the right pricing for an appropriate term. In November 2011, we entered into a new bank syndicated facility agreement totalling $1.45 billion. This agreement enabled us to refinance the $900 million syndicated bank debt tranche due in June 2012 and also to refinance early the $515 million syndicated bank debt tranche due in July 2013. As a result, we reduced our future interest costs and removed debt refinancing obligations until the maturity of a series of our 2003 US Private Placement Notes due in September 2013 (A$113 million equivalent).

In December 2011, we completed the successful sale of 80 per cent of the gas distribution network in south east Queensland (Allgas) banking $477 million after transaction costs. The funds from this transaction were used to repay current APA debt and provide further headroom to support our growth strategy, including the proposed HDF acquisition.

We also successfully issued two series of Medium Term Notes (MTNs) during the year: a JPY10 billion (A$126 million), six-year five-month fixed-rate MTN issue, and a C$300 million (A$289.5 million) issue of seven year fixed-rate MTNs. Funds raised have been used to repay existing loans drawn under APA's current revolving bank facilities, with resultant additional headroom being available to support APA's ongoing investment in the growth of its infrastructure assets, the acquisition of HDF, as required, and for general corporate purposes. More recently APA registered a prospectus in respect of $475 million of Subordinated Notes and also accepted commitments to enter into $600 million of new syndicated bank facilities to further support the funding of this growth and ensure facilities are in place to fully repay all HDF debt as the takeover of that business progresses.

Since 30 June 2011, APA has secured in excess of $2.3 billion in new bank facilities and MTN issues, highlighting our ongoing ability to access a broad range of debt capital markets. Gearing at year end was at 65 per cent. We expect gearing to remain in the 65 per cent to 68 per cent range over the next 12 months.

Funding beyond 2012

Consistent performance
our 5 year financial summary

		2012	2011	2010	2009	2008
FINANCIAL PERFORMANCE						
Revenue	$m	**1,060.7**	1,102.0	989.5	949.8	881.7
Revenue excluding pass-through	$m	**758.0**	720.3	659.5	678.4	598.9
EBITDA	$m	**525.8**	492.1	460.0	432.1	408.8
Depreciation and amortisation expense	$m	**(110.4)**	(100.4)	(91.4)	(95.6)	(94.5)
EBIT	$m	**415.4**	391.8	368.5	336.5	314.3
Interest expense	$m	**(234.3)**	(247.1)	(229.4)	(221.7)	(224.1)
Tax expense	$m	**(50.4)**	(35.9)	(38.7)	(35.9)	(23.0)
Minority interests	$m	**-**	(0.3)	(0.2)	(0.1)	(0.1)
Profit after tax and minorities, including significant items	$m	**130.7**	108.5	100.4	78.8	67.2
Significant items – after income tax	$m	**(9.7)**	(0.4)	0.0	(21.0)	(4.2)
Profit after tax and minorities, excluding significant items	$m	**140.3**	108.9	100.4	99.7	71.4
FINANCIAL POSITION						
Total assets	$m	**5,496**	5,428	4,982	4,747	5,097
Debt	$m	**3,224**	3,240	3,157	3,057	3,401
Securityholders' equity	$m	**1,614**	1,668	1,395	1,278	1,250
CASH FLOW AND CAPITAL EXPENDITURE						
Operating cash flow	$m	**335.6**	290.0	267.8	226.4	186.4
Capital expenditure	$m	**249.1**	173.4	135.4	301.7	193.8
Investments and acquisitions	$m	**46.4**	342.7	220.5	118.7	655.6
KEY FINANCIAL RATIOS						
Earnings per security	cents	**20.4**	19.7	19.4	22.7	18.3
Operating cash flow per security	cents	**52.5**	52.6	51.9	48.2	42.7
Distribution per security	cents	**35.0**	34.4	32.8	31.0	29.5
Gearing (net debt to net debt plus equity)	%	**65.0**	66.2	69.8	70.3	72.0
Interest cover ratio	times	**2.5**	2.0	2.1	2.1	1.9
Weighted average number of securities	m	**639.7**	551.2	516.2	485.1	450.3
EBITDA BY SEGMENT						
Energy Infrastructure*						
Queensland	$m	**79.6**	71.7	70.7	62.8	65.5
New South Wales	$m	**113.1**	101.3	96.8	83.4	63.4
Victoria and South Australia	$m	**123.1**	115.9	105.7	105.1	83.6
Western Australia and Northern Territory	$m	**125.9**	99.8	102.7	110.6	112.8
Asset Management	$m	**31.9**	38.8	32.3	22.6	25.5
Energy Investments	$m	**41.8**	27.1	19.1	11.6	5.0
Divested businesses	$m	**20.2**	35.1	32.6	48.2	58.7

* excludes contributions from divested businesses (Allgas and EII, 2008–2012)

People more than what you see

At APA, we're fostering a high-performance work environment where talented people are encouraged to extend themselves within a safe, attractive and safety-conscious environment. We recognise that we are competing for talented human resources. We seek to attract the best people we can find through competitive remuneration, offering a great place to work, exciting career paths with promotion from within wherever possible, an inclusive culture and by genuinely valuing diversity of thinking, skill, experience, ethnicity and age.

HEALTH AND SAFETY

Safety is central to APA's culture and operations and we continue to aim to be a zero harm workplace not just for our employees but also for contractors and other people entering, or working on, our sites. Our ultimate goal is a workplace where everyone goes home at the end of the day in the same condition they came to work in. It was encouraging to see our employee Lost Time Injury Frequency Rate (LTIFR) decrease this year to 2.2 overall compared with 6.2 last year and below our target of 3.2. However, it was disappointing that there was an increase in Lost Time Injuries (LTI) amongst our contractors, with 12 contractor LTIs compared to 5 last year and our target of 4. Along with 5 APA employee LTIs, this meant that 17 people were unable to live their lives as normal because of something that happened at work. We will continue to focus on reducing our LTIs overall, and expect that increased collaboration with our contractor partners will help us achieve this goal.

We have now integrated best practice Health, Safety and Environment (HSE) standards into all activities across every part of the business, including HSE management systems for all controlled activities and controlled sites, ongoing identification of potential exposures to health and safety hazards, fatigue management, drug and alcohol programs, and agreements for suppliers, contractors and partners.

Our National Health Safety and Environment Management System, Safeguard, provides us with clear oversight and reporting on every element of the safety system technology. Over the next 12 months, we will transfer this system from a manual system to a new platform for compliance, reporting and governance in line with good business practice.

Turning to health, 220 APA people took part in the Global Corporate Challenge, the fourth year that APA has sponsored employees in this event, which we recognise as a great and fun way to encourage physical activity and improve health and fitness

LEARNING AND DEVELOPMENT

As APA continues to grow, we continue to train our people to ensure they have the required skills and systems to complete their work in a highly skilled and enjoyable way. This commitment to improvement through learning and development is consistent with APA's wish to encourage everyone who works in the Group to accept greater challenges and responsibility throughout their time with us.

Our comprehensive learning and development programs include a significant investment in technical capability as well as continuing refreshment of technical skills to match changing technology. Our Talent and Succession program is complemented, in turn, by Assisted Education and Residential Business Skills courses to develop generalist capabilities in our managers, and ongoing functional development by way of institutional accreditations and upskilling for those in areas such as HR, IT and finance.

During the past 12 months, 356 employees participated in APA Leadership Development Programs and 189 in APA Skill Based Development Programs. Both programs focus on increasing self-awareness and leading people.

WORKPLACE INITIATIVES

It's important to us that we strive to create a rewarding and enjoyable workplace, and at the same time that we support people as best we can with proactive workplace initiatives. APA's workplace initiatives include:

— "Fair treatment @ APA" – which aims to ensure equal opportunity for all employees
— Employee assistance program, offering access to advice with confidential counselling on work related or personal issues
— Health and wellbeing initiatives, including flu vaccinations and information on health awareness, dealing with depression, participation in the Global Corporate Challenge fitness program and preparing for emergencies such as bush fires
— Flexible work practices, 14 weeks paid parental leave, an assisted education program and Australian Breastfeeding Association accreditation, to benefit mothers returning to work at APA.

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 provides opportunities for innovation. APA also recognises that creating sustainable securityholder wealth depends on our ability to attract and retain an engaged, highly skilled and motivated workforce. Therefore diversity makes good business sense.

While the APA workforce gender profile is consistent with organisations within our industry, and similar male dominated sectors, we are committed to increasing the participation of women in our workforce in order to broaden the talent pool from which leaders can be drawn. A number of objectives and initiatives have been agreed by the board to enhance diversity, such as wherever possible including at least one woman on the shortlist of applicants for all management roles, and including a woman in the selection panel for all senior management roles.

Under APA's equal employment opportunity policy, employment-related decisions are based on merit, with an additional emphasis towards proactively seeking to attract new talent into APA. APA operates a talent program by which future leaders, both men and women are identified and developed with a range of training programs with a view to them moving into leadership roles in the future.

APA respects that people who work with us may have domestic responsibilities and seeks to retain such employees in the workforce through policies like paid parental leave and flexible workplace practices. Our flexible workplace policy encourages managers and employees to discuss and assess suitable workplace practices to help our people balance their personal commitments without negatively impacting on what they need to get done at work through options such as permanent part-time work, job share arrangements, working from home and flexible working hours.

1. Jayne Arthur, Operations Manager South West Queensland talks with Construction Manager for Dalby compressor station, Andrew Furminger.

2. Brendan Kruger, Transmission E&I Technician on site at Dalby.

APA employees by state

State	
QLD	21%
NSW	15%
ACT	2%
VIC	21%
SA	24%
WA	13%
NT	4%

APA employees by gender

Gender	
Male	73%
Female	27%

APA employees by age

Age	
Less than 35	22.5%
35–54	55.0%
Over 55	22.5%

APA workforce gender profile (2012)

Women represent 27 per cent of our total work force; a 2 per cent increase from the previous year.

Women hold 12.5 per cent of the total number of directorships on the APA Group board.

Women hold approximately 14 per cent of leadership roles within APA (top three levels of management).

Women hold 4 per cent of the technical roles within APA.

Clear direction

APA's board and senior management bring to the Group a combination of diverse skills and collective experience alongside their deep knowledge of APA's assets and business. Those experiences include:

— Senior leadership of publicly listed companies, including positions providing financial and investment experience
— Experience in the gas and energy industry, including knowledge of energy markets, operational issues and industry regulation
— Strong understanding of sustainable development, including health safety and environmental practices and people development
— Strong understanding of the workings of government and economic regulation of energy infrastructure in Australia.

The board and senior management work closely together to progress APA's growth, security and value.

View full biographies – Our People
annualreport2012.apa.com.au

APA Group board

Len Bleasel AM
Chairman

Michael McCormack
Managing Director

Steven Crane

John Fletcher

Russell Higgins AO

Patricia McKenzie

Muri Muhammad*

Robert Wright

* Muri has given notice (as of 25 July 2012) of his resignation from the boards of APTPL and APL, with effect from 24 October 2012.

Senior management

Peter Fredricson

Ross Gersbach

Rob Wheals

John Ferguson

Kevin Lester

Stephen Ohl

Peter Wallace

Mark Knapman

APA's organisational and reporting structure reflects its discrete core businesses and significant infrastructure development activities.

Peter Fredricson
Chief Financial Officer – Responsible for all financial functions, including accounting and financial reporting, financial compliance and governance, taxation, treasury, balance sheet management and capital strategy, and insurance and risk; responsible for investor relations and information technology.

Ross Gersbach
Chief Executive Strategy and Development – Responsible for complementary businesses that enhance APA's infrastructure portfolio, including power generation and APA's Energy Investments; responsible for group strategy, regulatory and government affairs, environmental development and mergers and acquisitions.

Rob Wheals
Group Executive Transmission – Responsible for the commercial and operational performance of APA's gas transmission and storage assets.

John Ferguson
Group Executive Networks – Responsible for the management and operation of APA's minority owned gas distribution assets.

Kevin Lester
Group Executive Infrastructure Development – Responsible for engineering services and the delivery of APA's infrastructure expansion projects, including asset management, project development and technical regulation of all pipeline and related assets.

Stephen Ohl
Group Executive Strategic Projects – Responsible for the management of APA's major capital works projects, including the Mondarra Gas Storage Facility expansion and the Diamantina Power Station.

Peter Wallace
Group Executive Human Resources – Responsible for managing the human resources function, which covers strategy and activities relating to APA's employees, including providing a safe work environment for all employees.

Mark Knapman
Company Secretary – Responsible for the secretariat function, corporate governance, legal, internal audit and financial services compliance functions.

Sustainability performance scorecard

Our purpose: To be Australia's number one energy infrastructure business. Our success will be founded upon the strengthening of our asset footprint. We are committed to working closely with our stakeholders – customers, employees, the environment, community and investors – to deliver continuous improvement and sustainable growth.

Stakeholder strategic objectives	2012 performance	Actions for 2013
Customers We will deliver value to our customers and create responsive solutions to their needs by: — Providing our customers a **market-leading service**, including responding to critical events when our customers are negatively impacted. — Delivering value to customers by **utilising the capacity of APA's assets**. — Working with customers to provide optimal investment and **energy market solutions** to maintain a pipeline of growth projects.	APA is jointly constructing, with AGL Energy, the 242 megawatt Diamantina Gas Power Station. The power station will supply electricity to Xstrata and Ergon Energy and APA will provide gas transportation services on the Carpentaria Gas Pipeline. Launched the integrated customer management system, streamlining the way services are provided to customers. The new system provides customers with better information and improved service.	Respond to customer needs and continue to develop optimal energy solutions with customers. Cost efficiency to meet customer growth requirements – maximising use of existing assets and profitably expanding APA's asset portfolio. Continue to develop flexible transportation and storage services.

Stakeholder strategic objectives	2012 performance	Actions for 2013
Employees We will provide a safe, stimulating and rewarding workplace where our employees can learn and grow by: — Committing to a long-term LTI[6] target of **Zero Harm** by continually improving safety in the workplace. — Providing employees with a stimulating and rewarding environment such that they would recommend APA as a **great place to work**. — Providing learning and development programs to **attract, retain and develop** employees. — Promoting **diversity** as a core policy supported by initiatives which foster inclusion.	An LTIFR performance measure of 2.2 against a target of 3.2 for employees. Ongoing deployment of our Safety Management System (Safeguard). Continued sponsorship of health focused activities for employees including the Global Corporate Challenge Employees participated in 356 APA Leadership Development Programs and 189 APA Skill Based Development Programs.	Maintain our goal of continuous improvement and reduce the LTIFR target to 1.3. Development of a safety management system (technology platform) Expanded technical, learning and development program to all employees. Development of a business skills program. Continue development of APA's diversity policy and initiatives.

6 Lost Time Injury rate is measured as the number of lost time claims per million hours worked.

Stakeholder strategic objectives	2012 performance	Actions for 2013
Environment We will continue to deliver an environmentally responsible, safe and essential service by: — Contributing to policy and responding to **climate change initiatives** to promote the use of gas as essential to a cleaner energy mix. — Including the environment in all investment and procurement decision-making, complying with our emissions reporting obligations, and **conserving and rehabilitating** the natural state of the land we disturb. — Evaluating complementary **clean energy** projects.	Contributed to the federal government's Clean Energy Act 2011 regulation design and consultation process. Successful Implementation of carbon compliance reporting and carbon permit liability management systems, including the cost recovery of APA's carbon liability contractually or through the access arrangement tariff review process. Engaged with government at federal and state levels to promote the role of gas in the carbon-constrained economy, directly and via industry associations. This included a submission to the federal government's Draft Energy White Paper outlining the importance of gas in the clean energy mix. Successful integration of the Emu Downs wind farm operations and Badgingarra wind development project into APA Power Generation Group.	Participate in policy discussions and promote the role of gas as an important contribution to reducing Australia's emissions. Include a price on carbon and water efficiency in investment decisions and procurement activities. Evaluate energy project opportunities arising from the shift to renewable energy, particularly projects that enhance APA's current assets.

Stakeholder strategic objectives	2012 performance	Actions for 2013
Community We will positively engage the communities within which we operate by: — Building long-term strategic community relationships to maintain **support and goodwill** for APA's activities. — **Increasing employee connection with local communities** through sponsorships, employee volunteering and giving programs targeting our vulnerable communities.	Continued APA's "Building Brighter Futures" community program including a commitment to support NAPCAN, Exodus Foundation, Clontarf Foundation and Beyond Empathy. Employees participating in community fund-raising events together with APA matching funds raised up to a $4,000 limit per event. Total community investment for the 2012 financial year was $250,000.	Continue to support our Community Investment Program and expanding its reach. Ongoing and extended support for Brighter Futures Community program. Expanded financial support for local volunteer services such as the volunteer fire brigades.

Stakeholder strategic objectives	2012 performance	Actions for 2013
Investors We will continue to be a reliable and attractive investment which delivers superior returns for securityholders by: — **Achieving reliable and sustainable earnings growth** by focusing on long-term revenue and reduced costs. — Maintaining a strong and **robust balance sheet**. — Identifying and evaluating additional attractive **infrastructure-style investments** in related energy businesses.	Total securityholder return of 32.6 per cent for 2012. Maintained investment grade credit ratings (BBB/Baa2). Successful debt raising of $1.9 billion bank facilities and $415 million Medium Term Notes to refinance debt maturing in 2012, repay more expensive debt and fund growth. Successful equity capital raising of $45 million, through operation of the Distribution Reinvestment Plan. $271 million of organic growth capital expenditure, acquisitions and investments.	Maintain credit rating levels. Continue to seek appropriately priced opportunities to issue into the global debt capital markets in order to extend the average tenor of our debt portfolio. Continue to evaluate additional revenue streams in related energy businesses.

Building brighter futures

COMMUNITY
APA is committed to investing in communities where we have assets and interests. A strong community investment program engages and adds value to the community and increases goodwill to APA activities. We have continued, and expanded our program this year and for the year ahead. Once again, we are pleased to place the majority of our community investment where it will, in our view, best benefit those most in need or will support causes where we believe we can make a material difference.

As an organisation, we continue to build on our long-term strategic community partnerships. We have continued our support of the arts with our sponsorship of the Darwin Symphony and Brandenberg Orchestras. We have also continued our support of the Taronga Zoo.

Understanding the importance of building strong local community relationships, this year we supported a number of Victorian Rural Fire Services organisations. Last year, we launched the “Building Brighter Futures” community investment program which connects our business and our people to the communities in which we work and live by supporting initiatives to improve the future work and life prospects of less fortunate Australians.

Our community partnerships with four indigenous organisations reflect our commitment to help build brighter futures for indigenous Australians. APA supports:

— NAPCAN Aboriginal Girls Circle (AGC): a residential camp program to build resilience, self-esteem, social connections and confidence for Aboriginal girls in regional and remote areas
— Clontarf Foundation: a program based around Aboriginal boys’ passion for football, to improve the education, self-esteem and employment prospects of young Aboriginal men
— Exodus Foundation Literacy Program: an intensive learning sessions to teach functional literacy to children with severely compromised reading abilities, including indigenous Australians
— Beyond Empathy: a community arts and cultural development organisation that creates art projects with people living on the margins of their communities to tell stories and engage with new futures.

This year, APA donated almost $150,000 to these causes.

Building Brighter Futures also supports a number of causes close to the hearts of APA people through our annual employee community event calendar, by capped matching of funds raised by APA employees. Supported events included Cancer Council’s Australia’s Biggest Morning Tea and Pink Ribbon Day, Movember Foundation’s Movember event, Starlight Children’s Foundation’s Starlight Day and Make a Wish Foundation’s Laugh for Kids on Wish Day. Employees collectively donated more than $30,000 to these causes, donations which were matched to $18,000 by APA.

Our total community investment and sponsorship for the 2012 financial year was $250,000.

1

1. Students from the Clontarf Foundation’s Roebourne Academy (Western Australia), enjoying time with staff member Rodney Corbett.

2. One of the 48 wind turbine generator’s (1.65 megawatt each) at APA’s Emu Downs wind farm in Western Australia.

ENVIRONMENT

APA has a relatively small carbon footprint in the overall energy chain. APA's emissions are mainly the result of the combustion of natural gas in compressor stations and from fugitive emissions within our networks.

APA regularly monitors its carbon exposure and complies with National Greenhouse and Energy Reporting System (NGERS) obligations for reporting emissions data. In financial year 2011 APA reported emissions of 297,099 tonnes under NGERS, slightly down from the previous year, and on 31 October APA expects to report a similar emissions number for financial year 2012. Under the Clean Energy Act 2011, we expect our emissions will rise over the longer term as demand for gas transportation and storage services increases in line with energy users switching from coal to gas.

APA expects to recover all carbon related costs from its regulated assets under the access arrangement review process. For non-regulated 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.

This financial year APA continued its participation in the Carbon Disclosure Project (CDP). In 2012 it was the first year that Australian company disclosure scores were made public. APA's score of 66 for disclosure and C for performance was higher than gas infrastructure peers and consistent with energy industry peers.

Clean Energy Act 2011

APA supports reducing carbon emissions as a responsible risk mitigation response to climate change. APA's assets will play an important role in meeting Australia's long-term emission reduction targets as energy consumption shifts from carbon intensive fuels such as coal to more carbon efficient fuels such as natural gas.

On 1 July 2012 the Clean Energy Act 2011 imposed a price on carbon emissions. APA has long supported the introduction of a price on carbon and certainty on carbon policy, however unfortunately the Clean Energy Act is unlikely to provide the required certainty to shift large-scale coal generation to more carbon efficient gas-fired generation this decade. These uncertainties include the lack of international binding carbon reduction agreements and the price of carbon permits after the fixed price period. In the longer term, as international carbon markets mature, APA will benefit from stronger carbon price signals for consumers to shift to low emissions technologies, such as gas.

Whilst new base-load low emission gas-fired generation is pending a stronger carbon signal, gas-fired peaking generation will continue to play a major role in meeting peak demand and provide opportunities for gas infrastructure growth.

As previously stated, in APA's view, gas-fired generation and renewable energy, predominately wind-powered generation, are the most economic and currently the only technologies that can materially reduce Australia's emissions compared to the current generation mix. APA also views gas-fired peaking generation as playing an increasingly important role as back-up generation to intermittent renewables, such as wind and solar, and for network support to meet an increasing peak demand. Combined-cycle gas turbine (CCGT) generation is a mature technology that can utilise Australia's substantial gas reserves to produce electricity that has one-third the emissions intensity of brown coal and one-half that of black coal.

It should also be noted that if emerging technologies fail to meet the desirable forecasted share of the 2050 generation mix to reduce emissions by the federal government's target of 80 per cent, gas generation, which is a mature and low emission base-load technology, would be preferred to additional coal generation to fill any renewable technology shortfalls. APA considers that Australia will have more than adequate gas resources available for domestic consumption in the medium to long term to underpin any investments in gas generation.

APA believes that policy initiatives complementary to the Clean Energy Future policy package should be considered to ensure that Australia can develop a low carbon electricity generation sector while international policy and carbon markets mature. APA continues to work with gas industry participants to deliver policy initiatives to be considered as part of the government's current suite of low emissions policies. Any low emission policy initiative would focus on delivering material emission reductions from domestic abatement activities, complement the Clean Energy Future package, create jobs, and provide a deliverable path to decarbonising the Australian electricity market.

Expanding our low emission generation portfolio

APA has interests in wind energy and low emission state-of-the-art gas-fired generation. These investments provide solid returns and help lower emissions in the Australian economy.

The 132 megawatt North Brown Hill wind farm is expected to save 355,000 tonnes of carbon emissions each year for 25 years, a total of 8,875,000 tonnes. The 79 megawatt Emu Downs wind farm is expected to save 232,000 tonnes of carbon emissions each year for 25 years, a total of 5,800,000 tonnes.[7] The 242 megawatt Diamantina Combined Cycle Gas Power Station is a low emission asset and is expected to save 840,000 tonnes of carbon emissions each year for 25 years, a total of 21,000,000 tonnes.[8]

7 These emission savings estimations are based on the wind generation output, which is carbon emission free, displacing fossil fuel generation calculated at the average electricity market carbon intensity.

8 We have assumed that the carbon-intensity for gas generation is half that of the average electricity market intensity.

Information for our securityholders

CALENDAR OF EVENTS

Final distribution FY2012 record date	29 June 2012
Final distribution FY2012 payment date	14 September 2012
Annual meeting	25 October 2012
Interim result announcement	20 February 2013*
Interim distribution FY2013 record date	31 December 2012*
Interim distribution FY2013 payment date	13 March 2013*

*Subject to change

ANNUAL MEETING DETAILS

Date: Thursday 25 October 2012

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
Toll Free: 1800 992 312
Telephone: +61 2 8280 7132
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 bank, building society or credit union account. If you would like to arrange direct payment, please contact the APA Group registry.

ONLINE ANNUAL REPORT, ANNUAL REVIEW AND SUSTAINABILITY REPORT

APA Group's 2012 Annual Report, Annual Review and Sustainability Report are available at www.apa.com.au.

ONLINE INFORMATION

Further information on APA is available at www.apa.com.au, including:

— Company history, 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.

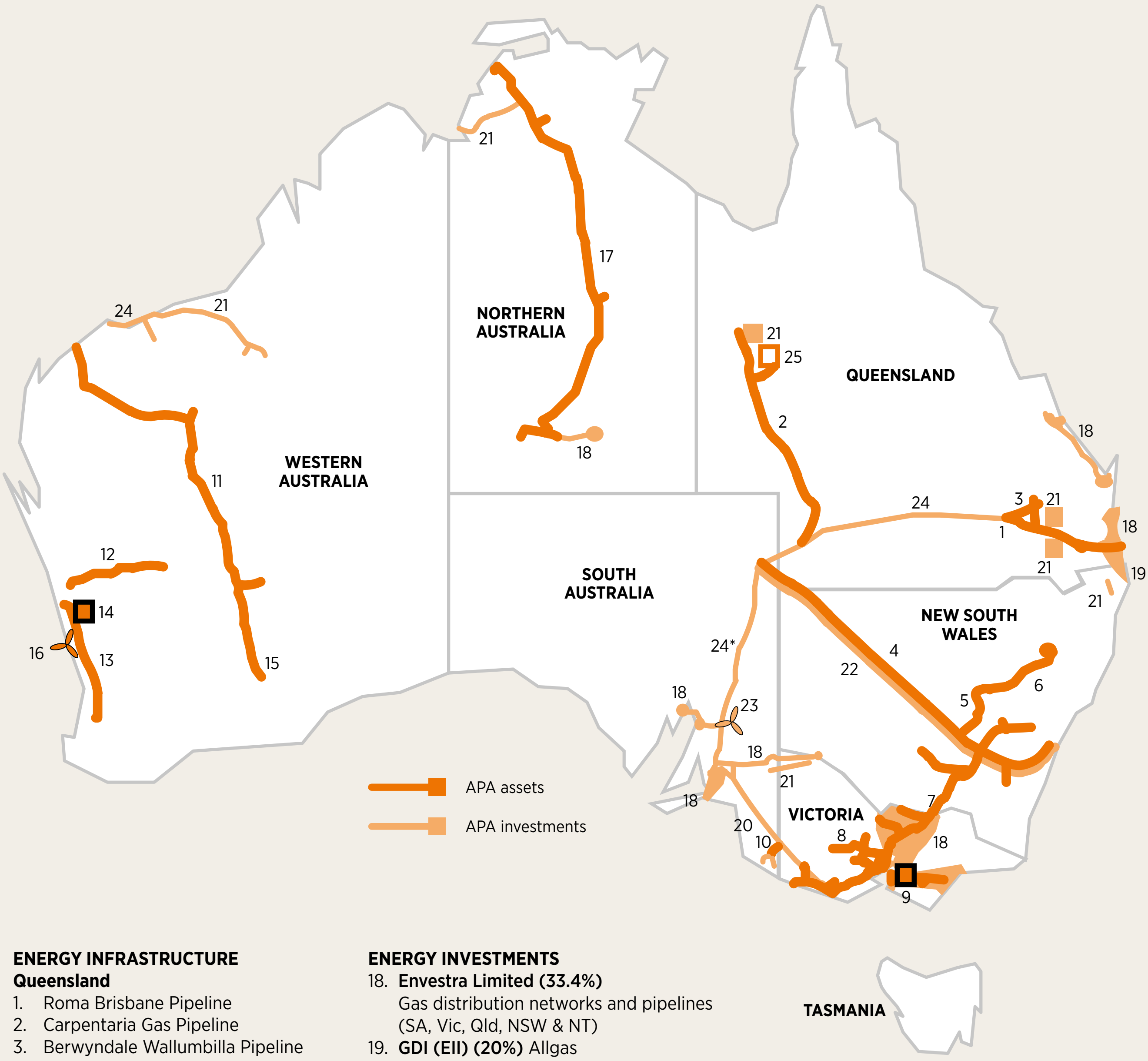
DISCLAIMER

Australian Pipeline Limited (ACN 091 344 704) is the responsible entity of Australian Pipeline Trust (ARSN 091 678 778) and APT Investment Trust (ARSN 115 585 441) (APA Group).

Please note that Australian Pipeline Limited is not licensed to provide financial product advice in relation to securities in APA Group. This publication does not constitute financial product advice and has been prepared without taking into account your objectives, financial situation or particular needs. Before relying on any statements contained in this publication, including forecasts and projections, you should consider the appropriateness of the information, having regard to your own objectives, financial situations and needs and consult an investment adviser if necessary.

Whilst due care and attention have been used in preparing this publication, certain forward looking statements are made in this publication which are not based on historical fact and necessarily involve assumptions as to future events and analysis, which may or may not be correct. These forward looking statements should not be relied upon as an indication or guarantee of future performance.

Our assets
and investments



ENERGY INFRASTRUCTURE

Queensland

1. Roma Brisbane Pipeline
2. Carpentaria Gas Pipeline
3. Berwyndale Wallumbilla Pipeline

New South Wales

4. Moomba Sydney Pipeline
5. Central West Pipeline
6. Central Ranges Pipeline
7. NSW interconnect with Victoria

Victoria

8. Victorian Transmission System
9. Dandenong LNG Facility

South Australia

10. SESA Pipeline

Western Australia

11. Goldfields Gas Pipeline (88.2%)
12. Mid West Pipeline (50%)
13. Parmelia Gas Pipeline
14. Mondarra Gas Storage Facility
15. Kalgoorlie Kambalda Pipeline
16. Emu Downs wind farm

Northern Territory

17. Amadeus Gas Pipeline

ENERGY INVESTMENTS

18. **Envestra Limited (33.4%)**
    Gas distribution networks and pipelines (SA, Vic, Qld, NSW & NT)
19. **GDI (EII) (20%)** Allgas
    Gas distribution network in Queensland
20. **SEA Gas Pipeline (50%)**
21. **Energy Infrastructure Investments (19.9%)**
    Gas pipelines, electricity transmission, gas-fired power stations and gas processing plants
22. **Ethane Pipeline Income Fund (6.1%)**
23. **EII2 (20.2%)**
    North Brown Hill wind farm
24. **Hastings Diversified Utilities Fund (20.7%)**
    *Moomba to Adelaide Pipeline System to be divested on acquisition of effective control of HDF

UNDER DEVELOPMENT

25. **Diamantina Power Station (50%)**

ASSET MANAGEMENT

Commercial and/or operational services to APA's energy investments and other third parties

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