

Corporate Governance Statement

August 2011

Ethane Pipeline Income Fund comprises two registered investment schemes, Ethane Pipeline Income Trust and Ethane Pipeline Income Financing Trust (together the **Fund**) the securities in which are “stapled” together, and their controlled entities.

APA Ethane Limited (**Responsible Entity**) was appointed the responsible entity of those trusts with effect from 23 December 2008, and this statement outlines its main corporate governance practices in relation to the Fund.

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.

In 2010 the ASX Corporate Governance Council released amendments to the Corporate Governance Principles and Recommendations relating to diversity (in particular, gender diversity on boards and with respect to senior management and other employees), share trading policies, shareholder communications and remuneration committees. Those amendments will apply to companies with a July/June financial year from and including the year ending 30 June 2012 with appropriate disclosures to be made in the 2012 annual report, but the Responsible Entity has decided to report against those amendments in this statement.

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 the Responsible Entity’s adoption of the ASX Corporate Governance Council’s recommendations. Explanations for departure from the recommendations are provided in this statement.

Various references are made below to the Fund’s web site as a source of information on corporate governance practices and documentation. The home page for that web site is www.ethanepipeline.com.au, and the link entitled “About the Fund” leads to the corporate governance material. If you do not have internet access but wish to read that material, please telephone 1300 780 445 (or, +61 2 8280 7106 if calling from outside Australia) and we will send you a copy of the relevant material.

In this statement the term **Reporting Period** means the period of 12 months to 30 June 2011.

Principle 1: Lay solid foundations for management and oversight

Board and its role

The Board of Directors of the Responsible Entity (**Board**) is accountable to securityholders for the operation of the Fund.

The role of the Board includes:

- approving the strategic direction of the Fund and monitoring management of the implementation of that strategy;
- approving acquisitions, disposals and expenditures in excess of designated limits;
- ensuring there are adequate resources available to meet Fund objectives;
- monitoring the performance of the Fund Manager referred to below;
- approving and monitoring financial reporting and capital management;
- reviewing and monitoring systems of risk management and internal control, corporate governance structures and legal compliance, and determining key policies and procedures governing the operations of the Fund;
- ensuring the Board is and remains appropriately skilled to meet the changing needs of the Fund and reviewing Board succession planning; and
- ratifying the appointment of the Company Secretary.

The Board normally meets four times each year, with additional meetings 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 that period.

Fund Manager's role

Pursuant to a Management Services Agreement, APT (MIT) Services Pty Limited, a member of the APA Group (**Fund Manager**), provides the Fund with fund management and administration services, and other services.

With the Fund Manager providing such services, neither the Fund nor the Responsible Entity currently employs executives or other employees.

Evaluation of performance

The ASX Corporate Governance Council recommends companies disclose the process for evaluating the performance of senior executives and whether such an evaluation has taken place in the reporting period. As noted, neither the Fund nor the Responsible Entity currently employs executives or other employees, and so senior executive performance reviews are not conducted.

The Board receives reports from the Fund Manager at Board meetings and through that process monitors the performance of the Fund Manager.

Principle 2: Structure the board to add value

Board membership

The Board consists of three non-executive directors, Robert Wright, Rick Coles and Nancy Fox, whose experience and respective terms of office as directors are set out in the directors' report for the Reporting Period.

The constitution of the Responsible Entity requires there to be not less than, nor more than, three directors. The Responsible Entity may, by special resolution, increase or reduce the minimum or maximum number of directors, to the extent permitted by law.

Pursuant to the constitution of the Responsible Entity, APT Pipelines Limited, a member of APA Group, is entitled to appoint one director for so long as it or any of its related bodies corporate owns not less than 49% of the issued capital in the Responsible Entity¹, and any director so appointed serves as Chairman of the Board and may only be removed from office by APT Pipelines Limited. Robert Wright has been appointed by APT Pipelines Limited and is the current Chairman. He is also a director of Australian Pipeline Limited, the responsible entity of the registered investment schemes that comprise APA Group (a substantial securityholder of the Fund).

The ASX Corporate Governance Council's recommendation that the roles of Chairman and Chief Executive Officer should not be exercised by the same person is satisfied in the case of the Responsible Entity in that there is no Chief Executive Officer of the Responsible Entity or the Fund.²

Independence of directors

A majority of the Board are independent directors.

The Board assesses the independence of directors on appointment and annually having regard to the independence of directors policy, which is published on the Fund's web site. This year the Board confirmed that Rick Coles and Nancy Fox are independent. Robert Wright is not considered to be an independent director.

The ASX Corporate Governance Council recommends chairs of boards be independent directors. With Robert Wright not being considered independent, that recommendation has not been adopted by the Responsible Entity. The Board notes that APT Pipelines Limited has the right, as expressed above, to appoint a director to be the Chairman of the Board and considers the other two directors, Rick Coles and Nancy Fox, who together form a majority, to be independent. The Board also values Robert Wright's experience as a chairman and believes him to be the most

¹ The Responsible Entity is owned as to 49% by APT Pipelines Limited (a member of APA Group) and as to the remaining 51% by two of the Responsible Entity's directors from time to time (presently, Rick Coles and Nancy Fox), on trust for APA Group securityholders.

² Refer to the section of this statement entitled "Principle 1: Lay solid foundations for management and oversight" for a description of the Fund Manager's role.

appropriate person to perform that role. The Board has procedures in place should Robert Wright's role at APA Group give rise to a conflict of interest.

The ASX Corporate Governance Council also recommends boards have nomination committees to provide a mechanism for the selection and appointment of directors. However, the Board comprises only three directors who have determined a separate nomination committee to be unnecessary. Recommendations for nominations of new directors will be considered by the full Board. Ultimate responsibility for selection and appointment of directors rests with the full Board, and the Board considers the efficient handling of those matters is not diminished by the absence of a nomination committee.

Selection and appointment of directors

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 the Fund's business, that mix includes financial, strategic, operational, legal and general commercial expertise.

When looking to appoint a new director, the Board determines 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, identifies 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 other directors. 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 Board, Audit Committee and directors

The Board conducts an annual review process to assess the performance of the Board, its Audit Committee and individual directors. The last review was conducted in August 2010 and the Board expects to complete the next review during 2011.

The review process involves each director completing a questionnaire the responses to which will be collated by the Chairman. The Board will then meet to consider the results of that process and to determine any actions arising from the review. The Chairman will also meet with each of the other directors to discuss the review and the

director's own performance, and to seek the director's feedback on the performance of the Chairman.

Directors' access to records and information, Company Secretary, Fund Manager and professional advice

Subject to normal privacy requirements, directors have access to the Responsible Entity's and the Fund's records and information, and to the Company Secretary and the Fund Manager. They receive regular detailed reports on financial and operational aspects of the Fund's business and may request elaboration or explanation of those reports at any time.

The Board collectively and each director individually may seek independent professional advice at the Fund's expense to help them carry out their responsibilities. Prior approval of the Chairman is required, but this may not be unreasonably withheld.

Principle 3: Promote ethical and responsible decision-making

Code of conduct

The Responsible Entity has adopted a code of conduct that applies to all directors, executives and other employees (although neither the Responsible Entity nor the Fund currently employs personnel), as well as contractors and consultants (including the Fund Manager). The code recognises that commitment to and a reputation for honesty, integrity and trust are essential elements of success and longevity in the business of the Fund. It deals with personal conduct; use and protection of Fund assets; confidential information and its protection; insider trading; customer service; conflicts of interest; gifts and entertainment, fraud, corruption and improper transactions; and the work environment. The code of conduct is published on the Fund's web site and is supplemented by other policies, such as the securities trading policy referred to below.

Securities trading policy

The Fund's securities trading policy, published on its web site, provides that directors and designated management personnel may buy or sell Fund securities during:

- the periods, each of one calendar month, starting on the second business day after each of three events, namely the release to ASX of the half year and full year results and the Fund's annual meeting of securityholders, if such a meeting is held; and
- such other times as the Board permits,

unless exceptional circumstances apply. Directors 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

Changes made to the ASX Corporate Governance Council's Principles and Recommendation in 2010 include the recommendation that companies establish a

diversity policy that includes requirements for the board to establish measureable objectives for achieving gender diversity and to assess annually both the objectives and progress in achieving them.

The Responsible Entity recognises that 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. Diversity in this context refers to all characteristics that distinguish individuals from each other, and includes ethnicity, religion, gender and age.

With respect to the Board, it is the Responsible Entity's policy, when looking to fill a Board position, to always have at least one qualified female candidate on the short-list of candidates, and it is noted that one of three current directors is female.

In the circumstances where neither the Responsible Entity nor the Fund currently employs personnel, the Responsible Entity does not propose to develop a diversity policy other than the policy with respect to the Board referred to above.

Principle 4: Safeguard integrity in financial reporting

Audit Committee

The Fund was added to the S&P/ASX All Ordinaries Index in March 2009 and was therefore required by ASX Listing Rule 12.7 to have an Audit Committee for the financial year ending 30 June 2010. Although the Fund is no longer included in that index and is not currently required to have an Audit Committee, the Board has retained the committee.

The composition of the Audit 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; and
- the committee Chairman cannot also be the Chairman of the Board.

As the Board comprises only three directors, all are members of the Audit Committee. Nancy Fox is the Chair of the committee.

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

The Audit Committee is required by its charter to meet at least twice each year, to receive and consider the half-year and full year financial reports. 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 that period.

The external auditor and representatives of the Fund Manager attend committee meetings at the discretion of the committee. The committee will also meet with the external auditor without representatives of the Fund Manager being present.

As the committee comprises all three directors, there is normally no need for the committee to report to the Board on the committee's activities. An exception would arise if a meeting of the committee was held by only two committee members (which is the quorum for meetings required by the committee's charter).

External auditor and their independence

Apart from reviewing the integrity of the Fund's financial reporting, the Audit Committee monitors the effectiveness and independence of the external auditor and makes recommendations to the Board on the appointment or replacement (subject to securityholders' approval, if applicable) of the auditor.

The external auditor appointment and independence policy (published on the Fund'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.

Principle 5: Make timely and balanced disclosure

The Responsible Entity has adopted a continuous disclosure policy aimed at ensuring that information that a person could reasonably expect to have a material effect on the Fund's 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*.

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

The continuous disclosure policy also addresses dealings with media, brokers and analysts, and the policy is published on the Fund's web site.

Principle 6: Respect the rights of shareholders

Communications with securityholders

The Responsible Entity aims to ensure the Fund's securityholders are informed of all significant developments affecting the Fund's state of affairs and business. Information is communicated to securityholders by a number of means, including the following:

- the interim (half yearly) report, the directors' commentary on that report and the annual report;
- announcements to ASX and media releases;
- a brief investor update that is typically sent to securityholders with payment of the quarterly distributions;

- the Investor Centre section of the Fund's web site on which the reports, ASX and media releases and other communications referred to above are posted; and
- an annual information meeting for securityholders.

Annual information meeting for securityholders

As the Fund comprises of two registered investment schemes, the Responsible Entity is not obliged to convene annual meetings of the Fund's securityholders. However, since its appointment in December 2008, the Responsible Entity has held annual information meetings for securityholders, and intends to convene the next such meeting in November 2011. Details of the meeting will be provided to securityholders in October, and will be published on the Fund's web site.

Principle 7: Recognise and manage risk

The Board is responsible for adopting and reviewing the Fund's approach to the identification, evaluation and management of business risks that are material to the fulfilment of Fund's business objectives and for approving and overseeing the risk management system.

The Board has adopted APA Group's risk management policy and framework that will be reviewed annually to assess the effectiveness of the implementation of the risk management controls and procedures.

The Fund Manager is accountable for ensuring that a risk management system is established, implemented and maintained in accordance with the adopted risk management policy and framework and, in consultation with APA Group's risk management personnel and relevant operational and other personnel, for:

- reviewing the measures of risk impact severity that underlies the identification of material business risks, to ensure the measures remain current to the Fund's context;
- identifying material business risks that may impact on the Fund's business plans and objectives and the development, implementation, performance and review of risk management plans. In doing so, consideration is given to both financial risk and non-financial risk, including operational, environmental, strategic, market-related, compliance and reputation risk;
- collecting operational risk data and monitoring external factors, to facilitate monitoring of the Fund's risk profile; and
- reporting regularly to the Board on the risk profile and the implementation and effectiveness of risk management plans.

Management has reported to the Board as to its assessment of the effectiveness of management of the Fund's material risks.

In the course of approving the financial statements for the Reporting Period, the Board considered a written statement from the Fund Manager 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 the Fund'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 the Responsible Entity.

Principle 8: Remunerate fairly and responsibly

Remuneration of key management personnel

The Responsible Entity's directors are "key management personnel" for the purpose of note 20 to the financial report for the Reporting Period and their directors' entitlements, comprising board fees and superannuation contributions, are shown in that note. The Responsible Entity pays the directors those amounts and is then reimbursed by the Fund, in accordance with the Trust's constitutions.

Board fees increased with effect from 1 January 2011 after a review that took into account comparative market data provided by independent remuneration consultants Egan Associates.

With APA Group providing fund management and administration services and other services as outlined in the section on Principle 1 in this statement, neither the Responsible Entity nor the Fund currently employs executives or other employees and no personnel, other than the directors of the Responsible Entity, are identified as "key management personnel" in the financial report for the Reporting Period.

The ASX Corporate Governance Council recommends companies clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives, but that recommendation is inapplicable in the circumstances described above.

Remuneration Committees

The ASX Corporate Governance Council also recommends boards establish Remuneration Committees. However, with the Board comprising only three directors, and with neither the Responsible Entity nor the Fund currently employing any personnel, the Board has determined a Remuneration Committee to be unnecessary.

No retirement benefits for directors

There are no schemes or arrangements for payment of retirement benefits (other than superannuation contributions) to the directors of the Responsible Entity, nor equity-based remuneration schemes.

Fund Manager's fees

The Fund Manager is entitled to certain fees for the provision of services to the Fund (as well as the reimbursement of costs) in accordance with the terms of the Management Services Agreement. Under that agreement, the Fund Manager is entitled to a base fee of 0.5% per annum of the "Net Investment Value" of the Fund, calculated and paid monthly.

The "Net Investment Value" as at the end of a calendar month is the volume weighted average market capitalisation of the Fund on ASX over the calendar month:

- plus the total indebtedness of the Fund and any entities it owns directly or indirectly (excluding indebtedness as between the Fund and Fund-owned entities) at the end of the calendar month;
- plus total firm commitments as at the end of the calendar month to future investment by the Fund and any entities it owns directly or indirectly;
- less total uncommitted cash balances as at the end of the calendar month of the Fund and any entities it owns directly or indirectly, but excluding cash balances of operating or project vehicles owned by the Fund constituting normal working capital; and
- less the book value at the end of the calendar month of any assets of the Fund (and any entities it owns directly or indirectly) which are managed by third parties (excluding infrastructure operations and maintenance arrangements).

For the Reporting Period, the base fee was \$502,899.

Details about the services and the nature of fees under the Management Services Agreement were set out in the Fund's 2006 Product Disclosure Statement, a copy of which is accessible from the Fund's website.

Responsible Entity's fees and other matters

Under the Trusts' constitutions, the Responsible Entity is entitled to be paid a fee of 2% per annum of the value of the assets of the Fund without deducting liabilities, calculated monthly. The Responsible Entity is also entitled to reimbursement from the assets of the Fund for expenses incurred in the proper performance of its duties as responsible entity of the Fund.

Under a Fee Sharing Deed with the Fund Manager however, the Responsible Entity has agreed to waive all of its fees other than an aggregate sum of \$200,000 per year (adjusted for GST and input tax credits) provided the Fund Manager receives the fees it is due under the Management Services Agreement. For the year ended 30 June 2010, the total amount of such fees was \$200,000.

Pursuant to each Trust's constitution:

- the Responsible Entity is not liable in contract, tort or otherwise to members for any loss suffered in any way relating to the Trust except to the extent that the *Corporations Act* imposes such liability;
- subject to the *Corporations Act*, the liability of the Responsible Entity to any person other than a member in respect of the Fund including any contracts entered into as trustee of the Trust or in relation to any assets of the Fund is limited to the Responsible Entity's ability to be indemnified from the Fund's assets; and

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- the Responsible Entity is entitled to be indemnified out of the Fund's assets for any liability incurred by it in properly performing or exercising any of its powers or duties in relation to the Fund.

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	No
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
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: <ul style="list-style-type: none"> ▪ the practices necessary to maintain confidence in the company's integrity ▪ the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders ▪ 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	No
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	No
3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior management and women on the board	Yes
3.5 Companies should provide the information indicated in the Guide to reporting on Principle 3	Yes
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: <ul style="list-style-type: none"> ▪ consists only of non-executive directors ▪ consists of a majority of independent directors ▪ is chaired by an independent chair, who is not chair of the board ▪ 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

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| 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

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| 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

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| 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 <i>Corporations Act</i> 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 | |

Principle 8: Remunerate fairly and responsibly

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| 8.1 | The board should establish a remuneration committee | No |
| 8.2 | The remuneration committee should be structured so that it: <ul style="list-style-type: none"> ▪ consists of a majority of independent directors ▪ is chaired by an independent director ▪ has at least three members | N/A |
| 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 |