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APA Group



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ASX RELEASE

3 March 2009

The Manager

Company Announcements Office
Australian Securities Exchange
4th Floor, 20 Bridge Street
Sydney NSW 2000

Electronic Lodgement

Dear Sir or Madam

Company Announcement

I attach the following announcement for release to the market:

- Open Briefing - MD & CFO Discuss Profit & Outlook

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Knapman', written in a cursive style.

Mark Knapman
Company Secretary

**Attention ASX Company Announcements Platform
Lodgement of Open Briefing®**

APA Group



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APA Group
Level 19, HSBC Centre
580 George Street
Sydney NSW 2000

Date of lodgement: 03-Mar-2009

Title: Open Briefing®. APA Group. MD & CFO Discuss Profit & Outlook

Record of interview:

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APA Group (APA) announced its half year result to 31 December 2008 including underlying revenue (excluding pass-through) of \$367.7 million (up 20% versus the previous corresponding period) and underlying EBITDA of \$248.8 million (up 16%). Can you explain how you achieved that growth versus the pcp?

Mick McCormack, Managing Director

It's pleasing to report that all parts of the business contributed to the strong result. Two standouts are the increase in the performance of the New South Wales and Victorian businesses.

The 39% increase in New South Wales is due to the combination of increased tariffs, additional winter peak and storage services in NSW, as well as the full 6 month effect of internal operations (compared with 3 months in the 1H08 half).

The 44% increase in the Victorian segment is due to the operation of new tariffs from the recent Access Arrangement, combined with an increase in volume transported through the system.

It is also important to note that the growth in sales was driven not by acquisitions, but by capturing the organic growth opportunities within the continuing businesses.

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Underlying Operating Cash Flow increased by 12% to \$122.8 million and Underlying Operating Cash Flow per security increased 3.3% to 25.8 cents. Distributions for the half year were 15.0 cents per unit, up from 14.5 cents per unit in the pcp. What is your earnings and distribution outlook? What assumptions underpin that guidance?

Mick McCormack

Operating cash flow, as you know, is a key measure of APA's performance and the solid increase in operating cash flow is the basis of being able to increase distributions. And the growth in distributions in this half continues the unbroken annual growth since the creation of APA in 2000.

We have given guidance of at least 5% growth in operating cash flow per security for 2009, and APA is on target to achieve this. We know our business well, with more than 90% of the business revenue sourced from regulatory arrangements or contracts, and with all operations managed internally.

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What were the highlights for the business this first half?

Mick McCormack

There were a number of highlights this half, having made strong progress in delivering our strategy of further enhancing our portfolio of core gas infrastructure assets.

The first was completing the unlisted vehicle transaction and establishing Energy Infrastructure Investments. As you are aware, we announced our intention to establish the vehicle in May last year, just as the financial and economic crisis unfolded. It was not the easiest time to do such a transaction, particularly raising over half a billion in new debt, but we achieved what we said we would do in a very tough market. And in the process we gained two strong and experienced energy equity partners in Marubeni Corporation and Osaka Gas of Japan.

There are a number of benefits to APA in addition to the proceeds of \$647 million – we've reduced our debt, and hence will benefit from lower interest costs, and we'll continue to benefit through our 19.9% equity interest and asset management fees. Importantly, APA now has an additional avenue to access funds to pursue opportunities.

The second is the work we've completed or got underway on our gas assets. As you know, one of APA's core skills is building gas infrastructure. In the Northern Territory our operations team completed the construction of the 287km Bonaparte Gas Pipeline that runs from Wadeye to Ban Ban Springs. Construction took just under 9 months, was completed ahead of schedule and on budget. At the same time we continue with the expansion work on some of our existing assets. Some

examples of these are the two new compressor stations on the Goldfields Gas Pipeline in WA and one on the Carpentaria Gas Pipeline in Queensland, and the work on the Moomba Sydney Pipeline, expanding its capacity to supply additional contracted peak services beginning this winter. These activities demonstrate the strength of APA's skills.

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What has been the impact on the business from the global financial crisis? What changes have you made in response? What other uncertainties does the business face and how are you managing these?

Mick McCormack

Like all businesses, APA is facing some uncertainty at this time, particularly in relation to the economic climate, and particularly the rising cost of debt. However, from an operating perspective the sensitivity of APA's business to this should be relatively low. Gas demand is relatively inelastic in traditional markets, and that's where the bulk of our revenue comes from. The resources sector is more sensitive to economic conditions, but we minimise risk through our contractual arrangements, that is with take-or-pay, or capacity contracts. As I mentioned previously over 90% of our revenue is contracted or regulated.

Furthermore while there may be a flattening out of revenue from our pipelines in the resources sector, it is currently being more than offset by the growth in gas demand and services along our other pipelines. We are experiencing an increase in gas transportation services for gas fired power generation. An Emission Trading Scheme should provide an incentive for energy producers to move towards gas fired plants, which should be good for APA, as more gas will be transported, but the degree to which it will benefit APA will come down to the final Emission Trading Scheme design. In the meantime, we'll continue to foster demand for gas and be ready to provide the infrastructure and gas transportation services for growing demand.

Finally the regulatory environment has created some uncertainty, particularly the current Australian Energy Regulator's review of the WACC parameters for electricity transmission and distribution assets. The decision from this review won't directly impact APA's gas pipelines and distribution network, as it is only relevant to regulated electricity assets, but it's a cause for concern that the Regulator's proposed Statement of Parameters seems to have failed to understand the current environment and has created significant uncertainty for owners and investors of regulated energy infrastructure. As I said, the final outcome of the WACC review won't affect our assets directly, but may have an influence as price reviews occur on APA's regulated gas assets. Again, APA is actively participating in the WACC review and we are hopeful that the final decision, which is now scheduled for 1st May, will be substantially improved.

To sum up this long answer, a real strength of APA is that we have a resilient business, and we are in a strong position to deal with the uncertainty.

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As at 31 December 2008, APA was geared at 69.7%, down from 72.0%. What improvements can you make to the balance sheet? What available funding can you access?

Ross Gersbach, Chief Financial Officer

In part, as a result of the Energy Infrastructure Transaction proceeds, gearing has reduced to 69.7%. This is within our target range of 65 to 70%.

We are comfortable with this position. APA is a strong cash generating business and we are well able to service our borrowings. The measure of this is the interest cover ratio, which for APA is 1.88 times.

As for available funding, APA is in a strong position, having cash and available unused facilities of \$710m at 31 December. In addition to the operating cash remaining after distributions, we expect to continue the usual Distribution Reinvestment Plan and the Security Purchase Plan.

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What debt refinancing obligations do you have?

Ross Gersbach

Our only refinancing commitment in 2009 is the remaining \$300 million of MTNs that come due next month. This will be fully repaid with the proceeds from the Energy Infrastructure Investments transaction.

Looking forward, our refinancing obligations are spread over 13 years, with the next significant debt refinancing due in June 2010 for \$900 million. We have commenced working on new facilities to refinance this debt well in advance of its maturity.

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In the half year, capital expenditure was \$194.3 million (up from \$95.3 million). Can you outline existing growth opportunities across the business? What flexibility do you have on future capital expenditure levels? How will you fund these opportunities?

Mick McCormack

The majority of APA's capital expenditure is for major projects that add to or enhance our infrastructure. Capex in this half was unusually high due to the construction of the Bonaparte Gas Pipeline. The other major projects were for the expansions on our Goldfields, Carpentaria and Moomba Sydney pipelines I outlined earlier. This capex is underpinned by capacity contracts.

Looking ahead, capital expenditure for the second half will be considerably lower than this half, with the work completed on the Bonaparte Gas Pipeline and Wickham Point Pipeline now part of Energy Infrastructure Investments.

Beyond full year 2009 most of our capital expenditure is discretionary, and we'll match participation in capex to the funding available.

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In February 2009, APA increased its interest in Envestra Limited by 11.5% to 30.6% through participation in and partly underwriting Envestra's rights issue. What are the attractions of the investment in Envestra?

Mick McCormack

The overall attraction in Envestra is its gas business. Our investment in Envestra is consistent with our strategy of investing in gas pipelines and distribution networks. The key reason for participating and partially underwriting the Envestra rights issue was the attractiveness of the price offered.

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There has been an increased interest in coal seam gas assets with several recent corporate deals. How do you see Australia's gas markets and gas infrastructure developing in the next few years? How will you position APA under these scenarios?

Mick McCormack

The growth in reserves and production of coal seam gas in Australia has been of benefit to APA. Our quality gas infrastructure portfolio, particularly in eastern Australia plays a key role in transporting gas to markets. In fact, two thirds of the gas used here is transported through our pipelines and coal seam gas is progressively becoming a greater part of the mix.

Demand for gas is increasing, and as Australia moves towards reducing its carbon footprint, gas for power generation is growing significantly. Of course, the infrastructure required to transport and store gas will need to be in place to meet these requirements.

As for APA, our strategy is to enhance our gas infrastructure to meet the market requirements. In addition to our current expansion projects, we'll continue to progress new links for gas between east Australian states. This includes moving Queensland and NSW coal seam gas and Victorian and SA conventional gas. Incremental growth on our infrastructure and new build pipelines interconnected to our existing infrastructure will provide such links. The move to make these pipeline links reality will be commercially driven. However, given our portfolio, we are in a good position to do the preparatory work and be ready to move when the opportunity arrives.

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Thank you Mick and Ross.

For further information on APA Group please visit www.apa.com.au or [contact](mailto:chris.kotsaris@apa.com.au) Chris Kotsaris (Investor Relations) on (02) 9693 0049 or chris.kotsaris@apa.com.au.

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