



ASX Release

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APA GROUP DELIVERS SOLID FINANCIAL RESULT FOR THE HALF YEAR

Increased operating cash flow and long term growth platform

RESULT HIGHLIGHTS

- **Operating cash flow up 6.4% to \$170 million**
- **EBITDA up 8.0% to \$264 million**
- **Net profit up 10.4% to \$70 million**
- **Operating cash flow per security down 2.0% to 31.0 cents**
- **Distributions for the half year up 4.8% to 16.5 cents**
- **Growth capital expenditure and investments of \$181 million**

Australia's largest gas infrastructure business, APA Group (ASX:APA), today reported a solid financial result for the six months to 31 December 2010 with a 6.4 per cent increase in operating cash flow to \$170 million.

Earnings before interest, tax, depreciation, and amortisation (EBITDA) increased by 8.0 per cent to \$264 million, which includes a "once-off" \$9.8 million benefit gained on commissioning of the North Brown Hill Wind Farm owned by EII2, in which APA owns a 20 per cent interest. EBITDA for APA's portfolio of gas transmission and distribution assets was up \$4.2 million, with EBITDA for the Asset Management and Energy Investments segments up \$3.1 million and \$2.4 million respectively.

APA Group Managing Director Mick McCormack said "In this first half we continued to grow all parts of the business sustainably and profitably while managing the higher costs of borrowing that have flowed through as a result of changes in the global economy over the past two years. The size and diversity of our portfolio of assets has again provided stability in earnings as well as the basis for continuing growth."

Profit after tax increased by 10.4 percent to \$70 million. Profit before significant items was \$63 million, flat relative to the previous corresponding period, with growth in business earnings offset by higher borrowing costs.

Interest expense increased by 12.1 per cent to \$125 million due mainly to higher interest costs following the 2009 refinancing activities and the costs of carrying additional debt headroom for the full six month period.

Operating cash flow per security at 31.0 cents per security was down slightly compared with 31.6 cents per security in the previous corresponding period, primarily as a result of those increased interest costs.



Directors confirmed their advice of 17 December 2010, declaring an interim distribution of 16.5 cents per security, an increase of 4.8 per cent on the previous corresponding period, and in line with guidance given at the 2010 full year result. Distributions continue to be funded out of operating cash flow, with this period's total distribution payout amounting to 53.6 per cent of operating cash flow.

"APA's unrivalled portfolio of gas transportation and distribution assets across the country continues to provide a platform for long term growth for both APA and the energy industry" Mr McCormack said.

During the current period APA spent \$100 million to expand its Queensland, New South Wales and Victorian assets and commenced the initial stages of expanding its Mondarra Gas Storage Facility in Western Australia.

"We continue to work closely with our customers to develop the energy infrastructure solutions that they need, progressing a number of opportunities for expanding and increasing the use of our assets. Natural gas remains a growing and integral part of Australia's energy mix and we expect APA's organic growth capital expenditure to continue, at least at current levels, for the foreseeable future."

APA spent a total of \$81 million to increase its interests in a number of its energy investments, increasing shareholdings in each of the SEA Gas Pipeline and Hastings Diversified Utilities Fund ("HDF"), and reinvesting distributions in both Envestra Limited and HDF.

APA continued to work on strengthening its balance sheet with the issue of \$300 million of 10 year fixed rate A\$ Medium Term Notes, the proceeds of which were used to repay debt falling due in September 2010 and refinance facilities ahead of maturity. This issue had the added benefit of reducing long term borrowing costs and enabling the cancellation, in December, of some of the excess headroom that APA carried through calendar 2010.

"APA is in a good position with respect to its future debt obligations, with sufficient headroom to meet all refinancing obligations until June 2012. We remain focused on reducing borrowing costs over the longer term, extending the maturity of the debt portfolio, and diversifying our sources of debt funding.

As we have done in the past, we have funded organic growth and investments from cash retained within the business and the \$35 million of new equity raised from the Distribution Reinvestment Plan, which was again very well supported by securityholders in September 2010. The balance of funding was comprised of debt amounting to only around 30 per cent of APA's growth capital expenditure and investment for the period." Mr McCormack said.

Eastern Australia has been subjected to a number of extreme weather events over the last few months with some limited impact on APA's assets and operations. These impacts were managed safely and efficiently by local and interstate APA staff following sound and well developed emergency response and management plans.

"These events highlighted APA's strength in its people and asset footprint. Our assets withstood the effect of heavy rains and flooding, with little disruption to services. The quality of our people across the country was reflected in a tireless commitment to the management of the emergency situations, and the current ongoing program of remediation."

Repairs to APA assets have commenced where necessary with the majority expected to be completed within the 2011 financial year. The cost and revenue impact on APA is not expected



to be material, with the minimal disruption to operations experienced and costs incurred generally covered by appropriate levels of insurance within the business.

BUSINESS PERFORMANCE

Gas Transmission and Distribution

APA's Gas Transmission and Distribution segment contributed 86 per cent of the Group's revenue and EBITDA. Revenue (excluding pass-through revenue) was \$305 million, an increase of 3.9 percent and EBITDA increased by 2.0 per cent to \$218 million.

The factors contributing to this result included the increased earnings from new and expanded pipeline assets in Queensland and New South Wales, increased gas volumes in Victoria due to a cooler start to the winter, and general tariff increases across most pipelines. This increased revenue was somewhat offset by the loss of some short term contracts in New South Wales and a decrease in the regulated tariff on the Goldfields Gas Pipeline in Western Australia.

APA continued to focus on the development and enhancement of its portfolio. APA completed the looping project on the southern section of the Moomba Sydney Pipeline system and work continued on the \$100 million mainline 5-year expansion program in line with contractual agreements. The expansion of the northern section of the Victorian Transmission System continues and will be completed in the 2011 financial year.

APA has made significant progress through the initial stages of further expanding its Mondarra Gas Storage Facility in Western Australia in response to customers' requirements for gas storage services. APA will proceed with the next stage of expansion once customer negotiations are completed.

Draft access arrangements were submitted to the Australian Energy Regulator for two assets: the APA Gas Network Queensland and the Amadeus Gas Pipeline. APA is pursuing the merits review process available within the regulatory framework following the Economic Regulation Authority of Western Australia's decision to reject APA's access arrangement for the Goldfields Gas Pipeline.

Asset Management

APA provides asset management and operation services under long-term arrangements to the majority of its energy investments as well as other third parties. Revenue (excluding pass-through revenue) increased by 10.2 per cent to \$32 million and EBITDA increased by 19.2 per cent to \$19 million due to increased third party work and increased revenue arising from the operation and management of Envestra's assets.

Energy Investments

APA retains equity accounted interests in a number of energy investments across Australia as well as non-equity accounted investments in HDF and the Ethane Pipeline Income Fund.

EBITDA increased by 17.3 per cent to \$16 million due mainly to APA's increased interest in HDF compared to the previous corresponding period.

APA increased its interest in a number of its investments during the period at a total cost of \$83 million, including HDF (to 19.8 per cent from 16.8 per cent), Envestra (to 32.4 per cent from 31.7 per cent) and SEA Gas Pipeline (to 50 per cent from 33 per cent).



APA has a 20.2 per cent interest in EII2, the unlisted joint venture which acquired the North Brown Hill Wind Farm from AGL in October 2009. The wind farm construction was completed ahead of schedule with all turbines connected to the grid by December 2010. Final handover from the EPC constructor is due in June 2011. As a result of the commencement of generation from the wind farm, a once-off equity accounted benefit was generated within EII2 (APA share \$9.6 million included as a significant item) primarily due to the Investment Allowance Concession benefit recognised on commencement of generation.

Capital management

Equity contribution through the Distribution Reinvestment Plan was \$35 million, with the issue of 9.4 million new securities in September 2010.

In July 2010, APA issued \$300 million of 10 year fixed rate A\$ Medium Term Notes, the proceeds of which were used to refinance facilities ahead of maturity. This had the effect of extending the average maturity of APA's debt portfolio and reducing long term borrowing costs.

At 31 December 2010 APA's gearing is at 70.1 per cent, marginally up from 69.8 percent at 30 June 2010. Total borrowings were \$3,216.6 million, from a mix of syndicated bank facilities, bilateral bank facilities, US Private Placement notes and Australian Medium Term Notes.

After reducing debt headroom in December 2010, APA retained in excess of \$340 million in cash and committed undrawn facilities to meet the continued capital growth needs of the business, and all remaining refinancing obligations in 2011.

APA's interest cover ratio for the current period decreased slightly to 2.06 times from 2.11 times at 30 June 2010.

APT Pipelines Limited, the borrowing entity of APA, maintained its two investment grade credit ratings assigned by Standard & Poor's (BBB) and Moody's Investors Service (Baa2). APA remains committed to financing all investment and organic growth with metrics sufficient to maintain those ratings going forward.

FUTURE STRATEGY AND OUTLOOK

APA's business has performed solidly in the first half of the year and is continuing with its strategy to profitably develop and enhance its asset portfolio. APA will pursue the broad range of unique growth opportunities to meet its customers' energy infrastructure requirements.

In an environment of higher borrowing costs, APA has strengthened its balance sheet and enhanced its financial flexibility with its debt and equity raising activities.

The strong first half result enables APA to update guidance for the full year to 30 June 2011. APA provides new guidance, noting that full year EBITDA for 2011 will be towards the upper end of a range of \$480 million to \$490 million (inclusive of the EII2 once-off equity accounted adjustment), whilst net interest cost is expected to remain within a range of \$240 million to \$245 million.

APA expects that total distributions will increase by at least 5 per cent for the full 2011 financial year, with these distributions fully covered by operating cash flow.

FINANCIALS

Key financial data for APA for the current period is tabled below:

Half year ended	31 Dec 2010	31 Dec 2009	Change	
	\$000	\$000	\$000	%
Total revenue excluding pass-through ⁽¹⁾	369,809	343,306	26,503	7.7
Total revenue	554,708	495,948	58,760	11.8
EBITDA	263,870	244,256	19,614	8.0
Depreciation and amortisation expense	(44,880)	(46,818)	1,938	4.1
EBIT	218,990	197,438	21,552	10.9
Net interest expense	(124,543)	(111,055)	13,488	(12.1)
Pre-tax profit	94,447	86,383	8064	9.3
Income tax expense	(24,192)	(22,682)	(1,510)	(6.7)
Minorities	(77)	(113)	(36)	31.8
Profit after income tax and minorities, including significant items	70,178	63,588	6,590	10.4
Significant items after income tax ⁽²⁾	6,887	-	6,887	100.0
Profit after income tax and minorities, before significant items	63,291	63,588	(297)	(0.5)
Operating cash flow ⁽³⁾	169,811	159,538	10,273	6.4
Operating cash flow per security (cents)	31.0	31.6	(0.6)	(2.0)
Earnings per security (cents)	12.8	12.6	0.2	1.6
Distribution per security (cents)	16.5	15.75	0.75	4.8
Distribution payout ratio ⁽⁴⁾	53.6%	50.2%		
Net tangible asset per security	\$1.34	\$1.23	\$0.11	8.6
Weighted average number of securities (000)	547,768	504,568	43,200	8.6

(1) Pass-through revenue is revenue on which no margin is earned. Pass-through revenue arises in the NT Gas business and the asset management operations in respect of Envestra assets.

(2) Significant item - APA's equity accounted share of the Investment Allowance Concession benefit recognised on the commencement of generation of the North Brown Hill Wind Farm.

(3) Operating cash flow = net cash from operations after interest and tax payments, adjusted for significant items.

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



APA business segment EBITDA

Half year ended	31 Dec 2010	31 Dec 2009	Change	
	\$000	\$000	\$000	%
EBITDA				
Gas Transmission and Distribution				
<i>Queensland</i>	54,859	51,575	3,284	6.4
<i>New South Wales</i>	52,921	53,136	(215)	(0.4)
<i>Victoria and South Australia</i>	61,955	57,200	4,755	8.3
<i>Western Australia and Northern Territory</i>	48,585	52,163	(3,578)	(6.9)
Gas Transmission and Distribution total	218,320	214,074	4,246	2.0
Asset Management	19,471	16,333	3,138	19.2
Energy Investments	16,241	13,849	2,392	17.3
Total EBITDA	254,032	244,256	9,776	4.0

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About APA Group (APA)

APA is Australia's largest natural gas infrastructure business, owning and/or operating more than \$8 billion of gas transmission and distribution assets. Its pipelines and assets span every state and territory on mainland Australia, delivering more than 50% of the nation's gas usage. Unique amongst its peers, APA has direct management and operational control over its assets and the majority of its investments. APA also holds minority interests in energy infrastructure enterprises including Envestra, SEA Gas Pipeline, Hastings Diversified Utilities Fund and Energy Infrastructure Investments.

For more information visit APA's website, www.apa.com.au