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APA Group



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APA Group today announced its restructuring plans following your strategic review. What's the rationale behind this proposal and what are the benefits to APA?

MD Mick McCormack

APA is always looking to maximise value for our security holders. This capital restructure aligns very clearly with that key objective.

The key benefits for APA are threefold. Firstly, the special purpose vehicle will hold our existing, secure annuity-style assets which we'll continue to operate. Secondly, post completion of the restructure, there will be a return of capital to APA and consequently a decrease in corporate gearing to within our targeted range of 65-70%. Finally, it frees up our balance sheet to pursue growth and development opportunities for our core gas infrastructure assets.

We will also retain an ownership in the unlisted vehicle and so we will continue to benefit from its secure revenue stream.

News of us progressing with this transaction should not surprise anyone given we flagged a similar transaction as part of our unsuccessful bid for the Basslink electricity cables last year. Indeed, two of our electricity cables, Murraylink and DirectLink will be the cornerstone assets in this new vehicle. Since that bid and following our recent strategic review, this transaction is clearly a logical step for APA given the extensive opportunities in the market.

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Why are you establishing an unlisted vehicle to hold a number of your assets? What will be the structure of this vehicle? What interest will APA retain in the assets?

MD Mick McCormack

We are basically meeting the requirements and interests of the investment community to invest in such a vehicle - that's both debt and equity investors. In addition, we are looking for third party investors with similar views on asset return and, in our view, an unlisted vehicle with long-term partners is the best way to achieve this.

Those potential investors wanted the certainty of an operator with demonstrated expertise in operating these assets with a transparent cost structure. We are still examining the possible structure, but at this stage, APA and new third party investors will share ownership of a holding company which will have direct ownership of the asset company. Debt finance will be provided at the asset company level.

APA will retain a minority stake in the asset to ensure there is a strong alignment between all parties. At this stage, we have not decided on our ownership percentage, but the final stake will be driven by our financial objectives. That is, at a level that will maximise the value to APA.

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What assets will be included in the unlisted vehicle? What assets, or type of assets, will be retained wholly within APA?

MD Mick McCormack

A number of our assets with annuity-style revenue streams will be transferred to the new vehicle. I previously mentioned that our two electricity cables will form the cornerstone assets and, depending on the market's interest in the vehicle, we will add other annuity-style assets from our portfolio.

Obviously, we will retain within APA a portfolio of core gas transmission and distribution assets that we can grow and/or enhance the value of the APA business. As the proposal becomes firmer, we will be able to provide more detail to the market about the assets that will be included in the vehicle.

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What funds will be raised by this transaction? Will APA realise full value for the assets to be transferred through this transaction?

CFO Rick Francis

The amount raised will depend on what assets will be transferred, the vehicle's gearing level and the level of ownership that will ultimately be retained within the vehicle.

Discussions at this stage are preliminary, however, we are progressing with plans to raise up to \$500 million. We expect to transfer the group of assets selected for at least their related book value.

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How will the funds raised be used in APA?

MD Mick McCormack

Given the infrastructure footprint APA has now developed in the growing energy market across the country, we have a range of attractive growth and development opportunities. The funds from this restructure will provide additional flexibility to pursue those options. This is the fundamental objective of the restructuring.

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You said APA will continue the management and operation of the assets on a transparent basis. Can you provide some more detail on the operating agreement?

MD Mick McCormack

APA already has a highly skilled and experienced workforce and a sophisticated operating management system. We know these assets well. This, together with the fact that the potential investors want to de-risk the operation of the assets, means APA will continue to operate all these assets under a long term agreement. Some of the key terms we envisage in that agreement include a cost-plus basis and a 15 to 20 year term with extension options.

We will manage the assets for the benefit of all stakeholders using a process for establishing agreed costs and performance requirements.

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You mentioned there are investors attracted to this type of investment and structure. Who are these investors?

CFO Rick Francis

We have talked to a number of potential investors, mostly infrastructure investors, superannuation fund managers and other investors who have approached us since we first flagged this type of vehicle twelve months ago.

We are pleased to hear that our portfolio of annuity-style assets, which have cash flow certainty whether they're regulated or contracted, is still attractive to

investors. These investors are focused on long term, low risk returns and view APA's continued interest in the assets, as owner and operator, as positive.

While we are not yet able to confirm the participating investors, we are proceeding based on discussions with the knowledge that there is a strong appetite in the market for such assets.

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Concerning debt funding, which banks are interested in providing non-recourse project finance?

CFO Rick Francis

Appetite for project finance for annuity-style assets remains despite current market conditions. While there have been cost of funding increases and lengthening of approval times, the feedback from potential debt financiers has overall been very positive. We see no debt-related reasons as to why the transaction cannot progress.

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What is the timeframe for completing the transaction?

CFO Rick Francis

Subject to the usual commercial caveats like market conditions, we're working towards completing the transaction within the calendar year.

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On other recent news for APA, the Final Decision on the Victorian transmission system came out yesterday, and judging by your media release you sounded reasonably pleased about the decision. Is that so?

MD Mick McCormack

Yesterday's final decision handed down by the ACCC was more balanced compared with recent regulatory decisions and was broadly in line with our expected range of outcomes. However, like all regulated infrastructure owners, we remain concerned about the constant regulatory pressure on our investment returns and the consequent impact on future infrastructure investment.

We continue to have one material point of difference with the ACCC on the Victorian decision and that is the forecast capital expenditure spend. We consider the capital expenditure requirements set out by the ACCC to be on the light side for ensuring that gas demand is met throughout Victoria. If the gas transmission system appears that it might not have sufficient capacity to meet demand at any time, we will be making further representations to the regulator. On the other hand, we note that the regulator has accepted our view on synergy benefits.

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Finally, you have stated previously that APA had no significant refinancing until 2010. Has this changed?

CFO Rick Francis

The only refinancing requirement we have in 2008 is the \$150 million of medium-term notes maturing in August. This is a legacy facility from the Victorian GasNet acquisition. I'm pleased to say that we have received a very positive response from our banking group and we're now in the process of finalising documentation to lock in new facilities for the entire amount.

I should also add that although we didn't formally seek offers to refinance the remainder of the notes, \$300 million due in March next year, which is our only refinancing requirement in 2009, we received positive indications that would cover off this requirement as well, should we wish to.

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Thank you Mick and Rick.

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

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