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APA Group

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ASX Release

24 February 2010

APA GROUP OPERATING CASH FLOW UP 30 PER CENT

FINANCIAL HIGHLIGHTS

- **Operating cash flow up 30% to $160 million**
- **EBITDA up 3% to $244 million**
- **Operating profit up 28% to $64 million**
- **Operating cash flow per security up 23% to 31.6 cents**
- **Distributions for the half year up 5% to 15.75 cps**
- **Total revenue up 1% to $496 million**
- **2010 refinancing program completed**

Financial performance of continuing business[1]

- **Revenue (excluding pass-through) up 9% to $336 million**
- **EBITDA up 14% to $244 million**

Australia's largest gas infrastructure business APA Group (ASX:APA) today announced a 30 per cent increase in operating cash flow to $160 million in the six months to December 31, 2009 (31 Dec 2008: $123 million).

APA Group Managing Director Mick McCormack said the group had met its key objectives of sustainable and profitable growth, prudent balance sheet and capital management, and further improving business performance and efficiency.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 3 per cent to $244 million, while operating profit grew 28 per cent to $64 million.

"Despite the sale of approximately $700 million of assets to Energy Infrastructure Investments (EII), EBITDA has increased by 3 per cent, and the resultant interest savings has meant more significant gains in operating cash flow and operating profit," Mr McCormack said.

Operating cash flow per security increased by 23 per cent to 31.6 cents per security.

Directors also confirmed their advice of 15 December 2009, declaring an interim distribution of 15.75 cps - a 5.0 per cent increase on the previous corresponding period, and reflecting the guidance given at the 2009 full year result.

Net profit after tax was up 254 per cent on the previous corresponding period, reflecting significant items in the six months to December 2008 relating to "one-off" costs associated with the creation of EII, settlement of acquisition related liabilities and a revaluation loss on interest rate hedges which were deemed ineffective, acquired as part of the GasNet acquisition.

[1] Excluding the assets sold to Energy Infrastructure Investments in December 2008

"This is a solid first half result for APA - the growth and performance of APA's continuing businesses – gas transmission and distribution, asset management and energy investments - positively exceeded any reduction in earnings from assets sold to Energy Infrastructure Investments (EII) in December 2008," Mr McCormack said.

"In this 10th anniversary year, today's result continues our track record of delivering strong, sustainable growth.

"It's testimony to our unwavering commitment to our strategy and evidence of the resilience of our business – even during the difficult financial climate of the past 18 months our results did not falter.

"APA's gas transportation business will continue to grow in line with increasing demand for natural gas transportation and storage services. We have over $200 million of capacity expansion projects underway or in the planning stages that will drive growth into the future."

During the period, APA strengthened its balance sheet and continued to fund organic growth.

"In the six months we completed the refinancing of $1 billion of debt maturing in calendar year 2010 and raised a further $365 million in new facilities," Mr McCormack said.

Key initiatives to strengthen APA's balance sheet during the period included longer term debt raisings (5, 7 and 10 year facilities) and a bank syndication, putting in place a facility to refinance all of APA's debt maturities in 2010.

The tenures of these new debt facilities are consistent with APA's strategy to further extend the maturity of the debt portfolio to better reflect the long-term nature of its asset profile. APA continues its process of gradually extending the tenure of its debt portfolio to ensure that ultimately no more than 20% of the debt portfolio is due for repayment or refinancing in any one year.

"Capital raisings through the continued operation of the Distribution Reinvestment Plan and our recently announced Security Purchase Plan will further contribute to funding the ongoing growth opportunities of the business."

APA's interim distribution of 15.75 cps comprises an APT distribution of 10.64 cps (5.67 cent unfranked income distribution and 4.97 cent tax deferred capital distribution) and an APTIT distribution of 5.11 cps (3.19 cent unfranked interest income distribution and 1.92 cent tax deferred capital distribution). As per previous distributions, APA will fund distributions out of operating cash flow, with an interim distribution payout ratio at 50 per cent.

Mr McCormack said the continuing focus on reducing carbon emissions, and encouraging the production and consumption of cleaner energy, is increasing demand for natural gas, resulting in new opportunities for gas-fired power generation and gas storage.

"The uncertainty relating to proposed federal or state government schemes for reducing Australia's carbon emissions has not significantly affected the demand for new capacity across many of our gas transmission pipelines," he said.

"Natural gas will continue to play a crucial role in providing the nations' energy, including as a substitute for other fossil fuels or back-up for renewable energy."

BUSINESS PERFORMANCE

Gas Transmission and Distribution

APA's Gas Transmission and Distribution business contributed 88 per cent of the Group's EBITDA. All assets performed well, in particular those assets with recent capacity expansions. Revenue (excluding pass-through revenue) rose 6 per cent to $293 million and EBITDA rose 7 per cent to $214 million.

New South Wales contributed the greatest increase in earnings with the sale of increased capacity on the Moomba Sydney Pipeline for transport and storage services. Growth in Queensland and Western

Australian earnings are partly due to the additional capacity on the Carpentaria Gas Pipeline and Goldfield Gas Pipeline that came on stream early in the financial year.

A drop in Victorian revenue was predominantly due to the impact of weather, with the State experiencing a warmer than normal winter, reducing base demand for gas. However, EBITDA increased slightly reflecting benefits gained through operating cost improvement.

Work began on the project to provide additional storage and peak capacity on APA's Victorian and New South Wales pipelines. The $90 million project will expand both the northern zone of the Victorian Transmission System and the southern lateral of the Moomba Sydney Pipeline system. In addition, capacity for gas flows between the two states will be increased. Regulatory and contractual revenue arrangements underpin this project.

Asset Management

APA provides asset management and operation services under long term arrangements to its energy investments as well as other third parties. Revenue (excluding pass-through revenue) increased by 6 per cent to $29 million, and EBITDA increased by 50 per cent to $16 million primarily due to increased third party project work, activity with Envestra and the new asset management agreement with EII.

Energy Investments

APA has interests in a number of energy investments across Australia, including Envestra, SEA Gas Pipeline and Energy Infrastructure Investments.

EBITDA increased to $14 million, up from $3 million in the previous corresponding period. This is due mainly to the increased Envestra investment. Most investments in this segment generated higher cash flow in the form of dividends and distributions than the equity share of profit reflected in EBITDA.

In October APA, together with Marubeni and Osaka Gas, jointly acquired the North Brown Hill Wind farm. The wind farm is currently under construction and due to be completed by June 2011. The investment is fully secured by a long term off-take agreement with AGL Energy

Capital management

Funds raised from the operation of the Distribution Reinvestment Plan (DRP), the only capital raising activity for the half year, amounted to $29 million, resulting in the issue of 10.1 million securities.

APA is continuing to raise capital to fund business growth through the operation of the DRP for the interim distribution, with payment due 17 March 2010, and a Security Purchase Plan (SPP) as announced on 15 February 2010. Both Plans are offered to securityholders at a 2.5 per cent discount.

APA was geared at 69.9 per cent at 31 December 2009, down from 70.3 per cent as at 30 June 2009, and had in excess of $650 million in cash and committed undrawn facilities available to meet the capital growth needs of the business. The Interest Cover Ratio increased to 2.16x from 2.13x at 30 June 2009. Currently 79.0 per cent of all interest rate exposures are either hedged or fixed for varying periods as far out as 2022.

FUTURE STRATEGY AND OUTLOOK

APA's business has performed strongly in the first half of the year and is delivering growth opportunities in a market trending towards greater use of natural gas. APA's strengthened balance sheet and unique internal operating model will enable the company to continue to benefit from these growth opportunities.

Barring unforeseen circumstances, APA expects full year 2010 EBITDA to be within the range of $445 million to $460 million. APA reaffirms previous guidance for distributions of at least a 5 per cent increase for the 2010 financial year. These distributions will be fully covered by operating cash flow.

FINANCIALS

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

Statutory result Half year ended	31 Dec 2009	31 Dec 2008	Changes on pcp	
	$000	$000	$000	%
Total revenue excluding pass-through [1]	**343,306**	357,017	(13,711)	(3.8)
Total revenue	**495,948**	**490,034**	**5,914**	**1.2**
EBITDA	**244,256**	238,186	6,070	2.5
Depreciation and amortisation	**(46,818)**	(49,068)	2,250	4.6
EBIT	**197,438**	189,118	8,320	4.4
Net interest expense	**(111,055)**	(121,906)	10,851	8.9
Pre-tax profit	**86,383**	67,212	19,171	28.5
Income tax expense	**(22,682)**	(17,614)	(5,068)	(28.8)
Minorities	**(113)**	(32)	(81)	(253.1)
Operating profit after tax and minorities, before significant items	**63,588**	**49,565**	**14,023**	**28.3**
Significant items after income tax	**-**	(31,599)	(31,599)	(100.0)
Profit after income tax and minorities	**63,588**	**17,966**	**45,622**	**253.9**
Operating cash flow [(2)]	**159,538**	122,838	36,700	29.9
Operating cash flow per security (cents)	**31.6**	25.8	5.8	22.5
Earnings per security (cents)	**12.6**	11.9	0.7	5.9
Distribution per security (cents)	**15.75**	15.0	0.75	5.0
Distribution payout ratio [(3)]	**50.2%**	59.8%	-	-
Weighted average number of securities (000)	**504,568**	475,788	-	-

(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 on Envestra assets.

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

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

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About APA Group (APA)

APA Group (ASX: 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 span every state and territory in mainland Australia, delivering more than 50% of the nation's gas usage. Unique among its peers, APA has direct management and operational control over its assets and investments. APA also holds minority interests in energy infrastructure enterprises including Envestra, SEA Gas Pipeline and Energy Infrastructure Investments (EII).

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