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APA Group

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APA GROUP CONTINUES TO DELIVER STRONG FINANCIAL RESULTS

OPERATING CASH FLOW UP 15 PER CENT

RESULT HIGHLIGHTS

- **Operating cash flow up 14.6% to $268 million**
- **EBITDA up 3.5% to $460 million**
- **Operating cash flow per security up 7.7% to 51.9 cents**
- **Distributions for the full year up 5.6% to 32.75 cps**
- **Net profit up 27.4% to $100 million**

Australia's largest gas infrastructure business, APA Group (ASX:APA), today announced a strong full year result with a 14.6 per cent increase in operating cash flow to $268 million and net profit of $100 million.

Earnings before interest, tax, depreciation, and amortisation (EBITDA) increased by 3.5 per cent to $460 million despite the loss of earnings from assets sold to Energy Infrastructure Investments in the 2009 financial year. Operating cash flow per security increased by 7.7 per cent to 51.9 cents per security.

Directors confirmed their advice of 21 June 2010, declaring a final distribution of 17.0 cents per security bringing total distributions for the full financial year to 32.75 cents per security, a 5.6 per cent increase on last year and achieving guidance of at least 5 per cent growth in distributions. Distributions, as in previous years, will be funded out of operating cash flow, with this year's payout ratio being 64.4 per cent.

Net profit increased by 27.4 per cent to $100 million, a result that is consistent with last year's net profit before the significant items which were largely associated with the Energy Infrastructure Investments transaction.

APA Group Managing Director Mick McCormack said the result reflects the sustainable and profitable growth of APA's business. The increased performance was principally due to the sale of additional pipeline capacity from recent expansions.

"During our 10-year history we have established an unrivalled portfolio of gas transportation and distribution assets across the country, and again this year, as in the past, we expanded and extended that portfolio," he said.

During the year APA commenced or continued more than $200 million of expansion projects, mainly focused on increasing capacity on pipelines in New South Wales and Victoria. APA's considerable internal operations and commercial capability is being used to develop and manage these projects.

APA's Queensland portfolio was extended with the acquisition of the Berwyndale to Wallumbilla Pipeline for $87 million (including stamp duty).

APA undertook significant work in strengthening its financial capability and ensuring the business can develop further growth opportunities. In August 2009 APA successfully completed the refinancing of $1 billion of syndicated bank debt that was due for repayment in June 2010.

"In line with our conservative approach to financial risk, APA is now focused on our next refinancing obligations with the aim of reducing debt costs over the long term, extending the maturity of the debt portfolio, and diversifying our sources of debt funding," Mr McCormack said.

"Subsequent to year end we have continued with this conservative capital management strategy, issuing $300 million of 10-year, fixed-rate Australian dollar medium-term notes in July 2010. These notes will be used over the next two months to retire upcoming maturities in the most cost effective manner for the group."

During the year, APA was assigned a Baa2 long term corporate credit rating by Moody's Investors Service. This is APA's second credit rating and is at a level equivalent to the Standard & Poor's rating obtained in June 2009. The two investment-grade credit ratings allow APA access to a broader range of global debt capital markets.

Funding for APA's growth projects during the year was sourced primarily from cash remaining in the business after payment of distributions, along with $142 million of new equity raised from existing securityholders. New debt comprised the balance of funding, about a third, for APA's growth capital expenditure projects.

Mr McCormack said that despite the stalling of a national carbon-reducing initiative, the strong trend towards the production and consumption of cleaner energy alternatives remains, and we continue to see natural gas providing more of Australia's energy.

"According to recent government forecasts, natural gas use in Australia is expected to double over the next 20 years as we move towards using cleaner fuels, particularly using gas as a fuel to generate electricity. This creates new growth opportunities for gas transportation and gas storage".

"We have the right assets in the right place, we have the internal skills and expertise, and we have the financial strength to capture and develop these growth opportunities."

BUSINESS PERFORMANCE

Gas Transmission and Distribution

APA's Gas Transmission and Distribution business contributed 89 per cent of the group's EBITDA. Revenue (excluding pass-through revenue) rose 4.2 per cent to $566 million and EBITDA also rose 4.8 per cent to $409 million.

These increases were mainly due to the sale of additional capacity for transport and storage services on recently expanded pipelines, with New South Wales' Moomba-to-Sydney Pipeline contributing the greatest increase. The increase in Queensland and Western Australian earnings is due to additional capacity commissioned on the Carpentaria Gas Pipeline and Goldfields Gas Pipeline in July 2009.

Lower gas demand in Victoria due to warmer winter weather saw Victorian revenue remain relatively flat year on year. The Western Australian assets delivered a modest increase in earnings, with the sale of increased capacity on the Goldfields Gas Pipeline.

APA continued or commenced a number of expansion projects across its portfolio. Work continued on the $100 million Moomba-to-Sydney Pipeline's five-year expansion program in line with contractual agreements.

APA began a $90 million expansion project to provide additional storage and peak capacity on APA's Victorian and New South Wales pipelines, with completion scheduled for October this year. Regulatory and contractual revenue arrangements underpin this project. The expanded capacity and enhanced operating capability of the two pipelines will enable greater gas flows between the two states, improving flexibility and security of gas supply. APA is tailoring services across these two states to meet customer requirements.

The Economic Regulation Authority of Western Australia has enacted the Goldfields Gas Pipeline access arrangement, which includes a reduction in reference tariffs of 10 per cent applying to contracts comprising approximately 40 per cent of APA's revenue from that pipeline. The new tariffs came into effect on 20 August, 2010.

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) decreased slightly by 0.7 per cent to $60 million. However, EBITDA increased by 42.8 per cent to $32 million primarily due to the new asset management agreement with Energy Infrastructure Investments and reduction in lower margin third party work.

Energy Investments

APA has a number of energy investments across Australia, including Envestra, SEA Gas Pipeline, Energy Infrastructure Investments, Ethane Pipeline Income Fund, EII2 and Hastings Diversified Utilities Fund. EBITDA increased by $8 million or 65.0 per cent to $19 million due to a full year of earnings from Energy Infrastructure Investments and distributions from Hastings Diversified Utilities Fund in particular.

During the year APA increased its interest in Envestra through the reinvestment of $23 million of distributions, and acquired a 17 per cent interest in Hastings Diversified Utilities Fund at a total cost of $115 million. This investment is consistent with APA's strategy of long-term investment in gas transmission pipelines.

Capital management

Funds raised through the Distribution Reinvestment Plan and Security Purchase Plan during the year amounted to $142 million and resulted in the issue of 43.7 million securities. Both plans were offered to securityholders at a 2.5 per cent discount to the appropriately timed VWAPs. APA continues to see the operation of both plans as valid and appropriate tools for providing equity support to our ongoing growth projects.

During the year APA strengthened its balance sheet, raising $1,365 million in new facilities to refinance $1,002 million debt facilities maturing in June 2010 and September 2010 and to fund further business growth. The terms of these new debt facilities are consistent with, and further enable APA to pursue, its strategy of extending the maturity of the debt portfolio to better reflect the long term nature of the group's asset profile.

APA issued $300 million of 10-year, fixed-rate Australian dollar medium term notes in July 2010, the proceeds of which will be used to refinance existing shorter-term facilities ahead of maturity in the coming months.

At 30 June 2010 APA had gearing of 69.8 per cent, down from 70.3 per cent at 30 June 2009. Total borrowings amounted to $3,156.8 million, principally from syndicated debt facilities, US Private Placement notes and bilateral debt facilities. APA had in excess of $538 million in cash and committed undrawn facilities available to meet the continued capital growth needs of the business. APA's Interest Cover Ratio was 2.11 times, down slightly from 2.13 times last year. Following the July medium-term note issue, 86.8 per cent of all interest rate exposures are either hedged or fixed for varying periods extending out more than 11 years (77.3 per cent as at 30 June 2010).

FUTURE STRATEGY AND OUTLOOK

APA has recorded another strong performance this year and is continuing to deliver growth as it develops the unique opportunities within its portfolio and extracts the benefits of its scale and corporate know-how. APA has enhanced its financial flexibility and balance sheet strength with the successful completion of a number of refinancing and equity raising initiatives and through ongoing prudent capital management.

APA's strategy for 2011 remains unchanged. The group will continue to benefit from a broad range of growth and development programs.

Over the past couple of years APA has provided guidance in respect of EBITDA, interest cost and distributions.

Barring unforeseen circumstances, APA expects 2011 EBITDA performance to be within a range of $465 million to $485 million and net interest cost to be within a range of $240 million to $245 million.

APA's ongoing distribution policy balances the group's need to retain equity in the business to support the funding of its significant growth prospects whilst also increasing returns to securityholders by, on average, at least 5 per cent per annum over the medium term. APA expects that this distribution increase will be maintained for the 2011 financial year.

FINANCIALS

Summary of APA key financial data for the year

Year ended 30 June	2010	2009	Changes	
	$000	$000	$000	%
Total revenue excluding pass-through [(1)]	**659,548**	673,029	(13,481)	(2.0)
Total revenue	**989,490**	**944,416**	**45,074**	**4.8**
EBITDA	**459,975**	444,375	15,600	3.5
Depreciation and amortisation	**(91,426)**	(95,640)	(4,214)	(4.4)
EBIT	**368,549**	348,735	19,814	5.7
Net interest expense	**(229,368)**	(212,991)	16,377	(7.7)
Pre-tax profit	**139,181**	135,744	3,437	2.5
Income tax expense	**(38,672)**	(35,922)	2,750	(7.7)
Minorities	**(150)**	(78)	72	92.3
Operating profit after tax and minorities, before significant items	**100,359**	**99,744**	**615**	**0.6**
Significant items after income tax [(2)]	-	(20,972)	20,972	(100.0)
Profit after income tax and minorities	**100,359**	**78,772**	**21,587**	**27.4**
Operating cash flow [(3)]	**267,761**	233,565	34,196	14.6
Operating cash flow per security (cents)	**51.9**	48.2	3.7	7.7
Earnings per security (cents)	**19.4**	22.7	(3.3)	(14.5)
Distribution per security (cents)	**32.75**	31.0	1.75	5.6
Distribution payout ratio	**64.4**	65.6	(1.2)	(1.8)
Weighted average number of securities (000)	**516,243**	485,077	31,166	6.4

(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) Significant items in the 12 months to 30 June 2009 include the positive impacts from Envestra underwriting fee, DUOS revenue accrual on APA Gas Network and overprovision of prior year income tax and negative impacts from costs associated with the creation of Energy Infrastructure Investments, settlement of acquisition related liabilities and a revaluation loss on interest rate hedges which were deemed ineffective, acquired as part of the GasNet acquisition.

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

APA business segment EBITDA

Year ended 30 June	2010	2009	Changes	
	$000	$000	$000	%
Gas Transmission and Distribution				
Queensland	*103,302*	*97,271*	*6,031*	*6.2*
New South Wales	*96,841*	*83,430*	*13,411*	*16.1*
Victoria and South Australia	*105,707*	*107,493*	*-1,786*	*(1.7)*
Western Australia and Northern Territory	*102,738*	*100,866*	*1,872*	*1.9*
Gas Transmission and Distribution total	408,588	389,060	19,528	5.0
Asset Management	32,317	22,625	9,692	42.8
Energy Investments	19,070	11,556	7,514	65.0
Total EBITDA from continuing business	**459,975**	**423,241**	**36,734**	**8.7**
Total EBITDA from assets sold to EII	-	21,133	(21,133)	(100)
Total EBITDA	**459,975**	**444,374**	**15,601**	**3.5**