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APA Group

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ASX Release

24 August 2011

APA GROUP FY11 FINANCIAL RESULTS

Solid financial performance and long term growth platform

RESULT HIGHLIGHTS

- **Operating cash flow up 8.3% to $290 million**
- **EBITDA up 7.0% to $492 million**
- **Profit up 8.1% to $109 million**
- **Operating cash flow per security up 1.4% to 52.6 cents**
- **Distributions for the full year up 5.0% to 34.4 cents**
- **Growth capital expenditure and investments of $498 million**

Australia's largest gas infrastructure business, APA Group (ASX:APA), today announced an 8.3 per cent increase in operating cash flow to $290 million for the year ended 30 June 2011.

The strong result includes a 7.0 per cent increase in earnings before interest, tax, depreciation and amortisation (EBITDA) to $492 million, which includes net significant items of $2.5 million[1].

EBITDA for APA's portfolio of energy infrastructure assets was up $15.2 million, largely driven by increased sales of gas transportation and storage services, less the impact of reduced tariffs on the Goldfields Gas Pipeline. Additional asset management work and increased interests in a number of APA's Energy Investments further contributed to the uplift in EBITDA (up $6.4 million and $8.0 million respectively).

Profit after tax and minorities increased by 8.1 per cent to $109 million

The board of directors declared a final distribution of 17.9 cents per security bringing total distributions for the full financial year to 34.4 cents per security, in line with previous guidance. Distributions continue to be funded out of operating cash flow, with this year's total distribution payout amounting to 65.7 per cent of operating cash flow.

APA Group Chairman Len Bleasel said APA had achieved another solid result, reflecting the continued profitable growth and earnings stability of APA's business.

(1) EBITDA contribution of significant items (net $2.5 million) includes the APA's equity share of the EII2 investment allowance concession benefit ($9.8 million EBITDA), profit on the sale of APA's investment in CAMS ($1.7 million) offset by transaction costs of the Emu Downs wind farm acquisition ($9.0 million).

“We have spent more than $1 billion in the last four years extending and enhancing our energy infrastructure footprint and investments across Australia, including the $500 million of investment and growth capital expenditure this year,” he said.

“This growth continues to be largely secured by long term commercial agreements or regulatory arrangements, and continues to add to earnings each year.”

APA spent $215 million during the year expanding its gas transportation and storage infrastructure, including the acquisition of the Amadeus Gas Pipeline in the Northern Territory. APA spent a further $172 million in acquiring the Emu Downs wind farm and development site which are located near its gas infrastructure assets in Western Australia.

A further $114 million was spent increasing APA’s interest in a number of its energy investments, including the SEA Gas Pipeline, Hastings Diversified Utilities Fund (“HDF”), Envestra and EII2.

APA Managing Director Mick McCormack said “The scale of our business and the diversity of our portfolio provide the platform for continuing future growth as well as ongoing earnings stability. In light of this, we have identified in excess of $300 million of organic growth opportunities over the next few years.

“With the increasing demand for gas and cleaner energy in Australia, we expect strong growth in the infrastructure assets portfolio to continue as we work with our customers to develop cost efficient and innovative energy infrastructure solutions.”

Funding for the $500 million of growth was sourced from cash retained within the business, new equity raised from the Distribution Reinvestment Plan operating through the year and the institutional placement in June 2011, with only $83 million of new debt.

During the year APA raised $525 million in new funding facilities, comprising the issue of $300 million of 10-year fixed rate A$ Medium Term Notes and $225 million in bilateral bank debt facilities. These facilities were used to repay debt maturing during the year, and provided a further benefit of reducing long term borrowing costs. In December 2010, APA cancelled some of the excess debt headroom it carried through calendar 2010.

“In line with our capital management strategy, we have commenced a refinancing program for bank debt maturing in June 2012 and, notwithstanding current market volatility, we are pleased with the support we are seeing in both local and offshore debt markets for borrowers like APA,” Mr McCormack said.

The floods and extreme weather events in Eastern Australia had only limited impact on APA’s assets and operations. Repairs to affected assets were completed with some minor remediation work continuing into financial year 2012.

“APA’s strength lies in its assets and its people. Events such as the extreme weather events earlier in the year, highlight the industry skills and experience of our people and the resilience of our assets to withstand the impact of physical extremes,” Mr McCormack said.

BUSINESS PERFORMANCE

Energy Infrastructure

APA’s Energy Infrastructure business (previously reported as “Gas Transmission and Distribution”) is made up of APA’s gas transmission and distribution assets and the Emu Downs wind farm acquired in June 2011. This business segment contributed 87 per cent of the group's EBITDA. Revenue in this segment (excluding pass-through revenue) increased by 6 percent to $602 million and EBITDA increased by 4 per cent to $424 million.

The main contributing factors included higher gas volumes through the Victorian Transmission System due to colder weather, new revenue from pipeline and distribution expansions, a full year of earnings from the Berwyndale Wallumbilla Pipeline, and annual tariff increases across a number of assets.

Increased earnings were partially offset by the regulatory tariff reduction on the Goldfields Gas Pipeline, lower gas volumes through the Parmelia Gas Pipeline, loss of some short term contract revenue on the Moomba Sydney Pipeline system, and repair costs on the Roma Brisbane Pipeline and APA Gas Network following the Queensland floods.

APA continued the expansion and further development of its gas infrastructure portfolio, completing the Young Wagga looping project in New South Wales and the northern augmentation of the Victorian Transmission System, continuing the expansion of the Moomba Sydney Pipeline and APA Queensland Gas Network, as well as acquiring the Amadeus Gas Pipeline and related assets. All these works were underpinned by long term contracts with highly credit worthy counterparties or relevant approvals under regulatory arrangements.

APA commenced the next stage of the Mondarra Gas Storage Facility expansion following completion of a long term agreement with Western Australia's electricity generator Verve Energy for storage services. The storage capacity of the facility will be expanded by more than five times its current operating capacity to 15 petajoules, with completion scheduled for early 2013.

In June 2011 APA acquired the Emu Downs wind farm and development site, located close to APA's Parmelia Gas Pipeline and Mondarra Gas Storage Facility. APA secured long-term revenue agreements for the total output of the 80 MW wind farm for the remaining operating life of this asset of approximately 20 years.

During the period, the Australian Energy Regulator issued its final decision for 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 to the majority of its energy investments and to a number of third parties. EBITDA in this segment increased by 20 per cent to $39 million, due to increased third party work and increased revenue arising from the operation and management of Envestra's assets.

Energy Investments

APA has interests in a number of energy assets and businesses across Australia. These include equity accounted interests in Envestra Limited, SEA Gas Pipeline, Energy Infrastructure Investments and EII2, as well as investments in HDF and Ethane Pipeline Income Fund.

EBITDA in this segment increased by 42 per cent to $27 million, mainly due to APA increasing its interest in a number of these investments.

APA increased its interests in HDF, Envestra and SEA Gas Pipeline at a total cost of $114 million. Its interest in HDF increased to 19.4 per cent (2010: 16.8 per cent), its interest in Envestra to 33.0 per cent (2010: 31.7 per cent) and its interest in SEA Gas Pipeline to 50 per cent (2010:33.3 per cent).

APA has a 20.2 per cent interest in EII2, the unlisted joint venture which owns the North Brown Hill Wind Farm. EII2 gained a once-off benefit in December 2010 when the wind farm commenced generating power. APA's equity accounted share of this investment allowance ($9.6 million) is included as one of the significant items making up the $2.5 million of significant items included in the full year EBITDA. APA met a $19.7 million funding commitment for equity in EII2 in June 2011 (at the time final handover from the Engineering Procurement and Construction contractor occurred).

Capital management

Equity of $352 million was raised during the year by means of the Distribution Reinvestment Plan in September 2010 and March 2011 ($52 million) and an institutional placement in June 2011 ($300 million). As a result, APA issued 92 million new securities.

In July 2010, APA issued $300 million of 10 year fixed rate A$ Medium Term Notes, and in June 2011 it replaced maturing bilateral bank facilities with $225 million of new bilaterals. The proceeds were used to repay debt which matured in September 2010 and July 2011, as well as for general funding purposes. The terms of these new debt facilities are consistent with APA strategy of extending the maturity of the debt portfolio and reducing long term borrowing costs.

At 30 June 2011 APA had gearing of 66.2 per cent, down from 69.8 per cent at 30 June 2010. Total borrowings amounted to $3,240 million, from a mix of syndicated bank facilities, bilateral bank facilities, US Private Placement notes and Australian Medium Term Notes.

At 30 June 2011, APA had in excess of $320 million in cash and committed undrawn facilities available to meet the continued capital growth needs of the business going forward.

APA's interest cover ratio was 2.03 times, down from 2.11 times last year. At 30 June 2011, 73.5 per cent of all interest rate exposures were either hedged or fixed for varying periods extending out more than 11 years.

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).

FUTURE STRATEGY AND OUTLOOK

APA's strategy of profitable and sustainable growth has delivered another strong performance this year. In an environment of higher borrowing costs, APA has further strengthened its balance sheet and financial flexibility with its debt and equity raising activities, whilst also funding growth in the business.

APA's strategy for 2012 remains unchanged. APA will continue to optimise the value of its assets and business, develop the profitable and secure growth opportunities within its portfolio and extract the benefits of its scale and industry skills.

As in previous years, APA provides guidance in respect of EBITDA, interest cost and distributions.

Barring unforeseen circumstances, APA expects 2012 EBITDA to be within a range of $530 million to $540 million and net interest cost to be within a range of $260 million to $265 million. EBITDA for financial year 2012 will include a full year's contribution from the Emu Downs wind farm and the Amadeus Gas Pipeline which were both acquired in June 2011.

Capital management and distribution policies

APA will continue to target strong BBB/Baa2 investment grade ratings through maintaining sufficient flexibility to fund organic growth and investment from internally generated and retained cash flows and, where appropriate, additional debt and equity funding.

APA intends to continue to pay distributions from operating cash flow with the view to growing distributions over the longer term. At the time of determining distributions, the Board will have regard to the organic growth and investment opportunities available to APA, the ongoing capital markets environment, APA's focus on maintaining its strong investment grade ratings (BBB/Baa2), and its intention to continue enhancing long term securityholder value.

APA's distribution policy has been framed in consideration of the need to retain equity in the business to support funding of its significant growth opportunities over the coming years. With this in mind, APA has undertaken a review of its distribution and capital management policies with the aim of balancing the need to sustain and grow distributions over the long term with the funding needs of the business in the context of maximising total securityholder returns.

This review of APA's distribution policy confirmed the following objectives that APA has pursued since listing in 2000:

- distributions should continue to be sustainable over time and to be funded from operating cash flows;
- the growth in total distributions should ordinarily not exceed the growth in underlying total operating cash flows; and
- distributions should grow in step with the business and the demand on cash flow required to be reinvested in the business.

2012 distribution outlook

For the financial year ending 30 June 2012, given the likely demands for funding to support the strong growth prospects in front of the Group, the Board's current intention is to declare total distributions per security at least equal to the total distributions for financial year 2011. Distributions will be paid in March 2012 and September 2012.

FINANCIALS

Summary of APA key financial data for the year

Year ended 30 June	2011	2010	Changes	
	$000	$000	$000	%
Operating results including significant items				
Total revenue excluding pass-through (1)	720,256	659,548	60,708	9.2
Total revenue	**1,101,989**	**989,490**	**112,499**	**11.4**
EBITDA	**492,109**	**459,975**	**32,134**	**7.0**
Depreciation and amortisation expense	(100,350)	(91,426)	(8,924)	(9.8)
EBIT	**391,759**	**368,549**	**23,210**	**6.3**
Net interest expense	(247,072)	(229,369)	(17,704)	(7.7)
Pre-tax profit	144,687	139,180	5,506	4.0
Income tax expense	(35,862)	(38,672)	2,810	7.3
Minorities	(316)	(150)	(166)	(110.8)
Operating profit after tax and minorities, including significant items	**108,508**	**100,358**	**8,150**	**8.1**
Significant items after income tax (2)	(432)	-	(432)	-
Profit after income tax and minorities, excluding significant items	**108,940**	**100,358**	**8,582**	**8.6**
Operating cash flow (3) (5)	290,029	267,761	22,268	8.3
Operating cash flow per security (cents) (5)	52.6	51.9	0.7	1.4
Earnings per security (cents) (5)	19.7	19.4	0.2	1.3
Distribution per security (cents)	34.4	32.75	1.65	5.0
Distribution payout ratio (4)	65.7	64.4		
Net tangible asset per security	$1.51	$1.28	$0.23	18.0
Weighted average number of securities (000)	551,222	516,243		

(1) Pass-through revenue is revenue on which no margin is earned.

(2) Significant items includes APA's equity share of the EII2 investment allowance concession benefit ($6.9 million), profit on the sale of APA's investment in CAMS water management business ($1.7 million) offset by transaction costs of the Emu Downs wind farm acquisition ($9.0 million).

(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.

(5) Adjusted for significant items.

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APA business segment EBITDA

Year ended 30 June	2011	2010	Changes	
	$000	$000	$000	%
Energy Infrastructure				
Queensland	*106,799*	*103,302*	*3,497*	*3.4*
New South Wales	*101,266*	*96,841*	*4,425*	*4.6*
Victoria and South Australia	*115,881*	*105,707*	*10,174*	*9.6*
Western Australia and Northern Territory	*99,801*	*102,738*	*-2,937*	*(2.9)*
Energy Infrastructure total	423,747	408,588	15,159	3.7
Asset Management	38,740	32,317	6,423	19.9
Energy Investments	27,102	19,070	8,032	42.1
Total segment EBITDA	**489,588**	**459,975**	**29,614**	**6.4**
Significant items	2,521	-	2,521	
Total EBITDA	**492,109**	**459,975**	**32,134**	**7.0**

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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

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