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APA Group

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ASX ANNOUNCEMENT 19 February 2014

APA Group (ASX: APA)
(also for release to APT Pipelines Limited (ASX: AQH))

APA GROUP 1H14 FINANCIAL RESULTS

Solid financial performance underpinned by successful strategy execution

RESULT HIGHLIGHTS

Statutory results

- Net profit after tax down 43% to $121 million
- EBITDA down 5% to $399 million
- Operating cash flow up 45% to $208million

Normalised results[1]

- Net profit after tax up 25% to $121 million
- EBITDA up 24% to $399 million
- Operating cash flow up 2% to $217 million

Distribution per security up 3% to 17.5 cents

Operating performance

- Organic growth capital expenditure of $164 million
- Commenced operation of the expanded Mondarra Gas Storage Facility
- New gas transportation agreements utilising APA's east coast gas grid
- Commencement of revenue agreements for expanded Goldfields Gas Pipeline capacity
- Agreement between APA and Envestra to proceed with steps for shareholder vote on a Scheme of Arrangement

Australia's largest gas infrastructure business, APA Group (ASX: APA), today announced a 25.2 per cent increase in net profit after tax and non-controlling interests before significant items of $120.7 million, and a 23.9 per cent increase in earnings before interest, tax, depreciation and amortisation (EBITDA) before significant items of $398.9 million for the six months to 31 December 2013.

[1] Normalised results exclude one-off significant items in the previous corresponding period relating to the acquisition of Hastings Diversified Utilities Fund and the reversal of some costs booked in relation to the sale of the Allgas business in December 2011 to reflect APA's core earnings from operations.

Statutory profit ($120.7 million) and statutory EBITDA ($398.9 million) were lower than the previous corresponding period by 42.6 per cent and 5.3 per cent respectively due to the inclusion of a number of significant and one off items that related to the acquisition of Hastings Diversified Utilities Fund ("HDF") and the sale of the Allgas business in the results for the previous corresponding period.

The increase in normalised profit and normalised EBITDA was driven primarily by a full six month contribution from the South West Queensland Pipeline and the Pilbara Pipeline System, which have been consolidated since 9 October 2012, together with additional earnings from the expanded Mondarra Gas Storage Facility which was commissioned in July 2013. Increased performance was also recorded in the investments segment together with increased customer contributions in asset management.

Increased earnings were partially offset by reduced Victorian Gas Transmission revenue following the introduction of a new access arrangement, while the Moomba Adelaide Pipeline System, which was sold on 1 May 2013, also made a contribution in the previous corresponding period.

APA Group Chairman, Len Bleasel AM said the result was consistent with continued successful execution of APA's business strategy.

"The considered approach that we apply to the acquisition and ongoing development of our infrastructure assets and businesses is reflected in APA's performance. We are focused solely on opportunities where we are able to earn a fair, commercial return as we seek to maintain our track record of value creation.

"A feature of APA's performance during the period was our ability to offer better, more flexible energy solutions to our customers by harnessing our unrivalled gas infrastructure footprint. Our pipelines in the east form a networked grid, enhancing our ability to transport and store more gas for our customers across multiple jurisdictions.

"Since August we have effectively been operating the South West Queensland Pipeline and the Roma Brisbane Pipeline as one system. We have also announced three contracts to increase transportation of gas from Victoria to New South Wales using the Victorian Transmission System."

Operating cash flow of $208.3 million was impacted by the one-off fee payment of $8.3 million to Hastings Fund Management Limited, while the previous corresponding period included significant one off payments of $68.8 million by HDF to Hastings Funds Management. Excluding these significant items, operating cash flow was up by 1.9 per cent and corresponding operating cash flow per security was down 13.1 per cent to 25.9 cents per security. The decrease in operating cash flow per security is solely due to the increase in the average number of securities on issue over the period.

The Board of APA declared an interim distribution of 17.5 cents per security, an increase of 2.9 per cent on the previous corresponding period. The distribution payout ratio for the current period is 67.5 per cent, demonstrating APA's continuing ability to fully fund distributions out of operating cash flows.

During the period APA spent $164 million expanding its gas infrastructure, including gas pipelines in Victoria and Western Australia, and additional compression facilities at Moomba, South Australia and Wallumbilla, Queensland.

APA Group Managing Director, Mick McCormack said "We have a strong pipeline of organic investment opportunities across APA's operations. Our expenditure is typically either fully underwritten through long-term revenue agreements or has regulatory approval through a relevant access arrangement."

In December 2013, APA announced an agreement with Envestra to proceed with steps necessary for a shareholder vote on a scheme of arrangement proposal to combine the two businesses. Subsequently, APA and Envestra have worked together to progress the steps necessary to put the APA proposal before Envestra shareholders for their approval.

Mr McCormack said "We are pleased with the progress being made towards the proposed combination of Envestra and APA. The transaction will deliver significant benefits to investors in both groups through additional scale, geographic spread and asset diversity. It will also deliver an appropriate return for both APA and Envestra investors through aligning the long-term operation of Envestra's assets with full ownership."

Capital management activities undertaken during the period included the refinancing of a number of bi-lateral bank facilities. In addition to funding the repayment of loans drawn under APA's existing revolving bank facilities, the refinancing created additional headroom support for ongoing investment and general corporate purposes.

Mr McCormack said "At 31 December 2013, APA had $809 million in cash and committed undrawn facilities. I am confident we have the appropriate level of resources and ongoing financial support to meet the continued capital growth needs of our business."

BUSINESS PERFORMANCE

Energy Infrastructure

APA's Energy Infrastructure reporting segment includes gas transmission and gas storage assets, and the Emu Downs Wind Farm. Revenue from these assets is derived from either regulatory arrangements or capacity-based contracts. This segment contributed $326.0 million in EBITDA for the current period, a 21.2 per cent increase over the previous corresponding period.

Segment growth reflects the addition of acquisitions and expansions, as well as improved performance across the majority of APA's energy infrastructure. It includes a full six months' contributions from the South West Queensland Pipeline, the Pilbara Pipeline System and the increased Roma Brisbane Pipeline capacity compared to three months in the previous corresponding period, and five months contribution from the expanded Mondarra Gas Storage Facility. Growth in earnings was offset by reduced Victorian Transmission System revenue following the introduction of the new access arrangement which commenced in July 2013.

During the current period, APA continued to enhance and expand the services it provides across its national gas infrastructure portfolio.

In eastern Australia, APA's pipeline assets form a 7,000 km integrated grid, which is able to transport gas seamlessly from multiple gas production facilities to gas users across four states. APA continues the development of the commercial and operational framework to deliver these and other related services, such as storage, gas-parking facilities and multi-directional flows to its broad customer base.

During the current period, APA executed three gas transportation agreements with energy retailers to deliver increased gas volumes from Victoria, north into New South Wales via APA's pipeline assets in both states. To meet these new contractual obligations APA commenced an expansion program of the Victorian Transmission System, which will increase the firm peak winter gas flows from Victoria into New South Wales by 145 per cent at a total cost of approximately $160 million.

Work continued on and near the South West Queensland Pipeline, expanding compression capacity at Wallumbilla and at Moomba, and increasing the pipeline's capacity to move gas in an easterly direction. These projects, together totalling up to $400 million in fully underwritten capital expenditure, will be completed in the second half of the 2014 calendar year.

In Western Australia, the expanded Mondarra Gas Storage Facility commenced commercial operations in late July 2013. Most of Mondarra's capacity is contracted for at least 20 years, and APA continues to actively market storage services for the remaining capacity to other potential users of the facility. The expansion of the Goldfields Gas Pipeline to provide additional transportation capacity for Rio Tinto was completed during the period, with revenues commencing under the new Rio Tinto long-term agreement in October 2013.

APA continues to apply a prudent approach to growth in this segment with a requirement that capital invested meets internal hurdles in respect of rates of return and that projects are underwritten by long-term contracts with creditworthy counterparties or relevant regulatory approvals.

Asset Management

APA provides asset management and operation services under long-term arrangements to the majority of its energy investments as well as to a number of third parties. EBITDA for this segment increased by $19.1 million to $34.5 million, mainly due to increased customer contributions for relocating APA infrastructure.

Energy Investments

APA has equity interests in a number of energy investments across Australia, including Envestra Limited. EBITDA for this segment increased by 24.9 per cent to $38.4 million mainly due to an increase in Envestra's profitability, and partially offset by the end of distributions received previously from HDF

Project under development – Diamantina and Leichhardt power stations

APA and AGL Energy are jointly developing the242 MW Diamantina and 60 MW Leichhardt power stations at Mount Isa, Queensland. The project is nearing completion and has commenced the commissioning phase, with the Diamantina Power Station having delivered its first power into the Mount Isa electricity grid in October 2013 as part of this commissioning phase.

Following the voluntary administration of the Diamantina Power Station's turn-key contractor Forge Group Limited in February 2014, APA and AGL Energy have engaged with stakeholders, including the receiver manager and subcontractors, so as to progress the project to completion within the expected timeframe of mid-2014. Construction and commissioning on the site continues.

Merger proposal for Envestra

On 17 December 2013 APA and Envestra agreed to progress a scheme of arrangement proposal to combine the two businesses following a revised proposal from APA, which implies a value of $1.17 per Envestra share. APA and Envestra have made progress on the steps necessary to put the APA Proposal before Envestra shareholders for their approval, including undertaking mutual confirmatory due diligence, Envestra seeking certain binding confirmations from its financiers (as agreed with APA) and the Appointment of an Independent Expert. APA envisages that a scheme of arrangement can be implemented by 30 June 2014.

Capital Management

APA securities on issue were unchanged during the current period, with 835,750,807 securities on issue at 31 December 2013.

In December 2013, APA refinanced four existing bilateral bank facilities, extending maturity from mid-2014 to December 2018 and increasing the limit of each facility from $75 million to $100 million. The additional headroom available will support APA's ongoing growth, as well as being used for general corporate purposes.

APA's gearing[2] of 63.8% at 31 December 2013 was up from 62.8% at 30 June 2013, due to drawdowns of new loans utilised primarily to fund growth capital expenditure. As at 31 December 2013, APA had borrowings of $4,539.7 million and $808.8 million in cash and committed undrawn facilities available to meet the continued capital growth needs of the business.

As at 31 December 2013, 78.4% of interest obligations on gross borrowings were either hedged or issued at fixed interest rates for varying periods extending out almost 11 years.

APA's interest cover ratio for the current period at 2.29 times (2.41 in the previous corresponding period) significantly exceeds the lock-up and default covenants in APA's banking covenants.

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

Strategic proposal to link Northern Territory and east coast gas infrastructure

APA will commence a feasibility study to advance its proposal of a gas pipeline link between its Northern Territory and east coast assets. The proposed pipeline link would create one interconnected system of over 9,000 km of gas pipelines, bringing together APA's two Northern Territory pipelines with its east coast grid which extends from Queensland to Victoria. As with APA's existing pipelines, the proposed pipeline link would be an open access pipeline that can be used by any producer, retailer or gas user.

The proposed pipeline link will extend APA's network and potentially provide its customers access to any gas source between the Timor Sea and Bass Strait, via a seamless 'one-stop-shop' service. With the dynamics currently facing gas supply on the east coast, this infrastructure will stimulate investment in gas production in and around the Northern Territory and South Australia that can be transported east, as well as within these states.

APA first raised the suggestion of the Territory gas link with eastern Australia over a year ago. The decision to proceed with the feasibility study follows strong indicative interest from government, producers and customers in creating such a link. The study will aim to provide a sound understanding of the gas production potential in the Territory and South Australia and actual demand from potential gas buyers on the east coast, as well as addressing land access and engineering issues.

The feasibility study is expected to cost around $2 million. Once concluded, APA will be in a position to negotiate commercial terms with shippers to reach a Financial Investment Decision sometime in the next two years.

Outlook

In the second half of the 2014 financial year APA will continue its current expansion projects and further expand its asset base in-line with customer requirements, develop additional service offerings on its integrated pipeline grid and prudently pursue further infrastructure acquisitions and investment opportunities. In respect of the latter, APA will work with Envestra to put the APA Proposal before Envestra shareholders for their approval and completion within this financial year.

[2] Gearing ratio determined in accordance with covenants in certain senior debt facilities as net debt to net debt plus book equity.

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

Based on all currently available information, APA Group expects EBITDA for the full year to 30 June 2014 to be in a range of $730 million to $740 million, which represents an increase of approximately 13% to 14% over the 2013 financial year EBITDA when adjusted to remove the contribution of MAPS which was both acquired and sold during the 2013 financial year.

Net interest cost is expected to be in a range of $315 million to $325 million.

Distribution per security for the 2014 year is expected to total at least 36.0 cents per security.

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About APA Group (APA)

APA is Australia's largest natural gas infrastructure business, owning and/or operating $12 billion of energy assets. Its gas transmission pipelines span every state and territory on mainland Australia, delivering approximately half of the nation's gas usage. 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, Energy Infrastructure Investments and GDI.

APT Pipelines Limited is a fully owned subsidiary of Australian Pipeline Trust and is the borrowing entity of APA Group.

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

FINANCIALS

The following table provides a summary of key financial data for the current period:

Half year ended	31 Dec 2013	31 Dec 2012[1]	Changes	
	$000	$000	$000	%
Total revenue excluding pass-through [2]	509,634	452,079	57,555	12.7
Total revenue	711,405	624,688	86,717	13.9
EBITDA	398,894	421,090	(22,196)	(5.3)
Depreciation and amortisation expense	(74,651)	(63,783)	(10,868)	(17.0)
EBIT	324,243	357,307	(33,064)	(9.3)
Net interest expense	(164,015)	(131,450)	(32,564)	(24.8)
Pre-tax profit	160,228	225,857	(65,629)	(29.1)
Income tax expense	(39,495)	(18,454)	(21,041)	(114.0)
Non-controlling interests - other	(1)	2,764	(2,765)	nm
Profit after income tax and non-controlling interests, including significant items	**120,732**	**210,167**	**(89,435)**	**(42.6)**
Significant items after income tax [3]	0	113,707	(113,707)	nm
Profit after income tax and minorities, excluding significant items	**120,732**	**96,460**	**24,272**	**25.2**
Operating cash flow [4]	208,308	143,712	64,596	44.9
Operating cash flow per security (cents)	24.9	20.2	4.7	23.3
Normalised operating cash flow[5]	216,581	212,537	4,044	1.9
Normalised operating cash flow per security (cents)[4]	25.9	29.8	(3.9)	(13.1)
Earnings per security – reported (cents)	14.4	29.5	(15.1)	(51.2)
Earnings per security – normalised (cents)[6]	14.4	13.5	0.9	6.7
Distribution per security (cents)	17.5	17.0	0.5	2.9
Distribution payout ratio [7]	67.5%	66.2%		
Net Tangible Asset per security	1.37	1.41	(0.04)	(2.8)
Weighted average number of securities (000)	835,751	713,152		

(1) APA has adopted revised AASB 119 during the current period. As the revised standard must be applied retrospectively, comparative numbers have been restated.

(2) Pass-through revenue is revenue on which no margin is earned. Pass-through revenue arises in the asset management operations in respect of costs incurred in, and passed on to Envestra in respect of, the operation of the Envestra assets.

(3) Significant items for the previous corresponding period relate to the acquisition of Hastings Diversified Utilities Fund and the reversal of some costs booked in relation to the sale of the Allgas business in December 2011.

(4) Operating cash flow = net cash from operations after interest and tax payments.

(5) Normalised operating cash flow excludes significant items.

(6) Normalised earnings per security excludes significant items.

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

APA BUSINESS SEGMENT EBITDA

Statutory reported EBITDA performance of APA's business segments is tabled below.

Half year ended	31 Dec 2013	31 Dec 2012[1]	Changes	
	$000	**$000**	**$000**	**%**
EBITDA				
Energy Infrastructure				
Queensland	*108,787*	*64,286*	*44,501*	*69.2*
New South Wales	*62,167*	*58,470*	*3,697*	*6.3*
Victoria & South Australia	*62,487*	*75,060*	*(12,573)*	*(16.7)*
Western Australia & Northern Territory	*92,577*	*71,274*	*21,303*	*29.9*
Energy Infrastructure total	326,018	269,090	56,928	21.2
Asset Management	34,507	15,416	19,091	123.8
Energy Investments	38,369	30,721	7,648	24.9
Total segment EBITDA	**398,894**	**315,227**	**83,667**	**26.5**
Divested business [2]	-	6,672	(6,672)	
Normalised EBITDA	**398,894**	**321,899**	**76,995**	**23.9**
Significant items [3]	-	99,191	(99,191)	
Total EBITDA	**398,894**	**421,090**	**(22,196)**	**(5.3)**

(1) APA has adopted revised AASB 119 during the current period. As the revised standard must be applied retrospectively, comparative numbers have been restated.

(2) Divested business – sale of the Moomba Adelaide Pipeline System 1 May 2013.

(3) Significant items for the previous corresponding period relate to the acquisition of Hastings Diversified Utilities Fund and the reversal of some costs booked in relation to the sale of the Allgas business in December 2011.