



22 February 2017

ASX ANNOUNCEMENT

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

APA GROUP 1H FY17 RESULTS

Solid results from continued growth and asset flexibility

Australia's largest natural gas infrastructure business, APA Group (ASX: APA) today announced an increase of 13.8% or \$92.1 million in earnings before interest, tax, depreciation and amortisation ("EBITDA") for the six months to December 2016 of \$759.7 million, compared to the previous corresponding period (1H FY16: \$667.6 million).

An interim distribution of 20.5 cents per security was declared, in line with the estimate announced in December 2016 and representing an increase of 7.9% or 1.5 cents per security over the previous corresponding period (FY16 interim: 19.0 cents per security). Franking credits of 2.0 cents per security will be allocated to the distribution.

RESULT HIGHLIGHTS

Financial results

- EBITDA up 13.8% to \$759.7 million
- Net profit after tax up 40.5% to \$139.8 million
- Operating cash flow up 12.1% to \$518.2 million

Distributions

- Interim distribution per security of 20.5 cents, an increase of 7.9% on FY16 interim
- Franking credits of 2.0 cents per security

Operations and Investments

- 4% organic growth achieved compared with previous corresponding period
- On track to execute organic growth opportunities, as outlined at FY16 results
- Investments of \$162.7 million contribute to \$1.5 billion growth opportunities over the next 3 years

APA Chairman, Mr Len Bleasel AM said, "APA continues to deliver on its growth strategy of expanding our integrated energy network and enhancing our offering to meet the evolving needs of customers. Our commitment to innovation continues through the development of smarter and more efficient services, which are increasingly being taken up as part of our customers' ongoing contracts with us.

"The solid result demonstrates the success of our disciplined acquisition strategy. Last year's acquisitions of the Diamantina and Leichhardt Power Stations and Ethane Pipeline contributed a full period of earnings, as did the Eastern Goldfields Pipeline which was commissioned in November 2015."

Financial overview

Revenue (excluding pass-through revenue) increased by \$141.8 million to \$954.3 million, an increase of 17.5% on the previous corresponding period (1H FY16: \$812.5 million).

Net profit after tax increased to \$139.8 million (1H FY16: \$99.5 million), an increase of 40.5% over the period, with depreciation and amortisation expense in line with an expanded asset base and higher income tax expense in line with increased earnings.

An important primary measure of the success of APA's business and the execution of its strategy is that of operating cash flow, which was \$518.2 million for the six month period. This represents an increase of 12.1% or \$56.1 million over the previous corresponding period (1H FY16: \$462.1 million), with operating cash flow per security also increasing by 12.0%, or 5.0 cents, to 46.5 cents per security (1H FY16: 41.5 cents per security).

APA Group Managing Director, Mr Mick McCormack said, "The solid result demonstrates the success achieved through the continued development of our assets, our people and our systems. It highlights the benefits of operating an interconnected portfolio of assets that enables the flexible, reliable and efficient delivery of services to meet the evolving needs of customers. This has only been made possible through years of planning, foresight and investment, in grid enhancement projects, expansion projects, the state-of-the-art Integrated Operations Centre and all the technology and know-how that goes into it coupled with a number of asset acquisitions. These are now delivering the growth in earnings that we expected from each investment."

Doing more with our assets

APA achieved organic growth of 4% for the half year, after adjusting for full year contribution from acquired assets. This growth is the result of the ongoing investment in our assets that APA continues to undertake in order to deliver more energy to customers.

On the east coast of Australia, customers are fully embracing the multiple services available on APA's interconnected assets. With the renewal of a significant legacy contract on the Moomba Sydney Pipeline late last year, the majority of our most significant gas transportation contracts on APA's East Coast Grid are now multi-service and multi-asset agreements.

In Western Australia, the Eastern Goldfields Pipeline contributed a full six months' earnings for the period, compared with two months for the previous corresponding period. Additional contracts for the Mondarra Gas Storage Facility and increased wind resources at the Emu Downs Wind Farm also improved the WA results.

Investments and growth projects

APA spent a total of \$162.7 million in capital and investment expenditure over the period. Of this, \$36.5 million predominantly related to APA's share of the Mortlake Pipeline acquisition by the SEA Gas (Mortlake) Partnership. APA spent \$27.0 million on stay-in-business capex.

Growth project expenditure of \$99.2 million during the period (1H FY16: \$148.8 million) related to the following projects:

- continued works on the Victorian-Northern Interconnect expansion project, which will, when complete, expand the interconnect to 200 TJ/day in a northerly direction;
- commencement of construction of the Reedy Creek Wallumbilla Pipeline; and
- construction of the Moomba Interconnect.

APA's growth capital expenditure continues to be either underwritten through long-term contractual arrangements or have regulatory approval through a relevant access arrangement.

A number of projects have been announced that will see APA continue to invest in growing capacity either through pipeline expansions or other energy infrastructure assets for our customers. These all contribute to the \$1.5 billion in growth capital expenditure over the next three years that was discussed in detail at the time of the release of APA's FY16 full year results in August 2016. The projects include:

- continued work on the Victorian-Northern Interconnect expansion project;
- Moomba Interconnect project which has increased the efficiency of the operation of APA's East Coast Grid;
- construction of the Reedy Creek Wallumbilla Pipeline, a 50 kilometre, bi-directional pipeline connecting the Australia Pacific LNG Pipeline with the Wallumbilla Hub, at a total cost of approximately \$80 million;
- construction of the Emu Downs Solar Farm, a 20MW solar farm with a 13-year power purchase agreement with Western Australian energy provider, Synergy, at a total cost of approximately \$50 million, \$5.5 million of which will be funded by a grant awarded from the Australian Renewable Energy Agency;
- preliminary studies for the construction of the 450 kilometre, \$500 million, Western Slopes Pipeline, connecting the Santos' proposed Narrabri Gas Project to APA's East Coast Grid. This project remains subject to various approvals and a Final Investment Decision for the Narrabri Gas Project itself; and
- development of the 130MW Badgingarra Wind Farm at a total cost of approximately \$315 million, underwritten by a 12 year power purchase agreement with Alinta Energy with commencement of operations targeted for January 2019.

Capital management

In October 2016, APA issued A\$200 million of 7-year fixed-rate A\$ Medium Term Notes to Australian and international institutional bond investors. The proceeds of the issue were used to refinance existing facilities, to meet ongoing corporate requirements and to extend the average term to maturity of the debt portfolio.

APA repaid the \$85.8 million equivalent (US\$65.0 million) of US Private Placement Notes that matured on 1 July 2016.

APA's debt portfolio has a broad spread of maturities extending out to FY2035, with an average maturity of drawn debt of 7.0 years as at 31 December 2016. APA's gearing of 66.7% at 31 December 2016 remains within the preferred range of 65% to 68% and continues to provide support to APA's two investment grade credit ratings.

East coast gas reviews

The regulatory coverage regime for gas transmission pipelines, particularly on the east coast, was the subject of governmental review during the period. In December 2016, the Council of Australian Governments (COAG) agreed to adopt recommendations by Dr. Michael Vertigan to make no changes to the current regulatory 'coverage test', being the test that determines which pipelines should be subject to economic regulation. Instead, COAG agreed to adopt Dr. Vertigan's recommendations to enhance market-based solutions through increased information disclosure, increased pricing transparency and implementation of a commercial arbitration mechanism in the event an agreement on access terms cannot be reached. APA welcomes this approach, which focuses on enhancing market-driven solutions.

Future strategy and outlook

Commenting on APA's outlook Mr McCormack said, "Continued investment and innovation in energy infrastructure is critical to nation-building and is essential in providing access to reliable, secure and affordable energy.

"It is becoming widely acknowledged that gas is an essential fuel in Australia's energy mix. However, in order to move towards a cleaner energy future, our energy system needs to undergo an overhaul, which involves having some difficult but necessary conversations between government, industry and consumers.

“Australia's gas market is one of the most successful economic models globally. It has encouraged investment in and development of assets to meet customer demand through bringing more gas to market, when and where it is needed.

“The gas market on the east coast has been transformed by the commissioning of the three east coast export LNG projects. This has led to a dramatic change in the demand for gas. To support the increased demand, there will need to be ongoing investment in developing additional resources as well as connecting them to the market.

“The electricity market has seen the withdrawal of traditional coal fired base load generation, which has led to some of the vulnerabilities of the rapid adoption of renewables being exposed. Notwithstanding this, there remains the need for further investment into renewables if Australia is to meet its 2020 RET target. In that context, gas remains the most appropriate transition fuel for an efficient energy system.

“APA's focus will continue to be on delivering energy safely, efficiently and in a sustainable way. We will continue to do this through investing in our assets, systems and people to support growth and the evolving needs of our customers. ”

At the release of APA's full year financial results for 30 June 2016 in August 2016, APA advised that it expected EBITDA for the full year to 30 June 2017 to be in a range of \$1,425 million to \$1,445 million. This represents an increase of approximately 7% to 8.5% on the 2016 financial year. Based on results to 31 December 2016, APA is of the view that full year EBITDA to 30 June 2017 is likely to be at the upper end of that range.

The expectation for net interest costs remains in a range of \$510 million to \$520 million.

Distributions per security for the 2017 financial year are still expected to be in the order of 43.5 cents per security, with the 2.0 cents per security of franking credits announced for the half year and any further franking credits which may be allocated to the final distribution enhancing that cash payout.

Webcast and conference call

APA will hold a webcast to discuss the results at 10am (AEST) today. The webcast will be accessible via www.apa.com.au or by using the following dial-in details.

Dial-in details: Within Australia 1800 558 698
Outside Australia +61 2 9007 3187
Conference ID 259828

A replay of the webcast will be available from www.apa.com.au, shortly after the conclusion of the webcast.



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About APA Group (APA)

APA is Australia's largest natural gas infrastructure business, owning and/or operating around \$20 billion of energy infrastructure 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 ownership interests in a number of energy infrastructure enterprises including SEA Gas Pipeline, SEA Gas (Mortlake) Partnership, Energy Infrastructure Investments and GDI Allgas Gas Networks.

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

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