APA Group 2014 Annual Meeting

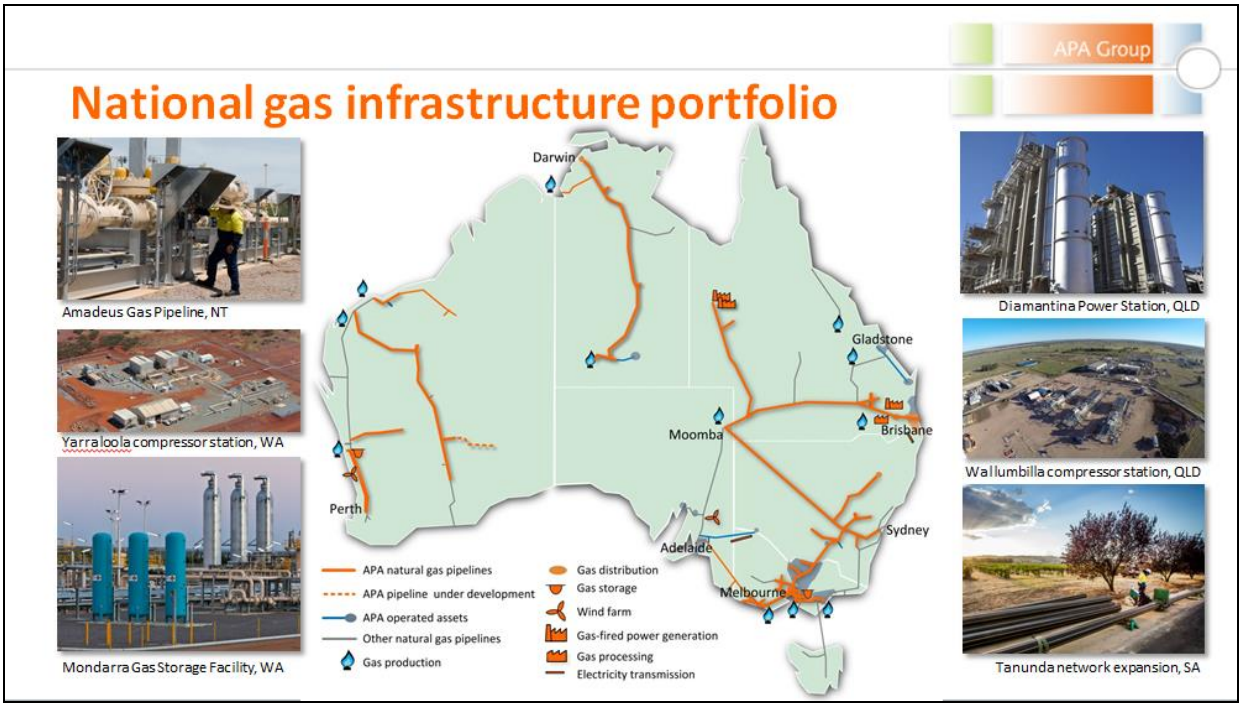
Address by Chairman, Len Bleasel AM

Ladies and gentlemen,

I am delighted to be presenting a solid result following another successful year for APA. Today, the focus of my address will be the strategy that has underpinned continued, sustainable growth in our business to create what is Australia's leading gas infrastructure group.

Our Managing Director, Mick McCormack, will then provide a more detailed overview of what we are doing to innovate and create value for our customers, which generates returns for our investors.

National gas infrastructure portfolio



A map of our operations today provides a snapshot of APA's strategy in action. We have been patient in developing our portfolio of assets, and have now assembled what is truly an unrivalled gas infrastructure network spanning the continent. Today, we own or operate Australian energy assets worth more than $12 billion in aggregate.

For those of you that have been investors for some time, you will be familiar with our strategy. It's simple and has been consistent throughout APA's history. We focus on opportunities that offer a fair commercial return, utilising our core skills in gas transmission, distribution and complementary energy infrastructure assets.

Looking at the evolution of our asset base since listing on the Australian Stock Exchange 14 years ago, as well as our financial performance over that period, it is clear this strategy has served us well. Today we have an interconnected pipeline grid on the east coast and a growing network of gas and energy infrastructure across the country.

But we are not resting on our laurels. Your Board and management is proactive in finding new opportunities to grow, whether organically or by acquisition. During the 2014 financial year, we announced and advanced a number of expansion projects involving our existing infrastructure. A key focus for management is finding ways to leverage our gas infrastructure portfolio to provide solutions to customers as they adapt to rapidly evolving dynamics in the gas and broader energy markets.

When it comes to acquisitions, we pursue the right opportunities. However, we couple this with a disciplined approach to the terms we are prepared to offer to ensure we can achieve appropriate returns for our Securityholders over the longer term.

Ultimately, it has been that balance of discipline and an unwavering focus on sustainable growth that has enabled us to deliver the returns we have for Securityholders over the years.

Financial performance

APA Group

Another solid result

	2014	Change	
Normalised results (excludes significant items)			
EBITDA	$747 million	up	13 %
Net profit after tax	$200 million	up	14 %
Operating cash flow	$440 million	up	2 %
Operating cash flow per security	52.6 cents	down	(6) %
Statutory results			
EBITDA	$747 million	down	(2) %
Net profit after tax	$344 million	up	16 %
Operating cash flow	$432 million	up	15 %
Operating cash flow per security	51.6 cents	up	6 %
Distribution per security	36.25 cents	up	2.1%

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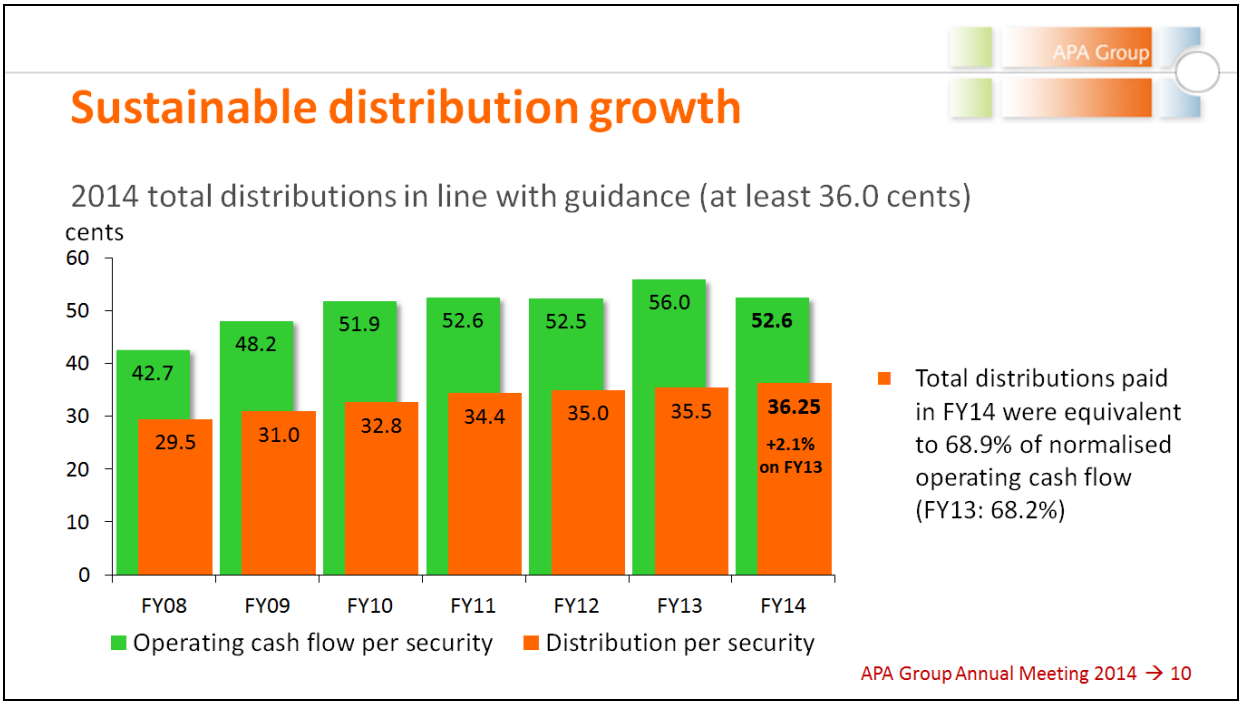
Turning to the financial result, I am pleased to say that APA delivered another solid result in 2014. Net profit after tax was 16% higher than last year at $344 million, after including a one-off positive adjustment to tax expense of $144 million.

Excluding significant items from the statutory results in both years, net profit after tax was up 14% to $200 million and earnings before interest, tax, depreciation and amortisation were 13% higher at $747 million.

It was particularly pleasing to record a strong contribution from recently acquired assets and development projects. We expect to see continued growth from these assets, such as the South West Queensland Pipeline over the coming years. The success of our acquisition and investment activity is a credit to the ability of APA's people to identify and deliver on the right opportunities.

The business also continues to generate strong, stable cash flows, with operating cash flow increasing by 2% to $440 million on a normalised basis.

Sustainable distribution growth

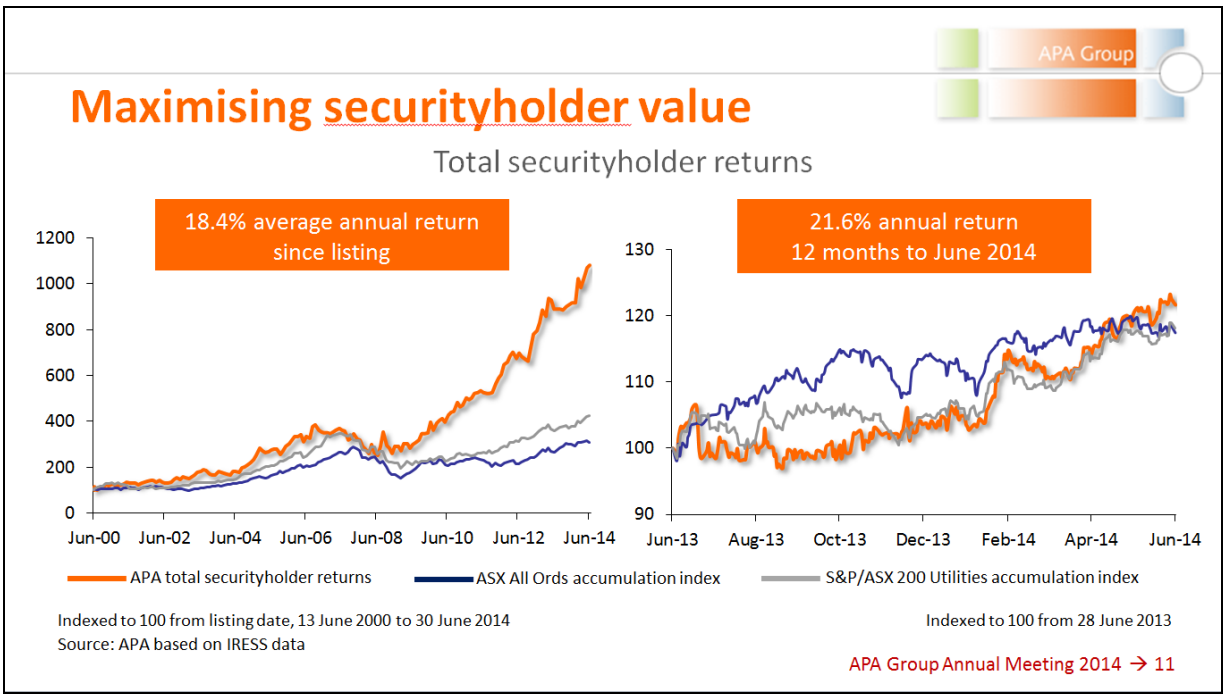


The Board declared a final distribution of 18.75 cents in August, bringing total distributions for the 2014 financial year to 36.25 cents. This was a 2.1% increase on the 35.5 cents paid in the previous financial year, representing an increase on our earlier guidance that total distributions for the year would be at least in-line with the prior year.

As in past years, this year's distributions were well covered by operating cash flow, with operating cash flow of 52.6 cents per security. The distribution paid this year represents some 69% of operating cash flow.

This is consistent with our focus on ensuring that distributions are sustainable. Your Board is always mindful of the need to balance distribution increases with the retention of sufficient cash to invest in APA's continued growth.

Maximising securityholder returns



APA's total securityholder return, which accounts for the capital appreciation of APA's security price and assumes the reinvestment of distributions when they are declared, was 21.6% for the 2014 financial year. I believe this result reflects that we are striking an appropriate balance between retaining funds in the business to deliver ongoing growth, and delivering Securityholders an appropriate level of cash and investment returns.

In addition, I note that since listing on the ASX in 2000, we have recorded an average annual total securityholder return of 18.4%, outperforming the market as well as our listed peers in the utilities sector.

Sale of interest in Envestra

Those of you who attended APA's Annual Meeting last year would recall that I talked in some detail about the strategic rationale of the proposed merger of APA and Envestra, a gas distribution business with networks operating in Victoria, South Australia and Queensland.

We first acquired an interest in Envestra in 2007 and since that time we had built our shareholding to 33%. In July 2013, APA proposed a merger with Envestra through a scheme of arrangement to acquire the remaining shares. We revised our offer in December 2013 and put in a bid with an implied value of $1.17 per Envestra share, based on an APA security price of around $6.10. APA operated and maintained Envestra's gas distribution assets and we saw benefits for investors in both APA and Envestra in bringing together ownership and management of the businesses.

However, in May this year, Envestra received a rival takeover proposal from Hong Kong based Cheung Kong Infrastructure Group, known as CKI, who at the time owned 17.5% of Envestra. This was an all-cash proposal of $1.35 including the 2014 final dividend. Given the offer price by CKI, your Board gave full consideration to all of the options available to APA before concluding that it was in APA's best interests not to increase our offer, and to sell our Envestra shareholding into the rival offer as the terms on offer well exceeded our assessment of the value of Envestra.

The sale of our Envestra shareholding has generated gross proceeds of $784 million and a pre-tax profit of about $430 million. This is a very pleasing result which will ultimately be reflected in APA's financial results for the 2015 financial year.

I am satisfied that our decision to sell APA's shareholding in Envestra exemplified the disciplined, prudent approach that is central to APA's strategy and our ability to continually deliver sustainable growth.

Over the next 12 to 18 months, we will reinvest the capital released from that sale in alternative growth and investment opportunities that offer attractive commercial returns to APA.

We will also continue to earn revenues from operating Envestra's assets under a long term operating and management agreement that runs until at least 2027.

Capital management

APA Group

Capital management

- Maintain strong investment grade ratings – Standard & Poor's BBB; Moody's Baa2
- Debt at appropriate level for infrastructure business – gearing at 64.2%
- Maintain funding flexibility – internal cash flows plus additional equity and/or debt
- Cash and committed undrawn debt facilities totalled $800 million (as at 30 June 2014)
- Debt: $400 million bilateral bank facilities – four facilities increased from $75 million to $100 million, maturing December 2018

  $1.25 billion syndicated bank facilities – 2011 facility refinanced with a new three tranche facility, maturing between September 2016 and September 2019

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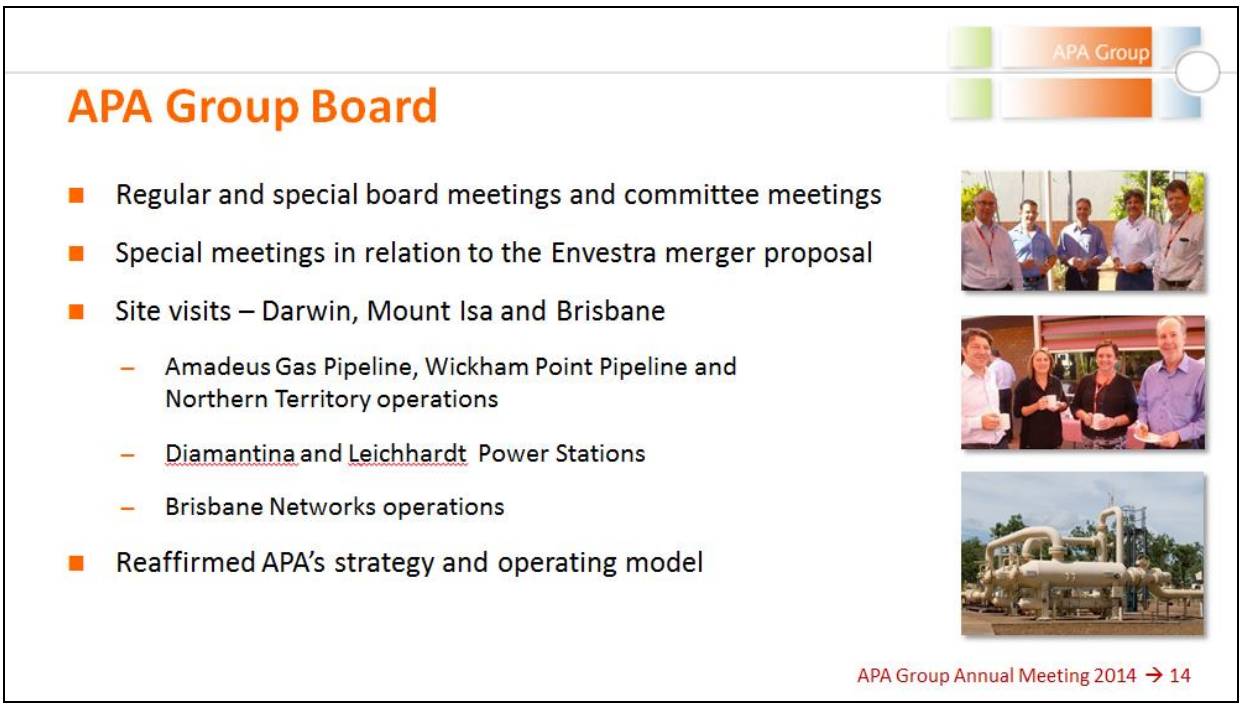
We operate in an industry where growth is reliant on capital investment, and hence we have always focused on maintaining a strong balance sheet with an appropriate mix of debt and equity funding. At the end of June this year, APA had $800 million in cash and committed undrawn debt facilities and a gearing ratio of 64.2%.

We remain committed to maintaining strong investment grade credit ratings from both Standard & Poor's and Moody's. The BBB and Baa2 ratings remain an integral part of our declared capital management policies. APA will look to retain ratings at these levels as a minimum to ensure that we retain access to the most liquid and broadest range of debt capital markets world-wide.

Our capital position has recently been further bolstered by the sale of our Envestra shareholding, ensuring that we have sufficient available resources to fund further organic growth capital projects over the next 12 to 18 months, at a minimum.

During the year, we continued to manage our debt facilities in order to maintain a balance of an appropriate maturity profile, low interest expense and sufficient headroom to support growth initiatives. We successfully negotiated the extension and increase in size of four bilateral bank facilities that were due to mature in mid-2014, as well as refinancing two syndicated bank facilities with three new facilities totalling $1.25 billion. These facilities were oversubscribed, a testament to the confidence that lenders continue to have in our business.

APA Group Board

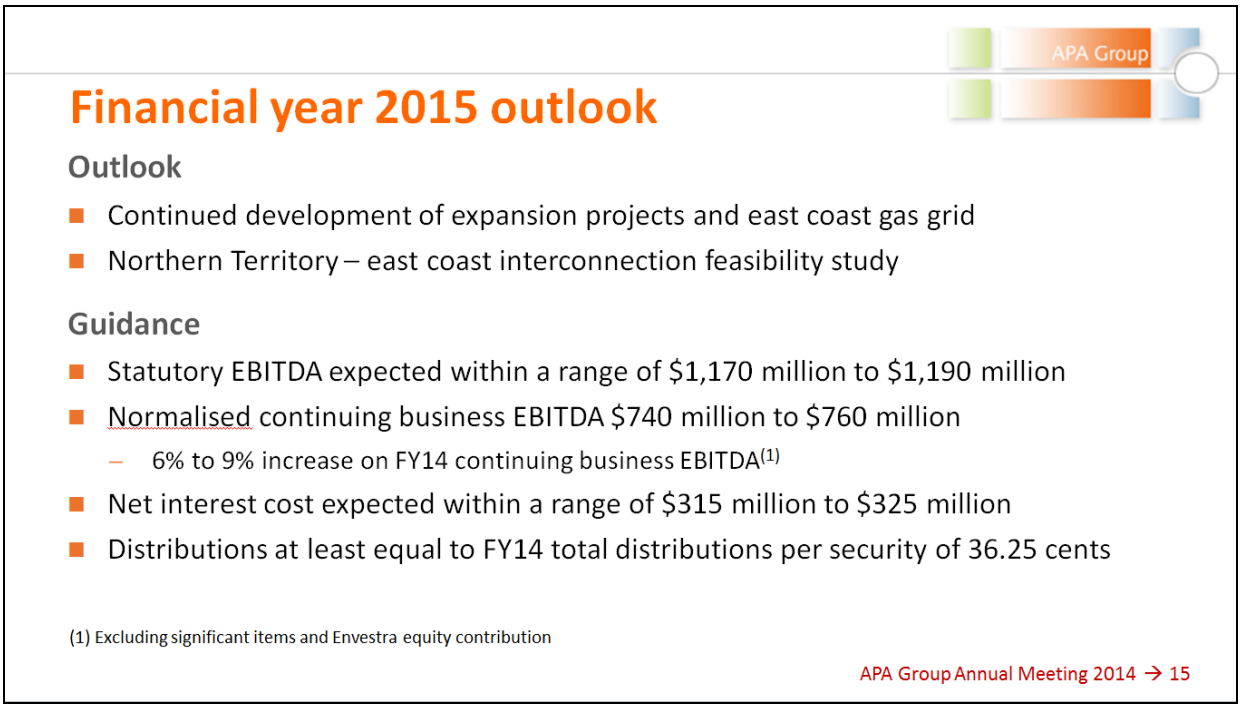


During the 2014 financial year, your Board continued to focus on the development and execution of APA's strategy. A number of special meetings were called to consider developments in relation to our investment in Envestra, and the Board also conducted an annual strategic review, in which it reaffirmed APA's strategy and operating model.

We have an ongoing focus on all aspects of corporate governance. In addition to holding twenty Board meetings, we held three Remuneration Committee meetings, four Audit and Risk Management Committee Meetings and three Health Safety and Environment Committee meetings. I am pleased that every director attended every meeting they were called to attend.

Your Board also conducted site visits to assets in Mount Isa and Brisbane, and more recently the Northern Territory, a region of increasing importance for APA, during the year.

2015 Financial Year outlook



Looking ahead, your Board is confident that with a strong funding position and a range of expansion opportunities, APA is well placed to continue delivering sustainable, profitable growth.

We are continuing to work on developing APA's infrastructure across the country, including capacity expansions at a number of points on the east coast grid. APA is directly engaging with customers every day to find additional opportunities to leverage our infrastructure network.

One potentially transformational initiative that APA is currently reviewing is the possible connection of our assets in the Northern Territory to the east coast grid. There is a clear logic to such a link. It would increase flexibility and improve access to gas for our customers, whilst further stimulating investment in new gas production in the Northern Territory.

We decided to proceed with a feasibility study in February following a strong display of support from producers, customers and both state and federal governments. This study is expected to be completed within financial year 2016.

Turning to earnings guidance, we expect further growth initiatives to drive an increase in EBITDA to between $740 and $760 million for the 2015 financial year. This represents a 6 to 9 per cent increase on the EBITDA earned from continuing businesses in the previous year and excludes significant items and the contribution in the previous year, from APA's investment in Envestra.

We expect to pay total distributions at least equal to those paid in the previous financial year. For the coming year, that equates to total distributions of at least 36.25 cents per security.

The APA business has been performing in line with these expectations and guidance during the first quarter of the 2015 financial year.

On behalf of the Board, I would like to thank our Managing Director Mick McCormack, his leadership team and all of our people across the APA business for their hard work in a year in which we have delivered another solid financial result.

Finally, I thank you, our investors, for your ongoing support and I look forward to another strong performance in 2015.

APA Group 2014 Annual Meeting

Address by Managing Director, Mick McCormack

Thank you Chairman, and welcome ladies and gentlemen.

As you have just heard, APA delivered another pleasing result in the 2014 financial year. A proven strategy, and consistent execution of that strategy, underpins the result. We're focused on harnessing opportunities that leverage our core skillset and offer attractive returns.

We enjoy the benefits of a diverse asset base across the country, and with a strong track record of delivering value from acquisitions and organic investment, we continue to assess new opportunities to grow and diversify our asset base.

Value creation and innovation

The Australian gas market is dynamic and rapidly evolving. Our national infrastructure portfolio gives us a unique vantage point to assess these changes. At APA, we too are evolving, constantly seeking new ways to link gas supply with demand and serve the changing needs of our customers.

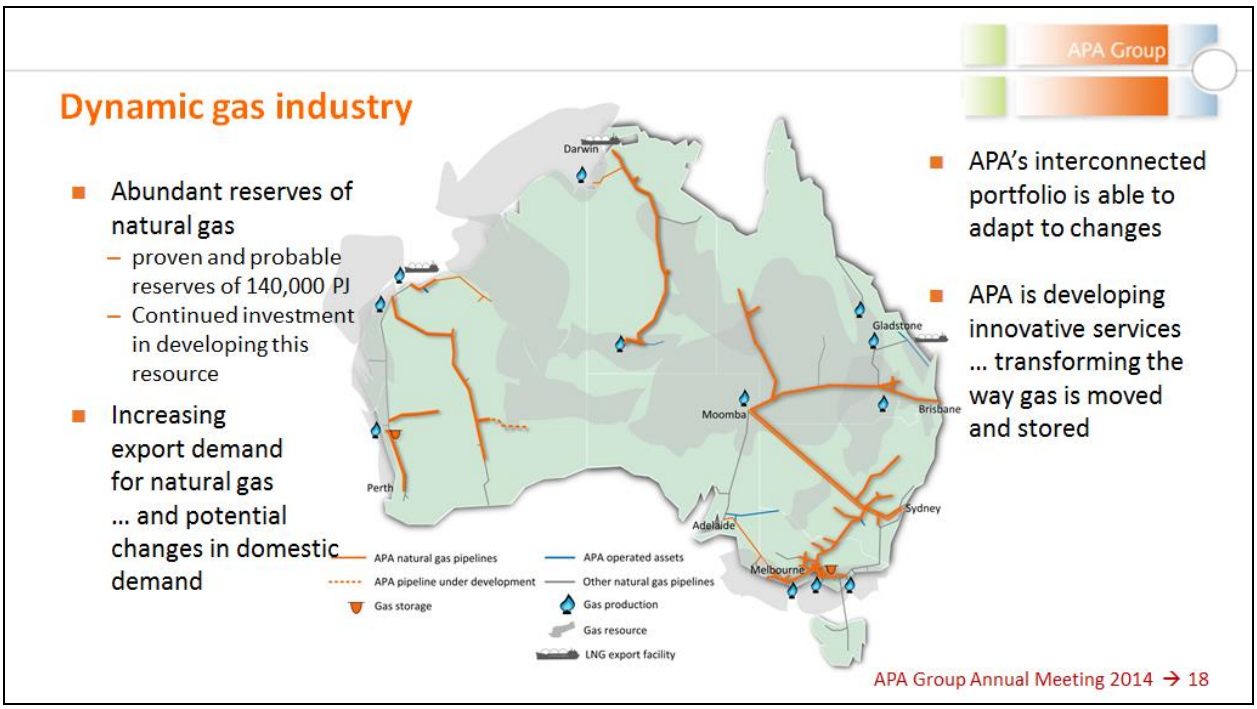
In fact, as Australia's largest gas infrastructure business, we are uniquely able to respond swiftly to our customers' needs by providing innovative solutions to their needs across our network of energy infrastructure assets.

We are playing an important role in this industry's transformation. Our unrivalled gas infrastructure network and industry leading expertise are the tools at our disposal to create value – the value we create takes the form of increased flexibility for our customers and incremental returns for our investors.

We continue to invest in capacity expansions, new pipelines and improved capabilities. During the 2014 financial year, I am pleased to report that we completed or progressed projects worth more than $1 billion across the country.

Our operational, engineering and development skills are unsurpassed in Australia and we see opportunities to continue investing in our asset base at a similar rate of $300 million to $400 million each year over the next few years.

Dynamic gas industry



We are seeing an interesting shift in supply and demand dynamics unfolding in the east coast gas market. With three major LNG export plants due to be commissioned over the next couple of years, gas demand on the east will increase to unprecedented levels.

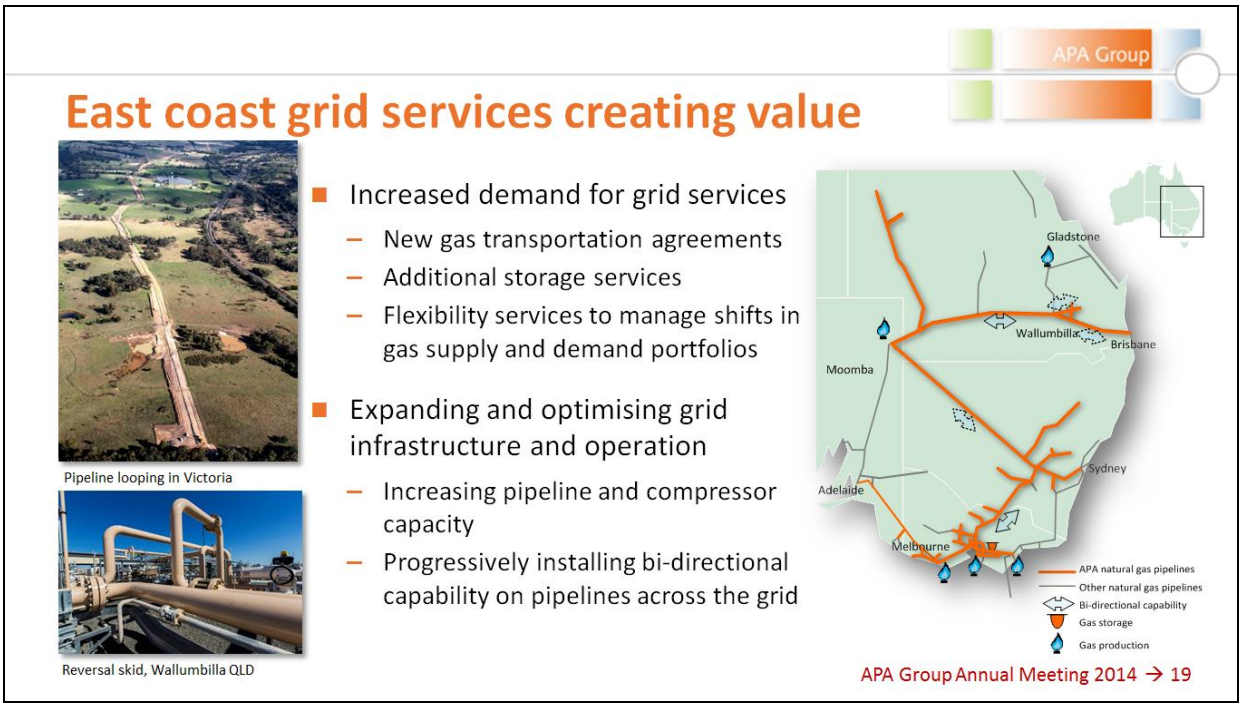
In the west, customers are focused on saving energy costs, either by using storage to maximise the benefits of acquiring gas at lower cost, or switching from liquid fuels to natural gas.

With these dynamics, APA has more to gain than ever before from the application of our knowhow. It is our expertise that optimises the services we provide our customers, promoting increased utilisation of our infrastructure.

Our pipelines transport more than half the gas consumed in Australia and more than two thirds of the gas used in the eastern states, and so our infrastructure is vital to the ongoing development of both the energy and resources industries.

But gas pipelines are not simply a direct link between supply and demand; they are also integral to supporting investment in new supply sources, providing a physical path to market. Our business model is demand driven, and we have a long history of working constructively with our customers and gas producers. If the demand is there, we will build a pipeline connecting any new gas source with the market. With an established network of gas infrastructure, an abundant supply of gas in Australia, and demand for gas increasing, APA is well-positioned for further growth moving forward.

East coast grid services creating value



The east coast grid is central to our ability to respond to a changing market.

The grid comprises more than 7,000 kilometres of pipelines across five states and territories. It effectively sees our entire transmission infrastructure in eastern Australia operating as one system. The grid enables us to transport gas seamlessly from multiple production sources to gas users across eastern Australia.

The grid itself provides the foundation for innovation, flexibility and the development of new capabilities such as bi-directional flow and greater optionality through gas storage solutions. Having these capabilities gives us increased flexibility to respond to changing supply and demand dynamics with unprecedented agility.

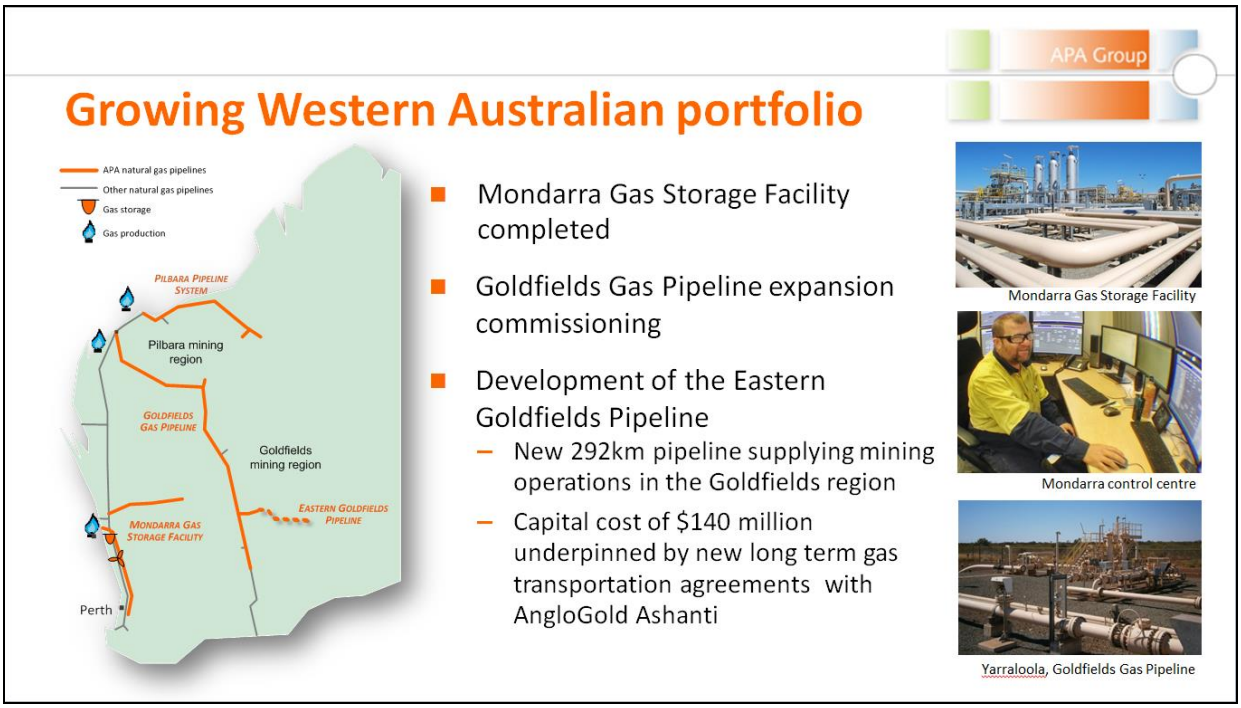
We are increasingly engaging with our customers to find new creative solutions to their gas requirements, and these new capabilities are central to those discussions.

I am pleased to report that these discussions are yielding results. During the 2014 financial year, we announced a number of commercial agreements with customers that draw on the grid's benefits. This included three new agreements to transport gas from Victoria into New South Wales and a new agreement with an existing customer for flexible gas transportation

services encompassing multiple receipt and delivery points on the east coast grid, and flexible transportation on the Moomba to Sydney Pipeline.

These agreements would not have been possible two years ago. Yet there is still a lot more potential to unlock both in terms of leveraging the benefits of the grid and building additional infrastructure. We are already expanding the grid with pipeline looping and the installation of additional compressors, and, in response to our customers' needs, we are progressively introducing bi-directional capabilities across the grid as part of the process of configuring our pipelines to work as a single network system.

Growing Western Australian portfolio



We also had a busy year expanding our infrastructure in Western Australia.

After commencing work in May 2011, we completed the expansion of our Mondarra Gas Storage Facility last July and enjoyed almost a full year's revenue from the expanded facility. The expansion increased the capacity of the facility by some five times. Although most of the capacity is subject to a long term contract, we have been able to also provide other Western Australian customers with improved supply options and flexibility, having executed a number of short term gas storage agreements during the year.

We also advanced the two expansions on our Goldfield Gas Pipeline, and we have started receiving additional revenues as the expanded capacity progressively becomes available.

In July 2014 we announced plans to build a new pipeline, which will cost $140 million to build, servicing the eastern goldfields mining region in Western Australia. As with all our growth projects, the capital cost of the pipeline is supported by long-term secure revenues. In this instance, it is supported by two long term agreements with the gold mining company, AngloGold Ashanti, to transport gas some 1,500 kilometres across three APA pipelines.

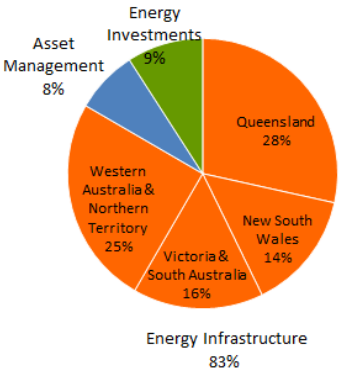
EBITDA by business segment

APA Group

EBITDA by business segment

		2014	Change
Energy Infrastructure		$ million	
Queensland		*212.8*	*30 %*
New South Wales		*106.6*	*(5) %*
Victoria & South Australia		*116.9*	*(6) %*
Western Australia & Northern Territory		*186.7*	*26 %*
Energy Infrastructure total	(83%)	623.0	14 %
Asset Management	(8%)	56.2	34 %
Energy Investments	(9%)	68.1	33 %
Total EBITDA continuing business		**747.3**	**16 %**
Divested business		-	nm
Total EBITDA before significant items		**747.3**	**13 %**

FY14 EBITDA by business segment
(continuing business)



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Our business is geographically diversified across a number of business segments, and this is reflected in our results.

Our Energy Infrastructure segment includes gas transmission and storage assets and the Emu Downs Wind Farm. It earns revenue either from regulatory arrangements or capacity-based contracts. This segment contributed $623 million of EBITDA in the 2014 financial year.

In Queensland, a 30% increase in earnings to $213 million was driven largely by a full year contribution from the South West Queensland Pipeline, and we also achieved increased throughput on other pipelines.

With three major LNG projects in Gladstone coming online in the near term, Queensland remains an important region for APA. We expect Queensland to deliver further growth in the 2015 financial year as contracts on the South West Queensland Pipeline ramp up and the work we are undertaking to expand compression capacity at Wallumbilla and Moomba takes effect.

As expected, our assets in New South Wales recorded a slightly weaker result this year as a new contract that commenced in January replaced some contracted capacity on our Moomba to Sydney pipeline. But given the continued uncertainty around gas supply and pricing in New South Wales, this was nevertheless, a good result.

In Victoria and South Australia, a 6% reduction in EBITDA followed reduced regulatory tariffs under a new access arrangement that came into effect in July 2013. The lack of a contribution from the Moomba Adelaide Pipeline System, which we sold in May 2013, also had an impact.

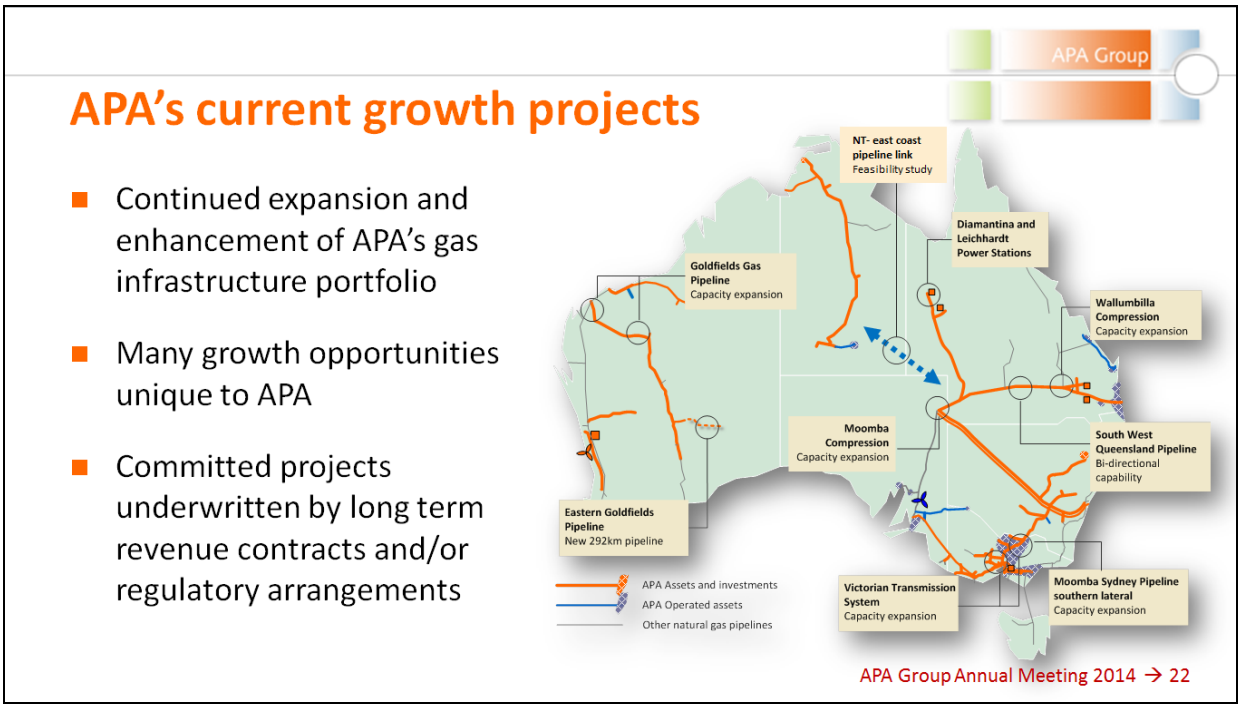
The performance in Western Australia, with a 26% increase in EBITDA on the previous financial year, was particularly pleasing. The result was driven by a full year contribution from the Pilbara Pipeline System and the expanded Mondarra Gas Storage Facility, which was commissioned in July 2013. Expanded capacity on the Goldfields Gas Pipeline also contributed, and we expect this pipeline to deliver further growth in the 2015 financial year as the most recent expansions are commissioned.

It was also pleasing to see earnings growth in our Asset Management and Energy Investments segments during the 2014 financial year.

Our Asset Management segment earns fees for operating and managing our minority-owned joint venture investments, in addition to other services provided to customers. This segment contributed $56 million in EBITDA during the year, a 34% increase on the previous financial year.

Our Energy Investments segment includes APA's strategic stakes in a number of energy infrastructure assets. The segment contributed $68 million in EBITDA, a 33% increase on the previous financial year. This growth was mainly due to Envestra's increased profitability during the year.

APA's current growth projects



As we look to APA's growth profile for the 2015 financial year and beyond, I am pleased to say that we have a number of projects underway that will expand and extend our infrastructure network. These projects can be divided into four areas of activity.

The first is the east coast gas grid. I have already mentioned some of the work being done to optimise the grid as we adapt to increasing demand for gas on the east coast. Capacity expansion projects are underway at a number of points on the grid, and we are also introducing bi-directional flow and improved storage capabilities to meet the needs of our customers.

As the Chairman mentioned in his address, we are currently undertaking a feasibility study into the possible link of our Northern Territory assets to our east coast grid. This is an exciting prospect for APA. If it were to proceed, the link would create a 10,000 kilometre gas infrastructure network linking the market with gas from any source between the Timor Sea and Bass Strait.

The connection would further strengthen our ability to offer customers more flexible solutions and stimulate investment in new gas production sources in the Territory. We hope to be in a position to make a Final Investment Decision on this project sometime within the next 18 months or so.

The second area where we have growth projects underway is Western Australia. I have mentioned the capacity expansions on the Goldfields Gas Pipeline that will ramp up over the next year, and we have also commenced engineering, design and procurement work to construct the Eastern Goldfields Pipeline. We expect to complete that project by January 2016.

The third area of growth for APA is in adjacent, complementary projects where we believe there is an opportunity to deliver healthy returns from gas infrastructure. Examples of such projects include the Diamantina and Leichhardt gas fired power stations. I am pleased to report that we commissioned the Leichhardt power station in July this year, and commissioned the Diamantina power station last week. We remain open to investing in similar projects where they complement our gas infrastructure assets and where we think we can earn attractive returns.

Finally, as I mentioned earlier in my address, we have a successful track record when it comes to delivering value from acquisitions. We are continually monitoring the market for acquisition or investment opportunities in line with our strategy, and where we believe we can earn a fair commercial return and deliver sustainable growth for our investors.

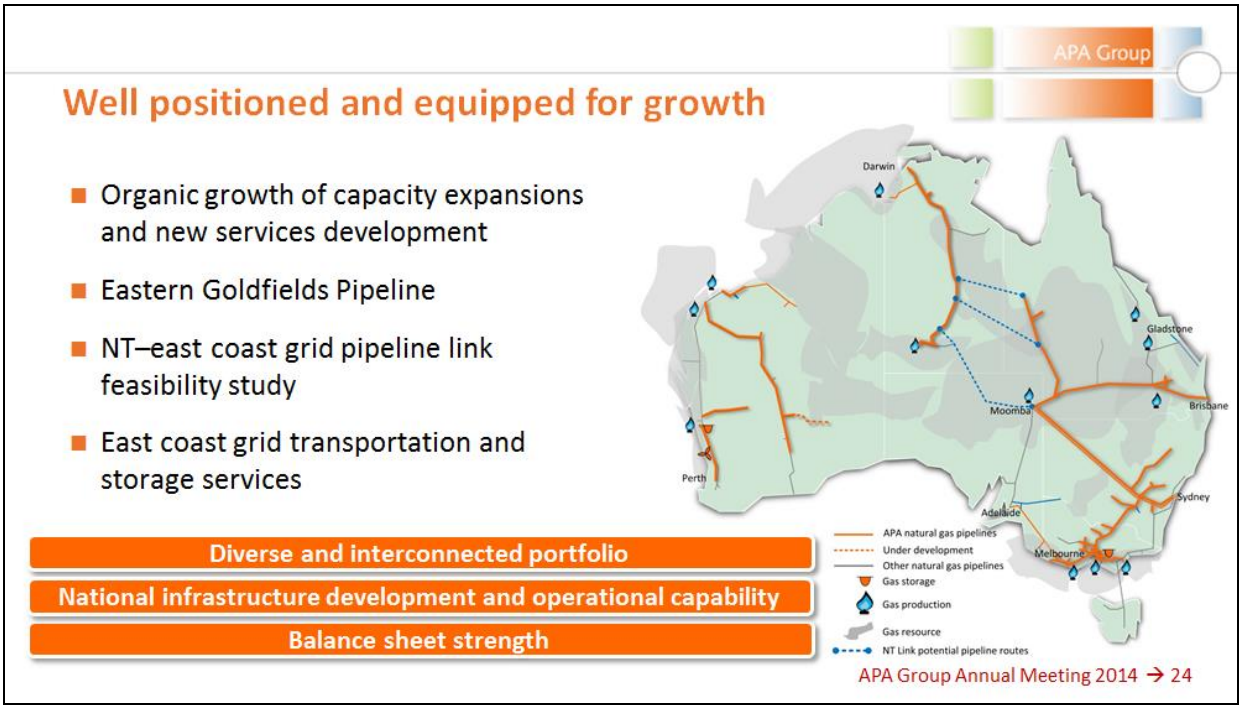
Focus on safety and operational excellence

APA is firmly committed to the safety of its people and the communities in which we operate.

Following a company-wide health and safety survey in 2013, we initiated a strategic safety improvement plan in the 2014 financial year. The aim of the plan was to improve our understanding of the safety hazards in the APA business, and to identify controls to mitigate the risks to our people. During the year we introduced twelve of the seventeen initiatives set out in the plan and we were delighted with the results. The Lost Time Injury Frequency Rate was 0.7, a significant improvement from 2.1 in the previous year, and at world's 'best practise levels.

For me personally, having come from an operating background, a strong safety culture and the safest possible working environment is an ever-present priority. Over the coming year we will complete the implementation of the strategic safety improvement plan, and maintain our safety focus as we seek to achieve our long term safety goal of zero harm for APA employees and contractors.

Well positioned and equipped for growth



In concluding this address, I am confident that our pipeline of projects, financial resources and operational expertise ideally positions APA for continued growth.

In recent years we have done a great deal of work to achieve a transformational step change in our gas infrastructure portfolio and the services we are able to offer our customers. The timing has been ideal – in Gladstone three major LNG export projects are due to come on line over the next couple of years, and this will drive an unprecedented increase in the demand for gas on the east coast. With the interconnected east coast gas grid and work underway to enhance it, we are well positioned to benefit from evolving dynamics in the market.

We retain a diverse portfolio and growth will not be limited to the east coast. We have a number of growth projects underway on our infrastructure network that span the country.

With a strong balance sheet, we have ample capacity to invest in new growth initiatives, whether organic or by acquisition. We will continue to monitor the market for opportunities that offer a healthy return, and that will further strengthen our infrastructure footprint.

I would like to thank you for your ongoing support of our business and I look forward to another solid year for APA.

[ENDS]