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ASX RELEASE

31 August 2011

The Manager

Company Announcements Office
Australian Securities Exchange
4th Floor, 20 Bridge Street
Sydney NSW 2000

Electronic Lodgement

Dear Sir or Madam

Company Announcement

I attach the following announcement for release to the market:

- Open Briefing interview with MD on Guidance and Outlook

Yours sincerely

Mark Knapman
Company Secretary

ASX Announcement: 31 August 2011

APA Group

**Open Briefing Title**

Open Briefing interview with MD & CEO Mick McCormack

APA Group
Level 19, HSBC Centre
580 George Street
Sydney NSW 2000**In this Open Briefing® Mick discusses:**

- Distribution policy
- Growth capital and investment expenditure
- Balance sheet and refinancing

Record of interview:**openbriefing.com**

APA Group reported operating cash flow of \$290 million for the year ended 30 June 2011, up 8 percent from the previous year. Distributions for the year totaled 34.40 cents per security, up 5 percent. Your distribution guidance for the current year ending June 2012 is to be “at least equal to FY2011.” This is a change from the past, when APA has consistently grown its distributions. What is behind the loss of momentum in your distribution growth trajectory? To what extent are you prioritising investment in growth over returns to securityholders?

MD & CEO Mick McCormack

APA is and has been for some time now a growing business and this is reflected in our solid result, with increased performance on key financial metrics. As you mentioned, operating cash flow increased by 8 percent, and likewise EBITDA increased by 7 percent and in line with the guidance we gave the market.

We have a measured approach to growing our business, and this has served our securityholders well over the years, with total securityholder returns, both capital growth and distributions, outperforming market indices. We continue to look at the optimal way of delivering value to our securityholders, with the right mix of distribution and capital growth in the value of securities.

With regards to distributions, we are proud of our track record. As you mentioned, we have been consistent in delivering growing distributions year on year and in 11 years as a listed business, we have never cut distributions nor traded below our listing price. I don't think there are any listed infrastructure businesses operating that can say that. As we have always done, we will continue to set distributions at a level that we believe to be sustainable and well funded from operating cash flows.

The change from the past is the increasing number of profitable organic growth



opportunities we are seeing ahead of the business. Given the timing of cash flows from organic growth, and the funding needed to support that growth in a prudent and value enhancing way, we should manage distributions so as to be in step with the broader APA business requirements, both in the immediate and long term.

This we are doing and as such, our guidance for 2012 is to deliver distributions at least equal to last year's distributions.

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Do you see distribution growth resuming beyond FY2012? What level of distribution growth is sustainable over the medium term?

MD & CEO Mick McCormack

We are focused on optimising returns to our securityholders by a mix of distributions and capital growth over the longer term. That is, we're focused on growing operating cash flow to put us into a position to increase distributions at an appropriate time. We have been doing this over the last 11 years and I expect that to continue.

As I mentioned, there is significant organic growth ahead of us, expanding and developing our assets. And we expect many more growth opportunities given the dynamic changes in the energy market. We have moved away from saying the increase in distributions is going to be a particular percentage. This simply reflects the prudent and conservative way in which we have managed APA over the years in that we need to have the flexibility to pursue and develop the profitable opportunities in front of us which will benefit APA in the longer term, but without putting the financial metrics of the business at risk in the shorter term.

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APA has flagged growth capex of approximately \$300 million in the current year, compared with the \$498 million in the 2011 financial year. This will be spent on expansion of existing gas infrastructure. To what extent is the additional capacity already contracted and what are the relative risks and returns attached to this investment?

MD & CEO Mick McCormack

We maintain our low risk business profile in all aspects of the business, particularly when it comes to capital expenditure. As in the past, our investment in infrastructure is generally underpinned by long term revenue contracts with highly credit worthy counterparties or under regulatory arrangements.

Our planned 2012 capital expenditure of \$300 million includes expansion of the Roma Brisbane Pipeline and the Mondarra Gas Storage facility in Western Australia – these are underpinned by 15 year and 20 year contracts respectively. The \$300 million also includes a looping project in Victoria which is included in the current access arrangement. There are also a number of other projects that contribute to this amount that are currently under discussion with customers that will only proceed on the basis outlined above.

As for return on investment, returns for regulated assets are well known. We do not disclose the returns we expect on our non-regulated assets, but they are commensurate with the risk inherent in each investment project.



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Also included in the 2011 growth capex was spending of \$114 million on increasing your stakes in Hastings Diversified Fund, Envestra and SEA Gas Pipeline, all part of your Energy Investments portfolio. What are your intentions regarding these holdings? What factors might prompt you to move to full control?

MD & CEO Mick McCormack

The increased stakes in our energy investments are largely the result of the opportunities that presented themselves during the year.

In respect of Envestra we increased to 33 percent by virtue of continuing to participate in the distribution reinvestment plan – this has provided further equity to support Envestra's own capital investment. With Hastings, we increased our holding to around the approved 20 percent holding level. And with respect to the SEA Gas Pipeline, we exercised our pre-emptive rights alongside Retail Employees Superannuation Trust (REST) as International Power looked to rationalise its investment portfolio in Australia earlier in the financial year.

The figure also includes APA's equity contribution into the EII2 vehicle in line with the completion of construction of the North Brown Hill wind farm.

Our position in regard to these businesses and our intentions haven't changed. We continue to see these investments as both strategic and important to our asset portfolio and our business.

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In a joint venture with AGL, APA has proposed the construction of a 240 megawatt combined cycle electricity generation plant at Mt Isa. What are APA's parameters for moving ahead with this project? What return hurdles will you set and how important are investments like this in the context of your overall growth strategy?

MD & CEO Mick McCormack

It is important to us that we maintain or enhance the value of our assets. As such, we are focused on ensuring the Mt Isa region continues to have the option of a gas fired electricity solution which uses the Carpentaria Gas Pipeline that has serviced this market for the past 13 years.

Mt Isa is currently receiving all its electricity from the Mica Creek power station, which uses gas flowing through APA's Carpentaria Gas Pipeline. Our joint proposal with AGL is to provide a cost effective electricity solution to the region, and that involves a new 240 megawatt gas fired power station being built next door to the Mica Creek power station and using existing electricity transmission infrastructure and the Carpentaria Gas Pipeline.

It is a cost efficient solution that can be delivered without any government subsidies or cross subsidies of electricity consumers throughout Queensland. We are puzzled that the competing copper string proposal for a power line linking Mt Isa to the national electricity grid near Townsville some 800 kilometres away and that apparently will cost more than 4 times our proposal, continues to be promoted.

We'll move ahead on our proposal once the customer has made a decision on where to



source electricity. Once we have long term agreements in place we'll commence construction of the power station.

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APA's total debt was \$3.24 billion as at 30 June 2011, up from \$3.16 billion a year earlier. Gearing was 66.2 percent, down from 69.8 percent. With a \$900 million syndicated loan facility due to mature in June 2012, what are your refinancing options? What is the outlook for debt servicing costs post the refinancing and what are your priorities in managing your gearing and coverage ratios?

MD & CEO Mick McCormack

Debt increased by \$83 million. This was used to partially fund the \$498 million of capital growth, so gearing of our growth was very conservative during the period. The key reason for the drop in gearing has to do with the large injection of equity towards the end of the year to fund our acquisition of the Emu Downs wind farm and a number of other organic capex projects both in the 2011 and 2012 financial years.

The \$900 million syndicated debt facility is our next refinancing obligation, due for repayment in June 2012. We're very pleased with the access we have to a number of significant debt capital markets. Even with the most recent volatility in the markets, we were able just last week to secure a new \$75 million bank facility on the same terms and conditions as the facilities we refinanced three existing facilities with some two months ago. This facility begins our 2012 refinancing program and effectively reduces our immediate focus to \$825 million.

We expect to be undertaking work in the debt markets over the coming months and expect that we can complete our refinancing obligations for the year in line with our objectives. We can access a number of markets going forward. We have Euro Medium Term Note (EMTN) and Australian Medium Term Note (AMTN) programs in place and we are very well advanced in respect to the documentation for a possible debt offering in another major debt market. Furthermore, our proven access to the local bank market adds to the optionality we have in this regard.

The increase in debt servicing costs that we signaled with our guidance is largely due to the increase in margins relative to cheaper funding we acquired in 2007 and that is now the focus of our refinancing in the 2012 financial year.

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Cash and committed undrawn facilities totaled \$320 million as at the end of June, down from \$538 million. What do you see as the appropriate level of debt "headroom" for the business? What is APA's current balance sheet capacity for acquisitive growth?

MD & CEO Mick McCormack

During the height of the global financial crisis, APA acted prudently and increased its debt headroom as a precaution against future near term financial shocks. In December last year we reduced our headroom to a more normalised level, which is about \$300 million, inclusive of cash. This takes into account the capital expenditure needs of the business. Of course there will be some fluctuations around this number given refinancing measures and the impact of external factors.



Our balance sheet remains strong and we continue funding our growth capex and energy investments in a manner similar to the past several years – a mix of cash from the business, equity and debt. Furthermore we have continued to be very diligent in managing the balance sheet to maintain minimum BBB, Baa2 financial metrics.

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Thank you Mick.

For further information on APA Group please visit www.apa.com.au or [contact](#) Chris Kotsaris (Investor Relations) on +61 2 9693 0049 or chris.kotsaris@apa.com.au.

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