



ASX ANNOUNCEMENT

22 December 2014

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

OPEN BRIEFING INTERVIEW WITH APA

Attach is the following announcement for release to the market:

- Open Briefing interview with Managing Director Mick McCormack and Chief Financial Officer Peter Fredricson

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About APA Group (APA)

APA is Australia's largest natural gas infrastructure business, owning and/or operating in excess of \$12 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 minority interests in a number of energy infrastructure enterprises including SEA Gas Pipeline, Energy Infrastructure Investments and GDI.

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, www.apa.com.au

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CEO and CFO Interview

Open Briefing interview with APA Group's
CEO Mick McCormack and CFO Peter Fredricson

In this Open Briefing®, Mick and Peter discuss the recently announced acquisition of the QCLNG pipeline:

Record of interview:

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APA Group (ASX: APA) recently announced it had entered into an agreement to acquire the QCLNG pipeline for US\$5,000 million. Is this acquisition of a pipeline linking gas fields in the Surat Basin to an LNG plant on Curtis Island consistent with APA's strategy?

CEO Mick McCormack

APA is the largest owner and operator of gas transportation pipelines in Australia. As we've said in the past, if there's a pipeline for sale in Australia you will see us knocking on the door and running a ruler over it – it's what we do.

We're particularly attracted to pipelines connected to our 7,000 kilometre east coast grid – which is one of the attributes of the QCLNG pipeline. Not only does the pipeline deliver operating cash flow accretion – in the order of around 10% in the first full year of ownership – the total capacity of the pipeline is sold for 20 years to two highly credit worthy counterparties. Our business is built on long-term agreements with high-quality counterparties, so in this regard the QCLNG pipeline is just like all of the others in our portfolio.

Moreover, as owners – after the initial 12 months – we would look to assume the operatorship of the QCLNG pipeline at which point we can offer further grid based services to our customers. We will be able to offer customers and the foundation shippers the opportunity to contract for increased capacity on the pipeline. In this way, the QCLNG pipeline is a further extension to the APA east coast grid and pipeline portfolio. All up, this is a standard pipeline purchase with strong foundation shipper support, albeit our largest to date.

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The primary tariff components on the 20 year contract with the foundation shippers are denominated in US dollars and escalated annually at US CPI. Does this exposure to US dollar revenues expose APA investors to new risks?

CFO Peter Fredricson

The acquisition transaction is denominated in USD and we will also receive revenues over the 20 years of the foundation contracts in USD.

We see this as an advantage for APA as it means we will be able to borrow USD from a broad range of global debt capital markets at what we expect to be lower long-term interest rates than we could achieve if we were borrowing AUD in local markets or borrowing in offshore markets and swapping back into AUD. The USD revenues that we then receive will be a "designated hedge" for the USD debt from an accounting perspective and will service the USD debt from a cash flow perspective.

Any balance of USD revenues over USD interest cost will be translated back into AUD and used by APA to service our Australian based costs and securityholder distributions. We plan to enter into fixed forward rate agreements to hedge those net revenues for at least 2 to 3 years forward, thereafter adding further years of coverage on a rolling forward basis.

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Is APA exposed to interest rate risk through to transaction close on the 2 year USD debt bridge that is being put in place to part-fund the QCLNG pipeline acquisition?

CFO Peter Fredricson

We actively manage all of APA's exposures in the FX and interest rate markets and will continue to look at the options available to us to manage our ongoing exposure to market movements between the announcement of this transaction and financial close.

For the avoidance of doubt, we have already undertaken all the necessary FX hedging to transfer the AUD equity that we will contribute to settling the acquisition. In relation to interest rates, we will continue to monitor markets going forward and we will enter into whatever hedging we deem prudent to ensure APA obtains the most cost-effective settlement outcomes. In this regard, I can confirm that we have already locked in base rates in respect of an appropriate level of our longer term funding at rates that are better than what we had modelled in our acquisition case.

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What is APA's strategy in respect of the debt raised to finance the QCLNG pipeline acquisition? Does APA intend amortising this debt?

CFO Peter Fredricson

APA will look to refinance the 2 year USD syndicated bridge facility that was put in place in conjunction with the transaction as early as practicable in calendar 2015, most likely following announcement of APA's half year results on 25 February 2015.

APA has a strong track-record in accessing global debt capital markets to obtain longer-term funding, and we anticipate raising a significant level of funding in a number of markets including the USD 144A market, the Sterling market and a number of other markets within which APA can issue under its European Medium Term Note ("EMTN") program. In the interim, APA will continue to review options to ensure any exposure to changes in longer term interest rates is mitigated to best effect.

All borrowings undertaken to refinance the syndicated bridge facility will be undertaken by APT Pipelines Limited and will be part of APA's overall corporate debt facilities issued under APA's current negative pledge. We will continue to manage APA's balance sheet and debt book on a corporate, portfolio basis and will look to maintain metrics that supports retention of the current BBB and Baa2 ratings over the long term. Accordingly, we do not intend to amortise the debt raised to refinance the syndicated bridge facility.

We expect that within this capital management strategy we will have sufficient operating cash flows over the years to appropriately reward securityholders and manage the balance sheet within the current stated gearing range of 65% to 68% without a formal "amortisation" profile of any APA debt, including any raised to support the acquisition of this asset.

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The terms of the contract with the foundation shippers have led some observers to suggest that the acquisition has the characteristics of a “bond” or “lease” without the flexibility usually associated with ownership and operation of a pipeline. What are your views on this perspective?

CFO Peter Fredricson

At financial close, APA will own this pipeline outright and unencumbered. It is wholly owned within APA Group as with all of our other wholly owned pipelines. The funding that has been raised to support the acquisition has been raised within APA’s borrowing entity, APT Pipelines Limited, and under the same negative pledge and borrowing conditions as all other APA debt. APA has not provided any security over this asset to any lenders, and does not intend to do so.

The vendors have no rights to acquire the pipeline at any time in the future. The vendors have no right to veto any expansion by APA in the future. APA is, from the date of taking ownership, able to market expansion capacity – which would need to be built – and services on the pipeline, including any services and capacity that might arise from connection with APA’s east coast grid.

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Is there any ability/opportunity to sell capacity in the short term, e.g. to any of the other Gladstone LNG projects prior to the start-up of the QCLNG second train?

CEO Mick McCormack

All currently available capacity is contracted to the foundation shippers so any additional contracts for firm capacity would require expansion of the pipeline. Expansion can be undertaken at APA’s sole discretion as owner after financial close, although any expansion would take time to negotiate and build.

As with all pipelines that APA owns, APA expects that it will only undertake expansion of the QCLNG pipeline in circumstances where customers – BG Group, CNOOC or others – are prepared to fully underwrite that expansion with appropriate returns to APA. That said, we have already started to look at what might be the future market requirements for gas in the Gladstone region.

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If there were to be a third party contract to underwrite an expansion, do BG/CNOOC have any rights of refusal over the expansion? Do BG/CNOOC have any rights to share in the returns?

CEO Mick McCormack

Foundation shippers may take up any available capacity on terms consistent with those offered to any third party. APA owns the pipeline and will undertake expansions only in the event that a party – foundation shipper or third party – fully underwrites that expansion. That’s consistent with our business model.

In the event that APA does undertake an expansion of the pipeline in the future for a third party shipper, there are protocols in place for agreeing some pass-back to the foundation shippers of part of the benefits after APA achieves its expected returns. This is standard market practice in the context of new pipelines that have been underwritten by foundation shippers.

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What counterparty credit risk is APA taking on in relation to the QCLNG acquisition? Is the falling oil price environment a concern?

CFO Peter Fredricson

APA's main contract counterparties are entities owned by BG, which are backed by BG's ownership interest in the QCLNG project, and entities owned by CNOOC, which are backed by CNOOC's interests in the QCLNG project.

BG's main operating entity, BGEH (which holds an A- rating from Fitch and Standard & Poor's, and A2 rating from Moody's), provides a parent guarantee for the BG-related entity obligations, which covers ~75% of the revenues to be received.

The remaining 25% of revenues relate to CNOOC entities, which are backed by the ownership of a 25% interest in the QCLNG project. BG and CNOOC have collectively invested around \$20 billion in the QCLNG project, and it forms an important part of their LNG supply portfolio. The project is currently in the commissioning phase, and it is expected that the first LNG cargoes will leave Gladstone during December 2014, with commissioning due to complete in early Q2 2015.

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What is the timing for financial close of the QCLNG pipeline acquisition? What conditions need to be satisfied prior to financial close?

CEO Mick McCormack

Financial close is expected in early Q2 2015. There are two conditions precedent to financial close, being First Commercial Deliveries being achieved from QCLNG Train 1 (FCDD) and obtaining the consent of CNOOC to the sale which cannot be unreasonably withheld.

FCDD is the trigger for the QCLNG project moving from commissioning phase to operational phase. Commissioning is in the hands of BG and its contractors for the LNG project. BG has advised that it is on track to achieve the target dates, and I note media commentary in recent days that the first "commissioning" cargo of LNG is expected to leave Gladstone Harbour before the end of this month.

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