



ASX ANNOUNCEMENT

24 February 2016

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

APA GROUP 2016 INTERIM RESULTS

New Pipeline and Continued Growth Underpins Half Year results

RESULT HIGHLIGHTS

Normalised results

- Revenue (excluding pass-through) up 55.5% to \$812.5 million
- EBITDA up 65.9% to \$667.6 million
- Net profit after tax and significant items down 10.5%
- Operating cash flow up 75.6% to \$462.1 million

Statutory results

- EBITDA down 21.4% to \$667.6 million
- Net profit after tax down 78.7%
- Operating cash flow up 64.8% to \$462.1 million

Interim distribution per security of 19.0 cents, an increase of 8.6% on 1H15

Operating performance

- Full six months contribution from the Wallumbilla Gladstone Pipeline
- Full six months contribution from the expanded East Coast Grid
- Continued solid contributions from APA's Western Australian assets including the Mondarra Gas Storage Facility and the Emu Downs Wind Farm

Australia's largest gas infrastructure business, APA Group (ASX:APA), today announced normalised earnings before interest, tax, depreciation and amortisation ("EBITDA") of \$667.6 million, an increase of 65.9% or \$265.2 million on the previous corresponding period (excluding significant items). Statutory EBITDA for the period was down 21.4%, however, the previous corresponding period included a once-off \$447.2 million pre-tax profit (\$356.0 million after tax profit) on the sale of APA's shares in Envestra Limited that is not repeated in this reporting period.

Revenue (excluding pass-through revenue) increased by \$289.8 million to \$812.5 million, an increase of 55.5% on the previous corresponding period (1H FY2015: \$522.7 million).

Profit after tax and non-controlling interests before significant items decreased by 10.5% to \$99.5 million (1H FY2015: \$111.2 million, excluding the aforementioned significant items of \$356.0 million, after tax). This was primarily due to an increase in depreciation, amortisation and interest costs, as a result of the acquisition of the Wallumbilla Gladstone Pipeline ("WGP"), adding further significant fixed and intangible assets that are depreciated and amortised for the full six month period and the debt included in the funding of the acquisition.

Operating cash flow was \$462.1 million for the period, an increase of 75.6% or \$198.9 million over the previous corresponding period (1H FY2015: \$263.2 million, excluding significant items). Operating cash flow per security increased by 38.3%, or 11.5 cents, to 41.5 cents per security (1H FY2015: 30.0 cents per security, excluding significant items).

The Board of Directors declared an interim distribution of 19.0 cents per security, in line with the estimate announced in December 2015 and representing an increase of 8.6% or 1.5 cents per security over the previous corresponding period (FY2015 interim: 17.5 cents per security). The interim distribution is fully funded from operating cash flow with a payout ratio for the period of 45.8%. APA continues to fully fund its distributions out of operating cash flows whilst also retaining appropriate levels of cash and available facilities in the business to support continued growth.

APA Group Chairman, Mr Len Bleasel AM, said, "APA has an outstanding track record of delivering reliable and essential energy infrastructure to its customers. Executing the Group's strategy has seen APA build-out its infrastructure portfolio in response to the growing demand for gas in Australia's dynamic energy market. This has delivered stable, recurring cash-flows and an increase in distributions to our securityholders. APA continues to have an essential and active role in delivering safe, reliable energy to its customers and actively supporting their growth aspirations."

In commenting on the result, APA Group Managing Director, Mr Mick McCormack, said, "This result reflects our focus on our service to the needs of our customers and the energy demands of our nation."

"A highlight of the result was the first full six months contribution from the Wallumbilla Gladstone Pipeline, acquired in June 2015, which contributed \$235 million in EBITDA. The increasing energy infrastructure demand from customers also saw organic growth on the expanded East Coast Grid, the successful commissioning of the Eastern Goldfields Pipeline greenfield project ahead of schedule in December 2015 and ongoing contributions from our diverse portfolio of assets in Western Australia."

"We have been working closely with our customers in preparing for the changes occurring in the gas market, particularly on the east coast of Australia. It is pleasing that our assets, systems and people have been able to deliver effective solutions for those customers, enabling them to manage their essential energy needs in a timely and efficient manner."

During the period, APA commenced provision of bi-directional services on both the Moomba Sydney Pipeline and the Roma Brisbane Pipeline. These services complete the major bi-directional pipeline projects connecting the Gippsland, Otway, Cooper and Surat gas basins. The interconnected, bi-directional grid, together with its numerous receipt and delivery points, provides the hardware for APA's customers to move their gas where and as they need it.

During the period, APA spent \$173.5 million in capital expenditure, of which \$147.2 million was on growth projects, including the completion and commissioning of the Eastern Goldfields Pipeline.

Mr McCormack said, "Towards the end of the period, we saw the commissioning of the Eastern Goldfields Pipeline servicing AngloGold Ashanti's mining operations in the Goldfields mining region of Western Australia. Pleasingly, the pipeline was delivered on budget and ahead of time, ensuring the continuity of energy supply to our customer as well as access to a cleaner, cheaper source of energy. The new pipeline also provides opportunities for APA to extend its pipeline to other mining operations in one of the State's most promising resource regions."

APA had cash and committed undrawn facilities of around \$1.1 billion as at 31 December 2015 with gearing of 63.7 per cent and an interest cover ratio of 2.52 times.

In commenting on APA's financial position, Mr McCormack said, "APA's ability to continue to serve our customers and markets is underpinned by a strong balance sheet. As always, we take a prudent approach to financing our operations and the maintenance of our two solid investment grade credit ratings is a key priority for us. This ensures we are able to pursue opportunities as they arise."

BUSINESS PERFORMANCE

Energy Infrastructure

APA's Energy Infrastructure segment contributed 91.4% of revenue (excluding pass-through) and 94.1% of EBITDA (before corporate costs) during the period. Revenue (excluding pass-through revenue) was \$740.9 million, an increase of 57.0% on the previous corresponding period. EBITDA (before corporate costs) increased by 66.9% to \$671.1 million.

The Wallumbilla Gladstone Pipeline, acquired on 3 June 2015, delivered \$235 million in EBITDA and was the main contributor to the increase in earnings. In addition, APA commissioned the Eastern Goldfields Pipeline towards the end of the period and slightly ahead of plan. The expanded East Coast Grid delivered further organic growth, along with solid performances from assets such as the Mondarra Gas Storage Facility and the Emu Downs Wind Farm.

East Coast Grid

APA's 7,500 plus kilometres of integrated pipeline grid on the east coast of Australia has the ability to transport gas seamlessly from multiple gas production facilities to gas users across four states and the ACT, as well as to the export LNG market which has developed out of Gladstone. APA also stands ready to deliver gas from the Northern Territory into the East Coast Grid as and when any pipeline connection is completed.

During the period, APA has continued to invest in capacity expansions across the East Coast Grid. APA commenced provision of bi-directional services on both the Moomba Sydney Pipeline and the Roma Brisbane Pipeline during the period, as a result of installing bi-directional capability on these two pipelines in response to customer demand. This completes the major bi-directional pipeline projects connecting the Gippsland, Otway, Cooper and Surat gas basins.

APA has been investing in technology that provides the commercial and operational framework to maximise the interconnected, bi-directional grid for the benefit of our customers. A wide range of services, including multi-asset services, bi-directional services, capacity trading and gas storage and loan facilities, are managed by our APA Grid system. Together with APA's Integrated Operations Centre ("IOC") in Brisbane, which houses commercial, technical and operational resources in the one location managing APA's pipeline infrastructure nationally, APA is able to

holistically manage and quickly respond to changes in operational and market conditions. During the period, the control rooms from Melbourne, Young and Perth were all transitioned to the IOC, essentially completing the transition phase of that project.

During the period, APA saw increased activity on each of the Queensland assets connected to the Wallumbilla Hub, especially during the commissioning of a number of LNG trains at Gladstone, where APA's flexible short term gas agreements were able to support the gas portfolio management of the LNG proponents. This compared with the previous corresponding period where excess gas was being shipped southward to Victoria and New South Wales markets to support summer loads in those markets.

The increase in demand in Queensland, to which APA was able to respond as a result of the commissioning of capacity upgrades on its Queensland assets as well as the addition of the Wallumbilla Gladstone Pipeline, saw the East Coast Grid as a whole increase EBITDA by 95.5% over the previous corresponding period. Excluding the contribution from WGP, there was 13.5% organic growth in EBITDA on the East Coast Grid as past expansions for customers reached operating capability as expected.

Western Australia – West Coast Grid

In Western Australia, APA's assets serve a variety of customers in the resources, industrial and utility sectors, mainly in the Perth, Pilbara and Goldfields regions.

EBITDA from APA's West Coast Grid assets for the period decreased 4.5% compared with the previous corresponding period. This reduction is primarily due to revenue on the Goldfields Gas Pipeline ("GGP") for the current period reflecting possible tariff reductions signaled in the draft decision by the Economic Regulation Authority ("ERA") on proposed revisions to the access arrangement for the GGP in anticipation of the ERA's final decision becoming operative (expected June 2016). APA has submitted a full response rejecting the ERA's draft decision and we will continue to strongly defend our position in respect of the terms and conditions of the products and services that we currently provide under the access arrangement.

With the other assets on the West Coast Grid, including Emu Downs Wind Farm and the Mondarra Gas Storage Facility, performing to expectations against the backdrop of falling commodity prices, the results in the West present an acceptable, overall outcome. In December 2015, APA commissioned the 293 kilometre Eastern Goldfields Pipeline ("EGP"). The pipeline, located in the Eastern Goldfields region, is underwritten by two gas transportation agreements executed between AngloGold Ashanti ("AngloGold") and APA for the transportation of natural gas to AngloGold's Sunrise Dam Operations, and the Tropicana Operations jointly owned by AngloGold and Independence Group NL. The EGP connects APA's existing infrastructure, the Goldfields Gas Pipeline and the Murrin Murrin Lateral, to the respective mine site locations. Under the agreements, APA will transport gas across a total distance of 1,800 kilometres to AngloGold's mines through these three interconnected pipelines.

The completion of the EGP provided APA with the opportunity to secure an agreement for the transportation of natural gas to the Gold Fields Limited owned Granny Smith gold mine. This agreement will commence in February 2016. APA is working to secure other opportunities in the region associated with this new EGP infrastructure.

Asset Management

APA provides asset management and operational services to the majority of its energy investments and to a number of third parties. Its main customers are Australian Gas Networks Limited (“AGN”), Ethane Pipeline Income Fund, Energy Infrastructure Investments and GDI (EII). Asset management services are provided to these customers under long term contracts.

Revenue (excluding pass-through revenue) from asset management services increased by \$17.0 million or 44.2% to \$55.4 million (1H FY2015: \$38.4 million) and EBITDA (for continuing businesses, excluding corporate costs) increased by \$3.0 million or 12.0% to \$27.9 million (1H FY2015: \$24.9 million).

This increase in revenue and EBITDA is due to organic growth, reflecting increases in volume and asset management fees. Over the last few years, the distribution businesses in particular have seen solid connection growth through continued investments in new housing estates and high rise apartment developments particularly in Queensland and Victoria. Natural gas continues to be the fuel of choice for cooking, hot water and heating in many of these market segments. Revenue also benefited from additional one-off works at certain assets, mainly in Queensland.

Energy Investments

APA has interests in a number of complementary energy investments across Australia, including the SEA Gas Pipeline, Energy Infrastructure Investments (“EII”), Ethane Pipeline Income Fund, EII2, GDI (EII) and the Diamantina and Leichhardt Power Stations (collectively “DPS”). APA holds a number of roles in respect of the majority of these investments, in addition to its ownership interests. All investments are equity accounted, with the exception of APA’s 6% interest in Ethane Pipeline Income Fund, which is accounted for as an available-for-sale investment.

EBITDA from continuing investments increased by 82.7% to \$14.0 million (1H 2015: \$7.6 million), driven mainly by the positive contribution from DPS during the period. There were further increased contributions across APA’s investment portfolio, including from EII, GDI (EII) and SEA Gas Pipeline.

Corporate Costs

Corporate costs for the period increased by \$12.2 million over the previous corresponding period to \$45.4 million (1H FY2015: \$33.2 million). The increase was due, in the main, to a number of one-off items including costs related to APA’s participation in the Northern Territory’s NEGI process and APA’s unsuccessful bid for the Iona Gas Storage, as well as costs incurred in relation to a number of ongoing governmental enquiries into the gas market.

Nonetheless, corporate costs have trended down as a proportion of revenue and total EBITDA over the last few years. Moreover, as the business has grown significantly both in terms of investor returns and balance sheet, APA’s corporate costs have remained relatively stable, demonstrating the efficient scalability of APA.

Capital Management

During the period, APA extended the term to maturity of its syndicated and bilateral bank facilities by between 12 and 24 months and repaid the \$185.6 million (US\$122.0 million) of US Private Placement Notes that matured in September 2015.

At 31 December 2015, APA's debt portfolio has a broad spread of maturities extending out to FY2035, with an average maturity of drawn debt of 8.2 years. APA's gearing of 63.7% at 31 December 2015 was slightly higher than the 63.4% at 30 June 2015.

Future Strategy and Outlook

Commenting on the outlook for APA, Group Managing Director, Mr McCormack said, "APA will continue to evolve as a customer focused organisation. We pursue investments that enhance our infrastructure and our ability to deliver flexible and innovative services to our customers."

Our guidance for FY2016 remains unchanged from August 2015, with the exception of the FY2016 distribution guidance, which was updated in December 2015.

EBITDA for the full year to 30 June 2016 is expected to be in a range of \$1,275 million to \$1,310 million. This represents an approximately 3% to 7% increase on the 2015 financial year continuing business EBITDA excluding the Wallumbilla Gladstone Pipeline, which is expected to contribute around \$470 million of EBITDA in FY2016.

Net interest cost is expected to be in a range of \$500 million to \$510 million.

Growth capital expenditure is expected to be in the range of \$300 million to \$400 million.

Having declared an interim distribution of 19.0 cents per security for the half year, distributions for the 2016 financial year are expected to be in the order of 41.5 cents per security – a 9.2% increase on the previous year – based on increased cash flows arising from APA's investment in the Wallumbilla Gladstone Pipeline and the commissioning of a number of expansions over the past 12 months. As per current APA distribution policies, all distributions will be fully covered by operating cash flows.

Year ended 30 June	2016 guidance	2015 actual	Changes	
	\$ million	\$ million	\$ million	%
EBITDA from continuing business	1,275 to 1,310	821.3 (normalised)	454 to 489	55% to 60%
Net interest cost	500 to 510	324.2	176 to 186	54% to 57%
Growth capex	300 to 400	343.1	-	-
Distribution per security	~41.5 cents	38.0 cents	3.5 cents	9%

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About APA Group (APA)

APA is Australia's largest natural gas infrastructure business, owning and/or operating around \$19 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, GDI Allgas Gas Networks and the Diamantina and Leichhardt Power Stations.

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

Financial Summary

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

Half year ended	31 December 2015 (\$000)			31 December 2014 (\$000)			Changes in Statutory accounts		Changes in Normalised accounts	
	Statutory	Significant items	Normalised	Statutory	Significant items ⁽²⁾	Normalised	\$000	%	\$000	%
Total revenue	1,049,081	-	1,049,081	740,101	-	740,101	308,980	41.7%	308,980	41.7%
Pass-through revenue ⁽¹⁾	236,587	-	236,587	217,429	-	217,429	19,158	8.8%	19,158	8.8%
Total revenue excluding pass-through	812,494	-	812,494	522,672	-	522,672	289,822	55.5%	289,822	55.5%
EBITDA	667,567	-	667,567	849,563	447,240	402,323	(181,996)	(21.4%)	265,244	65.9%
Depreciation and amortisation expense	(250,481)	-	(250,481)	(88,477)	-	(88,477)	(162,004)	(183.1%)	(162,004)	(183.1%)
EBIT	417,086	-	417,086	761,086	447,240	313,846	(344,000)	(45.2%)	103,240	32.9%
Finance costs and interest income	(253,307)	-	(253,307)	(151,294)	-	(151,294)	(102,013)	(67.4%)	(102,013)	(67.4%)
Profit before income tax and non-controlling interests	163,779	-	163,779	609,792	447,240	162,552	(446,013)	(73.1%)	1,227	0.8%
Income tax (expense) / benefit	(64,234)	-	(64,234)	(142,530)	(91,222)	(51,308)	78,296	54.9%	(12,926)	(25.2%)
Non-controlling interests	(1)	-	(1)	(1)	-	(1)	-	-	-	-
Profit after income tax and non-controlling interests	99,544	-	99,544	467,261	356,018	111,243	(367,717)	(78.7%)	(11,699)	(10.5%)
Operating cash flow ⁽³⁾	462,134	-	462,134	280,406	17,201	263,205	181,728	64.8%	198,929	75.6%
Operating cash flow per security (cents) ⁽⁴⁾	41.5	-	41.5	31.9	-	30.0	9.6	30.1%	11.5	38.3%
Earnings per security (cents) ⁽⁴⁾	8.9	-	8.9	53.2	-	12.7	(44.3)	(83.3%)	(3.8)	(29.9%)
Distribution per security (cents)	19.0	-	19.0	17.5	-	17.5	1.5	8.6%	1.5	8.6%
Distribution payout ratio ⁽⁵⁾	45.8%	-	45.8%	52.2%	-	55.6%	(6.4%)	(12.3%)	(9.8%)	(17.6%)
Weighted average number of securities (000)	1,114,307	-	1,114,307	878,124	-	878,124	236,183	26.9%	236,183	26.9%

Notes: Numbers in the table may not add up due to rounding.

- (1) 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 Australian Gas Networks Limited ("AGN") and GDI (EII) in respect of, the operation of the AGN and GDI assets respectively.
- (2) Significant items: For the period to 31 December 2014, these relate to net proceeds realised from the sale of APA's investment in AGN as well as successful recovery of fees paid by Hastings Diversified Utilities Fund to Hastings Funds Management Limited.
- (3) Operating cash flow = net cash from operations after interest and tax payments.
- (4) Between 23 December 2014 and 28 January 2015, APA issued a total of 278,556,562 new ordinary securities, resulting in total securities on issue as at 30 June 2015 of 1,114,307,369. The issue was offered at \$6.60 per security, a discount to APA's closing market price of \$7.67 per security on 9 December 2014, the last trading day before the record date of the entitlement offer of 15 December 2014. The weighted average number of securities for the prior period has been adjusted in accordance with the accounting principles of AASB 133: Earnings per Share, for the discounted rights issue.
- (5) Distribution payout ratio = total distribution payments as a percentage of normalised operating cash flow.

APA Business segment Revenue and EBITDA

Statutory reported revenue and EBITDA performance of APA's business segments is set out in the table below.

Half year ended	31 Dec 2015	31 Dec 2014	Changes	
	\$000	\$000	\$000	%
Revenue (continuing businesses)				
Energy Infrastructure				
East Coast Grid: Queensland	448,288	161,383	286,905	177.8%
East Coast Grid: New South Wales	72,884	71,953	931	1.3%
East Coast Grid: Victoria	83,266	93,309	(10,043)	(10.8%)
East Coast Grid: South Australia	1,393	1,351	42	3.1%
Northern Territory	14,458	13,825	633	4.6%
Western Australia	120,611	130,025	(9,414)	(7.2%)
<i>Energy Infrastructure total</i>	740,900	471,846	269,054	57.0%
Asset Management	55,403	38,420	16,983	44.2%
Energy Investments	13,973	7,647	6,326	82.7%
Total segment revenue	810,276	517,913	292,363	56.5%
Pass-through revenue	236,587	217,429	19,158	8.8%
Unallocated revenue (interest income) ⁽¹⁾	2,218	3,767	(1,549)	(41.1%)
Divested business ⁽²⁾	-	992	(992)	(100.0%)
Total revenue	1,049,081	740,101	308,980	41.7%
EBITDA (continuing businesses)				
Energy Infrastructure				
East Coast Grid: Queensland	426,718	146,548	280,170	191.2%
East Coast Grid: New South Wales	63,315	63,677	(362)	(0.6%)
East Coast Grid: Victoria	68,542	75,014	(6,472)	(8.6%)
East Coast Grid: South Australia	1,212	1,143	69	6.0%
Northern Territory	9,882	9,393	489	5.2%
Western Australia	101,456	106,241	(4,785)	(4.5%)
<i>Energy Infrastructure total</i>	671,125	402,016	269,109	66.9%
Asset Management	27,850	24,861	2,989	12.0%
Energy Investments	13,973	7,647	6,326	82.7%
Corporate costs	(45,381)	(33,193)	(12,188)	(36.7%)
Total segment EBITDA	667,567	401,331	266,236	66.3%
Divested business ⁽²⁾	-	992	(992)	(100.0%)
Total EBITDA before significant items	667,567	402,323	265,244	65.9%
Significant items ⁽³⁾	-	447,240	(447,240)	(100.0%)
Total EBITDA	667,567	849,563	(181,996)	(21.4%)

Notes: Numbers in the table may not add up due to rounding.

- (1) Interest income is not included in calculation of EBITDA, but nets off against interest expense in calculating net interest cost.
- (2) Investment in Australian Gas Networks Limited ("AGN") sold in August 2014.
- (3) Significant items: For half year to 31 December 2014, these relate to net proceeds realised from the sale of APA's investment in AGN as well as successful recovery of fees paid by Hastings Diversified Utilities Fund to Hastings Funds Management Limited.