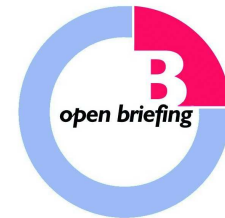


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APA Group



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APA Group (APA) announced its full year result to 30 June 2009 including underlying EBITDA of \$459 million (up 7% versus the previous corresponding period). Can you explain how you achieved that growth versus the pcp? What is your assessment of the financial results? Where is there room for improvement?

Mick McCormack, Managing Director

We achieved an excellent result this year, increasing EBITDA despite the sale of \$700 million in assets into Energy Infrastructure Investments in December. This meant the remaining APA assets grew by more than the \$25 million EBITDA that the assets sold would have contributed in the second half.

So there was strong growth across the business, particularly in gas transmission and distribution which increased by 14% on last year. This segment makes up the majority of APA's EBITDA, just over 83%. The strongest growth was in Victoria, which increased by 31%, reflecting primarily the full year effect of revised tariffs under the January 2008 Access Arrangement, as well as a modest increase in gas throughput.

Just north of the border, New South Wales also performed strongly, increasing by 25%. This is the result of new contracted services on the pipeline system, and revised tariffs. The Moomba Sydney Pipeline has had a comeback in recent years – it's a large pipeline and consequently offers unique peaking and storage services, which are growing in demand. It's not the only pipeline delivering gas into New South Wales, so tariffs have remained competitive.

I was very pleased with the result from our Western Australian assets, which reported a 7% increase. We had expected a somewhat flat outcome from those pipelines due to the impact of the global economic downturn on the resources sector. However, we experienced the opposite, with increased throughput and capacity reservations which more than offset the one mine that was placed under care and maintenance.

As for improvement, this is ongoing – our business is focused on improving its performance year on year, from process and cost efficiencies to developing new opportunities and capturing synergy benefits.

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Can you explain the impact of internalising all operational activities, in particular the removal of third-party costs and fees?

Mick McCormack, Managing Director

Internalising all of our operations was the last piece of the puzzle set in place almost two years ago when we brought the operation of our foundation assets in-house. We now manage and operate, not only all of our own assets, but also the assets of our minority equity investments. In this regard we are unique amongst our peers.

The impact has been positive on many fronts:

There is a significant bottom line benefit that flows straight back to our securityholders – there's of course no fee leakage and we retain all the cost savings and efficiencies within our business.

There are also operational benefits – our employees are engaged and have a great sense of ownership working on their company's assets and investments, and we maximise the use of people's expertise across all our assets. And the collaboration of the operations and commercial teams has been a key to optimising developments.

And finally we retain the intellectual property of managing our assets and investments, which is substantial when you consider we manage in excess \$8 billion worth of assets.

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You stated that you met all key strategic objectives. What were these?

Mick McCormack, Managing Director

This time last year and at our interim results we outlined these key objectives:

1. A focus on enhancing our gas transmission and distribution portfolio;
2. The establishment of the unlisted vehicle by the end of 2008 calendar year;
3. Strengthening the balance sheet, including the early refinancing of debt due in 2010 calendar year, and;
4. Leveraging our internal skills and experience.

I am proud that we met all these key objectives, and did so in the toughest market I've ever experienced.

We continued to enhance our portfolio by increasing capacity on most of our pipelines, both in the east and west of the country, including the Goldfields Gas Pipeline, Carpentaria Gas Pipeline, Moomba Sydney Pipeline and the Victorian Transmission System. We expanded the APA Gas Network into new housing developments south of Brisbane. We acquired the Central Ranges Pipeline, which is interconnected with the Moomba Sydney Pipeline system for a third of its construction cost. And we increased our investment in Envestra at a very attractive price – we operate Envestra's networks and pipelines and know that business well.

Another objective met was the establishment of the unlisted vehicle Energy Infrastructure Investments (EII). This essentially realised funds from our low risk annuity style assets for allocation to our higher growing gas transmission and distribution assets. We sold the assets into the vehicle, achieving book value before transaction costs, and used the funds to pay down debt. Furthermore we found excellent co-investors in Marubeni Corporation and Osaka Gas, and together raised new debt for EII.

We also said we would strengthen the balance sheet and minimise risk by starting early on refinancing the \$1 billion debt due in 2010, and I am pleased to say that this has been strongly supported in the debt markets. We raised a total of just under \$1.4 billion through a successful US private placement, a 5-year bilateral facility and a new syndicated facility completed yesterday. We are now in a good position to finance our growth, and as required refinance debt in 2011.

Finally we leveraged our internal skills and knowledge, with our people operating all our assets and investments, and indeed it was one of the reasons our Japanese partners found the EII transaction so attractive.

So I am pleased to report that we met all our key objectives in a very tough market, but I am not surprised, because we do what we say we'll do.

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Underlying Operating Cash Flow increased by 22% to \$233.6 million and Underlying Operating Cash Flow per security increased 13% to 48.2 cents. Total distributions for the year were 31.0 cents per unit, up from 29.5 cents per unit in the pcp. What will be the relative emphasis on allocating Operating Cash Flow to fund distributions or to business growth opportunities? Which assets can you continue to grow? Where is the potential to build new assets?

Mick McCormack, Managing Director

Because our distributions have been around the 65 to 70% of operating cash flow, APA has the flexibility to maintain our distribution profile and reinvest the surplus cash into growth opportunities.

This surplus cash, together with equity raised from our Distribution Reinvestment Plan and Security Purchase Plan should position APA to fund any planned organic growth opportunities.

Growth in gas pipelines is increasingly being driven by the location of new gas fired power generation facilities. Our east coast assets are well positioned to deliver new capacity to meet this increasing demand. In the short term, we expect the major activity to be focussed in Victoria and New South Wales.

In Western Australia, the delivery of gas for power generation in the mining sector will be key to continue the significant growth we have achieved in the west in recent years.

The development of the coal seam gas reserves in Queensland should also provide longer term opportunities for APA for its existing assets as well as the potential for new pipeline opportunities.

We are also benefiting from a change in contracting approach by major gas producers. Increasingly, there is less flexibility being provided by Producers in managing delivery volumes between peak and off peak periods. This is providing additional demand for storage services by pipeline companies such as APA.

The strong population growth in southeast Queensland should continue to provide growth opportunities for APA's gas distribution network that services both Brisbane and the Gold Coast.

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Can you detail the large increase in growth capital expenditure to \$245.2 million, up from \$86.8 million in the pcp? Is the latest number more representative of possible future capital expenditure levels?

Mick McCormack, Managing Director

Bonaparte Gas Pipeline was a major part of the year's growth capital expenditure – \$122 million. With this removed, growth capital expenditure was \$123 million, so not too dissimilar from last year. Our spend on regulated assets was \$40

million for 2009, and will be about double that next year, due to northern expansion work on the Victorian Transmission System. This will increase gas flow to northern Victoria and facilitate moving gas across the border to our interconnected Moomba Sydney Pipeline system. The other growth projects are right across most of our assets. And as you've heard me say before, these are underpinned by contracts.

The key to the level of new capital expenditure will be how quickly the shift away from coal fired to gas fired generation is achieved, as this will provide the momentum for new and expanded capacity. It is not unreasonable to expect that growth capital expenditure of \$150-\$200 million per annum be considered as a typical profile in the medium term.

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As at 30 June 2009, APA was geared at 70.3%, down from 72.0% as at 30 June 2008. What were the major capital management initiatives during the year?

Peter Fredricson, Chief Financial Officer

The major reason for the reduction in gearing was the EII transaction whereby the funds received were applied to repaying debt, including the \$300 million Medium Term Notes in March 2009.

The other major capital management initiatives included the early refinancing of debt due in calendar year 2010, as Mick outlined earlier, although all of this work was completed in the last two months, and just yesterday completing the syndicated bank facility. With this refinancing we also extended the term of our debt portfolio thus looking to better reflect the long term nature of our assets.

We also felt it was prudent to initiate a rating process. In June this year, Standard & Poor's assigned a 'BBB' rating, affirming our investment grade status. APA now has greater access to global debt capital markets as a result of being formally rated.

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What is the impact on financing costs of these new debt facilities? How does APA's initial credit rating by Standard & Poor's improve your funding flexibility?

Peter Fredricson, Chief Financial Officer

The debt market has clearly changed from two years ago – now credit is tighter, margins have increased, and whilst the term of bank debt has decreased, fortunately base interest rates are lower. The unfortunate reality of the current market is that our debt costs will increase going forward. We have been in a very fortunate position with a combination of low interest rates and extremely low margins for our syndicated facility. The refinanced debt has margins in line with the market, and although we have reduced our debt we expect an additional \$10 to \$15 million in net interest costs in the 2010 financial year.

The ratings process with Standard & Poor's was very positive and the outcome confirmed our view, and that of our creditors, that APA is an investment grade

company. Flexibility is now available as we can tap into a range of offshore credit markets that have a rating as a prerequisite. An additional benefit is having an objective party examine the credit metrics of the business and provide a transparent assessment. Gearing is only one of a number of metrics that together contribute to our investment grade rating.

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APA holds a little over 30% in Envestra Limited. How is that investment performing for APA?

Mick McCormack, Managing Director

We consider that the increased position was acquired at a very attractive price. We have active involvement both at the Board level and through our long term operating agreement that enables us to add value to Envestra, and therefore, by default, our investment.

We are pleased with the improved results recently announced by Envestra.

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What impact on your business do you expect from Australia's carbon reduction scheme, as you currently understand it?

Mick McCormack, Managing Director

In Australia demand for natural gas is increasing as a major fuel in Australia's energy mix, particularly as energy users move to forms of energy that reduce the impact of carbon emissions on the environment. Natural gas is one of the preferred fuels. Individual users and energy retailers are making this choice, and this has been encouraged by both state and federal government policies. For instance, government support for natural gas in the home has driven new connections on distribution networks, Queensland, South Australia and Victoria.

We are also seeing an increase in demand for natural gas fired electricity generation, particularly peak generation. This is the preferred technology to back-up renewable energy sources such as wind powered generation, and the recent implementation of the Federal Government's 20% Renewable Energy Target will further drive investment in gas fired generation.

As for the Federal Government's proposed Carbon Pollution Reduction Scheme, there still is a fair amount of uncertainty as to the final form. However we expect that in the long term this will drive significant new investment in gas fired power generation given the importance of natural gas as a key transitional fuel away from coal. What this means for APA's business is that there will be more opportunities for growth and APA is very well positioned to provide the gas transportation and storage services that will be required.

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It's generally considered that the worst of the global financial crisis has passed. How well did APA emerge from the crisis? What is the outlook for the Group?

Mick McCormack, Managing Director

Our results demonstrate the strength of the business, particularly in difficult and uncertain times. And by meeting our key strategic objectives which I outlined earlier, APA has ended the year in a stronger position.

We have benefitted from our focus on capital management during the year and we now have a much stronger balance sheet position. This focus avoided the need for a highly dilutive equity raising thereby retaining the value of the business for our existing security holders.

We recently re-affirmed our intention to target growth in distributions by at least 5% for 2010 which reflects our confidence in APA's outlook.

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Thank you Mick and Peter.

For further information on APA Group please visit www.apa.com.au or contact Chris Kotsaris (Investor Relations) on (02) 9693 0049 or chris.kotsaris@apa.com.au.

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