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APA Group

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ASX ANNOUNCEMENT 20 August 2014

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

APA GROUP FY14 FINANCIAL RESULTS

Solid financial performance underpinned by organic growth and integrating acquisitions

RESULT HIGHLIGHTS

Statutory results

- Net profit after tax up 16.5% to $343.7 million
- EBITDA down 2.1% to $747.3 million
- Operating cash flow up 15.3% to $431.5million

Normalised results[1]

- Net profit after tax up 14.0% to $199.6 million
- EBITDA up 12.9% to $747.3 million
- Operating cash flow up 1.6% to $439.7 million

Distribution per security up 2.1% to 36.25 cents

Australia's largest gas infrastructure business, APA Group (ASX: APA), today announced a 14.0 per cent increase in net profit after tax and non-controlling interests before significant items to $199.6 million, and a 12.9 per cent increase in earnings before interest, tax, depreciation and amortisation ("EBITDA") before significant items to $747.3 million for the year ended 30 June 2014.

Statutory net profit after tax of $343.7 million, which included a significant item of $144.1 million relating to a one-off adjustment to tax expense for the year, was 16.5 per cent higher than the previous financial year, which also included a number of one-off significant items totalling $120 million.

[1] Normalised results exclude one-off significant items in the current and previous financial year: APA Directors consider these measures to reflect the core earnings of APA. Significant item for 2014 relates to a one-off adjustment to APA's tax expense for the financial year to reflect a change in the treatment, for tax depreciation purposes only, of various capital assets. Significant items for 2013 relate to the acquisition of Hastings Diversified Utilities Fund and the reversal of some costs booked in relation to the sale of the Allgas business in December 2011.

The increase in normalised profit and normalised EBITDA benefitted from a full 12 month contribution of the South West Queensland Pipeline and the Pilbara Pipeline System, together with additional earnings from newly commissioned expansions such as the Mondarra Gas Storage Facility. Increased performance in the investments segment and an increase in customer contributions in the asset management segment also contributed to the result.

These increases were partially offset by reduced Victorian Gas Transmission revenue as a result of a new access arrangement which came into effect on 1 July 2013 and the removal of contributions from the Moomba Adelaide Pipeline System sold in 2013.

Statutory operating cash flow of $431.5 million includes a one-off payment of $8.2 million to Hastings Funds Management Limited in respect of disputed management fees, which APA continues to pursue though the Courts. Excluding significant items, normalised operating cash flow was 1.6 per cent higher than the previous year at $439.7 million and operating cash flow per security was 6.1 per cent lower at 52.6 cents, primarily due to an increase in the average number of securities on issue this financial year.

The APA Chairman, Mr Len Bleasel AM, announced that the Board of Directors declared a final distribution of 18.75 cents per security, confirming previous guidance and bringing total distributions for the financial year to 36.25 cents, an increase of 2.1 per cent over distributions paid for the previous year.

APA continues to fully fund distributions out of operating cash flow whilst also retaining significant cash in the business to support continuing growth. This year's distribution payout ratio amounted to 68.9 per cent of normalised operating cash flow.

Mr Bleasel said APA's performance this year, as in previous years, demonstrates the strength of its portfolio, its industry expertise and affirms its business strategy.

"APA continues to deliver growth and sustainable returns through consistent execution of our strategy, and it is pleasing to see this reflected in our results. We apply a prudent approach to ensure investment opportunities enhance our portfolio of gas infrastructure assets and deliver appropriate commercial returns.

"The pipelines added to our portfolio in the 2013 financial year have performed beyond our expectations. We have achieved our EBITDA guidance, which was raised twice during the year, as well as our objective of paying distributions at least equal to those paid in the previous financial year," Mr Bleasel said.

APA Group Managing Director, Mick McCormack said, "The benefits of APA's interconnected network of infrastructure are being recognised by our customers. We finalised a number of commercial agreements during the year that use one or more pipelines on our east coast grid as we help customers adapt to changing gas supply and demand dynamics.

"In Western Australia we are providing a suite of unique storage and transportation solutions for our customers and we continue to expand and extend our pipelines in the mining regions.

"Increasingly, we are directly engaging our customer-base to identify opportunities to tailor solutions to their needs. We continue to invest in further development of our existing infrastructure with capital expenditure either fully underwritten through long-term revenue contracts or covered under relevant regulatory approvals," Mr McCormack said.

During the year APA spent $383 million expanding its gas infrastructure portfolio in Western Australia, Queensland, Victoria and New South Wales.

Mr McCormack said, “We have a number of growth projects underway and we are actively developing investment opportunities across all of APA’s operations. We expect to continue this significant investment in further expanding our portfolio over the next few years.”

In March 2014, APA and Envestra entered into a Scheme Implementation Agreement, which was subsequently terminated by Envestra in May 2014 after it received an alternative proposal from a consortium of companies from the Hong Kong based, Cheung Kong Infrastructure group (“CKI Consortium”). On 7 August 2014, APA accepted that offer for its 33.05 per cent interest in Envestra. APA will receive $784[2] million in consideration in late August 2014, which is in addition to the final dividend of 3.5 cents per share paid by Envestra ($21 million) on 25 July 2014. APA retains its Operations and Management Agreement on the Envestra assets, which runs to 2027.

Mick McCormack said, “We remain disciplined in relation to all investments and acquisitions and, after careful consideration, concluded that the cash offer from the competing consortium exceeded our valuation of Envestra. Whilst our rationale for owning the Envestra business remains sound, APA assessed the value proposition of the offer and concluded that selling out of this investment and redeploying the proceeds in other opportunities will provide better longer term value for APA investors."

Capital management activities undertaken during the period included the extension of four existing bilateral bank facilities and the refinancing of the two remaining tranches of APA’s 2011 syndicated bank facility, with a new $1.25 billion syndicated facility. APA’s next refinancing commitment is due in September 2015. APA has around $800 million in cash and committed undrawn facilities available at 30 June 2014, which together with the Envestra share sale proceeds, will ensure that APA’s ongoing growth is fully funded for the foreseeable future.

BUSINESS PERFORMANCE

Energy Infrastructure

APA’s Energy Infrastructure segment includes gas transmission and storage assets and the Emu Downs Wind Farm. Revenue from these assets is derived from either regulatory arrangements or capacity-based contracts. This segment contributed $623.0 million in EBITDA, an increase of 13.6 per cent on the previous financial year on a continuing business basis, that is, excluding the Moomba Adelaide Pipeline System, which was divested on 1 May 2013.

Key factors contributing to the result were the full year contribution from the South West Queensland Pipeline and Pilbara Pipeline System and additional contributions from expanded assets, including the Mondarra Gas Storage Facility and Goldfields Gas Pipeline. An increase in volumes through the Victorian Transmission System (“VTS”) into New South Wales was offset by the reduced regulatory tariffs of the new access arrangement for the VTS that commenced on 1 July 2013.

During the year, APA continued to develop and expand the services it provides across its national energy infrastructure portfolio.

[2] CKI Consortium Offer is $1.32 cash per Envestra share.

APA has developed the east coast gas grid, a network of 7,000 km of integrated pipelines in eastern Australia, with the ability to transport gas seamlessly from multiple gas production facilities to gas users across four states. Against the backdrop of a very dynamic gas market, APA continues to adapt and progressively develop its gas pipeline infrastructure and services in response to the changing needs of customers.

During the year, APA executed a number of new gas transportation and storage services agreements utilising the east coast grid. These included three agreements on the Moomba Sydney Pipeline system to facilitate the increased transportation of gas from Victoria into New South Wales, and a major new agreement with an existing customer for flexible services, in particular utilising the Moomba Sydney Pipeline. Expansion work that will increase the firm peak winter gas flows from Victoria to New South Wale by 145 per cent commenced on the VTS. The total capital cost of $160 million is underwritten by the associated new agreements and the VTS access arrangement.

Work continued on and near the South West Queensland Pipeline; on both the Wallumbilla and Moomba compression facilities as well as capital works to facilitate bi-directional capability and increase gas flow in an easterly direction. These projects, totalling $325 million, are underwritten by long-term revenue contracts and are expected to be completed progressively within in the first half of the 2015 financial year prior to the commencement of services in calendar 2015.

In Western Australia, APA completed the expansion of the Mondarra Gas Storage Facility and commercial operations commenced on 23 July 2013. Most of the facility's capacity is contracted for at least 20 years, and APA executed several shorter term gas storage and service agreements with other Western Australian customers that make use of the majority of the facility's remaining capacity.

In July 2014 APA announced it will construct the new 292 km Eastern Goldfields Pipeline to supply mining operations in the Goldfields region of Western Australia. The pipeline is underpinned by two new, long term gas transportation agreements.

In early 2014 APA commenced a feasibility study to link its pipeline infrastructure in the Northern Territory with its east coast gas pipeline grid. The potential pipeline link would create one interconnected system of over 9,000 km of gas pipelines. The study is expected to cost around $2 million.

Asset Management

APA provides asset management and operational services to the majority of its energy investments and to a number of third parties. EBITDA for this segment increased by 34.1 per cent to $56.2 million due to an increase in customer contributions for relocating APA infrastructure and an increase in asset management fees from Envestra.

Energy Investments

APA has an interest in a number of energy investments across Australia, and this included a shareholding in Envestra Limited that was sold in August 2014. In the 2014 financial year, EBITDA for the segment increased by 33.1 per cent to $68.1 million, mainly due to an increase in Envestra's equity accounted earnings contribution.

Project under development – Diamantina Power Station and Leichhardt Power Station

APA and AGL Energy are jointly developing the 242 MW Diamantina Power Station and 60 MW Leichardt Power Station at Mount Isa. The Diamantina Power Station delivered its first power into the Mount Isa electricity grid in October 2013 as part of the commissioning phase, and then in January 2014 commenced supplying power commercially to one of its two major customers. The Leichhardt Power Station was commissioned and became fully operational in July 2014.

APA exits its investment in Envestra

In March 2014 APA and Envestra entered into a Scheme Implementation Agreement, which was subsequently terminated by Envestra in May 2014 after it received an alternative proposal from the CKI Consortium for a price of $1.32 per Envestra share. Accepting shareholders were to be entitled to a final dividend declared by 21 August 2014.

The CKI Consortium formalised its bid for Envestra in a Bidder's Statement issued on 20 June 2014. On 7 August 2014, APA accepted this offer for its entire interest in Envestra of 33.05 per cent. APA will receive $784 million in consideration in late August 2014, in addition to the final dividend of 3.5 cents per share paid by Envestra ($21 million) on 25 July 2014. APA retains its Operations and Management Agreement on the Envestra assets, which runs to 2027.

Capital Management

APA securities on issue were unchanged during the year, with 835,750,807 securities on issue at 30 June 2014.

APA refinanced a number of its bank debt facilities during the year. In December 2013, APA refinanced four existing bilateral bank facilities, extending the maturity on each from mid-2014 to December 2018 and increasing the limit of each facility from $75 million to $100 million.

In June 2014, APA completed the refinancing of the remaining two tranches of its 2011 syndicated bank debt facility with a new three tranche facility totalling $1.25 billion, and maturing between September 2016 and September 2019. The additional headroom will support APA's ongoing investment in the growth of its infrastructure assets, and be used for general corporate purposes.

APA's gearing[3] at 64.2 per cent at 30 June 2014 was up from 62.8 per cent at 30 June 2013, as funding for APA's growth infrastructure is drawn from debt as well as operating cash flow remaining in the business. At 30 June 2014, APA had around $800 million in cash and committed undrawn facilities available to meet the continued capital growth needs of the business.

As at 30 June 2014, 72.8 per cent of interest obligations on gross borrowings were either hedged or issued at fixed interest rates for varying periods extending out in excess of 10 years.

APA's interest cover ratio for the year, at 2.31 times, remains well in excess of its debt covenants and distribution lock up ratios.

APT Pipelines Limited, the borrowing entity of APA, maintained its investment grade credit ratings. Standard & Poor's retained its BBB long-term corporate credit rating (outlook Stable) and Moody's retained its Baa2 long-term corporate credit rating (outlook Stable).

[3] Gearing ratio determined in accordance with covenants in certain senior debt facilities as net debt to net debt plus book equity.

FUTURE STRATEGY AND OUTLOOK

APA will continue current growth projects and develop new opportunities in line with customer requirements. Growth capital expenditure for the 2015 financial year is expected to be between $300 million and $400 million. APA will also consider investment and acquisition opportunities that offer appropriate commercial returns.

APA provides guidance in respect of EBITDA, interest cost and distributions.

Based on current expected operating plans, APA expects statutory EBITDA for the full year to 30 June 2015 to be in a range of $1,170 million to $1,190 million, inclusive of a once off profit on sale of APA's Envestra shares of around $430 million.

APA expects normalised EBITDA to be in the range of $740 million to $760 million, which represents an increase of approximately 6 per cent to 9 per cent on the 2014 financial year EBITDA of APA's continuing business, which excludes equity accounted earnings from Envestra of $50.1 million.

Net interest cost is expected to be in a range of $315 million to $325 million.

Distribution per security for the 2015 financial year is expected to be at least equal to that paid in respect of the 2014 financial year.

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About APA Group (APA)

APA is Australia's largest natural gas infrastructure business, owning and/or operating $12 billion of energy 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 energy infrastructure enterprises including Envestra, SEA Gas Pipeline, Energy Infrastructure Investments and GDI.

APT Pipelines Limited is a fully 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

FINANCIALS

The following table provides a summary of key financial data for the financial year:

Year ended 30 June	2014 $000	2013[1] $000	Changes $000	%
Operating results including significant items				
Total revenue	1,395,992	1,272,267	123,725	9.7
Pass-through revenue[2]	403,477	352,743	50,734	14.4
Total revenue excluding pass-through	**992,515**	**919,524**	**72,991**	**7.9**
EBITDA	**747,334**	**763,628**	**(16,294)**	**(2.1)**
Depreciation and amortisation expense	(156,228)	(130,461)	(25,767)	(19.8)
EBIT	**591,106**	**633,167**	**(42,061)**	**(6.6)**
Finance costs and interest income	(325,084)	(290,916)	(34,168)	(11.7)
Profit before income tax and non-controlling interests	266,022	342,251	(76,229)	(22.3)
Income tax benefit / (expense)	77,684	(49,869)	127,553	NM
Non-controlling interests	(1)	2,764	(2,765)	NM
Profit after income tax and non-controlling interests, including significant items	**343,705**	**295,146**	**48,559**	**16.5**
Significant items after income tax [3]	144,060	120,030	24,030	NM
Profit after income tax and non-controlling interests, excluding significant items	**199,645**	**175,116**	**24,529**	**14.0**
Operating cash flow [4]	431,541	374,381	57,160	15.3
Operating cash flow per security (cents)	51.6	48.5	3.1	6.4
Normalised operating cash flow[5]	439,742	432,639	7,103	1.6
Normalised operating cash flow per security (cents)[4]	52.6	56.0	(3.4)	(6.1)
Earnings per security – reported (cents)	41.1	38.2	2.9	7.6
Earnings per security – normalised (cents)[6]	23.9	22.7	1.2	5.3
Distribution per security (cents)	36.25	35.50	0.75	2.1
Distribution payout ratio [7]	68.9%	68.2%		
Net tangible asset per security	1.41	1.42	-	-
Weighted average number of securities (000)	835,751	772,314		

(1) APA has adopted revised AASB 119 during the financial year. As the revised standard must be applied retrospectively, comparative numbers have been restated.

(2) 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 Envestra and GDI in respect of, the operation of the Envestra and GDI assets respectively.

(3) Significant items: 2014 relate to a one-off adjustment to APA's tax expense for the financial year to reflect a change in the treatment, for tax depreciation purposes only, of various capital assets; 2013 relate to the acquisition of Hastings Diversified Utilities Fund ("HDF") and the reversal of some costs booked in relation to the sale of the Allgas business in December 2011.

(4) Operating cash flow = net cash from operations after interest and tax payments.

(5) Normalised operating cash flow excludes significant items.

(6) Normalised earnings exclude significant items – see page 6.

(7) Distribution payout ratio = total distribution payments as a percentage of normalised operating cash flow.

APA BUSINESS SEGMENT EBITDA

Statutory reported EBITDA performance of APA's business segments is tabled below.

Year ended 30 June	2014	2013[1]	Changes	
	$000	$000	$000	%
EBITDA (continuing business)				
Energy Infrastructure				
Queensland [2]	212,833	163,748	49,085	30.0
New South Wales	106,615	112,085	(5,470)	(4.9)
Victoria and South Australia	116,906	124,705	(7,799)	(6.3)
Western Australia [3] and Northern Territory	186,659	147,728	38,931	26.4
Energy Infrastructure total	623,013	548,266	74,747	13.6
Asset Management	56,188	41,889	14,299	34.1
Energy Investments	68,133	51,177	16,956	33.1
Total segment EBITDA	**747,334**	**641,332**	**106,002**	**16.5**
Divested business [4]	-	20,611	(20,611)	NM
Total EBITDA before significant items	**747,334**	**661,943**	**85,391**	**12.9**
Significant items [5]	0	101,685	(101,685)	NM
Total EBITDA	**747,334**	**763,628**	**(16,294)**	**(2.1)**

(1) APA has adopted revised AASB 119 during the financial year. As the revised standard must be applied retrospectively, comparative numbers have been restated.

(2) Includes the South West Queensland Pipeline revenue and EBITDA contributions from 9 October 2012.

(3) Includes the Pilbara Pipeline System revenue and EBITDA contributions from 9 October 2012.

(4) 2013: Consolidation of the Moomba Adelaide Pipeline System on 9 October 2012 until divestment on 1 May 2013.

(5) Significant items: 2013 relate primarily to one-off items associated with the HDF acquisition.