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ASX RELEASE

1 July 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 Capital Raising and Emu Downs acquisition

Yours sincerely

Mark Knapman
Company Secretary

ASX Announcement: 01 July 2011

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MD on Capital Raising

Open Briefing interview with MD & CEO Mick McCormack

In this Open Briefing®, MD & CEO Mick McCormack discusses:

- **Reasons for not providing retail component in recent capital raising**
- **Rationale for Emu Downs acquisition**
- **Growth outlook post capital raising**

Record of interview:

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APA Group last week announced a $300 million institutional equity placement to help fund the acquisition of the Emu Downs wind farm in Western Australia and the expansion of its existing gas infrastructure. Why have you chosen not to have a retail component to this capital raising?

MD & CEO Mick McCormack
The main reason our retail shareholders were not able to be included in this capital raising was that due to various Western Australian Government approvals being needed, the timing of the transaction was outside our control. This meant that we had little notice regarding when the necessary funds to complete the transaction would be required. As it happened, the transaction was formally agreed the day before it was announced on 21 June and was subsequently finalised on 30 June, a day after the new equity was received from investors. A capital raising to institutional investors allowed the company to raise funds within that time frame. Had we had definitive notice regarding when the transaction would be settled, we would have been more likely to consider a more broadly based equity raising like a rights issue.

That said, over the last four years we have raised capital to fund APA's growth by means of our Distribution Reinvestment Plan (DRP) and Security Purchase Plan (SPP). We have raised just over $200 million via the offering of three SPPs in that time. SPPs favour retail investors over institutional investors, so much so that in the last four years the retail share of APA's register has shifted from approximately 50 percent to over 63 percent just prior to this capital raising. Consequently, institutional investors have been diluted. This capital raising somewhat redresses this shift, with the retail share of APA ownership moving back to about 55 percent.

All up, we continue to see both the SPP and DRP as appropriate for raising equity over an extended period of time. Future equity raisings will look to balance the use of these methods with other options available to the group, including rights issues and placements, where appropriate. We have no intention to favour any one type of investor – either retail or institutional.

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The issue price was $3.85 per security, at an 8.1 percent discount to the closing adjusted price of $4.19 and a 7.5 percent discount to the five-day VWAP of $4.16. What was the reason for issuing at this discount level?

MD & CEO Mick McCormack

As is common market practice for capital raisings of this scale and timing, new APA securities were offered at a discount to the most recent closing price, which was adjusted to remove the distribution that had been announced by APA a couple of days before and which was not going to be available to the new securities. The discount needed to be at a level that could provide us with the necessary confidence to raise the amount required when it would be needed.

It was very unfortunate that the capital raising coincided with the day APA securities began trading ex-distribution, but as I said earlier, this was outside our control. Normally, on ex-date, we see APA's price fall by at least the amount of the distribution. So with APA's price at $4.37 on the day prior to the ex-date, we would expect the price to drop to somewhere around $4.19 on the ex-date, and when you then add the discount applied to the capital raising, this further deepened the drop in price to $3.95. I am acutely aware that some of our investors took this drop in security price at face value and were understandably surprised. However, it is pleasing to see APA trading at over $4.05 just a week later, which in my view reflects investors' confidence in the transactions.

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Concerning the wind farm acquisition, what is the financial impact on future EBITDA and operating cash flow per security growth? What return on investment do you expect from this investment?

MD & CEO Mick McCormack

The Emu Downs wind farm investment is a sound investment in its own right, and this is confirmed when it's compared to recent similar wind farm sales. We purchased Emu Downs at an estimated 8.5x EBITDA multiple to 2012 earnings and with a long term contract for all the electricity and renewable energy certificates generated from the existing farm. We expect the investment to be operating cash flow per security accretive.

The risk profile of this investment is consistent with our gas infrastructure investments. In addition to the revenue contract, we have extensive wind farm data – about 15 years' worth, of which almost 5 years' worth is operating wind data – that provides us with a high level of certainty of its generating and operating performance.

We do not disclose return on investment. APA has clear investment criteria to filter opportunities, and each opportunity is assessed in terms first of its strategic fit with the business and then on its overall economic contribution to the value of the business. I should add that the Emu Downs wind farm investment includes a 130 MW development site – this represents additional upside value to APA when it is developed.

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What is the rationale behind your acquisition of Emu Downs given it is an asset outside APA's core operations in gas pipeline infrastructure, leaving aside your minority holding in EII2 (which holds the North Brown Hill wind farm)? Isn't the wind farm better placed in EII2 rather than on APA's balance sheet?

MD & CEO Mick McCormack
Firstly, APA's core business remains gas infrastructure, and we are focused on getting the best value from our gas infrastructure footprint by maintaining and increasing revenues from our assets. This is the strategy driving our involvement in facilitating gas fired generation on or near our assets, and this is the strategy that led us to look at and subsequently invest in Emu Downs. It is also the reason we have not been interested in some other wind farms that have been offered for sale in recent times. So in my view, the purchase of the Emu Downs wind farm is entirely consistent with the strategy that we have been executing for many years.

Gas and wind are linked. It is now well known that the partnership between intermittent wind generation and fast start gas-fired electricity generation is able to deliver sustained electricity output. In Western Australia this partnership is critical due to the isolation and smaller scale of that state's integrated electricity network. As further wind generation is required to meet the government's renewable energy target, additional gas fired generation will ultimately be required to maintain electricity supply-demand stability.

The combination of our gas assets in the Perth Basin region – the Parmelia gas pipeline and the Mondarra gas storage facility – together with the Emu Downs operating wind farm and adjacent development site, provides APA with unique and profitable options. APA has options to develop wind generation and facilitate gas generation to deliver the energy solutions needed in Western Australia – a win-win solution for APA and its customers.

It is true we can still develop gas options near our assets regardless of whether we own the wind farm. However, in the case of Emu Downs, it is a much more value-adding proposition for our customers if we can offer a total energy solution – that is, a one-stop shop involving wind and gas. This is particularly the case for our customers serving the Perth energy market, who are seeking a packaged electricity generation service.

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How do you see APA's portfolio of assets and investments evolving over the medium term?

MD & CEO Mick McCormack
As I mentioned earlier, our core portfolio is gas infrastructure. Our strength lies in our scale and skills in managing, operating and developing these assets and our strategy is to enhance the value of these assets and grow the business profitably.

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APA has traditionally funded growth capex by a mixture of debt, free cash flow and equity (DRP and SPP). Is last week's capital raising an indication that this funding model is changing?

MD & CEO Mick McCormack
There is no change to our funding strategy. We have consistently said to the market that we will fund our expansions or investments with a mixture of free cash flow, debt and equity, and in a way that preserves our investment grade credit ratings. The capital raising last week was consistent with this strategy, providing the equity portion of the funding necessary for the $480 million of expansion we have in front of us over the period to 30 June 2012.

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Immediately after the capital raising and wind farm financial close, APA's gearing is expected to fall to about 67 percent, down from 70.1 percent at the end of December 2010. Nevertheless, gearing can be expected to increase again as the planned capex is completed. What is your level of comfort with this gearing?

MD & CEO Mick McCormack
We don't expect gearing to rise much above 68 percent over the next 12 months. Nevertheless, as I mentioned earlier, we are focused on maintaining APA's balance sheet at BBB/Baa2 metrics or better – in other words, at least maintaining our current investment grade credit ratings.

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APA has reconfirmed EBITDA guidance for the full year to June 2011 of the upper end of the $480 million to $490 million range, implying growth of 4 to 7 percent, and your distribution growth guidance for the year of 5 percent. How indicative is this of the level of growth you expect from the business going forward?

MD & CEO Mick McCormack
I won't give a long term forecast of our EBITDA expectations, but I will say that over the years APA has assembled a portfolio of assets that have generated the organic growth opportunities that in turn have seen EBITDA growth. So given my belief that the demand for gas will continue to grow, and the fact that APA has a national asset footprint which continues to toss up a pipeline of organic growth opportunities, I'm approaching the future with some confidence.

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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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