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ASX ANNOUNCEMENT

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

## APA GROUP FY2016 RESULTS

### Solid result driven by continuing investment and innovation

Australia's largest natural gas infrastructure business, APA Group (ASX:APA), today announced normalised<sup>1</sup> earnings before interest, tax, depreciation and amortisation ("EBITDA") for FY2016 of \$1,330.5 million, an increase of 61.8% or \$508.3 million on FY2015. Statutory EBITDA for the period was up 4.8%<sup>2</sup> whilst normalised operating cash flow was up 58.2% to \$862.4 million. A final distribution of 22.5 cents per security was declared, in line with previous guidance, bringing the total distributions for the financial year to 41.5 cents per security, an increase of 9.2 per cent over the distributions paid for FY2015.

#### RESULT HIGHLIGHTS

##### Normalised results

- Revenue (excluding pass-through) up 48.0% to \$1,656.0 million
- EBITDA up 61.8% to \$1,330.5 million
- Net profit after tax down 12.0% to \$179.5 million
- Operating cash flow up 58.2% to \$862.4 million

##### Statutory results

- EBITDA up 4.8% to \$1,330.5 million
- Net profit after tax down 67.9% to \$179.5 million
- Operating cash flow up 53.4% to \$862.4 million

##### Final distribution per security of 22.5 cents

##### Total FY2016 distribution up 9.2% to 41.5 cents per security

##### Operating performance

- Full year contribution from the Wallumbilla Gladstone Pipeline
- Full year contribution from the expanded East Coast Grid
- Seven months' contribution from the newly commissioned Eastern Goldfields Pipeline
- Part-year contributions from acquisitions made during the year

<sup>1</sup> Excluding significant items.

<sup>2</sup> FY2015 statutory EBITDA included 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 FY2016.

APA Chairman, Mr Len Bleasel AM said, "The FY2016 results represent the outcome of a consistent and prudent strategy of increasing recurring earnings through the continued investment in and development of our assets and innovative services coupled with the strategic acquisition of complementary energy infrastructure assets.

"Growth in revenue, EBITDA and operating cash flow is primarily attributable to a full year contribution as expected from the Wallumbilla Gladstone Pipeline and an expanded East Coast Grid; part-year contributions from the acquisitions of the Diamantina and Leichhardt Power Stations ("DPS") and the Ethane Pipeline ("Ethane"); and, the commissioning of the Eastern Goldfields Pipeline ("EGP"), APA's newest pipeline."

## **Financial Overview**

Revenue (excluding pass-through revenue) increased by \$536.7 million or 48.0% to \$1,656.0 million (FY2015: 1,119.2 million).

Depreciation, amortisation and interest costs increased primarily as a result of the acquisition of the Wallumbilla Gladstone Pipeline in June 2015. The significant increase in depreciation and amortisation of those fixed and intangible assets and the increase in interest on the debt raised as part of the funding of the acquisition all resulted in a decrease in profit after tax of 12.0% to \$179.5 million (FY2015: \$203.9 million).

During the financial year, APA spent \$673.6 million in acquisitions and capital expenditure. Of this, \$339.9 million related to the acquisition of DPS and the Ethane Pipeline. Both acquisitions were in line with APA's strategy and are operating cash flow per security accretive in the first full year of ownership.

An important measure of success of APA's business and the execution of its strategy is that of operating cash flow ("OCF"), which was \$862.4 million for FY2016. This represents an increase of 58.2% or \$317.4 million over the previous year (FY2015 (normalised): \$545.0 million), with operating cash flow per security ("OCFPS") increasing by 41.2%, or 22.6 cents, to 77.4 cents per security (FY2015 (normalised): 54.8 cents per security). Distributions to securityholders increased by 9.2% over the previous corresponding period and are fully funded from OCF, with a payout ratio of 53.6%.

APA Group Managing Director, Mr Mick McCormack said, "The FY2016 results reflect our successful track-record of investment, and in the case of the East Coast Grid, investing to meet market demands so that our customers can realise their business plans. Recent acquisitions, particularly the Wallumbilla Gladstone Pipeline, and expansion and enhancement of our East Coast Grid services, have delivered a step-change in the scale, capacity and service offering of our business.

"Since listing in 2000, we have spent over \$12 billion on acquiring and developing energy infrastructure assets, systems and technology. This has included the development of the 7,500km, interconnected East Coast Grid, where we can move and deliver gas seamlessly and efficiently; wherever, however and whenever our customers want it on the east coast.

"Global economic consulting firm, The Brattle Group, recently estimated the direct quantifiable efficiency benefits to the market associated with the formation of APA's East Coast Gas Grid since 2012 to be \$120 to \$150 million to-date, and \$15 to \$32 million annually going forward. Investing in this way, APA has made a significant, 'nation-building' contribution to Australia's energy and infrastructure sectors. This is something that APA is very proud of."

## Investments and Growth Projects

APA invested \$281.0 million in organic growth projects during the year. This included the completion of the Eastern Goldfields Pipeline, an enhancement project at the Mondarra Gas Storage Facility, bi-directional projects on the Moomba Sydney Pipeline and the Roma Brisbane Pipeline and the continuing capacity expansion on the Victorian Northern Interconnect.

An operational highlight of the year was the opening of the Eastern Goldfields Pipeline. The EGP added 293 kilometres of greenfield pipeline to extend APA's Goldfields Gas Pipeline, which now delivers gas across 1,800 kilometres to customers as far afield as the Tropicana Gold Mine in the Eastern Goldfields region. Construction of the EGP was underpinned by AngloGold Ashanti, as the foundation shipper, in support of its mines at Tropicana and Sunrise Dam. Recently, Gold Fields Limited signed an agreement that now sees it shipping gas via the EGP to its Granny Smith gold mine.

APA made two acquisitions during the year. In March 2016, APA moved to 100% ownership of the Diamantina and Leichhardt Power Stations, through the acquisition of AGL's 50% stake for \$151 million. This was followed in June 2016 with the acquisition of the remaining 93.9% of the Ethane Pipeline Income Fund (EPX) not already owned by APA, by way of an off-market takeover. Both acquisitions are accretive on an OCFPS basis and meet APA's investment criteria and growth strategy.

As at 30 June 2016, APA had cash and committed undrawn facilities of over \$750 million with gearing<sup>3</sup> of 66.4% and an interest cover ratio of 2.60 times.

Mr McCormack said, "APA has maintained its low risk business model, with a strong balance sheet and growing operating cash flow which has enabled us to generate stable and predictable returns for our Securityholders as well as providing us the ability to continue to fund our growing business."

## Innovation

During the year, APA introduced two-way flows of gas across the Moomba Sydney Pipeline and the Roma Brisbane Pipeline, resulting in all the main pipelines on APA's East Coast Grid now being bi-directional. This innovation provides significant benefits to customers through enabling continuous and flexible gas supply across New South Wales, Victoria, Queensland and South Australia.

This supported a number of customers' needs during the recent electricity crisis in South Australia, with APA able to facilitate the moving of gas from Queensland. APA was able to ensure that gas was delivered in a timely manner, for use by our customers in peak gas-fired power generation, to help alleviate electricity shortages in South Australia.

The dynamics of the gas market have altered significantly with the ramping up of the three LNG projects at Gladstone in Queensland. APA has introduced "park and loan" services which allow customers to store sizable amounts of gas and then withdraw the gas at a later date (and vice versa). The benefit to customers has been to avoid well turndowns and unnecessary flaring and the service has assisted customers with being able to meet their production targets.

During the year APA also completed the full transition of its pipeline control rooms to a new Integrated Operations Centre ("IOC") in Brisbane. The IOC enables more agile implementation of customer needs and ensures that gas is moved to where it is required in the most timely and efficient manner.

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<sup>3</sup> For the purpose of the calculation, drawn debt that has been kept in USD (rather than AUD) has been nominally exchanged at AUD/USD exchange rates of 0.7772 for Euro and GBP MTN issuances and 0.7879 for US144A notes at respective inception dates.

Mr McCormack commented, "We continue to enhance our infrastructure and service offering to customers through innovation and investment so that gas will continue to be the fuel of transition as the nation moves away from coal towards a cleaner energy future.

"In a time when energy prices are the subject of much debate and commentary, APA's innovation and investment has meant that gas transmission charges on the east coast have only marginally increased in real terms since 2002, notwithstanding an increase of over 65% in the all up price of gas in recent years: and to put that in some perspective, gas transmission tariffs make up only 5 to 10% of the delivered price of gas for retail customers."

## **Sustainability**

APA continues to be focused on delivering on a number of sustainability objectives and is committed to growing a business that provides value to all of its stakeholders – our customers, the environment, the community, our employees and investors.

Safety is a priority at APA, as providing safe and reliable energy delivers value for customers and investors. Most importantly, we also ensure that our obligations to employees, the communities and the environment within which we operate are fulfilled, in terms of health, safety and environmental outcomes.

APA continues to support reduction in carbon emissions and believes that in the longer term, our assets will play an important role in meeting Australia's long-term emission reduction targets as energy consumption shifts from carbon intensive fuels such as coal, to more carbon efficient fuels, including natural gas. In addition, APA continues to develop the expansion of our low emission portfolio of generation assets.

## **Future Strategy and Outlook**

As to APA's future strategy, Mr Bleasel said, "During the year, we undertook a review of our performance and strategy and concluded that there are plenty of opportunities to continue to expand and enhance our assets, be they transmission pipelines, renewable and gas-fired generation assets or midstream energy infrastructure assets. Our growth strategy will be pursued using the same sound, disciplined and prudent investment criteria that have brought us to where we are today.

"Our strong balance sheet and operating cash flow positions us well to continue taking advantage of future growth and development opportunities."

As part of this review, APA has identified around \$1.5 billion of organic opportunities in the near term, across pipeline extensions and expansions (circa \$700 million), expansion of its renewables and generation foot print (circa \$500 million) and expansion of its midstream asset foot print (circa \$300 million).

In the more immediate future, for FY2017, APA provides guidance for EBITDA, net interest cost and distributions per security as follows:

	<b>FY2017 guidance</b>	<b>FY2016 actual</b>	<b>Change</b>
EBITDA from continuing businesses (\$ millions)	1,425 to 1,445	1,330.5	94.5 to 114.5
Net interest cost (\$ millions)	510 to 520	507.7	2.3 to 12.3
Total distributions (cents per security)	In the order of 43.5 cents	41.5 cents	2.0 cents

Total distributions per security for the 2017 financial year are expected to be in the order of 43.5 cents per security, prior to the benefit of any franking credits that may arise as a result of the filing of the FY2016 tax return.

**Nevenka Codevelle**

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**About APA Group (APA)**

APA is Australia's largest natural gas infrastructure business, owning and/or operating around \$20 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 ownership interests in a number of energy infrastructure enterprises including SEA Gas Pipeline, SEA Gas (Mortlake) Partnership, Energy Infrastructure Investments, EI2 and GDI Allgas Gas Networks.

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, [apa.com.au](http://apa.com.au)