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## DEAR SECURITYHOLDERS

**I am pleased to report another solid year for APA. The FY2016 results represent the outcome of a consistent and prudent strategy of growth and value creation.**

APA has been able to reap the benefits of this strategy, seeing earnings come through from capital we have invested in growing our asset base through acquisitions and organic expansion. The FY2016 results include a full year of earnings from the Wallumbilla Gladstone Pipeline acquired in FY2015 and increasing revenue streams from the ongoing expansion of both the East Coast Grid and expansions and greenfields investment in Western Australia.

APA's long term vision, strategic planning and focused execution have seen the business continue to deliver prudent distribution growth and long term market-leading increases in Securityholders' value.

The total distributions for FY2016 of 41.5 cents per security represent a 9.2 per cent increase over FY2015. As per our distribution policy, distributions have been fully covered by operating cash flows with an appropriate amount of those cash flows retained within the business to support growth.

Your Board believes that the increase in distributions represents a prudent increase in returns for Securityholders given the current economic environment. The Board is of the view that the 41.5 cents per security represents a solid base from which to increase distributions on a sustainable basis going forward.

Long term sustainability is what APA is all about. We continue to see good opportunities for organic growth in front of us and we are mindful of ensuring that the business is in a position to fund that growth going forward. We will continue to maintain a disciplined approach to investing in growth that delivers long term value for Securityholders and positions APA securely for the future.

Despite the challenges within the global and Australian energy sector in FY2016 with volatile energy market conditions and the rebalancing of global demand and supply, we have continued the execution of APA's long standing growth-based strategy. We have invested in enhancing our existing assets and during the year we acquired two complementary assets in the Diamantina and Leichhardt Power Stations and the Ethane Pipeline, to connect more energy resources to more markets. We continue to innovate through provision of new services that are helping our customers manage their energy needs, particularly during what have been relatively uncertain times from an economic, political and regulatory perspective.

Our sustainable business model and strong balance sheet have enabled us to navigate the current economic environment and make the most of opportunities that arise and, most importantly, position us for further growth in the years ahead.

### Solid results

The strength of our low risk, resilient business model is reflected in APA's FY2016 financial results. Earnings before interest, tax, depreciation and amortisation ("EBITDA") from continuing businesses were \$1,330.5 million<sup>1</sup>, an increase of 61.8 per cent on FY2015 normalised EBITDA of \$822.3 million<sup>2</sup>. Revenue (excluding pass-through revenue) increased by \$536.7 million to \$1,656.0 million, an increase of 48.0 per cent on the FY2015 result of \$1,119.2 million.

The increases in EBITDA and revenue were in the main due to a full year contribution from the Wallumbilla Gladstone Pipeline that we acquired in June 2015 and the expanded East Coast Grid (South West Queensland Pipeline in particular), as expected; part-year contributions from the Diamantina and Leichhardt Power Stations and the Ethane Pipeline acquired during the last quarter of the financial year; and, the commissioning of APA's newest greenfield project, the Eastern Goldfields Pipeline in November 2015.

Operating cash flow which is a key measure of APA's business, increased by 58.2 per cent to \$862.4 million.

### Delivering value

As we do annually, the Board and senior management recently took time out to revisit our past performance, and more importantly, look at our strategy and what we can and should be doing in the years ahead, so that we can continue to grow and deliver services to our customers and value to our Securityholders.

We have built a business that is solid and sustainable. From having the right balance sheet and risk framework in order to maintain our "license to operate", to using our in-house operational and development expertise to deliver energy when and where it is needed. All of the initiatives and strategic actions from past investments and innovations are delivering benefits now that will continue well into the future.

Looking forward, we remain committed to providing our investors with secure and stable returns via our strategies of organic growth on assets that we own and operate, and prudent acquisitions of long life energy infrastructure that is underwritten by long term contracts with highly creditworthy counterparties.

We remain focused on growing and strengthening APA further and we concluded from our review that opportunities still remain to expand and enhance our assets, be they transmission pipelines, renewable and generation assets or midstream complementary assets. Our growth strategy will be pursued using the same sound, disciplined and prudent investment criteria that has brought us to where we are today.

As we marked 16 years as a listed company, we have not forgotten about ensuring our house is in order for the long term. During the year, APA launched the APA2020 vision; an investment in further optimising operations and improving efficiencies to bring out the best in our people and our assets. APA2020 is an ongoing project within APA that focuses on ensuring we are ready as a business to meet the challenges of the future.

### Regulatory environment

The Australian gas market is a substantial way through the biggest transition it is ever likely to see with the commissioning of all three LNG projects at Gladstone. The market needs time to transition and adjust, which it is doing. Our industry will continue to change and evolve, adapting to global and local market conditions.

Policy options to respond to these changes have been considered in the finalised reports from both the Australian Energy Market Commission ("AEMC") and the Australian Competition and Consumer Commission ("ACCC") on the east coast gas markets, culminating in the Coalition of Australian Governments ("COAG") meeting on 19 August 2016.

APA supports the objective of developing a liquid gas market and recognises that some of the recommendations put forward by the AEMC and agreed by COAG will have operational impacts on APA. Possible impacts are discussed further in the Directors' Report. The important point though, is that APA will remain actively engaged in these discussions and, as we have proactively facilitated the market to this point, we fully intend to be part of the ultimate solution.

Changing fundamental regulatory settings at this time is not the answer to increasing gas supply – innovation and investment is. Increased regulation will simply stifle innovation and reduce Australia's rise as a global energy player. APA's East Coast Grid is an example of innovation and investment at its best. It was conceived, created and funded by APA.

1) There were no significant items for FY2016, therefore statutory and normalised EBITDA are the same for FY2016.

2) For FY2015, normalised EBITDA excludes significant items of \$447.2 million relating mainly to profit on the sale of APA's shareholding in Australian Gas Networks, previously Envestra Limited.

Without investment and innovation by the private sector over the last 16 years, Australia's energy infrastructure would still be standalone point-to-point operations without the benefits of interconnection, reverse flow, increased capacity, or the ability to deliver customers a wide selection of variable services. Without that innovation, Australia's vast reserves of gas would not have been brought to market as effectively as they have today. And without those reserves in production, Australia would not have enjoyed the economic contribution from the LNG exports nor the massive employment that the construction of LNG plants, pipelines and associated infrastructure have brought.

It is by enhancing market mechanisms such as improved capacity trading platforms, information transparency and capacity auctions on congested pipelines, that gas market growth and further development will be facilitated. The prospect of increased heavy handed regulation will not deliver the market efficiencies and innovation that is needed over the longer term.

### Governance

During the year, after completion of APA's formal appointment and nomination process, two new Directors were appointed to your Board. These appointments added further diversity, skills and experience around the boardroom table.

Along with the Nominations Committee established during the year, your Board continues to ensure that it possesses an appropriate mix of expertise to effectively govern the business.

### Outlook

The Board is confident that APA remains well placed to continue delivering sustainable and profitable growth for you, our Securityholders. The review of our growth strategy that I mentioned earlier, identified around \$1.5 billion of organic opportunities in the near term, across the asset classes that are already within APA's portfolio of transmission pipelines, renewable and generation assets and midstream complementary assets.

APA is a long term business and decisions are made for the sustainable future of this business.

With this in mind, our guidance for FY2017 reflects a 7 to 8.5 per cent increase in EBITDA of \$1,425 million to \$1,445 million, on a normalised, continuing business basis. Total distributions per security 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.

On behalf of the Board, I thank our Managing Director Mick McCormack, his leadership team and APA's people for their contributions this year.

I also thank you, our Securityholders, for your continued support.



**Len Bleasel AM**  
Chairman

## FINANCIAL RESULTS

	2016 Normalised <sup>1</sup> \$ million	2015 Normalised <sup>1</sup> \$ million	Change Normalised <sup>1</sup> %	2016 Statutory \$ million	2015 Statutory \$ million	Change Statutory %
Revenue	2,094.3	1,553.6	34.8	2,094.3	1,553.6	34.8
Revenue excluding pass-through <sup>2</sup>	1,656.0	1,119.2	48.0	1,656.0	1,119.2	48.0
EBITDA	1,330.5	822.3	61.8	1,330.5	1,269.5	4.8
Profit after tax and non-controlling interests	179.5	203.9	(12.0)	179.5	559.9	(67.9)
Operating cash flow	862.4	545.0	58.2	862.4	562.2	53.4
<b>FINANCIAL POSITION</b>						
Total assets	14,842.7	14,652.9	1.3	14,842.7	14,652.9	1.3
Total drawn debt <sup>3</sup>	9,037.3	8,642.8	4.6	9,037.3	8,642.8	4.6
Total equity	4,029.1	4,382.7	(8.1)	4,029.1	4,382.7	(8.1)
<b>FINANCIAL RATIOS</b>						
Operating cash flow per security (cents) <sup>4</sup>	77.4	54.8	41.2	77.4	56.5	37.0
Earnings per security (cents) <sup>4</sup>	16.1	20.5	(21.5)	16.1	56.3	(71.4)
Distribution per security (cents)	41.5	38.0	9.2	41.5	38.0	9.2
Distribution payout ratio (%)	53.6	68.8	(22.0)	53.6	66.6	(19.5)
Gearing (net debt plus equity) (%) <sup>5</sup>	66.4	63.4	nm	66.4	63.4	nm
Interest cover ratio (times)	2.6	2.6	nm	2.6	2.6	nm

1) Normalised financial results exclude significant items.

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 and passed on to Australian Gas Networks Limited ("AGN") and GDI in respect of the operation of the AGN and GDI assets respectively.

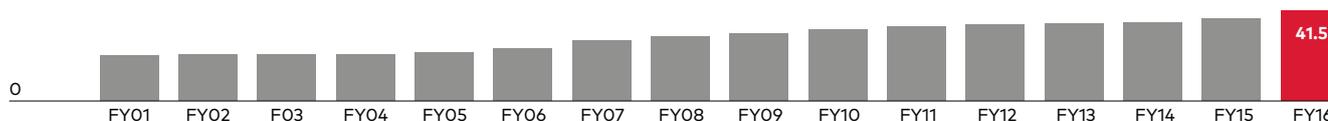
3) This amount represents current and non-current borrowings as per balance sheet and is adjusted for deferred borrowing costs, the effect of unwinding of discount, unrealised foreign exchange differences reported in equity and deducting other financial liabilities that are reported as part of borrowings in the balance sheet.

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 of 1,114,307,369. The weighted average number of securities for FY2015 has been adjusted in accordance with the accounting principles of AASB133: 'Earnings per Share', for the rights issue.

5) Gearing = net debt divided by net debt plus equity.

## APA'S HISTORICAL ANNUAL DISTRIBUTIONS (CENTS PER SECURITY), HAS CONTINUED TO INCREASE

50 cents



APA 2016 Annual Report and Sustainability Report are available on our website at [apa.com.au](http://apa.com.au)

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