



23 August 2017

ASX ANNOUNCEMENT

APA Group (ASX: APA)

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

APA DELIVERS ANOTHER YEAR OF SOLID RESULTS

Australia's leading energy infrastructure business, APA Group (ASX: APA) announced an increase of 10.5% or \$139.6 million in earnings before interest, tax, depreciation and amortisation ("EBITDA") for the year to 30 June 2017 to \$1,470.1 million, as compared to the previous corresponding period (FY2016: \$1,330.5 million).

A final distribution of 23.0 cents per security was declared, in line with the estimate announced in June 2017, taking the FY2017 total distribution to 43.5 cents per security. This represents an increase of 4.8% or 2.0 cents per security over the previous corresponding period (FY2016: 41.5 cents per security). Franking credits of 2.0 cents per security will be allocated to the final distribution, resulting in the FY2017 franking credits totalling 4.0 cents per security.

RESULT HIGHLIGHTS

Financial results

- EBITDA up 10.5% to \$1,470.1 million
- Net profit after tax up 32.0% to \$236.8 million
- Operating cash flow up 12.9% to \$973.9 million

Distributions

- Final distribution per security of 23.0 cents, taking the total FY2017 distribution to 43.5 cents per security, an increase of 4.8%
- Franking credits of 2.0 cents per security, taking the total FY2017 franking credits to 4.0 cents per security.

Operations and Investments

- 3.1% organic growth achieved compared with previous corresponding period
- Announced in excess of \$1.2 billion of committed growth projects during FY2017, to be completed over the next 2 years
- Total capital and investment expenditure of \$377.5 million in FY2017

APA Chairman, Mr Leonard Bleasel AM said, "APA continued to work with various stakeholders during the year to deliver further enhancements to its energy infrastructure and deliver more energy and services to customers. Our commitment to investment and innovation has translated into more flexible and efficient outcomes for the energy industry, and importantly continues to facilitate increased gas supply into the east coast gas market.

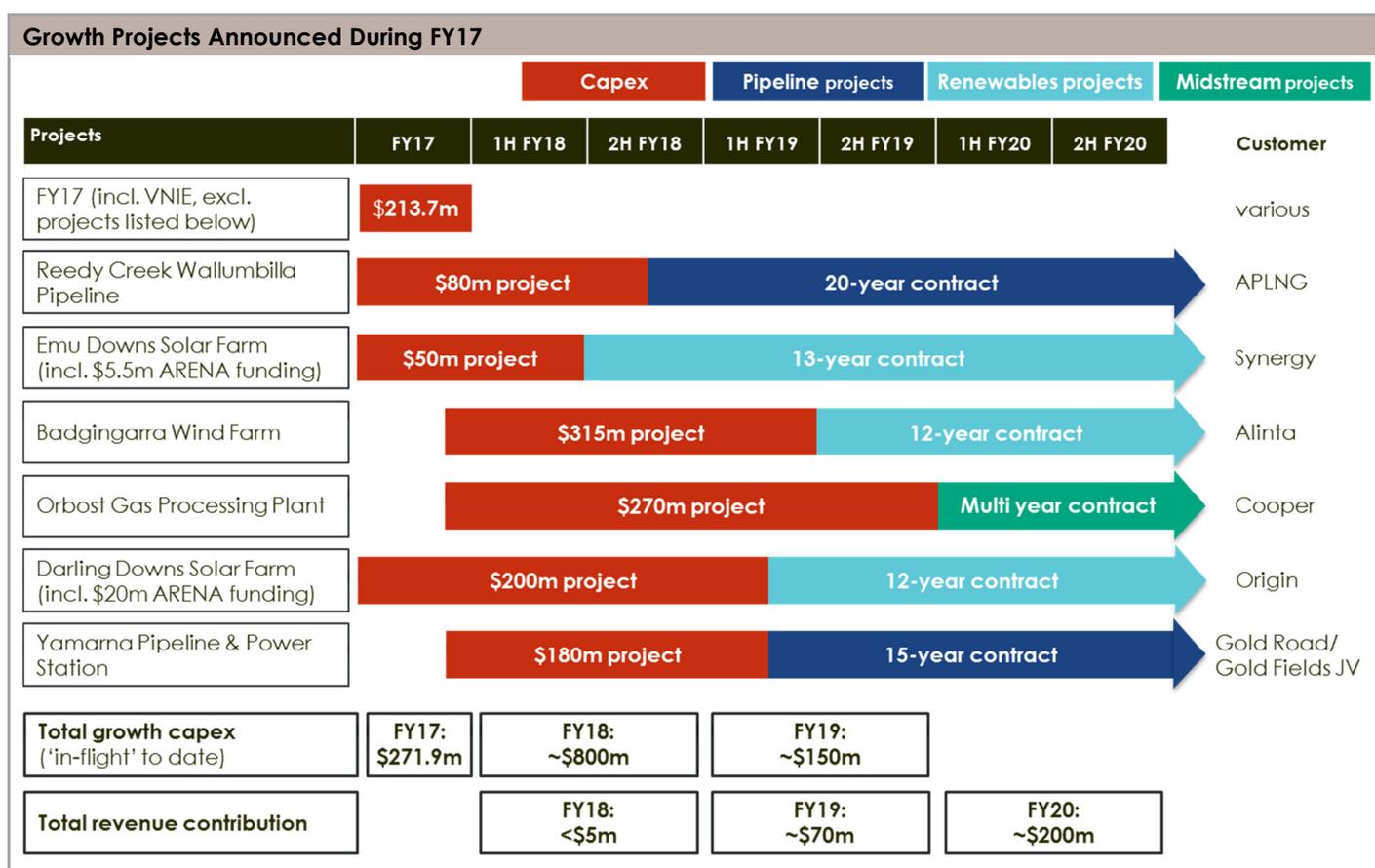
"The solid FY2017 result demonstrates the success of our disciplined growth and acquisition strategy. We highlighted growth opportunities of around \$1.5 billion in August last year and so far have announced committed projects for \$1.2 billion of that, with more projects to come. These growth projects will contribute to long term revenue uplift from FY2019."

Financial overview

Revenue (excluding pass-through revenue) increased by \$232.3 million to \$1,888.3 million, an increase of 14.0% on the previous corresponding period (FY2016: \$1,656.0 million), primarily off the back of increased investment from prior years.

Net profit after tax increased to \$236.8 million (FY2016: \$179.5 million), an increase of 32.0% over the period, with depreciation and amortisation expense in line with an expanded asset base and higher income tax expense in line with increased earnings.

Most significantly, during FY2017, APA announced in excess of \$1.2 billion of new growth projects to be commissioned over the next 2 years. The expected timing of these projects is detailed in the diagram below;



All of these projects will contribute to growth in future operating cash flow, which in FY2017 totalled \$973.9 million. This represents an increase of 12.9% or \$111.5 million over the previous year (FY2016: \$862.4 million), with operating cash flow per security increasing by 12.9%, or 10 cents, to 87.4 cents per security (FY2016: 77.4 cents per security).

APA Group Managing Director, Mr Mick McCormack said, "The solid result for APA demonstrates the resilience of our business and the robustness of our long-standing strategy. APA is a business that is committed to delivering connected and sustainable energy solutions that are safe, reliable, innovative and cost-effective so that all our stakeholders are better off as we work together with our customers to create a better energy future for Australia.

"To this end, we are proud to have announced the various projects that all support APA's growth strategy. At the same time, we have continued to look after our existing business and customers with continuously improved services and a strong balance sheet that enables us to fund our growth in the most appropriate way.

"During the year, we saw energy policy and pricing put under political and media spotlights. We do understand the government's desire to reduce energy prices overall. As a result, we had numerous regulatory reform interventions thrust upon the industry at short notice and with limited consultation. Despite this, APA continues to work with all

relevant stakeholders to facilitate the delivery of cheaper gas to the domestic market. In recent months, we have progressed and completed agreements that will deliver more gas to domestic users. Through flexibility in existing contracts, we have enabled changes on the South West Queensland Pipeline and the Moomba Sydney Pipeline to ensure more gas is delivered to southern markets. We recently agreed a new contract on the Roma Brisbane Pipeline that has played a role in gas being delivered more than 2,500 kilometres away in South Australia to the Pelican Point Power Station. This is all in addition to the investments we continue to make to bring more gas into the system to help with the gas supply and demand balance, which will ultimately put downward pressure on gas prices."

Organic growth

APA achieved organic growth of 3.1% for the year, after adjusting for full year contributions from acquired assets, representing continued investment in APA's existing assets, people and systems.

Multi-asset contracts are increasingly 'the norm' with APA's customers, providing improved service capabilities, efficiencies and flexibility to better manage their upstream and downstream portfolios.

On the east coast of Australia, the completion of the latest stage of the Victorian-Northern Interconnect has seen gas flowing more freely across state boundaries, enabling shippers to take advantage of APA's multiple assets, even as the Queensland LNG projects are nearing completion of their commissioning and production is stabilising across the eastern states. This asset expansion has contributed to additional earnings across both our Victorian and NSW pipeline systems.

In Western Australia, the Eastern Goldfields Pipeline contributed its first full year of earnings for the period. At APA we continue to utilise our multi-asset foot print in that region to deliver a reliable and safer energy supply to remote mine operations. Additional contracts at the Mondarra Gas Storage and Processing Facility and increased wind resources at the Emu Downs Wind Farm also improved the results in the west.

Investments and growth projects

APA spent a total of \$377.5 million in capital and investment expenditure over the period.

Growth capital expenditure of \$271.9 million during the period (FY2016: \$281.0 million) related to the following projects:

- completion of the latest stage of the Victorian-Northern Interconnect expansion project, which has expanded the bi-directional interconnect;
- Moomba Interconnect project, which, for minimal capital spend, has increased the overall efficiency of the operation of APA's East Coast Grid, facilitating gas flows in both directions through Moomba; and
- commencement of growth projects announced during the year, including the Reedy Creek Wallumbilla Pipeline, Emu Downs Solar Farm, Badgingarra Wind Farm, Darling Downs Solar Farm and the Orbst Gas Processing Plant.

APA's growth capital expenditure continues to be fully underwritten through long-term contractual arrangements or under regulatory approvals available through a relevant access arrangement.

APA announced at its FY2016 results presentation last August that it had identified around \$1.5 billion of organic growth opportunities in the near term. During the course of FY2017, APA announced in excess of \$1.2 billion of projects in areas of pipeline extensions and expansions, renewables and midstream assets that will require in the order of \$800 million of growth capital investment in FY2018.

These projects are all underwritten by long-term contracts with customers and will increase APA's earnings base as they are commissioned. Major projects announced to-date are:

- The Reedy Creek Wallumbilla Pipeline: a 50km, 300TJ per day, bi-directional pipeline connected to APA's East Coast Grid that will provide a key link to the Wallumbilla Gas Hub for Australia Pacific LNG (APLNG) Marketing Pty Limited, at a total cost of \$80 million and scheduled to complete around the middle of 2018. APA has entered into a 20-year contract with APLNG in respect of this pipeline.
- The Emu Downs Solar Farm: a 20MW solar farm, to be built on the existing Emu Downs Wind Farm site. Synergy, the Western Australian energy provider has entered into a 13-year offtake agreement commencing January 2018, for both the energy and the Large-scale Renewable Generation Certificates (LGCs) for this asset. The \$50 million project will be partially funded with a \$5.5 million grant from the Australian Renewable Energy Agency (ARENA).
- The Badgingarra Wind Farm: a 130MW wind farm, to be built at a cost of \$315 million, on the site adjacent to the existing Emu Downs Wind Farm (final condition precedent expected to be met in August 2017). Alinta Energy has entered into a 12-year offtake agreement, commencing January 2019 for both the energy and the LGCs.
- The Orbost Gas Processing Plant: being acquired and upgraded by APA for \$270 million (subject to conditions precedent) and upon completion of the refurbishment, will process raw natural gas from Cooper Energy's offshore Sole gas field under a multi-year Gas Processing Agreement from mid-2019.
- The Darling Downs Solar Farm: a 110MW solar farm, to be built at a cost of \$200 million and partially funded with a \$20 million grant from ARENA. Origin Energy has entered into a 12-year offtake agreement from late 2018 for both the energy and the LGCs.
- The Yamarna Gas Pipeline (YGP) and the Yamarna Power Station (YPS) which will deliver energy to the Gruyere Gold Project in Western Australia. The YGP is a new 198km pipeline that will deliver gas to the 45MW YPS across 1,500km of APA's interconnected gas pipelines including the Goldfields Gas Pipeline, Murrin Murrin Lateral and the Eastern Goldfields Pipeline. A 15-year gas transportation agreement and a 15-year electricity supply agreement have been entered into with the Gruyere Gold Project, a 50:50 joint venture between the ASX listed Gold Road Resources Ltd and the global miner Gold Fields Limited. Commissioning is expected late 2018, and total project cost is estimated to be \$180 million.

In addition to these committed projects, APA continues to work hard on developing opportunities with customers to deliver more energy to users, including the Western Slopes Pipeline, which will connect the proposed Narrabri Gas Project to the New South Wales gas market through APA's Moomba Sydney Pipeline and a feasibility study to connect Northern Queensland gas basins to the east coast gas markets.

Beyond FY2018, APA expects \$300 to \$400 million per annum over the next two to three years in growth projects coming to fruition across all of those sectors, as we continue to engage with our customers on what their needs are within that timeframe.

APA's strategy is as follows:

- Our growth focus is to enhance our portfolio:
 - of gas transmission pipelines;
 - of power generation: gas-fired and renewable;
 - of midstream energy infrastructure assets, including gas storage and gas processing; and
 - by exploring opportunities in North America.
- Continue to strengthen asset management, development and operational capabilities.
- Maintain APA's financial strength.

During the year, \$35.3 million was spent to acquire APA's share (50%) of the Mortlake Gas Pipeline the SEA Gas (Mortlake) Partnership and \$68.8 million was spent on stay-in-business capex.

Capital management

During the financial year, APA issued A\$200 million of 7-year fixed-rate Australian dollar Medium Term Notes in October 2016 and US\$850 million (A\$1,109 million) of 10.3-year senior guaranteed notes into the US 144A market in March 2017. APA repaid \$85.8 million (US\$65.0 million) and \$295.0 million (US\$154.0 million and A\$104.2 million) of US Private Placement Notes when they matured in July 2016 and May 2017 respectively.

APA's debt portfolio has a broad spread of maturities extending out to FY2035, with an average maturity of drawn debt of 7.5 years as at 30 June 2017. APA's gearing of 67.4% at 30 June 2017 is marginally higher than the 66.4% at 30 June 2016. APA remains well positioned to fund its planned growth activities with over \$1,460 million in cash and committed undrawn facilities, available as at 30 June 2017.

Energy policy developments

During the year, numerous governmental reviews and inquiries have considered changes to gas market regulatory and policy settings. Development and implementation of a number of the regulatory reform initiatives are being undertaken by the Gas Market Reform Group (GMRG), led by Dr Michael Vertigan. APA continues to be an active participant in these processes, highlighting the significant contribution that APA has made through its portfolio of pipeline assets and responsive customer services to the development of the gas market, and seeking to ensure that changes to the market do not undermine the elements of success in relation to investment, innovation and provision of services to customers.

In December 2016, the GMRG recommended development and implementation of an Information Disclosure and Commercial Arbitration regime to apply to unregulated pipelines. This recommendation was adopted by the COAG Energy Council and National Gas Rules giving effect to the regime which became effective on 1 August 2017.

Further developments include:

- the establishment of a secondary pipeline capacity trading platform, to be operated by the Australian Energy Market Operator;
- the GMRG's implementation of an auction process for contracted but un-nominated daily gas pipeline capacity; and
- the Australian Energy Market Commission's recommendation to transition the Victorian Gas Wholesale Market to an entry-exit structure, where there are separate firm capacity rights to use the Victorian Transmission System.

APA has been actively participating in consultation and discussions across these initiatives.

Future strategy and outlook

Commenting on APA's outlook Mr McCormack said, "APA continues to support reducing carbon emissions as a responsible risk mitigation response to climate change. Gas is critical to Australia's energy security and affordability both now and into the future, as was confirmed in the Finkel report published in June this year. In the longer term, as international and domestic carbon policies and markets mature, APA's energy infrastructure assets will play an important role in reducing Australia's carbon footprint and helping Australia to meet its global commitments, as energy consumption shifts from carbon-intensive fuels such as coal, to more carbon-efficient fuels such as natural gas and renewables.

"By committing to over \$1.2 billion worth of growth projects during FY2017, APA has shown that it has the appetite, as well as stakeholder support, to continue to invest and innovate in its energy infrastructure across the nation, and to support the energy market dynamics unfolding at the current time. Our actions today are indeed connecting Australia to its energy future.

“APA will continue to focus on growth across gas transmission pipelines, gas-fired and renewable power generation and midstream energy infrastructure assets. We will also continue to do what we do best at the core of our business – to strengthen asset management, development and operational capabilities whilst maintaining financial strength, flexibility and capability.”

APA expects that the EBITDA for the full year to 30 June 2018 will be in a range of \$1,475 million to \$1,510 million and net interest costs in a range of \$525 million to \$535 million.

Distributions per security for the 2018 financial year are expected to be in the order of 45.0 cents per security, with franking credits which may be allocated to those distributions enhancing that cash payout.

Webcast and conference call

APA will hold a webcast to discuss these full year results at 10am (AEST) today. The webcast will be accessible via www.apa.com.au or by using the following dial-in details.

Dial-in details: Within Australia 1800 558 698
Outside Australia +61 2 9007 3187
Conference ID 805163

A replay of the webcast will be available from www.apa.com.au, shortly after the conclusion of the webcast.



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About APA Group (APA)

APA is Australia's leading energy infrastructure business, owning and/or operating in excess of \$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 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