

# MANAGING DIRECTOR'S REPORT

At the mid-point of our second decade as a listed entity, it is the skills and expertise of APA's people across asset management, development and operational activities that have seen us emerge as a leader in energy delivery in Australia.

Today, APA owns and/or operates over 14,700 kilometres of natural gas pipelines as well as gas storage facilities, gas-fired generation plants and a wind farm. Half of Australia's natural gas production passes through our network, which is by far the largest in the country. We have a well-earned reputation for delivering our Securityholders sustainable growth and returns, while continuing to invest in assets that are a strategically vital part of our nation's energy infrastructure.

The 2015 financial year saw exceptional levels of activity in the completion of existing projects, the commissioning of new projects, and our most substantial acquisition to date - the Wallumbilla Gladstone Pipeline. Our investment activity is focused on connecting APA's physical assets to link more Australian gas resources to more gas markets. It is a process that is driven by engagement with our customers, listening to their needs and developing new and innovative ways to make the most of our infrastructure.

## FUTURE GROWTH

While it's healthy to acknowledge our significant growth and success over the last 15 years, and reflect on what we have achieved in the past year, at APA we are always looking forward to the opportunities for growth that lie ahead. That is why, in addition to the projects we completed in the past year, we have also been planting the seeds for our future growth.

In April 2015 we opened the APA Integrated Operations Centre ("IOC") in Brisbane. This new centre of excellence will enable us to centrally manage our portfolio of interconnected assets, responding more nimbly to operational and market imperatives. By integrating commercial, technical and operational resources in the one location in a real-time environment, we will provide a single operational point of contact

for our customers and realise additional operational efficiencies. I have no doubt that this concentration of expertise from many different parts of APA will, in itself, lead to the development of previously unthought-of services and a step-change in the timeliness and dynamism with which we meet our customers' needs. In 2016 we will complete full transitioning of all APA pipelines to the IOC.

The establishment of the IOC is a natural step following the creation in 2012 of the East Coast Grid, which now allows our customers to choose from, and move gas between, around 30 receipt points and approximately 100 delivery points on the east coast. It is APA's ongoing commitment to innovation that enabled us to develop the commercial and operational framework to provide this flexibility to our customers including related offerings such as multi-asset services, bi-directional transportation and gas storage and parking facilities.

We broke ground in March 2015 on the construction of the new 293 kilometre Eastern Goldfields Pipeline ("EGP"). This project is underwritten by two gas transportation agreements executed between AngloGold Ashanti Australia Limited ("AngloGold") and APA in July 2014 for the transportation of natural gas to AngloGold's Sunrise Dam Operations and the Tropicana Operations located in the eastern Goldfields region of Western Australia. The EGP will connect APA's existing infrastructure, the Goldfields Gas Pipeline and the Murrin Murrin Lateral to the respective mine site locations transporting natural gas over a total distance of 1,500 kilometres. Commissioning of this project is scheduled to take place prior to January 2016.

As we discussed in last year's Annual Review, in early 2014 APA announced a feasibility study into a possible link of our Northern Territory pipeline infrastructure with our East Coast Grid.

This year the Northern Territory Government announced its own process for this pipeline and shortlisted four bidders, one of which is APA. We are working towards making a final submission in September this year.

The proposed pipeline link would create the opportunity for gas sourced from onshore and offshore fields in the Northern Territory to be economically supplied to east coast markets as well as provide additional gas security for the Northern Territory. Any commitment by APA will be underpinned by appropriate long-term revenue agreements, and we look forward to the favourable conclusion of this exciting prospect.

These are just three of the projects that saw APA invest \$343.1 million in growth capital expenditure, including expansions and enhancements to its gas infrastructure in New South Wales, Victoria, Queensland and Western Australia over the course of the year.

## TRANSPARENT COSTS

This year we are introducing a change in our reporting by separating corporate costs from operating business segments. In doing so, it is our intention to provide our Securityholders with a greater insight to the underlying performance of the operating businesses and the costs incurred by APA in the management of these businesses.

Corporate costs have declined as a proportion of revenue (excluding pass-through revenue; 2015: 6.7 per cent and 2014: 7.7 per cent) and EBITDA (continuing businesses before corporate costs; 2015: 8.2 per cent and 2014: 9.4 per cent). Indeed, these ratios have trended down over the last five years, demonstrating the efficient scalability of APA.

## 2007

**2007-2006**  
Start of ongoing acquisition and development of complementary assets for the APA portfolio.

**OCT 2007**  
APA fully internalised asset management and operational services.

APA acquired Origin Energy Network (Jun/Jul 2007) assets including interests in SEA Gas Pipeline and the Envestra gas distribution network along with the long term operations and management contract for Envestra assets.

APA completed construction and commissioning of Daandine (Jan 2007) and X41 (Nov 2007) Power Stations.

**\$9.2B**

market capitalisation as at 30 June 2015, +59.5% year-on-year

**US\$4.6B**

(AUD\$6B) Australia's largest pipeline acquisition



### PUBLIC POLICY

The 2015 financial year saw unprecedented levels of public and policy discussion of the evolving gas market in Australia as LNG exports from Gladstone commence and domestic supply arrangements need renewal. The Federal and State Energy Ministers, through the Council of Australian Governments' Energy Council, initiated a major review of the east coast gas market and concurrently, the Federal Government has instructed the Australian Competition and Consumer Commission to undertake an inquiry into the competitiveness of the wholesale gas market, including gas transmission.

There appears to be a high degree of overlap between these processes and each consumes a material amount of APA's resources and management attention. These reviews cover much of the same ground considered in the expansive work undertaken by the Productivity Commission, the Harper Review into Competition Policy, and the Federal Government in developing its Energy White Paper, all of which were completed in 2014/15.

Whilst transparent discussion of the issues facing the industry promotes sensible policy determinations, provides certainty and serves to educate the public, it is important that a succession of reviews should not be allowed to adversely affect business confidence. In the last decade Australia has been well served by the relatively light level of regulation and market interference in transmission pipelines. It was this business environment that has enabled the development of the East Coast Grid and the range of services that APA provides the market. Today, as we are about to enter the next expansive stage of the gas market, it is critical that the ability to invest in further enhancements of Australia's pipeline system such as the Northern Territory Link are not crippled by misguided government policy and bureaucratic interference.

### CONTINUING COMMITMENT TO SAFETY

In this report last year, I announced APA's three-year Health, Safety and Environment Strategic Improvement Plan following a corporate-wide health and safety cultural survey in early 2013. I am pleased to provide an update on the progress that we have made in the past year towards achieving our aim of being a Zero Harm workplace.

14 of the 17 Plan initiatives we originally identified have now been implemented. The Plan and ongoing progress of the initiatives are regularly reviewed and updated. Given the vast geographical spread and remoteness of our assets, an additional initiative was introduced this year, Safedrive+ which will provide the requisite level of control and training for all APA and contractor drivers and passengers, as well as a minimum standard vehicle specification.

The principle metric against which we measure the safety of our people is the Lost Time Injury Frequency Rate ("LTIFR" including both employees and contractors), which has continued to decline from 0.80 last year to 0.64 this financial year. This represents a significant improvement, but we will continue working towards zero, implementing the remaining initiatives as well as monitoring the active initiatives.

### OUTLOOK

I am tremendously proud of the dedication, competence and hard work that each of APA's employees has contributed to our strong 2015 financial year result. It is these same qualities, combined with our robust balance sheet, and a commitment to innovation and excellent execution that give me confidence in APA's future.

Our approach will not change. We will continue to invest in our existing infrastructure to provide tailored services to our customers.

We will continue to invest in the growth of our national infrastructure where customer demand provides an opportunity for commercial long-term returns. And we will remain alert to investment and acquisition opportunities compatible with our over-arching strategy, prudent management of the balance sheet, and our own return on investment requirements.

Recently, APA announced the retirement of two members of my executive team - Peter Wallace, Group Executive Human Resources and Mark Knapman, APA's Company Secretary. Both have contributed significantly to APA's growth and I thank them for their commitment and wish Peter and Mark all the best for their well-deserved retirements. We're very proud of the talent pool and succession planning that has been internally developed within APA over a number of years. It was therefore with great pleasure to also announce at the time that both executive roles were taken up by existing employees and I welcome to the executive team Elise Manns APA's new Group Executive Human Resources and Nevenka Codevelle, APA's new Company Secretary and General Counsel.

Lastly, at 15 years young, I would like to extend my sincere thanks for your continued support of APA. I look forward to leading our business with the same enthusiasm and focus that has brought us this far, to a future that promises to be even more exciting than our past.

**Mick McCormack**  
Managing Director  
and Chief Executive Officer

### 2006

APA completed construction and commissioning of Kogan North (Mar 2006) and Tipton West (Mar 2007) gas processing facilities.

APA acquired the Murraylink (Mar 2006) and Directlink (May 2007) electricity interconnectors.

**DEC 2006**  
Acquisition of the Victorian Transmission System (formerly GasNet).

**NOV 2006**  
Acquisition of Allgas gas distribution network in Queensland.