



APA Demonstrates Resilient Business Model

Company/ASX Code	APA Group
AGM date	Thursday 22nd October 2020
Time and location	10.00am AEDT Virtual (https://agmlive.link/APA20)
Registry	Link Market Services
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Ian Anderson assisted by Lewis Gomes
Pre AGM Meeting?	Yes with Chair Michael Fraser

The individuals (or their associates) involved in the preparation of this voting intention have shareholdings in this company.

	Consideration of accounts and reports
ASA Vote	No vote required

Financial performance

APA confirmed the resilience of its business model by completing another year of steady growth in revenue and profits despite the economic headwinds encountered in the second half of the financial year. Distributions increased 6.4% to 50 cents per security, generally in line with guidance, including a franking component of 7.31 cents. Overall TSR was 7.7%. Whilst APA’s revenue is underpinned by regulated and long term “take or pay” contracts, the revenues are still subject to customer re-contracting, timing and final investment decisions and guidance for FY21 is for distributions in line with FY20, reflecting some operational uncertainties in the year ahead.

Key events

This year marked the 20th anniversary of APA’s listing on the ASX and it is notable that it also marks 20 years of growth in distributions to security holders. Total shareholder return over that period has been 2,200% representing an annual compound growth rate of 16.9%, outpacing both the ASX Utilities and the S&P/ASX200 Accumulation Indices.

Nevertheless, FY20 will be remembered as a very challenging year, starting with widespread drought and bushfires, and then rolling into the worst global pandemic in 100 years as COVID-19 swept across the globe. This latter crisis is still with us with no end in sight at this point in time. Having said that, APA has not been as severely affected as have many other companies, but it remains alert to travel restrictions and health issues.

Operation and commissioning of APA's new gas processing plant at Orbost continues to be a problem with a number of technical issues requiring modifications to the plant which treats gas from Cooper Energy's Sole Gas Field in the Bass Strait for supply to customers of Cooper Energy via the Eastern Gas Pipeline. Reliable plant capacity has been constrained to a figure well below the contracted capacity of 68TJ/day. The two parties have entered into a Transition Agreement to work together to resolve the problems. APA has assumed only a limited contribution to EBITDA of about \$10m in FY21 against a contribution of about \$50m which would have been the case without the problems. APA has assessed the carrying value of the plant (at about \$444m) and has determined that no writedown is required at this point in time. However, the value of the plant will be reassessed towards the end of FY21 when the outcome of current efforts are known.

APA continues to seek growth opportunities both in the domestic and US markets and in renewable energy. While efforts continue in the US through a small team lead by Ross Gersbach, no specific acquisitions opportunities have been sufficiently developed to date.

Key Board or senior management changes

Rhoda Phillippo was appointed a non-executive director on 1 June 2020. Rhoda has a background in telecommunications and is subject to election at the upcoming AGM.

Following the appointment of new CEO, Robert Wheals, at the beginning of the financial year there have been a number of new executive appointments. As a result of the retirement of Peter Fredricson, Adam Watson has been appointed CFO together with new Group Executives to head up Transformation and Technology (Hannah McCaughey) and Strategy and Commercial (Julian Peck). Ross Gersbach relocated to the US as President North America Development in early 2019.

ASA focus issues

Generally APA demonstrates good compliance with ASA Guidelines. With the appointment of Ms Phillippo, the number of female board members increases to three among a board of eight members thus meeting ASA guidelines. Other compliance issues are discussed in the REM Report below.

APA has comprehensive safety and risk management processes in place, although it has noted that safety outcomes are still below expectations, mainly due to issues associated with subcontractors. COVID-19 issues, particularly in relation to interstate and overseas travel, have been well managed and most office personnel are working from home.

APA is mindful of its governance obligations and has continually refreshed its board with directors selected from a variety of relevant backgrounds. It was noted that travel restrictions have necessarily limited the ability of directors to visit projects and meet directly with staff and managers but active engagement is encouraged.

The Board has endorsed APA's refreshed Purpose, Vision and Operating Model during FY20 which includes the strengthening of industries and communities through responsible energy supplies. APA has also strengthened its focus on customers and continues to see over \$4 billion of domestic growth opportunities over the next 5 to 10 years.

Financial Summary

Item (as at FYE)	2020	2019	2018	2017	2016
NPAT (\$m) ¹	317.1	288.0	264.8	236.8	179.5
UPAT (\$m)	1095.9	1012.1	1031.6	973.9	862.4
Security price (\$)	11.13	10.80	9.85	9.17	9.24
Distribution (cents)	50.0	47.0	45.0	43.5	41.5
TSR (%)	7.7	14.4	12.3	4.0	16.7
EPS (cents)	26.9	24.4	23.3	21.2	16.0
CEO total remuneration, actual (\$m) ²	2.51	5.18	5.40	5.10	5.16

1. Includes significant items 2. Includes components of prior year LTI awards

For 2020, the CEO's total actual remuneration was 27.3 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Item 1	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

As foreshadowed last year, APA has undertaken a significant revision of the REM structure for FY20 to make a larger proportion of REM relate to Long term Incentives (LTI). The changes have been fully implemented for the new CEO and new hire KMP's and will be extended to other executives in due course.

The table below shows the overall REM framework in FY20 for the CEO which is structured around his fixed remuneration of \$1.6M making up 32% of target REM. Short Term Incentive (STI) target has been set at 60% of Fixed Pay (FP) whilst the LTI target has increased to 150% of FP. The STI may increase to 90% of FP for outperformance but the LTI target does not increase. One third of STI will be paid in APA restricted securities until the security holding reaches the required minimum equivalent to one year's FP and the remainder will be paid in cash. The LTI award will be measured over a three year period and will be delivered as rights to receive APA securities which will vest in three equal tranches over the third, fourth and fifth years after grant.

CEO REM Framework	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Pay	1.600	32%	1.600	29%
STI - Cash	0.640	13%	0.960	18%
STI - Equity	0.320	7%	0.480	9%
LTI	2.400	48%	2.400	44%
Total	4.960	100.0%	5.440	100%

STI is assessed against a scorecard of financial and non-financial measures at the board's discretion, although specific hurdles are not disclosed, and resulted in STI awards between 55.3% and 60.3% of maximum opportunity after the Board exercised its discretion to reduce some performance assessments due to the problems with the Orbost Gas Processing Plant.

LTI awards are made 50% on the basis of relative TSR assessed against the ASX100 and 50% on the basis of Return on Capital (ROC = EBITDA divided by Funds Employed), both measured over a period of three years. The rTSR hurdle vests 50% at 50th percentile with straight line pro-rata vesting to 100% at 82.5th percentile. The ROC hurdle vests 33% at 11% ROC with straight line pro-rata vesting to 100% at 11.3% ROC. Awards are made in performance rights which vest in three equal tranches over a period of three years commencing at the end of the performance period. The performance rights are allocated on the basis of a 30 day market VWAP prior to the award.

Whilst the above revised incentive methodology is a significant improvement over the previous scheme, ASA would prefer LTI to be assessed over a period of four or five years rather than three and would prefer 50% of STI to be paid in securities. On the other hand, LTI awards are paid over a period of a subsequent three years during which time the value is adjusted in accordance with the security price and all KMP's are required to hold a minimum number of securities so they have "skin in the game". In addition, whilst greater clarity around the specific hurdles for the STI scorecard assessment would be helpful, there is evidence that the board has exercised judgment in assessing STI awards at less than 100% of opportunity.

Overall we consider this to be a good remuneration report with clear explanations of the overall incentive methodology and with hurdles well aligned with shareholder interests so we will vote undirected proxies in favour of the resolution.

Item 2	Re-election of Peter Wasow as a Director
ASA Vote	For

Peter became a Director of Australian Pipeline Limited in March 2018. He has experience in the resources sector as both a senior executive and director. He retired as CEO of Alumina Limited in 2017 and previously held senior positions in Santos Limited and BHP. He is a Non-Executive Director with Oz Minerals Limited and the privately held GHD Group. He is currently Chair of the People and Remuneration Committee and a member of the Audit and Risk Committee.

The ASA views Mr Wasow as an effective and diligent director and will vote undirected proxies in favour of his re-election.

Item 3	Re-election of Shirley In't Veld as a Director
ASA Vote	For

Shirley was appointed a Director of Australian Pipeline Limited in March 2018. She has expertise and experience in the energy, mining and renewables sectors.

Shirley was the Managing Director of Verve Energy from 2007 to 2012 and prior to that role she worked for 10 years in senior roles at Alcoa of Australia, WMC resources, Bond Corporation and BankWest. She is currently a Non-Executive Director with Northern Star Resources Limited, Alumina Limited and NBN Co Limited. She is the Chair of the Health, Safety and Environment Committee and a member of the People and Remuneration Committee.

The ASA views Shirley as an effective and diligent director and will vote undirected proxies in favour of her re-election.

Item 4	Election of Rhoda Phillippo as a Director
ASA Vote	For

Rhoda was appointed a Director of Australian Pipeline Limited in June 2020. She has considerable experience in the telecommunications, IT and energy sectors.

Rhoda spent much of her career in the telecommunications industry in the United Kingdom and New Zealand in senior management roles before joining Optimation, in New Zealand, as CEO. Rhoda later joined HRL Morrison & Co and, during this time, was Managing Director of Lumo

Energy for two years. Rhoda is a member of the Health, Safety and Environment Committee and a member of the People and Remuneration Committee.

Rhoda appears to bring new and complementary skills and experience to the Board and consequently the ASA will vote undirected proxies in favour of her election.

Item 5	Approval of LTI grant to CEO/Managing Director Robert Wheals
ASA Vote	For

As a result of the change in FY20 from cash settled LTI benefits to an equity based scheme, APA is seeking approval for a maximum of 215,094 performance rights to be issued to Mr Wheals in accordance with the LTI performance conditions measured over a period of three years commencing on 1 July 2020 and ending on 30 June 2023. The number of rights has been calculated by dividing the maximum LTI opportunity of \$2,400,000 by the VWAP face value of \$11.1579 over a 30 day period ending 7 working days before the People and Remuneration Committee meet to consider the full year results. The actual value the CEO receives will depend on the extent to which the performance conditions are achieved and the security price on vesting.

As APA intends to purchase any securities allocated to the CEO on vesting of the performance rights on market, it does not strictly require this resolution but APA prefers to secure shareholder approval in the interests of transparency and to provide flexibility in the event that circumstances change.

It is noted that for FY21, the ROC range has been raised to 11.10% to 11.40% from the FY20 figures of 11.00% to 11.30%. There are no changes to the TSR hurdles.

As the rights are to be issued in accordance with new LTI plan criteria and are valued at face value (rather than fair value), ASA will vote undirected proxies in favour of this resolution.

Item 6	Proposed Amendment to Constitution of Australian Pipeline Trust
ASA Vote	For

APA proposes to amend the constitutions of the Australian Pipeline Trust and APT Investment Trust to provide additional flexibility in how security holders may attend and participate in meetings and also to clarify certain aspects of the Group's meeting provisions.

Currently, as a result of the Covid-19 pandemic, interim measures are in place to allow flexibility for meetings to take place under the Corporation Act 2001 using one or more technologies such as telephone or other electronic media. The proposed changes formalise the use of technology for attendance and voting at meetings under the Trust constitutions and provide for "direct voting" (where a security holder may vote without necessarily attending the meeting or appointing a proxy). The proposals also clarify security holders' ability to attend meetings by attorney and aligns the procedures with those of security holders attending by proxy.

ASA believes the changes are in the interests of security holders by allowing greater flexibility for participation and voting at meetings and will vote undirected proxies in favour. As this resolution is a special resolution affecting the Group's constitution, it requires more than 75% of votes to be cast in favour to pass and is conditional on Resolution 7 also passing.

Item 7	Proposed Amendment to Constitution of APT Investment Trust
ASA Vote	For

This is effectively a procedural amendment to align the constitution of APT Investment Trust with that of Australian Pipeline Trust. It requires the same 75% majority and is conditional on Resolution 6 also passing.

ASA will vote undirected proxies in favour.

Item 8	Nomination of non-board endorsed external nominee, Victoria Walker, for election as director.
ASA Vote	Against

This is a late addition to the agenda due the late receipt of the nomination as a result of an administrative oversight in the share registry service provider.

The information provided by Ms Walker indicates that she is currently a self-employed writer/editor and has previous experience in the public sector working in support roles to enquiries and tribunals. Other than offering her public sector experience, Ms Walker does not appear to have identified how she can contribute to the APA board nor has she identified any particular platform for her candidacy. The APA board have reviewed their approach to government relations and do not consider that further public service expertise is needed at board level.

Accordingly, ASA will vote undirected proxies against this motion.

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