Australian Shareholders' Association
Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, level 22
2227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235

APA records mixed results with growth prospects through new opportunities

Company/ASX Code	APA Group/APA
AGM time and date	10.30am AEDT Thursday, 24 October 2024
Location	Telstra Sydney Customer Insights Centre, 400 George Street, Sydney
Registry	Link Market Services
Type of meeting	Hybrid
Monitor	Lewis Gomes and Sue Howes
Pre-AGM Meeting	Held with Michael Fraser (Chairman), Peter Wasow (Director), Stephen Langlands (GM Performance), Andrew Nairn (GM Investor Relations), Andrew Dyer (Head of Net Zero & Climate, Sustainability), Victoria Somlyay (GM Sustainability), Lewis Gomes and Sue Howes

Monitor Shareholding: An individual (or its associates) involved in the preparation of this voting intention has a shareholding in this company.

1. How we intend to vote

No.	Resolution description	Voting
1	Adoption of the Remuneration Report	For
2	Nomination of Samantha Lewis for election as a Director	For
3	Nomination of David Lamont for election as a Director	For
4	Nomination of Michael Fraser for re-election as a Director	For
5	Nomination of Debra Goodin for re-election as a Director	For
6	Approval of grant of performance rights to the CEO under the LTI Plan	For
7	Resolutions requisitioned by Security Holders	Against
8	Conditional spill resolution	Against

2. Summary of Issues and Voting Intentions for AGM

- APA has delivered a mixed financial report for FY24 due mainly to the Pilbara Energy assets it purchased in August 2023 from Alinta Energy. EBITDA was up, as was statutory profit, but operating profit was well down on FY23. Significant items this year had a considerable impact on the financial results.
- There are changes being made to the board with one departure in early 2024 and two more scheduled in coming months. Two new directors have joined the board and will stand

for election at the upcoming AGM. Another new director, Varya Davidson has been appointed with effect from 1 March 2025 but will not be subject to a shareholder vote until the 2025 AGM.

- Senior management changes following the appointment of Adam Watson as CEO in FY23 appear to have been finalised.
- A group of security holders have put forward two resolutions, one being a special resolution seeking amendments to the constitution of APA in relation to climate change issues associated with the Beetaloo coal seam gas deposits in the Northern Territory and a conditional spill resolution, neither of which are supported by the board
- APA has recently released its 2024 Climate Report, but it is not subject to a resolution at this AGM.
- ASA is supporting all resolutions at the AGM other than those NOT supported by the board.

3. Matters Considered

Financial performance

Underlying EBITDA of $1,893 million was in line with guidance and increased by 9.7% on FY23 underpinned by solid performance from the east coast gas expansion and an 8-month contribution from Pilbara Energy, which has performed in line with expectations. Contracted Power Generation, which holds the Pilbara assets, increased EBITDA by 25% while Electricity Transmission, which holds the Basslink asset, increased EBITDA by 54%.

Statutory net profit after tax was $998 million up from $287 million in FY23 driven by remeasurement of APA's pre-existing 88.2% interest in the Goldfields Gas Pipeline as APA moved to full ownership as part of the Pilbara Energy transaction. This more than offset a $144 million (pre-tax) impairment of the Moomba Sydney Ethane Pipeline which was recognised due to its single user customer ceasing operations and a $72 million charge for stamp duty on the Pilbara purchase.

Underlying net profit after tax was down 59% to $119 million from $287 million in FY23 due to:

- an increase in depreciation and amortisation expense up 22.8% to $919 million due to growth in the asset base from the Pilbara Energy transaction and other changes in the useful life of certain assets.
- net interest expense increased by 26% due to increased debt from a EUR500 million (AUD $828 million) bond and an AUD$1.25 billion term loan, both raised in November 2023. Total drawn debt increased by 15% to $12.9 billion while finance costs increased 18% to $470 million.

Total assets increased by 23% to $19.6 billion and total equity increased by 70% to $3.2 billion, while net asset backing per security increased 56% from $1.62 to $2.53, mainly due to the revaluation of the Goldfields Gas Pipeline and the equity raising for the Pilbara purchase. The average interest rate on drawn down debt was 4.77% up from 4.43% in FY23 with 100% of interest obligations either hedged or issued at fixed interest rates. The average maturity of drawn debt is 5.3 years, and the portfolio extends out to FY46.

The Voice of Retail Shareholders T (02) 9252 4244 | F (02) 9071 9877 share@asa.asn.au asa.asn.au

Free cash flow (FCF) remained steady at $1.07 billion, and the distribution payout ratio increased to 67% of FCF from 61% in FY23. APA uses FCF as the primary metric for its distribution policy rather than UPAT given the nature of its financial structure with its large debt levels and non-cash expenses (mainly depreciation and amortisation) supported by a fairly predictable revenue stream from its business activities. Some $833 million was spent on capital growth projects including Port Hedland Solar and Battery Project which is nearing completion.

A key financial metric for APA used by rating agencies is Funds from Operations (FFO) to Net Debt which reduced to 10.3% for FY24 from 11.0% in FY23. APA states that it has maintained its previous credit ratings with S&P and Moody's in late 2023 after the Pilbara acquisition.

APA has provided FY25 distribution guidance of 57 cents per security with underlying EBITDA guidance in the range of $1.96 billion to $2.02 billion.

5 Year Financial Table

(As at FYE)	**2024**	**2023**	**2022**	**2021**	**2020**
NPAT ($m) (1)	998	287	260	1	309
UPAT ($m) (2)	119	287	240	279	309
Share price ($)	7.99	9.69	11.27	8.90	11.13
Dividend (cents)	56.0	55.0	53.0	51.0	50.0
Simple TSR (%) (4)	(11.8)	(9.1)	32.6	(15.5)	7.7
EPS (cents) (3)	78.9	24.3	22.1	0.1	26.2
CEO total remuneration, actual ($m)	2.83	2.41	3.06	2.79	2.51

(1) Statutory profit after tax including significant items

(2) Profit after tax excluding significant items

(3) Statutory profit per security

(4) Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year.

Governance and culture

The board has a good diversity of skills and experience. The appointment of Nino Ficca to the board in late 2023 added strong technical experience in electrical energy systems which was lacking at the time.

There are currently 9 directors (including two recent appointments) of whom only 3 are women (33%) while the Executive Leadership Team (ELT) comprises 9 executives of whom 4 are women (44%). Female participation across the total workforce has increased slightly over FY24 and is now just over 32% while females in senior leadership roles has increased from 31.4% to 39.2%. Female participation in the 2024 Graduate and Internship Programs was 63% while the Apprenticeship Program reached 44% women, more than twice that achieved in 2022.

There are currently 4 Executive Key Management Personnel (KMP) listed in the Annual Report of which one, Petrea Bradford as GE Operations, is the only female (25%).

The board and its various committees appear to work efficiently with an increasing focus on health and safety. For FY24 there were zero fatalities, and the Total Recordable Injury Frequency Rate (TRIFR) saw a 35% decrease on FY23. However, there were two serious-harm injuries as well as 35 potential serious-harm incidents compared with 33 in FY23.

Employee engagement as measured by survey improved slightly to 72% from 71% in FY23.

Key events

The most significant event during FY24 occurred in August 2023 when APA announced it had successfully agreed with Alinta to purchase a range of power generation and transmission assets (both gas and electricity) in the Pilbara region of Western Australia servicing Australia's major iron ore producers including BHP, Hancock's Roy Hill, Rio Tinto and Fortesque Metals Group (FMG).

The deal was valued at about $1.72 billion of which APA has raised $875 million through an equity raising and the remainder by debt. Of the $875 million in new equity, $675 million came from underwritten institutional placements and $200 million through a non-underwritten share purchase plan (SPP) for retail security holders. The equity raising was strongly supported by the market, with strong support for the retail component which initially targeted $75 million. It was increased to $200 million with oversubscribed application moneys of $124 million being refunded.

The board continues to progress prospective projects including the Beetaloo Basin pipeline in the NT and the Kurri Kurri lateral pipeline in NSW. The former project is subject to a degree of environmental opposition from some local indigenous groups and several activist organisations (refer Resolution 7).

It has been noted that the security price of APA has softened in recent months, ranging between $7.50 and $8.00. APA's Chairman advised that this weakness was probably due to a combination of circumstances being: increased interest rates on APA's debt, a less than expected increase in recent and forward distributions, and market concerns around regulatory risk arising from an enquiry being undertaken by the Australian Energy Regulator into customer charges associated with the South West Queensland Pipeline.

Key board or senior management changes

APA has announced that existing directors Debbie Goodin and Peter Wasow will retire at the end of February 2025 and at the end of the FY24 AGM respectively. Two new directors joined the board effective 1 October 2024, being Samantha Lewis and David Lamont, details of each are given in the Notice of Meeting and in this VI. Shirley In't Veld retired as a director effective 28 March 2024 having only been re-elected at the last AGM. The reasons for her retirement are unclear.

During FY24 two further new senior appointments were made in Garrick Rollason as CFO effective from October 2023 and Petrea Bradford as GE Operations effective from August 2023. Also, a second Company Secretary in Bronwyn Weir was appointed to assist Amanda Cheney, whose formal role is Group Executive Legal and Governance.

Sustainability/ESG

APA released its updated 2023 Climate Report on 22 September 2023 which is aligned with the Taskforce on Climate-related Financial Disclosures (TCFD). The 2023 Report details APA's progress against its Climate Transition Plan released in 2022, which was subject to a non-binding vote at the 2022 AGM. While the 2022 Report received clear majority support at 79%, feedback from a range of stakeholders was taken into consideration by APA and addressed in the 2023 Report. The later report details specific achievements and progress on a range of initiatives with target dates included.

In September APA released its 2024 Climate Report detailing ongoing progress against its 2022 Climate Transition Plan. It describes actions towards its 2030 interim targets, delivery of abatement measures under the Methane Reduction Plan and ongoing partnering with customers to support decarbonisation across the economy. The report includes a comprehensive Climate Data Book which reports APA's Scope 1, 2 and 3 emissions as well as APA's approach to offsets. APA is in the process of developing a refreshed Climate Action Plan which will be put to a non-binding security holder vote at the 2025 AGM.

APA has continued to invest in a portfolio of renewable electricity generation and transmission assets including the 1GW+ Pilbara Energy Systems and the Port Hedland Solar and Battery plants. It is noted that the Annual Report states that the cost of APA's gas infrastructure reduction initiatives is estimated to cost between $150 million and $170 million may increase by around $100 million due to increases in both capital and operating costs. As a result, APA is re-evaluating its plans and cost estimates.

APA also in FY24 released its Reconciliation Action Plan to address indigenous matters relevant to its operations. This plan may be particularly pertinent to the new operations it has acquired in the Pilbara and its prospective arrangements with Tamboran at the Beetaloo Basin.

4. Rationale for Voting Intentions

Resolution 1 - Adoption of the Remuneration Report

APA incurred a strike on the remuneration report at the 2023 AGM with an against vote of 25.8%. After consultation with various stakeholders, the core issue appears to have been that the EBITDA component of the FY23 STI did not appear to be sufficiently challenging. There were also some one-off issues that arose from the impact of the Pilbara acquisition on remuneration outcomes. The Board reviewed these matters and acknowledged that more disclosure would have been appropriate.

There were no changes to the remuneration plan for FY24 from FY23. CEO fixed pay remained at $1.6 million with STI and LTI multiples being the same as in FY23. Refer to Appendix 1 for details and Pages 78 to 97 of the Annual Report. The STI is evaluated against 4 financial measures totalling 60% of the award and 4 non-financial measures totalling 40% of the award. For the LTI, there are two metrics being relative Total Shareholder Return (rTSR) worth 50% of total LTI while the other 50% is based on Return on Capital (ROC).

For FY24 the EBITDA gateway of $1.853 billion was met and the STI pool was funded with the CEO being awarded 62.7% of maximum (94.0% of target) and other executive KMP awarded between 65.3% and 92.7%. The STI awards are presented as two thirds cash and one third equity deferred for one year. The FY22 LTI award was tested at 30 June 2024 resulting in a 50% vesting with TSR not meeting its hurdle and ROC exceeding its maximum target. These rights will vest over 3 years with one third in August 2024 and the other tranches in 2025 and 2026.

It is noted that sign-on equity awards were made to two of the new KMP's being Petrea Bradford (49,154 rights) and Gavin Rollason (22,896 rights). The grants were made in October and November 2023 and vest in August and October 2024 respectively for the two KMP. These awards were made to compensate for equity and incentives foregone by resigning previous positions. ASA is not in favour of such payments, but they have become a commercial reality in order to attract quality candidates. ASA was assured that the payment to Ms Bradford, which seems quite generous, was based on what she would have received if had stayed with Qantas, her previous employer.

ASA has held a number of discussions with APA on its remuneration plan and has stated its preference for an equal weighting in the STI between cash and security awards and a four-year testing period for the LTI. ASA has also argued for the use of an underlying earnings per security (EPS) growth metric instead of the ROC metric. The Annual Report (Page 87) goes to some length to describe the adjustments made to the ROC target range arising from recent changes in assets which illustrates the difficulties in using this approach. Page 90 of the Annual Report describes the rationale and methodology for calculating the ROC which further illustrates its complexity and limited transparency for most security holders. While ASA understands the importance of an ROC metric for a capital intensive business such as APA, it believes that EPS growth or similar would be more aligned with security holder interests and easier for security holders to understand and evaluate. While there are some differences in the APA scheme to that preferred by ASA, we will vote all undirected proxies in favour of this resolution.

Resolution 2 - Nomination of Samantha Lewis for election as a Director

Samantha is a chartered accountant with extensive experience in accounting, auditing, risk management, corporate governance, capital markets and due diligence. Prior to becoming an NED, she spent 24 years at Deloitte including 14 years as a partner. She is currently a director of CSL, Nine Entertainment and Australian Pacific Airports Corporation. She was formerly a director of Aurizon Holdings and Orora Limited. She was appointed to the board on 1 October 2024.

ASA believes that Ms Lewis brings valuable professional, financial and risk management experience to APA and will therefore vote all undirected proxies in favour of this resolution.

Resolution 3 - Nomination of David Lamont for election as a Director

David is currently a Senior Executive Officer with BHP until February 2025 and was formerly CFO with responsibility for overseeing group reporting, tax, treasury, investor relations, risk and internal audit. David had previously held senior roles in BHP between 2001 and 2006. He subsequently held the role of CFO at CSL and served in similar roles at a number of other companies. He rejoined BHP in 2020.

ASA believes that Mr Lamont brings valuable professional, financial and risk management experience to APA and will therefore vote all undirected proxies in favour of this resolution.

Resolution 4 - Nomination of Michael Fraser for re-election as a Director

Michael was appointed to the board of APA in September 2015 and has served as chairman since 2017. Among other previous roles, he was CEO of AGL Energy for seven years to February 2015.

ASA is supportive of Mr Fraser's re-election and will be voting all undirected proxies in favour of this resolution.

Resolution 5 - Nomination of Debra Goodin for re-election as a Director

Debra was appointed to the board of APA in September 2015 and brings to the board experience in the infrastructure, construction, engineering and energy sectors. Further details are presented on the Notice of Meeting where it is noted that she intends to retire from the Board in February 2025 once the Chair of the Audit and Finance Committee is transitioned to Ms Lewis.

ASA is supportive of Ms Goodin's re-election and will be voting all undirected proxies in favour of this resolution.

Resolution 6 - Approval of grant of performance rights to the CEO

For FY25, it is proposed to award the CEO performance rights having a face value opportunity of $2,400,000 which, based on the 20 days VWAP price of the securities up to 30 June 2024 of $8.3541, equates to 287,284 rights. The rights will be subject to a 3-year testing period and will vest in 3 equal instalments after the release of the financial results for FY27, FY28 and FY29.

The rights are subject to two performance conditions being relative total shareholder return (rTSR) and return on capital (ROC) with each covering 50% of the rights. Further details are set out tin the Notice of Meeting.

The ASA is generally supportive of the proposal other than previous comments on our preference for a 4-year testing period. The other comment, which was also discussed at our pre-AGM meeting, was a preference for a more transparent metric than ROC such as free cash flow (FCF) or EBITDA growth as the calculations behind the determination of ROC are somewhat opaque and not directly aligned with security holder interests. The ROC vesting ranges from 11.8% (33% vesting) to 12.1% (100% vesting) which is quite a narrow band (30 basis points) and with the complications of calculating ROC gives less confidence in the resulting vesting levels than would be the case with a more visible metric.

Notwithstanding these comments, the ASA is sufficiently supportive of the proposal that it will vote all undirected proxies in favour of this resolution.

The Voice of Retail Shareholders T (02) 9252 4244 | F (02) 9071 9877 share@asa.asn.au asa.asn.au

Resolution 7 - Resolutions requisitioned by Securityholders

This resolution contains two resolutions being 7(a) and 7(b) which seek to change the constitutions of the two stapled securities making up APA to enable a third resolution to be put to the meeting relating to climate risk safeguarding. Details are provided in the Notice of Meeting.

These resolutions are not supported by the Board, and it recommends that securityholders vote against the resolutions. Should Resolutions 7(a) and 7(b) fail to achieve a majority of votes, the third, being 7(c), will not be put to the meeting.

ASA is not in favour of these resolutions and will vote all undirected proxies against them.

Resolution 8 - Conditional spill resolution

As APA received a "first strike" at the 2023 AGM on its remuneration report. If the vote against Resolution 1 (being the 2024 Remuneration Report) exceeds 25%, a spill motion requiring APA to hold a meeting within 90 days to remove all directors who held office at the date of signing the 2024 Directors' Report and then elect new directors would be put to the meeting.

ASA is not in favour of spilling the board given our support for the remuneration framework. If the resolution is put, will vote all undirected proxies against this resolution.

Appendix 1
CEO Remuneration framework detail for FY25

CEO Rem. Framework	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.60	32	1.60	29
STI - Cash	0.64	13	0.96	18
STI - Equity	0.32	6	0.48	9
LTI	2.40	49	2.40	44
Total	4.96	100	5.44	100

*Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting. Some remuneration frameworks set a maximum opportunity amount, but not all.

The Voice of Retail Shareholders T (02) 9252 4244 | F (02) 9071 9877 share@asa.asn.au asa.asn.au