

## APA pursues growth through new opportunities and executive team

<b>Company/ASX Code</b>	APA Group/APA
<b>AGM time and date</b>	Thursday 26 October 2023
<b>Location</b>	Wesley Conference Centre, 220 Pitt Street, Sydney
<b>Registry</b>	Link Market Services
<b>Type of meeting</b>	Hybrid
<b>Monitor</b>	Lewis Gomes and Sue Howes
<b>Pre-AGM Meeting</b>	Held with James Fazzino (Director), Kynwynn Strong (Acting CFO), Rebecca Culbertson (Head of Investor Relations) and Michael Forde (Acting GM, Capital Markets and Corporate Finance)

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 Nino Ficca for election as a Director	For
3	Nomination of Peter Wasow for re-election as a Director	For
4	Nomination of Shirley In't Veld for re-election as a Director	For
5	Approval of grant of performance rights to the CEO under the APA Group LTI Plan	For

### 2. Summary of Issues and Voting Intentions for AGM

- APA delivered a steady financial performance during FY23 with the distribution being increased by 3.8% to 55 cps. Debt continues to increase and shareholder funds continue to fall, both at incremental levels, but with the strength of its operational cashflow, APA retains the support of the market.
- Adam Watson was confirmed as CEO and MD from December 2022, replacing the former CEO Rob Wheals. The executive leadership team was considerably refreshed following this change.
- The other notable event was the purchase by APA of a range of power generation and transmission assets (both gas and electricity) in the Pilbara Region from Alinta for a total consideration of \$1.72 billion. This purchase was supported by a capital raising of \$875

million including \$200 million from retail investors via a Security Placement Plan (SPP). Both raisings were oversubscribed.

- A new director, Nino Ficca, was appointed and re-elections are being held for two other directors.
- The ASA is supporting all of the resolutions being put to the meeting.

### 3. Matters Considered

#### Financial performance

Overall financial performance was generally slightly ahead of the previous year. FY23 underlying earnings before interest, tax, depreciation and amortisation (EBITDA) was up 2.0% to \$1,725 million while free cash flow (FCF) was down by 1.0% to \$1,070 million. The full year distribution for FY23 of 55.0 cents per security was up 3.8% on FY22 and forecast to be 56.0 cents for FY24. The security price was down 14% over FY23 resulting in a negative annual TSR of (9.1%). Further details are provided in the 5-year table shown below.

Capital investment was \$1.2 billion which included \$845 million invested in critical infrastructure projects detailed in the Annual Report. Net interest expense fell by 5% to \$459 million due mainly to interest paid on cash deposits. Total borrowings at the end of FY23 were \$11,523 up 5.7% on the previous year end resulting in net assets (shareholder funds) of \$1,910 million down 27% on the previous year and down 47% over the last 5 years. While underlying EBITDA and FCF continue to increase year on year (which are APA's preferred financial measures), net debt continues to increase while shareholder funds continue to reduce. Indeed, net asset backing per security is now only \$1.62 while net tangible asset (NTA) backing is negative \$1.19 compared with an ASX listed price of around \$9.70 at the end of FY23. Similarly, the trend to fund significant portions of the distributions from capital (or debt) rather than from profit continues with the profit distribution for FY23 being about 45% of the total distribution of 55.0 cents per security. With its reliable operational cashflow, APA has operated along this highly geared financial model for many years in a similar way to Transurban, and both companies have been able to maintain strong market support over many years.

#### 5 Year Financial Table

(As at FYE)	2023	2022	2021	2020	2019
NPAT (\$m) (1)	287	260	1	309	282
UPAT (\$m) (2)	287	240	279	309	282
Share price (\$)	9.69	11.27	8.90	11.13	10.80
Dividend (cents)	55.0	53.0	51.0	50.0	47.0
Simple TSR (%) (4)	(9.1)	32.6	(15.5)	7.7	14.4
EPS (cents) (3)	24.3	22.1	0.1	26.2	23.9
CEO total remuneration, actual (\$m)	2.41	3.06	2.79	2.51	5.18

(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 as well as a good mix of gender and tenure but has lacked strong technical experience in electrical energy systems. This shortcoming appears to have been addressed by the recent appointment of Nino Ficca to the Board, as explained below.

There are 8 directors of whom 3 are women (37.5%) while the Executive Leadership Team (ELT) comprises 10 executives of whom 5 are women (50%). Female participation across the total workforce has continued to rise and is now just under 32% while females in senior leadership roles has increased to 31.4%.

There are currently only 2 Executive Key Management Personnel (KMP) listed in the Annual Report, being Adam Watson as CEO and Darren Rogers as Group Executive Energy Solutions. However, it is expected that over FY24 some members of the ELT will be listed under this cohort.

The Board and its various committees appear to work efficiently with an increasing focus on health and safety. For FY23 there were zero fatalities and zero serious injuries and a 42% reduction in potential serious harm incidents compared with FY22.

## **Key events**

A key event in FY23 was the confirmation of Adam Watson as CEO and Managing Director in December 2022. Adam was appointed Acting CEO after the departure of the previous CEO, Rob Wheals, in September 2022. Adam was previously the CFO for APA and prior to that he held the CFO role at Transurban. As a consequence of Adam's appointment and the increasing focus of APA on renewables, quite a number of changes followed amongst the executive ranks as described below.

APA finalised the acquisition of Basslink, the power transmission cable across Bass Strait, for \$648 million (including cash) having initially bought the debt at a discounted rate during prior years for a total of \$782 million. The actual net cost of the transaction is not declared in the Annual Report.

In June 2023, APA announced the signing of an initial agreement with Tamboran Resources (ASX: TBN) to take responsibility for building and operating a number of gas transmission facilities to link the prospective gas deposits in the Beetaloo Basin in the Northern Territory to markets in Darwin and the east coast of Australia. Tamboran acquired these exploration rights from Origin Energy in late 2022 and is in the process of evaluating the feasibility of the project.

In August 2023, 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 Fortescue Metals Group (FMG). The deal is 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 has been strongly supported by the market, with the retail component initially targeted at \$75 million but was heavily oversubscribed leading it being increased to \$200 million with additional application moneys of \$124 million being refunded.

In FY23 APA opened a new national state-of-the art integrated Operations Centre to support its customers and markets from one central location in Brisbane.

### **Key board or senior management changes**

With the pivot towards renewable energy and electrical power generation and distribution, it is pleasing to see a new appointment to the board of Nino Ficca, previously CEO of AusNet and a director of the Australian Energy Market Operator (AEMO). Nino has a strong electrical engineering background as well as related operational and board experience which the board previously lacked.

In addition to Adam Watson's appointment, there have been numerous changes in the senior ranks of APA. Darren Rogers was appointed as the Group Executive (GE) Strategy & Commercial. Adam and Darren are the only two KMPs listed by APA in the Annual Report.

On his return from the United States, Ross Gerbach has been appointed GE Strategy and Corporate Development. Ross was regarded as a KMP but is longer at that level. Julian Peck resigned as GE Strategy and Commercial in August 2022 and was replaced by Darren Rogers.

In November 2022, Liz McNamara was appointed to the newly created role of Group Executive Sustainability and Corporate Affairs while Vin Vassallo was appointed to the newly created role of Group Executive Electricity and Transmission Development.

Since the end of FY23, two further new senior appointments have been 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 has been appointed to assist Amanda Cheney whose formal role is Group Executive Legal and Governance.

### **Sustainability/ESG**

APA released its updated Climate Transition Plan on 22 September 2023 which is aligned with the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) and details APA's progress against its Climate Transition Plan released in 2022. The report details specific achievements and progress on a range of initiatives with target dates included.

APA has also established FY24 focus areas which are aligned with the above plan including electrification opportunities for gas infrastructure, advancing renewable projects in the Pilbara and other regions, improving on emission data and continuing to develop a Scope 3 emissions strategy.

APA will also in FY24 release a 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 arrangements with Tamboran at the Beetaloo Basin.

## 4. Rationale for Voting Intentions

### Resolution 1 Adoption of FY23 Remuneration Report For

With the many changes in executive ranks, it is difficult to summarise the main remuneration changes over FY23. The framework remains the same, with a Fixed Remuneration (FR), Short-Term Incentive (STI) and Long-Term Incentive (LTI). For the CEO, the FR at 30 June 2023 was set at \$1,600,000 while the STI at target was 60% of FR and the maximum opportunity was 90% of FR. The LTI maximum was 150% of FR giving a total remuneration at risk of 70% of maximum available rem. Refer to Appendix 1 for further details.

The STI is evaluated against 4 financial measures totalling 60% of the award and 4 non-financial measures totalling 40% of the award as set out in the Annual Report. The CEO gained a score outcome of 78.9 % of the maximum resulting in an award worth \$966,736 of which two thirds is paid in cash and the other one third vesting in two lots over two years.

For the LTI, the relative Total Shareholder Return (rTSR) worth 50% of total LTI did not vest while the Return on Capital (ROC) worth the other 50% of the LTI award fully vested and will be granted in three lots over three years (August 2023, August 2024 and August 2025). Hence the value of the LTI award will be 50% of 150% of FR which is \$1,200,000.

The CEO's total actual remuneration for FY23 was \$1,466,647 comprising periods of being the CFO, Acting CEO and CEO/MD. There were no STI equity releases during FY23 and the LTI vesting came from previously awarded performance rights from FY20 and FY21.

While there are some differences in the APA scheme to that preferred by the ASA (eg 60% of STI in cash rather than 50% and LTI measured over 3 years rather than 4 years), overall the scheme is reasonable and well managed by the board. The ASA will therefore vote all undirected proxies in favour of this resolution.

### Resolution 2 Nomination of Nino Ficca for election as a Director

Mr Ficca brings to the board almost 40 years' experience in the energy and infrastructure sectors. He held the role of Managing Director of AusNet Services Limited and other senior roles with predecessors of AusNet from 2001 to 2019. He is currently a non-executive director of the Australian Energy Market Operator (AEMO) and chair of Energy Networks Australia. He has a degree in electrical engineering and has completed various advanced management programmes at Harvard Business School.

The ASA believes that Mr Ficca brings valuable professional, technical and management experience to APA and will therefore vote all undirected proxies for his election as a director of APA.

### **Resolution 3 Nomination of Peter Wasow for re-election as a Director**

Mr Wasow was appointed to the board in March 2018. He previously held the role of CEO with Alumina Australia Limited and prior to that appointment he held senior executive positions with Santos Limited and BHP.

Mr Wasow is the Chair of the People & Remuneration Committee and a member of the Audit & Finance Committee and the Risk Management Committee.

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

### **Resolution 4 Nomination of Shirley In't Veld for re-election as a Director**

Ms In't Veld was appointed a director of APA in March 2018 and brings to the board over 30 years' experience in the resources and energy sectors. She was Managing Director of Verve Energy and prior to that she held senior roles with Alcoa Australia, WMC Resources and BankWest.

Ms In't Veld is a member of the People & Remuneration Committee, the Safety & Sustainability Committee and the Nominations Committee.

The ASA is supportive of Ms In't Veld's re-election and will be voting all undirected proxies in favour of this resolution.

### **Resolution 5 Approval of grant of performance rights to the CEO**

For FY24, it is proposed to award the CEO performance rights having a face value opportunity of \$2,400,000 which, based on the VWAP price of the securities on 24 August 2023 of \$8.9012, equates to 269,626 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 FY26, FY27 and FY28.

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 in 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 11.10% (33% vesting) to 11.40% (100% vesting) which appears to be quite a narrow band (2.7%) 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.

#### ASA Disclaimer

This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:

- makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or
- shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.

This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.

---

## Appendix 1

### Remuneration framework detail for FY23

CEO rem. Framework for FY23	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.