

ACHIEVING THE RIGHT BALANCE

SUSTAINABILITY REPORT



Happy graduates of Exodus Foundation's literacy program.

OUR VISION To maintain our ranking as Australia's number one energy infrastructure business. Our success will be founded upon the strengthening of our asset footprint. We are committed to working closely with our stakeholders – customers, employees, the environment, community and investors – to deliver continuous improvement and sustainable growth.

OPERATING SUSTAINABLY UNDERPINS EVERYTHING WE DO

Stakeholder strategic objectives	2013 performance	Actions for 2014
<p>Customers</p> <p>We will deliver value to our customers and create responsive solutions to meet their needs by:</p> <ul style="list-style-type: none"> — Providing our customers a market-leading service, including responding to critical events when our customers are negatively impacted. — Delivering value to customers by utilising the capacity of APA's assets. — Working with customers to provide optimal investment and energy market solutions to maintain a pipeline of growth projects. 	<p>Commercial agreements signed with Santos and GLNG Operations for the development of new compression and associated facilities at the Moomba and Wallumbilla gas hubs in Queensland. These developments will enable APA to provide bi-directional gas transportation services between Moomba and Wallumbilla and additional services for customers in south east Queensland.</p> <p>In May 2013 APA delivered its first multi-asset transportation service on the east coast gas grid.</p> <p>In Western Australia APA developed a suite of flexible gas storage services for the Mondarra Gas Storage Facility and undertook a number of expansion programs in the region on the Goldfields Gas Pipeline and the Pilbara Pipeline System.</p> <p>In June 2013, APA announced a non-binding Heads of Agreement with Armour Energy to investigate transportation of new gas supplies to the eastern Australian and Northern Territory gas markets.</p>	<p>Continue to expand its pipeline system to provide transportation services from Victoria to New South Wales via the Victorian Transmission System, including expansion of the South West Pipeline.</p> <p>Respond to customer needs and continue to develop optimal energy solutions with customers.</p> <p>Cost efficiency to meet customer growth requirements – maximising use of existing assets and profitably expanding APA's asset portfolio.</p> <p>Continue to develop flexible transportation and storage services.</p>
<p>Employees</p> <p>We will provide a safe, stimulating and rewarding workplace where our employees can learn and grow by:</p> <ul style="list-style-type: none"> — Committing to a long-term LTIFR¹ target of Zero Harm by continually improving safety in the workplace. — Providing employees with a stimulating and rewarding environment such that they would recommend APA as a great place to work. — Providing learning and development programs to attract, retain and develop employees. — Promoting diversity as a core policy supported by initiatives which foster inclusion. 	<p>LTIFR (excluding contractors) improved slightly from 2.2 to 2.1. This was above our 2013 LTIFR target of 1.3.</p> <p>Review of the implementation of the safety management system (Safeguard) resulted in streamlining the system to make it more user-friendly. A company-wide Health Safety and Environment Strategy and Improvement Plan was also implemented.</p> <p>Continued sponsorship of health focused activities for employees including the Global Corporate Challenge.</p> <p>368 employees participated in APA Leadership Development Programs. A further 1,518 employees undertook a range of APA Skill-Based Development Programs and over 500 employees attended EEO Training.</p> <p>Business Acumen Skills program developed and rolled out with 100 employees attending.</p> <p>Diversity and Inclusion Committee established to develop work place initiatives to ensure that APA maintains a skilled and engaged workforce.</p> <p>A Career Transition to Retirement Workshop was developed and offered to employees to assist with their preparation for retirement.</p>	<p>Target an LTIFR of less than 1.5 (including contractors).</p> <p>Implementation of a new Strategy and Improvement Plan for HSE which comprises a total of 17 initiatives. In 2014 initiatives to be implemented will include; HSE Leadership Program; New Leading Indicators; and Risk Based Validation Auditing.</p> <p>Expanded technical, learning and development program to all employees.</p> <p>Continue development of APA's diversity policy and initiatives.</p>

¹ Lost Time Injury Frequency Rate (LTIFR) is measured as the number of lost time claims per million hours worked.

Stakeholder strategic objectives	2013 performance	Actions for 2014
<p>Environment</p> <p>We will continue to deliver an environmentally responsible, safe and essential service by:</p> <ul style="list-style-type: none"> Contributing to policy and responding to climate change initiatives to promote the use of gas as essential to a cleaner energy mix. Including the environment in all investment and procurement decision-making, complying with our emissions reporting obligations, and conserving and rehabilitating the natural state of the land we disturb. Evaluating complementary clean energy projects. 	<p>Contributed to the federal government's Clean Energy Act 2011 regulation design and consultation process.</p> <p>Complied with the Clean Energy Act 2011 by procuring and surrendering permits for APA's FY2013 carbon liability. Successful cost recovery mechanisms in place for APA's carbon permit liability either contractually or through the access arrangement tariff review process.</p> <p>Participated for the third time in the Carbon Disclosure Project, a voluntary disclosure to investors on carbon emissions, liability, reduction activities, strategies and management. APA's overall score of 72D ranked highest amongst its direct peers.</p> <p>Engaged with government to promote the role of gas in the carbon-constrained economy, directly and via industry associations. This included a developing a Natural Gas Policy paper with industry body Australian Pipeline Industry Association (APIA).</p> <p>Continued to develop the renewable energy projects at Emu Downs Wind Farm, subject to customer demand.</p>	<p>Participate in policy discussions and promote the role of gas as an important contribution to reducing Australia's emissions.</p> <p>Maintain carbon market expertise and knowledge with a long-term view on energy markets shifting to clean fuels such as wind, solar and gas.</p> <p>Continue to incorporate carbon costs and the mitigation of extreme weather into all investment decisions.</p> <p>Evaluate energy project opportunities arising from the shift to renewable energy, particularly projects that enhance APA's current assets.</p>

Stakeholder strategic objectives	2013 performance	Actions for 2014
<p>Community</p> <p>We will positively engage the communities within which we operate by:</p> <ul style="list-style-type: none"> Building long-term strategic community relationships to maintain support and goodwill for APA's activities. Increasing employee connections with local communities through sponsorships, employee volunteering and giving programs targeting our vulnerable communities. 	<p>Continued APA's 'Building Brighter Futures' community investment program including support for NAPCAN, Exodus Foundation, Clontarf Foundation and Beyond Empathy.</p> <p>Employees across APA participated in three community events for causes including Cancer Council and Movember with their fundraising efforts matched by APA, up to a \$4,000 limit per event.</p> <p>Total community investment for the 2013 financial year was \$475,000.</p>	<p>Continue to support our community investment program, Building Brighter Futures, and expand its reach.</p> <p>Continue to invest in causes that enhance our relationships with key community stakeholders and strengthen our brand.</p> <p>Expand our financial support for local volunteer and community services.</p>

Stakeholder strategic objectives	2013 performance	Actions for 2014
<p>Investors</p> <p>We will continue to be a reliable and attractive investment which delivers superior returns for securityholders by:</p> <ul style="list-style-type: none"> Achieving reliable and sustainable earnings growth by focusing on long-term revenue and reduced costs. Maintaining a strong and robust balance sheet. Identifying and evaluating additional attractive infrastructure-style investments in related energy businesses. 	<p>Total securityholder return of 30.5 per cent for 2013.</p> <p>Maintained investment grade credit ratings (BBB/Baa2).</p> <p>Successful debt raising of \$1,271 million senior unsecured bonds across USD and Sterling markets to repay HDF debt and to fund growth and \$515 million of ASX listed subordinated notes.</p> <p>New APA securities totalling \$968 million, issued under the APA DRP and issued to securityholders of HDF as part of APA's takeover offer.</p> <p>\$373 million of organic growth capital expenditure.</p> <p>Acquisition of HDF and increased interest in Envestra.</p>	<p>Maintain credit rating levels.</p> <p>Continue to evaluate additional revenue streams in related energy businesses.</p>

We work hard to make a difference in communities and for the environment

APA is proud to contribute to the Australian communities where we live and work. We recognise the role that our community support plays in strengthening our brand, enhancing our relationships with key stakeholders and engendering goodwill in local communities. And we're proud to invest in social causes and initiatives that will help build brighter futures for vulnerable people, especially young indigenous Australians.

BUILDING BRIGHTER FUTURES

We've continued to grow 'Building Brighter Futures', our community investment program to support initiatives which improve the future work and life prospects of vulnerable Australians.

Our long-term corporate partnerships are focused on the core social issue of disadvantaged, young indigenous Australians. We have continued our three year commitment to support:

- NAPCAN Aboriginal Girls Circle: a residential camp program to build resilience, self-esteem, social connections and confidence for Aboriginal girls in regional and remote areas;
- Clontarf Foundation: an organisation which exists to improve the education, discipline, self-esteem, life skills and employment prospects of young Aboriginal men and by doing so, equips them to participate more meaningfully in society; and

- Exodus Foundation Literacy Program: a literacy program to teach functional literacy to disadvantaged children with severely compromised reading ability, including indigenous children in Darwin.

We also again supported Beyond Empathy, a community arts and cultural development organisation that creates art projects with people living on the margins of their communities, to tell their stories and engage with positive futures.

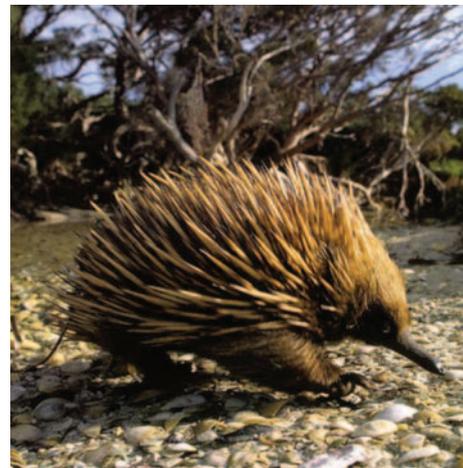
This year APA donated almost \$160,000 to these causes.

APA PEOPLE COMING TOGETHER TO MAKE A DIFFERENCE

Building Brighter Futures also supports a number of causes close to the hearts of APA people through our annual community event calendar. Our people drank tea, baked and ate pink food and grew moustaches to show their support, and raise much needed funds, for Cancer Council's Pink Ribbon Day, Australia's Biggest Morning Tea, and the Movember Foundation. This year employees also voted to add a new event to the 2013 calendar, and will support the cause of mental illness and the Black Dog Institute in August.

Collectively, employees donated almost \$26,000 to these causes, which APA was pleased to match to \$18,000 under our capped donation matching program.

Taronga Zoo's short beaked echidna



APA's total community investment and sponsorship for the 2013 financial year was \$475,000.

SUPPORTING ARTS, NATURE, SPORT

This year we continued to support great Australian music with our sponsorship of the Darwin Symphony and Australian Brandenburg orchestras. We also supported Taronga Zoo's short beaked echidna, continuing an association we were pleased to establish with this iconic Australian monotreme in 2011.

As a business that's flourished from humble beginnings, we recognise the critical value of early support. That's why this year we commenced our partnership with the Australian Ice Hockey League, a semi-professional but fast growing national competition for ice hockey players.

SUPPORTING LOCAL COMMUNITIES

As part of our support for local communities, in Queensland, we were pleased to make a donation to Bundaberg SES, acknowledging their important work during the severe summer floods. In Mount Isa, as part of our Diamantina Power Station joint project with AGL Energy, we've been pleased to support a number of local initiatives, including the New Year's Eve fireworks and the Swingin' Utes music festival. Also in Queensland, HDF (Epic Energy), the former owner of the South West Queensland Pipeline, made a number of financial contributions to local schools, services and community groups, including a \$20,000 donation towards the protection of the Aboriginal Kullilli Burial Ground. In Dongara Western Australia, an innovative recycling effort by APA raised almost \$76,000, all of which was donated to local community groups.



Clontarf Foundation participants from Coodanup, Western Australia.

NATIONAL GREENHOUSE AND ENERGY REPORTING

APA has a relatively small carbon footprint in the overall energy chain. APA's emissions are mainly the result of the combustion of natural gas in compressor stations and from fugitive emissions within our networks.

APA regularly monitors its carbon exposure and complies with National Greenhouse and Energy Reporting (NGERS) obligations for reporting emissions data. In financial year 2012 APA reported emissions of 327,239 tonnes under NGERS, and on 31 October APA expects to report an emissions number broadly in line with last year once an adjustment is made for the recently acquired HDF pipeline assets.

CARBON DISCLOSURE PROJECT

APA participated for the third time in the Carbon Disclosure Project, a voluntary disclosure to investors on carbon emissions, liability, reduction activities, strategies and management.

APA's score of 72 is ranked in the highest band for disclosure (>70), which states that "Senior management understand the business issues related to climate change and are building climate related risks and opportunities into core business". APA's performance score of D ranked in the top 40 per cent in the Utilities sector. APA could improve its performance score by setting and achieving carbon emission reduction targets. However, because APA's reduction activities rely on a strong carbon price, management will wait for further certainty on carbon legislation before committing resources to these activities. APA's overall score of 72D ranked highest amongst its direct peers.

CLEAN ENERGY ACT 2011 – A PRICE ON CARBON

On 1 July 2012 the Clean Energy Act 2011 imposed a price on carbon emissions. APA has consulted and determined with regulators the mechanism to recover carbon permit costs relating to its regulated assets under the access arrangement review process. For non-regulated assets, APA has passed-through carbon permit costs for its liable facilities through contractual terms and conditions.

CLEAN ENERGY POLICY

APA supports reducing carbon emissions as a responsible risk mitigation response to climate change. APA has long supported the introduction of a price on carbon and certainty on carbon policy. However, to date the Clean Energy Act 2011 has not provided the required certainty to shift large-scale coal generation to

more carbon efficient gas-fired generation. These uncertainties include the lack of international binding carbon reduction agreements and the price of carbon permits after the fixed price period.

In the longer term, as international and domestic carbon markets mature, APA's assets will play an important role in meeting Australia's long-term emission reduction targets as energy consumption shifts from carbon intensive fuels such as coal to more carbon efficient fuels such as natural gas.

In APA's view, gas-fired generation and renewable energy, predominately wind-powered generation and increasingly solar generation, are technologies that can meet significant emission reduction targets for Australia.

SECURING AUSTRALIA'S GAS FUTURE

APA supports the recommended policy initiatives from the Australian Pipeline Industry Association's ("APIA") recent review of Australia's current energy policies.

Key findings of the APIA policy paper included:

- The low emissions intensity of electricity generated from natural gas and the highly efficient heating capacity of natural gas in direct applications can contribute to reducing Australia's greenhouse gas emissions at a low cost if the appropriate policy environment exists;
- Australia is fortunate to have large reserves of natural gas, a relatively stable regulatory environment, efficient gas infrastructure, and well-developed downstream gas markets;
- It is important to establish an investment environment that maximises the nation's ability to exploit natural gas for economic and environmental benefits;
- Any clean energy policy should be technology neutral, where projects compete for investment and/or government funding programs/schemes on the basis of emissions reduction and economic efficiency; and
- If the conditions were set appropriately to encourage projects that provide energy with a low emissions intensity, then natural gas projects would compete on the same footing and contribute significantly to meeting long-term emissions reduction targets
- One policy option is for the Renewable Energy Target (RET) to be widened to include all low emission forms of generation, allowing new energy projects to

compete for market demand on the basis of their economic efficiency and capacity to reduce emissions. Under such a policy, gas would be able to compete on a dollar per tonne abatement basis with renewables as opposed to being excluded completely from the RET. This policy option would ensure that Australia meets its emissions reduction targets at the lowest cost

- Another policy option aimed at increasing low-emission energy and domestic energy security is to establish a technology neutral, government-run scheme for all forms of energy (including renewables and low emission technologies) to compete for funding. If gas met the economic and environment efficiency criteria, such a scheme could be designed in a way that could accelerate the development of new gas fields by underwriting the new infrastructure required to unlock the gas.

APA continues to discuss gas and clean energy policy options with state and federal governments.

EXPANDING OUR LOW EMISSION GENERATION PORTFOLIO

APA has interests in wind energy and low emission state-of-the-art gas-fired generation. These investments provide solid returns and help lower carbon emissions in the Australian economy.

APA is jointly constructing, with AGL Energy, the 242 megawatt Diamantina combined cycle gas power station which is a low emission and efficient gas generating asset. Its carbon intensity is approximately 0.4 tonnes per megawatt hour, which is less than half the carbon intensity of the National Electricity Market.

Subject to customer demand, APA will progress the development of the 130 megawatt Badgingarra Wind Development Project adjacent to APA's Emu Downs Wind Farm, as well as the Emu Downs Solar Project, a small expansion to the wind farm. Both projects are contingent on entering into a long-term off-take agreement and meeting APA investment hurdles.