Australian Gas Networks

2016 Annual Review

A low-carbon vision for natural gas: today, tomorrow and in 2050.

We are Australian Gas Networks, one of Australia's largest natural gas distribution companies.

Our vision is to become the leading gas distributor in Australia. We will achieve this by delivering for our customers, being a good employer and by being sustainably cost-efficient.

Message from the CEO

Ben Wilson
Chief Executive Officer

We are one of Australia's largest natural gas distribution companies. Our networks deliver gas to around 1.25 million households and businesses across most of mainland Australia. I am pleased to present our 2016 Annual Review, our second as Australian Gas Networks.

In 2016, we have improved our leak response, customer service and cost efficiency. We have refreshed our marketing, updated our website and connected to a record number of new customers. We have expanded our networks in Queensland, Victoria and South Australia. 2016 has been a year of positive progress for Australian Gas Networks. However, we face challenging times in the energy sector as we try to maintain affordable prices and reliable service while reducing emissions. Wholesale gas prices are rising as Australia becomes a major natural gas exporter. In that context, I am pleased that we cut our tariffs in South Australia by 23% and Queensland by 10%, delivering flat or falling gas bills to residential customers. In Victoria, we have proposed an 11% price cut in 2018.

AGN also supported Energy Networks Australia and four other peak bodies to launch *Gas Vision 2050*, a decarbonisation journey for Australia's gas networks involving hydrogen and biomethane. *Gas Vision 2050* will ensure the gas networks continue to deliver reliable, affordable energy to Australians in a very low or zero-carbon world.

Delivering for customers

For us, this means meeting our targets for public safety, reliability and customer service.

Our most fundamental responsibility is to keep the public safe. We measure performance against targets for leak first response, leak repairs and leakage surveys. In 2016, leak first response within two hours was above the targeted 96% level across all our key networks and our 97.8% average was an improvement on 2015.

We have continued the journey to becoming a customer service-focused business. In 2016, we measured customer service through proxies such as call answer times, connection times and complaints volumes. Answer times for both emergency and customer calls improved in 2016, with customer calls also hitting our performance target for the full year. We are confident that further improvement in 2016 will address this. Total complaints fell by 18%.

In 2016, we commenced measuring customer service directly via a monthly survey. This should create a step change in our culture and approach to customer service.

A good employer

For us, this means worker safety, employee engagement and delivering on training and skills development.

The safety of our employees and contractors is of paramount importance. We recorded four lost time injuries and 16 moderate medical injuries in 2016. We believe this is close to a leading safety performance amongst Australian energy networks. However, we want all our employees and contractors to go home safe and we strive for continuous improvement.

Staff engagement is a key focus and goes hand in hand with a customer service culture. We conducted our second survey of Australian Gas Networks' employees, producing a high score of 72%. We achieved full compliance with our training and competency audit programs.

We appreciate the commitment and effort of our operator APA Networks to ensure the safe and reliable operation of Australian Gas Networks' assets, and also their contribution and work towards our 'one team' approach.

Sustainably cost-efficient

For us, this means doing the work to maintain our networks, but within the cost targets set by the Australian Energy Regulator. We also want to grow our customer base, to give more Australians access to the benefits of natural gas and to reduce bills for existing customers by spreading our costs wider.

In 2016, we reduced underlying operating costs and we spent within our regulatory allowances, whilst meeting our regulatory performance obligations. Importantly, we successfully replaced the required 1,072 kilometres of ageing gas mains in South Australia over 2011–2016 as agreed with our regulators.

We added around 24,100 net customers in 2016, making total connections around 1.25 million. Gas deliveries to smaller customers reduced by two per cent, reflecting the comparatively warmer weather in the southern states, particularly in the autumn and winter months of 2016.

Investing in growth

Several major projects were completed or commenced during the past year. In Victoria, work continued during the year on the construction of the natural gas supply network to Koo Wee Rup, located to the south-east of Melbourne, and is expected to complete early in 2017. In South Australia, we commenced work on extending the network to McLaren Vale where six kilometres of mains will be added. We also started work on extending the network to a new residential development at Two Wells where around 3,000 customers are expected to connect to the network.

In Queensland, we commenced a major project to build a pipeline from the Wide Bay pipeline to Bundaberg Port. Although this project is primarily for Knouf Plasterboard Pty Ltd, unused capacity will be available for additional customers.

2017 and beyond

AGN can be proud of its progress in 2016. We have delivered better service for customers at lower prices. Our plans for 2017 and beyond will see this trend continue, ensuring natural gas remains the fuel of choice in Australia.

Leaks responded to within two hours

97.8%

Net customers added

24,100

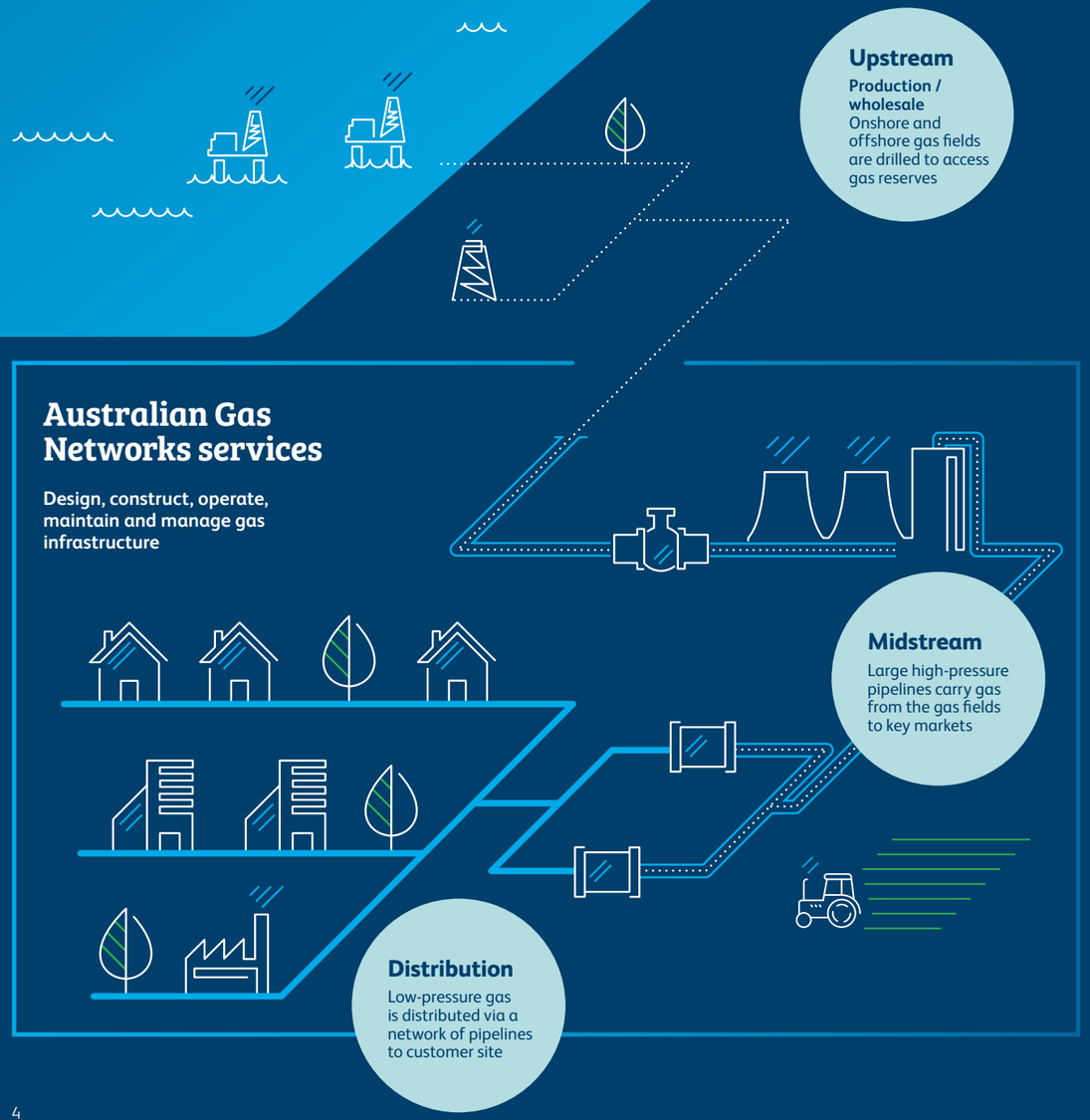
> "In 2016, we delivered better customer service at lower prices."

Gas distribution

Gas distribution plays an important role in ensuring homes and businesses have access to a safe and reliable supply of natural gas. Our distribution network receives natural gas from transmission pipelines and delivers that gas to our customer's home or business.

Retailers are responsible for entering into contracts for the purchase of gas from the producers and for the transport of that gas on the transmission pipelines and distribution network (owned by AGN).

Like most businesses, we recover the costs incurred for providing our service by charging customers who use them (in our case, retailers). The distribution charge (or tariff) is a key part of the natural gas supply chain, accounting for around 30% of the bill issued by the retailer to the residential customer.



Our customer focus

Reliable and convenient

The reliability, warmth and control of natural gas is one of the most desired features for Australian homeowners. Unplanned supply interruptions are rare and, unlike gas stored onsite, natural gas is always there when you need it so there's no need to worry about running out of fuel.

Cost savings and reduced emissions

Enjoying the benefits of natural gas in your home will most likely make significant cost savings, also reducing your carbon footprint compared to energy from the electricity grid. The more gas you use, the cheaper the tariff, which means lower gas bills for your entire household.

1.25 million
Customers across Australia

Distribution network
23,000 kms

Transmission pipelines
1,100 kms

Customer service

Leading customer service is demonstrated by AGN's response times to general and emergency customer calls, minimising the number of substantiated consumer complaints and the time taken to connect new customers to the gas networks.

Safety

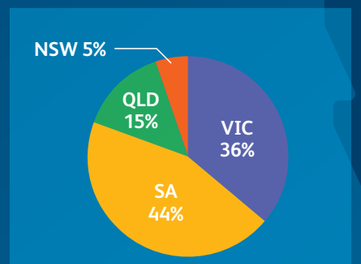
We have stringent processes and standards in place to ensure your safety. Our safety performance is measured by our ability to meet stringent incident response timeframes and to comply with our Leak Management Plan, in terms of leak survey compliance and leak repair compliance.

Our network

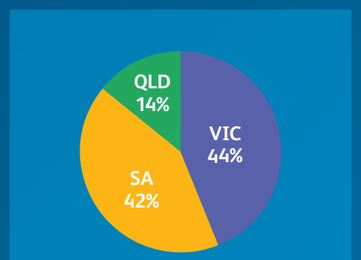
1.25 million customers

VIC	650,000 customers
SA	439,000 customers
QLD	99,000 customers
NSW	57,000 customers
NT	1,000 customers

Regulated asset base



AGN distribution supply area



Transmission pipelines owned by AGN

AGN Distribution Supply Area

Distribution networks owned by AGN

VIC SA QLD NSW

Wide Bay network

Brisbane metropolitan network

Adelaide metropolitan network

Melbourne metropolitan network

Riverland network

Our customer initiatives were successful in reducing our response times to emergency calls, improving customer satisfaction levels, and considerably dropping the cost of an average bill.

2016 Highlights

Delivering for customers

In 2016, the percentage of public leak reports that were responded to within two hours averaged 98% across Victoria, South Australia and Queensland. This is an improvement on 2015 and is also above our targeted level of 96%. Class 1 and 2 leak repair performance was maintained at around 98% in all states, apart from Queensland where we achieved 99%. Our Leak Management Plan survey showed compliance was below the 100% target in all states.

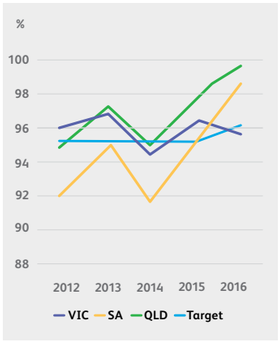
For all states, unplanned gas interruptions to five or more customers caused by operator actions, third party damage or asset condition, were over target levels. The number of customers having more than five interruptions within 12 months were above target levels in Victoria (five instances) and in South Australia (one instance).

Our response time to emergency and customer calls in 2016 improved on our target and our previous performance. We responded to 93% of emergency calls within 10 seconds and 87% of customer calls within 30 seconds. The number of substantiated complaints was below target levels in all states, except for South Australia.

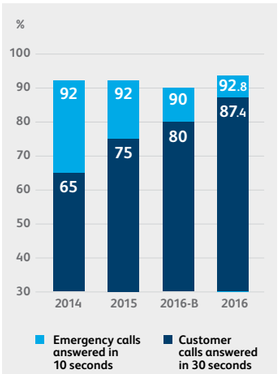
In a new initiative for 2016, we began measuring our customer service on a monthly basis. We also completed the final stage of our metering and billing optimisation project, with NSW going live in April. We launched our new website in October, and undertook a new winter marketing campaign with the theme 'Gas recommended by everyday experts.'

The final Access Arrangement (AA) decision for South Australia (July 2016-June 2021) was issued in May 2016 with the resulting tariff reduction of 23% on 1 July. The tariff reduction reflected a lower allowed rate of return, dropping from 10.28% to 6.15%. The Victorian and Albury AA proposal, which will cover the 2018-2022 period, was submitted in December.

Two-hour leak responses



Call answering performance



98%

Class 1 and 2 leak repair performance across all states

2016 customer initiatives

Exceeding targets in customer satisfaction

In 2016, AGN commenced the measurement of customer satisfaction through targeted surveying.

7.3 out of ten*

Overall Customer satisfaction is the highest quarterly score to date.

**Weighted annual average*

AGN Final Plan

We published our Victoria plan in July.

Press advertising

We promoted the significant drop in gas bills in South Australia from July.

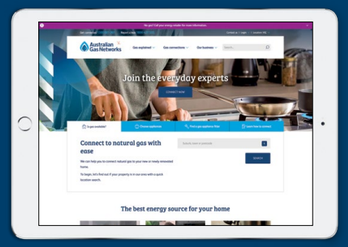
Reducing prices

23% cut

to gas distribution charges in South Australia from 1 July 2016.

Improved online experience

We launched our new website in October 2016. This saw the consolidation of eight existing websites to help serve our customers better.



Positive perceptions of natural gas

A recent survey asked customers what qualities they associate most with natural gas, the most popular words shown here larger.

Average SA bill down

$144 domestic

$750 small business

Proposing to reduce prices in Victoria and Albury by

11%

from 1 January 2018

2016 Highlights

A good employer

The health and safety of our employees is paramount. We measured our performance in this area against key employee performance indicators over the 2015-2016 financial year. This is in line with the measurement practice of our operator, APA Networks.

In the 2015-16 period, two Lost Time Injuries (LTIs) were sustained by APA employees, which is an increase from one LTI in 2014-15. There were also two LTIs sustained by contractors, the same amount as the prior period.

There were six Moderate Medical Treatment Injuries (MMTIs) sustained by APA employees, which is a decrease from eight in 2014-15. Contractors sustained 16 MMTIs compared with 14 in the previous period. We also began measuring fatal risk incidents in 2016, with 42 incidents reported for the six-month period to 30 June 2016

We are pleased to have maintained 100% compliance to competency throughout the year. We also recorded 100% compliance to scheduled volumes for refresher training across all states.

In October, our staff completed an annual employee survey, which revealed an employee engagement score of 72%, down from 78% in 2015. APA did not undertake an employee engagement survey in 2016. Their next scheduled survey, which is carried out every 18 months, is due in 2017.

Our vision

Our vision is to be the leading natural gas distributor in Australia.

Delivering for customers

Public safety
Reliability
Customer service

A good employer

Safety
Employee engagement
Skills development

Sustainably cost-efficient

Working within industry benchmarks
Delivering profitable growth

Our values

These values drive our culture and future actions. As a provider of an essential service, we play a critical role in the community and must act in a responsible manner. Clear and succinct company values influence our behaviour and drive our key decision-making.

Respect

We treat our customers and our colleagues in the way we would want to be treated, and we embrace and respect diversity.

One team

We communicate well, and support each other and are united behind our shared vision for Australian Gas Networks.

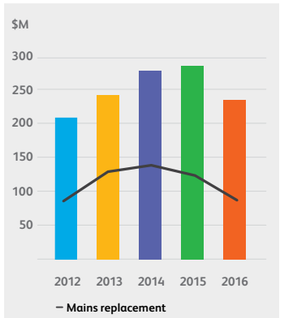
Perform

We are accountable, transparent and we deliver results. We continuously improve by bringing fresh ideas and constructive challenges.

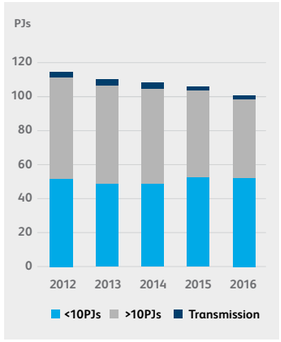
Trust

We act with integrity, do the right thing, and are safe guardians of essential Australian infrastructure. We act in a safe and professional manner.

Capital expenditure



Volumes



Cost-efficient

Our total operating cost for 2016 was $151.0 million, which is $4 million (3%) higher than 2015 but within the regulatory benchmark. The increase from 2015 was in part due to costs associated with the preparation of regulatory submissions.

Our net capital expenditure in 2016 was $234.1 million. This is $49.2 million (17%) lower than our 2015 expenditure, which was $283.3 million. This lower expenditure is due to the reduction in our mains replacement program ($31.3 million) and the timing of major projects ($29.2 million). Despite the drop in expenditure in these two categories, we still undertook significant works on new developments at a cost of $115 million. We also replaced 334 kilometres of mains at a cost of $93 million.

Gas delivered to <10 TJ customers (predominantly domestic) of 52.2 petajoules was two per cent lower than 2015. This is mainly attributable to comparatively warmer weather during autumn in the southern states. For instance, Adelaide experienced the warmest average April temperature in nearly 100 years. Gas deliveries to >10 TJ customers were 3.8 petajoules lower than the previous year, which is mainly due to the closure of a number of commercial customers in South Australia and Queensland.

334 kilometres of old gas mains were replaced at a cost of $93 million.

Growth and major projects

In 2016, we commenced and completed several key projects to extend our gas networks into new regions and to reinforce our supply in existing regions.

We aim to continue growing our existing customer base of around 1.25 million by taking our networks to new regions where we anticipate strong residential growth and high levels of gas penetration. Expansion allows new customers to have more choice. Existing customers also benefit with lower gas bills as we spread our costs to a larger customer base.

McLaren Vale

South Australia

Following the construction and commissioning of a 6km high-pressure supply main to McLaren Vale, we were able to commence reticulation of the township during the year. McLaren Vale is an internationally renowned wine region located approximately 35km south of Adelaide with a population of around 4,000 residents. As well as connecting residential customers to natural gas, the gas supply will support future economic development in the McLaren Vale area.

The total project cost for mains extension and reticulation is around $9.3 million, with $2.2 million spent in 2016.

Cape Schanck

Victoria

In 2016, we entered into an agreement with the Royal Automobile Club of Victoria (RACV) to construct 8.5km of 125mm polyethylene gas supply mains to service the RACV resort at Cape Schanck. The resort is located at the southernmost point of the Mornington Peninsula, overlooking the rugged Bass Strait.

This project will support the resort's new facility, which includes an additional 120 accommodation rooms, increasing the total rooms on the resort to 204. The new facility, which is due for completion mid-2018, will also feature a guest lounge, 25-metre swimming pool, fitness centre, day spa and conference facilities.

The project is scheduled for completion in early 2017.

$9.3m

Mclaren Vale supply main extension project cost

Growth and major projects

Bundaberg Port Gas Pipeline

Queensland

Last year, we entered into an agreement with Economic Development Queensland (part of the Queensland Department of State Development, Infrastructure and Planning) to supply natural gas to Knauf Plasterboard, Australia Pty Ltd's proposed new plant. This involved the construction of a 28.5km high-pressure steel pipeline from our existing Bundaberg Gate Station to the Port of Bundaberg.

Starting in 2016, the construction phase was a relatively short one, with the delivery of pipes from Brisbane to Bundaberg in February. In April, the first pipes were laid and the project was almost 75% complete by September. During November the pipeline was cleaned, gauged and hydrotested in parallel with reinstatement works. The final stage of construction of the pipeline was completed in December, along with pressure testing and marker post installation.

In February 2017, the gas metering equipment was installed and the final tie-in to the Bundaberg Gate Station was completed.

The pipeline will have the capacity to deliver natural gas at the rate of at least 1.6TJ per day under standard operating conditions, at a nominal delivery pressure of 400 kPag. As well as supplying Knauf, the pipeline will also support future expansion into the Bundaberg Port area, and potentially provide additional capacity to reinforce the existing reticulation network in Bundaberg.

In 2016, $12.7 million was spent.
The project was completed and commissioned in early February 2017.

Wandong-Heathcote Junction

Victoria

As with some similar projects, we were given access to further funds in 2016 as part of the Victorian Government's 'Energy for the Regions' program. The Government approved up to $4.9 million towards the connection and reticulation of Wandong-Heathcote Junction, a small township with a population of about 1,800 located on the Hume Highway, less than an hour's drive from Melbourne.

The project includes the construction of a natural gas supply distribution network to Wandong-Heathcote Junction. This will consist of a 0.5km steel main that ties to the city gate, and approximately 0.65 km of 125mm polyethylene pipe. It also includes a proposed length of approximately 12 km of 63mm polyethylene reticulation mains within the Wandong-Heathcote Junction township.

The total forecast cost is $5.9 million.
In 2016, $2.5 million was spent. The project is due to be completed mid-2017.

...The pipeline will also support expansion into the Bundaberg Port area...

Brisbane River Crossing

Queensland

We began planning in 2016 for the duplication of the supply main under the Brisbane River. This project is designed to provide security of supply to our approximately 100,000 Queensland customers and involves a duplication of the primary supply to the Queensland AGN network under the Brisbane River.

In 2016 $1.0 million was spent.
Construction is scheduled to commence in the second half of 2017 with completion in 2018.

2016 Strategic marketing

Future marketing focus for growth

Throughout 2016, our business objective has been to emphasise the benefits of gas and to increase new connections and consumption.

Our research has found that householders prefer the use of natural gas for cooking, heating and hot water.

Renovators and homebuyers look to upgrade to natural gas appliances as the inclination is to move towards an energy option that enhances their home lifestyle and has the potential to keep their household bills down. Most customers also recognise that natural gas appliances deliver a better product, are greener than electricity and cost less to run.

2016 net connections

15,528 VIC & NSW
5,738 SA
2,817 QLD

> "Growing the gas network benefits everyone as increased demand means gas becomes cheaper"

64%

of people were interested in connecting to natural gas as a result of seeing the AGN advertising campaign.

Everyday Experts campaign

Increasing awareness

In 2016, we launched Everyday Experts, a campaign designed to drive gas preference over time, encouraging households to connect to the gas network and increasing the use of gas appliances.

Everyday Experts was developed around a television commercial (TVC), and, in a first for us , extended into digital channels including YouTube and Facebook.

A content hub of digital articles was created to support the awareness campaign. The hub provides education and engages with those looking to make an energy decision, removing barriers and creating a climate of preference for natural gas.

The campaign successfully impacted attitudes towards gas and preferences across a wide target audience. Post-campaign research shows a high awareness of the Everyday Experts campaign, and awareness rose substantially when survey participants were prompted with the 'Everyday Experts Recommend Natural Gas' ads.

Approximately half (51%, up from 47% in August 2015) were interested in having natural gas connected in the future. This was higher (64%) among those who were not connected to gas and had seen the advertising campaign.

Campaign recall

97%

of survey respondents recalled seeing the campaign.

Most recalled advertisement

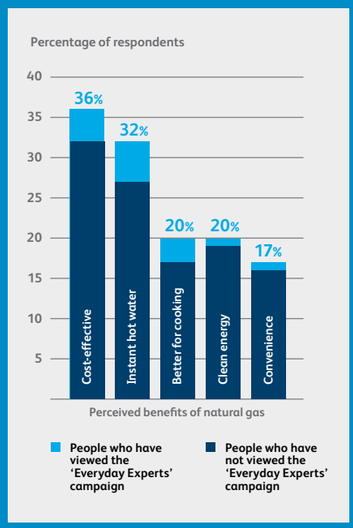
77% Couple on couch in front of heater

74% Teenage boy in shower

71% Man barbecuing sausages on patio

69% Cat on couch in a warm room

Impact of Everyday Experts advertising campaign

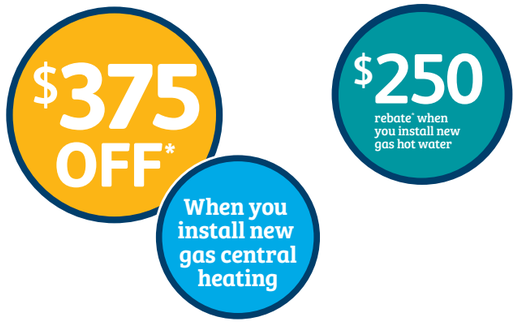


2016 Strategic marketing

Rebate campaign

We have continued to work directly with plumbers and appliance retailers on our Rebates Program. This program provides cash incentives through rebates for customers who purchase natural gas appliances.

Over the year, a record number of over 700 plumbers and appliance retailers were involved in our rebates program and we provided more than 5,000 rebates for additional home appliances.

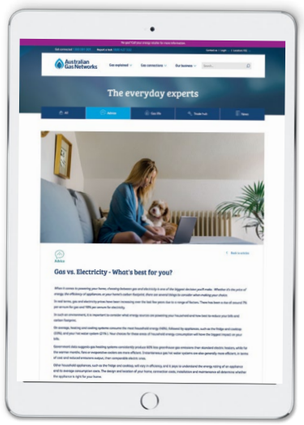


A record number of over 700 plumbers and appliance retailers were involved in our rebate program.

AGN Content Hub

In March 2016, there existed a need for the development of a hub that supported the awareness campaign by educating and engaging those looking to make an energy decision.

Content was created to start conversations about energy earlier on the path to purchase. Using editorial content, distributed through Outbrain and Facebook, we were able to build are re-targeting pool and drive traffic to the AGN website.



Most read article

4.41

mins on average spent reading advice article, "Gas vs Electricity – What's right for you?".

Consolidating eight separate websites, our new site offers a significant improvement in our customer service channels.

New website launched

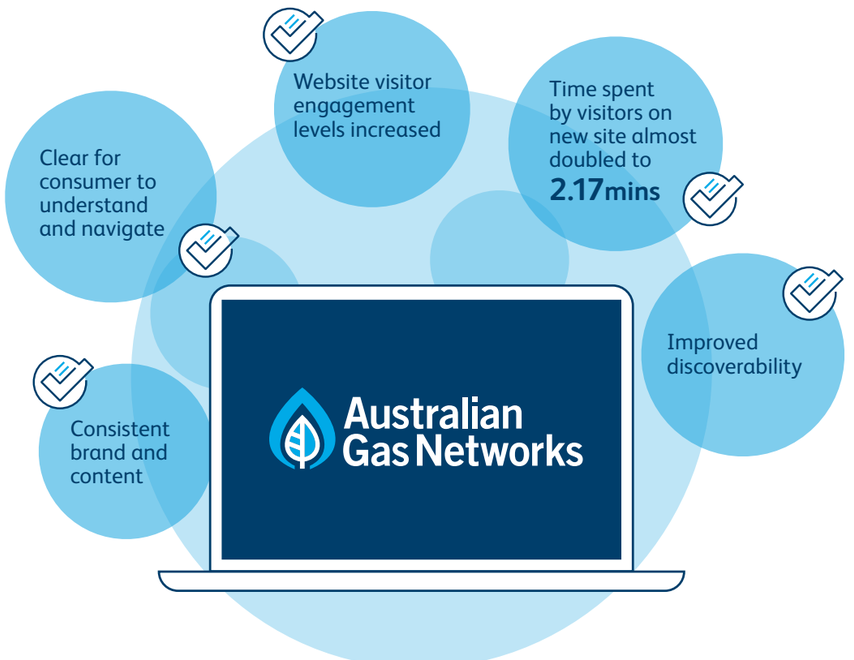
Our new website, australiangasnetworks.com.au, was launched in October 2016. Content optimisation is underway to capture search traffic with the next major milestone being an online customer connections portal.

Website visitors from our significant markets

9,166 VIC
5,074 SA
3,056 QLD

Other markets

6,244 NSW
971 Other states



As Australia moves towards our environmental goals, the affordability, reliability and security of our energy supply becomes crucial.

Sustainability

The transforming energy sector

The Australian energy sector is undergoing a period of rapid change. The need to reduce our carbon impact presents a number of challenges, particularly with intermittent renewable sources, like wind and solar generation, now a growing part of the energy mix.

As we move towards our environmental goals, the affordability, reliability and security of our energy supply becomes a key focus. We know that natural gas has a significant role to play in meeting these challenges - it's safe, reliable, affordable and has relatively low carbon emissions.

In this time of transition, innovation in low-carbon gas supply will be key to achieving our vision and will help ensure we are delivering for customers over the longer term.

Our low-carbon future

Natural gas has long been a part Australia's low-carbon energy solution, providing safe and reliable energy to homes and businesses with only one-quarter to one-sixth the greenhouse emissions of grid electricity.

In Australia, natural gas:

- Provides 44% of household energy but only 13% of emissions
- Underpins $362 billion of Australian industry

Looking ahead, our networks have an even bigger role to play in Australia reaching its emissions goals.

The Australian energy sector is targeting carbon emissions of 26% to 28% lower than those of 2005 by 2030, in line with the COP21 Paris agreement. Achieving it will require commitment and innovation from all sectors. At AGN, we understand the importance of this target, not only from an environmental perspective but also from the perspective of our customers and employees who rely on and invest in our business.

We are committed to evolving our business to ensure we continue to be a leader in the decarbonisation journey.

Importantly, we believe that decarbonisation of the existing gas networks is an achievable target. The technologies of biogas production, hydrogen production and carbon capture and storage (CCS) have already been proven, and a staged approach is already underway both here and internationally.

Hydrogen

Hydrogen is a clean burning fuel with no carbon dioxide emissions when burned.

Historically, hydrogen was the primary component of town gas, which was distributed in towns and cities prior to the reticulation of natural gas (which began in Australian in the 1960s). In the future, it is likely that hydrogen will return to being a key component of our supply because of its potential to provide carbon-free energy.

Overseas, hydrogen is being injected into networks at a level of up to 10%, with no need for modification of end-user appliances. However, increasing volumes will require some appliance modification to account for the differing characteristics of hydrogen and methane. Feasibility studies into the conversion of entire networks to hydrogen (such as the Leeds H21 Study) are currently underway. Hydrogen is commonly produced from natural gas. This process produces hydrogen and carbon dioxide, which can be stored by CCS. Pilot projects producing hydrogen through the electrolysis of water are also underway and have the added benefit of being carbon-free.

Biogas/Biomethane

Biogas is the net-zero emission gaseous fuel recovered from a wide range of renewable sources, such as wastewater, food waste and landfill. It can be produced from naturally occurring landfill gas or by using an anaerobic digester (AD), which relies on microorganisms to break down theorganic material in the absence of oxygen.

The AD process is proven technology with increasingly large volumes of biogas already being injected into gas networks internationally. Importantly, biogas produced from the AD and clean-up process has the same composition as natural gas. This means it can be injected into our networks with no modification to the network or user appliances.

Gas Vision 2050

We have worked closely with Australia's five peak gas bodies to develop *Gas Vision 2050*.

The Vision is a qualitative document that:

- Highlights the importance of gas to Australia today
- Explains the low-emission transformational technologies of biogas, carbon capture and storage and hydrogen production
- Describes an aspirational and attainable future for gas across Australia in which renewables and gas (including hydrogen and biogas) can support each other to achieve a near zero-carbon energy sector by 2050

The Vision was presented to the Minister for the Environment and Energy and the Minister for Resources and Northern Australia on 23 March 2017. It provides an important base for future qualitative analysis to be undertaken by AGN and industry more generally over the coming years.

In Australia, natural gas provides

44%

of household energy but only

13%

of household emissions

Australia's gas infrastructure can store the same amount of energy as 6 billion Powerwall batteries

There are 380,000 gas vehicles in Australia

Natural gas is an essential material for creating products such as fertilisers, plastics and chemicals

20%

of exports

By 2020, Australia's LNG exports will make up 20% of global exports

Half of gas used in Australia is for mining and manufacturing, adding $196 billion to the economy, and employing 949,000 Australians

6.5

million homes

Almost 70% of homes use mains or bottled gas: that's 6.5 million homes

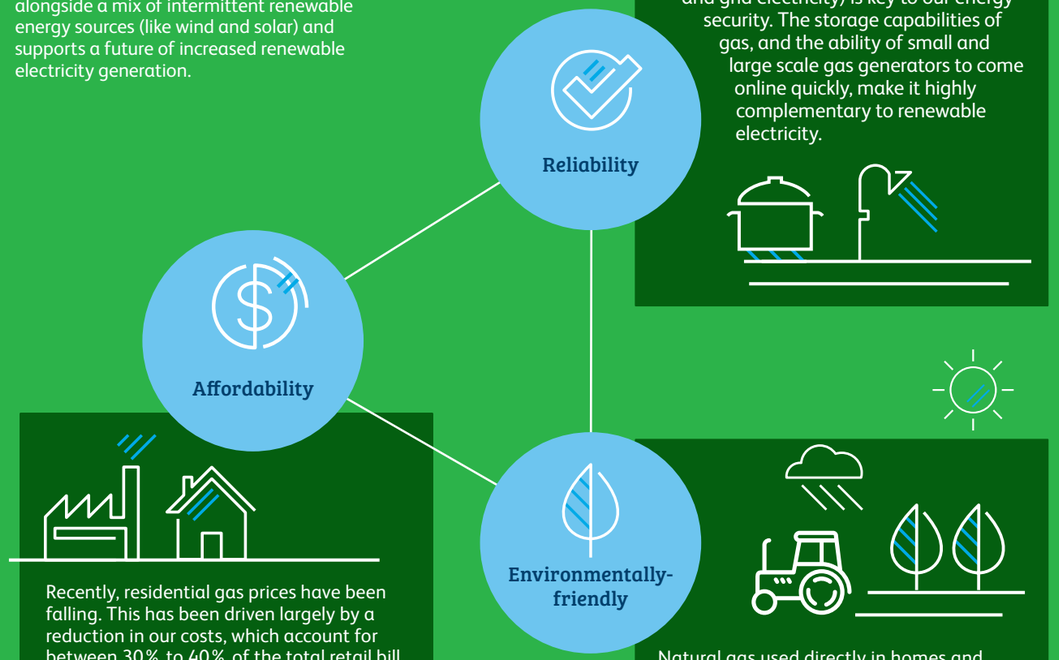
Modern gas power generation produces half the emissions of high-efficient coal plants and is much cheaper to build

Sustainability

Balancing the Energy Trilemma

Australians have the right to affordable, reliable and environmentally-friendly energy supply, now and in the future. The balancing of these objectives (known as the Energy Trilemma) is a challenge the nation is currently facing and one that gas networks are key to overcoming.

Gas is a reliable, affordable and low-carbon source of energy. It works well alongside a mix of intermittent renewable energy sources (like wind and solar) and supports a future of increased renewable electricity generation.



Gas networks are largely underground, which means they are very reliable. On average, customers experience only one hour off supply every 40 years. During the state-wide blackout in South Australia, customers still had access to natural gas. For gas appliances that use an electric starter, reliability can be made even greater by installing a small battery starter for use in times of blackout.

Diversifying the energy mix through the use of multiple sources of energy supply (for instance, a mix of distributed gas, solar and grid electricity) is key to our energy security. The storage capabilities of gas, and the ability of small and large scale gas generators to come online quickly, make it highly complementary to renewable electricity.

Recently, residential gas prices have been falling. This has been driven largely by a reduction in our costs, which account for between 30% to 40% of the total retail bill. For example, the average household in Victoria that uses gas for cooking, hot water and heating will save more than $400 per year compared with electricity. The household will also contribute 70% fewer carbon emissions.

Utilising gas networks can also help avoid future costs by reducing peak electricity demand – avoiding costly investment to secure electricity supply for only a few days each year. And, given gas networks already account for 44% of household energy supply, substantial investment in the likes of electricity networks, transmission, generation and storage would be required if gas were to be displaced by electricity.

Natural gas used directly in homes and businesses produces one-quarter to one-sixth the greenhouse emissions of grid electricity. As we look to the future, biogas and hydrogen technology offer potential for gas to become a zero-emission source of energy.

There is a bright future for gas networks in Australia. The Energy Networks Australia Gas Vision 2050 provides an outline of how the gas sector can work collaboratively with the electricity sector. It shows how together they can provide Australian homes and businesses with reliable base load energy while supporting energy security and ensuring Australia reaches the Government's carbon reduction targets.

Our decarbonisation journey

During 2016, we made significant progress on our decarbonisation journey. We ran an 'innovation competition' seeking expressions of interest from businesses wishing to bring to life any innovative technology relevant to the gas network. As a result of this, we have started working with an Australian company on a pilot carbon-free hydrogen production plant to be installed at our South Australian depot. A similar innovation competition is currently underway for 2017.

Through this research and innovation, we are playing a key role in Australia's low-carbon future and also securing the future of gas networks for our customers. This work will continue to ramp up in 2017 through the development of AquaHydrex, our 2017 innovation project, and through further feasibility work into decarbonisation of our network.

Low carbon project

Our 2017 innovation, low-carbon market scan is currently underway. Current results have identified a number of potential biogas projects in South Australia, Victoria and Queensland that have the scope to produce renewable gas for injection into our network. Our team is currently reviewing these projects with a view to selecting at least one for start-up over the next year or two.

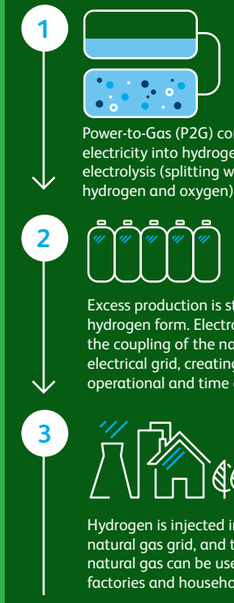
We have also identified several renewable gas project facilitators and will continue to liaise with these service providers to identifying further opportunities in the future.

"We are committed to evolving our businesses to ensure we are a leader in the decarbonisation journey."

Electrolysis project

In partnership with our 2016 innovation competition winners, we are facilitating the trial of a small pilot hydrogen production plant, which will be installed at our Adelaide operations depot in 2018. The concept involves purchasing excess electricity from the grid at times of low price and using it to produce hydrogen from water through electrolysis. The hydrogen gas can then be injected into the local gas network, where it gets mixed with natural gas.

Power-to-Gas



Community

We are committed to supporting the local communities that our business relies on.

In 2016, we continued to work with these and other community groups including the South Australian State Theatre Company, Foodbank SA, the Hutt Street Centre for the Homeless, the Leukaemia Foundation, the Cancer Council, the Port Adelaide and Sturt football clubs, and other charitable groups.

Throughout the year, we provided around $0.5 million to various community groups, including those listed above. We also worked with a range of market participants to promote natural gas, including the Housing Industry Association, Master Builders Association, Plumbing Industry Association, Association of Land Development Engineers and Urban Development Institute of Australia.

Food Bank

Foodbank is Australia's largest food relief organisation, providing 60 million meals a year to over 2,400 charities around the country.

Foodbank SA provides a vital service by rescuing edible but surplus foods from the country's farmers, manufacturers and retailers, and redistributing it to charities and schools across the state. We have been proud to continue our association with them in 2016 and beyond.

"This year, AGN supported Foodbank's annual food drive for much needed winter items to help provide exposure to the good work Foodbank does in our community."*

Plans are already underway for next year's activities.

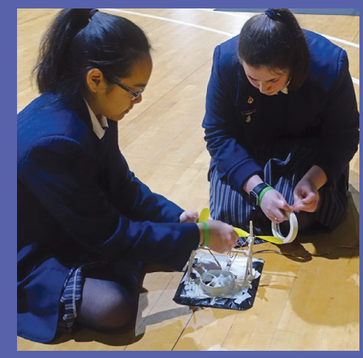
2016 Foodbank Facts

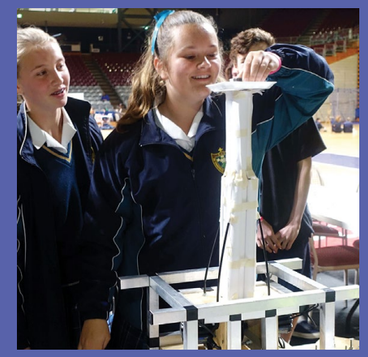
- Supplied 4,019, 240 meals
- Provided food for 1,500 schools nationally, the largest support of school breakfast programs in Australia
- Accounted for 75% of all the food distributed to charities by food rescue organisations in Australia

*Source: http://www.foodbank.org.au/wp-content/uploads/2016/05/Foodbank-Hunger-Report-2016.pdf

Science and Engineering Challenge

Over a number of years, we have given our support to the Science and Engineering Challenge. This nationwide initiative is designed to inspire high-school students to study science and engineering and to encourage them to pursue related careers. The South Australian Challenge, of which AGN is a major sponsor, involved competitions across the state. A total of 2,500 students from 80 high schools benefited from this initiative.





"Many brilliant careers have been inspired by a single classroom environment or school subject experience. This competition is a wonderful opportunity for thousands of Australian school children."

AGN Chief Executive Officer
Ben Wilson

$500K+

Donated to community groups

Operational statistics/results summary

Gas delivered

	2016		2015		2014		2013		2012	
	<10TJ*	Total	<10TJ*	Total	<10TJ*	Total	<10TJ*	Total	<10TJ*	Total
Victoria	36,625	55,218	37,523	55,965	33,973	51,604	35,625	53,843	34,605	54,954
South Australia	10,535	30,795	10,975	31,062	10,150	31,402	10,461	32,938	10,346	33,231
Queensland	2,363	6,024	2,315	10,233	2,270	15,718	2,264	16,377	2,322	16,465
New South Wales	2,611	6,927	2,602	6,780	2,387	6,323	2,600	6,468	2,504	6,432
Northern Territory	62	2,353	67	2,701	70	3,387	70	3,337	70	3,550
Total	**52,196**	**101,317**	**53,482**	**106,741**	**48,850**	**108,434**	**51,020**	**112,963**	**49,847**	**114,632**

*TJ – A terajoule is equal to one trillion joules

Customers

	2016	2015	2014	2013	2012
Victoria	650,191	635,559	621,591	601,228	587,440
South Australia	439,248	433,510	427,336	417,222	410,706
Queensland	98,989	96,172	93,885	90,988	89,098
New South Wales	56,641	55,745	54,629	52,924	51,882
Northern Territory	1,137	1,137	1,137	1,100	1,090
Total	**1,246,206**	**1,222,123**	**1,198,578**	**1,163,462**	**1,140,216**

Assets

	VIC		SA / NT		QLD		NSW		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
New mains (km)	202	196	42	52	107	69	9	5	**360**	**322**
New inlets	14,455	14,296	8,161	7,931	3,359	3,003	770	615	**26,745**	**25,845**
Replacement mains (km)	95	149	207	228	22	46	-	–	**324**	**423**
Total mains (km)	10,879	10,686	8,175	8,124	2,947	2,841	1,897	1,873	**23,898**	**23,524**
Transmission pipelines (km)	380	373	383	383	285	285	84	84	**1,132**	**1,125**

Financial ($m)

	2016	2015	2014	June 14	June 13	June 12
Total revenue	578.2	606.4	566.1	554.4	507.5	468.6
EBIT	341.8	376.1	324.1	339.8	301.7	276.6
Capital expenditure	235.2	280.8	269.9	253.3	217.4	176.1
Credit rating	BBB+\Baa1	BBB+\Baa1	BBB+\Baa1	BBB\Baa2	BBB\Baa2	BBB-\Baa2
Net debt ($bn)	2.48	2.40	2.24	2.18	2.05	2.18
RAB ($bn)	3.35	3.24	3.05	2.93	2.78	2.59
Net debt: RAB	74%	74%	73%	74%	74%	84%

Operational key performance indicators

Delivering for the customer	2016	2015	2014
Public safety			
% of public leak reports responded in 2 hours	98%	97%	95%
LMP leak surveys compliance - % of work orders complete within 30 days of due by date	98%	100%	100%
LMP Class 1 and 2 leak repair - % performance with LMP target timeframes	99%	99%	99%
Reliability			
Unplanned interruptions caused by operator actions, third party damage or asset condition	45	43	35
Number of customers having 5+ interruptions within 12 months	6	3	40
Customer service			
Time to answer emergency calls within 10 seconds	93%	92%	93%
Time to answer customer calls within 30 seconds	87%	75%	63%
Number of substantial complaints	2,330	2,843	3,224
Connections within 20 working days or 1 day of requested date	99%	N/A	N/A
Meters fixed within 2 working days or 1 day of requested date	97%	97%	N/A
A good employer			
Employee safety (Financial year ending 30 June)			
Number of Lost Time Injuries	4	3	4
Number of Moderate Medical Treatment Injuries	22	22	30
Skills development			
Employee engagement	72%	78%	N/A
Refresher training compliance	100%	100%	100%
Compliance to competency audits	100%	100%	100%
Other			
Environmental			
Greenhouse Gases Emissions (Volume - tonnes C02e)	560,130	600,000	602,000

Corporate Governance

EXECUTIVE MANAGEMENT TEAM

Ben Wilson
MA (Natural Sciences)
Chief Executive Officer

Ben joined AGN as Chief Executive Officer in March 2015. Previously Ben was the Director of Strategy and Regulation and Chief Financial Officer at UK Power Networks, a large electricity distribution company in the UK with 8 million customers, and also owned by the CK Group. Before joining UKPN. In 2011, Ben was a utilities investment banker for 15 years, working in Europe, Asia and Latin America, most recently at Deutsche Bank. He is a Director of Energy Networks Australia (ENA) and Chairman of the ENA Gas Committee.

Paul May
B.Acc, CA
Chief Financial Officer

Paul is a Chartered Accountant with 20 years' experience in various corporate and financial management roles with ASX-listed companies, including Santos Ltd and Henry Walker Eltin Group Ltd. Paul joined the company in 2005 and, prior to becoming the Chief Financial Officer in January 2015, was Group Manager, Finance and Risk since 2009.

Craig de Laine
B.Econ, P Grad Dip Econ, M.Econ

General Manager, Strategy and Regulation

Craig has extensive industry experience, with 15 years in utility regulation including previous roles at the Essential Services Commission of South Australia and the Productivity Commission.

Andrew Staniford
M.Ec
Chief Operating Officer

Andrew has around 25 years' experience in the development and application of regulatory arrangements in the energy industry and commercial management of utilities.

Geoff Barton
B.Acc, CPA
Company Secretary

Geoff has 35 years' experience in the energy sector, including roles with ETSA and AGL. Geoff joined the company in 2006 and was previously Assistant Company Secretary, Assistant Treasurer and Manager Business Services.

OWNERSHIP

Australian Gas Networks is owned by a consortium of Hong Kong-based entities listed on the Hong Kong Stock Exchange, CK Infrastructure Holdings Ltd (CKI), Power Assets Holdings Ltd (PAH) and Cheung Kong (Holdings) Ltd (CKH).

Gas leaks and emergencies:
1800 427 532
(1800 GAS LEAK)

New connections and general enquiries:
1300 001 001

Existing gas connections and general enquiries:

South Australia and Northern Territory
(08) 8159 1661

Victoria
(03) 9463 8222

Queensland
(07) 3215 6600

Albury
(02) 6023 0611

Wagga Wagga
(02) 5933 0800

Corporate Head Office:

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Level 6 , 400 King William Street
Adelaide, SA
Australia 5000

(08) 8227 1500

Media enquiries:
(08) 8227 1500

australiangasnetworks.com.au

Australian Gas Networks