AGL Energy Limited FY23 Half-Year Results Webcast
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Mr Thompson: Thank you for standing by and welcome to the AGL Energy 2023 Half Year Results Briefing conference call. All participants will be in listen only mode. There will be a presentation followed by a question-and-answer session. I would now like to hand over the conference to Managing Director and Chief Executive Officer, Mr Damen Nicks. Please go ahead.

Mr Nicks: Good morning, everyone. Damien Nicks speaking. Thank you for joining us for the webcast of AGL's first half result for the financial year 2023. I'd like to begin by acknowledging the Traditional Custodians of this land of where I'm presenting from today and pay my respects to their Elders past, present and emerging. I'd also like to acknowledge the Traditional Owners of the various lands from which you are all joining from and any people of Aboriginal and Torres Strait Islander origin on the webcast.

Today I'm joined by Gary Brown, Chief Financial Officer. Before we commence, I'd like to say that I'm truly honoured to have been appointed as the Managing Director and CEO of this incredible organisation, which has a vast history spanning over 185 years. This is certainly an exciting time to lead AGL as we strive to deliver upon our refreshed strategy and accelerate the decarbonisation of our customer and generation portfolios, supported by a highly experienced Board and Management team now in place. I'd also like to congratulate Gary on his confirmation as CFO.

Today's results reflect a challenged first half performance, driven by the impact of planned outages during unprecedented energy market conditions in July, when our resulting short position was exposed to high pool prices, together with prolonged outage of Loy Yang Unit 2, which was caused by a generator rotor defect. Earnings were also impacted by the closure of Liddell Unit 3 in April 2022, reducing generation volumes as we indicated in our FY23 financial guidance update in late September.

The first half also saw another disruptive period for the energy markets through the implementation of domestic commodity price caps and a mandatory code of conduct for gas producers and I'll speak to the impact for energy markets and our business later in the presentation. Overall, our half year underlying profit after tax was $87 million, down 55% on the prior year. An interim ordinary dividend of $0.08 per share has been declared, unfranked, with the DRP reinstated.

Despite a challenged start to the half in terms of fleet performance, I'm pleased to say we've had much stronger performance across the portfolio for the remainder of the period and I'll speak to the measures that have been undertaken to improve our thermal fleet reliability, setting us up for a stronger second half and beyond. We've also seen positive updates and momentum across the business. Customer markets recorded strong organic growth across both energy and telecommunications amidst a period of heightened market volatility, up by 61,000 customers with our strategic NPS reaching a new high of plus-12. Additionally, decentralised assets under orchestration grew to 199 megawatts.

In late September, we also announced a refreshed strategy and one of the most significant decarbonisation initiatives in Australia. The accelerated closure of Loy Yang A, together with our ambition to supply up to 12 gigawatts of new generation and thermic capacity by the end of 2035, will reshape AGL's generation portfolio and represents a major step forward in Australia's decarbonisation journey, ultimately connecting our customers to a sustainable future.

Pleasingly, our inaugural Climate Transition Action Plan was endorsed by shareholders at the 2022 Annual General Meeting in November. Good progress was also made in advancing our 3.2-gigawatt development pipeline and the transformation of our thermal sites to low carbon, industrial energy hubs.

Both the Torrens Island and Broken Hill batteries are on track to commence operations mid-2023 and I'm pleased to say that the Liddell battery will be backed by ARENA, with funding negotiations underway for the first 250-megawatt phase. A feasibility study is also well underway with Idemitsu for the Muswellbrook Pumped Hydro Project.

In terms of guidance and outlook, we have narrowed FY23 financial guidance, and I'll discuss this further at the end of the presentation. Although forward wholesale electricity pricing has lowered from historically high levels over the past six months, these prices remain elevated compared to FY20 and FY21 levels which we expect to see reflected in strong earnings growth for FY24.

Moving now to safety and customer metrics, which both remain very strong, our total injury frequency rate continues to trend lower, reflecting a disciplined and sustained focus on safety culture and performance over three years in a row. And as mentioned before, we achieved a record strategic NPS score of plus-12, an excellent result given the sheer volatility in Australian energy retailing of recent months.

Turning now to a more detailed discussion on customer markets performance, which was underscored by strong growth and improved customer experience. Total services to customers increased 61,000 to 4.3 million, delivered through both energy and telecommunications services growth. Pleasingly, disciplined margin management and scaling of growth business areas delivered an $11 million improvement to gross margin.

Looking forward, we will continue to responsibly grow our customer base while prudently managing margin. We also delivered improved retention with our churn spread improving to almost 6 percentage points, an excellent result reflecting both our improved service quality, as well as heightened market activity as selected retailers withdrew or lowered discounting to regulator pricing. AGL continues to have the least consumer electricity complaints of any Tier 1 retailers and ombudsman complaints have also reduced by 15%.

Encouraging, net operating costs per service have continued to trend lower, driven by digitisation, reduction in net bad debt expense and labour savings. However, we do expect an increase in the second half driven by net bad debt seasonality, as well as higher technology spend and growth investment as we scale our energy solutions businesses to drive distributed energy under orchestration.

Significant progress has also been made in customer markets key priority areas. We continue to have the highest brand awareness in energy and now have over 50% of customers interacting solely through digital channels. Pleasingly, consumer EBIT per service also continues to grow, increasing 9% compared to the first half of FY22. Good momentum is also being achieved in accessing future value pools.

Customer markets green revenue now accounts for over 20% of total revenue and our virtual power plant has grown 44% to 199 megawatts of decentralised assets under orchestration, underpinned by the NEO platform. Strong commercial behind-the-meter revenue growth has been recorded, as well as a significant increase in commercial solar assets under monitoring and management. We are also excited to have secured new strategic partnerships which will make the transition to electric vehicles simpler and easier for our customers.

Finally, our partnership with OVO Energy Australia and Kaluza continues to grow, with over 40% of customers now migrated to the Kaluza platform, a strong increase in on the 30% migrated at the end of the period.

Moving now to fleet performance and operations, commercial availability of the coal fleet was weighed down by a particularly challenging period in July, with high levels of forced outages at Liddell and Loy Yang Unit 2 coinciding with the planned outage at Bayswater.

On a positive note, we've completed testing to lower minimum generation levels at both Loy Yang A and Bayswater. We're now able to ramp down Bayswater Unit 4 to 200 megawatts and are awaiting AEMO's approval for the remaining units. Additional work is underway to further lower these to between 130 megawatts and 150 megawatts. The ability to flex our coal fired plant is increasingly important as new renewable generation enters the system.

Volatility captured through trading was also lower. Whilst we saw significant market disruption with severe weather events driving forced outages in the NEM, the trading team was able to manage this using a combination of financial and firming assets, in particular the Kiewa Hydroelectric Scheme in Victoria, which provided greater flexibility during this period.

Lower generation volumes overall were primarily driven by the closure of Liddell Unit 3 and the unplanned outages, marginally offset by strong renewable generation volumes which were 13% higher than the prior corresponding period.

Despite a challenged start to the half, we've seen a strong uptick in availability from November, illustrated by the dark blue line. Overall, whilst we have lower unplanned outages compared to the second half of FY22, the confluence of the Liddell and prolonged Loy Yang Unit 2 outages combined with the planned outage of Bayswater Unit 4 as well as summer readiness activities, resulted in an overall outage factor higher than we were targeting.

Looking forward, we have less days of planned unit outages in the second half, giving us a higher availability base to work from and reduce the overall impact of any unplanned outages that may arise. We will also continue to run Liddell at its sweet spot, to manage operations and reduce derates and outages through to its end of its life in April.

This slide shows the key areas we've been focusing on to improve thermal fleet availability and reliability as we responsibly transition to a low-carbon portfolio. Our main priority is minimising equipment failures that may result in future unplanned outages and derates. This includes additional preventative maintenance on mills, precipitators and chemical cleans of boilers to reduce known failure modes such as tube leaks.

We're also bolstering preventative maintenance through stronger inventory management to ensure that where appropriate, critical spares are held onsite or accessed with a reasonable timeframe. Repairing Loy Yang A Unit 2 spare rotor and stator is an example that provide a shorter return to service time if such an incident were to reoccur.

As mentioned, sizeable capex investments have also been made to increase the reliability and efficiency of our fleet, with upgrades to the turbine and generators of the Bayswater units, as well as further investment in digital control systems, which enables us to flex each Bayswater unit by nearly 500 megawatts.

A quick update on our decarbonisation pathway, growth pipeline and energy hubs. The planned closure of Liddell Power Station is on track for April 2023 and will be the first key milestone of our accelerated decarbonisation pathway, reducing AGL's annual greenhouse gas emissions by approximately eight million tonnes per annum. Importantly, by closing and transitioning the Liddell Power Station and site to a clean energy hub, we are undertaking one of the largest decarbonisation initiatives in Australia in 2023.

We look forward to both expected commencement of operations of both the Torrens Island and Broken Hill batteries in mid-2023. Numerous feasibility studies are also underway to bring strong opportunities to commercialisation and we are progressing initiatives to rationalise our upstream and midstream gas portfolios.

Now a quick recap and update on our strategy before I hand over to Gary. I am very proud to say that AGL is leading Australia's energy transition, backed by a bold and accelerated plan to connect our customers to a sustainable future and transition our energy portfolio.

We will drive this transition by ensuring a strong foundation across our business, placing ESG at the forefront of everything we do, continuing to inspire and empower our dedicated workforce and importantly leveraging technology, digitisation, and artificial intelligence to enhance customer experience, as well as strengthen our trading operation and risk management capabilities. Our focus on both leading and emerging technologies will underpin the future energy relationship with customers, unlocking the value of electrification and decentralised energy.

We have a defined strategy to deliver an accelerated low-carbon future, and this slide, which you may be familiar with from our announcement in late September, provides a good summary of the key targets along our 12-year decarbonisation roadmap. We will deliver this strategy whilst maintaining a relentless focus on our value customer base and importantly, work closely with our people to explore opportunities for career transition as we progress towards a low-carbon energy portfolio.

Our ongoing priority is to strengthen and drive value from our core business, providing a strong platform for growth in the medium to longer term, to realise opportunities through the energy transition, which you can see on the right-hand side. As mentioned, one of our core priorities will focus on how we help customers decarbonise the way they live, work and move. We will drive electrification through propositions we offer and propel growth in e-mobility, starting with in-home charging.

We will continue to accelerate growth in decentralised assets, helping our customers electrify and decarbonise and positioning AGL as leading in energy solutions. Our market-leading position in commercial solar is evidence of the strong progress achieved in this area. Additionally, our retail transformation program, which Jo spoke to at our full year result in August, not only simplifies our core, but extends to new energy technology, which will enhance capability to remotely manage distributed energy resources in a flexible and digital-led way.

This slide provides a good summary on how we are tracking today in terms of delivering a strategy as well as our near-term focus areas. I've already spoken to many of these points for our customer portfolio, including our desire to accelerate decentralised assets under orchestration, drive growth in e-mobility and expand our commercial and industrial energy solutions portfolio.

Our energy portfolio will focus on progressing the feasibility studies mentioned on the bottom left-hand side, accelerating the development of the Liddell battery and importantly, advancing and accelerating our project pipeline to meet our five-gigawatt target of renewable generation and firming in place by the end of 2030. Importantly, we look forward to sharing details on our business strategies at an investor day targeted for mid-2023.

I'll now hand you over to Gary to take you through the financial result in more detail.

Mr Brown: Thank you Damien and good morning, everyone. It is my pleasure to address you in my first result as Chief Financial Officer. This slide shows an overall summary of our financial result, which I'll cover in more detail on the following slides.

Let me first take you through our group underlying profit in more detail. The stronger Customer Markets performance was largely driven by growth in our Commercial and Industrial business, a reduction in net bad debt expense, as well as labour savings and efficiencies being realised through ongoing digitisation.

Turning now to Integrated Energy, where there were some material movements. As indicated previously, July was a particularly challenging month for AGL with the confluence of planned and forced outages across our coal fired fleet, resulting in a short generation position. Compounding this short position, AGL experienced significantly higher pool prices which were driven by heightened winter energy demand as well as elevated fuel input costs due to the spike in global commodity prices.

The $73 million movement primarily related to lost generation earnings caused by the prolonged Loy Yang Unit 2 outage, as well as the closure of Liddell Unit 3 in April 2022. This was partially offset by the positive impact as higher forward electricity prices started to reset through our customer book, hedging and trading gains, as well as stronger hydro generation.

Higher global commodity pricing has also increased both the revenue and costs for our gas portfolio. Pleasingly, however, AGL's competitively priced gas portfolio, coupled with prudent trading performance, drove the strong margin contribution you can see in the trading and operations gas bar. Please note that AGL's gas portfolio is well positioned to meet customer demand, having taken appropriate measures to support future supply, including a short extension of our Camden gas field and the filling of Newcastle Gas Storage Facility to cover upcoming winter demand.

Finally, the higher depreciation and amortisation charges primarily related to the accelerated closure of the Bayswater and Loy Yang A power stations, whilst lower income tax paid reflected the reduction in earnings.

Let's take a quick look at the reconciliation between underlying profit and statutory profit, which we've included due to three material movements. Items on the left were largely driven by external and market factors, whereas those on the right represent structural or operational decisions made by AGL. Starting from the left, the onerous contracts gain was driven by an increase in the price of large-scale generation certificates, partly offset by lower forward electricity pricing in relation to AGL's long-term renewable power purchase agreements, as well as updated discount rates used to value the liability.

The negative movement in the fair value of financial instruments primarily reflects the impact of a drop in forward prices for electricity on a net bought position, noting that we had an increase in this number in the prior period when forward prices were much higher. And finally, the impairment charges relating to the carrying value of our generation fleet cash generating unit. This is a result of

our accelerated decarbonisation plan and decision to bring forward the targeted closure of AGL's thermal generation assets by the end of FY35 as we announced in September 2022.

In August, we did indicate a step up in forecasted operating costs for FY23 to be roughly in line with CPI. Pleasingly, during a period of significant inflationary pressure, operating costs continue to be well managed across the business, consistent with CPI increases once adjusted for the non-recurring items identified at the full year result. A portion of this increase is a small yet prudent uplift in cybersecurity spend to further bolster protection of our operations and customers.

Turning now to cash and debt, net cash from operating activities of $37 million was 94% lower compared to the first half of FY22 due to lower underlying EBITDA and large working capital outflows, particularly payables and margin calls driven by significant market price movements during the period. The payables cash outflow of $429 million was largely due to the high payable position at the full year, driven by high prices and then the significant reduction in electricity pool prices across the period and the resultant cash outflows.

Notably, the impact of government intervention contributed to a sharp decline in forward electricity prices, resulting in $119 million of variation margin outflows at the end of the half. As you can see, whilst these working capital outflows did result in a reduction in AGL's credit metrics, we forecast this reduction will be temporary as cash conversion rates recover to historical levels in line with the stabilising wholesale pricing environment and improved generation performance. Encouragingly, Moody's have retained the Baa2 rating and upgraded their outlook to 'stable.' The process to finance maturing debt is also well underway.

Now briefly touching on capex, as noted last August, growth capex for this year will focus on the completion of the Torrens and Broken Hill batteries. You will also note a marginal uptick in thermal sustaining capex compared to the forecasts we provided last August. This is primarily due to additional spend to strengthen the reliability of our thermal fleet as they transition to closure, which Damien discussed earlier.

Before I hand back to Damien, I'd like to take a few moments to discuss how we intend to fund and deliver our future target portfolio. This slide shows the indicative ranges for the primary channels AGL will leverage to deliver it's 12-gigawatt ambition as announced in late September. Damien has already spoken to decentralised asset and orchestration, which is a growth area for AGL and key component of our targeted energy portfolio.

Assets developed on AGL's balance sheet will comprise the largest component and will focus on firming assets, building upon AGL's existing development pipeline of grid scale batteries and pumped hydro projects. These assets will be funded through a mix of operating cash flow, capital recycling via the potential sell-down of developed and operating assets, as well as project and corporate level funding. Importantly, we have an excellent track record of raising capital for clean energy projects, having raised over $3.5 billion of equity and debt funding into renewable assets since 2008 and are confident in our ability to access a growing pool of global capital dedicated to fund the energy transition.

Partnerships will be the second-largest component and includes the 3.5-gigawatt development pipeline via Tilt Renewables. We will partner with renowned renewable asset developers, which will deliver additional capital and expertise and help accelerate our development options. The main focus of partnerships will be in renewables such as wind. The balance is expected to be delivered via offtakes and we intend to leverage the scale and diversity of AGL's customer base to achieve the most favourable supply mix and terms.

Importantly, our strategic asset base and extensive renewable development capabilities position us well to generate excess returns from the transition of our generation portfolio. As an integrated player, AGL will seek to maximise investment returns through additional development, management, trading and ongoing services that typically would not all be available to a pure play energy company. The returns and ranges shown are for observable comparative companies and are provided as an indication of the types of returns that we would expect to see.

Now handing back to you, Damien.

Mr Nicks: Thanks Gary. As mentioned, I'd like a moment to discuss the impacts of recent Federal Government interventions in energy markets. Whilst we do support certain measures, namely the customer bill rebates as well as the role of the Safeguard Mechanism, we are concerned that the commodity price intervention has created regulatory uncertainty for coal and gas suppliers, undermining their business and investment confidence.

I must emphasise that policy certainty and clarity is key to encourage new investment in clean energy generation and supply to ensure the pace of Australia's energy transition. Importantly, our core business fundamentals remain strong, despite market interventions - our robust risk management has ensured retail strength and stability amidst significant volatility in Australia energy markets. Additionally, our coal fired generation portfolio is well supported via a combination of wholly owned and production cost linked fuel supply, minimising exposure to rising global commodity prices and the impacts of the commodity price caps.

Taking a closer look at market conditions, you can clearly see the reduction in spot and forward pricing from historically high levels, partly driven by the introduction of the commodity price caps, milder weather and additional plant availability. The shaded area on the right-hand side shows the downward pressure on FY24 forward pricing, illustrated by the difference between the dotted and solid lines, which represent FY24 forward pricing snapshots taken in September 2022 and January 2023, respectively.

Encouragingly, as we've indicated via the data point callouts on the graph, FY24 forward pricing still remains elevated compared to FY20 and FY21 levels, which we expect to see reflected in strong earnings growth in FY24.

I'll now conclude by talking to FY23 guidance and our outlook. As I mentioned earlier, we've narrowed our underlying earnings guidance range for FY23. Our full year guidance reflects an improved second half, as expected, largely driven by an anticipated increase in generation with improved plant availability and a reduction in outages, partly offset by lower forward electricity prices. Customer margin is expected to improve due to growth in customer services. Operating costs are forecast to increase half on half due to the seasonal net bad debt expense and inflation.

Encouragingly, the outlook beyond FY23 remains positive. Wholesale electricity pricing remains elevated compared to the prior periods, with AGL expected to benefit as historical contract positions reset in FY24 and FY25. Additionally, sustained periods of higher wholesale electricity prices are expected to flow through to retail pricing outcomes and the Torrens Island and Broken Hill batteries are also anticipated to commence operations in mid-2023. This will be partly offset by lower earnings due to the closure of the remaining three units of the Liddell Power Station.

Thank you for your time and we'll now open to questions.

Mr Thompson: We will now open for questions. In the room, in addition to Damien and Gary, we have our Chief Customer Officer, Jo Egan and Chief Operating Officer, Markus Brokhof. If you've been watching the webcast and would now like to ask a question, please refresh the page and you'll see a link to register

for the conference call. To ask a question, press the star key followed by the number one. Can I please ask you to mute any other devices before asking questions over the conference line. We will take one question at a time and if time permits, we will circle back for any further questions.

The first question comes from Dale Koenders from Barrenjoey.

Mr Koenders: Morning guys, thank you very much. There's a lot going on in the market in terms of government intervention and cost inflation, just wondering if you could provide some comments as to how you're thinking about what's going on in retail competition at this point in time, the outlook for bad debts and churn, I know we've obviously got the data for the half just passed, but sort of more on a going-forward basis and the labour cost pressures when you combine it all together, is cost plus CPI sustainable going forward?

Mr Nicks: Yes, thanks Dale. Good morning, all, I'll take that one. Look, let me first start, I'll start on net bad debt expense. We were really pleased with the result for the half, came in lower than the previous half and that sort of represents some of the strength of the work we're doing around collections and so forth. We anticipated it was probably higher than it otherwise would have come through and something we'll continue to watch closely. But that's another reason why we continue to support the government customer bill relief. We think that's important in this sort of environment.

From an inflationary perspective, we are, like others, seeing inflationary impacts through the organisation but we continue to manage that very strongly. You see we've put a forecast out there for the full year to manage within CPI and we'll continue to do that through digitisation of much of what we do, but also continue to drive efficiency through our generation units as well.

Dale, anything further?

Mr Koenders: That was my one question, so thank you, I can jump back in the queue.

Mr Nicks: Thank you.

Mr Thompson: Thanks Dale. Next up we've got Anthony Moulder from Jefferies.

Mr Moulder: (Inaudible) managing inflation-----

Mr Thompson: Sorry, Anthony, you cut out there. Can you repeat the question?

Mr Moulder: Sure. So, appreciate you're managing your inflation costs well, your costs well and there could be some high bad debts in the second half, but just interested as to what were the key changes as to your view on guidance, whether that's been lower to EBITDA as well as NPAT please?

Mr Nicks: Yes, so what you've seen is a tightening of the range, a narrowing of the range. The rationale behind that is what we saw, obviously we run a long position, let's call it two to three terawatts of energy, because that curve came off around December/January, you're just seeing some of that length we'd ordinarily sell, we're selling that at obviously lower prices into the market. That length we have typically relates to those firming assets and renewable type assets in the marketplace, so that's the key driver there.

Mr Moulder: Thank you.

Mr Thompson: Thanks Anthony. Next question comes from Max Vickerson at Morgans.

Mr Vickerson: Good morning. Can I just ask a question about your forecast rates of return on those two types of assets, just on the renewables, 6% to 8.5%, I have to admit, if that that's the main return, sounds a

little bit high, can you just clarify does that suggest a change in gearing or is that an actual arms-length wholesale electricity market return, or is there some customer margin potentially captured in that benchmark?

Mr Brown: Hi, it's Gary Brown here. Just to answer that question, so we've obviously provided this as some indicative ranges to try and give some clarity to the market. I guess from an AGL perspective, we do see ourselves as being able to extract additional returns from the traditional pure players, so you're looking at things like the ability to be able to participate in things like development and orchestration and those sorts of things. So, we do our see ourselves as, again, being able to, I guess, move up in that in terms of where the returns are, but again, these are observable returns that we're seeing in the market as well.

Mr Vickerson: Excellent. If I can just ask one quick follow-on then, is given the higher returns you see in the firming assets, is there a limit to how quickly you can deploy those? You kind of hinted that that's where you want add your on-balance-sheet assets, how quickly can you deploy those, just from a market perspective, how much – how big is the market for storage, do the returns degrade if you pump too much capital in there too quickly?

Mr Nicks: Yes, thanks Max. I think, look what you're seeing today, we've got obviously the Torrens Island battery coming on mid this year, that really demonstrates the strength of our infrastructure and our assets if you like. We took FID on that battery only 18 months ago, so the ability to deploy the right batteries in the right locations and using our infrastructure is incredibly valuable. So obviously got the Torrens Island battery but also Liddell, we continue to work with ARENA on funding in that phase and we'll continue to drive that as quickly as we can. But you can imagine those sites have the capability and capacity for us to go very, very quickly when we see the market there available for us. So that will be a big part of what we put on our balance sheet because we can do it quickly. We can also do it when the market needs it and we have the infrastructure and good connection.

Mr Vickerson: Thank you very much.

Mr Thompson: Thanks Max. Next up we have Ian Myles from Macquarie.

Mr Myles: Good morning guys. Maybe can you give us some more colour on how your strategy has changed as a result of the coal caps and the gas caps and whether that's going to have an impact on the profitability of those businesses.

Mr Nicks: Morning Ian, look I'll take that one and I might even just hand over to Markus as well just from a broader hedging and risk management perspective. But we are, from a coal perspective, you're aware we obviously own all our own coal down in Loy Yang and contract out for the Hunter for Macquarie, so we're not part of that cap, if you like; we're well underneath that cap and that provides us the breadth to manage risk management and profitability in that space. What you're seeing, however, is obviously that's having an impact on bringing down the curve.

From a gas perspective and I'll get Markus to talk on where some of those conversations are at the moment, what we've seen since the intervention come in is a lot of those conversations and negotiations have dried up, so we're wanting to see them come alive again so we can bring more gas into the market and help our C&I customer base.

But maybe Markus, do you just want to comment on maybe first gas and then back to coal?

Mr Brokhof: Yes, on the gas side, I think our book is very much covered under FY25, end of FY25. We are still in negotiations with a few large producers here in the local market. For sure there is at the moment a resistance to enter into a contract with us because due to the fact that there is quite some uncertainty

about pricing. But particularly I think the tenor of market intervention and that is applying also for the coal side, at the moment I would say there is no change in our strategy overall when it comes to contracting our gas and our coal. But the big question mark, how long is the government intervention taking place. I think there is a lot of discussion. Is it only for one year or will it continue to be and this will somehow influence any strategic decision about change in our strategy.

Mr Myles: I know this sounds very un-PC, but could we expect to see the coal fired plants actually all turn up as a result of this $125 per tonne cap? Because they'll all be profitable running much harder now than ever before.

Mr Brokhof: That's true. Maybe some people which have not done proper risk management are running now much more harder, that's most probably true. I think we will most probably still study the terms and conditions very carefully because I think between the lines you can read that there are some obligations, it's not a free lunch, the 125 because there are some obligations that you can be directed and there is a must run. We are not happy about this, so we will most probably anyhow not participate in this scheme.

Mr Nicks: And I think Ian, just the other thing to call out is through the work that we've done on this plant over the last number of years, I mean Macquarie now we're able to turn down to 200 megawatts from 685 and Loy Yang, well below that 40% as well, So that flexibility is going to be incredibly important in this market going forward, particularly in the middle of the day and we'll continue to see how far we can drive that down so we've got the flexibility we need.

Mr Myles: That's great. Just as an aside to that, does that create a capex impost because these machines aren't really originally designed to turn up and down with the thermal heat going through the mills?

Mr Nicks: So we've spent, over the last number of years when we've done a number of the upgrades, a lot of that spend has been incurred. I mean what we're obviously then just trying to manage carefully is any additional ongoing maintenance of the fleet as a result. We're not seeing any of it today, but things such around the mills and so forth, that's where the work takes place. But the value in doing that would far exceed some of that cost.

But I don't know, Markus, do you want to comment?

Mr Brokhof: No, I think that's all.

Mr Nicks: Okay.

Mr Myles: Okay, that's great, thanks guys.

Mr Thompson: Thanks Ian. Next up we have Mark Samter from MST Marquee.

Mr Samter: Yes, morning guys. Just my question is around the balance sheet, there wasn't an enormous amount of talk around it in the presentation, just keen to get a feel for firstly obviously net debt is back up to almost $3 million and obviously the working capital drag will normalise. I'm just keen to (a) get a feel for how much headroom you think you have or get in the clear in the next couple of years, but also maybe just give us an update on how refinancing is going, the ability to raise that. At the moment I'm just talking to some, it's a moot document now, but if we go back to the demerger documents, you guys felt that it was going to be much easier for the businesses to raise debt as separate entities than together. Can you give us a feel for how those conversations are going with members? Particularly keen also to get a feel for what you think you have in headroom over the next couple of years for investment.

Mr Brown: Hi. So firstly, as we've sort of said in the slides, we've of talked through the amount of headroom that we had in terms of liquidity at the end of the half, which was about $485 million. As we've talked about, we saw a significant reduction in working capital as a result of the reduction in prices. We're very confident that those cash conversion rates will return to historical levels throughout the second half, particularly as we see more normalisation of those working capital levels.

In addition to that, we've obviously spoken to having an expectation of a strong 2024 and 2025 as well, so I think that'll certainly assist the balance sheet. We've also had a number of discussions with financiers and we're very confident about our ability to refinance the company and certainly set ourselves up for growth in the future. As we all know, there's a lot of demand for renewable projects to deploy capital in those areas as well, so we're very confident going forward.

Mr Nicks: Mark, just to add to add that, the other thing I would-----

Mr Samter: Is there much change – sorry, Damien, I might have interrupted you then.

Mr Nicks: Keep going, it's all right mate.

Mr Samter: Are you seeing much difference in the, obviously rates are rising, but the premiums you're paying for debt?

Mr Brown: Yes, look I think it depends on which market you tap. I mean certainly because the risk-free rate's gone up, that obviously has an impact as you move through, but again, we're pretty confident with the ability to be able to source competitively priced debt going forward.

Mr Nicks: Mark, just the other thing I'd say, having a clearly endorsed strategy now going forward, having a Board in place, a Management team in place, the banks now look at our transition plan and strongly support that transition plan and that's a key part of us getting access to that capital. The whole team is involved in plenty of these discussions with the banks just to talk about this transition plan and our delivery of it. So, we are confident to be able to deliver on that refinance.

Mr Samter: Okay, thanks guys.

Mr Thompson: Thanks Mark. Next up we have Pete Wilson from Credit Suisse.

Mr Wilson: Thanks, morning. Damien, I was interested in your comment looking out to 2024/25 that you said the increase in earnings in the Torrens Island and Broken Hill batteries will be partly offset by the closure of Liddell. That would imply, the word partly would imply that Torrens and Broken Hill is greater than the earnings lost in Liddell. So could you just please unpack that a little bit, what the uplift you're expecting from the batteries is, what the earnings of Liddell is and also include there what your expectation is around the change in operation of Bayswater once you bring Liddell out? Cheers.

Mr Nicks: Thank you. Let me try and unpack that one a little bit. So what the intention of that statement is, is obviously when Liddell comes out of the market, clearly we'll have lower generation and lower earnings as a result. It will partly offset it. It won't fully offset it. That was the notion of the words we're trying to use there. Clearly different revenue streams from a battery that then will be from a generation perspective. But what we do see is particularly in that SA market, that battery playing an important role in those peak periods of peak demand and so forth. But the intention wasn't – I think the way you've read it is probably the other way around; we don't intend that to obviously offset Liddell. It will provide some additional revenues and margin into the business going forward and we anticipate that coming on halfway through the year.

Markus?

Mr Brokhof: Maybe still to keep in mind the results of Liddell are overstated, if you would continue to run Liddell, there is no reason to believe that this would – the margin or the gross margin which we are generating would stay like this, because needed heavy investment. And from Bayswater, if you look then after the Liddell closure, what happens with this Bayswater, most probably Bayswater will then run a bit harder in order to make sure that we have the energy in the portfolio. From an energy point of view going forward, we are balanced, but for sure, some capacity is missing overall when Liddell is going out and this we have secured already because there's a closure of Liddell, it is known for the last seven years, we have already secured the capacity in the market via additional contracts which we have secured via cap contract and so on. That's under control.

Mr Wilson: Okay, good. Thanks all.

Mr Thompson: Thanks Pete. Next up we have Rob Koh from Morgan Stanley.

Mr Koh: Good morning and yes, congratulations to all of the team members who have been confirmed in their roles. I guess my first question is just about the slide 18 where you've called out an $82 million increase in gas gross margin in trading and origination and so that's great. I just wanted to get a sense of if that continues for the current half and next year or should we be looking to include, at the very least, the short-term gas price cap as impacting that number please?

Mr Brokhof: I think there is a few elements to this. On the one hand we have optimised and I think I said this to you already in past, we have optimised our haulage and transportation portfolio, have optimised the contracts and renegotiation and so on in order to cool what's obviously the pressure on the gas portfolio because you are well aware that our legacy contracts over time are running out and we had to successively fit the gas portfolio with shorter-term contracts, so there was some pressure on and we have managed to get some costs out of this. On the other hand, for sure there's a rise in gas prices. We were able to increase the profitability of our overall gas book that most probably will then have also some spill over effect in the second semester.

Going forward, this year price caps, it will be most probably and that's something we will lose some competitive edge when it goes forward because everybody could theoretically then secure price at $12 per gigajoule. But we believe we have a competitive edge with our portfolio because at the end of the day, we have quite some flexibility in the portfolio and this will be our USP going forward, or unique selling proposition, so I think we are well placed. But for sure, if the price caps will not only stay for 12 and go further on, then it will be a very tough market.

Mr Koh: Yes, I see. Thank you Mr Brokhof and for the comments about the intervention, that's clear. If I can sneak in another question to you ahead of customer who had a really great path, maybe just a quick update on number of services per customer. There was a previous target of 1.6, but that was set quite some time ago, so just wondering how we should think about that please.

Mr Nicks: I'll pass that one straight to Jo. It's been a great six months for customer, so I won't steal any of her thunder.

Ms Egan: Thanks Damien and thanks for the question, Rob and we are incredibly pleased with the result. We've got not only great services growth, but really strong customer experience, which is excellent in a challenging market. The services per customer are tracking about 1.5 and we've seen really strong churn reduction continue on customers that have multi-product services. So at the end of the year, we updated on that with energy and telco and we're continuing to see that performance go really strongly.

Mr Koh: Okay, fantastic. Great to hear, thanks so much.

Mr Thompson: Thanks Rob. Next up we have Reinhardt van der Walt from Bank of America.

Mr Van Der Walt: Good morning Folks, thanks for taking our questions. I just want to unpack this guidance change a little bit more. So back in September last year you told us that the extended Loy Yang outage isn't going to have a material earnings impact and then the September guidance probably would have had visibility on the July outage costs, so is this $40 million-odd step down in EBITDA, is that predominantly just due to your next long position getting sold in at lower spot prices? Or is there some other incremental change here?

Mr Nicks: I think what we made really clear, July was a very challenging month for us because of the outages we had and obviously the incredibly high prices at the time when we were short. The narrowing of the guidance is exactly as you say, we are long energy, let's call it two to three terawatts and that length, when we look to sell into the second half back into the market at lower wholesale prices because of the forward curves coming off is what's reduced that by, let's call it $20 million-odd.

So there's been no other change from a Loy Yang perspective. We've got our plant running incredibly well at the moment, availability the last three or four months has been exactly where we want it and I think hearing from Markus the last day or so, I think in January we've seen record availability over the January month. So again, we'll continue to drive the reliability of our plant particularly hard and we have less outages planned in the second half as well, which also helps from a managing availability over that term.

Mr van der Walt: Okay. So I mean given that Liddell is going to come out now in April and you're taking on a bit more load, let's say you end up with a net short position in FY24, I mean in theory would the lower forward prices actually be marginally positive for FY24, given that you're going to have to have some spot purchase costs, but now at a lower level?

Mr Brokhof: Yes, I think that's the story which we tried to convey over the last years. I think most probably 2023 was the most challenging year, most of the hedges which we have entered in are rolling off now on the lower price level and yes, you can assume that the prices, the wholesale market prices that you have seen over the last couple of months and even year will flow into this. So that will contribute very much to a higher hedging revenue going forward.

Mr Nicks: I think, importantly, why we're using the words, you know, we see strong revenue growth or earnings growth into 2024, that's the language we're using and quite deliberately.

Mr van der Walt: Got it. Thanks a lot.

Mr Thompson: Thanks Reinhardt. Next up we have Dan Butcher from CLSA.

Mr Butcher: Yes, hi everyone, just a quick one really. The gas margin was an impressive $4.80 a gigajoule this period, I'm just wondering whether you can comment on how sustainable that is given your increase in gas costs likely to come through. And secondly, have you had any interaction with the government about concern they've got that retailers are not bound by the price cap that so many of the producers are and maybe they'll extend the price cap to you, seeing as you're making some very good money of that gas at the moment?

Mr Brokhof: I think most probably you are right there, this margin is mainly because for sure gas prices have come up very much, where if you have seen some length in the portfolio, we could benefit from this. This is for sure not sustainable because gas prices have come down from record levels. If you look at the $40 per gigajoule price range, which we had, we were coming down now. I think also what is very important and maybe Jo can complement me, we are trying still to get more competitive gas in the market and we will give this back to our C&I customer. But maybe Jo?

Ms Egan: Thank you Markus. Yes, absolutely, we're working very closely, particularly with our large commercial and industrial customers, many of which rolled off longer-term contracts onto default rates post the announcement of the interventions and where we can, we're giving rebates to those customers, shorter-term contracts while we wait for some more certainty into supply. But we're certainly doing everything we can to support customers, because we know it's incredibly challenging for them with this uncertainty.

Mr Nicks: Just to add to that a little bit, just so in terms of those rebates that are out there, it's where we buy spot gas in the month in question, so if it's in the month in question, we've been able to buy some spot gas for that customer who is on a default rate, then we'll give some form of rebate back to them as part of that. But until we can start getting that long-term gas back into the book for those customers, we're having to manage on that basis.

Mr Brokhof: Maybe also coming back to your question and in addition, I think the margin is not sustainable, to be honest with you. We are still going forward. That will be a tougher market and you are right, we are not bound by the price cap, but at the end of the day, if you want then to secure additional C&I customers or if you want to start another marketing campaign with our customers, at the end of the day we have to find additional gas. So still we are then falling back to the $12 per gigajoule, depending what is then the – how the flexibility and how haulage and so on will be priced in then at a later point of time. I think that as you're well aware, that's still not clear from a regulatory point of view, how this is all put into the overall pricing scheme.

Mr Butcher: All right, thanks very much, guys.

Mr Thompson: Next up we have Gordon Ramsay from RBC.

Mr Ramsay: Thank you very much. Markus, a question for you again on the gas book, did I correctly hear you say earlier in the presentation that the book's not covered up to FY25?

Mr Brokhof: Yes, that's true. We are covered, I can just repeat, we are covered. At the moment, with our current customer portfolio and our current demand, we are covered in financial year 2025. Thereafter we have a gap, but we are, as I said in the beginning, we have for sure not waiting on the price caps and so on; we have started to negotiate already some long-term contracts going forward. At the moment the producers are waiting, understandable, on the detailed terms and conditions and we are still confident that we can fill then also the gap which is coming up and we have shown this in the previous financial years, there is a gap then opening up to 20 petajoules, 30 petajoules, that we are confident that we cover this gap then going forward post financial year 2025.

Mr Ramsay: Sorry, my confusion on this is I'm looking at the slide that you presented last year which showed your gas book and when you look at FY25, it looked like 50 petajoules were basically uncontracted, so I'm just trying to understand whether that 50 petajoule gap has now been contracted.

Mr Brokhof: We have secured some gas, but you know, the demand has gone down. That's most probably something, there was quite some competition in the market, so we have lost also some of our portfolio customers.

Mr Nicks: At the C&I level, at the big end of town.

Mr Ramsay: Okay, so you're winding down the book, okay, thank you.

Mr Thompson: Thanks Gordon. Next up we have another question from Dale from Barrenjoey.

Mr Koenders: Thank you for taking the extra questions. Just wondering about some commentary on DMO the processes going through, what your expected outcomes are and is that a risk to retail profitability in FY24?

Ms Egan: Yes, thanks Dale, I'll take that one. So we're aware that the outcome of the DMO has been pushed back a little bit through to the end of May, I think it is. So ultimately that's going to be a decision for the AER. We expect that the methodology will be similar and certainly when we look at our retail pricing decision, which will be for majority of our customers on market contracts, we will absolutely be applying a consistent methodology. So whilst we've seen wholesale prices come off somewhat, we do still expect significant increases because of the 24-month rolling average that still needs to flow through.

Mr Koenders: Okay, has hedging been changed at all, all hedging practices, to account for potential uncertainty in the DMO?

Mr Brokhof: Yes, from a risk management point of view, we are still hedging on a 2.5 years rolling average.

Mr Koenders: Okay.

Ms Egan: Just maybe to clarify, Dale, for our portfolio the DMO really only applies to about 10%, 10% to 15% of our customers, whereas the majority are market contract pricing, so based on AGL's pricing decisions.

Mr Nicks: Yes, so based on the basis that we don't see any change on the methodology on the DMO and the way we manage our book, there's no change to the way we think about hedging and risk management from a pricing perspective.

Mr Brokhof: It's still the pricing mechanism is a look-back mechanism.

Ms Egan: Absolutely.

Mr Koenders: Sure okay and then as we stare into FY24, you've called out higher electricity prices better generation reliability, Liddell, two batteries, what are the other moving pieces we need to be aware of, if any?

Mr Nicks: I think I mean they are the key moving pieces that we're talking about. Clearly our business is so levered to where wholesale prices are and the pricing through to customer. The other things to be aware of that we've called out is, from a cost point of view, continuing to manage that incredibly tightly and efficiently in this market. The other one would be net bad debt expense, continuing to manage that very, very closely. They're probably the things that we're really focused on. Then from an integrated energy perspective, continuing to see both the flexibility in our fleet but also the availability in our fleet into 2024. But as I said, what we're seeing through business performance over the last three to four months, really positive, gives us the strength and step up into the second half and therefore that strength into 2024.

Mr Koenders: Okay, thanks a lot.

Mr Thompson: Thanks Dale. Next up we have another question from Rob from Morgan Stanley.

Mr Koh: G'day guys and thank you for indulging me yet again. Just I guess more of a modelling question, just for the debt facilities going forward, should we be factoring in any amortisation in this or just standard corporate revolver through investment grade?

Mr Brown: Yes, look I think that's something we're still to work through as part of refinancing going forward, so probably-----

Mr Nicks: Broadly, I think if you think about it as a corporate revolver for the time being in terms of your models.

Mr Brown: Yes, that's fine in the short term, yes.

Mr Koh: Yes, okay, thank you. Okay, that's great, thanks so much.

Mr Thompson: Thanks Rob. We've got our last question from Pete Wilson from Credit Suisse.

Mr Wilson: Thank you. I just wanted to ask a question on customer, so by the sounds of it you're pretty with the first half result, with the EBIT increase, just wondering what your expectations are into the second half and effectively for the full year in light of the guidance for an increase in opex in the second half. Do you expect an increase in gross margin in the second half to offset that increase in opex or are you actually expecting a net margin decrease in the second half? If you could also, in answering that, maybe explain why consumer electricity gross margin was pressured in the first half?

Ms Egan: Yes, sure Pete. So yes, look we're seeing really strong momentum in the customer business, so I expect a strong second half. I think the signalling around opex is due to some investment in our growth businesses, timing on technology spend in our retail transformation program and also there's a bit of seasonality on net bad debt. But as Damien said, like we're in a really strong position with our debt portfolio, so we'll continue to focus on that.

In terms of electricity, it really just was a timing position on the impact of the retail price change. So margin compression has really stabilised and we're seeing really good results with less customer switching in the portfolio.

Mr Nicks: I think, Pete, broadly on your question, we expect to see a net margin after expenses being positive in the second half and up on the second half, is the way to think about it.

Mr Wilson: Excellent, thanks for that.

Mr Thompson: Thanks Pete. As there are no further questions, this concludes our Q&A session. Thank you everyone.