

Energy in  
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## ASX & Media Release

### AGL Market Update

6 May 2016

Attached is a copy of a presentation that AGL Energy Limited's Chief Financial Officer, Brett Redman will make to fund managers this morning at the Macquarie Australia conference 2016 in Sydney.

The investor presentation will also be available on AGL's website.

#### Further inquiries:

##### Investors

Nicole Rizgalla, Investor Relations Manager  
Direct: +61 2 9921 2691  
Mobile: +61 (0) 400 488 836  
email: [nrizgalla@agl.com.au](mailto:nrizgalla@agl.com.au)

##### Media

Kathryn Lamond, Media Manager  
Direct: +61 2 9921 2170  
Mobile: +61 (0) 424 465 464  
e-mail: [klamond@agl.com.au](mailto:klamond@agl.com.au)

#### About AGL

AGL is one of Australia's leading integrated renewable energy companies and is taking action to gradually reduce its greenhouse gas emissions while providing secure and affordable energy to its customers. Drawing on over 175 years of experience, AGL serves its customers throughout eastern Australia with their energy requirements, including gas, electricity, solar PV and related products and services. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, solar, landfill gas and biomass.



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# Macquarie Australia Conference

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**Brett Redman**  
Chief Financial Officer

**Date**  
6 May 2016

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# Agenda

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AGL



The NEM  
today -  
A fuel story



The NEM  
tomorrow -  
The path to  
decarbonisation



Innovation  
in Retail -  
Giving  
customers  
control

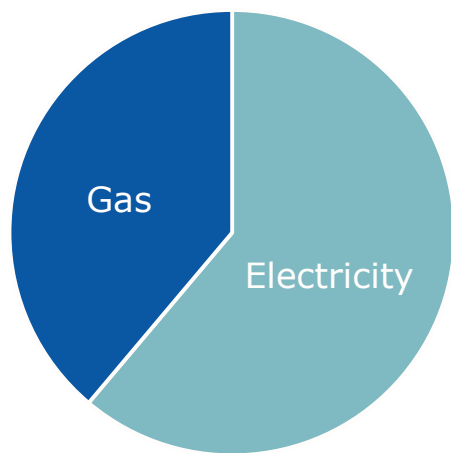


Conclusion

# Snapshot of AGL

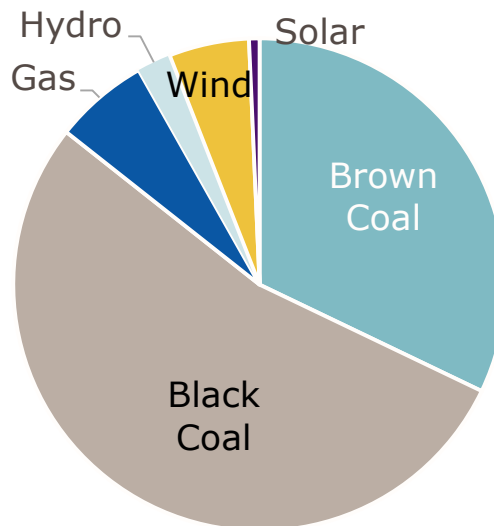
“Harnessing insights to enrich the customer’s energy experience”.

## Customers



- > Australian east coast
- > ~3.7 million customers
- > We sell ~230 PJ gas p.a.
- > We sell ~42 TW electricity p.a.

## Generation



- > Largest privately owned electricity generator
- > Largest privately owned investor in renewables
- > We generate ~42 TW electricity p.a.

- > 178 years young
  - » Second oldest company on ASX
- > Planning for the future
  - » Greenhouse Gas Policy
  - » Investing in New Energy
  - » Commitment to safety and our impact today and tomorrow
  - » Commitment to excellence in environmental management and performance

# FY16 Interim highlights

Underlying Profit up \$73 million with Underlying EPS up 17%.

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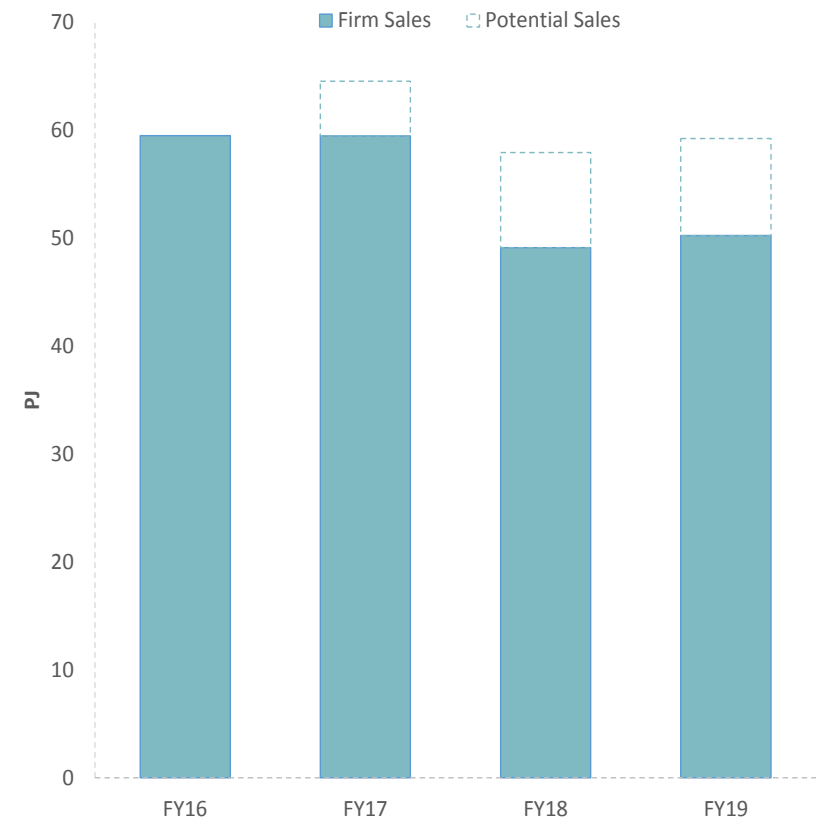
- > Statutory Loss of \$449 million
- > Underlying Profit of \$375 million up 24%
  - » Higher electricity generation volumes (7 TWh) added \$36 million
  - » Higher wholesale electricity prices added \$16 million
- > EBIT per customer growth of 26% driven by value strategy and disciplined price management
  - » Lift in customer satisfaction over same period
- > Improved availability and operational performance at AGL Macquarie
- > Targets on track including \$170 million opex savings and \$1 billion of asset sales
- > Sale of Macarthur Wind Farm for \$532 million
- > Large scale 155 MW solar projects completed on time and on budget

# Queensland wholesale gas market

Update on AGL sales position.

- > Queensland wholesale volumes strong
  - » FY17 margin ~\$1/GJ lower due to mix

AGL Queensland wholesale gas sales



# Strategy update

Strategic roadmap delivering results.

## Embrace transformation

- > Exiting gas exploration and production
- > Streamlined roles and processes
- > Anticipatory mindset and scenario planning

## Drive productivity

- > Leverage market opportunities and customer value strategy
- > Opex and capex savings on track
- > Asset sales and working capital on track

## Unlock growth

- > Investment in renewables
- > Targeted investments in new capability
- > Digital capability and customer experience

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## The NEM today - A fuel story

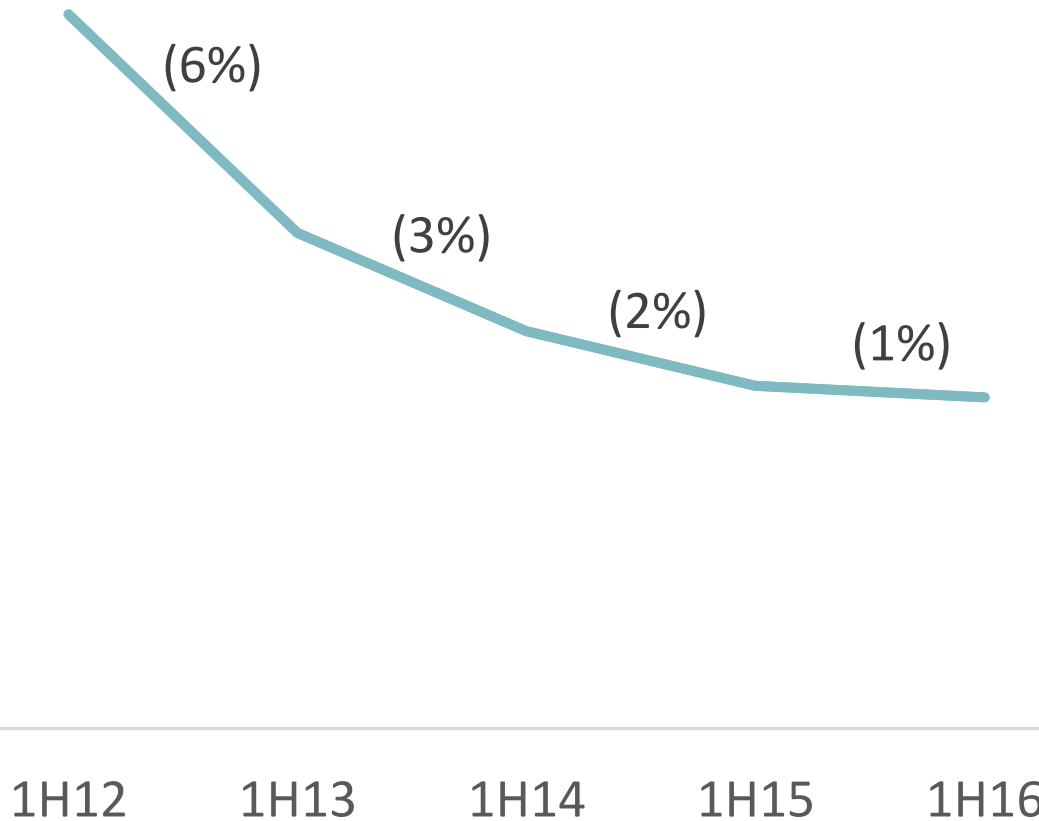
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# Decline in residential electricity demand stabilising

Leaving market over supplied.

Change in residential electricity demand per customer (weather adjusted)



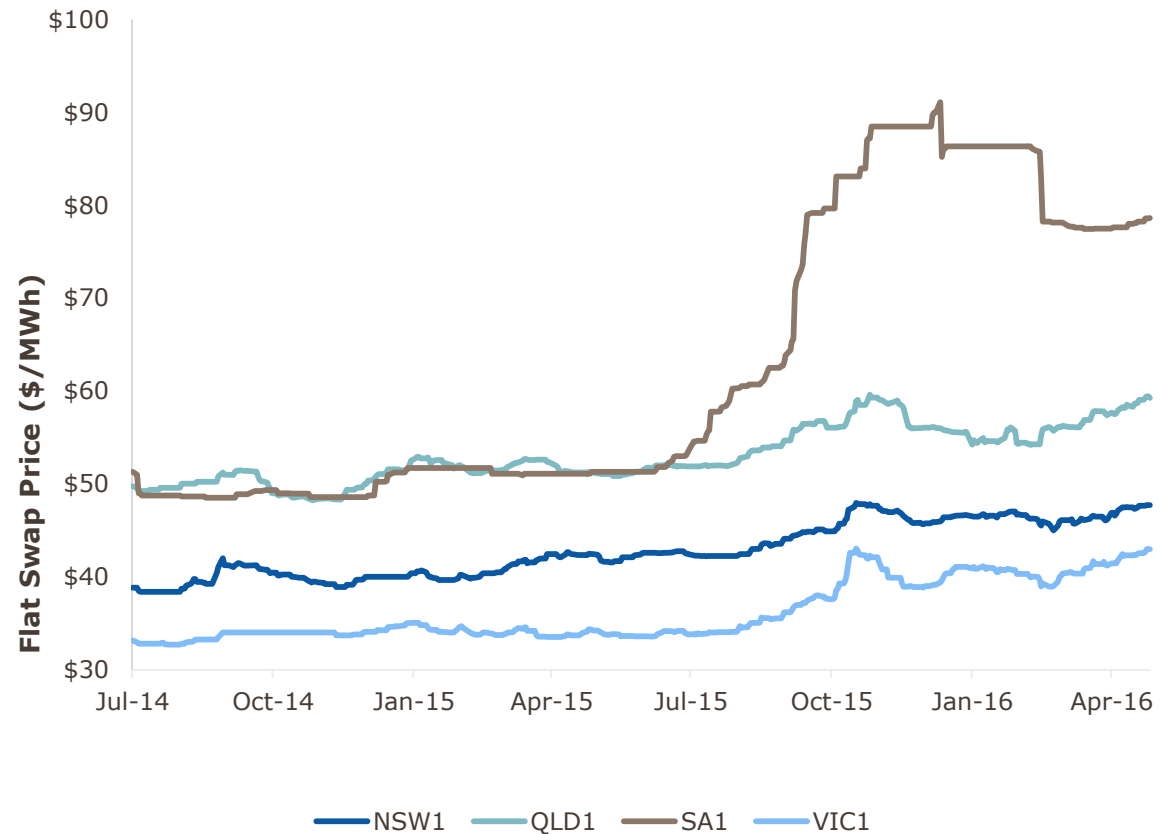
# Wholesale electricity prices are rising

From a low base, largely driven up by change in fuel landscape.

## Fuel landscape

- > Gas prices up driven by LNG
- > Black coal domestic contracts resetting off legacy lows
- > Wind volatility driving up spot price
- > Brown coal more inflation linked before royalty rises

Electricity forward curve across National Electricity Market



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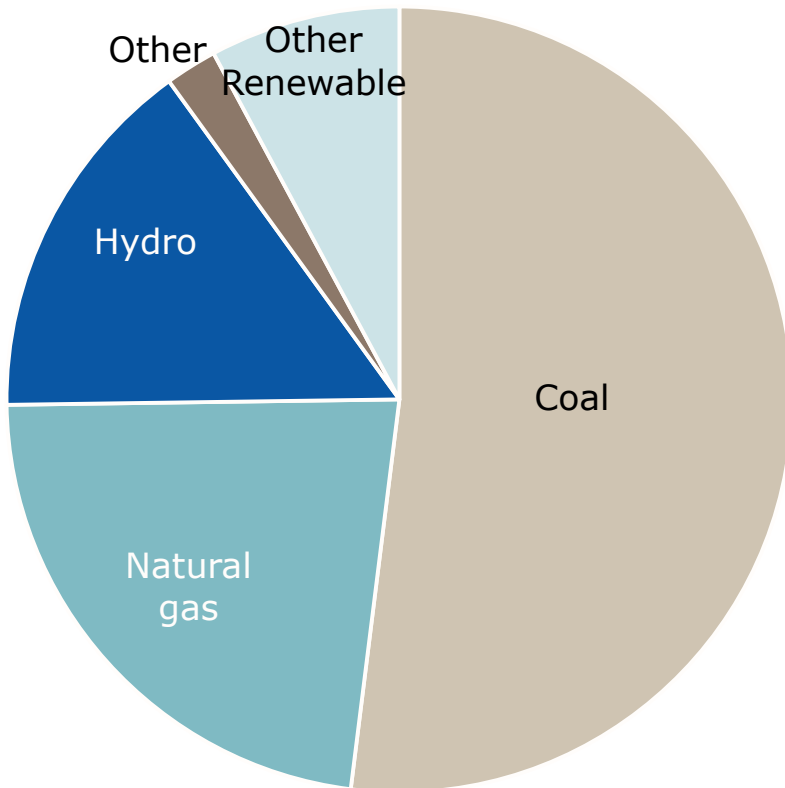
## The NEM tomorrow – The path to decarbonisation

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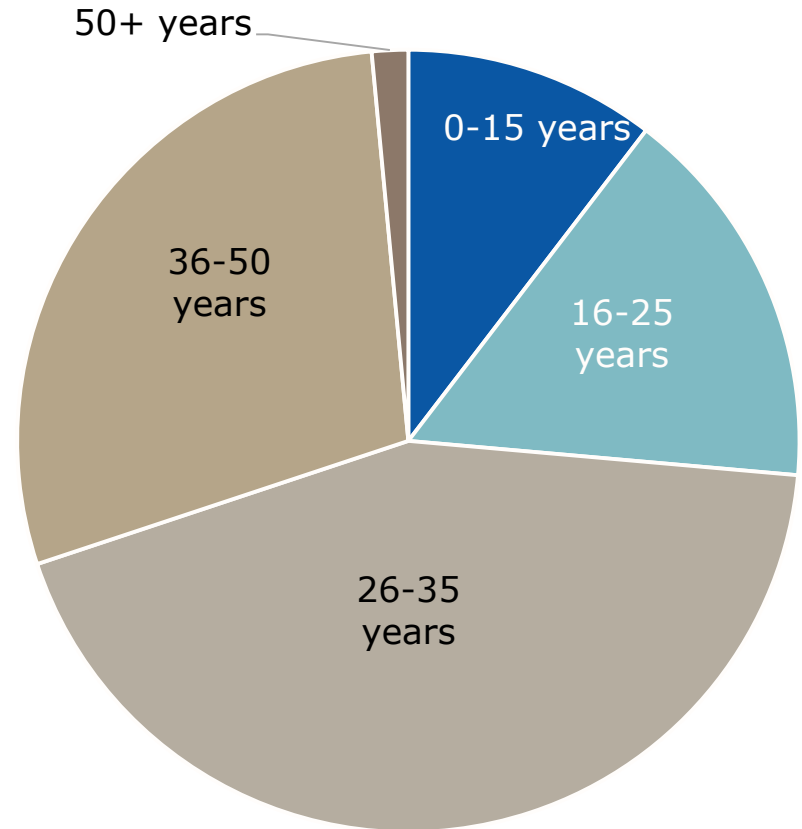
# The National Electricity Market (NEM) needs to be refreshed

~75% of thermal plants in the NEM are past their original design life.

NEM installed capacity by type



NEM generation by age



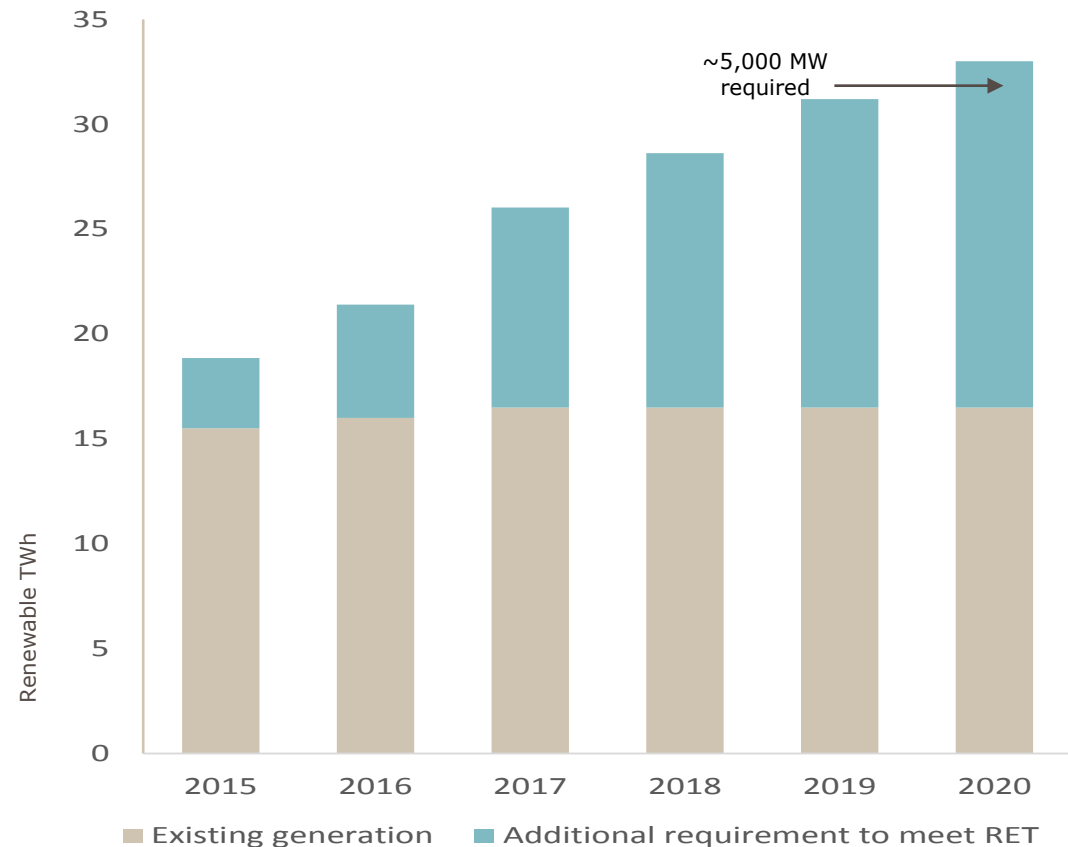
# Powering Australian Renewables Fund

AGL to lead new innovative renewable investment funding.

## New initiative to stimulate investment

- > Announced February 2016
- > \$2-3 billion Fund
  - » AGL to contribute ~\$200 million of cornerstone equity
  - » Targeting development of 1,000 MW+ of large-scale renewable generation
- > Strong interest received
  - » On track for Q3 launch

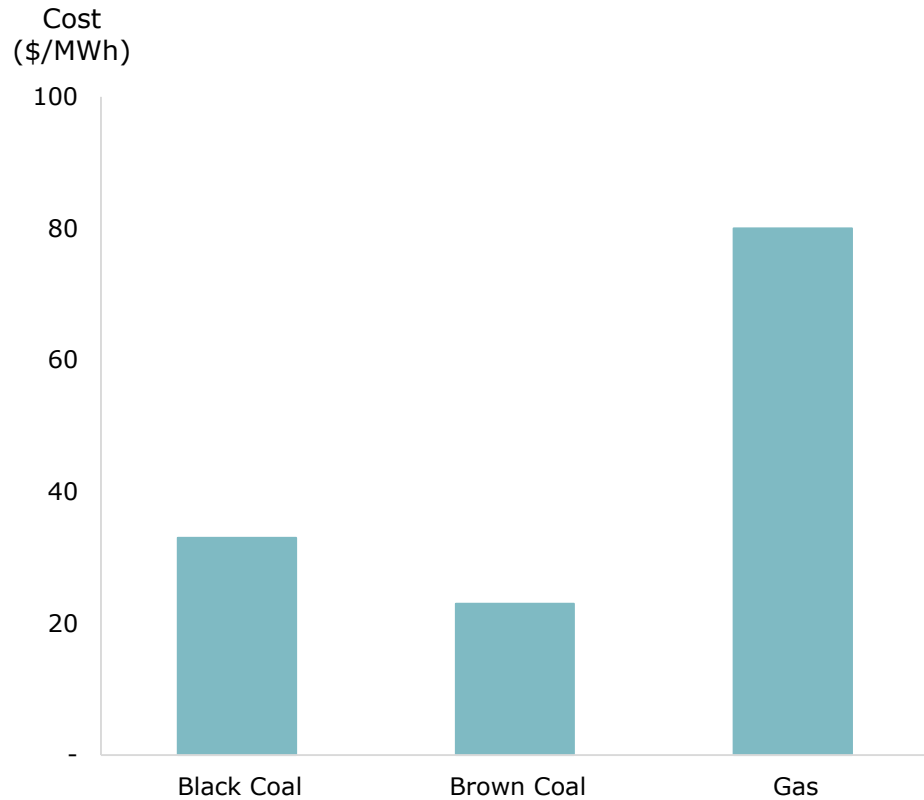
## Australia's Renewable Energy Target



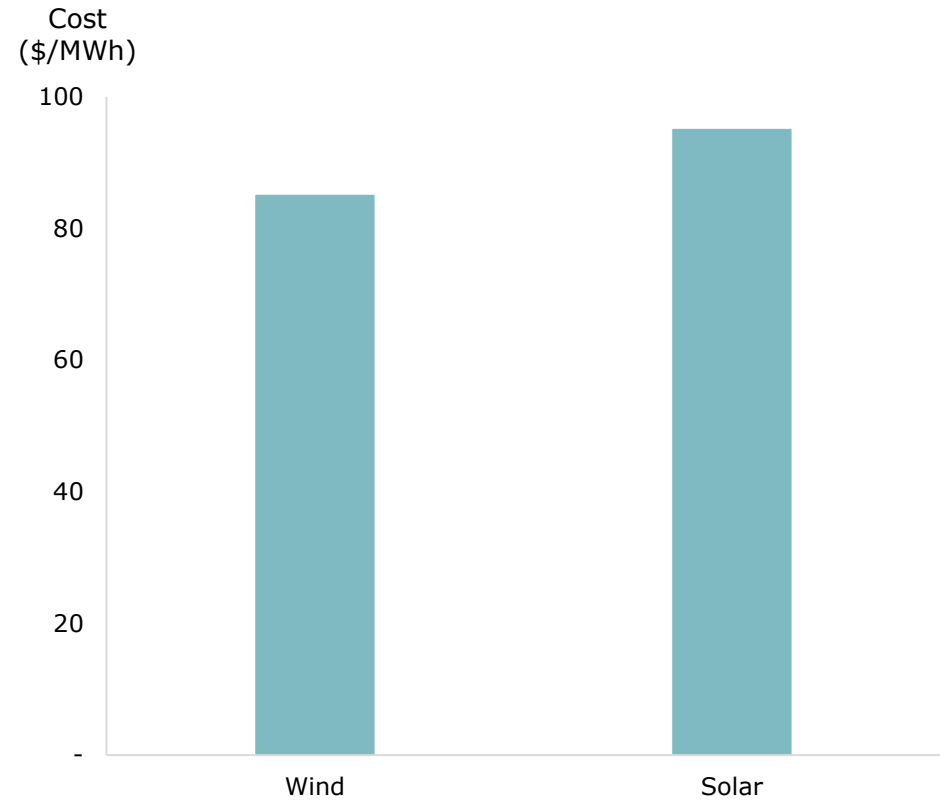
# Market over supply blocks new investment

New build cost must compete with cash only running cost of sunk investment.

## Thermal generation cash running costs



## Renewable generation long run cost



# Government policy needed to facilitate new renewables

Closing old generation is the final step to unlocking a wave of new investment.

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- > The national fleet needs to be refreshed
- > Funding is available
- > Market over supply blocks new investment
- > Permanent closure needed
- > Could be facilitated by:
  - » Regulation by age or emissions
  - » “Jotzo” proposal to auction closure payment
  - » Other?
- > AGL will pragmatically support action for permanent change

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## Innovation in Retail – Giving customers control

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# Innovation in Retail Markets

Giving customers the ability to take back control.

## FROM:

- > Centralised generation
- > Mechanical meter
- > Read every 3 months
- > Simple tariff
- > Pay by cash / cheque
- > Paper bill

## TO:

- > Rooftop solar
- > Digital meters
- > Battery storage
- > Energy management
- > Mobile app
- > Time of use
- > Energy trading
- > Direct debit
- > E bills

# AGL is building a digital capability

From an analogue business publishing digitally into an end to end digital experience.

## Mobile App now includes "Solar Command"

- > 91,000 downloads to date

## Online sales up 51% year-on-year

- > Run rate ~90,000 sales per year

## FROG and KPMG engaged

- > Global best to map out our digital customer experience strategy



# Targeted investments also add new capability

Investing in new initiatives to grow business in carbon constrained future.

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## Sunverge

- > Demand response management for batteries in homes
- > Strategic partnership in Australian market



## Solar Analytics

- > Real-time solar monitoring to give customers control
- > Capabilities enable Solar Command App



# New Energy business unit up and running

Investing in emerging distributed technologies.

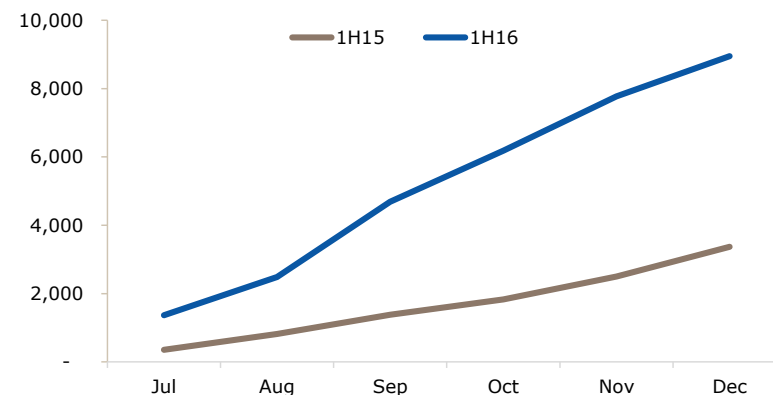
## Results progressing at customer level

- > Solar sales ramping up
- > Digital meters will enable customer experience
- > Trialing demand response

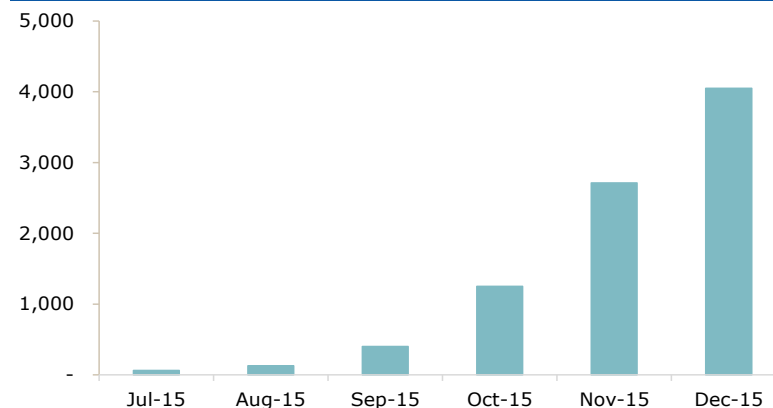
## Opportunities at Grid level

- > Intermittent nature of renewables will need new solutions such as:
  - » Grid-scale batteries
  - » Distributed batteries
  - » New gas peaking plant

Cumulative solar sold (kW)



Cumulative digital meters installed



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## Conclusion

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# A change in the market is under way

And AGL is anticipating what it means to our customers.

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## **Electricity prices in the NEM are rising**

- > Demand stabilizing
- > Different impacts of fuel driving up price from low base

## **The market is preparing to decarbonise**

- > AGL is arranging funding for new build
- > Government policy needed to facilitate new renewables

## **Giving customers control**

- > AGL is investing in new product and digital capabilities

## **All of which will unlock growth for AGL**

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# Contact information

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## Investors

### Nicole Rizgalla

Investor Relations Manager

phone: +61 2 9921 2691

mobile: +61 (0) 400 488 836

e-mail: [nrizgalla@agl.com.au](mailto:nrizgalla@agl.com.au)

## Media

### Kathryn Lamond

Media Manager

phone: +61 2 9921 2170

mobile: +61 (0) 424 465 464

e-mail: [klamond@agl.com.au](mailto:klamond@agl.com.au)

### Website

[www.agl.com.au](http://www.agl.com.au)

### Customer Service

**131 245**

### Corporate Information

[www.agl.com.au/about-agl](http://www.agl.com.au/about-agl)

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- › Does not take into account the potential and current individual investment objectives or the financial situation of investors.
- › Was prepared with due care and attention and is current at the date of the presentation.

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All references to prior period movements are to the corresponding period ended 31 December 2014.

## **Statutory Profit and Underlying Profit**

Statutory Profit is prepared in accordance with the Corporations Act 2001 and the Australian Accounting Standards, which comply with the International Financial Reporting Standards.

Underlying Profit is the Statutory Profit adjusted for significant items and changes in the fair value of financial instruments.

Underlying Profit has been presented with reference to the Australian Securities and Investments Commission Regulatory Guide 230 "Disclosing non-IFRS financial information" issued in December 2011. AGL's policy for reporting Underlying Profit is consistent with this guidance. The Directors have had the consistency of the application of the policy reviewed by the external auditor of AGL.