



## ASX & Media Release

### AGL Energy Chairman's HY19 letter to shareholders

22 March 2019

AGL Energy Limited advises that it has today commenced mailing the attached half-year update to shareholders.

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#### About AGL

AGL is committed to helping shape a sustainable energy future for Australia. We operate the country's largest electricity generation portfolio, we're its largest ASX-listed investor in renewable energy, and we have 3.6 million customer accounts. Proudly Australian, with more than 180 years of experience, we have a responsibility to provide sustainable, secure and affordable energy for our customers. Our aim is to prosper in a carbon-constrained world and build customer advocacy as our industry transforms. That's why we have committed to exiting our coal-fired generation by 2050 and why we will continue to develop innovative solutions for our customers.



## Dear Shareholder

It's been an active six months at AGL since we last wrote to you.

Under the leadership of our new CEO and Managing Director Brett Redman, AGL has been working hard to continue delivering for our customers and the community while investing for an exciting future that protects and enhances our business for the long term. We've maintained a strong generation asset base, with more than 3.6 million customer accounts and a robust financial position which allows AGL to be flexible at times of volatility and uncertainty. And, as we look for future growth opportunities, we will continue to invest in cleaner, affordable and reliable energy to meet the needs of our customers while creating value for our shareholders.

### Strategic priorities under new leadership

The Board was delighted to appoint Brett as our CEO and Managing Director on a permanent basis in December last year. Having joined AGL in 2007 and served as CFO since 2012, Brett has demonstrated a strong commitment to culture and performance over many years and is the ideal leader to take AGL into the future. Brett presented our half-year results to you in February, which was our first opportunity to outline our refreshed strategic priorities, focused on three key areas: growth, transformation and social licence.

This included:

- wind farms under development at Silverton in New South Wales and Coopers Gap in Queensland
- gas-fired firming capacity under construction at Barker Inlet in South Australia
- an upgrade to the Bayswater Power Station in New South Wales
- potential projects to develop new gas-fired firming capacity at Newcastle and the import of much-needed gas through an LNG import jetty at Crib Point in Victoria.

We also announced with the results:

- a \$25 million upgrade to the AGL Loy Yang coal-fired power station in Victoria, which will deliver increased, more efficient output without raising carbon emissions;
- an option over a 250 MW pumped hydro energy storage project at Bells Mountain near Muswellbrook in New South Wales; and
- plans to help customers take up government-led residential battery schemes. For more information on this initiative, due to commence 1 July, please visit [agl.com.au/solar-renewables](http://agl.com.au/solar-renewables)

### Growth and investment

A key contributor to AGL's 180-year heritage has been our ability to invest in the long term and drive new waves of growth. Following a comprehensive review

### 1. Optimising our existing assets for performance and value.

While we remain committed to the transition of our portfolio to new sources of generation and storage which will ultimately be cleaner, more affordable and reliable, our thermal assets will be essential to this country's energy supply for decades to come. For that reason, we need to invest to ensure that they are secure reliable, and flexible, especially as the way in which coal-fired power is despatched will change to support the build-out of more renewables.

### 2. Evolving and expanding our core energy market offerings.

The second horizon for growth is evolving and expanding our core energy market offerings. This includes progressing both planned and new gas-fired generation initiatives while delivering on our commitment to support the development of large-scale renewables and energy storage.

### 3. Creating new opportunities with increasingly connected customers as energy and data value streams converge.

The third growth horizon is about creating new opportunities with the connected customer. Central to this horizon is the ongoing expansion of the way customers think about energy, especially as energy and data value streams converge.

### FY19 Strategic priorities

Growth	Transformation	Social Licence
<p><b>Accelerate growth to meet evolving customer needs</b></p> <p>~\$1.9b of new energy supply projects under construction</p> <p>~\$1.5b of additional projects subject to feasibility</p> <p>Fundamental review of additional growth options completed</p>	<p><b>Reposition, refresh and reinvigorate AGL</b></p> <p>~\$400m of digital transformation programs undertaken FY17 to FY19</p> <p>Ongoing focus on adoption of best in class technology</p> <p>Embedding smarter data analysis in all aspects of operations</p>	<p><b>Meet and exceed rising community expectations</b></p> <p>Actions to support vulnerable customers</p> <p>Critical review of delivery of commitments to customer and community</p> <p>Committed to Energy Charter to embed customer-centric culture across the energy supply chain</p>

Consistent with these priorities, we are currently developing, directly or with our partners, \$1.9 billion of new energy supply projects, with a further \$1.5 billion of projects subject to feasibility.

of the growth options available to us, we have concluded that there are compelling opportunities for AGL to allocate capital to drive value along three horizons:

Much like electricity and gas, customers expect and need a reliable provision of data services and we see significant opportunities as the uses of data and energy become intertwined.

We want to continue to go where the customer is going and see many emerging growth opportunities in this space, including broadband, e-mobility, smart homes, and using data and energy to orchestrate our markets.

Given these plans and the flexibility afforded by AGL's strong financial position at a time of policy uncertainty in the energy sector, we have determined not to recommence share buy-backs at this time – although we retain the flexibility to do so.

Additionally, our current intention is to redeem our \$650 million hybrid subordinated notes when they become available to call in June 2019, subject to no material changes in market conditions, strategy or funding needs.

### **Policy and regulatory environment**

We continue to operate in an environment of policy uncertainty. In representations to governments, we have highlighted the value of a policy focus that supports investment in the energy sector and enables us to get on with the business of providing Australians with a clean, affordable and reliable energy supply.

AGL continues to maintain a regular and open dialogue and strong working relationships with all policymakers. Our message is clear: policy certainty encourages investment, which leads to economic growth and jobs. The right energy policy settings will be critical as we invest in our substantial pipeline of energy supply projects.

We recognise that AGL, the energy sector, and the business community as a whole all have a critical role to play in building trust.

And so, we are rising to further embed a truly customer-centric culture. To this end, AGL recently signed on as a signatory to the Energy Charter, which aims to drive improvement for customers across the energy supply chain.

### **Financial performance for period ended 31 December 2018**

Turning to our FY19 half-year financial results, AGL's Statutory Profit after tax of \$290 million was down 53 percent on the prior corresponding period. This reflected a negative movement in the fair value of financial instruments. This movement is non-cash but is required under Australian accounting standards. The movement in the period primarily reflected higher forward prices for electricity and is consistent with the way AGL hedges its electricity generation position through forward contracts.

Underlying Profit after tax, which is the more useful measure of company performance as it excludes movements in the fair value of financial instruments and Significant Items, was \$537 million, up 10 percent. The increase in Underlying Profit primarily reflected the benefit of higher market prices for wholesale electricity, offsetting margin pressures from continued elevated levels of customer churn, lower customer prices, the delivery of customer affordability programs and higher costs to support future plant availability at AGL's coal-fired power stations.

The financial performance for the period reflects our disciplined management of AGL's portfolio amid challenging operating conditions. The strength and flexibility of our portfolio has enabled us

to deliver strong returns for shareholders as we continue to invest to support supply availability throughout our fleet, deliver energy affordability programs for customers and make progress with growth opportunities.

Full details of our half year financial performance can be accessed at [agl.com.au/interimfy19](http://agl.com.au/interimfy19)

### **Outlook**

We stated at the half-year results that we are tracking towards the mid-point of our guidance range for Underlying Profit after tax to be between \$970 million and \$1,070 million in the financial year ending 30 June 2019. Our guidance reflects the continued strong performance of the AGL portfolio. This is offsetting the earnings impact of customer affordability initiatives, our decision to increase operating expenditure at our coal-fired power stations to support future availability and, in the second half, lower forecast gas sales volumes and the cost of absorbing consumer electricity price cuts and loyalty schemes.

All guidance remains subject to normal trading conditions and any impacts from ongoing regulatory and policy uncertainty.

In conclusion, it remains an exciting time for our company and our industry as a whole. The fundamentals of our business remain strong and our strategic priorities position us to transform and grow inline with the evolving needs of the customers and markets we serve. We would like to thank the shareholders and customers of AGL for their continued support, and to our employees for their ongoing focus and dedication.

A handwritten signature in blue ink, appearing to read 'Graeme Hunt'.

**Graeme Hunt, Chairman**

### **Updating shareholder details – bank accounts, postal and email address**

*Dividends to Australian and New Zealand resident shareholders are paid by electronic funds transfer to a nominated bank account. AGL encourages shareholders to ensure their latest bank account details, postal address and email address have all been provided to AGL's share registry, Link Market Services. The relevant forms can be downloaded from [www.investorcentre.linkmarketservices.com.au](http://www.investorcentre.linkmarketservices.com.au)*