agl

ASA Investor Conference 2021

Damien Nicks, Chief Financial Officer

1 June 2021

Thank you, Steven, and good morning everyone.

I am Damien Nicks, AGL's Chief Financial Officer, and it is my pleasure to be joining you this morning to talk to you about AGL, but more importantly, how the Company is responding to the current challenges in energy markets, and repositioning itself to continue to drive Australia's energy transition. All, whilst maximising value for our shareholders in this challenging environment, as the market transitions.

As you may be aware, in late March, AGL announced plans to create two leading energy businesses focused on executing distinct strategies via a structural separation, targeted towards a demerger.

The rationale to pursue this new path and separate AGL into two distinct organisations, has been driven by the shaping forces of customer, community and technology, which have gathered pace and significantly changed energy markets in recent times.

It is essential that we adapt to this changing environment.

The proposed separation would give each business the freedom, focus and clarity to execute their own respective strategies and growth agendas, while playing an equally important, but different, role in Australia's energy transition.

Disclaimer and important information

- The material in this presentation is general information about AGL's activities as at the date of this presentation. It is provided in summary form and does not purport to be complete. It should be read in conjunction with AGL's periodic reporting and other announcements lodged with the Australian Securities Exchange.
- This presentation is not an offer or recommendation to purchase or subscribe for securities in AGL Energy Limited or to retain any securities currently held. It does not take into account the potential and current individual investment objectives or the financial situation of investors.
- Before making or varying any investment in securities in AGL Energy Limited, all investors should consider the appropriateness of that investment in light of their individual investment objectives and financial situation and should seek their own independent professional advice.
- This presentation includes certain forward-looking statements that are based on information and assumptions known to date and are subject to various risks and uncertainties. Actual results may materially vary from any forecasts in this presentation. Future major expenditure, projects and proposals remain subject to standard Board approval processes.
- The material in this presentation provides an indicative outline of AGL's proposed separation plans. These plans are subject to a number of conditions and requirements and therefore are subject to change. The numerical estimates set out in this presentation are provided for illustrative purposes only and are not represented as being indicative of any future financial conditions or performance. The company names "New AGL" and "PrimeCo" are project names and the icons and logos have been created for the purpose of illustration only.

Before we move on to the presentation, I do want to note the disclaimer and other information on this slide.

Importantly, a lot of the content we will discuss today reflects an indicative view of AGL's proposed plans.

These plans are subject to change and all the numbers we are using are approximations for illustrative purposes.

Specifically, the company names "New AGL" and "PrimeCo" are project names, and not final company names.

Now, let's move to our first slide where I'll provide an overview of our business today.

AGL - Proudly Australian for more than 180 years

Almost 150,000 individual shareholders – mainly everyday Australians

Australia's largest multi-product energy retailer
- **4.5 million**[1] customer services and growing
- Now serving **30%** of Australian households
- Gas, electricity and mobile and broadband service offerings

Australia's largest electricity generator
- **> 40 TWh** generated per annum
- Thermal generation, natural gas and renewables

Australia's largest private investor in renewable energy
- **> 2,500 MW** of renewable generation capacity
- Large-scale solar, wind and Australia's largest privately owned hydropower fleet
- Strong investment pipeline to drive Australia's energy transition

[1] Services to customers number is as at 31 December 2020 and includes Click Energy and 100% of approximately 300,000 services to customers of ActewAGL, in which AGL owns a 50% equity stake of the retail operations.

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Proudly Australian for more than 180 years, AGL is a leading essential services provider, with nearly 150,000 individual shareholders - mainly everyday Australians.

Today, we are Australia's largest multi-product energy retailer, with over 4.5 million customer services and growing - delivering electricity, gas, internet and mobile services to more than 30% of Australian households.

Employing over 4,000 people nationwide, we are also Australia's largest electricity generator, with over 40 terawatt hours of annual generation, equating to approximately 20% of the total electricity demand across the National Electricity Market (NEM). This is supplied from a high-quality and diverse generation base including coal, natural gas and renewables.

Importantly, we are also Australia's largest private investor in renewable energy – to date, our portfolio includes 2,500 megawatts of renewable generation capacity including large-scale solar, wind and Australia's largest privately-owned hydropower fleet. And, this will grow to 3,800 megawatts once the proposed acquisition of Tilt Australia's assets (via AGL's 20% interest in PowAR) is completed.

Further to this, our strong renewables development pipeline includes plans to construct 850 MW of grid-scale batteries across a number of our generation sites.

The strategic rationale for separation reflects the shaping forces of customer, community and technology

The proposed separation would allow both companies to be more focused and agile in their response

	Shaping forces	Impact and implications	Separation rationale

Customer	• Strong uptake of multi-product offers and digital services
	• Increasing demand for virtual power plant
		• Retail business accelerating towards future state
		• Carbon neutral offerings becoming more important
		• Value of retail becoming more independent of base-load generation
		• Trading and portfolio management evolving
		• Coal plant remains essential to reliable supply during transition
		• Risk/return expectations for new generation structurally lower
			• Gives each business the freedom, focus and clarity of purpose to:
			  • Set and execute against its **own strategy** and **growth agenda**
			  • **Address** market forces and **advocate** for its role in the energy transition
			• Allows the market **greater transparency** to understand and value each business

Community	• Accelerating desire for action on climate change • Government policy driving retail pricing; now focussed on underwriting generation		
Technology	• Falling costs for renewable generation and storage • Strong funding support for renewables and storage		

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Let's now take a closer look at the shaping forces of customer, community and technology which have driven our decision to separate.

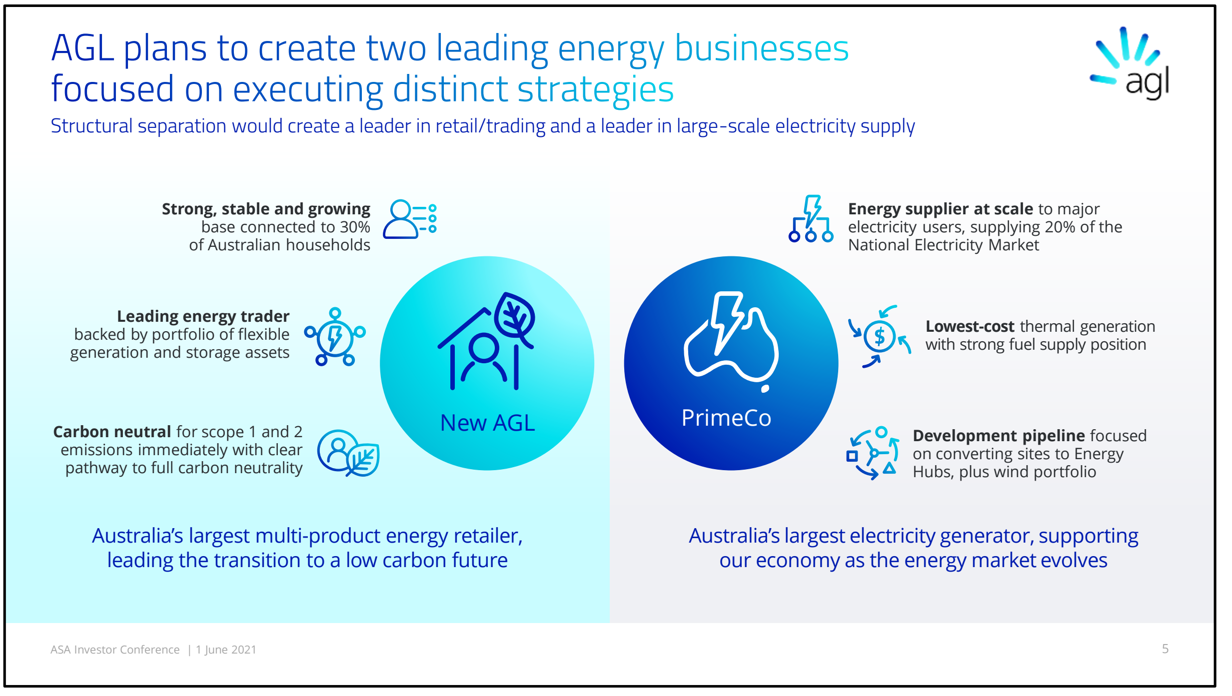
As you can see on this slide, an accelerating desire for action on climate change, government policy now focusing on supporting new generation, a growing demand for decentralised or "smart home" energy solutions, together with rapidly falling technology costs, have all significantly changed Australian energy markets.

This has resulted in an acceleration of multi-product and low-carbon opportunities for our retail business, and most significantly, a reduced need for retail and baseload supply positions to balance each other.

Separation would therefore give New AGL and PrimeCo the agility, freedom and focus to execute on their own strategies and growth agendas.

Importantly, separation would also empower each business to address market forces in their own way and advocate for their own role in the energy transition.

The market would benefit from greater transparency in valuing each business, and our customer base would benefit from more targeted products and services.



This slide provides an overview of the two proposed entities, for which we are now calling New AGL and PrimeCo.

Both would be leading energy business, each with distinct strategies and pathways in driving Australia's energy transition.

New AGL would be Australia's largest multi-product energy retailer with over 4.5 million customer services and growing, leading the transition to a low carbon future.

It would have a strong, stable and growing customer base connected to 30 percent of Australian households, and continue AGL's heritage as a leading energy trader, backed by a portfolio of flexible generation and storage assets.

With a short energy position, New AGL would focus on pursuing growth in its firming portfolio by meeting customers' rapidly increasing demand for smart home energy solutions and creating shared value via energy orchestration.

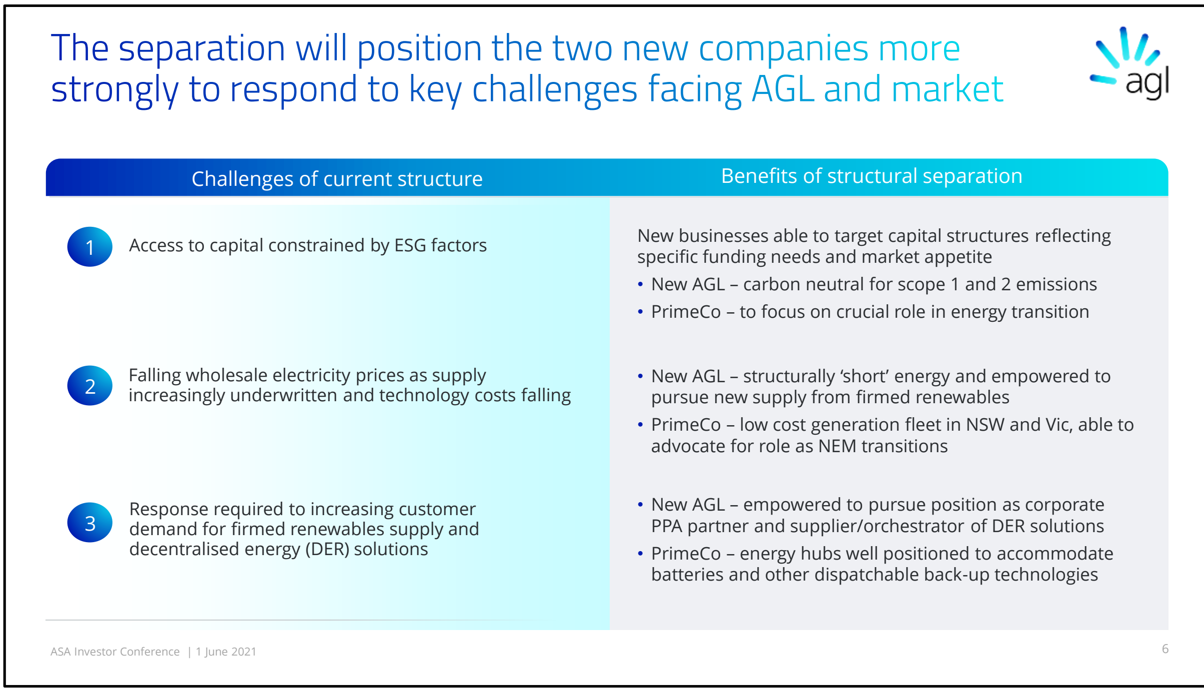
Importantly, New AGL would be carbon neutral for scope one and two emissions on day one, with a clear pathway to full carbon neutrality into the future.

PrimeCo would be Australia's largest electricity generator, accounting for 20% of the generation in the National Electricity Market (NEM) and playing a very vital role in supporting our economy as the energy market evolves.

It would also be a key direct supplier to major energy users including aluminium smelters, larger wholesale and industrial customers, as well as a significant supplier of energy to New AGL.

Crucially, it would retain Australia's highest quality, lowest cost thermal generation portfolio, backed by decades of asset management and hedging expertise, and supported by a strong fuel supply position.

PrimeCo would also play its own role in the energy transition by re-developing the Macquarie, Torrens Island and Loy Yang sites as energy hubs, in addition to operating Australia's largest wind portfolio, and access to options for developing future wind projects.



Essentially, we see three major reasons why we need to separate this business.

When we reflect on the feedback we have received to date, the majority of feedback relates to issues that the existing AGL business contends with today. So, let's take a closer look at this and I'll illustrate why we think the separated businesses will be in a better position to respond.

Firstly, given our significant coal exposure, our existing AGL business is subject to growing capital market constraints, both in debt and equity.

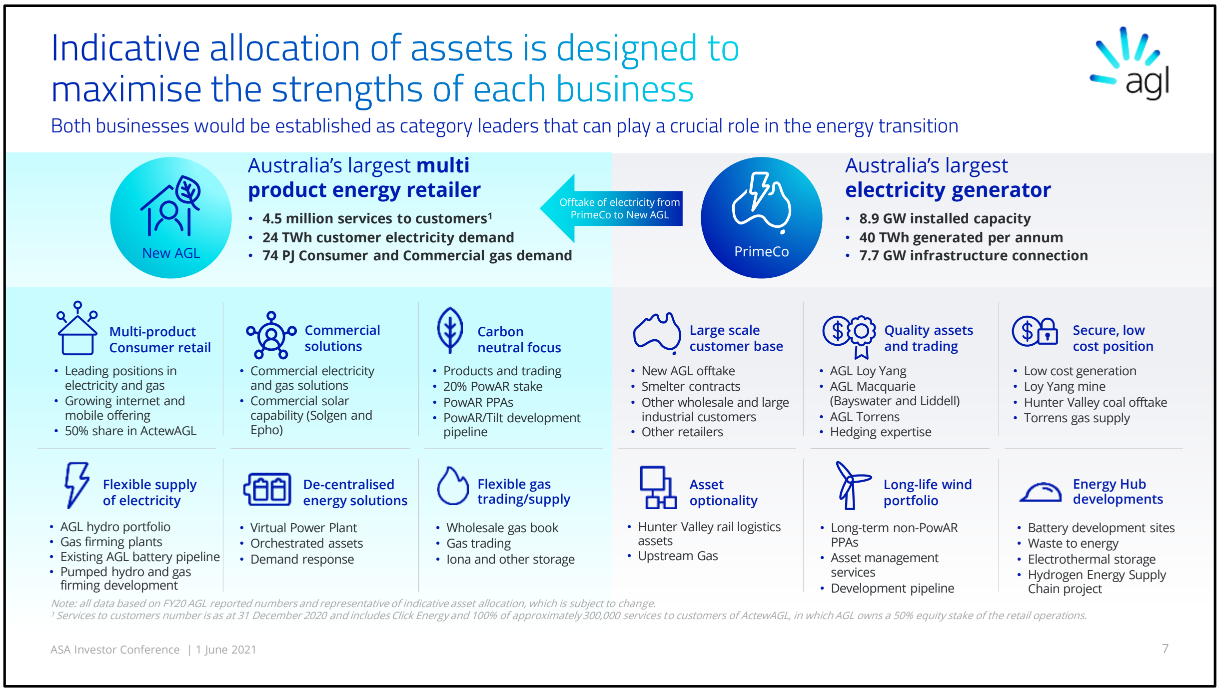
A separation would allow both businesses to pursue capital structures which reflect their funding needs and market appetite.

New AGL, given it would be immediately carbon neutral for scope 1 and 2 emissions, would be free of many ESG concerns. And whilst not yet confirmed, we envisage PrimeCo would pursue a debt structure providing lenders a clear line of sight to reduce their exposure to coal.

Secondly, the outlook for wholesale electricity pricing remains challenged in the short to medium term, driven in part by government policy to underwrite new generation and declining technology costs.

New AGL's short energy position would give it agility and supply options in the medium term. Whilst a lean and focused PrimeCo would retain its low-cost operating advantage and be well positioned for any recovery in wholesale pricing.
And finally, our customers are increasingly demanding firmed renewable supply and smart home energy solutions.

A separated New AGL would be empowered to pursue a position as preferred partner for large corporate power needs, as well as a supplier and energy coordinator of choice for smart home energy solutions. Whereas PrimeCo’s energy hubs would be well positioned to accommodate large-scale batteries and other storage technologies.



Whilst still indicative, this slide provides an overview of the likely asset split to maximise the strengths of each business.

Put simply, New AGL would have a large customer base with a short energy position, whilst PrimeCo would have a long energy supply position, supported by a low-cost generation portfolio.

Offtake agreements relating to the supply of energy between the two entities would provide appropriate risk management for both.

With such a strong customer position that would require access to flexible capacity and storage assets to manage peak demand events, we expect New AGL would own and operate a large proportion of our development pipeline of battery projects, as well as our pumped hydro and gas firming assets.

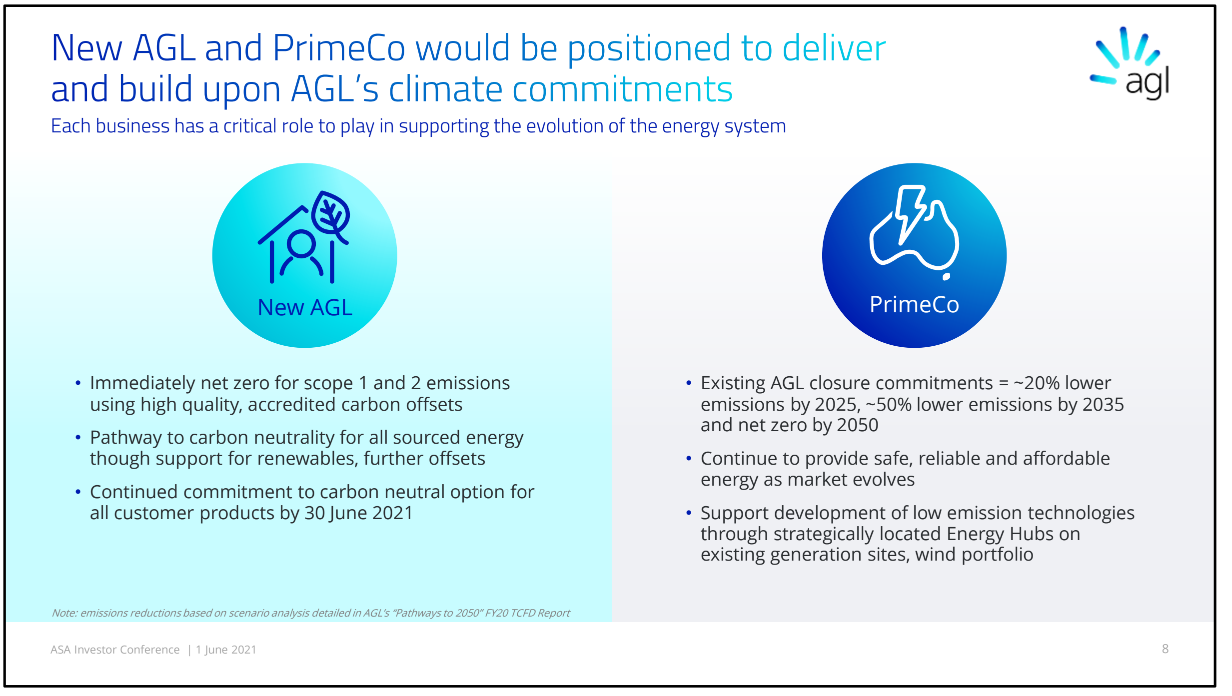
New AGL's carbon neutral focus would be backed by AGL's stake in and access to the PowAR platform, which will be bolstered by the acquisition of Tilt Australia and its large and quality development portfolio.

As highlighted earlier, PrimeCo would be the biggest direct supplier of electricity to the NEM, with almost 9-gigawatts of installed generation capacity and a significant renewable development pipeline.

It would continue to operate the wind farms at Macarthur, Hallet, Oaklands Hill and Wattle Point – and be a party to the offtake agreements, whilst taking on the pipeline of new wind development sites that AGL has options over today.

Importantly, PrimeCo would be focused on progressively transitioning its existing thermal generation sites into energy hubs, starting with the Liddell Power Station site – through announced projects such as waste to energy, batteries and electrothermal solar storage.

These energy hubs will benefit from a unique energy infrastructure with a sizeable footprint in strategic locations.



Moving now to how both entities will participate in the energy transition, which is a major driver for the separation and will continue to be vital for both businesses.

New AGL would be carbon neutral for scope one and two emissions on day one, offsetting the small volume of emissions it generates directly with high quality accredited instruments.

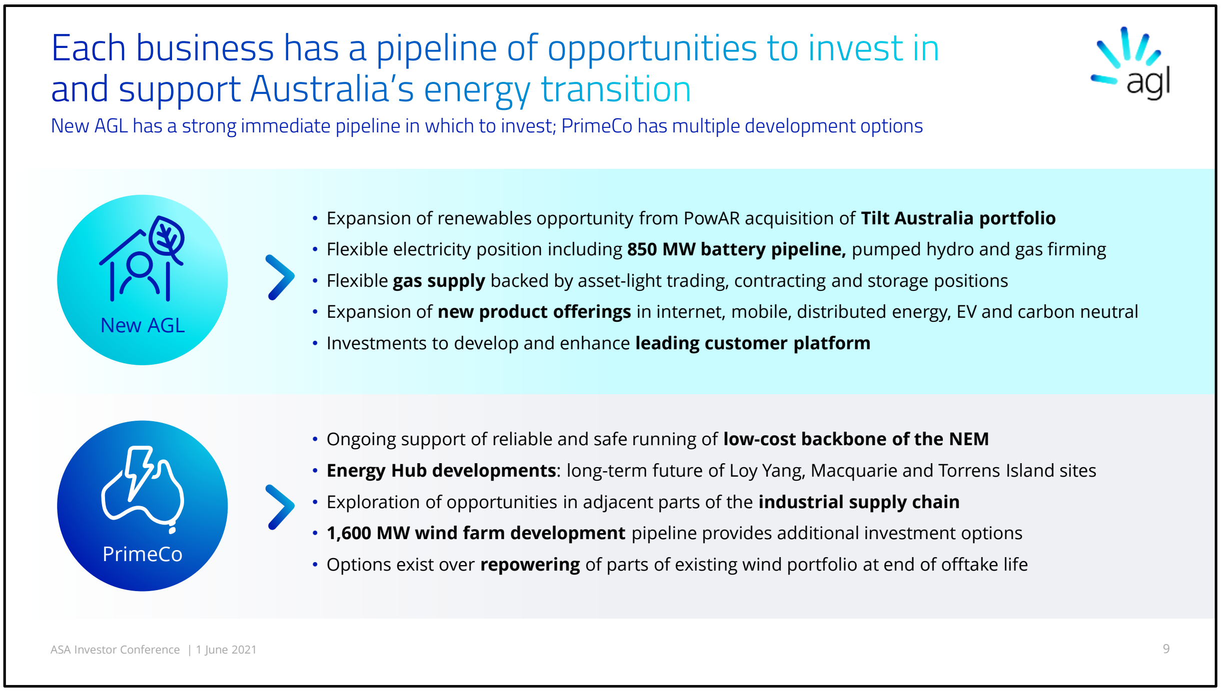
It would have a clear pathway to carbon neutrality for its sourced energy over time, sourcing more of its supply from renewables over time and continuing to promote AGL's existing commitment to provide a carbon neutral option for all customer products by the end of the financial year.

PrimeCo will have its own pathway to supporting the energy transition. PrimeCo's assets will be required for network stability and capacity for many years to come, while supporting reliability, affordability and the livelihoods of our people and the communities in which they work.

It would continue to operate these assets safely and efficiently until they are no longer needed or commercially viable. It will retain AGL's commitments not to extend their life or invest in new coal power, while at the same time, support the development of low emission technologies through the development of its energy hubs and continued operation and potential development of its wind portfolio.

As assets close, these commitments will deliver a step change in carbon emissions reduction.

This will be approximately 20 percent lower with the closure of Liddell in 2023, 50 percent lower when Bayswater closes in 2035, and fully net zero in 2050 following the closure of Loy Yang no later than 2048.



Let's now talk about growth and investment - which would be a clear focus for both New AGL and PrimeCo.

New AGL has a strong pipeline in which to invest.

A priority would be supporting large-scale renewables as an off-taker and equity holder in the Tilt development portfolio being acquired by PowAR.

As mentioned earlier, we expect New AGL will also own and operate a pipeline of battery projects, including some on the PrimeCo energy hub sites, as well as our pumped hydro and gas firming assets.

It would carry forward AGL's longstanding heritage as a major trader of gas, continuing to seek out opportunities to invest in positions that support flexibility of supply to our customers.

New AGL would be well positioned to expand as a provider of choice in essential services and decentralised energy, and to continue to invest in developing and enhancing its leading customer platform.

PrimeCo's first focus would be the safe and reliable running of its generation portfolio, the low-cost backbone of the NEM.

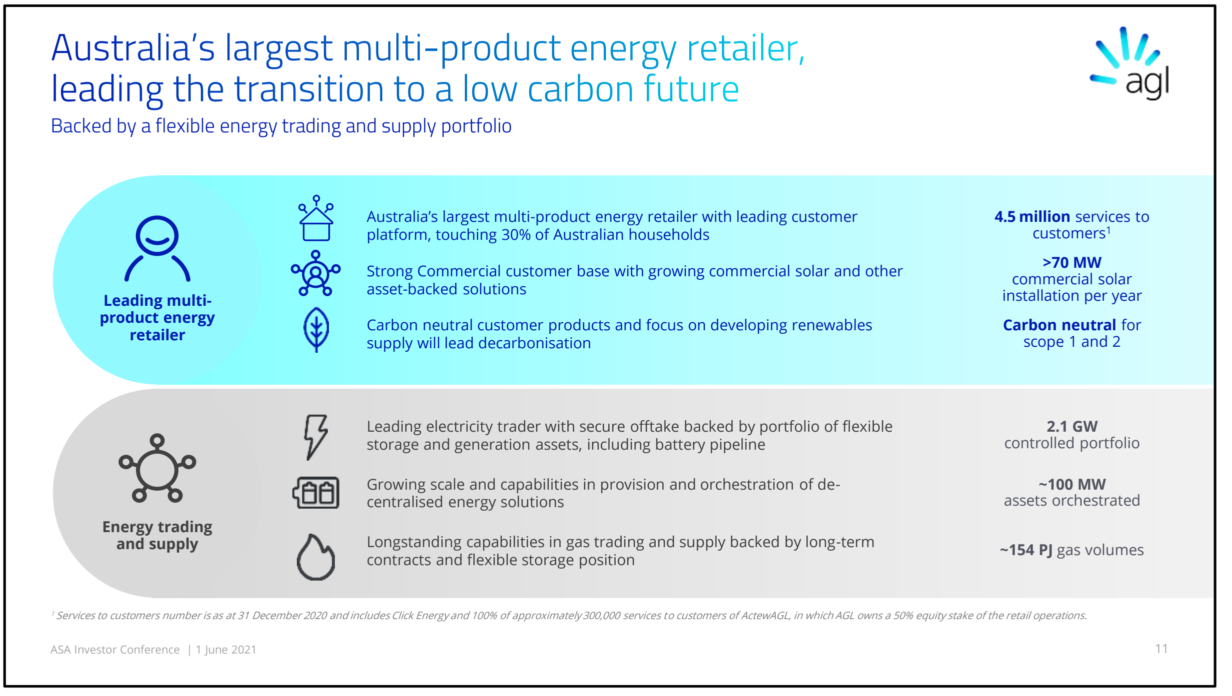
It would accelerate work to convert its three core sites, Macquarie, Torrens Island and Loy Yang, into industrial energy hubs with a future long beyond the eventual retirement of coal-fired power.

PrimeCo would also be well positioned to explore opportunities in adjacent parts of the industrial supply chain as an expert operator of complex industrial assets.

It would look to develop its portfolio of wind farm assets, including 1,600 megawatts of new development options and repowering options over some of its existing sites.

These are two truly strong businesses with compelling growth and investment opportunities ahead of them as independent companies.

Let's now take a closer look at the two proposed entities, starting with New AGL.



As discussed earlier, New AGL would be Australia's largest multi-product energy retailer, leading the transition to a low carbon future and backed by a flexible energy trading and supply portfolio.

As of today, it provides 4.5 million services to customers, including about 300,000 services via ActewAGL, of which we own 50 percent.

Our Commercial presence recently grew to become Australia's largest commercial solar business, following the acquisitions of Solgen and Epho – and we are also becoming a leader in providing carbon neutral products and decarbonisation solutions for our customers.

New AGL's secure offtake position would be backed by a leading energy trading capability and a 2.1-gigawatt portfolio of flexible generation assets, with a growing ability to realise the opportunities in decentralised energy and strong gas trading and supply capabilities.

Importantly, New AGL would continue to build on our position as Australia's leading multi-product energy retailer, but as a leaner, greener organisation.

The New AGL strategy would be anchored in customer needs, both today and into the future.

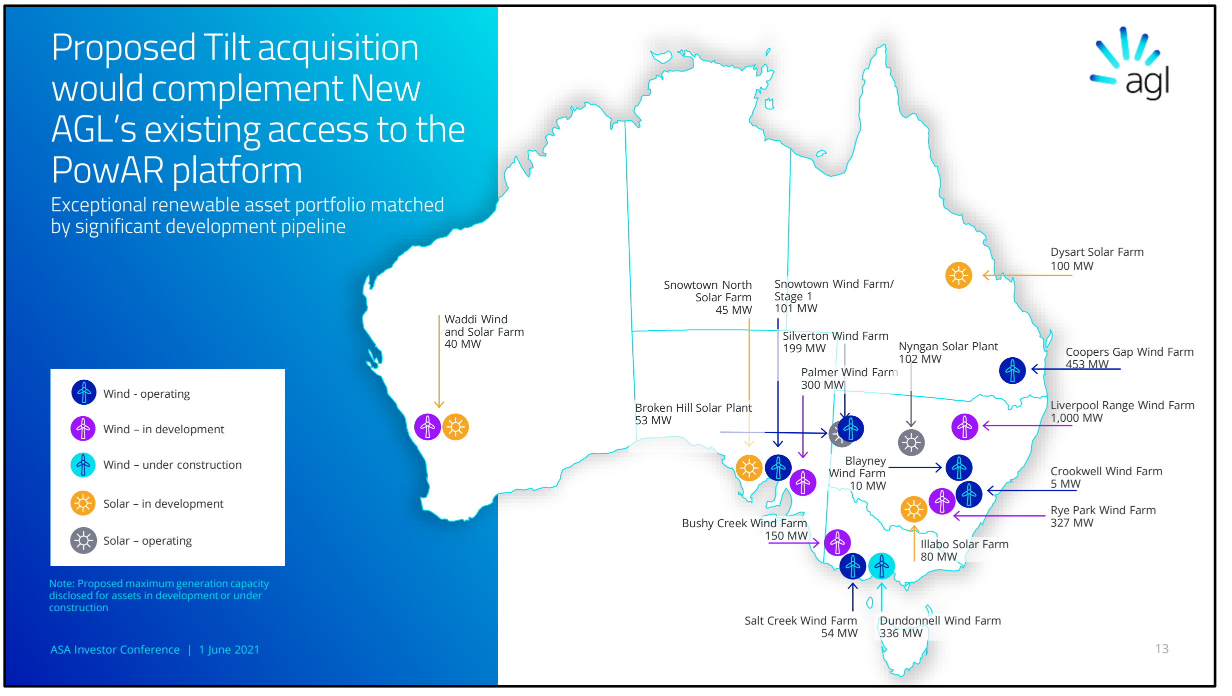
We will continue to focus on delivering great value and an effortless experience, while our brand position would be significantly enhanced by New AGL's green energy supply and low carbon credentials.

In the near term, we see New AGL as strongly focused on scaling our energy, internet and mobile services under the banner of connected essentials.

We then expect to see take-up of residential batteries and electric vehicles accelerate over the next three to seven years, for which we are already strongly positioned.

Our low-carbon advantage will play strongly in the commercial segment, where our leading position in renewables development and commercial solar will help us deliver to customers' needs for asset-backed low carbon supply.

The technology choices we are making are critical to our success, striking a balance between investing in proven technology today and creating optionality for tomorrow.



In particular, the renewables development platform would be a cornerstone of New AGL, building on AGL's heritage as Australia's largest private renewables developer and creator of PowAR.

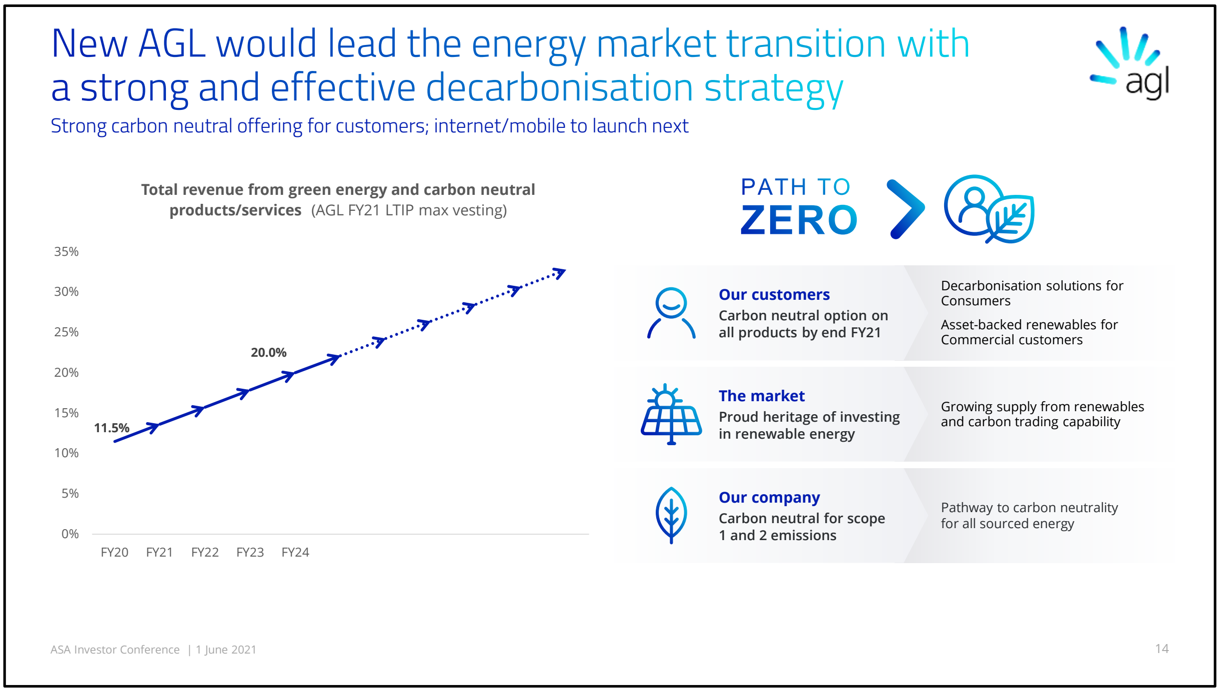
New AGL currently has access to the PowAR platform, through its 20% equity stake, and this platform of renewable generation and offtake will grow via the proposed acquisition of Tilt.

The acquisition will lead to a portfolio for PowAR of 1.3 gigawatts of operating solar and wind assets, and a further 3.5 gigawatts of development and construction projects.

This positions New AGL with access to new developments across all states in which it operates.

This diversified set of assets and options in development would position New AGL to increase large-scale renewables that complements commercial and consumer expectations, and would expose New AGL to low marginal cost generation with a carbon neutral profile.

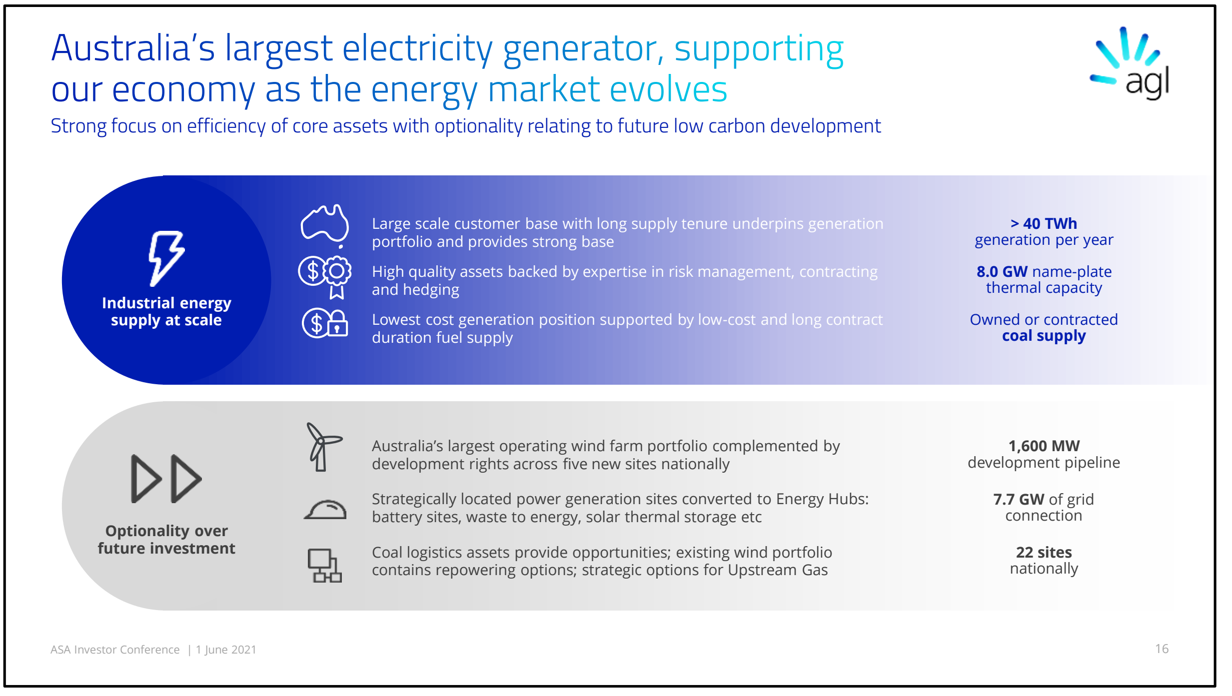
Importantly, the firming nature of our flexible capacity and storage assets, in addition to our trading capability, would enable New AGL to manage the intermittent generation risk from renewables. For instance – when the wind doesn't blow, or the sun doesn't shine.



As a final point, I really want to reiterate carbon neutral as it is so important to the New AGL customer value proposition.

New AGL would deliver this directly for customers via carbon neutral products, more broadly via backing development of renewables supply, and for the company holistically by being carbon neutral for scope 1 and 2 emissions and having a clear pathway to carbon neutrality for all sourced energy.

Let’s now take a closer look at PrimeCo.



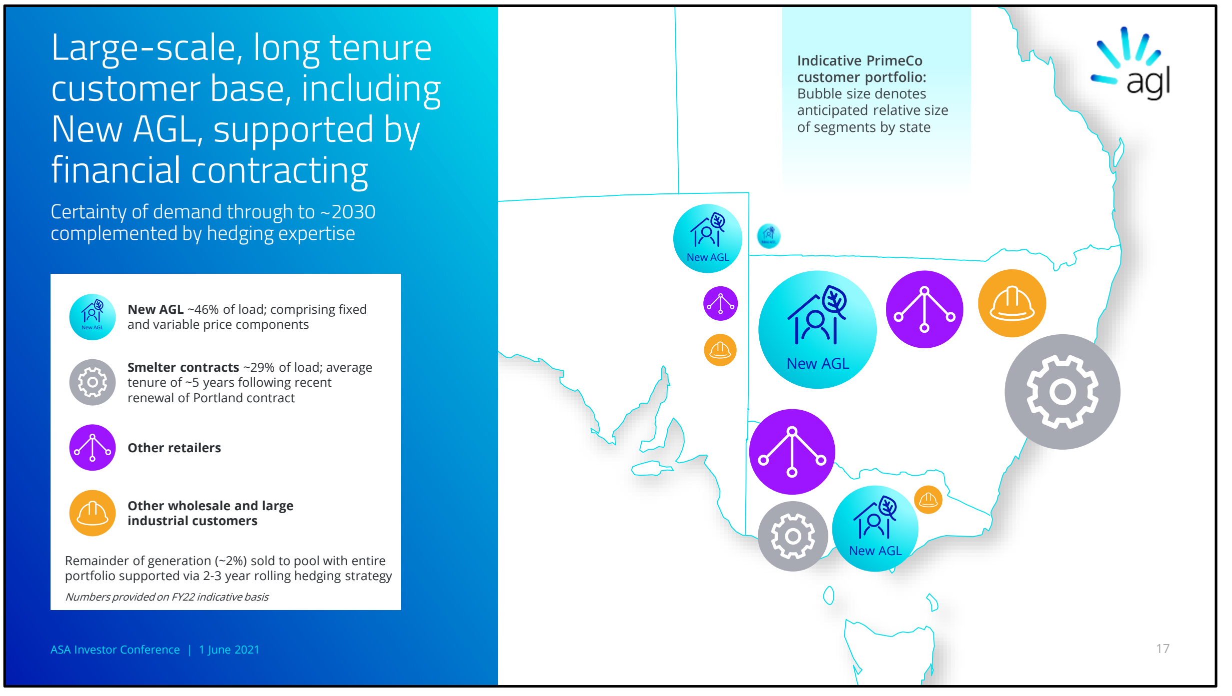
PrimeCo would be Australia's largest energy generator, supporting our economy as the energy market evolves.

It would have a strong focus on the efficiency of its core assets with optionality relating to future low carbon development.

Its generation base would be 40 terawatt hours per year, from 8 gigawatts of low-cost thermal capacity with secure fuel supply contracts.

PrimeCo has strong development options.

As discussed earlier, not only is there the opportunity of a 1,600-megawatt wind development pipeline and repowering of parts of AGL's wind farm portfolio, there is also the prospect of developing the options for batteries, hydrogen, waste to energy and other clean energy assets at the three energy hubs, as well as adjacency opportunities elsewhere in the industrial supply chain.



PrimeCo would be long generation and would leverage its risk management and trading expertise, underpinned by sizeable long-term offtakes to manage this exposure.

This slide outlines and illustrates the distribution of the offtakes by customer segment and location.

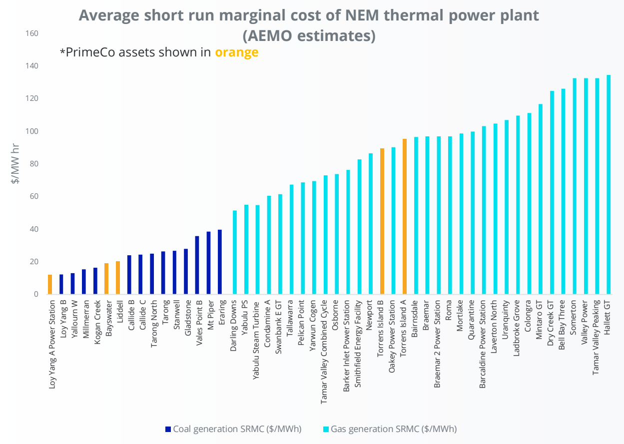
Certainty of demand through to 2030 would make the business very resilient.

You can see that we anticipate nearly all of PrimeCo's generation to be secured in large customer offtakes in the near term, with New AGL taking nearly half the load, another quarter going to the smelter contracts, and the remainder split between industrial customers and other retailers in the NEM.

This gives PrimeCo the stability required to operate its fleet responsibly and to support new developments for the future.

Thermal fleet retains low-cost operating advantage amid ongoing uncertainty and NEM over supply

We are committed to orderly and responsible transition for our customers, our workforce and community



- PrimeCo coal-fired power stations will remain among the lowest cost to run, positioned well for all scenarios
- Continued focus on driving capex and opex optimisation amid current challenging market conditions
- Coal generation has an essential role to play in Australia's energy transition as the backbone of the NEM
- Active engagement with Energy Security Board continues in relation to improving signals for the closure of aging plant
- Regulatory framework expected to prioritise orderly transition and uniform/transparent support while enabling operational flexibility

Source: 2020 AEMO Integrated System Plan

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PrimeCo can support these large customer contracts I referred to in the previous slide, primarily due to its optimal cost position among the thermal stations in the NEM, which provides an operating advantage and longevity in the fleet.

PrimeCo would come from a position of strength.

It would be the largest generator in the NEM, with the lowest cost generation in the NEM through Loy Yang, and it would lead the cost stack in NSW.

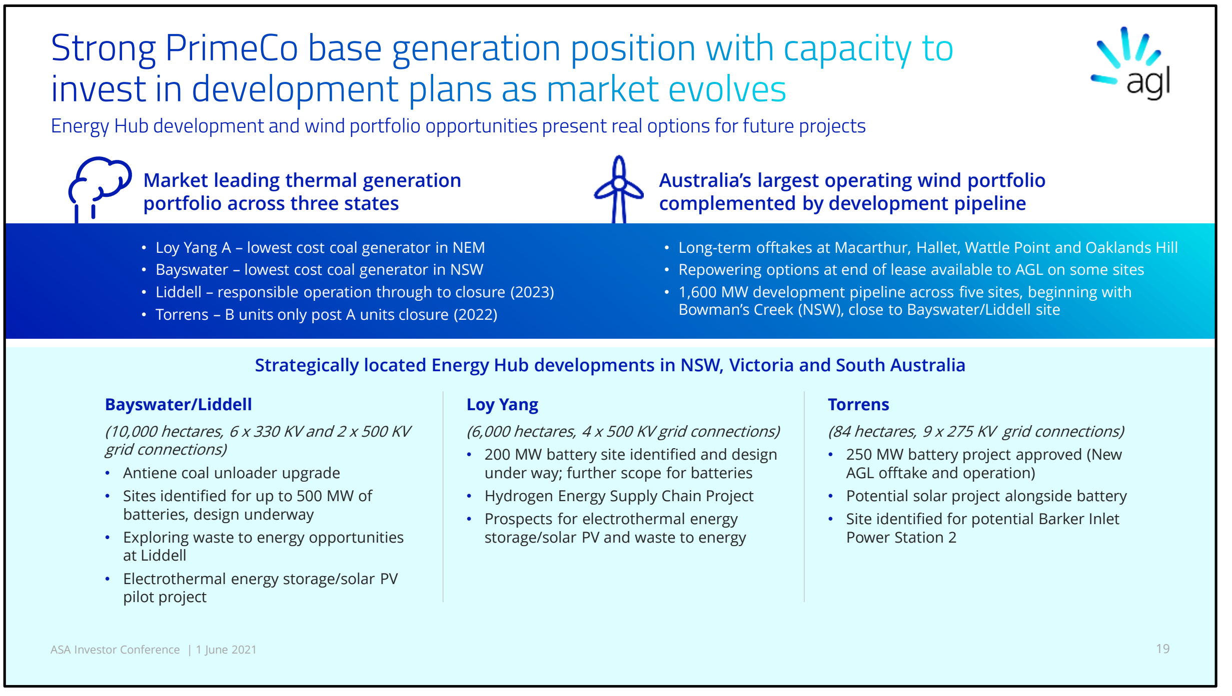
The low-cost advantage that PrimeCo has is largely driven by our well managed fuel supply arrangements across the thermal fleet.

These place PrimeCo in a very competitive position over the long-term despite the ongoing market uncertainty, in particular given its own coal supply at Loy Yang and low-cost supply contracts for Bayswater.

While we have a low-cost advantage, there is more we need to do to maintain a leadership position.

We are driving prudent cost controls and working with regulators and bodies to make sure the market is working effectively and giving the right signals for thermal operators so that an orderly energy transition can occur.

We expect the regulatory framework will prioritise an orderly, uniform and transparent transition while enabling operational flexibility.



Before we finish, let's take a closer look at PrimeCo's development opportunities.

A key point I want to reiterate, is that strong foundation of PrimeCo's low-cost generation position and operating discipline, which provides for potential future development.

In addition to its 1,600-megawatt wind development pipeline, PrimeCo would focus on progressively transitioning its existing thermal generation sites into energy hubs, starting with the Liddell Power Station site.

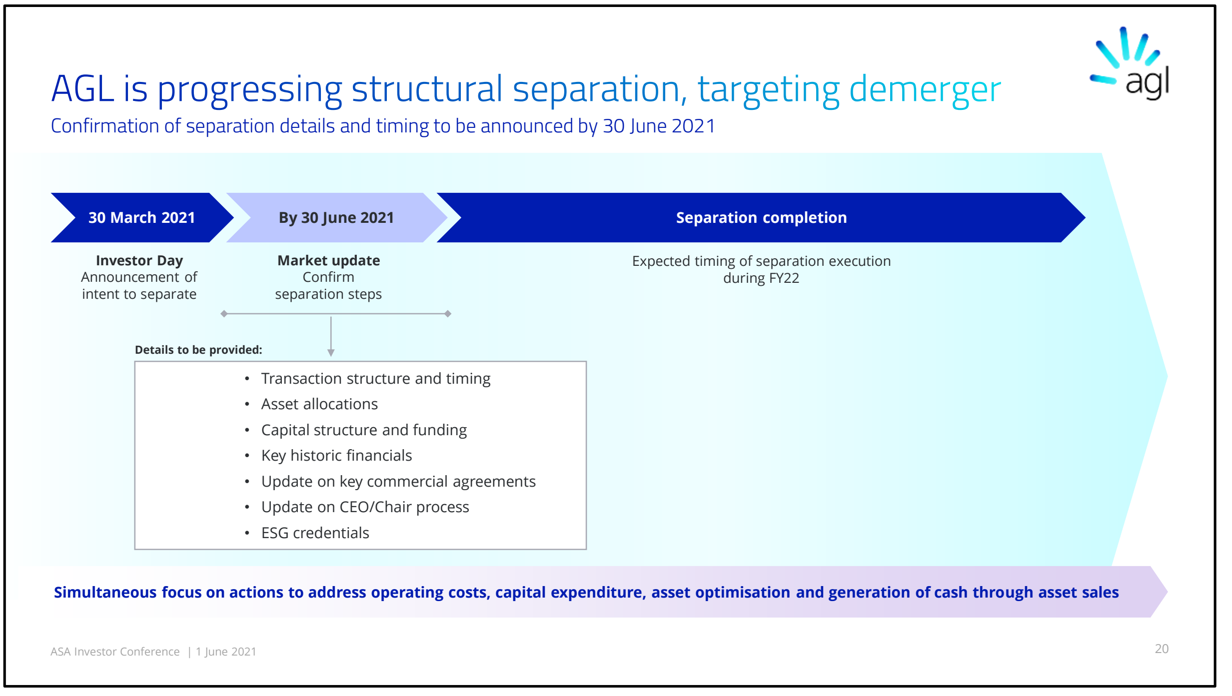
These Energy hubs will benefit from existing, well established grid connectivity and unique energy infrastructure, with a sizable footprint in strategic locations across New South Wales, Victoria and South Australia.

As you can see on this slide, the extensive development plan includes grid-scale batteries across all three locations, waste to energy opportunities as well as electrothermal solar storage.

PrimeCo may choose to develop, own or just be a landlord for these opportunities, dependant on the respective business cases.

I would also like to highlight that AGL is already a partner in the Hydrogen Energy Supply Chain (HESC) project, for which the pilot plant has already started producing hydrogen from the Loy Yang coal mine for export to Japan.

These are all genuine opportunities to use the existing infrastructure to give a future to the sites and keep jobs in the local communities while creating value for PrimeCo.



In closing, I would like to reaffirm our plans to create two leading businesses, targeted towards a demerger.

Since announcing our intention to separate in late-March, we've had constructive and positive engagement with our lenders and investors.

The separation timeline is progressing well, and we will next update the market by 30 June with intended details on the transaction structure and timing.

Importantly, this update will include asset allocations, capital structures, key commercial agreements and other material details for both entities.

This slide broadly outlines the indicative pathway and timing to completion over the next financial year.

As you can see, there is still significant work to do before execution, but we are very confident in our strategy.

This is an immensely exciting moment in AGL's 180-year history, and the proposed separation builds on our heritage of innovation, investment, and structural adaptation to meet the needs of a dynamic industry.

We will continue to seek feedback and shareholder support for the proposal. And following the next update by 30 June, we will endeavour to execute the separation as soon as we can, delivering a successful outcome for AGL's shareholders and stakeholders.

Thank you

Thank you again for your time and I'll now open the floor to any questions.

Contact

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