AGL Energy Limited Half-Year Results Webcast

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Presentation

Moderator: Thank you for standing by and welcome to the AGL Energy 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'd now like to hand over the conference to Managing Director and Chief Executive Officer, Mr Damien Nicks. Please go ahead.

Mr Nicks: Thank you for joining us for the webcast of AGL's 2025 half year results. I'd like to begin by acknowledging the Traditional Owners of the land I'm on today, the Gadigal people of the Eora Nation 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're all joining from.

Today I'm joined by Gary Brown, Chief Financial Officer, Jo Egan, Chief Customer Officer and Markus Brokhof, Chief Operating Officer. As noted in the ASX, Markus has announced his retirement with effect from the 15th of September after five great years of service with AGL and we've commenced working through an orderly transition. I'll get us started and we'll have time for questions at the end.

This slide provides a good overview of the key themes Gary and I will cover today. Firstly, our strong earnings result for the half, in line with expectations, which I'll cover shortly. Secondly, we continue to strive to connect every customer to a sustainable future and continue to provide our customers with great products and services. Amidst another period of heightened market activity, our customer markets business recorded good growth in overall customer services across both energy and telecommunications as well as Netflix customer services.

Our customer satisfaction continues to remain very strong and strategic NPS also in a good position with a score of plus 3 and we've marginally increased our spread to market churn to 5.5 percentage points. Encouragingly, our retail transformation program is already delivering benefits to the business and our strategic equity investment in Kaluza completed in January. Importantly, we continue to support our customers through this ongoing period of cost of living pressures, with $75 million of our $90 million customer support package now delivered to customers.

Turning to the transition of our energy portfolio, where we continue to make good progress, after consecutive periods of excellent fleet performance, our thermal fleet availability factor that was lower for this half, primarily due to two planned major coal-fired unit outages in the first half, compared with just one in the prior corresponding half. Despite this result, we do expect stronger performance as we continue to invest in availability and flexibility.

Our development pipeline has grown to seven gigawatts, with new firming options added following the acquisition of Firm Power and Terrain Solar and I'm pleased to say the 500 megawatt Liddell battery is on track to commence operations in early 2026. Importantly, our flexible fleet capacity has increased to 7.6 gigawatts, 200 megawatts higher with our second Neoen battery agreement and we're targeting final investment decisions on an additional 1.4 gigawatts of grid-scale battery projects within the next 12 to 18 months.

Turning now to the financial results, underlying EBITDA was broadly flat on the prior half due to increased earnings and value captured from the flexibility in the generation portfolio, offset by lower expected consumer customer margin due to market activity and increased operating cost to acquisitions and to manage outages during the half. Underlying profit after tax was $373 million, 7% lower than the prior half, with the decrease mainly driven by higher depreciation and amortisation resulting from the continued investment in the availability and the flexibility of AGL's assets.

Increased income tax paid and sustaining CapEx drove operating free cash flow lower. However, we continue to maintain a strong level of cash conversion. An interim ordinary dividend of $0.23 per share has been declared fully franked, based on a targeted 50% to 75% payout ratio of underlying NPAT for the total FY25 dividend. We have narrowed our FY25 financial guidance ranges in line with a strong first half performance and I will discuss this at the end of the presentation. Encouragingly, current forward wholesale electricity price curves for FY26 and FY27 remain strong.

Now moving to safety, customer and people metrics, we've recorded a good improvement in our total injury frequency rate, down to 2.8 per million hours worked, driven by our acute and relentless focus on preventing injuries across the organisation, which has included numerous safety awareness campaigns and targeted workshops. This is an encouraging result, particularly across two major outages, however we must continue to strive to further improve this metric. I've already spoken to our customer satisfaction and strategic NPS scores, and our employee engagement score remains steady at 72% from a pulse survey undertaken in November.

Assisting our customers with the ongoing cost of living pressures remains a key priority and I'm pleased to report that we've delivered $75 million of our $90 million customer support package to customers that need it the most. As you can see at the bottom of the screen, we've embedded the customer support program into our everyday operations, including upgrading digital resources to improve accessibility and streamline support for customers in need. Also at the bottom you'll see the significant amount of government bill relief that has been delivered to eligible AGL customers with over $1 billion projected to be delivered by the end of FY25.

Now to our FY27 strategic targets, where we continue to make strong progress and strive to deliver on them. Starting on the left-hand side, for those items I've not already discussed, our digital-only customers metric has increased further towards our 60% target. The speed to market improvement has remained stable. We've recorded good growth in our cumulative customer assets and store metric and we'll provide an update on green revenue at the full year results in August.

Turning to the right-hand side, whilst we recorded a lower EAF result for the half, we anticipate improvement for the second half and remain confident of stepping this up to the 88% target over the coming years. Decentralised assets under management are 50 megawatts higher at 1.3 gigawatts and we now have almost 1.2 gigawatts of new renewable and firming capacity in development, contracted and delivery, including the new 200 megawatt Neoen virtual battery agreement.

I'll now spend a few minutes talking to the transition of AGL and how we continue to execute on our strategy before handing over to Gary. Just a recap of our two primary strategic objectives, which I'll spend some time on in the coming slides, connecting every customer to a sustainable future, as well as transitioning our energy portfolio. Customer markets continues to demonstrate strong growth in the core business and we're capturing a disproportionate share of the rapidly growing EV market. Further, our retail transformation program is already delivering benefits to AGL.

Our continued investment in flexibility and availability is delivering value in the energy transition. We've also added new firming options to our development pipeline following the acquisition of Firm Power and Terrain Solar. In an increasingly volatile market, we are benefiting from our diversified portfolio of flexible assets. We have a clear strategy in place and have made significant progress on its delivery. Our strategy provides a sufficient flexibility for our business to remain resilient to the external uncertainties as we remain acutely focused on execution and delivery.

At the full-year results, I spoke to the importance of policy and regulatory stability to enable the substantial investment necessary for the energy transition. We look forward to continued collaboration across the industry and government on the policy settings we need to drive Australia's energy transition. Starting with our customer markets business, which continues to make significant progress in an evolving market, supported by our leading energy brand, a large customer portfolio providing economies of scale and strong operational performance.

We maintain our number one market share in commercial solar and hold one of Australia's largest demand-side flexibility portfolios with 1.3 gigawatts of decentralised assets under orchestration. Additionally, our award-winning Electrify Now platform is empowering Australians to embrace electrification and I've already highlighted the great strides we're making in the EV space. A core element of our strategy is to be the partner of choice for customers as they electrify and decarbonise and our core business remains key in delivering value to both customers and shareholders, as well as driving sustainable growth.

Our strategic partnership and equity investment in Kaluza announced in June was a major step of our retail transformation program. A program aimed at simplifying our products, processes and operating model and importantly, the pathway to accelerating our ambition to connect every customer to a sustainable future through electrification. Crucially, we're making great progress on building a future-ready business through the retail transformation program, which is already delivering benefits to AGL.

On the left-hand side, you can see that product simplification has led to a 19% reduction in energy plans on a year-on-year basis, streamlining our product offerings. We've already unlocked operating model benefits and the successful first phase of the salesforce implementation has enhanced the customer and the agent experience. Importantly, we'll be targeting new capability to optimise flexible load shifting, integrated embedded AI to further enrich the agent and the customer experiences and facilitate the migration of over 100,000 customers onto our innovative future state platform.

This program will not only deliver an entirely new technology architecture, we're also rebuilding the business to simplify our products, processes and operating model. Just a reminder that this is a four-year program and is expected to generate pre-tax savings of approximately $70 million to $90 million annually from FY29.

One of customer markets' core strategic pillars is to lead in electrification and we are incredibly well positioned to leverage the opportunities presented by the near doubling of NEM demand projected by 2050. Additionally, it's interesting to note that for the first time in six years, we're seeing growth in native demand. As we've discussed previously, the major driver of this expected growth is the electrification of the home, transportation and broader industry and we continue to see growing demand for electrification products from our consumer and large business customers.

Importantly, AEMO projects strong EV-led demand growth over the longer term, forecasting approximately 60 terawatt hours of demand by 2050. There is a significant opportunity to orchestrate the ever-increasing flexible load of EV batteries, encouraging off-peak charging and thereby shifting load to the overnight period through pricing signals, optimising both pricing and portfolio outcomes for AGL and our customers. To provide some context here, our EV night saver plan has shown customers consuming four times the load in the overnight window compared to a standard retail customer without an EV.

We also recognise the major growth opportunities of adjacent products and services, such as EV subscriptions, fleet transitioning and public charging, which I'll touch on, on the next slide. At the full year results, I also spoke to the material uplift in domestic data centre development pipelines, particularly in New South Wales, Victoria and the ACT. It's encouraging to see the latest forecast project about 17 terawatt hours of data centre-led energy demand by 2050.

Continuing this theme, I'm pleased to say we are capturing a disproportionate share of the rapidly growing EV market, with the increase in AGL EV plans materially outpacing the growth in the number of EVs on the road over the last nine months. Crucially, we have a compelling suite of EV plans, propositions and partnerships, which will be the foundation of continued expected growth. I've already spoken to our EV night saver plan, which has seen up to 44% of customers' daily load shifted to the lower tariff overnight window, highlighting the success of incentivising off-peak charging.

We've expanded the OVO Energy Australia's EV control program to include Mini, BMW and Tesla customers and progressing towards vehicle-to-grid readiness. Impressively, our new EV curb side public charging offer, in partnership with PLUS ES, has seen 1,750 charging sessions in the first month alone. We've also acquired the Everty charge point management system and expanded our BP Pulse partnership, extending our reach beyond fuel. Overall, we are well positioned to meet our customer needs, drive innovation and grow in this important and rapidly evolving market.

Now to the transition of our energy portfolio, starting with a discussion of how energy market and macro trends are benefiting our diversified and flexible portfolio of generation assets. On the left-hand side, you can see the significant increase in volatility across four NEM states over the past 10 years, led by South Australia, which is one of the highest penetrations of renewable generation in the world and where our Torrens battery is located. Broadly speaking, we expect volatility to remain elevated as coal-fired generation comes to the end of its life and renewable penetration continues to increase, boding well for our growing portfolio of grid-scale batteries.

As solar penetration continues to increase in the NEM, there is an ever-increasing divergence between pricing in the middle of the day compared to other timeframes over a 24-hour period. The graph on the right shows that overnight prices are contributing more to average daily prices than in the past. This is benefiting both wind and the existing baseload fleet.

Turning now to how our investment in flexibility and availability in our fleet is continuing to deliver value in the energy transition. The left-hand slide shows a good overview of flexible fleet capacity currently in operation, contracted or under construction, approximately 7.6 gigawatts in total, including over 3.2 gigawatts of coal-fired flexing capability, enabling us to optimise realised pricing outcomes on the supply side of our portfolio. Added to this, we are targeting final investment decisions on an additional 1.4 gigawatts of grid scale battery projects within the next 12 to 18 months, which I'll speak to shortly.

On the right-hand side, you can see the prudent investment in our thermal generation fleet, with improved availability over consecutive periods. Availability was lower in the first half as I mentioned at the beginning, given we had two major planned outages this half as opposed to one in the prior half. However, we do anticipate an improvement in the second half and are confident of achieving our FY27 thermal EAF strategic target of 88%.

Now to our development pipeline, which continues to grow, with the key highlight being the addition of 1.2 gigawatts of selected firming projects, following the acquisition of Firm Power and Terrain Solar announced last August. You'll also notice we've added 2.4 gigawatts of firming projects from the acquisition to our early-stage opportunities, strengthening our portfolio optionality. Additionally, there's approximately a further 4 gigawatts worth of projects from the acquisition that will be assessed in the future.

Overall, we are well positioned with the size, maturity, and quality of our development pipeline. The focus now is on the continued timely execution of projects of the highest portfolio value. It should be noted that the pipeline will continue to evolve as projects will come in and, where not economic, out of the pipeline. Importantly, we are targeting final investment decisions for 1.4 gigawatts of grid scale battery projects within the next 12 to 18 months. This consists of almost 900 megawatts across four batteries in New South Wales and a 500-megawatt battery in Queensland. Final investment decisions will only be taken where projects are expected to deliver strong risk-adjusted returns. We expect these projects to be funded on balance sheet through operating cash flows as well as liquidity and debt headroom.

Just a very quick update on the Liddell battery, which is on track to commence operations in early 2026. Construction is progressing well and approximately 30% complete, with over 1,000 battery cubes delivered to site, as you can see on the right-hand side. Site mobilisation has been successfully completed and civil works have commenced at the switchyard and the battery substation. Please note that construction is being completed in a two-phased approach, with the first 250 megawatts expected in operation in early 2026 and the remaining 250 megawatts in April 2026.

Rounding off the discussion with how we are well positioned to navigate through coal and gas recontracting over the medium term before handing back to Gary, starting with Bayswater, where the current Wilpinjong contract covers about 75% of generation input, with the remainder supplied by a stockpile and a mix of long-term and spot purchases of coal. Importantly, our ongoing recontracting strategy leverages Bayswater's major key advantages, including its strategic location and significant coal infrastructure, large stockpile capacity of around four million tonnes and ability to accept lower quality coal. Over the past five years, we've also signed five master service agreements and purchased 1.8 million tonnes of spot volume, demonstrating our agility and strategic purchasing capability.

Turning to gas, where our portfolio remains well balanced through to 2027, the gas market's dynamism has opened up new channels for procurement and optimisation, which allowed us to trade and optimise over 50 petajoules of gas in 2024 alone. With the QGC supply contract expiring in December 2027, we're evaluating several supply opportunities beyond 2028, including new gas service agreements from domestic suppliers and LNG imports.

Now back to Gary.

Mr Brown: Thank you, Damien and good morning, everyone. This slide shows an overall summary of our financial results, which I'll cover in more detail on the following slides. Overall, a strong financial performance for the half in line with our expectations, headlined with the announcement of a fully franked dividend.

When compared to a strong prior half, underlying EBITDA was broadly flat and underlying profit marginally lower. This was due to a strong generation performance offset by reduced consumer margins which we expected and previously flagged. In addition, we saw higher depreciation and amortisation, which was driven by the continued investment in the availability and flexibility of AGL's assets. Pleasingly today, we announced a fully franked dividend, an interim ordinary dividend of $0.23 cents per share, consistent with our targeted 50% to 75% payout ratio of underlying NPAT for the total FY25 dividend. AGL also currently expects to pay a fully franked dividend for the full year.

As we flagged at recent full year results, operating free cash flow was lower due to the one-off impact of the prior period's energy bill relief credits received. We note the strong normalised cash flow generation for the period was used to invest in sustaining CapEx to maintain the reliability of our thermal fleet, along with the tax payment at half year end. Net debt at $2.4 billion remains in a very manageable position, being $673 million higher due to higher investing cash flows and the timing of energy bill relief. Importantly, we maintain our Baa2 investment grade credit rating and we have ample headroom to covenants.

I'll first take you through Group underlying profit in more detail. Starting on the left-hand side, you will see one non-recurring item attributable to the closure of the Camden Gas Project and divestment of Surat Gas Project. Moving further to the right, the softer customer market's performance was primarily driven by margin compression across the consumer gas and electricity portfolios. Consumer electricity gross margin compression was largely driven by our price change decision to not pass through the full cost movements due to numerous factors including customer affordability.

Furthermore, margins were impacted as customers switched to lower price products, affecting both the consumer gas and electricity portfolios. This was partially offset by a stronger margin performance by our Perth energy and telecommunications business, coupled with a favourable movement in retail transformation, operating expenses and lower net bad debt expense. Integrated energy continued to perform very well through a period of heightened volatility in wholesale energy markets, supported by our growing fleet of dispatchable capacity and flexible assets. This enabled strong volatility capture and realised portfolio pricing outcomes, despite a period of higher planned and forced plant outages.

Moving now to our growing battery portfolio, the $17 million bar for batteries reflects the full six months of operation of the Torrens battery compared to only three months in the prior period, as well as the commissioning of the Broken Hill battery in the half, higher growth spend related to increased development capability as we deliver upon our ambition to add new renewable generation and firming capacity over the next decade, coupled with integration costs associated with the acquisition of Firm Power and Terrain Solar. The last two bars of the integrated energy segment related to increased spend to maintain and improve thermal fleet plant availability, coupled with higher labour costs.

Moving further to the right, CME, being our centrally held expenses, is attributed partly to additional technology spend driven by additional licensing costs to support the Retail Transformation Program, with other expenses largely reflecting the impact of inflation. At the full year results, we indicated an uplift in depreciation and amortisation in FY25 of approximately $70 million to $80 million for the full year. This increase is largely attributable to an increase in environmental rehabilitation assets, the continued investment in our thermal assets, as well as the full-year depreciation impact of the Torrens Island battery. Finally, the slight decrease in net finance costs was driven by the lower net debt position and lower income tax paid reflected the marginal decrease in underlying profit before tax.

This slide has a focus on operating costs within the business. We set ourselves a target for FY25 to maintain costs flat to FY24 in a period of heightened inflation funded by significant productivity initiatives. We were on target to achieve this at the half year, noting the impact of growth expenditure largely relating to the integration of Firm Power and Terrain Solar. Broadly speaking, inflation and higher spend to maintain and improve plant reliability is expected to be offset by strong productivity benefits across the business, lower net bad debt expense and channel and marketing spend, as well as operating costs abated primarily from the divestment of the Surat Gas Project.

Taking a closer look at the $41 million of productivity and other benefits, this was largely driven by operating model and labour efficiencies across the business, along with various other initiatives.

Turning now to customer markets performance, total services to customers increased by 46,000, driven by steady growth in energy, telecommunications and Netflix services. Importantly, we maintained strong customer metrics, including a favourable churn spread to rest of market of 5.5 percentage points. On the right-hand side, as anticipated, you can see the decrease in consumer customer gross margin driven by the factors I discussed earlier. We expect the trend to continue into the second half, albeit stabilising in future periods.

Now to fleet performance and operations. After consecutive periods of excellent thermal fleet performance, the commercial availability of our thermal fleet was down 5.8 percentage points, mainly due to an additional major plant outage at Loy Yang A compared to the prior half, coupled with two minor unplanned outages at Bayswater and Loy Yang A during the half. But what has been most important is that despite this weaker performance, our fleet was available when it mattered, with the volatility captured through trading up over 11 percentage points to 70.6%. Overall, generation was flat on the prior half, a good result considering the reduced asset availability.

Importantly, our investment in our flexible asset fleet continues to capture value in an increasingly volatile energy market. On the left-hand side, you can see how our growing portfolio of flexible assets has enabled AGL to realise a premium above the average market price for the period, benefiting from increasing market volatility, higher intraday price distributions and the ability of our dispatchable assets to flex to meet market needs.

The middle graph breaks this down by asset type. Encouragingly, this also shows the premium we're achieving for our coal-fired generation assets through our investment in unit flexibility. However, just as importantly, we can observe the premium that hydro, gas and batteries are able to achieve based on being very flexible assets. It is these asset classes that we continue to focus on delivering as we progress through the transition.

On the right-hand side, you can see that our grid scale batteries are delivering strong performance and returns with further investment planned. Please note, the light shaded bars denote forecasted EBITDA contribution from the Torrens, Broken Hill and Liddell batteries in the second half of FY25 and beyond.

Briefly touching on CapEx, as I noted in August, the uptick in thermal sustaining is primarily due to the two major planned outages for this year, compared to one in FY24, noting that both major planned outages were successfully completed in the first half. Just as a reminder, over the medium-term sustaining capital spent on our thermal assets is forecasted to be between $400 million and $500 million per annum. Broadly speaking, this number will be closer to $400 million if there's one major planned outage for the year and closer to $500 million if there are two. This prudent investment is expected to continue and support the strong overall performance of our thermal asset fleet.

Importantly, in line with our strategy, growth spend for this year will focus on the construction of Liddell battery, approximately $500 million of the total $750 million forecasted construction cost, with approximately $125 million remaining in FY26. Customer markets growth spend will focus on further advancing our energy as a service and electrification solution initiatives.

Turning now to cash flow, which was headlined by our significant investment in growth and acquisitions during the half, coupled with our strong cash conversion results. I'll quickly speak to some of the key movements. You may recall from the full year results that we received $381 million worth of government bill relief at the end of FY24. Although these funds have all been credited to customer accounts, only $257 million of this has been absorbed by billing charges in the first half and the remainder to be absorbed by customers in future billing periods. You will also see a cash tax payment of $153 million reflecting PAYG instalments for FY25 alongside final tax payments for FY24.

A reminder that we have now started to fully frank dividends from this interim dividend, with the expectation that this would continue for the FY 25 full year dividend. Additionally, the majority of the significant items cash outflow relates to implementation costs for the retail transformation program. The uplift in investing expenditure was driven by the acquisition of Firm Power and Terrain Solar, which strengthened our development pipeline and optionality and I've already spoken to the drivers for the higher sustaining and growth capital spend on the previous slide.

Overall, operating-free cash flow, excluding the impact of bill relief timing, was $235 million lower at $291 million. As you can see on the bottom left-hand side, our cash conversion rate, excluding margin calls, rehabilitation and the timing of bill relief, remains strong at 86%.

Now to our funding position, which remains strong after we significantly de-risked our debt portfolio in FY24, achieving a larger and more diversified pool of capital with increased debt tenor. Importantly, no major refinancing is required until FY26. Our liquidity position remains very healthy, with $1.45 billion in cash and undrawn committed debt facilities and the marginal decrease in debt tenor for the half is due to time decay.

Moving to the right-hand side, the $673 million increase in net debt was largely driven by our prudent uplift in sustaining capital expenditure, over $0.5 billion dollars spent on growth and acquisitions, coupled with the timing of energy bill relief remittance. This was partially offset by strong operating cash flow generation. In terms of rating and headroom, we continue to maintain our Baa2 stable investment grade Moody's rating with ample headroom to credit metrics.

Concluding with market conditions, this slide shows you observable curves for both swap pricing as well as the cap curves. Starting with the left-hand side, you can see a good uptick in FY26 and FY27 swap pricing in recent months. On the right-hand side, cap pricing for both New South Wales and Victoria has also materially increased. Of course it is too early to predict how pricing will eventuate in 2026 and onwards, but we believe that our portfolio is well positioned with a focus on the growing portfolio of grid scale batteries and flexible assets.

Thank you for your time and I'll now hand back to Damien.

Mr Nicks: Thanks, Gary. I'll now conclude by talking to the FY25 guidance. As mentioned at the beginning, we've narrowed our FY25 financial guidance ranges in line with a strong first half performance, with earnings expected to moderate in the second half due to the three main expected drivers you can see on the screen. The ongoing value captured from our flexibility of our generation fleet is expected to be partially offset by the impacts of typical weather seasonality. Further, we expect earnings to be impacted by ongoing customer competition, as well as increases in depreciation, amortisation and finance costs. As Gary discussed, encouragingly, operating costs are expected to be flat, excluding the impact of acquisitions and growth.

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

Q&A

Moderator: We will now open for questions. 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'll circle back for any further questions. The first question comes from Tom Allen at UBS. Please go ahead, Tom.

Mr Allen: (UBS, Analyst) Good morning, Damien, Gary and the broader team and congratulations on a solid first half. For my one question, I might go to slide 26 in your presentation, which is providing a strong outlook for the EBITDA contribution you're expecting from the batteries under construction at Torrens and Liddell. You've previously guided returns from batteries in quite a broad range. I was wondering if you could please provide an update on the returns you're seeing from those operational batteries and how these might evolve in the future.

Mr Nicks: Yes, thanks Tom. Good morning and great to speak to you. Look, very deliberately on this slide and it ties to our other slide where we're announcing 1.4 gigawatts we expect to raise to get to FID on, we are seeing strong performance, particularly out of the Torrens Island battery, we've got Broken Hill now in operation and we also have the Liddell battery roughly 30% complete. So what that slide is demonstrating is we still believe there is absolute great returns in these batteries, that's why we're moving ahead with it. We still have that range of 7% to 11%. What I would say right now is those batteries right now in the market are performing higher than that.

Mr Allen: (UBS, Analyst) That makes sense, Damien. A common question from investors relates to over the coming years as more battery capacity gets built out across the national electricity market, should we expect that to eat into capacity prices and moderate returns to batteries, recognising that batteries are used a little differently in an integrated portfolio rather than a standalone battery, but to summarise your comment, we should take away from this that the outlook for batteries continues to look strong and continuing to strengthen.

Mr Nicks: Yes, exactly, Tom. Look, I think you're right, there's the value of the integrated portfolio, absolutely, but I think your comment there around as more batteries come into the market, there is so much that needs to be built over the next decade, right? So we look at that as an opportunity. I don't think you're going to see any time soon that market flooded with too many batteries.

Mr Allen: (UBS, Analyst) Thanks, Damien. That's clear.

Moderator: We have Dale Koenders from Barrenjoey.

Mr Koenders: (Barrenjoey, Analyst) Morning, Damien, Gary and team. Just in terms of the CapEx acceleration on batteries, should we be using Eraring costs for the 1.4 gigawatts, which is kind of implying something in the order of $2 billion to $2.5 billion of CapEx, noting that that is really higher than the $600 million to $800 million per annum spoken about over the last couple of years, so what is the right CapEx number and how do you think about, are we now spending more on growth sooner?

Mr Nicks: Look, I think the way to think about it, I mean, we will look to take FID on these batteries over the next 12 to 18 months, that's the first point and then we'll be looking to deploy them over those one to two years. So it's going to happen over a range of time. We obviously won't take FID unless we're comfortable in the economics of the batteries.

In terms of the cost, and I'll just give you a bit of a picture, I think, when we did the Torrens Island battery, that was absolutely the bottom of the market. When we did the Liddell battery, it was probably towards the higher end of the market where we saw both supply chain issues, COVID, et cetera. Clearly we are in market right now as we're thinking about these new batteries, I would say what we're seeing is 30% to 40% reductions across the board and I think we'll continue to see more benefits from batteries going forward in terms of where the cost positioning goes. So cost coming off, if nothing else and dipping and therefore we see those strong returns.

Mr Koenders: (Barrenjoey, Analyst) Thanks. Then just in terms of the balance sheet capacity to fund this and thinking about the QGC contract roll off, which will have an impact in your FFO, what's the right metric for us to watch? Is that the 20% FFO to debt and how are you thinking about capacity in that 2027-2028 timeframe?

Mr Nicks: Gary?

Mr Brown: Yeah, hi Dale. So I think as you're alluding to, we're sitting at a net debt position of about $2.4 billion, which is pretty consistent with where we were roughly 12 months ago. I think it's also important to note in that period where we've applied significant money towards growth CapEx and acquisition. So we're really pleased with where the balance sheet is at the moment.

From an FFO to net debt perspective, we're currently sitting at about 40%. Obviously, the minimum threshold there for Baa2 is about 22%. So we do think we'll range in that sort of – well above that metric for sure, whether it's 40%, 50%, that type of thing. But certainly we think quite comfortably we're within that credit metric.

Mr Nicks: I think the other thing to call out is clearly we see this as both from underlying cash flows and the debt available. I think you're seeing capital well behind us, well behind our strategy and I think you'll see see the banks also want to lean in harder around sort of green CapEx as well through this period.

Mr Koenders: (Barrenjoey, Analyst) Okay, thanks.

Moderator: Thanks Dale. Next up, we have Anthony Moulder from Jefferies.

Mr Moulder: (Jefferies, Analyst) Good morning all. Useful chart, I thought, on slide 14, highlighting that the market is changing, that one on the right-hand side in effect and I guess what you're highlighting is that we're going to need more electricity in the back end of the clock. But obviously there is now a review underway for the NEM, or the NEM. Just wanting to understand as to what you're hoping that that review could conclude, please.

Mr Nicks: Yes, sure. Thank you and so let me just touch on that slide really briefly. This has probably been the first time in six years we've seen that demand starting to really come through into the market, so a positive in terms of where we thought it's going and that's on the back of EV, data centres, AI and so forth. So we do see that as an absolute positive trend going forward. Therefore, we're going to need that portfolio of assets to manage. Demand will grow and we are – there's doubling of demand until 2050. It's quite significant when you think about it. So that's the portfolio we're looking to build.

In terms of the Nelson review that has really only just kicked off, it's early days. We are engaging through the Nelson review. For us, it's about ensuring that all of the services that the market needs is going to be compensated for. So as this market transitions from renewables with firming assets, we want to make sure that all of the assets that are required are compensated through that period. So we'll continue to engage with that review. That review is roughly a 12-month review and obviously, I think it's a good opportunity for the market to reset and make sure it is ready for the future and this future is coming at us, so we want to make sure we get it right too.

Mr Moulder: (Jefferies, Analyst) Does that imply that you're not – you don't believe that you're fully compensated for that generation that you have from the coal fleet at that back end of the clock?

Mr Nicks: I think it's all of the services that are going to be required into the future. So if you think about whether it's a gas peaker, we want to make sure those gas peakers are fully compensated for all of the services they'll offer, but not just gas peakers, all of the various services that are out there. I think the other big piece of the puzzle is ensuring that consumer energy resources are part of this as well. So when you think about this market of the future, consumer energy resources and what that will play in the market is going to also be incredibly important. So we want to make sure that is fully baked into the thinking of this review.

Mr Moulder: (Jefferies, Analyst) Very good. Thank you.

Moderator: Thanks Anthony. Next up we have Rob Koh from Morgan Stanley. Go ahead, Rob.

Mr Koh: (Morgan Stanley, Analyst) Good morning. Congratulations on the first half result. I wanted to direct the question to Ms Egan if she's on the call. If I look at your slide outlining your FY27 strategic targets, I guess if I was worried about any of them, I might be a little bit worried about the NPS score. I know that's not the be all and end all of consumer satisfaction and it's tough times out there for a lot of customers, but I wonder if we could trouble you for some colour on the trends in your NPS score, please.

Ms Egan: Hi, Rob, thanks for the question. Look, we're seeing really pleasing results in our customer satisfaction more broadly. I think strategic NPS absolutely remains a priority for us and we have seen the sector see a little bit of pressure on strategic NPS at the moment. But our transactional NPS scores on all of our customer journeys are all improving really strongly. Our customer satisfaction is at a really high level and pleasingly all of our operational metrics are really, really strong. Complaints are down, digital engagements up, our churn spread to market is also improving. So I think overall we're really happy with the customer experience and the feedback we're getting from our customers.

Mr Nicks: Maybe just to add to that, Rob, I think the other thing to think about where there is the cost of living pressures that people are under when they are doing those NPS surveys, that is what's – some of that language also comes through as well, which is holding it down. But don't let me sit here and say that it's not a big target. We've got to go after it and that's the challenge for us to try to deliver.

Mr Koh: (Morgan Stanley, Analyst) Yeah, thank you very much, I appreciate the colour. Maybe the next question is for Mr Brokhof and congrats on your announcement there, sir. I wanted to ask a question about the middle slide of slide 26, which shows the plant average realised performance versus – or capturing of volatility. You've done a lot of work on the coal plants there. Should we be thinking that that kind of realised result for Loy Yang A and Bayswater is the run rate or is there perhaps even more to come from that, please?

Mr Brokhof: I think the availability, I think it's also clear, was not where we wanted to be. I think we had two major outages, which was planned, so that's the reason why the commercial availability is down, but we had also some tube leaks, forced outages over the time. I think the portfolio has responded very well and that's, I think, the reflection of the middle column when we say volatility captured, which was quite up. So we were proud that our trading capabilities and our fleet was reacting very well on these occurrences. So from this perspective, I think we were very happy. Going forward, I think when it comes to our commercial availability, we believe we are going further up in commercial availability and that's what we are thinking about.

Mr Koh: (Morgan Stanley, Analyst) Okay, great. Thank you. I appreciate that colour. Can I sneak in a third question? Or tell me no, if not. But just on the chart next to that one, the battery, EBITDA, which I guess in FY27 our team is measuring at $154 million of EBITDA, previously, when you were breaking down those earnings targets or forecasts, incorporated in there was like a sold cap position with a 50% firmness factor. Is that the same kind of thinking that's gone into these indicative columns?

Mr Brokhof: Roughly, yes.

Mr Koh: (Morgan Stanley, Analyst) Okay, wonderful, thank you so much.

Mr Brokhof: It's good that you pulled the ruler out, Rob.

Mr Koh: (Morgan Stanley, Analyst) Nothing gets past us around here.

Moderator: Thank you, Rob. Next up, we have Gordon Ramsay from RBC.

Mr Ramsay: (RBC, Analyst) Congratulations on the result, ladies and gentlemen. Markus, sorry to see you leave. I'm just going to continue on the question on the thermal fleet performance and improved volatility capture. You said that was captured through running thermal coal units during night hours and significantly higher gas generation, particularly in South Australia. Can you just give a little bit more detail about how you did that?

Mr Brokhof: I think South Australia is particular because we are also directed there. So I would not say that this is really adding to volatility capture because AEMO, due to system instability and so on, is really directing to Torrens unit. That has led also to higher consumption on gas when it's gas to power. But at the end of the day, I think the fleet itself, when it comes from out of power plants and our batteries have captured this volatility and then we were benefiting from higher prices during the night. That has led to the higher volatility gap chart.

Mr Nicks: Maybe just to add to that a little bit, that's why we talk about the breadth of our portfolio. Markus touched on those assets. It's not just the coal assets. It's not just the hydro. It's the breadth of those assets. Having 7.6 gigawatts of flexibility now enables us to respond when we need to respond. But given actually, while the question's been asked twice, I might just get Markus to quickly touch on his retirement. So Markus over to you.

Mr Brokhof: Yes, thanks for I think the wishes. I'm very happy to have taken this step. But it's also very clear I'm very passionate about my job, what I have done. We have achieved a lot in the last five years and also I'm very proud to work for AGL, so that's very clear. But also, as we transition our asset fleet, Markus Brokhof is also transitioning from more than 30 years in the energy markets to his private life.

Mr Nicks: Thank you, Markus.

Moderator: Thanks Gordon. Next up we have Ian Myles from Macquarie.

Mr Myles: (Macquarie, Analyst) Hey guys, congrats on the result. Couple ones, just on the battery, you talk about new projects, what's the thought process around expansion of your existing projects given they're all relatively short? We're seeing pretty much a standard four-hour battery now.

Mr Nicks: Yes, thanks Ian. Look, in terms of what we have in front of us and the 1.4 gigawatts, i\t's not just about expansion, it's also about making sure we get the batteries in the right locations of the grid and where our demand is as well. So that's the thinking that goes into it. That doesn't mean you can't expand. But for us, it's about making sure we have that firming capacity where we need it in the grid where there might be either grid weakness or so forth. But Markus, do you want to touch on anything else on that one?

Mr Brokhof: Yes, I think Liddell most probably, if you point to this one, we will not expand Liddell as long as Eraring and Bayswater are online. That's very clear because there are some bottlenecks in the grid, so that doesn't make sense, so we are continuing to develop the other projects which we have not named yet because we are in the tender process. But there is another battery in New South Wales and another battery in Queensland, which are then more designed to four hour and I think we are very happy that we have not taken a four-hour decision with Liddell battery, because battery prices have come substantially down, as Damien elaborated on so, we are happy that we can now take the right step at the right moment. I think that shows also our sophistication about when we take the investment decision.

Mr Myles: (Macquarie, Analyst) Can you maybe, you talk batteries, but we're seeing progress in red zones in the next – in the coming two to three months possibly, should we be expecting Origin – sorry, AGL to be actually making FID decisions on wind and solar in the next 18 months as well?

Mr Nicks: Look, I think the way to think about it Ian, the pipeline that we have in front of us, we continue to develop all of that pipeline, so in terms of whether it's wind, batteries, gas peakers, that pipeline will continue to evolve. So when we're at the right position, through whether it be in the particular zones or whether through other CIS type processes or whatever it might be, we'll then take the FID at the right time. But just to, I suppose, remind, from a wind perspective, we will work on a partnership basis largely. It won't be necessarily all on our balance sheet if you're trying to calculate what that capital would be. That hasn't changed in our mind. We will be doing it through partnerships and off takes as well.

Mr Brokhof: rules of capacity investment.

Mr Nicks: Correct. Yes.

Mr Myles: (Macquarie, Analyst) Okay and look, you mentioned gas there, have you now found gas pipes for your business to now get through EIS and that permitting or are you still hunting for the right location?

Mr Nicks: I think the way to think about it, we are looking closely at a site in WA, a site in fact that we have, right, so that's more of an expansion opportunity. We obviously clearly have an opportunity in South Australia, we have a site there, we have planning for that site. Then we continue to assess the best locations for both New South Wales and Queensland and then, down the track, it would then be Victoria. So I think the way to think about gas would be that's a bit of a longer process in terms of not only ordering the equipment but also getting through the processes. So, you know, batteries first, gas peakers towards, if you like, in coming years, not shorter, if that makes sense.

Mr Myles: (Macquarie, Analyst) Sure. Just to oblige me maybe, on your dividend payout ratio, it sort of came off a little and just interested, your franking has gone up to 100. Is the mindset shifted that you want to be 100% franked around your dividend? I guess why the pull back on the sort of that payout ratio.

Mr Brown: Yes, so our payout ratio is obviously 50% to 75% of underlying NPAT. We had a very strong first half and I think if you looked at the guidance, it does suggest the 1H/2H split is more skewed towards the 1H. We're confident now that we're able to fully frank the dividend, the interim dividend and we've also talked about the full year dividend as well. Again, we think it's prudent to pay at that range at this point in time, halfway through the year. But of course, it always comes down to where we expect future cash flow requirements are in relation to some of our investment. We'll come back at the full year and provide a further update there.

Mr Myles: (Macquarie, Analyst) Okay, thanks.

Mr Nicks: Ian, I think just historically, we've always probably gone smaller in the first half than the second, that's just historically what we've done.

Mr Myles: (Macquarie, Analyst) Okay.

Moderator: Thank you, Ian. Next up we have Henry Meyer from Goldman Sachs.

Mr Meyer: (Goldman Sachs, Analyst) Morning all, thanks for the update. Are you able to add some colour as to what the key changes were over the half that led you to narrow the guidance despite some of the uptime/downtime at the coal plants and then what uncertainties may still remain in the second half, please?

Mr Nicks: Yes, sure. So I'll take this one then I might kick across to Gary. So if you think about first half, we started with a – sorry, full year, we started with a guidance range of $200 million. So we've now narrowed that to $130 million. That's on the back of strength of first half, so you'd expect that the half we would be narrowing, which we have. That first strong half also gave us the view that we can narrow it. But importantly, there's three factors that are driving it.

One, obviously the seasonality, half on half, so it is a lower second half than first, that's normal. We normally expect that. Two, we do expect ongoing flexibility and volatility capture in the second half. That's a strength and a little bit of market compression in customer into the second half as well, I think you'll see. But overall, we are strongly of view that we can hit these numbers and we'll continue to drive that hard. With the plan availability also coming up in the second half, without the majors, that will help also.

Mr Brown: I think what I'd also add to that is we did guide the market to say we expect depreciation this year will go up between $70 million and $90 million and you can see in the first half it's gone up by $30 million, so the balance would flow through in the second half. That's primarily in relation to the sustaining capital and also a lot of the growth capital that we've been deploying. As you'd expect, the interest charge, the finance charge would go up slightly as well because our net debt position's gone up. Again, most of that's been driven by the recent acquisition of Firm Power and Terrain Solar and some of the growth capital as well.

Mr Meyer: (Goldman Sachs, Analyst) Great, okay, thanks. I don't think any of us have stuck to the one question rule, so I'll squeeze in a second. Slide 19, where we're talking about the gas contract replacement for QGC, how are you thinking about managing the risk of potential margin compression or volume loss as that contract rolls and how it could potentially impact your bundled dual fuel customers as well?

Mr Nicks: So let me kick this one off. I mean, when we get to 2027, that QGC contract rolling off, just also remembering some of that is back to back with the LNG, so that comes out, we won't be able to contract gas at that price going forward, that just doesn't exist. But what I would say, the market that therefore we'll sell into gives us the confidence that we can maintain an appropriate margin in the market going forward. We won't retain that type of margin going forward; those contracts were set at very, very low rates.

But I do think our ability and contracting ability and origination will enable us to ensure that we have the appropriate gas and the sufficient gas and to make the margin we need going forward for both our customer markets business for the generation we're going to need, but also into the broader C&I market as well. So that is ongoing. We're in lots of conversations as you appreciate, both local supply but also LNG as well. So I think we sit here confidently that we will be able to, first contract that gas and then get an appropriate return in this market.

Mr Meyer: (Goldman Sachs, Analyst) Got it. Thanks, Damien.

Mr Nicks: Thank you.

Moderator: Thanks, Henry. That's all we have time for in terms of the Q&A session and that concludes our Q&A. Thank you.

Mr Nicks: Thank you all.

END OF RECORDING (55:27)