



## Letter from the Chairman

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**Graeme Hunt**  
Chairman

I am pleased to present AGL's Annual Report for the financial year ended 30 June 2019 (FY19). It's the first time that AGL has produced an Annual Report with reference to the principles of Integrated Reporting.

In our approach to Integrated Reporting, we have sought to present in one report a discussion of the company's financial drivers, which we historically disclosed in our Annual Report, and the non-financial drivers of value that we previously presented in an annual Sustainability Report. The Board believes this approach enables a more complete discussion of the factors that affect value creation for AGL over the short, medium and long term. We are confident it will give you a more complete view of our strategy, governance, performance and prospects at a dynamic time for the energy sector.

### Energy policy

Over the course of FY19, energy policy remained a key matter for AGL, the customers and communities we serve and for the Australian economy at large. We are still in the early stages of a multi-decade transition from an energy landscape dominated by base-load thermal power to a future of cleaner, more distributed energy generation and storage. This transition should ultimately deliver affordable, reliable and cleaner energy for our country whilst empowering our customers and all users of energy.

As with any major transition, there remains uncertainty, price volatility and some debate as to the best path forward. AGL is proud of its 180 year history as an Australian company that cares about the responsible operation of its assets and making investments that are sustainable over the long-term. It remains our priority to work constructively with all levels of government, regulators, industry and the community at large. This incorporates managing the responsible closure of power stations that are at the end of their lives – such as the Liddell Power Station in New South Wales – as well as ensuring we have the right environment for innovative new services such as our "bring your own battery" extension of our Virtual Power Plant initiative. In all cases, we want to help drive progress towards stable energy and climate policy nationally that enables private operators like AGL to make long-term investment decisions and for our customers and shareholders to feel confident about the future.

We recognise that, in the short term, progress means building trust with all stakeholders, and that the most immediate priority is making energy more affordable and its costs and usage more transparent for our customers.

AGL took steps during FY19 to provide automatic discounts to loyal customers and forgive the debts of certain hardship customers who couldn't afford to pay their bills. In 2019, we lowered standing offer rates for electricity customers. Following the introduction of new default pricing mechanisms, AGL conducted a review to ensure that all standing offer customers were not paying more than if they were on the regulated rate. As a result, prices have fallen further for many standing offer customers. Challenging supply conditions have resulted in increases in residential gas prices for FY20 of between 1% and 5%. We will continue to take steps to make it easier for customers to understand and compare prices and get access to the best deals.

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## Leadership

In December 2018, the Board made the decision to appoint Brett Redman as Managing Director & CEO. After conducting an extensive domestic and international search, the Board was unanimous in its view that Brett was the right person to lead AGL in the years ahead. Brett has been with AGL for 12 years and was Chief Financial Officer from 2012 until becoming interim CEO following Andy Vesey's departure in August 2018. He has more than 25 years' experience in senior roles in blue-chip industrial companies in Australia and North America. The Board is very encouraged by the energy, rigour and commitment to culture and performance that Brett has brought to the role to date and with the strength of the team he has built.

As a result of Brett's appointment, in May 2019 we were pleased to appoint Damien Nicks to the role of CFO. Damien had been interim CFO since August 2018 and, before that, held several senior finance executive roles since joining AGL in March 2013, most recently as General Manager, Group Commercial Finance.

Both Brett and Damien have started their roles at lower levels of remuneration than their predecessors, reflecting the Board's view that it is appropriate to set starting salaries lower and provide scope for them to increase over time in line with experience and performance. We have also taken the opportunity to simplify AGL's Executive Remuneration Framework for FY20 onwards in line with community expectations, allowing for a lower total short-term incentive (STI) payout and higher levels of deferral on both the STI and the long-term incentive (LTI).

The Board remains focused on its own skills mix and succession practices. Belinda Hutchinson retired from the Board in December 2018 after making an enormous contribution over eight years of service. In May 2019, Patricia McKenzie joined the Board, bringing 40 years' of experience in the Australian energy sector, with particular focus on matters of market design, industry governance and regulatory reform. This experience will serve the Board well pending the retirement of Les Hosking, who has now served 11 years on the AGL Board and will not seek re-election when his current term expires in 2020. The Board continues to progress succession planning processes to ensure that the Board has the skills and experience that may be required in the future.

## Corporate governance

Your Board understands the need for large corporations providing essential services to build the trust of their customers, shareholders and the Australian community and to retain this trust. Against this backdrop, the Board maintains a strong focus on all aspects of corporate governance, not only ensuring its policies, practices and frameworks are of a high standard, but also that they evolve to meet increasing community expectations. The Board also seeks to monitor that the company's values are upheld, that an appropriate culture can thrive and that its strategy is suitable relevant to its operating environment.

## AGL's strategy

Following Brett's appointment as Managing Director & CEO, the Board oversaw a substantial refresh of AGL's growth strategy over the course of FY19. This recognises that the parts of the business that have underpinned AGL's strong financial performance over recent years – in electricity generation, wholesale trading and retailing – will be exposed to more challenging operating conditions in years ahead. Our strategy refresh identified three major areas of potential investment focus: optimising our existing portfolio for performance and value; evolving and expanding our core energy market offerings; and creating new opportunities with increasingly connected customers as data and energy value streams converge.

Our proposal in May 2019 to acquire the integrated telecommunications company Vocus Group Limited, reflected the third of these growth areas. Building a multi-product AGL brand across other services essential to modern life is analogous to our expansion into electricity from gas in the 1990s. We saw in Vocus – and in the provision of data and communications services in general – an opportunity to meet the needs of customers who increasingly see the provision of broadband as just as important to their way of life as they do energy. We also saw an opportunity to reinvigorate our offering to business customers and leverage the growth of Vocus' broadband fibre network throughout Australia as we delivered this multi-product strategy.

Ultimately, we did not proceed with a binding proposal for Vocus for reasons of value – reflecting the strong financial discipline under which we will only commit to new investments that can clearly exceed our hurdle rates. While it is important for AGL to invest in growth to secure future value creation, just as we have done successfully in the past, maintenance of financial discipline and appropriate capital allocation is especially pertinent with interest rates at such lows.

## Capital management

While we view our low debt levels relative to our investment grade credit rating as prudent amid considerable uncertainty, the Board has announced as part of the FY19 results an on-market buy-back of up to 5% of the company's issued capital. The Board considers an on-market share buy-back to be an appropriate mechanism to return excess cash to shareholders where liquidity materially exceeds buffer levels.

## Dividends

We declared dividends for FY19 of 119 cents per share, including the final dividend of 64 cents per share declared with the full-year result, which will be paid on 20 September 2019 to shareholders registered as at 22 August 2019. The dividend reinvestment plan will continue to be available. We recognise this is a valuable mechanism for shareholders who wish to use their dividends to increase their holding without incurring brokerage fees. Dividends for FY19 were up 2 cents per share on FY18, reflecting modest year-on-year profit growth. The company's total dividends have risen more than 50 cents since FY16 as a result of our strong cash flows and introduction of the policy to target a payout ratio of 75% of Underlying Profit after tax.

## Annual General Meeting

Our AGM will be held in Sydney on Thursday, 19 September 2019. At the AGM, in addition to the usual items of business, shareholders will be asked to consider three resolutions requisitioned by two small groups of shareholders. The Board respects the right of shareholders to put forward resolutions. However, the Board does not consider the requisitioned resolutions to be in the best interests of the company as a whole for the reasons detailed in the Notice of Meeting.

## Conclusion

Amid ongoing uncertainty in the energy sector, it has been another year of strong performance for AGL. However, FY20 is expected to be more challenging with a lower earnings outlook. Notwithstanding these challenges, your Board is confident that the appropriate strategy is in place, supported by a strong company culture, to drive the right outcomes for customers and the community and continued value creation for our shareholders over the long-term.

On behalf of my fellow Directors, I thank you for your continued support for our company and look forward to seeing many of you at the AGM.



## Managing Director & CEO's Report

"I was really honoured to be appointed to lead AGL in December. I have worked here for 12 years – and I am immensely proud of our history and the important role we play in the Australian economy."

**Brett Redman**

Managing Director & CEO

I was really honoured to be appointed to lead AGL in December. I have worked here for 12 years – and I am immensely proud of our history and the important role AGL plays in the Australian economy.

To maintain that role, one of the first things I did was to establish three priorities: **Growth, Transformation and Social Licence**. To deliver on these priorities, we undertook a review of AGL's purpose, values and growth opportunities over the course of FY19. I feel confident that this work – which is now complete – sets us up strongly for the next era in AGL's history, and allows us to focus on delivery in FY20 and beyond.

AGL employs 3,750 people in Australia, almost half of them in regional communities, and the concept of Progress for Life is what they believe encapsulates what we stand for as a company. After all, a company cannot last for 180 years as we have without having innovation, adaptability and a focus on the future in its make-up. It also can't achieve the kind of heritage and brand that AGL has without a deep commitment to understanding what its customers want – and delivering to those needs. We don't always get it right – and certainly in recent years as energy prices have risen and the policy environment has been so uncertain, there are things we can say with hindsight we could have done differently.

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But I do believe AGL is now on a path that our stakeholders will be able to recognise that we are making progress and see our commitment to ensuring our customers, people, shareholders and all of our stakeholders get the best from the changes occurring in our industry. I set targets early on for the year in relation to driving improvement in our safety performance, as well as increased customer satisfaction and employee engagement. AGL has a strong safety culture but, while injury severity continues to decrease, we experienced an increase in the rate of injuries overall in FY19, which we do not consider acceptable. Our customer satisfaction – as measured by Net Promoter Score – did improve materially in the period, while employee engagement improved too.

I am also delighted to have a rejuvenated Executive Team in place following the recent appointments of Jo Fox, Damien Nicks, Christine Corbett and João Segorbe (see page 26).

### Growth strategy

Our three focus areas for investment reflect the strength of the business we have, as well as the evolution that is occurring in the energy sector and the opportunities the future will present.

The first focus area is optimising our existing portfolio for performance and value. We operate Australia's largest electricity generation fleet, comprising some of the country's most important brown and black coal power stations and its largest non-government owned hydroelectric power scheme. We also continue to build on our track record of driving major renewables development. These assets – combined with the intellectual property we possess in trading and our 3.7 million customer accounts – comprise a valuable base from which to build.

That's why making these assets as strong as they can be will always be the bedrock of growth – as reflected in the investment we have committed to upgrading the Bayswater and Loy Yang A power stations (without increasing carbon emissions) and the \$420 million we have invested in the past three years in customer experience and other digital transformation programs.

### Evolving markets

Our second area of focus for investment is evolving and expanding our core energy market offerings.

Energy Networks Australia and the CSIRO reported in April 2017 that some \$419 billion of expenditure was required in grid scale generation throughout the National Electricity Market to 2050. It's for this reason that we are developing a pipeline of energy supply and storage projects.