



Managing Director & CEO's Report

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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.

During FY19, wind farms at Silverton, New South Wales, and Coopers Gap, Queensland, owned by Powering Australian Renewables Fund, and developed and underwritten by AGL, began generating. Early in FY20, we will complete the Barker Inlet Power Station near Adelaide. We have secured options over two of the most compelling pumped hydro power projects in Australia, at Bell's Mountain, New South Wales and Kanmantoo, South Australia.

We are progressing plans to convert an existing jetty at Crib Point, Victoria, to import liquified natural gas (LNG) to ease supply constraints for gas as traditional gas fields become depleted. We also have several sites at various stages of development for further gas-fired generation technology throughout the National Electricity Market.

As we develop our integrated plans for energy generation and storage, we see AGL, with the diversity and scale of its generation portfolio, customer base and trading expertise, as a lead enabler of the transition to clean, affordable and reliable energy. There is approximately 5 GW of utility-scale wind and solar projects committed throughout Australia via a range of different investors. We want to deploy our resources to the large-scale firming assets – gas, hydro and batteries – that will enable this transition to deliver energy that is not just cleaner, but more affordable and reliable too.

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A modern utility

Our third area of focus for investment is creating new opportunities with increasingly connected customers.

In the modern world we rely on internet connectivity almost as much as we do energy, and increasingly energy and data services are converging in smart appliances, residential battery orchestration and electric vehicles. AGL's Virtual Power Plant in Adelaide – bringing together almost 1,000 batteries in our customer's homes to act like a 5 MW peaking plant – is one of the largest operating Virtual Power Plant of its kind in the world. So, I was proud in July that we were able to extend the program via our new "bring your own" battery scheme, enabling our electricity customers to join this virtual scheme and get paid \$100 upfront and a further \$180 a year to do so.

I am also encouraged by our research that tells us people would trust AGL to provide their broadband and other data services and that, like us, they see a modern utility as a provider of a range of services. Critical to success will be innovation. In FY20 we are establishing a Future Business team with explicit responsibility for understanding and developing the offerings our customers will need in years to come.

FY19 results

AGL's performance in FY19 set a high watermark for our profitability as we face into an exciting future.

Strong operation of our energy supply portfolio meant Underlying Profit after tax, our primary measure of earnings, was a record \$1,040 million, while operating cash flow was \$1,599 million.

It was also a year of record levels of investment by AGL. Our capital expenditure was \$939 million, reflecting the increasing year-on-year investments we are making to keep our ageing thermal plant operating, and our investment in new projects. Even with Silverton, Coopers Gap and Barker Inlet near completion, we have a further \$2 billion of projects under development.

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As we prepare to begin in 2022, the closure of our Liddell Power Station in New South Wales, we are focusing on the development of new assets. The realities of an ageing thermal generation fleet meant that in June 2019, we were forced to remove from service until December one of the four generation units at AGL Loy Yang in Victoria as a result of damage to its stator and rotor components. We are working closely with the South Australian government to enable the deferral of the mothballing of two units at the 50-year old AGL Torrens to try to mitigate the impact of this outage. Over time these ageing thermal assets must close and be replaced by cleaner, more reliable sources.

The requirements of the Federal Government's Retailer Reliability Obligation (RRO) have been standard practice at AGL for many years, including providing contract liquidity to the National Electricity Market, and we are committed to continuing to meet these requirements, whether or not the RRO is technically triggered.

We will keep investing in the flexibility and reliability of our existing fleet and seeking out the best opportunities to invest in the new sources of energy supply Australia needs. This is why a stable policy environment that enables private operators such as AGL to invest is so important.

FY20 outlook

As we look into FY20 and beyond, there are encouraging signs. Following a period of volatility, AGL's customer numbers are rising again. Lower prices, increased transparency and digitisation of services have all contributed to improved customer satisfaction and lower churn levels.

Nonetheless, our financial results in FY20 will be affected by operating challenges including lower wholesale prices for electricity and for renewable energy generation certificates, increasing costs for coal and gas as legacy contracts roll off, and the re-regulation of retail electricity standing offer pricing.

We expect these factors as well as the impact of the Loy Yang A Unit 2 outage – which we estimate will be between \$80 million and \$100 million – and materially higher depreciation expense arising from the increase in capital investment in recent years, to result in a drop in Underlying Profit after tax in FY20 to between \$780 million and \$860 million.

However, our operating cash performance and financial position remains robust and we have entered FY20 in a great position to execute against our refreshed purpose, values and growth strategy – and to make the investment decisions that will generate value in years to come.

Thank you for reading this report.

Purpose, Values & Strategy

AGL is a leading integrated energy business that has been operating for more than 180 years and has a proud heritage of innovation. We operate Australia's largest private electricity generation portfolio, with a total capacity of 10,413 MW, which accounts for approximately 20% of the total generation capacity within Australia's National Electricity Market. We are an active participant in gas and electricity wholesale markets with more than 3.7 million customer accounts, including residential, small and large business and wholesale customers.

Business Value Drivers



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Purpose and values

The energy sector is experiencing a period of significant change, characterised by shifting customer expectations, adoption of new technologies, greater government and regulatory intervention, and an uncertain investment environment.

Against this backdrop, AGL undertook a comprehensive review of our purpose and values during FY19 to ensure we had the right framework to evolve our organisational culture, guide our decision-making and support our communication.

The outcomes were a refreshed purpose statement with the concept of Progress for Life as its central theme, and a refreshed set of values that build on this theme, while recognising the power of our 180-year heritage.

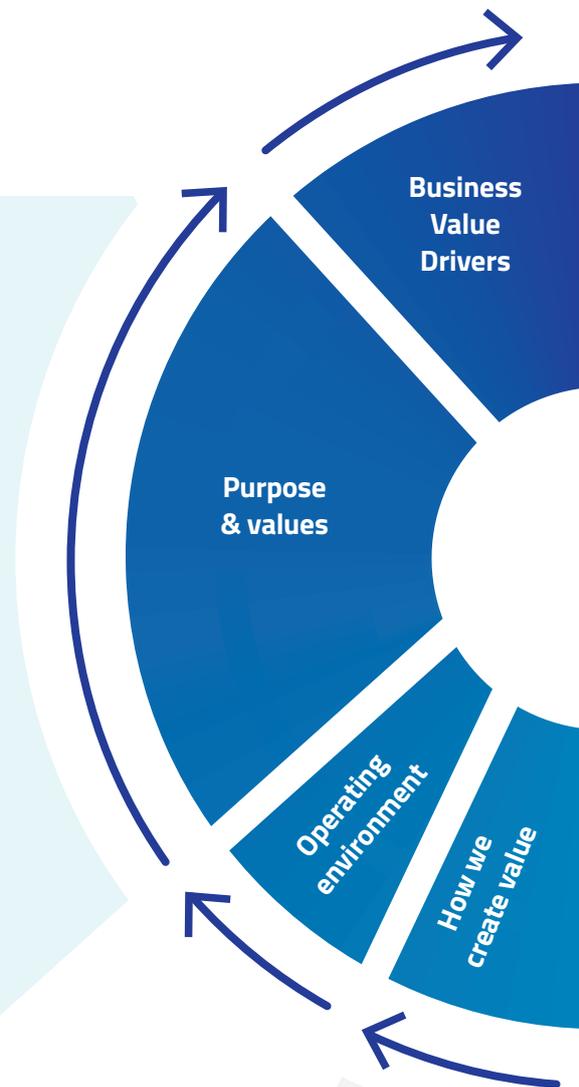
Our refreshed company values are:

- Care in every action
- Integrity always
- Better together
- Deliver your best, and
- Shape tomorrow.

At AGL we recognise that we have an important role to play in supporting progress – both technological and human – for our customers, our communities, the Australian economy and our planet.

The theme of progress recognises our proud history of delivering innovative outcomes for customers, as well as how we are continuing to evolve how Australians produce, share and consume energy.

To us, progress means helping customers achieve better ways of living day-to-day by enabling them to take greater control over their energy and other essential services. It also means investing in new ideas, partnerships and infrastructure – renewing and expanding our portfolio of energy sources and other products to make them more sustainable, reliable, affordable and useful.



Operating environment
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How we create value
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