

Systems & Processes

Availability and development of processes, knowledge, insights, systems and data, including energy portfolio management and customer analytics, to support and enhance business activities.



Insights

AGL operates in a highly competitive environment. We differentiate ourselves by employing our systems, data capabilities and insights (including energy portfolio management and customer analytics) to manage risk, deliver strong customer products, manage costs and build our business for the future.

Strategic context

Together with our people, our systems and processes create the foundation for the work we do every day. They underpin how we safely maintain our assets, how we analyse data to serve our customers better, and how we safeguard our own and our customers' sensitive information in the light of cybersecurity risks.

As we position ourselves for the future, we continue to invest in our systems and processes. In FY19 we invested \$141 million of capital expenditure on digital transformation such as our enterprise resource planning system upgrade and on improving our customer experience. This includes investment in technology to improve our customers' digital experience, as well as tools to standardise and streamline internal processes and improve our employee experience.

As a vertically integrated energy business, we manage wholesale market risk through considered hedging strategies coupled with careful analysis and forecasting of generation and customer demand volumes. Sophisticated wholesale energy portfolio management tools are key to this process. AGL's approach to managing energy price risks, both through physical ownership of energy generation and

through hedging, reflects the need to provide pricing certainty to customers and limit our customers' exposure to adverse market outcomes. AGL manages risk exposure by determining the appropriate timing and degree of contracting activities and by ensuring that AGL's overall risk appetite is not exceeded.

Our investment in technology is also enabling the greater personalisation of service, and we are prioritising the digitisation of our business in order to increase flexibility and the speed-to-market for new products and services. Our ability to successfully harness insights from multiple data sets will be central to our ability to continue to evolve our customer experience.

We operate within a sophisticated data security framework and have implemented processes and protections to ensure data breach prevention. In particular, AGL's Cybersecurity Framework follows a risk-based approach for managing cybersecurity risks for critical infrastructure, which allows us to consider cybersecurity risk as a priority similar to financial, safety and operational risk, while factoring in larger systemic risks inherent in the context of critical infrastructure.

\$420 m

Digital transformation programs undertaken between FY17-FY19

\$141 m

Capital expenditure on digital transformation programs during FY19

Creating value

Wholesale energy portfolio management

An important way in which AGL manages energy price risk, and protects our customers' exposure to energy price volatility, is through financial hedging. AGL's governance framework establishes the wholesale risk management policy guidelines under which energy hedging activities are conducted. The policy allows for the commercial optimisation of AGL's portfolio provided that all activities adhere to overall risk limits that reflect AGL's risk appetite.

AGL is exploring opportunities to utilise metrics from our existing disclosures to demonstrate the effectiveness of our hedging strategies and wholesale energy portfolio management tools, which operate within AGL's overarching wholesale risk management framework.

Customer insights and analytics

We recognise that our customers' needs and preferences are changing, and that the market is being disrupted by factors such as technology and the evolving regulatory involvement. As part of a dedicated program of work, AGL is seeking to leverage leading practice data, analytics and insights to allow us to get to know our customers better, and deliver truly personalised experiences for our customers that meet their specific needs, while always maintaining the security, privacy and integrity of their data. Over the course of the work being undertaken, we wish to capture better data in a 'single view of customer' available across all touchpoints.

Our data foundations are being strengthened in parallel with a top-down evaluation of metrics, with a strategic reporting platform enabling sustained self-service reporting, leading to better, faster decision-making and improved commercial and customer outcomes.

Ultimately AGL wishes to be a data-powered and insights driven organisation, with customer interactions and decision-making based upon trusted data.

Data security and process governance	KPI	FY19	FY18	FY17	FY16	FY15
As access to customer data, and data security more generally, take on increasing importance in our community, these issues have become the subject of particular focus at AGL.	Reportable privacy incidents	0	0	Not reported	Not reported	Not reported
AGL prioritises the appropriate treatment of customer data and information within the terms of the Privacy Act. To date, we have had no notifiable breaches under the Privacy Act 1988 Mandatory Data Breach Reporting regime.	Notifiable data breaches arising from a material risk relating to cybersecurity, data governance, or failure of internal controls	0	Not reported	Not reported	Not reported	Not reported

Legend

- Improving trend and/or satisfactory outcome
- Neutral trend

- Deteriorating trend



KPI linked to remuneration outcomes for CEO and Key Management Personnel (page 58)

Key relationships and trade-offs with other Business Value Drivers



There is a direct relationship between the Systems & Processes and Customer Business Value Drivers. Investment in systems and processes develops customer insights and analytical capabilities, which enables us to develop products and services that deliver a superior customer experience and meet the changing needs of our customers. This direct relationship becomes all the more important as AGL maximises its analytical capabilities and makes use of more sophisticated customer data. In these circumstances, it becomes increasingly important for AGL to be able to protect its customer data, particularly given the greater convergence of energy and data value streams.



The ongoing need to invest in systems and processes comes with short-term financial impact, but drives long-term value for customers over time.

Beyond FY19

We are seeking to maximise our data and analytical capabilities across a range of areas of our business. This is particularly the case as we seek to engage more effectively with our customers. Data plays an integral part in our day-to-day lives, and the convergence of energy and data creates an opportunity for AGL to position itself as a trusted and preferred partner of connected customers. The data strategy that we are embarking upon aims to deliver personalised experiences for our customers, improve AGL's resilience to external disruptors, and provide the analytical tools to maximise the efficiency and effectiveness of our systems capabilities.

More information

Performance data on Systems & Processes is available at 2019datacentre.agl.com.au.

Finance

Access to and management of financial capital to support execution of strategy and investment in growth opportunities through retaining financial market support.



Financial management and value creation

We recognise that prudent financial management is an essential component of preserving and growing value for all our stakeholders. The trust placed in us by financial markets is integral to our ability to fund our operations and invest in new products and services to support our customers and the communities in which we operate.

Strategic context

As Australia's second oldest publicly listed company, AGL has a long and proud historical relationship with Australian investors. At 30 June 2019, we had 114,217 individual shareholders, representing primarily everyday Australians either directly or via their super funds, as well as many of Australia's and the world's largest pension funds.

We also have longstanding relationships with our lending banks, including major Australian institutions as well as banks throughout Asia. We have established a successful bond issuance program in both the US Private Placement and Australian Medium Term Note markets, enabling us to diversify our funding from long-term, competitively-priced sources. We have a Baa2 credit rating with Moody's Investors Service.

AGL recognises that capital allocation during a time of a transitioning energy market must be disciplined. We have to ensure that we are both creating value for the long-term, while protecting ongoing returns. Our five capital allocation principles govern our approach to

new investment and capital management (these are described in detail in the Allocating capital for growth table), and when combined, continue to drive strong outcomes for shareholders.

The principal metrics we use for remuneration, as reflected in the Remuneration Report, are Underlying Profit after tax, return on equity and relative total shareholder return. These metrics form a core component of our remuneration framework – Underlying Profit for short-term incentive (STI), and return on equity and relative total shareholder return for long-term incentive (LTI). In this way, we seek to ensure short and long-term executive pay outcomes correspond with shareholder returns. STI scorecards have been re-designed to focus on meaningful objectives that reward for beyond 'business as usual' in our financial performance as well as improving customer experience, engagement of our people and the safety of our workforce and contractors. We are also tailoring objectives to the individual accountabilities of our executives.

Creating value

Delivering shareholder value	KPI		FY19	FY18 ¹	FY17	FY16	FY15
Underlying Profit after tax was \$1,040 million, up 2%. This result reflects the strong operation of our energy supply portfolio.	Underlying Profit after tax		\$1,040m	\$1,018m	\$802m	\$701m	\$630m
Return on equity was 12.5%, down 0.6 percentage points reflecting an increase in AGL's equity base.	Return on equity (%)		12.5	13.1	10.2	8.3	7.2
AGL's total shareholder return in FY19 was -1.8%, compared with +12.6% for the S&P/ASX100 Index. While the FY19 outcome was better than FY18, we recognise that this was not a positive outcome for shareholders.	Total shareholder return (%)		-1.8	-12.3	42.4	22.3	14.8

1. Restated for adoption of AASB 9 Financial Instruments and AASB 16 Leases.

Legend

- Improving trend and/or satisfactory outcome
- Neutral trend

- Deteriorating trend

KPI linked to remuneration outcomes for CEO and Key Management Personnel (page 58)