AGL Energy Limited

2017 Full Year Results webcast transcript

10 August 2017

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James Hall: Good morning everyone. This is James Hall speaking, General Manager of Capital Markets here at AGL Energy. Thank you for joining us for this morning's presentation of our full year results for the financial year ended 30 June, 2017.

The agenda for this morning's webcast is as follows: our Managing Director and CEO Andy Vesey will first discuss the results highlights and provide a strategy update; our CFO Brett Redman will then provide a more detailed review of our operating and financial performance; Andy will then close out our prepared remarks with a market update and outlook discussion before we open for questions. I draw everyone's attention to our standard disclaimer and the explanation of our use of the non-IFRS Underlying Profit definition in our results.

I now hand over to Andy.

Andy Vesey: Thank you, James, and good morning everyone. I am pleased to present a strong set of results for the 2017 financial year, a confident outlook for the year ahead and an update on how we are investing on behalf of our customers and shareholders. Joining me this morning is Brett Redman, our CFO. Also joining me are EGM of Group Operations, Doug Jackson, Chief Customer Officer, Melissa Reynolds and EGM of Wholesale Markets, Richard Wrightson.

At AGL, all our meetings begin with a focus on safety because we expect everyone to take responsibility for their own wellbeing and that of their colleagues. I am pleased to say that our total injury frequency rate for both employees and contractors dropped by more than half compared with the prior year. I'm also proud to report strong progress in gender diversity. At 30 June 2017, women in senior leadership positions had risen to 38% representing 34 additional positions. Let's now look at the highlights of the 2017 financial year.

The continued strength of our year-on-year financial performance is allowing us to invest for the long term. The first highlight is in the financial result. Statutory profit after tax was $539 million, up from a loss of $408 million in the previous year. Underlying profit after tax was $802 million, up 14%. This result was above the top end of our guidance range. It was driven by the optimization of our portfolio to realise the benefit of the recent conditions in the wholesale electricity market as well as by our transformation efforts. Combined, these factors more than offset higher commodity costs and headwinds in our gas business. Our new dividend policy to target a payout ratio of 75% resulted in total dividends declared of 91 cents per share, including the 50-cent final dividend declared today. In addition, through our on-market share buyback program, we've returned $473 million to shareholders.

Moving to the other highlights down the right-hand side of the slide, we have completed $1 billion of asset sales while exceeding our reduction targets for Opex and sustaining Capex. We achieved $170 million of our $200 million working capital reduction target. These targets are about keeping our capital base agile, and keeping controllable and recurring costs down. We have continued to resolve key uncertainties. In June, we concluded the enterprise agreement at AGL Loy Yang, having put in place a new agreement at AGL Macquarie in October, and today, we have confirmed our long-term rehabilitation provisions. We're investing in growth and transformation, despite the ongoing policy uncertainty we face. We

began growth in transformation programs representing $1 billion of AGL investment during the 2017 financial year. In addition, we have funding headroom in excess of $2 billion to support further investment in the delivery of our strategic objectives. Finally, we are providing guidance for the Underlying Profit after tax in the 2018 financial year of between $940 million and $1 billion and $40 million. That guidance is subject to normal trading conditions and to any adverse impacts arising from policy and regulatory uncertainty.

As has been widely covered in the media, yesterday I was part of a group that met with the Prime Minister to discuss important topics related to energy affordability. Some customers are hurting from high prices. We acknowledge this is a real issue for our industry and we are committed to playing our part in addressing it. Against that backdrop, 80% of AGL customers accessed discounts in some way during the 2017 financial year, and the value of those discounts rose 28%. We already waive fees for late payments, paper bills and over-the-counter payments for hardship and concession customers. We're the only retailer asking concession customers on standing offers to get in touch to discuss the best deal for them. We just introduced a new product especially for people who tend towards low energy use. It's called the AGL Everyday Plan, and offers a guaranteed discount on usage and supply, and we've proactively moving all our hardship customers who tend towards high energy use to new plans with high, unconditional discounts on consumption. But we recognise more needs to be done and we are exploring additional ways to support customers in this challenging environment. We are working with Government and our peers in the industry on finding solutions including the standardization of how energy offers are presented so customers can make informed choices.

Now, let me turn to strategy and our imperatives to prosper in a carbon-constrained future and Build customer advocacy. In November, we defined three key objectives. Personalized retailing, asset orchestration and the use of lower emissions technology. Today, we are adding a fourth objective, which is to move from leveraging business platforms in our existing markets to leveraging those platforms across new geographies as well. Our expansion into Western Australia is an example, and we are now actively reviewing specific opportunities in select offshore geographies. We first flagged this opportunity at our Investor Day last November. It continues to represent the potential for AGL to deploy capital profitably to growth and scale. Of course, execution will only occur if we are confident in our ability to manage the associated risks and deliver substantial shareholder value. In pursuing these opportunities, we will maintain the high levels of discipline we have applied to assessing other opportunities in recent time.

Let's turn to the growth programs already underway at AGL, and our capacity to fund further investment. The most advanced programs are shown in dark blue. The Powering Australian Renewables Fund has demonstrated that both equity and debt funders will back large-scale renewables. We are close to a final investment decision on the Cooper's Gap wind farm in Queensland, which would be the Fund's largest project. The Customer Experience Transformation Program is progressing. Our foundational systems which are already market-leading, are getting more efficient. Adoption of digital and mobile interfaces is on the rise, and we now have five signature moments in market. We continue to expect a strong return on this investment from reduced operating costs and decreased custom churn. This is supported by our program to drive internal efficiency by continuing to enhance our enterprise resource planning system. Our entry into the Western Australian retail gas market is progressing well. We have more than 1,000 customers signed up and continue to

target 100,000 by the end of next year. Now that we are in the Western Australian market, we have refined our estimate of the total investment required to $50 million.

Now, moving to the initiatives shown in bright blue. In June, we committed to build the Barker Inlet Power Station in South Australia, following a detailed review of generation options in that State. We have now expanded our scenario planning to New South Wales and Victoria. This comprehensive exercise will identify when and how AGL will invest in the national electricity market as coalfired power is withdrawn including how AGL will replace Liddell when it reaches the end of its life in 2022. In new energy, we continue to make strategic investments, the latest of which I will discuss in a moment. We have removed from this list the potential for AGL to expand into data-driven retail offerings outside of energy. Having assessed opportunities in detail, we see this growth stream as a component of our smart home offering in new energy but we do not believe offering traditional broadband or other such services represent a compelling opportunity for AGL.

That brings us to two potentially truly compelling areas shown in the lighter blue colour at the bottom of the page. Firstly, we are announcing today that Crib Point's Western Port in Southern Victoria is the preferred location for our proposed LNG import jetty. We currently assess the potential size of this project at $250 million and we anticipate our final investment decision during financial year 2019. We are also announcing today that we are exploring a $250 million expansion of our gas storage facility at Silver Springs in Queensland. Secondly, exploring entry into select offshore markets represents a potential opportunity for AGL to deploy capital to grow at scale, as I have described. Our committed initiatives represent $1 billion of targeted investment AGL got underway in the 2017 financial year. That's in a year when we also undertook $1.1 billion of capital management initiatives via our increased dividend payout ratio and our share buyback. As we move through financial year 2018, our priorities are: continuing to fund energy supply projects that support security, reliability and affordability for customers, continuing to invest in innovation and potentially unlocking growth at scale. As I have said, we have more than $2 billion of headroom on our balance sheet to support these priorities.

Let me now take a moment to reflect on the scale of our investment across the States in which we operate. AGL is either funding directly, developing with its partners or proposing to develop projects worth more than $2 billion. In Queensland, the Cooper's Gap Wind Farm is a $900 million project that will deliver supply of 453 megawatts of reliable, clean energy. Also in Queensland, our Silver Springs expansion would triple withdraw capacity to 100 terajoules a day and increase competition at the <Wallumbilla> hub. In New South Wales, the $450 million Silverton Wind Farm now under construction through the path, will deliver 200 megawatts of new, clean energy supply. In Victoria, the $250 million Crib Point LNG Jetty would be a potential game-changer for AGL and Australian energy consumers, opening up the domestic gas market to international competition and resulting in more competitively priced gas. In South Australia, the $295 million Barker Inlet Power Station will replace aging infrastructure at Torrens with more efficient and flexible generation. And in WA, the $50 million we are investing in establishing our position in gas retail means increased choice for customers. The best way to address pricing challenges in the market is to increase supply. We're investing more than anyone else in building new supply to drive down prices and stand ready to invest more when there is certainty on carbon policy. We will continue to advocate for policy and market reforms that support investment certainty and enable us to progress these kinds of projects. To provide certainty, we support the rapid implementation

of the Finkel Review recommendations in full, including the adoption of the clean energy target.

We are also continuing to invest in innovation. As part of our smart home initiative, two weeks ago we announced a US$10 million investment and strategic alliance with smart security device company August Home. Another new investment, Advanced Microgrid Solution as a specialist in behind-the-meter energy storage optimization and data analytics for business customers. This compliments our flagship orchestration initiative, the Virtual Power Plant Project to connect 1,000 solar homes in Adelaide with batteries and create a 5-megawatt virtual solar peaking plant. I will also draw your attention to two new trials in peer-to-peer energy trading and virtual solar. The peer-to-peer trial is taking place with virtual power plant customers. It allows them to share energy and make the most efficient collective use of their solar panels and batteries. Virtual Solar is a project to enable customers who can't access solar at their homes to subscribe to solar generation based elsewhere and receive a credit on their bill. In electric vehicles we continue to lead, having launched our dollar per day charging plant in November, and in July expanding it via a bundled package with Tesla. We will continue to announce significant developments and further partnerships over the course of this financial year. I will now hand over to Brett.

Brett Redman: Thanks, Andy, and good morning everyone. Our key financial outcomes reflect the strong result for FY17 and demonstrate the underlying quality of the AGL portfolio on an ongoing basis. The increase in statutory profit reflects the non-recurrence of the asset impairments that affected the FY16 result. There were no significant items in FY17. The only difference between statutory and underlying profit being the usual adjustments in non-cash fair value movements in financial instruments. Underlying profit after tax was up 14% driven by wholesale electricity, eco markets and Opex savings. This was the third year in a row that profit rose by more than 10%. Cash flow was down 14%. As we highlighted at the half year, cash flow in the period was negatively impacted by an increase in margin calls. This is a direct effect of rising wholesale electricity prices which are good for our earnings. The margin call impact is temporary and will reverse over the next couple of years. The 34% increase in dividends reflects both the increase in profit and our new policy to target a payout ratio of 75% of underlying profit after tax at a minimum franking rate of 80%. These outcomes for shareholders reflect the focus on driving better returns, the benefit of our recent investment decisions and our ongoing operating discipline.

The next slide lays out the key drivers of underlying profit growth. This clearly illustrates how our strong margin growth in both wholesale electricity and eco markets offset the soft year and gas we flagged at the beginning of the year. Our costs savings programs and group operations and central activities is also driving profit growth. I'll provide more detail on our electricity and gas portfolio margins in the next few slides.

I now step through volume and margin moves in both electricity and gas, starting with electricity volumes. The bright blue bars show the total AGL generation was basically flat year-on-year at 43 terawatt hours. The four bars to the right show how our generation matches our customer's demand. Consumer and business customer sales volumes were down due to customer mix changes and a 1% fall in underlying fall in average residential demand. The increase in wholesale customer sales volumes reflects a big increase in commercial load from new and existing customers. Other sales represent the balance of production sold to the pool.

Now let's look at electricity margins which were up $260 million on a portfolio basis. The primary driver of this increase has been rising wholesale prices. As has been well-publicized, a number of factors have led to these higher prices. In particular, increased fuel costs and the disorderly withdrawal of non-AGL coal fired generation coupled with the ongoing optimization of our generation capacity, this drove the $166 million increase in wholesale electricity margin. The increase in the eco markets margin reflected a high-water mark in green earnings. We gained this benefit from utilising low-cost LGC's amid an environment of high wholesale certificate pricing. Our ongoing management discipline amid strong levels of competition also contributed to margin improvement.

In gas, total sales volumes were down slightly. This was largely due to the loss of two large but low-margin business customers. Consumer sales volumes were also down slightly, primarily due to a reduction in account numbers in New South Wales. This was largely offset by higher average gas consumption over the course of the year as negative impacts in the first half from mild weather reversed in the second half. Wholesale volumes were up. Additional demand from AGL Torrens was the main driver. The gas portfolio margin outcome for the year reflects the guidance we provided in July 2016. Total margin was down $129 million. The majority of this occurred in wholesale, where margin was down $101 million. As foreshadowed, contributing factors included Queensland wholesale contracts rolling over to lower margins and the high cost of purchasing spot gas during supply curtailment in July at a time of high demand from Torrens. Consumer margin, which was down by $27 million was effected by increased gas commodity costs and discounting in a highly competitive market.

This next slide shows our key consumer profitability metrics in more detail. Average consumer account numbers were down slightly. We continue to emphasize customer value over customer numbers. The increase in gross margin per consumer account reflects this value strategy as well as our costs discipline. The reduction in the EBIT per customer to $104 follows several years of strong increases and reflects an increase in net operating costs. Per customer account, net operating costs increased largely because of investments we are making in transforming AGL, such as the WA expansion, the brand refresh and other growth initiatives. We expect these investments to drive growth in the coming years. The positive change in costs to grow, reflected a stronger rate of internal customer acquisition and retention by a lower cost digital channels consistent with our customer experience transformation program.

I now want to turn to the outlook for both Opex and Capex. We have been committed to driving productivity in our operations. Two years ago, we set ourselves targets to reduce annual Opex by $170 million and sustaining Capex by $100 million in real terms by FY17. We have delivered against both of these targets. We are now focused on locking in these reductions in business-as-usual Opex and sustaining Capex while at the same time we are committed to unlocking growth. The support growth initiatives and life attainment of existing assets, absolute Opex and Capex will rise in FY18. These charts detail three years' performance to date and three years outlook through to FY20. You can see on the Opex outlook chart that we expect business-as-usual Opex to grow broadly in line with the rate of inflation. On top of that, we are anticipating additional new Opex in FY18. More than half of this relates to market activity costs created by the higher price environment including acquisition and retention costs and higher net bad debt expense. The remainder relates to growth such as new energy investments and our WA expansion and transformation such as

the upfront costs of the customer experience transformation, an ERP upgrade and our brand refresh. The Capex outlook tells a similar story in terms of growth and transformation. It includes the Capex component of the $1 billion of new programs kicked off during FY17 which Andy spoke about earlier. You'll also see in this chart increased Capex for major plant outages and life attainment. Our power stations will remain essential to the NEM stability for years to come and amid rising community concerns about energy security, we will continue to manage them carefully and sustainably as they age.

The next slide reconciles EBITDA to cashflow for FY17. I want to focus on the impact of margin calls on working capital. This is a good thing. As foreshadowed at the half year results we experienced a $379 million increase in margin calls in FY17 because of higher wholesale electricity prices which are also driving our strong cashflow and earnings. The impact of higher margin calls will reverse over the next couple of years subject to any further wholesale price changes. Excluding the margin call impact, the movement in working capital was positive $51 million. Operating cashflow was up $153 million year-on-year, and cash conversion was strong at 97%. We anticipate a similarly strong rate of conversion in FY18. I want to acknowledge that two years ago, we set ourselves the target of $200 million of working capital improvements by FY17. However, we were about $30 million short of achieving this. Benefits from customer credit and billing initiatives were more than offset by the impact on debtors of higher pricing.

Our balance sheet and liquidity position remains a source of strength for AGL. This is key as growth at scale remains our priority and we are very well placed to fund that growth. As we progress, some of these specific growth opportunities, we have reduced focus on and are undertaking further activity under our on-market share buyback.

I'll close with rehabilitation. As we flagged at the half year result, we have been keen to address any uncertainty in relation to this topic as we plan for assets reaching the end of life over the long term. The first are Liddell in 2022 and the Camden Gas Project in 2023. The clear outcome of the independent expert review we have undertaken this year is that AGL is well-provisioned. The FY17 accounts and detailed rehabilitation report we have also lodged today show an increase in our provision of $69 million to $307 million. This is the present value of the estimated $1.8 billion cash spend on rehabilitation for all AGL assets expected over the next sixty years. Under the relevant accounting standards, the provision changes offset by an increase in assets not via the income statement. As such, the only P&L impact will be increased depreciation and interest expense in future years. The delta and Underlying Profit after tax will be $11 million in FY18, rising by a further $3 million in FY19. I note that our findings reflect conservative estimates. In practise, any repurposing of our sites for renewables development and storage to meet the market needs of the future would result in lower rehab costs. I'll now hand back to Andy to talk about the outlook.

Andy Vesey: Thanks, Brett. I will begin my update in outlook comments with the electricity market. As we are all aware, wholesale prices rose significantly over the 2017 financial year and have moderated recently.

The chart on the left shows this correction as well as the lack of liquidity that currently exists in the forward market. The factors that underpin wholesale prices today remain fuel costs and the capital costs of renewing the aging fleet. The chart on the right repeats data we first showed in May. Short term, new development will continue to favour renewables supported

by gas peaking. Longer term, we see this trend continuing with large scale battery deployment enhancing the value of renewable technology. In this environment, we just don't see new development of coal as economically rational, even before factoring in a carbon cost.

We're using our scenario planning process to undertake a detailed assessment of potential energy generation supply and capacity requirements in the NEM from now to 2025. Those scenarios describe varying outcomes for energy consumption, uptake of distributor energy resources and demand response solutions, generation plant closures and fuel prices. Now to the specific case of Liddell. The long notice period we have given reflects our commitment to managing carbon risk for shareholders and avoiding the volatility created by recent sudden withdrawal of capacity. When Liddell reaches the end of its life in 2022, 1680 megawatts of effective capacity or about 8,000 gigawatt hours of annual energy will be withdrawn from the NEM. Replacement of this energy in the NEM will most likely comprise a mix of energy from solar and wind including the 200 megawatts we are already developing at Silverton and the 453 megawatts at Cooper's Gap. Replacement of capacity will likely be provided by a mix of load shaping and firming from gas peaking plant, demand response, pumped hydro and batteries. We assessed the potential scale of investment in these shaping and firming technologies to meet our portfolio needs to be between 500 and 1500 megawatts of peaking plant, representing a potential investment of $800 million to $1.5 billion. We continue to assess the potential to develop gas peaking plants in New South Wales which would be further supported by our gas supply projects.

On the subject of price, on 1 July rates increased for customers in New South Wales, Queensland and South Australia following the increase in Victoria of 1 January. The result of these changes is that a substantial component, but not all of the increase in wholesale prices will pass through our consumer segment in the 2018 financial year. It is important to remember that the consumer segment comprises just over a third of our electricity portfolio and that price changes take longer to pass through the business and wholesale segments. It takes two to three years to pass price changes through to business customers reflecting the average contract length in that sector. As for wholesale contracts, these are very long term and the repricing of contracts in this space is also a driver of our positive outlook.

My next slide addresses the outlook in eco markets. AGL's economic exposure to LGC prices is driven by our compliance obligation and the cost of certificates from self-generation, long term contracts and spot acquisition. The 2017 financial year was a very strong year for AGL in eco markets. The spot LGC price remained at high levels as the market tightened after a period of under investment in renewables, and AGL was able to utilise low cost LGC's to meet its' obligations. That won't repeat this financial year now those low cost LGC's are largely utilised. Given the increase certificate cost and increase in compliance obligations, we anticipate our eco markets margin will be substantially lower this year.

The outlook in gas is more positive. After the decline in margin in the 2017 financial year, we anticipate a return to growth this year. This is a result of stabilizing wholesale margins, the one-off nature of the supply curtailment that impacted us around this time last year and our strengthening storage position. Volatility in gas prices is shifting away from the traditional winter uplift towards a sustained higher level throughout the year with multiple peaks. This reflects the increased interdependence with the electricity market and the international LNG spot market while traditional supply has become less flexible. The Crib

Point and Silver Springs projects, combined with AGL's Newcastle gas storage facility and the Iona storage contract will provide AGL with significant flexibility and deliver greater levels of competition to the east coast gas market.

In closing, AGL is clearly well positioned to deliver shareholder value in the 2018 financial year with three key drivers. Firstly, we are forecasting Underlying Profit after tax to be between $940 million and $1,040 million, but our guidance is subject to normal trading conditions and to any adverse impacts arising from policy and regulatory uncertainty. As I said at the beginning, we are working with Government and our peers in the industry on finding solutions to challenges that customers are facing.

Secondly, we have strong cash conversion and our Dividend Policy as stated last September is for 75% of annual Underlying Profit after tax to be paid out subject to minimum franking of 80% being achievable.

Thirdly, our focus is on growth at scale, and we are examining opportunities to reinvest in the NEM, expand our gas import and storage capability, grow our innovative offerings and leverage our retail platform in new geographies. These opportunities will be examined in full before we consider further capital management initiatives. Thank you.

James Hall: It's James Hall speaking. We're going to Q&A now, and just to remind everyone if you do want to ask a question it's *1. As we have a number of people who do want to ask questions, I would ask that first time around, just ask one question and hopefully there'll be time to come back around at the end if you have further. So the first question on the phones is from James Byrne and it's Citi. Good morning, James. Please go ahead.

James Byrne:

James Hall: Sorry, James, we didn't quite have you queued up there.

James Byrne: Sorry guys. Can you hear me okay now?

James Hall: Yes.

James Byrne: Okay, great. Look, I just wanted to understand a bit more about the regulatory outlook. Look, I appreciate AGL is doing its own part here in reducing the burden for electricity customers like trying to get them off standing off and etc. but ultimately this is a collective effort of industry to help ease that burden. So my question is based on, you know, the meeting that you had yesterday with the Prime Minister, if he's not satisfied with that collective effort of industry do you currently have a good handle on what policy may be introduced by Government to help manufacture lower electricity prices. Like for example, are we looking at a scenario where you can see regulated electricity prices at some point in the near future as some State Governments seem to be making noise on. Thank you.

Andy Vesey: James, this is Andy. Good morning. Let me do a few things. One is that we – what do we say – to speculate on what things may or may not happen in the future, but let's talk about some basics first. We all know that the thing that ultimately will sustainably put downward pressure on wholesale prices is new supply. That's reflected in what we're doing. It's for over now, two years what we have been advocating for certainty and in yesterday's meeting with the Prime Minister I addressed that again and encouraged rapid rehabilitation of all fifty Finkel recommendations. Now that said, that is still to come and play

out but ultimately until new investment winds up in new supply, we will continue to see this tension between regulatory and Government desire to intervene and what the industry will do. That said, the meeting yesterday was very constructive. We had a very clear, open conversation. Government listened to what the industry wanted to say and the industry, in principle, agreed with the five initiatives that were put forth. It's very clear and it's clear on behalf of Government as well as industry that until we can make those additional investments to bring wholesale prices down, the best we can do is ensure that all consumers have the best information they need to make the best choices in a very competitive marketplace. One of the signs and why we have confidence that it is a very competitive marketplace is a dispersion of offers. It's that dispersion which ultimately benefits the consumers. The challenge is can they make the right choices. So there was a commitment to try to make sure that customers have the information they need to do that and we have been advocating and we believe that we're seeing a response in this to comparative rates so that people have a standard way of looking at rates. I think the other aspect is – and more importantly and where everybody was agreed – that when we come to hardship customers and those who are vulnerable, the industry has to do more. That's reflected in the AGL Fair Way Program in the AGL Everyday Program, and I would say broadly in the industry there is a recognition of that and so I think what you're going to see this playing out initially and I think that depending, quite honestly, on how responsive the industry is in meeting the intent of the principles set out and the commitments that we agreed to in yesterday's meeting will determine what comes next.

So I don't want to speculate that we won't get there. I think that we're going to – as an industry – we're going to rise to this challenge, customers are going to have the information they need, Government will work quickly to implement the Finkel recommendations including the CET and new investment will start to move. And I think that's where we're going to navigate and that's the way I think the industry wants to navigate and without putting words in anybody's mouth, I think that – my sense is that is where Government wants to go as well. Yesterday's meeting was the first meeting. We will have more. We're committed to it, so I think that's where we're going to manage through but you know, this is something that will play out in time. But I will say, I was quite encouraged by the conversation, discussion, both the talking and the listening that happened yesterday.

James Hall: Next up is Simon Chan from Merrill Lynch. Simon, you're up.

Simon Chan: Thanks, James. Good morning Andy and Brett. Hey Andy, I doubt if you would have reconfirmed the statement about offshore market, if your team hasn't already thought about it in detail. So I guess, can you highlight what is the scope, the projects you'll be looking to offshore. I mean, are you talking about a power station? Are you talking about building a retail business? And I mean, developed markets is a broad statement, so can you give us a bit of specificity as to the geography you're referring to?

Andy Vesey: Yeah, good morning, Simon. I can. I'm not sure you're going to be satisfied. I mean, quite honestly, when you're doing this kind of work, really, the things you can and cannot say but let me sort of connect the dots this way. a) that anything we do is going to be coherent and consistent with the businesses we're in today. What – we're viewing this a way of leveraging the business platforms that we have invested in and that we know that we bring a level of competency that would be rewarded in the market. So that said, that should give you a sense of the scope of the things that we are looking to do in additional

geographies. The other side is that the kind of business that we're in, the kind of business platforms that we excel at require a certain framework and market and you have to have, you know, respect for foreign direct investment, you have to have a rule of law, you have to have very well defined and established institutions of capitalism. We're looking at developed markets and the other side is that, you know, we have a clear sense that one way that we can better manage risks in this kind of movement is going into markets that culturally are similar to the Australian market, both from a social perspective but also from a business perspective.

So with that information you can sort of wrap your hands around and come to your own view and as we further refine and work through a number of options, we will be talking more about this as we go forward. But at this point, that's what I want to say because, as you know, as you go in and look at opportunities, you don't want to sort of signal too early because that changes the dynamic of opportunities. But let me say that in the slide that we have, that still remains at the bottom of our continuum of opportunities, representing that it is the least developed. We spent last year looking through a lot of things and actually taking things off that list, so there were things on that list that were similarly positioned. They're no longer there, but we recognise that, you know, what we need to find and what we're keen on finding are these opportunities to leverage investments we've made. We believe we can actually create value for our shareholders and take on the appropriate level of risk and manage it well. So let me leave it there and as we go forward, we'll talk more about that.

James Hall: We now go to Mark [Purcatell] at JP Morgan. Hi, Mark.

Mark [Purcatell]: Hi guys. Look, I may be nit-picky and a result that seems pretty solid, but I'm just interested in some of your electricity portfolio sales volume trends. Your customers sales volumes seem to be going backwards but more importantly is your sales volumes are down fairly materially, so in the order of sort of 5% year-on-year. I'm just interested in getting a bit of colour as to the reasons why we're seeing those trends.

Andy Vesey: Sure. Let me hand this over to Brett because he's anxious. He heard detailed and nit-picky and he said this is for him so –

Brett Redman: So this question is for me. Thank you, Andy and Mark. So I think a couple of things to think through. One is from a consumer demand point of view. When you peel everything back, customer numbers are down a little bit but I wouldn't think – look too much into that. That's just part of the normal froth and bubble at the fringes. Average residential demand though, is down about 1% so that's when we strip out all the weather effects and just look at a genuine year-on-year comparison as best we can, noting that pulling out things like weather effects is as much art as science. But down about 1%, so that's a continuation of that trend most likely driven by energy efficiency. When it comes to more your wholesale customers and C&I customers, I'd probably pay the less attention to that in some respects because we see somewhat interchangeably the wholesale channel and the business customer channels where both priced to pretty skinny margin and will tend to move backwards and forwards between the two, where in a business customer sense you can see that move around, if simply one or two significant customers are there or not there. In the case of the wholesale customer demand, that again you'll see different loads coming backwards and forwards, noting as well that in the past we've talked about what our very large wholesale customers are without going into specifics around the de-sal's and the

smelters and the like. They will have an impact on that level of demand depending on whether they're operating or not operating.

James Hall: The next question is Ian Miles from Macquarie. Morning, Ian.

Ian Miles: Hey guys. Just quickly, on that working capital, Brett, are you referring that you will actually have cashflow 100% above for the EBITDA as you unwind that 430 or have we just reached a new level as electricity prices stabilize out where you're – we're just going to have that $400 million just always in deposits in some form or another?

Brett Redman: Yes, I think the margin call line, the big negative should unwind loosely over the next couple of years, and maybe a little bit of a tail that goes beyond the next couple of years so that line should go to the positive. If you then set that line aside, we normally talk about targeting a cash conversion rate of somewhere in that 80-100% and obviously, the closer to 100% the better from our point of view. So while, you know, I'd probably be innately conservative in anything I'd say about cashflow because it can move around for a whole bunch of reasons, from one period to the next. You'd have to say that the unwinding of that margin call line will have a tendency to push us above the 100% or better rather than I would expect to see us well under the 100% over the next year or two.

Ian Miles: Awesome. That'll be great.

James Hall: Next up is Pete Wilson from Credit Suisse. Hi, Pete.

Pete Wilson: Hi James. Thanks. I'm just looking for a bit more colour on slide 20, in the Capex outlook. So a) I guess, what is in that $509 million growth for FY18 and of the remaining $475 million, what's changed versus the February guidance of Capex and you know, $300 million or less? So like, what is in there and what's changed, since Feb.

Brett Redman: Okay, so maybe just to address the growth Capex line first. The backbone of it are those projects that were on the earlier slide, slide 9, where we talked about where we've got $1 billion of major programs underway. So not all of those major programs are Capex in nature, like the $50 million for energy impact partners is an equity stake, but projects like Barker Inlet. What we're doing in the path in terms of Silverton will be well underway during this financial year. Touch wood, you'll see Cooper's start to get up and running. Where we're spending money on things like the WA gas entry, those things will be the backbone of that spend as well as the CXT and P-3 programs, where CXT is $300 million over about three years and P-3 is – from memory – about $130 million over a couple of years. So they're the backbone of that growth and transformation numbers. In terms of the rest of the parts of Capex, I might flip that one to Doug Jackson who's here with me, our EGM Group Operations, just to talk about what we're doing in a plant sense to maintain plant security and stability.

Doug Jackson: Thanks, Brett and hi, Pete. It's Doug Jackson here. There's a – starting to reinvest into the life attainment part of our program, so you'll see some higher costs through the next five years starting this year really sort of investing into that securities Brett mentioned in our plan. So the Bayswater Program and continued Loy Yang HPI, IP turbine programs most notably, and then there's the continued investment in major overhauls in year-over-year there was no major overhaul at Loy Yang last year so that adds another $50-60 million in this year's program alone, that one change year-over-year. So it's really – as

Brett pointed out – investing into our plants. Energy security as well as some improved efficiency over the next few years as well.

Andy Vesey: And just to close this out, for those who, on a call, who may not know PT3 is our ERP upgrade program.

James Hall: Next question is John [Herge] from Deutsche Bank. Hi, John, please go ahead.

John [Herge]: Thanks. Good morning everyone. My question relates to the guidance, the practice has traditionally been that you give earnings guidance around the AGM time. You brought that forward, so can we read into that some very high confidence levels in terms of real electricity contracts rolling off and moving onto the higher base level pricing, because traditionally you've wanted to see how the first quarter has gone in the new fiscal year. So I just wanted to get an understanding of the change in practice that you've got. Is it really an uber-bullish view that you now can give it at the results rather than the AGM?

Brett Redman: John, I think – the way I'd view it, and this might be a one-off exercise rather than every year we'll plan to come out at results and talk about guidance. I guess what we're recognising is that there has been a lot of volatility in the market, whether at a wholesale level, at a retail level, and that's been driving a very widespread of expectations among analysts and shareholders on our earnings outlook. We wanted to try and settle that a bit, so if you like, we have taken a little bit of an earlier view than we're normally more comfortable with without having seen all the winter volumes before we give our guidance.

So the reason we always give it at the AGM historically was waiting to see how winter traded before we come out. So I guess you could argue there's a little bit more winter volume risk in our guidance range than you would normally expect by the time we put it out there, but this is about just trying to give the market some boundaries around what we're seeing right now over the next 10-12 months.

John [Herge]: Thank you.

James Hall: Next up is Paul Johnson from RBC. Good morning, Paul.

Paul Johnson: Thanks James and good morning everyone. Yeah, just a follow up question on the high funding initiatives of a business and the status of the buyback. I just wanted to make sure I've understood your commentary on the status there that – it really is on hold, but I guess given the breadth of investment opportunities, you've outlined including some potential offshore M&A, is it sort of right to assume, you know, the buyback is really on hold for quite an extended period of time, you know, despite the balance sheet being in a great position?

Andy Vesey: Well, like, I mean, and we've always said it – the capital management, you know, gives you a number of levers. Last year, we had sort of made that a key aspect of our capital management plan as we were sorting through other opportunities. Our preference, of course, is always in the first instance to find profitable investments along our business lines for growth. The buyback is another arrow in the quiver of opportunities we have to ensure that we're managing capital appropriately and to take advantage of that which gives the best opportunity and most effective way to give value to our shareholders. So we didn't say stop.

It's really a, you know, maybe we're refocusing our efforts so that we are tending to look more aggressively now for growth and taking maybe our foot off the pedal a bit on the buyback.

So while we are not saying we're stopping, we're also assuming that that's not our priority at the moment given that we want to explore growth as our first option and will continue to evaluate that. And should at the end of the day our view about the opportunities for growth change, then we will get back to everyone and give a sense of what we're doing with the buyback.

James Hall: Next up is Rob Coe from Morgan Stanley. Hi, Rob.

Rob Coe: Hi, good morning guys. So can I ask a question in relation to your outlook on pool prices. Like, I guess, obviously not asking for a forecast but your sense of whether the balance of risk is up or down, and does it depend on things like planned availability, Portland repairs, gas prices, Vic renewables, SA batteries. Can you give us a sense of where you think pool prices could go?

Andy Vesey: Sure, we'll do that. You know, I think that one of the things I will say is that clearly some of the fundamentals haven't changed. Maybe the magnitude has but I'm going to turn this over to Richard Wrightson to give you a view.

Richard Wrightson: Hello Rob. The purpose of this slide on 25 is just to reflect where current markets are at. It shows the decline in pool prices forecast by the market going forward over the next few years. The question really is what will drive that fall in prices. I know we've pushed very very hard – it's about new investments and investing in new generation facilities in the NEM. Now, that was the purpose of the graph on the right and so I just say that cost signals that – the price signals that they will need to drive them into the marketplace. The other fundamental thing here is what's limiting investments. Yes, we're looking for energy policy certainty, but also, we're looking for some gas market certainty. For a lot of the firming capacity at the moment, it's between storage and gas. Given the issues in the gas market, it's actually creating competition in that gas market to help drive investment for gas fired power stations to bring some security back into that side of the market to help drive investment. So part of the announcements around Silver Springs and Crib Point is actually trying to create that certainty in the gas market that allows us to invest on the gas side that brings a bit more stability onto the wholesale prices, but you can see from the chart on the right hand side there is no magic bullet here. The cost of new capacity needs to be paid for and longer term, the prices are in these ranges albeit falling away as new investment comes to a certain extent.

James Hall: Next up, Nik Burns from UBS. Go ahead, Nick.

Nik Burns: Thanks, guys. Just a question in relation to your plans to replace Liddell. When you first outlined plans to close Liddell in 2022, obviously wholesale prices were at a much lower level so the profits that's coming from Liddell would have been relatively low. We've seen a big uptick in wholesale prices since then so it must be quite a valuable asset to AGL at the moment. Just thinking forward, and I guess my question is if wholesale prices stay at high levels through to 2022 and beyond, how confident are you that you cannot just replace Liddell volumes but also the profits generated from it given that as you've just alluded to, that

the chart on slide 25 points to the ultimate sensitivity. The ultimate output that you get from new generation investment would be at a considerably higher price. Thank you.

Andy Vesey: Yeah, let me start this and I'll ask Doug if he'd want to chip in, or Brett, but I think the – one of the things that we have to think about that extending the life of a coal plant that's at its end is not a free option. So there is significant capital that would be required should we consider extending it. The fact of the matter is we're not. We have a view and we manage to it in terms of our scenario planning and view of the future that we do believe that the future will be carbon constrained and we don't take the near-term conversations or pressures in the market as an indication that that fundamental will change.

We believe that the reduction of carbon risk in our portfolio is still very important. The greenhouse gas policy that we put forward in April, 2015 is what we operate by and we are sure the decision that that plant will close at the end of calendar year 2022. The reason I say that it's sort of not a free option because with that age of plant, which was built approximately 1975. I'm looking over and Doug and he's shaking his head, yes, so it's just a bit younger than I am. Quite a bit. It will require a significant investment and so you know, if you're thinking about extending the life of a plant like that for ten years, let's say, the level of investment would be significant.

And the question we have to ask if we're going to make a significant investment in generation, would we do it in an older plant which is less reliable with higher maintenance costs or should we be making that investment in new technology which aligns with what we believe is the future which will be a greater value long term to our shareholders and customers. We'll we've chosen the second and we are still of that view.

James Hall: Next up is Matt Dunckley from Fairfax. Good morning, Matt.

Matt Dunckley: Hey guys. Just looking back to consumer position again, I'm wondering whether you consider that the big lift in your underlying NPAT is actually going to cause you a problem in your ability to convince Government that you're serious about tackling affordability. I'm wondering if you might be heading down the same road as the banks.

Andy Vesey: There's a lot of different ways of answering that and most of them will just be speculation, but let me say the following, that the best position to be in to sort this problem is to have a strong set of financials, right? And that's why we're able to make the significant commitment to investment in the market which ultimately solves the problem. And so, I really believe that when you're thinking about the way out of this problem is not the simple way, which is usually the roard back-in, but I'm sure that businesses that are operating in markets and have sound certain policy.

So correct capital conditions, correct capital investment decisions can be made and shareholders are rewarded for that. And that's where I think we are. So I think while at the highest level, one would argue well, this would be problematic because you're profiting in a time when markets are very tough and a number of customers might be under strain. The best thing we can do is ensure that the policy settings are correct so shareholders can continue to earn a return so investing in that same market and that is really the pass out. The challenge, and I think it goes to the slide that Richard was just talking to, is that we're at a point where the lack of certainty around carbon policy is keeping people from investing in what we believe are the correct options which are wind, solar and storage.

But we're really at that very fine point, so I would basically make the argument – which I think is what you're asking – I think that companies that have the financial strength and a reward for investments are the ones that can solve the problem. And that's the delicate balance about Government intervention and regulation because the less Government wants to solve and own the whole problem, they have to encourage the right investments by private capital in the market which ultimately brings prices out to a level which reduces the stress for customers. And that's the way we would see it and that's the way we discuss it.

James Hall: Perry Williams from Bloomberg is up next. Morning, Perry.

Perry Williams: Yeah, hi, morning. Yeah, just on how you're seeing the conditions for the LNG terminal down in Crib Point since February and also, I think back then you were talking about both long-term supply and also potentially getting into trading cargo. Is there any update on that?

Andy Vesey: Let me hand this one to Richard.

Richard Wrightson: Thanks for the question, Perry. What we're doing today, at the moment is announcing the location, the ideal location that we see for bringing LNG into Australia. And it's just worth noting that if we had an import jetty right now we'd be bringing gas onto Australia between $8-10 a gigajoule into the marketplace. So that sort of frames the opportunity here by building the jetty. The next phase is to go through the approvals process, working with the local communities to get acceptance of this project in their communities so we can bring competition into the Australian gas market which is what this is about. How we source gas for that, we will have a number of strategies. It won't be a set and forget strategy. Yes, we will underwrite some of the gas with longer term contracts, some with medium term contracts and potentially buying spot cargoes to make use of swings in overseas markets to bring gas into Australia. But what is really critical about this project is it will get to the point where you will see Australia's prices capped by the international gas price and we won't have this situation we see currently where Australian gas prices have gone well beyond prices that we're seeing in Asia, and that's why we're very keen about this project.

James Hall: Next up is Sonali Paul from Reuters.

Sonali Paul: Hi. Perry asked most of my questions but I just wanted to check have you actually started talking to potential suppliers for those long-term contracts? And also, you seem to have pushed out the final investment decision date and I was just wondering why?

Richard Wrightson: I'll have to check on pushing out the final decision date. The final decision date is related around planning approval and making sure we've got everything in place. In talking to – people are shaking their head – we haven't pushed out the decision date. In terms of talking to suppliers, we have been very active in overseas markets talking to a plethora of people who are very, very keen to bring their gas to Australia and also potentially from Australian suppliers on the west coast or even Northern Territory.

So it is a good opportunity to bring that gas into Australia and as I said, we'll be following a number of strategies to bring the gas but yes, we have actively started talking to people.

James Hall: Next up is Adrian Atkins from Morning Star.

Adrian Atkins: Hi Andy. You touched on it briefly before, I'm just wondering about, you know, wholesale prices have come back a little bit in the last couple of months and what that implies for where the retail price is at the moment. As in could there be downward pressure?

Andy Vesey: Yeah, well that – I think the downward – Richard talked to the why things are pricing and while the forwards have moderated, they are, in our view, nowhere close to where they need to be to remove the current stress in the market. The moderation is reflecting, you know, the expectation of a number of projects that have been announced but clearly, the market needs more investment.

And until that happens we're really not going to see the kind of decrease on a sustained level that we expect. I don't know, Richard, if you could add more that it because I think that's probably, you know, the ins and out of it.

Richard Wrightson: That covers it and until you see that investment coming through, which is pictured in some of the forward markets, it's hard to see any major drops in the forward curve because the market it calling for new energy to be brought into the marketplace.

So it will drive investment over time with those price signals but it's reasonably stable and that's why we've put those charts on slide 25 to show you that the cost of what new energy into the market looks like.

James Hall: We have John Durie from The Australian next.

John [Jerry]: Yes. Hi there. My question's been asked but I was just wondering why the FID on the gas terminal would be such a long way out. It seems a very long way out.

Andy Vesey: Well, you know, it's always interesting what some people perceive as a long way out and others perceive just around the corner. You know, John – this is Andy, by the way – I think that we learnt a lot of lessons when you do infrastructure development and the most important thing for any projects is to build community support. And so we're taking this step by step. We're not starting at the top and coming down to say, "Here's the project." We're starting at the grassroots. We want to understand what concerns are and what the issues are, so we're spending a lot of time on that.

In fact, you know, the regulatory approvals alone in the process takes about eighteen months, but there's a lot of that engagement and we're not looking for an expedited path. We're looking for a path that can guarantee that as we develop it we can finish it and deliver the value that the project has. So I think the schedule that we have is appropriate. It allows us to do the work right and to follow the approval process to the T and to do a quality job in developing and delivering a project. So that's what takes the time, quite honestly, you know. We think that's appropriate and for us, that kind of deadline is kind of normal for doing major projects.

So I hope that helps you, John.

James Hall: I'm now going to go to a couple of questions on the web chat. This is from Joseph Jacobelli of Bloomberg, and it relates to offshore M&A. And says, given that markets are broader, so competitive, would AGL look for opportunities with partners or would the preference be to go alone? Is the preference for greenfield or operational assets and how much capital could we see being deployed?

Andy Vesey: Well, with the exception to the last question, the answer is yes, to all. I mean, look, going into things like this, you fundamentally look for any entry into a market given the particular opportunity the particular market will dictate in answer to a lot of those questions and actually all those questions.

So it's way too early to have that conversation but the view is that, you know, we don't have a fixed view about how we would enter a market. We'll be informed as we move forward based on the type of opportunities, so I really do think the answer is, that will materialize over time and we are not setting sort of a standard approach to what we do. We'll do anything which makes the most sense which fundamentally as we enter a market, most of those questions all deal with how you manage the risk properly.

And as we said in my opening remarks, the only way we will go forward if we have a very good sense of being able to create substantial value for our shareholders and being able to absolutely manage the risks in an appropriate way. And that'll determine the project's structure and market entry.

James Hall: We have one more on the web, which is from Kevin Morrison of Argus Media. It relates to the LNG projects and the Silver Springs expansion, Richard. So the first element is the – how, what international LNG price forecasts we are factoring in, in thinking about Crib Point. And the other one is the use of gas at Silver Springs.

Richard Wrightson: Okay. On the first one, we've got a range of forecasts and if you actually go in to the international markets you can get some very, very bearish forecasts about the state of the LNG markets overseas or some fairly bullish ones post 2020. There is definitely a glut of gas in the international markets as we see now and the question is how long before that glut disappears. We see this as much about driving competition on the east coast, so we're using a range of forecasts to produce a forecast for the investment decision for Crib Point, but we also see it as an opportunity to make sure we have good solid competition in the gas markets on the east coast as much as about that gas forecast.

And sorry, can you repeat the second part?

James Hall: The second part was in relation to the use of gas through Silver Springs and what – the specific question is, to what extent does it relate to contracts to store gas for other LNG projects and to what extent is it –

Richard Wrightson: Yeah. The Silver Springs project at the moment, we currently have reservoirs at Silver Springs that can store, I think, up to 54 petajoules of gas underground. The problem with the existing facility is it's only a small withdrawal facility. Now the opportunity that we potentially see there is increasing injections and withdrawals directly to the Wallumbilla hub 200 terajoules a day. That allows AGL to buy and trade on the Wallumbilla hub. Say, for example, when major LNG export facilities is down, we would expect the gas price at Wallumbilla hub to come down quite significantly. The ability to take that when perhaps we don't need it or the market doesn't particularly need it, put it into storage, bring it back out when the market is a lot tighter. Now, we're in feasibility study and scoping studies on this project.

And again, as Andy said, these projects, we do them properly. We take our time to make sure they work, but it is again, about bringing security supply into our portfolio and delivering

new gas capacity into a marketplace where that's difficult to get a hold of with such a limited supply mix, supply mix in that marketplace.

James Hall: Now I'll go back to the phones where we have Rob Coe from Morgan Stanley again. Hello again, Rob.

Rob Coe: Hi James. Thank you very much for taking a second question. If I can draw your attention to slide 28, the eco markets portfolio view, I guess I just want to get some colour on the shortfall strategy. Historically, that's been a strategy not to cover C&I load because of the variability, but given that we're coming to the end of the target, and you've got shortfall mechanisms, is it time to revisit that strategy or is it still the same strategy?

Richard Wrightson: Well, this is a combination of responses from myself and Brett. Part of the response to building out is through the PARF, keep bringing Cooper's Gap into the portfolio, and that will go to covering some of the C&I load that we think it – good prices that make sense to deliver on that and taking positions on that. Obviously, balancing that between the renewables projects coming into the marketplace, it's also a big statement but we do need a high degree of certainty post-2020 on what the Government plans to do with the RET and how it replaces the RET to dictate future investments.

But we are looking at using the PARF to provide good priced renewable certificates into our portfolio so we can supply, not just our residential base, but business and some of our larger customers, and we have been interested by the change in the market that some of our larger customers are looking at more longer-term solutions to their buying needs. And that can also go into some of the investments we can make through PARF and other investment opportunities.

James Hall: Thanks.

Rob Coe: Thank you very much.

James Hall: Okay, and we go to one final question. I'll just remind everyone if there is another question or if you haven't asked a question and you want to do so, it's *1. We have one final question on the phone which is Matt Dunckley again from Fairfax. Hi, Matt.

Matt Dunckley: Hey guys. Coming in again on that consumer stuff. I saw the margin was up a bit, 5% on the typical consumer account there. I'm wondering, do you consider, well, say there's two ways, built up from reading the commentary of reducing costs. I wonder whether you anticipate that you've run that race and whether the margin is possible to grow that much again this year.

Brett Redman: Thanks, Matt. It's Brett here. I'll pick that one up. If you look at slide 19 which considers our customer's accounts, the growth margin for account is up about 1%. Net operating costs per account are actually up about 5%, so what we're seeing there is extra investment in brand and also the launch over in WA. The metric that we focus on is the one right at the bottom of the page that shows EBIT per customer account, so Earnings Before Profit and Tax per customer account has been down 4%. And so that's that mixture of retail margins have stayed relatively flat year-on-year, while we've seen a little bit of a rise in Opex that we need to cover out of those margins as well. You're not seeing any kind of increase coming through in retail margins.

Matt Dunckley: Can I take a point in the commentary, you're looking at the speed at which the wholesale prices through to consumers, has that race also been run or is that going to come through again, is that one that's still working its way through?

Brett Redman: I think what it can be is the case of assessing the market when the time comes to consider price increases. There's that balance that goes on out there between what's happening in the wholesale market. We've spoken at length here today already about the pressures in the wholesale market that ultimately need new investment to alleviate. That's going to be counterbalanced by a genuine concern about what price change means to our customers, and finally, what the competitive environment is like.

And so, Australia and many of the markets in Australia are among the most competitive in the world and to the extent that there is margin to be driven down. That competition is driving down margin at a retail level.

James Hall: Well, with that, those are the final questions, and I'd just like to thank everybody for joining us this morning.

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