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ASX & Media Release

FY19 half-year results announcement and affirmation of FY19 guidance

7 February 2019

Summary of results for period ended 31 December 2018 vs. prior corresponding period

- Statutory Profit after tax: $290 million, down 53 percent
- Statutory earnings per share: 44.2 cents, down 53 percent
- Underlying Profit after tax: $537 million, up 10 percent
- Underlying earnings per share: 81.9 cents, up 10 percent
- Net cash from operating activities: $678 million, down 15 percent
- Interim dividend: 55 cents per share (80 percent franked), up 2 percent
- Return on equity: 13.1 percent, up 1.4 percentage points

CEO Commentary

AGL Managing Director & CEO, Brett Redman, said: "AGL's half-year result for FY19 reflects the disciplined management of our portfolio amid challenging operating conditions. The strength and flexibility of our portfolio has enabled AGL to deliver strong returns for shareholders as we continue to invest to support supply availability throughout our fleet, deliver energy affordability programs for customers and make progress with growth opportunities.

"As the market is aware, increased input costs for coal, supply constraints in the gas market, weather impacts and ongoing energy policy uncertainty continue to place upward pressure on electricity prices. Despite these pressures, we are continuing to invest more in our existing assets and in new projects as well as delivering lower standing electricity prices for household and small business customers and expanding loyalty and hardship programs.

"We have refreshed our strategic priorities at AGL to focus on three key areas: growth, transformation and social licence. In this context, we continue to add to our project development pipeline to bring on new supply of cleaner, affordable and more reliable energy, with wind farms at Silverton in New South Wales and Coopers Gap in Queensland and gas-fired firming capacity at Barker Inlet in South Australia all under construction. In addition, we will soon begin work on our project to upgrade the Bayswater Power Station in New South Wales and continue to progress potential projects to develop new gas-fired firming capacity at Newcastle and the import of much-needed gas through an LNG import jetty at Crib Point in Victoria.

"Today we are also announcing that we have approved a $25 million upgrade to the AGL Loy Yang coal-fired power station in Victoria, which will deliver increased, more efficient output without raising carbon emissions; that we have secured an option over a 250 MW pumped hydro energy storage project at Bells Mountain near Muswellbrook in New South Wales; and that from 1 July 2019, we will be offering solutions to support customers' adoption of government-led residential battery schemes.

"With regard to the efficiency of the overall market, in representations to governments, we have asked them to consider a policy focus that supports certainty of investment for the energy sector and enables us to get on with the business of investing in providing customers the clean, affordable and reliable energy supply we all want for Australia."

Statutory and Underlying Profit

AGL's Statutory Profit after tax of $290 million was down 53 percent on the prior corresponding period. This reflected a negative movement in the fair value of financial instruments. This movement is non-cash but is required under Australian accounting standards. The movement in the period primarily reflected higher forward prices for electricity and is consistent with the way AGL hedges its electricity generation position through forward contracts.

Underlying Profit after tax, which excludes movements in the fair value of financial instruments and Significant Items, was $537 million, up 10 percent. The increase in Underlying Profit primarily reflected the benefit of higher electricity prices to AGL's Wholesale Markets earnings, offsetting margin pressures from continued elevated levels of customer churn in Customer Markets, the impact of customer affordability programs and higher costs to support future plant availability at AGL's coal-fired power stations.

Dividend

AGL has declared an interim dividend for FY19 of 55 cents per share, 80 percent franked, up 2 percent on the prior interim dividend. The FY19 interim dividend will be payable on 22 March 2019 with a record date of 21 February 2019. Shares will trade ex-dividend on 20 February 2019. The unfranked component of the dividend will be paid from conduit foreign income, meaning it will not be subject to dividend withholding tax for non-Australian shareholders.

AGL's dividend reinvestment plan (DRP) will operate with respect to the FY19 interim dividend. AGL will buy shares on market to satisfy the DRP and will allot these shares at no discount to the simple average of the daily volume-weighted average price at which AGL's shares trade during each of the 10 days commencing 25 February 2019. The last date at which shareholders can elect to participate in the DRP with respect to the FY19 interim dividend is 22 February 2019.

AGL's dividend policy remains to target a payout ratio of 75% of Underlying Profit after tax, which is normally applied on aggregate across the interim and final dividends.

Capital allocation and growth investment

Mr Redman said: "We stated at our FY18 results that we may resume share buy-backs during FY19 in the absence of opportunities to invest in growth at scale – and that we would provide an update at these half-year results.

"We have in recent months completed a fundamental review of the growth options available to AGL. We have concluded that there are compelling opportunities for AGL to allocate capital to growing value along three horizons:

- Optimising our existing assets for performance and value;
- Evolving and expanding our core energy market offerings; and
- Creating new opportunities with increasingly connected customers as energy and data value streams converge.

"In addition, our current intention is to redeem our $650 million hybrid subordinated notes when they become available to call in June 2019, subject to no material changes in market conditions, strategy or funding needs.

"Given these plans and the flexibility afforded by AGL's strong financial position at a time of policy uncertainty, we have determined it is not appropriate to recommence share buy-backs at this time – although we retain the flexibility to do so."

FY19 guidance

Mr Redman said: "We are currently tracking towards the mid-point of our guidance range for Underlying Profit after tax to be between $970 million and $1,070 million in the financial year ending 30 June 2019. Our guidance reflects the continued strong performance of the AGL portfolio. This is offsetting the earnings impact of customer affordability initiatives, our decision to increase operating expenditure at our coal-fired power stations to support future availability and, in the second half, lower forecast gas sales volumes and the cost of absorbing consumer electricity price cuts and loyalty schemes."

All guidance remains subject to normal trading conditions and any impacts from ongoing regulatory and policy uncertainty.

Webcast and conference call

AGL will hold a webcast and conference call to discuss the FY19 half-year result and FY19 outlook at 10.45 am, Sydney time, today.

A copy of the webcast presentation will be lodged with the ASX and made available on AGL's website. The webcast will be accessible via agl.com.au/interimfy19 or using the following dial-in details:

Toll-free Australia: 1800 093 431
International: +61 2 8047 9393
Participant pin code: 76795506#

A transcript and archive of the webcast will be available on AGL's website in due course.

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