AGL Energy Limited
Market Update, 30 June 2021

Disclaimer: The following transcript has been edited and prepared by a third party on AGL's behalf. AGL cannot guarantee that it is accurate or complete nor that all or any errors it may contain have been corrected. You should not, therefore, rely on any of the information in this transcript. Anyone seeking to clarify content discussed in this transcript or the event to which it pertains should contact AGL's Investor Relations team.

Peter Botten: Good morning everyone and thank you very much for joining us. My name is Peter Botten, AGL Energy's Chairman and I am joined today by our interim Managing Director and Chief Executive officer, Graeme Hunt; Damien Nicks, AGL's Chief Financial Officer and Christine Corbett, AGL's Chief Customer Officer.

Today we're making five key announcements in relation to our proposed structural separation. We are confirming our intention to demerge, with AGL Energy becoming Accel Energy Limited and demerging AGL Australia as a new company. We've received funding commitments from banks to support independent investment-grade capital structures for both new entities. We have appointed the Chairs and identified CEOs for both new businesses, myself and Graeme Hunt for Accel Energy and Patricia McKenzie and Christine Corbett for AGL Australia.

We are providing more detail about the off-take arrangements that will operate between the two companies and we have provided updated carbon statements for each new business, demonstration this separation is about accelerating our role in the energy transition. In addition, we have provided affirmation of our full-year 2021 earnings guidance and announced some actions in relation to our dividend to help fund near-term firm growth commitments.

The demerger proposal will create two leading energy businesses, both separately listed on the Australian Securities Exchange. The Board believes that operating as two independent companies will provide a stronger clarity of purpose, enabling both entities to focus on the unique strategic opportunities and challenges presented by the accelerating energy transition.

As one of Australia's oldest companies, AGL Energy has a proud heritage of evolution and leading change in the energy industry. This change has created significant value for shareholders in prior years via the integration of AGL Energy's strong relation footprint with its baseload energy generating business. However, the impact of accelerating forces from customers, community and technology on the existing operating model and financial performance, emphasises that AGL Energy is now at an inflection point as the transition of the energy sector accelerates. A clear focus and more targeted strategy are now critical to best position both businesses over the longer term.

Subject to final board and other relevant approvals and importantly shareholder approval, the separation will be complete in the fourth quarter of financial year 2022. Today is an exciting day for AGL Energy and I'm honoured to be here delivering our demerger proposal as your Chair. This is not a decision we made quickly or lightly. It's a decision that will position both entities well for the next decade. We are very confident this demerger proposal is the next step in a long-standing heritage of innovation, investment and structural adaptation to meet the needs of a rapidly changing energy industry.

I want to thank you again for your time and now I'll hand over to Graeme to continue the briefing.

Graeme Hunt: Thank you Peter and good morning everyone. Our demerger proposal is the next evolution in AGL's 180-year history and an important step in positioning us to protect shareholder value and establishing platforms for growth while providing greater customer focus and opportunities for our people. I'm now going to look at both entities in a little more detail.

Starting with Accel Energy, Accel Energy will retain AGL Energy's position as Australia's largest baseload electricity supplier by the Loy Yang A, Macquarie Generation and Torrens Island sites, prioritising the responsible operations of these sites, while facilitating their transition to low-carbon industrial energy hubs. Accel Energy will remain Australia's largest operator and off-taker of wind energy by the Macarthur, Hallett, Wattle Point and Oaklands Hills wind farms, with the added potential to develop a further 1600 megawatts of new wind projects.

Turning now to the contractual arrangements between the entities, at demerger there will be contracts in place between Accel Energy and AGL Australia to assist both companies in managing the electricity market price and supply risks over the short to medium term. The arrangements will comprise multiple derivative contracts between the two entities across relevant states, including six contracted volumes and volume under option contracts, at market prices reflecting standard commercial energy market terms. The use of market prices and predominantly market traded products, taking into account the liquidity of the different markets, will ensure minimal off-take market value transfer between the organisations and transparency for investors. The tenor of the contract is a reflection of the available energy in the market and heads in frameworks, while the decreasing profile over time provides Accel Energy with the opportunity contract directly with major industrial customers and other retailers and for AGL Australia to increase supply from other sources.

Looking now at the capital structure, the Accel Energy shareholding of between 15% and 20% in AGL Australia will enable it to share in value creation while providing balance sheet flexibility. The holding will have no associated board position attached. On financing, Accel Energy has received strong support from banks to establish a prudent investment-grade debt structure. We have received commitments for an amortising loan of up to $800 million and additionally revolving cash and swingline facilities to fund short-term working capital requirements. Subject to Board approval, this prudent capital structure is expected to enable sufficient free cash flow to support the payment of dividends.

Moving on to the advocacy approach of Accel Energy, importantly Accel Energy will work with government and other key stakeholders and policy decision makers to advocate for the establishment of effective frameworks to enable an accelerated energy transition. We will look to drive a framework that protects affordability and system security, as well as the fair economic interests of its workforce and capital providers. This will require market design that recognises the value of existing infrastructure, support required for new generation and systems security services and the benefits that can be derived from incentives to accelerate industrial decarbonisation.

I'll now turn to an overview of AGL Australia. AGL Australia will be Australia's largest, energy-led, multi-product retailer of essential services for household and business, providing more than 4.5 million electricity, gas, broadband and other services. AGL Australia will retain the AGL brand. It will own and operate AGL's largest private hydro fleet, as well as AGL Energy's fast start gas-fired power stations, a growing portfolio of battery development and other wholesale and decentralised electricity and gas trading, storage and supply capabilities. The flexible generation and storage assets will enable AGL Australia to manage its short energy position and reduce the risk of volatility of high price days. In addition, AGL Australia will be carbon neutral for Scope 1 and 2 emissions, with a clear pathway to carbon neutrality for all electricity supply.

AGL Australia will work to drive reforms that continue the uptake and integration of decentralised energy systems, services, electric vehicles, broader demand-side participation and the development of new, flexible generation. These reforms must aim to maximise shareholder (sic) value between energy businesses and customers, leverage private sector investment and minimise energy costs on households and businesses.

Moving to the capital structure for AGL Australia, again pleasingly we have received strong bank commitment for AGL Australia capital structure. Here we have received commitments, some of these totalling up to $2 billion, complemented by our USPP notes. The essential nature of the services AGL provides, its strong brand and competitive position, supports the investment grade credit rating. And subject to AGL Board approval, it is expected AGL Australia will target a dividend payout ratio range referable to underlying earnings after tax.

I'll speak now to the demerger process and timing. The proposed demerger is still subject to final AGL Energy Board, relevant regulatory, court and shareholder approvals. The team have put in a gargantuan effort to date and I want to thank them for all their hard work. There is still a lot more to be done, but we anticipate completion in the fourth quarter of FY22. In the meantime, AGL will progress towards implementing new internal operational structures during FY22, with the view to accelerating the benefits of more focused organisations following the demerger.

In closing, as the Chairman rightly stated, this is an immensely exciting time in AGL's 180-year-plus journey. We certainly have a lot of work ahead of us; however we are confident of our strategy. I would like to take this opportunity to congratulate Patricia and Christine and to say how honoured I feel to be given the responsibility of leading AGL Energy through its transition and subsequently to lead Accel Energy. I am proud to be and look forward to working with our Chairman, Peter Botten and the rest of the leadership team to drive the separation on completion, creating two leading energy businesses and delivering a successful outcome for AGL's shareholders and stakeholders.

On that note, I will hand over to Chantal Travers, AGL's Head of Investor Relations, who will moderate today's question and answer session.

Chantal Travers: Thank you, Graeme. For participants that would like to ask a question please press star/one. We also ask that you keep your questions to one question at a time. If you have a subsequent question, you can re-queue. Now, our first question comes from the line of Tom Allen. Please go ahead, Tom.

Tom Allen: Thanks Chantal. First, congratulations to the newly appointed executives of each of the respective entities. My first question is to please clarify the strategy behind Accel owning 15% to 20% equity in the demerged AGL Australia entity, so what additional balance sheet flexibility are you expecting to arise from that ownership stake? Then it is the intention for Accel to sell that stake and demerge entirely within the next two to three years?

Peter Botten: Thanks, Tom, for that question. I'll start off and then I'll invite Damien to add anything to my answer. The intention obviously, as you've identified, is to give Accel more balance sheet flexibility. It's obviously an asset on Accel's balance sheet. In terms of the future use of that asset, it will depend obviously on future outlook for Accel, its growth opportunities and other factors obviously that will drive the cash generation and earnings of Accel Energy over time. So we're not predicting or expressing any likely timing of what we would do with that cross-shareholding, that's a decision for Accel and the Board in the future.

Damien, anything to add?

Damien Nicks: No, I think, look, the only other comment I would make is there won't be a Board seat held by Accel into AGL Australia. That's probably the only other comment I'd make, but it is for that balance sheet flexibility and also I suppose to enjoy any uptick in the value of AGL Australia as it launches.

Tom Allen: Right, so then just staying with the same question on the balance sheet then, can you confirm that the two entities are targeting a BAA3 credit rating and can you then perhaps provide colour on how much additional capacity you might receive on credit metrics like FFO to net debt by dropping to BAA3?

Damien Nicks: I don't want to pre-empt a final rating by a credit agency. What I would say is AGL today is a BAA2 rating. What we expect will be, if you think about the two entities, AGL Australia with strong customer, its high-quality assets and lower ESG profile, it should rate higher, whilst Accel Energy, it's going to have really strong cash flows, but it will have a higher ESG profile, so it may rate lower. That's the way – I don't want to pre-empt what those outcomes would be, but just to say today, AGL is BAA2.

Tom Allen: Okay, thanks guys. I'll jump back in the queue. Thanks.

Chantal Travers: Thanks Tom. The next question comes from the line of Ian Myles. Go ahead, Ian.

Ian Myles: Just more on the near-term earnings, you lowered expectations for EBITDA into the bottom half of the guidance range, just wondering how much more – and you sort of flagged into FY22 further pressure – can you sort of quantify a dollars-per-megawatt hours how much is sort of in the pricing that still has to come through into the earnings?

Damien Nicks: Ian, Damien here, I'll take that question. We will provide, as we ordinarily do, subject to Board approval, updates to our guidance when we come back out at results. What we are flagging though and as we've said over the last couple of updates, is we do expect a material downside to where we are today based on where the wholesale prices have been. Look, as you're aware, wholesale prices have come off a lot quicker, a lot more rapidly than anyone anticipated. And just to pick up on your comment around the last quarter, if you like, what we've seen is we have seen a step up in wholesale prices, but there has been some volatility through that period where we've had both outages and there's been some other outages in the market at the same time. So we will provide that update when we come back to the market in August. But what I would say is when we then look forward, our hedged position, we will have already been relatively well hedged by the time we get into next year and that will also roll into our customer pricing as well.

Ian Myles: Okay. Previously you talked about divestment of assets, like some of the gas assets and the like, is that still intended to be done prior to the demerger or is it going to be done post-demerger?

Damien Nicks: Look Ian, again I'll take that one, so there are processes underway. I won't necessarily comment on timing, but we're looking to, I suppose, move through that as quickly as we can. We have a few processes underway as we currently speak.

Ian Myles: Okay, that's great.

Chantal Travers: Thanks Ian. The next question comes from Peter Wilson. Go ahead Peter.

Peter Wilson: Thank you. One for you, Damien. At last update you said that you expected this demerger could be done on a neutral cost basis. Just hoping you could provide an update on what you expect in terms of the ongoing costs of separation and also the additional working capital requirements.

Damien Nicks: Yes, okay, let me break it into a couple of parts. I think the comment I made at the last update in March is to do with our expectation is the dis-synergies of having two organisations would be offset through the synergies of having leaner, more focused organisations. There will be, on top of that, the costs of separation. Now I note there has been some comments through the market. We haven't provided that update today. that will come at a later stage as we continue that detailed planning. They will be significant costs and I think the way to think about those costs is in the realm of other complex demergers that have taken place in the marketplace. AGL is an integrated business, which we now need to unwind over the next 12 months and if you think about it, the key costs we'll have will be the IP separation, the trading separation and then the advisory costs around that. But that will come as we finalise some of that really detailed planning that needs to take place. What I would say though, a huge amount of work has gone into this to date and it's now in a finer tuning basis.

Peter Wilson: Okay. Can you just clarify, when you mean significant, just clarify whether you're talking about the one-off costs related to separation or also the ongoing costs of having duplicate?

Damien Nicks: No, yes just the one-off costs of the physical separation. Then go forward, we expect the synergies to offset the dis-synergies of having two organisations in the market.

Peter Wilson: Okay, thank you.

Chantal Travers: Thanks Peter. The next question comes from the line of Rob Koh. Go ahead Rob.

Rob Koh: Thanks, Chantal and yes, congratulations to AGL and the team for all the work that's been done. So I guess my question is just drilling into the operations involved. Can you give us a sense of how many systems need to be transitioned and maybe does one of the entities need to invest in new systems? Just give us some colour on how that risk is going to be managed.

Graeme Hunt: Thanks Rob, it's Graeme. Look that's one of the reasons why we've given ourselves the appropriate amount of runway to get this done. As you would envisage, both entities need to have a trading capability, so we need to be able to set up that approach. And as Damien said before, unscrambling the egg, if you like, of a vertically integrated business, particularly from a systems perspective, is complex and has to be done appropriately. So we've given ourselves a substantive amount of time to do that, but obviously there is a significant number of approvals that we also need to work through. But in terms of where we go to post-separation, the intention is to be as lean as possible on both sides, which means that future systems development will be very focused and we'll do everything we can to make those fit for purpose and lower costs both from an investment and an operating costs perspective.

So Damien or Christine, do you want to add anything to that?

Damien Nicks: Yes, maybe the other thing, I think Rob your question is also getting to what the type of TSA will be in place, because the principles we're working towards are to have the separate as clean as we can on day one. It is likely and we will have some form of TSA between the entities, again that will come down to the final IP separation pieces. I don't want to go through the sheer number of systems we have because some sit within one side or the other ordinarily anyway, but things like your ERPs that sit between the two businesses, they'll need to be separated, trading will need to be separated and some of those bigger parts. But again, we'll use this as an opportunity of is there any systems, to Graeme's point, that we also don't need going forward as well.

Rob Koh: Yes, okay great, thank you, that's very helpful colour. If I can just add another question, just I guess on approvals, I imagine things like counterparty approvals for offtake contracts and maybe regulatory approvals for things like rehab bonds, are also part of the critical path. Could you just let us know if that's right and where you're at with those?

Peter Botten: Obviously we've identified where all the approvals need to be and we've started initial conversations in various areas, for example, the ATO. I'd encourage you to think about this also, though, through the lens of Accel remaining the mothership, if you like and with those sites that might have large rehabilitation obligations in the future, so from that perspective they remain unchanged. With respect to other approvals from customers and counterparties, that will be somewhat influenced by that point as well, but obviously we'll have discussions with those parties and obviously we've also spoken with government extensively about this in terms of our intention and we'll be following up again with some more detail based on what we've announced today.

Damien Nicks: Maybe, sorry Rob, there's no red flags that we have in front of us as we stand here today going out to the market.

Rob Koh: Yes, okay. Thanks very much and all the best with it, appreciate it.

Damien Nicks: Thank you.

Chantal Travers: Thanks Rob. The next question comes from the line of Dan Butcher. Go ahead, Dan.

Dan Butcher: Hi everyone. Just a follow-up line of questioning on the shareholding and debt structure. Is there an escrow or lockup period for the 15% to 20% shareholding and can you comment on whether you would have got that $800 million-odd of debt into Accel without that cross-shareholding?

Peter Botten: There is no lockup on that shareholding from Accel in AGL Australia. Obviously the shareholding in AGL Australia from Accel is an asset and as you would expect, ability to borrow is reflected based on the balance sheet that you've got, so obviously that was an element, as you would expect all the other assets on Accel's side and its future earnings and cash flow potential.

Dan Butcher: Right. Maybe just a follow-up to date, clean co or new AGL's implying about a four times debt to EBITDA ratio based on FY20 pro forma. Just curious how you see that as sustainable and what are the sort of comps your internal team looked at to gauge whether that was an appropriate capital structure?

Damien Nicks: As you'd appreciate, I can't be sitting here today putting out forward-looking statements on what that looks like. But what I would say is clearly through our modelling and through the work we've done with both our banks and the discussions with the ratings agencies, we are comfortable where we sit today. In fact, if you think about the debt today, what we've gone out to the market for is to ensure that we sit in a relatively comfortable position, I would say it's comfortable, it's prudent and the numbers we're giving you today is that gross debt number as well, so we'll continue to refine that as we work through with the banks over the next six months.

Dan Butcher: Thanks, I'll jump back in the queue.

Chantal Travers: Thanks Dan. The next question comes from the line of Bruce Low. Go ahead, Bruce.

Bruce Low: Cheers, thanks. Just a quick one on remediation, rectifications costs, restoration, it sounds like from reading the release you're hoping by the end of the decade to largely have the onerous contracts for wind and also the debt largely amortised and then you sort of kick in more with restoration and remediation costs. Are you able to give us any guidance in terms of if we look at Hazelwood, is that a fair comp in terms of a per-megawatt cost and what's the sort of timing, will it generally be around the couple of years around retirement date for those generators?

Peter Botten: Look I think the other – you're right in terms of the changes to the capital structure over time with the amortisation of the debt and the roll off of the wind contracts. On the timing of rehabilitation, I'd draw your attention to the work that we've done already and will continue to do on development of energy hubs for those sites and we see that as also affecting in a positive way the timing of rehabilitation obligations because of the fact the sites will be repurposed and so rehabilitation won't need to occur on the closure of the coal plants. Obviously also we're looking for additional earnings to come out of those energy hubs progressively over time, so the opportunity for the Board to make decisions about how we apply that increased free cash flow after the amortisation of debt and the wind contracts end, will be an arrangement of opportunities. We also see that those energy hubs will provide opportunities for other investments. We're confident that there will be people that want to invest in the transition and so the kinds of activities we see on those sites, we think there will be other debt and equity providers over time.

Damien Nicks: Maybe just to add to that point, I think you asked the question, the majority of, not all because some of the PPAs have run a little bit longer than that, but the majority of the key component of those PPAs are going by that period, with a few rolling in to the next four or five years afterwards.

Bruce Low: Okay, cheers. And Damien, just in terms of your comfort around remediation costs?

Damien Nicks: Well, very comfortable. We put out at the half year an update to the remediation after doing significant work over the last nine months. You'll see a further update of that. When I say update, the more detail on the rehab is part of the accounts when we publish in August in terms of just breaking that out, as you'd expect, by the sites as well. So very comfortable, yes.

Bruce Low: Cool, all right. No problems, thanks guys. Cheers.

Chantal Travers: Thanks Bruce. The next question comes from the line of Mark Samter. Go ahead, Mark.

Mark Samter: Morning guys. Peter I might pass this one to you because you're at least used to my irritating questions over the years. It's 53 weeks since you've completed a $620 million buyback. I know this sounds confrontational, but obviously three of the four new jobs announced today have gone to Board members of AGL that signed off on that buyback. Can you tell us what (a) you think the Board has learnt and I guess why we should have confidence that clearly forward looking wasn't exactly optimal 53 weeks ago, why we should have conviction that the Board's progressing with the right path with this demerger and how you're structuring it?

Peter Botten: Thanks Mark. As always, I appreciate the question and I'll do my best to answering it appropriately. Look I suppose there is no doubt that the winds have changed and the electricity market has been substantially faster than many people had anticipated, certainly from my perspective those winds have been extremely fast. I certainly didn't see quite the level of change and the acceleration of that change here in my thinking 12 months ago and I believe that would be representative of the AGL Board. There's no doubt that the progressive intervention into the market of various governments and government regulation, the transition to low carbon and the impact of renewable generation has moved the market and will continue to move the market extremely quickly.

Having spent a substantial amount of time that Damien mentioned there and I know Graeme I know did as well, we spent a lot of time studying how best to preserve and grow value within the AGL context and the analysis of where we've got to today in terms demerger, we genuinely believe this is the best way forward for both organisations, in that it separates carbon heavy from carbon light, it gives each organisation greater levels of confidence about where it can go and what it can do and develop its own unique strategies for different parts in the business.

Now clearly the performance of AGL over the last 12 months or so, given the nature of its business, has been disappointing and directors and I certainly are not walking away from that fact. I think part of the process of where we're going and the new structure is that I think there is a genuine view that we want to do whatever we can to turn the ship or ships around and head them into these forces and we think with the Board that we have, the separation into two Boards and with the definition of strategies for those two entities in a more defined way, will be appropriate to restructure the Boards accordingly with appropriate skillsets for each individual entity, reflecting the needs of those skills.

Now I'm not in any way deflecting criticism of our performance. What I can say though, that we're all very committed, the people that are there and they're staying, are very committed to turn this ship around and we think the demerger is an appropriate way of doing that. We're very committed to do that. As you know, Mark, we go back a long way. I am not somebody who exits a challenge and I genuinely feel we all have a responsibility to turn this around. I think the demerger process that we've outlined today will have the best opportunity to do it and I'm looking forward to that challenge, albeit not an easy one.

Mark Samter: I might do whatever else has done and extend the question into presenting it's not a second question. I mean if we take what Damien said about the costs will be towards what are more complex demergers have been, I mean history says from other listing businesses that more than dwarfs the $400 million to $500 million you're saving from scraping underwriting the dividends, so the balance sheet probably arguably works, I mean at best case the same, but probably worse by the time you physically demerge. Is New AGL and I guess one of the things that you're selling is that New AGL – sorry, I'm not using the right name – AGL Australia has ability to pursue growth opportunities that may be current in the current structure, do you not think it's fair to say that in the current capital structure you're painting close to four times net debt to EBITDA, it's still hamstrung and therefore is it not fair to say that you probably need an equity injection, be it into whichever entity or entities we do it, but in the current capital structure, do we not see AGL Australia is hamstrung in its ability to invest?

Peter Botten: Damien, are you going to take that one or do you want me to?

Damien Nicks: Yes, what I will say again, I'm conscious of not giving you numbers, it will not be $400 million to $500 million, I think the numbers you quoted there, Mark, of separation costs. It will not be close to that, but I don't want to get drawn on what that cost will be. It will be – I said it will be significant, but it would also be significantly lower than that. So I'm not sure if that helps you, Mark.

Mark Samter: Luckily that's just not a complex ones, that's fine, that's good to hear, it's just complex ones have been much - BHP [stretched] over two years AU$1 billion and Woolworths and Endeavour was simple and 270/280.

Damien Nicks: All right, well look I don't want to get drawn on words here. What I would say, it is not going to be $400 million to $500 million. It's not going to be $30 million that I've also seen quoted in the press. So we'll come back with an update once we finalised that really detailed IP plan that we need to finalise.

Graeme Hunt: I think Mark, the other thing that I'd add to that is what Damien has said before, the debt commitments that we've got obviously have been from banks that have been through credit and through ESG, got approval and their firm commitments and obviously in giving us that, they've looked at what the balance sheet structures of both entities are going to be. So that should give the market some confidence in the fact that our lenders believe that the debt can be serviced.

Mark Samter: Yes, so I guess maybe I answered (sic) the question badly, still haven't answered the question on whether you think it gives AGL Australia a balance sheet that allows it to invest in growth.

Graeme Hunt: Well it obviously will be in a position to benefit from the way companies like that are looked at in the market. We believe the appropriate leverage is in the company, but obviously if there are outstanding growth opportunities, then AGL Australia will pursue those and look at whatever the appropriate funding arrangements are to support that growth.

Chantal Travers: Thanks very much, Mark. The next question comes from the line of Baden Moore. Go ahead, Baden.

Baden Moore: Good morning guys. I think we've laboured the balance sheet a little bit. Maybe something just around, as we think about the revenue profiles for the businesses going forward, you've given some detail round the off-take contracts on slide 7, is there any more detail you can talk about? Just the way it's worded, it looks like the retail business is going to ultimately take a quarterly mark to market on pricing. Is that how we think about it, or is it going to be separate trading teams within each business that will be around just the timing of when they can contract, et cetera, through the forward market? Is there any more detail you can add to that table?

Graeme Hunt: There definitely will be separate trading teams, so this is not going to be a position where one company or the other doesn't have the capability to manage its risk appropriately. So that's one of the things that will take some time to set up, both in terms of systems and obviously making sure that we've got the appropriate capability for day one, to have the trading capability in place. Obviously there will also be a carry over of appropriately, what our X position is on day one minus one, if you like, into the new off-take arrangement and as you can see there, we've done a lot of work on what we need to have in different markets and to have prudent risk management approach.

But ultimately the hedge policies of each entity will be determined by the Boards of each of those entities.

Damien, is there anything you want to add to that?

Damien Nicks: Yes, look I think the way we've constructed this and thought about this, it's clearly very deeply as we've worked our way through this, is to set up AGL Australia as a prudent retailer would ordinarily do, so that's what sits behind this. It will also therefore give the market, between both entities, clarity around how that pricing is being set. The pricing itself won't be set until a point of demerger. Looking backwards, it will be then what the traded price is at point in time before we demerge and it will be therefore, if you think about it again from an AGL Australia perspective, is we're managing that inherent risk, managing price and customer tariffs as it looks forward into the year ahead. So again, a huge amount of work has gone into that. We're also doing more work on the SA market as well, as we work our way through this.

Graeme Hunt: Yes, so to be clear, market-based pricing and an off-take volume profile that is appropriate given the ramp down of coal-fired generation over time, but for a period there to make sure that AGL Australia has some certainty to underpin its market obligations, but it will have the freedom obviously to buy elsewhere and to hedge ad it sees fit, as will Accel, will obviously have strong industrial customers, but it will obviously be in a position to sell to others on the basis of whatever its uncommitted volumes are.

Baden Moore: Right and can I just add one more? Just on thinking about that risk, because it is also fairly fundamental to your capital structure, I mean we've seen reports of Yallourn receiving some support, some government support, are you in negotiations, have you spoken to government about potentially finding some support for the older assets, or is that something you're not going to be doing?

Graeme Hunt: No, you'll see in our press release that we talk about and I spoke in the opening comments, about the need for Accel Energy and in fact AGL Energy as we stand today, appropriately advocate for a smooth and proper transition of the sector. A key part of that obviously is the orderly closure of coal-fired generation as part of the decarbonisation directly. So as a result of that, we've been in conversations for a long period of time about that transition and there's stuff being looked at by government in terms of how the NEM will operate post-2025 and there's a realisation obviously that the services that coal-fired generation delivers to the NEM are very important and need to be appropriately recompensed over time. So we will be as AGL Energy continuing, but certainly beyond the demerger, a key part of what Accel Energy will be doing is advocating strongly for the shape of the market, to make sure that those generating assets continue to have an orderly transition, but also that there is appropriate arrangements for incentive in new renewables capacity. So getting the balance right is important, but there needs to be a smooth transition out of coal.

Chantal Travers: Thank you, Baden. Just a reminder, please keep your question to one question at a time. We still have a lot of people in the queue. The next question comes from the line of Alex [Wallace]. Go ahead, Alex.

Alex Wallace: Hey guys. I know we've spoken on it a little bit already with respect to the remediation liability, I'm just interested in this bullet point on slide 16 in particular with respect to the balance sheet and the criticality of reducing that remediation liability for your pro forma balance sheet at Accel. Just wondering how – I think the last disclosure from FY20 showed about $345 million of current and non-current provisioning there. With the upcoming review with FY21, is there a delta that we should be looking for there that could be seen as integral with that balance sheet capacity of Accel as a standalone?

Damien Nicks: Yes, I'll take that one. We actually did an update to the market this part of the half year. You will see there's two adjustments, one to looking deeply at what the remediation needed to be for each of our sites and we had a number of consultants working with us over about nine months, the second being the change to our discount rate, so close to $1 billion on the balance sheet. What I would say is conservatively we have the rehabilitation model as if it happens when the assets are closing, so we're not making any changes to assumptions around should we do anything with the hubs and therefore reshape that; it is the most conservative position that we could have today.

Alex Wallace: Okay, thanks.

Chantal Travers: Thanks Alex. The next question comes from the line of Peter Wilson. Go ahead, Peter.

Peter Wilson: Hey Chantal, I'll withdraw this question, in the interests of time, cheers.

Chantal Travers: Great, thanks Peter. Next question comes from Tom Allen.

Tom Allen: Thanks Chantal. Just recognising plans for Accel to redevelop its thermal generation sites into these low-carbon industrial hubs, recognising they're still at a concept and design phase, how confident are you that these projects can achieve the ROEs of up to 8% as targeted in the executive LTIs and will those return hurdles still apply to the two entities?

Graeme Hunt: Starting from the back end of that, obviously the Boards of both companies will determine what the appropriate incentives arrangements and targets will be. There will be obviously some decisions for the Board to take at the time of separation as to how that's dealt with, with respect to existing arrangements on foot. I might ask Peter to talk to that, but the hub concept, there's been a lot of work done on it, we've looked at analogues on other parts of the world. The concept on page 15 is built out of the reality of what happens in other places, but we've already taken steps, which is shown on page 16, to move in that direction. So this is not a pipe dream. We've been working on this concept for some time, but the more work we've done on it, the more positive and excited we are about the opportunity there. Some of those commercial arrangements are of the form where we're closer to a landlord than an investor, but there will be some things that will be on the other end of the scale, as we've done with batteries, as we've done with the RayGen thing where we will be the prime investor. So it will be on a case-by-case basis and we'll obviously build into our plans, our targets will drive whatever it is, the incentive arrangements for executives moving forward.

But I'd invite Peter to add anything to that answer.

Peter Botten: Graeme, just to I suppose give a Board's view about the remuneration structure that's on foot, I think the Board is absolutely of the mind to understand and recognise the performance over the last 12 months or so and I think that will be recognised in remuneration outcomes that will be obviously finalised in the short term. For the new entities, clearly it will be the responsibility of the new Boards of both organisations to set structures and targets for those entities and obviously there'll be a lot more detail of that that will come through the scheme booklet and other documentation and communications through the first half of next year.

Tom Allen: Okay, thanks for that. So I'm hearing that the new Boards will set new hurdle rates. Thanks very much, cheers.

Chantal Travers: Thanks Tom. The next question comes from the line of Gordon Ramsay. Go ahead, Gordon.

Gordon Ramsay: Thank you very much. I've just got one question on the dividend policy for the Accel company, it's going to be a free-cash-flow based dividend, are you prepared to underwrite that at a base level? I know you're talking about wholesale electricity prices being quite variable, but I think to attract investor attention in the stock, just wanted to know if you would be prepared to provide a base level of dividend for that company.

Graeme Hunt: Thanks for the question, Gordon. Again I think that's a decision that the Board of Accel will need to make. We're potentially the best part of 12 months away from this demerger taking effect, so obviously the Board of Accel will look at what the wholesale energy prices are, because that's obviously a key driver of cash generation and free cash and determine what the dividend policy will be. But there's no assumptions in where we are at the moment about anything to do with an underwrite of dividends going forward.

Gordon Ramsay: Okay, just on the same theme, so it's a free-cash-flow based dividend, can you confirm there's not going to be a debt metric overlying that, like net debt to EBITDA or any other factors relating to the debt level in the company?

Graeme Hunt: Well again, there'll obviously be a decision for the new Board to determine what set of internal KPIs it wants to use to be confident about its dividend policy and quantum. Obviously as you would expect, would be another set of metrics and covenants that relate to the debt position, which would just be – this will be normal kind of governance processes which would be undertaken at that point in time to determine what is the appropriate dividend position, obviously also influenced by the growth potential and potentially also from any dividends that flow back out of investment in AGL Australia, will be another source of cash.

Chantal Travers: Thanks Gordon. The next question comes from the line of Giles Parkinson. Go ahead, Giles.

Giles Parkinson: Yes, hi, thanks for taking the question. I might have missed this. I was just wondering about the thinking behind the name Accel. Best I could think of was a short end for accelerate, but it seems to have been given to the company marked slow. I'm just wondering, you seem to have accepted that baseload fossil fuels no longer has a place in AGL's structure, I'm just wondering if you're thinking that the same thing applies basically to the national electricity market.

Graeme Hunt: Let me try to unpick that and then I'll ask Peter perhaps if he wanted to add anything to that. Look the concept of Accel, yes, it points to the fact that the change in electricity market is much faster than was previously predicted. It also points to the fact that we want this company to excel in everything that it does and the logo points to the key stakeholders in terms of our employees, our customers and our communities, so that's the background for that. In terms of the transition away from coal, we've talked in the documentation about the carbon statements for both entities, we've talked about the reduction in emissions that will occur and we will publish targets on an annual basis in Accel which will give an indication of what the decarbonisation over time will be. So all of those things are a stronger realisation and commitment to the direction that we recognise that the NEM will take over time, but as I said earlier, there's a lot of ongoing reliance on coal-fired assets to support the NEM currently and that's not going to disappear overnight. What we need obviously is a transition of the NEM that protects the ability to keep the lights on and at the same time, moves through a proper transition of different forms of generation.

Chantal Travers: Thanks Giles. The next question comes from the line of Rob Koh. Go ahead, Rob.

Rob Koh: Thanks again, Chantal. Just a more ESG-focused question, as a result of this demerger, can you point to additionality in either greenhouse gas emission reduction or renewables investment? So I guess what I'm saying is, is there anything as a result of the demerger that is unlocked on those fronts for, putting it negatively, could we not have done all of these things within the existing AGL structure?

Graeme Hunt: Rob, I think that is an element of creating a second value for AGL shareholders. This separation allows for a more focused approach to decarbonisation on both sides and obviously with all the focus that's been on the balance sheet in the questions today, there is not a do-nothing case here that's attractive to shareholders, in our view. So this separation is the best way forward for shareholders and an element of that that we've given consideration to is obviously the ability to invest in growth and value creation and we think that results from the separation and the ability to appropriately manage ESG issues moving forward as two entities, is viewed as being able to take a more focused approach on that than we can today.

Rob Koh: Yes, okay. Many thanks, appreciate it.

Chantal Travers: Thanks Rob. The next question comes from the line of Dan Butcher. Go ahead, Dan.

Dan Butcher: A couple of quick ones if that's okay. Just wondering, you've announced CEO and Chair for each company, how about CFO and what's Markus's role going to be? Is that going to be Accel?

Graeme Hunt: Yes, look I'll take that. Those decisions about next layer of organisation are in the pipeline. We've got a very strong management team and we'll be finalising the next layer of management over probably within the next six weeks and we'll announce that to the market. Christine and I will obviously work closely together in consultation with the Board on those activities and I think it's fair to say that we will have the people you expect to see in our organisation will pop up in important places, no doubt supplemented by some additional talent that we may well bring into the business in some others.

Dan Butcher: Right, thanks. Maybe just a quick one just on how you're going to report for next year. Are you going to show pro forma and AGL complete for FY22 and are you going to give guidance for FY22 for AGL as a whole, even though you might split before the end of the year?

Damien Nicks: So let me take that one, so for FY22, we are still AGL, so we'll still be, subject to Board approval, we will provide guidance at the August results for AGL. While what we will be doing though is, you see in, if you like, these summary pro formas, we'll do another split of that for the FY21 year as well as part of the August results. Then through the accounts, we'll be looking to provide some more information about what those segments may look like as well going forward.

Graeme Hunt: And obviously there'll be a half-year result for AGL Energy in the normal course and you should also expect to see more details and pro formas and a scheme booklet.

Dan Butcher: All right thanks, thank you.

Chantal Travers: We've come to the end of our time. I know there's a few more questions on the line, but we will follow up with those people individually. Thank you very much for everyone's time on the call and we will chat soon. Thank you very much.