AGL Energy Limited
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James Hall: Good morning, everyone. This is James Hall speaking, General Manager of Capital Markets at AGL. Thank you for joining us for the presentation of our Interim Results for the Financial Year Ending 30 June 2018. You are about to hear from our CEO Andy Vesey and our CFO Brett Redman. After that, we'll open for Q&A session with the AGL Executive Team. If you do want to ask a question on that teleconference, please press zero followed by one on your telephone and we'll announce you. To cancel, please press zero then two. I'll now hand over to Andy.

Andy Vesey: Thank you, James, and good morning, everyone. Let me begin with the result highlights and a brief business update. The appropriate place to begin is with safety and diversity, consistent with two of our four core values: safety and beyond, and inclusive of all. The safety outcome in the period shows a continued reduction in total injury frequency rate among AGL employees. This comes from making safety the starting point for all conversations and it underpins a broader cultural focus on quality. Unfortunately, total injury frequency rate for contractors has increased. This reflects a substantial increase in our planned outage activity across our thermal fleet. Those activities bring a higher proportion of non-AGL people onto our sites and entail higher-risk activities. This trend largely comprises non-serious injuries. But the increase is still inconsistent with our values and we are taking corrective actions to address it.

Moving to inclusion. A key metric is the number of women in our senior leadership pipeline. I'm happy to report we have reached 40% at 31 December up two points from six months prior. That represents 197 women out of 491 people. We need to at least maintain this level to meet our target for financial year 2019 but our aspiration is to exceed it.

Turning to the first half result more broadly, I believe we have a strong foundation for the delivery of our objectives for the year. The first-half result reflected a continued strength in wholesale markets and disciplined capital allocation. Statutory profit after tax was up to $622 million and Underlying Profit was up 27% to $493 million. Return on equity continues to improve reaching 11.7% on a 12-month rolling basis, which is up 2.8 percentage points. We have declared an interim dividend of 54 cents per share, up 32% and consistent with our policy to target an annual pay-out ratio of 75% of Underlying Profit, weighted to the second half.

The right-hand side of the slide details some of our key achievements in the period. None is more significant than the actions to deliver fairness, simplicity and transparency to our customers. It was around the time of our last result that I, and several other energy executives, were invited by the Federal Government to commit to various actions amid concerns about affordability. Most of those commitments we were already doing and, as our recent actions in Victoria and South Australia demonstrate, we are rewarding loyalty and protecting the vulnerable.

The delivery of New South Wales generation plan to address the impact of closing Liddell power station in 2022 was another milestone in the half year. The Federal Government's focus on this issue resulted in us accelerating our scenario planning and in confirming our options in stages to replace Liddell's energy and capacity subject to ongoing to feasibility studies and market conditions. Separately, we currently have about 900 megawatts of new generation under development at Barker Inlet in South Australia, Silverton in New South Wales and Coopers Gap in Queensland which will be Australia's biggest wind farm at 453 megawatts.

Asset sales continue, consistent with our agile capital philosophy and our commitment to focus on what matters. We have agreed to a sale for the North Queensland gas assets, sold the ActiveStream digital metering business and we're progressing well with the sale of the collection of small generation sites we refer to as the National Assets.

Finally, we remain on track to deliver our guidance for the full financial year which is for Underlying Profit after tax of between 940 million and 1 billion and 40 million dollars.

I introduced this slide detailing my current focus areas as CEO at our Investor Day in December and I will expand upon some of the key ones today.

The first focus was driving safety and diversity which I've already discussed. I am going to spend some time shortly on our actions to address to address affordability and how this relates to market activity more broadly and our emphasis on cost discipline. The reliability and security of fleet, I will also address in a moment. On market design evolution, we continue to support the adoption of the National Energy Guarantee to provide a clear policy framework and stimulate investment. We are optimistic that progress can be made this year.

I will talk a little more about our energy supply investments during my closing remarks. Capital allocation is an ongoing focus area which Brett covered in some detail at our Investor Day in December.

So, turning to reliability and security of our fleet. Availability issues at Loy Yang and Liddell have limited our ability to deliver upside to our earnings forecast in the year to date. But the safe and sustainable performance of our fleet will continue to be our priority, and with availability issues

largely resolved Loy Yang, availability over the summer to date has been solid. During periods of hot weather and high demand, market risk has been managed across the portfolio and in terms of retail load, weather impacts have been broadly neutral to date. The chart to the left of the slide, shows AGL's monthly generation, which is broadly unchanged in aggregate, showing the strength of the portfolio despite the impact of outages.

The chart to the right shows the equivalent availability factors of our portfolio compared with the NEM average and the average provided by the North American Electric Reliability Corporation, or NERC, which is an internationally recognised standard. Our equivalent availability factor compares reasonably well to these benchmarks. The NERC average for coal asset availability factors over the period 2012 to 2016 was about 82% and the average age of those assets was 40 years. Our two largest plants Loy Yang and Bayswater are both continuing to perform at or above both that average and the NEM average. Liddell, which is almost 50 years old, is below the NERC and NEM averages but as has widely been discussed, it's an old plant and our focus is on optimising its reliability and performance through to its closure in 2022.

As we had previously disclosed, we are currently going through a period in which capex and opex is increasing to enable these assets to continue to operate safely and reliably. As assets age, both planned and unplanned outages will continue to be a factor to be managed. We are committed to running these assets safely and resp=onsibly in the interest of maintaining their availability over their remaining lives.

In addition to running our existing portfolio responsibly, a strong financial performance puts us in a position to continue to invest in energy supply. Our plants are consistent with the current policy focus on a blend of dispatchable and low emission technologies as well as ways of address gas supply constraints. The PARF projects of Silverton and Coopers Gap are progressing as planned. At Silverton, several works are largely complete and we had the gun erecting turbine towers. At Coopers Gap, substation works have commenced and wind farm works will start this month.

We also held the sod-turning ceremony for Barker Inlet this week as part of the 50th Anniversary celebrations for the adjacent Torrens Island Power Station. Barker Inlet will take about 18 months to complete and be operational in the second half of calendar year 2019. That reflects a delay of several months to accommodate an extended development application process to ensure the plant can operate on both gas and diesel fuel.

The Crip Point LNG import jetty and the Silver Springs gas storage expansion both remain in feasibility study stage. The New South Wales generation plan is currently with the Federal Government and AEMO. As we stated in December, the plant is carefully staged to enable all projects to be assessed in the context of prevailing market conditions with a view to allocating capital such that shareholder value is protected when the Liddell power station closes in 2022.

The demand response component of stage one is already operational, while the upgrade to Bayswater has been approved by the AGL Board and will occur as part of the ongoing maintenance and outage schedule. We also intend to convert one of Liddell's steam turbine generators into a synchronous condenser. A feasibility study is underway on the potential construction of a fast-start gas power station at Newcastle. Our approach to all our energy supply projects we are developing will continue to reflect our position as a responsible market participant focused on shareholder value.

My next slide is about market activity. As is well-known to the market, competition has increased in recent months at the same time as government and media attention has increased shopping behaviour among customers. Consequently, market churn has increased as shown in the chart on the left although AGL's churn remains substantially lower than the market. In addition, the spread between market churn and that of AGL is up to six percentage points.

Moving into the middle chart, we have seen a significant increase in customer acquisitions and retentions to more than 1.1 million in the period and this is driven mostly by existing customers re-contracting with AGL. Amid this environment, our total customer numbers have actually increased slightly. Now, there is no question we are in a period of intense market activity. We expect the financial impact to be greater in the second half than the first, in particular as recent discounts and loyalty schemes are phased in. So, increasingly, we are focused on what we can do to mitigate the impact both in terms of our go-to-market strategy and in terms of cost reduction.

This slide details key actions we are undertaking under the banners of fairness, simplicity and transparency to demonstrate to customers the value of being with AGL. Ultimately, we want to drive loyalty and provide customer value in a competitive market and our emphasis on fairness, simplicity and transparency is designed to deliver that and should help mitigate the impact cost of market activity over time.

Under fairness, a key step has been the introduction of a loyalty bonus to standing offer customers with tenure of greater than two years in Victoria and South Australia. This follows on from our various actions to encourage standing offer customers to seek a better deal. The launch of our "here to help" service to help customer check eligibility for concessions and grants, and the exemption of vulnerable customers from fees and charges.

Under simplicity, a key step in January was the launch of a new kind of pricing plan, AGL Essentials, a low fixed rate digital only energy plan for Victorian households. We are also making it easier for customers to serve themselves across our digital platforms. Last week, we launched our online payment extensions service and in January, we announced customers could access AGL Energy bill information via Amazon Alexa voice control. In coming weeks, we will introduce a new pre-paid product to help customers seeking peace of mind about their energy expenditure.

Under transparency, all of our energy plans are now presented online with dollar value estimates for clear comparisons while service such as energy insights and the self-service meter read are making it easier for customers to understand usage in real time.

We expect to continue to lead the market with these kind of offers and we can do so because of the investments we are making in digital. So, while the short-term pressure on customer markets margin is real, AGL is doing more than anyone to offer the solutions customers need.

So, let's now turn to cost. This slide shows how our growth and transformation expenditure which is all about preserving value to the long-term, contributed to costs in the period. In total, operating cost, excluding depreciation and amortisation, were up $53 million in the period $761 million as shown by the operating segment in the chart on the left.

We said at the start of the year, we anticipated a $188 million increase in operating expenditure relating to growth and transformation. We are tracking below that level in part because we are mitigating some of the impact of market activity by directing a greater portion of sales to internal channels than external broker channels. In total, $22 million of the $53 million was market activity, half of that coming from increased net bad debt expense and the rest from increased marketing campaign and channel cost and our brand relaunch. This made up the bulk of the growth and transformation cost increase in customer markets but the rest related to the Western Australian launch where we are on track with our plan and now have 7,000 customers, and to the Customer Experience Transformation program.

There were also increases in Group Operations to support the long-term transition of the Loy Yang business and plant availability across our thermal fleet as well as increases in New Energy and other areas. But it is the market activity cost that is most impactful. While it is both expected and controlled, that does not mean we should not be doing more to offset them, especially, as we believe that increased levels of market activity driven by competitive forces are now a feature of the market.

This trend, alongside the loyalty and other discounts that are being rolled out, will place pressure on customer market's profitability in the second half of this financial year. That creates a growing imperative for us to take additional actions to reduce our business as usual cost-base on a sustainable basis.

One example is the Customer Experience Transformation program, through which we are targeting a reduction in consumer and net operating cost of five to 10 percent of their 2017 financial year base by 2020. That equates to up to $35 million a year and potentially more post-2020. But we are determined to do more to tackle addressable costs, both to mitigate the impact of the current trend in market activity and because it is essential to the sustainability of our business model in a period of transition.

For that reason, we are committed to coming back to the market by the full year result with more detail of our sustainable cost mitigation targets. Our objective is to be able to attract, retain and serve customers at the lowest possible cost. I will now hand over to Brett to give more detail on the result.

Brett Redman: Thanks, Andy. I'll begin with the summary of the key financial outcomes for the half across the board. It was a strong result. Statutory profit as always – is impacted by the requirements under accounting standards that we mark to market the fair value of certain financial instruments. The large gain in the period was not unusual. Statutory Profit after tax also included a $2 million gain and Significant Items excluded from Underlying Profit after tax. This reflected the profit on sale of the ActiveStream digital metering business announced in November, more than offsetting our decision to impair our 22% share in Sunverge. The ActiveStream sale represents an early New Energy success story. We created the business, developed it, then exited it at a profit when it became clear that ownership of meters was no longer core to our strategy.

As for the Sunverge investment, it was a key component enabling us to be a first mover in the orchestration of home batteries through the Virtual Power Plant pilot project. It's impairment reflects rapid technological development in that space and we continue to learn and evolve our battery capability.

Our underlying results reflect a really strong outcome for shareholders. Profit after tax was 27% up and is well on track for a fourth consecutive year of double digit percentage growth. Earnings per share growth reflects the additional benefit of the share buyback we undertook last financial year. Dividends continue to grow strongly in line with the annual 75% pay-out ratio we introduced last financial year. Return on equity continues to improve reaching 11.7% on a rolling 12-month basis, reflecting strong profit growth and the positive impact of the buyback.

This slide shows the drivers of Underlying Profit growth in more detail compared with the prior corresponding period by operating segment. In Wholesale Markets, the strong performance in electricity and gas, more than offset the declining eco-markets we flagged last August. The strong wholesale performance was also more than enough to offset the operating expenditure pressures in Customer Markets.

You'll note the total opex for the Customer Markets was $53 million, comprising the $28 million growth and transformation component and $25 million of business as usual increases, which were offset elsewhere in the business for a flat business as usual opex increase growth group-wide.

As Andy has discussed, the outlook is for more earnings pressure in Customer Markets in the second half as a result of increased market activity in discounting. Large market price increases will always bring with them cost impacts in terms of higher market activity to increase acquisition and retention spend and high net bad debt expense on higher revenue. These issues, and the broader increase in

growth and transformation opex, were noted when we provide as our guidance for the 2018 financial year last August. Nonetheless, we still believe we can do more in tackling addressable cost across the business.

The decline in Group Operations earnings largely reflects increased depreciation expense in thermal and renewables, as the opex impacts of Loy Yang transition and plant availability measures were offset by business as usual savings in the half. The increase in depreciation expense is occurring as we undertake a short-term step up in sustaining capital expenditure on major outages and life attained activities with short depreciation schedules reflecting committed closure dates at the Liddell and Torrens A plants. Also to note on the slide, the increase in income tax and other expenses of $30 million simply reflects increase profitability.

I now want to talk through the business in the context of the integrated electricity and gas portfolios. As we also do in the operating and financial review which was also released today, the portfolio view can be a more holistic view of the value drivers in the business than the operating segment definition. As you can see from this slide, electricity portfolio in margin was up $158 million to $888 million and gas portfolio in margin was up $36 million to $391 million. I'll step through the detail of these movements in the following slides.

Looking at electricity sales volumes in more detail, we see as always how generation broadly matches our customer demand. Total generation volumes shown in bright blue were down slightly to 21.3 terawatt hours, primarily as a result of reduced output at Liddell as Andy has discussed.

On the sales front shown in the multi-coloured stack, consumer volumes which attracted strong margins were largely steady. We are somewhat indifferent to how generation volume is cleared to other lower margin channels. This period saw more cleared to wholesale customers and less via business customers or direct to the pool.

Turning to electricity margins, which were up strongly. Increases in consumer and business customer margin primarily reflected improved customer mix amid a highly competitive market. The $224 million increase in wholesale electricity margin was a continuing reflection of the strength of market prices and of effective hedging strategies designed to manage risk on behalf of our customers.

The declines of eco-markets in Group Operations have been well flagged. As we discussed at the 2017 full-year result in August, last year's Eco-Markets earnings were a high watermark because we utilised lowest cost green certificates amid a high price environment. This year, eco-markets margin was down $50 million because post-run off of LREC bank, we are sourcing more certificates through on market purchases at the same time as compliance levels have increased under the federal government's Renewable Energy Target.

The declining Group Operations margin of $37 million largely reflects increased depreciation expense as I've already discussed.

In gas, total sales volumes were down 30 petajoules to 100 PJs. Consumer customer sales were up a result of the slightly colder weather driven – driving higher household consumption. Reduction in both in business and wholesale volumes was driven by gas supply constraints. You recall that we discussed the loss of two large low margin business customer during FY17 at our results last August. As supply remain tight, our focus has been on clearing available supply at terms that represent good value.

The next slide demonstrates improved margins in gas despite the volume impacts of a supply constrained market. In consumer, the $23 million reduction in margin reflected higher gas prices and an increased discounting to customers in a competitive market. In business, the $15 million reduction margin reflected the reduction volumes, this was offset by wholesale in which the $76 million in margin reflected the pricing benefit of the tight supply environment.

We shall turn to cash. As shown on the table on the left, both the absolute result in conversion rate from EBITDA were much improved in the period. Total underlying operating cash flow before interest and tax was up $294 million to $993 million with a conversion rate of 92%. The biggest variance was the negative impact last financial year of margin calls driven up by rising wholesale prices. This year, those margin calls are beginning to unwind as expected but have been somewhat offset by fresh rises in the curve that occurred earlier in the period. It is our expectation that the gradual reversal of the negative cash flow impact of margin calls will continue in the second half, subject as always to any changes in the futures market. I note that the positive effect of last year's margin calls unwinding in the second half will be partly offset by change in the ASX initial margin parameters that have just been put in place.

Movement in other aspects of working capital was negative $52 million. The largest driver of this was an increase in coal stock for risk management at AGL Macquarie having started the period with low balances because of delivery constraints. The table on the right shows uses of cash in the period. There was an increase in capital expenditure of $88 million to $318 million consistent with our forecast for increased investment in major outages and life attainment and with the rollout of the Customer Experience Transformation and ERP upgrade programmes.

Proceeds from asset sales continue to bolster our strong organic cash generation. The rest of this table demonstrates how we have used strong cash flow during the period to repay debt and continue to increase dividends.

At the Investor Day, we talked about our capital allocation principles, in particular, the importance of maintaining a strong balance sheet. As this next slide shows our net use of cash in the period leaves us with a slightly greater headroom position on an annualised basis compared with the last full-year result.

As we discussed at the Investor Day, we have no major debt refinancing due until June 2019 when our hybrid becomes callable. As we think about capital allocation in coming years, we have considerable flexibility to self-fund growth, to retire more debt and to consider other forms of capital management for shareholders.

Thanks for taking the time to listen. I'll now hand back to Andy.

Andy Vesey: Thanks, Brett. I will now provide an update on some key market drivers and on our full year earnings guidance.

Given the importance of fuel cost to our outlook, I want to provide an update on our coal position. AGL acquired a strong, low cost contracting position with Macquarie Generation. Amid rising spot markets, that contracting position has provided considerable value for AGL and will continue to do so for many years. We are increasingly focused on supporting that advantage by strategically re-contracting. That's why the contracted coal shown in this chart is higher than the level we showed at the Results last August. All of our financial year 2018 supply is now locked and we have 95% of our total needs secured for the next 18 months. We are confident of continuing to contract to meet our needs on terms that reflect the natural advantages of the Macquarie site. These are the ability to burn lower quality coal and as shown in the map, a superior location relative to the Hunter Valley's mines. This has been supported in the period by capital expenditures to upgrade our conveyor capacity and de-bottleneck key supply routes. The chart also shows we continue to have more than adequate low cost contracted coal to meet Macquarie's customer load longer-term with these contracts continuing to 2025. We then have the flexibility to access purchase markets to support the component of generation that is settled at market to sales to the pool for financial hedging.

AGL Macquarie will retain an enduring coal cost advantage through to Bayswater's closure in 2035. And post the closure of Liddell power station in 2022, our exposure to coal cost will reduce substantially. And, of course, in Victoria Loy Yang has a practically infinite coal resource to support its life to 2048.

That brings me to the outlook for wholesale electricity prices. There has been some welcome moderation in spot prices and a reduction in volatility in recent months following the highs of early 2017 as shown in the chart to the left. Forward prices currently reflect an assumption that this moderation will continue. Although it's important to note that they an imperfect predictor of future price and that liquidity remains thin amid ongoing policy uncertainty.

We continue to see the current wholesale price set by the market and reflected in the 12-month flat swap price as shown on the right as sustainable in the current environment given the cost of bringing on new supply.

I'll close by reaffirming our guidance. As always, this is subject to normal trading conditions and ongoing risks associated with policy and regulatory uncertainty. The range of 940 million to 1 billion and 40 million dollars for Underlying Profit after tax is unchanged with our current expectation consistent with the middle of that range. The wholesale electricity and gas businesses are both on track for strong profit growth more than outweighing the margin pressures in customer markets that will be particularly prevalent in the second half.

We will be focused on maximising our performance and taking sustainable actions to address cost and allocate capital for value creation as the rest of the year unfolds. We are now happy to take your questions.

James Hall: It's James Hall speaking from AGL. Thanks everyone. We are now ready to take questions and the first question is from James Byrne at Citi. James please go ahead.

James Byrne: Morning guys. Andy, just picking up on your comments that the impact from competition will more so affect second half margins. So if I look at slide 10 and your strategy to combat that, if I boil it down, you have to deliver the customer better experience and a more affordable consumer outcome. But from a business perspective it just appears to be low pricing and higher opex to protect market share. Do you think that that's an unfair statement? And I guess is there a segmentation strategy in the background that you're working on to offset margin compression or are you simply relying on cost out which we'd probably argue can just be competed away?

Andy Vesey: You know, let's be clear we're in this transition. I think one of the things that we experienced in the first half and that we talked to is the significant higher activity and we know that and it's been stimulated by a lot of things. But clearly when we entered the year with a significant regulatory risk, the whole market has responded by trying to deliver near term benefits to customers through heavier discounting.

When you look at what we're doing, what you'll see is that this tends to hit you in two ways because the costs come in first in a big way and then the impact of the discounts comes. When you look at over 1.1 million customers interacting with you and a good portion of them being people who are getting a better deal from you, that is a big change in the business. And what we're stepping back from is looking at – we've optimised our business processes around a certain level of activity and the way we go through it.

What we're recognising now is that this is not an episodic event that was just stimulated by the attention of various state governments and the federal government. We're recognising that this is actually the new fabric of the industry that we will see increasing competition and in reaction to that there are a few things that we have to do.

One clearly is that cost is a hygiene issue. We really have to look at our processes and re-optimise them because under the stress that we're under, they're not as efficient. So we're seeing costs that we can eliminate.

The second is the go to market strategy because we have to make sure that we rethink the way we go to market. We've been promoting comparative rates, trying to get off more expensive channels, trying to make sure that we can interact with our customers in a lower cost way. So that is segmentation, that's the technology we're going to be providing as demonstrated by the investment in CXT.

And then lastly it's the innovations in technologies that are coming, that are being driven out of the new energy segment where we can balance value and cost because it's not always lowest cost, it's greatest value. So with this segmentation, it is getting costs out of the business, it is bringing innovation and it's really recognising that we're now entering, that the whole market is entering what we believe is a sustained and increasing level of shopping and competitive war. And this is not only between the current market entrants, but it's in response to new market entrants whether they are first tier integrated players like an Alinta or other second tier.

So it's requiring us to step back, look at the fundamentals of the business, revisit our processes so that we can continue to deliver the growth in our numbers without sacrificing the quality or the lack of loyalty of our customers. So it's sort of pivot on these issues, but I think fundamentally it recognises that this isn't a spike in customer activity, this is probably going to be the new normal and should be. And we're going to meet it by a go to market strategy, taking out costs and innovation we're going to deliver. So that's sort of the high level. I'm going to look over to our Chief Customer Officer Mel and see if you have anything else that you'd want to add.

Melissa Reynolds: Thanks James. I think just to delve a little bit deeper in terms of our strategies, we're very, very focused on providing value overall to our customer base. We focus very, very heavily on customer retention and if you have a look on that page nine, the number of customer acquisitions and retentions are up 300,000 year-on-year. We are pricing ourselves very competitively but we are not always you know the cheapest in market because we feel that our customer experience and broader value offering is what is helping us to keep our customers there.

James Byrne: Got it. And so I guess you mentioned quality a couple of times. Actually I just wanted to dig into Queensland a bit if I could. So I note that half on half the customer numbers were 4% lower there, which isn't entirely surprising given that was where Alinta sort of priced aggressively first. But I just wanted to understand – if you have numbers on hand that would be helpful – you know was the margin per customer constant over the half in Queensland or did it deteriorate at all?

Melissa Reynolds: Thanks James. Yes, you're quite right to have a look at the point to point customer number change there in Queensland. Over the period the average customer numbers

have remained fairly flat. It's a fairly immature market when it comes to competition, so naturally there is some additional sort of activity being stimulated there. It's only come out of deregulation a few years, so it is you know being stimulated by a variety of different competitors in that market.

I don't have the specific margins on hand for that, but what I will say is that we continue to price competitively. We are also holding on to valuable customers in Queensland. But we look at it from an overall perspective and as you can see, we have grown our customer numbers in other states making up for that point to point shift in Queensland.

James Byrne: All right. Thanks Andy and Melissa.

James Hall: Thanks James. Next in the queue is Simon Chan from Bank of America Merrill Lynch. Good morning Simon. Please go ahead.

Simon Chan: Thanks James. Good morning guys. My question relates to one of Andy's comments earlier about how reliability issues in particular at Loy Yang and Liddell meant you guys weren't able to capture some of the upside that was available. So there's two parts to my question.

One, I was wondering if someone could elaborate on that. Exactly what were the reliability issues, how much did it cost you guys? And then I guess the second part to my question is can someone just remind us what planned outages you have scheduled for the second half and I guess how long each generator might be out of action for so we can capture that in our estimate.

Andy Vesey: Simon, this is Andy. We are going to answer as much of that as we can but I'll hand this directly over to Doug Jackson.

Doug Jackson: Thanks Simon. Yeah we had some early on issues with Loy Yang and also Liddell and those issues have now been resolved. And it's been a good number of weeks [inaudible] some of those units and so happy to report they're all running and running reliably again. In the second half, we only have sort of one large outage scheduled and that's with one of our Bayswater units, Bayswater 1 and so that'll be out for – I believe it's about eight weeks at this time.

Simon Chan: Right okay. So sorry just back to the first point in your answer then, any idea of how much revenue etc you missed out on due to those unfortunate incidents with Loy Yang and Liddell in the first half?

Richard Wrightson: Simon, it's Richard Wrightson here. As Andy pointed out in the presentation, our actual generation level remained fairly constant through the period and the reason for that is we've

got a fairly diverse portfolio. So when we lose a coal unit, coal is reasonably cheap in the portfolio particularly Loy Yang, less than Bayswater and Liddell, when we lose one of those units, we'd actually tend to pick up that generation in the marketplace but that uses a higher cost fuel such as gas in the portfolio or using some of the water resources.

So what we actually lose is probably on our cost of fuel in stations to start with and then in the case of water, an opportunity because you're using water not at an ideal time for the portfolio. So it's actually hard to actually put a total value on it because you don't know what would have occurred had the outage not been there.

The wholesale results have been – through the half year have been fairly good results. Obviously if you have all your fleet available, all the portfolio you get to optimise that in the best way possible rather than covering for outages on coal units. And hopefully the good run we've had into the new year will continue through the second half of the year.

Simon Chan: That's very good. Thanks guys.

Andy Vesey: You know we had – the issues that we identified were at Liddell and Loy Yang. As we all know Liddell is an aging plant. I showed you some of the benchmark statistics for that. It's running the way we expect a plant of that age to run.

The thing that was surprising to us is that we had a major outage at Loy Yang and every time you come back from a major outage, you know there's a lot of things going on and sometimes certain things surprise you and there's a process of coming out of an outage. And quite honestly, things can go wonderfully smoothly; sometimes they don't go as smooth. This was something going not as smoothly as you want.

I want to be clear there was nothing systemic in those outages that caused us to have any worry about Loy Yang. In fact the performance since we've gotten the plant back on line has been just what we expected. However that said, we are doing a complete review of our processes and the way we are maintaining so that we make sure that the experience we had coming out of that outage will not be repeated in other places. So we're taking it as a learning exercise, but I just want to be clear that the events we experienced at Loy Yang are not systemic. They were specifically related to coming out of that major outage.

James Hall: Thank you. Next up, Nik Burns from UBS.

Nik Burns: Thanks James. Just a question on your first half operating costs, $761 million. At your full year results back in August you flagged full year operating of $1,577 million. I'm just wondering

whether that guidance is still relevant and therefore that infers $816 million in the second half. You have talked about higher costs coming through in the second half. Are you still comfortable with the full year guidance there?

Brett Redman: Hi Nik. It's Brett here. I'll pick that up. Look I think the guidance comments we gave around opex back in August are still a reasonable pointer. At the end of the first half we're tracking a little better. And what you've seen coming through there, the obvious one is we said we had growth in transformation, extra costs of $188 million. At the half year, I think it's about $55, $53 million that's come through. So we're tracking a bit better at the first half.

In the second half as well we're internally absolutely ramping up the pressure on cost as part of our response to how do we respond to a market that's clearly becoming more competitive. So a little too early to call how much better that we might be at the full year, but we think we will do better than what that forecast was that we gave at the beginning of the year.

Nik Burns: Right. So you talked about this step-up in costs coming through. Are you seeing your competitors having to also increase costs to retain and acquire new customers. I'm just trying to think through here if this is a structural change in the industry amongst retailers all having to spend more to retain market share or if this ends up being a zero sum game and we just see lower margins across the board or is it an AGL issue? Or if this is true and everyone wants to retain their margins, could we see higher retail pricing coming through just to support margins?

Brett Redman: I think the devil is always in the detail. I won't talk too much about what competitors may or may not be doing. Some of the cost is related to in the back half of the last calendar year both the response to large increases having been put through and the sheer amount of commentary that was out there from the prime minister down encouraging customers to shop around and finally, AGL out there proactively engaging with customers in that environment saying call us if you want review your deal and seeing if we can do better.

So some of it is somewhat time related in that I can recall the last time that that really stirred up like that was at the height of the carbon cost years a few years ago where customers similarly were responding to a high price environment and churning up a lot of activity. So some of it will recede.

Some of it is linked to specific activities we're doing. We've picked up brand and marketing in the period. We've been running a fair bit of campaigning. We've launched into WA. So some of that is a bit time related there. Some of it is bad debt expense picking up simply as a function of the higher revenue. So some of it will recede, some of it will go on.

What I would say though is you see within the customer markets' results that AGL is somewhat eating that cost step up. Our customer markets profit is reducing as a result of that cost, it's not

pushing though to customer. What we see as our response to a competitive environment is not necessarily finding ways of increasing prices to customers to cover all the cost, we've got to double down internally to find ways to save that money.

Nik Burns: Great, thank you.

James Hall: Next up we have Ian Miles from Macquarie. Good morning Ian.

Ian Myles: Good morning guys. Just at a broader level, we're starting to see this ongoing delivery of renewables in markets like South Australia where batteries seem to be pretty trendy at the moment in every solar or wind farm. I'm just wondering how is this changing the economics for Torrens Island, particularly Torrens B and is it actually accelerating the time that that plant may actually have to shut earlier.

Richard Wrightson: Hi Ian. It's Richard Wrightson here. That's one of the reasons why we're very proactive in getting the Barker Inlet power station up and running. And Barker Inlet was as much about a gas play as it was in the power market because the flexibility in the asset means we don't have to run the Torrens B unit as insurance in the portfolio because we've got a very [inaudible] of Barker Inlet. So it's a recognition of the increase in wind coming in and therefore lower prices in the same period and then the wind dropping and the higher prices and having the insurance in the portfolio.

Currently we run between two and four Torrens B units nearly all the time, quite often at low loads during low prices. That burns a lot of gas at probably negative margins waiting for those periods of high insurance. With the building of Barker Inlet that allows us to pull back units and leave some of the B units in reserve for high demand periods of the year where you get more sustained high prices. So it is part of the process we've been looking at when we looked at the Barker Inlet [inaudible] and formed a lot of the business case around Barker Inlet.

Ian Myles: Okay. In terms of the –

Andy Vesey: Ian, it's Andy. We're constantly looking at the competitive environment and landscape and we have our plans. And then as things change and a lot of things will change in the market we have to reassess and always make sure that we're deploying or allocating our capital appropriately.

You know Barker as Richard said was specifically designed for that market, being able to go in five minutes from zero to full capacity, the fact that it's multiple units, the fact that it's significantly more efficient than the units it's replacing as well as the fact that there'll be fuel so that we have that security it's the right plant for that market.

Now as the world continues to change as you were indicating with different things developing, we always reassess what our plans are and that's one of the reasons that we spend a lot of time on scenario analysis to test our plans on a number of outcomes. So we're aware and I think it's one of the things that we're always conscious of.

Ian Myles: Okay. And just one other question. We've seen power prices rapidly go up and a lot of the business sector shortened their hedging for want for a better word with the likes of yourselves. With the forward curve sitting in [inaudible], are we seeing a shift in the business activity that they are willing to now step out and hedge up longer? And I guess the other corollary to that question is does the rise in the – it's taken two years for you to get the – capture the value of that rise in power price. Does it fall away faster than it can actually come in given the way business behaves?

Richard Wrightson: Ian, it's Richard again. Just looking at our business customers, we've actually expanded the duration on some of our business customers over this period because they are looking to lock in longer times. The business book is one component. We also have the hedging component there. We're very active in trying to bring those margins, those increased margins through the book and stepping up that forward book.

So I don't see any reason why it falls any faster than it rises in terms of churning through that book. But I would note customer are looking for longer term now. I think when these rises occur, a lot of business customers go well, it's a flash in a pan, it'll go away so if I just do a short term I'll come back to the market later on when the price has died away. I think the fundamentals in the gas market are have been and people recognise that that is not going back down. Yes, there is investment in new renewables. Those are investments that over time will bring that downward pressure in the market and new investments coming, so it will put downward pressure but it's not that sudden ramp down in prices in the same way that the prices ramped up. Because when you take a large piece of kit out unexpectedly that pushes it very quickly, but the down just comes down over time as people reinvest in the market and put that downward pressure on. So customers are looking at that and recognising it. Not just business customers, just in the wholesale market are looking for that longer term contract.

Ian Myles: Okay, that's great. Thank you.

James Hall: The next question is from Peter Wilson from Credit Suisse.

Peter Wilson: Thank you. I might just ask the first question on the retail market. So I take the comments and discussion around the increase in opex costs but if you actually look at retail gross margins, they've actually have increased this half. So I'm just wondering how you see that tracking in the second half. Now that you've seen the prices increases wash through in Victoria and the increase in discounting what's your expectation around where retail gross margins head here?

Brett Redman: Thanks Peter, I'll pick it up. Look there was – customer gross margin was up by a little in the half, gas gross margin was down a little in the half. I think with the activities that's going on in the market I suppose we'd sort of look to two waves that are sort of working their way through.

The first wave that comes on very quickly is the change in cost. You see that appear in the first half. Our customer activity for example as we measure the save and retain and other churn activities stepped up 29%. So the first wave of that came through in opex just in terms of more coal, sort of coal centred, more activity in responding to it.

The second wave that you'll see appearing through our numbers which will be more evident in the second half is some of that is leading to more discounting. We had in the order – Mel was just telling me something like 1.1 million customers moved to a new deal. Typically, if you've moved to a new deal it's a better deal which implies more discounting you'll see coming through in the second half, which we've built entirely into our expectations and guidance from the beginning of the year. More discounting starting to appear which will put pressure on margin in the customer market segment, but it's a slower burn in terms of how that comes into the run rates.

Peter Wilson: Okay. And just on those operating costs, I don't want to get stuck in semantics, but you're saying that the costs are tracking slightly below the $188 million but in my language $53 million in the first half is more than slightly. So are you actually saying you're expecting a big increase second half versus first half? Is that what we should be –

Brett Redman: It will be the mixture of – there are some timing differences in the first half/second half. So there is a bit of that. So yes, timing difference is another way of saying some extra campaigning costs for example appearing in the second half versus the first half.

It's just a little too early for us to start to publish fresh opex targets. We want to run through our normal budget processes which is why Andy has talked about it that at the full year results we'll come out with a fresh round of targeting. We do believe that we're going to beat the $188 million that we said at the beginning of the year. We're hesitant to say by how much at this point but it is a very big focus internally.

Peter Wilson: And lastly, could I just on slide 23, your coal cost growth, just try and pick that apart a little bit. So you say you're fully contracted for FY18 but I mean some of that I assume is your legacy contracted at $35 a tonne and then some are more shorter term contracts struck more recently. So I'm just wondering like what proportion of that F18 contracted supply is a legacy versus the newer stuff. And when we look at how your average weighted costs of coal is going to change FY18 to FY21, I guess of that residual have you locked that in at prices which are higher or lower than what you think you could get now?

Richard Wrightson: Peter it's Richard here. I'll let you go back and look over our old presentations because I think you'll be able to back-calculate that from our previous presentations.

In terms of the costs, we are incurring on coal, it's actually quite diverse and not consistent. The great joy of Macquarie is it actually can burn low quality coal. The question is can you buy that low quality coal and get it to site on a congested rail network. When you can, that's what we buy and the cost is well below the benchmarks you see at Newcastle. However, if you can't access that coal, we are prepared to buy the higher quality coal that again would be linked to say, the Newcastle coal price in a similar vein.

So it's actually varying and actually it's more about not so much the coal costs than the logistics. So we are trying to source as many coal supply options as we can and build diversity into our mix and obviously looking for the opportunity to get the lower quality coal that we are more than capable of burning and then it becomes a logistics exercise to get it. So it is actually quite inconsistent.

The market at the moment given where wholesale prices are does allow us to go to the more premium quality coal if that's the only source available to us. But we're not going with that as our main source to begin with. But given where prices are we will buy it opportunistically.

Peter Wilson: Okay. And so does that rail congestion – so has it just prevented you from taking I guess lower cost spot coal versus higher cost or has it actually prevented you from taking some of your low cost contracted coal.

Richard Wrightson: Sorry can you repeat that again please Peter?

Peter Wilson: The congestion is it preventing you from taking volumes under your low cost legacy contracts or just preventing you from taking advantage of some of the low cost spot coal and short term contracted coal.

Richard Wrightson: At the beginning of the year we did have problems with congestion of getting coal to site due to rail works and it's when there's rail works on the rail lines you lose trains. It's whether you've got enough space on the rail network to pick up those trains. We don't necessarily lose that coal, it actually goes into a balance that we can draw on later on. But it does create logistics problems with that train line fault and that's why we spent a reasonable amount of capital this year on developing some of the conveyors to get alternate access to site to actually remove those constraints.

It's a good news story in the way that over previous years that wasn't a major issue. It's become such a major issue now because the opportunity to burn coal and we want to take that opportunity. So we are looking to de-bottleneck that as much as we possibly can at that site to actually get coal to site that we can make money out of.

James Hall: Thank you Pete. Rob Koh from Morgan Stanley is up next. Hi Rob.

Rob Koh: Hi, yes. Thanks very much guys. Can I please just ask a general question about your, I guess, two largest customers, the two smelters in Victoria and New South Wales. And I guess I know that the details of contracts are all completely confidential but just in terms of volumes and re-pricing has that all gone to plan.

Brett Redman: I'm not trying to be cute Rob, but we always struggle to answer these questions. It is yes and in fact one thing I'd point to compared to results discussions of years past you don't hear much noise and that's a sign of we are solidly in contract with those customers.

Rob Koh: Okay, great. No, that's good to hear and I totally understand you've got confidentiality requirements.

Okay, if I can move to retail markets Andy, the federal minister I believe has put forward a rule change to try and influence the way the market competes to more perhaps comparison rate style marketing. Can I perhaps ask a comment from Ms Reynolds on whether AGL supports that at this time or are still evaluating? And I guess also I'd like to ask a specific question about your views on how the evolution of pay on time discounting might go in the market from here.

Melissa Reynolds: Rob, hi and thank you and thanks for the question. We've been advocating strongly for some time for greater transparency around the way in which pricing offers are compared across the market. Specifically, AGL has taken a lead on that as Andy has suggested in his opening comments. We already have dollar comparisons of all of our products available now, so we would certainly support any move by government to provide greater transparency on pricing for customers.

Rob Koh: Okay, thank you. Just a last question, I guess it's not necessarily a massive financial driver but I note that you've very sadly written off the Sunverge investment and then there is also another potential VPP opportunity in South Australia. Just wondering is that something that AGL could be in the running for. How do we think about that?

Andy Vesey: It's Andy. The answer is that when we – the 1,000 battery Sunverge project that we were in the VPP, you know that was a pilot to test a lot of different technology. Now certain

elements of the Sunverge technology have sort of been obsoleted, there are different things that are now in the market. The work on that has sort of inspired the South Australian government to take this big step up. We're waiting for details, but we're no longer looking at this as sort of a technology play. This would be – the value of participation is the details and what having greater load in the supply on the edge of the grid will mean to us from a business perspective.

So we're waiting on the details. We'll take a hard look at it but for us that's a straightforward business proposition. I think we're advantaged in looking at that because of the experience we have in knowing how the technology works and knowing where the challenges are. So I think we're in a position to make a very thoughtful decision and we're just waiting on the details.

Rob Koh: Okay great, thank you very much.

James Hall: Next up is John Hirjee from Deutsche Bank. Good morning John.

John Hirjee: Good morning. Thanks. Couple of questions if I may. In the context of Andy mentioned that second half competition is likely to remain, elevated if not accelerated. The cost breakdown that you give on slide 11 where you broke up that $53 million so I take it therefore that aside from that Loy Yang transition plan availability the rest of the cost increases there that you incurred is likely to be repeated if not potentially higher. Can you talk about that please?

Andy Vesey: Yeah, at a high level, I'll certainly talk about it. We talked about at a more detailed level in an answer to another question. I think these are some fundamentals here and so if I've said this already I apologise because I'm seriously passionate about this. One is that, one can think that the step-up in competition where people are approaching their current providers, looking to get a better deal is something that will just disappear in time.

I don't think a) it will, and I don't think it's something that as an industry participant, we wanted to because the counter balance to the lack of shopping is government intervention. I mean we've been through that. We've talked about that earlier and that what you've seen is the response to the Thwaites report, the response to the challenges out of Canberra had been that the industry stepped up and said we get it. We're going after this.

And the fundamental of the market has changed. There is this kind of discussion if you look at what we've done with loyalty discounts. So why we have done loyalty discounts because the big challenge for government is people aren't shopping. They're staying on this standard offers and they should do better.

Well we used to rationalise that the reason people did that is because it wasn't worth their time to go and shop and then we come to the realisation well we need to make it easier. We want everybody to get the best deal for them. So when you think about that if you take the fact that the level and it's not now the question of churn anymore.

It's the question of retention right because if you look at our numbers, our churn numbers are very good compared to the market, but we've had Brett said it again over 1.1 million interactions with customers looking for a better deal.

Now, all our systems are designed to do a certain thing. When you had that step-up in activity, it drives cost. And as the [inaudible] would tell you as our organisational transformation person that activity work drives cost. Work is contained in activities and you string activities together in processes so the way they make them efficient and drive cost out is by redoing the processes.

So we say we're going to come back at year end and talk about targets and numbers. It's going to be a thoughtful way to say we're taking costs in a sustainable way. Now they're always going to be things we have to do. But the questions we have to do those without driving up the cost because there's somewhat of a zero sum game.

We can't do better by our customers and still maintain what we're giving to our shareholders.

So, if this is going to be a new initiative, a refocus on this cost at a very basic level, so you heard about how we're tracking on that 188, which was driven up by some things that we've identified.

A lot of market activity, you had all kinds of things going in there, but talk to that. But going forward, we're going to take bring fresh eyes to taking a look at what's driving cost and recognise that we have to be an agile competitor in the market.

We want high levels of competition because that's the best way to protect the business model against intervention from government which is not what we want. And so when we said and I said in the opened remarks, our objective is to attract and retain and serve customers at the lowest possible cost.

That gives us the flexibility to design energy plans, and give personalised retailing experience, gives us the greatest latitude to do that. So customers will not only get a good a good offering in terms of cost, but the value of get in the same way.

So what I say is we're going to come back a year in results. We're going to talk about this in much more deep detail. And just as we did a number of years ago set very hard targets which will be – that can be tracked so we could be held accountable.

But I believe that without doing that then we're going to have challenges and it's the best time to do that as we were in a position to make this tough type of decisions and go forward. So we're going to have this conversation on an ongoing basis. But the fact of the matter is we have to really think about the productivity of this organisation to bring the new level of market activities and how we're going to be able to win in that competitive landscape.

John Hirjee: Okay thank you, Andy. Another question if I may and that's related to your gas business, so particularly in relationship to you highlighted, you lost two large gas customers and that's had a big impact on your volumes. How do you think about that business going forward and the volumes you have contracted and what do you need to do to try and win those customers back that you lost? So was it just a question of price or was there other factors associated with that?

Richard Wrightson: I'll take that one John. It's Richard Wrightson. When we look at our gas book and you're seeing the reducing volumes, we have less gas in our book than we previously had from the roll-off of all the contracts and reduction in supply. You go back four or five years, one of our core problems we had a lot of gas in the book. The market was oversupply gas. We have to actively seek volumes in the market to grow the size of our customer base to sell that gas on very, very thin margins in fact.

In a lot of cases, a lot there is practically zero margin rather than bringing the risk of losing that gas because of the legacy contracts we have. And we've moved into this next phase. We've been very, very focused on buying gas that we can know we can sell at a profit, and being very, very disciplined in that.

So when we're looking at the wholesale customers and the business customers sectors, we are looking at how we can buy gas competitively, and we're seeing good margin growth in the area and how we can attract customers where we can make margins, working with the customers to supply.

Going out longer term, obviously we're looking at futures supply and how we build the book. But the historic position of AGL with some very, very large gas positions that were difficult to manage. The goal we have in the gas book is actually building flexibility in the portfolio that we can actually not focus on volumes. I spend very little time talking to my guys about what volume of gas we sell.

I spend a lot of time saying where is the margin in the gas and can we grow the margin? So the volume in that book will depend on how we can source competitive gas supply and we've obviously got strategies around that and then how we can sell that on as margins for customers and avoid that

legacy of having to do very, very large volumes and run the risk, the market runs against you with oversupply and kills your margin book.

So we're very, very focused in that space. So what is the margin we make in both wholesale customers and business customers to grow the strength of that side of the book, and I think we're being fairly successful in that.

Andy Vesey: Thanks Richard and I guess then therefore Crib Point is part of that strategy.

Richard Wrightson: And one of things we're looking at with Crib Point, AGL got a long history of providing gas to the Australian market and LNG gas pipeline project [inaudible]. So that is one area that we're looking at how we bring supply into the market. We also look at what's available at in the Australian market so it's not a Crib Point or nothing.

It's what can compete with Crib Point and bringing gas in. It's an interesting market dynamic and we're also looking very closely at long term reserve in this marketplace. So it's not just what gas is available in 2021. It's what gas is available in 2025 and 2030 and looking at reserves position, and what those reserves would cost to bring to the Australian market.

John Hirjee: Okay, cheers Richard, thank you.

James Hall: So just a reminder if there is anyone else wanting to ask a question you have to done so it's 01 to do so. We have one more question on the line from Baden Moore from Goldman Sachs. Good morning Baden, go ahead.

Baden Moore: Morning guys. Look, I just wanted to ask maybe a more high level question about this result where we're focused very much on some rising cost in the business. And I think you're talking about a second half skew on some of your retailing costs. And it sounded a little bit uncertain as to what that might look like, but surely you've factored that into the guidance that you restated again today. And I guess maybe you could talk a little bit about should we should continue improving on the wholesale portfolio, offsetting some of these higher costs through the second half?

Brett Redman: Baden, I'll pick this up. So firstly absolutely the view on costs has been factored in both on the originally gave guidance back in August and beyond last year and where we're at again. Today reconfirming that guidance, we're keeping a good eye on the cost position. I think going to the second half that the trending that you'll be seeing is at ongoing step-up year-on-year in performance in the wholesale side.

Now what you're seeing in the first half will continue into the second half. We talked a little earlier about the pressure that's happening in the customer side of things. So some of the market activity is coming through first cost and into the second half we'll see in some margin compression. So again the focus is therefore about while in the short term that's helpful in a financial sense that the step-up in wholesale margin is offsetting the pressure in cost in the like.

But in the medium to long term sustainability means we will come back again looking very harder at cost for the medium term.

Baden Moore: Thanks Brett and maybe one for Doug. I just had a question. I mean we're looking at 2022 for the closure of Liddell. How do we think about the availability of that plant into 2022? I know it's been fairly strong so far. But is it walking into 2022 at the current levels and then stepping up for or do you think it's a graduated decline?

Doug Jackson: Thanks Baden. I think we expect to perform similarly to how it has been recently. I think the sweet spot operating mode where we've taken some of the top end megawatts off is giving us more predictability for longer term. We'll still have some ageing events, but I think they're within our expectations of results for that plant. I think in the last year of operation, my history in other plants where we've done similar things has been still continued pretty good operation in that last year. So I don't think we'll see a big fall-off.

Baden Moore: And just one last question maybe it's for Richard I'm not sure. Given the ageing plants you've mentioned and the liability for Loy Yang and Liddell, how does that impact your ability to contract those plants so from a risk management perspective?

Richard Wrightson: Reliability always goes into the equation of how much we're willing to contract. One of the benefits of the AGL portfolio is that diversity and you can see that through the slide with our generation numbers. I don't generally get exposed to wholesale markets because I more have reserve plan that we probably is slightly unusual. So say for an example at Torrens where we have the eight units, it will only be the very peaks of summer where we ever get need when running our unit so practically nearly always got a Torrens unit in reserve.

I always got hydro on reserve. So it is actually more a cost risk rather than a market exposure risk. That gives us greater comfort in offering more volume to the market in terms of contracting. So that diversity in the fleet, yes, it's something we have to look at very closely. And when we lose units that just go into our view of what we can contract, but across the whole portfolio from the fleet some demand side on our customer side, we have a very strong and robust portfolio that can manage a lot of the risk and that's one of the reasons we build that portfolio to actually underwrite contracts against the marketplace and be able to put contracts both to our customer base and another players in the marketplace.

James Hall: Thanks Baden. Paul Johnson from RBC is up next. Hi Paul.

Paul Johnson: Thanks gents. I was pushing the wrong number. Yeah, just three questions for me. Just firstly on the retail price increases or the expectations of those from July. I just understood whether you'd be prepared to make a comment on that just given all the information you know today. The forward curve sort of drifting the political focus and community focus on electricity and gas prices.

What are your sort of current expectations come July 1st for that? And then secondly and some more related just general comment on regulatory and political risk I know Andy has made some comments on it. But I just wanted to see if you get to provide some more detailed comments. What are you really focused on there as well? That would be great. Thank you.

Andy Vesey: Paul, at this point you're a little bit, I mean we showed you the forwards and the swaps. We haven't taken a look at what's going to happen in July. Our focus is less on these sort of standing off a regulatory posting the rate and trying to understand what is going to make sense for us in the market and how we get that best deal.

So we're rethinking a lot of the go-to-market in a lot of the way we price and it has to do is what we think we do in the cost side so. We're just not in a position to talk to that. But I think we have been strong advocates for a lot of the things that we are facing with government and that is recognising that we have hardship customers who are already in hardship.

We have to manage that and we have I think market leading programmes in doing that to make sure we can try and not let that grow, but rehabilitate it so we don't have that debt problem.

Then we look and we have what we would call at risk and we have to find ways of making sure we don't push into the place where they can't pay their bill and price and keep them. If we can take care of those two groups, I think we deal with the biggest part of the regulatory and governmental risk because that's where the noise comes from.

On the remainder of the market we have to come up with good solid value propositions so that's the way we've always been thinking about it. So if you go back to that slide that shows our initiatives that will signal to you how we are approaching this. AGL essentials, this is going to be the full self-service kind of pricing where the lowest cost way of serving a customer is let them serve themselves.

Those are these first movements in all these areas. So if you take a look at that slide which talks about transparency, simplicity and fairness, it will give you an indication of where we're going. And I think that instead of looking backward the way we used to do it, the question is with this

increasingly competitive environment, how are we going to do it? And I think that's the big challenge strategically for us.

So what I've challenged the New Energy group with or IT group, customer markets and even wholesale markets we're trying to come up with those new value propositions because all the threats we face from the government were all a result of them not seeing enough competition or the benefits of the competition to privatisation.

We are committed to that outcome. And so a lot of the things we're going to be doing is going to be to position us in that case. So as I said in Investor Day, watch the space because you'll see an increase in cadence of new offerings and new energy plans, and this will sort of parallel one of our strategic objectives, which just mean personalised retailer, recognising that the way we create better values giving an energy playing which matches the needs and use and patterns of customer.

So more to come and sorry to disappoint without telling you exactly what's going to happen in July. We're not there yet.

Paul Johnson: That's okay. Thanks for the response.

James Hall: We got a question from the web from William Morgan at Intrinsic Investment Management asking for commentary on the breaking of the political nexus on gas supply in Victoria and New South Wales. And what catalysts or pre-conditions we see necessary to get policy changes to those moratoria?

Andy Vesey: Perhaps we take questions from the web. That's okay. We have a question. I'm looking around to see who wants to take a step-up on that. Richard Wrightson: It's Richard Wrightson. I'll answer that question as well as I because this is a very difficult question. We're looking at the projects both in Victoria and New South Wales.

There's not a moratorium running for New South Wales although developing gas in New South Wales, will be particularly different. But obviously we're looking at [inaudible] project and what that can do for supplying to the market. That is one of the things we factor in our view of what reserves can be made available for the Australian market.

It will be difficult for [inaudible] to get that project through, but they are committed to that to bring gas in. In Victoria, there are reserves that could be opened up in Victoria. They're not game changing reserves. There's not vast reserves available in Victoria to bring online.

There is offshore reserves that could be brought online again looking at how AGL is responding to that. One of the key things we look longer term is what are the cost of bringing those reserves on. The moratoria is difficult for developing the supply. We as an organisation, we hamper supply into the marketplace. We recognise the political reasons for it. Clearly the more efficient will supply the market without them. But there is nothing in the southern states particularly. There will be a game changer in the supply by lifting those reserves, potentially some in Victoria.

James Hall: Thanks Richard. And the final question is on the calls and that's from Rob Koh once more from Morgan Stanley. Rob, please go ahead.

Rob Koh: Okay thank you very much for indulging me, again not a major issue at this point. But I noticed you've got 7,000 gas customers in WA. Congrats on that. Should we still be thinking that you're targeting a 100,000 by two year from like 2016 and spending about 50 million to 100 million to achieve that and that's still a never hard target. But is that still something you're shooting for?

Melissa Reynolds: Rob hi, it's Melissa here. Thank you for the question. Yeah, we are on track with our business case the customer acquisitions in Western Australia and we're still heading towards that target of 100,000 customers. In terms of the dollar figures to[?]give a say the 50 to the 100 that all depends on a whole bunch of things that happen over the next coming years. But we've got a very good proposition in Western Australia. We are very with very pleased with our progress there and we will continue to work towards our target.

Rob Koh: Okay great, many thanks.

James Hall: Thanks Rob, Andy there are no further questions.

Andy Vesey: Yeah, very good. Thanks everybody for participating today and as always we look forward to continuing this conversation. Thank you.