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ASX & Media Release

1H20 results announcement and update to FY20 earnings guidance

13 February 2020

AGL Energy Limited (AGL) today announced its results for the six months ended 31 December 2019 (1H20) and declared an interim dividend of 47 cents per share.

AGL also announced that it expects Underlying Profit after tax for the financial year ending 30 June 2020 (FY20) to be in the upper half of the previously provided range of $780 million to $860 million.

Summary of **results for the period ended 31 December 2019 vs. prior corresponding period**

- Statutory Profit after tax: $323 million, up 11 percent
- Statutory earnings per share: 49.7 cents, up 12 percent
- Underlying Profit after tax: $432 million, down 20 percent
- Underlying earnings per share: 66.4 cents, down 19 percent
- Net cash from operating activities: $1,135 million, up 67 percent
- Interim dividend: 47 cents per share (80 percent franked), down 8 cents per share
- Return on equity (rolling 12 months): 11.2 percent, down 1.9 percentage points

CEO Commentary

AGL Managing Director & CEO, Brett Redman, said: “Our 2020 half-year result reflects a disciplined approach to executing our strategy and operating the business amid increasing challenges. Profit is down year-on-year as per our guidance, but we are nonetheless tracking ahead of our expectations. We are making our portfolio more resilient and growing our customer base – while delivering disciplined cash and capital management outcomes.

“Underlying Profit after tax was down 20 percent in the half, primarily due to the outage of Unit 2 at AGL Loy Yang, increased depreciation following record levels of investment in recent years, and the impact of market headwinds relating to lower year wholesale energy prices and reduced gas volumes. We have declared an interim dividend of 47 cents per share, consistent with our policy of paying out 75 percent of Underlying Profit after tax over the full year.

“Throughout the period, there have been many positives: evidence of how we are building a stronger, broader business amid ongoing uncertainty for our sector. Customers are responding positively to simpler pricing and the investments we’ve made to make it easier for them to do business with us. Energy customer accounts were up again in the period, by 36,000, to more than 3.7 million, the acquisition of Southern Phone added another 160,000 broadband and mobile services, and our re-investment in Large Business electricity customers is also delivering growth.

“In generation, our output was up 3 percent in the half, despite the Loy Yang outage, reflecting our efforts over the past 12 months to invest in plant availability and coal supply.

“We’re also expanding and modernising our energy portfolio. We announced two major grid-scale battery deals in the half – at Wandoan in Queensland last month and with Maoneng across New South Wales in October. And we commissioned the first new gas capacity in the National Electricity Market for seven years at Barker Inlet in South Australia.

"We have refined our growth strategy to focus on Connection, Orchestration, Trading and Supply and Generation. We've made targeted acquisitions in support of our strategy via Perth Energy and Southern Phone.

"Our continued strong cash position – from both underlying performance and capital discipline – has enabled us to complete 51 percent of the share buy-back we announced in August 2019, while maintaining ample headroom to support investment in the business.

"We're announcing today that we expect Underlying Profit after tax for FY20 to be in the upper half of the $780 million to $860 million range to which we guided last August, while noting that headwinds remain as we look to FY21."

Statutory and Underlying Profit

AGL's Statutory Profit after tax was $323 million, up 11 percent on the prior corresponding period as a result of a lower negative movement in the fair value of financial instruments than in the prior corresponding period. This movement is non-cash but is required under Australian accounting standards and reflects movements in the fair value of AGL's electricity derivative contracts. Statutory Profit after tax includes negative Significant Items of $(17) million dollars as a result of Perth Energy acquisition costs and a partial impairment of AGL's equity stake in assets owned by the Powering Australian Renewables Fund.

Underlying Profit after tax, which excludes movements in the fair value of financial instruments and Significant Items, was $432 million, down 20 percent. The decrease primarily reflects the earnings impact of the unplanned outage at Loy Yang, increased depreciation costs as a result of higher capital investment in recent years, and lower year-on-year prices for wholesale electricity and renewable energy certificate prices. This was partially offset by the increased generation output and customer growth, as well as lower interest and tax costs.

Dividend

AGL has declared an interim dividend for FY20 of 47 cents per share, 80 percent franked, down 8 cents per share on the prior interim dividend. This is consistent with AGL's dividend policy to target a payout ratio of 75 percent of Underlying Profit after tax, which is normally applied on aggregate across the interim and final dividends. The FY20 interim dividend will be payable on 27 March 2020 with a record date of 27 February 2020. Shares will trade ex-dividend on 26 February 2020.

AGL's dividend reinvestment plan (DRP) will operate with respect to the FY20 interim dividend. AGL will buy shares on market to satisfy the DRP and will allot these shares at no discount to the simple average of the daily volume-weighted average price at which AGL's shares trade during each of the 10 days commencing 2 March 2020. The last date at which shareholders can elect to participate in the DRP with respect to the FY20 interim dividend is 28 February 2020.

Cash and capital management

AGL delivered a record net cash outcome from operating activities of $1,135 million in the half. The cash result reflected positive margin receipts relating to AGL's futures market positions, as the lower year-on-year wholesale electricity prices reduced the amounts AGL is required to provide on margin to the futures exchange. In addition, the net movement in other working capital was positive.

AGL has commenced an on-market buy-back of up to 5 percent of its issued share capital (32.8 million shares), as announced at its FY19 results. To date, AGL has acquired 16.8 million shares for $332 million executed at an average price of $19.72. While AGL reserves the right to vary, suspend or terminate the buy-back at any time, it anticipates completing it in the second half of FY20, subject to market conditions.

FY20 guidance

AGL expects Underlying Profit after tax for FY20 to be in the upper half of its guidance range of between $780 million and $860 million. This reflects AGL's solid portfolio performance and customer growth despite the Loy Yang outage, higher depreciation costs and market headwinds.

Operating headwinds previously communicated to the market are expected to remain for the second half of FY20 and into FY21. These include lower wholesale prices for electricity and renewable energy generation certificates and increasing fuel costs as legacy supply contracts mature.

All guidance is subject to normal trading conditions.

Webcast and conference call

AGL will hold a webcast and conference call to discuss the FY20 half year result and FY20 outlook at 10.45 am, Sydney time, today. Questions will be taken at the conclusion of the webcast.

A copy of the webcast presentation will be lodged with the ASX and made available on AGL's website.

The webcast will be accessible via agl.com.au/interimfy20 or using the following dial-in details:

Australia: 1800 558 698 (Toll Free)
Other international: +61 7 3145 4010
Conference ID: 10003402

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

Authorised for release by AGL's Board of Directors.

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