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ASX & Media Release

Scheme Booklet registered with Australian Securities and Investments Commission

6 May 2022

AGL Energy Limited (**AGL Energy**) is pleased to announce that the Australian Securities and Investments Commission (**ASIC**) has registered the scheme booklet (**Scheme Booklet**) in relation to the proposed demerger of AGL Australia Limited by AGL Energy (**Demerger**). This follows the making of orders by the Supreme Court of New South Wales (**Court**) approving the dispatch of the Scheme Booklet to AGL Energy shareholders and the convening of a meeting of AGL Energy shareholders to consider and vote on the Demerger (**Scheme Meeting**), which AGL Energy announced earlier today.

AGL Energy Directors' recommendation and conclusion of Independent Expert Report

The AGL Energy Directors unanimously recommend that AGL Energy shareholders vote in favour of the resolutions to be proposed at the Scheme Meeting and preceding general meeting (**General Meeting**) (**Demerger Resolutions**). Each AGL Energy Director intends to vote, or cause to be voted, any AGL Energy shares that he or she holds or controls in favour of the Demerger Resolutions.

Grant Samuel & Associates Pty Limited, the independent expert appointed by AGL Energy to review the proposed Demerger (**Independent Expert**), has concluded that the Demerger is in the best interests of AGL Energy shareholders.

The Independent Expert's conclusion should be read in context with the full Independent Expert's Report, which can be found in Section 8 of the Scheme Booklet.

Scheme Booklet

Detailed information about the Demerger, including the reasons for the recommendation of the AGL Energy Directors, a copy of the Independent Expert's report and notices convening the General Meeting and Scheme Meeting, is included in the Scheme Booklet, a copy of which is attached to this announcement.

The Scheme Booklet is expected to be dispatched to AGL Energy shareholders on or before 12 May 2022.

Those AGL Energy shareholders who have previously elected to receive notices via post will receive a hard copy of the Scheme Booklet and accompanying forms. Those AGL Energy shareholders that have previously elected to receive notifications from AGL Energy's share registry in electronic form will be sent a link enabling them to access the Scheme Booklet and accompanying forms electronically. All other shareholders will receive via post a letter containing details of where they can access the Scheme Booklet and enclosing the accompanying forms. Copies of the communications under cover of which AGL Energy will send the relevant materials to AGL Energy shareholders are also attached to this announcement.

A guide providing further details for shareholders in relation to the Scheme Booklet is set out in the Attachment.

Authorised for release by AGL Energy's Board of Directors.

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About AGL Energy

Proudly Australian for more than 180 years, AGL Energy supplies around 4.5 million energy and telecommunications customer services[1]. We're committed to becoming a leading multi-product retailer, making energy and other essential services simple, fair and transparent. AGL Energy operates Australia's largest private electricity generation portfolio within the National Electricity Market, comprising coal and gas-fired generation, renewable energy sources such as wind, hydro and solar, batteries and other firming technology, and gas production and storage assets. We are building on our history as Australia's leading private investor in renewable energy to now lead the business of transition to a low emissions, affordable and smart energy future in line with the goals of our Climate Statement. We have a passionate belief in progress and a relentless determination to make things better for our communities, customers, the Australian economy and our planet.

[1] Services to customers number is as at 31 December 2021 and includes Click Energy and 100% of approximately 300,000 services to customers of ActewAGL, in which AGL owns a 50% equity stake of the retail operations.

ATTACHMENT – GUIDE TO SCHEME BOOKLET

Scheme Booklet for the proposed demerger of AGL Australia Limited

The Board of Directors of AGL Energy Limited (ACN 115 061 375) (**AGL Energy**) is pleased to present the following documents in relation to the proposed demerger of AGL Australia Limited (ACN 651 096 114) (**AGL Australia**) from AGL Energy (**Demerger**), which require your attention:

1. the Scheme Booklet;
2. a Scheme Meeting Voting Form;
3. a General Meeting Voting Form;
4. an Accel Energy Sale and Top-up Facility Form (if applicable);
5. an Accel Energy Sale Facility Form (if applicable);
6. an AGL Australia Sale and Top-up Facility Form (if applicable); and
7. an AGL Australia Sale Facility Form (if applicable).

Capitalised terms have the meaning given to them in the Scheme Booklet. These documents will enable you to make an informed decision on the Demerger and explain how to vote on the Demerger Resolutions.

Key components of the Demerger

If the Demerger is implemented:

- Eligible Shareholders will receive one AGL Australia Share for every AGL Energy Share held at the Record Date;
- AGL Energy Shareholders will retain their existing AGL Energy Shares and, subject to shareholder approval, AGL Energy will be renamed Accel Energy Limited (**Accel Energy**);
- AGL Australia will become a standalone entity listed on ASX; and
- Accel Energy will maintain a minority ownership interest of 15% in AGL Australia following the Demerger.

What do AGL Energy Shareholders need to do?

Implementation of the Demerger is conditional on, among other things, AGL Energy Shareholder approval of:

- the Capital Reduction Resolution and Financial Assistance Resolution at the General Meeting, which will be held at **10:30am (AEST) on Wednesday, 15 June 2022 at the International Convention Centre Sydney, 14 Darling Drive, Sydney NSW 2000 and online at** https://meetnow.global/MD75Z5T; and
- the Demerger at the Scheme Meeting, which will be held on the same date and at the same place as the General Meeting and will commence at the later of **10:45am (AEST) or the conclusion of the General Meeting**.

The AGL Energy Directors unanimously recommend that the AGL Energy Shareholders vote in favour of the Demerger Resolutions. Each AGL Energy Director intends to vote, or cause to be voted, any AGL Energy Shares that he or she holds or controls, in favour of the Demerger Resolutions.

Grant Samuel & Associates Pty Limited, the independent expert appointed by AGL Energy to review the proposed Demerger (**Independent Expert**), concluded that the Demerger is in the best interests of AGL Energy Shareholders and that the capital reduction associated with the Demerger does not materially prejudice the ability of AGL Energy to pay its existing creditors.

Detailed information about the Demerger, including the reasons for the recommendation of the AGL Energy Directors, a copy of the Independent Expert's report and notices convening the General Meeting and Scheme Meeting (**Meetings**), is included in the Scheme Booklet.

Shareholders are encouraged to:

- read the Scheme Booklet carefully and in its entirety, as it sets out important information that will assist shareholders to make an informed decision about the Demerger; and
- vote on the Demerger Resolutions in person, by proxy, by attorney or, in the case of a corporation, by corporate representation, at the Meetings.

The Scheme Booklet contains information about how to vote on the Demerger Resolutions to be considered at the Meetings.

If you do not plan to attend the Meetings in person, AGL Energy encourages you to vote by proxy by following the instructions below. Your personalised Scheme Meeting Voting Form and General Meeting Voting Form (**Voting Forms**) will be sent to you. As described in the Scheme Booklet, the Voting Forms may be lodged as follows:

- **Website**: lodging online at www.investorvote.com.au. To submit your proxy voting instructions, you will need your Securityholder Reference Number or Holder Identification Number and allocated Control Number, as shown on your Voting Forms. A proxy cannot be appointed online if they are appointed under a Power of Attorney or similar authority. Custodians and other intermediaries who participate in the Share Registry's online system can also make a proxy appointment online via www.intermediaryonline.com in accordance with instructions provided; or

- **Mail**: mailing the form to Computershare Investor Services Pty Limited at GPO Box 1282, Melbourne Victoria 3001, Australia (using the envelope provided); or

- **Fax**: faxing the form to the AGL Energy Share Registry on 1800 783 447 (within Australia) or +61 3 9473 2555 (international).

If a shareholder who is entitled to vote at the Meetings appoints a proxy, they may specify the way that the proxy is to vote in relation to a resolution and indicate that the specification is to be regarded as a direct vote.

The Voting Forms, together with any power of attorney or authority under which the relevant proxy form is signed, must be received no later than **10:30am (AEST) on Monday, 13 June 2022.**

Sale and Top-up Facility Forms and Sale Facility Forms

The Accel Energy Sale and Top-up Facility and the AGL Australia Sale and Top-up Facility allow certain eligible shareholders who hold 500 AGL Energy Shares or less as at the Record Date, the opportunity to either sell or increase their shareholding in Accel Energy and / or AGL Australia under the respective facility.

If you are an eligible shareholder who, as at the Record Date, has a registered address on the AGL Energy Share Register in Australia or New Zealand, you can make an election to purchase and / or sell post-Demerger shares in AGL Energy Limited (which is to be renamed Accel Energy Limited) (**Accel Energy Shares**) and / or post-Demerger shares in AGL Australia (**AGL Australia Shares**) under the respective facility by completing and returning the Accel Energy Sale and Top-up Facility Form or AGL Australia Sale and Top-up Facility Form (as applicable) using the envelope provided so that it is received by the AGL Energy Share Registry by 5:00pm (AEST) on Tuesday, 21 June 2022 or submit your election online at www.aglelections.com.au.

If you are an eligible shareholder who, as at the Record Date, has a registered address on the AGL Energy Share Register in Canada, Hong Kong, Malaysia, Singapore, the United Kingdom and the United States of America, you can make an election to sell Accel Energy Shares and / or AGL Australia Shares under the respective facility by completing and returning the Accel Energy Sale Facility Form or AGL Australia Sale Facility Form (as applicable) using the envelope provided so that it is received by the AGL Energy Share Registry by 5:00pm (AEST) on Tuesday, 21 June 2022 or submit your election online at www.aglelections.com.au.

Further information about the Sale and Top-up Facilities is set out in Section 5.8 of the Scheme Booklet.

The Sale and Top-up Facilities operate on an opt-in basis, so those AGL Energy Shareholders that are eligible to participate but do not make an election to participate, will, post-Demerger, retain their existing shareholding in Accel Energy and receive the AGL Australia Shares they are entitled to under the Demerger.

If you are not a shareholder holding 500 AGL Energy Shares or less as at the Record Date, please disregard the Sale and Top-up Facility Forms and Sale Facility Forms.

What should you do if you have any questions about the Demerger or the Scheme Booklet?

AGL Energy has established the AGL Energy Shareholder Information Line, which you should call if you have any questions or require further information about the Scheme Booklet (or any of the other documents) or the Demerger. The telephone number is 1300 148 339 (within Australia) or +61 2 9066 4059 (outside Australia) on weekdays, between 9:00am and 5:00pm (AEST). Alternatively, you can visit the AGL Energy website at www.agl.com.au/demerger. AGL Energy Shareholders should consult their legal, financial or other professional adviser before making any decision regarding the Demerger.

AGL ENERGY Demerger **Scheme Booklet**

Vote in Favour

Each AGL Energy Director recommends that AGL Energy Shareholders **vote in favour** of the resolutions to approve the Demerger of AGL Australia.

The Independent Expert has concluded that the Demerger is in the best interests of AGL Energy Shareholders.

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION.

You should read this document in its entirety prior to deciding whether or not to vote in favour of the resolutions to approve the Demerger. If you are in any doubt as to what you should do, you should seek independent legal, financial, taxation or other professional advice before voting on the Demerger.

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Accel Energy

Each AGL Energy Director recommends that AGL Energy Shareholders vote in favour of the resolutions to approve the Demerger of AGL Australia.

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Important Information

General

This Scheme Booklet is important. AGL Energy Shareholders should carefully read this Scheme Booklet in its entirety before making a decision as to how to vote on the Demerger Resolutions to be considered at the General Meeting and the Scheme Meeting.

Investment decisions

This Scheme Booklet does not take into account the individual investment objectives, financial situation or needs of any particular AGL Energy Shareholder or any other person. The information in this Scheme Booklet should not be relied upon as the sole basis for any investment decision. AGL Energy Shareholders should seek independent legal, financial, taxation and other professional advice before making any investment decision.

Purpose of this Scheme Booklet

This Scheme Booklet sets out the effects of the Demerger, certain information required by law and all other information known to the AGL Energy Directors which is material to the decision of AGL Energy Shareholders to vote in favour of, or against, the Demerger Resolutions (to effect the Scheme, Capital Reduction and Financial Assistance), the Name Change Resolution and the Benefits Resolution (other than information previously disclosed to AGL Energy Shareholders) and includes:

- the explanatory statement, as required by section 412 of the Corporations Act, in relation to the Scheme;
- a statement of all the information known to AGL Energy that is material to AGL Energy Shareholders in deciding how to vote on the Capital Reduction Resolution, as required by section 256C(4) of the Corporations Act;
- a statement of all the information known to AGL Energy that is material to AGL Energy Shareholders in deciding how to vote on the Financial Assistance Resolution, as required by section 260B(4) of the Corporations Act; and
- a statement of the information required by section 200E of the Corporations Act, in relation to the Benefits Resolution.

The Demerger is conditional on (among other things) the Demerger Resolutions being passed. Information regarding the Capital Reduction Resolution, the Financial Assistance Resolution, the Name Change Resolution and the Benefits Resolution is set out in the Notice of General Meeting.

Preparation of and responsibility for this Scheme Booklet

This Scheme Booklet (other than the Independent Expert's Report and the Independent Limited Assurance Report) has been prepared by AGL Energy as at the date of this Scheme Booklet and AGL Energy is responsible for the content of this Scheme Booklet.

Grant Samuel & Associates Pty Limited (Grant Samuel) has prepared the Independent Expert's Report which is contained in Section 8. Grant Samuel takes responsibility for that report.

Deloitte Corporate Finance Pty Limited has prepared the Independent Limited Assurance Report and takes responsibility for that report. A copy of that report is set out in Section 7.

PricewaterhouseCoopers Securities Ltd (**PwC**) has reviewed Section 6 (Taxation implications for AGL Energy Shareholders) (excluding Section 6.7.4) based on the information about AGL Energy, AGL Australia and the Demerger provided to PwC by or on behalf of AGL Energy and AGL Australia. PwC is responsible for the information about the Australian income tax, goods and services tax and stamp duty implications arising for AGL Energy Shareholders under the Demerger in Section 6 (excluding Section 6.7.4).

Role of ASIC

A copy of this Scheme Booklet has been lodged with ASIC in accordance with section 256C(5) of the Corporations Act and registered by ASIC under section 412(6) of the Corporations Act. ASIC has been requested to provide a statement in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court at the Second Court Hearing.

Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

Role of ASX

AGL Australia will apply for admission to the Official List and for official quotation of AGL Australia Shares on the ASX.

Neither the ASX nor any of its officers takes any responsibility for the contents of this Scheme Booklet. The fact that the ASX may admit AGL Australia to the Official List should not be taken in any way as an indication of, and the ASX does not make any statement regarding, the merits of an investment in AGL Australia.

Important notice associated with Court order under section 411(1) of the Corporations Act

The fact that under section 411(1) of the Corporations Act, the Court has ordered that the Scheme Meeting be convened and has approved the explanatory statement contained in this Scheme Booklet required to accompany the Notice of Scheme Meeting, does not mean that the Court:

- has formed any view as to the merits of the Scheme or as to how AGL Energy Shareholders should vote (on this matter, AGL Energy Shareholders must reach their own decision); or
- has prepared, or is responsible for, the contents of the explanatory statement contained in this Scheme Booklet.

Notice of Second Court Hearing

At the Second Court Hearing, the Court will consider whether to approve the Scheme following the vote at the Scheme Meeting.

Any AGL Energy Shareholder may appear at the Second Court Hearing, expected to be held at the Supreme Court of New South Wales on Monday, 20 June 2022.

Any AGL Energy Shareholder who wishes to oppose approval of the Scheme at the Second Court Hearing may do so by filing with the Court and serving on AGL Energy a notice of appearance in the prescribed form together with any affidavit that the AGL Energy Shareholder proposes to rely on.

Notices of General Meeting and Scheme Meeting

The Notice of General Meeting and Notice of Scheme Meeting (together the **Notices of Meetings**) are set out in Section 13.

Status of this Scheme Booklet

This Scheme Booklet is not a prospectus lodged under chapter 6D of the Corporations Act. Section 708(17) of the Corporations Act provides that chapter 6D of the Corporations Act does not have effect in relation to any offer of securities if it is made under a compromise or arrangement under Part 5.1 of the Corporations Act, approved at a meeting held as a result of an order made by the Court under section 411(1) or (1A) of the Corporations Act.

Foreign jurisdictions and shareholders

AGL Energy Shareholders who are Ineligible Overseas Shareholders will not receive AGL Australia Shares under the Demerger. AGL Australia Shares that would otherwise be transferred to these shareholders under the Demerger will be transferred to the Sale Agent to be sold, with the proceeds of such sale to be paid to Ineligible Overseas Shareholders. Refer to Section 5.8.2 for further information.

AGL Energy Shareholders resident outside Australia for tax purposes should seek specific tax advice in relation to the Australian and overseas tax implications of the Demerger.

This Scheme Booklet does not in any way constitute an offer of securities in any place in which, or to any person to whom, it would be unlawful to make such an offer. No action has been taken to register or qualify the AGL Australia Shares or otherwise permit a public offering of AGL Australia Shares in any jurisdiction outside Australia.

Based on the information available to AGL Energy as at the date of this Scheme Booklet, AGL Energy Shareholders whose addresses are shown in the register on the Record Date as being in the following jurisdictions will be entitled to have AGL Australia Shares transferred to them pursuant to the Demerger:

- Australia, New Zealand, Canada, Hong Kong, Malaysia, Singapore, the United Kingdom and the United States of America; or
- a jurisdiction in which AGL Energy reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer AGL Australia Shares to the AGL Energy Shareholder.

Nominees, custodians and other AGL Energy Shareholders who hold AGL Energy Shares on behalf of a beneficial owner resident outside Australia, New Zealand, Canada, Hong Kong, Malaysia, Singapore, the United Kingdom and the United States of America may not forward this Scheme Booklet (or any accompanying document) to anyone outside these countries without the consent of AGL Energy.

Forward looking statements

Forward looking statements may generally be identified by the use of forward looking words such as "believe", "aim", "expect", "anticipate", "intend", "foresee", "likely", "should", "planned", "may", "might", "is confident", "estimate", "potential" or other similar words or phrases. These statements discuss future expectations concerning the results of operations or financial condition of the Group, the Accel Energy Group or the AGL Australia Group, or provide other forward looking statements.

These forward looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which may be beyond AGL Energy's or AGL Australia's control, and which may cause the actual results, performance or achievements of AGL Energy or AGL Australia to be materially different from future results, performance or achievements expressed or implied by such statements.

Other than as required by law, neither AGL Energy, AGL Australia, their officers, advisers nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this Scheme Booklet will actually occur.

Additionally, statements of the intentions of the AGL Energy Board or the AGL Australia Board reflect the present intentions of the AGL Energy Directors and AGL Australia Directors respectively as at the date of this Scheme Booklet and may be subject to change as the composition of the AGL Energy Board and AGL Australia Board alters, or as circumstances require.

Except as required by law, AGL Energy and AGL Australia disclaim any obligation or undertaking to update or revise any forward looking statement in this Scheme Booklet.

Presentation of financial information

The AGL Energy Historical Financial Information within this Scheme Booklet has been derived from the financial reports of AGL Energy for the years ended 30 June 2019, 30 June 2020 and 30 June 2021 and the half-year ended 31 December 2021, which were audited or reviewed by Deloitte Touche Tohmatsu (**DTT**) in accordance with Australian Accounting Standards (**AAS**). DTT issued unqualified audit opinions or review conclusions on these financial statements. The financial statements for these periods are available from AGL Energy's website (www.agl.com.au) or the ASX website (www.asx.com.au).

The AGL Energy Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in AAS, which are consistent with International Financial Reporting Standards (**IFRS**).

The Accel Energy Pro Forma Historical Financial Information and the AGL Australia Pro Forma Historical Financial Information within the Scheme Booklet have been prepared in accordance with the principles set out in Sections 3.7 and 4.7 respectively.

The Financial Information contained in this Scheme Booklet is historical only. Past financial performance is not necessarily a guide to future financial performance.

Privacy and personal information

AGL Energy, AGL Australia and their respective share registries (each an **Organisation**), may collect personal information in the process of implementing the Demerger. The personal information may include the names, addresses, other contact details and details of the shareholdings of AGL Energy Shareholders, and the names of individuals appointed by AGL Energy Shareholders as proxies, corporate representatives or attorneys at the Meetings.

AGL Energy Shareholders who are individuals, and individuals appointed as proxies, corporate representatives or attorneys in respect of whom personal information is collected as outlined in this section, have certain rights to access their personal information. They should call the AGL Energy Shareholder Information Line on weekdays between 9:00am and 5:00pm (AEST) on 1300 148 339 (within Australia) or +61 2 9066 4059 (international) or refer to the AGL Energy website www.agl.com.au/demerger if they wish to request access to the personal information held by any of the Organisations. AGL Energy Shareholders who appoint an individual as their proxy, corporate representative or attorney to vote on the Demerger Resolutions should inform those individuals of the matters outlined in this section.

The personal information will be collected for the purpose of implementing and administering the shareholdings arising from the Demerger. An Organisation may, to the extent permitted by law, disclose personal information collected by it to another Organisation, to securities brokers, to print and mail service providers and any other service providers and advisers engaged by an Organisation in relation to the implementation and administration of the shareholdings arising from the Demerger. The personal information of Sale Facility Participants may also be disclosed to the Sale Agent for the purposes of operating the AGL Australia Sale and Top-up Facility and the Accel Energy Sale and Top-up Facility.

The main consequence of not collecting the personal information outlined in this section would be that AGL Energy may be hindered in, or prevented from, conducting the Meetings and implementing the Demerger.

Interpretation

Capitalised terms and certain abbreviations used in this Scheme Booklet are defined in the Glossary in Section 10.

In this Scheme Booklet, the term "**Accel Energy**" is used to describe AGL Energy as it will exist as if the Demerger has been implemented. Subject to AGL Energy Shareholders passing the Name Change Resolution by the requisite majority, AGL Energy Limited will be renamed Accel Energy Limited but AGL Energy and Accel Energy are, and will remain, the same legal entity. The term "Accel Energy" is used in this Scheme Booklet for simplicity of explanation only, to distinguish between that entity during the period prior to, and the period after, the Demerger.

The term "**AGL Australia**" used in this Scheme Booklet reflects the corporate restructuring referred to in Section 5.2 and the principles of the Separation Deed summarised in Section 5.9, with references to AGL Australia in the historic period inclusive of any businesses that will constitute AGL Australia, and exclusive of any businesses that will not constitute AGL Australia, as it will exist after the Demerger has been implemented. The term "standalone" is used to describe AGL Australia as it will exist after the Demerger, with a separate board and management team from Accel Energy.

References in this Scheme Booklet to the AGL Australia Board or to AGL Australia Directors mean the board or directors of AGL Australia immediately following the Effective Date (or from the time following the Effective Date). References in this Scheme Booklet to strategies or policies to be applied by AGL Australia following the Demerger reflect the views and intentions of the intended directors of AGL Australia from the Effective Date and AGL Australia senior executives.

Unless otherwise stated, all times and dates referred to in this Scheme Booklet are times and dates in AEST. All dates and times following the date of the Scheme Meeting and General Meeting are indicative only and, among other things, are subject to all necessary approvals from the Court and other regulatory authorities. Any changes to the Timetable (which may include an earlier or later date for the Second Court Hearing) will be announced through the ASX and will be notified on AGL Energy's website at www.agl.com.au.

In this Scheme Booklet, unless otherwise specified or the context otherwise requires, references to $ or A$ are to Australian dollars.

All references to years are references to AGL Energy's financial years ended 30 June, unless otherwise indicated.

Any discrepancies between totals in tables and sums of components contained in this Scheme Booklet and between those figures and figures referred to in other parts of this Scheme Booklet are due to rounding.

Date

This Scheme Booklet is dated 6 May 2022.

Supplementary information

Refer to Section 9.11 for information about the steps that AGL Energy will take if information about the Demerger needs to be updated.

Chairman's Letter

Your vote is important and the AGL Energy Directors unanimously recommend that you **VOTE IN FAVOUR** of the resolutions to approve the Demerger.

Peter Botten AC, CBE
Chairman, AGL Energy

Dear AGL Energy Shareholder,

Your vote is a say in the future of your company and is important. Please support the proposed Demerger by voting at the Scheme Meeting and General Meeting on 15 June 2022.

Your Board strongly encourages you to vote in favour of the Demerger.

After considering the advantages, disadvantages and risks of the Demerger, the AGL Energy Directors believe that the Demerger is in your best interests as a Shareholder and is the best option to unlock shareholder value by:

1. creating the potential to maximise the growth in the value of your shares by giving each company the freedom to pursue individual strategies and growth initiatives;
2. supporting shareholder returns through distinct dividend policies and capital structures; and
3. leaving the future value of two ASX-listed companies with you, the shareholder.

Grant Samuel, the Independent Expert appointed to review the Demerger, has also concluded that **the Demerger is in the best interests of AGL Energy Shareholders.** A copy of the Independent Expert's Report is contained in Section 8 of this Scheme Booklet.

Your Board unanimously recommends that you vote in favour of the Resolutions to be considered at the Scheme Meeting and General Meeting. Each AGL Energy Director will vote in favour of the Resolutions at those meetings.

This Scheme Booklet outlines the Demerger, the alternatives considered, the advantages and disadvantages of a demerger and the unsolicited proposals recently received.

Overview of the Demerger

The Demerger will create **two industry leading companies** that will advance Australia's new energy future, enabling a responsible transition of Australia's energy system towards decarbonisation.

- **AGL Australia** will be a leading multi-service energy retailer in Australia, supported by a strong brand, extensive experience in energy retailing and backed by a portfolio of firming, storage and renewable assets.
- **Accel Energy** will be Australia's largest electricity generator, providing secure, low-cost energy whilst driving the energy transition by repurposing its existing generation sites into low-emissions energy hubs and progressing a pipeline of renewable energy projects.

AGL Australia and Accel Energy will be established with **strong foundations for future success and growth** as independent, ASX-listed companies, with the flexibility to develop and execute their own strategic plans to address the challenges and opportunities presented by the rapidly evolving energy market in Australia.

The Demerger will position each company to **create long-term shareholder value** as both companies will be empowered to pursue individual strategies, operational initiatives and opportunities based on their unique assets and capabilities.

Investors will have a **better understanding of the fundamental value** of each business and the **ability to invest separately in each company in line with their individual preferences.** The value of your shares may then benefit from any market re-rating and increased potential for change of control (and associated control premium) for either or both companies.

Each company will have **distinct dividend policies, capital structures and allocations** that will support future growth and shareholder returns. AGL Australia and Accel Energy are anticipated to carry investment grade credit ratings.

The AGL Energy Board anticipates that AGL Australia will have stable earnings and cash flows underpinned by its history as a trusted retailer providing electricity, gas, broadband and other services to households and businesses in Australia. The AGL Energy Board anticipates that AGL Australia will be well positioned to capture value from opportunities in the Australian energy market, including unprecedented rising demand through the scale and strength of its customer base.

Accel Energy will be an experienced and responsible operator of large-scale, complex electricity generation assets that provide critical dispatchable electricity to Australian homes and businesses. Accel Energy will also directly supply large electricity customers, supporting industry and jobs. The AGL Energy Board considers that these assets will continue to be critical to the energy transition by providing a competitive, firm and secure supply of electricity to the Australian electricity market.

Accel Energy has a large project portfolio of approximately 2.7GW of wind, battery, pumped hydro and other low-carbon firming projects. To accelerate the build out of these projects and other future developments, Accel Energy is establishing the **Energy Transition Investment Partnership (ETIP)** with Global Infrastructure Partners as a 49% co-investor (and Accel Energy at 51%). Global Infrastructure Partners is one of the largest investors in renewables worldwide. Accel Energy and Global Infrastructure Partners intend to jointly fund $2.0 billion of equity to the ETIP (split 51% Accel Energy, 49% Global Infrastructure Partners). Securing Global Infrastructure Partners as a co-investor reflects the quality of Accel Energy's transition projects, its expertise in energy development and strong access to capital.

There are certain disadvantages associated with the Demerger set out in Section 1.4, including loss of scale and diversification, one-off implementation costs and additional ongoing operating expenses. The AGL Energy Board considers that the advantages of the Demerger summarised above and detailed in Section 1.3 outweigh the disadvantages of the Demerger.

Following the Demerger, AGL Energy expects to pay a final dividend to AGL Energy Shareholders in September 2022. The amount of the final dividend will be determined in August 2022 by reference to the earnings of the Group during the second half of FY22 and will remain subject to Board discretion, trading conditions and the ongoing funding and liquidity requirements of the business. This dividend will include the earnings of AGL Australia for this period. AGL Energy Shareholders will be entitled to receive the FY22 final dividend **provided that they continue to hold their shares in AGL Energy** (which will be renamed Accel Energy after the Demerger) on the applicable record date for the FY22 final dividend, which is expected to be in early September 2022.

Climate commitments

The AGL Energy Board fully supports the need to decarbonise Australia's energy system. The AGL Energy Board believes that the Demerger will enable AGL Australia and Accel Energy to responsibly accelerate the decarbonisation of Australia's energy system. This can be achieved in a way that protects and enhances system stability, affordability and reliability for customers and shareholder value.

Both AGL Australia and Accel Energy have made firm climate commitments, including the announcement of net zero target dates and the development of new renewable and flexible generation capacity.

- **AGL Australia** will be carbon neutral for all direct[1] emissions upon listing, with a clear pathway to net zero by 2040 for all emissions[2], including for all its suppliers and customers. The first step will be a 50% emissions reduction on FY19 levels by 2030. AGL Australia will also develop or underwrite 3GW of new renewable generation and flexible capacity by 2030.
- **Accel Energy** has brought forward closure dates for all coal-fired generation and committed to reviewing these dates annually. The closure of Liddell Power Station has already commenced and following full closure of the station in 2023, Accel Energy's electricity generation emissions will reduce significantly. Accel Energy will start with approximately 2.7GW of renewable energy projects already at various stages of feasibility, planning or development and with further projects to come as part of the energy hub developments.

The Demerger provides AGL Australia and Accel Energy the opportunity to develop specific and tailored plans, based on their underlying assets and operations, to achieve or outperform these climate commitments whilst addressing the just transition for our impacted employees and communities.

Unsolicited proposals and Galipea interest

On 21 February 2022 and 7 March 2022, the AGL Energy Board rejected unsolicited, preliminary, non-binding indications of interest from a consortium led by Brookfield Asset Management Inc and including Grok Ventures[3] (**Brookfield Consortium**) to acquire 100% of the shares in AGL Energy by way of a scheme of arrangement, initially at $7.50 per share and subsequently at $8.25 per share. The proposals were rejected on the basis that they were well below both the fair value of the company on a change of control basis and relative to the value of the Demerger, and therefore not in the best interests of AGL Energy Shareholders.

Compared to the rejected offers and as acknowledged by Grant Samuel, the Independent Expert, the Demerger enables AGL Energy Shareholders to retain ownership and benefit from the value creation potential of the Demerger. Following the Demerger, Shareholders will have liquid, portfolio investments in two entities that provide exposure to the long-term performance of the respective businesses, retaining the option to capture a potential control premium through any future change of control event.

Another entity associated with Mr Cannon Brookes, Galipea Partnership, has subsequently acquired a substantial holding in AGL Energy (refer to section 9.6 for further details) and Grok Ventures has also written to the AGL Energy Board and stated that it intends to vote the shares it controls against

1 Scope 1 and 2.
2 Scope 1, 2 and 3.
3 The private investment vehicle of Mike Cannon Brookes and his wife, Annie.

Chairman's Letter

the Demerger. The AGL Energy Board remains committed to progressing the Demerger and will continue to be guided by the best interests of AGL Energy Shareholders in its decisions.

Implementation of the Demerger

The Demerger will be implemented by way of a Court approved Scheme. If the Scheme is approved by AGL Energy Shareholders and the Court, AGL Energy will undertake a Capital Reduction, the proceeds of which will be automatically applied to the acquisition of shares in AGL Australia by and on behalf of AGL Energy Shareholders. Following these steps, Eligible Shareholders will hold one share in AGL Australia for every share they owned in AGL Energy on the Record Date, which is expected to be 7:00pm (AEST) on Thursday, 23 June 2022. AGL Energy Limited will also be renamed to Accel Energy Limited.

As part of the Demerger, certain eligible Small Shareholders will have the choice to retain either or both their AGL Australia Shares and their Accel Energy Shares or to sell or top up their shareholdings.

I encourage you to read this Scheme Booklet carefully and in its entirety. It sets out important information that will assist you in making an informed decision about the Demerger, including the advantages, disadvantages, and risks of the Demerger, as well as the risks of holding an investment in AGL Australia Shares and Accel Energy Shares after the Demerger.

If you have any questions about this Scheme Booklet or the Demerger, please consult your legal, financial, taxation or other relevant professional advisor. You are also welcome to call the AGL Energy Shareholder Information Line on weekdays between 9:00am and 5:00pm (AEST) on 1300 148 339 (within Australia) or +61 2 9066 4059 (international) or refer to the AGL Energy website www.agl.com.au/demerger.

In order to proceed, the Demerger must be approved by AGL Energy Shareholders and your vote is important. I encourage you to vote on the Resolutions in person, by proxy, by attorney or by corporate representative, at the General Meeting and the Scheme Meeting, which will be held consecutively on Wednesday, 15 June 2022 at the International Convention Centre Sydney, 14 Darling Drive, Sydney NSW 2000, beginning at 10:30am (AEST).

If you are voting by proxy, your completed Voting Form must be received by 10:30am (AEST) on Monday, 13 June 2022. Further information about how to vote on the Resolutions is set out on page 13 of this Scheme Booklet.

> Your vote is important and the AGL Energy Directors unanimously recommend that you vote in favour of the resolutions to approve the Demerger.

Yours sincerely,

Peter Botten AC, CBE
Chairman, AGL Energy

The AGL Energy Board considers that the Demerger of AGL Australia from AGL Energy's current business is in the best interests of shareholders as it creates long-term shareholder value and a strong future for both parts of the business.

The AGL Energy Board believes the Demerger will:

Unlock Value

- ✓ Distinct dividend policies, capital structures and financial policies appropriate for each company will support both future growth and appropriate returns for shareholders.
- ✓ The entities will have separate listings on the ASX, increasing potential for a change of control for the assets of either or both businesses with the potential for each company to separately maximise future market valuation.

Create Two Industry Leading Companies

- ✓ Investors will have a better understanding of the fundamental value of each company, can invest in line with their preferences and may benefit from the potential for a market re-rating.
  - AGL Australia will be a leading multi-service energy retailer in Australia, supported by a sophisticated market trading function with access to firming, storage and renewable assets to help manage its energy portfolio risk. It is expected to appeal to shareholders that seek exposure to energy or retail companies that have strong ESG credentials today.
  - Accel Energy will be Australia's largest electricity generator, providing low-cost energy and driving the energy transition by repurposing its sites into low-emissions energy hubs. It is progressing a large pipeline of renewable energy projects and can leverage its existing assets and expertise to create a clear pathway to achieving its energy transition commitments. Its performance will be linked to power prices, appealing to shareholders that seek this exposure.

Provide Tailored Purpose and Strategies

- ✓ The two companies will be empowered to pursue individual strategies, operational initiatives and opportunities based on their unique assets and capabilities, that will better enable the companies to realise shareholder value.

Enable The Future of Energy

- ✓ The Demerger will enable AGL Australia and Accel Energy to work to advance Australia's new energy future, responsibly accelerating decarbonisation beyond what could be achieved under AGL Energy's existing integrated structure.

There are certain disadvantages associated with the Demerger set out in Section 1.4, including:

- loss of scale and diversification (including loss of certain benefits of vertical integration);
- one-off implementation costs; and
- additional ongoing operating expenses.

The AGL Energy Board considers that the advantages of the Demerger summarised above and detailed in Section 1.3 outweigh the disadvantages of the Demerger.

Each AGL Energy Director recommends that you vote in favour of the resolutions to approve the Demerger.

Overview of AGL Australia and Accel Energy

Two industry leading companies

AGL Australia will be a leading multi-service energy retailer in Australia, with over 4 million customer accounts and a strong base of renewables, firming and storage assets.

- AGL Australia aims to meet growing customer demand for energy services including distributed energy, carbon neutral products and adjacent services.
- AGL Australia will be carbon neutral for all Scope 1 and 2 emissions by 1 July 2022 and achieve net zero by 2040 for all emissions (Scope 1, 2 and 3) with a 50% reduction on FY19 levels by 2030.
- AGL Australia will drive new renewable capacity and will underwrite 3GW of new renewable generation and flexible capacity by 2030.
- AGL Australia will benefit from optimising its electricity supply strategy, efficiently sourcing energy that better matches its demand profile and participating in related investment and growth opportunities.
- AGL Australia has a highly flexible gas portfolio with the ability to source gas for customer demand from existing and new domestic supply sources, and potentially from proposed third party regasification projects.
- AGL Australia aims to adopt a dividend policy of 60% to 75% of Underlying NPAT. Dividends are expected to be partly franked in the short term and expected to be fully franked over the longer term.
- AGL Australia will adopt financial policies consistent with maintaining an investment grade credit rating, supported by the essential nature of the services it provides and its strong brand.

Accel Energy will be Australia's largest electricity generator, providing low-cost energy whilst driving the energy transition by owning and developing a pipeline of renewable energy projects.

- Accel Energy aims to drive the energy transition by repurposing its thermal sites to low-emissions energy hubs and developing its current pipeline of approximately 2.7GW of renewable energy projects, with a clear pathway to accelerate.
- Accel Energy will support the grid with low-cost energy while reducing Scope 1 and 2 emissions, achieving net zero for its electricity generation portfolio by no later than FY47. Accel Energy will responsibly close Liddell Power Station in 2023, Bayswater Power Station between 2030-2033 and Loy Yang A Power Station no later than 2040-2045.
- Accel Energy aims to adopt a dividend policy reflecting 80% to 100% of free cash flows* after servicing net finance costs. Dividends are expected to be unfranked in the first few years following the Demerger as tax losses are utilised.
- Accel Energy will adopt financial policies consistent with the maintenance of an investment grade credit rating, supported by its leading low-cost position in the electricity generation sector and a prudent debt structure. Accel Energy will also benefit from additional balance sheet flexibility provided by the 15% shareholding in AGL Australia.[4]
- Progressing the Energy Transition Investment Partnership will enable Accel Energy to leverage significant demand from capital providers to fund attractive energy transition projects in line with its strategy to redevelop its sites as low-carbon energy hubs.

* Free cash flows defined as: operating cash flow less tax, working capital requirements, sustaining capex and contributions for planned growth/investment capex.

4 If Accel Energy requires additional liquidity, the 15% shareholding in AGL Australia can be partially or fully sold down, given it is a liquid and price observable asset.

Existing AGL Energy shareholders will hold one share in each entity

ASX Listed (ASX:AGL)

ASX Listed (ASX:AXL)

Consumer Customers

- Consumer and small business retailing
- Electricity, gas and solar
- Multi-service including broadband and mobile

Business and Commercial Customers

- Energy services and solutions
- Solar and other asset-backed solutions
- Perth Energy

Trading, Supply & Operations

- Electricity and gas market trading and contracting
- Generation portfolio operations
- Renewable and flexible capacity development

Trading & origination

- Electricity market trading
- Carbon and green product trading
- Commercial and Industrial customer portfolio
- Origination
- Fuel supply procurement

Operations

- Liddell and Bayswater Power Stations
- Loy Yang A Power Station
- Loy Yang Mine
- Torrens Power Station
- Renewables offtakes and dispatch
- Upstream and midstream gas assets
- Barker Inlet Power Station Operation & Maintenance (agreement with AGL Australia)

Site Transition

- Decom-missioning, demolition and rehabili-tation of sites going through closure and/ or progressive rehabilitation

Energy Hubs

- Business partnerships and collaborations
- Greenfield project development
- Renewables and low-carbon firming project pipeline
- Project governance and management

STRATEGIC INVESTMENTS

- Tilt Renewables (20%)
- ActewAGL (50% of retail)

STRATEGIC INVESTMENTS

- 15% holding in AGL Australia
- RayGen Solar Generation and Thermal Storage

COMBINED BUSINESS INTERACTIONS

Accel Energy will supply a large proportion of AGL Australia's electricity in the early years

Ongoing relationships for up to a period of 42 months

Key dates relating to the Demerger

Important dates

Indicative date and time (AEST)	Event
Fri 06 May 2022	Date on which the Court ordered the convening of the Scheme Meeting.
Mon 13 June 2022 By 10:30am	Last time and date by which Voting Forms for the General Meeting and Scheme Meeting must be received by the AGL Energy Share Registry.
Mon 13 June 2022 By 7:00pm	Last time and date for determining eligibility to vote at the General Meeting and Scheme Meeting.
Wed 15 June 2022 at 10:30am	General Meeting.
Wed 15 June 2022 At the later of 10:45am or the conclusion of the General Meeting	Scheme Meeting.
Mon, 20 June 2022	Court hearing for approval of the Scheme (**Second Court Hearing**).
Tue 21 June 2022 By 5:00pm	Last time and date by which Sale and Top-up Facility Forms must be received by AGL Energy Share Registry (for Sale Facility Participants).
Tue 21 June 2022	Effective Date and last date AGL Energy Shares trade on the ASX cum-entitlements under the Demerger.

Indicative date and time (AEST)	Event
Wed 22 June 2022	**ASX listing of AGL Australia:** AGL Australia Shares commence trading on the ASX on a deferred settlement basis under the code 'AGK'. AGL Energy Shares trade on the ASX on an ex-Demerger entitlements basis.
Thu 23 June 2022 at 7:00pm	Time and date for determining entitlement to AGL Australia Shares under the Demerger (**Record Date**).
Thu 30 June 2022	**Implementation Date** and transfer of AGL Australia Shares to Eligible Shareholders (other than Selling AGL Australia Shareholders) and Sale Agent.
Thu 30 June 2022	Dispatch of holding statements to Eligible Shareholders (other than Selling AGL Australia Shareholders).
Mon 4 July 2022	Normal trading of AGL Australia Shares on the ASX commences.
By no later than Fri 29 July 2022	Completion of sales and purchases of Accel Energy Shares and AGL Australia Shares under the Accel Energy Sale and Top-up Facility and the AGL Australia Sale and Top-up Facility (respectively).
By Mon 15 August 2022	Dispatch of payment to Ineligible Overseas Shareholders, Selling AGL Australia Shareholders and Selling Accel Energy Shareholders.
By Mon 15 August 2022	Dispatch of holding statements to participating shareholders.

All dates and times following the date of the General Meeting and Scheme Meeting are indicative only and, among other things, are subject to all necessary approvals from the Court and other regulatory authorities. Any changes to the Timetable (which may include an earlier or later date for the Second Court Hearing) will be announced through the ASX and will be notified on AGL Energy's website at www.agl.com.au.

Actions for AGL Energy Shareholders

What AGL Energy Shareholders should do

Step 1

Carefully read this Scheme Booklet

You should read this Scheme Booklet and the Notices of Meetings in full, including the advantages, disadvantages and risks of the Demerger as set out in Section 1, before making any decision on how to vote on the Demerger Resolutions.

There are answers to questions you may have about the Demerger in the Frequently asked questions section.

If you have any additional questions in relation to this document or the Demerger, please call the AGL Energy Shareholder Information Line on weekdays between 9:00am and 5:00pm (AEST) on 1300 148 339 (within Australia) or +61 2 9066 4059 (international) or refer to the AGL Energy website www.agl.com.au/demerger.

Step 2

Vote on the Resolutions

AGL Energy Shareholders who are registered on the AGL Energy Share Register at 7:00pm (AEST) on Monday, 13 June 2022, are entitled to vote on the Resolutions. A voting exclusion (described on page 338 of this Scheme Booklet) applies to the Benefits Resolution.

AGL Energy Shareholders can vote in the following ways:

online – by attending the General Meeting via the online platform at https://meetnow.global/MD75Z5T from 10:30am (AEST) on Wednesday, 15 June 2022;

in person – by attending the General Meeting and Scheme Meeting at the International Convention Centre Sydney, 14 Darling Drive, Sydney NSW 2000 from 10:30am (AEST) on Wednesday, 15 June 2022; or;

by proxy (including direct voting) –

- by lodging a proxy online at www.investorvote.com.au. To submit your proxy voting instructions, you will need your Securityholder Reference Number or Holder Identification Number and allocated Control Number, as shown on your Voting Form;
- by mailing the Voting Form to Computershare Investor Services Pty Limited at GPO Box 1282, Melbourne VIC 3001, Australia (using the envelope provided); or
- by faxing the Voting Form to 1800 783 447 (within Australia) or +61 3 9473 2555 (international).

If a shareholder who is entitled to vote at the Meetings appoints a proxy, they may specify the way that the proxy is to vote in relation to a resolution and indicate that the specification is to be regarded as a direct vote.

To be valid, your proxy must be received by the AGL Energy Share Registry by 10:30am (AEST) on Monday, 13 June 2022.

Instructions on how to participate in the General Meeting and Scheme Meeting via the online platform, including how to vote and ask written and verbal questions, are set out in the Notices of Meetings and the Online Meeting Guide available at https://meetnow.global/MD75Z5T.

In the event that it is necessary for AGL Energy to give further updates on the arrangements for the General Meeting or Scheme Meeting or to make alternative arrangements for the General Meeting or Scheme Meeting, we will inform you through AGL Energy's website and the ASX Market Announcements Platform.

Step 3

If you hold 500 AGL Energy Shares or less, choose whether to participate in the Accel Energy Sale and Top-up Facility or the AGL Australia Sale and Top-up Facility

If you are a Small Shareholder (who holds 500 AGL Energy Shares or less as at the Record Date), you may elect to have all your Accel Energy Shares and/or the AGL Australia Shares that you would otherwise receive under the Demerger sold by the Sale Agent, in each case with the proceeds of such sale(s) remitted, free of any brokerage costs or stamp duty.

If, as at the Record Date, you hold 500 AGL Energy Shares or less and your registered address on the AGL Energy Share Register is in Australia or New Zealand, you may also elect to purchase additional Accel Energy Shares and/or AGL Australia Shares in increments of $500 and up to a maximum of $2,000 of additional shares, free of any brokerage costs or stamp duty.

To make an election, submit your election online at www.aglelections.com.au, or by completing and returning the Sale and Top-up Facility Form(s) (as applicable) using the enclosed envelope so that it is received by the AGL Energy Share Registry by 5:00pm (AEST) on Tuesday, 21 June 2022. The Sale and Top-up Facility Forms may also be obtained by phoning the AGL Energy Shareholder Information Line. If you make an election to both buy and sell Accel Energy Shares or AGL Australia Shares (as applicable) under the Accel Energy Sale and Top-up Facility or AGL Australia Sale and Top-up Facility (as applicable), your election to buy will override your election to sell such shares.

Frequently Asked Questions

Question	Answer	Section
Demerger proposal		
What is the Demerger?	The Demerger is the separation of AGL Energy into two industry leading companies that will be named AGL Australia and Accel Energy. Both are designed to participate in the rapidly changing energy markets more effectively, better serve customer needs, and meet community expectations. The Demerger will create a strong future for the two separate companies, supporting the responsible and orderly transition of Australia's energy system towards a decarbonised future: • **AGL Australia** will be a leading multi-service energy led retailer in Australia, supported by a sophisticated market trading function and a strong base of firming, storage and renewable assets. • **Accel Energy** will be Australia's largest electricity generator, providing secure, low-cost energy whilst driving the energy transition by repurposing its existing generation sites into low-emissions energy hubs and progressing a pipeline of renewable energy projects. AGL Australia and Accel Energy will be established with strong foundations for future success and growth as independent, ASX-listed companies. The Demerger does not require any AGL Energy Shareholder to pay cash for AGL Australia Shares.	1.1
What is the recommendation of the AGL Energy Directors?	Each AGL Energy Director recommends that you vote in favour of the Resolutions, to be considered at the General Meeting and Scheme Meeting. Each AGL Energy Director intends to vote any AGL Energy Shares held or controlled by him or her in favour of the Resolutions.	Chairman's Letter
What is the Independent Expert's opinion of the Demerger?	The Independent Expert has concluded that the Demerger is in the best interests of AGL Energy Shareholders and the Capital Reduction will not materially prejudice the ability of AGL Energy to pay its existing creditors. A copy of the Independent Expert's Report is contained in Section 8.	8
What alternatives did the AGL Energy Board consider?	Alternatives considered by the AGL Energy Board included: • maintaining the current business structure; • an internal separation of business divisions within AGL Energy; • a partial or whole strategic sale to another buyer; • an unsolicited offer for the whole of AGL Energy; and • an Initial Public Offering (**IPO**). Having regard to the available alternatives that were considered, and the advantages, disadvantages and risks set out in Sections 1.3, 1.4 and 1.5 respectively, the AGL Energy Board concluded that the Demerger is in the best interests of AGL Energy Shareholders.	1.2
What will happen to AGL Energy Shares if the Demerger proceeds?	Existing shareholders of AGL Energy will receive one share in AGL Australia for every one share of AGL Energy they hold on the Record Date. AGL Energy Shareholders will retain their existing AGL Energy Shares and AGL Energy will be renamed Accel Energy.	None

Question	Answer	Section
Demerger proposal		
Will AGL Energy Shareholders receive an FY22 final dividend?	AGL Energy (which will be renamed Accel Energy as part of the Demerger) expects to pay a final dividend to Accel Energy Shareholders in September 2022, based on AGL Energy's existing dividend policy to target a payout ratio of approximately 75% of Underlying Profit after tax. The dividend will remain subject to Board discretion, trading conditions and the ongoing funding and liquidity requirements of the business. The amount of the final dividend will be determined by the Accel Energy Board in August 2022 by reference to the earnings of the Group during the second half of FY22, which will include the earnings of AGL Australia for this period. AGL Energy Shareholders will be entitled to receive the FY22 final dividend, provided that they continue to hold their shares in AGL Energy (which will be renamed Accel Energy after the Demerger) on the applicable record date for the FY22 final dividend, which is expected to be in early September 2022.	4.6.2
What will the ASX code for each company be?	AGL Australia will commence trading using the ASX code 'AGK'. It is anticipated that AGL Australia will change its ASX code from 'AGK' to 'AGL' in the second half of 2022. On or around 5 July 2022, AGL Energy (which will become Accel Energy) will commence trading on the ASX under its new name, Accel Energy Limited, and under the ASX code 'AXL'.	None
Will Accel Energy retain a shareholding in AGL Australia?	Accel Energy will have a minority ownership interest of 15% in AGL Australia following the Demerger. This shareholding will enable Accel Energy to share in the anticipated value creation in AGL Australia following the Demerger and provide Accel Energy with additional balance sheet flexibility.[5] Accel Energy will not have representation on the AGL Australia Board and will account for its investment in AGL Australia as a financial asset.	4.3.8.1
What are Accel Energy's intentions regarding its retained shareholding in AGL Australia?	Accel Energy will retain its shareholding in AGL Australia to the extent it is in the interests of Accel Energy Shareholders to do so. There are no escrow or similar restrictions on the disposal by Accel Energy of its 15% shareholding.	4.3.8.1

5 If Accel Energy requires additional liquidity, the 15% shareholding in AGL Australia can be partially or fully sold down, given it is a liquid and price observable asset.

Frequently Asked Questions

Question	Answer	Section
Advantages, disadvantages, and risks of the Demerger		
What are the advantages of the Demerger?	The AGL Energy Board considers that the Demerger of AGL Australia from AGL Energy's current business is in the best interests of shareholders as it will create long-term shareholder value and a strong future for both parts of the business. The AGL Energy Board believes the Demerger will: ✔ Unlock value Distinct dividend policies, capital structures and financial policies appropriate for each company that will support both future growth and appropriate returns for shareholders. The entities will have separate listings on the ASX, increasing potential for a change of control for the assets of either or both businesses with the potential for each company to separately maximise future market valuation. ✔ Create two industry leading companies Investors will have a better understanding of the fundamental value of each company, can invest in line with their preferences and may benefit from the potential for a market re-rating. ✔ Provide tailored purpose and strategies The two companies will be empowered to pursue individual strategies, operational initiatives and opportunities based on their unique assets and capabilities, that will better enable the companies to realise shareholder value. ✔ Enable the future of energy The Demerger will enable AGL Australia and Accel Energy to work to advance Australia's new energy future, responsibly accelerating decarbonisation beyond what could be achieved under AGL Energy's existing integrated structure. These advantages are discussed in further detail in Section 1.3. You should review this section carefully before deciding whether or not to vote in favour of the Demerger.	1.3
What are the main disadvantages of the Demerger?	The key disadvantages of the Demerger include: • The Demerger will create two separate companies listed on the ASX, each of which will be smaller and less diversified than AGL Energy immediately before the Demerger. • There will be a loss of the benefits of having a single vertically integrated business covering both the baseload generation and retail side of the energy supply chain. • There will be approximately $260m (pre-tax) in one-off transaction costs associated with the Demerger. • There will be an increase in aggregate corporate and operating costs of AGL Australia and Accel Energy of $35m per annum. • The AGL Energy Board considers that there is potential for these additional costs to be offset by operating cost savings that AGL Australia and Accel Energy will have the potential to realise following the Demerger, including reduced overheads driven by a more focused organisational structure. • Net tax inefficiencies at a net present value of approximately $125m are expected to arise as a result of the Demerger. These net tax inefficiencies result from the loss of tax base on the Loy Yang capital allowance assets as referred to in Accel Energy's pro forma financial information, and the tax treatment of transaction and separation costs and adjustments arising on tax consolidation of AGL Australia. These disadvantages are discussed in further detail in Section 1.4. You should review this section carefully before deciding whether or not to vote in favour of the Demerger.	1.4

Question	Answer	Section
Advantages, disadvantages, and risks of the Demerger		
What are the corporate and operating costs associated with the Demerger?	The Demerger will result in some additional corporate and operating costs, offset by the implementation of operational cost savings enabled by the Demerger. Following the Demerger, both Accel Energy and AGL Australia will be separate listed entities on the ASX, which will result in net additional corporate and operating costs of approximately $35m per annum in aggregate across both entities relative to the current position of the Group which are expected to be offset by cost savings driven by more focused organisational structures.	1.4.4
What are the potential risks associated with the Demerger?	The main risks of the Demerger include: • The combined market value of AGL Australia Shares and Accel Energy Shares post Demerger may be less than the market value of AGL Energy. • Either or both of AGL Australia and Accel Energy may not be able to remain a constituent of the S&P/ASX 100 index. • There may be unexpected delays, costs or other issues in separating AGL Australia and Accel Energy as standalone legal entities. • As standalone entities listed on the ASX, AGL Australia and Accel Energy may lose the synergy benefits associated with operating as integrated entities within AGL Energy, including the benefits arising from volume and scale (such as discounts arising from group-wide purchasing contracts) and reduced operating costs arising from shared services arrangements. • Certain contracts to which the AGL Australia entities or Accel Energy entities are a party contain provisions enabling the counterparty to terminate the contract, require additional security or require review of the contract terms in certain events. These risks are discussed in Section 1.5. You should review this section carefully before deciding whether or not to vote in favour of the Demerger.	1.5
AGL Australia after Demerger		
What is AGL Australia?	AGL Australia will be a leading multi-service energy retailer in Australia, supported by access to firming, storage and renewable energy assets. AGL Australia will provide electricity, gas and other services to around 30% of households in Australia and has a Business and Commercial division which partners with Australian business. AGL Australia will also own physical storage, firming and renewable assets to assist in the management of the energy needs of its customers. It will maintain offtake arrangements with Accel Energy for a period up to 2027. The supply and trading division of AGL Australia will be primarily responsible for managing the wholesale market risks arising from the company's demand and supply portfolio. This division will also manage the offtake arrangements with Accel Energy.	3.1 and 3.2

Frequently Asked Questions

Question	Answer	Section
AGL Australia after Demerger		
What are the key strengths of AGL Australia?	Some of the key strengths of the AGL Australia Business include: • It will be a leading multi-service energy retailer in Australia, with a low cost to serve and the ability to provide additional essential services to customers beyond electricity and gas. • It has lower rates of customer churn relative to the broader industry, reflecting its strong brand, customer experience and trust of its customers. • It will have market leading trading and portfolio optimisation capabilities to match its customers' energy needs at a competitive price with a prudent approach to risk management. • It will have extensive experience in energy retailing which uniquely positions AGL Australia to meet customers' needs through the energy transition. • Its wholesale energy needs will be backed by a portfolio of flexible generation, storage and renewable generation assets (both physical and contractual). • It will have leading ESG credentials, including becoming net zero for Scope 1 and 2 emissions post Demerger, with a commitment to be fully net zero by 2040 and underwriting 3GW of renewable energy generation capacity by 2030.	3.2.2
What are the risks with respect to an investment in AGL Australia?	AGL Australia will be subject to risks which may adversely affect its future operating or financial performance, or the investment return or value of AGL Australia Shares. Many of these risks are existing business risks, to which AGL Energy is already exposed, while others arise out of, or increase as a result of, the Demerger. These risks are discussed further in Section 3.12. You should review this section carefully before deciding whether or not to vote in favour of the Demerger.	3.12
When will AGL Australia Shares trade separately?	It is expected that AGL Australia Shares will commence trading on the ASX on Wednesday, 22 June 2022, initially on a deferred settlement basis, with ASX code 'AGK'. It is anticipated that AGL Australia will change its ASX code from 'AGK' to 'AGL' in the second half of 2022. It is the responsibility of Eligible Shareholders to determine their entitlement to AGL Australia Shares before trading in AGL Australia Shares, especially during the deferred settlement period. Trading on the ASX of AGL Australia Shares on a normal settlement basis is expected to commence on 4 July 2022.	5.7
What will AGL Australia's share price be?	The market price of AGL Australia Shares after the Demerger is not fixed and will be determined on the usual basis of market supply and demand.	None

Question	Answer	Section
AGL Australia after Demerger		
What climate commitments has AGL Australia made?	AGL Australia will be strongly committed to leading Australia's energy system towards decarbonisation. It will make the following climate commitments: • from listing – Carbon neutral post Demerger for all Scope 1 and 2 emissions based on asset profile and utilisation of carbon offsets; • 2022 – Implement an internal carbon pricing mechanism to support investment decisions; • 2023 to 2030 – Drive the evolution and transparency of voluntary carbon markets, alongside industry partners and government agencies; • 2030 – 50% emissions reduction on FY19 levels and underwrite 3GW renewable generation and flexible capacity by 2030; and • 2040 – Net zero on Scope 1, 2 and 3 emissions. These targets will be achieved through: • reduction in overall NEM emissions intensity; • building, contracting or underwriting renewable and flexible assets; • supporting customers to reduce their emissions; and • utilising quality offsets. Further details on how this will be achieved can be found in Section 3.2.2.3.	1.3.2 and 3.2.2.3
What will AGL Australia's dividend policy be?	AGL Australia will adopt a dividend policy of 60% to 75% of Underlying NPAT. Dividends are expected to be partly franked in the short term and expected to be fully franked over the longer term. AGL Australia is expected to pay its first dividend in respect of FY23.	3.6.2
Will AGL Australia have debt?	AGL Australia will have total available debt facilities of approximately $2,440m post Demerger inclusive of $2,015m of bank debt and contingent instrument facilities of $425m. In addition, it will have $661m of USPP notes. AGL Australia is anticipated to carry an investment grade credit rating following the Demerger.	3.6.1
Who will be on the AGL Australia Board?	Following the Demerger, the AGL Australia Board will comprise of six directors: • Patricia McKenzie – Chair • Christine Corbett – Managing Director and CEO • Jacqueline Hey – Non-Executive Director • Mark Bloom – Non-Executive Director • Fraser Whineray – Non-Executive Director* • Wendy Stops – Non-Executive Director*. * To be appointed as directors subject to the Demerger becoming Effective. Following the Demerger, AGL Australia will seek to appoint an additional director with expertise in ESG and sustainability.	3.4.1
Who will be the key management personnel of AGL Australia?	Following the Demerger, the AGL Australia key management personnel will comprise of: • Christine Corbett – Managing Director and CEO • Damien Nicks – Chief Financial Officer • Jo Egan – Chief Customer Officer • Melinda Buchanan – EGM Trading, Supply & Operations.	3.4.2

Frequently Asked Questions

Question	Answer	Section
AGL Australia after Demerger		
When will AGL Australia release its first results as a standalone company?	AGL Australia is expected to release an FY22 Annual Report in August 2022.	None
Accel Energy		
What is Accel Energy?	Accel Energy will be one of Australia's leading electricity generators, providing low-cost energy whilst driving the energy transition by owning and developing a pipeline of renewable energy projects. Accel Energy will operate existing thermal assets that form an important part of electricity supply for Australia's National Electricity Market, and will focus on rehabilitating, transitioning and repurposing these sites into low-emissions energy hubs. Furthermore, through the $2.0 billion Energy Transition Investment Partnership (**ETIP**) with Global Infrastructure Partners, Accel Energy has secured access to transition capital in order to increase the pace at which it can realise energy transition projects and drive decarbonisation. Global Infrastructure Partners intends to fund jointly with Accel Energy $2.0 billion of equity funding to the ETIP. Global Infrastructure Partners will also be funding Accel Energy's share of expected development costs to progress the existing approximately 2.7GW development pipeline through to the 'final investment decision' stage. Accel Energy will commit to close all of its coal fire powered generation assets by 2045 (with a significant proportion to close by 2033) and has approximately 2.7GW of renewable energy projects currently in its development pipeline.	4.1 and 4.2
What are the key strengths of Accel Energy?	Some of the key strengths of the Accel Energy Business include: • It will hold the position of lowest-cost firm generator[6] in Australia through its Loy Yang A operations, and in New South Wales through its Bayswater operations. These assets are important to the energy supply security in the NEM and maintaining the stability of the electricity network as more renewable and storage assets are built. • It will have longstanding operational expertise, giving it the capability to operate its generation assets more flexibly. • It will have some of the leading trading and portfolio optimisation capabilities in the Australian energy market. • It will own energy generation sites with privileged connection assets, which can be leveraged to create low-emissions energy hubs, with projects already underway and planned to reach feasibility in the near term. • It will have a pipeline of large-scale renewable energy and storage projects and an experienced development team with unique skills and capabilities to bring these projects to fruition through the ETIP with Global Infrastructure Partners as a 49% co-investor. Global Infrastructure Partners intends to fund jointly with Accel Energy $2.0 billion of equity funding to the ETIP. Global Infrastructure Partners will also be funding Accel Energy's share of expected development costs to progress the existing approximately 2.7GW development pipeline through to the 'final investment decision' stage. • It will have strong relationships with industrial consumers and long-term contracts with key customers.	4.2.2

6 On a short run marginal cost (SRMC) basis.

Question	Answer	Section
Accel Energy		
What are the risks with respect to an investment in Accel Energy?	Accel Energy will be subject to risks which may adversely affect its future operating or financial performance, or the investment return or value of Accel Energy Shares. Many of these risks are existing business risks, to which Accel Energy will already be exposed, while others arise out of, or increase as a result of, the Demerger. These risks include the risk that changes in environmental and climate regulation made by federal and state governments could result in a requirement to accelerate the closure of Accel Energy's coal-fired assets. These risks are discussed further in Section 4.12. You should review this section carefully before deciding whether or not to vote in favour of the Demerger.	4.12
Will Accel Energy own any AGL Australia Shares after the Demerger?	Accel Energy will hold a minority ownership interest of 15% in AGL Australia following the Demerger.	4.3.8.1
What will the Accel Energy Share price be after the Demerger?	The market price of Accel Energy Shares after the Demerger is not fixed and will be determined on the usual basis of market supply and demand.	None
What climate commitments has Accel Energy made?	Accel Energy will be strongly committed to leading Australia's energy system towards decarbonisation, and as Australia's largest energy generator, it has a critical role to play in the process of responsible decarbonisation without significantly impacting energy reliability and affordability. Accel Energy will make the following climate commitments: • to responsibly transition its generation operations to reduce existing carbon footprint by closing its coal operations in the following timeframes: – Liddell Power Station: April 2023; – Bayswater Power Station: 2030-2033; and – Loy Yang A Power Station: 2040-2045; • to rehabilitate, transition and repurpose its existing thermal generation sites into low-carbon energy hubs; • to invest in renewable generation assets and technology (including a pipeline of approximately 2.7GW of renewable development projects), for which $1.0 billion of equity co-investment has already been secured through the ETIP; • to advocate for responsible energy system change driven by government, industry and the community; and • to conduct annual reporting and review of progress against these climate commitments.	4.8.2
Who will be on the board of Accel Energy?	Following the Demerger, the Accel Energy Board will comprise of: • Peter Botten AC, CBE – Chairman • Graeme Hunt – Managing Director and CEO • Diane Smith-Gander AO – Non-Executive Director • Graham Cockroft – Non-Executive Director • Vanessa Sullivan – Non-Executive Director.	4.4.1

Frequently Asked Questions

Question	Answer	Section
Accel Energy		
Who will be the key management personnel of Accel Energy?	Following the Demerger, the Accel Energy key management personnel will comprise of: • Graeme Hunt – Managing Director and CEO • Markus Brokhof – Chief Operating Officer and Deputy CEO • Gary Brown – Chief Financial Officer.	4.4.2
What will Accel Energy's dividend policy be?	Following payment of the AGL Energy FY22 final dividend, Accel Energy intends to adopt a dividend policy whereby it pays dividends reflecting 80% to 100% of free cash flows after servicing net finance costs. Free cash flows will be defined as: operating cash flow less tax, working capital requirements, sustaining capex and contributions for planned growth/investment capex. Accel Energy will distribute dividends with the maximum practicable franking credits for the purposes of the Australian dividend imputation system to the extent there are material credits available. However, franking credits are not expected to be available until at least FY25 due to the fact that Accel is not expected to be paying tax until at least FY25.	4.6.2
Will Accel Energy have debt?	On implementation of the Demerger, Accel Energy will have the following committed debt facilities in place: • $866m of term funding comprised of: – $660m amortising syndicated bank facility with a tenor of 7 years; – $14m bilateral amortising bank facility with a tenor of at least 2 years; – $119m of amortising USPP notes with a tenor of 7 years; – $23m of bullet USPP notes with a tenor of 7 years; and – $51m of amortising CPI bonds maturing in 2027; • $310m revolving cash advance and swinging facilities with a tenor of 5 years to fund short-term working capital and liquidity requirements; and • $240m bank guarantee facilities with a tenor of 5 years to support trading and other operational collateral requirements. Accel Energy is anticipated to carry an investment grade credit rating.	4.6.1
Implementation and process		
What are the mechanics of the Demerger?	To implement the Demerger, AGL Energy will undertake a Capital Reduction, the proceeds of which will be automatically applied to the acquisition of AGL Australia Shares by or on behalf of AGL Energy Shareholders. Eligible Shareholders will receive one AGL Australia Share for every AGL Energy Share held at the Record Date. AGL Energy Shareholders will retain their existing AGL Energy Shares and AGL Energy will be renamed Accel Energy. Following the Demerger, Accel Energy Shareholders at the Record Date will hold 85% of the AGL Australia Shares on issue, with the remaining 15% of the AGL Australia Shares to be held by Accel Energy.	5

Question	Answer	Section
Implementation and process		
What is the Capital Reduction?	The Capital Reduction is a mechanical step in the implementation of the Demerger. AGL Energy has proposed the Capital Reduction to reduce its share capital on the Implementation Date by the Capital Reduction Amount. The Capital Reduction Amount will not be paid in cash to AGL Energy Shareholders. The Capital Reduction Amount will be applied on behalf of AGL Energy Shareholders as consideration for the transfer of AGL Australia Shares under the Scheme. The Capital Reduction is conditional on the Scheme becoming Effective. This means that AGL Energy will not undertake the Capital Reduction unless the Scheme becomes Effective. The Capital Reduction must be approved by a simple majority (more than 50%) of votes cast by AGL Energy Shareholders on the Capital Reduction Resolution.	5.4 and 13
What is the Name Change?	As part of the Demerger, AGL Energy has proposed to change its name to Accel Energy, effective from the later of the Effective Date and the date that ASIC updates its register to reflect the new name. AGL Energy Shareholders will be given the opportunity to vote on the Name Change Resolution. On or around 5 July 2022, AGL Energy expects to commence trading on the ASX under its new name, Accel Energy Limited, and under the ASX code 'AXL'.	5.3.1 and 13
What are the key steps to implement the Demerger?	At the First Court Hearing which occurred on 5 and 6 May 2022, AGL Energy obtained an order from the Court to convene the Scheme Meeting. The key remaining steps to implement the Demerger are: • approval of the Capital Reduction Resolution and Financial Assistance Resolution by AGL Energy Shareholders at the General Meeting; • approval of the Scheme by AGL Energy Shareholders at the Scheme Meeting; • Court approval of the Scheme at the Second Court Hearing; • lodgement of the Court order with ASIC which will cause the Scheme to become Effective; • completion of the Corporate Restructure; • approval of admission of AGL Australia to the Official List and the official quotation of AGL Australia Shares by the ASX; and • Eligible Shareholders (other than Selling AGL Australia Shareholders) receiving AGL Australia Shares on implementation of the Scheme. If the Court approves the Scheme, AGL Australia Shares are expected to trade separately on the ASX from 22 June 2022, initially on a deferred settlement basis. Trading on the ASX of AGL Australia Shares on a normal settlement basis is expected to commence on 4 July 2022.	5

Frequently Asked Questions

Question	Answer	Section
Implementation and process		
Which AGL Energy Shareholders are eligible to participate in the Demerger?	AGL Energy Shareholders registered on the AGL Energy Share Register as the holders of AGL Energy Shares at the Record Date may be eligible to receive AGL Australia Shares, depending on the location of their registered address. AGL Energy Shareholders whose registered address on the AGL Energy Share Register at the Record Date is in the following jurisdictions will be Eligible Shareholders: • Australia, New Zealand, Canada, Hong Kong, Malaysia, Singapore, the United Kingdom and the United States of America; or • a jurisdiction in which AGL Energy reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer the AGL Australia Shares to the AGL Energy Shareholder. Ineligible Overseas Shareholders, being AGL Energy Shareholders whose registered addresses on the AGL Energy Share Register at the Record Date are outside the jurisdictions listed above, will not receive AGL Australia Shares and should refer to Section 5.5.3 for further information.	5.5
Will I need to make any payments to participate in the Demerger?	No. The Capital Reduction Pro Rata Amount on each of your AGL Energy Shares will be automatically applied on your behalf under the Scheme to pay for your AGL Australia Shares. You do not need to make any separate payment.	None
Can I choose to receive cash instead of AGL Australia Shares?	No. Under the Demerger, you may not elect to receive cash in place of AGL Australia Shares. However, if you are an Ineligible Overseas Shareholder, the AGL Australia Shares to which you would have been otherwise entitled under the Scheme will be sold on the ASX by the Sale Agent with the proceeds remitted to you, free of any brokerage costs or stamp duty. In addition, Eligible Shareholders who hold 500 AGL Energy Shares or less as at the Record Date (Small Shareholders) may elect to have the AGL Australia Shares to which they are entitled sold on the ASX by the Sale Agent and the proceeds remitted to them under the AGL Australia Sale and Top-up Facility, free of any brokerage costs or stamp duty. Small Shareholders who do not make an election to sell AGL Australia Shares in the AGL Australia Sale and Top-up Facility will receive AGL Australia Shares. The amount of money received by each Ineligible Overseas Shareholder and each Selling AGL Australia Shareholder will be calculated on an averaged basis so that all Ineligible Overseas Shareholders, Selling AGL Australia Shareholders and Buying AGL Australia Shareholders will receive or pay (as applicable) the average sale price and average purchase price (as applicable) per AGL Australia Share, subject to rounding up to the nearest whole cent.	5.8

Question	Answer	Section
Implementation and process		
What is the Accel Energy Sale and Top-up Facility and the AGL Australia Sale and Top-up Facility?	The Accel Energy Sale and Top-up Facility and the AGL Australia Sale and Top-up Facility allow certain Small Shareholders to sell or increase their shareholding in Accel Energy and/or AGL Australia under the respective facility. The AGL Australia Sale and Top-up Facility also provides for the sale of AGL Australia Shares for Ineligible Overseas Shareholders. **Small Shareholders** If, as at the Record Date, you are a Small Shareholder and you wish to have: • all the AGL Australia Shares that you would receive under the Demerger sold on the ASX by the Sale Agent in the AGL Australia Sale and Top-up Facility; and/or • all your Accel Energy Shares sold by the Sale Agent in the Accel Energy Sale and Top-up Facility, and, in either case, the proceeds remitted to you, free of any brokerage costs or stamp duty, you can submit your election online at www.aglelections.com.au or by completing and returning the relevant Sale and Top-up Facility Forms accompanying this Scheme Booklet using the envelope provided. The Sale and Top-up Facility Forms may also be obtained by phoning the AGL Energy Shareholder Information Line. If, as at the Record Date, you hold 500 AGL Energy Shares or less and your registered address on the AGL Energy Share Register is in Australia or New Zealand, and you wish to increase your shareholding in either AGL Australia or Accel Energy, you may elect to purchase: • additional AGL Australia Shares in increments of $500 and up to a maximum of $2,000 of AGL Australia Shares through the AGL Australia Sale and Top-up Facility; and/or • additional Accel Energy Shares in increments of $500 and up to a maximum of $2,000 of Accel Energy Shares through the Accel Energy Sale and Top-up Facility, in each case free of brokerage costs.	5.8

Frequently Asked Questions

Question	Answer	Section
Implementation and process		
	You can submit your election online at www.aglelections.com.au or by completing and returning the Sale and Top-up Facility Forms accompanying this Scheme Booklet using the envelope provided. The Sale and Top-up Facility Forms may also be obtained by phoning the AGL Energy Shareholder Information Line. If you make an election to both buy and sell Accel Energy Shares or AGL Australia Shares (as applicable) under the Accel Energy Sale and Top-up Facility or AGL Australia Sale and Top-up Facility (as applicable), your election to buy will override your election to sell such shares. The proceeds and price per AGL Australia Share and Accel Energy Share (as applicable) will be on an averaged basis, so that: • under the AGL Australia Sale and Top-up Facility, Ineligible Overseas Shareholders, Selling AGL Australia Shareholders and Buying AGL Australia Shareholders will receive or pay (as applicable) the average sale price and average purchase price (as applicable) per AGL Australia Share, subject to rounding up to the nearest whole cent; and • under the Accel Energy Sale and Top-up Facility, Selling Accel Energy Shareholders and Buying Accel Energy Shareholders will receive or pay (as applicable) the average sale price and average purchase price (as applicable) per Accel Energy Share, subject to rounding up to the nearest whole cent. The purchase price and sale price per AGL Australia Share and Accel Energy Share will be announced on or about 7 August 2022. **Ineligible Overseas Shareholders** Ineligible Overseas Shareholders will have their AGL Australia Shares sold through the AGL Australia Sale and Top-up Facility, with the proceeds calculated as described above and remitted to them, free of any brokerage costs or stamp duty. Accordingly, Ineligible Overseas Shareholders do not need to take any steps to participate in the AGL Australia Sale and Top-up Facility.	
What happens if the Demerger does not proceed?	If the Demerger does not proceed: • AGL Australia will continue to operate as part of the Group; • Eligible Shareholders will not receive AGL Australia Shares; • AGL Energy Shareholders will retain their current holdings of AGL Energy Shares; • the AGL Australia Sale and Top-up Facility and the Accel Energy Sale and Top-up Facility will not proceed and any application moneys received from Buying Accel Energy Shareholders and/or Buying AGL Australia Shareholders will be refunded; • Demerger costs of approximately $160m will still be incurred including costs incurred to date and termination of work underway; • the AGL Energy Board and management may consider alternatives for the AGL Australia Business; and • the advantages of the Demerger described in Section 1.3 will not be realised, and the disadvantages and risks of the Demerger described in Sections 1.4 and 1.5 respectively will not arise.	5.10

Question	Answer	Section
Voting on the Demerger		
What are the voting thresholds?	**Capital Reduction Resolution** The Capital Reduction must be approved by a simple majority (more than 50%) of votes cast by AGL Energy Shareholders on the Capital Reduction Resolution. **Financial Assistance Resolution** The Financial Assistance Resolution must be approved by at least 75% of the votes cast by AGL Energy Shareholders on the Financial Assistance Resolution. **Name Change Resolution** The Name Change must be approved by at least 75% of votes cast on the resolution by AGL Energy Shareholders on the Name Change Resolution. **Benefits Resolution** The Benefits Resolution must be approved by a simple majority (more than 50%) of votes cast by AGL Energy Shareholders on the resolution. A voting exclusion (described on page 338 of this Scheme Booklet) applies to the Benefits Resolution. **Scheme Resolution** The Scheme Resolution must be approved by: • a majority in number (more than 50%) of AGL Energy Shareholders present and voting at the Scheme Meeting (whether in person or by proxy), unless the Court orders otherwise; and • at least 75% of the total number of votes cast on the resolution by AGL Energy Shareholders present and voting at the Scheme Meeting (whether in person or by proxy).	13
Who can vote at the Meetings?	AGL Energy Shareholders who are registered on the AGL Energy Share Register at 7:00pm (AEST) on 13 June 2022 are entitled to vote on the Scheme Resolution, the Capital Reduction Resolution, the Financial Assistance Resolution, the Name Change Resolution and the Benefits Resolution. A voting exclusion (described on page 338 of this Scheme Booklet) applies to the Benefits Resolution.	13
When and where are the Meetings?	**General Meeting** The General Meeting for AGL Energy Shareholders to vote on the Capital Reduction Resolution, Financial Assistance Resolution, the Name Change Resolution and the Benefits Resolution will be held at 10:30am (AEST) on 15 June 2022 at International Convention Centre Sydney, 14 Darling Drive, Sydney NSW 2000 and online at https://meetnow.global/MD75Z5T. **Scheme Meeting** The Scheme Meeting for AGL Energy Shareholders to vote on the Demerger will be held at the later of 10:45am (AEST) or the conclusion of the General Meeting on 15 June 2022 at International Convention Centre Sydney, 14 Darling Drive, Sydney NSW 2000 and online at https://meetnow.global/MD75Z5T.	13

Frequently Asked Questions

Question	Answer	Section
Voting on the Demerger		
What is the procedure to vote at the Meetings?	**Voting online** AGL Energy Shareholders (or their proxies, authorised corporate representatives or attorneys) will be able to participate in the Meetings, including to vote and ask questions, in real-time via the online platform using a computer, tablet or mobile device with an internet connection. By participating in the Meetings online, you will be able to: • hear the meeting discussion and view presentation slides; • ask questions while the relevant meeting is progressing; and • vote during the relevant meeting. AGL Energy recommends that shareholders log in to the online platform at least 15 minutes prior to the scheduled start time for the Meetings in accordance with the instructions outlined in the Notices of Meetings. Proxyholders will need to contact Computershare on +61 3 9415 4024 to obtain their login details to participate online. Online voting will be open between the commencement of the Meetings at 10:30am (AEST) on Wednesday, 15 June 2022 and the time at which the Chairman of the relevant meeting announces the poll is closed for the relevant meeting. More information about how to use the online platform is available in the Online Meeting Guide at https://meetnow.global/MD75Z5T. Technical difficulties may arise during the Meetings. The Chairman of the Meetings has discretion as to whether and how the Meetings should proceed if a technical difficulty arises. In exercising their discretion, the Chairman will have regard to the number of AGL Energy Shareholders impacted and the extent to which participation in the business of the Meetings is affected. **Voting in person** While some AGL Energy Shareholders may be able to attend the Meetings physically, for the health and safety of all attendees, AGL Energy will be observing social distancing and any other government requirements that apply at the time. Attendance at the Meetings in person is subject to any COVID-19 restrictions that may be applicable on the day. Please do not attend the Meetings if you feel unwell or have been in close contact with someone who may have been exposed to COVID-19. AGL Energy may implement screening procedures at admission to the General Meeting venue, for example, temperature checks, depending on circumstances at the time. Other restrictions and precautionary measures may also be imposed on attendance if necessary. You should arrive at the meeting venue 30 minutes before the time designated for the Meetings, if possible, so that your shareholding can be checked against the AGL Energy Share Register and your attendance noted, or any power of attorney or certificate of appointment of corporate representative verified, and their attendance noted. **Voting by proxy (including direct voting)** If you are unable to attend the Meetings in person, you can appoint a proxy by completing and returning the relevant Voting Form or lodging your Voting Form online. You can direct your proxy how to vote (i.e. to vote 'for' or 'against' or to 'abstain' from voting on the Resolutions) by following the instructions on the Voting Forms. If you appoint a proxy, you may specify the way that the proxy is to vote in relation to a resolution and indicate that the specification is to be regarded as a direct vote. Given the current COVID-19 situation, AGL Energy Shareholders are encouraged to direct their proxies on how to vote and to ask their proxies to participate using the online platform.	13

Question	Answer	Section
Voting on the Demerger		
What if I do not vote at the Meetings or do not vote in favour of the Demerger Resolutions?	If AGL Energy Shareholders who support the Demerger do not vote, there is a risk the Demerger will not be approved. If you do not vote or vote against the Demerger Resolutions, but these resolutions are approved by the requisite majorities of AGL Energy Shareholders, then, subject to the other conditions to the Demerger being satisfied or waived, including Court approval, the Demerger will be implemented and binding on all AGL Energy Shareholders, including those who did not vote or voted against the Demerger Resolutions.	None
Tax considerations		
What are the taxation implications of the Demerger for AGL Energy Shareholders?	The general Australian taxation implications of the Demerger for AGL Energy Shareholders are set out in Section 6. The outline in Section 6 is general in nature and should not be relied upon as advice. The tax consequences for each AGL Energy Shareholder may vary depending on individual circumstances. Accordingly, you are encouraged to seek your own professional advice and, if applicable, advice on foreign tax implications of participating in the Demerger.	6
Other information		
If you have further questions	If you have any further questions, you should: • consult your legal, financial, taxation or other relevant professional advisor; or • call the AGL Energy Shareholder Information Line on 1300 148 339 (within Australia) or +61 2 9066 4059 (international) on weekdays between 9:00am and 5:00pm (AEST).	None

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Section 1

Advantages, disadvantages, and other relevant considerations

1. Advantages, disadvantages, and other relevant considerations

This Section 1 summarises the material advantages and disadvantages of the Demerger that AGL Energy Shareholders should consider when deciding whether or not to vote in favour of the Resolutions. Section 1.2 also summarises the alternatives to the Demerger that were considered by AGL Energy Directors.

The AGL Energy Directors believe the advantages of the Demerger outweigh the disadvantages and risks of the Demerger. Each AGL Energy Director recommends that AGL Energy Shareholders vote in favour of Resolutions at the Scheme Meeting and the General Meeting, and intends to vote, or cause to be voted, all AGL Energy Shares held or controlled by them in favour of the Resolutions.

1.1 Background and rationale

For more than 180 years, AGL Energy has had a proud heritage of leading change in the energy industry. This has created significant value for shareholders, including through the integration of its strong retail customer footprint with a baseload energy generation business.

However, energy policy and market conditions have evolved significantly in recent years with increased levels of retail regulation, changing customer needs, growth in clean energy investment and acceleration of the transition towards renewable energy – this has resulted in the recent challenging market conditions, particularly for wholesale power, that have impacted AGL Energy's operational and financial performance.

After careful consideration, the AGL Energy Board has determined that the Demerger is in the best interests of AGL Energy Shareholders, for the reasons set out below.

The Demerger will result in two industry leading companies, each with the potential to unlock value as they pursue strategies and growth plans tailored to the profile and needs of each business.

- **AGL Australia** will be a leading multi-service energy retailer in Australia, supported by a sophisticated market trading function and ability to leverage firming, storage, and renewable assets.
- **Accel Energy** will be Australia's largest electricity generator, providing low-cost energy whilst driving the energy transition by repurposing its sites into low-emissions energy hubs and progressing a pipeline of renewable energy projects.

The creation of separate companies will better position each of them to effectively participate in the future of the energy sector, serve customer needs, and meet community expectations. The new structure is expected to unlock shareholder value as each company will have the flexibility to pursue strategies tailored to their individual purposes and circumstances within the context of evolving customer needs and the energy transition. The Demerger will also enable both entities to lead a responsible and orderly transition towards a decarbonised energy future.

With distinct value drivers, investment propositions, growth opportunities and decarbonisation pathways, each company will be better placed to attract investors best suited to their unique business profiles; in turn improving access to capital in order to better realise future value.

1.2 Alternatives considered

The AGL Energy Board believes that the Demerger is more likely to enhance value for AGL Energy Shareholders over the long term compared to maintaining the current business structure or pursuing other alternative options, which are outlined below.

1.2.1 Maintaining the current business structure

AGL Energy could remain both a provider of essential retailing services and a wholesale electricity generator, with assets under a baseload gen-tailer operating structure.

However, a number of changes to the energy market have negatively impacted upon AGL Energy's integrated gentailer model in which the supply and demand for energy is owned by one company, resulting in the model becoming less desirable.

The rapid change in the NEM's generation mix towards renewable generation and behind the meter technology/decentralised energy solutions (e.g. residential rooftop solar generation) has resulted in the increased prominence of storage and firming assets within the energy system, while baseload generation is becoming an increasingly poor hedge of AGL Energy's retail customer load and instead is better placed as a provider of continuous power supply and grid stability.

Increased levels of retail pricing regulation and changing consumer preferences towards lower carbon intensive energy sources have further reduced the benefits of AGL Energy's current business model.

In this context, the characteristics, assets, growth opportunities, access to capital and risk profiles of AGL Australia and Accel Energy differ markedly and hence require different business and growth strategies, levels of capital investment, capital structures and financial policies.

The AGL Energy Board considers that maintaining the current company structure limits the ability of AGL Energy to effectively address these evolving market dynamics and makes it more difficult to execute on the strategic plans of its key business units while both parts are competing for the same available resources and capital for investment.

Maintaining AGL Energy's current business structure also does not allow investors to determine the fundamental value of each of AGL Australia and Accel Energy, nor allow investors to determine their level of investment in each business in line with their risk appetite or ESG preferences.

While maintaining the current structure does have some benefits in the short term (including cash flow diversification and the avoidance of certain one-off transaction costs), the AGL Energy Board does not believe this will deliver the greatest long-term value for AGL Energy Shareholders when compared to the Demerger.

1.2.2 Accelerating coal-fired asset closure whilst maintaining the current business structure

In addition to considering the maintenance of the current business structure as referred to in Section 1.2.1, the AGL Energy Board also considered the option of maintaining the current business structure and accelerating the closure of the coal-fired assets (namely Bayswater and Loy Yang A), including as part its consideration of AGL Energy's revised climate commitments announced in February 2022.

As outlined in Section 1.3.2, AGL Energy's climate commitments present a responsible and orderly transition towards a decarbonised energy future and strike a balance between Australia's current and future energy needs and the requirements to decarbonise without significantly impacting energy system reliability and customer affordability.

The operation of AGL Energy's coal-fired generators will be critical to Australia's energy supply and early closure is dependent on the readiness of the entire NEM to operate without AGL Energy's critical base load generation.

The AGL Energy Board also considered the impact on shareholder value of announcing earlier closure dates than those outlined in the AGL Energy's revised climate commitments announced in February 2022. It was determined that the announcement of any earlier closure dates at this point in time would not be in the best interests of shareholders as it would likely result in a material deterioration in shareholder value.

Whilst this is the current position, following the Demerger, the Accel Energy Board will consider on a regular basis the long-term future of its generation assets having regard to these considerations.

1.2.3 Internal separation within AGL Energy

AGL Energy has considered undertaking an internal reorganisation of assets into commonly owned but operationally separate business units, broadly aligned to the businesses of AGL Australia and Accel Energy. Each business unit would adopt unique brands, management and potentially governance structures with clear articulation of independent strategies and separate segment reporting.

While this approach seeks to replicate the benefits of the Demerger, an internal separation is less likely to allow each business unit to adequately execute separate strategies or develop independent financial policies, and both businesses would continue to compete for the same available resources and capital for investment. Similarly, with common ownership, each business may have limitations in fully aligning their respective capital structuring and investor base to their specific value drivers, decarbonisation pathways and investment propositions.

An internal separation and maintaining AGL Energy in its current business structure also do not allow investors to determine the fundamental value of, and make separate investment decisions in relation to, each of AGL Australia and Accel Energy.

1.2.4 A partial or whole strategic sale to another buyer

The AGL Energy Board has considered the merits of the sale of specific assets, including the underlying assets of AGL Australia and/or Accel Energy or AGL Energy in its entirety to third parties. A sale process or processes would likely involve a high degree of transaction uncertainty, associated costs, execution risk, time to implement and risks associated with third party approvals. The price realised in one or more sale processes could also be significantly affected by prevailing market conditions at the time of execution.

A sale would not give AGL Energy Shareholders the ability to benefit from any future value creation. As highlighted by Grant Samuel in the Independent Expert Report, "under the Demerger, shareholders will have liquid, portfolio investments in two entities that provide exposure to the long-term performance of the respective businesses (for better or worse). Most importantly, they will retain the option to sell either or both companies in a future change of control event and capture a control premium at that point in time."

On 21 February 2022 and 7 March 2022, the AGL Energy Board rejected unsolicited, preliminary, non-binding indications of interest from the Brookfield Consortium to acquire 100% of the shares in AGL Energy by way of a scheme of arrangement, initially for $7.50 per share and subsequently for $8.25 per share. The proposals were rejected on the basis that they were well below both the fair value of the company on a change of control basis and relative to the value of the Demerger, and therefore not in the best interests of AGL Energy Shareholders.

The Demerger allows parties interested in acquiring either AGL Australia or Accel Energy to put forward change of control proposals in the future. AGL Energy Shareholders who retain their investment in either company following the Demerger would potentially benefit from, and make their own decision about participation in, any future takeover activity.

1.2.5 Initial Public Offering (IPO)

An IPO of AGL Australia was considered, whereby AGL Energy would receive cash proceeds from new investors for the sale of shares in AGL Australia as a newly listed entity. However, an IPO would involve a high degree of transaction uncertainty and the proceeds realised in an IPO may be significantly impacted by prevailing market conditions at the time of execution. As such, AGL Energy may not be able to realise the full underlying value of AGL Australia through an IPO.

1. Advantages, disadvantages, and other relevant considerations

1.2.6 Demerger

The AGL Energy Board considers that the separation of AGL Energy's current business into two separate companies (Accel Energy and AGL Australia, respectively) via the Demerger is in the best interests of shareholders and will unlock shareholder value as:

1. The Demerger will create long-term shareholder value as the two companies work to advance Australia's new energy future.
2. The two companies will be empowered to pursue individual strategies, operational initiatives and opportunities based on their unique assets and capabilities, that will better enable them to realise shareholder value.
3. Investors will have a better understanding of the fundamental value of each business and can invest in line with their preferences and may benefit from the potential for a market re-rating.
   - AGL Australia will be a leading multi-service energy retailer in Australia, supported by a sophisticated market trading function and access to firming, storage and renewable assets to help manage its energy support risk. It is expected to appeal to investors that seek exposure to energy or retail companies that have strong ESG credentials today.
   - Accel Energy will be Australia's largest electricity generator, providing low-cost energy whilst driving the energy transition by repurposing its sites into low-emissions energy hubs. It has a large pipeline of renewable energy projects and will leverage its existing assets and expertise to create a clear pathway to achieving its energy transition commitments. Its performance will be linked to power prices, appealing to shareholders that seek this exposure.
4. Distinct dividend policies, capital structures and financial policies appropriate for each company will support both future growth and appropriate returns of shareholders.
5. The entities will have separate listings on the ASX, increasing the potential for a change of control of either or both businesses and the potential to separately maximise future market valuation.

1.3 Advantages of the Demerger

The AGL Energy Board believe that the benefits of the Demerger will ultimately deliver AGL Energy Shareholders superior value through the future performance of both AGL Australia and Accel Energy compared to the status quo of both companies remaining under AGL Energy's existing integrated business model.

1.3.1 Each entity will have separate boards and management teams, empowered to pursue independent strategies and operational initiatives, focused on the realisation of shareholder value for each company

Following the Demerger, AGL Australia and Accel Energy will have separate boards and management teams who will have the flexibility to form and set their own:

- strategic objectives that are informed by a more focused set of complementary assets that they operate, specific industry dynamics and regulation that they face and the stakeholders and communities that they serve;
- business plans as to how to best operate their assets and execute on their strategic objectives;
- targets for growth opportunities that best match the needs of their businesses and create the most value for shareholders;
- sources of capital and capital structures to most effectively fund the needs of their assets and strategy;
- capital allocation policies to use capital efficiently across a more focused set of assets and growth opportunities; and
- approach to advocating for their business with key stakeholders.

These factors position the asset bases, resources, capital and management teams of each of AGL Australia and Accel Energy to perform to their highest levels, supporting value creation for both businesses.

1.3.2 The Demerger allows each company to independently execute on its own specific plans aligned with Australia's transition towards a new energy future

AGL Energy, as a leading energy retailer and generator, has an important role to play in the transition of the National Electricity Market (**NEM**) and Australia's carbon neutral energy future. When separated, AGL Australia and Accel Energy will be able to optimise their operations, strategies and capital structures to meet their individual strategic objectives and for the overall benefit of not just shareholders but also the NEM and Australian energy consumers.

AGL Australia will play a pivotal role in Australia's energy market transition through:

- working with consumers to create carbon neutral offerings for their energy consumption such as orchestrating Virtual Power Plants (**VPPs**), electric vehicle products, and other distributed or behind the meter solutions;
- enabling and underwriting renewable energy developments by signing renewable offtakes to optimally supply energy to its significant customer base;
- attracting ESG sensitive capital due to its clean generation portfolio;
- developing new energy technology such as battery energy storage systems that will reduce Australia's dependence on thermal coal generation in the longer term; and
- providing in-depth energy expertise to help Australians on their own energy transition and decarbonisation journey.

AGL Australia will be immediately carbon neutral for Scope 1 and Scope 2 emissions post Demerger and is targeting net zero on Scope 1, 2 and 3 emissions by 2040 (with a 50% reduction on FY19 levels by 2030). It has committed to underwriting 3GW of renewable energy generation by 2030. This will primarily be achieved through offtake arrangements with third party renewable energy projects, rather than directly investing in the development of such projects. AEMO data indicates there are approximately 140GW of renewable energy projects in the development pipeline. Given AGL Australia will have 4.5m[1] customer services nationally, it is well placed to access various renewable energy projects.

AGL Australia's climate commitments set out above are not verified as being aligned to the climate goals of the Paris Agreement as at date of this Scheme Booklet. AGL Australia intends to seek such verification to confirm its alignment as soon as practicable.

As the largest generator in the NEM, Accel Energy will be critical to Australia's energy supply and will play a pivotal role in the energy transition through:

- providing grid stability and system strength with a fleet of dispatchable and synchronous generators which will support more renewable projects being connected to the network;
- enabling the development and operation of solar and wind projects by providing controllable generation to firm the variable nature of the generation from renewable sources;
- accessing transition capital through the ETIP to accelerate the development of renewable generation;
- converting existing thermal sites into low-emissions energy hubs (e.g. via site renewables, batteries, waste-to-energy and hydrogen production);
- building out its approximately 2.7GW pipeline of renewable development projects; and
- ultimately, the responsible closure of all of its coal-fired generators no later than 2045, with early closure dates recently announced for Bayswater Power Station and Loy Yang A Power Station.

Accel Energy's climate commitments present a responsible and orderly transition towards a decarbonised energy future. These commitments are not aligned to the goals of the Paris Agreement as at the date of this Scheme Booklet. However, they strike a balance between Australia's current and future energy needs and the requirements to decarbonise without significantly impacting energy system reliability or affordability or shareholder value.

1.3.3 Each entity will adopt bespoke capital structures and financial policies appropriate for each company's specific needs

After the Demerger, AGL Australia and Accel Energy will be independent, ASX-listed companies with separate debt facilities, which will allow each business to have a capital structure and financial policy that is appropriate for its individual characteristics and strategies.

AGL Australia's financial policies and credit rating will be supported by the essential nature of the services it provides as well as its strong brand and competitive position. It will benefit from access to ESG sensitive capital such as 'use of proceeds' green bonds, and sustainability-linked loan products.

It is anticipated that AGL Australia will continue to source the majority of its electricity supply in a capital efficient manner (via offtake arrangements) including those with Accel Energy and Tilt Renewables. AGL Australia will underwrite 3GW of new renewable generation and flexible capacity by 2030.

Accel Energy's financial policies and credit rating will be supported by its leading low-cost position in the electricity generation sector and a prudent debt structure. It is anticipated that Accel Energy will seek various capital providers to fund attractive energy transition projects in line with its strategy to redevelop its existing thermal generation sites as low-carbon energy hubs and build out its approximately 2.7GW of renewable developments.

The $2.0 billion ETIP initiative is a clear example of this, where Accel Energy and Global Infrastructure Partners will jointly invest in Accel Energy's transition projects to help increase the pace at which these projects can be funded and built by Accel Energy. Global Infrastructure Partners intends to fund jointly with Accel Energy $2.0 billion of equity funding to the ETIP. Global Infrastructure Partners will also be funding Accel Energy's share of expected development costs to progress the existing approximately 2.7GW development pipeline through to the 'final investment decision' stage.

Based on a ratings advisory service process and the credit metrics of each entity, both AGL Australia and AGL Energy are anticipated to carry investment grade credit ratings following the Demerger.

See Sections 3.6.1 and 4.6.1 for more information on AGL Australia and Accel Energy's capital structures after implementation of the Demerger.

1 As at 31 December 2021, comprising of 2.5 million electricity services, 1.5 million gas services, 0.2 million telecommunications services and 0.3 million services from AGL Australia's 50% interest in ActewAGL's retail operations.

1.3.4 The Demerger provides the opportunity for separate change of control transactions in relation to AGL Australia or Accel Energy

Following the Demerger, there is potential for AGL Australia or Accel Energy to be separately acquired by a third party.

The separated businesses may be more accessible or attractive to potential bidders given their differing operating, financial and asset profiles. It is anticipated that there may be a subset of investors interested predominantly in AGL Australia and likewise a subset of investors interested predominantly in Accel Energy, but who are not interested in both entities on an integrated basis. As such, the Demerger has the potential to increase the pool of interested bidders for either entity, and the contestability amongst bidders.

Having regard to the above factors, the Demerger enhances the prospect that any change in control of either AGL Australia or Accel Energy will occur at prices reflecting full underlying value. As at the date of this Scheme Booklet, AGL Energy has not received a proposal to acquire either part or the whole of the business on terms and conditions considered acceptable to the AGL Energy Board.

1.3.5 The Demerger will enhance investor understanding of AGL Australia and Accel Energy, including their fundamental performance and fundamental value

The Demerger is expected to enhance investor awareness and understanding of the value drivers of AGL Australia and Accel Energy, including:

- **AGL Australia's** unique and defensive customer footprint and potential for growth via cross-selling additional essential services and participating in benefits that may arise from optimising its electricity supply strategy, including efficient sourcing of energy to match its demand profile and participating in related investment and growth opportunities; and
- **Accel Energy's** critical role in the Australian energy system to provide secure, low-cost energy whilst driving the energy transition by repurposing its existing generation sites into low-emissions energy hubs and progressing a pipeline of renewable energy projects.

As separate companies listed on the ASX with market disclosure obligations, both AGL Australia and Accel Energy will provide more detailed financial and operational disclosures to the market. This will allow investors to independently and appropriately value AGL Australia and Accel Energy, reflective of the underlying performance and outlook of the respective businesses.

1.3.6 Following the Demerger, each entity will have flexibility to align incentive plans with underlying strategy, performance and shareholder value creation

The Demerger will provide AGL Australia and Accel Energy with flexibility to determine their own compensation and incentive plans for employees and management, enabling closer alignment between these plans and the business performance and shareholder value creation outcomes. In particular, the Demerger will provide the opportunity to implement separate long-term incentive plans for AGL Australia and Accel Energy which are based on financial and non-financial targets that are most relevant and appropriate for each entity.

1.3.7 AGL Energy Shareholders will be able to select their future level of investment in AGL Australia and/or Accel Energy

Following the Demerger, the operating characteristics, financial profile and growth outlook of AGL Australia and Accel Energy will differ and may appeal to different types of investors.

- AGL Australia will be a leading multi-service energy retailer in Australia, supported by a sophisticated market trading function and access to firming, storage and renewable assets to help manage its energy support risk. It is expected to appeal to shareholders that seek exposure to energy or retail companies that have strong ESG credentials today.
- Accel Energy will be Australia's largest electricity generator, providing low-cost energy and driving the energy transition by repurposing its sites into low-emissions energy hubs. It is progressing a large pipeline of renewable energy projects and can leverage its existing assets and expertise to create a clear pathway to achieving its energy transition commitments. Its performance will be linked to power prices, appealing to shareholders that seek this exposure.

Once AGL Australia and Accel Energy are separate ASX-listed companies, existing and future shareholders of AGL Australia and Accel Energy will be able to evaluate the operating and financial performance, strategies, growth drivers and other characteristics of each business, and will have the opportunity to manage their exposure to each entity according to their own investment objectives.

If the Demerger is not implemented and the assets under AGL Australia and Accel Energy remain integrated, investors will not be able to invest in one of the businesses without also investing in the other, which may not align with their investment objectives.

1.4 Disadvantages of the Demerger

1.4.1 The Demerger will reduce the size and diversification of each entity

The Demerger will create two separate companies listed on the ASX, each of which will be smaller and less diversified than AGL Energy immediately before the Demerger.

Financial markets can experience volatility at times and as separate listed entities, each of AGL Australia and Accel Energy may have an increased exposure to those fluctuations as a result of their reduced size and diversification.

However, following the Demerger, both companies will remain significant entities of meaningful scale and both entities are expected to be in the top 200 companies on the ASX by market capitalisation and are expected to be leaders in their respective industry segments.

AGL Energy will also lose the funding cost benefit associated with the scale of its existing business. However, this benefit is becoming smaller over time relative to the funding costs associated with the increasingly ESG driven capital markets, given the carbon-intensive aspects of AGL Energy's existing integrated business.

1.4.2 Certain benefits of vertical integration will be lost

The Demerger will result in a loss of the benefits associated with having a single vertically integrated business covering both the generation and retail side of the energy supply chain.

For example, there will be increased complexity in managing retail pricing and energy procurement since one entity will no longer control both the generation and retail side of the business.

Further, on an aggregate basis, the companies will be required to have larger working capital facilities and may be required to provide additional credit support in connection with wholesale market activities, as the trading positions of the retail and generation operations no longer (partly) offset each other.

While AGL Energy has historically reduced wholesale price risks by matching its baseload thermal generation with its customer load position, the increasingly poor match of baseload thermal generation supply profiles with retail customer demand profiles means these businesses are less effective at reducing each other's risks. This is a result of the large and increasing residential roof-top solar penetration in the NEM, which is seeing the flat baseload thermal generation and the peaky retail customer loads become increasingly poor hedges for each other.

1.4.3 The Demerger will result in some implementation costs

The total one-off transaction costs of the Demerger for AGL Energy are estimated to be approximately $260m (pre-tax). Approximately $160m of these one-off transaction costs are expected to be incurred prior to the Meetings (and will therefore be incurred even if the Demerger does not proceed).

One-off transaction costs include costs incurred in preparing for the Demerger, including adviser fees, legal costs, financing and debt structuring, employee, and technology costs. These costs are as follows:

- advisory restructuring costs of $75m including financial advisory, independent board advice, legal, tax, accounting, human resources and strategy costs; and
- restructuring costs of $185m including a range of activities associated with restructuring and separating the companies and establishing the new debt facilities.

The Demerger will also result in a change in the tax position of AGL Energy (see Section 6). The Demerger will increase net tax inefficiencies with a net present value of approximately $125m. These net tax inefficiencies will result from:

- the loss of tax base on the Loy Yang capital allowance assets, as described in the notes to Section 4.7.8; and
- the tax treatment of transaction costs, separation costs and adjustments arising on tax consolidation of AGL Australia.

The Demerger will also create the need for additional incremental collateral of approximately $140m (as bank guarantees or cash) to be posted in respect of the energy trading activities and counterparty requirements of the two companies compared to those of the integrated AGL Energy.

Further, the demerged companies, when compared to AGL Energy, would also require larger working capital facilities (of approximately $200m) used largely to manage margin calls associated with energy trading activities. These facilities are unlikely to be utilised by the demerged companies at the same time, as their trading positions are likely to be opposing (given AGL Australia would generally buy electricity and Accel Energy would generally sell electricity). As such, compared to AGL Energy, the aggregate additional drawn working capital facilities would be minimal and the additional cost would mainly be for additional commitment fees payable on the incremental facilities.

1.4.4 The Demerger will result in some additional corporate and operating costs, offset by the implementation of operational cost savings

Following the Demerger, both Accel Energy and AGL Australia will be separate listed entities on the ASX, which will result in net additional corporate and operating costs of approximately $35m per annum in aggregate across both entities relative to the current position of the Group. As at the date of this Scheme Booklet, these additional costs are expected to be split approximately in the ratio of 57:43 between AGL Australia and Accel Energy, respectively, going forward.

These additional costs include costs associated with AGL Australia maintaining a share registry, a separate board of directors and standalone insurance as a separately listed company and the additional executive team, company secretarial, treasury, legal, taxation, technology and other corporate function costs associated with the separation and establishment of AGL Australia and Accel Energy as standalone companies.

Accel Energy will be refinanced with debt that has higher margins on average of between 1.25% and 1.4% more than the facilities that are available to AGL Energy or AGL Australia. This incremental cost will decline over time as Accel Energy's facilities are amortised and will also likely decline over time relative to the integrated AGL Energy's costs, which may face increased margins in the future if it remains integrated.

The AGL Energy Board considers that there is potential for these additional costs to be offset by operating cost savings that each business will have the potential to realise following the Demerger, including reduced overheads driven by a more focused organisational structure. Savings of approximately $42m per annum are expected to arise mainly from a reduction of corporate roles, including executive roles, support positions and support functions, which are no longer required in two simpler, more focused organisations. Some of these costs have been or will be rationalised in anticipation of implementation of the Demerger and some are expected to be rationalised in the initial months post the successful implementation of the Demerger. Some additional savings are also expected in office space, consulting, travel, IT, telephone and similar costs. As at the date of this Scheme Booklet, it is expected that these savings will be shared approximately in the ratio of 54:46 between AGL Australia and Accel Energy, respectively, going forward.

1.4.5 Some AGL Energy Shareholders will not be eligible to receive, or may be unable to retain, AGL Australia Shares

AGL Energy Shareholders who are Ineligible Overseas Shareholders will not receive AGL Australia Shares under the Demerger. AGL Australia Shares that would otherwise be transferred to these shareholders under the Demerger will be transferred to the Sale Agent to be sold, with the proceeds of such sale to be paid to Ineligible Overseas Shareholders.

In addition, some AGL Energy Shareholders may not be permitted to retain their AGL Australia Shares under the terms of their investment mandates or for similar reasons.

1.5 Risks of the Demerger

The risks of the Demerger are outlined below. These risks should be considered in conjunction with the business risks that AGL Australia and Accel Energy may face, or which may be increased, as a result of the Demerger, as set out in Sections 3.12 and 4.12 respectively.

1.5.1 The combined market value of AGL Australia Shares and Accel Energy Shares post Demerger may be less than the market value of AGL Energy

It is not possible to predict the market value of AGL Australia Shares or Accel Energy Shares following the Demerger.

There can be no assurance that AGL Australia Shares and Accel Energy Shares will trade at a particular price subsequent to AGL Australia's listing on the ASX. Following the Demerger, some shareholders may adjust their holdings in Accel Energy and AGL Australia. There is a risk that the combined market value of AGL Australia and Accel Energy after the Demerger may be less than the market value of AGL Energy immediately before the Demerger, particularly where the shareholder base for each company evolves.

AGL Energy Shareholders should note that if the Demerger does not proceed, there is no assurance that AGL Energy Shares will continue to trade at prices in line with recent levels.

1.5.2 The Demerger may result in changes to index inclusion for AGL Australia or Accel Energy

AGL Energy is currently (prior to the Demerger) a constituent of the S&P/ASX 100 as well as the S&P/ASX 200. Following the Demerger, AGL Australia and Accel Energy are expected to be constituents of S&P/ASX 200.

Index inclusion for each of AGL Australia and Accel Energy will depend on a number of factors, including the trading of each company's shares following the Demerger, and no assurances can be made regarding either AGL Australia or Accel Energy's potential index inclusion following the Demerger, or potential index inclusion in the future.

If Accel Energy were to be removed from the S&P/ASX 100 or S&P/ASX 200 or AGL Australia was not a constituent of the S&P/ASX 100 or S&P/ASX 200, there is a risk that some existing shareholders may sell their shares to comply with investment mandates or preferences. However, this may also create the opportunity for different groups of shareholders focused on companies that sit outside the S&P/ASX 100 or S&P/ASX 200 to purchase shares. As such, there is no certainty as to the impact on the share price or trading of AGL Australia and/or Accel Energy stemming from their potential inclusion or removal from the S&P/ASX 100 or S&P/ASX 200.

1.5.3 There may be unexpected delays, costs or other issues in separating AGL Australia and Accel Energy as standalone legal entities

All business units within the current Group are currently supported by shared corporate services infrastructure, including the provision of services relating to group accounting, treasury, taxation, superannuation, legal, insurance administration, information management and human resources. As part of the Demerger, AGL Australia and Accel Energy will put in place their own separate corporate services infrastructure.

Certain existing functions relating to technology operations, finance, and property will form part of the AGL Australia Business following implementation of the Demerger and AGL Australia will provide these services to Accel Energy following the Demerger. Other existing functions, such as enterprise resource planning systems, will remain with the Accel Energy Business following implementation of the Demerger and Accel Energy will provide these services to AGL Australia following the Demerger.

Accordingly, during a transitional period of up to 42 months, AGL Australia and Accel Energy will continue to be reliant on the other for the provision of certain transitional services under a Transitional Services Agreement to support transition towards the establishment of their own operations (see Section 5.9.5 for further information).

It may take some time for AGL Australia and/or Accel Energy to procure the necessary resources and services and ensure that all processes are operating fully and efficiently. There is a risk that the establishment of these capabilities may take longer than expected or may involve greater costs than anticipated.

1.5.4 The Demerger could result in a loss of operating synergies

As standalone entities listed on the ASX, AGL Australia and Accel Energy may lose the synergy benefits associated with operating as integrated entities within AGL Energy, including the benefits arising from volume and scale (such as discounts arising from group-wide purchasing contracts) and reduced operating costs arising from shared services arrangements.

1.5.5 AGL Australia or Accel Energy may not be able to obtain third party consents

Certain contracts to which AGL Australia entities or Accel Energy entities are a party contain provisions enabling the counterparty to terminate the contract, require additional security or require review of the contract terms in certain events. These events may include a change of control in the relevant AGL Australia entity or Accel Energy entity, the assignment of the contract without the counterparty's consent or a reduction in credit rating/standing of the relevant entity.

Some of these events will be triggered by the Corporate Restructure or the Demerger. If AGL Australia or Accel Energy (as the case may be) does not obtain the consent of the counterparty under the relevant agreement, there is a risk that the counterparty may claim that the contract has been breached and seek to review or terminate the contract. AGL Australia or Accel Energy may incur incremental costs to ensure consents are obtained. While AGL Energy has identified relevant material contracts and approached certain contract counterparties to seek consent as required, to the extent a contract of this nature is material to AGL Australia or Accel Energy and consent cannot be obtained, the loss or adverse review of the contract as a result of the Corporate Restructure and/or the Demerger occurring without consent may have a material adverse effect on the conduct of the relevant business. In order to mitigate the above risk, AGL Energy has identified relevant material contracts for which third party consents may be required. AGL Australia and Accel Energy have approached certain contract counterparties to seek their consent as required. This exercise has provided clarity on the relevant contracts and the circumstances under which consent may be withheld. Based on that analysis and the engagement to date with relevant counterparties, the risk of disruption as a result of a material consent being validly withheld is regarded as unlikely to be material.

Additionally, certain contracts may need to be novated or duplicated or ancillary agreements such as transitional services agreements entered into in order to ensure that the relevant AGL Australia and Accel Energy Business can continue to access these services following the Demerger.

1.5.6 The Demerger is subject to Court approval

As is the case with all schemes of arrangement in Australia, there is a risk that the Court may not approve the Scheme or that the approval of the Court is delayed.

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Section 2

Industry overview and competitive landscape

2. Industry overview and competitive landscape

2.1 Summary of the Australian electricity market

The National Electricity Market (**NEM**) is geographically one of the largest interconnected electricity systems in the world, covering approximately 40,000km and supplying around 9 million customers.

The NEM is a wholesale spot market through which generators and retailers trade electricity in Australia. It connects the following six eastern and southern states and territory and delivers around 80% of all electricity consumption in Australia:

- Queensland;
- New South Wales (**NSW**);
- Australian Capital Territory (**ACT**);
- Victoria;
- South Australia (**SA**); and
- Tasmania.

The NEM facilitates the exchange of electricity between generators and retailers. Retailers resell the electricity to businesses and households. In the NEM, wholesale generation is transported via high voltage transmission lines from generators to large industrial energy users and to local electricity distributors in each region, which then deliver it to homes and businesses across low voltage distribution networks ('poles and wires').

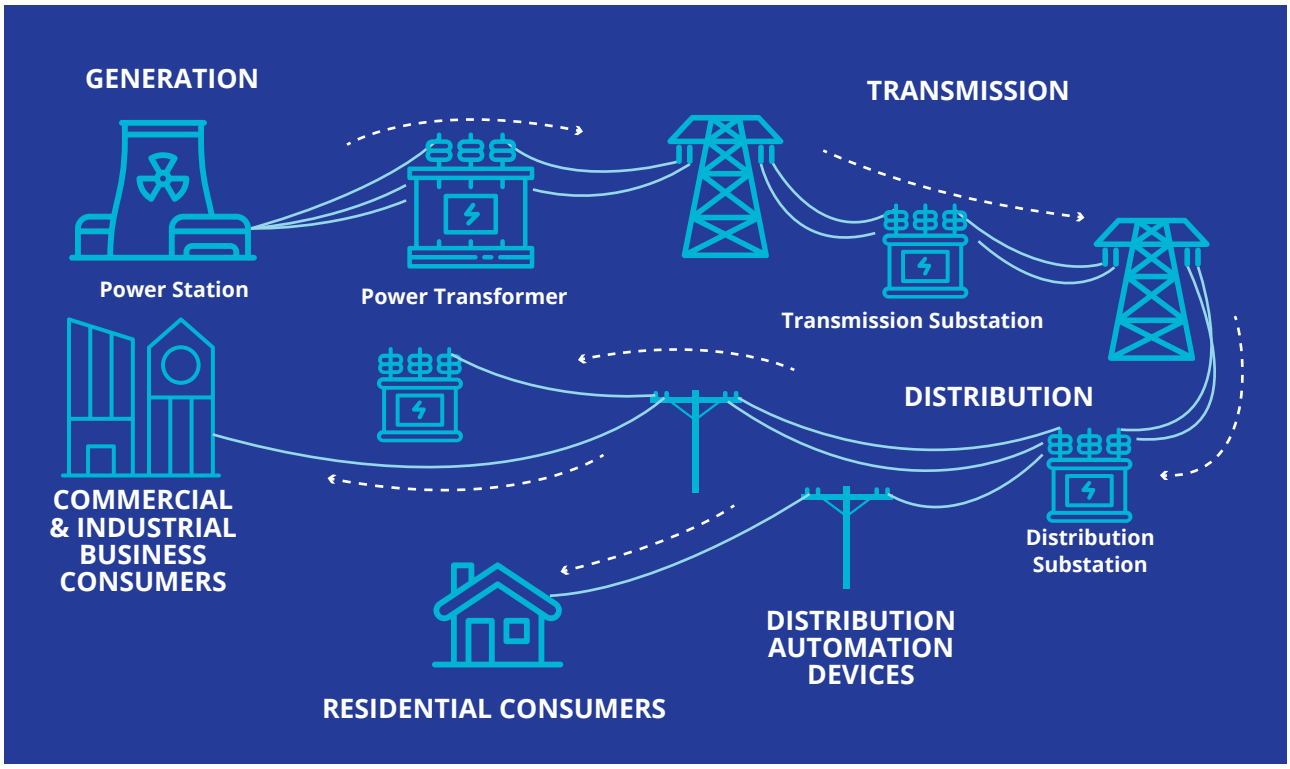
Western Australia (**WA**) and the Northern Territory (**NT**) are not connected to the NEM.

The Wholesale Electricity Market (**WEM**) supplies electricity to South West Western Australia via the South West Interconnected System. Unlike the NEM, the WEM operates on a Reserve Capacity Mechanism to ensure the level of generation meets the required demand.

The WEM utilises bilateral contracts between market participants to trade energy, with a Short-Term Energy Market (**STEM**) existing to facilitate daily trading around existing contracted positions and a dispatch and balancing process to ensure dispatch meets expected demand. Ancillary services are separately procured.

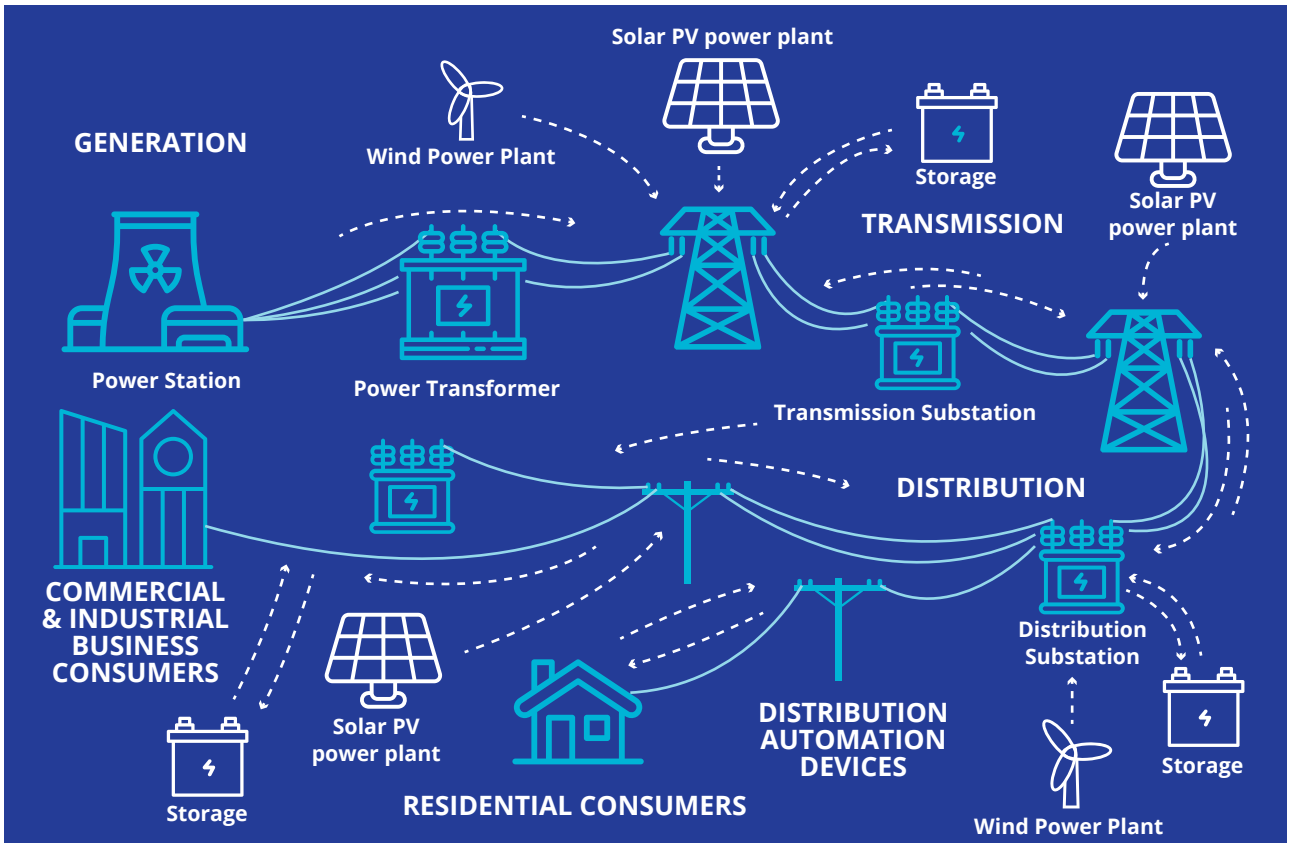
2.1.1 Electricity network (simplified)

Figure 1. One-Way Flow in the Traditional Power System



Source: Kristov, Lorenzo. Power System Evolution from the Bottom Up. October 25, 2018.

Figure 2. Two-Way Physical Flow in the Future Power System



Source: Kristov, Lorenzo. Power System Evolution from the Bottom Up. October 25, 2018.

2.2 Summary of the Australian energy retail market

Energy retail markets are the interface between retailers and their customers. They allow energy retailers to sell electricity, gas, and energy services to residential and business customers. Consumers have the ability to choose their retailer for electricity in the following NEM jurisdictions – NSW, Victoria, South Australia, South East Queensland and the ACT, and gas in all states and territories.

Consumers have greater opportunities for participation in retail markets as technology advances, competition increases and retailers differentiate their offerings. Advanced metering technology provides for richer consumption information and more service possibilities. Distributed generation allows users to generate their own electricity and sell energy they do not use themselves back into the market, with behind the meter battery storage systems allowing consumers to manage their energy usage in a sophisticated manner.

2.3 Competitive landscape

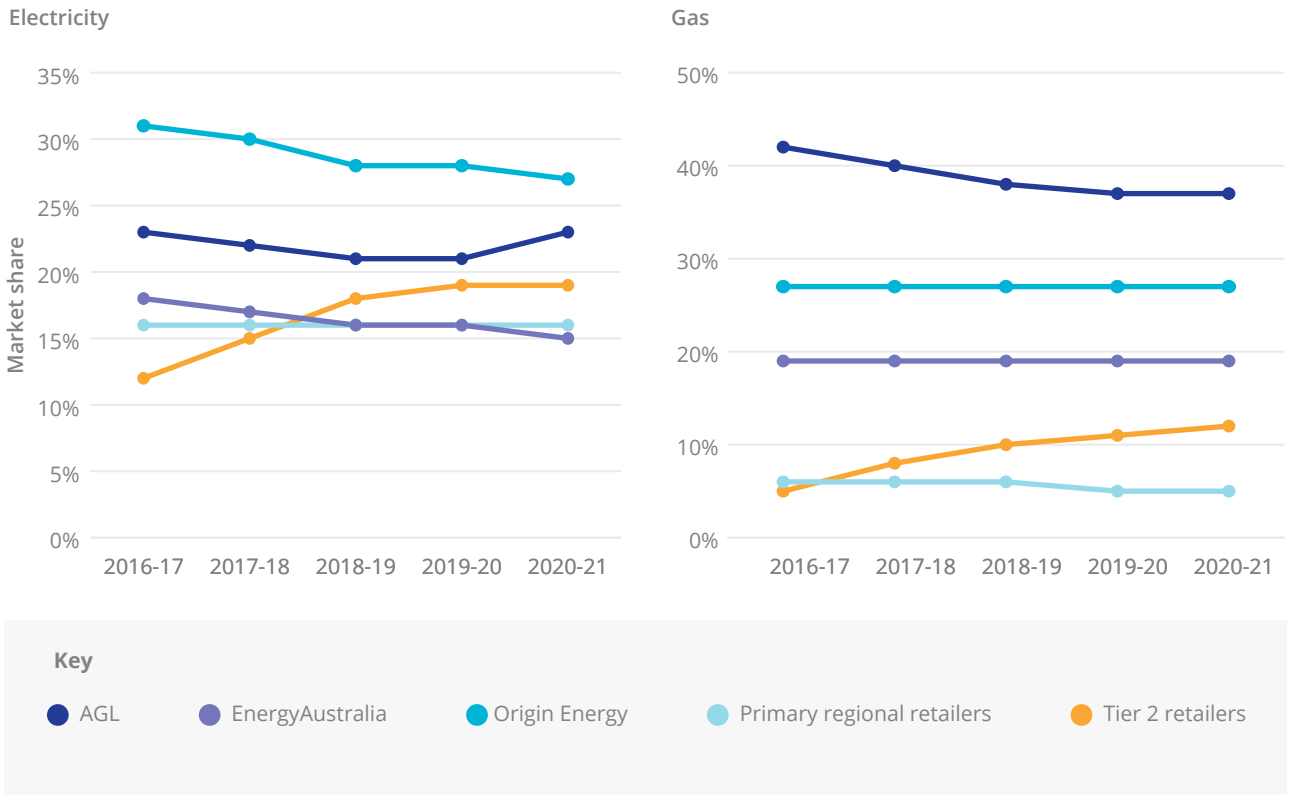
Retail electricity markets in South East Queensland, NSW, Victoria and South Australia have several competitive characteristics, including a diversity of sellers making offers, intensive marketing activity and customer switching. Barriers to entry are relatively low, as evidenced by regular new entrants. Competitive dynamics for electricity retail markets in the ACT, Tasmania, and regional Queensland are unique as the scale of these markets and continued price regulation have limited entry by some retailers.

While competitive characteristics are also strong in gas markets, they do require a more specialised approach given their smaller scale, and complexities in sourcing gas and securing pipeline and storage services in some regions. Gas markets in all regions are more concentrated than electricity markets.

Forty-five retail brands supply small energy customers in southern and eastern Australia. Of these, the retail brands of three businesses – AGL Energy, Origin Energy and EnergyAustralia – supply 64% of small electricity customers and 73% of small gas customers. While the market share of these businesses has gradually declined over the past decade, AGL Energy and Origin Energy have recorded net growth in electricity customer numbers over 2020.

2. Industry overview and competitive landscape

Figure 1.1: Residential market share by retailer category



Note: ActewAGL is the only primary regional retailer in the gas market. Data as at 30 June each year.
Source: AER.

2.4 Retail pricing

Before price deregulation was introduced in the NEM, governments and regulators set retail energy prices. Following deregulation, retailers introduced market offers but governments required incumbent retailers to retain standing offers as a default protection for consumers who were not engaged in the market. Prices in standing offers are typically higher than market offers.

Since 2019, various state governments have introduced or reintroduced forms of price control:

- The Australian Government appointed the AER to set a Default Market Offer as a cap on standing offer electricity prices in South East Queensland, NSW and South Australia. Any advertised discounts promoted by electricity retailers must be based on a reference bill informed by this default offer, providing consumers with meaningful information they can use to compare offers.
- The Victorian Government also introduced stricter price controls called the Victorian Default Offer to replace existing standing offers in response to an independent review into energy prices. The Essential Services Commission (**ESC**) sets the price of standing offers to reflect the efficient costs of a retailer in a contestable market, including an allowance for customer acquisition and retention costs.
- The ACT, Tasmania and regional Queensland have maintained territory-based and state-based arrangements to regulate retail electricity prices for small customers. Price regulation in these regions is based on a 'building block' approach, reflecting the costs of an efficient retailer supplying electricity to its customers. In 2021, the ACT Government announced plans to introduce a reference bill requirement for advertising market offers.

The Australian Government introduced further price protections in June 2020. Under the *Treasury Laws Amendment (Prohibiting Energy Market Misconduct) Act 2019* (Cth), retailers are required to pass on to customers any sustained and substantial decreases in the costs of electricity.

Gas price deregulation occurred along similar timeframes to those of electricity price deregulation. In July 2017, NSW became the last jurisdiction to deregulate retail gas prices for small customers. The recent reintroduction of price controls was not applied to retail gas markets.

2.5 Regulatory framework

AGL Australia will be subject to broad and extensive legislative requirements at all levels of government. Areas impacted include, without limitation, competition and consumer law, data protection and privacy, employment, occupational health and safety, planning and environment, employment laws, anti-corruption and bribery and industry specific laws, regulations and policies including as follows:

- the National Electricity Law which establishes the governance framework for the NEM, outlines the key functions of the AEMO and regulates access to electricity networks – this law is closely supported by the National Electricity Rules and the National Electricity (South Australia) Regulations. The NEM interconnects the jurisdictions of Victoria, Queensland, NSW, SA, the ACT and Tasmania;
- the National Gas Law, National Gas (South Australia) Regulations and the National Gas Rules, which govern access to natural gas pipeline services and aspects of broader natural gas markets. Participating jurisdictions under the National Gas Law are SA, NSW, Victoria, Queensland, Tasmania, the ACT, the NT, and WA (on a modified basis);
- the National Energy Retail Law, the National Energy Retail Rules and the National Energy Retail Regulations (collectively, the National Energy Customer Framework (**NECF**)). The framework is enforced by the AER and deals primarily with the relationship between energy retailers, such as AGL Australia, and their customers in the participating jurisdictions of NSW, Queensland, SA, Tasmania and ACT. It sets out the key rights and obligations of energy retailers as well as energy-specific consumer protections. In Victoria, which is not a participating jurisdiction in the NECF, the rights and obligations of retailers are governed by the *Electricity Industry Act 2000* (VIC), the *Gas Industry Act 2001* (VIC) and the Energy Retail Code of Practice made by the ESC;
- jurisdictional legislation regulating various aspects of the energy industry in each Australian state and territory; and
- as noted above, the *Treasury Laws Amendment (Prohibiting Energy Market Misconduct) Act 2019* (Cth), which among other things, regulates the setting of retail electricity prices (by requiring retailers to pass on cost savings to customers on market contracts).

Also, applicable government policies, regulations and initiatives include:

- Renewable Energy Target scheme – this scheme is governed by the *Renewable Energy Electricity Act 2000* (Cth) and is administered by the Clean Energy Regulator (**CER**), *Renewable Energy (Electricity) (Small-scale Technology Shortfall Charge) Act 2010* (Cth), *Renewable Energy (Electricity) (Large-scale Generation Shortfall Charge) Act 2000* (Cth) *and Renewable Energy (Electricity) Regulations 2001* (Cth). The Renewable Energy Target is separated into two parts:
  - Large-scale Renewable Energy Target, which incentivises investment in renewable energy power stations, such as wind and solar farms, by legislating demand for large-scale generation certificates (**LGCs**). Liable entities (mainly electricity retailers) are required to annually buy and surrender LGCs to the CER The scheme has an annual target of 33,000GWh of new renewable electricity generation, which will apply until the end of the scheme in 2030; and
  - Small-scale Renewable Energy Target, which incentivises households, businesses and the community to install eligible small-scale systems such as rooftop solar panels, solar water heaters or small-scale wind or hydro systems by legislating demand for small-scale technology certificates (**STCs**). Liable entities have a legal requirement to buy and surrender STCs to the CER quarterly;
- Emissions Reduction Fund – this initiative is a voluntary scheme administered by the CER and governed by the *Carbon Credits (Carbon Farming Initiative) Act 2011* (Cth), the *Carbon Credits (Carbon Farming Initiative) Regulations 2011* (Cth) and the *Carbon Credits (Carbon Farming Initiative) Rule 2015* (Cth). It encourages participants to participate in activities that reduce their carbon emissions through the issuing of Australian Carbon Credit Units, which can be sold to generate additional income;
- 'Net Zero by 2050' emission reduction target – the Commonwealth and all Australian states and territories are committed to achieving this target (with the exception of Tasmania, which already achieved this in 2015 and the ACT, which is aiming to achieve 'Net Zero' by 2045); and
- various state-based energy policies and initiatives including the NSW Electricity Strategy, the Victorian Renewable Energy Roadmap and the South Australian Climate Change Action Plan and the development of dedicated 'renewable energy zones' in NSW, Queensland and Victoria.

2.6 Gas network and regulatory overview

Gas can be produced for domestic consumption or exported as liquified natural gas (**LNG**). It is transported over long distances via transmission pipelines and generally delivered to wholesale customers like energy retailers and large industrial users and then gas is delivered to retail and business customers through smaller distribution pipelines. Gas is transported throughout the east coast of Australia including the Northern Territory and within Western Australia but not across the country or to Tasmania.

Most wholesale gas in Australia is sold and transported under agreements between producers, pipeline owners, retailers and major users. AEMO operates a number of wholesale markets, including the Declared Wholesale Gas Market, the Short-Term Trading Markets (**STTM**), and other markets supporting the secondary trading of gas and pipeline capacity. In addition, AEMO operates Australia's gas retail markets, the Declared Transmission System in Victoria, and bulletin boards that provide information on gas flows and participant and systems information.

2. Industry overview and competitive landscape

The National Gas Law, a Schedule to the *National Gas (South Australia) Act 2008*, establishes obligations for gas pipelines, gas wholesale markets and a gas market bulletin board. The Law is supported by the National Gas Rules and National Gas (South Australia) Regulations. The AER regulates gas pipelines in jurisdictions other than Western Australia and Tasmania, aiming to ensure service providers operate these assets reliably and cost effectively. The AER is responsible for the economic regulation of gas transmission and distribution pipelines in all Australian jurisdictions except Western Australia.

Gas retail markets allow licensed retailers to sell natural gas to residential and business customers in New South Wales, the Australian Capital Territory, Queensland, South Australia, Victoria and Western Australia. The gas retail markets are operated according to a set of processes, responsibilities, and obligations that AEMO administers; AEMO also provides the systems to facilitate interactions between industry participants.

As an energy retailer, AGL Australia will be primarily concerned with laws and regulations governing retail markets and wholesale energy markets including the wholesale spot market for gas in Victoria, the STTM for gas in Sydney, Adelaide and Brisbane, and voluntary gas supply hubs at Wallumbilla and Moomba, particularly, the requirements under the Pipeline Capacity Trading and Day Ahead Auction platforms.

The introduction of various gas transparency measures by the former COAG Energy Council will impose additional obligations for the reporting of gas, LNG export and infrastructure prices and information regarding the supply and availability of gas. These reporting obligations will be primarily through the gas bulletin boards, the Gas Statement of Opportunities published by AEMO and through the ACCC's Gas Inquiry process.

Finally, a significant area of current reform is the extension of the regulatory frameworks to include low-level hydrogen blends and renewable gases in gas networks. As hydrogen and renewable gases production continues to gain momentum and moves towards commerciality, gas participants and the gas market will need to be modified to allow these to be injected and distributed while still allowing the gas market to function and deliver gas to customers. Victoria is progressing this considerably and the release of the Victorian Gas Substitution Roadmap will provide a strategic framework for decarbonising natural gas in Victoria and provide a pathway for the introduction of hydrogen and renewable gases to networks in Victoria.

2.7 Key renewable policies and targets

State governments have put in place various programs to attract and incentivise renewable generation investment in their jurisdiction. Existing policies provide opportunities for the renewable and flexible development ambitions of AGL Australia and the energy hubs development projects of Accel Energy.

State/Territory	Government policies
New South Wales	• Net zero emissions by 2050 • To deliver 12GW of renewable energy and 2GW of storage capacity by 2030 • Pumped Hydro Recoverable grants program – $50m funding for up to 3GW
Victoria	• Legislated target of 50% renewable energy by 2030 • $540m committed to establish six new renewable energy zones • Announced second energy auction (VRET 2) to procure at least 600MW of new solar and wind energy • Energy Innovation Fund – Round 1 – offshore wind – Round 2 – technology neutral
Queensland	• $145m to support three new renewable energy corridors • The previous $500m fund has been expanded to $2bn and renamed the 'Queensland Renewable Energy and Hydrogen Jobs Fund' • Establishment of CleanCo to directly invest in renewable and gas firming capacity and to support 1400MW of new renewable generation by 2025 • Large-Scale Battery and Energy Storage System procurement (PowerLink)
South Australia	• Ambition to achieve 100% net renewable energy generation by 2030 • Stated ambitions to be a domestic and international supplier of renewable hydrogen

State/Territory	Government policies
Western Australia	• Renewables expected to account for 70% of generation by 2040 • $22m investment to bring forward renewable hydrogen to 2030 • 100MW/200MWh battery planned
Northern Territory	• 50% renewable energy target by 2030 • Release of the tender for a 35MW battery for the Darwin-Katherine grid • Unveiled Renewable Hydrogen Strategy to become an international-scaled hydrogen production and manufacturing centre
Tasmania	• Passed legislation targeting renewable energy production in Tasmania of at least 21,000GWh by 2040 • $133m from the Tasmanian Government and $140m from the Federal Government to progress the Battery of the Nation and Marinus Link projects • To leverage excess renewable hydrogen energy to build a substantial export industry, bolstering the state's position as global producer and exporter
Australian Capital Territory	• Net zero emissions by 2045 • Pledge to install 250MW battery network • Continues to undertake energy auctions to maintain 100% renewables position

2.8 Telecommunications

As a multi-service retailer, AGL Australia sells mobile, internet and voice telephony services, and as such is subject to telecommunications regulations and laws.

The telecommunications sector is subject to a range of national laws focused on competition, consumer protection, privacy, security and performance standards. As a provider of voice and broadband services, Southern Phone Company Limited, which is the legal entity responsible for selling both the AGL Telecommunications and Southern Phone brands, is a carriage service provider (**CSP**) under the *Telecommunications Act 1997* (Cth) (**Telecommunications Act**). While there is no licensing regime for CSPs (unlike for carriers), there are a range of legal and regulatory obligations that are in the Telecommunications Act, the *Telecommunications (Consumer Protection and Service Standards) Act 1999* (Cth) and the *Telecommunications (Interception and Access) Act 1979* (Cth) which CSPs have to comply with, in addition to other laws of general applicability such as the *Competition and Consumer Act 2010* (Cth) (**Competition and Consumer Act**) and the Privacy Act 1988 (Cth). Many of the legal obligations are supplemented by technical standards prepared by the Australian Communications and Media Authority (**ACMA**), industry codes (registered with ACMA), standards and guidelines.

The ACCC is responsible for the economic regulation of the communications sector, including telecommunications, broadcasting and content. It monitors and enforces compliance with the general consumer protection and anti-competitive conduct provisions in the Competition and Consumer Act. ACMA is an independent Commonwealth statutory authority that has regulatory and enforcement powers, and is also responsible for issuing licences, managing number portability, determining industry standards, collecting taxes and levies in relation to media and telecommunications, setting rules governing communications and media services, and providing information to consumers and industry stakeholders. The Telecommunications Industry Ombudsman (**TIO**) is a free and independent dispute resolution service for small business and residential customers to bring complaints about CSPs. CSPs must sign up and adhere to the TIO scheme unless specifically exempt.

2.9 Current electricity market conditions

Both AGL Australia and Accel Energy will operate in multiple energy markets across electricity, gas and carbon.

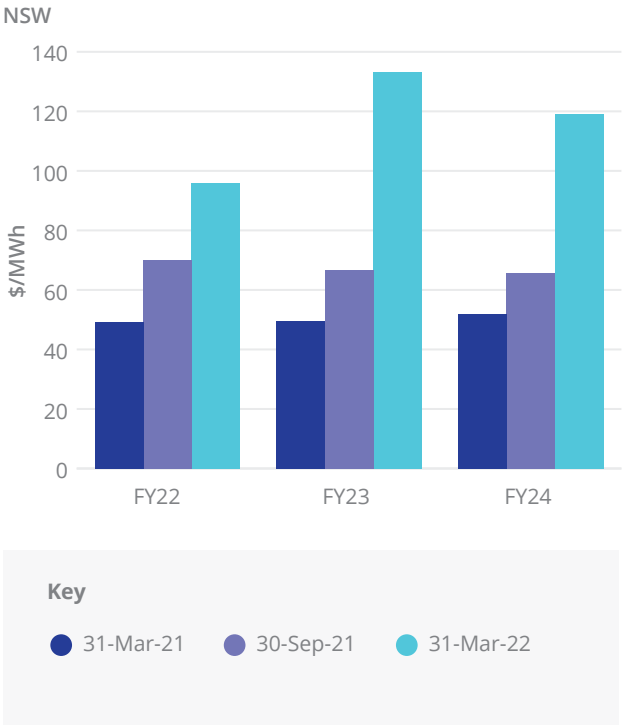
For AGL Australia, as noted previously, a number of states have introduced electricity retail pricing regulation for small consumers that allows for electricity retail pricing to reflect underlying wholesale prices. Additionally, AGL Australia will manage its broader risks to energy pricing exposures through a combination of contracting, trading and prudent pricing mechanisms to end users.

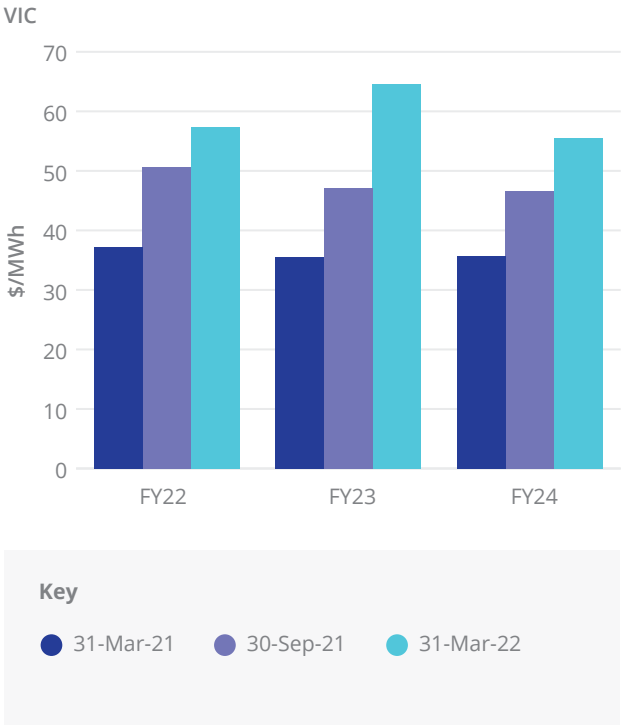
For Accel Energy, as one of the largest producers of power in the NEM, it has ongoing exposure to wholesale electricity price dynamics. It manages this exposure through a mix of longer-term contracts, shorter-term contracts, active trading and maintaining its position as having some of the lowest-cost generators in Victoria (Loy Yang A) and NSW (Bayswater). Over time, as shorter-term contracts expire and/or new sales contracts are entered into for uncontracted generation, the prevailing wholesale energy price will be reflected in its revenue profile.

2. Industry overview and competitive landscape

Notably, there are a number of tailwinds for wholesale energy pricing in the NEM – the NEM thermal fleet is going through earlier retirements than previously announced and an energy mix with more new build renewable, storage and supporting network investment is taking shape. This can be seen in the upwards trajectory of ASX Australian baseload electricity futures pricing, where this price reflects the traded value for standardised contracts for baseload power.

Two charts showing ASX baseload electricity futures contracts for NSW and Victoria as settled on 22 March 2022 are provided below:





Section 3

Information on AGL Australia

3. Information on AGL Australia

3.1 Overview of AGL Australia

3.1.1 Background

The newly created AGL Australia will be a leading multi-service energy provider in Australia, providing more than 4 million electricity, gas, broadband and other services to households and businesses, backed by a flexible energy supply and trading portfolio to lead the transition to a low-carbon future. AGL Australia will retain the AGL brand, trademarks and logo.

AGL Australia will own and operate Australia's largest private hydro generation fleet as well as fast-start gas-fired power stations and a growing battery development portfolio, with capabilities across wholesale and decentralised electricity and gas trading, storage, and supply.

AGL Australia will own a 20% equity investment in Tilt Renewables, a 50% investment in ActewAGL's retail operations, a 51% interest in OVO Energy Australia and other venture capital investments.

3.1.2 Key business components

AGL Australia

AGL Australia will be a leading multi-service energy provider in Australia with renewables, firming and storage assets.

A leading multi-service energy provider	• 4.5[1] million customer services • 24TWh customer and commercial electricity demand • 74PJ customer and commercial gas demand • Leader in business energy solutions • Highly experienced energy trading and risk management capability
Flexible and green portfolio	• 500MW of gas peakers (Barker Inlet, Somerton and Kwinana Swift) • 780MW of owned hydro capacity • Approved 250MW Torrens battery, currently under construction • Long-term contracts for flexible capacity
Foundational offtakes, rolling off over time	• Accel Energy offtake • Existing wind and solar offtakes with Tilt Renewables • Access to 3.5GW Tilt Renewables development pipeline
Decentralised energy and trading expertise	• Deep expertise in energy trading • A leading VPP including batteries, solar inverters, electric vehicle chargers, flexible and commercial industrial loads
Investments	• OVO Energy Australia 51% interest • ActewAGL 50% interest in retail operations • Tilt Renewables 20% interest • Venture capital investments

1 As at 31 December 2021, comprising of 2.5 million electricity services, 1.5 million gas services, 0.2 million telecommunications services and 0.3 million services from AGL Australia's 50% interest in ActewAGL's retail operations.

3.2 Business overview

3.2.1 Organisation structure

AGL Australia's key operating business areas are set out below:

- **Consumer:** Comprises the consumer and small business customer portfolios that involve the retailing of electricity, gas, solar and energy efficiency products and services to residential and selective business customers, and the retailing of telecommunications services;
- **Business and Commercial Customer:** Focuses on providing energy services and solutions to its Business and Commercial Customers, including solar and other asset-backed solutions; and
- **Supply and Trading:** Sources the electricity and gas required to serve AGL Australia's customers. It is involved in managing:
  - electricity market trading and contracting (including offtake contracts and derivatives) and managing supply from AGL Australia's generation portfolio consisting of gas, hydro, and battery assets; and
  - wholesale gas trading and contracting relating to supply, sale, storage, and transportation/haulage.

AGL Australia's organisation structure is shown below.

3. Information on AGL Australia

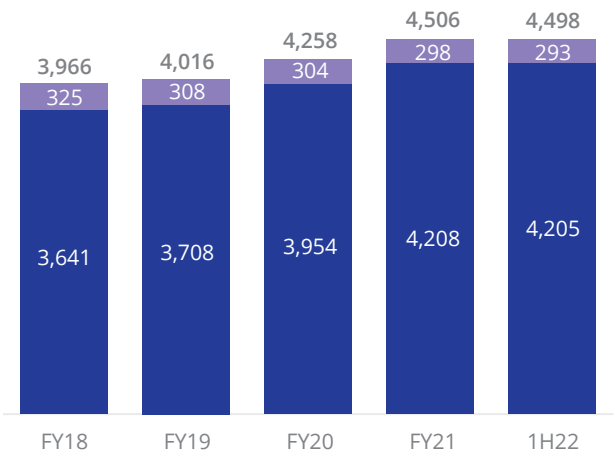
3.2.2 Key strengths of AGL Australia

3.2.2.1 Strong stable and growing base

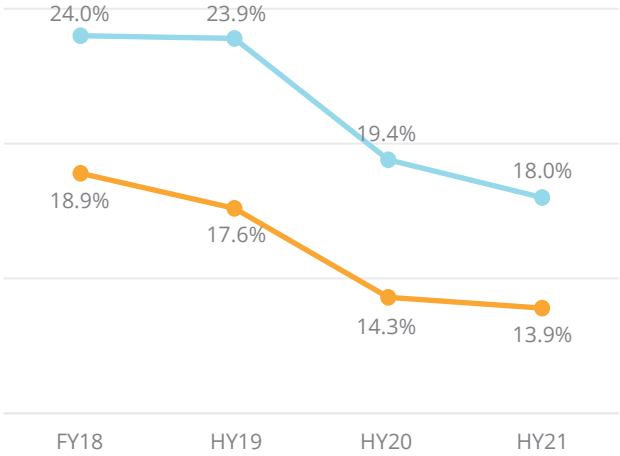
AGL Energy is currently a leading energy services provider in Australia with 4.5 million residential and business customer services nationally. AGL Australia is set to benefit from AGL Energy's strong brand legacy and unique positioning in the Australian retail energy market that is reflected in its steadily improving Net Promoter Score (**NPS**) over time (currently at +9 in HY22, compared to -11.1 in FY19) and consistent customer growth in core energy markets.

As shown in the diagrams below, AGL Energy has been able to sustain growth in the number of services whilst maintaining churn levels below the rest of the market. This is a reflection of the stability of its core retailing business and the strength of its retailing capabilities which delivers value to AGL Australia.

Customer services ('000)



Customer churn spread



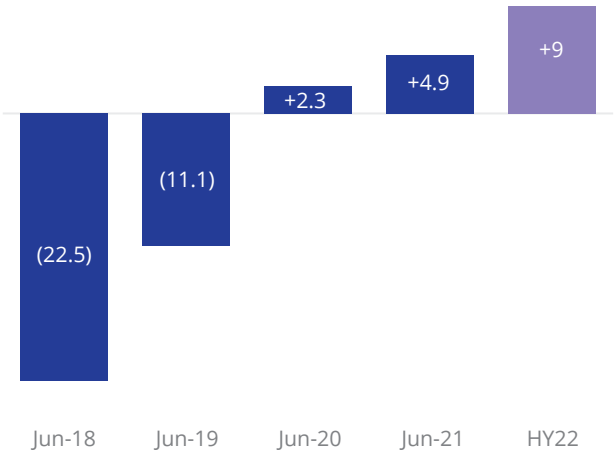
Key

- AGL customer services
- ActewAGL Energy services

Key

- AGL
- Rest of market

Strategic NPS (Net Promoter Score)



AGL Australia's low-carbon profile will be a desirable factor in the commercial business area, where it will have a strong customer base in commercial solar and other asset-backed solutions. AGL Australia will be the largest supplier of commercial solar in Australia with the systems and technologies in place to deliver more than 70MW of commercial solar each year.

3.2.2.2 Leading energy trader backed by portfolio of flexible generation and storage assets

AGL Australia will be supported by a portfolio of highly flexible generation and storage assets (more than 1GW of hydro and gas generation already in operation plus a strong development pipeline of grid scale batteries and VPPs).

The flexible nature of its generation and storage assets, in addition to its trading activities, will enable AGL Australia to manage:

- fluctuations in customer demand; and
- volatility in energy markets and the variability of generation levels from renewables (such as wind farms and solar farms).

These factors, as well as AGL Australia's experienced energy trading team, allow AGL Australia to manage energy procurement in a manner that will allow it to supply energy services at competitive prices whilst prudently managing risks.

3.2.2.3 Carbon neutral for Scope 1 and 2 emissions immediately with clear pathway to full carbon neutrality by 2040

Based on its asset profile and utilisation of offsets upon the implementation of the Demerger, AGL Australia will be immediately carbon neutral for Scope 1 and 2 emissions. AGL Australia's Scope 1 and 2 emissions profile will primarily comprise:

- Scope 1 – 500MW of gas peaker assets (Barker Inlet, Somerton and Kwinana Swift); and
- Scope 2 – emissions associated with AGL Australia's own energy consumption in relation to the conduct of its business (i.e. data centres, offices and call centres).
- AGL Australia has purchased, or budgeted and committed to purchase, additional quality offsets (where required) to achieve Scope 1 and 2 carbon neutrality from listing and will continue to abate emissions where possible through energy efficiency programs.
- AGL Australia has a target of being net zero for all emissions (Scope 1, 2 and 3) by 2040, with a with a 50% reduction on FY19 levels by 2030. It is intended that these targets will be achieved through:
  - reduction in overall NEM emissions intensity as illustrated under all scenarios in the "2022 Draft AEMO Integrated System Plan";
  - contracting or underwriting 3GW of renewable generation and flexible assets to supply energy to its significant customer base. This will primarily be achieved through underwriting third party renewable energy projects through offtake arrangements. AEMO data indicates there are approximately 140GW of renewable energy projects in the development pipeline. Given AGL Australia will have 4.5m customer services nationally, it is well placed to access various renewable energy projects;
  - working with consumers to create carbon neutral offerings for their energy consumption such as orchestrating VPPs, electric vehicle products and other distributed or behind the meter solutions;
  - developing new energy technology such as battery energy storage systems that will reduce Australia's dependence on thermal coal generation in the longer term; and
  - utilising quality offsets for hard to abate emissions (e.g. gas used for industrial processes and heating).

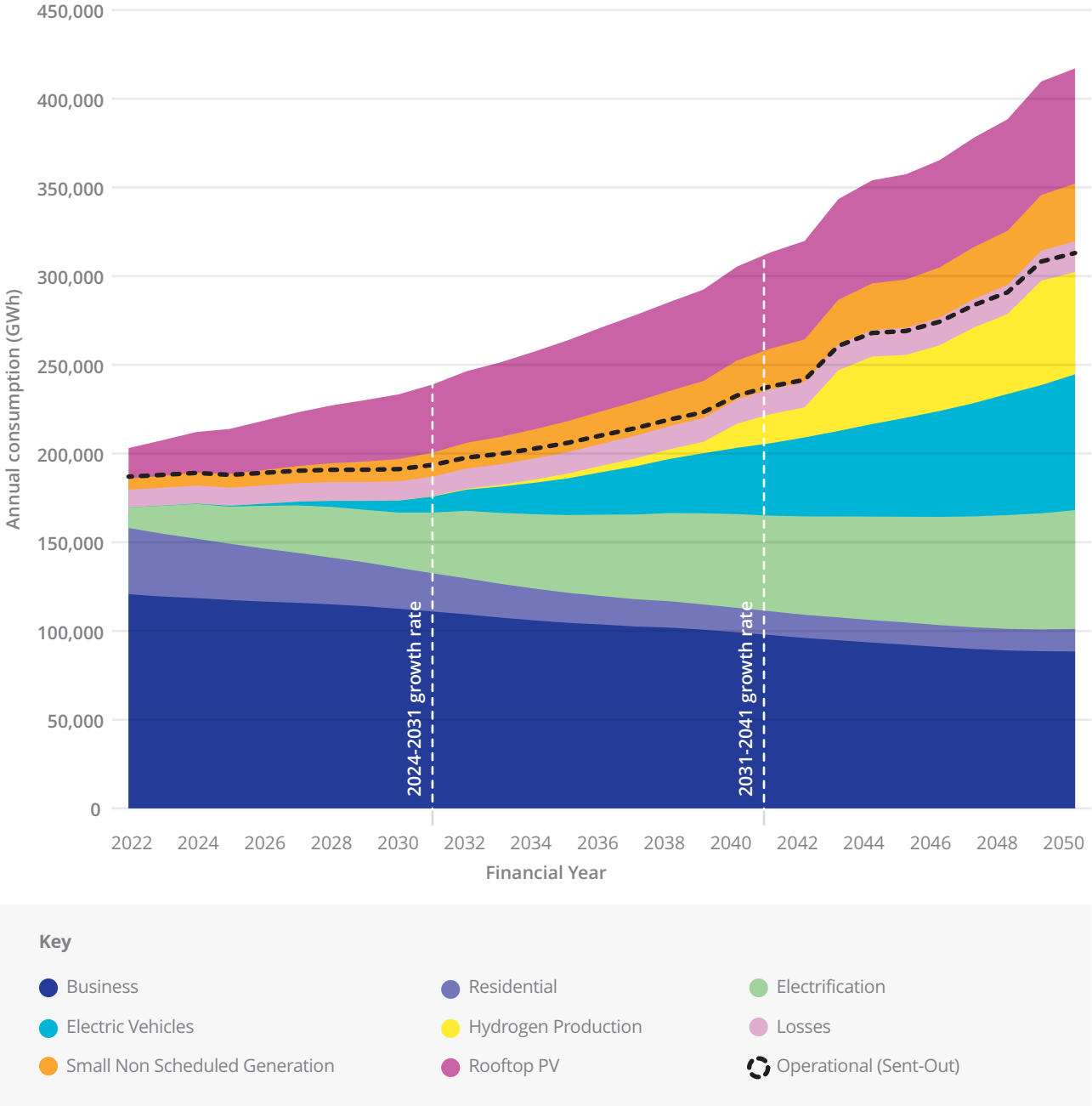
AGL Australia is expected to source more of its electricity supply from renewables over time following the cessation in 2027 of the initial electricity offtake arrangements that it will establish with Accel Energy.

AGL Australia will therefore be well positioned to help lead the energy transition towards decarbonisation.

3.2.2.4 Attractive market dynamics

AGL Australia is well positioned to capture value from the following tailwinds in the Australian energy market:

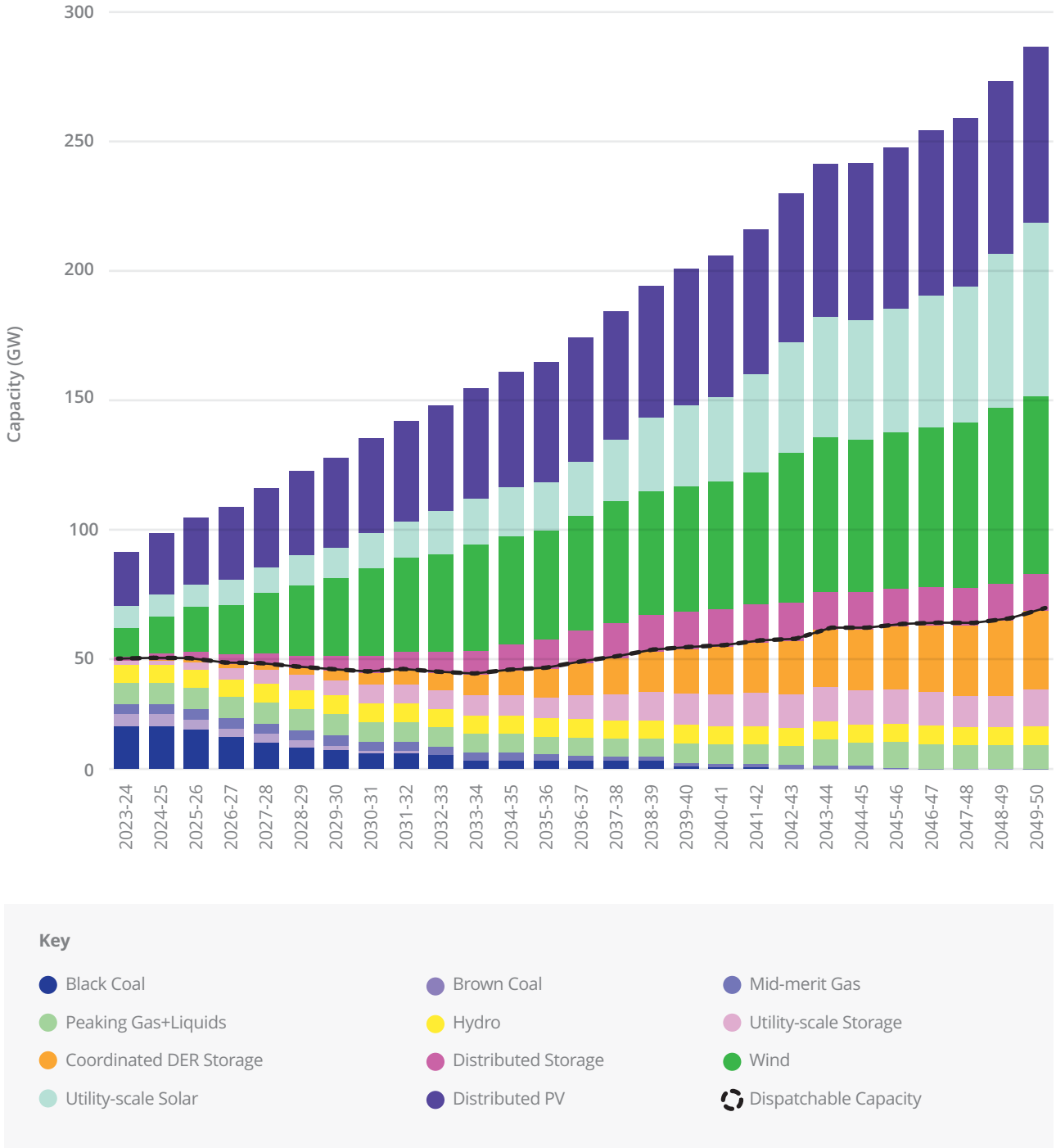
- Electricity consumption in the NEM is forecast to grow by 23% between 2020 and 2030 (compared to less than 5% in the last two decades). This substantial increase is driven by the electrification of industry, transportation, and residential demand. Over the medium term, electricity consumption will be driven by the transition to electric vehicles which are expected to contribute ~4.2GWh of consumption by 2030 and will be supported by ~$1.5b of new domestic charging infrastructure in the next decade. This transformation will be a key driver in AGL Australia's multi-service energy and mobility product offerings, particularly by capturing growth through accelerating electric vehicle adoption.



Source: Electricity Annual Consumption, AEMO (2021)

- 20% of energy consumption (~45TWh) will come from decentralised sources by 2030. AGL Australia is well placed to drive customer decarbonisation at scale as a leading VPP provider with more than 100,000 households (>200MW) signed up. AGL Australia will also be Australia's leading commercial solar provider with over 250MW of installed capacity in the last five years.

Figure 1: Forecast NEM capacity to 2050, Step Change scenario, with transmission



Source: Draft AEMO ISP - Forecast NEM Capacity, AEMO (2021)

- The scale and strength of its customer base will give AGL Australia the ability to accelerate decarbonisation by bringing customer demand to meet renewable supply.
- Renewables are forecast to grow by 2.9x in the NEM from 2020 to 2030, with ~$40 billion expected to be invested in solar and battery. AGL Australia will benefit from its leading flexible and renewable generation and storage with 2GW of capacity, access to Australia's largest renewable pipeline of 3.5GW via the investment in Tilt Renewables, 250MW of grid scale batteries under development, and 500MW of flexible gas generation. AGL Australia will underwrite 3GW of new renewable generation and flexible capacity by 2030. This will primarily be achieved through offtake arrangements with third party renewable energy projects, rather than directly investing in the development of such projects.

3. Information on AGL Australia

3.2.2.5 Stable financial performance

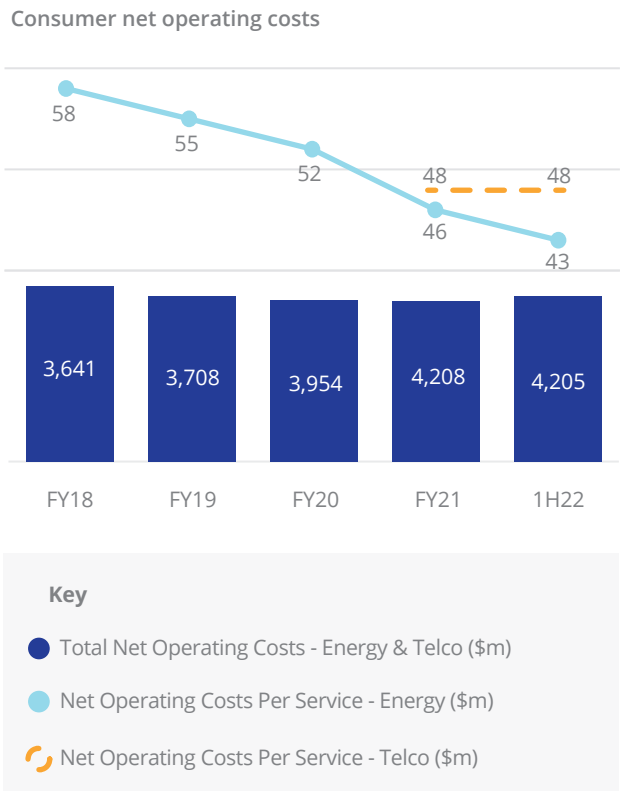
AGL Australia is expected to have predicable earnings and cash flows that are underpinned by AGL Energy's history as a trusted retailer and a core base of retail and wholesale energy customers. Historically, AGL Energy has:

- maintained resilience in gross margins and remained competitive despite regulatory interventions, policy changes, new market entrants and customer churn; and
- consistently protected and grown its market share through improved customer satisfaction and service levels.

It is expected that AGL Australia will continue those trends.

Underlying net operating costs per customer service are expected to fall over time, driven by recent investment in systems and ongoing focus on simplification and digitisation. Further cost base improvements are expected to be made through economies of scale, delivered across both fixed and variable costs.

Energy operating costs per customer service continue to be driven lower



3.2.2.6 Experienced board and senior management team

The AGL Australia Board combines extensive commercial, capital markets, board, and governance experience, together with broad executive experience in the Australian energy sector. A summary of the AGL Australia Directors' relevant experience is set out in Section 3.4.1.

AGL Australia will have an experienced senior management team, a well-developed corporate infrastructure, and a disciplined capital allocation framework. Members of the senior management team supporting the Managing Director and CEO, Christine Corbett, have deep energy expertise and a proven track record in navigating increasing complexity, as outlined in Section 3.4.2.

3.3 Operations overview

3.3.1 Consumer

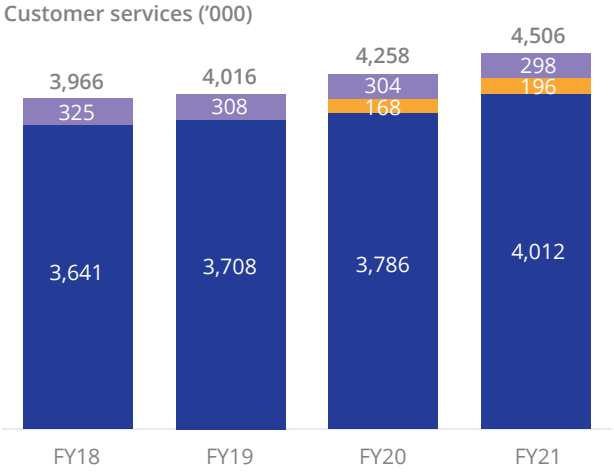
The consumer business is responsible for the retailing of electricity, gas, telecommunications (broadband, mobile and voice), solar and energy efficiency products and services to residential, and small business customers.

Initially, AGL Australia will hedge a portion of its electricity market exposure through contracts with Accel Energy.

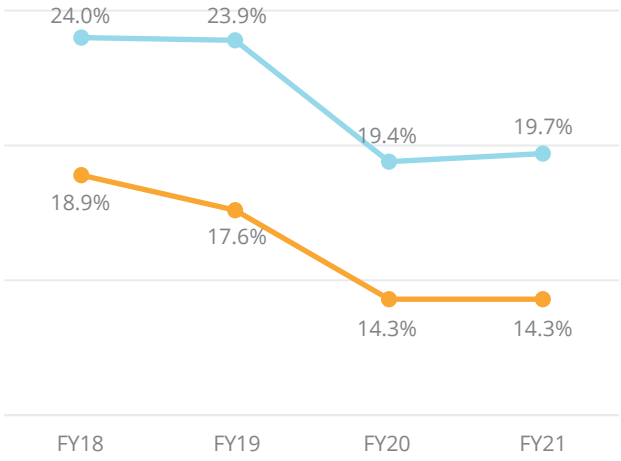
To supply its consumers with gas, AGL Australia intends to source and transport gas at the lowest possible price by securing competitively priced domestic supply, buying on the wholesale markets and using gas storage (such as Iona) to increase flexibility.

Historically, the services provided by AGL Energy to its customers have been stable in terms of the number of services provided.[2] For AGL Australia, in the short term, multi-service growth is anticipated to be driven predominantly by internet and mobile. Over time, growth will also be driven by services associated with solar, batteries and electric vehicles as consumers utilise more distributed and behind the meter energy products.

Total services provided to customers now 4.5 million*



AGL churn remains at historically low levels



3.3.2 Business and Commercial

AGL Australia's Business and Commercial customer business area will serve business and commercial customers across the NEM and, via Perth Energy, the WEM.

AGL Australia will be the largest provider of business energy solutions through the engineering, procurement, and construction of the behind the meter technology assets (such as such as rooftop solar installations, battery storage systems).[3] AGL Australia will manage over 130MW of rooftop solar and coupled with the large commercial customer base, will be able to leverage demand response and orchestration capabilities at scale.

The main services provided to the Business and Commercial customer business area will include:

- retailing of electricity (including renewables) and gas;
- end-to-end energy solutions designed to optimise customer energy consumption behind and in front of the meter and realise cost savings; and
- development and management of decentralised energy and flexibility products including the Business Customer Demand Response program and the growth of commercial battery propositions.

Through these product offerings, AGL Australia is well positioned to help businesses navigate the transition to net zero and meet their needs for asset-backed low-carbon supply.

Recent acquisitions that AGL Energy has made which will strengthen AGL Australia's capabilities include:

- Solgen and Epho: In March 2021, AGL Energy announced it had entered into agreements to acquire two of Australia's largest commercial solar businesses – Epho and Solgen Energy. Solgen operates a large wholesale distribution, engineering, procurement and construction business while Epho specialises in the construction and maintenance of large-scale solar. The integration of these business into the AGL Australia portfolio will provide AGL Australia with the systems and technology to deliver more than 70MW of commercial solar installations each year, making AGL Australia the largest commercial solar provider in Australia. The integration of both businesses will allow AGL Australia to bring together behind the meter renewables capability with renewables and flexible supply.
- Perth Energy: In September 2019, AGL Energy completed the purchase of Perth Energy, a leading independent energy retailer in Western Australia. It sells electricity and gas to small and medium size enterprises and commercial and industrial users, and currently supplies power to more than 1,500 business connections in Perth and across Western Australia. Perth Energy also owns the Kwinana Swift Power Station.

2 As at 31 December 2021, comprising of 2.5 million electricity services, 1.5 million gas services, 0.2 million telecommunications services and 0.3 million services from AGL Australia's 50% interest in ActewAGL's retail operations.

3 As per SunWiz – 2021 Year in Review; 15kW to 5MW category.

3. Information on AGL Australia

3.3.3 Supply and Trading

The Supply and Trading business area sources electricity, gas and other energy products required to serve AGL Australia's customers. It is involved in managing and optimising:

- electricity market trading and contracting (including offtake contracts and derivatives) and managing supply from AGL Australia's generation portfolio consisting of gas, hydro, and battery assets;
- wholesale gas trading and contracting relating to supply, sale, storage, and transportation/haulage; and
- the Decentralised Energy business which is responsible for the orchestration of distributed storage and demand response products.

3.3.3.1 Wholesale Gas

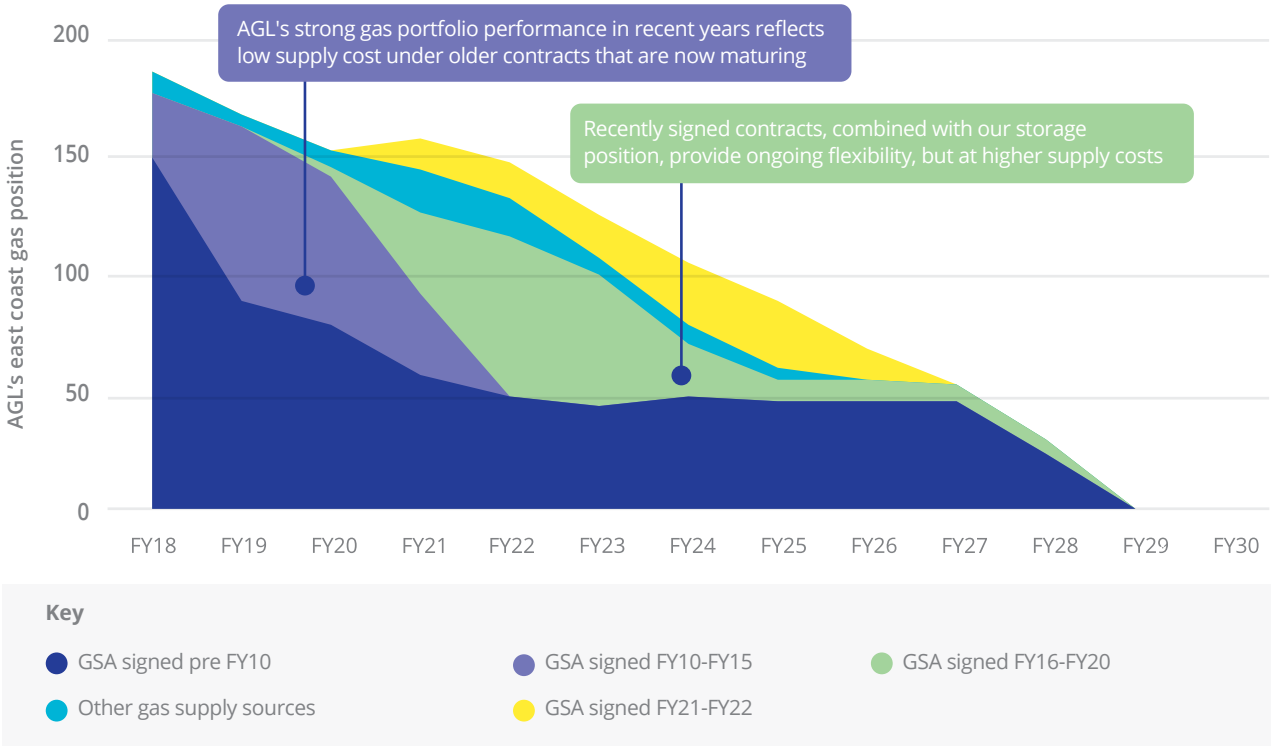
AGL Australia's Wholesale Gas Business will be responsible for sourcing gas to supply to:

- consumer, business and commercial customers (via AGL Australia's retail business); and
- the Somerton, Kwinana Swift and Barker Inlet flexible gas-fired power generation assets owned by AGL Australia.

The wholesale business meets customer gas needs with flexible, physically-backed supply and trading contracts. This includes competitively priced domestic sourcing arrangements as well as a range of trading mechanisms utilised to create value by directing gas to highest value in use (which could be by supplying the gas to AGL Australia's retail customers, using the gas for power generation, trading/selling the gas to third parties or storing the gas for later use).

The Wholesale Gas Business is complementary to AGL Australia's gas retailing activities and is critical to delivering on customer demand and managing risk in AGL Australia's customer book. AGL Australia will continue to look for opportunities to increase competitive gas supply.

AGL Australia's East Coast Gas Position



* As at February 2022.

3.3.3.2 Flexible generation and storage

AGL Australia will develop, operate, and manage a portfolio of gas, hydro and battery assets, which will be critical for supporting system stability in the NEM and firming customer load. The firming nature of its flexible capacity and storage assets, in addition to its trading capability, will enable AGL Australia to manage the intermittent generation risk from renewables and provide effective risk management against high price event days. AGL Australia will own Australia's largest private hydro generation portfolio, providing generation capacity of around 790MW. The portfolio includes the following schemes across NSW and Victoria:

Asset	State	Asset type	Nameplate capacity (MW)
Kiewa Scheme	VIC	Hydro	395
Dartmouth Scheme	VIC	Hydro	185
Eildon Power Station	VIC	Hydro	120
Copeton Power Station	NSW	Hydro	22.5
Burrendong Power Station	NSW	Hydro	19
The Rubicon Scheme	VIC	Hydro	13.5
Banimboola Power Station	VIC	Hydro	12.2
Yarrawonga Power Station	VIC	Hydro	9.5
Pindari Power Station	NSW	Hydro	5.7
Glenbawn Power Station	NSW	Hydro	5.5

AGL Australia's hydro assets provide support to the NEM in periods of peak demand and supply constraints and are necessary in the wholesale portfolio to manage AGL Australia's wholesale market risk arising from customer demand. The locational diversity of the hydro generating schemes enhances operational flexibility and value of the assets as a risk mitigation measure.

Battery Developments

AGL Australia will develop the 250MW, 1 hour Torrens Island Battery Project, the construction of which was announced by AGL Energy in March 2021. The Torrens Island Battery Project is targeted to be fully operational in 2023 with an estimated capital cost of $180m, and will be capable of expansion up to 4 hours in future.

AGL Energy has also underwritten third party battery developments in NSW and Queensland through contractual agreements. The Wandoan battery, located in Queensland and currently under construction, reached financial close in December 2020, with an estimated capital cost of $120m. The battery will have a capacity of 100MW for a duration of 1.5 hours. AGL Energy has also entered into contracts with Maoneng to support the development of a minimum of 4 batteries with a capacity of 50MW and duration of 2 hours in NSW. These developments are still subject to a final investment decision by the developer. These contracts will form part of AGL Australia's portfolio of contractual arrangements to provide flexible capacity to manage wholesale market risks.

AGL Australia is also targeting up to 350MW of coordinated distributed energy resources including residential battery storage and demand response capacity.

Gas-fired power generation

AGL Australia will initially have three gas peaker plants:

Asset	State	Asset type	Nameplate capacity (MW)
Barker Inlet Power Station	SA	Gas	210
Somerton	VIC	Gas	170
Kwinana Swift	WA	Open-cycle gas-turbine	120

Gas for the peaker plants will be sourced by the AGL Australia Wholesale Gas business area.

3. Information on AGL Australia

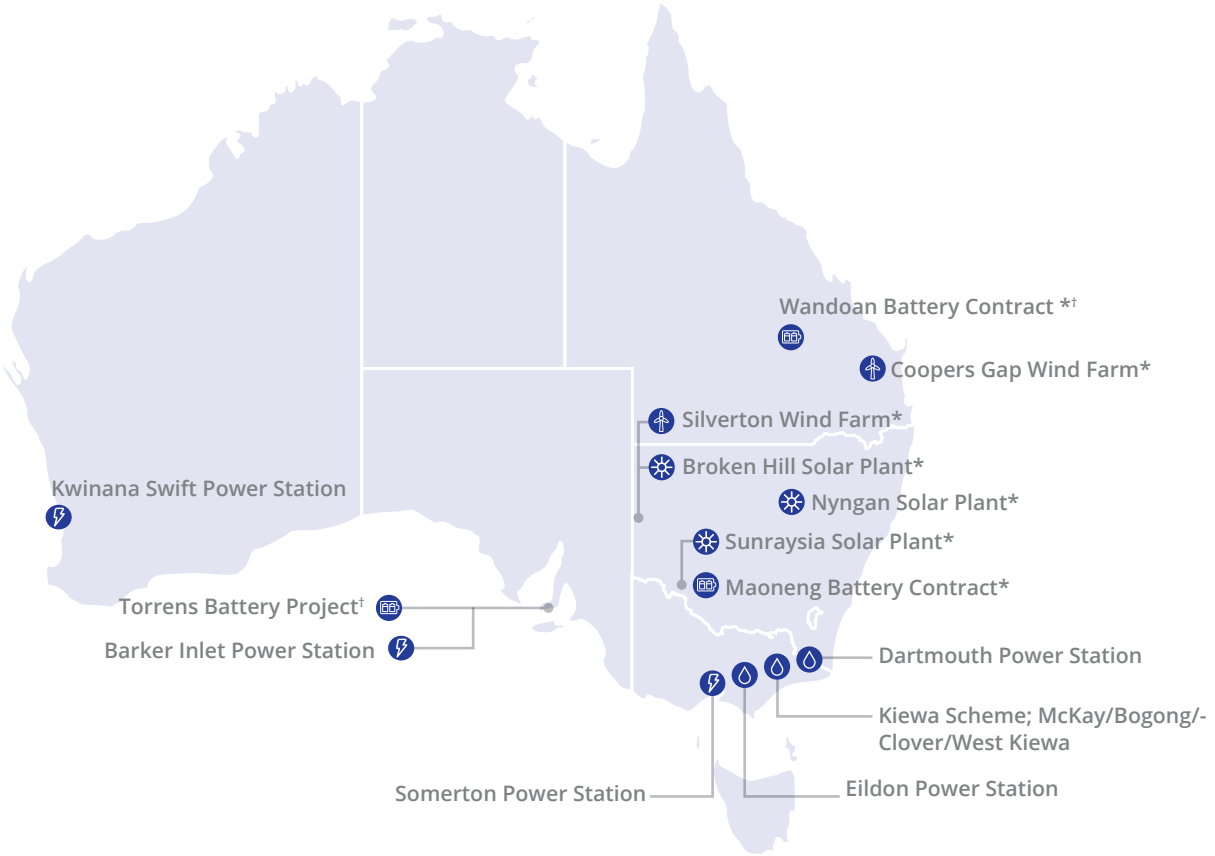
3.3.4 Investments

3.3.4.1 Tilt Renewables (formerly Powering Australian Renewables (PowAR)) interest

Tilt Renewables is a renewable energy investment vehicle designed to drive development of large-scale renewable energy projects across Australia. It is a strategic partnership between AGL Energy (20%) and Future Fund/QIC managed funds (80%). Tilt Renewables currently owns the largest wind and solar generation portfolio in the Australian market with a portfolio of 1.3GW of operating solar and wind assets, and a further 3.5GW of development and construction projects. AGL Australia will look to support large-scale renewables in a variety of roles including as offtaker, operator and/or equity holder (achieving consent ongoing).

AGL Australia will hold existing offtake agreements with the following Tilt Renewables assets:

Asset	State	Asset type	Nameplate capacity (MW)	Offtake end date
Silverton	NSW	Wind	200	30/6/2026, subject to option to extend for 5 years
Coopers Gap	QLD	Wind	453	Last day of calendar quarter in which the fifth anniversary of the practical completion date falls, subject to option to extend for 5 years
Nyngan	NSW	Solar	102	31/12/2026
Broken Hill	NSW	Solar	53	31/12/2026



Key

- Gas-fired
- Hydro
- Wind
- Grid-scale battery
- Solar

* Projects funded by third parties.
† Currently under construction.

Generation assets operated or controlled by AGL which have an installed capacity of less than 50 MW are not shown on this map.

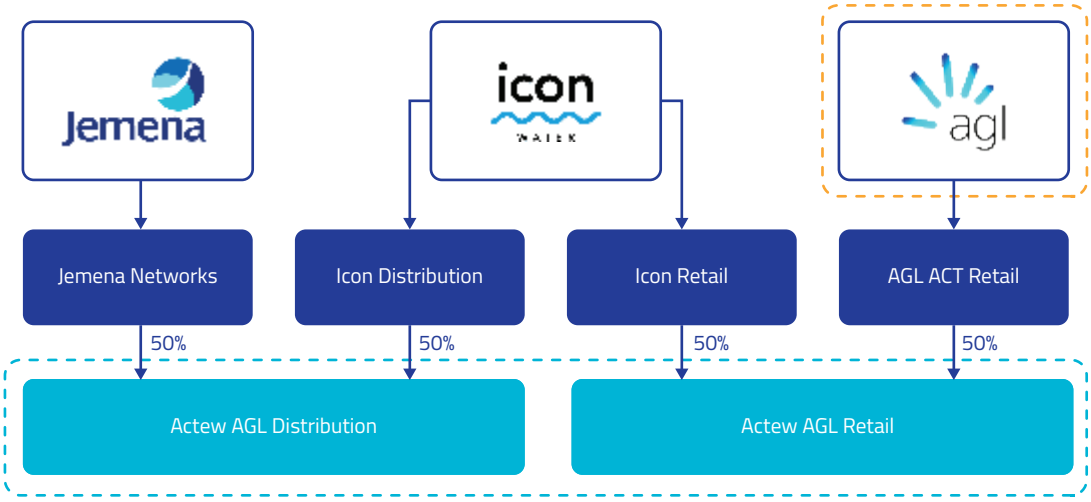
3.3.4.2 ActewAGL interest

ActewAGL is a joint venture comprised of two partnerships:

- **Retail partnership:** Sells electricity and natural gas, along with managing customer service and marketing functions in a competitive environment. Its footprint extends to centres in the South East NSW region; and
- **Distribution partnership:** Owns and operates the electricity and gas networks in the ACT, Pelerang shires and Nowra under the brand name Evoenergy.

AGL Australia will own a 50% equity stake in the retail partnership which has approximately 300,000 customers. AGL Energy's equity interest in ActewAGL contributed A$8m to EBIT in 1H22 (A$13m in FY21).

Actew AGL investment structure



3.3.4.3 OVO Energy Australia and Honey Insurance

AGL Australia will also have investments in OVO Energy Australia and Honey Insurance.

OVO Energy Australia (OEA) is a joint venture with OVO Group Limited (UK) comprised of two partnerships:

- **Technology partnership:** The collaboration gives AGL Australia exclusive access in Australia to Kaluza, OEA's advanced customer experience and energy flexibility platform, which has been developed to power millions of customer accounts. Kaluza's AI-enabled platform delivers world-class tooling for retailers to transform their operations and provide customers with a rich digital experience and real-time energy insights that help them reduce their bills. Under the arrangement, OEA is responsible for localising Kaluza's platform in Australia to provide optionality for future deployments.
- **Retail partnership:** OEA sells electricity in NEM states in Australia.

AGL Australia will own a 51% equity stake in OEA which has ~12,000 customers. AGL Energy's existing equity interest in OEA contributed $(5)m to EBIT in 1H22 and did not materially contribute to EBIT in FY21.

Honey Insurance

Honey Insurance provides a digital home and contents insurance offer paired with the option of smart home security devices for lower premiums.

AGL Australia will have a 5% equity stake in Honey Insurance on a fully diluted basis, assuming full allocation of the employee share plan and warrant arrangements. AGL Energy's equity interest in Honey Insurance did not materially contribute to EBIT in 1H22 as the company is still in the incubation stage.

3. Information on AGL Australia

3.4 AGL Australia Board and key management personnel

3.4.1 AGL Australia Board

On implementation of the Demerger, the AGL Australia Board will comprise of six directors. There will be five Independent Non-Executive Directors, and the Managing Director and CEO. Following the Demerger, AGL Australia will seek to appoint an additional director with expertise in ESG and sustainability. Details of the directors are set out below:

Patricia McKenzie
Chair

If the Demerger is implemented, Patricia McKenzie will be the Chair of the AGL Australia Board. Ms McKenzie joined the AGL Energy Board in May 2019. She is currently a member of the AGL Energy Audit & Risk Management Committee and the People & Performance Committee.

Ms McKenzie is currently Chair of NSW Ports and the Sydney Desalination Plant group companies. Prior to joining AGL Energy, Ms McKenzie was also a director of APA Group for 8 years.

Ms McKenzie has 40 years' experience in the Australian energy sector with particular focus on matters of market design, industry governance and regulatory reform. She was previously the Chair of Essential Energy, a director of Macquarie Generation and Transgrid, CEO of the Gas Market Company from 2001 to 2008 and a member of the Gas Market Leaders Group representing gas market operators from 2005 to 2010. In these roles, she was a key participant in the Council of Australian Governments' National Energy Reform, a major outcome of which was the establishment of the AEMO, of which she was a director (2009 to 2011).

Christine Corbett
Managing Director and CEO

If the Demerger becomes Effective, Christine Corbett will be the Managing Director and CEO of AGL Australia.

Ms Corbett joined AGL Energy in July 2019 as Chief Customer Officer responsible for both the consumer and large industrial business areas, delivering profitable growth, innovative multi-service products and leading digital experiences. Prior to joining AGL Energy, Ms Corbett built a career at Australia Post spanning almost three decades, where she held several leadership roles, including Interim Managing Director and CEO, Chief Customer Officer, EGM Postal Services and EGM Retail Services.

Ms Corbett holds a Bachelor of Law and a Bachelor of Business (Communications) from the Queensland University of Technology and is a graduate of the Australian Institute of Company Directors and Stanford Graduate School of Business' Executive Program.

Jacqueline Hey
Non-Executive Director

If the Demerger is implemented, Jacqueline Hey will be a Non-Executive Director of AGL Australia and member of the People & Performance Committee.

Ms Hey has been a member of the AGL Energy Board since March 2016. She is currently Chair of AGL Energy's Safety, Customer & Corporate Responsibility Committee.

Ms Hey is currently Chair of Bendigo and Adelaide Bank, a director of Qantas Airways and a Director of the Commonwealth Superannuation Corporation.

Ms Hey enjoyed a successful executive career prior to becoming a full-time company director in 2011. Ms Hey has extensive experience in the areas of information technology, telecommunications and marketing. Ms Hey worked with Ericsson for more than 20 years in finance, marketing and sales and in leadership roles in Australia, Sweden, the UK and the Middle East including as Managing Director of Ericsson UK/Ireland, Saudi Arabia and Australia/NZ.

Mark Bloom
Non-Executive Director

If the Demerger is implemented, Mr Mark Bloom will be a Non-Executive Director of AGL Australia and Chair of the Audit & Risk Management Committee.

Mr Bloom has been a member of the AGL Energy Board since July 2020. He is currently Chair of AGL Energy's Audit & Risk Management Committee.

Mr Bloom is currently a director of Pacific Smiles Group and Abacus Property Group.

Mr Bloom's executive career includes acting as CFO and an executive director at three listed entities in real estate (Westfield and Scentre Group – 16 years) and insurance and diversified financial services (Liberty Life, South Africa and Manulife Financial, Toronto – 20 years). Mr Bloom has extensive experience in overseeing global and local finance and IT teams.

Fraser Whineray
Non-Executive Director

Fraser Whineray will be appointed as a Non-Executive Director of AGL Australia if the Demerger becomes Effective.

Mr Whineray has extensive leadership experience in energy, decarbonisation, primary industries and investment banking across New Zealand, Australia and South East Asia.

Mr Whineray is currently Chief Operating Officer of Fonterra Co-operative Group in New Zealand and was previously CEO of Mercury NZ. His non-executive director roles have included Tilt Renewables (2019-2020) and Opus International Consultants.

Wendy Stops
Non-Executive Director

Wendy Stops will be appointed as a Non-Executive Director of AGL Australia if the Demerger becomes Effective.

Ms Stops is a Non-Executive Director of the Coles Group, Blackmores Group and Fitted for Work, and a Council Member of The University of Melbourne. In addition, Ms Stops is the Chair of the Industry Advisory Board for the Centre for Business Analytics at the Melbourne Business School, a member of the Australian Institute of Company Directors' Governance of Innovation & Technology Advisory panel, a member of the Digital Experts Advisory Committee for the Digital Technology Taskforce in the Department of Prime Minister and Cabinet, and a member of Chief Executive Women's Leaders Program Committee.

Ms Stops was previously a non-executive director of Commonwealth Bank of Australia and Altium. Prior to taking up her director career, Ms Stops was an information technology and management consultant, spending her 32+ year career with global leader, Accenture.

3.4.2 AGL Australia key management personnel

Christine Corbett
Managing Director and CEO

See Section 3.4.1.

Damien Nicks
Chief Financial Officer

If the Demerger is implemented, Damien Nicks will be the Chief Financial Officer of AGL Australia.

Mr Nicks joined AGL Energy in March 2013 and held several senior executive finance roles before being appointed Interim CFO in August 2018, then formally CFO in May 2019.

Mr Nicks has more than 26 years' experience across large multinational businesses including Linfox Logistics, Smorgon Steel and Deloitte. Mr Nicks is the Chair of ActewAGL.

Mr Nicks holds a Bachelor of Commerce (Honours) from La Trobe University, is a Fellow of the Chartered Accountants Australia and New Zealand and a graduate of the Australian Institute of Company Directors.

Jo Egan
Chief Customer Officer

If the Demerger is implemented, Jo Egan will be the Chief Customer Officer of AGL Australia.

Ms Egan joined AGL Energy in November 2008 and has more than 20 years of experience in energy across a variety of product and sales roles in energy including at TRUenergy and PCI.

Ms Egan is the Chair of OEA and a graduate of the Australian Institute of Company Directors.

3. Information on AGL Australia

Melinda Buchanan
EGM Trading, Supply & Operations

If the Demerger is implemented, Melinda Buchanan will be the EGM Trading, Supply & Operations of AGL Australia.

Ms Buchanan joined AGL Energy in March 2012 and has spent more than a decade in the energy industry with experience across trading, finance and operations.

Ms Buchanan holds a PhD in Mathematics and a Bachelor of Science from The University of Queensland.

3.5 Business strategy

3.5.1 Customer focused culture building upon a trusted brand to deepen customer relationships and provide specialist energy advice and services

AGL Australia's consumer growth strategy is to provide simple, innovative, affordable and sustainable solutions to help its customers transition to a low-carbon future.

This will allow AGL Australia to continue to build and enrich relationships with its customers through simplification of product offerings, technology and digitisation to enrich the customer experience. Improvement in customer engagement is expected to lead to growth in services per customer, which will lead to improved customer lifetime value through increased average tenure whilst providing a strong foundation for future products relating to decarbonisation.

AGL Australia aims to deliver high value for its customers through bundling across a range of products, recognising customer loyalty, and, in time, provide more energy-as-a-service products.

3.5.2 Providing business energy solutions with access to a large renewable developments pipeline in Australia

As a leading provider of business energy solutions, AGL Australia will work alongside its customers to design and deliver bespoke end-to-end energy solutions, insights and advice to meet their ESG and energy transition needs.

The integrated end-to-end energy solutions will focus on bringing together energy, asset-backed renewables, on-site renewable generation, demand response services, energy storage solutions, and operations and maintenance services to meet the changing needs of business customers.

AGL Australia will aim to build upon AGL Energy's position as a leading player in the business energy solutions space. AGL Australia will leverage the 'AGL' brand to win multi-product customers and extend relationships. In the future, AGL Australia will look to introduce additional low-carbon offerings, electric vehicle charging solutions, storage, orchestration and energy management solutions.

3.5.3 Expand the flexible and green portfolio to enable AGL Australia to meet and manage the energy demands of its customers and drive growth

AGL Australia will continue to focus on expanding its flexible and green portfolio to meet its customers' energy demands and leverage the portfolio to create new growth areas. AGL Australia intends to play a pivotal role in Australia's energy market transition through:

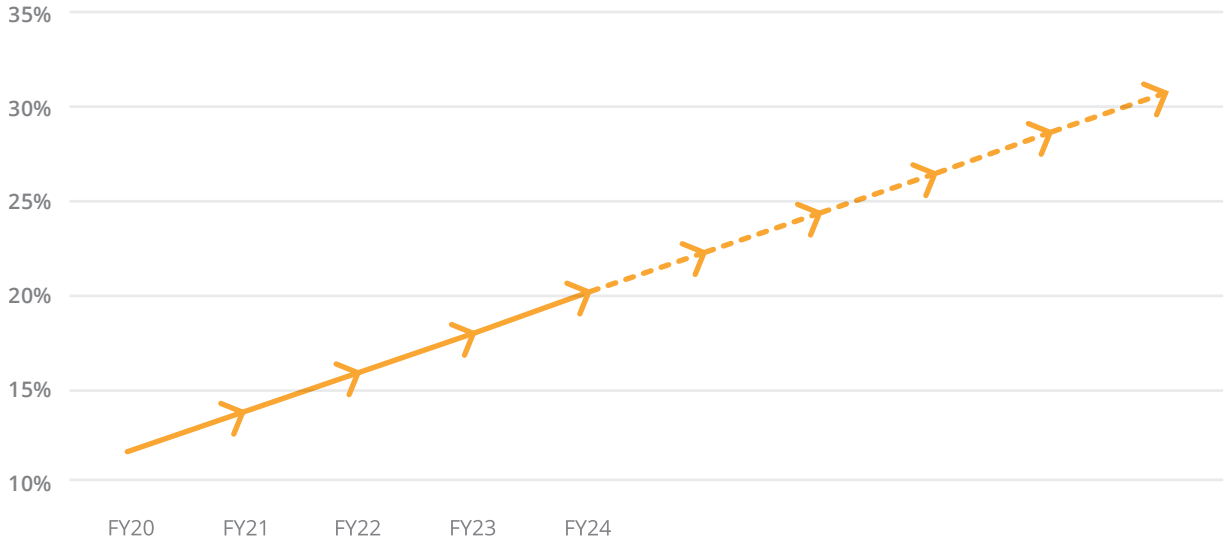
- enabling and underwriting renewable developments by signing renewable offtakes to supply its significant customer base;
- working with consumers on carbon neutral offerings such as VPPs, electric vehicle products, and other distributed or behind the meter solutions;
- developing new energy technology such as battery energy storage systems that will reduce Australia's dependence on thermal coal generation in the longer term; and
- providing in-depth energy expertise in order to help Australians along their decarbonisation journey.

AGL Australia is well placed to benefit from optimising its electricity supply strategy, which not only includes efficient sourcing of energy that better matches its demand, but also participating in related investment and growth opportunities.

AGL Australia, through its flexible, physical-backed supply and trading positions, is equipped to meet customers' gas needs and respond to fluctuating gas market conditions. AGL Australia intends to source and transport gas at the lowest possible price by securing competitively priced domestic supply, buying on the wholesale markets, using global sourcing, and hedging the portfolio to manage risks, and using gas storage (such as Iona) to increase flexibility.

As well as access to Australia's largest renewable pipeline of 3.5GW via AGL Australia's 20% equity stake in Tilt Renewables, AGL Australia has a leading flexible and renewable generation and storage portfolio with 2GW of capacity, 250MW of grid scale batteries under development, and 500MW of flexible gas generation. This flexible capacity will firm intermittent renewable generation and capture value in high price periods.

Total revenue from green energy and carbon neutral products / service (AGL FY21 LTIP max vesting)



AGL Australia indicative balanced supply and demand position

3.5.4 AGL Australia's growth strategy is underpinned by four strategic pillars

AGL Australia has a determined a clear growth path as a leading multi-service energy retailer in Australia. This growth strategy is prioritised into four key areas:

Customer focus – As a leading energy retailer, AGL Australia will hold a strong position, and is uniquely placed to provide the specialist energy advice and services that its customers require.

3. Information on AGL Australia

AGL Australia will continue to focus on the needs of customers to capture rising electricity demand. AGL Australia will focus on growing, retaining and addressing the needs of customers, by simplifying and improving customer experience via digitisation and simplification. Additionally, the energy cross-selling opportunity is compelling with 91% of AGL Australia's telecommunications customers having AGL Energy electricity and/or gas products.

Accelerating decarbonisation – Electrification and decarbonisation are two significant forces impacting the energy transition. AGL Australia will guide its customers through the decarbonisation journey, providing innovative offerings in e-mobility, decentralised energy resources and green financing. AGL Australia's partnership model with business customers will drive electrification and support net zero targets through its market leading commercial energy solutions to achieve its sustainability ambitions together.

Some AGL Australia's customers will already have started their decarbonisation journey and will want help in accelerating their transition. AGL Australia will have over 100,000 households signed up to its VPP program that now exceeds 200MW of capacity. Over the FY21 period, the multi-asset VPP provided over 1GWh of flexible energy across 50+ events and is targeted to grow its capacity to 350MW by FY24.

Expanding the flexible and green portfolio – To enable AGL Australia to meet the energy needs of customers and achieve the 2030 goal of underwriting 3GW[4] of renewable and flexible capacity, AGL Australia will carefully curate an optimal portfolio to both manage its financial risk and generate value for its customers. In delivering this, AGL Australia will have the flexibility to build, contract or underwrite renewable and flexible energy assets.

On the supply side, the NEM could host to over 78GW of renewable energy assets and 31GW of flexible generation and storage by 2030. AGL Australia will play an active role in this market transformation through its strong flexible electricity position that includes an 850MW battery pipeline, pumped hydro and gas firming. The firming nature of this flexible capacity and storage assets, in addition to its trading capability, would enable AGL Australia to manage the intermittent generation risk from renewables.

AGL Australia will utilise partners to build new capabilities in a capital light manner. AGL Australia will have access to Australia's largest renewable development pipeline of 3.5GW via its investment in Tilt Renewables. It will also operate grid scale batteries including the 200MW battery developed by Maoneng in NSW.

Simplifying, Digitising and Engaging – This is about transforming AGL Australia's business, operational model and ways of working. This is being delivered through simplification, digitisation and partnerships. This includes the partnership with Kaluza which will reduce AGL Australia's cost to serve, and improve speed to market whilst increasing employee engagement and performance. AGL Australia's Retail Next program will also enable it to grow beyond core energy and expand into new markets such as electric vehicles, batteries, orchestration, and other adjacencies.

AGL Australia will inherit a business with a deep lineage of digitisation. 70% of all customers are now billed digitally up from 53% in FY19.

AGL Australia will aim to improve the customer experience through leveraging technology interfaces. Continued investment in information systems and operational efficiency are also expected to reduce recurring net operating costs per customer service.

3.6 AGL Australia's capital structure on implementation of the Demerger

3.6.1 Capital structure

On implementation of the Demerger, AGL Australia will have the following committed debt facilities in place:

- multi-option bank facilities totalling $2,440m comprised of:
  - cash advance facilities of $2,015m with a tenor of 5 years; and
  - contingent instrument facilities of $425m with a tenor of 5 years; and
- $661m of USPP notes comprised of the following maturities:
  - $85m maturing September 2022;
  - $130m maturing September 2025;
  - $50m maturing December 2026;
  - $118m maturing December 2028;
  - $79m maturing December 2029; and
  - $199m maturing December 2031.

Estimated drawn debt, excluding lease liabilities, at implementation of the Demerger, will be in the range of $2,000m to $2,200m and net debt, excluding lease liabilities, in the range of $1,790m to $1,990m.[5]

A summary of AGL Australia's debt facilities is set out in Section 3.7.14.

Based on a ratings advisory service process and the credit metrics of the entity, AGL Australia is anticipated to carry an investment grade credit rating.

AGL Australia will adopt financial policies consistent with maintaining an investment grade credit rating, supported by the nature of the services it provides, strong brand and competitive position. It is anticipated that AGL Australia's short to medium-term investment focus will be on continued development of its essential services capabilities, customer systems and flexible energy trading, storage and supply.

4 This will primarily be achieved through offtake arrangements with third party renewable energy projects, rather than directly investing in the development of such projects.
5 Debt and net debt estimates are influenced by forward electricity price changes and associated collateral postings. Should forward electricity prices vary, the estimated ranges above may be wider.

3.6.2 Dividend policy

After the Demerger, AGL Australia's dividend policy will be determined by the AGL Australia Board at its discretion and may change over time.

After the Demerger, the AGL Australia Board intends to adopt a dividend policy which has regard to current earnings and cash flows, available franking credits, future cash flow requirements (including to fund growth projects) and targeted credit metrics. As a result, initially, AGL Australia expects to distribute approximately 60-75% of Underlying NPAT to AGL Australia Shareholders and retain an active dividend reinvestment plan.

AGL Australia expects to pay its first dividend in March 2023, which will be an interim dividend for the half-year ending 31 December 2022.

AGL Australia will distribute dividends with the maximum practicable franking credits for the purposes of the Australian dividend imputation system. Dividends are expected to be partly franked in the short term, targeting to be fully franked over the longer term.

No assurance can be given in relation to the level of future dividends or the franking of such dividends (if any), as these will depend on future events and circumstances. The extent to which a dividend can be franked will depend on AGL Australia's franking account balance (which immediately following the Demerger will be nil). AGL Australia's franking account balance will depend on the amount of Australian income tax paid by AGL Australia following the Demerger. Franking credits are generated through the payment of income tax, and AGL Australia is expected to pay monthly income tax instalments.

3.7 AGL Australia Pro Forma Historical Financial Information

3.7.1 Overview

This Section 3.7.1 contains pro forma historical financial information in relation to AGL Australia (the AGL Australia Pro Forma Historical Financial Information), comprising the:

- AGL Australia pro forma historical statements of profit or loss for the years ended 30 June 2019, 30 June 2020, 30 June 2021 and six months ended 31 December 2021 set out in Section 3.7.8;
- AGL Australia pro forma historical statement of financial position as at 31 December 2021 set out in Section 3.7.12; and
- AGL Australia pro forma historical statements of cash flows for the years ended 30 June 2019, 30 June 2020, 30 June 2021 and six months ended 31 December 2021 set out in Section 3.7.13.

In this Scheme Booklet, references to the AGL Australia Pro Forma Historical Financial Information are references to consolidated pro forma historical financial information in relation to the assets, liabilities and operations comprising AGL Australia as it will exist immediately after implementation of the Demerger.

The AGL Australia Pro Forma Historical Financial Information has been reviewed by the Investigating Accountant and the Investigating Accountant has prepared Independent Limited Assurance Report in respect of the AGL Australia Pro Forma Historical Financial Information. The Independent Limited Assurance Report is set out in Section 7. AGL Energy Shareholders should read the Independent Limited Assurance Report, including the comments made by the Investigating Accountant in relation to the scope and limitations of the Independent Limited Assurance Report.

This Section 3.7.1 should be read in conjunction with the risks relating to the Demerger set out in Section 1.5 and the risks of an investment in AGL Australia set out in Section 3.12.

3.7.2 Basis of preparation

The AGL Australia Pro Forma Historical Financial Information has been prepared for illustrative purposes to assist AGL Energy Shareholders in understanding the financial performance, financial position and cash flows of AGL Australia. By its nature, pro forma historical financial information is illustrative only. Consequently, the AGL Australia Pro Forma Historical Financial Information does not purport to reflect the actual financial performance, financial position and cash flows that would have occurred if AGL Australia had operated as a standalone, ASX-listed company for the periods to which the AGL Australia Pro Forma Historical Financial Information relate.

The AGL Australia Pro Forma Historical Financial Information has been extracted from the historical financial information directly relating to AGL Australia in AGL Energy's accounting records and adjusted for the effects of the pro forma adjustments described below. These accounting records were used to generate AGL Energy's financial statements for the years ended 30 June 2019 (**FY19**), 30 June 2020 (**FY20**) and 30 June 2021 (**FY21**), and the six months ended 31 December 2021 (**HY22**). AGL Energy's financial statements for FY19, FY20 and FY21 have been audited by Deloitte Touche Tohmatsu (**DTT**) in accordance with AAS. The financial statements for HY22 have been reviewed by DTT in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity.* DTT issued unqualified audit opinions or review conclusions on these financial statements. Copies of these audited or reviewed financial statements can be found at AGL Energy's website (www.agl.com.au) or the ASX website (www.asx.com.au).

Unless otherwise stated in this Scheme Booklet, the AGL Australia Pro Forma Historical Financial Information has been prepared in accordance with Australian Accounting Standards (AAS) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (**AASB**), which comply with the recognition and measurement principles of IFRS and interpretations adopted by the International Accounting Standards Board. The accounting policies used in the preparation of the AGL Australia Pro Forma Historical Financial Information are consistent with those set out in AGL Energy's financial reports for FY19, FY20, FY21 and HY22, which were disclosed to the ASX in AGL Energy's Annual Report in respect of each of those financial years and in the Half-Year Report for the period ended 31 December 2021.

3. Information on AGL Australia

The AGL Australia pro forma historical financial information is presented in an abbreviated form and does not contain all the disclosures required by AAS in an annual financial report prepared in accordance with the Corporations Act.

The AGL Australia pro forma historical statements of cash flows set out in Section 3.7.13 are presented as cash flows after net capital expenditure, finance costs and tax.

The AGL Australia pro forma statements of profit or loss and AGL Australia pro forma historical statements of cash flows set out in Sections 3.7.8 and 3.7.13 (respectively) include pro forma adjustments to reflect:

- the new financing arrangements for AGL Australia that will take effect on implementation of the Demerger, as described in Section 3.6;
- the anticipated operating costs of AGL Australia operating as a standalone, ASX-listed company. This includes the allocation of Centrally Managed Expenses;
- adjusting for acquisitions made during the period from 1 July 2018 to 31 December 2021 as if those acquisitions were made at the start of the historical period presented being 1 July 2018. In addition, the results of any disposal of businesses made during that period have also been removed from 1 July 2018 including the gain on sale of those disposals;
- the impact of the Transitional Services Agreement which will be put in place between AGL Australia and Accel Energy for the provision of various corporate services;
- the reallocation of fair value movements relating to the allocation of the various financial instruments which had previously been recorded in Accel Energy legal entities that relate to the AGL Australia Business; and
- the allocation of tax to AGL Australia and tax related to pro forma adjustments at the statutory tax rate.

The AGL Australia pro forma historical statement of financial position set out in Section 3.7.12 has been prepared on the basis that the Demerger was implemented on 31 December 2021 and that the relevant assets and liabilities of AGL Australia were transferred to AGL Australia from AGL Energy at their historical consolidated book values at 31 December 2021. Pro forma adjustments have been made to the AGL Australia pro forma historical statement of financial position to reflect the new financing arrangements, capital structure, transaction costs, and a transfer of AEMO pool purchase payables for AGL Australia customer electricity consumption which AGL Australia will be responsible for going forward.

The AGL Australia pro forma historical statement of financial position set out in Section 3.7.12 does not represent the actual financial position of AGL Australia at the time of the Demerger, but represents an indication of the AGL Australia pro forma historical statement of financial position as at 31 December 2021 in the circumstances set out in Section 3.7.12.

3.7.3 AGL Australia financial information preparation

The AGL Australia financial information for FY19, FY20, FY21 and HY22 has been extracted from the AGL Energy financial reports at an EBIT level prior to the allocation of Centrally Managed Expenses. In HY22, AGL Energy has adopted a change in the transfer price methodology in relation to the pricing of energy transactions between AGL Australia and Accel Energy and retrospectively applied it to FY19, FY20 and FY21. The AGL Australia financial information for FY19, FY20 and FY21 has reflected the change in transfer price methodology.

Centrally Managed Expenses have been derived for AGL Australia based on a detailed build-up of the standalone cost base of AGL Australia post Demerger. This detailed build-up was then used as a basis to allocate the historical Centrally Managed Expenses that were incurred by AGL Energy for all periods presented between AGL Australia and Accel Energy.

Items below EBIT have been derived from the underlying financial records of AGL Energy based on a review of the underlying transactions and allocated to AGL Australia as appropriate.

3.7.4 Centrally Managed Expenses

As reported in the financial statements of AGL Energy, a portion of the corporate expenses was classified as centrally managed and not historically allocated to the AGL Australia or Accel Energy business segments. For the purposes of this Scheme Booklet the Centrally Managed Expenses have been allocated to AGL Australia and Accel Energy in order to present an estimate of the standalone positions of each business. The allocation of Centrally Managed Expenses was based on a detailed build-up of the standalone corporate operating expenses for each of AGL Australia and Accel Energy which then determined the cost drivers used as a basis of allocation for the Centrally Managed Expenses in the historical periods presented in this Scheme Booklet. In addition an assessment was made of the additional standalone costs and the Transitional Services Agreement that will be effective upon Demerger between AGL Australia and Accel Energy. For these items pro forma adjustments have been made to reflect the estimate of the additional standalone costs and the financial impact of the Transitional Services Agreement. Refer to section 5.9.5 for further details on this agreement.

3.7.5 Accounting pronouncements not yet adopted

The following accounting standards, accounting standard amendments and interpretations are due for adoption for the year ending 30 June 2023:

AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*; and

AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments*.

The standards and interpretations listed above are not expected to have a material impact on AGL Australia's financial results or financial position on adoption.

3.7.6 Explanation of certain non-IFRS financial measures

AGL Australia uses certain measures to manage and report on its businesses that are not recognised in accordance with AAS or IFRS. These measures are collectively referred to in this Section 3.7 as non-IFRS financial measures pursuant to *Regulatory Guide 230 Disclosing non-IFRS financial information* published by ASIC. Management uses these non-IFRS financial measures to evaluate the performance and profitability of the overall business, and they are commonly used performance measures by the investor community. The principal non-IFRS financial measures referred to in this Section 3.7 are as follows:

- **EBIT** is the earnings of continuing operations before recognising:
  - interest revenue, interest expense or financing costs; and
  - income taxation expense.
- **Underlying EBIT** is EBIT adjusted for significant items (defined below) and gain/(loss) on fair value of financial instruments.
- **EBITDA** is earnings of operations before recognising:
  - depreciation and amortisation expense;
  - interest revenue, interest expense or financing costs; and
  - income taxation expense.
- **Underlying EBITDA** is EBITDA adjusted for significant items (defined below) and gain/(loss) on fair value of financial instruments.
- **NPAT** is net profit after tax.
- **Underlying NPAT** is NPAT adjusted for significant items (defined below) and gain/(loss) on fair value of financial instruments after tax.
- **Net capital expenditure** represents capital expenditure less proceeds from the sale of property, plant and equipment and intangibles.
- **Net debt** represents total loans and borrowings and bank overdrafts, less cash and cash equivalents.
- **Net free cash flows** is net operating cash flows after net capital expenditure, finance costs and taxation.
- **Working capital** includes trade and other receivables, trade and other payables, inventories, other financial assets (margin calls) and green assets.
- **Significant items** are material items of revenue or expense that are unrelated to the underlying performance of the business.

3.7.7 Segment reporting

AGL Australia segments are organised and managed separately according to the nature of the products and services provided. The AGL Australia Board (the chief operating decision maker) monitors the operating results of the segments separately for the purpose of making decisions about resource allocation and performance assessment.

AGL Australia pro forma historical segment Information

Set out below is the AGL Australia pro forma historical segment information for FY19, FY20, FY21 and HY22.

3. Information on AGL Australia

Table 1: AGL Australia pro forma revenue (segment information)

Pro forma historical revenue

A$m	FY19	FY20	FY21	HY22
Customer	7,408	7,542	7,423	3,746
Supply and Trading	2,580	2,373	2,058	1,157
Investments	1	-	-	4
Inter-segment revenue	(1,457)	(1,328)	(1,166)	(665)
Pro forma adjustments	760	526	202	-
Pro forma historical revenue	**9,292**	**9,114**	**8,516**	**4,242**

Inter-segment revenue represents the elimination of the revenue between segments within AGL Australia which were included in the historical total segment revenue.

The pro forma adjustment to revenue reflects acquisitions and disposals made over the historical period presented and assumes that those acquisitions and disposals were made from the beginning of the historical period presented, being 1 July 2018.

Table 2: AGL Australia pro forma Underlying EBITDA (segment information)

Pro forma historical Underlying EBITDA

A$m	FY19	FY20	FY21	HY22
Customer	256	288	336	145
Supply and Trading	595	517	326	151
Investments	33	18	9	(1)
Centrally Managed Expenses	(200)	(216)	(186)	(85)
Pro forma adjustments	53	28	4	(1)
Pro forma historical Underlying EBITDA	**736**	**635**	**488**	**209**

3.7.8 AGL Australia pro forma historical statements of profit or loss

Set out below are the AGL Australia pro forma historical statements of profit or loss for FY19, FY20, FY21 and HY22.

Table 1: AGL Australia pro forma historical statements of profit or loss

Pro forma historical statements of profit or loss

A$m	FY19	FY20	FY21	HY22
Revenue	9,292	9,114	8,516	4,242
Expenses	(8,588)	(8,496)	(8,037)	(4,039)
Share of profits of associates and joint ventures	32	17	9	7
Underlying EBITDA	**736**	**635**	**488**	**209**
Depreciation and amortisation	(188)	(225)	(243)	(134)
Underlying EBIT	**548**	**410**	**245**	**75**
Net finance costs	(90)	(91)	(86)	(47)
Underlying net profit before tax	**458**	**320**	**160**	**28**
Income tax expense	(131)	(96)	(50)	(10)
Underlying NPAT	**328**	**224**	**110**	**17**
Significant items after tax	(33)	(17)	(444)	63
(Loss)/gain on fair value of financial instruments after tax	(75)	(72)	66	294
Pro forma historical NPAT	**220**	**135**	**(269)**	**374**

Notes:

AGL Australia Transitional Services Agreement with Accel Energy: as described in section 5.9.5 AGL Australia will enter into a Transitional Services Agreement with Accel Energy under which AGL Australia will provide certain finance, customer and technology services for a transitional period post Demerger pending migration of those services. This will generate an income stream (to be offset against operating costs) for AGL Australia of approximately $27m per annum. In addition, Accel Energy will provide services to AGL Australia for Health, Safety and Environment, reporting and technology services with the approximate cost per annum of $4m. Pro forma adjustments have been made to expenses related to these services – refer to section 3.7.9 for further details.

During the year ended 30 June 2021, AGL Australia recorded various charges including an impairment of $47m related to its decision to cease any further development of the proposed LNG import jetty at Crib Point.

Following the Demerger, the tax bases of AGL Australia will be reset under the tax consolidation rules. As a result of that process, there may be certain adjustments to assets and liabilities which will have deferred tax consequences. No amounts have been booked through tax expense in the pro forma historical statement of profit or loss for HY22 as the amounts are expected to be immaterial. For statutory purposes, any amounts booked will be recorded through tax expense on Demerger.

No adjustments have been made to the income statement for the impact of the offtake agreement to be entered into with AGL Australia and Accel Energy as the impact has been assessed as materially aligned to the historical transfer prices which is the basis on which the Pro Forma Historical Statements of Profit or Loss are presented.

3. Information on AGL Australia

3.7.9 Reconciliation of historical EBIT to AGL Australia pro forma historical Underlying EBIT

Set out below is the reconciliation of the AGL Australia historical EBIT to the pro forma historical EBIT for FY19, FY20, FY21 and HY22.

Table 1: Reconciliation of AGL Australia historical EBIT to AGL Australia pro forma historical EBIT

Historical EBIT to pro forma historical EBIT

A$m	FY19	FY20	FY21	HY22
Historical EBIT	**642**	**517**	**(20)**	**694**
Significant items	(10)	21	580	(90)
Gain/(Loss) on fair value of financial instruments	107	102	(94)	(420)
Underlying EBIT prior to Centrally Managed Expenses	**739**	**641**	**466**	**184**
AGL Australia Centrally Managed Expenses	(225)	(245)	(222)	(109)
AGL Australia EBIT after Centrally Managed Expenses	**514**	**396**	**244**	**76**
1 Acquisitions and disposals	30	9	1	-
2 Standalone corporate costs	(19)	(17)	(23)	(12)
3 Transitional Services Agreement	23	23	23	12
Pro forma historical Underlying EBIT	**548**	**410**	**245**	**75**

Notes:

Historical EBIT is prior to Centrally Managed Expenses as disclosed in the segment results relating to AGL Australia in the FY21 AGL Energy Annual Report. Centrally Managed Expenses were not previously allocated between AGL Australia and Accel Energy.

An explanation of the adjustments made to EBIT is detailed in section 3.7.10.

3.7.10 Reconciliation of Underlying EBIT to AGL Australia pro forma historical NPAT

Set out below is the reconciliation of the AGL Australia Underlying EBIT to the pro forma historical NPAT for FY19, FY20, FY21 and HY22.

Table 1: Reconciliation of AGL Australia historical Underlying EBIT to AGL Australia pro forma historical NPAT

AGL Australia historical Underlying EBIT to pro forma historical NPAT

A$m	FY19	FY20	FY21	HY22
Underlying EBIT prior to Centrally Managed Expenses	**739**	**641**	**466**	**184**
1 AGL Australia significant items	4	(17)	(444)	63
2 AGL Australia (loss)/gain on fair value of financial instruments	(75)	(72)	66	294
3 AGL Australia Centrally Managed Expenses	(225)	(245)	(222)	(109)
AGL Australia EBIT after Centrally Managed Expenses	**444**	**307**	**(134)**	**433**
4 Acquisitions and disposals	30	9	1	-
5 Gain on disposal of National Assets (within significant items)	(37)	-	-	-
6 Standalone corporate costs	(19)	(17)	(23)	(12)
7 Transitional Services Agreement	23	23	23	12
8 Net financing costs adjustment	(90)	(91)	(86)	(47)
9 Net income tax expenses adjustment	(131)	(96)	(50)	(10)
Pro forma historical NPAT	**220**	**135**	**(269)**	**374**

Notes:

An explanation of the adjustments is detailed below:

1 AGL Australia significant items – Adjustment to include the historical significant items (after tax) that related to AGL Australia.

2 AGL Australia – (loss)/gain on fair value of financial instruments after tax– Adjustment to allocate the fair value movements that relate to derivatives for AGL Australia.

3 AGL Australia Centrally Managed Expenses – This adjustment relates to the allocation of Centrally Managed Expenses recorded by AGL Energy. These have been allocated based on a detailed build-up of the standalone cost base of AGL Australia as detailed in the Basis of preparation in Section 3.7.2.

4 Acquisitions and disposals – This adjustment reflects the following:

(a) removal of the results for National Assets which was disposed on the 11 September 2018; and

(b) addition of the results for a number of acquisitions which were made over the historical period presented and assumes that those acquisitions were made from the beginning of the historical period presented being 1 July 2018. The acquisitions that are being adjusted and the respective dates they were acquired iare as follows:

Acquisitions	Date acquired
Epho Holdings Pty Ltd	31 March 2021
Solgen Energy Group	31 March 2021
Click Energy Group Holdings Pty Ltd	30 September 2020
Southern Phone Company Limited	18 December 2019
Perth Energy Holdings Pty Limited	2 September 2019

5 Gain on disposal of National Assets (within significant items) – This adjustment reflects the removal of the gain made on the disposal of National Assets consistent with the removal of the results of National Assets as noted in adjustment 4 above.

6 Standalone corporate costs – Following the Demerger AGL Australia will be a standalone entity, listed on the ASX. As a standalone entity, AGL Australia will incur additional operating costs. The quantum of the pro forma adjustment fluctuates based on the historical base amount of Centrally Managed Expenses that have been allocated. The additional standalone operating costs relate to AGL Australia Directors' fees, senior management remuneration and incentives, additional headcount to establish a listed company, information technology, accounting and tax services and insurance costs and have been calculated based on the additional costs to be incurred as compared to the existing allocation of Centrally Managed Expenses.

7 Transitional Services Agreement - As described in Section 5.9.5, AGL Australia will enter into a Transitional Services Agreement with Accel Energy under which AGL Australia will provide certain finance, customer and technology services for a transitional period post Demerger pending migration of those services. An adjustment has been made for the net estimated annual impact of this arrangement. Post the migration of these services from the TSA, AGL Australia may incur additional one-off costs to implement the migration – these have not been factored into the pro forma adjustments.

8 Net financing costs adjustment – This adjustment represents the removal of the finance costs associated with the existing banking facilities and the inclusion of the estimated finance costs that would have been incurred in each period, had the post Demerger capital structure been in place from the start of FY19, as described in Section 3.6.1.

9 Net income tax expense adjustment – This adjustment has two components being: 1) the income tax expense related to AGL Australia for the respective periods presented; and 2) the tax impact of the pro forma adjustments. The tax rate applied to the pro forma adjustments that are subject to tax have been calculated using the statutory tax rate.

3.7.11 Management commentary on AGL Australia's pro forma historical performance

Commentary on AGL Australia's pro forma historical financial performance for the period from 1 July 2018 to 31 December 2021 is outlined below. Additional commentary is provided in AGL Energy's Annual Reports and Half-Year Reports, which are available on AGL Energy's website at www.agl.com.au or the ASX website at www.asx.com.au.

FY19

AGL Australia generated pro forma historical Underlying EBITDA of $736m in FY19.

Customer profitability was impacted by lower gas volumes in the Consumer and Large Business portfolios and lower late payment fees, which was offset by an improved Consumer electricity margin.

Supply and Trading gross margin was up from the prior year driven by higher customer gas prices partly offset by higher gas purchase costs. The Supply and Trading electricity portfolio performance remained strong with ongoing higher realised electricity prices on generation assets and an efficient supply mix, along with the business continuing to realise low LGC market prices for certificates purchased.

Centrally Managed Expenses increased primarily due to IT transformation activities and investment in strategic growth opportunities, in addition to costs associated with responding to intense regulatory activity and executive transitions and redundancies.

FY20

AGL Australia generated pro forma historical Underlying EBITDA of $635m in FY20, a decrease of $101m as compared to FY19.

Electricity gross margin was down 3% (or $219m) and gas gross margin was down 13% (or $151m). Supply and Trading Underlying EBITDA was down year on year due to lower customer sales volumes. This was driven by lower volumes on the existing wholesale customer base and the loss of Large Business Customer mix impacting margin rates from the challenges of sourcing gas in a tight market as legacy lower cost gas supply contracts rolled off, and lower market generation volumes. The Supply and Trading electricity portfolio was up year on year due to higher realised electricity prices, lower LGC market prices and increased generation from the Barker Inlet Power Station, Silverton and Coopers Gap wind farms.

Centrally Managed Expenses Underlying EBITDA decreased compared to the prior year. This was primarily due to the increase in spend in technology, data analytics and innovation in the Future Business & Technology function.

FY21

AGL Australia generated pro forma historical Underlying EBITDA of $488m in FY21, a decrease of $147m as compared to FY20.

Customer Underlying EBITDA was up year on year due to lower operating costs as a result of prior year investments in digital transformation and ongoing cost efficiencies and higher Consumer Gas gross margin.

Supply and Trading Underlying EBITDA was down year on year largely due to Supply and Trading Gas portfolio, which was down due to compressed gas margins driven by the impact of legacy supply contracts maturing and increases in haulage and storage costs, lower wholesale and Large Business Customer contracted rates and lower Consumer customer volumes. The Supply and Trading electricity portfolio was also down as compared to prior year, driven by lower LGC and electricity prices, partly offset by the increase in generation from Barker Inlet Power Station, Silverton and Coopers Gap wind farms.

Centrally Managed Expenses' cost out initiatives decreased labour and recruitment costs following restructuring, and reduced activity due to COVID-19 resulted in lower discretionary spend on travel, consultancy, and property.

HY22

AGL Australia generated pro forma historical Underlying EBITDA of $209m in HY22.

Customer Underlying EBITDA was down year on year primarily due to lower consumer gross margin. The decrease in gross margin was driven by lower average demand in the Consumer portfolio due to a milder winter, higher cost of energy associated with an increase in solar volumes, and margin compression.

Supply and Trading Underlying EBITDA was down compared to the prior corresponding period. Wholesale Gas gross margin was down, driven by compressed gas margins, partly offset by higher volumes and rates for Consumer customers. The Supply and Trading Electricity portfolio gross margin was up driven by the recovery of LGC prices from the prior corresponding period, partly offset by lower wholesale electricity prices as a result of increased renewable generation and decrease in system customer demand.

Centrally Managed Expenses Underlying EBITDA was up compared with the prior corresponding period. Cost out initiatives, in response to market conditions, resulted in a decrease of labour and consultant costs.

3.7.12 AGL Australia pro forma historical statement of financial position

Set out below is the AGL Australia pro forma historical statement of financial position as at 31 December 2021.

Table 1: AGL Australia pro forma historical statement of financial position as at 31 December 2021

Pro forma historical statement of financial position

A$m	AGL Australia historical statement of financial position as per HY22 report[1]	Allocation of assets and liabilities as a result of the Demerger[2]	AGL Australia historical statement of financial position post allocation	Pro forma adjustments					AGL Australia pro forma historical statement of financial position
				Corporate assets and liabilities allocation[3]	Financing structure[4]	Reclassification of initial margin calls to cash[5]	Derivatives[6]	Electricity arrangements[7]	
Cash and cash equivalents	-	76	76	(3)	(36)	139	84	-	260
Trade and other receivables	1,301	-	1,301	6	-	-	-	-	1,307
Inventories	86	-	86	-	-	-	-	-	86
Current tax assets	-	14	14	-	-	-	-	-	14
Other financial assets	-	787	787	-	-	(139)	(37)	73	684
Other assets	316	-	316	16	-	-	-	-	332
Assets classified as held for sale	-	-	-	-	-	-	-	-	-
Current assets	**1,703**	**877**	**2,580**	**19**	**(36)**	**-**	**47**	**73**	**2,683**
Trade and other receivables	80	-	80	-	-	-	-	-	80
Inventories	-	-	-	-	-	-	-	-	-
Other financial assets	123	107	230	-	-	-	(48)	-	182
Investments in associates and joint ventures	475	-	475	-	-	-	-	-	475
Property, plant and equipment	1,233	-	1,233	99	-	-	-	-	1,332
Intangible assets	3,120	-	3,120	69	-	-	-	-	3,189
Deferred tax assets	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-

Pro forma historical statement of financial position

A$m	AGL Australia historical statement of financial position as per HY22 report[1]	Allocation of assets and liabilities as a result of the Demerger[2]	AGL Australia historical statement of financial position post allocation	Pro forma adjustments					AGL Australia pro forma historical statement of financial position
				Corporate assets and liabilities allocation[3]	Financing structure[4]	Reclassification of initial margin calls to cash[5]	Derivatives[6]	Electricity arrangements[7]	
Non-current assets	**5,031**	**107**	**5,137**	**168**	**-**	**-**	**(48)**	**-**	**5,258**
Assets	**6,734**	**984**	**7,718**	**187**	**(36)**	**-**	**(1)**	**73**	**7,941**
Trade and other payables	**(1,062)**	**-**	**(1,062)**	**(6)**	**-**	**-**	**-**	(185)	(1,253)
Borrowings	-	(2)	(2)	(18)	-	-	-	-	(20)
Provisions	(13)	-	(13)	(51)	-	-	-	-	(64)
Current tax liabilities	-	-	-	-	-	-	-	-	-
Other financial liabilities	-	(414)	(414)	-	-	-	-	-	(414)
Other liabilities	(39)	-	(39)	-	-	-	-	-	(39)
Current liabilities	**(1,114)**	**(416)**	**(1,530)**	**(75)**	**-**	**-**	**-**	**(185)**	**(1,790)**
Borrowings	-	(50)	(50)	(60)	(2,120)	-	-	-	(2,230)
Provisions	(329)	-	(329)	(8)	-	-	-	-	(337)
Deferred tax liabilities	-	(104)	(104)	18	-	-	25	(22)	(83)
Other financial liabilities	-	(56)	(56)	-	-	-	-	-	(56)
Other liabilities	(24)	(3,261)	(3,285)	-	3,335	-	-	(73)	(23)
Non-current liabilities	**(353)**	**(3,471)**	**(3,824)**	**(50)**	**1,215**	**-**	**25**	**(95)**	**(2,729)**
Liabilities	**(1,467)**	**(3,887)**	**(5,354)**	**(125)**	**1,215**	**-**	**25**	**(280)**	**(4,519)**
Net assets	**5,267**	**(2,903)**	**2,364**	**62**	**1,179**	**-**	**24**	**(207)**	**3,422**

Notes:

Detailed below is an explanation of the pro forma adjustments made to the AGL Australia reported Statement of Financial Position as at 31 December 2021:

1. Represents the assets and liabilities held by AGL Australia prior to the Demerger, as extracted from the 31 December 2021 half-year accounts for AGL Energy.
2. Represents the allocation of additional assets and liabilities that will be transferred to AGL Australia as part of the Demerger occurring, as extracted from the financial records of AGL Energy, excluding corporate assets.
3. Represents the corporate assets and liabilities that will be transferred to AGL Australia. These balances were historically managed across AGL Energy on a consolidated basis but have been allocated to AGL Australia based on the detailed underlying financial records. They relate to balances such as employee entitlements, deferred tax balances, lease balances, other trade payables, property, plant and equipment and intangibles.
4. Represents the change in financing structure to the new financing arrangements that will take effect upon implementation of the Demerger as detailed in Section 3.6.1, inclusive of the transfer of existing USPP notes of $752m which reflects the fair value of the USPP notes to be transferred to AGL Australia and the settlement of the intercompany balances between AGL Australia and Accel Energy.
5. As part of the new financing arrangements for the businesses, AGL Australia is currently expected to use bank guarantees in place of cash deposits in terms of initial margining requirements and therefore the above reflects the 31 December 2021 margin position as cash.
6. Represents the extinguishment of cross currency interest rate swap contracts and related deferred tax impact that related to the USPP notes which will be transferred to AGL Australia as part of the new financing arrangements. The cross currency interest rate swap contracts will be settled and received in cash and new cross currency interest rate swaps will be put in place upon implementation of the Demerger. The actual balance of the cross currency interest rate swap contracts upon settlement and the associated cash received will be subject to the valuation of the cross currency interest rate swaps contracts at settlement.
7. Represents 1) the transfer of AEMO pool purchase payables for AGL Australia customer electricity consumption which AGL Australia will be responsible for, going forward; and 2) the impact of the OTC swap contracts entered into between AGL Australia and Accel Energy.

3.7.13 AGL Australia pro forma historical cash flows

Set out below is the AGL Australia pro forma historical statements of cash flows for FY19, FY20, FY21 and HY22.

Table 1: AGL Australia pro forma historical statements of cash flows

Pro forma historical statements of cash flows

A$m	FY19	FY20	FY21	HY22
Underlying EBITDA	**736**	**635**	**488**	**209**
Change in working capital and other non-cash items	(52)	89	16	159
Net operating cash flows (before capital expenditure, financing costs and tax)	**684**	**724**	**504**	**368**
Capital expenditure (net of proceeds)	(391)	(245)	(223)	(85)
Net operating cash flows (before financing costs and tax)	**293**	**479**	**281**	**283**
Net interest paid	(79)	(79)	(73)	(34)
Income tax paid	(79)	(65)	(20)	(4)
Pro forma net free cash flows	**135**	**335**	**189**	**245**

3.7.14 Management commentary on AGL Australia's pro forma historical cash flows

Notes:

AGL Australia's net free cash flows (before net capital expenditure, net interest paid and tax paid), reflect cash conversion of EBITDA of 93%, 114%, 103% and 176% in FY19, FY20, FY21 and HY22. Cash conversion has remained relatively consistent throughout the historical period, with the exception of HY22 where AGL Australia adopted a short-term cash flow management strategy to lower inventory holdings of green certificates.

FY19 working capital movements reflect a decrease in net green assets and decrease in payables, partially offset by the increase in receivables and inventories.

FY20 working capital movements decreased due to lower receivable balances and net green assets.

FY21 working capital movements were largely consistent with the prior year.

HY22 working capital movements primarily reflect the net movement in green assets/liabilities.

Major Capital Expenditure in FY19 to HY22 included the completion of Barker Inlet Power Station, investment in the subsequently impaired Crib Point LNG import terminal and the ongoing upgrade of AGL Australia's Customer Experience Transformation Program and multi-product retail offerings. While ongoing sustaining capex was completed at AGL Australia's major operating assets, no major overhauls were completed during the period.

Pro forma interest paid includes the estimated interest expense and commitment fees associated with the new debt financing arrangements that would have been paid had the post Demerger capital structure been in place from the beginning of FY19.

Tax paid from FY19 to HY22 reflects an allocation of historical income tax paid based on the underlying profitability of the AGL Australia Business.

Capital and financing

AGL Australia has historically been funded through a combination of internal cash flows and external debt facilities held by AGL Energy.

Following the Demerger, funding for AGL Australia will be sourced from a combination of its internally generated cash flows and new facilities.

As at the date of this Scheme Booklet, the AGL Australia facilities described in the table below (**AGL Australia Facilities**), are committed and available to AGL Australia subject to approval of the Demerger. The lenders have provided their consent to the Demerger and, subject to various conditions precedent being satisfied, the AGL Australia Facilities will be available to AGL Australia following the Demerger.

The AGL Australia Facilities contain market standard terms and conditions for facilities of this nature. The key terms of the AGL Australia Facilities are as follows:

Facility type	Cash advance	Swing	Contingent instruments	USPP notes
Currency	Australian dollars	Australian dollars	Australian dollars	United States dollars
Commitments	A$1,785m	A$230m	A$425m	USD $490.1m/ AUD $50m
Maturity	5 years	5 years	5 years	USPP notes have maturity periods varying from 2 months to 9 years
Applicable interest rates	BBSY plus the applicable margin	BBSY plus the applicable margin	Finance charges dependent on the type of drawdown, varying with each provider	The applicable finance charges depending on the USPP note
Security	Unsecured			
Conditions precedent to Financial Close	The Financial Close being implemented no later than the 30th of June 2022, and the delivery of the customary documentation and certifications relating to the Demerger, and that AGL Australia achieves a credit rating of Baa2.			The delivery of the customary documentation and certifications relating to the Demerger and that the USPP notes are rated at least Baa2.
Representations, undertakings, financial covenants and events of default	These facilities contain representations, undertakings financial covenants and events of default which are customary for a facility of this nature. These include, but are not limited to, FFO interest cover, gearing ratio and the provision of information.			The USPP notes contain representations undertakings, financial covenants and events of default which are customary for notes of this nature. These include, but are not limited to, FFO interest cover, gearing ratio and the provision of information.

Facility type	Cash advance	Swing	Contingent instruments	USPP notes
Review event	These facilities contain customary review events for facilities of this nature, such as a change in control.			The USPP notes contain customary change in control provisions for notes of this nature.
Guarantors	Following the Demerger, the AGL Australia Group will be guaranteed by certain members of the AGL Australia Group. AGL Australia will be required to ensure that the guarantees are provided from members of the AGL Australia comprising no less than 85% of EBITDA and 90% of the total assets of the AGL Australia Group.			Following the Demerger, the AGL Australia Group will be guaranteed by certain members of the AGL Australia Group. AGL Australia will be required to ensure that the guarantees are provided from members of the AGL Australia comprising no less than 85% of EBITDA and 90% of the total assets of the AGL Australia Group (as under the USPP notes, it is required to ensure that subsidiaries which guarantee its primary bank facilities also guarantee the USPP notes).

The table below sets out AGL Australia's net financial indebtedness as at 31 December 2021 after giving pro forma effect to the Demerger:

	Historical pro forma (A$m)
Cash and cash equivalents	**260**
Debt:	
Cash advance	**1,382**
Swing	**0**
USPP notes	**752**
Lease Liabilities	**130**
Net financial indebtedness	**2,004**

AGL Australia's pro forma statement of financial position at 31 December 2021 includes net debt of $2,004m. The cash and cash equivalents include restricted cash of $139m for initial margin calls for future contracts. USPP notes of $752m reflect the fair value of the USPP notes to be transferred to AGL Australia. The net financial indebtedness does not include capitalised borrowing costs. The actual net debt upon implementation of the Demerger will be subject to variances in actual cash flows in the AGL Australia Group between 31 December 2021 and the Implementation Date including fluctuations in working capital and capital expenditure.

3.7.15 Taxation

AGL Australia entities are charged and pay taxation in Australia at the prevailing tax rate of 30%. AGL Australia entities are currently part of AGL Energy's Australian tax consolidated group and at the time of implementation of the Demerger, will exit AGL Energy's Australian tax consolidated group in a manner that achieves a "clear exit" for any past or future tax obligations that may arise in respect of periods that AGL Australia entities were a member of AGL Energy's Australian tax consolidated group. At the time of the Demerger, AGL Australia entities will form a new tax consolidated group for the purposes of Australian income tax.

3.7.16 Dividend policy

AGL Australia will target a payout ratio of approximately 60% to 75% of Underlying Profit after tax. Dividends are expected to be partly franked in the short term, whilst AGL Australia will target these being fully franked over the longer term.

3.7.17 Material changes in AGL Australia's financial position since the most recent balance date

The most recent published financial statements of AGL Energy are the Half-Year Report for the half-year ended 31 December 2021, which was released to the ASX on 10 February 2022.

As discussed in Section 2.9, both AGL Australia and Accel Energy will operate in multiple energy markets across electricity, gas and carbon. Subsequent to 31 December 2021, forward commodity prices have changed. This will lead to a change in the fair value of derivative assets and liabilities and the provision for onerous contracts recorded in the Statement of Financial Position of AGL Australia. The associated fair value movements and changes in the value of provisions will be recorded in the Statement of Profit and Loss.

Other than matters described above, as disclosed in the Scheme Booklet or as otherwise announced to the ASX by AGL Energy, as at the date of this Scheme Booklet, to the knowledge of the AGL Energy Directors, the financial position of AGL Australia has not materially changed since 31 December 2021.

3.8 AGL Australia corporate governance

3.8.1 Corporate governance overview

This Section 3.8 explains how the AGL Australia Board will oversee management of the AGL Australia Business. The AGL Australia Board is responsible for the overall corporate governance of AGL Australia. Details of AGL Australia's key policies and practices and the charters for the AGL Australia Board and each of its committees are available at www.agl.com.au/demerger.

The AGL Australia Board is responsible for reviewing and approving AGL Australia's strategic direction and providing effective oversight of AGL Energy's management. It will also monitor the financial position and performance of AGL Australia.

The AGL Australia Board has implemented corporate governance policies and practices that the AGL Australia Board believes are appropriate for the AGL Australia Business.

The main policies and practices adopted by AGL Australia, which take effect from the listing of AGL Australia, are summarised below. In addition, many governance elements are contained in the AGL Australia Constitution, which is summarised in Section 9.5.

3.8.2 ASX Corporate Governance Council's Corporate Governance Principles and Recommendations

AGL Australia is seeking a listing on the ASX. The ASX Corporate Governance Council has developed the fourth edition of the Corporate Governance Principles and Recommendations (**ASX Recommendations)** for entities listed on the ASX in order to promote investor confidence and to assist companies in meeting shareholder expectations.

Under the ASX Listing Rules, AGL Australia will be required to provide a corporate governance statement in its annual report disclosing the extent to which it has followed the ASX Recommendations during each reporting period. Where AGL Australia does not follow an ASX Recommendation, it must identify the recommendation that has not been followed and give reasons for not following it. AGL Australia intends to comply with all of the ASX Recommendations from the time of listing.

3.8.3 AGL Australia Board charter

The AGL Australia Board has adopted a written charter to provide a framework for the effective operation of the AGL Australia Board, which sets out the:

- role and the responsibilities and processes of the AGL Australia Board;
- relationship and interaction between the AGL Australia Board and management; and
- authority delegated by the AGL Australia Board to management and to AGL Australia's Board committees.

The role of the AGL Australia Board includes to:

- safeguard AGL Australia's interests, and foster sustainable value creation while taking into account the reasonable interests of shareholders, employees, customers, the communities in which AGL Australia operates and other relevant stakeholders; and
- review and approve AGL Australia's strategic direction and provide effective oversight of AGL Australia's management.

The responsibilities of the AGL Australia Board include:

- reviewing and approving AGL Australia's strategic direction, its business plan and budget and significant strategic initiatives and plans;
- approving performance objectives for the CEO and the Executive Team and monitoring performance against those objectives;
- approving and monitoring implementation of environmental, employment and work, health and safety policies and compliance with applicable laws;
- considering the experience and outcomes of AGL Australia's activities on customers and stakeholders, including the way in which AGL Australia gives appropriate consideration to the interests of customers and stakeholders;
- monitoring AGL Australia's culture, reputation and ethical standards;
- considering the social, ethical and environmental impact of AGL Australia's activities and overseeing the system for managing compliance with AGL Australia's sustainability policies and practice;

- monitoring AGL Australia's financial and operating results and approving annual and half-yearly financial accounts and reports;
- approving, and monitoring the adequacy of, AGL Australia's risk management framework and risk appetite statement; and
- overseeing and monitoring the effectiveness of systems of internal compliance, risk management and control, and systems of legal compliance that govern AGL Australia's operations.

The management function is the responsibility of AGL Australia's Managing Director and CEO, supported by their direct reports. The Managing Director and CEO is accountable to the AGL Australia Board for AGL Australia's overall management and performance.

3.8.4 AGL Australia Board committees

The AGL Australia Board may from time to time establish and delegate powers to committees, in accordance with the AGL Australia Constitution, to assist in the discharge of its responsibilities. The AGL Australia Board has established an Audit & Risk Management Committee, a People & Performance Committee and a Nominations Committee. Other committees may be established by the AGL Australia Board as and when required.

Under the charters of each AGL Australia Board committee, each committee must consist of a minimum of three members and only Non-Executive Directors, a majority of whom must be independent, and be chaired by an independent Non-Executive Director (who, except in the case of the Nominations Committee, is not the Chair of the AGL Australia Board).

3.8.5 Audit & Risk Management Committee

The role of the Audit & Risk Management Committee is to assist the AGL Australia Board in fulfilling its responsibilities to provide shareholders with timely and reliable financial reports and to safeguard AGL Australia's interests taking into account the reasonable interests of shareholders, employees, customers, the communities in which AGL Australia operates and other relevant stakeholders through the effective identification, assessment, monitoring and management of risks and compliance with legal and regulatory requirements.

The Audit & Risk Management Committee will oversee, among other things, the following matters:

- financial and other periodic reporting;
- the external audit and internal audit function;
- AGL Australia's risk management framework including the procedures for identifying, assessing, monitoring and managing risk (including financial and non-financial risks); and
- AGL Australia's compliance management system, including the policies and procedures for ensuring compliance with relevant regulatory and legal requirements and internal policies.

The Audit & Risk Management Committee will initially comprise:

- Mark Bloom (Chair);
- Wendy Stops; and
- Fraser Whineray.

3.8.6 People & Performance Committee

The role of the People & Performance Committee is to assist the AGL Australia Board in fulfilling its responsibilities through the appropriate recruitment, retention and remuneration of senior managers and other employees with the capabilities and skills necessary to execute AGL Australia's business strategy.

The People & Performance Committee will oversee, among other things, the following matters:

- the remuneration framework for the AGL Australia Board and senior management;
- AGL Australia's remuneration and employment policies and procedures;
- the preparation of AGL Australia's annual remuneration report for inclusion in the AGL Australia annual report and recommending the report to the AGL Australia Board for approval; and
- other matters relating to AGL Australia's people, including diversity, succession planning, talent management, employee relations and monitoring of performance.

The People & Performance Committee will initially comprise:

- Wendy Stops (Chair);
- Jacqueline Hey; and
- Fraser Whineray.

3.8.7 Nominations Committee

The role of the Nominations Committee is to assist the AGL Australia Board in fulfilling its responsibilities to shareholders through making recommendations in relation to the optimal composition of the AGL Australia Board.

The Nominations Committee will oversee, among other things, the following matters:

- the appropriate mix of skills, knowledge, experience, independence and diversity to enable the AGL Australia Board to discharge its responsibilities effectively having regard to the execution of AGL Australia's strategic objectives, legal requirements and to the highest standards of corporate governance;
- director independence;
- recommendations to the AGL Australia Board in relation to the appointment, election, re-election and retirement of directors;
- the processes in place to review the performance of the AGL Australia Board, its Committees and the Non-Executive Directors; and
- succession planning for the AGL Australia Board including the CEO so that an appropriate balance of skills, knowledge, experience, independence and diversity is maintained.

The Nominations Committee will initially comprise all of AGL Australia's Non-Executive Directors and Patricia McKenzie, the Chair of the AGL Australia Board, will chair the Nominations Committee.

3.8.8 Corporate governance policies

The AGL Australia Board has adopted the following corporate governance policies, each having been prepared having regard to the ASX Recommendations and which are available at www.agl.com.au/demerger.

Market Disclosure Policy

Once listed, AGL Australia will be required to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. AGL Australia is aware of its obligation to keep the market fully informed of any information AGL Australia becomes aware of concerning it, which may have a material effect on the price or value of AGL Australia securities, subject to certain exceptions.

AGL Australia has adopted a Market Disclosure Policy to take effect from ASX listing that establishes procedures aimed at ensuring that AGL Australia fulfils its obligations in relation to the timely disclosure of material price-sensitive information.

AGL Australia is committed to ensuring that:

- all investors have equal and timely access to material information about AGL Australia in accordance with its obligations; and
- its market disclosures are accurate, balanced and expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

AGL Australia has also established internal procedures and processes aimed at ensuring that AGL Australia complies with its continuous disclosure obligations. To oversee the fulfilment and effective operation of the Market Disclosure Policy, a Market Disclosure Committee has been established to consider continuous disclosure issues as they arise, comprising the Managing Director and CEO, CFO and General Counsel & Company Secretary and Head of Investor Relations.

Securities Dealing Policy

AGL Australia has adopted a Securities Dealing Policy that is intended to ensure public confidence is maintained in the reputation of AGL Australia, its directors and employees and in the trading of its securities, explain the types of conduct in relation to dealings in securities that are prohibited by law, and establish procedures for the buying and selling of securities that protect AGL Australia, AGL Australia Directors and employees against the misuse of unpublished information, which could materially affect the price or value of AGL Australia securities.

The policy provides that AGL Australia Directors and AGL Australia Group employees must not deal in AGL Australia securities:

- when they are aware of 'inside' information; or
- during trading blackout periods (except in exceptional circumstances, where prior approval is provided). Outside the blackout periods, certain restricted persons must receive prior approval for any proposed dealing in AGL Australia securities (including any proposed dealing by one of their connected persons), and in all instances, buying or selling securities is not permitted at any time by any person who possesses 'inside' information.

Code of Conduct

Ethical behaviour is central to AGL Australia's approach to business. AGL Australia understands that its success as a company depends greatly on how all of AGL Australia's people demonstrate exemplary ethical behaviour. AGL Australia's key commitments under the Code of Conduct are:

- We act with integrity always.
- We observe the law, our obligations, voluntary commitments and internal standards.
- We value and maintain professionalism in all of our dealings and deliver our best.
- We respect privacy and confidentiality.
- We manage conflicts of interest.
- We look after our people and take care in every action.
- We recognise our responsibilities to our stakeholders with a view to shaping tomorrow.
- We uphold our values and behaviours outlined in the Code of Conduct and strive to work better together.

Diversity and Inclusion Policy

AGL Australia respects and values the diversity of its employees, customers and stakeholders and is committed to finding ways to actively support and encourage a diverse workforce and inclusive workplace now and in the future. This policy describes AGL Australia's approach to diversity and inclusion and how these attributes are promoted and embedded in AGL Australia's workplaces.

A key feature of the policy is the right of AGL Australia employees to be treated with respect and fairness and enjoy an environment free of discrimination, harassment, bullying and other unlawful behaviour.

3.9 AGL Australia Directors' and executives' interests and remuneration

3.9.1 Chief Executive Officer and Chief Financial Officer

Refer to Section 3.9.6 for a description of the CEO and CFO remuneration.

3.9.2 Non-Executive Directors' arrangements

Under the AGL Australia Constitution, the AGL Australia Board decides the total amount paid to each director as remuneration for his or her services as a director. However, under the ASX Listing Rules, the total amount paid to all Non-Executive Directors for their services must not exceed in aggregate in any financial year the amount fixed by AGL Australia in a general meeting. This amount has been fixed by AGL Australia at $2,000,000 per annum. This amount is intended to provide AGL Australia with flexibility to continue to attract and retain Non-Executive Directors of appropriate skill, expertise and calibre. It is not proposed that the whole of the annual aggregate Non-Executive Director fee amount will be used. Future increases in the Non-Executive Director fee pool are subject to shareholder approval.

Non-executive Directors of AGL Australia will be paid a base fee with additional fees for chairing or sitting on an AGL Australia Board committee*. The initial fee structure (inclusive of superannuation) will be as follows.

Role	Fees payable per annum (A$)
Base fee – Chair	425,000
Base fee – member	170,000
Committee Chair fee*	45,000
Committee Member fee	22,500

* The Chair of the AGL Australia Board is the Chair of the Nominations Committee. No additional fees are payable to the Chair of the AGL Australia Board for being Chair of the Nominations Committee.

3.9.3 Other information about AGL Australia Directors' interests and benefits

AGL Australia Non-Executive Directors may be reimbursed for travel and other expenses incurred in attending to AGL Australia's affairs. Non-Executive Directors may be paid such additional remuneration as the AGL Australia Board decides is appropriate where an AGL Australia Non-Executive Director performs extra services, makes any special exertions for the benefit of AGL Australia or otherwise performs services which in the opinion of the AGL Australia Board are outside the scope of duties of a Non-Executive Director. There are no retirement benefits paid to Non-Executive Directors, other than statutory entitlements.

3.9.4 Directors' deeds of indemnity, insurance and access

AGL Australia will enter into deeds of indemnity, insurance and access with each of the AGL Australia Directors. In summary, each deed will provide the AGL Australia Directors right of access to AGL Australia Board papers and requires AGL Australia to indemnify the AGL Australia Director, on a full indemnity basis and to the full extent permitted by law, against all losses or liabilities (including all reasonable legal costs) incurred by the AGL Australia Director as an officer of AGL Australia or of a related body corporate on the terms set out in the deed. Under the deeds of indemnity, insurance and access, AGL Australia must maintain a directors and officers insurance policy insuring an AGL Australia Director (among others) against liability as a director and officer of AGL Australia and its related bodies corporate from the appointment date until the later of seven years after an AGL Australia Director ceases to hold office as a director of AGL Australia or a director of a related body corporate or the date any relevant proceedings commenced (and notified by the director to AGL Australia) during the seven-year period have been finally resolved. The AGL Australia Board has declined to obtain 'side C' insurance cover, which would provide coverage in respect of securities class action claims, given the significant cost of this coverage and the AGL Australia Board's preference to minimise the company's cost base.

3.9.5 Directors' interests in AGL Australia Shares

The AGL Australia Directors are not required by the AGL Australia Constitution to hold any AGL Australia Shares. However, under AGL Australia's Non-Executive Director Minimum Shareholding Policy, each AGL Australia Non-Executive Director is encouraged to acquire AGL Australia Shares with a value equivalent to 100% of annual Non-Executive Director pre-tax fees. Non-Executive Directors will have a period of 4 years from appointment to acquire AGL Australia Shares to satisfy this requirement, with 50% of the requisite AGL Australia Shares to be acquired within 2 years of the date of appointment.

AGL Australia Directors' shareholdings will be notified to the ASX on the AGL Australia Listing. On implementation of the Demerger, the AGL Australia Directors are expected to hold (either personally or through entities associated with the AGL Australia Director) one AGL Australia Share for every AGL Energy Share they hold as at the Record Date.

3.9.6 AGL Australia key management personnel remuneration

Christine Corbett – Managing Director and CEO

Details regarding the terms of employment of Christine Corbett are set out below:

Term	Description
Employer	AGL Australia Limited
Total fixed remuneration (**TFR**)	$1,200,000 per annum, inclusive of superannuation. The TFR is subject to annual review.
Short-term incentive (**STI**)	Ms Corbett will be eligible to participate in STI arrangements offered by AGL Australia from time to time. For FY23, Ms Corbett's Target STI is 92% of TFR, with a maximum opportunity of 110% of TFR.
Long-term incentive (**LTI**)	Subject to any required shareholder approvals, Ms Corbett will be eligible to participate in AGL Australia's Long Term Incentive Plan. The LTI award to be made during FY23 will have a maximum opportunity of 120% of TFR. Vesting of this award will be subject to performance conditions as determined by the AGL Australia Board.
Payment for incentives foregone	Ms Corbett holds a number of incentive awards under AGL Employee Share Plans. Details regarding how those awards and entitlements will be dealt with on Demerger are set out in Section 5.6.
Termination	Ms Corbett's services agreement with AGL Australia may be terminated by either party upon giving 12 months' written notice (save in the case of serious misconduct where termination may be with immediate effect). Ms Corbett may also terminate the agreement on 3 months' notice if her duties, status or responsibilities are materially diminished or she ceases to hold the most senior management role within the Company or ceases to report directly to the Chair (**Fundamental Change**). On termination of employment following notice, AGL Australia will pay all TFR and any statutory entitlements owing. If Ms Corbett terminates the agreement due to a Fundamental Change, she will also be entitled to an additional 9 months' TFR.
Restraints	Following termination of Ms Corbett's services agreement, a 12-month restraint period will apply. The enforceability of the restraint clause is subject to usual legal requirements.

Damien Nicks – Chief Financial Officer

Details regarding the terms of employment of Damien Nicks are set out below:

Term	Description
Employer	AGL Australia Limited
Total fixed remuneration (**TFR**)	$800,000 per annum, inclusive of superannuation. The TFR is subject to annual review.
Short-term incentive (**STI**)	Mr Nicks will be eligible to participate in STI arrangements offered by AGL Australia from time to time. For FY23, Mr Nicks' Target STI is 92% of TFR, with a maximum opportunity of 110% of TFR.
Long-term incentive (**LTI**)	Mr Nicks will be eligible to participate in AGL Australia's Long Term Incentive Plan. The LTI award to be made during FY23 will have a maximum opportunity of 120% of TFR. Vesting of this award will be subject to performance conditions as determined by the AGL Australia Board.
Payment for incentives foregone	Mr Nicks holds a number of incentive awards under AGL Employee Share Plans. Details regarding how those awards and entitlements will be dealt with on Demerger are set out in section 5.6.
Termination	Mr Nicks' services agreement with AGL Australia may be terminated by either party upon giving 6 months' written notice (save in the case of serious misconduct where termination may be with immediate effect). Within the first 12 months, Mr Nicks may also terminate the agreement on 3 months' notice if his duties, status or responsibilities are materially diminished within the first anniversary of his employment. If Mr Nicks terminates the agreement in this circumstance, he will also be entitled to an additional 9 months' TFR. On termination of employment following notice, AGL Australia will pay all TFR and any statutory entitlements owing.
Restraints	Following termination of Mr Nicks' services agreement, a 12-month restraint period will apply. The enforceability of the restraint clause is subject to usual legal requirements.

Senior management team of AGL Australia

Senior management is employed under individual employment agreements. These agreements establish an entitlement to TFR (inclusive of superannuation) and other benefits.

AGL Australia senior managers are employed by AGL Australia.

Members of the senior management team will be eligible to participate in the AGL Australia Long Term Incentive Plan (**LTIP**) and Short Term Incentive Plan (**STIP**) on the terms outlined in Sections 3.9.7.1 and 3.9.7.2 respectively. The senior management employment agreements provide for notice of termination provisions of six months. The employer may also terminate employment without notice in circumstances including serious or wilful misconduct, serious negligence, serious or persistent breach of the employment agreement or an act that brings AGL Australia into disrepute.

On termination of employment, members of the senior management team will be subject to a restraint of trade period for 12 months. The enforceability of the restraint clauses is subject to usual legal requirements.

3.9.7 AGL Australia employee equity incentive arrangements

AGL Australia has established the LTIP and STIP to assist in the motivation, rewarding and retention of employees. The LTIP and STIP are designed to align the interests of senior management with the interests of AGL Australia Shareholders by providing an opportunity for employees to receive an equity interest in AGL Australia.

3.9.7.1 Long Term Incentive Plan

The AGL Australia Board intends to make an FY23 LTIP offer. The key terms of the FY23 LTIP are set out below:

Term	Description
Eligibility	Offers may be made at the discretion of the AGL Australia Board to employees of the AGL Australia Group, subject to any requirements for shareholder approval. It is expected that the FY23 LTIP offer will be made to Ms Corbett, each member of the AGL Australia Executive Team and select members of the senior management team.
Offers under the LTIP	Under the LTIP, the AGL Australia Board may make offers subject to such conditions as it determines, subject to the requirements of the ASX Listing Rules and the Corporations Act. Offers granting AGL Australia Performance Rights must be accepted by a participant and can be made on an opt-in or opt-out basis. It is expected that the FY23 LTIP offer will be made following the AGL Australia Annual General Meeting in October 2022.
Grant of AGL Australia Performance Rights	Any offer under the LTIP is a grant of AGL Australia Performance Rights which entitles the participant to receive, subject to the satisfaction of the applicable performance conditions, one share in AGL Australia at no cost. AGL Australia Performance Rights are non-transferable, except with AGL Australia Board approval. AGL Australia uses AGL Australia Performance Rights for awards under the LTIP because they create share price alignment between the executives and ordinary shareholders but do not provide the executives with the full benefits of share ownership (such as dividends and voting rights) unless and until the AGL Australia Performance Rights vest.
Quantum of grants	The number of AGL Australia Performance Rights granted to a participant will be calculated by dividing the maximum face value of the grant at the grant date by the VWAP of AGL Australia Shares. For FY23, the relevant VWAP will be over the 30 Trading Days from listing. It is expected that Ms Corbett will be granted a maximum number of AGL Australia Performance Rights with a face value of $1,440,000. The exact number of AGL Australia Performance Rights granted will be determined based on the formula above.
Conditions	There will be a four-year performance period. The AGL Australia Performance Rights will vest subject to the satisfaction of the performance conditions. For the FY23 LTIP offer, the AGL Australia Performance Rights will be subject to the achievement of two performance conditions, being relative TSR (weighted as to 75%) and a carbon transition metric (weighted as to 25%) as described below. Relative TSR is a market-based performance condition which measures the performance of AGL Australia Shares relative to those of the constituent companies in the S&P/ASX 200 index (**Peer Group**). Relative TSR was selected as an LTIP measure because it provides a relative, external market performance benchmark against the Peer Group. Relative TSR essentially compares the returns a shareholder would receive over a period through holding an AGL Australia Share with the returns the shareholder would have received by holding a security in other constituent companies of the Peer Group. The AGL Australia Board has the discretion to adjust the Peer Group and the methodology for calculating TSR performance to take into account certain events including takeovers, mergers, demergers and similar transactions that might occur over the relevant performance period.

Term	Description
	The inclusion of the CT performance condition was determined having regard to AGL Australia's climate statements. The CT metric is based on the percentage of energy procured for customers from renewable sources. The objective for using the percentage of energy procured for customers from renewable and carbon neutral sources is to measure and demonstrate AGL Australia's progress with respect to the decarbonisation of the energy purchased by its customers. This metric is intended to incentivise the increased sale of renewable and carbon neutral products and the transition of AGL Australia's supply mix towards renewable sources. The number of AGL Australia Performance Rights that vest at the end of the performance period will be determined as follows. **Performance outcome** / **% of rights to vest** Below the minimum of the target range / Nil At the minimum of the target range / 50% Within the target range / Straight-line vesting between 50% and 100% At or above the maximum of the target range / 100% As soon as practicable following the end of the performance period, the AGL Australia Board will test the performance conditions and determine if and to what extent the performance conditions have been satisfied. Any AGL Australia Performance Rights that do not vest on testing will lapse and there will be no re-testing. The AGL Australia Board has broad discretion to adjust the number of a participant's AGL Australia Performance Rights that vest to ensure that vesting outcomes remain appropriate, having regard to personal, divisional and Group performance and any other factors the AGL Australia Board considers relevant. Participants will be allocated one AGL Australia Share for each Performance Right that vests (and if required, is exercised) or, at the AGL Australia Board's discretion, they may be paid an equivalent cash amount.
Voting and dividend entitlements	AGL Australia Performance Rights have no entitlement to dividends or voting.
Restrictions on dealing	Except in the case of death or legal incapacity, and unless the AGL Australia Board determines otherwise, a participant may not dispose or otherwise deal with an AGL Australia Performance Right during the performance period. Once vested, participants will be free to deal with the AGL Australia Shares delivered on satisfaction of the AGL Australia Performance Rights, subject to the AGL Australia Securities Dealing Policy.

Term	Description
Cessation of employment	Treatment of a participant's unvested AGL Australia Performance Rights on cessation of employment will depend on the circumstances in which the employment ceases. If a participant's employment with AGL Australia ceases due to death, redundancy, retirement, incapacity or other circumstances where the AGL Australia Board determines good leaver treatment is appropriate, some or all of the participant's unvested AGL Australia Performance Rights will generally remain on foot subject to performance conditions. The AGL Australia Board also has the discretion to bring forward the testing of the performance conditions or can waive the performance conditions (e.g. for death or incapacity). In other cessation scenarios, the unvested AGL Australia Performance Rights will generally lapse.
Change of control	In circumstances where there is a takeover bid or other event that the AGL Australia Board determines is likely to result in a change of control of AGL Australia, the AGL Australia Board has discretion to determine how to treat unvested AGL Australia Performance Rights including whether to vest some or all of the AGL Australia Performance Rights. Where the AGL Australia Board does not exercise its discretion and an actual change of control in AGL Australia occurs, the presumption is that a pro-rata portion of all unvested AGL Australia Performance Rights will immediately vest (having regard to time elapsed and progress against applicable performance conditions).
Clawback	Under the LTIP, the AGL Australia Board has a broad clawback discretion, which covers not only forfeiture or lapse of on-foot equity, but also the ability to demand repayment for any proceeds of sale, cash payments or dividends attaching to any shares granted under the LTIP. Clawback events include where, in the opinion of the AGL Australia Board, a participant has committed any act of fraud or gross misconduct in relation to the affairs of AGL Australia, negatively impacted AGL Australia's reputation in a material way or materially breached their obligations to AGL Australia. The clawback discretion also extends to a range of circumstances not linked to the behaviour of the impacted participant, but in which vesting or retention of equity awards would not be appropriate. These include where there has been a material misstatement in AGL Australia's financial statements, where the awards would vest as a result of the fraud or dishonesty of another person, or where a significant unexpected outcome has occurred which impacts AGL Australia.

3.9.7.2 Short Term Incentive Plan

AGL Australia will also operate a STIP. The key terms of the STIP are set out below:

Term	Description
Eligibility	Offers may be made at the discretion of the AGL Australia Board to employees of the AGL Australia Group. Ms Corbett, each member of the AGL Australia Executive Team and members of the senior management team will be able to participate in AGL Australia's STIP.
Opportunity	The AGL Australia Board will set individual STI opportunities as a percentage of TFR. The value of an STIP award that a participant may become eligible to receive will depend on the assessment of performance against a scorecard of performance measures over a performance period, having regard to the weightings and targets assigned to each performance measure.

Term	Description
Form of award	For the Managing Director and CEO, CFO and new Executive Team members, 50% of the awards under the STIP will be cash and 50% will be equity, which will be allocated in the form of AGL Australia Restricted Shares. For continuing executives except for the Managing Director and CEO, and the CFO, 75% of the awards under the STIP will be cash and 25% will be equity. AGL Australia Restricted Shares are granted at no cost to the participant.
Performance measures	STIP performance measures, and the weightings will be set annually by the AGL Australia Board in relation to the Managing Director and CEO, and by the Managing Director and CEO (and approved by the AGL Australia People & Performance Committee) in relation to the Executive Team. It is anticipated that performance will be assessed against a balanced scorecard comprising financial and non-financial measures and details of these measures will be disclosed in AGL Australia's annual remuneration report.
Quantum of grants	The number of AGL Australia Restricted Shares allocated to a participant as the deferred component of any STIP award will be determined by the market price of AGL Australia Shares on the allocation date. The maximum value of Ms Corbett's deferred STIP award is 50% of her maximum STIP opportunity, being $1,320,000 (at the date the AGL Australia Restricted Shares are allocated). The actual STIP award, and the subsequent value of the Restricted AGL Australia Shares she will receive, will be dependent on the performance of AGL Australia and her own individual performance over the financial year.
Deferral period	AGL Australia Restricted Shares will be subject to dealing restrictions for 24 months from the date of allocation. Except in the case of death or legal incapacity, and unless the AGL Australia Board determines otherwise, a holder may not dispose or otherwise deal with a Restricted Share during the deferral period. Once the deferral period is completed, holders will be free to deal with their AGL Australia Shares, subject to the AGL Australia Securities Dealing Policy.
Cessation of employment	Treatment of a participant's AGL Australia Restricted Shares on cessation of employment will depend on the circumstances in which the employment ceases. If a participant's employment with AGL Australia ceases due to death, redundancy, retirement, incapacity or other circumstances where the AGL Australia Board determines good leaver treatment is appropriate, the participant's AGL Australia Restricted Shares will generally remain on foot. The AGL Australia Board also has the discretion to release the AGL Australia Restricted Shares from restrictions. In other cessation scenarios, the AGL Australia Restricted Shares will generally be forfeited.
Change of control	In circumstances where there is a takeover bid or other event that the AGL Australia Board determines is likely to result in a change of control of AGL Australia, the AGL Australia Board has discretion to determine how to treat AGL Australia Restricted Shares including whether some or all of the AGL Australia Restricted Shares are forfeited or released from restrictions. Where the AGL Australia Board does not exercise its discretion and an actual change of control in AGL Australia occurs, the presumption is that all AGL Australia Restricted Shares will be released from restrictions.

Term	Description
Clawback	Under the STIP, the AGL Australia Board has a broad clawback discretion, which covers not only forfeiture of AGL Australia Restricted Shares, but also the ability to demand repayment for any proceeds of sale, cash payments or dividends attaching to any AGL Australia Restricted Shares granted under the STIP. Clawback events include where, in the opinion of the AGL Australia Board, a participant has committed any act of fraud or gross misconduct in relation to the affairs of AGL Australia, negatively impacted AGL Australia's reputation in a material way or materially breached their obligations to AGL Australia. The clawback discretion also extends to a range of circumstances not linked to the behaviour of the impacted participant, but in which vesting or retention of equity awards would not be appropriate. These include where there has been a material misstatement in AGL Australia's financial statements, where the awards would vest as a result of the fraud or dishonesty of another person, or where a significant unexpected outcome has occurred which impacts AGL Australia.

3.9.7.3 Other information relating to FY23 STIP and FY23 LTIP awards

The following information is provided as a condition of the ASX Listing Rule 10.14 waiver that has been sought in relation to the FY23 STIP and FY23 LTIP awards.

Details of any securities issued under the STIP or LTIP will be published in the AGL Australia annual report relating to the period in which they were issued, along with a statement that a waiver from the requirement in ASX Listing Rule 10.14 has been obtained.

Any additional persons covered by ASX Listing Rule 10.14 who become entitled to participate in an issue of securities under the STIP or LTIP after listing (other than the Managing Director and CEO of AGL Australia) will not participate in the STIP or LTIP until approval is obtained under ASX Listing Rule 10.14 (where required).[6]

3.10 Employees

Following the Demerger, AGL Australia is anticipated to have approximately 2,400 employees.

3.11 Other information

3.11.1 Health, safety and environment (HSE)

Following the Demerger, AGL Australia will remain committed to maintaining high health and safety standards in its operations. AGL Australia will have processes and procedures in place, including:

- an HSE Policy that outlines AGL Australia's commitment to conduct its business in a way that prevents harm to its people, customers, partners and the community, and minimises its impact on the environment; and
- an HSE Management System, which outlines the standards and procedures that apply to all AGL Australia business units to ensure health and safety compliance requirements and obligations are integrated into business processes across the organisation.

This system is designed to build and reinforce a positive safety culture and allow the identification, implementation and sharing of learnings and improvements within AGL Australia and its contractor base.

AGL Australia will measure its performance through a range of lead and lag indicators, and the overall effectiveness of the system will be monitored by the AGL Australia Board, including from the reports of a focused HSE internal audit program.

AGL Australia will also comply with environmental laws and regulations relating to trade waste, noise, dangerous goods, asbestos and other environmental requirements. Post Demerger, AGL Australia will report these risks in its own sustainability report.

3.11.2 Dividend reinvestment plan

AGL Australia may adopt a dividend reinvestment plan in the future.

6 In summary, this means that if any other directors of AGL Australia or associates of directors (or any other person the ASX determines due to their relationship with AGL Australia or those persons) become entitled to participate in an issue of securities under the STIP or LTIP, they will not be able to participate unless AGL Australia Shareholders approve the issue of those securities.

3.11.3 Intellectual property

The AGL Australia Group holds an extensive portfolio of trademarks and designs, which supports its business. Key trademarks include AGL, Southern Phone, Click Energy, Solgen and Epho.

3.11.4 Insurance

Prior to the Implementation Date, AGL Australia will continue to have the benefit of AGL Energy's insurance policies. These policies have been renewed to 30 November 2022, with the exception of cybersecurity cover which has been renewed to 30 September 2022. AGL Energy's directors' and officers' liability policy provides cover for all current and past directors and officers while they were serving in their capacity as a director or officer of an AGL Energy entity. Past directors and officers are covered for seven years post their tenure as a director or officer of an AGL Energy entity. After the Implementation Date, AGL Australia will no longer have the benefit of the existing AGL Energy insurance policies and will therefore arrange insurance on and from the Implementation Date.

It is intended that AGL Australia's insurance policies will be placed with insurers of acceptable security, and the levels of retained risk and coverage purchased will be appropriate to the business activities of AGL Australia, subject to such insurance being available and prudent to purchase on commercially reasonable terms.

3.12 Risk factors associated with an investment in AGL Australia Shares

3.12.1 Overview

This Section 3.12 outlines a number of risks that may affect AGL Australia. Several of these risks are similar to AGL Energy today and are managed using frameworks that will transfer to AGL Australia.

The risks set out in this Section 3.12, either individually or in combination, may adversely affect the future operating or financial performance or prospects of AGL Australia, and the investment returns or value of AGL Australia Shares. Some of these risks may be mitigated by appropriate controls, systems and other actions, but others will be outside the control of AGL Australia.

Many of these risks are risks to which AGL Energy Shareholders are currently exposed, while others arise as a result of AGL Australia becoming a standalone ASX-listed entity independent from AGL Energy.

This Section 3.12 should be read in conjunction with Sections 1.3, 1.4 and 1.5, which respectively set out the advantages, disadvantages and risks of the Demerger and Section 4.12 which sets out the risk factors associated with an investment in Accel Energy.

Further, the risks set out in this Section 3.12 are not exhaustive of all the risks to which AGL Australia could be exposed.

3.12.2 AGL Australia specific risks

Electricity market risks

AGL Australia will be exposed to the risk of significant financial loss arising from exposure to volatility and variability in the wholesale electricity market. Underperformance in the wholesale electricity market would be most likely to result from a failure to manage an appropriate and profitable balance between energy supply and demand. Components of this risk include:

Downturn in consumption

Levels of energy usage may be adversely affected by a number of economic, social, environmental, regulatory and industry specific conditions outside AGL Australia's control. Levels of energy usage may also be affected by future technological developments allowing customers to better manage their energy needs, or by customers reducing energy consumption or generating energy themselves. A general economic downturn may reduce the business activity and energy usage of some customers. Business and commercial customers may be sensitive to factors specific to their own industry, which may lead to a reduction in their energy consumption or even closure of their operations.

Credit risk

AGL Australia's financial performance will be partially dependent on counterparties to contracts satisfying their contractual obligations (whether financial or otherwise). There is a risk that AGL Australia's counterparties may be unable to meet their obligations and there is no guarantee of AGL Australia being able to obtain damages sufficient to compensate it for its losses arising as a result.

Energy supply and operating risk

While Accel Energy will retain AGL Energy's position as Australia's largest baseload electricity supplier, AGL Australia will partially rely on electricity generated from electricity generation assets that it owns or controls to manage the wholesale cost of electricity. There is a risk that some of these assets may not be available for use when required or unable to export electricity generated due to machinery break down, fire, adverse weather, industrial relations disputes, natural disasters, catastrophic events, transmission failures or other unplanned outages.

Price and liquidity risk

AGL Australia will operate in wholesale electricity markets and, as such, has direct and indirect exposure to wholesale electricity prices. Wholesale electricity prices can vary significantly between five-minute pricing intervals, and are influenced by many independent and interdependent factors, including electricity generation costs, weather, customer demand and behaviour,

competitive behaviour of retailers and generators, availability of supply, actions of the market operator, and interpretation of the market rules by the market operator, as well as by changes in market rules. AGL Australia procures additional hedge cover through contracts with third parties to manage this exposure. However, there is also the risk that the hedges may not be effective or may not provide a balanced position with respect to AGL Australia's exposure to price risks, whether because of unexpected events (including weather events or loss or reduction of electricity interconnections between states), unavailability of hedges (at all or on acceptable pricing and terms), error (whether forecasting, hedging or trading) or other reasons. There is a risk that AGL Australia is unable to effectively manage the impact of wholesale price changes and market volatility. This includes the risk that government or regulatory policy may preclude AGL Australia from passing on an appropriate level of its energy procurement costs to consumers and liquidity risks associated with any margining requirements for existing and future hedge positions assigned to it (at the time of the Demerger) or subsequently entered into by it. Margining requirements include initial margins (a function of volatility and the size of the hedge positions) and variation margins (reflecting in or out of the money hedge positions) that are posted with or from the relevant clearing house for energy products.

Gas market risks

AGL Australia will be exposed to the risk of significant financial loss arising from exposure to physical wholesale gas markets (including risks of failure to receive and/or failure to supply) as well as exposure to the spot market for gas. AGL Australia has a substantial gas portfolio requirement – for its customers, and for its own electricity generation requirements at its gas peaking stations. Some of the risks associated with this portfolio are:

The inability to supply gas to meet market and own requirements

There is a risk that natural gas supplies may be interrupted unexpectedly and without prior warning for an indeterminate period due to problems at the gas fields of the relevant gas producer or processing plants, or at the pipelines connecting the gas fields to AGL Australia's markets.

Development of upstream reserves – counterparty risk

Changes in commodity prices as well as fiscal and other laws or regulations could adversely affect the economic viability of reserves development and production for the counterparties that AGL Australia purchases gas from.

Price risk

AGL Australia's gas supply and sale contracts have a number of different pricing regimes. Some are fixed price, some are subjected to price escalations or price reviews and some are linked to oil or international LNG indices. For those contracts with prices linked to other indices, AGL Australia procures hedge cover through contracts with third parties to manage the resulting price exposure, but there is a risk that the hedges may not be effective, whether because of unexpected events (including weather events), forecasting, hedging or trading errors, or other reasons. There is also a risk that the portfolio supply costs exceed those of AGL Australia's retail competitors, and as a result, AGL Australia is uncompetitive when pricing residential or commercial and industrial customers.

Compliance risk and contractual and other requirements in complex wholesale gas market operations

The east and west coast wholesale gas markets operate under a number of different compulsory and voluntary market structures, including a mix of market or contract carriage, and gross or net pool trading arrangements. Each market has its own regulations and requirements for market participants. Compliance with these various market arrangements, within the limitations of third party supply or transportation contracts, requires teams with specialist knowledge and sound operational practices.

Credit risk

AGL Australia's financial performance is partially dependent on counterparties to contracts satisfying their contractual obligations (whether financial or otherwise). There is a risk that AGL Australia's counterparties may be unable to meet their obligations and there is no guarantee of AGL Australia being able to obtain damages sufficient to compensate it for its losses arising as a result.

Environmental markets risks

AGL Australia will be exposed to the risk of significant financial loss arising from exposure to volatility and variability in existing and emerging environmental markets or from not meeting mandatory obligations. AGL Australia is required to comply with a range of regulations intended to reduce carbon emissions and increase the proportion of renewable electricity generation. In general, the costs of complying with climate change regulations, including the Renewable Energy Target, are recovered from customers. There is a risk that retail price regulation, market forces and contract terms limit the ability of AGL Australia to pass through such costs to customers. In addition to the Renewable Energy Target, there are many other state, national and international markets and obligations that AGL Australia is required to comply with including those under the *National Greenhouse and Energy Reporting Act 2007* (Cth).

Regulatory risks

AGL Australia will be required to comply with a number of regulatory obligations, including of an operational nature. There is a risk that AGL Australia may fail to comply with its regulatory obligations which, in extreme cases, could lead to the imposition of fines and penalties or the loss of operating licences or that compliance may lead to a reduction in AGL Australia's profits or a deterioration in AGL Australia's financial position.

In addition, AGL Australia may not be able to effectively anticipate or plan for regulatory intervention or added restrictions and the diversion of resource could put wider business objectives at risk.

Energy policy risks

AGL Australia's financial performance could be affected by changes to legal, regulatory, fiscal or other policies adopted by various regulatory authorities including climate change policies. Future changes in such policies or laws are unpredictable and are beyond AGL Australia's control. Changes in the law or regulatory policy could adversely affect one or more of AGL Energy's businesses and could require AGL Australia to incur substantial costs to ensure compliance. AGL Australia's capacity to respond to policy and regulation is therefore a key risk that is dependent on AGL Australia's ability to influence, and adapt to, energy and related policies, secure licences and permits required for growth projects and which influence market design.

Increased competition risks

AGL Australia's retail activities will be in fully contestable markets, where customers are able to choose from a number of alternative retailers. The level of customer churn, when customers switch between retailers, may be affected by a range of factors including the marketing activities of AGL Australia and other retailers, customer service experience and electricity prices. There is also a risk of new competitors entering the market which may further increase AGL Australia's exposure to customer churn.

Authorisations and permits

If AGL Australia does not obtain, or manage to maintain, the necessary permits and/or licences for AGL Australia's projects, there is a risk that the assets will not be built or will be materially delayed.

Development risk

AGL Australia will undertake investments in projects for the construction or expansion of plants, facilities and infrastructure, including the development of battery projects, gas peaking, gas production and gas storage facilities, and hydroelectric power stations. There is a risk that projects are delayed, cost more than intended or do not perform as planned. There is also a risk that AGL Australia does not effectively engage with and influence stakeholders (including local communities, government and media) in relation to plans to develop, build and operate power development and upstream gas projects. These risks may lead to lower returns on investment, reduced profitability, and output which is delayed or lower than originally planned.

Environmental risks

Failure to conduct AGL Australia's activities in accordance with strict controls and processes may cause harm to the environment. Damage to the environment may give rise to significant monetary damages, suspension of operating activities and reputational harm. Actual or perceived environmental harm from AGL Australia's activities may also damage AGL Australia's relationship with various external stakeholders including impacted communities, organisations and governments. Each of these risks may restrict the ability of AGL Australia to operate its activities or pursue development opportunities.

3.12.3 New or increased risks specifically associated with the Demerger

Credit rating risks

Following the Demerger, it is anticipated that AGL Australia will carry an investment grade credit rating. That rating could be suspended or downgraded. AGL Australia's cost of funds, margins, access to capital markets and other aspects of its performance (including requirements to provide credit support under material contracts) may also be adversely affected if it fails to obtain or maintain its credit rating. Additionally, under certain contracts to which AGL Australia entities are parties, a suspension or downgrade in AGL Australia's credit rating provides the counterparty with the option to terminate the agreement or demand further security or payments from the AGL Australia entity. This may also adversely affect AGL Australia's performance in the event of a downgrade or suspension of AGL Australia's credit rating.

Financing risks

A summary of AGL Australia's banking and finance facilities is set out in Section 3.6.1. From time to time, AGL Australia may be required to refinance its debt facilities. There is no certainty as to the availability of debt facilities or the terms on which such facilities may be provided in the future. AGL Australia may incur increased borrowing costs or may even be unable to refinance with new debt if its credit profile deteriorates materially, or if there are reductions in debt market liquidity at or around the time that AGL Australia needs to refinance any of its debt. Whether this occurs will depend on numerous factors, some of which are outside AGL Australia's control, such as the prevailing economic, political and capital market conditions and credit availability.

Dividend and capital management

AGL Australia's ability to pay dividends and undertake capital management activities will be primarily driven by earnings generated after the Demerger.

3.12.4 General risks

COVID-19

Events related to the COVID-19 pandemic have resulted in significant market volatility. There is continued uncertainty as to the ongoing and future responses of governments and authorities both in Australia and globally.

The longer-term impact of COVID-19 on consumer behaviour, counterparties and AGL Australia, however, is not fully known and in some cases (e.g. reintroduced government restrictions) could be materially adverse to AGL Australia's financial and/or operational performance. While government-mandated restrictions have generally begun to ease, any newly introduced (or reintroduced) government or industry restrictions or other measures may adversely affect AGL Australia's operations and are likely beyond AGL Australia's control.

Material failure of information technology infrastructure or loss of data security and integrity

There is a risk that AGL Australia's critical systems, platforms and technology infrastructure are compromised by cybersecurity breaches. This could lead to a breach of privacy, loss of data, disruption of critical business processes or theft of commercially sensitive information. Such events could have an adverse impact on AGL Australia's profitability and financial position.

Customer privacy

AGL Australia may not obtain, handle, process and store customer data in an appropriate, compliant, transparent or secure manner.

Organisational culture

AGL Australia may be unable to foster a resilient and agile organisational culture that is built on strong and ethical behaviours, talented people, a focus on safety, and a customer centric mindset.

Climate change risks

Climate change and the corresponding increase in the likelihood of events such as floods, droughts, fires, heatwaves and cyclones could impact AGL Australia activities and operations. Further, AGL Australia may be unable to meet expectations and/or deliver on its commitments to transition to a low-carbon future within an acceptable timeframe.

Health and safety

The complexity, scale and geography of AGL Australia's operations give rise to a range of health, safety and security risks potentially affecting AGL Australia's employees and contractors, including travel to and from operational sites. Unintended harm to employees and contractors may adversely impact AGL Australia.

Market disruption

AGL Australia may not (or may not be able to) adequately or appropriately respond to changing customer expectations and preferences regarding energy sources, prices and related products and services.

Stakeholder trust

There is a risk that AGL Australia's strategy to deliver on its social licence to all stakeholders may be unclear, inconsistent and/or poorly executed and may adversely impact AGL Australia.

Ineffective execution of strategy

AGL Australia may fail to implement or achieve its strategic objectives due to a range of factors, including management not prioritising delivery of the key pillars of the strategy, changes to the competitive environment that result in a change to the underlying assumptions of the strategy, poor cost management, loss of key personnel or ineffective change management. In addition, the dynamic competitive environment in which AGL Australia operates results in the need to regularly respond to competitor actions, which could result in a distraction or delay to executing the longer-term goals of the strategy.

A failure by AGL Australia to execute its strategy may result in a failure to maintain or increase operating margins and market share. As part of its strategy, AGL Australia may undertake acquisitions or divestments from time to time, acquire or develop new retail sites or invest capital in new projects or initiatives. While AGL Australia is focused on maintaining discipline in its capital expenditure, such actions could result in a variability of earnings over time, may give rise to liabilities or may distract management from business as usual operations, which could potentially adversely affect AGL Australia's financial performance.

Market risks

As with any investment in an ASX-listed company, the trading price of AGL Australia Shares may fluctuate depending on the financial and operating performance of AGL Australia, as well as other external factors over which AGL Australia has no control.

Interest rate risks

AGL Australia will have external interest bearing liabilities after the Demerger and, accordingly, will be exposed to movements in interest rates.

While AGL Australia will take reasonable steps to protect itself from rising interest rates through the use of hedges, a rise in rates may still adversely affect AGL Australia's interest payments for floating rate instruments.

Other financing risks

AGL Australia will be obliged to adhere to covenants in its debt facilities, including financial undertakings. If AGL Australia's performance is materially below expectations, there is a risk that it may not comply with its borrowing covenants which may result in it being required to repay its debt facilities earlier than their scheduled maturities.

Taxation risks

Variations in the taxation laws of Australia could affect AGL Australia's financial performance. The interpretation of taxation laws could also change, leading to a change in taxation treatment of investments or activities. Consistent with other companies of the size and diversity of AGL Australia, AGL Australia could be the subject of periodic information requests, investigations and audit activities by the ATO.

Insurance risks

As described in Section 3.11.4, AGL Australia will have the benefit of insurance policies to protect against certain risks arising in the course of its business activities. However, adequate insurance coverage for potential losses and liabilities may not be available in the future on commercially reasonable terms (any insurance obtained may be subject to large deductibles and premiums). If AGL Australia experiences a loss in the future, the proceeds of the applicable insurance policies, if any, may not be adequate to cover replacement costs, lost revenues, increased expenses or liabilities to third parties. This may adversely impact AGL Australia's financial performance.

Litigation risk

AGL Australia will be exposed to the risk of claims by electricity and gas users, claims by suppliers and consumers of tangible products, regulatory action, native title claims, tenure disputes, environmental and occupational health and safety claims and industrial disputes. This may result in direct costs associated with defending or settling these claims or where AGL Australia is found liable by a court (resulting in damages) as well as indirect costs such as reputational damage or other unforeseeable indirect financial impact. AGL Australia is not currently a party to any litigation the outcome of which is likely to have a material adverse effect on its business and financial position.

Accounting risks

Changes in accounting or financial reporting standards may adversely impact the financial performance of AGL Australia. In addition, AGL Australia's financial performance may be impacted by changes to accounting policies after the Demerger or differences in interpretations of accounting standards.

Investments

AGL Australia will have a number of investments in which it does not have a controlling interest which means that AGL Australia cannot exercise full control of those investments. In addition, AGL Australia's major investment decisions may not deliver on their intended benefits or outcomes for shareholders, customers and the community.

Acquisitions

AGL Australia may from time to time examine new acquisition opportunities, where the acquisitions would complement or enhance AGL Australia's existing operations. When and whether acquisitions are made will depend on a number of factors, including availability of opportunities and the attractiveness of those opportunities, market conditions, funding requirements and integration issues. There can be no assurance that AGL Australia will successfully identify, acquire and integrate such businesses. Furthermore, there is no guarantee that any acquisition will perform as expected or that AGL Australia will be able to realise expected synergies.

Acquisitions may also expose AGL Australia to unanticipated business risks and liabilities. The process of integrating new businesses into AGL Australia's existing operations may result in unforeseen operating difficulties and may require significant management, financial or personnel resources that would otherwise be available for ongoing development or expansion of existing operations. If any of these occur, it may have a material adverse impact on AGL Australia's financial position and performance.

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Section 4

Information on Accel Energy

4. Information on Accel Energy

4.1 Overview of Accel Energy

4.1.1 Background

After the Demerger, AGL Energy Limited will be renamed Accel Energy Limited. Accel Energy will be an electricity generation company focused on operating its assets responsibly, repurposing its thermal sites into energy hubs, and developing new renewable and low-carbon firming projects.

Accel Energy will retain AGL Energy's position as Australia's largest electricity supplier after the Demerger through over 8GW of operated capacity. Accel Energy's core electricity generation sites will include Loy Yang A, Bayswater, Liddell, and Torrens Island Power Stations.

In addition, Accel Energy will retain the position as one of Australia's largest operators and offtakers of wind energy through a portfolio of approximately 925MW of wind farm offtakes across South Australia and Victoria. This position will be advanced through its development pipeline of approximately 2.7GW of renewable and low-carbon firming projects including batteries, wind, pumped hydro and other storage. In order to accelerate the build out of these projects, Accel Energy will be establishing the ETIP, through which it will progress these developments.

Accel Energy will also hold a range of large-scale, long-term contracts with commercial and industrial customers, including but not limited to the Portland and Tomago smelter contracts.

The business will also retain some small-scale midstream and upstream gas assets and contracts which are either undergoing progressive rehabilitation and closure or have been identified for sale.

4.1.2 Key business components

Accel Energy

Accel Energy will provide secure, low-cost electricity generation while developing a renewables and low-carbon firming pipeline and supporting the energy transition.

Generation portfolio	• Loy Yang A Power Station and Loy Yang Mine • Bayswater Power Station • Liddell Power Station • Torrens Island Power Station • Cairn Curran Hydro Power Station[1] • Hunter Valley Gas Turbines[1]
Renewable and storage power purchase agreements	• South Australian wind farms (Hallett, Hallett Hill, North Brown Hill, The Bluff, Wattle Point) • Victorian wind farms (Macarthur, Oaklands Hill) • Dalrymple battery
Development pipeline	• Loy Yang battery • Liddell battery • Broken Hill battery • Bells Mountain pumped hydro • Over 2GW pipeline of wind development projects in the eastern states and Western Australia
Gas assets and related contracts	• 50% interest in Moranbah Gas Project Joint Venture and North Queensland Energy Joint Venture (including power purchase agreements)[2] • Camden Upstream Production[3] • Surat Assets including Silver Springs Gas Storage, Wallumbilla LPG Plant, and Surat Gas Fields[2] • Newcastle Gas Storage Facility[2]
Investments	• RayGen Solar Generation and Thermal Storage

1 Planned for decommissioning and demolition
2 Identified for sale
3 Scheduled to cease production in 2023

4.2 Business overview

4.2.1 Organisation structure

Accel Energy's core business will be in the integrated business units, supported by a lean corporate centre across People and Culture, Finance, Company Secretariat and Legal, and ESG.

Within Integrated Energy, the key operational business areas will include:

- **Trading and Origination** will be responsible for realising value and managing market risk for Accel Energy.
  - Trading will trade and hedge wholesale electricity requirements and manage carbon and environmental products with the objective of maximising realised value from Accel Energy's generation fleet and other positions, while operating within prescribed risk limits and parameters.
  - Origination will be responsible for maximising value and managing risk through contracts with high quality customers and counterparties. This includes sourcing mid-term and long-term fuel contracts, and originating and managing contracts with commercial and industrial customers. Accel Energy's existing wind offtakes will be reported via the Origination business area, and the business area will also be responsible for administering the offtake agreements with AGL Australia.
- The **Operations** business area will be comprised of the power generation portfolio and other physical assets of Accel Energy, such as Loy Yang Mine and the midstream and upstream gas assets. This business area will be responsible for running the assets in a safe and efficient manner. The objective of the business area will be to maximise commercial availability while minimising harm to people and the environment. The Operations business area will be responsible for the asset until the point of closure and decommissioning, at which stage it will be the responsibility of the Transition business area.
- The **Transition** segment will be responsible for closing, decommissioning, demolishing and rehabilitating Accel Energy's assets in a safe manner that is financially and socially responsible. The segment will manage the execution of projects against Accel Energy's $1.4bn rehabilitation provision. Primary projects in the near term will include the closure of the Liddell Power Station, progressive rehabilitation at Camden Coal Seam Gas production site and Torrens Island Power Station (focused on the closed Torrens A Station). The Transition segment will oversee the rehabilitation to best future use of site. The segment will have a close interface to the energy hubs segment to ensure rehabilitation matches the required future use in repurposing the sites for productive future use that has amenity to the local community and Accel Energy.
- The **Energy Hubs** business area will be responsible for executing the energy hubs growth strategy for Accel Energy (detailed in Section 4.5). This will include growth in new energy projects and partnering with adjacent industries. The focus will be on repurposing Accel Energy's thermal sites into an ecosystem for future use. The energy hubs business area will oversee and deliver the existing approximately 2.7GW development pipeline, in addition to sourcing new renewable and low-carbon firming energy projects. The business area's remit will include projects directly within the existing land footprint of Accel Energy ('hubs') as well as other locations ('spokes'). The energy hubs business area will also be responsible for identifying and bringing on board partners who have complementary objectives to Accel Energy and that can benefit from participation in the hub.
- A key aspect of Accel Energy's energy hubs business area is the establishment of the Energy Transition Investment Partnership with its co-investor Global Infrastructure Partners. Once established, the ETIP will progress the development of Accel Energy's current and future clean energy development projects. Global Infrastructure Partners intends to fund jointly with Accel Energy $2.0 billion of equity funding to the ETIP. Global Infrastructure Partners will also be funding Accel Energy's share of expected development costs to progress the existing approximately 2.7GW development pipeline through to the 'final investment decision' stage.

Accel Energy

ASX Listed (ASX:AXL)

Trading & origination

- Electricity market trading
- Carbon and green product trading
- Commercial and Industrial customer portfolio
- Origination
- Fuel supply procurement

Operations

- Liddell and Bayswater Power Stations
- Loy Yang A Power Station
- Loy Yang Mine
- Torrens Power Station
- Renewables offtakes and dispatch
- Upstream and midstream gas assets
- Barker Inlet Power Station Operation & Maintenance (agreement with AGL Australia)

Site Transition

- Decommissioning, demolition and rehabilitation of sites going through closure and/or progressive rehabilitation

Energy Hubs

- Business partnerships and collaborations
- Greenfield project development
- Renewables and low-carbon firming project pipeline
- Project governance and management

STRATEGIC INVESTMENTS

15% holding in AGL Australia

RayGen Solar Generation and Thermal Storage

4.2.2 Key strengths of Accel Energy

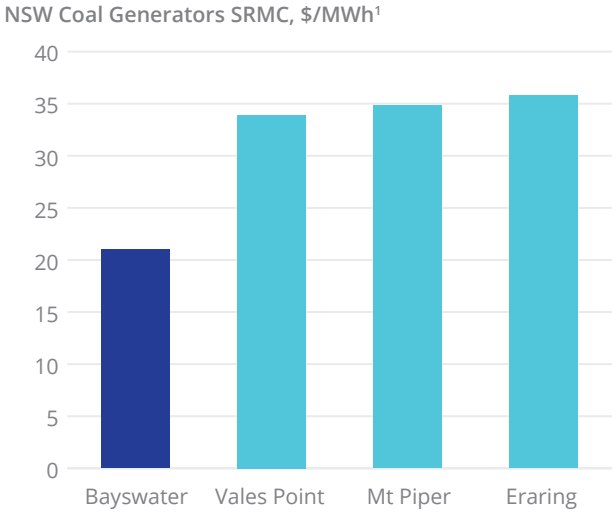
4.2.2.1 Experienced large-scale generator with long-term low-cost fuel supply

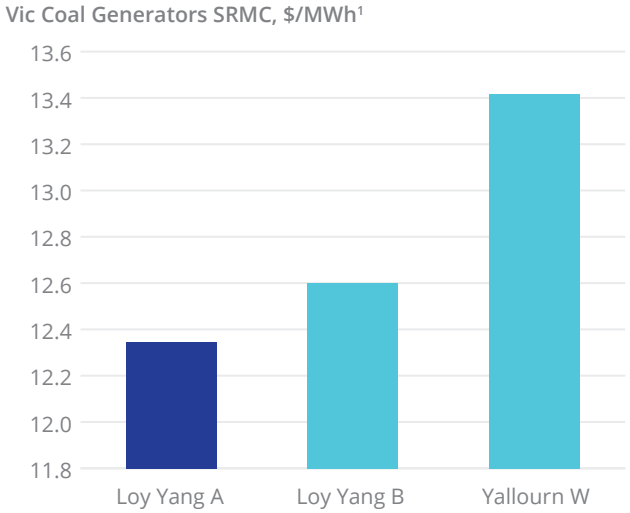
Accel Energy will be an experienced operator of large-scale, complex electricity generation assets that provide dispatchable electricity to the NEM. Operating these assets in a safe and responsible manner is critical to providing competitive, firm and secure supply of electricity to the NEM during its transition to lower-carbon sources of electricity. These assets are integral to providing controllable generation, grid stability and system strength.

Accel Energy's Loy Yang A and Bayswater Power Stations are two of the three largest generators in Australia's electricity market. In FY21, Accel Energy's fleet delivered approximately 20% of NEM generation. Operating these assets to deliver significant commercial outcomes in a safe and responsible manner requires unique capabilities, which Accel Energy's management and workforce have demonstrated over a period of years.

Accel Energy will hold the position of lowest-cost firm generator (on a short run marginal cost (**SRMC**) basis) in Australia through its Loy Yang A operations, and in New South Wales through its Bayswater operations. Accel Energy will be able to maintain this low-cost generator position as it has long-term production cost-based fuel supply to both Loy Yang A and Bayswater Power Stations.

The chart below shows a comparison of the SRMC for thermal generators in Victoria and New South Wales:





Note: (1) Real $ 2021.

4.2.2.2 Industrial customer book with load profile well matched to generation profile

Accel Energy will be well positioned to generate value from its electricity generation through a customer book that includes large industrial customers, such as Portland Smelter and Tomago Smelter and AGL Australia, among others. Together the existing offtake agreements provide Accel Energy with 92% of volumes contracted in FY23, and 83% already contracted in FY24.

These customer contracts and loads will be well suited to the nature of Accel Energy's generation portfolio, which is primarily comprised of baseload like electricity assets and has greater benefit from large-scale stable loads, such as smelters, rather than residential customers which have an increasingly peaky load profile throughout the day and require greater flexibility of supply.

Accel Energy will be able to grow and expand its large industrials customer business through the Origination business area, leveraging existing experience in large-scale customer and contract management.

Accel Energy will be able to be more responsive to market needs, and target select business areas of large industrial customers seeking lower-cost and scaled contracts.

4.2.2.3 Sophisticated trading and active risk management capability

Complementary to Accel Energy's existing capability in origination will be the breadth and depth of experience in trading and active risk management. These capabilities will help Accel Energy to maximise the value realised from its generation fleet, offer opportunities for growth into new traded markets (such as the carbon value chain) and ensure market risks are appropriately managed.

As the largest generator in the NEM, responsible for trading its own fleet as well as complementary positions in environmental products, Accel Energy will run one of the largest trading books in the Australian electricity sector.

Existing contracts, such as those with smelters and large industrial customers, provide flexibility (such as load curtailment) that will further support Accel Energy to manage its risk and exposure during peaks.

4.2.2.4 Significant electricity infrastructure with ability to repurpose for growth

Accel Energy's electricity sites (notably its large thermal sites of Bayswater/Liddell, Loy Yang and Torrens Island) will provide it with access to land and water proximate to electricity connection capacity and logistic links (such as rail, currently transporting coal) as well as to an established infrastructure of roads and workshops. These assets are supplementary to the power stations but will provide significant potential for repurposing and gaining further value as part of Accel Energy's hub strategy.

Accel Energy will have access to over 16,000 hectares of land, electricity connection (6 x 330KV and 2 x 500KV at Bayswater/Liddell Power Stations, 4 x 500KV at Loy Yang A Power Station, and 9 x 275KV at Torrens Island Power Station), and significant reservoirs of fresh water through its Loy Yang site (known as the Latrobe Valley Hub), Bayswater/Liddell site (known as the Hunter Hub) and Torrens Island site (known as the Torrens Hub). These are highly valuable assets as the Australian grid transitions and gaining connection to a strong point of transmission for new energy projects can be challenging. Accel Energy will have access to substantial land adjacent to strong connection points that have been used to serve the significant thermal plant capacity. These attributes will enable Accel Energy to progress and accelerate new renewable and low-carbon firming projects more quickly, as well as support Accel Energy in attracting complementary industry and partners to its hubs.

The energy hubs are a defined strategy that will be able to be accelerated under the Accel Energy operating model. The strategy includes bringing together other industries (as partners) seeking lower-cost inputs (e.g. heat, electricity), connecting them to behind the meter low-carbon renewable projects, and connecting to provide synergies (e.g. waste heat from one industry which can be an input to another co-located industry). This provides lower operating cost for all participants, diversified revenues for Accel Energy, and lower waste and emissions through the circular hub economy.

4.2.2.5 Defined growth pipeline of high quality projects, accelerated through the ETIP initiative

Accel Energy will have a pipeline of approximately 2.7GW of wind, battery, pumped hydro and other low-carbon firming projects. All the projects in the pipeline are in active planning and development, with many having received planning approvals. Furthermore, Accel Energy will have the capabilities and capacity to grow this pipeline. This project pipeline will provide Accel Energy with a solid foundation of renewable and low-carbon firming to grow and diversify its generation portfolio.

In order to accelerate the build out of this pipeline, Accel Energy will be establishing the ETIP with Global Infrastructure Partners. The ETIP initiative is a $2.0 billion partnership which, when established, will be 51% owned by Accel Energy and 49% owned by Global Infrastructure Partners.

It will hold Accel Energy's development projects, including current and future developments that Accel Energy seeks out.

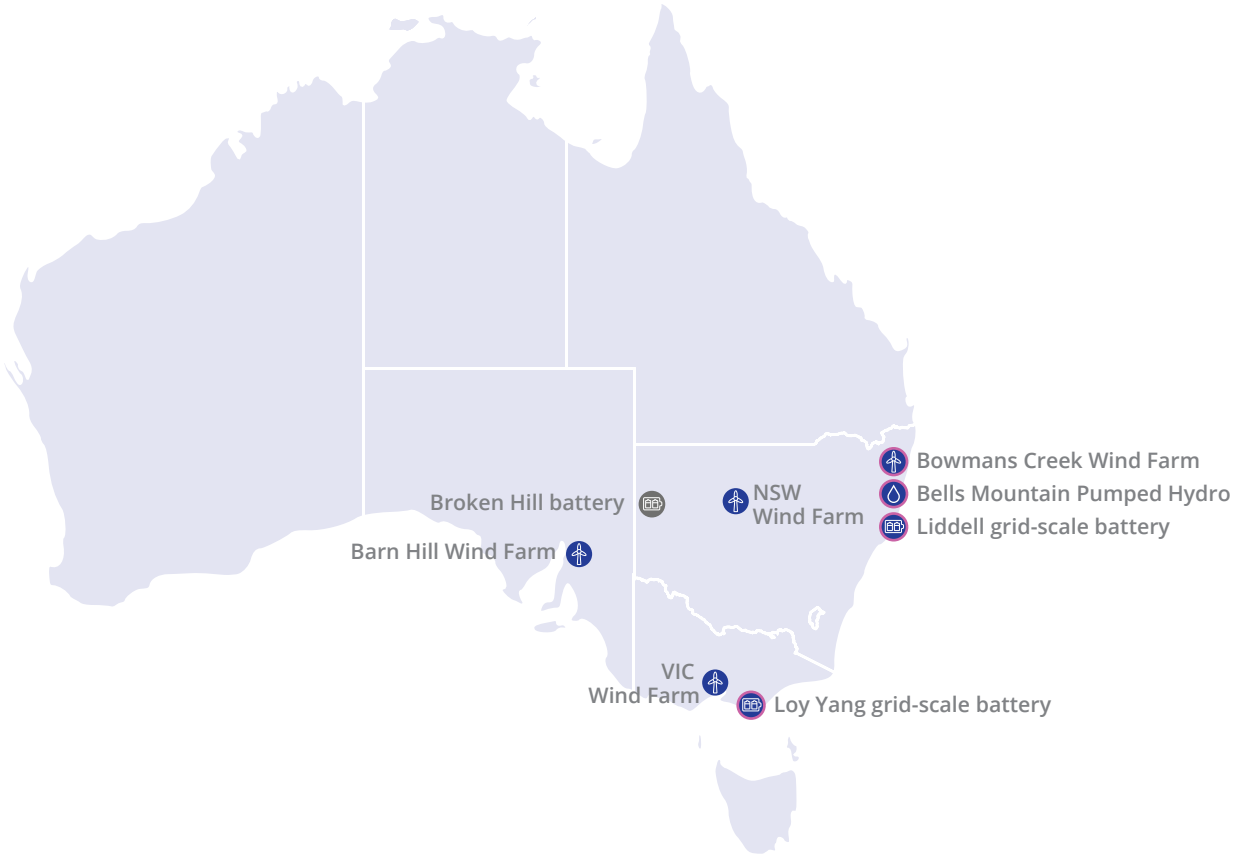
Global Infrastructure Partners is one of the largest investors in the infrastructure space with over A$100 billion of assets under management and, in particular, has significant experience in the renewables sector, being one of the largest investors globally with ownership interests in approximately 15GW of operating capacity and royalty interests in approximately 19GW of operating capacity (both on a gross basis).

Global Infrastructure Partners intends to fund jointly with Accel Energy $2.0 billion of equity funding to the ETIP to fund the construction of approximately 2.7GW of assets in Accel Energy's development pipeline as well as future developments that Accel Energy may seek to progress. Additionally, Global Infrastructure Partners will also be funding Accel Energy's share of expected development costs to progress the existing approximately 2.7GW development pipeline through to the 'final investment decision' stage. These aspects of the ETIP facilitate an acceleration of buildout of Accel Energy's transition plan.

The establishment of the ETIP and Global Infrastructure Partners' involvement as a co-investor demonstrates the quality of the pipeline, and Accel Energy's capabilities as a renewable energy developer of energy transition projects, unique access to consumer and large industrial customers and strong access to capital for investment in the energy transition.

Accel Energy will be well placed to execute effectively against this pipeline, maintaining capability from AGL Energy's existing development expertise, namely its strong project development team with deep expertise in low-carbon asset development. This builds on the strong track record constructing capital intensive energy projects, having since 2008, constructed 210MW of reciprocating gas projects, 1,490MW of wind projects, 140MW of hydro projects, 156MW of solar projects and 30MW of battery projects, with a further 250MW of battery capacity currently under construction.

4. Information on Accel Energy



Key

Wind | Hydro | Under construction | Planning and development

Grid-scale battery | Energy Hub developments / concepts

4.2.2.6 Clear commitment to climate transition backed by plans to rehabilitate and repurpose sites after closure

Accel Energy will play an important role in climate transition in Australia. Accel Energy's emissions targets will enable a reduction in the total greenhouse gas emissions from its generation fleet of at least an additional 12% compared to the trajectory referenced in AGL Energy's 30 June 2021 announcement (between the period of FY23 and FY50).

This equates to a reduction of over 90 MtCO2e over the period. Accel Energy's coal plants will close by 2045, with Liddell Power Station to close in 2022-2023, Bayswater Power Station in 2030-2033 and Loy Yang A Power Station in 2040-2045.

Accel Energy has set the following emissions reduction targets for its operated electricity generation fleet:

- achieve a reduction of at least 18% in annual Scope 1 + 2 emissions against FY19 baseline by FY25;
- achieve a reduction of at least 55% in annual Scope 1 + 2 emissions against FY19 baseline by FY35; and
- achieve net zero emissions by FY47.

The main impact that Accel Energy can have on emissions is the closure date of its assets. Therefore, the responsible stewardship, rehabilitation and repurposing of its thermal assets in a timely manner are critical outcomes for Accel Energy, the communities in which it operates and the broader Australian community. Accel Energy will be well placed to deliver on these priorities through its responsible ongoing operations, clear rehabilitation plans and provisioning, and repurposing activities through the energy hub strategy.

Accel Energy will have experience and capability in managing the safe and responsible closure, decommissioning and rehabilitation of large assets, with a focus on Liddell, Camden and Torrens A in the near term.

4.2.2.7 Experienced board and senior management team

Accel Energy will continue to be managed by a highly experienced executive team, with substantial management, financial and industry experience, notably relating to energy transitions. Management decisions will be guided by long-term incentives with a clear purpose to create Australia's new energy future. Further details about Accel Energy's executive team are set out in Section 4.4.2.

4.3 Operations overview

4.3.1 Electricity generation

Accel Energy's core business is the generation of electricity for sale in the NEM via a portfolio of owned and operated electricity generation assets.

Accel Energy will be Australia's largest energy generator, supporting the Australian economy by providing a secure and reliable supply of electricity. In the financial year ended 30 June 2021, Accel Energy's portfolio included generation assets with a combined capacity of 8.9GW and generation output of 39TWh. The largest assets in that portfolio are the thermal generation assets including Loy Yang A, Bayswater, Liddell and Torrens Island Power Stations. Together these assets would provide 89% of Accel Energy's nameplate capacity and 94% of sent-out generation (FY21). Given the importance of these assets to the security of electricity supply in Australia, Accel Energy will be focused on ensuring the safe and efficient operation of these plants as well as the responsible transition to less carbon-intensive generation sources as outlined further below.

In addition to the generation fleet, Accel Energy will also be responsible for the coal mining operation of Loy Yang Mine, which supplies coal to Loy Yang A and Loy Yang B Power Stations. Accel Energy's other thermal plants' fuel will be supplied by long-term supply contracts that are well hedged and/or at production-linked rates.

A complete list of Accel Energy's owned and operated generation assets is outlined in the table below:

Asset	Asset type	Fuel supply	Build year	Nameplate capacity (MW)	FY21 sent-out generation (GWh)
Loy Yang A	Coal	Owned mine (Loy Yang Mine)	1984-1988 (acquired 2012)	2,210	15,011
Bayswater	Coal	Long-term contracted coal	1985-1986 (acquired 2014)	2,665	13,455
Liddell	Coal	Contracted coal	1971-1973 (acquired 2014)	2,000[1]	6,961
Torrens Island	Gas	Contracted gas	1963-1976 (acquired 2007)	1,040[2]	1,551

Given the importance of these assets to the security of electricity supply in Australia, Accel Energy will be focused on ensuring the safe and efficient operation of these plants as well as the responsible transition to less carbon-intensive generation sources as outlined further below.

4.3.2 Renewable offtake agreements

Accel Energy will also be one of Australia's largest operators and offtakers of wind energy through its portfolio of renewable energy offtake agreements with registered capacity of 928MW as at 30 June 2021.

These renewable offtake agreements were entered into between 2006-2012 and highlight the important role that AGL Energy has played, and that Accel Energy will continue to play, in supporting the development of renewable energy in the NEM.

A complete list of Accel Energy's legacy renewable offtake contracts is outlined in the table below:

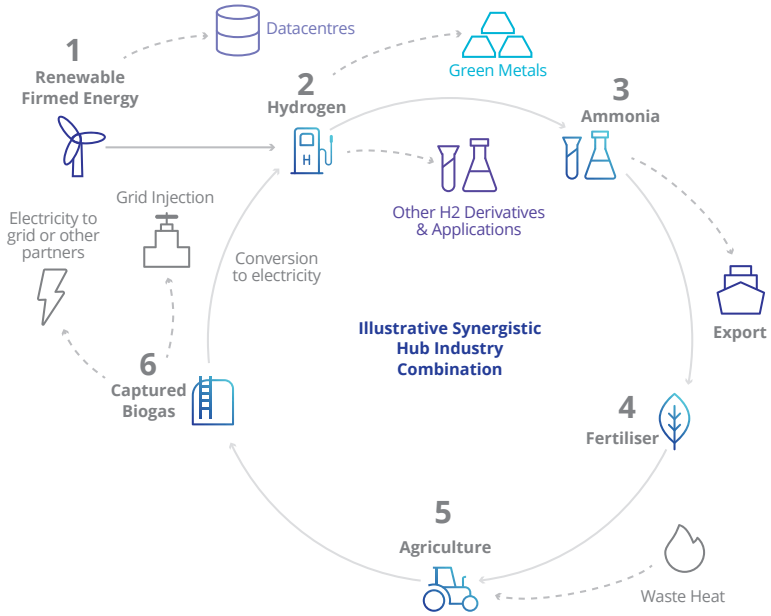
Asset	Location	Contract end year	Nameplate capacity (MW)	FY21 sent-out generation (MWh)
Macarthur	Victoria	2038	420	719,785
Oaklands	Victoria	2036	67	152,729
Hallett 1	South Australia	2033	94.5	286,792
Hallett 2	South Australia	2035	71.4	220,465
North Brown Hill	South Australia	2036	132.3	409,110
The Bluff	South Australia	2036	52.5	124,800
Wattle Point	South Australia	2031	90.75	254,486

1 One unit of Liddell ceased generation on 1 April 2022.
2 Torrens Island consists of Torrens Island A and Torrens Island B. AGL Energy closed two of its A Station units in September 2020, and one in September 2021, and will close the final A Station unit in September 2022.

4. Information on Accel Energy

4.3.3 Energy hubs

Accel Energy's existing thermal generation asset sites comprise over 16,000 hectares of land and benefit from strong grid locations with valuable existing grid connection infrastructure. Accel Energy will focus on the repurposing of those sites and infrastructure as low-carbon energy hubs. The energy hubs will seek to co-locate supply and demand of industries to realise synergies between their processes and create a localised circular economy. An example of a synergistic cluster is illustrated in the diagram below:



A broad range of decarbonisation opportunities are being explored for these energy hubs including renewable energy (e.g. solar, wind), flexible energy (e.g. batteries, pumped hydro), carbon offsetting and other emerging technologies such as hydrogen. These decarbonisation opportunities will benefit and address both Accel Energy as well as other industry partners' carbon emissions. Accel Energy will seek to partner with other industries seeking to lower the carbon in their operations to deliver energy hub projects.

In addition, Accel Energy has agreed to establish an ETIP with Global Infrastructure Partners to support the funding and acceleration of low-carbon projects as discussed in Section 4.3.4.

Accel Energy's energy development expertise combined with the unique quality of its transition projects played a key role in attracting a high quality, well credentialed partner with strong access to capital to support Accel Energy's growth pipeline and transition.

4.3.4 Energy Transition Investment Partnership (ETIP)

Accel Energy and Global Infrastructure Partners have agreed to establish the $2.0 billion ETIP, which will be 51% owned by Accel Energy and 49% owned by Global Infrastructure Partners. In addition to equity funding, the construction of ETIP's projects is expected to be funded with non-recourse project finance debt.

Accel Energy will also fulfil roles as asset, dispatch and vehicle manager for projects that are constructed via ETIP, providing Accel Energy with ancillary revenue streams.

Global Infrastructure Partners intends to fund jointly with Accel Energy $2.0 billion of equity funding to the ETIP to fund the construction of approximately 2.7GW of assets in Accel Energy's development pipeline as well as future developments that Accel Energy may seek to progress. Additionally, Global Infrastructure Partners will fund Accel Energy's expected costs to advance the existing approximately 2.7GW development pipeline through to the 'final investment decision' stage.

Global Infrastructure Partners' investments in renewables include: Vena Energy (number one independent power producer for renewables in the Asia-Pacific region, with assets in Australia), Clearway (top five renewable developer and operator in the U.S.) and Eolian (one of the largest renewables and battery storage development pipelines in the U.S.).

Global Infrastructure Partners has recently completed the acquisition of Sydney Airport with a consortium of investors and has a long history of successfully investing in Australian infrastructure assets including the Port of Melbourne, Pacific National, the QCLNG Common Facilities, GLNG Infrastructure and the Port of Brisbane (exited 2013).

Global Infrastructure Partners has a track record of investment in 24 strategic joint ventures, with more than US$20 billion invested.

The establishment of the ETIP will follow the Demerger, if the Demerger proceeds, and will be subject to: (1) receipt of FIRB approval or no objection for Global Infrastructure Partners' investment (Global Infrastructure Partners have secured such approvals previously); and (2) implementation of the Demerger, with an option for Accel Energy to waive this condition and progress the ETIP's establishment irrespective of the Demerger.

Development Pipeline

Accel Energy has already identified an advanced approximately 2.7GW development pipeline across eight sites and multiple technologies (wind, batteries and pumped storage hydro).

Further detail on the development pipeline is outlined in the table below.

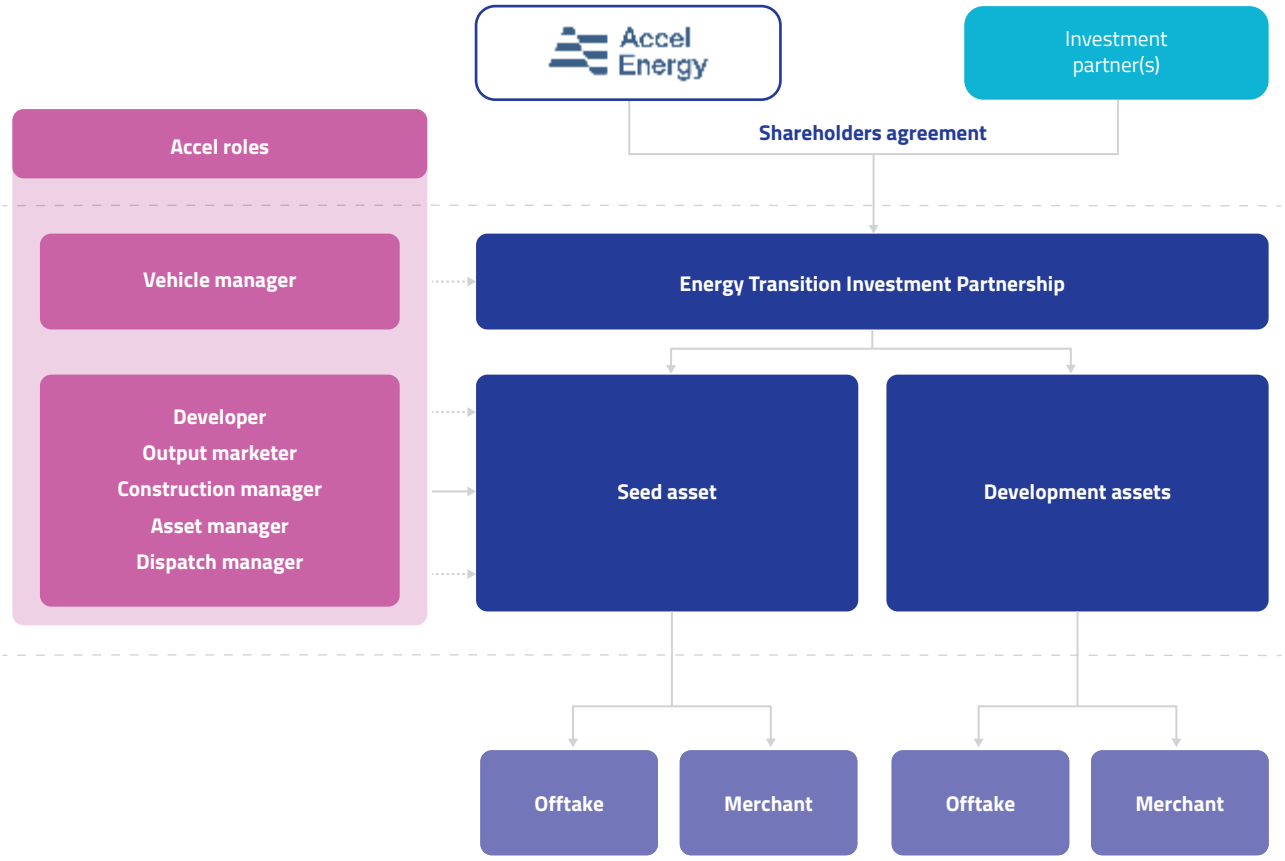
Project	Capacity	Est. capex	Target final investment decision
Broken Hill Battery[1] (NSW)	50MW/1 hour	~$40m	Final investment decision taken
Liddell battery (NSW)	250MW/up to 2 hours	~$180m	2H 2022
Loy Yang battery (VIC)	200MW/1 hour	~$150m	2H 2022
Bells Mountain pumped hydro (NSW)	250MW/8 hours	~$800m	2023-2024
Bowmans Creek Wind Farm (NSW)	350-450MW	~$600-800m	Late 2022
Barn Hill Wind Farm (SA)	250MW	~$450m	Mid 2023
Wind Project 1 (VIC)	Up to 600MW	~$1.1bn	Mid 2023
Wind Project 2 (NSW)	450-650MW	~$800-1,200m	Late 2023
Total	**2.4-2.7GW**	**$4.1-4.7bn**	

Note: (1) Broken Hill Battery is currently under construction and not part of the ETIP.

All investment dates are subject to identifying potential power purchase agreements or partial offtakes, and other project variables. Excludes projects for which investment decision has already been taken.

These assets will be co-developed by Accel Energy and Global Infrastructure Partners through the ETIP. At the same time, the ETIP will be looking to pursue additional investment opportunities in the low-carbon and renewable space.

Conceptual schematic



4.3.5 Gas assets and related contracts

Accel Energy will also retain AGL Energy's upstream and midstream gas assets and related contracts. These assets are all either undergoing progressive rehabilitation and closure or have been identified for sale. The assets and contracts include:

- 50% interest in Moranbah Gas Project Joint Venture and North Queensland Energy Joint Venture (including Yabulu power purchase agreement) (*);
- Camden Coal Seam Gas Project (**);
- Surat Assets (*); and
- Newcastle Gas Storage Facility (*).

(*) Identified for sale.
(**) Camden is undertaking progressive closure and rehabilitation works.

4.3.6 Large industrial customers

Accel Energy will provide retailing services directly to some of AGL Energy's existing large industrial customers.

Accel Energy will hold contracts with the Portland and Tomago Smelters in Victoria and New South Wales respectively. Each of the smelters represents approximately 10% of its state's total energy demand.

Pending Accel Energy obtaining necessary retail electricity licences and authorisations from the relevant authorities, Accel Energy will have arrangements in place with AGL Australia to enable those contracts to be serviced.

4.3.7 Approach to rehabilitation of sites

Accel Energy will have a provision of $1.4bn for rehabilitation activities based on an independently developed rehabilitation assessment plan. Accel Energy will have experience in decommissioning and demolition through its progressive rehabilitation at Torrens Island Power Station and Camden Coal Seam Gas production sites, as well as detailed planning completed for Liddell Power Station in partnership with external demolition and deconstruction experts.

Rehabilitation will be conducted to return land in accordance with legal requirements. As a responsible steward of the power station sites and upstream gas assets, Accel Energy will continue this responsibility into future use – whether through repurposing into energy hubs, or rehabilitation, depending on the location.

Accel Energy will benefit from continued engagement that has been occurring with local partners at the Liddell Power Station site to identify long-term repurposing options.

4.3.8 Investments

4.3.8.1 AGL Australia cross holding

Accel Energy will retain a minority ownership interest of 15% in AGL Australia following the Demerger, which will enable Accel Energy to share in the anticipated value creation in AGL Australia following the Demerger and provide balance sheet flexibility. If Accel Energy requires additional liquidity, the 15% shareholding in AGL Australia can be partially or fully sold down, given it is a liquid and price observable asset. Accel Energy will not have representation on the AGL Australia Board and will account for its investment in AGL Australia as a minority interest. There are no escrow or similar restrictions on the disposal by Accel Energy of its holding in AGL Australia. Accel Energy intends to retain a substantial shareholding in AGL Australia for so long as it considers it is in the interests of Accel Energy Shareholders to do so.

4.3.8.2 Other

Accel Energy will hold an investment in solar and thermal storage company, RayGen. In addition to the equity investment, a parent deed provides first right of offer in respect of offtakes for projects, and the investment enables ongoing collaboration on a feasibility study for the Hunter Energy Hub.

4.4 Accel Energy Board and key management personnel

4.4.1 Accel Energy Board

If the Demerger is implemented, the Accel Energy Board will comprise 5 Directors. There will be 4 Non-Executive Directors, and the Managing Director and CEO. Details of the Directors are set out below:

Peter Botten AC, CBE
Chairman

If the Demerger is implemented, Peter Botten AC, CBE will be the Chair of the Accel Energy Board. Mr Botten joined the AGL Energy Board in October 2016 and has been Chairman since 22 April 2021.

Mr Botten is currently a director of Karoon Energy and Aurelia Metals, Council Member of the Australia PNG Business Council, and Chairman of the Oil Search Foundation.

Prior to joining AGL Energy, Mr Botten was Managing Director of Oil Search for 25 years, overseeing its development into a major ASX-listed company. Mr Botten has extensive worldwide experience in the oil and gas industry, holding various senior technical, managerial and board positions in a number of listed and government-owned bodies.

Diane Smith-Gander AO
Non-Executive Director

If the Demerger is implemented, Diane Smith-Gander AO will be a Non-Executive Director of Accel Energy, and Chair of the People & Performance Committee. Ms Smith-Gander joined the AGL Energy Board in September 2016.

Ms Smith-Gander is currently Chair of Zip Co, HBF Health, DDH1, the Committee for Economic Development of Australia and the UWA Business School Advisory Board. She is also a director of Keystart Loans Group. Ms Smith-Gander was also previously a director of Wesfarmers for over 10 years.

Ms Smith-Gander has extensive Australian and international experience in banking and finance, technology, and strategic and management consulting. This includes as a former partner at McKinsey & Company, and Group Executive IT and Operations, Westpac Banking Corporation.

Graham Cockroft
Non-Executive Director

If the Demerger is implemented, Graham Cockroft will be a Non-Executive Director of Accel Energy, and Chair of the Audit & Risk Management Committee. Mr Cockroft joined the AGL Energy Board in January 2022.

Mr Cockroft has over 30 years' experience working in the energy sector. Mr Cockroft was appointed Group CFO in 2018 at the Singapore-based and listed integrated energy company, Sembcorp Industries. Mr Cockroft was previously CFO of Contact Energy, a large listed integrated energy company in New Zealand with businesses in hydro, geothermal and gas-fired power generation, wholesale and retail electricity, natural gas and liquefied petroleum gas.

Prior to 2009, Mr Cockroft spent close to two decades at BG Group in various senior strategy, business development and operational roles, primarily in the UK and South America.

Vanessa Sullivan
Non-Executive Director

If the Demerger is implemented, Vanessa Sullivan will be a Non-Executive Director of Accel Energy. Ms Sullivan joined the AGL Energy Board in March 2022.

Ms Sullivan is an experienced Non-Executive Director and executive with strong commercial, financial, project development and strategy experience gained over 20 years, working across the energy, water and sustainability sectors and more recently, in hydrogen industry development. This includes as a Climate Change Leader and Utilities Leader at EY and undertaking significant energy market reforms across the supply chain whilst at Queensland Treasury Corporation.

Ms Sullivan is currently a Non-Executive Director of Essential Energy, Eco Markets Australia, Niche Environment and Heritage, and Sunwater. Ms Sullivan is also an independent member of Queensland's Hydrogen Taskforce and a member of Centacare's advisory board.

Ms Sullivan's previous roles include senior positions in energy and water market reforms and low-emissions project developments. Ms Sullivan has also held Non-Executive Director roles with Energex and the Smart Energy Council.

4. Information on Accel Energy

Graeme Hunt
Managing Director and CEO

If the Demerger is implemented, Graeme Hunt will be the Managing Director and CEO of Accel Energy.

Mr Hunt joined AGL Energy in September 2012 as a Non-Executive Director, before becoming Chairman in September 2017, and then the Managing Director and CEO of AGL Energy in April 2021.

Mr Hunt has extensive experience across the energy sector, having held senior executive roles with organisations involved in supply of energy fuels to the global electricity sector and operations and maintenance services to the electricity, oil and gas sectors. Mr Hunt has also been accountable for the development and operations of energy intensive mining and metals production and processing operations.

Mr Hunt was previously Managing Director of Broadspectrum and Managing Director of Lihir Gold. He has also held senior executive positions in a 30-year career with the BHP Group including as CEO of the iron ore, uranium and aluminium divisions.

Mr Hunt currently also serves as Chairman of BIS Industries and as a director of the Future Battery Industry CRC.

Mr Hunt holds a Bachelor of Metallurgy and an MBA from the University of Wollongong and is a graduate of the London Business School Senior Executive Programme.

4.4.2 Accel Energy key management personnel

Graeme Hunt
Managing Director and CEO

Refer to Section 4.4.1.

Markus Brokhof
Chief Operating Officer and Deputy CEO

If the Demerger is implemented, Markus Brokhof will be the Chief Operating Officer and Deputy CEO of Accel Energy.

Mr Brokhof joined AGL in April 2020 as Chief Operating Officer. Prior to joining AGL Energy, Mr Brokhof was the Head of Digital and Commerce, and an Executive Board Member at ALPIQ Group in Switzerland, a leading Swiss electricity producer. In this capacity, Mr Brokhof was responsible for trading and origination activities in more than 30 countries as well for the retail and digital business of the group.

With more than 26 years' experience in the oil, power and gas sectors gained across operations in Europe, Africa and the Middle East, Mr Brokhof brings a wealth of experience in mining, asset management and trading. Mr Brokhof holds a Masters of Engineering from Technical University of Clausthal, Germany.

Gary Brown
Chief Financial Officer

If the Demerger is implemented, Gary Brown will be the Chief Financial Officer of Accel Energy.

Mr Brown joined AGL Energy in January 2022.

Mr Brown is an experienced finance executive having started his career at BHP Billiton before joining Shell. At Shell, Mr Brown led the finance function through its transition and sale process to Viva Energy. Mr Brown's most recent role was as CFO at ENGIE where he was a key player in the development and implementation of a transitional strategy that includes the ongoing rehabilitation of the closed Hazelwood coal mine along with the development of the renewables business, including the introduction of external equity.

4.5 Business strategy

4.5.1 Deliver against core strategic promises and preconditions

Accel Energy's strategy will be to deliver three core promises: to supply competitive energy, to protect and enhance value and to deliver new opportunities. These promises reflect that Accel Energy will keep efficient delivery of energy at the heart of its operations while growing into new business areas that reflect the changing energy landscape in Australia, with its increasing shift to lower-carbon sources.

As preconditions to success in this strategy, Accel Energy must maintain its investment grade credit rating and protect its balance sheet, transition to a low-carbon and flexible portfolio, and diversify its sources of revenue.

Each of these preconditions will have an ambition that Accel Energy's strategy will target. Accel Energy's current debt will be amortised by 2030. In transitioning to a low-carbon and flexible portfolio, Accel Energy will seek to deploy capital in low-carbon activities and projects by 2030, reflecting its significant approximately 2.7GW renewables pipeline, in addition to the activities that will occur to establish the energy hubs at Hunter, Torrens and Latrobe Valley. Accel Energy will also seek to reduce emissions from its own fleet by safely and responsibly bringing forward coal closures to deliver a reduction in Scope 1 and 2 emissions of at least 18% by 2025, 55% by FY35 and net zero by FY47 against an FY19 baseline.

4.5.2 Operate efficiently and with care for its people and environment

Accel Energy will continue to run its portfolio of thermal assets in a safe and responsible manner, recognising their critical role in providing essential baseload electricity supply to the NEM as well as supporting intermittent renewable generation.

Accel Energy will focus its strategy on ensuring that its thermal assets are available to the market when the demand is present and compensated above short run marginal cost (known as commercial availability), with flexibility to ramp, and provide grid support and security for the market. In doing so, Accel Energy will focus on maintaining its competitive cost position in the market.

Safety of people and environment will continue to be central to Accel Energy's operational strategy. Focusing on reducing potential and actual serious injuries and fatalities will be a primary objective, in addition to reducing environmental incidents through continued and improved controls and monitoring.

In addition to core operations, Accel Energy will be responsible for ensuring the closure, decommissioning and rehabilitation of its assets is managed in a responsible way. This includes working closely with governments and other community stakeholders, to ensure that planning around asset closure is aligned to the government's objectives and strategies around the energy transition.

4.5.3 Maximise value and manage risk exposures

Accel Energy will have a long electricity generation position in the market. Maximising value from this natural position and managing risk exposures arising from the assets and developments will be critical to creating value.

Accel Energy benefits from a high percentage of contracted output via existing offtake arrangements including with AGL Australia, smelters and industrial customers. Further contracting through innovative structures, such as aggregated power purchase agreements, and growing its large industrial customer base, will be important in managing risk and maximising value from existing and future assets. Accel Energy will leverage energy hubs to deepen connections with large industrial customers and de-risk future developments.

Accel Energy will also have a highly experienced electricity market trading team to manage any future uncontracted exposure and to risk manage the portfolio.

Further, Accel Energy will seek to grow and maximise value through expansion in the carbon reduction value chain, including offset origination and trading.

4.5.4 Innovate and transition the portfolio to a low-carbon energy future

A key component of Accel Energy's business strategy is the redevelopment of its existing thermal asset base to integrated energy hubs, supporting projects across clean energy and other emissions reduction initiatives.

Leveraging extensive in-house development experience, and 16,000 hectares of land in prime locations with port, rail and road access, as well as connection infrastructure of 8GW connection capacity at its existing thermal assets, Accel Energy will be well positioned to execute on this strategy.

Accel Energy will aim to connect partners across different industries such as intensive agriculture, data centres, ammonia and hydrogen, and renewable energy. Synergies between these industries may lead to attractive cost and environmental outcomes, as waste and mass flows (such as heat or carbon dioxide) can be used as inputs for co-located industries, and behind the meter electricity can be used to capture lower costs.

Accel Energy will seek to expand into markets that are complementary to its position. Areas such as managing daytime energy load of industrial partners and electrifying and orchestrating industrial load, will provide Accel with new value streams and support Accel Energy and partners in achieving value, growth and decarbonisation objectives.

In addition, Accel Energy will capitalise on the strong demand from capital providers for investment in green energy and transition funding, to assist in achieving this objective. Funding through mechanisms such as the ETIP will allow Accel Energy to accelerate its existing approximately 2.7GW low-carbon development pipeline, gain value as a manager and developer of assets, and share in key risks. In addition, Accel Energy will provide services around hub orchestration and portfolio management – two additional revenue streams that will underpin the unique selling proposition of the energy hubs.

4.5.5 Partner with government, First Nations people, industry and communities to deliver the energy future responsibly

Accel Energy success will require engagement and collaboration with partners across the energy sector.

- **Partner with government to reduce risk in accelerating the energy future:** Ongoing regulatory change is expected to support the changing energy market. Accel Energy will partner with governments, agencies and regulatory bodies to develop electricity projects, help shape the lower emissions energy market and establish capability in new energy opportunities, many of which are likely to require initial commercialisation support.
- **Enter cross-industry partnerships to broaden opportunities:** Development of new projects and diversification of revenue will require Accel Energy to collaborate with industry players, share capability and collaboratively develop solutions.
- **Embed alliance with local communities and First Nations:** Accel Energy will continue to engage with the local communities within which it operates, including building alliances on the future of thermal generation sites. Strong ongoing engagement with the First Nations people will be the backbone of a successful transition.

4.6 Accel Energy's capital structure on implementation of the Demerger

4.6.1 Expected impact of the Demerger on the capital structure of Accel Energy

On implementation of the Demerger, Accel Energy will have the following committed debt facilities in place:

- $866m of term funding comprised of
  - $660m amortising syndicated bank facility with a tenor of 7 years;
  - $14m bilateral amortising bank facility with a tenor of at least 2 years;
  - $119m of amortising USPP notes with a legal tenor of 7 years and a weighted average life of 5 years;
  - $23m of bullet USPP notes with a tenor of 7 years; and
  - $51m of amortising CPI bonds maturing in 2027;
- $310m revolving cash advance and swingling facilities with a tenor of 5 years to fund short-term working capital and liquidity requirements; and
- $240m bank guarantee facilities with a tenor of 5 years to support trading and other operational collateral requirements.

Debt covenant structure on market terms including a debt service cover ratio and leverage covenants.

A summary of Accel Energy's debt facilities is set out in Section 4.7.14.

Based on a ratings advisory service process and the credit metrics of the entity, Accel Energy is anticipated to carry an investment grade credit rating.

Accel Energy will adopt financial policies consistent with the maintenance of an investment grade credit rating, supported by its leading low-cost position in the electricity generation sector and a prudent debt structure. Accel Energy will also benefit from additional balance sheet flexibility provided by the 15% shareholding in AGL Australia.[3]

Accel Energy's debt structure, combined with the maturation of onerous contracts on legacy wind farm offtake arrangements, will result in the company having materially lower financial obligations post FY30. This will balance risk as environmental restoration cash flows begin to increase in future years with the closure of the Bayswater, Torrens Island and Loy Yang A Power Stations.

It is anticipated that Accel Energy will seek to leverage significant demand from capital providers to fund attractive energy transition projects in line with its strategy to redevelop these sites as low-carbon energy hubs.

4.6.2 Expected impact of the Demerger on dividends of Accel Energy

AGL Energy (which will be renamed Accel Energy as part of the Demerger) expects to pay a final dividend to AGL Energy Shareholders in September 2022, based on AGL Energy's existing dividend policy to target a payout ratio of approximately 75% of Underlying Profit after tax.

The amount of the final dividend will be determined by the AGL Energy Board in August 2022 by reference to the earnings of the Group during the second half of FY22, which will include the earnings of AGL Australia for this period. The dividend will remain subject to Board discretion, trading conditions and the ongoing funding and liquidity requirements of the business.

AGL Energy Shareholders will be entitled to receive the FY22 final dividend provided that they continue to hold their AGL Energy Shares on the applicable record date for the FY22 final dividend, which is expected to be in early September 2022. Following the payment of the FY22 dividend, the Accel Energy Board intends to adopt a dividend policy whereby it pays dividends reflecting 80% to 100% of free cash flows after servicing net finance costs. Free cash flow will be defined as operating cash flow less tax, working capital reserving, sustaining capex and contributions for planned growth/investment capex.

3 If Accel Energy requires additional liquidity, the 15% shareholding in AGL Australia can be partially or fully sold down, given it is a liquid and price observable asset.

The AGL Energy Board considered this dividend policy to be appropriate for Accel Energy given the strategy of Accel Energy to invest in transition opportunities to facilitate its decarbonisation objectives. However, the dividend policy of Accel Energy will be determined by the Accel Energy Board at its discretion and may change over time.

Accel Energy will distribute dividends with the maximum practicable franking credits for the purposes of the Australian dividend imputation system to the extent there are material credits available. However, franking credits are not expected to be available until at least FY25 due to the fact that Accel Energy will not be paying tax until at least FY25.

Franking credits are expected to be generated from two sources:

- transfer of franking credits from AGL Australia to Accel Energy, to the extent that Accel Energy receives franked dividends from AGL Australia as part of its 15% retained holding; and
- tax paid by Accel Energy from FY25 onward.

No assurance can be given in relation to the level of future dividends or the franking of such dividends (if any), as these will depend on future events and circumstances.

4.7 Accel Energy pro forma historical financial information

4.7.1 Overview

This Section 4.7.1 contains the pro forma historical financial information in relation to Accel Energy following the Demerger (that is, excluding AGL Australia) (**Accel Energy Pro Forma Historical Financial Information**) comprising the:

- Accel Energy pro forma historical statements of profit or loss for FY19, FY20, FY21 and HY22 set out in Section 4.7.8;
- Accel Energy pro forma historical statement of financial position as at 31 December 2021 set out in Section 4.7.12; and
- Accel Energy pro forma historical statements of cash flows for FY19, FY20, FY21 and HY22 set out in Section 4.7.13.

In this Scheme Booklet, references to the Accel Energy Pro Forma Historical Financial Information are references to consolidated pro forma historical financial information in relation to the assets and operations comprising the Accel Energy Group.

The Accel Energy Pro Forma Historical Financial Information has been reviewed by the Investigating Accountant and the Investigating Accountant has prepared the Independent Limited Assurance Report in respect of the Accel Energy Pro Forma Historical Financial Information. The Independent Limited Assurance Report is set out in Section 7. AGL Energy Shareholders should read the Independent Limited Assurance Report, including the comments made by the Investigating Accountant in relation to the scope and limitations of the Independent Limited Assurance Report.

This Section 4.7.1 should be read in conjunction with the risks of an investment in Accel Energy after the Demerger set out in Section 4.12 and the risks relating to the Demerger set out in Section 1.5.

4.7.2 Basis of preparation

The Accel Energy Pro Forma Historical Financial Information has been prepared for illustrative purposes to assist AGL Energy Shareholders in understanding the impact of the Demerger on the financial performance, financial position and cash flows of Accel Energy. By its nature, pro forma historical financial information is illustrative only. Consequently, the Accel Energy Pro Forma Historical Financial Information does not purport to reflect the actual financial performance, financial position and cash flows for the periods to which the Accel Energy Pro Forma Historical Financial Information relates, nor does it reflect the actual financial position of Accel Energy (after the Demerger) at the relevant time.

The Accel Energy Pro Forma Historical Financial Information has been extracted from AGL Energy's historical financial information and adjusted for the effects of the pro forma adjustments described below. The Accel Energy historical financial information has been extracted from AGL Energy's financial statements for FY19, FY20, FY21 and HY22. AGL Energy's financial statements for FY19, FY20 and FY21 have been audited by DTT in accordance with AAS. The half-year accounts for HY22 have been reviewed by DTT. DTT issued unqualified audit or review opinions on these financial statements. Copies of these audited financial statements or reviewed financial statements can be found at AGL Energy's website (www.agl.com.au) or the ASX website (www.asx.com.au). In HY22, AGL Energy has adopted a change in the transfer price methodology in relation to the pricing of energy transactions between Accel Energy and AGL Australia and retrospectively applied it to FY19, FY20 and FY21. The Accel Energy financial information for FY19, FY20 and FY21 has reflected the change in transfer price methodology.

Unless otherwise stated in this Scheme Booklet, the Accel Energy Pro Forma Historical Financial Information has been prepared in accordance with AAS (including Australian Accounting Interpretations) adopted by the AASB, which comply with the recognition and measurement principles of IFRS and interpretations adopted by the International Accounting Standards Board. The accounting policies used in the preparation of the Accel Energy Pro Forma Historical Financial Information are consistent with those set out in AGL Energy's financial reports for FY19, FY20, FY21 and HY22, which were disclosed to the ASX in AGL Energy's Annual Reports in respect of each of those financial years and in the Half-Year Report for the period ended 31 December 2021.

The Accel Energy Pro Forma Historical Financial Information is presented in an abbreviated form and does not contain all the disclosures required by AAS in an annual financial report prepared in accordance with the Corporations Act.

The Accel Energy pro forma historical statements of cash flows set out in Section 4.7.13 are presented as cash flows after net capital expenditure, financing costs and tax paid for FY19, FY20, FY21 and HY22.

The Accel Energy pro forma historical statements of profit or loss and Accel Energy pro forma historical statements of cash flows set out in Sections 4.7.8 and 4.7.13 (respectively) include pro forma adjustments to reflect:

- the removal of AGL Australia's historical financial results;
- the removal of other significant items including AGL Australia related significant items and the removal of transaction costs which are recorded in significant items;
- the removal of fair value movements relating to various financial instruments which had previously been recorded in Accel Energy legal entities that relate to the AGL Australia Business;
- the removal the allocation of Centrally Managed Expenses relating to the AGL Australia Business;
- the anticipated corporate and operating costs of Accel Energy operating as a standalone, ASX-listed company. This includes the allocation of Centrally Managed Expenses;
- the impact of the Transitional Services Agreement which will be put in place between AGL Australia and Accel Energy for the provision of various corporate services;
- the removal of one-off transaction costs incurred in preparing for and implementing the Demerger, including adviser fees, financing and debt costs and technology costs;
- the new financing arrangements for the Accel Energy Group that will take effect on implementation of the Demerger, as described in Section 4.6; and
- tax adjustments related to pro forma adjustments at the statutory tax rate and the allocation of tax expense to AGL Australia.

The Accel Energy pro forma historical statement of financial position set out in Section 4.7.12 has been prepared on the basis that the Demerger was implemented on 31 December 2021 and that the relevant assets and liabilities were transferred to AGL Australia from the Accel Energy Group at their historical book value. Pro forma adjustments have been made in the Accel Energy pro forma historical statement of financial position to reflect certain financing arrangements, capital items, transactions costs, Accel Energy's retained interest in AGL Australia and a transfer of AEMO pool purchase payables for AGL Australia customer electricity consumption which AGL Australia will be responsible for going forward. AGL Energy had declared an interim unfranked dividend of ~$105m for HY22 on 10 February 2022. The FY22 interim dividend was paid on 30 March 2022. The Accel Energy pro forma historical statement of financial position has not reflected the recognition of FY22 interim dividend on the basis that it was declared post 31 December 2021.

The Accel Energy pro forma historical statement of financial position set out in Section 4.7.12 does not represent the actual financial position of Accel Energy at the time of the Demerger, but represents an indication of the Accel Energy pro forma historical statement of financial position as at 31 December 2021 in the circumstances set out in Section 4.7.12.

4.7.3 Accounting pronouncements not yet adopted

The following accounting standards, accounting standard amendments and interpretations are due for adoption for the year ending 30 June 2023:

- AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*; and
- AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments.*

The standards and interpretations listed above are not expected to have a material impact on Accel Energy's financial results or financial position on adoption.

4.7.4 Centrally Managed Expenses

As reported in the financial statements of AGL Energy, a portion of expenses were classified as centrally managed and not allocated to AGL Australia or Accel Energy historically. For the purposes of this Scheme Booklet the Centrally Managed Expenses have been allocated to AGL Australia and Accel Energy in order to present an estimate of the standalone positions of each business. The allocation of Centrally Managed Expenses was based on a detailed build-up of the standalone corporate operating expenses for each of AGL Australia and Accel Energy which then determined a basis of allocation for the Centrally Managed Expenses in the historic periods presented in this Scheme Booklet. In addition, an assessment was made of the additional standalone costs and the Transitional Services Agreement that will be effective upon Demerger between AGL Australia and Accel Energy. For these items, pro forma adjustments have been made to reflect the estimate of the additional standalone costs and the financial impact of the Transitional Services Agreement. Refer to Section 5.9.5 for further details in relation to the TSA.

4.7.5 Explanation of certain non-IFRS financial measures

Accel Energy uses certain measures to manage and report on its businesses that are not recognised in accordance with AAS or IFRS. These measures are collectively referred to in this Section 4.7 as non-IFRS financial measures pursuant to *Regulatory Guide 230 Disclosing non-IFRS financial information* published by ASIC. Management uses these non-IFRS financial measures to evaluate the performance and profitability of the overall business, and they are commonly used performance measures by the investor community. The principal non-IFRS financial measures referred to in this Section 4.7 are as follows:

- **EBIT** is the earnings of continuing operations before recognising:
  - interest revenue, interest expense or financing costs; and
  - income taxation expense.
- **Underlying EBIT** is EBIT adjusted for significant items (see below) and gain/(loss) on fair value of financial instruments.
- **EBITDA** is earnings of continuing operations before recognising:
  - depreciation and amortisation expense;
  - interest revenue, interest expense or financing costs; and
  - income taxation expense.
- **Underlying EBITDA** is EBITDA adjusted for significant items (defined below) and gain/(loss) on fair value of financial instruments.
- **NPAT** is net profit after tax.
- **Underlying NPAT** is NPAT adjusted for significant items (defined below) and gain/(loss) on fair value of financial instruments after tax.
- **Net capital expenditure** represents capital expenditure less proceeds from the sale of property, plant and equipment and intangibles.
- **Net debt** represents total loans and borrowings and bank overdrafts, less cash and cash equivalents.
- **Net free cash flows** is net operating cash flows after net capital expenditure, finance costs and taxation.
- **Working capital** includes trade and other receivables, trade and other payables, inventories, other financial assets (margin calls) and green assets.
- **Significant items** are material items of revenue or expense that are unrelated to the underlying performance of the business.

4.7.6 Segment reporting

Accel Energy segments are organised and managed separately according to the nature of the products and services provided. The Accel Energy Board (the chief operating decision maker) monitors the operating results of the segments separately for the purpose of making decisions about resource allocation and performance assessment.

4.7.7 Accel Energy pro forma segment information

Set out below is the Accel Energy pro forma historical segment information for FY19, FY20, FY21 and HY22.

Table 1: Accel Energy pro forma revenue (segment information)

Pro forma historical revenue

A$m	FY19	FY20	FY21	HY22
Trading and Origination	6,823	5,851	4,614	2,365
Operations	141	140	139	69
AGL Australia offtake reclassification	(2,027)	(2,122)	(1,856)	(840)
Inter-segment revenue	–	–	–	–
Pro forma adjustments	–	–	–	–
Pro forma historical revenue	**4,937**	**3,869**	**2,897**	**1,593**

AGL Australia offtake reclassification represents the recognition of the offtake agreements as contracts for difference. The net settlement in accordance with these agreements will be included within cost of sales consistent with Accel Energy's current accounting treatment. As a result of this change, there is no impact to the historical gross margin of Accel Energy.

Table 2: Accel Energy pro forma Underlying EBITDA (segment information)

Pro forma historical Underlying EBITDA

A$m	FY19	FY20	FY21	HY22
Trading and Origination	2,124	2,073	1,835	816
Operations	(465)	(511)	(529)	(246)
Centrally Managed Expenses	(134)	(142)	(124)	(57)
Pro forma adjustments	(55)	(51)	(39)	(19)
Pro forma historical Underlying EBITDA	**1,471**	**1,367**	**1,143**	**494**

4.7.8 Accel Energy pro forma historical statements of profit or loss

Set out below are the Accel Energy pro forma historical statements of profit or loss for FY19, FY20, FY21 and HY22.

Table 1: Accel Energy pro forma historical statements of profit or loss

Pro forma historical statements of profit or loss

A$m	FY19	FY20	FY21	HY22
Revenue	4,937	3,869	2,897	1,593
Expenses	(3,466)	(2,502)	(1,874)	(1,100)
Other income	–	–	120	–
Underlying EBITDA	**1,471**	**1,367**	**1,143**	**494**
Depreciation and amortisation	(440)	(509)	(467)	(211)
Underlying EBIT	**1,031**	**859**	**676**	**283**
Net finance costs	(103)	(106)	(151)	(83)
Underlying net profit before tax	**928**	**753**	**525**	**200**
Income tax expense	(272)	(207)	(134)	(54)
Underlying NPAT	**655**	**546**	**391**	**146**
Significant items after tax	–	–	(2,478)	232
Gain/(loss) on fair value of financial instruments after tax	(64)	288	268	(208)
Pro forma historical NPAT	**591**	**834**	**(1,819)**	**170**

Notes

Accel Energy Transitional Services Agreement with AGL Australia: As described in Section 5.9.5, Accel Energy will enter into a Transitional Services Agreement with AGL Australia under which Accel Energy will receive services in relation to finance, customer and technology services for a transitional period post Demerger pending migration of those services. This will be a cost of approximately $27m per annum. In addition, Accel Energy will provide services to AGL Australia for HSE, reporting and technology services with the income (offset against costs) per annum being $4m. Pro forma adjustments have been made to expenses related to these services – refer to Section 4.7.9 for further details.

Immediately post Demerger the AGL Generation Holdco tax consolidated group will join the tax consolidated group of Accel Energy effective on 1 July 2022. Previously this group was held as a separate tax consolidated group. Upon joining the tax consolidated group of Accel Energy, the tax cost base of the Loy Yang capital allowance assets will be reset to nil which will result in an estimated increase in the deferred tax liability of $369m. The overall net present value (**NPV**) of the increased deferred tax liability is around $125m (net of adjustments arising on separation and transaction costs and upon tax consolidation of AGL Australia Group). This amount will be recorded in the statement of profit or loss following the Demerger as a significant item but has not been reflected in the pro forma historical statements of profit or loss on the basis that it is a one-off item.

A one-off expense will be recorded in the statement of profit or loss for approximately $22m related to the early repayment of deferred consideration in relation to Loy Yang which represents the difference between the cash amount paid and the amount recorded in deferred consideration in the historical statement of financial position. This amount has not been reflected in the pro forma historical statements of profit or loss above on the basis that it is a one-off item.

4.7.9 Reconciliation of AGL Energy's historical EBIT to Accel Energy pro forma Underlying EBIT

Set out below is the reconciliation of AGL Energy's historical EBIT to the Accel Energy pro forma historical EBIT for FY19, FY20, FY21 and HY22.

Table 1: Reconciliation of AGL Energy's historical EBIT to Accel Energy pro forma historical Underlying EBIT

AGL Energy historical EBIT to Accel Energy pro forma historical Underlying EBIT

A$m	FY19	FY20	FY21	HY22
AGL Energy historical EBIT	**1,412**	**1,593**	**(2,433)**	**894**
Significant items	(10)	21	3,869	(394)
Gain/(loss) on fair value of financial instruments	198	(308)	(477)	(122)
AGL Energy Underlying EBIT	**1,600**	**1,306**	**959**	**378**
AGL Australia historical Underlying EBIT prior to Centrally Managed Expenses	(739)	(641)	(466)	(184)
AGL Australia Centrally Managed Expenses	225	245	222	109
Accel Energy Underlying EBIT after Centrally Managed Expenses	**1,086**	**910**	**715**	**302**
1 Standalone corporate costs	(32)	(28)	(16)	(7)
2 Transitional Services Agreement	(23)	(23)	(23)	(12)
Pro forma historical Underlying EBIT	**1,031**	**859**	**676**	**283**

An explanation of the adjustments made to EBIT is detailed in Section 4.7.10.

4.7.10 Reconciliation of AGL Energy's historical NPAT to Accel Energy pro forma historical NPAT

Set out below is the reconciliation of AGL Energy's historical NPAT to the Accel Energy pro forma historical NPAT for FY19, FY20, FY21 and HY22.

Table 1: Reconciliation of AGL Energy's historical NPAT to Accel Energy pro forma historical NPAT

AGL Energy historical NPAT to Accel Energy pro forma historical NPAT

	A$m	FY19	FY20	FY21	HY22
	AGL Energy historical NPAT	**863**	**1,007**	**(2,059)**	**551**
1	AGL Australia historical Underlying EBIT prior to Centrally Managed Expenses	(739)	(641)	(466)	(184)
2	Remove AGL Australia significant items	(4)	17	444	(63)
3	Remove AGL Australia Centrally Managed Expenses	225	245	222	109
4	Remove AGL Australia gain/(loss) on fair value of financial instruments	75	72	(66)	(294)
	Accel Energy after Centrally Managed Expenses	**419**	**700**	**(1,925)**	**118**
5	Standalone corporate costs	(32)	(28)	(16)	(7)
6	Transitional Services Agreement	(23)	(23)	(23)	(12)
7	Remove transaction costs (within significant items)	–	–	7	20
8	Net financing costs adjustment	90	73	73	29
9	Net income tax expenses adjustment	137	112	65	22
	Pro forma historical NPAT	**591**	**834**	**(1,819)**	**170**

Historical net profit after tax represents the statutory NPAT of AGL Energy prior to the Demerger occurring, extracted from the AGL Energy financial statements for the respective periods. An explanation of the adjustments made to net profit after tax is detailed below:

1) Represents the removal of the historical Underlying EBIT for AGL Australia prior to the Demerger occurring, as extracted from the AGL Energy financial statements for the respective period.
2) Represents the removal of significant items (after tax) for AGL Australia which related to impairments, onerous contract provisions, contract termination payments, gain on divestment and acquisition and integration expenses.
3) Represents the removal of the Centrally Managed Expenses which have been allocated to AGL Australia – Refer to Basis of preparation in Section 4.7.2 for further details.
4) Removal of the AGL Australia gain/(loss) on fair value of financial instruments.
5) Standalone corporate costs – The inclusion of additional expenses that will be incurred by Accel Energy resulting from the Demerger related to insurance and other administrative costs.
6) Transitional Services Agreement - As described in Section 5.9.5, Accel Energy will enter into a Transitional Services Agreement with AGL Australia under which AGL Australia will provide certain finance, customer and technology services for a transitional period post Demerger pending migration of those services. In addition, Accel Energy will also provide transitional services to AGL Australia largely related to HSE, reporting and technology support. An adjustment has been made for the net estimated annual impact of this arrangement being income of $4m per annum and expense of $27m per annum. If Accel Energy migrates from these services, there may be one off costs to achieve the migration. These one off costs have not been factored into the pro forma historical statements of profit or loss presented.
7) Represents the removal of one–off transaction costs incurred in preparing for and implementing the Demerger, including adviser fees, financing and debt costs and technology costs
8) Net financing costs adjustment – Represents the removal of the finance costs associated with the existing banking facilities and the inclusion of the estimated finance costs that would have been incurred in each period, had the post Demerger capital structure been in place from the start of FY19, as described in Section 4.6.
9) Net income tax expense adjustment – This adjustment has two components being: 1) removal of the income tax expense allocated to AGL Australia for the respective periods presented; and 2) the tax impact of the pro forma adjustments. The tax rate applied to the pro forma adjustments that are subject to tax have been calculated using the statutory tax rate.

4.7.11 Management commentary on Accel Energy's pro forma historical performance

Commentary on Accel Energy's pro forma historical financial performance for the period 1 July 2018 to 31 December 2021 is outlined below. Additional commentary is provided in AGL Energy's Annual Reports and Half-Year Reports, which are available on AGL Energy's website at www.agl.com.au or the ASX website at www.asx.com.au.

FY19

Accel Energy generated pro forma historical Underlying EBITDA of $1,471m in FY19.

Trading and Origination Underlying EBITDA was up year on year, driven by higher wholesale electricity contracted prices, partly offset by higher fuel costs.

Operations Underlying EBITDA deteriorated compared to the prior year due to increasing costs driven by additional labour, contractor and maintenance expenditure to maintain plant availability, predominantly at AGL Macquarie.

Centrally Managed Expenses – Refer to Section 3.7.11.

FY20

Accel Energy generated pro forma historical Underlying EBITDA of $1,367m in FY20, down $104m year on year.

Trading and Origination Underlying EBITDA was down compared to FY19 due to lower electricity prices and lower LGC prices, and reduced generation at AGL Loy Yang caused by the Unit 2 outage. This was partly offset by increased generation from AGL Macquarie and lower wholesale electricity purchase costs, lower unit fuel costs for coal and the performance of wholesale electricity derivatives during the second half of the financial year.

Operations Underlying EBITDA was consistent with the prior year.

Centrally Managed Expenses – Refer to Section 3.7.11.

FY21

Accel Energy generated pro forma historical Underlying EBITDA of $1,143m in FY21, down $224m year on year.

Trading and Origination Underlying EBITDA was down year on year due to lower electricity prices and lower LGC prices and lower generation at AGL Macquarie due to lower availability because of unplanned outages, including during periods of high prices in New South Wales and Queensland. This was partly offset by increased generation at AGL Loy Yang with Unit 2 returned to service and the recognition of proceeds related to business interruption insurance claims for the AGL Loy Yang Unit 2 outage.

Centrally Managed Expenses – Refer to Section 3.7.11.

HY22

Accel Energy generated pro forma historical Underlying EBITDA of $494m for the six months ended 31 December 2021.

Trading and Origination Underlying EBITDA was down, impacted by lower contracted electricity prices coupled with lower offtake volumes sold to AGL Australia as a result of increased penetration of rooftop solar, load revisions and weather.

Operations Underlying EBITDA improved compared to the prior corresponding period, driven by lower unplanned outage maintenance costs at AGL Macquarie and AGL Loy Yang, decreased labour and maintenance costs as a result of operational efficiencies, and lower COVID-19 response costs.

Centrally Managed Expenses – Refer to Section 3.7.11.

4.7.12 Accel Energy pro forma historical statement of financial position

Set out below is the Accel Energy pro forma historical statement of financial position as at 31 December 2021.

Table 1: Accel Energy pro forma historical statement of financial position as at 31 December 2021

	Pro forma historical statement of financial position											
						Pro forma adjustments						
A$m	Statutory reported	AGL Australia historical statement of financial position (1)	AGL Australia corporate assets and liabilities (2)	Financing structure (3)	Retained stake in AGL Australia (4)	Settlement of deferred consideration (5)	Transaction costs (6)	Electricity arrangements (7)	Reclassification of initial margin calls to cash (8)	Derivatives (9)	Deferred tax (10)	Accel Energy pro forma historical statement of financial position
Cash and cash equivalents	104	(76)	3	255	–	(100)	(58)	–	108	–	–	236
Trade and other receivables	1,655	(1,301)	–	–	–	–	–	–	–	–	–	354
Inventories	381	(86)	–	–	–	–	–	–	–	–	–	295
Current tax assets	235	(14)	–	–	–	–	–	–	–	–	(28)	193
Other financial assets	952	(787)	–	–	–	–	–	–	(108)	(15)	–	42
Other assets	353	(316)	(16)	–	–	–	–	–	–	–	–	21
Assets classified as held for sale (11)	223	-	–	–	–	–	–	–	–	–	–	223
Current assets	**3,903**	**(2,580)**	**(13)**	**255**	**–**	**(100)**	**(58)**	**–**	**–**	**(15)**	**(28)**	**1,364**
Trade and other receivables	80	(80)	–	–	–	–	–	–	–	–	–	–
Inventories	48	-	–	–	–	–	–	–	–	–	–	48
Other financial assets	748	(230)	–	–	513	–	–	–	–	(20)	–	1,011
Investments in associates and joint ventures	475	(475)	–	–	–	–	–	–	–	–	–	–

Pro forma historical statement of financial position

						Pro forma adjustments						
A$m	Statutory reported	AGL Australia historical statement of financial position (1)	AGL Australia corporate assets and liabilities (2)	Financing structure (3)	Retained stake in AGL Australia (4)	Settlement of deferred consideration (5)	Transaction costs (6)	Electricity arrangements (7)	Reclassification of initial margin calls to cash (8)	Derivatives (9)	Deferred tax (10)	Accel Energy pro forma historical statement of financial position
Property, plant and equipment	6,241	(1,233)	(99)	–	–	–	–	–	–	–	–	4,909
Intangible assets	3,276	(3,120)	(69)	–	–	–	–	–	–	–	–	87
Deferred tax assets	641	104	(18)	–	–	–	59	22	–	11	28	847
Other assets	38	–	–	–	–	–	–	–	–	–	–	38
Non-current assets	**11,547**	**(5,034)**	**(186)**	**–**	**513**	**–**	**59**	**22**	**–**	**(9)**	**28**	**6,940**
Assets	**15,450**	**(7,614)**	**(199)**	**255**	**513**	**(100)**	**1**	**22**	**-**	**(24)**	**–**	**8,304**
Trade and other payables	(1,550)	1,062	–	–	–	–	(97)	185	–	–	–	(400)
Borrowings	(606)	2	18	582	–	–	–	–	–	–	–	(4)
Provisions	(389)	13	51	–	–	–	–	–	–	–	–	(325)
Current tax liabilities	(62)	–	–	–	–	–	–	–	–	–	–	(62)
Other financial liabilities	(595)	414	–	–	–	22	–	(73)	–	–	–	(232)
Other liabilities	(39)	39	–	–	–	–	–	–	–	–	–	–
Current liabilities	**(3,241)**	**1,530**	**69**	**582**	**–**	**22**	**(97)**	**112**	**–**	**–**	**–**	**(1,023)**

Pro forma historical statement of financial position

						Pro forma adjustments						
A$m	Statutory reported	AGL Australia historical statement of financial position (1)	AGL Australia corporate assets and liabilities (2)	Financing structure (3)	Retained stake in AGL Australia (4)	Settlement of deferred consideration (5)	Transaction costs (6)	Electricity arrangements (7)	Reclassification of initial margin calls to cash (8)	Derivatives (9)	Deferred tax (10)	Accel Energy pro forma historical statement of financial position
Borrowings	(2,421)	50	60	1,347	–	–	–	–	–	–	–	(964)
Provisions	(2,857)	329	8	–	–	–	–	–	–	–	–	(2,520)
Deferred tax liabilities	(285)	–	–	–	–	–	–	–	–	–	(369)	(654)
Other financial liabilities	(313)	56	–	–	–	56	–	–	–	–	–	(201)
Other liabilities	(207)	3,285	–	(3,335)	–	–	–	73	–	–	–	(184)
Non-current liabilities	**(6,083)**	**3,720**	**68**	**(1,988)**	**–**	**56**	**–**	**73**	**–**	**–**	**(369)**	**(4,523)**
Liabilities	**(9,324)**	**5,250**	**137**	**(1,406)**	**–**	**78**	**(97)**	**185**	**–**	**-**	**(369)**	**(5,546)**
Net assets	**6,126**	**(2,364)**	**(62)**	**(1,151)**	**513**	**(22)**	**(96)**	**207**	**–**	**(24)**	**(369)**	**2,758**

Detailed below is an explanation of the pro forma adjustments made to the Accel statutory reported statement of financial position as at 31 December 2021:

1) Represents the removal of the AGL Australia assets and liabilities as at 31 December 2021 prior to the Demerger occurring, as extracted from the information directly related to AGL Australia in the accounting records of AGL Energy.
2) Represents the removal of the corporate assets and liabilities being transferred to AGL Australia on implementation of the Demerger.
3) Represents the change in financing structure to the new financing arrangements that will take effect on implementation of the Demerger described in Section 4.6, inclusive of the transfer of existing USPP notes of $752m which reflects the fair value of the USPP notes to be transferred to AGL Australia and the settlement of intercompany balances between AGL Australia and Accel Energy as part of the Demerger.
4) Represents a retained 15% investment in AGL Australia by Accel Energy. The amount has been recorded at 15% of the proforma net assets in AGL Australia for the purposes of the Accel Energy Post Demerger Pro Forma Historical Statement of Financial Position but will be accounted for as an equity instrument financial asset held at fair value through other comprehensive income. The fair value will be determined by reference to the AGL Australia Shares as traded on the ASX. No deferred tax impact has been reflected in the pro forma adjustment for the AGL Australia retained stake. Deferred tax will be recognised on the difference between the fair value of the investment and the tax base.
5) Represents the early repayment of deferred consideration in relation to Loy Yang. The difference between the cash amount paid and the amount recorded in deferred consideration represents the revaluation of the liability to prevailing market rates. This difference will be recorded in the statement of profit or loss immediately following the implementation of the Demerger and disclosed as a significant item.
6) Represents outstanding one-off transaction costs (including the deferred tax impact) in preparing for and implementing the Demerger, including adviser fees, financing, debt structuring and technology costs but excluding internal employee costs.
7) Represents 1) the transfer of AEMO pool purchase payables for AGL Australia customer electricity consumption which AGL Australia will be responsible for going forward; and 2) the impact of the OTC swap contracts entered into between AGL Australia and Accel Energy.
8) As part of the new financing arrangements for the businesses, Accel Energy is currently expected to use bank guarantees in place of cash deposits in terms of initial margining requirements and therefore the above reflects the 31 December 2021 margin position as cash.
9) Represents extinguishment of cross currency swap contracts and the associated deferred tax impact as part of implementing the new financing arrangements.
10) Deferred tax impact of Loy Yang – Immediately post Demerger, the AGL Generation Holdco tax consolidated group will join the tax consolidated group of Accel Energy effective on 1 July 2022. Previously this group was held as a separate tax consolidated group. Upon joining the tax consolidated group of Accel Energy, the tax cost base of the Loy Yang capital allowance assets will reset to nil which will result in an increase in the deferred tax liability of approximately $369m. This amount will be recorded in the statement of profit or loss following the Demerger as a significant item but has not been reflected in the pro forma historical statement of profit or loss on the basis that it is a one-off item. The NPV impact of the increase in the deferred income tax liability is materially lower as the capital allowance deductions are claimed over a period of time. The overall NPV of the increased deferred tax liability is around $125m (net of adjustments arising on separation and transaction costs and upon tax consolidation of the AGL Australia Group).
11) Newcastle Gas Storage Facility has been classified as held for sale effective from 30 June 2021, with the current carrying amount of the asset assumed to be recovered principally through sale rather than through continuing use. If the asset is not sold prior to the Demerger, the held for sale accounting treatment and carrying value of the asset will continue to be assessed in accordance with the relevant accounting standards, which may result in a further impairment.

4.7.13 Accel Energy pro forma historical statements of cash flows

Set out below is the Accel Energy pro forma historical statements of cash flows for FY19, FY20, FY21 and HY22.

Table 1: Accel Energy pro forma historical statements of cash flows

Pro forma historical statements of cash flows

A$m	FY19	FY20	FY21	HY22
Underlying EBITDA	1,471	1,367	1,143	494
Change in working capital and other non-cash items	(32)	66	(76)	(23)
Net operating cash flows (before capital expenditure, financing costs and tax)	**1,439**	**1,434**	**1,067**	**471**
Capital expenditure (net of proceeds)	(449)	(469)	(487)	(204)
Net operating cash flows (before financing costs and tax)	**990**	**965**	**580**	**267**
Net interest paid	(61)	(59)	(53)	(26)
Income tax paid	(180)	(154)	(82)	(39)
Pro forma net free cash flows	**749**	**752**	**444**	**202**

Notes:

Accel Energy's net free cash flows (before net capital expenditure, net interest paid and tax paid), reflect cash conversion of EBITDA of 98%, 105%, 93% and 95% in FY19, FY20, FY21 and HY22. Cash conversion has remained relatively consistent throughout the historical period, with the exception of HY22 where cash conversion reduced due to a reduction in energy payables and Loy Yang coal royalty payments offset by a decrease in margin calls along with the unwind of onerous contracts recognised in FY21.

Major Capital Expenditure in FY19 to HY22 included major outage, upgrade and maintenance programs at Bayswater, Liddell, Loy Yang and Torrens and ongoing capital investment in Accel Energy's natural gas assets including Camden, Silver Springs and Newcastle Gas Storage Facility.

Pro forma interest paid represents the estimated interest expense and commitment fees associated with the new debt financing arrangements that would have been paid had the post Demerger capital structure been in place from the beginning of FY19.

Tax paid from FY19 to HY22 reflects an allocation of historical income tax paid based on the income tax expense allocated to the Accel Energy Business. Post Demerger, Accel Energy is not expected to pay income tax until FY25 onwards.

4.7.14 AGL Energy debt facilities and cash

Accel Energy has historically been funded through a combination of internal cash flows and external debt facilities held by AGL Energy.

Following the Demerger, funding for Accel Energy will be sourced from a combination of its internally generated cash flows and external debt facilities.

As at the date of this Scheme Booklet, the Accel Energy bank debt and CPI bond facilities are committed and available to Accel Energy subject to approval of the Demerger. The USPP notes have been circled, priced and agreed with investors and are expected to be contractually committed at or prior to the Demerger.[4] To the extent required, the lenders have provided their consent to the Demerger and, subject to various conditions precedent being satisfied, the Accel Energy facilities will become available to Accel Energy on or following the Demerger.

4 The USPP notes will be swapped back into Australian dollars and have a face value of $141m. The USPP has been priced on agreed commercial terms with investors, with a view to documentation being executed and drawdowns occurring in late June 2022, subject to the Demerger. Foreign currency interest rate contracts have been executed to translate the agreed USPP coupons and principal repayments to fixed rate AUD obligations. AGL Energy also has a committed bridging bank debt facility for A$155m in order to cover the very low risk that the USPP notes transaction does not close at or prior to the Demerger. The commitments under the bridging facility would be cancelled on close of the USPP transaction, meeting one of the conditions to the availability of the $14m term facility.

The Accel Energy facilities contain market standard terms and conditions for facilities of this nature. The key terms of the Accel Energy facilities are as follows:

Facility type	Term facilities	Working capital facilities	Bank guarantee facilities	Swing facilities	USPP notes	CPI bond facilities
Currency	Australian dollars	Australian dollars	Australian dollars	Australian dollars	United States Dollars	Australian dollars
Commitments	A$674m	A$285m	A$240m	A$25m	US$100m/ A$141m	A$51m
Maturity	7 years: A$660m 2 years: A$14m	5 years	5 years	5 years	7 years	5 years
Applicable Interest rates	BBSY plus the applicable margin	BBSY plus the applicable margin	Finance charges dependent on the type of drawdown, varying with each provider	BBSY plus the applicable margin	The applicable finance charges depending on the USPP note	CPI plus 6.8%
Security	Unsecured					
Conditions precedent to Financial Close	Financial Close being implemented no later than the 30th of June 2022, and the delivery of the customary documentation and certifications relating to the Demerger. In addition, the existing financial indebtedness must be repaid as part of Financial Close, and AGL Energy achieves a credit rating of Baa3.				The delivery of the customary documentation and certifications relating to the Demerger and that the USPP notes are rated at least Baa3.	NA
Representations, undertakings, financial covenants and events of default	These facilities contain representations, undertakings financial covenants and events of default which are customary for a facility of this nature. These include, but are not limited to, debt service cover ratio, leverage ratio and the provision of information. In addition, there are additional undertakings requiring the creation of a Carbon Emission Plan, closure of the Thermal Assets, and refinancing debt.				The USPP notes contain representations, undertakings financial covenants and events of default which are customary for notes of this nature. These include, but are not limited to, debt service cover ratio, leverage ratio and the provision of information. In addition, there are additional undertakings requiring the creation of a Carbon Emission Plan and closure of the Thermal Assets.	The AGL Energy Post-Demerger CPI bond agreement contains customary representations, undertakings and events of default that are consistent with the position pre-Demerger.

4. Information on Accel Energy

Facility type	Term facilities	Working capital facilities	Bank guarantee facilities	Swing facilities	USPP notes	CPI bond facilities
Review Event	These facilities contain customary review events for facilities of this nature, including but not limited to a change in control and failure to pay a mandatory prepayment. In addition, a failure to meet the Emission Reductions Target is also a review event.				The USPP notes contain customary review events for notes of this nature, including but not limited to a change in control. In addition, a failure to meet the Emission Reductions Target is also a review event.	NA
Guarantors	These facilities are currently guaranteed by certain members of the Group. Following the Demerger, they will be guaranteed by certain members of the AGL Energy Post-Demerger Group. AGL Energy will be required to ensure that the guarantees are provided from members of Accel Energy comprising no less than 90% of EBITDA and 90% of the total assets of Accel Energy.					

The table below sets out Accel Energy's net financial indebtedness as at 31 December 2021, after giving pro forma effect to the Demerger:

	Historical pro forma (A$m)
Cash and cash equivalents	236
Debt:	
Term	674
Working capital	100
CPI bond	51
USPP	141
Lease liabilities	23
Net financial indebtedness	**753**

Accel Energy's pro forma statement of financial position at 31 December 2021 includes net debt of $753m. The cash and cash equivalents include restricted cash of $108m for initial margin call for future contracts and restricted cash of $12m which will be used as cash backed bank guarantee. The net financial indebtedness does not include capitalised borrowing costs. The actual net debt upon implementation of the Demerger will be subject to variances in actual cash flows in the Accel Energy Group between 31 December 2021 and the Implementation Date including fluctuations in working capital and capital expenditure.

4.7.15 Demerger accounting

Accounting for demerger transactions is guided by AASB Interpretation 17 *Distributions of Non cash Assets to Owners*. Liabilities for distributions to shareholders are measured at the fair value of the assets to be distributed (the fair value of 85% of the AGL Australia Shares in this case), which will be determined by reference to the VWAP of AGL Australia Shares as traded on the ASX (whether on a deferred or ordinary settlement basis) over the first five Trading Days after the Effective Date.

The Capital Reduction will be recognised against share capital at the Capital Reduction Amount. Any difference between the Capital Reduction and the fair value of the assets distributed will be recorded in a demerger reserve, a separate reserve in equity.

Accel Energy's profit or loss on demerger of the AGL Australia Shares will be included in Accel Energy's consolidated statement of profit or loss for the year ending 30 June 2022 within discontinued operations and is calculated as the difference between:

- the fair value of the AGL Australia Shares (85% of AGL Australia Shares being distributed plus 15% of the AGL Australia Shares being retained as an investment at fair value); and
- the carrying amount of 100% of AGL Australia's net assets distributed.

For the purpose of the proforma financial information the calculation of the profit or loss on Demerger assumes that the fair value of the AGL Australia Shares was equal to the carrying amount of the AGL Australia net assets.

For illustrative purposes only, a range of fair values and the implied profit or loss on Demerger are set out in the table below. These figures are neither a prediction nor a forecast of AGL Australia's share price post Demerger and the AGL Australia Share VWAP over the first five Trading Days after the Effective Date may vary substantially from the range set out in the table below.

Capital Reduction

AGL Australia Share fair value, per the share price ($)	4	5	6	7
Implied market capitalisation ($m)	3,166	3,957	4,749	5,540
Capital Reduction and demerger reserve ($m)	2,691	3,363	4,037	4,709
Implied fair value of retained 15% interest ($m)	475	594	712	831
Number of AGL Australia Shares (million)	**791,467**			

(Loss)/Profit on Demerger

AGL Australia Share fair value, per the share price ($)	4	5	6	7
Implied market capitalisation ($m)	3,166	3,957	4,749	5,540
AGL Australia net assets including external debt ($m)	3,200	3,200	3,200	3,200
(Loss)/profit on Demerger ($m)	**(34)**	**757**	**1,549**	**2,340**

4.7.16 Demerger costs

The total one-off transaction costs of the Demerger for AGL Energy are estimated to be approximately $260m (pre-tax). Approximately $160m of these one-off transaction costs are expected to be incurred prior to the Meetings (and will therefore be incurred even if the Demerger does not proceed).

One-off transaction costs include costs incurred in preparing for the Demerger, including adviser fees, legal costs, financing and debt structuring, employee, and technology costs. These costs are as follows:

- advisory restructuring costs of $75m including financial advisory, independent board advice, legal, tax, accounting, human resources and strategy costs; and
- restructuring costs of $185m including a range of activities associated with restructuring and separating the companies and establishing the new debt facilities.

The Demerger will also result in a change in the tax position of AGL Energy (see Section 6). The Demerger will increase net tax inefficiencies with an NPV of approximately $125m. These net tax inefficiencies will result from:

- the loss of tax base on the Loy Yang capital allowance assets, as described in the notes to Section 4.7.8; and
- the tax treatment of transaction costs, separation costs and adjustments arising on tax consolidation of AGL Australia.

The Demerger will also create the need for additional incremental collateral of approximately $140m (as bank guarantees or cash) to be posted in respect of the energy trading activities and counterparty requirements of the two companies compared to those of the integrated AGL Energy.

Further, the demerged companies, when compared to AGL Energy, would also require larger working capital facilities (of approximately $200m) used largely to manage margin calls associated with energy trading activities. These facilities are unlikely to be utilised by the demerged companies at the same time, as their trading positions are likely to be opposing (given AGL Australia would generally buy electricity and Accel Energy would generally sell electricity). As such, compared to AGL Energy, the aggregate additional drawn working capital facilities would be minimal, and the additional cost would mainly be for additional commitment fees payable on the incremental facilities.

4.7.17 Dividend policy and franking

AGL Energy (which will be renamed Accel Energy as part of the Demerger) expects to pay a final dividend to AGL Energy shareholders in September 2022, based on AGL Energy's existing dividend policy to target a payout ratio of approximately 75% of Underlying profit after tax.

The amount of the final dividend will be determined by the AGL Energy Board in August 2022 by reference to the earnings of the Group during the second half of FY22, which will include the earnings of AGL Australia for this period. The dividend will remain subject to Board discretion, trading conditions and the ongoing funding and liquidity requirements of the business.

AGL Energy Shareholders will be entitled to receive the FY22 final dividend provided that they continue to hold their AGL Energy Shares on the applicable record date for the FY22 final dividend, which is expected to be in early September 2022.

If the Demerger is implemented and following payment of the FY22 final dividend, Accel Energy intends to adopt a dividend policy whereby it pays dividends reflecting 80% to 100% of free cash flows after servicing net finance costs. Free cash flow will be defined as operating cash flow less tax, working capital requirements, sustaining capex and contributions for planned growth/investment capex.

The AGL Energy Board considered this dividend policy to be appropriate for Accel Energy given the strategy of Accel Energy to invest in transition opportunities to facilitate its decarbonisation objectives. However, the dividend policy of Accel Energy will be determined by the Accel Energy Board at its discretion and may change over time.

Accel Energy will distribute dividends with the maximum practicable franking credits for the purposes of the Australian dividend imputation system to the extent there are material credits available. However, franking credits are not expected to be available until at least FY25 due to the fact that Accel Energy will not be paying tax until at least FY25.

Franking credits are expected to be generated from two sources:

- transfer of franking credits from AGL Australia to Accel Energy, to the extent that Accel Energy receives franked dividends from AGL Australia as part of its 15% retained holding; and
- tax paid by Accel Energy from FY25 onward.

No assurance can be given in relation to the level of future dividends or the franking of such dividends (if any), as these will depend on future events and circumstances.

4.7.18 Material changes in financial position since the most recent balance date

The most recent published financial statements of AGL Energy are the Half-Year Report for HY22, which was released to the ASX on 10 February 2022.

As discussed in Section 2.9, both AGL Australia and Accel Energy will operate in multiple energy markets across electricity, gas and carbon. Subsequent to 31 December 2021, forward commodity prices have changed. This will lead to a change in the fair value of derivative assets and liabilities and the provision for onerous contracts recorded in the statement of financial position of Accel Energy. The associated fair value movements and changes in the value of provisions will be recorded in the statement of profit and loss.

Other than matters described above, as disclosed in the Scheme Booklet or as otherwise announced to the ASX by AGL Energy, as at the date of this Scheme Booklet, to the knowledge of the AGL Energy Directors, the financial position of Accel Energy has not materially changed since 31 December 2021.

4.8 Environmental, social and governance

4.8.1 Accel Energy ESG

Accel Energy recognises that it has a responsibility to the community, its people and investors and will seek to conduct its business to the highest standards of corporate governance, with due consideration to how its business decisions might impact stakeholders.

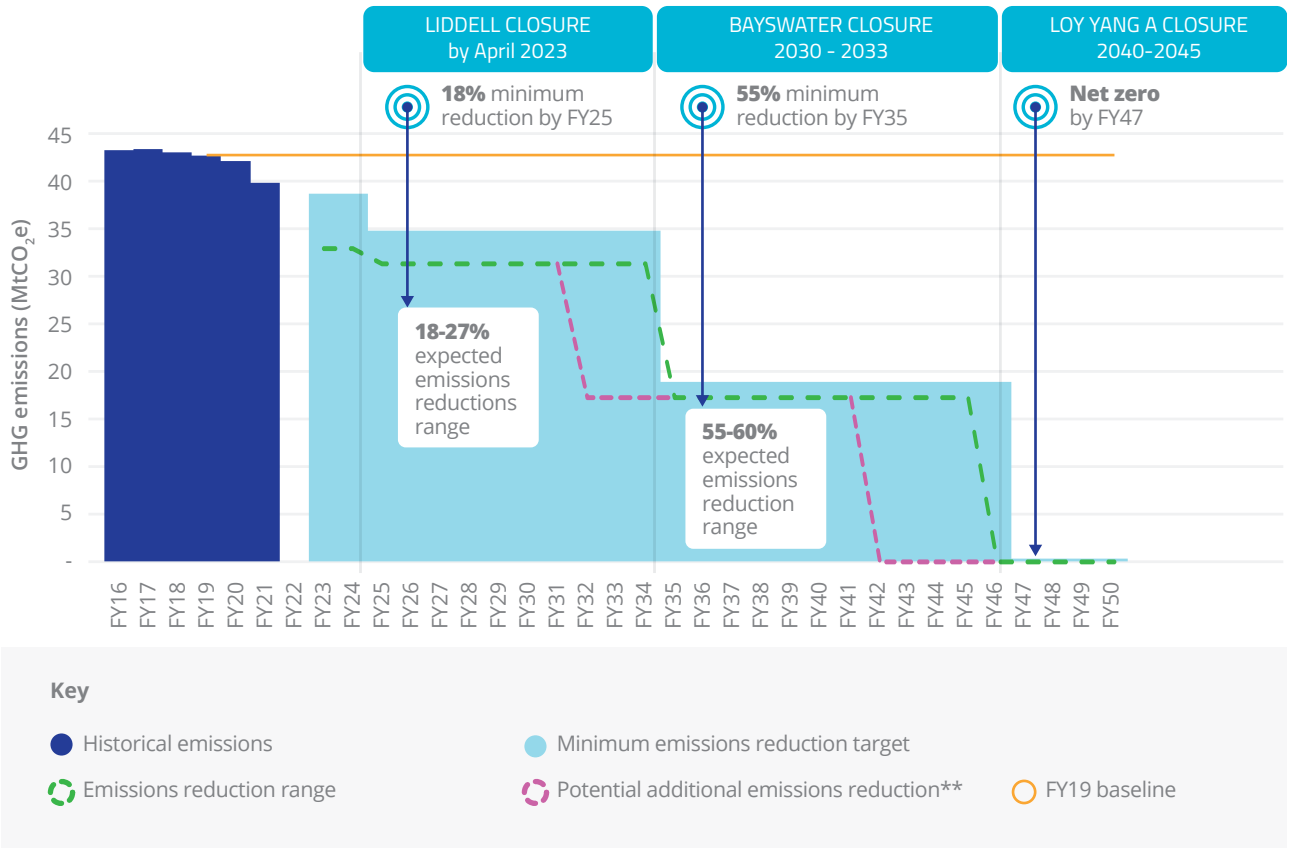
Accel Energy intends to continue its approach to managing social, environmental and economic impacts of its business.

Environmental and safety performance by Accel Energy, following the Demerger, will continue to be operated in accordance with existing frameworks.

Accel Energy will progress its Reconciliation Action Plan with the First Nations people. This will be a central part of the future footprint at the energy hubs.

4.8.2 Accel Energy climate commitments

As part of the AGL Energy half-year results released on 10 February 2022, the climate commitments of Accel Energy were announced. These commitments seek to strike a balance between Australia's current and future energy needs, including the need to responsibly decarbonise, and for Accel Energy to lead a responsible transition of Australia's energy market. The specific emissions reduction targets associated with Accel Energy's generation portfolio are outlined in the diagram below.



1 *Offsets may be used to help achieve emissions reduction targets where necessary.*

2 *Emissions comprise Scope 1 and 2 greenhouse gas emissions for all electricity generation assets that will be operated by Accel Energy following demerger, as reported under the National Greenhouse and Energy Reporting Act 2007 (Cth).*

3 *FY25, FY35 and FY47 represent the first full financial years where no emissions from the Liddell, Bayswater and Loy Yang A Power Stations will occur following the closure of these power stations in 2023, 2033 and 2045 respectively.*

** *Earlier closure date reductions reflect earlier closure dates of 2030/FY31 for the Bayswater Power Station and 2040/FY41 for the Loy Yang A Power Station, and are subject to system readiness.*

The readiness of Australia's energy system to operate without Accel Energy's critical baseload generation will determine whether the earlier, more ambitious, targets within the range can be achieved. Accel Energy is committed to working with government, industry and the community in pursuit of this and will be reporting annually on progress towards this ambition.

4.9 Accel Energy corporate governance

The Accel Energy Board will continue to oversee the management of the Accel Energy Business after the Demerger. Copies of Accel Energy's key policies and the charters for the Accel Energy Board and each of its committees are available at www.agl.com.au/demerger. Other than to change the name of the company from AGL Energy Limited to Accel Energy Limited and other minor consequential amendments, these policies and charters will not be updated as part of implementation of the Demerger.

4.9.1 Composition of the Accel Energy Board after the Demerger

As described in Section 4.4.1, on implementation of the Demerger, the Accel Energy Board is expected to be comprised of five directors, including an independent non-executive Chair, the Managing Director and CEO, and three Non-Executive Directors (all of whom are independent). The Accel Energy Board may choose to adjust the number of Accel Energy Board members, depending on future changes in Accel Energy's circumstances and the needs of the Accel Energy Board.

Detailed biographies of the Accel Energy Directors on implementation of the Demerger are provided in Section 4.4.1.

4.9.2 Accel Energy Board committees after the Demerger

Upon implementation of the Demerger, the Accel Energy Board will continue to have the following Accel Energy Board committees:

- **Audit & Risk Management Committee**, comprised of Graham Cockroft (Chair), Diane Smith-Gander AO and Vanessa Sullivan;
- **Nominations Committee**, comprised of each Non-Executive Director; and
- **People & Performance Committee**, comprised of Diane Smith-Gander AO (Chair), Vanessa Sullivan and Graham Cockroft.

The Safety, Customer & Corporate Responsibility Committee will not continue after the Demerger, and the relevant matters that were considered by that committee will be considered by the full Accel Energy Board, as appropriate.

4.10 Accel Energy Directors' and executives' interests and remuneration

4.10.1 Directors' interests in AGL Energy Shares

Refer to Section 9.3.1 for information regarding the number of AGL Energy Shares held by or on behalf of AGL Energy Directors as at the date of this Scheme Booklet.

AGL Energy Directors who hold AGL Energy Shares as at the Record Date will be entitled to receive AGL Australia Shares under the Demerger on the same terms as all other Eligible Shareholders.

4.10.2 Non-Executive Directors' arrangements

Under the AGL Energy Constitution, the total aggregate amount paid to all Non-Executive Directors for their services as AGL Energy Directors must not exceed $2,750,000 per annum (unless approved by AGL Energy Shareholders).

This amount is intended to provide AGL Energy with flexibility to continue to attract and retain non-executive directors of appropriate skill, expertise and calibre. It is not proposed that the whole of the annual aggregate Non-Executive Director fee amount will be used in any year. Future increases in the Non-Executive Director fee pool are subject to shareholder approval. After implementation of the Demerger, Accel Energy Non-Executive Directors will continue to be remunerated with a base fee with additional fees for chairing or sitting on an Accel Energy Board committee*. If the Demerger is implemented, the fee structure (inclusive of superannuation) will be as follows.

Role	Fees payable per annum (A$)
Base fee – Chair	425,000
Base fee – member	170,000
Committee Chair fee*	45,000
Committee member fee	22,500

* The Chair of the Accel Energy Board is the Chair of the Nominations Committee. No additional fees are payable to the Chair of the Accel Energy Board for being Chair of the Nominations Committee.

4.10.3 Other information about Accel Energy Directors' interests and benefits

Following the Demerger, Accel Energy Non-Executive Directors may continue to be reimbursed for travel and other expenses incurred in attending to Accel Energy's affairs. Non-Executive Directors may be paid such additional remuneration as the Accel Energy Board decides is appropriate where an Accel Energy Non-Executive Director performs extra services, makes any special exertions for the benefit of Accel Energy or otherwise performs services which in the opinion of the Accel Energy Board are outside the scope of duties of a Non-Executive Director. There are no retirement benefits paid to Non-Executive Directors, other than statutory entitlements.

4.10.4 Directors' deeds of indemnity, insurance and access

AGL Energy has entered into deeds of indemnity, insurance and access with each AGL Energy Director, which will continue following the Demerger.

4.10.5 Accel Energy key management personnel remuneration

Graeme Hunt – Managing Director and CEO

AGL Energy announced the terms of Mr Hunt's appointment as Managing Director and CEO of AGL Energy on 30 June 2021. No material changes will be made to the terms of Mr Hunt's remuneration following the Demerger.

Markus Brokhof – Chief Operating Officer and Deputy CEO

AGL Energy disclosed the remuneration for Mr Brokhof as Chief Operating Officer in the Remuneration Report for the year ended 30 June 2021. There are no material changes to the terms of Mr Brokhof's remuneration following the Demerger with the exception of the alignment of Target STI (44%) and LTI (167%) opportunity to the Accel Energy remuneration framework.

Gary Brown – Chief Financial Officer

If the Demerger is implemented, Gary Brown will be the Chief Financial Officer of Accel Energy. Details regarding the terms of employment of Gary Brown are set out below:

Term	Description
Employer	Accel Energy Limited
Total fixed remuneration (**TFR**)	$540,000 per annum, inclusive of superannuation. The TFR is subject to annual review.
Short-term incentive (**STI**)	Mr Brown will be eligible to participate in STI arrangements offered by Accel Energy from time to time. For FY23, Mr Brown's Target STI is 44% of TFR, with a maximum opportunity of 67% of TFR.
Long-term incentive (**LTI**)	Mr Brown will be eligible to participate in Accel Energy's Long Term Incentive Plan. The LTI award to be made during FY23 will have a maximum opportunity of 110% of TFR. Vesting of this award will be subject to performance conditions as determined by the Accel Energy Board.
Termination	Mr Brown's services agreement with Accel Energy may be terminated by either party upon giving 6 months' written notice (save in the case of serious misconduct where termination may be with immediate effect). On termination of employment following notice, Accel Energy will pay all TFR and any statutory entitlements owing.
Restraints	Following termination of Mr Brown's services agreement, a 12-month restraint period will apply. The enforceability of the restraint clause is subject to usual legal requirements.

Senior management team of Accel Energy

With effect from implementation of the Demerger, executives of Accel Energy will be employed under new individual employment agreements. These agreements establish an entitlement to TFR (inclusive of superannuation) and other benefits. The agreements provide for notice of termination provisions of six months. Accel Energy may also terminate employment without notice in circumstances including serious or wilful misconduct, serious negligence, serious or persistent breach of the employment agreement or an act that brings Accel Energy into disrepute.

The Accel Energy executives and senior management team will continue to be eligible to participate in Accel Energy's STIP to reward contribution to annual business goals. The terms of the STIP will not materially change upon implementation of the Demerger.

The Long-Term Incentive Plan will also continue to operate on substantially the same terms as the AGL Energy existing plan. However, it is expected that the performance metrics for the plan will be revised to reflect that Accel Energy's long-term success relies on the transition of the generation portfolio.

It is intended that the following performance metrics will apply to the FY23 LTI award if the Demerger is implemented:

- an ESG metric focused on emissions and environmental regulatory reporting, weighted as to 50%, and
- a transition metric relating to capital deployment, weighted as to 50%.

The two metrics have been selected to ensure that this transition progresses in a way which builds sustainable, accretive value for the company. A cash flow adjustment factor will also apply, where the outcomes can be adjusted down by up to 50% or up by up to 25%, capped at the maximum LTI opportunity levels ensuring that Accel Energy also focused on financial performance.

Given the need for a focus on ESG performance and energy transition, the inclusion of a financial metric designed to reward for a return or earnings metric was not considered appropriate to drive the approach that is consistent with long-term value.

For Accel Energy, an LTIP that is too correlated to standard medium-term focused financial metrics may incentivise management to shift the focus from the longer-term ESG and transition goals that are the preconditions for sustainable shareholder value creation.

Incentivising management to generate sustainable available cash flow from operations was therefore considered to be the most effective way to deliver long-term value. Cash flow as a performance outcome adjustment factor is thus considered to be the right lever to drive management behaviour.

TSR was considered as an adjustment factor as it is the most common measure used and is understood by the market and provides alignment with shareholders.

There is a strong link between TSR and cash flow. An increase in cash flow generation should also be reflected in the share price. Further, if cash flow is used to pay down debt to adjust the net debt position, this should also be reflected in the share price.

However:

- Most significantly, external forces and significant overhang of coal and carbon pricing are likely to lead to significant pressure on share price – ESG pressures may keep downward pressure on share prices, as will market sentiment.
- There is no natural peer group for Accel Energy to benchmark against and the peer group set at the beginning of the performance period may not be an appropriate peer group at the end, given the speed of change in the energy industry.
- It is difficult to set targets considered acceptable by the market given low dividends are anticipated in the first four years, which may mean that shareholders wait for projects to generate cash flow.
- Conflicts may arise with the growth metric to prioritise cash to boost TSR.
- Higher amortisation of the debt profile will reduce growth opportunities by reducing surplus cash for organic investment purposes.

Therefore, cash flow generation was determined as the appropriate financial metric for the adjustment factor for the following reasons:

- It is a primary financial metric for Accel Energy – determines the ability to repay debt and fund rehabilitation and growth projects.
- Clear calculation methodology.
- Usage of cash flows can be clearly communicated and adjusted if required.

The cash flow metric, and its calculation, will be determined by the Accel Energy Board and details will be disclosed in the 2022 Notice of Annual General Meeting for Accel Energy.

The number of Accel Energy Performance Rights that vest at the end of the performance period will initially be determined as follows, for the ESG and the transition metrics:

Performance outcome	% of rights to vest
Below threshold	Nil
At threshold to maximum	Straight-line vesting between 35% and 100%
At or above the maximum	100%

The cash flow adjustment factor will be applied following the testing of the ESG and transition metrics. Example scenarios are provided below to illustrate how this may work in practice.

Scenario 1: Cash flow is poor, but the ESG and transition metric threshold vesting targets achieved.

The Accel Energy Board may exercise discretion and utilise the adjustment factor to adjust the awards downwards by a percentage up to 50% that reflects the cash flow outcome.

Scenario 2: Positive cash flow outcome, ESG has been achieved at the threshold vesting target but the transition metric threshold vesting target has not been achieved.

The Accel Energy Board may exercise discretion and utilise the adjustment factor to adjust the award for the ESG metric upwards by a percentage up to 25%, but there will be zero vesting for the transition metric performance outcome.

4.11 Employees

4.11.1 Summary

Following the Demerger, Accel Energy is anticipated to have approximately 1,700 employees.

4.11.2 Health, safety and environment (HSE)

Accel Energy will remain committed to maintaining high health and safety standards in its operations. Accel Energy will have processes and procedures in place, including:

- an HSE Policy that outlines Accel Energy's vision to conduct its business in a way that cares for its people, its customers and the communities it operates in, and minimises its impact on the natural environment; and
- an HSE Management System, which outlines the standards and procedures that apply to all Accel Energy business units to ensure health and safety compliance requirements and obligations are integrated into business processes across the organisation.

This system is designed to build and reinforce a positive safety culture and allow the identification, implementation and sharing of learnings and improvements within Accel Energy and its contractor base.

Accel Energy will measure its performance through a range of lead and lag indicators, and the overall effectiveness of the system will be monitored by the Accel Energy Board, including from the reports of a focused HSE internal audit program.

4.12 Risk factors associated with an investment in Accel Energy

Many of the risks currently faced by AGL Energy will continue to be faced by Accel Energy. Investors are already exposed to these risks through their investment in AGL Energy, and these have previously been disclosed by AGL Energy.

The nature of some of these risks may be altered due to Accel Energy having a less integrated business, with reduced diversification as a result of being a business more focused on generation. Accel Energy will be a smaller sized business with a less complex business model. Accel Energy will also experience lower revenues from the loss of the AGL Australia Business, resulting from the Demerger.

4.12.1 New or increased risks specifically associated with the Demerger

Carbon footprint

As a result of the Demerger, Accel Energy will initially have a more carbon-intensive business relative to AGL Energy before the Demerger until it transitions its thermal assets portfolio to clean energy hubs. This will have an impact on Accel Energy's ability to raise capital on the debt or equity markets, including on the cost of capital, with a more limited pool of potential investors due to ESG considerations. Being a more carbon-intensive business may further impact Accel Energy's ability to obtain insurance at a reasonable cost. All of these factors may impact Accel Energy's financial performance.

Credit rating downgrade

AGL Energy currently has an investment grade credit rating. Following the Demerger, that rating may be subject to review which could lead to outcomes such as suspension or downgrade. Accel Energy's cost of funds, margins, access to capital markets and other aspects of its performance (including requirements to provide credit support under material contracts) may also be affected if it fails to maintain its credit rating. Additionally, under certain contracts to which Accel Energy entities are parties, a suspension or downgrade in Accel Energy's credit rating provides the counterparty with the option to terminate the agreement or demand further security or payments from the Accel Energy entity. If the additional security or payments are not provided, this would give the counterparty a right to terminate the relevant agreement and seek damages. This may also adversely affect Accel Energy's performance in the event of a downgrade or suspension of Accel Energy's credit rating.

Access to capital

Accel Energy may find it difficult or be unable to raise capital, from equity and debt investors, or to raise capital on terms that are acceptable to Accel Energy in the event that the transition to a lower-carbon generation portfolio is delayed. Accel Energy may incur increased borrowing costs, or may even be unable to refinance with new debt if its credit profile deteriorates materially, due to ESG mandate considerations by capital providers or if there are reductions in debt market liquidity generally at or around the time that Accel Energy seeks to raise capital.

Ability to obtain insurance

Increasing ESG considerations may in the future prevent Accel Energy from obtaining adequate insurance coverage for potential losses and liabilities or to obtain such insurance on commercially reasonable terms. If that occurs, a higher proportion of Accel Energy's risk exposure may become uninsured with Accel Energy having to carry any liabilities arising from uninsured risk. This may negatively impact Accel Energy's financial position. However, AGL Energy has in place a captive insurance company, which insures some of the risks for AGL Energy and will continue to do so after the Demerger.

Authorisations and permits

If Accel Energy does not obtain, or manage to maintain, the necessary permits and/or licences for Accel Energy's businesses and projects, there is a risk that the business plans may not eventuate or assets will not be built or will be materially delayed, and existing assets will be impaired. There are a number of authorisations and permits that will be required for the current business and future projects including a retail licence for Accel Energy. Accel Energy has applied for a retail licence for its large industrial customers but it has not been obtained as at the date of this Scheme Booklet.

4.12.2 General risks

A summary of the key risks that will continue to be faced by Accel Energy is set out below.

Operational risk and associated health, safety, and environment risk

Accel Energy's activities will expose it to operational health and safety, technology, security, liquidity and financial, process and systems, business resilience, environmental impact, and crisis management risks. Realisation of one of these risks may impact Accel Energy's ability to operate its plant and to meet its market, contractual or financial obligations or outcomes; it may also result in impact to personal safety, environmental quality or reputational damage. Accel Energy has in place an asset management strategy to mitigate these risks.

Significant or catastrophic failure of plants

Accel Energy will operate multiple large, complex electricity generation assets which hold inherent process safety risks. An incident impacting process safety at a plant could result in personal safety impacts as well as an unplanned outage of significant duration at a plant or unit.

The financial performance of Accel Energy is heavily dependent on plants and units being in operation. The financial performance of Accel Energy may be impacted if plant and unit outages occur and are prolonged. In this regard, AGL Energy recently experienced an outage in Unit 2 at the Loy Yang A Power Station, which will remain an asset of Accel Energy post Demerger, and has informed AEMO on a precautionary and preliminary basis that the outage may continue until 1 August 2022.

Wholesale market pricing and volatility

Accel Energy will hold a long generation position, customer contracts which may be market-price linked and certain electricity market products from time to time. Accel Energy may be financially exposed to short-term and longer-term shifts in wholesale electricity pricing, commodity prices such as oil, gas and coal, and levels of volatility, leading to risks to earnings and cash flow. Further, Accel Energy's participation in wholesale electricity markets also results in a risk, particularly at times of significant volatility, that it is unable to meet its financial, liquidity or margining related commitments when they fall due as a result of mismatches in its cash flows or movements in market prices. Accel Energy seeks to mitigate this market risk exposure by having in place appropriate hedging strategies and risk management strategies.

Air emissions

Accel Energy will operate generation assets that hold regulatory approval for the release of air emissions to the atmosphere. Accel Energy will monitor and report on these air emissions in compliance with the regulatory approval conditions. If Accel Energy ceases to hold such regulatory approvals, or the extent of the regulatory approvals is reduced, the operation of Accel Energy's generation assets may be impacted.

Environmental practices

In the course of its business of electricity and gas production, Accel Energy will conduct processes that require the use of hazardous chemicals which can have an impact on the environment if containment measures are lost. This could create harm to the environment and potentially result in reputational damage. Accel Energy controls chemical use through process and physical barriers and controls.

Intervention from government, market operators or regulators

The main industry in which Accel Energy operates is electricity generation and associated trading and sales. The industry is subject to multiple regulatory bodies and government policies (both state and federal). There is a risk that Accel Energy may fail to comply with its regulatory obligations which, in extreme cases, could lead to the imposition of fines and penalties or the loss of operating licences, or that compliance may lead to a reduction in Accel Energy's profits or a deterioration in Accel Energy's financial position.

Additionally, material changes in market rules, regulation or government policy could adversely impact Accel Energy operating parameters and/or methods of compensation or profitability. For example, changes in environmental and climate regulation made by federal and state governments could result in a requirement to accelerate the closure of Accel Energy's coal-fired assets and have material adverse impacts on the operations and viability of such assets over the medium to long-term.

Operating cost

The ongoing operation of Accel Energy's assets is exposed to various future uncertainties in their primary cost drivers and accordingly assumptions have been made based on the best available information. These assumptions cover a range of factors including, but not limited to, operational costs, commodity price inputs (i.e. coal, diesel etc), labour costs, costs of consumables, and rehabilitation costs. There are risks that these assumptions are incorrect, or events transpire that require changes to these assumptions in the future that could impact the profitability of the assets.

Cybersecurity risks

Accel Energy will hold assets that are important to the stability of the NEM. A cybersecurity attack beyond the defence installed by Accel Energy could compromise ongoing operations and the ability to run the power plant portfolio, for example, the supervisory control and data acquisition system at the generation sites with software and hardware elements that allow for the monitoring, gathering, and processing of real-time data.

Financial and credit risk

Accel Energy's activities will expose it to a variety of financial risks, including market risk (interest rate risk, foreign currency risk and energy price risk), credit risk and liquidity risk. Growth into new customer business areas may increase counterparty credit risk to be managed.

Counterparty risk

Accel Energy's financial performance is partially dependent on counterparties to contracts satisfying their contractual obligations (whether financial or otherwise). There is a risk that Accel Energy's counterparties may be unable to meet their obligations and there is no guarantee of Accel Energy being able to obtain damages sufficient to compensate it for its losses arising as a result.

Ability to execute on strategy

Accel Energy will have a concentrated revenue base. Due to the announced closure of the Liddell Power Station and announced closure dates of other assets, the execution of Accel Energy's strategy (as summarised in Section 4.5 or further developed by the Accel Energy Board) will be very important to diversifying revenue base and achieving sustained financial returns. Failure to execute the strategy effectively may result in adverse financial impact.

Project development risks

Accel Energy will be the developer of the energy hubs as well as a number of renewables projects currently in the development stage. Significant investment will be required to enable Accel Energy to develop the energy hubs and the renewables projects in its pipeline. While AGL Energy is currently in the process of establishing ETIP to bring in partners and funding to accelerate the development of those projects, there is a risk that Accel Energy may not be able to obtain the necessary funding to complete, in time, within budget or at all, all of its development projects. Further, Accel Energy needs to adhere to best practice in the development and execution of energy infrastructure projects, and take into consideration impact on the environment, flora and fauna, native title and cultural heritage. Failure to apply best practices could lead to reputational damage. Further, the financial performance of Accel Energy could be impacted if projects are delayed.

Earlier closure of plants

Accel Energy will be very important to Australia's energy supply and ultimately, the responsible closure of all of its coal-fired generators no later than 2045, with early closure dates recently announced for the Bayswater and Loy Yang A Power Stations.

However, Accel Energy will operate in an uncertain regulatory environment, and government intervention and regulatory policies are evolving in relation to decarbonisation and energy transition over the long term. This could affect Accel Energy's ability to continue to operate until the end of the current closure dates referred to in the climate commitments.

Accel Energy will also consider on a regular basis the long-term future of its generation assets. It is possible that some plants may close earlier than forecast. For example, although no decisions have been made at this point, AGL Energy regularly considers the long-term future operation at the Torrens Power Station having regard to the age of the plant and its ongoing economic viability.

Site transition

The retirement, decommissioning, demolition and rehabilitation of assets involves inherent risks relating to health (including the responsible removal and disposal of hazardous materials such as asbestos), safety, people, environment, regulatory, financial and reputation. These risks are managed through the creation of a dedicated business unit with specialist resourcing, combined with detailed planning, corporate governance and the development of collaborative relationships with the community, traditional owners of the land, regulators, employee representative bodies and all levels of government.

Organisational culture

Accel Energy may be unable to foster a resilient and agile organisational culture that is built on strong and ethical behaviours, talented people, a focus on safety, and a customer centric mindset.

COVID-19

Events related to the COVID-19 pandemic have resulted in shifts in demand in the energy market. There is continued uncertainty as to the ongoing and future responses of governments and authorities both in Australia and globally.

The ongoing impact of the COVID-19 pandemic may negatively impact Accel Energy's business – particular impacting the generation sites on the back of major outages and access to international specialists on the engineering site.

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Section 5

Details of the Demerger

5. Details of the Demerger

5.1 Conditions

At the First Court Hearing which occurred on 5 and 6 May 2022, AGL Energy obtained an order from the Court to convene the Scheme Meeting.

The Demerger will not become Effective unless a number of conditions are satisfied. The key conditions are summarised below:

- the Corporate Restructure being completed;
- a majority of the AGL Energy Directors not changing or withdrawing their support for the Demerger;
- the requisite majority of the AGL Energy Shareholders passing the Demerger Resolutions;
- all regulatory approvals required for the Demerger being obtained (either unconditionally or on conditions reasonably satisfactory to AGL Energy);
- the Court approving the Scheme and a copy of the order of the Court being lodged with ASIC; and
- before 8.00am on the Second Court Date, the ASX approving the admission of AGL Australia to the Official List and granting permission for official quotation of AGL Australia Shares on the ASX, subject only to customary conditions.

The end date for satisfaction or waiver of these conditions is 30 September 2022 (or such other date determined by AGL Energy and AGL Australia).

5.2 AGL Energy restructure and AGL Australia separation

5.2.1 Overview

To establish the AGL Australia Group as the owner of the AGL Australia Business, a number of share and asset transfers and other commercial arrangements have been, or will be, implemented in connection with the Demerger. Agreements to enable these steps have been entered into and completion of the steps will occur shortly before implementation of the Demerger.

5.2.2 Capital structure and funding

As part of the implementation of the Demerger, it is necessary to establish an appropriate, standalone capital structure for AGL Australia. Accordingly:

- All intercompany loans between members of the AGL Australia Group and the Accel Energy Group will be eliminated or discharged prior to the implementation of the Demerger.
- On implementation of the Demerger, AGL Energy's existing debt facilities will be restructured and refinanced to establish the new debt facilities for AGL Australia and Accel Energy.

5.2.3 Ownership of AGL Australia Shares

Under the Demerger, 85% of the issued AGL Australia Shares will be transferred to Eligible Shareholders (other than Selling AGL Australia Shareholders) and the Sale Agent. Accel Energy will retain a 15% shareholding in AGL Australia.

5.2.4 Deed of Cross Guarantee

AGL Energy and certain of its Subsidiaries are parties to a deed of cross guarantee (**AGL Energy Cross Guarantee**) in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 (previously ASIC Class Order 98/1418), including certain AGL Australia Subsidiaries. A revocation deed will be lodged with ASIC on the Effective Date to revoke the participation of those AGL Australia Subsidiaries in the AGL Energy Cross Guarantee and an advertisement publishing its revocation will be published as soon as practicable thereafter. The revocation deed will take effect six months after the date of lodgement provided that no party to the AGL Energy Cross Guarantee goes into liquidation during that six-month period.

5.3 Demerger voting and Second Court Hearing

5.3.1 General Meeting

The Capital Reduction Resolution, the Financial Assistance Resolution, the Name Change Resolution and the Benefits Resolution will be considered and, if thought fit, approved at the General Meeting. The terms of the Capital Reduction Resolution, the Financial Assistance Resolution, the Name Change Resolution and the Benefits Resolution are set out in the Notices of Meetings in Section 13.

Each AGL Energy Shareholder who is registered on the AGL Energy Share Register at 7:00pm (AEST) on 13 June 2022 is entitled to attend the General Meeting and vote on the Capital Reduction Resolution, the Financial Assistance Resolution, the Name Change Resolution and the Benefits Resolution. A voting exclusion (described on page 338 of this Scheme Booklet) applies to the Benefits Resolution.

The Capital Reduction Resolution must be approved by a simple majority (more than 50%) of votes cast.

The Financial Assistance Resolution must be approved by at least 75% of votes cast.

The Name Change Resolution must be approved by at least 75% of votes cast.

The Benefits Resolution must be approved by a simple majority (more than 50%) of votes cast.

The Capital Reduction Resolution and the Financial Assistance Resolution are conditional on the Scheme becoming Effective.

5.3.2 Scheme Meeting

On 6 May 2022, the Court ordered that a meeting of all AGL Energy Shareholders be convened to consider and, if thought fit, approve the Scheme, with or without amendment or modification. The notice convening the Scheme Meeting is set out in Section 13 and the terms of the Scheme are contained in Section 11.

Each AGL Energy Shareholder who is registered on the AGL Energy Share Register as the holder of a AGL Energy Share at 7:00pm (AEST) on 13 June 2022 is entitled to attend and vote at the Scheme Meeting.

For the Demerger to proceed, the Scheme Resolution must be approved by:

- a majority in number (more than 50%) of AGL Energy Shareholders present and voting at the Scheme Meeting (whether in person or by proxy), unless the Court orders otherwise; and
- at least 75% of the total number of votes cast on the resolution by AGL Energy Shareholders present and voting (whether in person or by proxy) at the Scheme Meeting.

The Court has the power to waive the first of the above requirements.

If these thresholds are met and all other conditions to the Demerger have been satisfied (including Court approval of the Scheme) or waived, all AGL Energy Shareholders will be bound by the Scheme, including those who voted against the Scheme and those who did not cast a vote. Voting at the Scheme Meeting will be by poll.

5.3.3 Second Court Hearing

If the Demerger Resolutions are approved by AGL Energy Shareholders, and all other conditions to the Scheme (other than Court approval) have been satisfied or waived, AGL Energy will apply to the Court for orders approving the Scheme on or around 20 June 2022.

The Scheme will take effect on the date on which the Court order approving the Scheme is lodged with ASIC, which is expected to be 21 June 2022.

5.4 Capital Reduction and implementation of the Demerger

5.4.1 AGL Energy steps

It is expected that the Demerger will be implemented on 30 June 2022 between 5:00pm and 7:00pm (AEST).

On the Implementation Date:

- AGL Energy will undertake the Capital Reduction. The Capital Reduction will not be paid in cash but will be applied on behalf of AGL Energy Shareholders as payment for the AGL Australia Shares to be transferred from AGL Energy to those AGL Energy Shareholders; and
- Each AGL Energy Shareholder (other than Ineligible Overseas Shareholders and Selling AGL Australia Shareholders) will receive one AGL Australia Share for every AGL Energy Share it is registered as holding as at the Record Date.

5.4.2 Ineligible Overseas Shareholders and Selling AGL Australia Shareholders

In the case of Ineligible Overseas Shareholders and Selling AGL Australia Shareholders, the AGL Australia Shares which those shareholders would otherwise have received under the Demerger will be transferred to the Sale Agent to be sold. The proceeds of sale will be remitted to the Ineligible Overseas Shareholders and Selling AGL Australia Shareholders as set out in Section 5.8.

5.4.3 Confirmation of AGL Australia shareholdings

The transfer and distribution of AGL Australia Shares to Eligible Shareholders (other than Selling AGL Australia Shareholders) referred to above will be achieved by:

- AGL Energy procuring the transfers of the relevant AGL Australia Shares to Eligible Shareholders (other than Selling AGL Australia Shareholders) and the Sale Agent (as applicable);
- entry in the AGL Australia Share Register of the names of Eligible Shareholders (other than Selling AGL Australia Shareholders); and
- on, or as soon as practicable after, the Implementation Date, AGL Energy procuring the dispatch to Eligible Shareholders (other than Selling AGL Australia Shareholders) by prepaid post to the person's address as shown in the AGL Energy Share Register as at the Record Date (unless directed otherwise by an Eligible Shareholder), holding statements for the AGL Australia Shares transferred or distributed to them under the Demerger.

5.4.4 Creditors

In the opinion of the AGL Energy Directors, the Capital Reduction will not, if implemented, materially prejudice AGL Energy's ability to pay its creditors. Further, in the opinion of the AGL Energy Directors, the Demerger will not, if implemented, materially prejudice the ability of AGL Australia to pay the creditors which it assumes as part of the Demerger.

The Independent Expert has concluded that the Capital Reduction will not materially prejudice AGL Energy's ability to pay its existing creditors. Refer to Section 8 for the Independent Expert's Report.

5.4.5 Existing instructions

Except for Eligible Shareholders' tax file numbers, any binding instruction or notification between an Eligible Shareholder and AGL Energy relating to AGL Energy Shares as at the Record Date (including any instructions relating to payment of dividends or to communications from AGL Energy, including bank account details, email addresses and communication preferences) will be deemed to be a similarly binding instruction or notification to AGL Australia in respect of relevant AGL Australia Shares. AGL Australia Shareholders may subsequently revoke or amend such instructions or notifications online or by written notice to AGL Australia at its registered address or at the AGL Australia Share Registry.

5.5 Entitlement to participate in the Demerger

5.5.1 Dealings in AGL Energy Shares

AGL Energy Shareholders as at the Record Date will be eligible to participate in the Demerger (although the way in which an individual AGL Energy Shareholder participates will depend on whether that shareholder is an Eligible Shareholder, a Sale Facility Participant or an Ineligible Overseas Shareholder).

For the purposes of determining which AGL Energy Shareholders are eligible to participate in the Demerger, dealings in AGL Energy Shares will be recognised only if:

- in the case of dealings of the type to be effected using CHESS, the transferee is registered as the holder of AGL Energy Shares on the Record Date (or registered before the Record Date and remains registered on that date); and
- in all other cases, registrable transmission applications or transfers in respect of those dealings are received by the AGL Energy Share Registry before the Record Date with sufficient time to allow for registration of the transferee on the Record Date (or registered before the Record Date and remains registered on that date).

For the purpose of determining entitlements under the Scheme, AGL Energy will not accept for registration or recognise any transfer or transmission application in respect of AGL Energy Shares received after the Record Date.

5.5.2 Eligible Shareholders

AGL Energy Shareholders whose addresses are shown in the AGL Energy Share Register on the Record Date as being in the following jurisdictions will be Eligible Shareholders and will be entitled to have AGL Australia Shares transferred to them:

- Australia, New Zealand, Canada, Hong Kong, Malaysia, Singapore, the United Kingdom and the United States of America; or
- a jurisdiction in which AGL Energy reasonably believes that it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer or distribute AGL Australia Shares to the AGL Energy Shareholder.

Certain Eligible Shareholders are entitled to participate in the AGL Australia Sale and Top-up Facility and the Accel Energy Sale and Top-up Facility – see Section 5.8.

5.5.3 Ineligible Overseas Shareholders

Ineligible Overseas Shareholders are AGL Energy Shareholders whose addresses are shown in the AGL Energy Share Register on the Record Date as being in a jurisdiction outside the jurisdictions referred to in Section 5.5.2.

AGL Australia Shares will not be transferred or distributed to Ineligible Overseas Shareholders. Instead, AGL Australia Shares to which the Ineligible Overseas Shareholders would otherwise have been entitled will be transferred to the Sale Agent to be sold under the AGL Australia Sale and Top-up Facility.

Refer to Section 5.8 for more information on how the AGL Australia Sale and Top-up Facility will operate.

5.5.4 Participants in AGL Employee Share Plans

Refer to Section 5.6 for the treatment of participants in the AGL Employee Share Plans on the Record Date. Participants in the AGL Employee Share Plans on the Record Date will be Eligible Shareholders. Certain Eligible Shareholders are entitled to participate in the sale and top-up facilities – see section 5.8.

5.6 Legacy AGL Employee Share Plans

AGL Energy currently has various employee incentive and other equity awards on foot under the following plans:

- **Restricted Equity Plan**, which is used to deliver deferred equity under the AGL Energy short term incentive plan (**STIP**);
- **Share Reward Plan**, which is AGL Energy's broad-based employee share scheme that enables eligible employees to be granted up to $1,000 of AGL Energy Shares each financial year;
- **Share Purchase Plan**, which provides eligible employees with the opportunity to acquire up to $5,000 of AGL Energy Shares on a pre-tax salary sacrifice basis each year; and
- **Long Term Incentive Plan** (**LTIP**), under which AGL Energy's Executive Team and Enterprise Leadership Team receive LTIP awards in the form of AGL Energy Performance Rights that are subject to satisfaction of performance and vesting conditions.

5.6.1 Impact of the Demerger on existing AGL Employee Share Plans held by AGL Australia employees

AGL Australia employees have previously received, and have on foot, a number of existing AGL Energy incentive and/or other equity awards that will be impacted by the Demerger. On Demerger, it is proposed that the following treatments will apply:

- **Restricted Equity Plan:** As at 31 March 2022, approximately 16,387 AGL Energy Restricted Shares were held by employees who will be AGL Australia employees under the Restricted Equity Plan. AGL Energy Restricted Shares are issued as deferred equity under the STIP. AGL Energy Restricted Shares will participate in the Demerger and participants will be allocated one AGL Australia Share for each AGL Energy Share held by them on the Record Date. All restrictions on AGL Energy Restricted Shares will be lifted prior to the Demerger. The AGL Australia Shares that are received will not be subject to any trading restrictions;
- **Share Reward Plan:** As at 31 March 2022, approximately 248,931 AGL Energy Shares were held by employees who will be AGL Australia employees under the Share Reward Plan. Shares held under this plan will participate in the Demerger and participants will be allocated one AGL Australia Share for each AGL Energy Share held by them on the Record Date. The AGL Australia Shares that are received will not be subject to any trading restrictions. All restrictions on the AGL Energy Shares held under the Share Reward Plan will be lifted following the Demerger;
- **Share Purchase Plan:** As at 31 March 2022, approximately 214,824 AGL Energy Shares were held by employees who will be AGL Australia employees under the Share Purchase Plan. Shares held under this plan will participate in the Demerger and participants will be allocated one AGL Australia Share for each AGL Energy Share held by them on the Record Date. The AGL Australia Shares that are received will not be subject to any trading restrictions. All restrictions on the AGL Energy Shares held under the Share Purchase Plan will be lifted prior to the Demerger; and
- **AGL Energy Performance Rights held under the LTIP:** AGL Energy Performance Rights are held under AGL Energy's LTIP by members of AGL Energy's Executive Team and Enterprise Leadership Team. As at 31 March 2022, there were 1,240,281 AGL Energy Performance Rights on issue. Ahead of the Demerger, all LTI awards held by employees who will be AGL Australia employees that are on foot (except for the Bridging Awards, which will lapse in full on Demerger) will be pro-rated for time and performance tested against the performance metrics applicable to the applicable performance year. The performance testing will result in vesting and/or lapsing of the AGL Energy Performance Rights, as determined by the AGL Energy Board. Section 5.6.3 provides guidance on the expected vesting outcomes of the testing of LTIP awards on foot.

AGL Energy Shares will be allocated on vesting of any AGL Energy Performance Rights and those shares will participate in the Demerger. AGL Energy Performance Rights that are tested but do not vest will lapse. The AGL Energy Performance Rights that are not tested will be forfeited and replaced with a combination of long-term equity (**LTE**) in the form of AGL Australia Restricted Shares, subject to ongoing tenure, and AGL Australia Performance Rights, subject to performance testing. No replacement awards will be issued for AGL Energy employees who will cease employment with AGL Energy on implementation of the Demerger.

This combination of LTE and AGL Australia Performance Rights for replacement awards is to provide a greater level of certainty and increase the retentive effect for continuing employees.

The split between the replacement AGL Australia Restricted Shares and AGL Australia Performance Rights will vary depending on the relevant LTIP award:

LTIP award	% to be performance tested (based on portion of the service period served)	% not performance tested and to be replaced by AGL Australia awards
FY20 offer	74.06%	25.94% and replaced with 100% LTE
FY21 offer	49.01%	50.99% and replaced with 50% LTE + 50% Performance Rights
FY22 offer	24.02%	75.98% Replaced with 30% LTE + 70% Performance Rights

The number of replacement securities will be determined by multiplying the number of AGL Energy Performance Rights to be replaced by the VWAP of both AGL Australia Shares and Accel Energy Shares traded over their first 30 days of ordinary trading on the ASX (**Replacement Value**) and:

- **for the AGL Australia Restricted Shares:** multiplying the Replacement Value by the percentage that will be replaced with AGL Australia Restricted Shares and dividing by the 30-day VWAP for AGL Australia; and
- **for the AGL Australia Performance Rights:** multiplying the Replacement Value by the percentage that will be replaced with AGL Australia Performance Rights and dividing by the 30-day VWAP for AGL Australia.

The replacement awards will have performance metrics relevant to AGL Australia that will be set by the AGL Australia Board and will be aligned with the FY23 LTIP performance metrics LTIP (as described in Section 3.9.7.1). An illustrative example of how the replacement awards will operate for continuing key management personnel (**KMP**) for the FY21 LTIP is provided below.

FY21 LTIP	
Grant price	$17.279 (a)
Performance start date	1 July 2020
Performance end date	30 June 2024
Illustrative AGL Australia VWAP	$6.00
Illustrative Accel Energy VWAP	$3.00
Illustrative combined VWAP	$9.00 (f)

							Replacement award	
KMP	**AGL Energy Performance Rights at grant (b)**	**Value at grant**	**% to be tested at Demerger (c)**	**Number to be tested (d)**	**Number to be replaced (e)**	**Replacement Value (g)**	**Value in LTE**	**Value in AGL Australia Performance Rights**
		a x b		b x c	b - d	e x f	50% x g	50% x g
Christine Corbett	46,298	799,983	49%	22,690	23,608	212,476	106,238	106,238
Damien Nicks	32,779	566,388	49%	16,064	16,715	150,433	75,217	75,217

All Bridging Awards that are held by continuing AGL Australia employees will lapse on Demerger.

The participation of these awards in the Demerger will result in AGL Australia employees receiving AGL Australia Shares on the Implementation Date. This promotes strong alignment of these employees with the AGL Australia Business, as well as retention of employees that are critical to the success of the AGL Australia Business.

5.6.2 Impact of the Demerger on existing AGL Employee Share Plans held by remaining Accel Energy employees and directors

AGL Energy employees who are remaining with Accel Energy also have a number existing AGL Energy incentive awards that will be impacted by the Demerger. On Demerger, it is proposed that the following treatments will apply:

- **Restricted Equity Plan:** AGL Energy Restricted Shares held by Accel Energy employees will participate in the Demerger and participants will be allocated one AGL Australia Share for each AGL Energy Share held by them on the Record Date. All restrictions on AGL Energy Restricted Shares will be lifted prior to the Demerger. The AGL Australia Shares that are received will not be subject to any trading restrictions;
- **Share Reward Plan:** Shares held under this plan will participate in the Demerger and participants will be allocated one AGL Australia Share for each AGL Energy Share held by them on the Record Date. The AGL Australia Shares that are received will not be subject to any trading restrictions. For Accel Energy employees, the existing restrictions under this plan in respect of the AGL Energy (Accel Energy) Shares that they hold will remain in place;
- **Share Purchase Plan:** Shares held under this plan will participate in the Demerger and participants will be allocated one AGL Australia Share for each AGL Energy Share held by them on the Record Date. The AGL Australia Shares that are received will not be subject to any trading restrictions. All restrictions on the AGL Energy Shares held under this plan will be lifted following the Demerger; and

- **AGL Energy Performance Rights held under the LTIP:** AGL Energy Performance Rights are held under AGL Energy's LTIP by members of Accel Energy's Executive Team and Enterprise Leadership Team.

  For continuing Accel Energy employees:

  - Ahead of the Demerger, all LTI awards on foot (except for the Bridging Awards, which will lapse in full on the Demerger) will be pro-rated for time and performance tested against the performance metrics applicable to the applicable performance year. The performance testing will result in the vesting and/or lapsing of the AGL Energy Performance Rights, as determined by the AGL Energy Board. AGL Energy Performance Rights that are tested but do not vest will lapse. Section 5.6.3 provides guidance on the expected vesting outcomes of the testing of LTIP awards on foot.
  - AGL Energy Shares will be allocated on vesting of any AGL Energy Performance Rights and those shares will participate in the Demerger.
  - The AGL Energy Performance Rights that are not tested will be forfeited and replaced through a combination of LTE in the form Accel Energy Restricted Shares, subject to ongoing tenure, and Accel Energy Performance Rights, subject to performance testing. No replacement awards will be issued for AGL Energy employees who will cease employment with AGL Energy on implementation of the Demerger.
  - All Bridging Awards will lapse in full on Demerger.

The combination of LTE and Accel Energy Performance Rights for replacement awards is to provide a greater level of certainty and increase the retentive effect for continuing employees.

The split between the replacement Accel Energy Restricted Shares and Accel Energy Performance Rights will vary depending on the relevant LTIP award:

LTIP award	% to be performance tested (based on portion of the service period served)	% not performance tested and to be replaced by Accel Energy awards
FY20 offer	74.06%	25.94% and replaced with 100% LTE
FY21 offer	49.01%	50.99% and replaced with 50% LTE + 50% Performance Rights
FY22 offer	24.02%	75.98% Replaced with 30% LTE + 70% Performance Rights

The number of replacement securities will be determined by multiplying the number of AGL Energy Performance Rights to be replaced by the combined VWAP of both AGL Australia Shares and Accel Energy Shares traded over their first 30 days of ordinary trading on the ASX (**Replacement Value**) and:

- **for the Accel Energy Restricted Shares:** multiplying the Replacement Value by the percentage that will be replaced with Accel Energy Restricted Shares and dividing by the 30-day VWAP for Accel Energy; and
- **for the Accel Energy Performance Rights:** multiplying the Replacement Value by the percentage that will be replaced with Accel Energy Performance Rights and dividing by the 30-day VWAP for Accel Energy.

The replacement awards will have performance metrics relevant to Accel Energy that will be set by the Accel Energy Board and are anticipated to align with the FY23 LTIP (as described in Section 4.10.5). An illustrative example of how the replacement awards will operate for continuing KMP for the FY21 LTIP is provided below:

FY21 LTIP	
Grant price	$17.279 (a)
Performance start date	1 July 2020
Performance end date	30 June 2024
Illustrative AGL Australia VWAP	$6.00
Illustrative Accel Energy VWAP	$3.00
Illustrative combined VWAP	$9.00 (f)

							Replacement award	
KMP	AGL Energy Performance Rights at grant (b)	Value at grant	% to be tested at Demerger (c)	Number to be tested (d)	Number to be replaced (e)	Replacement Value (g)	Value in LTE	Value in Accel Energy Performance Rights
		a x b		b x c	b - d	e x f	50% x g	50% x g
Markus Brokhof	52,086	899,994	49%	25,526	26,560	239,039	119,520	119,520

For employees that are ceasing employment with AGL Energy upon implementation of the Demerger and are not moving across to AGL Australia or continuing with Accel Energy:

- The FY20, FY21 and FY22 LTIP awards will be pro-rated for time and performance tested. AGL Energy Shares will be allocated on vesting of the awards and those shares will participate in the Demerger.
- The FY20 LTIP Bridging Award will lapse in full.
- All remaining AGL Energy Performance Rights (being those that are not tested, or that are tested but do not vest) will lapse in full. This includes the FY22 LTIP award.

For 'good leaver' employees holding the FY20 LTIP Bridging Award and ceasing employment with AGL Energy prior to the demerger, the grant on foot with the longest unserved performance period will be lapsed and the FY20 LTIP Bridging Award will be subject to performance testing on a pro-rata basis. This is consistent with the good leaver treatment applied to other AGL Energy executives who participate in the LTIP.

5.6.3 Testing and vesting outcomes for LTIP awards

As noted above, the majority of LTIP awards will be pro-rated for time and tested for performance prior to the Demerger for all participants. Indicative vesting outcomes for each of the LTIP awards currently on foot, based on an assessment of the applicable performance conditions over the period up to 15 June 2022, are set out below (subject to any discretion exercised by the AGL Energy Board to adjust awards upwards or downwards as considered appropriate).

LTIP award	% of total award to be performance tested (based on portion of the service period served)	Performance condition(s)	Expected vesting outcome (as a % of total award)
FY20 offer	74.06%	TSR and ROE	0%
FY20 Bridging Award (good leavers prior to the Demerger)	100%	TSR and ROE	0%
FY21 offer	49.01%	TSR, ROE and Carbon Transition	40-50%
FY22 offer	24.02%	TSR and Carbon Transition	10-15%

5.7 ASX trading in AGL Energy Shares and AGL Australia Shares

If the Demerger Resolutions are passed by AGL Energy Shareholders and the other conditions to the Demerger are satisfied, including the Scheme being approved by the Court, then:

- The Scheme will become Effective on the Effective Date (expected to be 21 June 2022) and this is the last day AGL Energy Shares trade on the ASX cum-entitlements under the Demerger.
- On the first Business Day after the Effective Date (expected to be 22 June 2022), trading in AGL Australia Shares on the ASX on a deferred settlement basis is expected to commence for Eligible Shareholders (other than Selling AGL Australia Shareholders).
- On the Implementation Date, the Demerger will be implemented and AGL Australia Shares transferred or distributed as described in Section 5.4.

5.8 Sale and top-up facilities

5.8.1 Small Shareholders

Small Shareholders may elect to have:

- the AGL Australia Shares that they would otherwise receive under the Demerger; and/or
- the Accel Energy Shares they would otherwise hold following the Demerger, sold by the Sale Agent and the proceeds remitted to them as soon as practicable following the sale of those shares, free of any brokerage costs or stamp duty.

AGL Energy Shareholders who, as at the Record Date, hold 500 AGL Energy Shares or fewer and have their registered address on the AGL Energy Share Register in Australia or New Zealand, may also elect to purchase additional Accel Energy Shares and/or AGL Australia Shares in increments of $500 and up to a maximum of $2,000 of additional shares in the relevant entity, free of brokerage costs.

Holding statements will be issued to Buying AGL Australia Shareholders and Buying Accel Energy Shareholders in respect of the additional AGL Australia Shares and/or Accel Energy Shares they purchased, by 15 August 2022.

Small Shareholders who are eligible (as described above) and wish to participate in the AGL Australia Sale and Top-up Facility and/or the Accel Energy Sale and Top-up Facility should submit their election online at www.aglelections.com.au or complete and return the relevant Sale and Top-up Facility Forms using the enclosed envelopes so that they are received by the AGL Energy Share Registry by 5:00pm (AEST) on 21 June 2022. The Sale and Top-up Facility Forms may also be obtained by phoning the AGL Energy Shareholder Information Line. If an AGL Energy Shareholder makes an election to both buy and sell Accel Energy Shares or AGL Australia Shares (as applicable) under the Accel Energy Sale and Top-up Facility or AGL Australia Sale and Top-up Facility (as applicable), the election to buy will override the election to sell such shares.

The sale and top-up facilities operate on an opt-in basis, so those AGL Energy Shareholders that are eligible to participate (as described above) but do not make an election to participate, will retain their existing shareholding in Accel Energy and receive the AGL Australia Shares they are entitled to under the Demerger.

5.8.2 Ineligible Overseas Shareholders

Ineligible Overseas Shareholders (see Section 5.5.3) will continue to be entitled to hold their AGL Energy Shares. However, the AGL Australia Shares which they would otherwise have received will be transferred to the Sale Agent and sold, with the proceeds (calculated on an averaged basis as described in Section 5.8.3) remitted to them following the sale of those shares (which is expected to conclude on 29 July 2022), free of any brokerage costs or stamp duty.

The payment of the proceeds from the sale of AGL Australia Shares will be in full satisfaction of the rights of Ineligible Overseas Shareholders under the Scheme.

5.8.3 Operation of the Sale and Top-up Facilities

Under each sale and top-up facility, the Sale Agent will sell and purchase AGL Australia Shares or Accel Energy Shares, as applicable, on a Licensed Market as soon as practicable (and in any event no later than the end of the Sale Period) during the Sale Period in accordance with the valid elections made by eligible Small Shareholders (as described in Section 5.8.1 above).

The proceeds and price per Accel Energy Share or AGL Australia Share (as applicable) will be on an averaged basis, so that buying shareholders and selling shareholders will pay or receive (as applicable) the average purchase prices and average sale prices (as applicable) per Accel Energy Share or AGL Australia Share (as applicable), subject to rounding up to the nearest whole cent. The purchase price and sale price per Accel Energy Share and AGL Australia Share will be announced on or about 7 August 2022.

As the market price of Accel Energy Shares and AGL Australia Shares will be subject to change from time to time, the sale and purchase price of those Accel Energy Shares and AGL Australia Shares and the proceeds of that sale and the price payable per Accel Energy Share and AGL Australia Share cannot be guaranteed. Sale Facility Participants will be able to obtain information on the market price of Accel Energy Shares and AGL Australia Shares on the ASX's website (www.asx.com.au).

The proceeds received by the Sale Agent will be distributed to Ineligible Overseas Shareholders, Selling Accel Energy Shareholders and Selling AGL Australia Shareholders (as applicable) by 15 August 2022 (but in any case, no later than eight weeks from the AGL Australia Listing).

Proceeds will be paid to Selling Accel Energy Shareholders, Selling AGL Australia Shareholders and Ineligible Overseas Shareholders by direct credit to an account nominated by the Ineligible Overseas Shareholder, Selling Accel Energy Shareholder or Selling AGL Australia Shareholder (as applicable) with the AGL Energy Share Registry as at the Record Date. If the Ineligible Overseas Shareholder, Selling Accel Energy Shareholder or Selling AGL Australia Shareholder does not have a nominated account with the AGL Energy Share Registry as at the Record Date, the Ineligible Overseas Shareholder, Selling Accel Energy Shareholder or Selling AGL Australia Shareholder will be sent a cheque drawn on an Australian bank in Australian currency for the proceeds of sale.

Holding statements will be issued to Buying AGL Australia Shareholders and Buying Accel Energy Shareholders in respect of the additional AGL Australia Shares and/or Accel Energy Shares (as applicable) purchased, by 15 August 2022.

In providing services to AGL in connection with the Accel Energy Sale and Top-up Facility and the AGL Australia Sale and Top-up Facility, and the sale and purchase of Accel Energy Shares and/or AGL Australia Shares under the respective facility, the Sale Agent is not acting as agent or sub-agent of any Sale Facility Participant, and to the maximum extent permitted by law, does not accept any duties or obligations (fiduciary or otherwise) to any Sale Facility Participant and does not underwrite the sale of any AGL Australia Shares or Accel Energy Shares. The Sale Agent, together with its affiliates, is a full service financial institution engaged in various activities, which may include trading, financing, financial advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services.

Sale Facility Participants should refer to Section 6 for further information on the Australian tax consequences of participating in the AGL Australia Sale and Top-up Facility and the Accel Energy Sale and Top-up Facility.

5.9 Demerger agreements

The key transaction documents to give effect to the Demerger are summarised below.

Not all of the transactions underlying the Corporate Restructure have been entered into or effected on the same terms as could have been obtained from third parties. In particular, agreements for the transactions underlying the Corporate Restructure have not included terms such as certain warranties that might have been obtained from third parties. This reflects the nature of the Demerger (which is unlike a sale to a third party) and the desire of the AGL Energy Board to appropriately allocate the risks and benefits of these arrangements between the AGL Australia Group and the Accel Energy Group.

5.9.1 Restructure Agreement

AGL Energy and AGL Australia have entered into the Restructure Agreement to procure that all steps necessary to effect the Corporate Restructure are undertaken prior to implementation of the Demerger.

Under the Restructure Agreement, AGL Energy and AGL Australia agree:

- among other things, that assets and liabilities relating to the AGL Australia Business are transferred to the AGL Australia Group;
- assets and liabilities relating to the Accel Energy Business but currently held by or on behalf of an AGL Australia Group entity are transferred to the Accel Energy Group; and
- all intercompany loans between any entities within the Accel Energy Group and the AGL Australia Group are eliminated or settled.

5.9.2 Demerger Implementation Deed

The Implementation Deed between AGL Energy and AGL Australia sets out certain steps required to be taken by each of them to give effect to the Demerger.

The key terms of the Implementation Deed are:

- (**Conditions**) The obligations of AGL Energy and AGL Australia under the deed are subject to the conditions summarised in Section 5.1 being satisfied;
- (**Joint obligations**) AGL Energy and AGL Australia have certain joint obligations in relation to the Demerger including to:
  - apply for and obtain all regulatory approvals required for the Demerger;
  - prepare and finalise the disclosure documents to be sent to AGL Energy Shareholders and required for the AGL Australia Listing, and use reasonable endeavours to ensure that those disclosure documents comply with applicable laws and regulations;
  - effect the Demerger in accordance with an agreed timetable;
  - cause the appointment of the persons listed in Section 3.4.1 as directors of AGL Australia with effect from the date on which the Scheme becomes Effective; and
  - implement the Corporate Restructure as contemplated by the Restructure Agreement;
- (**AGL Energy obligations**) AGL Energy must take all reasonable steps within its control to implement the Demerger, including to:
  - apply for Court orders to convene the Scheme Meeting, and convene the General Meeting;
  - apply for Court orders to approve the Scheme if approved by the AGL Energy Shareholders at the Scheme Meeting;
  - lodge a copy of the Court order approving the Scheme with ASIC;
  - procure the transfer of the relevant AGL Australia Shares to the relevant AGL Energy Shareholders and Sale Agent (as applicable);
  - procure the sale of AGL Australia Shares by the Sale Agent for Ineligible Overseas Shareholders and Selling AGL Australia Shareholders and payment of proceeds in accordance with the Scheme and allow Small Shareholders to purchase up to a maximum of $2,000 of additional AGL Australia Shares in increments of $500;
  - procure the sale of Accel Energy Shares by the Sale Agent for Selling Accel Energy Shareholders and payment of proceeds in accordance with the Scheme and to allow Small Shareholders to purchase up to a maximum of $2,000 of additional Accel Energy Shares in increments of $500; and
  - comply with the terms of the Scheme in all respects;
- (**Obligations of AGL Australia**) AGL Australia must take all reasonable steps within its control to implement the Demerger, including to:
  - register the AGL Australia Shareholders as referred to in Section 5.4.3;
  - issue holding statements to holders of AGL Australia Shares as contemplated in Section 5.4.3; and
  - provide all assistance reasonably requested by AGL Energy in relation to the performance of AGL Energy's obligations under the deed; and
- (**Listing**) AGL Australia must apply for admission of AGL Australia to the Official List and official quotation of AGL Australia Shares on the ASX.

5.9.3 Deed Poll

AGL Australia entered into the Deed Poll in favour of AGL Energy Shareholders as at the Record Date under which AGL Australia has undertaken to take certain steps in respect of the Scheme, including applying for admission to the Official List and for official quotation of AGL Australia Shares on the ASX.

The Deed Poll is set out in full in Section 12.

5.9.4 Separation Deed

The Separation Deed between AGL Energy and AGL Australia deals with matters arising in connection with the separation of the AGL Australia Group from the Accel Energy Group.

The key terms of the Separation Deed are as follows:

- (**Demerger Principles**) The fundamental underlying principle of the Demerger is that on and from the Effective Date:
  - the AGL Australia Group will have the entire benefit and risk of the AGL Australia Business as if the AGL Australia Group had owned and operated that business at all times, subject to Accel Energy being entitled to the earnings attributable to the AGL Australia Business in the period up to the Economic Separation Time. The AGL Australia Group will assume all liabilities of that business (irrespective of whether those liabilities relate to the period before or after the Demerger); and
  - The Accel Energy Group will have the entire benefit and risk of the Accel Energy Business. The Accel Energy Group will retain or assume all liabilities of the Accel Energy Business (irrespective of whether those liabilities relate to the period before or after the Demerger).
- (**Rights and obligations**) To give effect to the Demerger Principle, Accel Energy and AGL Australia agree that once the Demerger is implemented, no member of the Accel Energy Group will have any rights against, or obligations to, any member of the AGL Australia Group and no member of the AGL Australia Group will have any rights against, or obligations to, any member of the Accel Energy Group except as otherwise provided in the Demerger agreements.
- (**Assumption of liabilities**) Consistent with the Demerger Principles:
  - Accel Energy will assume and be responsible for all liabilities relating to the Accel Energy Business and AGL Energy indemnifies the AGL Australia Group against all claims and liabilities relating to the Accel Energy Business; and
  - AGL Australia will assume and be responsible for all liabilities relating to the AGL Australia Business and indemnifies the Accel Energy Group against all claims and liabilities relating to the AGL Australia Business.
- (**Contracts**) The parties will use reasonable endeavours to novate any AGL Australia Contracts (being contracts held by a Group member that exclusively relate to, or are otherwise agreed to form part of, the AGL Australia Business) to the AGL Australia Group, and any Accel Energy Contracts (being contracts held by an AGL Australia Group member that exclusively relate to, or are otherwise agreed to form part of, the Accel Energy Business) to the Accel Energy Group. The Separation Deed also contains obligations to negotiate replacement contracts or contracts which are shared by businesses conducted by both the Accel Energy Group and the AGL Australia Group.

5.9.5 Transitional Services Agreement

The Transitional Services Agreement (**TSA**) between Accel Energy, AGL Australia and AGL Australia Services Pty Ltd provides for the provision of certain transitional services by Accel Energy to AGL Australia and by AGL Australia to Accel Energy. The key services covered by the TSA are:

- provision of group accounting and reporting services by AGL Australia;
- provision of accounts payable services principally by AGL Australia;
- provision of payroll related services by Accel Energy;
- provision of technology services principally by AGL Australia;
- provision of enterprise services and work management services by Accel Energy;
- provision of customer related services by AGL Australia; and
- provision of health, safety and environment related services by Accel Energy.

The maximum term for the provision of services under the TSA is 42 months from:

- the implementation of the Demerger; or
- such other commencing date for a service as set out in Schedule 1 of the TSA.

Either party may terminate the TSA, a transitional service or a separation activity for cause:

- if the other party commits a material breach of the TSA (that is incapable of remedy or not remedied within 20 days of written notice to do so); or
- if an insolvency event occurs in respect of the other party.

In addition, the service recipient (Recipient) may also terminate:

- a transitional service, if the party who is providing the transitional service (**Service Provider**) repeatedly fails to provide that service in accordance with the applicable service level, and that failure: (i) has occurred for at least 3 consecutive months, (ii) has caused a material adverse impact to the business of the Recipient and its group members; and (iii) the Recipient has notified the Service Provider of the failure in accordance with the TSA; and
- a transitional service or a separation activity, at any time for convenience, by providing the applicable notice under the TSA. The TSA also sets out a process for the Service Provider to recoup costs and expenses incurred by the Service Provider in circumstances where the Recipient terminates a transitional service or a separation activity (or a component thereof) for convenience, including where the relevant service or separation activity was provided pursuant to an agreement with a third party.

Subject to certain exclusions (injury, death, breach of law, fraud, breach of confidentiality or sensitive information obligations owed under the TSA, and payment of fees by the Recipient or other costs which are due and owing under the TSA), each party's liability to the other in respect of any claim under or in connection with the TSA is capped to the total fees paid or payable to the other party in the relevant contract year.

Where an authorisation, permit, waiver, consent or approval (**Third Party Approval**) is required to permit the supply or receipt of transitional services or separation activities under the TSA, the Service Provider must use reasonable endeavours to obtain that Third Party Approval (to the extent not already obtained prior to the commencement of the TSA) with any costs or expenses incurred by the Service Provider shared equally between the parties. If the Third Party Approval is not able to be obtained and the Recipient so requests, the parties must work together to procure a replacement service. The Service Provider will only be required to supply a transitional service or perform a separation activity if the applicable Third Party Approval remains in force. If a Third Party Approval or other third party agreement terminates, expires, is revoked or withdrawn, or the relevant third party ceases to provide the transitional service for any reason, the Service Provider must notify the Recipient and use its reasonable endeavours to either perform itself or assist the Recipient to supply or perform, the affected transitional service or separation activities or a functional equivalent.

5.9.6 Offtake Agreement

AGL Hydro Partnership and AGL Australia Markets Pty Ltd will enter into an Offtake Agreement to manage their respective exposures to wholesale energy market prices.

The terms and conditions of the Offtake Agreement are based on the standard form document typically used by participants in Australian wholesale energy markets for over-the-counter transactions, being the 2002 ISDA Master Agreement (**ISDA Master Agreement**), incorporating the Australian Electricity Addendum and the Australian Environmental Products Addendum published by Australian Financial Markets Association.

The ISDA Master Agreement includes a negotiated ISDA Schedule which is incorporated into, supplements and forms part of the ISDA Master Agreement. The commodity transactions (or trades) themselves are documented in confirmations entered into under the ISDA Master Agreement.

The key terms and conditions of the Offtake Agreement (or the ISDA Master Agreement) between AGL Hydro Partnership and AGL Australia Markets Pty Ltd include:

- (**Conditionality**) The Offtake Agreement is conditional on implementation of the Demerger.
- (**Credit support**)
  - There is an obligation, upon request by the other party, to provide credit support in circumstances where a specified credit downgrade event occurs such as if the credit rating of a party or its credit support provider is for example (i) less than BBB- from Standard & Poor's Corporation, Baa3 from Moody's Investors Service or BBB- from Fitch Ratings; or (ii) the party ceases to have a public credit rating; and
  - The parties can elect by agreement to disregard the exposure under specific trades when calculating the credit support that would otherwise be required. If all the trades under the agreement are the subject of such an election, then no credit support is required to be provided by either party including on a credit downgrade. All of the trades entered as at the implementation of the Demerger will include this election.
- (**Cross default**) Standard cross default provisions which permit termination of the Offtake Agreement by the non-defaulting party should a party default under its debt funding arrangements in such a way as to trigger a repayment requirement of an amount that exceeds a specified threshold.
- (**Events of default**) Standard events of default such as failure to pay or deliver, bankruptcy and, among other things, the transfer by a party of all or substantially all of its assets to a new entity in circumstances where that entity does not also assume the party's obligations under the Offtake Agreement. Uncured events of default trigger a termination right in favour of the non-defaulting party.
- (**Termination events**) Standard termination events including a credit event upon merger. A credit event upon merger generally occurs where immediately following the occurrence of certain designated events (e.g. including a change in capital structure or change in control) in respect of a party, its creditworthiness is materially weaker than it was immediately prior to the event. Termination events generally permit the party that is not affected by the termination event to terminate the Offtake Agreement.
- (**Market disruption events**) Standard provisions in relation to market disruption events allowing the parties to amend the Offtake Agreement in the event that certain specified events take place that would otherwise materially impact or prevent the operation of the electricity related derivatives under the Offtake Agreement.

- (**Early termination amount**) Standard early termination amount provisions apply which provide for the calculation and payment of a close-out amount at the time the Offtake Agreement is terminated. The close-out amount is generally calculated by the non-defaulting party but may be payable by either party and is intended to reflect the mark-to-market value of the Offtake Agreement at the time of its termination.

The commercial arrangements to which the Offtake Agreement gives effect comprise a series of electricity and environmental product derivatives. These derivatives include:

- (**Fixed volume electricity swaps**) A series of fixed volume electricity swaps in respect of electricity prices in the NSW and Victorian regions of the NEM. The key terms of these swaps include:
  - the commencement of the term is subject to implementation of the Demerger;
  - credit support provisions in the Offtake Agreement do not apply;
  - volumes across these derivatives (in aggregate) range from over 1,700MW initially and decline to just under 500MW in the later years of the term; and
  - fixed price will vary depending upon the market segment being serviced by each swap. Some swaps will have a fixed price determined as at a point in time prior to Demerger, while others will be calculated by reference to future market prices.
- (**Fixed volume environmental products contracts**) A series of fixed forward commodity contracts for LGCs. The key terms of these include:
  - the commencement of the term is subject to implementation of the Demerger;
  - credit support provisions in the Offtake Agreement do not apply;
  - specified fixed volumes of LGCs that must be physically delivered in respect of each calendar month, of a sufficient quantity to meet AGL Australia's liability under the Renewable Energy Target;
  - fixed price will be calculated either by reference to the future market prices for LGCs or as a pre-agreed fixed amount set out in the relevant commodity contract (as applicable); and
  - a shortfall regime for LGC shortfall amounts, with a shortfall payment.
- (**SA electricity swap confirmations**) Two confirmations setting out the terms of electricity swap transactions in the South Australian region of the NEM sold by Accel Energy to AGL Australia on bespoke terms. The SA electricity swap confirmations are linked to the gas sales agreement between Accel Energy and AGL Australia entities in relation to gas delivered to the Torrens Island Power Station (discussed in Section 5.9.7) (**TIPS GSA**). The SA electricity swap confirmations share a number of common terms but also differ in certain respects as detailed below:
  - subject to implementation of the Demerger, each of the confirmations has a term commencing on 1 July 2022 and expiring on 31 December 2025;
  - the swap confirmations allow AGL Australia to flexibly nominate up to 380MW within certain parameters to the extent that AGL Australia makes gas supply available to the Torrens Island Power Station under the TIPS GSA;
  - certain limits to the nomination of contract capacity under one of the swap confirmations to allow appropriate opportunities for maintenance to be undertaken at the Torrens Island Power Station;
  - the fixed price is calculated by reference to the gas price available under the TIPS GSA;
  - the terms of the SA electricity swap confirmations include particular provisions in relation to events of default and termination events that differ from the standard events under the ISDA Master Agreement described above, including one-way close-out in the case of events of default and certain 'fault-based' additional termination events; and
  - it is a requirement of the SA electricity swap confirmations that the Accel Energy party to the confirmations remains a related body corporate of the entity that owns and has operational control of the Torrens Island Power Station unless AGL Australia provides its consent.
- (**Volume reallocation**) An *ex ante energy offset* reallocation forward commodity transaction for electricity. The key terms include:
  - the commencement of the term is subject to the implementation of the Demerger; and
  - credit support provisions in the Offtake Agreement do not apply.

5.9.7 Gas sales agreement

Certain AGL Energy Subsidiaries which, following the Demerger, will form part of the AGL Australia and Accel Energy groups will enter into a Gas Sales Agreement (**TIPS GSA**). Under the TIPS GSA, AGL Australia will sell gas to Accel Energy which will be delivered at the Torrens Island Power Station for consumption by Accel Energy. The purpose of the TIPS GSA is to make certain quantities of gas available to Accel Energy to be used by Accel Energy to make power available to AGL Australia under the SA electricity swap confirmations discussed in Section 5.9.6. The supply term will be until 31 December 2025 unless the TIPS GSA is terminated earlier in accordance with its terms. Payment for the gas will be in arrears and there will be no review of the gas price during the term of the TIPS GSA. The gas price will be subject to a CPI adjustment on an annual basis. The other terms of the TIPS GSA will be on a back-to-back basis with the SA electricity swap confirmations but will otherwise be on standard terms.

5.9.8 Other arrangements

- **Allocation of energy market products**

AGL Australia and Accel Energy will enter into a series of arrangements to efficiently allocate to the appropriate entity market products in the AGL Energy future portfolio as at Demerger (including forward purchases of environmental products and derivatives). The purpose of these arrangements is to ensure an appropriate allocation of economic benefit, alignment to future trading strategies, collateral requirements, risk and balancing asset positions. The financial impacts of these arrangements are reflected in the pro forma financial information of AGL Australia and Accel Energy set out in Sections 3.7 and 4.7 respectively, based on their mark-to-market value as at 31 December 2021. The market price of energy and environmental products has fluctuated in the period since 31 December 2021 and will continue to fluctuate over time. The mark-to-market value of the arrangements between AGL Australia and Accel Energy could therefore change materially between those reflected in the historical pro forma financial information and post implementation of the Demerger.

- **Gas Blending Station Agreement**

The Gas Blending Station Agreement (**GBSA**) between a subsidiary of Accel Energy and a subsidiary of AGL Australia relates to the shared use of the blending station located at Torrens Island, which blends gas for use at the Torrens Island Power Station and Barker Inlet Power Station. Under the GBSA, Accel Energy will physically operate and maintain the blending station, and AGL Australia will remotely control the functions of the facility for the benefit of both parties. The GBSA will commence from the Implementation Date and will continue until terminated.

The following events may lead to termination of the GBSA:

- AGL Australia wholly or substantially abandons the operation and monitoring of the blending station;
- Accel Energy no longer holds the lease or the rights to own and operate the blending station;
- AGL Australia controls its own blending station and no longer has need for the Barker Inlet blending station;
- either party commits a substantial breach of the GBSA;
- an insolvency event occurs in respect of either party; or
- the parties otherwise agree to terminate the GBSA.

In the event that a party terminates the GBSA for cause, the parties must act reasonably and in good faith to negotiate continued access to the blending station for the other.

The GBSA includes a regime for the handover of the blending station to AGL Australia if it is no longer required by Accel Energy.

- **Barker Inlet Power Station Operation and Maintenance Agreement**

Under the Operation and Maintenance Agreement (**OMA**), Accel Energy will provide operating and maintenance services in respect of the Barker Inlet Power Station for AGL Australia.

The term of the OMA will commence from the Implementation Date and will continue for 3.5 years, unless terminated earlier.

Fees payable by AGL Australia to Accel Energy are estimated at between $3.75m and $7m per annum, depending on the extent of the services provided.

AGL Australia can terminate the OMA for performance-based reasons and for certain other events of default by Accel Energy (including a substantial breach of the OMA by Accel Energy) (subject to certain conditions). Accel Energy can terminate the OMA if an insolvency event occurs in respect of AGL Australia or for certain other events of default by AGL Australia (including a failure to pay an amount when due) (subject to certain conditions). Either party may terminate the OMA for prolonged force majeure.

Each party's liability to the other in respect of a claim under or in connection with the OMA is capped at the total fees paid by AGL Australia in the previous contract year (except in limited circumstances). Neither party has any liability to the other for excluded losses (including if the liable party is negligent) except in limited circumstances. Excluded losses include loss of generation, production or business or the cost of any replacement power.

- **Asset Services Agreement (ASA)**

The ASA provides for Accel Energy to provide engineering services to AGL Australia for two years following the Demerger (with the option to extend for a further two years). Accel Energy's services will include advice in relation to asset software, asset integrity and decommissioning activities. The annual fees are based on a mix of fixed fees and a schedule of rates (expected to total approximately $1.3m per year) and have been set on a cost recovery basis for Accel Energy.

Either party may terminate the ASA for convenience (after the first 12 months of the ASA by giving the other party 3 months' notice) or for cause if:

- the other party commits a material breach of the ASA; or
- an insolvency event occurs in respect of the other party.

5. Details of the Demerger

5.10 Implications if the Demerger does not proceed

If AGL Energy Shareholders do not approve the Demerger, the Court does not approve the Scheme or any of the other conditions of the Demerger are not satisfied or waived, the Demerger will not proceed.

In that event:

- the Capital Reduction will not proceed;
- AGL Energy Shareholders will not receive AGL Australia Shares (or in the case of Selling AGL Australia Shareholders and Ineligible Overseas Shareholders, they will not receive the proceeds from the sale of AGL Australia Shares);
- AGL Energy Shareholders will retain their current holding of AGL Energy Shares (unless they otherwise sell such shares);
- the advantages of the Demerger, as described in Section 1.3, will not be realised;
- the disadvantages and risks of the Demerger described in Sections 1.4 and 1.5 respectively will not arise; and
- Demerger costs of approximately $160m will still be incurred including costs incurred to date and termination of work underway.

Section 6

Taxation implications for AGL Energy Shareholders

6. Taxation implications for AGL Energy Shareholders

6.1 Introduction

The following is a general summary of the Australian income tax and goods and services tax (**GST**) implications arising for AGL Energy Shareholders as a result of the Demerger.

As this summary is necessarily general in nature, AGL Energy Shareholders should consult with their professional tax adviser regarding their particular circumstances.

This tax summary only addresses the Australian income tax consequences for AGL Energy Shareholders who:

- were registered on the AGL Energy Share Register as the holders of the AGL Energy Shares at the Record Date;
- hold their AGL Energy Shares on capital account (i.e. not on revenue account or as trading stock);
- have not elected for the Taxation of Financial Arrangements provisions (Division 230 of the *Income Tax Assessment Act 1997* (Cth) (**ITAA 1997**) to apply in respect of their AGL Energy Shares; and
- did not acquire their AGL Energy Shares under any AGL Employee Share Plans (participants in the AGL Employee Share Plans should refer to Section 6.7.4).

This tax summary does not address any tax consequences of participating in the Demerger arising under the laws of jurisdictions other than Australia.

This tax summary is based on Australian tax laws and regulations, interpretations of such laws and regulations, and administrative practice as at the date of this Scheme Booklet.

The comments in this Section 6 are generally directed at AGL Energy Shareholders who are Australian residents (and are not tax residents in any other country), and who acquired, or are taken to have acquired, their AGL Energy Shares on or after 20 September 1985 (i.e. Post-CGT AGL Energy Shares). Following the implementation of the AGL Energy-New Alinta transaction in 2006, there are no AGL Energy Shareholders who acquired, or are taken to have acquired, their AGL Energy Shares before 20 September 1985 (for more details see https://www.agl.com.au/content/dam/digital/agl/documents/about-agl/media-centre/2006/2-27092006_scheme-booklet.pdf).

However, where relevant, specific comments have been made regarding AGL Energy Shareholders who are not Australian residents and who do not hold their AGL Energy Shares at or through a permanent establishment in Australia.

6.2 Class ruling

AGL Energy has applied to the Australian Commissioner of Taxation (**Commissioner**) for a class ruling confirming certain income tax implications of the Demerger for AGL Energy Shareholders.

AGL Energy has received a draft of the class ruling which sets out the Commissioner's preliminary, but considered views that, consistent with AGL Energy's analysis:

- Division 125 of ITAA 1997 does not apply to the Demerger.
- No part of the Capital Reduction Pro Rata Amount should be subject to Australian income tax as no determination will be made under section 45B of the *Income Tax Assessment Act 1936* (Cth) in respect of the Capital Reduction Amount.

This tax summary is based on the Commissioner's position outlined in the draft class ruling.

The final class ruling will only be received from the Commissioner after the Implementation Date, but it is expected that the final class ruling will be consistent with this summary. AGL Energy Shareholders should review the final class ruling, which will be made available publicly on Accel Energy and AGL Australia's respective websites, when it is issued by the ATO.

6.3 Overview of the Demerger

To implement the Demerger, AGL Energy will undertake the Capital Reduction where the Capital Reduction Pro Rata Amount of $4.74 per AGL Energy Share is based upon an independent valuation for tax purposes of 85% of AGL Australia at the Implementation Date. This independent valuation was prepared for tax purposes to support AGL Energy's determination of the Capital Reduction Pro Rata Amount.

The Capital Reduction Pro Rata Amount gives shareholders certainty about the quantum and characteristic of the Capital Reduction prior to the Scheme Meeting and allows them to manage their tax affairs. It is noted that the share price of AGL Australia Shares after the Demerger is not fixed and will be determined by the market.

The Capital Reduction Pro Rata Amount will not be paid in cash but will be applied on behalf of the AGL Energy Shareholders as payment for the AGL Australia Shares to be transferred from AGL Energy to AGL Energy Shareholders. Each AGL Energy Shareholder (other than Ineligible Overseas Shareholders and Selling AGL Australia Shareholders) will receive one AGL Australia Share for each AGL Energy Share held by the AGL Energy Shareholder as at the Record Date.

From an Australian income tax perspective, no part of the Capital Reduction will be taken to be a dividend.

6.4 Demerger tax relief not available

As outlined in the draft class ruling received, demerger tax relief is not available in respect of the Demerger.

This is on the basis that the requirement in subsection 125-70(1)(h) (which requires the continuity of proportionate interest test contained in subsection 125-70(2) to be met) of ITAA 1997 will not be satisfied as the proportionate change in ownership expected under the AGL Australia Sale and Top-up Facility forms an integral part of AGL Energy's commercial plan for the Demerger.

6.4.1 Capital gain/loss for AGL Energy Shareholders and cost base of AGL Energy Shares

As demerger tax relief is not available in respect of the Demerger, the CGT implications for the AGL Energy Shareholders will need to be considered.

For AGL Energy Shareholders on the Record Date who continue to hold AGL Energy Shares to Implementation Date:

- If the Capital Reduction Pro Rata Amount of $4.74 per AGL Energy Share is not more than the cost base of the AGL Energy Share, the cost base and reduced cost base of the share will be reduced (but not below nil) by $4.74 (being the Capital Reduction Pro Rata Amount).
- An AGL Energy Shareholder will make a capital gain if the amount of the Capital Reduction Pro Rata Amount of $4.74 per AGL Energy Share is more than the cost base of the AGL Energy Share. The amount of the capital gain is equal to the excess.
- If an AGL Energy Shareholder makes a capital gain from CGT event G1 happening, the cost base and reduced cost base of the AGL Energy Share (subsequently known as the Accel Energy Share) are reduced to nil. An AGL Energy Shareholder cannot make a capital loss from CGT event G1 happening.

For AGL Energy Shareholders on the Record Date who no longer own AGL Energy Shares at the Implementation Date, a capital gain arises under CGT event C2 at the Implementation Date equal to $4.74 in respect of each AGL Energy Share owned at the Record Date.

If the AGL Energy Share to which the Capital Reduction relates was acquired by an AGL Energy Shareholder at least 12 months before the payment, a capital gain from CGT event G1/C2 (addressed below) happening may qualify as a discount capital gain, provided the other conditions in Division 115 of the ITAA 1997 are satisfied.

6.4.2 Cost base of AGL Australia Shares

As demerger tax relief is not available in respect of the Demerger:

- The first element of the tax cost base and reduced cost base for an AGL Australia Share acquired under the Demerger will be $4.74.
- For CGT purposes (including the 12-month requirement for the CGT discount concession), AGL Australia Shares acquired under the Demerger should be treated as having been acquired on the Implementation Date.

6.5 Holding AGL Australia Shares after the Demerger

The Australian income tax consequences for holding AGL Australia Shares should generally be the same as holding AGL Energy Shares.

6.5.1 Dividends

Australian resident AGL Australia Shareholders will be required to include dividends in respect of AGL Australia Shares in their assessable income for the income year in which the dividends are received.

Dividends may be franked to the extent determined by AGL Australia.

For Australian resident AGL Australia Shareholders:

- Subject to the "qualified person" rules, the AGL Australia Shareholder should include any franking credits in their assessable income and should be entitled to a tax offset equal to the franking credits received.
- An AGL Australia Shareholder that is an individual or complying superannuation fund may be able to receive a tax refund in a particular year if the franking credits attached to the dividend exceed the tax payable on the AGL Australia Shareholder's total taxable income for that income year.
- An AGL Australia Shareholder that is a company will not be entitled to a tax refund of excess franking credits. Rather, the excess franking credits may be converted to a tax loss which can be carried forward to future years (subject to the shareholder satisfying the applicable loss carry forward rules),
- AGL Australia Shareholders that are trusts should obtain their own advice on the Australian tax treatment of dividends received from AGL Australia and any franking credits attached.

For non-resident AGL Australia Shareholders:

- To the extent a dividend is franked, no dividend withholding tax should arise.
- To the extent a dividend is unfranked, dividend withholding tax of 30% will arise subject to reductions under relevant double tax agreements with Australia and the country of residence of the shareholder.

6. Taxation implications for AGL Energy Shareholders

6.5.2 Sale of AGL Australia Shares

Australian resident AGL Australia shareholders who hold the AGL Australia Shares on capital account will make a capital gain or capital loss depending on whether the proceeds from the disposal of the AGL Australia Shares exceed the cost base (or reduced cost base) of the shares sold.

As noted in Section 6.4 above:

- The first element of the tax cost base and reduced cost base for an AGL Australia Share acquired under the Demerger will be $4.74.
- For CGT purposes (including eligibility for the CGT discount concession), AGL Australia Shares should be treated as having been acquired on the Implementation Date.

6.6 Sale and top-up facilities

The Australian income tax implications outlined in Sections 6.4 and 6.5 should apply equally to Sale Facility Participants whose AGL Energy Shares and AGL Australia Shares are sold by the Sale Agent under the Accel Energy Sale and Top-up Facility or the AGL Australia Sale and Top-up Facility.

Under each sale and top-up facility:

- Selling shareholders should be regarded for CGT purposes as having disposed of an Accel Energy Share and/or an AGL Australia Share under CGT event A1 for consideration equal to the proceeds received for the share under the relevant sale and top-up facility.
- An Australian resident selling shareholder will make a capital gain if the proceeds received for the share under the relevant sale and top-up facility exceed the cost base of the share. An Australian resident selling shareholder will make a capital loss if the proceeds received for the share under the relevant sale and top-up facility are less than the reduced cost base of the share. A capital gain under CGT event A1 will not be eligible for the CGT discount:
  - on the sale of an AGL Australia Share, as the share would have been held for less than 12 months; and/or
  - on the sale of an Accel Energy Share that has been held for less than 12 months.
- No Australian income tax consequences should arise for selling shareholders who are non-residents.
- The first element of the tax cost base and reduced cost base for an Accel Energy Share and/or an AGL Australia Share acquired under the relevant top-up facility will be equal to the price per share paid by the participating shareholders for each share.

6.7 Other matters

6.7.1 Australian tax file number (TFN) and Australian Business Number (ABN)

Following the Demerger, it is expected AGL Energy Shareholders will be given the opportunity to quote their TFN, TFN exemption or their ABN in respect of their AGL Australia Shares.

AGL Energy Shareholders need not quote a TFN, TFN exemption or ABN in respect of their AGL Australia Shares. However, if they do not, AGL Australia may be required to withhold tax from dividends paid to AGL Australia Shareholders at the highest marginal tax rate plus Medicare levy (currently 47%).

6.7.2 GST

GST should not be payable on the Capital Reduction Pro Rata Amount per AGL Energy Share.

AGL Energy Shareholders may be charged GST on costs they incur in relation to seeking advice on the Demerger (e.g. tax, legal or other advisory fees). Certain AGL Energy Shareholders that are registered (or required to be registered) for GST may be entitled to claim input tax credits (or reduced input tax credits) in relation to GST incurred on these costs.

AGL Energy Shareholders should seek their own independent tax advice on the impact of GST having regard to their own circumstances.

6.7.3 Stamp duty

AGL Energy Shareholders should not be liable for any stamp duty under the Demerger.

6.7.4 Employee Share Plans

Restricted Equity Plan (REP)

AGL Energy operates the REP under which AGL Energy Restricted Shares are issued as deferred equity under the STIP. Shares purchased under the REP are generally subject to a two-year disposal restriction period. However, as a result of the Demerger, the AGL Energy Board has resolved to lift the disposal restrictions for all participants in the REP on 29 June 2022. Participants will generally be taxed on the market value of an AGL Energy Share at this time. The amount recognised by the participant as assessable income will be included in the cost base of their AGL Energy Shares. Participants who acquired shares under the REP will participate in the Demerger on the same terms as ordinary shareholders. They will each acquire one AGL Australia Share for each AGL Energy Share that they hold (after AGL Energy applies the Capital Reduction Pro Rata Amount). The Capital Reduction will give rise to a CGT event. Participants will make a capital gain to the extent that the Capital Reduction Pro Rata Amount (i.e. the value of an AGL Australia Share) exceeds the cost base per share of their AGL Energy Shares.

Share Reward Plan (SRP)

AGL Energy operates the SRP under the rules of its General Employee Share Plan. Pursuant to the SRP, AGL Energy has granted up to $1,000 of ordinary shares in AGL Energy each year to participants on a tax-exempt basis (for most participants). Participants who were granted shares under the SRP will participate in the Demerger on the same terms as ordinary shareholders. They will each acquire one AGL Australia Share for each AGL Energy Share that they hold (after AGL Energy applies the Capital Reduction Pro Rata Amount). The Capital Reduction will give rise to a CGT event. However, there should be no capital gain on the AGL Energy Shares to the extent that the value of the AGL Energy Share when it was acquired by the participant exceeds the Capital Reduction Pro Rata Amount (i.e. the value of an AGL Australia Share). Instead, the cost base of each of the participant's AGL Energy Shares after the Demerger will be reduced by the Capital Reduction Pro Rata Amount. Participants who remain with AGL Energy will continue to be subject to the original three-year disposal restriction period (but will be able to sell their AGL Australia Shares). Participants who leave AGL Energy will be able to sell both their AGL Energy Shares and their AGL Australia Shares.

Share Purchase Plan (SPP)

AGL Energy operates the SPP under the rules of its General Employee Share Plan. Pursuant to the SPP, participants purchase up to $5,000 of tax-deferred AGL Energy Shares each year using their pre-tax salary. Shares purchased under the SPP are generally subject to a four-year disposal restriction period. However, as a result of the Demerger, the AGL Energy Board has resolved to lift the disposal restrictions for all participants in the SPP on 29 June 2022. Participants will generally be taxed on the market value of an AGL Energy Share at this time. The amount recognised by the participant as assessable income will be included in the cost base of their AGL Energy Shares. Participants who acquired shares under the SPP will participate in the Demerger on the same terms as ordinary shareholders. They will each acquire one AGL Australia Share for each AGL Energy Share that they hold (after AGL Energy applies the Capital Reduction Pro Rata Amount). The Capital Reduction will give rise to a CGT event. Participants will make a capital gain to the extent that the Capital Reduction Pro Rata Amount (i.e. the value of an AGL Australia Share) exceeds the cost base per share of their AGL Energy Shares.

Long Term Incentive Plan (LTIP)

AGL Energy operates the LTIP, under which it has granted AGL Energy Performance Rights. The AGL Energy Board has resolved to accelerate the testing and vesting of AGL Energy Performance Rights prior to the record date for the Demerger. In respect of AGL Energy Performance Rights that vest, participants will be allocated AGL Energy Shares before the record date for the Demerger and participate in the Demerger on the same terms as ordinary shareholders. The allocation of AGL Energy Shares to participants upon vesting of their AGL Energy Performance Rights will trigger a taxing point for the participants. The participants will receive cost base in their AGL Energy Shares equal to the value of an AGL Energy Share at the date their AGL Energy Performance Rights vest. Under the Demerger, each participant will acquire one AGL Australia Share for each AGL Energy Share that they hold (after AGL Energy applies the Capital Reduction Pro Rata Amount). The Capital Reduction will give rise to a CGT event. However, there should be no capital gain on the AGL Energy Shares to the extent that the value of the AGL Energy Share when it was acquired by the participant exceeds the Capital Reduction Pro Rata Amount (i.e. the value of an AGL Australia Share). Instead, the cost base of each of the participant's AGL Energy Shares after the Demerger will be reduced by the Capital Reduction Pro Rata Amount.

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Section 7

Independent Limited Assurance Report

7. Independent Limited Assurance Report

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The Directors of AGL Energy Limited
The proposed Directors of AGL Australia Limited
200 George Street
Sydney NSW 2000

6 May 2022

Dear Directors

INDEPENDENT LIMITED ASSURANCE REPORT AND FINANCIAL SERVICES GUIDE

Introduction

This report has been prepared at the request of the Directors of AGL Energy Limited (the **Group** or **AGL**) and the proposed Directors of AGL Australia Limited (**AGL Australia**) (together the **Directors**) for inclusion in a Scheme Booklet to be issued by the Group in respect of the demerger of AGL Australia from AGL (the **Demerger**) and the formation of Accel Energy Limited (**Accel Energy**) which represents the remainder of the Group.

Deloitte Corporate Finance Pty Limited is wholly owned by Deloitte Touche Tohmatsu and holds the appropriate Australian Financial Services licence (**AFSL**) under the *Corporations Act 2001 (Cth)* for the issue of this report.

Scope

Deloitte Corporate Finance Pty Limited has been engaged by the Directors to perform a review of the following financial information included in the Scheme Booklet:

AGL Australia Pro Forma Historical Financial Information

- AGL Australia pro forma revenue (segment information) for the years ended 30 June 2019, 30 June 2020 and 30 June 2021 and the six months ended 31 December 2021 as set out in Table 1 in Section 3.7.6;
- AGL Australia pro forma underlying EBITDA (segment information) for the years ended 30 June 2019, 30 June 2020 and 30 June 2021 and the six months ended 31 December 2021 as set out in Table 2 in Section 3.7.6;
- AGL Australia pro forma historical statements of Profit or Loss for the years ended 30 June 2019, 30 June 2020 and 30 June 2021 and the six months ended 31 December 2021 as set out in Table 1 in Section 3.7.7;
- Reconciliation of AGL Australia historical EBIT to AGL Australia pro forma historical EBIT for the years ended 30 June 2019, 30 June 2020 and 30 June 2021 and the six months ended 31 December 2021 as set out in Table 2 in Section 3.7.8;
- Reconciliation of AGL Australia historical NPAT to AGL Australia pro forma historical NPAT for the years ended 30 June 2019, 30 June 2020 and 30 June 2021 and the six months ended 31 December 2021 as set out in Table 3 in Section 3.7.9;

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- AGL Australia Pro Forma Historical Statement of Financial Position as at 31 December 2021 as set out in Table 1 in Section 3.7.11; and
- AGL Australia Pro Forma Historical Statements of Cash Flows for the years ended 30 June 2019, 30 June 2020 and 30 June 2021 and the six months ended 31 December 2021 as set out in Table 1 in Section 3.7.12;

(together the **AGL Australia Pro Forma Historical Financial Information**).

Accel Energy Pro Forma Historical Financial Information

- Accel Energy (post demerger) pro forma revenue (segment information) for the years ended 30 June 2019, 30 June 2020 and 30 June 2021 and the six months ended 31 December 2021 as set out in Table 1 in Section 4.7.6;
- Accel Energy (post demerger) pro forma underlying EBITDA (segment information) for the years ended 30 June 2019, 30 June 2020 and 30 June 2021 and the six months ended 31 December 2021 as set out in Table 2 in Section 4.7.7;
- Accel Energy (post demerger) pro forma historical statements of Profit or Loss Information for the years ended 30 June 2019, 30 June 2020 and 30 June 2021 and the six months ended 31 December 2021 as set out in Table 1 in Section 4.7.8;
- Reconciliation of AGL Energy's historical EBIT to Accel energy (post demerger) pro forma historical EBIT for the years ended 30 June 2019, 30 June 2020 and 30 June 2021 and the six months ended 31 December 2021 as set out in Table 2 in Section 4.7.8;
- Reconciliation of AGL Energy's historical NPAT to Accel energy (post demerger) pro forma historical NPAT for the years ended 30 June 2019, 30 June 2020 and 30 June 2021 and the six months ended 31 December 2021 as set out in Table 3 in Section 4.7.9;
- Accel Energy (post demerger) pro forma historical Balance Sheet as at 31 December 2021 as set out in Table 1 in Section 4.7.11; and
- Accel Energy (post demerger) Pro Forma Historical Statements of Cash Flows for the years ended 30 June 2019, 30 June 2020 and 30 June 2021 and the six months ended 31 December 2021 as set out in Table 1 in Section 4.7.12;

(together the **Accel Energy Pro Forma Historical Financial Information**).

The AGL Australia Pro Forma Historical Financial Information and the Accel Energy Pro Forma Historical Financial Information is collectively referred to as the **Pro Forma Historical Financial Information**.

The Pro Forma Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the Group's adopted accounting policies.

Due to its nature, the Pro Forma Historical Financial Information does not represent AGL Australia's or Accel Energy's actual or prospective financial performance, financial position or cash flows.

Where relevant the Pro Forma Historical Financial Information for the years ended 30 June 2019, 30 June 2020 and 30 June 2021 has been extracted from the respective financial reports of the Group which were audited by Deloitte Touche Tohmatsu in accordance with Australian Auditing Standards. Where relevant the Pro Forma Historical Financial Information for the half-year ended 31 December 2021 has been extracted from the half-year financial report of the Group which was reviewed by Deloitte Touche Tohmatsu in accordance with Auditing Standards for Review Engagements.

Deloitte Touche Tohmatsu issued an unmodified audit opinion on the financial reports for the years ended 30 June 2019, 30 June 2020 and 30 June 2021 and an unmodified review conclusion on the financial report for the half-year ended 31 December 2021.

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The Pro Forma Historical Financial Information is presented in the Scheme Booklet in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001 (Cth)*.

Directors' Responsibility

The Directors are responsible for the preparation and presentation of the Pro Forma Historical Financial Information, including the selection and determination of the Pro Forma Adjustments made to derive the Pro Forma Historical Financial Information, and the information contained within the Scheme Booklet.

This responsibility includes the operation of such internal controls as the Directors determine are necessary to enable the preparation of the Pro Forma Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Pro Formal Historical Financial Information based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with Australian Standard on Assurance Engagements (ASAE) 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information.*

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the Pro Forma Historical Financial Information.

We have performed the following procedures as we, in our professional judgement, considered reasonable in the circumstances:

Pro Forma Historical Financial Information

- a review of the process undertaken by management to extract/derive the Pro Forma Historical Financial Information from the financial statements of the Group for the years ended 30 June 2019, 30 June 2020 and 30 June 2021 and half-year ended 31 December 2021 to determine the AGL Australia Pro Forma Historical Financial Information and the Accel Energy Pro Forma Historical Financial Information;
- the performance of analytical procedures on the AGL Australia Pro Forma Historical Financial Information and the Accel Energy Pro Forma Historical Financial Information;
- a review of the stated basis of preparation of the AGL Australia Pro Forma Historical Financial Information and the Accel Energy Pro Forma Historical Financial Information for consistency of application over the period;
- consideration of the appropriateness of the Pro Forma Adjustments;
- a review of work papers, accounting records and other documents of the Group; and
- enquiry of Directors, management, personnel and advisors to AGL.

Conclusions

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information comprising the:

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- AGL Australia Pro Forma Historical Financial Information as set out in Section 3.7 of the Scheme Booklet
- Accel Energy Pro Forma Historical Financial Information as set out in Section 4.7 of the Scheme Booklet

is not prepared, in all material respects, in accordance with the stated basis of preparation, as described in Section 3.7 and 4.7 of the Scheme Booklet.

Restrictions on Use

Without modifying our conclusions, we draw attention to the Important Information Section of the Scheme Booklet, which describes the purpose of the Pro Forma Historical Financial Information, being for inclusion in the Scheme Booklet. As a result, the Pro Forma Historical Financial Information may not be suitable for use for another purpose. We disclaim any assumption of responsibility for any reliance on this report, or on the financial information to which it relates, for any purpose other than that for which it was prepared.

Consent

Deloitte Corporate Finance Pty Limited has consented to the inclusion of this limited assurance report in the Scheme Booklet in the form and context in which it is included.

Liability

The liability of Deloitte Corporate Finance Pty Limited is limited to the inclusion of this report in the Scheme Booklet. Deloitte Corporate Finance Pty Limited makes no representation regarding, and has no liability for, any other statements or other material in, or omissions from the Scheme Booklet.

Disclosure of Interest

Deloitte Corporate Finance Pty Limited does not have any interest in the outcome of this Demerger other than the preparation of this report and participation in the due diligence procedures for which normal professional fees will be received. Deloitte Touche Tohmatsu is the auditor of the Group.

General financial product advice

Deloitte Corporate Finance Pty Limited has prepared this report for general information purposes only. It does not take into account your objectives, financial situation or needs. You should consider your own objectives, financial situation and needs when assessing the suitability of the report to your situation or you may wish to obtain personal financial product advice to assist you in this assessment.

Financial Services Guide

We have included our Financial Services Guide in this report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our report.

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7. Independent Limited Assurance Report

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Yours faithfully
DELOITTE CORPORATE FINANCE PTY LIMITED

Jason Thorne
Authorised Representative Number 467809
Deloitte Corporate Finance Pty Limited (AFSL Number 241457)

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Section 8

Independent Expert's Report

8. Independent Expert's Report

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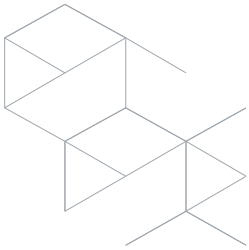

6 May 2022

The Directors
AGL Energy Limited
Level 24
200 George Street
Sydney NSW 2000

Dear Directors

Demerger of AGL Australia

1 Introduction

On 30 March 2021, AGL Energy Limited ("AGL Energy") announced its intention to pursue a structural separation of its multi-product energy retail business and its electricity generation business ("Demerger"). Following a period of engagement with stakeholders, including shareholders, regulators and AGL Energy's workforce, AGL Energy confirmed its intention to pursue the Demerger in an announcement dated 30 June 2021.

The Demerger will create two standalone companies listed on the Australian Securities Exchange ("ASX"):

- AGL Energy, to be renamed Accel Energy Limited ("Accel Energy"), which will be Australia's largest electricity generator, providing secure, low-cost energy while driving the energy transition by repurposing its existing generation sites into low emissions industrial energy hubs and progressing a pipeline of renewable energy projects; and
- AGL Australia Limited ("AGL Australia"), which will be a leading energy led multi-service provider, supported by a market trading function and a base of firming, storage and renewable assets.

The decision to pursue the Demerger followed a strategic review of AGL Energy's businesses that explored other value realisation alternatives, including pursuing a strategic sale of the business, an initial public offering ("IPO") and maintaining the status quo.

The announcement of the Demerger attracted acquisition proposals from Brookfield Asset Management Inc. and Grok Ventures (the "Brookfield Consortium") to acquire 100% of AGL Energy. This included the initial cash offer of $7.50 per share announced on 22 February 2022 and the revised cash offer of $8.25 per share announced on 7 March 2022. Both proposals were rejected by the AGL Board on the basis that they materially undervalued the company and therefore were not in the best interests of AGL Energy shareholders. Following these announcements, the AGL Energy Board reiterated its intention to continue pursuing the Demerger as the value optimising option for shareholders.

The Demerger is to be effected by a scheme of arrangement between AGL Energy and its shareholders, a reduction of AGL Energy's share capital and a separate resolution to approve the provision of financial assistance to AGL Australia. Completion of the following steps is required to implement the Demerger:

- a capital reduction by AGL Energy, which will be applied to the acquisition of shares in AGL Australia;
- application to the ASX for AGL Australia to be initially listed on the ASX under the stock code "AGK"[1];
- renaming of AGL Energy to Accel Energy; and
- establishment of new separate debt facilities for AGL Australia and the ongoing business of Accel Energy.

[1] AGL Australia's stock code will eventually revert to "AGL" after implementation of the Demerger.

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The effect of the Demerger will be that Accel Energy will retain a 15% interest in AGL Australia, with the remaining 85% distributed to AGL Energy shareholders (other than ineligible overseas shareholders and selling shareholders)[2] on the basis of one share in AGL Australia for each AGL Energy share held.

The Demerger requires the approval of AGL Energy shareholders in relation to the scheme of arrangement, capital reduction and financial assistance. The resolutions to be voted on by AGL Energy shareholders are interdependent. If any of the resolutions are not approved, the Demerger will not proceed.

The AGL Energy Board has unanimously recommended that shareholders vote in favour of the Demerger. Each AGL Energy director who holds or controls AGL Energy shares intends to vote in favour of the Demerger.

The directors of AGL Energy have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion the Demerger is in the best interests of AGL Energy shareholders and to state reasons for that opinion. Grant Samuel has also been asked to provide an opinion as to whether the capital reduction associated with the Demerger materially prejudices AGL Energy's ability to pay its existing creditors.

A copy of the report (including this letter) will accompany the Notice of Meeting and Explanatory Memorandum ("Demerger Booklet") to be sent to shareholders by AGL Energy. This letter contains a summary of Grant Samuel's opinion and main conclusions.

2 Demerger Opinion

In Grant Samuel's opinion, the Demerger is in the best interests of AGL Energy shareholders.

3 Summary and Conclusions

- **The Demerger is being undertaken against a backdrop of unprecedented upheaval in the Australian energy industry.**

  The Australian energy industry has weathered significant change in recent years. This change is expected to continue to accelerate and include the:

  - progressive phase out of fossil fuel based energy production;
  - growing use of renewable sources of power (solar, wind, etc);
  - development of batteries (and other forms of storage such as pumped hydro) to firm renewable energy and enable it to move towards delivering reliable power while also stabilising the grid as the coal-fired power stations are retired;
  - increasing electrification (transport, heating, etc) which will increase the demand for electricity and impact alternative energy sources (such as oil and gas); and
  - heightened regulation of retail energy prices.

  However, while the direction is plainly obvious, it is not possible to predict with any confidence the rate of change, the supply/demand dynamics and future price paths for individual products or what technological developments may occur (and when). In these circumstances, the attributes that are critical to long term success for an energy business are:

  - flexibility and the ability to adapt quickly;
  - financial strength and the capacity to invest in opportunities as they arise;

[2] Ineligible overseas shareholders are AGL Energy shareholders other than those with registered addresses in Australia or its external territories, or in Canada, Hong Kong, Malaysia, New Zealand, Singapore, the United Kingdom or the United States or any other jurisdiction in respect of which AGL Energy reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer AGL Australia shares to AGL Energy shareholders.

Selling shareholders are AGL Energy shareholders who individually hold 500 or fewer AGL Energy shares on the Demerger record date and elect to have the AGL Australia shares that they would otherwise receive under the Demerger sold on the ASX via a share sale facility.

- access to renewable and flexible sources of energy;
- operating cost competitiveness;
- a robust physical and technology platform; and
- a commitment to meeting the needs of customers.

- **Two features of the evolving energy industry landscape are driving changes to the way in which participants operate their businesses.**

  The two primary drivers of the Demerger are:

  - **the traditional baseload "gentailer" model is no longer fit for purpose**. The "gentailer" model where the price risks of the retail energy business are offset by ownership of baseload power production no longer provides an effective solution, largely as a result of the impact of renewables (including rooftop solar) on the supply/demand balance and pricing. The consequences have included:
    - misalignment of baseload power with customer load shape. The demand profiles of large commercial and industrial customers remain relatively stable throughout the day but the demand profiles of retail customers have become increasingly "peakier" as they are the largest adopters of rooftop solar;
    - increased wholesale price volatility. Excess electricity supply from renewables and baseload power has meant that the National Electricity Market ("NEM") has experienced extended periods of very low and sometimes negative price intervals during the day. In recent years, accelerated retirements of existing baseload power stations have also introduced increased supply uncertainty and volatility to wholesale prices; and
    - significant profitability challenges, especially for baseload generators that are unable to flex output (beyond a limited degree) and have to sell production during the day, often at a loss.

    Heightened regulation of retail electricity prices have also introduced a more prescriptive approach for determining electricity prices to end consumers. These changes consequently reduced the value of vertical integration as retail prices are determined by factors independent of the characteristics of the "gentailers" generation portfolio.

    Collectively, these issues are leading to severe pressure on the viability of coal-fired power. At the same time, coal-fired power plays a critical role in meeting total demand, providing grid stability and ensuring affordability. There is an increasing divergence in the objectives, priorities and strategies of energy retailers and baseload power producers and it has become clear that the "one-size-fits-all" gentailer model is no longer effective. This issue is a global one as renewables increase their presence but it is particularly acute in Australia because the climatic conditions have led to an extremely high level of rooftop solar penetration; and

  - **ESG[3] preferences of capital markets.** The increasing sensitivity of equity market investors and credit providers to ESG issues means that AGL Energy's cost of capital (both equity and debt) is adversely impacted by its ownership of coal-fired power stations. The market value of all of AGL Energy's businesses is being "tainted" by a poor ESG rating and consequently makes raising capital more expensive and challenging.

    Improving AGL Energy's ESG credentials is not easily addressed within the current structure, no matter how many renewable projects are pursued, given the Board's view that the coal-fired power stations are, on current settings, profitable assets that can viably continue until 2030-2033 in the case of Bayswater and 2040-2045 in the case of Loy Yang. The Board of AGL Energy believes that AGL Australia will have much more acceptable ESG credentials that will translate into increased demand for its shares and a better share price and market rating (i.e. earnings

[3] ESG means environmental, social and governance.

multiple) than it receives as part of AGL Energy. Accel Energy expects to be able to readily raise growth capital by "ringfencing" its portfolio of renewable projects and energy hub developments.

- **The Demerger is a positive solution to the challenges facing AGL Energy and has the potential to create long term value for shareholders.**

  In light of the evolving operating and capital markets environment, it became increasingly clear to the AGL Energy Board that a strategic or structural change would provide the best opportunity to improve the outcome for shareholders while also fulfilling obligations to other stakeholders (including protecting and enhancing system stability, affordability and reliability in the NEM). The essential choices that could resolve the dilemmas outlined above are to:

  - pursue an accelerated closure of AGL Energy's coal-fired power stations (within the constraints of maintaining system integrity) so as to bolster its ESG credentials and enhance demand for its shares from institutional shareholders;
  - sell the coal-fired power stations either to a third party or by way of IPO (or alternatively, sell the retail business); or
  - separate the ownership of coal-fired power stations and the retail business so as to allow them to pursue independent strategies as individual listed companies (i.e. by way of a demerger).

  In Grant Samuel's view, there is a clear case that the status quo is suboptimal and that change is required. The real issue is whether, in the absence of a fully priced takeover offer, the issues are best solved by early closure, sale (trade sale or IPO) or spin off. The first two options have significant drawbacks:

  - accelerating the closure dates for AGL Energy's coal-fired power stations may seem appealing but it would be value destructive to shareholders unless:
    - the plants are no longer viable at the time of closure; or
    - replacement projects generate returns sufficient to compensate for the forgone income from the coal-fired power stations and the bringing forward of the environmental rehabilitation obligations in addition to a return on investment; and
  - sales processes are inevitably risky and, to a large extent, out of the control of the seller. It would be challenging to receive full value for the low carbon future of the retail business when it is embedded within a carbon intensive business that is out of favour with the market. In addition, the timing of pursuing a sale in the current market and regulatory environment may not be ideal and there may be some further inefficiencies (e.g. tax). These processes will still require AGL Energy to incur significant separation costs and install new financial structures (and debt funding) for the businesses.

  Ultimately, the Board settled on the Demerger as the preferred way forward (in the absence of a fully priced takeover offer from a third party). The Demerger offers much higher transactional certainty (than a sale process), brings a number of benefits to the businesses and preserves the flexibility to change course as market circumstances evolve. Specifically, it:

  - enables AGL Australia to remain a "gentailer" but with a portfolio of more flexible generation and storage assets that better matches its retail load profile;
  - provides AGL Australia with a clear and relatively short pathway to a low carbon future that the Board expects will be much more acceptable to ESG sensitive investors (and customers);
  - frees AGL Australia to pursue initiatives that might have damaged Accel Energy under the status quo (and vice versa);

- seeds Accel Energy with renewable projects (as well as the energy hub plan and the planned ETIP[4] funding) that provide an energy transition path for Accel Energy, even if it is over an extended period;
- establishes Accel Energy with a robust, defensive capital structure that enables it to have largely amortised its term debt by 2030;
- allows Accel Energy, as the offtake agreement volumes with AGL Australia taper down and roll off, to pursue commercial and industrial customers with stable load profiles that better suit its generation profile;
- eliminates the competition for scarce capital between the retail business and the thermal assets (particularly the coal-fired power stations);
- gives each company the independence to advocate for regulatory and other outcomes that best suit their own strategic priorities;
- avoids the need to find an acquirer for either business today but preserves the opportunity for shareholders to sell in the future (and capture a control premium); and
- creates new capital and liquidity (through Accel Energy's retained 15% interest in AGL Australia).

- **There are a number of other benefits from the Demerger that can be expected to enhance shareholder value over time.**

  The Board also believed that a Demerger would be a positive catalyst for the businesses to create long term value for shareholders. The two smaller, leaner, more nimble and more narrowly focused organisations will be able to pursue the strategic priorities, operational initiatives and opportunities that best suit their particular needs without compromise over capital allocation, including:

  - increased strategic flexibility to pursue growth and strategic opportunities independently. The energy transition has highlighted the increasingly distinct (and at times conflicting) strategies, growth drivers and capital requirements between the generation and retail business. The Demerger unlocks a significant degree of freedom and greater capacity and flexibility for Accel Energy and AGL Australia to pursue their own strategic agendas at the speed best suited to their needs;
  - tailored financial structures aligned to the financial and operating profiles of each business:
    - Accel Energy will have a lower debt allocation reflecting its high capital expenditure requirements, direct exposure to future wholesale electricity prices, exposure to material longer term liabilities (e.g. onerous contracts and environmental rehabilitation liabilities) and the increasingly constrained access to debt capital for carbon intensive businesses; whereas
    - AGL Australia will have a higher debt allocation reflecting its relatively stable earnings and lower capital requirements;
  - greater Board and management focus, increased scrutiny and the ability to provide targeted management incentives that are directly related to business under the management team's control;
  - flexibility for shareholders to choose their level of exposure to either AGL Australia or Accel Energy as they see fit based on their own views on potential returns, risk characteristics and ESG exposures; and
  - increased prospects of shareholders capturing a premium for control through a takeover offer for either company.

  These advantages are not individually compelling but, collectively, are meaningful. Several of these benefits would only be expected to manifest over the medium to longer term.

[4] ETIP is the Energy Transition Investment Partnership. On 3 May 2022, AGL Energy announced that it had reached an agreement with Global Infrastructure Partners ("GIP") to establish the ETIP for Accel Energy post-Demerger. GIP will invest approximately $1.0 billion for a 49% equity interest in ETIP.

- **There are, however, non trivial disadvantages, costs and risks arising from the Demerger.**

  At the same time, there are also a number of disadvantages, costs and risks arising from the Demerger including:

  - risks from the offtake agreement, particularly post FY27[5]. AGL Australia and Accel Energy will adopt independent trading and hedging strategies which could result in net gains or losses across the two entities that would not have occurred under the status quo;
  - reduced size and diversity which means that each entity will be less able to absorb the consequences of adverse events as they will have a greater relative impact. However:
    - both entities are expected to receive investment grade credit ratings and plan to adopt financial policies consistent with maintaining (or improving) that rating;
    - AGL Australia still has a strong market position (i.e. substantial scale and a widely recognisable brand name) and should have ready access to funding markets given its improved ESG credentials; and
    - Accel Energy has been established on a financially conservative and defensive basis and retains a high level of visibility to its contracted volumes over the next 5-7 years.

    The recent unplanned outage at Loy Yang is a good example of adverse events that could occur. However, in this particular case, while the effect on financial performance could be material, such events are unlikely to endanger the financial viability of Accel Energy;
  - future funding risks, particularly for Accel Energy given its high carbon intensity (although there are also fundings risks for AGL Energy under the status quo);
  - additional corporate and operating costs of approximately $35 million per annum (although AGL Energy believes these costs will be more than offset by efficiencies created by the Demerger);
  - incremental interest expense as a result of:
    - higher margins to be incurred by Accel Energy; and
    - increased collateral and working capital facilities to support two separate trading operations;
  - the elevated risk of Accel Energy falling outside the S&P/ASX 200 index although this is mitigated by the increasing role of the S&P/ASX 300 index as a performance benchmark;
  - the lack of track record of the board and management teams in working together. However, there is a significant degree of continuity through the retention of key senior executive and Board positions;
  - transition and implementation risks particularly in light of the complexity of the separation task; and
  - one off transaction and implementation costs which are estimated to be approximately $260 million (although the more relevant cost is the approximately $100 million that will be incurred subsequent to the shareholder vote if the Demerger is approved). There is also an expected net present value loss of circa $125 million in relation to the reduction in future tax depreciation deductions relating to Loy Yang (albeit this is not an immediate cash cost).

  These disadvantages, costs and risks are not trivial but need to be considered in the context of the circumstances and the available alternatives.

- **Shareholders are, on balance, likely to be better off if the Demerger is implemented.**

  The Demerger is definitionally fair in so far as shareholders (except ineligible overseas shareholders and selling shareholders) will hold exactly the same underlying economic interests in the business

[5] FY27 is the financial year end 30 June 2027.

before and after the Demerger is implemented. Evaluation of whether or not the Demerger is in the best interests of shareholders is therefore a qualitative assessment of the short, medium and long term benefits relative to the costs, disadvantages and risks.

To this end, it is necessary to focus on the right questions. It is not a question of whether the immediate combined market value of AGL Australia and Accel Energy is likely to be greater than the recent Brookfield Offer of $8.25. They are two fundamentally different things:

- under the Brookfield Offer, shareholders would have been selling out for cash and relinquishing control. Shareholders would have had no ongoing exposure to the business; whereas
- under the Demerger, shareholders will have liquid, portfolio investments in two entities that provide exposure to the long term performance of the respective businesses and will retain the option to capture a control premium through a future change of control event.

The fact that the combined values of shares in AGL Australia and Accel Energy could be less than $8.25 is irrelevant. They are two different constructs. In any event, the Brookfield Offer is no longer on the table.

Further, whether AGL Energy (or Accel Energy) should accelerate its exit from coal-fired power is a separate question to the merits of the Demerger. The relevant consideration for shareholders is how the Demerger impacts the ability to pursue such an alternative strategy.

In this context, the questions that Grant Samuel believes need to be addressed are:

- is the Demerger better than the status quo? Are the benefits likely to outweigh the costs and the downsides?
- does the Demerger inhibit the flexibility to alter course in the future and adapt to changing circumstances (e.g. by closing coal-fired power stations earlier than planned if that becomes something that makes economic sense from a strategic or financial perspective)?
- does the allocation of debt (and other liabilities) create any additional risk for shareholders?
- is the Accel Energy business able to withstand a sustained period of electricity price weakness?
- does the Demerger impede or reduce the prospects of receiving a takeover offer (incorporating a premium for control) at some time in the future? and
- are there any alternatives that provide a patently better outcome?

A fundamental question for shareholders in the short term is whether the potential value uplift from AGL Australia's more acceptable ESG credentials (if any) is likely to exceed the implementation and incremental costs and the potential downgrade of the value of Accel Energy (relative to its notional market value as part of AGL Energy). The market value analysis of the two new entities is inherently uncertain, but:

- Accel Energy is unlikely to appeal to ESG sensitive investors. However, it has attractive defensive characteristics and will be one of very few opportunities for Australian sharemarket investors to have a direct exposure to wholesale energy prices and to invest in the development of large scale renewable projects (albeit also requiring investment in coal-fired power). There remains many institutions that are not averse to investing in coal-fired power, at least if there is a transition plan (even if long term) and returns are appropriate. Current shareholders in AGL Energy are presumably comfortable with its coal-fired power exposure so have no cause to exit their Accel Energy holding. In summary, there is no obvious reason for Accel Energy to be valued at less than it is valued as part of AGL Energy; whereas
- AGL Australia would likely appeal to a wider investor universe given its improved ESG credentials (relative to AGL Energy) and should benefit from a rerating reflecting its improved ESG positioning. There is some evidence that energy companies with a focus on sustainable energy or near-term ESG transition plans are rated higher by the market (although "hard" evidence is

lacking and the criteria for "acceptability" are unclear and subjective). In this context, an uplift of $400-500 million, which is equivalent to a one times EBITDA[6] multiple improvement, would broadly offset the costs to shareholders of the Demerger. While it is hypothetical, a one times improvement is not demanding in the context of the market evidence although it may only emerge over time as AGL Australia demonstrates more definitive post FY27 plans for sustainable energy supply.

In any event, the arguably more important factor is the potential for value enhancement that can be expected over the longer term from the strategic and operational freedom, narrower focus, increased scrutiny and targeted incentive structures available under the Demerger.

In terms of the remaining questions in relation to evaluating the merits of the Demerger:

- the Demerger does not appear to inhibit Accel Energy's ability to change its strategy and bring forward closure of Bayswater and/or Loy Yang if a change in circumstances warrants it as long as Accel Energy executes its growth plan;
- Accel Energy will be exposed to wholesale energy prices to a greater extent than AGL Energy. Any sustained period of low prices would obviously damage profitability but this is mitigated by Accel Energy's:
  - significant hedging activities;
  - leading cost position amongst all baseload power generators in the NEM;
  - flexibility to reduce cash operating costs and defer capital expenditure (albeit limited); and
  - balance sheet strength (i.e. headroom under the bank debt covenants and liquidity levels).

  Equally, the profitability of Accel Energy could also benefit from extended periods of high prices; and
- if anything, the Demerger increases the prospect of shareholders receiving an offer, particularly for AGL Australia. Each entity will also be a more manageable "bite" from a financial standpoint.

The evaluation of the Demerger is essentially subjective. At one level, there is little change arising from the Demerger. Shareholders will still own the same assets in the same proportions. The benefits are not quantifiable or testable and are, at least to some extent, a matter of perception. The costs are relatively high (compared to other demergers) and the risks are not inconsequential. However:

- the status quo is not an attractive option given the profound changes in electricity markets, consumer preferences and capital markets;
- the Demerger is better than alternatives such as a sale or early closure and, in any event, those options are still available under the Demerger if energy market circumstances change;
- there are positive reasons for pursuing the Demerger. Over the long term, value enhancement from the greater strategic and operational flexibility, narrower focus, increased scrutiny and targeted incentives is realistic (even if not measurable); and
- there are reasonable prospects of the implementation and incremental costs being able to be offset (albeit perhaps not immediately).

In summary, in the absence of a fully priced takeover offer from a third party, the Demerger is the most attractive course of action in the current circumstances. Grant Samuel believes that, on balance, shareholders are likely to be better off if the Demerger is implemented than if it is not. Accordingly, the Demerger is in the best interests of shareholders.

[6] EBITDA is earnings before net finance costs, tax, depreciation, amortisation and impairment and significant items.

GRANT SAMUEL

4 Impact on AGL Energy's Ability to Pay its Creditors

In Grant Samuel's opinion, the capital reduction associated with the Demerger does not materially prejudice the ability of AGL Energy to pay its existing creditors.

As no capital (other than transactions costs) is removed from the group through the Demerger, Grant Samuel believes that the critical issue for creditors in a demerger is how the existing financial indebtedness of the group has been allocated between the two new entities, whether the allocation fairly balances and reflects the different attributes of two entities and whether it endangers the financial stability of either entity.

In the case of the Demerger:

- aggregate operating cash flows across the two businesses is not materially changed;
- both AGL Australia and Accel Energy are expected to secure an investment grade credit rating (albeit expected to be one notch lower for Accel Energy at Baa3). It is important to note;
  - the majority of borrowings has been allocated to AGL Australia, reflecting its relatively stable earnings, lower capital intensity and stronger cash flows. AGL Australia's pro forma credit metrics (e.g. leverage and interest coverage) are well within the new bank debt facility covenants and, while some are arguably on the "high side" (e.g. the leverage ratio[7] is above 4 times) it is expected that the ratio will come down over the next several years from free cash flow (after dividends); and
  - the lower debt load for Accel Energy reflects its more challenging business from a credit perspective given the rapidly changing operating environment and its capital intensity. While Accel Energy's credit metrics would support a better rating, the lower expected rating reflects its carbon intensity. Accel Energy plans to have largely amortised its term debt by 2030. Growth capital is planned to be secured through a separate partnership;
- both entities have committed debt facilities as well as:
  - unused capacity within those facilities;
  - in the case of Accel Energy, additional financial resources and liquidity through its shareholding in AGL Australia. This retained interest adds equity and (potentially) cash compared to the status quo; and
  - access to public equity markets if necessary (although there is absolutely no indication that this might be required); and
- the providers of the new bank loan facilities to both Accel Energy and AGL Australia and the US Private Placement Noteholders have made their own judgements as to the financial risk of each entity in full knowledge of the Demerger and are essentially "third party endorsements" that suggest that the financial gearing of each entity is sustainable and each entity has the financial capacity to pay its creditors.

5 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual AGL Energy shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation and needs. Shareholders should read the Demerger Booklet issued by AGL Energy in relation to the Demerger.

Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Demerger, the responsibility for which lies with the directors of AGL Energy. In any event, the decision to vote for or against the Demerger is a matter for individual shareholders based on their own views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure

[7] Leverage is net borrowings including lease liabilities divided by EBITDA for the previous 12 months.

and tax position. Shareholders who are in doubt as to the action they should take in relation to the Demerger should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in AGL Energy, Accel Energy or AGL Australia. These are investment decisions upon which Grant Samuel does not offer an opinion and are independent of a decision on whether to vote for or against the Demerger. Shareholders should consult their own professional adviser in this regard.

Grant Samuel has prepared a Financial Services Guide as required by the *Corporations Act, 2001 (Cth)*. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully
GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates

8. Independent Expert's Report

FINANCIAL SERVICES GUIDE
AND
INDEPENDENT EXPERT'S REPORT
IN RELATION TO THE DEMERGER OF AGL AUSTRALIA LIMITED

GRANT SAMUEL & ASSOCIATES PTY LIMITED
ABN 28 050 036 372

6 MAY 2022

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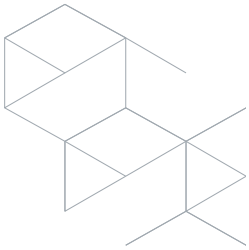

FINANCIAL SERVICES GUIDE

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> ***"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with AGL Energy or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Demerger.***
>
> ***Grant Samuel had no part in the formulation of the Demerger. Its only role has been the preparation of this report.***
>
> ***Grant Samuel will receive a fixed fee of $850,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Demerger. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.***
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8. Independent Expert's Report

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Appendix

1 Background on Demergers and Spin-offs

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1 Details of the Demerger

On 30 March 2021, AGL Energy Limited ("AGL Energy") announced its intention to pursue a structural separation of its multi-product energy retail business and its electricity generation business ("Demerger"). Following a period of engagement with stakeholders, including shareholders, regulators and AGL Energy's workforce, AGL Energy confirmed its intention to pursue the Demerger in an announcement dated 30 June 2021.

The Demerger will create two standalone companies listed on the Australian Securities Exchange ("ASX"):

- AGL Energy, to be renamed Accel Energy Limited ("Accel Energy"), which will be a leading electricity generator, providing secure, low-cost energy while driving the energy transition by repurposing its existing generation sites into low emissions industrial energy hubs and progressing a pipeline of renewable energy projects. Accel Energy will retain AGL Energy's power stations (i.e. Loy Yang A, Macquarie Generation (Liddell and Bayswater) and Torrens Island) and operate a portfolio of wind farms including Macarthur, Hallett, Wattle Point and Oaklands Hill; and
- AGL Australia Limited ("AGL Australia"), which will be a leading multi-service retailer of energy, internet and mobile services. Its operations will be supported by a market trading function and the ownership of a portfolio of gas-fired power stations and power purchase agreements ("PPAs") with storage facilities and renewable power assets as well as the electricity offtake agreement with Accel Energy. In addition, AGL Australia will hold significant equity investments in Powering Australian Renewables ("Tilt Renewables")[1] (20%) and ActewAGL (50%). AGL Australia will be a separate company listed on the ASX.

Accel Energy will retain a 15% equity interest in AGL Australia, with the remaining 85% distributed to AGL Energy shareholders on the basis of one AGL Australia share for each AGL Energy share held.

The decision to pursue the Demerger followed a strategic review of AGL Energy's businesses that explored other value realisation alternatives, including pursuing a strategic sale of (part or entirety of) the business, an initial public offering and maintaining the status quo. The announcement of the Demerger attracted acquisition proposals from third parties:

- on 22 February 2022, AGL Energy announced that it had received an unsolicited, non-binding indication of interest from a consortium comprising Brookfield Asset Management Inc. and Grok Ventures (the "Brookfield Consortium") to acquire 100% of AGL Energy, by way of scheme of arrangement, for $7.50 cash per share. The AGL Energy Board rejected the proposal, noting that the offer materially undervalued the company and therefore was not in the best interests of AGL Energy shareholders; and
- on 7 March 2022, AGL Energy announced that it had rejected a revised unsolicited and non-binding indication of interest from the Brookfield Consortium. The revised proposal of $8.25 cash per share ("the Brookfield Offer") was also rejected on the basis that it materially undervalued the company and therefore was not in the best interests of AGL Energy shareholders.

Based on the AGL Energy Board's assessment of its strategic options (including the recent acquisition proposals) to unlock value for shareholders, the AGL Energy Board reiterated its intention to continue pursuing the Demerger as the value optimising option for AGL Energy shareholders.

The Demerger is to be effected by a scheme of arrangement between AGL Energy and its shareholders. Completion of the following steps is required to implement the Demerger:

[1] Subsequent to PowAR's acquisition of Tilt Renewables Limited's Australian business, PowAR has changed its name to Tilt Renewables.

- a capital reduction of $4.74 per share by AGL Energy, which will be applied to the acquisition of shares in AGL Australia;
- application to the ASX for AGL Australia to be initially listed on the ASX under the stock code "AGK", which will eventually revert to "AGL" after implementation of the Demerger;
- renaming of AGL Energy to Accel Energy; and
- establishment of new separate debt facilities for AGL Australia and the ongoing business of Accel Energy.

Ineligible overseas shareholders[2] will not receive AGL Australia shares. Such shareholders will receive in cash the proceeds (on an averaged basis) from the sale on the ASX of the AGL Australia shares to which they would otherwise have been entitled, free of any brokerage costs or stamp duty. AGL Energy shareholders who individually hold 500 or fewer AGL Energy shares on the Demerger record date can elect to have the AGL Australia shares that they would otherwise receive under the Demerger sold on the ASX via a share sale facility.

The effect of the Demerger is that AGL Energy's shareholders (other than ineligible overseas shareholders and selling shareholders) will hold an equal number of shares in Accel Energy and AGL Australia. As part of the announcement, AGL Energy also announced changes to its dividend policy to preserve cash capacity for the group ahead of the Demerger. This includes terminating the Special Dividend Program for the remainder of FY21[3] and for FY22 and introducing an underwritten dividend reinvestment program which will allow shareholders to elect to either receive a cash dividend or receive AGL Energy shares in lieu of a cash payment.

The Demerger requires AGL Energy shareholders to approve the following resolutions:

- a members scheme of arrangement under Section 411 of the *Corporations Act, 2001 (Cth)* ("Corporations Act"). Under Section 411, a scheme of arrangement must be approved by a majority in number (i.e. more than 50%) of AGL Energy shareholders present and voting (either in person or by proxy) at the meeting, representing at least 75% of the votes cast on the resolution. The scheme of arrangement will then be subject to approval by the Federal Court of Australia;
- an ordinary resolution to approve the capital reduction pursuant to Section 256C(1) of the Corporations Act; and
- a separate resolution to approve the provision of financial assistance to AGL Australia (requires at least 75% of total votes to be in favour).

The resolutions to be voted on by AGL Energy shareholders are interdependent. If any of the resolutions are not approved, the Demerger will not proceed.

The Demerger is subject to a number of conditions that are set out in full in the Notice of Meeting and Explanatory Memorandum (the "Demerger Booklet") sent to shareholders by AGL Energy including:

- completion of the corporate restructure of AGL Energy, which involves the transfer of assets and liabilities relating to AGL Australia to the AGL Australia group (and those relating to Accel Energy to the Accel Energy group) and eliminating or settling all inter-company liabilities between the two groups;
- shareholder approvals in favour of the resolutions to effect the Demerger scheme, the capital reduction and financial assistance;

---

[2] AGL Energy shareholders other than those with registered addresses in Australia or its external territories, or in Canada, Hong Kong, Malaysia, New Zealand, Singapore, the United Kingdom or the United States or any other jurisdiction in respect of which AGL Energy reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer AGL Australia shares to AGL Energy shareholders.

[3] FYXX = financial year end 30 June 20XX (i.e. FY21 is the financial year end 30 June 2021).

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- all regulatory approvals required for the Demerger being obtained (either unconditionally or on conditions reasonably satisfactory to AGL Energy); and
- ASX confirming it will grant permission for AGL Australia to be admitted to the official list of the ASX and AGL Australia shares to be quoted on the ASX.

If the Demerger is approved and implemented, Accel Energy and AGL Australia will operate independently of each other apart from the following arrangements:

- initial electricity offtake agreements, which will run to FY27 (with contracted volumes reducing over the agreement period);
- heads of agreement, which will be in place to support potential contracting activity between the two entities beyond FY27;
- separate gas supply agreement in South Australia under which AGL Australia will supply Accel Energy with gas at the Torrens Island Power Station;
- Transitional Services Agreements, which includes any shared services and corporate services for up to 42 months from implementation. AGL Australia and Accel Energy will both be recipients and providers of certain services under the Transitional Services Agreements; and
- other commercial agreements such as operations & maintenance agreements.

The AGL Energy Board believes proceeding with the Demerger will be in the best interests of AGL Energy shareholders. The AGL Energy Board has unanimously recommended that shareholders vote in favour of the Demerger. Each AGL Energy director who holds or controls AGL Energy shares intends to vote in favour of the Demerger.

2 Scope of the Report

2.1 Purpose of the Report

The Demerger is subject to the approval of AGL Energy shareholders in accordance with:

- Section 256C of the Corporations Act ("Section 256C"); and
- Section 411 of the Corporations Act ("Section 411").

Section 256C governs reductions in capital. It requires the prior approval of shareholders before a capital reduction can be effected. Section 256C does not require an independent expert's report to be prepared.

Section 411 governs schemes of arrangement. It requires the prior approval of shareholders before a scheme of arrangement can be effected.

Part 3 of Schedule 8 to the Corporations Regulations prescribes the information to be sent to shareholders in relation to members' schemes of arrangement pursuant to Section 411. Part 3 of Schedule 8 requires an independent expert's report in relation to a scheme of arrangement to be prepared when the other party to a scheme of arrangement has a prescribed shareholding in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. In those circumstances, the independent expert's report must state whether the scheme of arrangement is in the best interests of shareholders subject to the scheme and must state reasons for that opinion.

Although there is no requirement in these circumstances for an independent expert's report pursuant to the Corporations Act or the ASX Listing Rules, the directors of AGL Energy have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Demerger is in the best interests of AGL Energy shareholders and to state reasons for that opinion. Grant Samuel has also been requested to give its opinion as to whether the capital reduction associated with the Demerger materially prejudices AGL Energy's ability to pay its creditors. The full report will accompany the Demerger Booklet to be sent to shareholders by AGL Energy.

2.2 Basis of Evaluation

Schemes of arrangement pursuant to Section 411 can encompass a wide range of transactions. Accordingly, "in the best interests" must be capable of a broad interpretation to meet the particular circumstances of each transaction. There is no legal definition of the expression "in the best interests".

The Australian Securities & Investments Commission ("ASIC") has issued Regulatory Guide 111 ("RG111") which establishes guidelines in respect of independent expert's reports. RG111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between "fair" and "reasonable". A proposal that was "fair and reasonable" or "not fair but reasonable" would be in the best interests of shareholders (being the opinion required under Part 3 of Schedule 8).

For most other transactions the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. This involves a judgement on the part of the expert as to the overall commercial effect of the proposal, the circumstances that have led to the proposal and the alternatives available. If the advantages outweigh the disadvantages, the proposal would be in the best interests of shareholders.

RG111 also states that where a demerger or demutualisation involves one or more of a change in the underlying economic interests of shareholders, a change of control or selective treatment of different shareholders, an expert might need to consider whether using the "fair" and "reasonable" tests is appropriate.

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The Demerger is not a control transaction. Accordingly, Grant Samuel has evaluated the Demerger by assessing the overall impact on the shareholders of AGL Energy and formed a judgement as to whether the expected benefits outweigh any disadvantages and risks that might result. By definition, if the advantages outweigh the disadvantages, shareholders are likely to be better off if the Demerger is implemented than if it is not.

In forming its opinion as to whether the Demerger is in the best interests of AGL Energy shareholders, Grant Samuel has considered the following:

- the impact of the Demerger on business operations of Accel Energy and AGL Australia, including any strategic implications;
- the impact of the Demerger on earnings and dividends attributable to existing shareholders;
- the impact of the Demerger on the financial position and financial risk profile of the demerged entities;
- the implications of ongoing relationships between the demerged entities;
- the likely impact of the Demerger on the market value of shareholders' interests and the market for shares in Accel Energy and AGL Australia generally;
- any other advantages and benefits arising from the Demerger; and
- any disadvantages, risks and costs of the Demerger.

In forming its opinion as to whether the capital reduction associated with the Demerger materially prejudices AGL Energy's ability to pay its existing creditors, Grant Samuel has considered the following:

- the effect of the capital reduction on the financial position and size of Accel Energy and AGL Australia post Demerger;
- the impact of the capital reduction on the credit metrics (e.g. gearing and leverage ratios) of Accel Energy and AGL Australia post Demerger; and
- the debt facilities available to Accel Energy and AGL Australia post Demerger.

2.3 Sources of Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

- the Demerger Booklet (including earlier drafts);
- annual reports of AGL Energy for FY20 and FY21;
- half year announcement of AGL Energy for the six months ended 31 December;
- pro forma financial information for Accel Energy post Demerger and AGL Australia for FY19, FY20, FY21 and HY22[4];
- press releases, public announcements, media and analyst presentation material and other public filings by AGL Energy including information available on its website;
- brokers' reports and recent press articles on AGL Energy and the electricity generation and retailing industry;
- sharemarket data and related information on Australian and international listed companies engaged in the energy generation and electricity retail industry;

[4] HY22 is the six months ended 31 December 2021.

- information relating to the Australian electricity industry including supply and demand forecasts and regulatory decisions and pronouncements (as appropriate); and
- other confidential documents, board papers, presentations and working papers provided by AGL Energy.

In preparing this report, representatives of Grant Samuel held discussions with, and obtained information from, senior management of Accel Energy and AGL Australia and AGL Energy's advisers.

2.4 Limitations and Reliance on Information

This report and the opinions expressed in it should be considered more in the nature of an overall review of the commercial and financial issues relevant to the transaction rather than a comprehensive audit or investigation of detailed matters. Fundamentally, it involves subjective judgements about future business performance that is inherently uncertain.

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by AGL Energy. Grant Samuel has considered and relied upon this information. AGL Energy has represented in writing to Grant Samuel that to its knowledge the information provided by it was then, and is now, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Demerger is in the best interests of AGL Energy shareholders. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert.

An important part of the information used in forming an opinion of the kind expressed in this report comprises the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of AGL Energy, AGL Energy post Demerger (i.e. Accel Energy) or AGL Australia. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

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The information provided to Grant Samuel included pro forma historical financial information for Accel Energy and AGL Australia:

- for FY19, FY20, FY21 and HY22 in relation to statements of profit and loss and cash flow; and
- at 31 December 2021 in relation to statements of financial position.

AGL Energy is responsible for this financial information. The pro forma historical financial information was subject to review by Deloitte Corporate Finance Pty Limited ("Deloitte"). The Independent Accountant's Independent Limited Assurance Report is set out as Section 7 of the Demerger Booklet. On this basis, Grant Samuel considers that there are reasonable grounds to believe that the pro forma historical financial information on Accel Energy and AGL Australia as presented in the Demerger Booklet has been prepared on a reasonable basis.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the assessments by AGL Energy and its advisers with regard to legal, regulatory, tax and accounting matters relating to the Demerger are accurate and complete;
- the information set out in the Demerger Booklet sent by AGL Energy to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Demerger will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Demerger are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

3 Overview of the Energy Industry

3.1 Background

The past two decades have seen a significant shift in the makeup of Australia's energy mix. Coal and natural gas continue to meet the majority of the country's energy requirements although alternative sources, in particular renewables, are growing in importance. The emergence of smaller scale renewable sources (e.g. solar and wind) has precipitated changes in the future role of traditional carbon-based energy sources such as coal and gas as part of the broader energy mix.

The segments of, and services to, the energy industry can be depicted as follows:

STRUCTURE OF THE ENERGY INDUSTRY

	GENERATION/WHOLESALE	TRANSMISSION	DISTRIBUTION	RETAIL
	AGL ENERGY'S BUSINESS OPERATIONS			AGL ENERGY'S BUSINESS OPERATIONS
ELECTRICITY	Power plants generate electricity for supply to the Australian electricity markets	Transmission networks transport electricity from generators in regional markets to population centres	Low voltage electricity is distributed via a network of poles and wires to consumer premises	Residential, commercial and industrial consumers buy electricity from retailers
GAS	Onshore and offshore gas fields are drilled to access gas reserves	Large high-pressure pipelines carry gas from the gas fields to key markets	Gas is distributed via a network of low pressure pipelines to consumer premises	Residential, commercial and industrial consumers buy gas from retailers
SERVICES	Design, construct, operate, maintain and manage electricity and gas infrastructure			

Source: Grant Samuel

Electricity generators are exposed to wholesale energy prices (which at times may be highly volatile) but often enter into financial contracts (e.g. derivatives) to hedge that exposure. Similarly, the retail market is exposed to wholesale energy prices, although retailers often mitigate this risk by owning generation assets or by entering into a portfolio of financial hedging contracts and supply agreements. "Gentailers" such as AGL Energy have historically operated in the generation and retail segments of the energy industry to more efficiently manage their risk exposure to energy price volatility.

3.2 Regulatory Environment

As the management of energy resources, production and supply of energy and stability of energy markets are critical to the economy, the energy sector is subject to substantial regulation. These are the relevant regulatory bodies:

- Australian Energy Market Commission ("AEMC"), which is responsible for rule making and market development in the electricity and natural gas markets;
- Australian Energy Regulator ("AER"), which regulates wholesale and retail energy markets and energy networks, under national energy legislation and rules. The AER's functions primarily relate to energy markets in Queensland, New South Wales and South Australia. The Victoria Essential Services Commission ("ESC") is responsible for enforcing the rights and obligations of retailers in Victoria;
- Australian Energy Market Operator ("AEMO"), which operates the National Electricity Market ("NEM") and the retail and wholesale gas markets of eastern and southern Australia; and

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- Energy Security Board ("ESB"), which is responsible for whole of system oversight for energy security and reliability to drive better outcomes for consumers through the energy market transition.

Western Australia operates under a separate energy market from the rest of the East Coast of Australia and is therefore subject to a different regulations. For example. the Economic Regulation Authority of Western Australia ("ERA") is responsible for approving access arrangements (i.e. price, terms and service conditions) on the electricity transmission and distribution networks, administering the licencing of different providers along the electricity supply chain and monitors the behaviour of all participants in the wholesale electricity market. The ERA, however, is not responsible for setting retail electricity and gas prices as these are set by the State Government.

The Australian Competition and Consumer Commission's ("ACCC") role in the energy markets is in the context of enforcing the competition and consumer protection provisions set out in the *Competition and Consumer Act 2010*. See Section 3.5 for further detail on the ACCC's role in recent monitoring and enforcement actions in the energy retail market.

3.3 Electricity Market

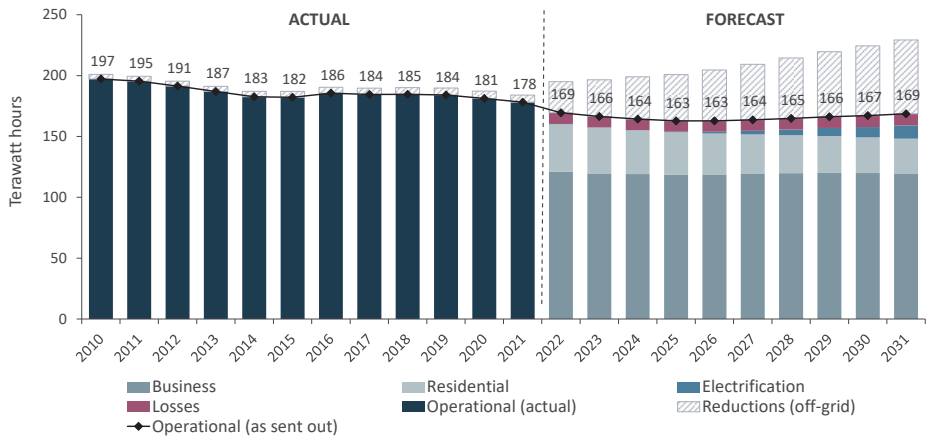
Overview

Australia's electricity market can be segmented into three regional markets. The East Coast market is the largest of these markets and comprises Victoria, New South Wales, the Australian Capital Territory ("ACT"), South Australia, Queensland and Tasmania, which together form the NEM. Wholesale electricity in this interconnected region is sold through the NEM. Western Australia and the Northern Territory operate their own separate markets.

Demand in the NEM

Demand for electricity is underpinned by the evolving needs of the 10.3 million residential and business customers across the NEM. The chart below illustrates the historical and forecast electricity consumption in the NEM:

NEM – HISTORICAL AND FORECAST ELECTRICITY CONSUMPTION



Source: AEMO, Electricity Statement of Opportunities, August 2021

Notes:
1. Operational (as sent out) represents electricity supplied by scheduled, semi-scheduled, and significant non-scheduled generating units. It does not include electricity demand met by non-scheduled wind/solar generation of aggregate capacity less than 30 MW
2. Reductions include rooftop photovoltaic power systems, small non-scheduled generation and energy efficiencies
3. Losses represent electricity losses along the grid (e.g. resistance, heat)

Since 2000, grid demand in the NEM has closely tracked total electricity consumption. However, the accelerating adoption of rooftop solar (on both residential and commercial premises) in the past decade has driven an increasing share of consumption "off-grid". While initial uptake of rooftop solar began as early as 2006, rooftop solar capacity still had very low penetration levels in 2010. By 2015 and 2020, total capacity had increased to approximately 3,600 MW[5] and 11,400 MW, respectively (or 7.5% and 20.5% of NEM generation capacity). According to the AEMO, growth in rooftop solar is expected to continue over the next decade and supply up to 55% of total residential demand by 2031.

The growing penetration of rooftop solar has allowed consumers (and businesses) to be increasingly self sufficient with their energy needs. While electricity consumption is expected to grow by an average of 2.2% per annum through to 2031 (reversing the fall over the previous decade), a declining share is expected to be serviced by the grid (which is expected to remain relatively flat over the same period).

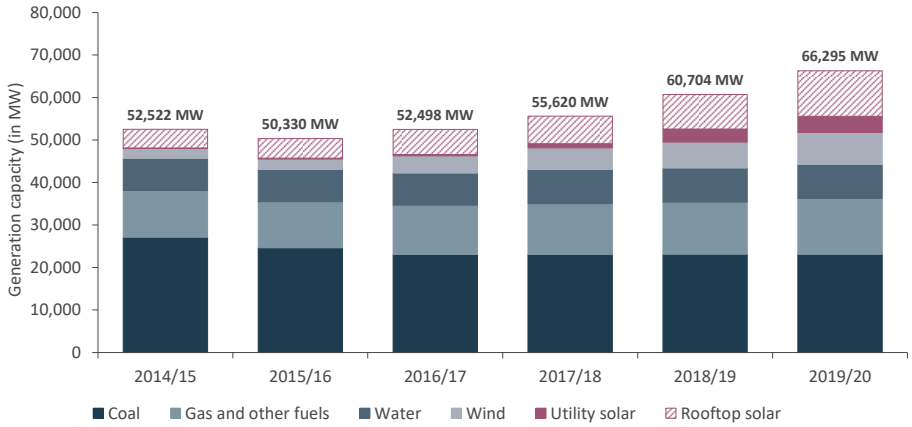
In the longer term, population growth, economic growth, electrification (e.g. electric vehicles) and improving energy efficiencies are likely to have a larger impact on total electricity consumption. However, the domestic energy market remains in transition and the pace of technological improvements is difficult to predict. Based on the range of scenarios prepared by the AEMO, electricity demand could, at worst, be stable over the next 30 years, but a net-zero future (in line with the Commonwealth Government's net-zero by 2050 commitment) presents an opportunity to drive a doubling of demand in the NEM by 2050.

Supply in the NEM

Between 2015 and 2020, total generation capacity (excluding rooftop solar) across the NEM grew from 48.1GW to 55.6GW, or by approximately 2.9% per annum. The stable overall growth in available capacity masks the divergent growth in coal-fired power and renewable capacity. While coal-fired power generation capacity declined by circa 3% per annum over the period, renewable energy generation benefited from significant investment that led to the doubling of total capacity from 14.4GW to 30.0GW over the same period. This transition was partly fuelled by the federal government's Renewable Energy Target scheme, which incentivised new investments in renewable assets across large scale grid participants (e.g. new solar and wind farms) and smaller scale residential and commercial users (e.g. rooftop solar).

The shift in electricity generation capacity is depicted in the chart below:

HISTORICAL GENERATION CAPACITY IN THE NEM (2014-2020)



Source: AEMC

[5] MW = megawatt. GW = gigawatt. TW = terawatt.

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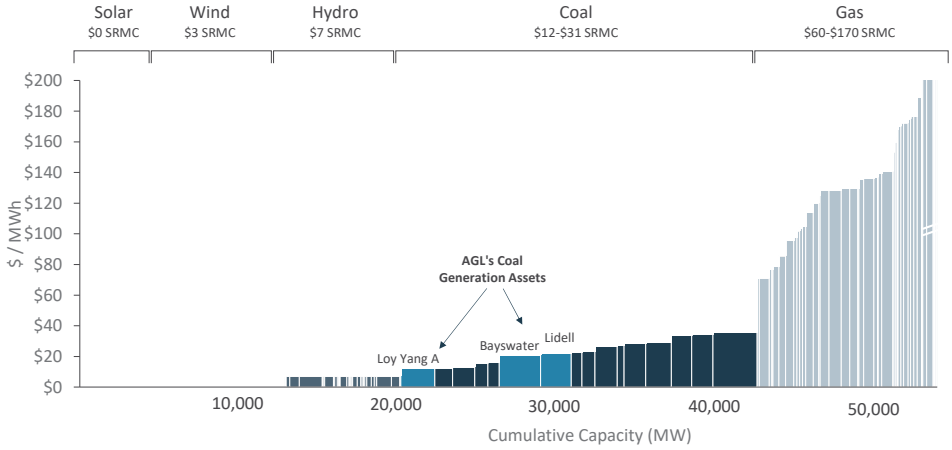
As more users installed rooftop solar and migrated "off-grid", total grid demand declined over the past five years with coal-fired power bearing the brunt of the decline (from 151,472 GWh to 133,931 GWh in annual output between 2015 and 2020)[6] partly due to closures of large scale coal-fired power stations. Despite the shift towards renewable energy assets, coal-fired power still comprises more than 40% of total generation capacity in the NEM (but more than half of total generation[7]).

Due to its scale and historically competitive cost profile, coal-fired power has traditionally been the backbone of an industrial economy's baseload electricity supply. There are 16 coal-fired power stations across the NEM, with an average capacity of nearly 1,500 MW (whereas the average capacity for wind and solar farms is closer to 120 MW). The low operating costs for coal-fired power is premised on its ability to produce large volumes of energy at stable and predictable levels throughout the day. As illustrated in the chart below, coal-fired power offers the most competitive combination of scale and low marginal cost across all generation sources in the NEM:

ELECTRICITY GENERATION CAPACITY, MARGINAL COST CURVE[8] (2021)



Source: Australian Energy Market Operator

Impact of Renewable Energy Alternatives on Traditional Baseload Supply

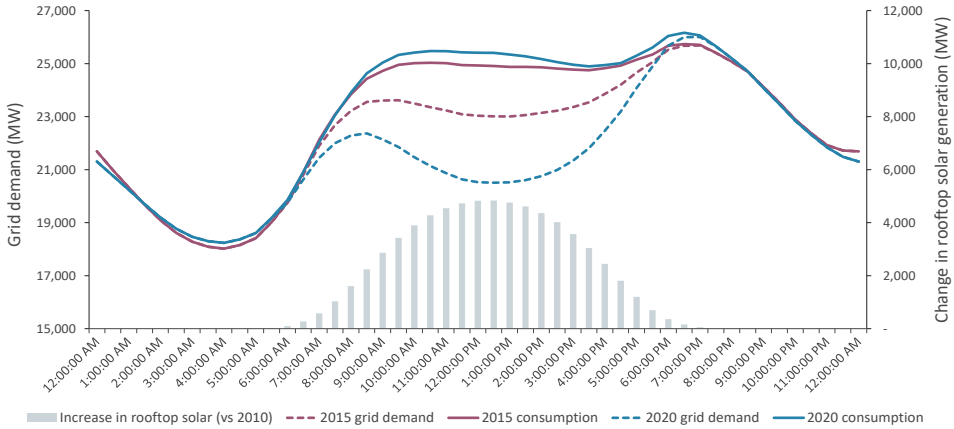
The emergence of renewable power generation as a viable and affordable alternative source of power and various renewable energy targets has urged a reconsideration of the optimal energy mix in the NEM, including coal-fired power's traditional role as a baseload electricity supplier. The growing penetration of renewable alternatives (especially "off-grid" options such as rooftop solar) has significantly impacted intraday grid demand. While overall consumption across all hours (including peak hours) have remained broadly stable over the past five years, intraday grid demand especially during the daylight hours has fallen substantially. The chart below illustrates the changing generation profiles by time of day:

6 Source: Australian Energy Regulator, State of the Energy Market 2021.

7 Source: Australian Government, Department of Industry, Science, Energy and Resources.

8 MWh = Megawatt hours. GWh = Gigawatt hours. TWh = Terawatt hours.

ELECTRICITY CONSUMPTION VS GRID DEMAND IN THE NEM



Source: Australian Energy Market Commission

The influx of new supply from renewable assets and the migration of demand to off-grid options has introduced significant imbalances in supply and demand for extended periods in a day, which has resulted in sharp declines in wholesale electricity prices at certain times of the day (at times declining below zero). Prior to FY19, the number of trading minute intervals[9] during which wholesale prices were negative averaged approximately 200 per year. This has surged to more than 2,300 and 4,900 in FY20 and FY21, respectively, and is on track to exceed 7,000 intervals in FY22.

In this pricing environment, generators need to maximise flexibility to "choose" when to sell energy into the NEM at commercially feasible prices. Most renewable alternatives have very low marginal costs (in some cases, zero) and are designed to respond adeptly to variable energy demand. These renewable alternatives are typically party to long-term offtake contracts which require them to generate power for a fixed price and, at times, reduce their output when prices fall below a predetermined threshold. In contrast, baseload power generators such as coal-fired power are unable to "switch production on or off" at short notice and consequently produce electricity through periods of low grid demand and forced to sell at a loss for extended periods throughout the day. Profits are then recouped through more profitable sales in the late afternoon and early evening (as renewable output declines) when prices are pushed up by the need to use higher marginal cost alternatives such as gas-fired power. The challenges are further exacerbated by increased outages of older coal-fired power stations that were not designed to flex output levels. These issues have collectively placed immense pressure on the profitability of these operations (a number of which were old and inefficient and uncompetitive relative to other power stations) and culminated in the accelerated closures of Alinta's Northern and Engie SA's Hazelwood power stations in 2016 and 2017, respectively.

In 2022 alone, other major participants in the NEM have flagged accelerated closures of their coal-fired power stations. On 10 February 2022, AGL Energy announced its plans to accelerate the closures of Bayswater and Loy Yang A. This announcement was followed by Origin Energy Limited's ("Origin") announcement that it intended to accelerate the closure of the Eraring Power Station (the largest coal-fired power station in the NEM but also one of the highest marginal cost coal-fired power producers[10]), citing the "rapidly changing conditions in the NEM, which are increasingly not well suited to traditional baseload power stations and challenging their viability".

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9 Trading activity in the NEM is settled under a "five-minute settlement" regime, wherein wholesale electricity prices are determined by the available supply and demand in every five minute period.

10 Source: AEMO

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In response to these issues (and to ensure an orderly energy transition), the AEMC continues to review potential capacity mechanisms to provide ongoing "capacity payments" (akin to recurring insurance payments) to ensure certain power plants remain available as new renewable and flexible generation assets are brought online. The proposal to install a capacity payment regime reflects the acknowledgement of the role baseload power stations (e.g. coal-fired power) have in ensuring grid stability and reliability at least until variable generation sources such as renewable assets can be "firmed" (i.e. balanced by generators or battery storage that can supply power when wind or solar farms are unable to do so efficiently). These capacity payments are intended to add to the earnings of power plants to enable them to endure the increasing earnings (and operational) headwinds in the current environment.

Wholesale Electricity Prices

The volatility of intraday grid prices and tightening supply (and uncertain future) of baseload power supply have collectedly translated to increased volatility on average wholesale electricity prices:

WHOLESALE ELECTRICITY PRICES, BY STATE

ANNUAL VOLUME WEIGHTED AVERAGE, 2001 TO 2021

Source: AER[11]

Electricity prices escalated sharply between 2014 and 2017, averaging over $100 per MWh across most east coast states. The sharp rise appeared to reach an inflection point in 2017 (for Queensland and New South Wales) and around 2019 (for Victoria and South Australia). Tight supply conditions in the southern states persisted as output from new renewable energy projects in Victoria and South Australia had yet to fully replace the lost output from the closures of the Northern and Hazelwood Power Stations. Both power stations were scheduled for closure with relatively short notice periods, limiting the market's ability to respond with adequate and timely investments in new capacity. Further, unexpected outages at baseload power stations (e.g. Callide Power Station and the more recent outages at Loy Yang) have introduced unexpected supply/demand imbalances to the system, thereby contributing to increased volatility to wholesale electricity prices. These imbalances persisted through the first four months of 2022 and were partly exacerbated by higher input costs (i.e. global fossil fuel prices rising due to the Russia-Ukraine conflict) and reliability concerns of coal-fired power plants. In the first quarter of 2022, the average wholesale electricity price was approximately $87 per MWh, which is more than double the prior corresponding period (and 67% higher than the previous quarter).

[11] Data is based on the latest quarterly update published by the AER (through December 2021). It does not reflect the recent upsurge in prices.

3.4 Gas Market

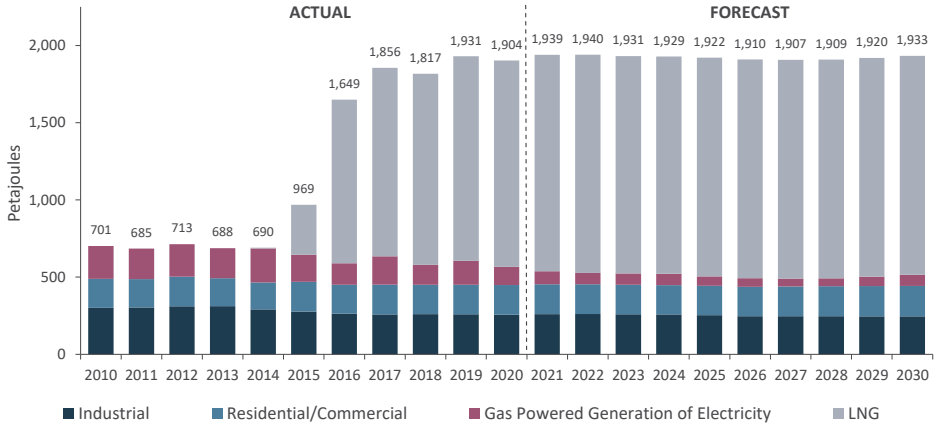
Overview

Similar to the electricity market, the Australian gas market can be segmented into three distinct regional markets, each supported by its own gas reserves and integrated processing as well as supply transmission and distribution infrastructure. The East Coast market is the largest of these markets and comprises an integrated network across Queensland, New South Wales, Victoria, the ACT, South Australia and Tasmania. In contrast to the NEM (which is centrally coordinated), spot gas wholesale markets are operated at major hubs in Victoria, Sydney, Adelaide and Wallumbilla.

Demand

Natural gas is widely used across Australian households and represents 18% of overall energy demand across the East Coast market. Historical gas consumption and the AEMO's projections for gas consumption to 2030 are shown in the graph below:

EAST COAST MARKET – HISTORICAL AND FORECAST GAS CONSUMPTION, CENTRAL SCENARIO



Source: AEMO, Gas Statement of Opportunities, March 2021

Historically, gas demand on the East Coast was relatively evenly split across industrial customers, residential and commercial customers and electricity generation. Since 2015, the commissioning of three liquified natural gas ("LNG") export projects at Gladstone in Queensland has led to demand for gas almost tripling over three years and for the first time created material linkage on the East Coast between the price of domestic gas and international gas/LNG prices. Due to a number of factors, including higher gas prices (which are linked to the LNG export market) and (to a lesser extent) the progressive shift to renewable energy, domestic gas used for electricity generation has declined from 185PJ[12] in 2015 to 127PJ in 2020, an average decline of 7% per annum, although the decline mostly occurred in 2020 as a result of the impact of the COVID-19 pandemic. The average decline was only 3% per annum to 2019[13].

The outlook for domestic gas consumption is uncertain. According to the AEMO, gas consumption is more likely to decline or, at best, remain flat due to the increasing availability of renewable energy in the NEM, including electrification and potential closures of industrial users due to extended weak economic conditions and high gas prices. In the long term, gas consumption also faces the risk of displacement by hydrogen fuel. These factors are offset to some extent by the expected reduction in generation capacity of

[12] PJ = petajoules.

[13] Source: AER, Wholesale Markets Quarterly, Q2 2021.

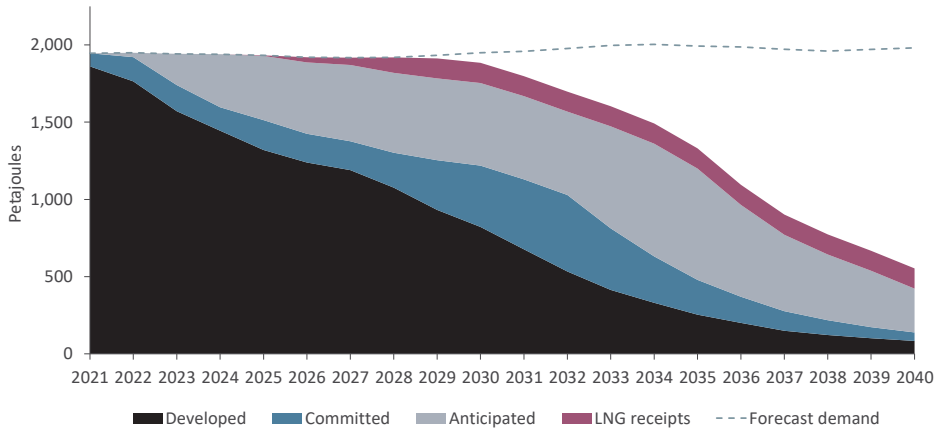
coal-fired power and customers opting for gas as a fuel of choice (through the energy transition) as well as the requirement for gas-fired power to provide seasonal peaking electricity during hot summer months (i.e. high energy needs for cooling) and winter months (i.e. lower efficiency of renewable assets).

Supply

The development of three LNG export facilities in Gladstone has profoundly affected the supply/demand dynamics of the East Coast gas market. These LNG facilities introduced an export alternative to selling gas into the domestic market, thereby, at least in part, integrating the eastern Australian gas market with international gas markets. Domestic gas customers now compete with international gas markets, where LNG prices, which are linked (directly or indirectly) to the oil price, have historically been higher than East Coast gas prices on a net-back basis[14]. Gas producers are incentivised to sell excess uncontracted gas into the domestic market only when local gas prices are competitively aligned with LNG export prices[15]. This dynamic has led to significant rises in domestic gas prices in the East Coast market.

The outlook for gas supply in the East Coast market is summarised below:

EAST COAST MARKET – FORECAST GAS SUPPLY, CENTRAL SCENARIO



Source: AEMO, Gas Statement of Opportunities, March 2021

The short term supply outlook for domestic gas is delicately balanced and will depend on the ability of gas producers to develop new resources in the time frames required to meet demand. Moreover, any fluctuation in LNG export allocation or gas-fired electricity generation demand could easily tip the balance into a supply shortfall. In the long term, upstream production is expected to remain constrained due to State Government regulations restricting exploration and development of onshore gas resources as well as the decline in production from offshore gas resources. Consequently, securing gas supply for domestic needs may require proactive measures across the industry such as importing LNG.

Wholesale gas prices

Gas has historically been sold in Australia under confidential bilateral long term contracts between producers and downstream buyers but, in recent years, there has been a move towards shorter term contracts. Wholesale gas prices reflect a number of factors including global commodities prices (e.g. LNG,

[14] LNG netback price is the LNG export price less shipping and liquefaction costs.

[15] Source: ACCC, LNG netback review – Final Decision Paper, September 2021.

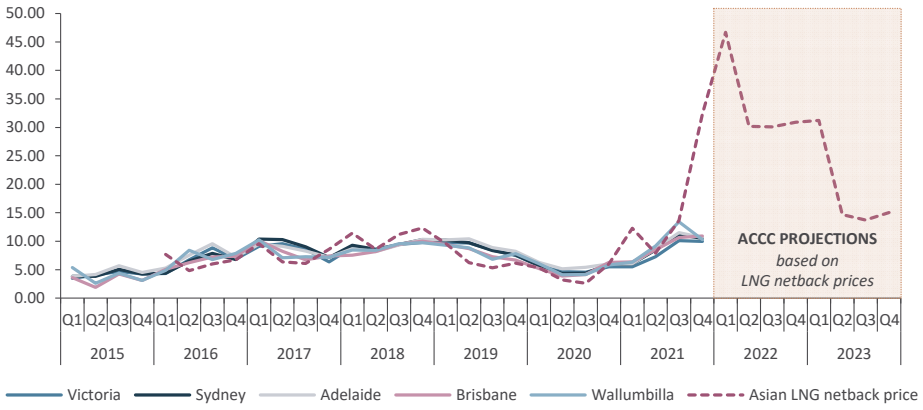
oil prices), cost of production, contract volume, available reserves, length of contract, price escalations, flexibility and typically include some adjustment for inflation or periodic price reset.

Australian gas prices have historically been low relative to international prices due to the abundant coal and natural gas reserves and geographic isolation. However, over the last decade, wholesale gas prices have risen materially reflecting:

- the run-off of existing long term gas supply contracts;
- the commissioning of the three LNG export facilities in Gladstone in 2015/2016;
- rising domestic gas production costs; and
- a demand/supply imbalance in eastern Australia resulting from the depletion of traditional sources of gas (e.g. the Otway and Bass Basins in Victoria), lower international oil prices (which have reduced the economic incentive for exploration and development) and State government environmental restrictions on exploration and development of onshore gas resources.

While slower economic and industrial activity in 2020 and the fall in Asian LNG spot prices resulted in a reduction in domestic gas prices in 2020, gas prices resumed their decade-long increase in 2021 following the tightening of the Asian LNG market and the Russian-Ukraine war:

EAST COAST MARKET – HISTORICAL AND FORECAST DOMESTIC GAS PRICES ($/GJ)[16]



Source: Australian Energy Regulator, Wholesale Markets Quarterly Q4 2021

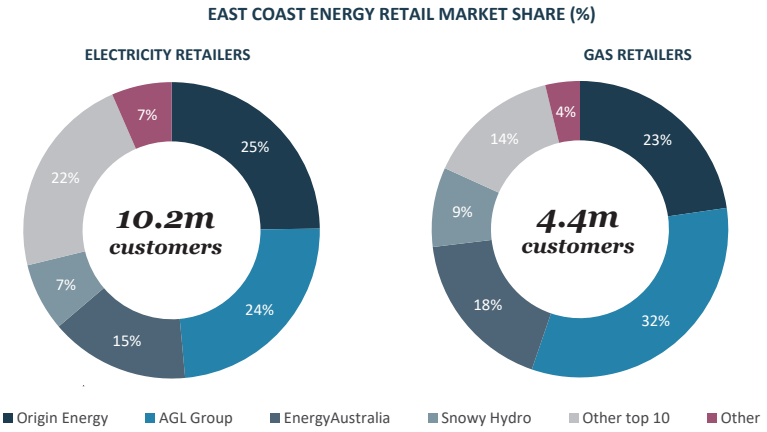
LNG netback prices in eastern Australia are expected to continue rising in the near term, reflecting strong global gas demand on the back of increased industrial activity in Asia and a spike in LNG demand because of energy shortages across Europe. Wholesale gas prices will follow this trend but will likely be constrained by affordability issues (certainly at above $10/GJ).

3.5 Energy Retail Market

The retail market is highly competitive due to low barriers to entry (i.e. low capital requirements and low regulatory hurdles). There are approximately 45 individual retail brands that compete in specific product markets, customer segments or geographies. However, the majority of the share remains concentrated in the top ten retailers (and particularly in the top three):

[16] ACCC = Australian Competition and Consumer Commission.

GRANT SAMUEL



Source: State of the energy markets, 2021

Origin, AGL Energy and EnergyAustralia collectively account for just under 65% of the electricity market and 75% of the gas market. These three retailers account for the majority of the market share in most markets except in the ACT, Tasmania and regional Queensland, where government-owned businesses typically hold the dominant share (e.g. ActewAGL in the ACT and Ergon Energy in regional Queensland). With the exception of Victoria (where households are more reliant on gas than in other states), the gas retail market is generally less competitive than the electricity retail market due to its smaller scale and the limited access to supply (or pipeline infrastructure).

The sharp increase and volatility of energy prices in recent years attracted increased regulatory scrutiny. The ACCC released the *Retail Electricity Pricing Inquiry* report in June 2018 highlighting measures to restore the affordability of electricity costs for both residential and industrial users. These measures were aimed at introducing more competition to the retail market (e.g. through increased price transparency) and reducing retail prices to protect smaller customers (which comprise ~99% of electricity and gas connections but less than half of total sales volume).

In response to the increased regulatory control over pricing, retailers increasingly seek to differentiate their offering through other ways such as providing:

- digital capabilities, which provide customers insight on their consumption patterns (and in turn flexibility and incentives to adjust how and when they consumer energy) and improve price certainty;
- multi-product essential services, including electricity, gas, telecommunications and broadband; and
- management services, which include energy orchestration offerings such as virtual power plants.

4 Profile of AGL Energy

4.1 Background

The *AGL* business traces its roots back to 1837 when the Australian Gas Light Company was established by an Act of Council of the colony of New South Wales. The company pioneered gas production and distribution in Australia and, for most of its history, was primarily focused on energy retailing in New South Wales.

Over its 185 year history, the *AGL* business has experienced a number of broad waves of consolidation and rationalisation (e.g. via divestments or demergers). Following legislative restructuring of the New South Wales gas industry in December 1985, *AGL* became a more widely based energy company through both acquisition and organic growth. In the early 1990s, *AGL* expanded its activities in Australia and offshore, principally in New Zealand. In late 1999, *AGL* adopted a strategy of development, management and investment in energy generation and distribution assets. This strategy resulted in the spin-off of its gas transmission pipeline assets in June 2000 through the listing of Australian Pipeline Trust (now APA Group) in which it retained a 30% interest. Following this period of growth, the *AGL* business became a major energy company operating throughout the energy sector value chain, across energy generation, energy retailing, energy services and ownership interests in energy distribution and transmission assets.

AGL Energy was formed as a result of the merger between the Australian Gas Light Company and Alinta Limited ("Alinta") and the subsequent demerger of the combined business's energy generation and retail business operations in 2006. Following these transactions, AGL Energy was established with the energy retailing, trading and generation functions and emerged as one of Australia's leading energy retailers with approximately 2.8 million customer accounts (of which over one million were dual fuel accounts). Its retail operations covered eastern Australia and Western Australia (through a 33% interest in AlintaAGL) and was supported by a portfolio of gas-fired power stations, the coal-fired Loy Yang A Power Station (32.5%) and other renewable energy generation assets.

Over the next fifteen years, AGL Energy continued to expand its baseload power generation capacity with the acquisitions of Torrens Island Power Station (2007), Loy Yang A (2012)[17] and Macquarie Generation (2014). During this period, the company also re-purposed legacy decommissioned units such as the Barker Inlet Power Station (2019). Through its 20% interest in Powering Australian Renewables (now known as "Tilt Renewables"), AGL Energy also supported the construction of new renewable generation assets. During this period, total owned and dispatched capacity grew from 3,300 MW in 2007 to approximately 11,000 MW by the end of 2021.

However, the last five years has seen the growing impact of Australia's energy transition on sector participants such as AGL Energy that still derive a large share of its generation from carbon-based technologies. Moreover, the unscheduled outages of AGL Energy's power stations, including the unexpected outages at Loy Yang A (2019) and Liddell (2020) required AGL Energy to shut down specific generating units for extended periods of time and highlighted the collective impact of the evolving energy trends on its core generation portfolio.

In response to these trends, it became increasingly clear that AGL Energy would need to transform its electricity generation profile either by identifying alternate sources of renewable power supply or investing heavily in the transition of its core asset fleet to a flexible and renewable generation portfolio.

[17] AGL Energy acquired the initial 32.54% interest Loy Yang A power station and an adjacent coal mine in April 2004. The company acquired the remaining interest in the power station in February 2012.

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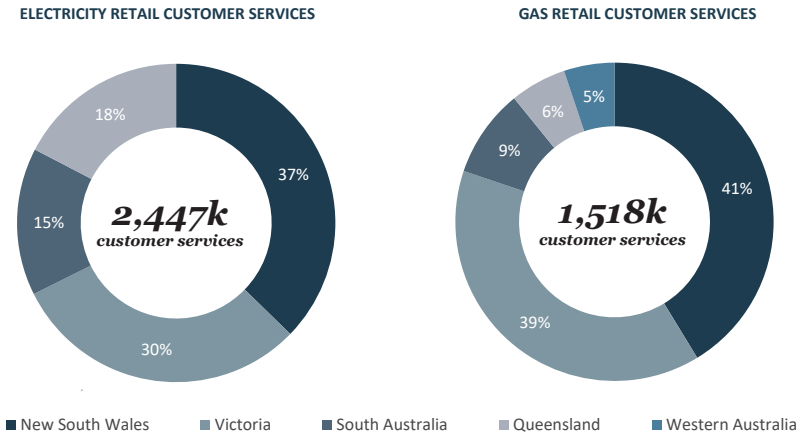
4.2 Business Operations

Today, AGL Energy is one of Australia's leading energy companies with an integrated power generation and energy retailing and wholesaling business. Through its vertically integrated "gentailer" operating model, it owns a portfolio of power generation assets that has historically complemented its large retail base primarily across eastern and southern Australia. AGL Energy is an ASX 100 company with a market capitalisation of around $5.6 billion and has approximately 4,400 employees.

The operating businesses are described in detail in Sections 3.1 and 4.1 of the Demerger Booklet and summarised below:

- **Retail energy,** which sells and markets gas and electricity in New South Wales, Victoria, South Australia and Queensland. The company is a leading energy retail services provider with over 27% share of total electricity and gas retail accounts, or over 4.5 million customer services (including telecommunication customer accounts and ActewAGL customers). New South Wales and Victoria account for nearly 75% of AGL Energy's retail customer base with South Australia and Queensland comprising the majority of the balance.

AGL ENERGY – TOTAL CUSTOMER SERVICES AS OF 31 DECEMBER 2021



Source: AGL Energy
Note: Figures above exclude ActewAGL customer services (approximately 300k), large business energy services (16k) and telecommunication services (224k).

The retail energy business also supplies gas, electricity and specialised energy related services to large energy customers, typically commercial and industrial businesses. While the majority of customers are household consumers or smaller businesses, larger industrial businesses represent the majority of electricity (and to a lesser extent, gas) sold by AGL Energy.

AGL Energy also has a 50% interest in the retail energy business of ActewAGL, a gas and electricity distribution and retail joint venture with the government of the ACT. ActewAGL is the leading energy retailer in the ACT and supplies approximately 180,000 electricity customer accounts and 120,000 gas customer accounts in the territory. More recently, AGL Energy established a 51:49 joint venture with Ovo Energy Holdings Pty Limited ("Ovo Energy") to develop and rollout a new digital services platform tailored for multi-product energy retail;

- **Electricity generation**, which operates AGL Energy's power generation portfolio of coal, gas and renewable generation facilities. These facilities are primarily located on the east coast and have a generation capacity of approximately 11,000 MW. More than 60% of capacity is represented by three large scale coal-fired

power stations, namely AGL Macquarie (Bayswater and Liddell) and Loy Yang A. Liddell is currently scheduled for closure by FY23, while Bayswater and Loy Yang A are currently scheduled for closure by no later than 2033 (as early as 2030) and 2045 (as early as 2040), respectively. The electricity generation business also comprises flexible generation assets such as gas-fired power stations (e.g. Torrens Island and Barker Inlet) as well as wind and solar assets.

AGL Energy's power generation portfolio is summarised in the table below:

AGL ENERGY – GENERATION PORTFOLIO

ASSET	STATE	TYPE	CAPACITY (MW) 100% BASIS	CAPACITY (MW) EQUITY BASIS
AGL Macquarie Generation – Bayswater	NSW	Black coal	2,665	2,665
AGL Macquarie Generation – Liddell	NSW	Black coal	2,000	2,000
AGL Loy Yang A	VIC	Brown coal	2,210	2,210
Total coal			**6,875**	**6,875**
AGL Torrens Island	SA	Gas steamed turbine	1,040	1,040
Barker Inlet	SA	Gas reciprocating engine	211	211
Yabulu*	QLD	Combined Cycle Gas Turbine	121	61
Somerton	VIC	Open Cycle Gas Turbine	170	170
Kwinana Swift	WA	Open Cycle Gas Turbine	116	116
AGL Macquarie – HVGT	NSW	Diesel	50	50
Total gas			**1,708**	**1,648**
Macarthur	VIC	Wind	420	420
Hallett	SA	Wind	351	351
Wattle Point	SA	Wind	91	91
Oaklands Hill	VIC	Wind	67	67
Silverton*	NSW	Wind	199	40
Coopers Gap*	QLD	Wind	452	90
Snowtown*	SA	Wind	101	20
Salt Creek*	VIC	Wind	54	11
Blayney*	NSW	Wind	10	2
Crookwell*	NSW	Wind	5	1
VIC hydro (i.e. Kiewa scheme, Dartmouth scheme, Eildon, Rubicon scheme and Yarrawonga)	VIC	Hydro	733	733
NSW hydro (i.e. Glenbawn, Copeton, Pindari and Burrendong)	NSW	Hydro	54	54
NSW solar* (i.e. Nyngan and Broken Hill)	NSW	Solar	156	156
Total renewables			**2,693**	**2,522**
Total AGL Energy portfolio			**11,276**	**10,434**

Source: AGL Energy
Note: Capacity is presented on a 100% basis. Certain assets have been marked with an asterisk (*) to denote that AGL Energy does not wholly own the asset. AGL Energy holds a 20% interest in Tilt Renewables, which owns the Silverton, Coopers Gap and certain wind farm assets (e.g. Snowtown, Salt Creek, Blayney and Crookwell wind farms) and NSW solar assets. AGL Energy holds a 50% interest in the output of the Yabulu Power Station.

To replace the maturing asset base, AGL Energy maintains a pipeline of development projects (currently totalling approximately 2.7GW across various renewable and storage projects). These include battery storage developments in Torrens Island, Loy Yang A and Liddell as well as approximately 1,600MW of wind development projects.

AGL Energy also has a 20% interest in Tilt Renewables (previously named PowAR), an investment partnership with Queensland Investment Corporation, that develops and owns large-scale renewable energy projects. The portfolio includes the Silverton and Coopers Gap wind farms and the Nyngan and Broken Hill solar farms. In 2021, the partnership also acquired the Australian wind farm assets of Tilt Renewables, expanding its total renewable generation capacity from circa 800 MW to approximately 1,300 MW. AGL Energy also holds minority investments in early stage battery storage companies; and

- **Wholesale energy**, which includes AGL Energy's wholesale trading activities. This segment is responsible for purchasing and selling energy contracts to support the retail business and to optimise the value of its generation portfolio. AGL Energy operates a gas wholesaling business, which purchases and manages gas transportation and storage services for AGL Energy's retail and wholesale customers.

Given AGL Energy's long history, these operating segments are closely integrated and share property, systems and services and administrative functions. These include corporate overheads such as the costs associated with running its head office including group executives, board of directors, group functions (legal, accounting, tax, treasury, assurance, compliance, risk management, information technology, human resources, company secretarial), business development and costs of being a listed company.

Pursuant to AGL Energy's announcement of its intention to pursue the Demerger, the company has reorganised its internal reporting structure for FY22 to align the new businesses. While the majority of the retail operations and power generation business are now held by AGL Australia and Accel Energy, respectively, the asset allocations are not strictly defined along those segments[18]. The asset allocation between the demerged businesses is discussed further in Section 5.

4.3 Strategy

AGL Energy's business strategy remains focused on delivering shareholder value through the energy transition across Australia. Given its heritage and investment record, AGL Energy identified key strategic priorities to achieve the company's growth ambitions while protecting its core business operations and ensuring the company continues to build on its long history. These strategic priorities include:

- **growth**, to develop and expand core energy market offerings to meet evolving customer needs by:
  - investing in the security and flexibility of its coal-fired power portfolio to complement the build-out of renewable power across Australia's energy network;
  - developing new large-scale renewable generation assets and battery storage capabilities (pipeline of approximately 2.7GW). This includes new projects in the development pipeline such as Liddell battery storage, Loy Yang battery storage, Torrens Island battery project, Bells Mountain pumped hydro and a 1,600 MW pipeline of wind development projects;
  - converting existing power generation sites into new energy hubs that will house a range of renewable energy projects including battery storage, waste-to-energy facilities, electrothermal storage and hydrogen energy supply chain projects;
  - expanding into new geographies (e.g. Western Australia, through the acquisition of Western Australia-based Perth Energy Holdings Pty Limited ("Perth Energy")); and
  - creating new opportunities to engage with the customer. This includes delivering multi-product offerings (e.g. electricity, gas, telecommunications) and providing an energy orchestration platform to manage customer-owned energy assets (e.g. batteries, back-up generation, virtual power plants). In recent years, AGL Energy has explored opportunities to leverage its retail footprint by diversifying into the telecommunications sector (e.g. the indicative proposal to acquire Vocus Group Limited and the acquisition of Southern Phone Company Limited ("Southern Phone"));

[18] For example, large industrial customers for AGL Energy's retail business are retained by Accel Energy despite energy retail consumer customers are allocated to AGL Australia.

- **transformation,** to improve AGL Energy's operating cost profile and enhance customer experience through:
  - investing in AGL Energy's digital capabilities, including the *Customer Experience Transformation* project which provides consumers with insight on consumption patterns and the AGL Energy's partnership with Ovo Energy to license the *Kaluza* digital energy platform; and
  - meeting delivery commitments and simplifying AGL Energy's retail product offerings to optimise the group's operating efficiency; and
- **social licence,** to meet and exceed rising community expectations to instil stakeholder trust in the AGL Energy organisation. These priorities are to be met through:
  - optimising commercial availability of the power generation portfolio, through adequate planning, maintenance and energy efficiency upgrades. This includes the recent Bayswater Power Station plant design modifications to improve boiler efficiency and minimise site emission intensity;
  - providing support to the organisation's most vulnerable customers;
  - enhancing employee safety across AGL Energy's business operations; and
  - embedding carbon transition metrics in senior executive remuneration targets to ensure that management is incentivised to progressively reduce AGL Energy's carbon emissions footprint.

4.4 Financial Performance

4.4.1 Historical Group Performance

AGL Energy's historical financial performance from FY19 to FY21 and for HY22 is summarised below:

AGL ENERGY – SUMMARISED HISTORICAL FINANCIAL PERFORMANCE ($ MILLIONS)

	FY19 ACTUAL	FY20 RESTATED[19]	FY21 ACTUAL	HY22 ACTUAL
Total AGL services customer services (000s)	*3,708*	*3,954*	*4,208*	*4,205*
Total generation volumes (GWh)	*43,723*	*43,828*	*41,137*	*20,619*
Average realised wholesale electricity spot price[20] ($/MwH)	*103.1*	*75.2*	*58.0*	*64.4*
Revenue	**13,246**	**12,160**	**10,942**	**5,713**
Underlying EBITDA[21]	**2,285**	**2,026**	**1,666**	**723**
Depreciation and amortisation	(625)	(720)	(707)	(345)
Underlying EBIT[22]	**1,660**	**1,306**	**959**	**378**
Net finance costs[23]	(193)	(179)	(224)	(112)
Income tax expense	(427)	(319)	(199)	(76)
Loss attributable to non-controlling interest	-	-	1	4
Underlying Profit after tax	**1,040**	**808**	**537**	**194**
Significant items after tax	4	(17)	(2,929)	276
Profit on fair value of financial instruments after tax	(139)	216	334	85
NPAT[24] attributable to AGL Energy shareholders	**905**	**1,007**	**(2,058)**	**555**

19 FY20 financial performance and cash flow have been restated to reflect the impact of the change in accounting policy in relation to the treatment of configuration and customisation costs arising from cloud computing arrangements.

20 Reflects the volume weighted average spot price realised by AGL Energy's generation assets and does not include the effect of its hedging or contracting activities.

21 EBITDA is earnings before net finance costs, tax, depreciation, amortisation and impairment and significant items.

22 EBIT is earnings before net finance costs, tax and impairment and significant items.

23 Net finance costs includes interest expense, lease interest expense and unwinding of discounts on provisions and other liabilities, less interest income.

24 NPAT is net profit after tax.

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AGL ENERGY – SUMMARISED HISTORICAL FINANCIAL PERFORMANCE ($ MILLIONS)

	FY19 ACTUAL	FY20 RESTATED[25]	FY21 ACTUAL	HY22 ACTUAL
STATISTICS				
Basic earnings per share[26]	*158.6c*	*126.1c*	*86.2c*	*30.3c*
Dividends per share	*119.0c*	*98.0c*	*75.0c*	*16.0c*
Dividend payout ratio[27]	*75.0%*	*77.7%*	*87.0%*	*53%*
Amount of dividend franked	*80.0%*	*80.0%*	*0.0%*	*0.0%*
Revenue growth	*+3.4%*	*(8.2)%*	*(10.0)%*	*+5.5%[28]*
AGL services customer growth	*+1.8%*	*+6.6%*	*+6.4%*	*+0.1%[28]*
Generation volumes growth	*+1.5%*	*+0.2%*	*(6.1)%*	*(0.9)%[28]*
EBITDA growth	*+2.2%*	*(11.3)%*	*(17.8)%*	*(21.4)%[28]*
EBITDA margin	*17.3%*	*16.7%*	*15.2%*	*12.7%*
Interest cover[29]	*15.1x*	*16.3x*	*13.9x*	*17.2x*

Source: AGL and Grant Samuel analysis

From FY14 to FY19, AGL Energy generated improving revenues and EBITDA on the back of strong wholesale electricity prices and tightening supply of base load power. However, rising headwinds from regulatory uncertainty, declining wholesale electricity prices and one-off operational issues have resulted in the deterioration of its financial performance over the past three years. Between FY19 and FY21, revenues declined by approximately 8-10% per annum and EBITDA margins narrowed from 17% to 15% (albeit still at slightly above historical EBITDA margins that generally ranged between 11% and 15% over FY11 to FY16).

While HY22 revenues were higher than the prior year, the challenges from the broader industry environment persisted and AGL Energy continued to face earnings pressures as legacy contracts set at historically higher electricity prices were unwound and replaced with lower priced electricity contracts. EBITDA margins declined to 12.7% for the most recent half year period.

The following factors are important to note for the period presented above:

- underlying revenue performance has been mixed across both the energy retail and generations businesses:
  - customer retail services grew by 6.6% and 6.4%, respectively, in FY20 and FY21. Customer services growth reflects the combination of organic growth, acquisition-driven growth (e.g. Click Energy Group Holdings Pty Ltd ("Click Energy"), Southern Phone and Perth Energy) and lower customer churn rates of approximately 14% in FY20 and FY21 compared to prior years (i.e. approximately 16-19% per annum). While the customer churn rate reverted to historical levels (i.e. 16.2%) in HY22, this was predominantly due to expected churn resulting from the Click Energy acquisition; but
  - generation volumes experienced modest declines. While AGL Energy has historically averaged close to 43.5 GWh per annum, the decline in FY21 reflects the unplanned outages at the Liddell power station which more than offset the higher generation volumes from AGL Energy's wind asset portfolio. HY22 generation remained broadly consistent with the prior year as the combination of planned (e.g. Loy Yang A) and unplanned outages (e.g. Victorian wind farms) and lower pool price outcomes were offset by the recovering availability at Liddell;
- wholesale prices retreated from an all-time high (measured as average annual wholesale spot prices) in FY19. This resulted in the unwinding of forward sale contracts that were previously struck in a higher price

[25] FY20 financial performance and cash flow have been restated to reflect the impact of the change in accounting policy in relation to the treatment of configuration and customisation costs arising from cloud computing arrangements.

[26] Basic earnings per share is based on underlying profit after tax.

[27] Dividend payout ratio is based on NPAT attributable to AGL shareholders from continuing operations and before significant items.

[28] Growth rates for HY22 are relative to the prior corresponding period (i.e. HY21).

[29] Interest cover is EBITDA divided by net finance costs paid.

environment and rolled over to lower priced contracts set in the prevailing price environment. Between FY19 and FY21, this was estimated to have a negative $370 million impact on underlying profit after tax;

- lower cost gas supply contracts matured and were rolled over into higher cost supply agreements. The Crib Point liquified natural gas ("LNG") project was originally intended to mitigate these rising costs by importing and processing LNG for the group's gas supply. However, AGL Energy withdrew the Crib Point development proposal in May 2021 following the Victorian State Government's decision to reject the proposal. Altogether, these gas supply related costs were estimated to have a negative $220 million impact on underlying profit after tax; and
- cost discipline and other initiatives have mitigated the declining financial performance. This includes:
  - ongoing operational cost benefits AGL Energy's investments in its *Customer Experience Transformation* program and its enterprise planning upgrade. These investments have allowed AGL Energy's customers to rely on the company's newly upgraded digital channels for self service and assistance, resulting in operational cost savings for the group; and
  - operating expense reduction initiatives, including reductions in marketing and advertising costs, IT expense and discretionary spend (e.g. travel, consultancy and corporate), combined with labour reductions in corporate functions.

The performance of AGL Energy's business divisions is discussed in more detail in Section 4.4.2 of this report.

AGL Energy's interest cover declined from 15.1 times in FY19 to 13.9 times in FY21 due to its declining earnings and increased drawdowns on its debt facilities (see Section 4.6). Repayment of a portion of debt facilities in HY22 contributed to a slight improvement of the interest cover ratio to 17.2 times during the half year period. AGL Energy continues to maintain significant headroom above its debt covenants[30].

Significant items and non-recurring items, particularly in FY21, were in relation to:

- increased provision for environmental rehabilitation costs. The provision represents AGL Energy's best estimate of the present value of the expenditure required to settle future environmental obligations. Upon completing a three-yearly review of the group's long-term rehabilitation requirements, AGL Energy reduced its discount rate from 10% to 3% and recognised a higher provision (due to a higher present value of expected cash outflows);
- write-down of AGL Energy's Generation Fleet cash generating unit and Natural Gas assets. These comprised impairments to goodwill, inventories and natural gas assets (including Newcastle Gas Storage Facility, Silver Springs and Camden); and
- recognition of onerous contracts, which relate to various "out of the money" renewable asset PPAs and gas transportation agreements. More specifically, these include legacy long-term wind offtake agreements that AGL Energy entered into between 2006 and 2012 at prices significantly higher than prevailing prices for electricity and renewable energy certificate prices. This provision was partially reversed in HY22 following improved operating conditions.

The significant items are summarised below:

[30] AGL Energy's interest cover debt covenant considers the Funds from Operations instead of EBITDA in its calculation. For the twelve month period ending 31 December 2021, AGL Energy had an interest cover of 14.8 times

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AGL ENERGY – SIGNIFICANT ITEMS (AFTER TAX) ($ MILLIONS)

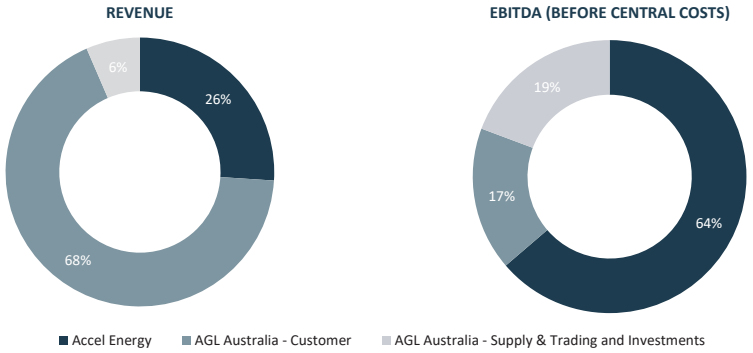
	FY19 ACTUAL	FY20 ACTUAL	FY21 ACTUAL	HY22 ACTUAL
Impairment losses	(38)	(10)	(1,477)	(4)
Onerous contracts recognised	-	-	(1,348)	316
Contract termination payments	-	-	(55)	-
Acquisitions and integration costs	-	(7)	(35)	-
Restructuring and separation costs	-	-	(14)	(36)
Gain on divestment and sale of development rights	42	-	-	-
Significant items (after tax)	**4**	**(17)**	**(2,929)**	**276**

Source: AGL Energy

4.4.2 Historical Business Division Performance

AGL Energy's retail energy business is the largest contributor to group revenues but comprises a smaller share of group EBITDA due to its lower EBITDA margins. The higher margins of the generation business (i.e. Accel Energy) reflect its high capital intensity.

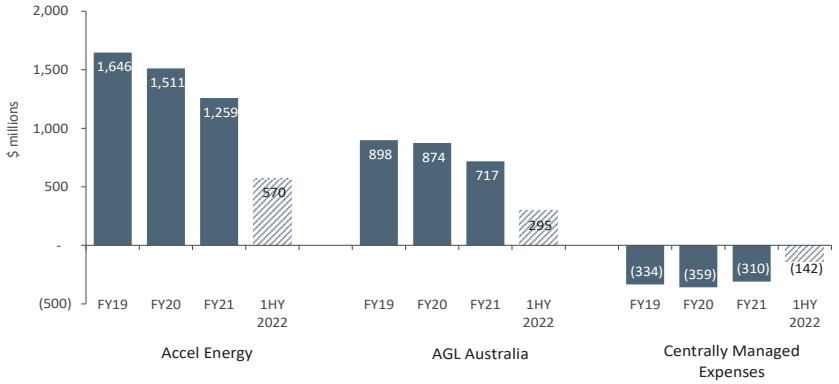
AGL ENERGY – CONTRIBUTION BY BUSINESS DIVISION (FY21)



Source: AGL Energy

AGL Energy's restated EBITDA by business division from FY19 to FY21 and HY22 is shown in the chart below:

AGL ENERGY – REPORTED EBITDA BY BUSINESS DIVISION (FY19 – HY22)



Source: AGL
Note: Centrally Management Expenses represents certain expense items that AGL reports separately and are not reallocated to AGL Energy's segments because their management is the responsibility of various corporate functions (e.g. Information Technology)

Historically, Accel Energy contributed approximately 63-65% to group EBITDA, while AGL Australia comprised the balance. Due to the hedging and trading strategies adopted by the Accel Energy segment, AGL Energy's EBITDA mix has remained largely consistent across the two business divisions but this belies the dramatic changes occurring in the profitability of each business as a result of the increased volatility in the electricity market in recent years and increasing gas supply costs.

Accel Energy

Accel Energy suffered significant declines in revenues and EBITDA in each of the past three fiscal years as its generation assets were forced to recontract at lower prices as new generation supply continued to enter the market (i.e. renewables) ahead of demand. The division's financial performance was further challenged by unplanned outages that impacted FY20 and FY21 results.

AGL Australia

The financial performance of AGL Australia is driven by the combined performance of the multi-product retail and wholesale trading businesses. The retail business typically generates relatively steady EBITDA margins. The single-digit EBITDA margins are reflective of the highly competitive energy retail market and the limited asset base to be serviced. Further, improving customer churn rates and new acquisitions (e.g. Click Energy) supported a relatively stable retail EBITDA margin over the past three years. However, wholesale gas trading margins declined in FY21 and HY22, more than offsetting the improvements from the retail business. As a result, AGL Australia's EBITDA margins declined over the period from 10.8% in FY19 to 7.1% in HY22.

4.4.3 Outlook

AGL Energy released guidance on its underlying earnings for FY22 alongside its HY22 results. The guidance was revised on 2 May 2022 to reflect the impact of the unplanned Loy Yang outage (reported to the market on 20 April 2022). The revised guidance is:

- underlying EBITDA is expected to be between $1,230 and $1,300 million (compared to $1,666 million in FY19); and
- underlying profit after tax is expected to be between $220 and $270 million (compared to $1,040 million in FY19).

The guidance reflects the strong generation and trading performance in HY22, which is expected to be partly offset by softer second half earnings and an expected pre-tax financial impact in relation to the unplanned outage at Loy Yang of $60 million (remaining $13 million pre-tax EBITDA is expected to be incurred in FY23). The financial impact of the unplanned outage at Loy Yang is not expected to be recoverable via insurance. The reduction in earnings is primarily driven by increased capacity costs to cover periods of peak electricity demand (which are typically higher in summer months).

Furthermore, AGL Energy expects:

- wholesale gas consumption in 2HY22 to be lower due to seasonally warmer months, with haulage and storage costs remaining flat;
- improvement in customer margins due to a reduction in solar feed-in tariffs, disciplined margin management and ramp up of newly commissioned commercial solar projects; and
- continued execution of its operating cost savings ($150 million in annual run-rate operating expenses relative to FY20) and sustaining capital expenditure reduction ($100 million cumulative reductions by FY23) programmes.

GRANT SAMUEL

4.5 Financial Position

The financial position of AGL Energy at 31 December 2021 is summarised below:

AGL ENERGY – SUMMARISED FINANCIAL POSITION ($ MILLIONS)

	AT 31 DECEMBER 2021
Trade and other receivables	1,735
Inventories	429
Trade payables and accruals	(1,550)
Net working capital	**614**
Property, plant and equipment	6,073
Right of use assets	168
Intangible assets	3,276
Derivatives– Energy (net)	838
Assets held for sale (net)	223
Investments in associates and joint ventures	475
Onerous contracts	(1,552)
Environmental rehabilitation obligation	(1,454)
Other financial assets/(liabilities) (net)	(181)
Other (net)	(94)
Total funds employed	**8,386**
Deferred tax and other tax assets / (liabilities) (net)	529
Net assets employed	**8,915**
Cash and cash equivalents	104
Borrowings	(2,874)
Derivatives – Other (net)	134
Net borrowings (excluding lease liabilites)	**(2,636)**
Lease liabilities	(153)
Net borrowings (including lease liabilities)	**(2,789)**
Net assets/Equity attributable to AGL shareholders	**6,126**
STATISTICS	
Shares on issue at period end (million)	*672.7*
Net assets per share	*$9.11*
NTA[31] per share	*$4.24*
Leverage (net borrowings, based on HY22 EBITDA)[32,33]	*1.93x*
Leverage (net borrowings, based on FY21 EBITDA)[32]	*1.67x*
Gearing[34]	*31%*

Source: AGL Energy and Grant Samuel analysis

Due to the capital intensive nature of AGL Energy's operations, the majority of its capital is deployed in long-term fixed assets and liabilities. These include:

- property, plant and equipment, which represent the majority of capital employed. These assets primarily relate to AGL Energy's portfolio of long-lived electricity generation assets and gas production assets. These long-lived assets can have depreciable lives of up to 50 years;

[31] NTA is net tangible assets.

[32] Leverage is net borrowings including lease liabilities divided by EBITDA.

[33] Based on HY22 EBITDA, which is assumed to be doubled.

[34] Gearing is net borrowings (including lease liabilities) divided by net assets plus net borrowings.

- intangible assets, which predominantly comprise goodwill (i.e. circa 75% of the intangibles balance). The remaining balance includes software, licences and customer contracts;
- environmental rehabilitation liabilities, of which approximately 80% are in relation to the Loy Yang A, Bayswater and Liddell power stations; and
- onerous contracts, the majority of which were recognised in FY21 and relate to out of money renewable asset PPAs and gas transportation agreements.

To support its day-to-day operations, AGL Energy maintains a slightly positive working capital position and regularly enters into certain derivative financial instruments in order to hedge its exposure to fluctuations in energy prices. The net asset balance of energy derivatives reflects the fair value of the instruments as of 31 December 2021.

AGL Energy also holds other assets and liabilities such as:

- assets held for sale, which comprise Newcastle Gas Storage Facility. The sale process began in March 2021 and remain in progress as of the date of this report;
- investments in associates and joint ventures. This includes AGL Energy's 50% interest in ActewAGL's retail operations, 20% interest in Tilt Renewables and other minority interests; and
- other financial assets, which include unlisted equity securities, unlisted investment funds and deferred consideration payments. The deferred consideration balance is in relation to the acquisition of Loy Yang A in 2012, in which the total consideration included a 15 year deferred payment stream.

AGL Energy also operates a number of defined benefit superannuation plans for some employees. The defined benefit plan deficit of $46 million represents the excess of the present value of defined benefit plan obligations over the fair value of plan assets and is shown under other assets and liabilities (net).

AGL has a diversified funding mix that includes capital markets debt (approximately 30% of total facilities), as well as unsecured bank loans (approximately 70% of total facilities):

AGL ENERGY – NET BORROWINGS AT 31 DECEMBER 2021 ($ MILLIONS)

FACILITY	FACILITY LIMIT	AMOUNT DRAWN	MATURITY
Bank loans (unsecured)	2,427	1,785	Various (2022 to 2025)
US$ senior notes (unsecured)[35]	1,035	1,035	Various (2022 to 2031)
CPI bonds (unsecured)	62	62	May 2027
Lease liabilities	-	153	n/a
Capitalised borrowing costs	-	(8)	n/a
Total borrowings	--	**$3,027**	--
Cash and cash equivalents	--	(104)	--
Net borrowings		**$2,923**	

Source: AGL Energy

Note: Excludes available bank guarantee facilities of $453 million, of which $393 million was drawn at 31 December 2021

At 31 December 2021, AGL Energy had available undrawn debt facilities of $642 million. AGL Energy funded the redemption of $600 million of medium term notes in May 2021 through additional drawdowns from its bank loan facility.

AGL Energy holds various types of derivates to hedge against its exposures to variability in interest rates and foreign exchange rates (including cross currency swaps, interest rate swaps and other hedging instruments). The mark-to-market of these hedging arrangements at 31 December 2021 was a net unrealised gain of $134 million.

[35] Notes sold into the United States Private Placement ("USPP") market.

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AGL Energy maintains a modest gearing profile that is well below its debt covenant (gearing of less than 50%). Gearing (including lease liabilities) at 31 December 2021 was 31%, which increased from approximately 24% in FY19 due to the reduction in AGL Energy's net assets as a result of the one-off recognition of onerous contracts and environmental rehabilitation provisions. AGL Energy also maintains significant headroom to its interest coverage debt covenant.

AGL Energy has an investment grade credit rating of Baa2 (negative outlook) from Moody's. On 30 June 2021, Moody's placed AGL Energy on negative watch following the announcement of the Demerger.

At 31 December 2021, AGL Australia had intercompany borrowings from Accel Energy totalling $3,261 million. These intercompany borrowings are eliminated on consolidation.

4.6 Cash Flow

AGL Energy's reported cash flow from FY19 to FY21 and for HY22 is summarised below:

AGL ENERGY – SUMMARISED HISTORICAL CASH FLOW (PRE-FINANCING) ($ MILLIONS)

	FY19 ACTUAL	FY20 RESTATED	FY21 ACTUAL	HY22 ACTUAL
EBITDA	**2,285**	**2,026**	**1,666**	**723**
Dividends received from joint ventures	27	16	23	4
Accounting for onerous contracts	(34)	(30)	(80)	(67)
Changes in working capital and other adjustments	(227)	482	6	154
Operating cash flow before capital expenditure, interest and tax	**2,051**	**2,494**	**1,615**	**814**
Capital expenditure (net)	(840)	(714)	(710)	(289)
Operating cash flow before interest and tax	**1,211**	**1,780**	**905**	**525**
Net interest paid	(151)	(124)	(120)	(42)
Cash flows relating to signficant items	-	(7)	(122)	(51)
Tax paid	(263)	(233)	(114)	(53)
Acquisition cash flows (net of disposals)	5	(121)	(242)	(263)
Operating cash flow	**802**	**1,295**	**307**	**116**
Dividends paid	(774)	(719)	(573)	(212)
Payments for buy back of shares	-	(620)	(2)	-
Other investing cash flows	(75)	-	15	-
Net cash generated/(used)	**(47)**	**(44)**	**(253)**	**(96)**
STATISTICS				
Operating cash flow conversion[36]	*90%*	*123%*	*97%*	*113%*
Capital expenditure (net) as a % of EBITDA	*37%*	*35%*	*43%*	*40%*
Sustaining capital expenditure as a % of total capital expenditures	*59%*	*74%*	*76%*	*78%*

Source: AGL Energy and Grant Samuel analysis

AGL Energy's business operations are highly cash generative, illustrated by the consistently high operating cash flow conversion ratio. However, operating cash flows have progressively declined between FY19 and FY21 as a result of EBITDA reductions from declining wholesale electricity prices and maturity of "in the money" hedging positions. This decline was partly offset by a large uplift in operating cash flows in FY20, as AGL Energy reduced its net working capital balances in line with its capital management response to the market uncertainty caused by the COVID-19 pandemic. Despite lower EBITDA in HY22 over the prior comparable period (i.e. HY21), AGL Energy's disciplined working capital management resulted in generally stable year on year operating cash flows.

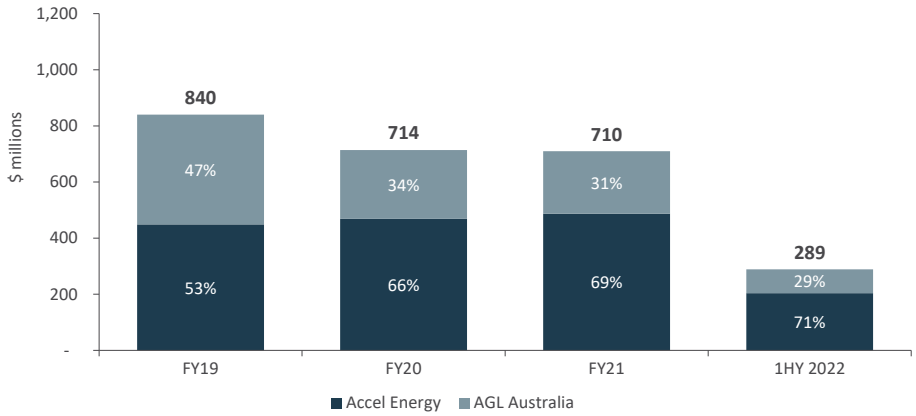
These strong operating cash flows have largely supported most, if not all, of AGL Energy's capital expenditure and dividend requirements over the past three fiscal years. The decline in capital expenditures between over the

[36] Operating cash flow conversion is operating cash flow before capital expenditures, interest and tax divided by EBITDA.

period reflects limited expenditure on new projects and the conclusion of the company's three-year IT and enterprise resourcing planning system upgrade in FY19. However, the capital intensity of the business operations (especially power generation) and the older age of key assets demand high levels of sustaining capital expenditures (circa 75% of total capital expenditures in the past three years). This includes required outage works and associated assessment costs at Loy Yang A and Liddell over the past three years.

Accordingly, with the exception of FY19, the large majority of AGL Energy's capital expenditures relates to Accel Energy:

AGL ENERGY – CAPITAL EXPENDITURE (NET) BY BUSINESS DIVISION



Source: AGL Energy and Grant Samuel analysis

AGL Energy made a $358 million capital contribution into Tilt Renewables (then named PowAR) to fund PowAR's acquisition of Tilt Renewables Limited's Australian business in HY22. AGL Energy also completed the acquisitions of Click Energy, SEGH Pty Limited ("Solgen") and Epho Holding Pty Limited ("Epho") in FY21 and the acquisitions of Perth Energy and Southern Phone in FY20. The company completed the sale of its investments in Energy Impact Partners US fund ($95 million) and Ecobee ($12 million) in HY22. These transactions are reflected in the "acquisition cash flows (net of disposals)" line in the table above.

AGL Energy continues to maintain a dividend policy target of 75% of underlying NPAT resulting in declining dividends per share since FY19. While AGL Energy has historically franked 80% of its dividends, FY21 dividends were unfranked to allow the group to utilise its carry-over tax losses.

In FY20 and FY21, AGL Energy introduced new measures to bolster shareholder returns and support the declining share price (see Section 4.9 or further discussion on share price performance). These include an on-market share buyback announced in August 2019 and a new special dividend program to effectively increase the target dividend payout from 75% to 100% of underlying NPAT for FY21 and FY22. However, the special dividend program has been suspended to preserve AGL Energy's capital position as it prepares for the Demerger.

4.7 Taxation Position

Under the Australian tax consolidation regime, AGL Energy and its 100% owned Australian tax resident subsidiaries have formed an income tax consolidated group and are therefore taxed as a single entity. Separately, AGL Energy has a separate tax consolidated group with the 99.99% owned AGL Generation Holdco Pty Limited as the head entity. This separate tax consolidation group includes AGL Energy's interests in Loy Yang Marketing Holdings Pty Limited and its subsidiaries (i.e. assets of Loy Yang A).

At 31 December 2021, AGL Energy group (i.e. both tax consolidated groups) had carried forward income tax losses of approximately $500 million and no available franking credits. AGL Energy also has capital tax losses of

approximately $120 million. However, these capital losses had not been reported in the financial statements due to the uncertainties relating to their future utilisation.

4.8 Capital Structure and Ownership

4.8.1 Capital Structure

AGL Energy has the following securities on issue:

- 672,747,233 ordinary shares (including 50,253 restricted shares); and
- 2,703,257 performance rights.

AGL Energy operates the following incentive plans for senior executives and management:

- a short term incentive plan ("STI plan") under which senior executives may receive up to 25% (or 50% in the case of the Managing Director and Chief Executive Officer ("CEO")) of the incentives in restricted shares and the remaining balance in cash. The STI plan is subject to a two year service condition and meeting annual performance conditions; and
- a long term incentive plan ("LTI plan") under which the most senior executive levels are entitled to performance rights. Each performance right is a right to receive one fully paid ordinary share in AGL Energy subject to meeting performance conditions (i.e. total shareholder returns, return on equity and carbon transition targets) over a four year period. Performance rights do not carry any rights to vote or to receive dividends.

AGL Energy also operates two general employee share plans. The Share Reward Plan enables eligible employees to be granted up to $1,000 of ordinary shares in AGL Energy for no consideration each financial year. The Share Purchase Plan is AGL Energy's salary sacrifice plan that allows eligible employees to contribute up to $5,000 per financial year into acquiring ordinary shares in AGL Energy.

AGL Energy operates a dividend reinvestment plan which enables shareholders to reinvest all or part of their dividends in additional AGL Energy shares. The plan is currently active. In relation to the HY22 dividend, shares were issued at $7.33 per share, or a price equivalent to the average of the daily volume weighted average market price of AGL Energy shares traded on the ASX over a period of 20 trading days from 28 February 2022.

4.8.2 Ownership

AGL Energy has approximately 148,000 registered shareholders. The top 20 registered shareholders represent approximately 50% of the ordinary shares on issue and are primarily institutional nominee/custodian or listed investment companies.

AGL Energy has received a notice from the following substantial shareholders:

AGL ENERGY – SUBSTANTIAL SHAREHOLDERS

SHAREHOLDER	DATE OF NOTICE	NUMBER OF SHARES	PERCENTAGE
Macquarie Group Limited	25 February 2022	33,851,744	5.14%[37]
Galipea Partnership	2 May 2022	56,779,867	8.44%[38]

Source: IRESS

[37] Based on issued shares on 25 February 2022.

[38] Based on issued shares on 2 May 2022. Excludes the economic interest in respect of a further 19,103,523 shares (representing 2.84% of AGL Energy shares outstanding which were secured via a cash settled total return swap.

4.9 Share Price Performance

Share Price History

From the Alinta transaction in late 2006 to the end of 2016, AGL Energy shares traded in a wide range from $9.60-22.18, but generally more consistently in the range of $14-17 with a volume weighted average price ("VWAP") of approximately $14.70. This period saw AGL Energy generate substantial growth in its business through acquisitions of large scale generation assets (e.g. Torrens Island and Macquarie Generation), deliver shareholder value through its "gentailer" operating model and capitalise on the increasing volatility in wholesale energy prices (i.e. by entering into long-dated hedges to lock in higher prices).

The following graph illustrates the movement in the AGL share price and trading volumes since 2017:

AGL – SHARE PRICE AND TRADING VOLUME

JANUARY 2017 TO APRIL 2022

Source: IRESS

AGL Energy shares continued their upwards trend between January and April 2017, climbing from $22.09 to a historical high of $28.47 in April 2017. The continued rise in share prices during these months was supported by surging wholesale prices as a result of the closures of the Northern and Hazelwood power stations and AGL Energy's successful renegotiation of the power supply agreement with Alcoa Limited in relation to the Portland Smelter.

However, after peaking in April 2017, the AGL Energy share price began a progressive (and largely uninterrupted) decline over the following years. The share price declined to $17.77 in November 2018 but briefly recovered in the following year to $22.96 by April 2019 following strong half year results and the recovery of electricity wholesale prices. Notwithstanding record profits and capital returns (i.e. special dividends and share buybacks), the share price resumed its decline as the pace of energy transition accelerated across the country.

Continued headwinds in 2021 placed further downwards pressure on the share price. Weak market conditions resulted in soft HY21 results, as lower wholesale electricity and renewable energy certificate prices impacted group profitability. The share price fell to between $9.00 and $10.50 per share by March 2021, the month leading up to the announcement of its intention to pursue a demerger. The share price continued its decline following the announcement of the Demerger as the sell down of long time substantial shareholders such as Blackrock Group, State Street Corporation and Vanguard Group in the months of September and November 2021 continued to put pressure on the AGL Energy share price.

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AGL Energy shares traded as low as $5.10 per share in November 2021 before recovering to the $7.00-7.50 range following stronger wholesale electricity prices, improved HY22 results and further disclosure on the Demerger strategy. While AGL Energy shares traded as high as $8 per share following the announcement of the initial Brookfield Consortium proposal, the share price retreated as the proposal and revised offer were rejected by the AGL Energy Board. Since the latest announcement in relation to the Brookfield Consortium proposal, the AGL Energy shares traded within a range of $7.00-7.50 per share but then climbed well above $8 to as high as around $8.50 per share in April 2022. The jump is likely attributable to the stronger wholesale electricity price environment but may also reflect increased investor interest following the Brookfield proposals.

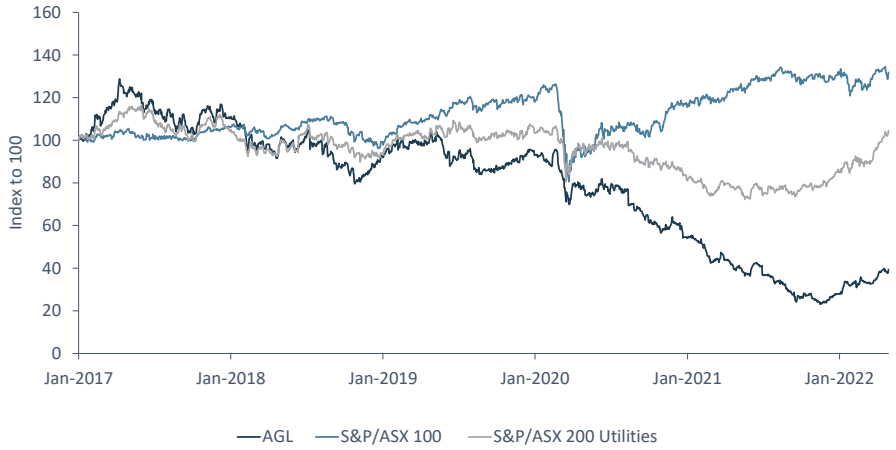
Liquidity

AGL Energy is a relatively liquid stock with 100% free floating shares. Average weekly volume over the twelve months prior to 30 April 2022 represented approximately 4.5% of average shares on issue or annual turnover of around 230% of total average issued capital.

Relative Performance

AGL Energy is an ASX 100 company and is a member of the S&P/ASX 100 Utilities Index. Its weighting in these indices is approximately 0.28% and 18.6% respectively. However, the S&P/ASX 100 Utilities Index only comprises four listed entities, one of which (i.e. AusNet Services Limited) was taken private and delisted in February 2022. The following graph illustrates the performance of AGL Energy shares since January 2017 relative to the S&P/ASX 100 index and the S&P/ASX 100 Utilities index:

AGL VS S&P/ASX 100 INDEX VS S&P/ASX 200 UTILITIES INDEX
JANUARY 2017 TO APRIL 2022



Source: IRESS

Between January 2017 and early 2019, AGL Energy shares generally performed in line with the utilities sector (represented by the S&P/ASX 100 Utilities Index) and the market as a whole (represented by the S&P/ASX 100 Index). While AGL Energy shares experienced periods of significant outperformance (e.g. early 2017), it also observed periods of underperformance to both the utilities sector and the market (e.g. throughout 2019). Over this period, AGL Energy shares comprised approximately 35% of the ASX 100 Utilities Index and maintained its influence on the performance of the Index.

However, AGL Energy shares have significantly underperformed the utilities sector and the market as a whole since early 2019 particularly subsequent to the onset of the COVID-19 pandemic in March 2020. The combination of numerous factors including challenging market conditions, consecutive earnings downgrades and persisting political uncertainty surrounding the energy transition have exacerbated the underperformance of AGL Energy shares. While the underperformance of AGL Energy's shares have also dragged the performance of the utilities sector downwards relative to the market, its shares have had a progressively declining weighting and consequently smaller impact on the Index performance. Over this period, weighting of the index shifted towards large scale energy infrastructure owners such as APA Group, AusNet Services (now delisted after it was taken private in 4 February 2022) and Spark Infrastructure (now delisted after it was taken private in 23 December 2021) which are gas and electricity network owners. As such, they have very different business models and risk profiles with the majority of their revenues either derived from regulated or highly contracted assets (so are less susceptible to changes in energy prices).

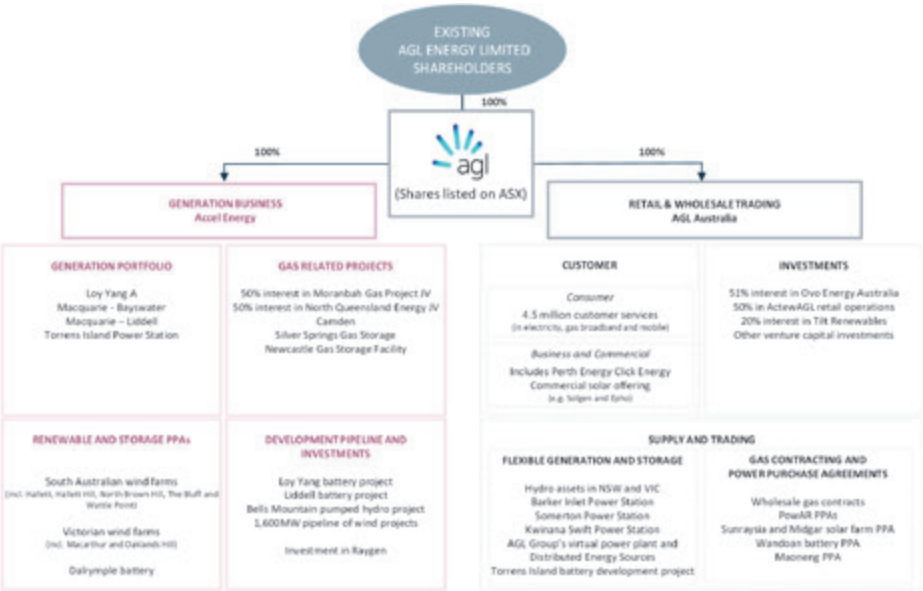
GRANT SAMUEL

5 Impact of the Demerger

5.1 Structure and Ownership

As discussed in Section 4.2, AGL has reorganised its internal reporting structure for FY22 to align with the proposed new businesses. The structure and ownership of AGL Energy prior to the Demerger is shown below:

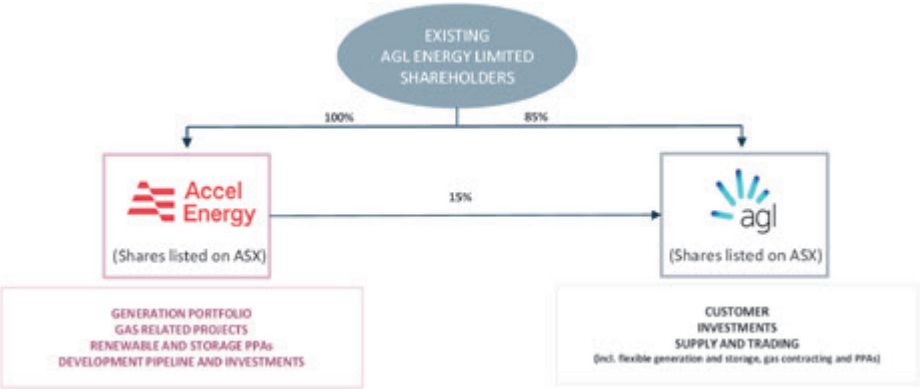
AGL ENERGY STRUCTURE – BEFORE DEMERGER[39]



Source: AGL Energy

The structure and ownership of Accel Energy and AGL Australia immediately after the Demerger is shown below:

AGL ENERGY STRUCTURE – AFTER DEMERGER



Source: AGL Energy

[39] Total customer services of 4.5 million includes ActewAGL users.

Following the Demerger, the relative ownership interest held by each AGL Energy shareholder (other than ineligible shareholders and selling shareholders) in AGL Australia will be equal to their ownership interest in AGL Energy prior to implementation of the Demerger. However, the ownership interest will be held 85% directly and 15% indirectly (via Accel Energy).

AGL Australia's board and management will be standalone and the companies will operate at arm's length. However:

- Accel Energy will own 15% of the issued capital of AGL Australia but will not seek representation on AGL Australia's board of directors;
- in addition to certain short-term Transitional Services Agreements, there will be a number of ongoing commercial agreements in place, including:
  - long term electricity generation offtake agreement in Victoria and New South Wales. The agreement comprises multiple energy derivative contracts through FY27, including fixed contracted volumes and volumes under options contracts. The fixed contracted offtake volumes are set to progressively taper off over the term of the contract to allow for the Liddell closure and new contracting opportunities for AGL Australia. The contract will comprise a fixed price component and a variable price component that is indexed quarterly to market prices to ensure the contract remains at arm's length;
  - sale of large scale generation certificates by Accel Energy to AGL Australia;
  - heads of agreement to support potential contracting and offtake opportunities beyond FY27;
  - bespoke gas supply agreement in South Australia under which AGL Australia will supply Accel Energy with gas at the Torrens Island Power Station; and
  - other commercial agreements such as operations & maintenance agreements.

5.2 AGL Australia

5.2.1 Operations and Strategy

Business operations

If the Demerger is implemented, AGL Australia will be Australia's leading energy-led multi-product retailer with $8.5 billion in pro forma FY21 sales revenue and approximately $500 million in pro forma FY21 EBITDA.

It will have three operating divisions and investments:

- **Customer,** which will comprise the new group's retailing of essential services (e.g. electricity, gas, mobile and broadband). This includes:
  - Consumer retail segment, which will continue to operate under the flagship *AGL* brand name and has over 4.5 million residential and large business customer services[39] across all Australian states and territories except Tasmania and the Northern Territory. AGL Australia continues to use the legacy brand names (e.g. *Southern Phone*) for a select number of product offerings; and
  - Business and Commercial retail segment, which will include AGL Australia's business and commercial segment (e.g. the Solgen and Epho commercial solar businesses and other business energy solutions);
- **Supply and Trading**, which will be responsible for sourcing the electricity and gas inputs required to serve AGL Australia's retail customers. This division is responsible for wholesale trading in electricity and gas markets (including the electricity offtake agreement with Accel Energy) and manage AGL Australia's decentralised energy offering (e.g. residential battery program and other energy orchestration

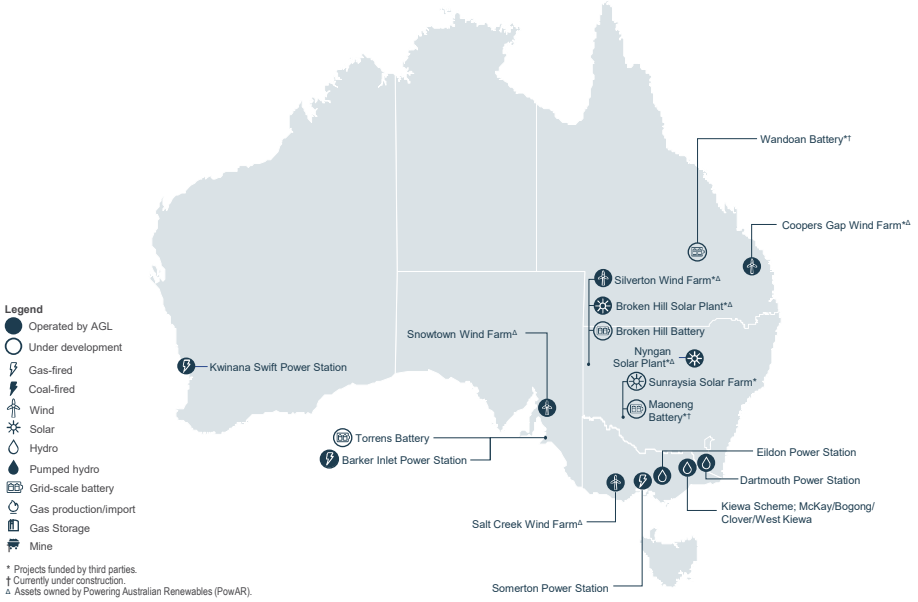
service offerings). It will also operate AGL Australia's flexible generation and supply portfolio that is diversified across:

- gas peaking plants, with generation capacity of approximately 497MW across the Barker Inlet, Somerton and Kwinana Swift power stations;
- hydroelectric power stations, with generation capacity of approximately 787MW across Victoria (Kiewa scheme, Dartmouth scheme, Eildon, Rubicon scheme and Yarrawonga) and New South Wales (Glenbawn, Copeton, Pindari and Burrendong); and
- renewable PPAs. AGL Australia will hold offtake agreements with Tilt Renewables assets (e.g. Silverton, Coopers Gap, Nyngan and Broken Hill) and other third parties such as Sunraysia Solar Farm, Midgar Solar Farm, Maoneng battery derivatives (e.g. Lismore, Armidale, Tamworth 1 and Tamworth 2); and

- **Investments**, which will comprise AGL Australia's equity interests in Tilt Renewables, ActewAGL, Ovo Energy and other venture capital investments.

The map below illustrates the location of AGL Australia's key assets and PPA supply sources:

AGL AUSTRALIA – KEY ASSET LOCATIONS



Source: AGL Energy
Note 1: Generation assets operated or controlled by AGL Energy which have an installed capacity of less than 50 MW are not shown on this map
Note 2: Assets acquired in the Tilt Renewables acquisition that are under construction or in development phase have not been shown on this map

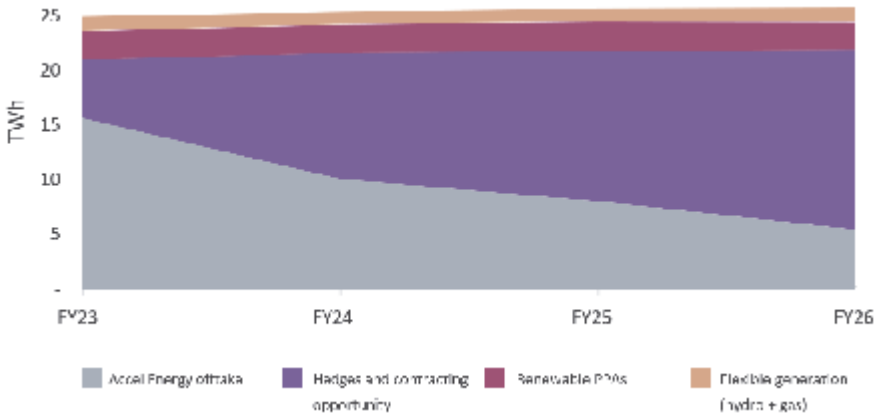
A core element of AGL Australia's operations will be to better align its electricity supply (either through generation or procurement) with its customers' variable demand requirements. In effect, AGL Australia will continue to operate a "gentailer" model albeit one that owns flexible and peaking power generation assets (e.g. gas peaking power and hydroelectric power) as opposed to traditional baseload "gentailer" models that were tied to baseload power generators (e.g. coal-fired power).

AGL Australia will initially be heavily reliant on generation from Accel Energy during the initial years following the implementation of the Demerger (albeit reducing over the agreement period). The offtake agreement with Accel Energy is expected to comprise the majority of AGL Australia's electricity supply in FY23. Following the

closure of Liddell Power Station, contracted volumes progressively taper off through to FY27 and provide a clear transition pathway for AGL Australia to reshape its future electricity supply portfolio. This may require AGL Australia to recontract with other sources of supply via new offtakes and derivatives as well as underwrite new flexible and renewables sources of generation capacity. In this context, AGL Australia has made a public commitment to underwriting the development of 3 GW of renewable and flexible generation capacity by 2030.

AGL Australia's projected energy supply portfolio mix to FY26 is illustrated in the chart below:

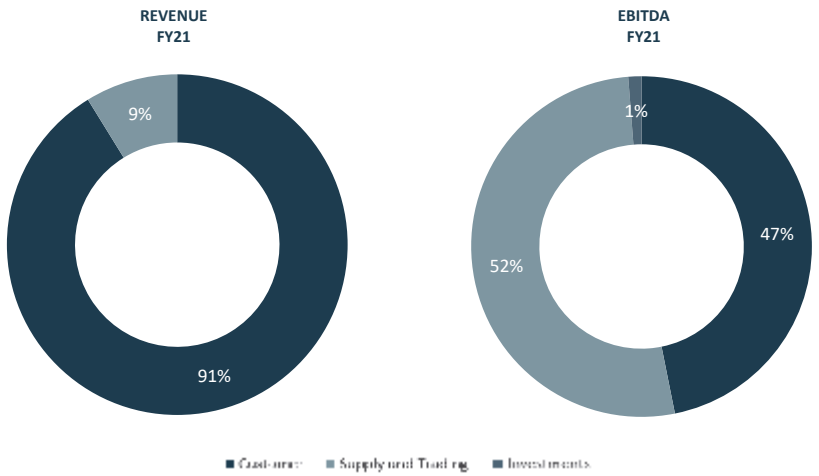
AGL AUSTRALIA – FORECAST ELECTRICITY SUPPLY PORTFOLIO (ILLUSTRATIVE)



Source: AGL Energy

The majority of AGL Australia's external revenues are expected to be accounted for by the Customer segment. Supply and Trading segment's sales are intercompany (i.e. sold to the Customer segment) and therefore eliminated upon consolidation. EBITDA is generally evenly split between the Customer and Supply and Trading segments. The Investments segment generates relatively immaterial revenues and EBITDA for AGL Australia.

AGL AUSTRALIA – CONTRIBUTION BY BUSINESS DIVISION



Source: AGL Energy

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Strategy

Following the Demerger, AGL Australia will continue to pursue growth by focusing on a customer-led strategy, particularly for its residential and commercial customers. AGL Australia recognises the changing energy requirements of its customers and aims to align its service offerings with the increasing customer demand for distributed energy and carbon neutral products.

In particular, AGL Australia will focus on the following strategic priorities:

- **retail energy leadership.** AGL Australia will seek to leverage the *AGL* brand to enhance customer loyalty and drive customer growth through new customer acquisitions. This strategy involves:
  - providing multiple essential services (e.g. electricity, gas, mobile and broadband) to expand its reach across a customer's scope of household needs;
  - providing end-to-end business energy solutions for its commercial customers. AGL Australia will seek to leverage the existing systems and technology platforms of the recently acquired Epho and Solgen Energy Group in building out its service offering for the commercial customer base; and
  - improving its cost profile (i.e. net operating costs per customer service) through increasing the scale of its multi-product offering, investing in systems and simplifying its offering;
- **accelerating decarbonisation.** Upon listing, AGL Australia will be carbon neutral for all Scope 1 and 2 emissions and aims to also be carbon neutral for Scope 3 emissions by 2040[40]. To achieve this, AGL Australia plans to:
  - actively manage its electricity and gas procurement strategy while ensuring its carbon neutral ambitions remain a core priority for the business;
  - provide commercial energy solutions (e.g. carbon neutral products, EV charging solutions, energy orchestration); and
  - expand its flexible and green portfolio. This will require AGL Australia to:
    - build, contract or underwrite substantial new renewable and flexible energy generation capacity, including the Torrens Island Battery Project;
    - continue investing in its energy trading capabilities to manage risks and identify value-add trading opportunities; and
    - maintain its physical-backed trading and supply positions to meet its customers' evolving gas needs; and
- **enhancing its digital offering.** AGL Australia will seek to improve customer engagement through continued investments in its technology and enterprise platform, including:
  - simplifying customers' digital interface and improve AGL Australia's analytical toolset to allow customers to become more well informed of their energy usage habits; and
  - establishing new strategic partnerships and green financing opportunities that may have previously been unavailable with the overhang of its lack of environmental, social and governance ("ESG") credentials as part of the broader AGL Energy.

AGL Australia will also need to expand its standalone corporate infrastructure (particularly functions necessary for a publicly listed entity) as the Transitional Services Agreement tapers off and concludes.

[40] Scope 1 emissions covers direct emissions from owned or controlled sources. Scope 2 emissions covers indirect emissions from the generation of purchased energy (e.g. electricity, heating, cooking, etc.). Scope 3 emissions includes all other indirect emissions that occur in a company's value chain (e.g. customers).

5.2.2 Earnings and Dividends

The pro forma historical financial performance of AGL Australia from FY19 to FY21 and for HY22 is summarised below:

AGL AUSTRALIA – SUMMARISED PRO FORMA HISTORICAL FINANCIAL PERFORMANCE ($ MILLIONS)

	FY19 PRO FORMA	FY20 PRO FORMA	FY21 PRO FORMA	HY22 PRO FORMA
Revenue	**9,292**	**9,114**	**8,516**	**4,242**
Underlying EBITDA	**705**	**619**	**479**	**201**
Depreciation and amotisation	(188)	(225)	(243)	(134)
Underlying EBIT	**517**	**394**	**236**	**67**
Net finance costs	(90)	(91)	(86)	(47)
Income tax expense	(131)	(96)	(50)	(10)
Underlying Proft after tax	**296**	**207**	**100**	**10**
Significant items after tax	(33)	(17)	(444)	63
Profit on fair value of financial instruments after tax	(75)	(72)	66	294
Share of profits of associates and joint ventures	32	17	9	7
NPAT attributable to AGL Australia shareholders	**220**	**135**	**(269)**	**374**
STATISTICS				
Revenue growth		*-1.9%*	*-6.6%*	*n/a*
Underlying EBITDA growth		*-12.2%*	*-22.6%*	*n/a*
Underlying EBITDA margin	*7.6%*	*6.8%*	*5.6%*	*4.7%*
Underlying EBIT growth		*-23.8%*	*-40.1%*	*n/a*
Underlying EBIT margin	*5.6%*	*4.3%*	*2.8%*	*1.6%*
Interest cover[29]	*7.83x*	*6.80x*	*5.57x*	*4.28x*
Underlying EBITDA (including share of profits of associates and joint ventures)	*736*	*635*	*488*	*209*

Source: Demerger Booklet and Grant Samuel analysis

The pro forma historical financial performance of AGL Australia has been prepared on the basis that:

- the Demerger was effective from 1 July 2018;
- these new standalone corporate costs include directors' fees, senior management salaries, additional headcount, information technology, accounting and tax services and insurance costs. AGL Australia is expected to incur approximately 60% of the total incremental operating costs resulting from the Demerger (i.e. $20 million out of $35 million across the two businesses);
- it includes:
  - the allocation of existing Centrally Managed Expenses attributable to AGL Australia, some of which is recharged to Accel Energy under the Transitional Services Agreements (estimated to be circa $27 million per annum). AGL Australia will also incur $4 million in costs per annum in relation to the services provided by Accel Energy under the Transitional Services Agreements. These amounts are netted and treated as a $23 million cost per annum for Accel Energy;
  - the pro forma costs in relation to the offtake agreement with AGL Australia of circa $2 billion per annum (based on current wholesale electricity prices). The majority of these costs are either passed on to retail customers or hedged through wholesale trading activities;
  - significant items allocated to AGL Australia, which largely comprise impairments, onerous contract provisions, contract termination payments, gain on divestment and acquisition, and integration expenses;

- impact on finance costs based on entering into new external borrowings arrangements (and their estimated costs across the period) and removal of the finance costs associated with the existing bank facilities; and
- gain/(loss) on fair value of financial instruments after tax in order to allocate the fair value movement that relate to derivatives for AGL Australia;

- financial results for acquisitions and disposals that have completed since 1 July 2018 (i.e. beginning of FY19) have been assumed to have completed by the beginning of FY19. This includes adjustments to:
  - remove results relating to National Assets, which was sold on 11 September 2018; and
  - add the results of Perth Energy, Southern Phone, Click Energy, Solgen and Epho; and
- has been prepared to NPAT level assuming effective tax rates for the respective years.

The detailed pro forma historical financial performance for AGL Australia (including a description of the assumptions and adjustments made) is set out in Section 3.7 of the Demerger Booklet. The historical pro forma financial performance has been prepared by AGL Energy and reviewed by Deloitte. Deloitte's Investigating Accountant's Report is set out in Section 7 of the Demerger Booklet.

AGL Australia's financial performance has been adversely impacted by unfavourable movements in the wholesale energy markets and maturity of legacy supply contracts. Intense competition in the retail energy markets (impacting churn rates and spend on customer retention/acquisition), increased gas haulage and storage costs and higher energy costs have contributed to declining EBITDA and EBITDA margin since FY19. These declines were partly offset by AGL Australia's cost discipline and investments in customer digital transformation, data analytics and technology.

As the Demerger is expected to be implemented on 30 June 2022, FY23 will be the first full year of AGL Australia as a standalone listed company.

AGL Australia is eligible to form an Australian tax consolidated group and intends to do so following implementation of the Demerger. AGL Australia will have no income tax losses and no capital losses.

AGL Australia's dividend policy will be determined by the AGL Australia Board at its discretion and may change over time. However, AGL Australia intends to initially target a dividend payout ratio of 60-75% of underlying NPAT and will distribute dividends with the maximum practicable franking credits available. Dividends are expected to be partially franked in the short term but are targeted to be fully franked in the long term. AGL Australia's first dividend as a standalone company will be the interim dividend for HY23, which is likely to be paid in or around March 2023[41].

[41] The FY22 dividend is expected to be paid by AGL Energy in September 2022.

5.2.3 Financial Position

The pro forma financial position of AGL Australia at 31 December 2021 is summarised below:

AGL AUSTRALIA – SUMMARISED PRO FORMA FINANCIAL POSITION ($ MILLIONS)

	AT 31 DECEMBER 2021 PRO FORMA
Trade and other receivables and prepayments	1,387
Inventories	86
Trade payables and accruals	(1,253)
Net working capital	**220**
Intangible assets	3,189
Property, plant and equipment	1,332
Onerous contracts	(317)
Environmental rehabilitation obligation	(24)
Other provisions	(60)
Other financial assets/(liabilities)	396
Investments in associates and joint ventures	475
Other (net)	284
Total funds employed	**5,495**
Net tax balances (net deferred tax assets and current tax payable)	(69)
Net assets employed	**5,426**
Cash and cash equivalents	260
Borrowings	(2,134)
Net borrowings (excluding lease liabilites)	**(1,874)**
Lease liabilities	(130)
Net borrowings (including lease liabilities)	**(2,004)**
Net assets/Equity attributable to AGL Australia shareholders	**3,422**
STATISTICS	
Shares on issue at period end (million)	*791.5*
Net assets per share	*$4.32*
NTA per share[31]	*$0.29*
Leverage (net borrowings, based on HY22 EBITDA)[32,33]	*4.99x*
Leverage (net borrowings, based on FY21 EBITDA)[32]	*4.18x*
Gearing[34]	*37%*

Source: Demerger Booklet and Grant Samuel analysis

The pro forma financial position of AGL Australia has been prepared on the basis that the Demerger was implemented on 31 December 2021. Specifically, it reflects the:

- the internal restructuring steps to be undertaken prior to the Demerger (recorded on the basis of carrying value);
- new financing structure that will be in place following the Demerger, including the following committed debt facilities:
  - new multi-option bank facilities totalling $2,440 million comprising cash advance facilities ($2,015 million) and contingent instrument facilities ($425 million); and
  - USPP Notes totalling $752 million[42], which will be transferred from AGL Energy to AGL Australia. These notes will have varying maturities from September 2022 to December 2031.

[42] Reflects the fair value of the USPP Notes. The face value of the USPP Notes is $661 million.

The total amount drawn under the bank facilities upon implementation of the Demerger is subject to change due to capital expenditure requirements and seasonal fluctuations in working capital.

- settlement of intercompany balances between AGL Australia and Accel Energy; and
- initial margin deposits held by AGL Australia to meet short-term cash commitments and AEMO pool purchase payables for AGL Australia customer electricity consumption. Separately, this includes an onerous contract provision for the out of the money portion of gas supply component of the offtake agreement.

Virtually all one-off cash transaction and implementation costs associated with the Demerger are expected to be incurred by Accel Energy and consequently, there has been no adjustment for these items in AGL Australia's pro forma financial statements.

The detailed pro forma financial position for AGL Australia (including a description of the assumptions and adjustments made) is set out in Section 3.7 of the Demerger Booklet.

The pro forma financial position shows that AGL Australia will employ a more "capital-light" business model than AGL Energy. Excluding its considerable intangible asset balance, the majority of AGL Australia's capital comprises its fixed assets of $1.3 billion (mostly peaking power stations), positive working capital balance and investments in associates (e.g. investments in ActewAGL retail operations, Tilt Renewables and Ovo Energy Australia). The positive working capital balance and available liquidity (i.e. through operating cash flows or undrawn balances in the bank facilities) are expected to support AGL Australia's future capital expenditure requirements.

AGL Australia is expected to have a relatively levered capital structure, with pro forma leverage (net borrowings) of 5.0 times (or 4.2 times FY21 EBITDA) and pro forma book gearing of 37% at 31 December 2021. The average maturities of the debt facilities are mostly within five years (or by 2027). On 27 April 2022, Moody's assigned a provisional Baa2 investment grade credit rating to AGL Australia (the same as AGL Energy[43]).

5.2.4 Cash Flow

The pro forma financial cash flow for AGL Australia from FY19 to FY21 and for HY22 is summarised below:

AGL AUSTRALIA – SUMMARISED PRO FORMA HISTORICAL CASH FLOW ($ MILLIONS)

	FY19 PRO FORMA	FY20 PRO FORMA	FY21 PRO FORMA	HY22 PRO FORMA
Underlying EBITDA	**705**	**619**	**479**	**201**
Changes in working capital and other adjustments	(20)	106	25	166
Operating cash flow before capital expenditure, interest and tax	**684**	**724**	**504**	**368**
Capital expenditure (net)	(391)	(245)	(223)	(85)
Operating and investing cash flow before interest and tax	**293**	**479**	**281**	**283**
Net interest paid	(79)	(79)	(73)	(34)
Tax paid	(79)	(65)	(20)	(4)
Operating and investing cash flow after interest and tax	**135**	**335**	**189**	**245**
STATISTICS				
Operating cash flow conversion[36]	*97%*	*117%*	*105%*	*183%*

Source: Demerger Booklet and Grant Samuel analysis

[43] AGL Energy has a Baa2 credit rating from Moody's. On 30 June 2021, Moody's placed AGL Energy on negative watch following the announcement of the Demerger. According to Moody's this reflected the potential loss of business diversification, elevated exposure to electricity price volatility and arguably higher ESG risk of the AGL Energy business following the demerger of AGL Australia. The negative watch qualification does not apply to AGL Australia.

The detailed pro forma historical cash flow for AGL Australia (including a description of the assumptions and adjustments made) is set out in Section 3.7 of the Demerger Booklet.

AGL Australia's pro forma operating cash flow conversion has improved from FY19 to exceed 100% in FY20 and FY21, reflecting disciplined working capital management over the period. The significant increase in pro forma operating cash flow conversion in HY22 was driven by its short term cash flow management strategy to lower inventory holdings of green certificates. This is expected to reverse and unwind in future periods. The majority of AGL Australia's capital expenditures were in relation to one-off large projects, including the Barker Inlet Power Station and Crib Point LNG Import Terminal (now abandoned). Recurring capital expenditures are primarily in relation to AGL Australia's *Customer Experience Transformation Program* and other maintenance activities at its operating assets.

5.2.5 Directors and Management

AGL Australia's board will comprise the following directors:

- the chair, Patricia McKenzie, who has been a non-executive director for AGL Energy since May 2019 and has over 40 years' experience in the Australian energy sector;
- managing director, Christine Corbett, who has also been appointed as CEO-elect and AGL Energy's current Chief Customer Officer;
- two non-executive directors, Jacqueline Hey and Mark Bloom, who are currently non-executive directors for AGL Energy and expect to continue in the same role for AGL Australia; and
- two new non-executive directors, Fraser Whineray and Wendy Stops.

Despite its 15% shareholding in AGL Australia, Accel Energy will not seek board representation.

The senior management of AGL Australia will also comprise Damien Nicks, who has been appointed as Chief Financial Officer-elect. Further details of the board and senior management of AGL Australia are set out in Section 3.4 of the Demerger Booklet.

5.2.6 Capital Structure and Ownership

At implementation of the Demerger, AGL Australia will have approximately 791.5 million shares on issue (excluding performance rights). AGL Energy shareholders will collectively hold 85% of the shares on issue and Accel Energy will hold 15%. Accel Energy will become a substantial shareholder of AGL Australia upon implementation of the Demerger. Other than the Accel Energy shareholding, AGL Australia will have a relatively open share register.

Executives and employees who are participants in AGL Energy's existing employee incentive plans who are to become AGL Australia employees will have their entitlements dealt with as set out in Section 5.6 of the Demerger Booklet. Following implementation of the Demerger, AGL Australia is expected to establish appropriate employee incentive plans and a transitional incentive plan to encourage a focus on performance and the delivery of value to shareholders.

GRANT SAMUEL

5.3 Accel Energy

5.3.1 Operations and Strategy

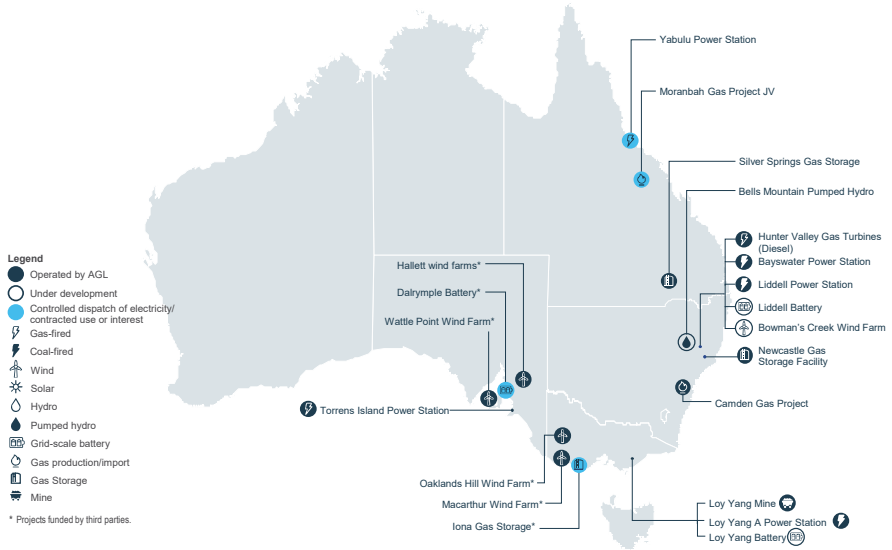
Business operations

Accel Energy will be Australia's largest baseload electricity supplier, accounting for over 20%[44] of the generation in the NEM. It will retain the baseload power generation operations of AGL Energy, certain gas assets and certain renewable offtakes (i.e. for wind farms, battery storage and other renewable assets). These activities will be largely unchanged by the Demerger. It will continue to:

- operate its portfolio of electricity generation assets which have a nameplate capacity of approximately 8 GW (excluding offtakes) and comprise its:
  - thermal generation fleet, with represents Accel Energy's core baseload power generation assets. These assets have a total capacity of approximately 7,915MW across Loy Yang A, Bayswater, Liddell and Torrens Island Power Stations. Loy Yang A and Bayswater have amongst the lowest marginal cost profiles for baseload power generators in the NEM; and
  - renewable offtake agreements, which collectively support a total capacity of 925 MW. These include wind farm counterparties in Victoria (Macarthur, Oaklands Hill) and South Australia (Hallet, Hallet Hill, North Brown Hill, The Bluff, Wattle Point) and have remaining terms of at least ten years (maturities range between 2032 and 2038);
- pursue the redevelopment of its core generation sites as industrial energy hubs and build renewable generation and storage projects. Accel Energy will own over 16,000 hectares of land for energy hub development (see below for further discussion). Its current development pipeline features over 2.7GW of new generation capacity, including 1,600 MW of wind farm opportunities across five sites; and
- engage in wholesale trading and hedging activities in the electricity market.

The map below shows the location of Accel Energy's key assets:

ACCEL ENERGY – KEY ASSET LOCATIONS



Source: AGL Energy

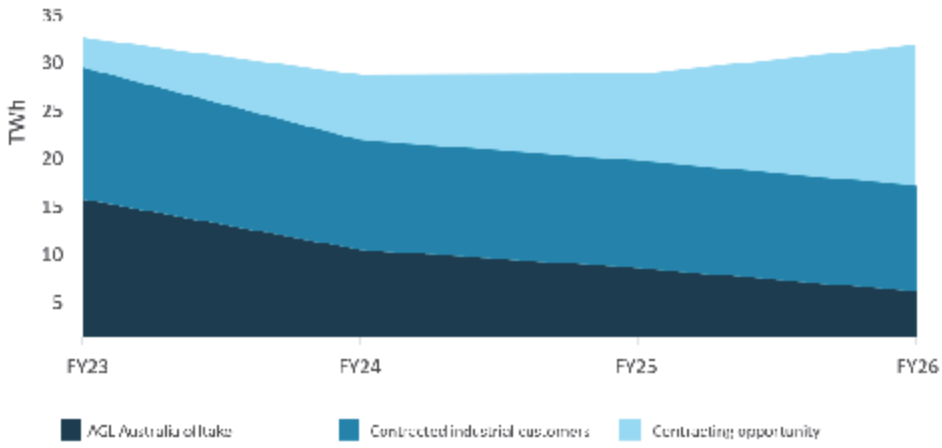
[44] Source: Australian Energy Regulator, State of the Energy Market 2021

Accel Energy has contracted the majority of its near-to-medium term volumes (i.e. over the next five years) to offtake agreements with retail and industrial counterparties such as:

- AGL Australia, with whom Accel Energy will establish an offtake agreement through FY27. This contract is expected to initially comprise just under 50% of Accel Energy's total output although the contracted volumes are expected to step down over the agreement period;
- Tomago aluminium smelter, with whom Accel Energy has a seven-year offtake until 2028. The Tomago smelter is jointly owned by a consortium of industry participants led by Rio Tinto Group; and
- Portland aluminium smelter, with whom Accel Energy has a five-year offtake until 2026. This smelter is owned by a joint venture led by Alcoa of Australia Limited.

These industrial users' demand profiles (i.e. "load shapes") are more suited for the baseload-like characteristics of Accel Energy's power generation portfolio (unlike residential or small business customers, which typically have "peakier" requirements within a day). Almost 90% of Accel Energy's generation volumes are contracted in FY23, before progressively stepping down to 65% by FY25. The company's forecast contracted generation volume profile is illustrated in the chart below:

ACCEL ENERGY – FORECAST GENERATION VOLUMES (ILLUSTRATIVE)



Source: AGL Energy

Accel Energy will be operating two separate divisions. The Operations division is primarily a cost centre that houses all the operational and maintenance costs for the power generation assets while the Trading and Origination division is the profit centre where all wholesale trading, power generation sales and hedging gains and losses are generated.

Strategy

Accel Energy post Demerger will continue to execute its strategy in maintaining its leading role as Australia's largest baseload electricity supplier while facilitating the accelerated transition to a low-carbon industrial energy hub. Its two prime goals are:

- **redirecting the sales mix of its core business.** Fundamentally, the core operating focus for Accel Energy's business operations is to match its large scale baseload power generation capabilities with large scale consumers of electricity that require a stable and reliable source of electricity for medium-to-long periods of time (such as industrial users). This may involve:

- continuing to deliver value to (and extending the current agreements with) its existing large scale retail and industrial customers such as AGL Australia, Tomago aluminium smelter and Portland aluminium smelter. As customer needs continue to evolver, Accel Energy will leverage its existing portfolio of renewable assets (over 900 MW) and pipeline of 2.7 GW of renewable and storage projects and energy hub developments to respond to its customers needs; and
- gaining market share by securing new commercial and industrial customers from other baseload power suppliers. Accel Energy will seek to establish new offtake agreements and contracting opportunities as existing contracts wind down and mature. In this context:
  - the closure of the Eraring Power Station (the largest coal-fired power station in the NEM) reflects the economic challenges of a baseload power station that sits further to the right of marginal cost curve; and
  - Accel Energy's low cost proposition is expected to be a key differentiator to enable it tocompete on price for value-conscious industrial customers. Both Loy Yang A and Bayswater have one of the lowest marginal costs across all baseload power generators in the NEM; and

- **innovate and transition its asset portfolio.** Accel Energy aims to manage its portfolio's carbon exposure by redeveloping its core generation sites into low-emission industrial energy hubs, where it can leverage existing grid connections and create (and facilitate) a new low-carbon ecosystem for its industrial customers. Over the next four years, Accel Energy expects to reach investment decisions on up to $4.7 billion of projects that provide up to 2.7 GW in generation and storage capacity and seek to increase the size of this development pipeline. These development projects include industrial hubs in:
  - the Bayswater and Liddell Power Stations. Accel Energy is also assessing the potential for a concentrated solar and thermal storage pilot (in partnership with Raygen), waste-to-energy project and a battery storage development;
  - the Torrens Island Power Station. This includes a carbon-capture facility and a new $180 million, 250 MW grid-scale battery which commenced construction in November 2021[45]. Accel Energy is also considering other future developments on this site such as battery and gas-fired peaking, hydrogen, waste and data centre projects; and
  - Loy Yang A. The Hydrogen Energy Supply Chain ("HESC") Project is currently in the pilot phase and will seek to leverage coal sourced from the local Latrobe Valley regions to produce export quality hydrogen gas. Accel Energy is also in early stages of assessing other projects including 200 MW battery storage, floating solar, renewables and carbon capture facilities.

  Due to the significant upfront capital required, Accel Energy plans to establish an energy fund (referred to as the Energy Transition Investment Partnership ("ETIP")) with external investment partners to develop its pipeline of low-carbon firming and renewable projects. On 3 May 2022, AGL Energy announced that it had reached an agreement with Global Infrastructure Partners ("GIP") to establish the ETIP for Accel Energy post-Demerger. GIP will invest approximately $1.0 billion for a 49% equity interest in ETIP and will also fund Accel Energy's expected costs to advance the existing 2.7 GW development pipeline through to the Final Investment Decision stage.

  The development of industrial energy hubs is core to Accel Energy's corporate strategy and achieving its climate commitments. The company's emission reduction targets are directly aligned with the closure of its core asset portfolio (and launch of its new generation assets and industrial energy hubs) over the next two and a half decades.

As a standalone business, Accel Energy will also need to streamline its corporate infrastructure (given AGL Australia will be operating as a separate listed company) and manage its capital structure independent of

[45] The Torrens Island battery will be owned by AGL Australia. As the landlord, Accel Energy will provide land and site services

AGL Australia. Maintaining an investment grade credit rating and protecting its balance sheet are core requirements to achieving Accel Energy's long-term objectives.

5.3.2 Earnings and Dividends

The pro forma historical financial performance of Accel Energy from FY19 to FY21 and for HY22 is summarised below:

ACCEL ENERGY – SUMMARISED PRO FORMA HISTORICAL FINANCIAL PERFORMANCE ($ MILLIONS)

	FY19 PRO FORMA	FY20 PRO FORMA	FY21 PRO FORMA	HY22 PRO FORMA
Revenue	**4,937**	**3,869**	**2,897**	**1,593**
Underlying EBITDA	**1,471**	**1,367**	**1,143**	**494**
Depreciation and amortisation	(440)	(509)	(467)	(211)
Underlying EBIT	**1,031**	**859**	**676**	**283**
Net finance costs	(103)	(106)	(151)	(83)
Income tax expense	(272)	(207)	(134)	(54)
Underlying Profit after tax	**655**	**546**	**391**	**146**
Significant items after tax	-	-	(2,478)	232
Profit on fair value of financial instruments after tax	(64)	288	268	(208)
NPAT attributable to Accel Energy shareholders	**591**	**834**	**(1,819)**	**170**
STATISTICS				
Revenue growth		*-21.6%*	*-25.1%*	*n/a*
Underlying EBITDA growth		*-7.1%*	*-16.4%*	*n/a*
Underlying EBITDA margin	*29.8%*	*35.3%*	*39.5%*	*31.0%*
Underlying EBIT growth		*-16.7%*	*-21.3%*	*n/a*
Underlying EBIT margin	*20.9%*	*22.2%*	*23.3%*	*17.8%*
Interest cover[29]	*14.28x*	*12.90x*	*7.57x*	*5.95x*

Source: Demerger Booklet and Grant Samuel analysis

The pro forma historical financial performance of Accel Energy has been prepared the following basis:

- the Demerger is assumed to be effective from 1 July 2018;
- it reflects the:
  - removal of the historical underlying earnings for AGL Australia and associated significant items;
  - significant items allocated to Accel Energy which are primarily in the impairment of generation fleet assets, revaluation of rehabilitation obligations and recognition of onerous contracts in FY21 (of which the latter was partially reversed in HY22);
  - the pro forma earnings in relation to the offtake agreement with AGL Australia of circa $2 billion per year (based on current electricity prices);
  - the removal of costs allocated to AGL Australia which were historically recorded as Centrally Managed Expenses, some of which (primarily systems and technology services costs) are recharged back to Accel Energy under the Transitional Services Agreements (i.e. $27 million per annum). Of the costs remaining with Accel Energy, approximately $4 million (primarily health and safety expenses) are recovered from AGL Australia;
  - an increase in standalone operating costs of approximately $15 million per annum, including insurance and other administrative costs. Accel Energy is expected to incur approximately 40% of the incremental $35 million in operating costs across the two businesses; and

- Accel Energy's pro forma finance costs associated with the new debt financing arrangements that will be in place post demerger and the removal of the finance costs associated with existing bank facilities as well as the impact of transferring $752 million of USPP Notes to AGL Australia;

- it does not include the:
  - one-off tax loss (i.e. recognition of a deferred tax liability) of $369 million arising from tax group restructure that reduces the tax cost base of Loy Yang capital allowance to nil; and
  - pro forma dividends issued by AGL Australia, which will target a dividend payout ratio of 60-75% of underlying NPAT; and
- has been prepared to NPAT level assuming effective tax rates for the respective years.

The detailed pro forma historical financial performance for Accel Energy (including a description of the assumptions and adjustments made) is set out in Section 4.7 of the Demerger Booklet.

As a result of demerging the lower margin Energy Retail business, on a pro forma basis the standalone Accel Energy business generally generates higher (albeit more volatile) EBIT margins than AGL Energy prior to the Demerger. Between FY19 to FY21, Accel Energy's EBIT margins averaged closer to 22% (before declining to 18% in HY22) while the consolidated AGL Energy group consistently generated EBIT margins between 9% and 12% over the same period.

The increased earnings volatility is largely attributed to wholesale electricity market prices, the operating performance of its core generation assets and wholesale trading outcomes. The decline in EBITDA and EBIT since FY19 reflects the lower wholesale electricity prices, lower large-scale generation certificate prices and increased outages across its core assets (e.g. Loy Yang A in FY20 and AGL Macquarie in FY21) although this was partly offset by lower fuel costs, favourable hedging positions and receipt of insurance proceeds.

As the Demerger is expected to be implemented on 30 June 2022, Accel Energy's financial results for FY22 will continue to reflect AGL Australia on a fully consolidated basis. FY23 will be the first full year of financial results for Accel Energy following the demerger of AGL Australia.

Accel Energy will remain the head company of the Accel Energy tax consolidated group. The existing AGL Generation Holdco tax consolidated group will join the consolidated group of Accel Energy immediately following implementation of the Demerger. As a result of this tax restructure, the tax cost base of the Loy Yang capital allowance assets will reset to nil. AGL Energy's existing $500 million in income tax losses and $120 million in capital losses are expected to be preserved.

Dividend policy will be determined by the Board of Accel Energy having regard to a range of issues including earnings, free cash flows, available franking credits, future capital expenditure requirements and target credit metrics. Accel Energy initially intends to target a dividend payout ratio of 80-100% of free cash flows (excluding major growth initiatives) after servicing net finance costs. Accel Energy dividends will be unfranked in the initial years as tax losses are utilised. Accel Energy's first dividend on a post Demerger, standalone basis will be the interim dividend for HY23, which is likely to be paid in or around March 2023[41].

5.3.3 Financial Position

The pro forma financial position of Accel Energy at 31 December 2021 is summarised below:

ACCEL ENERGY – SUMMARISED PRO FORMA FINANCIAL POSITION ($ MILLIONS)

	AT 31 DECEMBER 2021 PRO FORMA
Trade and other receivables and prepayments	354
Inventories	343
Trade payables and accruals	(400)
Net working capital	**297**
Inta ngible assets	87
Property, plant and equipment	4,909
Investment in AGL Australia	513
Onerous contracts	(1,235)
Environmental rehabilitation obligation	(1,430)
Other provisions	(180)
Other financial assets/(liabilities)	107
Assets classified as held for sale	223
Other (net)	(104)
Total funds employed	**3,187**
Net tax balances (net deferred tax assets and current tax payable)	324
Net assets employed	**3,511**
Cash and cash equivalents	236
Borrowings	(966)
Net borrowings (excluding lease liabilites)	**(730)**
Lease liabilities	(23)
Net borrowings (including lease liabilities)	**(753)**
Net assets/Equity attributable to Accel Energy shareholders	**2,758**
STATISTICS	
Shares on issue at period end (million)	*672.7*
Net assets per share	*$4.10*
NTA per share[31]	*$3.97*
Leverage (net borrowings, based on HY22 EBITDA)[32,33]	*0.76x*
Leverage (net borrowings, based on FY21 EBITDA)[32]	*0.66x*
Gearing[34]	*21%*

Source: Demerger Booklet and Grant Samuel analysis

The pro forma financial position of Accel Energy has been prepared on the basis that the Demerger was implemented on 31 December 2021. Specifically, it:

- reflects:
  - the internal restructuring steps to be undertaken prior to the Demerger (recorded on the basis of carrying value);
  - no profit on the distribution of shares in AGL Australia, as the pro forma investment in AGL Australia is based on the carrying value as at 31 December 2021 (estimated to be $513 million). This investment will be held at fair value with reference to the price of AGL Australia shares traded on the ASX;
  - new financing arrangements that will be in place following the Demerger, including $1.4 billion in debt facilities:

- $866 million of term funding (i.e. $660 million syndicated bank facility, $141 million USPP Notes, $14 million in bilateral amortising bank facility and $51 million of CPI-linked bonds) with varying tenors between 5 and 10 years;
- $310 million revolving cash advance and swingling facilities with a 5-year tenor; and
- $240 million bank guarantee facilities with a tenor of five years to support trading and other operational collateral requirements.

The pro forma financial position also reflects the novation of existing derivative positions, including cross currency swap contracts and interest rate swap contracts;

- settlement of intercompany balances between AGL Australia and Accel Energy; and
- recognition of financial asset related to the offtake arrangement with AGL Australia that will be effective upon implementation of the Demerger;
- early repayment of deferred consideration related to Loy Yang A. As part of the acquisition of Loy Yang A in 2012, AGL Energy agreed to a combination of upfront consideration and a 15 year deferred payment stream;
- adjustments to the deferred tax balances which will no longer be considered recoverable upon implementation of the Demerger (i.e. in relation to Loy Yang as a result of AGL Generation Holdco joining the newly formed Accel Energy tax consolidated group); and
- recognition of outstanding one-off transactions costs in implementing the Demerger (i.e. advisor fees, financing, debt structuring and technology costs incurred post 31 December 2021). Approximately $58 million in transaction costs (pre tax) have been recognised as an adjustment to cash and an additional amount of approximately $100 million has been recognised as transaction costs payable after the implementation of the Scheme; and

- does not reflect the trading performance of Accel Energy since 31 December 2021.

The detailed pro forma financial position for Accel Energy (including a description of the assumptions and adjustments made) is set out in Section 4.7 of the Demerger Booklet.

Accel Energy's pro forma financial position reflects the capital intensive nature of its operations. The majority of its capital is deployed in long-term fixed assets (i.e. coal-fired power stations) and liabilities (i.e. onerous contracts on legacy wind farm offtake agreements and environment rehabilitation liabilities associated with the coal power stations). To provide balance sheet flexibility to manage its long-term capital exposure, Accel Energy has an amortising term debt structure that enables it to amortise most, if not all, of its term debt by 2030. It will also hold an investment in AGL Australia with a pro forma book value at 31 December 2021 of $513 million (for which there are no restrictions on Accel Energy's ability to sell this shareholding) and a positive working capital balance.

Accel Energy has not received a final credit rating but has consulted Moody's for a Rating Assessment Service. Based on this assessment, Accel Energy is anticipated to receive a Baa3 investment grade credit rating. Maintaining an investment grade credit rating is amongst the key strategic priorities for Accel Energy as it is a key enabler of its development strategy for its energy transition projects. This requires the company to maintain prudent debt balance and a strong balance sheet. While pro forma credit metrics at 31 December 2021 suggest modest levels of leverage, it is important to note that Accel Energy incurs a high level of capital expenditure and will be expected to carry a non trivial balance of financial obligations over the next 20-30 years:

- by FY30:
  - a significant portion of its term debt financing arrangements are planned to be fully amortised;
  - onerous contracts on legacy wind farm offtake arrangements will need to be paid; and

- environmental restoration cash costs in relation to Liddell are expected to have commenced; and
- beyond FY30, environmental restoration cash flows are expected to materially step up with the closure of Bayswater, Torrens Island and Loy Yang A.

5.3.4 Cash Flow

The pro forma cash flow for Accel Energy from FY19 to FY21 and for HY22 is summarised below:

ACCEL ENERGY – SUMMARISED PRO FORMA HISTORICAL CASH FLOW ($ MILLIONS)

	FY19 PRO FORMA	FY20 PRO FORMA	FY21 PRO FORMA	HY22 PRO FORMA
Underlying EBITDA	**1,471**	**1,367**	**1,143**	**494**
Changes in working capital and other items	(32)	66	(76)	(23)
Operating cash flow before capital expenditure, interest and tax	**1,439**	**1,434**	**1,067**	**471**
Capital expenditure (net)	(449)	(469)	(487)	(204)
Operating and investing cash flow before interest and tax	**990**	**965**	**580**	**267**
Net interest paid	(61)	(59)	(53)	(26)
Tax paid	(180)	(154)	(82)	(39)
Operating and investing cash flow after interest and tax	**749**	**752**	**444**	**202**
STATISTICS				
Operating cash flow conversion[36]	*98%*	*105%*	*93%*	*95%*

Source: Demerger Booklet and Grant Samuel analysis

The detailed pro forma historical cash flow for Accel Energy (including a description of the assumptions and adjustments made) is set out in Section 4.7 of the Demerger Booklet.

Accel Energy's pro forma operating cash flow conversion has broadly in the range of between 95% and 105% since FY19. Net capital expenditure has been in the range of $450-490 million between FY19 and FY21 (or approximately 30-40% of underlying EBITDA), reflective of the highly capital intensive nature required to maintain and upgrade Accel Energy's generation assets.

5.3.5 Directors and Management

On implementation, Accel Energy's board will comprise four non-executive directors and one executive director. Mr Peter Botten is the current Chairman of AGL Energy and, if the Demerger is implemented, will remain as Chairman of the Accel Energy Board. The remaining directors will include three non-executive directors, Diane Smith-Gardner, Graham Cockroft and Vanessa Sullivan, who currently are non-executive directors of AGL Energy and will continue in the same role for Accel Energy

The senior management of Accel Energy will include AGL Energy's current Managing Director & CEO, Graeme Hunt. Gary Brown has been appointed as Chief Financial Officer-elect and commenced in January 2021. The senior management team of Accel Energy will comprise certain members of AGL Energy's existing senior management team, including current Chief Operating Officer Markus Brokhof, who will be appointed Chief Operating Officer and Deputy CEO. Further details of the board and senior management of Accel Energy are set out in Section 4.4 of the Demerger Booklet.

5.3.6 Capital Structure and Ownership

There will be no change to the ordinary shares on issue following implementation of the Demerger nor will there be any change to the existing substantial shareholders to the extent that these shareholders do not change their holdings prior to implementation.

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Executives and employees who are participants in AGL Energy's existing employee incentive plans who will remain as Accel Energy employees will have their entitlements dealt with as set out in Section 5.6 of the Demerger Booklet. Following the Demerger, Accel Energy is expected to establish appropriate employee incentive plans to encourage a focus on performance and the delivery of value to shareholders. The incentive plans are expected to be substantially consistent with the AGL Energy incentive plans.

6 Evaluation of the Demerger

6.1 Opinion

In Grant Samuel's opinion, the Demerger is in the best interests of AGL Energy shareholders.

6.2 Approach to Evaluation

AGL Energy shareholders are being asked to split their current investment into two parts, a shareholding in Accel Energy and a separate shareholding in AGL Australia. The economic interest in AGL Energy's underlying businesses held by each shareholder (other than ineligible overseas shareholders and small shareholders that elect to utilise the sale facility) in each of Accel Energy and AGL Australia will be equal to their interest in AGL Energy immediately prior to implementation of the Demerger (albeit that 15% of the economic interest in AGL Australia will be held through ownership of Accel Energy shares).

The transaction is a "clean" split in so far as there is:

- no purchase or sale of equity in either Accel Energy or AGL Australia to third parties;
- no value leakage to third parties from either party; and
- not expected to be any adverse tax consequences for the separate entities (except for elimination of some future tax deductions relating to Loy Yang) or for the vast majority of AGL Energy shareholders.

Accordingly, the Demerger is definitionally fair in so far as shareholders (except ineligible overseas and selling shareholders and small shareholders that elect to utilise the sale facility) will hold exactly the same underlying economic interests in the AGL Energy business before and after the demerger is implemented. Evaluation of whether the Demerger is in the best interests of shareholders therefore involves weighing up the advantages and disadvantages of the Demerger for shareholders. This involves judgements about the advantages and benefits such as management focus, financial and strategic flexibility and opportunities for value enhancement weighed against the costs, disadvantages and risks such as reduced scale, duplicated costs and transaction costs, rather than analysis of quantifiable financial or other verifiable factors.

6.3 Background

The Demerger is being undertaken against a backdrop of unprecedented upheaval in the energy industry. The changes that are underway and which are likely to accelerate include the:

- progressive phase out of fossil fuel based energy production;
- growing use of renewable sources of power (solar, wind, etc);
- development of batteries (and other forms of storage such as pumped hydro) to firm renewable energy and enable it to move towards delivering reliable power while also stabilising the grid as the baseload coal-fired power stations are retired; and
- increasing electrification (transport, heating, etc) which will increase the demand for electricity and impact alternative energy sources (such as oil and gas).

However, while the direction is plainly obvious, it is not possible to predict with any confidence the rate of change, the supply/demand dynamics and future price paths for individual products or what technological developments may occur (and when). Every market (state, city, region or country) also has its own set of circumstances that will have an impact on the type of transformation that occurs and the timing. In Australia, along with many other countries, market participants face:

- heightened energy price regulation (including for retail pricing) and other forms of government intervention;

- strong competition, at least at a retail level; and
- increasing investor sensitivity to ESG issues and pressure to eliminate or phase out the use of carbon intensive energy sources.

Significant structural changes are likely to occur over the next decade. Indeed, moves are afoot at each of AGL Energy's significant competitors (Origin, EnergyAustralia and Alinta).

In these circumstances, the attributes that are critical to long term success for an energy business are:

- flexibility and the ability to adapt quickly;
- financial strength and the capacity to invest in opportunities as they arise;
- operating cost competitiveness;
- access to renewable and flexible sources of energy;
- a robust physical and technology platform; and
- a commitment to meeting the needs of customers.

The merits of the Demerger should be considered in this context.

6.4 Rationale for the Demerger

i) Overview

The Australian energy industry has weathered significant change in recent years. As one of the leading energy companies in the Australian energy market, AGL Energy has been at the forefront of change. However, the accelerating pace of the energy transition over the last five years has had severe impacts on profitability and risk management throughout the energy supply chain. As a result, industry participants are facing the need to adapt strategies and focus and pursue structural solutions that best meet the existing and future challenges.

ii) Drivers of the Demerger

There are two primary drivers of the Demerger:

- the traditional baseload "gentailer" model is no longer fit for purpose; and
- the evolving ESG preferences of capital markets.

THE TRADITIONAL BASELOAD "GENTAILER" MODEL IS NO LONGER FIT FOR PURPOSE

In principle, vertical integration of the generation and retail segments of the energy value chain allowed energy retailers to manage their risk exposure to wholesale energy prices while also using its retail customer base to underwrite the required capital investment needed in large scale (low cost) baseload power stations. At the same time, coal-fired power has played a critical role in meeting total demand in the NEM, providing grid stability and ensuring affordability.

This vertically integrated "gentailer" operating model has been a crucial part of AGL Energy's strategy for more than two decades. It has enabled AGL Energy to create significant shareholder value for a significant part of that period and has been replicated by other leading energy companies in the NEM (e.g. Origin and EnergyAustralia). Since 2000, AGL Energy has progressively scaled up its business across the NEM (and certain markets in Western Australia), built a leading retail customer base in Australia and established key long-term electricity supply agreements with large scale industrial customers (e.g. aluminium smelters). However, the accelerating pace of the energy transition (including regulations and policies) across Australia has highlighted growing fissures between the generation and retail segments of the business. The increasing penetration of rooftop solar and

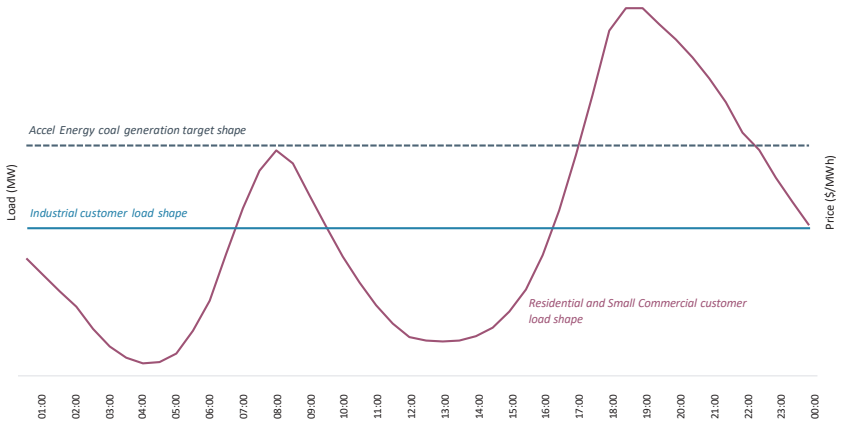
other commercial renewables in the NEM has introduced significant new electricity supply during peak daylight hours (i.e. generally between 10am and 2pm) which retreats during the evening hours. The consequences have included:

- **misalignment of baseload power with customer load shape**. Historically, the traditional baseload "gentailer" model was designed to deliver the energy needs for a very broad range of customers that generally resulted in relatively stable demand through the day but with a peak in the evening hours. This load shape allowed an effective hedge. Baseload power has limited ability to "flex" generation (across the day) so the relatively stable demand suited the generation profile and "peakers" (e.g. gas fired stations that were quick to start (hence referred to as "peakers") and had low capital cost but at high operating cost) could manage the evening peak or other surges in demand.

  Demand from large commercial and industrial customers has remained relatively stable (they are typically price sensitive and enter medium to long term power purchase agreements, often at fixed prices). However, retail demand has now become increasingly "peakier" as they are the largest adopters of rooftop solar.

  As illustrated below, the demand profiles for the two types of customers are now vastly different:

INTRADAY GENERATION AND CUSTOMER LOAD SHAPE (ILLUSTRATIVE)



  As a result, baseload power is no longer an effective hedge for the retail book;

- **increased wholesale price volatility**. The excess supply from the combination of renewables and baseload power has meant that the NEM has experienced extended periods of very low and sometimes negative price intervals during the day (when rooftop and large sale solar are most active). At the same time, evening peaks have remained and accordingly the variability in prices across the day is now much greater:

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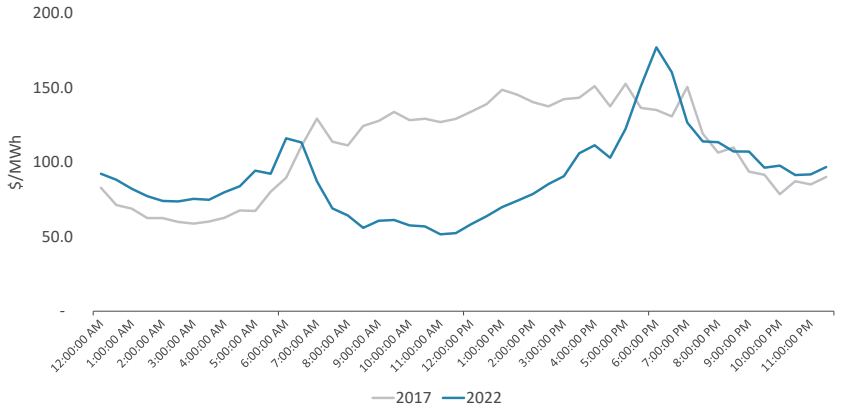
INTRADAY AVERAGE WHOLESALE ELECTRICITY PRICES
14 MARCH – 27 MARCH



Source: AEMO

The closure of several coal-fired power stations in recent years has accentuated price volatility because of supply/demand imbalances (until the market adjusts with new wind, solar, storage and transmission infrastructure). Further, new uncertainties resulting from the Russia and Ukraine conflict (i.e. higher input costs from fossil fuels) combined with the ongoing supply/demand imbalances in the NEM have contributed to the heightened volatility in wholesale electricity prices in recent months. While this has resulted in an upwards shift in absolute price levels across most (if not all) hours of the day, the same mid-day "dip" in wholesale electricity prices still applies; and

- **significant profitability challenges**. The inability to flex generation (beyond a limited degree) means baseload generators have to sell production into the NEM during the day, often at a loss. These losses are offset from more profitable generation sold at evening peak prices (along with commercial and industrial sales). This shift, combined with the broad declines in wholesale electricity prices since 2019, has put increasing pressure on the operating models and dispatch regimes of a number of coal-fired power stations and has led to the closure of several higher cost generators in recent years.

  In addition, even the peak period profitability will come under increasing pressure as battery storage enables renewables to produce a flatter supply profile (albeit that it may also help improve the daytime demand dynamics and pricing).

Heightened regulation of retail electricity prices across many states in the East Coast have also contributed to further challenges to the traditional baseload "gentailer" model. These regulations introduced a more prescriptive approach for determining electricity prices to end consumers, consequently reducing the value of vertical integration as retail prices are determined by factors independent of the characteristics of the "gentailers" generation portfolio.

For AGL Energy, these issues were exacerbated by the increasingly divergent views on the optimal regulatory environment that would benefit either the retail or generation business operations. Advocacy was challenging, if not impossible, without compromising or contradicting the position of either business. For example, capacity payments have recently been floated by regulators and policymakers as a potential solution to mitigate the financial concerns of baseload power stations (which are still vital to the overall stability of the grid, the ability to satisfy aggregate demand across the whole day and to ensuring energy affordability for consumers). While implementing a form of capacity payments is a clear positive for the viability and profitability of AGL Energy's baseload power generation assets, it is also a clear negative for

retail energy suppliers (and their customers) who will have to bear the higher cost. As a "gentailer" with large exposures in both aspects, AGL Energy faces a difficult challenge in identifying a solution that is favourable to its business as a whole.

It has therefore become clear that the "one-size-fits-all" gentailer model is no longer an effective business model. This issue is a global one as renewables increase their presence but it is particularly acute in Australia because the climatic conditions have led to an extremely high level of rooftop solar penetration. The gentailer model is also under pressure in other markets for other reasons such as cross subsidisation impacting the ability of new retailers to compete.

CAPITAL MARKETS PREFERENCES

The current structure of AGL Energy also creating significant headwinds in relation to:

- **equity markets**. Investors have grown increasingly sensitive to ESG issues, particularly to companies with large exposures to carbon intensive activities. This sensitivity is only likely to increase going forward. The investor universe for these companies is reducing and, as a result, the estimated cost of capital for carbon intensive businesses is higher than those companies with a clearly articulated and shorter term carbon emissions reduction (or transition) plan. In recent years, AGL Energy has seen declining appetite from large institutional investors (e.g. superannuation funds and sovereign wealth funds). Much of this may be due to wariness about investing in the energy sector given the heightened price volatility and increasing regulation. However, it is also likely to be partly due to the increasing concerns related to AGL Energy's ownership of large coal-fired power stations that are not planned to be finally closed until as late as 2045. The result has been reduced earnings multiples and a higher cost of equity for AGL Energy. The market value of all of AGL Energy's businesses are being adversely impacted by a poor ESG rating. This problem also makes raising equity to fund growth initiatives more expensive and challenging.

  Improving AGL Energy's ESG credentials is not easily addressed within the current structure, no matter how many renewable projects are pursued, given the Board's view that the coal-fired power stations are, on current settings, profitable assets that can viably continue until 2030-2033 in the case of Bayswater and 2040-2045 in the case of Loy Yang; and

- **access to debt capital funding.** Tightening lending standards have contributed to an increasingly difficult funding environment for companies with larger carbon emissions exposures such as coal-fired power stations. Over the past ten years, average loan spreads for global coal-fired power stations are estimated to have increased by approximately 365 basis points while other renewable sources have seen loan spreads fall[46]. Many banks, both in Australia and globally, have announced policies that aim to:

  - rein in lending to borrowers that are developing new carbon intensive projects such as coal mining or coal-fired power; and/or
  - end all lending to carbon intensive industries, with some lenders targeting elimination of their exposure to these industries as early as 2030.

  In recent years, the lender universe has migrated offshore although this may not necessarily be an available (and affordable) funding option in the long term. In 2021, two Australian power stations successfully refinanced their debt primarily with offshore lenders.

  These trends and policy changes pose significant challenges for AGL Energy for future growth projects through corporate-level lending. Quarantined or dedicated lending (e.g. on renewable assets only or against the retail business only) is unlikely to be a complete or satisfactory solution for AGL Energy's broader capital structure (including corporate debt).

[46] Source: University of Oxford, *The Energy Transition and Changing Financing Costs*, April 2021.

OTHER ISSUES

Other factors that are relevant to the rationale for the Demerger include:

- the increasing sophistication of electricity trading markets and the greater transparency of retail pricing (e.g. default option pricing) means there is less need for a retailer to have a straightforward physical hedge (i.e. owning power production); and
- ESG concerns are also spreading to consumer markets. Customers are increasingly conscious of the source of their power and have desire to obtain it from more sustainable sources (even if the willingness to pay for it is lacking at this stage). Ownership of the coal-fired power stations (particularly without a clearly articulated transition plan) is not helpful for the brand positioning of *AGL* with retail customers.

iii) Decision as to the path forward

In light of these issues, it became increasingly clear to the AGL Energy Board that a strategic or structural change would provide the best opportunity to improve the outcome for shareholders while also fulfilling obligations to other stakeholders. The essential choices that could resolve the dilemmas outlined above are to:

- pursue a path involving an earlier closure of AGL Energy's coal-fired power stations (within the constraints of maintaining system integrity) that bolster its ESG credentials;
- sell the coal-fired power stations either to a third party (i.e. trade sale) or by way of initial public offering ("IPO"). Alternatively, AGL Energy could sell the retail business; or
- separate the ownership of coal-fired power stations and the retail business so as to allow them to pursue independent strategies as individual listed companies.

The first two options have significant drawbacks:

- eventual closure of coal-fired power stations is inevitable as they have limited technical and economic lives. AGL Energy plans to close Liddell in 2023, Bayswater in 2030-2033 and Loy Yang in 2040-2045. It believes that, based on current market settings, the relatively low operating cost of Bayswater and Loy Yang will enable economically viable production until those dates. Bringing forward the closure dates for Bayswater and Loy Yang may seem appealing but it would be value destructive to shareholders unless:
  - the plants are no longer viable at the time of closure. Otherwise, shareholders are forgoing a valuable future cash flow stream; or
  - replacement projects generate returns sufficient to cover a return on that investment and to compensate for the forgone income from the coal-fired power stations and the bringing forward of the environmental rehabilitation liabilities.

  In addition:
  - any closure of power stations would have to occur within government notification requirements and energy security mandates (if applicable at the time); and
  - early closure without the adequate replacement of capacity could cause significant disruption in the electricity market.

  Other operators have made decisions to bring forward the closure dates. On 17 February 2022, Origin announced its intention to accelerate the closure of Eraring power station to 2025 (from 2032) and its plans to install a large-scale battery at the Eraring site. The driver of the decision is consistent with the issues facing AGL Energy. Origin management acknowledged that "*the influx of renewables has changed the nature of demand for baseload power*" and that "*the penetration of renewables is*

growing and changing the shape of wholesale electricity prices"[47]. However, it seems likely that the early closure of Eraring was largely an economic decision. It is a relatively high cost plant which meant that its economics are much more challenged than AGL Energy's plants. In any event, early closure on its own, does nothing to address the fundamental problem of the mismatch between stable generation and "peaky" retail demand in the period prior to closure (i.e. the next decade or so); and

- a sale of either the coal-fired power assets or the retail business may crystallise full value but is fraught with risks:
  - the process would be protracted and disruptive and there would be no certainty of success or the value that would be realised. It is a process that is not within AGL Energy's control. A failed trade sale process could have an adverse impact on the business;
  - it would be challenging to receive full value of a potentially low carbon intensive retail business when it is embedded in a carbon intensive business that is out of favour with the market;
  - the timing of an immediate sale is not necessarily optimal particularly given wholesale price volatility and regulatory uncertainty. A sale at a later time may capture an improved value as the development/transition pipeline is "proved up" (particularly in the case of Accel Energy); and
  - a sale by way of an IPO of would be subject to significant uncertainty as to value and timing (or even achievability given the number of large global IPOs that have been pulled in the past 2-3 months due to heightened market volatility). It would be dependent on market conditions at the time as well as investor perception developed throughout the marketing program. In any event, by definition it would only realise a "portfolio" value excluding a premium for control. Given the size, it may be challenging even to realise full (non-controlling) value via a 100% IPO. A staged exit, with progressive sell downs over time, is more realistic, but would be wholly dependent on market conditions and pricing at each stage would inevitably reflect some discount. An IPO would also be subject to the same tax issues on the proceeds as a sale.

  In addition:
  - a sale followed by distribution to shareholders may be tax inefficient. Apart from potential capital gains tax for AGL Energy, shareholders would also miss out on any concessional capital gains tax treatment that would apply to the sale of their own shareholding; and
  - a sale of either business would require the same kind of "separation" as involved in the Demerger. Apart from the greater complications involved in executing a separation with a third party, it would incur essentially the same costs as in the Demerger (which represents a significant proportion of the total transaction and implementation costs of $260 million.

Ultimately, the Board settled on the Demerger as the preferred way forward (in the absence of a fully priced takeover offer from a third party). However, the decision was not just a reaction to evolving circumstances. The Board also believed that a Demerger would be a positive catalyst for the business to create long term value for shareholders. The two smaller, leaner, more nimble and more narrowly focused organisations will be able to pursue the strategies, operational initiatives and investment opportunities that best suit their particular needs without compromise over capital allocation or priorities. In this context, the Demerger was viewed as a positive solution to the challenges facing AGL Energy and has the potential to create long term value for shareholders. These advantages and benefits are canvassed in more detail in Section 6.5.

Inevitably, a demerger involves some compromises and drawbacks. In this case, they include:

- implementation and separation costs and increased ongoing costs (albeit ongoing costs are largely to be offset by efficiencies following from the Demerger, including from reduction of corporate roles,

[47] Source: Origin ASX announcement, 17 February 2022

including executive roles, support positions and support functions, which are no longer required in the two simpler, more focused organisations);

- reduced scale and diversity of each entity;
- dis-synergies and risks, particularly around the trading activities that needed to be split between the two organisations;
- a relatively high level of initial gearing for AGL Australia (although it has retained the same credit rating as AGL Energy and has lower recurring capital expenditure requirements); and
- implementation risks (splitting a complex organisation).

However, the Demerger (including the way in which renewable assets have been allocated between the entities and structuring of the electricity offtake arrangements):

- enables AGL Australia to remain a "gentailer" but with a portfolio of more flexible generation and storage assets that better match its retail load profile;
- provides AGL Australia with a clear and relatively short pathway to a low carbon future that the Board expects will be much more acceptable to ESG sensitive investors (and to ESG conscious customers). The offtake agreement volumes with Accel Energy step down over time and expire in 2027. AGL Australia will be increasingly able to source power that best meets the demands of customers and capital providers. It has committed to a 50% reduction in Scope 3 emissions by 2030 (and to being carbon neutral by 2040). AGL Australia has also made a commitment to 3GW of renewable projects that AGL Energy has advised is unlikely to have been pursued under the status quo;
- frees AGL Australia to pursue initiatives that might have damaged Accel Energy under the status quo (e.g. distributed energy) and vice versa;
- seeds Accel Energy with renewable projects (as well as the energy hub plan), which, together with the ETIP funding from GIP, provides both a growth component and an energy transition path for Accel Energy (even if it is over an extended period and may not meet the requirements of the more stringently ESG conscious investors);
- establishes Accel Energy with a robust, defensive capital structure which is designed to ensure that, by 2030, it:
  - should have amortised most, if not all, of its term debt (when some of the lending constraints will become effective); and
  - has adequate time to make substantial progress in its energy transition so as to improve its access to capital markets.

  The ETIP facilitates "ring-fenced" funding for renewable developments and energy hubs in the near term, reflecting the demand from investors who are attracted by energy transition investment opportunities;
- allows Accel Energy, as the offtake agreement volumes with AGL Australia taper down and roll off, to pursue commercial and industrial customers with stable load profiles that better suit its generation profile. The closure of Eraring should provide a market opportunity and Accel Energy will be well placed in terms of cost;
- eliminates the competition for scarce capital between the retail business and the thermal assets (particularly the transition projects for Accel Energy's coal-fired power stations);
- gives each company the independence to advocate for regulatory and other outcomes that best suit its strategic priorities;
- avoids the need to find an acquirer for either business today but:

- preserves the opportunity for shareholders to sell either (or both) businesses some time in the future at a price that captures a full control premium; and
- in the meantime, enables shareholders to have a liquid investment trading at market value; and

- creates almost $500 million[48] in new capital and liquidity (through Accel Energy's retained 15% interest in AGL Australia) that enhances the financial robustness of the financial structures of both entities.

6.5 Advantages and Benefits

6.5.1 Strategic Flexibility

The Demerger will enable AGL Australia and Accel Energy to pursue growth and strategic opportunities independently, whether by way of capital investment programs, new business structures, asset developments, acquisitions or divestments. The energy transition has highlighted the increasingly distinct (and at times conflicting) strategies, growth drivers and capital requirements between the generation and retail business. In particular, the growing gap between the near-term strategic priorities of AGL Energy's generation and retail businesses has progressively outweighed the benefits of the "gentailer" model for AGL Energy and constrained the strategic flexibility of the company:

- the generation business requires significant near term capital to redevelop the existing power stations into industrial energy hubs and develop the pipeline of renewable assets. However, continued operation of the thermal asset base (i.e. coal-fired power and gas-fired power stations) remains critical for cash flows and prolonging the asset life (which defers the environmental rehabilitation obligations). Transition will take time, capital and patience; while
- the retail business faces growing customer pressure to accelerate its transition away from a carbon-intensive supply base. The highly competitive retail market requires quick and decisive action which may not have all the requisite time for a gradual transition.

Within the AGL Energy structure, the retail business must compete to secure the capital required to take advantage of growth opportunities, such as:

- diversification of its energy-led multi-product retail offering by expanding its broadband and mobile offerings;
- broadening (by consolidation or expansion to new geographies) its core energy retail offerings through merger and acquisition activity or investments in customer acquisition (and retention); and
- investment in its digital platform to enhance the data analytics capabilities and improve the online user experience.

As a standalone entity, AGL Australia will have a significant degree of freedom and greater capacity and flexibility to pursue its own strategic agenda at the speed best suited to its needs. In this respect, it:

- can progressively change its electricity procurement to one more in line with customer (and investor) preferences without being concerned about the impact on thermal assets;
- is able to pursue other activities/technologies that might harm the thermal assets such as distributed energy; and
- is not required to direct or prioritise capital investment in the demerged Accel Energy business.

Similarly, Accel Energy will also have a significant degree of freedom, capacity and flexibility to:

[48] Based on the book value of the shareholding of $513 million as per the pro forma financial statements at 31 December 2021.

- operate its plants in an optimal fashion without having to prioritise the needs of the retail book (as the offtake agreement rolls off);
- be able to aggressively pursue new commercial and industrial customers in preference to the retail book of AGL Energy (post offtake); and
- access capital that is available for investment in energy transition by utilising the ETIP funding to develop its renewable projects and create its energy hubs. AGL Energy has advised that the ETIP structure would not have been utilised in that form under the status quo.

6.5.2 Tailored Financial Structures

AGL Australia and Accel Energy are each established with their own capital structure tailored to their operations, growth objectives and risk profile. A summary of the new external credit facilities is set out below:

CREDIT FACILITIES

	$ MILLIONS
AGL Australia	
Bank facilities (including working capital)	2,015
USPP Notes[42]	752
Total debt facilities	**2,767**
Guarantee facilities	*425*
Accel Energy	
Bank facilities (including working capital)	970
CPI Bonds	51
USPP Notes	141
Bilateral bank facility	14
Total debt facilities	**1,176**
Guarantee facilities	*240*

Source: AGL Energy

Based on the pro forma balance sheets at 31 December 2021, the net debt position and key credit metrics of each entity are summarised below:

PRO FORMA NET DEBT POSITION AT 31 DECEMBER 2021 ($ MILLIONS)

	AGL AUSTRALIA	ACCEL ENERGY
Debt drawn	2,134	966
Lease liabilities	130	23
Cash	(260)	(236)
Net borrowings	**2,004**	**753**
EBITDA / Finance Costs (FY21)	*5.57 times*	*7.57 times*
Leverage (net borrowings, based on HY22 EBITDA) [32,33]	*4.99 times*	*0.76 times*
Leverage (net borrowings, based on FY21 EBITDA) [32]	*4.18 times*	*0.66 times*
Gearing (including leases)[34]	*37%*	*21%*

Source: AGL Energy and Grant Samuel analysis

The higher debt allocation to AGL Australia reflects its relatively stable earnings, being essentially a margin business that can hedge its wholesale electricity price exposure, and its lower capital intensity (sustaining capital expenditure is estimated to be approximately $90-100 million per annum). While some of the credit metrics are relatively high (e.g. leverage of over 4 times and probably higher again on expected FY22 earnings), AGL Energy expects that the ratio will improve over the next several years. While AGL Australia

does expect to support considerable investment in renewable energy (3 GW) over the next four years, it can do this by using its retail demand to underwrite development though offtake agreements rather than necessarily investing capital itself in physical assets.

In contrast, Accel Energy has a relatively low allocation of debt, reflecting:

- its high capital expenditure levels (over $400 million per annum);
- its direct exposure to future wholesale electricity prices;
- the legacy (out-of-the-money) PPAs that it will inherit as part of the Demerger;
- the environmental rehabilitation liabilities attached to the power stations; and
- the increasingly constrained access to debt capital for carbon intensive businesses.

The strategy is for Accel Energy to largely amortise its term debt by 2030 (when a number of self-imposed lending constraints become effective). Accel Energy's growth projects (renewable assets and the creation of energy hubs) are planned to be separately funded through the ETIP which will utilise:

- equity contribution of approximately $1 billion by Accel Energy (circa 51%);
- equity contribution of approximately $1 billion by GIP (circa 49%); and
- project debt related to the individual assets.

In addition to their available debt facilities, AGL Australia and Accel Energy will also have greater ability and flexibility to pursue opportunities such as scrip based mergers or acquisitions. Under the current structure such transactions are problematic:

- most asset/business owners are unlikely to be interested in AGL Energy scrip with its significant exposure to coal-fired power; and alternatively
- AGL Energy receiving a scrip interest in a merged entity through the sale of a business unit that is then locked up under AGL Energy ownership may not be attractive to AGL Energy or its shareholders.

In contrast, scrip in an energy-led multi-product retail business with diversified energy supply sources and improved ESG credentials such as AGL Australia should be more attractive to vendors.

6.5.3 Focus and Decision Making

The Demerger will result in the creation of two companies with separate boards and senior management teams focussed on their respective businesses. Each will be able to focus on their own strategic objectives and priorities, make decisions appropriate to each business' risk/return profile and address specific operational and regulatory issues in a timely manner.

The reduced size and scope of each business should also lead to more streamlined decision making which can be important in taking advantage of investment opportunities. It will also simplify dealings with customers, staff and other stakeholders as operating procedures can be tailored to the specific requirements of each business.

Under AGL Energy's current structure, the time of the board of AGL Energy needs to be divided between each of the businesses and may not always be reflective of the size and earnings of the business. As standalone entities, each will by definition receive more attention. Similarly, while the operational management teams of Accel Energy and AGL Australia currently operate largely independently from each other, AGL Energy's CEO and other senior head office functions need to split their time between the businesses.

There is little doubt that in tumultuous times such as those facing the energy industry over the next decade, a singular focus can lead to better decision making. Given the increasingly divergent objectives

and strategies of two separate businesses, it should also avoid the need for "compromise" decisions regarding strategy, investment, operations and advocacy.

6.5.4 Management Incentives

The Demerger will enable each of the companies to align management remuneration and incentives more closely with the financial performance of the business that is directly under the respective management team's control and the consequent share price performance. At present, equity based incentive schemes in AGL Energy mean that remuneration for senior management in either Accel Energy or AGL Australia is impacted by the performance of the other business (for better or worse). The more targeted regime achievable under the Demerger is expected to create a more transparent link between management performance and remuneration and better align the interests of shareholders and management.

6.5.5 Increased Scrutiny

The Demerger should increase the incentives for the boards and management of the demerged companies to improve performance. Analysts and investors will be focused on the performance of each business separately and the board and management will be directly answerable to investors. As separate listed companies, AGL Australia and Accel Energy will come under a much greater level of scrutiny including:

- higher levels of financial disclosure (compared to being a business segment of AGL Energy);
- a higher public profile;
- focused research by analysts;
- regular interaction between management (and potentially board members) and analysts and institutional investors (e.g. during financial results roadshows); and
- annual general meetings.

While in theory, all of this scrutiny should be able to occur under the current structure (AGL Energy has disclosed segment data for some years), the reality is that, in practice, separation generally brings a greater intensity. Each company will also be obliged to fund future growth from its own resources, providing additional discipline on capital and operating expenditure.

While it is not possible to establish any direct or measurable link, it is not unreasonable to believe that this increased scrutiny will put additional pressure on management to perform which should, in the longer run, lead to better outcomes.

6.5.6 Shareholder Flexibility

Immediately following the Demerger, AGL Energy shareholders (except ineligible overseas shareholders and selling shareholders) will retain their existing economic exposure to AGL Energy's assets by holding (an equal number of) shares in both AGL Australia and Accel Energy. Shareholders' interests will simply be split in two (albeit with part of the retail energy exposure held via Accel Energy). The Demerger will therefore provide shareholders with increased flexibility to manage their investment exposures to each company.

Notwithstanding that both businesses operate in the broader energy sector, the two entities will have different investment risk and return characteristics and it is likely that they will appeal to different sets of investors:

- AGL Australia will provide investors with an exposure to an Australian multi-product retailing business that benefits from diversified product offerings (e.g. electricity, gas, broadband and mobile), a comprehensive portfolio of medium-term supply contracts with a clear opportunity to diversify into less carbon-intensive energy sources and stable (albeit relatively low) margins and cash flows with underlying growth potential and prospects for steady dividends. It should be able to put forward a

case on its ESG credentials that is acceptable to, at least, a portion of the investor base that is sensitive to these issues; and

- Accel Energy will be a lower growth electricity generation business but with strong defensive characteristics (i.e. scale, offtake agreements with high quality counterparties, low operating costs) that generates strong margins and cash flows. It will also provide shareholders:
  - direct exposure to wholesale energy prices for those shareholders that wish to participate in the ebbs and flows of that aspect of the energy market; and
  - exposure to large scale renewable energy development projects.

  While Accel Energy will require significant capital to redevelop its core asset base into new industrial energy hubs, the sites have attractive characteristics (e.g. advantageous grid connections), may appeal to investors focused on the energy transition and will have the financial structure is designed to minimise the call on shareholders are being put in place.

At present, AGL Energy shareholders by definition have an exposure to both businesses. They cannot make their own investment decision between these exposures, their only alternative is to have no exposure at all. Following the Demerger, shareholders will be able to make their own investment exposure decisions and shift their relative exposures between the retail focused AGL Australia or the higher margin (but capital and emissions intensive) electricity generation business in Accel Energy, as they see fit based on their views as potential returns and risk. The ability to make more precisely targeted investments into these businesses should also be attractive to investors who wish to invest in specific parts of the energy industry and may attract investors who would not choose to invest in AGL Energy in its current form. Most particularly, those investors that are concerned about ESG issues can elect to focus their investment on AGL Australia which offers an investment with no Scope 1 and 2 emissions and a pathway (albeit over several years) to elimination of Scope 3 emissions (as it winds down its electricity purchasing from Accel Energy). AGL Australia is targeting a 50% reduction in Scope 3 emissions by 2030 and elimination by 2040.

Accel Energy's post Demerger's retention of a 15% interest in AGL Australia does "muddy the waters" but:

- the dividends from the retained investment is not material in the overall context of Accel Energy's earnings;
- it is likely to be sold over time as Accel Energy pursues its energy transition and seeks to fund new projects;
- it is unlikely to have any direct impact on AGL Australia's ESG credentials; and
- it is an important contributor to the financial strategy behind the Demerger.

The 15% retained interest also means that if a shareholder reduces its interest in Accel Energy, it will need to acquire additional AGL Australia shares to maintain its economic interest in AGL Australia.

6.5.7 Takeover Potential

Takeovers are an important mechanism by which shareholders can realise value for businesses in excess of sharemarket prices, as bidders will typically pay a premium to acquire control. Impediments to a takeover are generally negative for shareholders.

A premium for control could be captured (at least in part) by AGL Energy selling one or more of its businesses to another industry participant (or alternative purchasers such as private equity funds). However, this course of action is fraught with risks:

- there is no certainty any sale would occur and it would probably require AGL Energy to initiate a formal process. Execution risk is significant;
- the key decisions relating to the sale, in particular the decision as to an acceptable price, would be made by AGL Energy directors (at least in the first instance); and

- there may be value leakage due to taxation consequences particularly in relation to distributing proceeds to shareholders.

Following the Demerger:

- it will be open to any interested party to put forward a proposition to acquire AGL Australia or Accel Energy at any time (e.g. by way of takeover). Both will have open share registers apart from Accel Energy's 15% shareholding in AGL Australia. This holding is unlikely to deter potential bidders for AGL Australia because it is clearly a non strategic, financial investment for Accel Energy that is designed to provide it with funds for business development. In addition, Accel Energy will not have a nominee on the Board of AGL Australia which indicates that it does not wish to exert influence;
- the decision as to whether or not to accept an offer and at what price will be in the hands of shareholders (collectively) rather than directors; and
- a takeover transaction should allow Australian shareholders to benefit from any capital gains tax concessions.

The Demerger should increase the prospect of shareholders receiving a takeover offer (compared to the status quo), at least in respect of AGL Australia. AGL Energy's existing mix of businesses is likely to appeal to only a small set of acquirers particularly due to its significant exposure to coal-fired power. In addition, it is difficult to extract full value in a takeover when low carbon intensive assets (such as retail) are embedded within an overall carbon intensive business. While AGL Energy did receive offers from the Brookfield Consortium, the number of other parties interested in the whole group is likely to very limited. In contrast, AGL Australia and Accel Energy, as focussed, separate companies, should appeal to a broader universe of potential acquirers and the acquisition process will be both a "smaller bite" (i.e. less funding required) and simpler (no residual businesses to sell). In particular, AGL Australia could be an attractive proposition for acquirers wishing to expand into energy retailing in Australia (particularly as it has a clear pathway to being a low carbon business) if there was no coal-fired power attached to the retailing business.

The November 2021 acquisition of Powershop Australia (an online energy retailer with more than 185,000 customer services) by the Australian arm of Royal Dutch Shell plc ("Shell") and Infrastructure Capital Group is a good case in point. Similarly, there may be potential acquirers of Accel Energy that see it as an opportunity to accelerate an energy transition. This would be easier without also needing to deal with a large retail business.

There are other global precedents for where structural separation of retail and generation led to further corporate activity such as the spin-offs of leading vertically integrated German energy companies:

- E.ON SE ("Eon"), which spun off its coal and gas-fired power stations and energy trading business into a separate company named Uniper SE ("Uniper") via an IPO in 2016. As part of the transaction, Eon retained a 46.65% interest in Uniper and eventually sold its stake to Fortum Oyj in 2018 at more than a 45% premium to the listing price. Eon retained the renewables, energy distribution and customer solutions business of the original group; and
- RWE International SE ("RWE"), which spun off its renewables, energy infrastructure and retail businesses into a new company named Innogy SE ("Innogy") via an IPO in 2016 while retaining a 76.8% interest in the new business and the remaining nuclear and coal-fired power stations of the original group. Shortly after the spin-off, Innogy was acquired by Eon, following a series of asset swaps that saw Eon retain Innogy's energy infrastructure assets and RWE re-acquire Innogy's renewable assets that it previously held.

More generally, a review of demergers across the past two decades indicates that a significant number of demerged entities (and/or in some cases, their former parent companies) have been acquired by way of takeover within a few years of separation.

6.5.8 Additional Advantages

Section 1 of the Demerger Booklet details a number of other perceived advantages of the Demerger. Shareholders should consider these factors in making a decision on whether to vote for the Demerger.

6.6 Disadvantages, Risks and Costs

6.6.1 Ongoing Risks from Offtake Agreement

Historically, the "gentailer" operating model offered certain commercial advantages such as providing a natural hedge within the business against movements in wholesale electricity prices. The structural separation of the two businesses will result in one business (Accel Energy) with a "long" energy position and the other business (AGL Australia) with a "short" energy position.

The offtake agreement that is being put in place between Accel Energy and AGL Australia is designed to provide:

- certainty of supply for AGL Australia in initial years post demerger until FY27 (albeit at levels that taper down over the agreement term);
- time for AGL Australia to progressively procure alternative sources of energy as volumes under the Accel Energy offtake agreement reduce over time through to FY27, while allowing for a fall back to contract with Accel Energy if necessary (albeit the fall back is not a firm contract); and
- committed demand for Accel Energy for the next five years that tapers down over time (allowing for the closure of Liddell), giving it time to find substitute customers with an appropriate demand profile.

The pricing is to be largely referenced to the wholesale energy prices on the ASX. The existing trading activities of AGL Energy will be split and separate trading businesses will be established for each entity. AGL Australia will focus on securing and managing supply and storage to meet customer demand profiles while minimising electricity (and gas) purchase costs. Accel Energy will focus on securing customers and finding sales opportunities that maximise revenue. Risk management will be another key function of both trading arms.

However, the elimination of the existing vertically integrated structure and the substitution of an offtake agreement does create risk for shareholders of the two entities. As each trading operation will take independent risk exposures and hedging strategies (e.g. in relation to price), particularly as volumes under this offtake agreement reduce over time to FY27, shareholders (even if they retain their two investments) might bear trading losses (or profits) that they would not have under the status quo.

More generally there is a risk that as independent businesses, they head in different strategic directions which, in view of their close linkages and mutual dependence (at least for the next few years) could lead to adverse outcomes for one or the other entity.

This situation is unlike most other demergers where, typically, there are virtually no ongoing commercial relationships (beyond transition services) between the two entities (Woolworths and Endeavour Group being one notable exception). In this case, there is substantial supplier and customer relationship (at least until FY27).

6.6.2 Reduced Size and Diversity

The Demerger will result in two smaller and less diversified companies than AGL Energy. Definitionally, this means that each entity will be individually less able to readily absorb the financial and business consequences of significant adverse events (e.g. persistently low wholesale energy prices) as the events will have a greater relative impact.

However, there are some mitigants:

- both entities are anticipated to carry investment grade credit ratings (at the low end of the investment grade spectrum, but in AGL Australia's case, still the same as AGL Energy[43]) and plan to adopt financial policies consistent with maintaining (or improving) that rating;
- AGL Australia still has substantial scale and a widely recognisable brand name that underpins its strong market position. In this regard, the business benefits from:
  - a large retail customer base of approximately 4.5 million total customer services that generates a consistent $7.5 billion in revenue. AGL Australia will have one of the largest customer base across Australia and will continue to leverage the *AGL* brand name for its go-to-market retail offerings;
  - consistent demand for essential services such as electricity with approximately 24 TWh in retail electricity demand per annum;
  - the increased transparency of retail pricing which helps stability of margins; and
  - a track record of stable earnings for the Customer segment (which consistently generated between 3.5% and 4.5% EBITDA between FY19 and FY22, including circa 4% in HY22) and low capital intensity;
- AGL Australia should have access to funding markets in the event it needs to raise additional capital particularly given its substantially improved ESG credentials;
- Accel Energy has been established on a financially conservative and defensive basis. A significant amount of corporate debt is planned to be largely amortised by 2030. Funding for growth projects is planned to be largely secured from alternative sources (e.g. GIP's equity contribution of $1 billion to the ETIP and project debt) although Accel Energy will also make equity contributions to the ETIP; and
- while Accel Energy is highly exposed to the Australian wholesale electricity market prices and the increased scrutiny on the carbon intensity of electricity supply, the business retains a high level of visibility to its contracted volumes over the next 5-7 years and its generation assets have some of the lowest operating costs in the NEM. Key industrial counterparties (e.g. Tomago and Portland aluminium smelters) provide stable and committed volumes and, together with the new AGL Australia offtake agreement, provide Accel Energy with time to further refine and advance the redevelopment of its industrial energy hub redevelopment and development of its renewable asset pipeline.

  Nevertheless, Accel Energy is more highly exposed to customer concentration risks as a stand alone entity than when it was owned as part of AGL Energy. Large industrial customers are increasingly seeking low carbon intensive energy but the reality is they still require large and consistent volumes of energy with medium term security.

To the extent that the existing diversified generation and retail market exposures is attractive to shareholders, this can be replicated in their portfolios by continuing to hold shares in both AGL Australia and Accel Energy.

The smaller size of both entities (relative to AGL Energy) may also mean that, over time, the commercial terms agreed with suppliers are less advantageous than they would have been as part of a larger combined group. However, given the nature of the group's operations such an impact is likely to be minimal. The two businesses operate quite independently and there is little or no overlap in suppliers (or customers). Both entities may also continue to negotiate supply or sales arrangements that are aligned to their individual requirements. The primary operating costs are input and maintenance costs of generation assets for Accel Energy and costs of energy supply and retail overhead costs for AGL Australia. Given that the cost of supply for AGL Australia (particularly as it relates to the Accel Energy offtake agreement) is set at market prices, it is unlikely that any of these are materially impacted by the scale of AGL Energy.

On 20 April 2022, AGL Energy announced an unplanned outage at Loy Yang that is not expected to be resolved until 1 August 2022. This outage is a good example of adverse events that could occur. However, in this particular case, while the effect on financial performance could be material, such events are unlikely to endanger the financial viability of Accel Energy.

6.6.3 Future Funding Risks

There are future funding risks, particularly for Accel Energy given its ongoing and high carbon intensity. Specifically:

- AGL Energy has reached agreement with GIP under which GIP will invest $1 billion in the ETIP. However, there remain some conditions precedent (e.g. approval under the *Foreign Acquisitions and Takeovers Act*) and, in any event, any investment decision will be subject to Final Investment Decision requiring the approval of both Accel Energy and GIP; and
- renewal of debt facilities post 2030 will be challenging as lenders will continue to seek clearly defined transition plans for carbon intensive businesses. Accel Energy's funding structure (e.g. amortising bank debt) is designed to ensure Accel Energy has largely eliminated term debt by 2030 (excluding growth projects funded through the ETIP) and has adequate time to make substantial progress in its energy transition so as to improve its access to capital markets. In any event, such risks also apply to the status quo.

6.6.4 Additional Ongoing Costs

The Demerger will result in the loss of the financial benefits of operating the two businesses under a single corporate structure. These benefits are largely derived from operating a corporate head office, the central provision of a number of administrative functions and a single trading arm.

Although the businesses already operate independently in many respects, they currently share infrastructure and corporate overheads in addition to costs related to being a listed company. While certain services will be covered by short term Transition Services Agreement, ultimately each of the demerged companies will have to support these overheads from its own resources.

Following the Demerger, AGL Australia will incur additional corporate and operational costs including:

- costs associated with listing AGL Australia on the ASX such as listing fees, share registry, annual reports, shareholder communications, legal and regulatory compliance, board of directors and secretarial;
- a separate executive team;
- insurance costs; and
- other corporate functions to support a standalone listed company.

These incremental costs across both entities are estimated by AGL Energy to be approximately $35 million per annum, with approximately 60% incurred by AGL Australia and the remaining 40% incurred by Accel Energy. Of these costs, insurance is the most significant at about 40% of the total.

However, AGL Energy expects that these incremental ongoing costs can be offset by savings to be implemented over the next few months that will arise directly as a result of the Demerger through the streamlining of both organisations because of their reduced scope and complexity. While it is arguable that such efficiencies ought to be able to be achieved under the status quo, AGL Energy has advised that the ability to generate these cost reductions arises as a result of the reduced scale and complexity of the smaller organisations created by the Demerger. These cost savings are expected from the reduction of corporate roles, including executive roles, support positions and support functions, which are no longer required in the two simpler, more focused organisations. AGL Energy has undertaken detailed organisation

planning and design that identify the roles no longer required. Grant Samuel considers the quantum of expected cost savings to be reasonably based although they have not been included in the pro forma financial information.

The separation into two smaller entities and the downgrade of Accel Energy's credit rating (relative to AGL Energy) will mean higher interest costs than under the status quo. The spreads and margins for Accel Energy's are higher than those of AGL Australia and AGL Energy (by an average of 125 to 140 basis points). While this is an incremental cost burden, precise estimation of an annualised incremental and ongoing cost is problematic as:

- it diminishes over time as Accel Energy's facilities are amortised; and
- AGL Energy would in any event face some upward credit margin pressure over time because of its ongoing carbon intensity although that is difficult to measure.

Another incremental cost is the additional collateral and working capital facilities required to support two separate trading operations compared to the current integrated model (primarily initial and variation margin facilities). AGL Energy estimates the additional collateral in the order of $140 million (albeit increasing to this level over time) and the additional working capital facilities to be in the order of $200 million (although the net amounts drawn on these facilities should be similar to levels observed under the status quo). The real cost to shareholders is the interest cost or guarantee costs on the additional collateral and the line fees on working capital facilities. AGL Energy has estimated the net incremental cost to be less than $5 million per annum.

6.6.5 Index Risks

Inclusion in relevant indices is typically key to ensuring a listed company can attract investors (at least institutional investors) and helps underwrite a level of liquidity in the company's share trading.

In Australia, the S&P/ASX 200 is widely regarded as the critical "investible" index on which institutions focus although the S&P/ASX 300 is becoming more important following recent changes to mandated performance benchmarks for superannuation funds. AGL Energy's current market capitalisation (which has a 100% weighting) gives it an index ranking of between 80 and 90, inside the S&P/ASX 100 index, as well as comfortably within the S&P/ASX 200.

The Demerger will result in two smaller entities. AGL Australia (excluding Accel Energy's shareholding which will not be included in the "free float") is expected to rank somewhere around 100 to 120[49] in the S&P/ASX 200 index so remains comfortably within the index.

However, Accel Energy is expected to be ranked much lower, closer towards the lower end of the rankings in the S&P/ASX 200. There is therefore an elevated risk that a period of underperformance (from whatever cause) could result in Accel Energy falling out of the S&P/ASX 200 index. Institutional shareholders that were tracking their portfolio to this index or had mandates restricted to it would be forced to sell. Similarly, Accel will not be able to attract investment from such institutions from that point onwards. This change in the demand profile would likely have adverse consequences for the sharemarket rating of Accel Energy (compounding the underperformance problems) and the liquidity of its shares. The result is likely to be a fall in Accel Energy's share price immediately following any index removal and, possibly, a longer term impact on the demand and supply dynamics.

On the other hand:

- Accel Energy would remain well inside the S&P/ASX 300 index and, as this index continues to evolve as a market-standard with significant institutional investment, any impact on Accel Energy's share market rating and liquidity is likely to be much less pronounced;

[49] At these rankings both will fall outside the S&P/ASX 100 although they may be temporarily included in the S&P/ASX 100 index immediately upon listing.

- Accel Energy may be of interest to non conventional institutions that are not concerned about index inclusion and are more focussed on the potential for returns over the medium term. They will be attracted by a business where the assets have a structural competitive advantage (for the present) by virtue of being at the bottom of the cost curve and provide exposure to energy transition projects. There remains a significant universe of institutions that will invest in coal-related industries, at least if there is an ultimate transition plan; and
- the index issues will have no impact on demand from retail shareholders (who currently represent 55% of AGL Energy's register).

6.6.6 Newly Formed Board and Leadership Team

AGL Australia will be a new standalone ASX listed company with a new board of directors including a number of recently appointed non-executive directors. The relationships between the new board and management and the relationships within the board itself are untested and, inevitably, there is a risk that they do not work as planned. In addition, certain of the senior management of AGL Australia (including the CEO-elect) do not have previous experience in their roles in a public listed company. However:

- the AGL Australia board will have continuity and experience with the business through the appointments of:
  - Patricia McKenzie as the Chair. Ms McKenzie has more than 40 years' experience in the Australian energy sector, including directorships at other leading energy companies such as APA Group, Essential Energy, Macquarie Generation and TransGrid. Ms McKenzie has been with the AGL Energy board as non-executive director since May 2019;
  - the CEO-elect, Christine Corbett, who has been serving as AGL Energy's Chief Customer Officer since July 2019 and has held numerous leadership roles in customer-facing organisations such as Australia Post, PwC and Royal Children's Hospital in Melbourne; and
  - the two non-executive directors, Jacqueline Hey and Mark Bloom are expected to continue in the same role for AGL Australia; and
- most other key members of the AGL Australia senior operational management team have extensive experience in the energy sector. Damien Nicks, the current Chief Financial Officer of AGL Energy, will continue in that role for AGL Australia. Other senior leadership appointments, including Jo Egan (Chief Customer Officer) and Melinda Buchanan (Executive General Manager of Trading, Supply and Operations), will continue in senior roles with AGL Australia.

AGL Australia will not have any nominees from Accel Energy (the largest shareholder) but this is appropriate given the potential conflicts of interest given their supplier/customer relationship.

While AGL Energy will continue as a standalone ASX listed company (Accel Energy) it will have a different board of directors and management. The relationship between the board and Accel Energy management and the relationships within the board itself are therefore untested. However:

- the board will have continuity and experience with the business through the appointment of Peter Botten, the current Chair of AGL Energy, as Chairman of Accel Energy and the appointment of Graeme Hunt, the current interim Managing Director & CEO of AGL Energy, as Managing Director & CEO of Accel Energy. Both Mr Botten and Mr Hunt have held Board positions in AGL Energy since October 2016 and September 2017, respectively;
- Markus Brokhof, the current Chief Operating Officer of AGL Energy, will continue in that role for Accel Energy; and
- most other key members of the Accel Energy senior operational management team have been with AGL Energy for some time.

The Demerger has implications for the management of both AGL Australia and Accel Energy and any organisational change involves some degree of risk. However, change is a regular part of any corporation and any negative impact is unlikely to be material.

6.6.7 Transition and Implementation Risks

Any separation of two organisations is a complicated exercise at an operational level. There are inevitably risks relating to the implementation of the Demerger (particularly in light of the complexity of the separation task), including:

- delays and increased costs in achieving legal and practical separation of the businesses, including a full business support service capacity for each of AGL Australia and Accel Energy, particularly as the Transition Services Agreement winds down and ceases;
- failure to obtain any third party consents required as a result of triggering change of control clauses in supplier or service contracts or property leases;
- disruption and management distraction during the implementation period; and
- retention of key management personnel.

In this case, the separation is an extremely large and complex process because of the previous close integration of the two businesses primarily in the trading operations. AGL Energy has had to create two separate and independent trading teams (each with a different focus) and the other systems that support them. Unravelling these operations is necessarily time consuming and challenging. The Transition Services Agreement involves services across multiple functions including accounting and reporting, technology, customer services, human resources. Some are to be provided by Accel Energy to AGL Australia and some will flow in the other direction and many will be in place for up to 3½ years. Annual payments are estimated to be in the order of $27 million and $4 million respectively. The risks in an exercise of this scale are obvious. However, there has been a very detailed planning process underway since February 2021 and many of the "separations" have already taken place (hence the low proportion of implementation costs outstanding). AGL Energy advises that these have largely occurred without incident and are operating as expected.

If the Demerger is not implemented, AGL Energy's strategy will need to be re-evaluated but at the least:

- some elements of the operational separation are not expected to be implemented (e.g. IT, trading);
- most of the incremental ongoing costs will not be incurred but neither will the potential savings (from leaner organisations) be achieved; and
- some staff (e.g. duplicated positions) will be made redundant while some positions will need to be re-established (both at a cost).

6.6.8 One-Off Transaction and Implementation Costs

AGL Energy estimates that costs of implementing the Demerger will be in the range of $260 million on a before tax basis. These costs, which will largely be incurred by AGL Energy, include advisers' fees and other transaction costs, stamp duty, fees associated with the ASX listing of AGL Australia and other one-off implementation costs such as redundancies, insurance run off costs, IT and debt restructuring costs[50]. All of these transaction costs are being paid by AGL Energy. It is not expected that AGL Australia will incur any material additional one-off separation costs to allow it to operate as an independent entity.

[50] Certain costs have been excluded from this total where they crystalise a cost that would have been incurred in any event at a future date (or reduce a future cost).

The total one-off transaction costs of the Demerger, which are before tax and include costs that will generate cost savings, are not insignificant (at approximately 5% of AGL Energy's market capitalisation) and are higher than those incurred in virtually all precedent demergers (as a percentage of pre demerger market capitalisation). However:

- the high cost is largely due to the nature of the Demerger which is effectively splitting a large, complex organisation in two. It is not necessarily appropriate to compare it to demergers when there was a spin-off of a small part of the business (particularly if that business already operated relatively independently);
- the high apparent cost is also partly due to the decline in AGL Energy's share price. Since the announcement on 30 March 2021, the share price has fallen from over $10 to current levels of around $8.00-8.50;
- a significant proportion of the cost has already been incurred and only approximately $100 million is expected to be incurred after the vote on the Demerger (if approved by AGL Energy shareholders). The main outstanding costs are transaction costs (i.e. advisory, legal costs) and debt refinancing charges; and
- a significant proportion of the costs relate to the separation of business operations (IT, trading functions) which would also be incurred in alternative transactions such as a sale of either the retail or generation businesses.

There is a risk that total transaction and implementation costs could exceed the estimate of $260 million (before tax). However, given the time (and cost) that has been spent in progressing the separation to date, any excess is unlikely to be material in the context of AGL Energy as a whole.

6.6.9 Other Separation Costs

As a result of the Demerger and the incorporation of the Loy Yang group into Accel Energy's tax group, Accel Energy will suffer a reduction in future tax depreciation deductions relating to Loy Yang. The value impact of these forgone deductions varies depending on future wholesale electricity price assumptions. Additional costs in relation to the creation of the new AGL Australia tax consolidation group (e.g. tax treatment of transaction costs and separation costs) will also need to be incurred. The net present value loss is currently estimated to be in the order of $125 million. It should be noted that the majority of this loss this is not an immediate cash cost.

6.6.10 Ineligible Shareholders

Ineligible overseas shareholders will not be entitled to receive AGL Australia shares under the Demerger. The AGL Australia shares that would otherwise have been distributed to them will be transferred to a sale agent and sold on the ASX on their behalf and they will receive the net proceeds (free of any brokerage costs). Ineligible overseas shareholders may also be required to pay tax on any profit on that disposal (in their country of residence). However:

- the AGL Australia shares will be sold for market value;
- they can acquire AGL Australia shares through the ASX following listing if they wish to retain (or increase) their exposure to the AGL Australia business; and
- shareholders representing less than 0.1% of AGL Energy's issued capital are expected to be impacted by these provisions.

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6.6.11 Additional Risks

Sections 1.5, 3.12 and 4.12 of the Demerger Booklet details a number of other risks relating to the Demerger and investment in AGL Australia and Accel Energy. Shareholders should consider these factors in making a decision on whether to vote for the Demerger.

6.7 Market Value Considerations

i) Market Dynamics

There is an argument that traded shares will eventually find their own "natural" price level based on their fundamentals. However, it is equally arguable that supply/demand dynamics have a significant impact on the share price. This seems to have been the case with AGL Energy which, even ignoring the steady decline of the last five years, saw its share price decline from over $10 in March 2021 to a little over $5 by the end of that year (but now back to above $8.00). The decline was probably largely driven by weak wholesale electricity prices and increased regulatory scrutiny but it also coincided with a significant level of selling out or down by a number of institutional shareholders and a limited number of new institutions emerging on the register.

The Demerger will have an impact on the demand for shares in both entities:

- AGL Australia should attract "new" demand particularly from institutions that do not currently invest in AGL Energy because of its coal-fired power stations and the very long term plans to close these (potentially as far out as 2045). AGL Australia should represent a more attractive proposition from an ESG perspective, although as noted below, there is no formal ESG accreditation and no certainty as to individual institution's reaction to the different profile; and
- Accel Energy is likely to face challenges attracting ESG conscious institutions to its register (at least those with discretionary mandates) even if it is included in the S&P/ASX 200 or S&P/ASX 300 indices (as tracking error from non investment would be minimal). Despite Accel Energy's "transition" story, they are likely to forgo the opportunity. However, there may be demand from institutional investors seeking direct exposure to wholesale energy prices and renewable energy projects.

ii) Value Implications

It is not possible to form a definitive view as to where the shares in the two entities will trade and whether or not the combined market value will exceed the current market value of shares in AGL Energy. Determining how the current market value is split between two businesses (and therefore how the two businesses are currently rated by the market) is always a challenging task. In this case:

- the multiples (of, say, EBITDA) for each business are likely to be markedly different;
- there is a large central overhead cost that has not historically been allocated;
- the market guidance for FY22 released by AGL Energy shows a 16-23% decline in EBITDA but does not allocate it between the segments;
- the company has not released any forecasts for FY23 and, while there are broker forecasts at the consolidated level, none have provided a split between the earnings of AGL Australia and Accel Energy (after overheads); and
- there are no comparable listed companies in Australia to provide meaningful guidance as to appropriate value parameters. Origin is the closest peer but its share price is heavily influenced by its investment in APLNG. There are very few, if any, overseas companies that are directly comparable. None of the listed New Zealand "gentailer" entities are exposed to any material level of coal-fired power.

In any event, it is unclear where AGL Energy shares would trade in the normal course of events. The share price was around $6 from September 2021 until January 2022. Since the Brookfield Offer, it has mostly traded around $7-7.50, but in early April 2022, it jumped to over $8.50. The jump is probably on the back of stronger wholesale electricity prices but it is possible that the current price reflects some speculation as to a future change of control event (although it should be noted that AGL Energy's share price had recovered to over $7) prior to the first approach by the Brookfield Consortium). Moreover, the earnings outlook for AGL Energy is clouded by the expected upheaval in the energy industry over the next few years so perceptions of value are likely to be volatile.

In these circumstances, Grant Samuel considers the most useful perspective to be whether the potential rerating of AGL Australia because of its more focused business model and enhanced ESG credentials is likely to compensate for:

- the costs associated with the Demerger (including both transaction costs and increased operating costs); and
- any potential risk of a derating of Accel Energy relative to its value as part AGL Energy.

In this context, it is necessary to look beyond any short term dislocation in the sharemarket in the months following completion of the Demerger.

DOWNSIDES TO VALUE

The costs associated with the Demerger comprise:

- transaction and implementation costs, estimated to be in the range of $260 million in total but the more relevant measure is the approximately $100 million to be incurred post the shareholder meeting if the Demerger is approved;
- an NPV loss of $125 million from reduced tax depreciation deductions for Loy Yang (albeit not an immediate cash cost) and from the tax treatment of transaction costs, separation costs and adjustments arising from the creation of the new tax consolidation group for AGL Australia;
- increased operating costs (including overheads) across the two businesses, estimated to be approximately $35 million per annum. AGL Energy expects these costs to be eliminated over the next few months through efficiencies. It is arguable that such efficiencies ought to be able to be achieved under the status quo but AGL Energy has advised that the ability to generate these cost reductions is directly linked to the smaller, simpler organisations created by the Demerger; and
- higher funding costs as a result of:
  - Accel Energy's lower credit rating compared to AGL Energy (an expected Baa3 compared to Baa2) which leads to higher margins (or cost of debt); and
  - increased collateral of $140 million and working capital facilities of approximately $200 million needed for the two separate trading businesses. The cost to shareholders is equal to the interest cost on the increased availability fees and interest costs for the collateral and working capital.

The question as to whether Accel Energy will be valued at less than it is as part of AGL Energy is difficult to judge. Clearly, the AGL Energy share price has reflected a level of negative sentiment in the last 2-3 years. Accel Energy may inherit much of that negative sentiment. It will be:

- predominantly a coal-fired power generator with the negative ESG connotations that entails. The transition plan (renewable projects, energy hubs) will only be realised over an extended period;
- heavily exposed to the wholesale electricity price as the primary driver of earnings (and the inherent earnings volatility that follow from that dependence). Unlike AGL Energy, there will be no offset from the retail business in terms of risk mitigation (even if that is currently a far from perfect hedge); and

- a smaller, less diversified entity:
  - without some of the efficiencies that the combined AGL Energy was able to generate particularly in trading activities; and
  - without AGL Australia's cash flow and therefore less financially robust and less able to withstand any periods of financial pressure

On the other hand:

- Accel Energy has:
  - a development pipeline of 2.7 GW of renewable projects and a committed plan to convert its coal-fired power stations to energy hubs centred on "low emissions and green" power and using its highly advantaged existing grid connections. If executed, these developments offer the potential for a meaningful incremental earnings contribution;
  - an agreed co-investment partnership with GIP (the ETIP) to help fund the rollout of new projects;
  - put in place committed funding facilities that provide medium to long term funding (5-7 years) incorporating substantial headroom. The funding plan envisions that Accel Energy will have largely amortised its term debt by 2030 (except for the separately funded growth projects) giving it significant flexibility at that time to pursue alternative strategies and/or deal with a radically different operating environment. It should also be noted that Accel Energy:
    - is anticipated to receive a Baa3 investment grade credit rating. The rating is below that of AGL Energy (by one notch) but that is because of its reduced scale and diversification as well as its ESG exposure, not its fundamental credit metrics which would support a higher rating; and
    - has an additional and substantial liquidity buffer through its 15% holding in AGL Australia;
- Accel Energy will be one of very few opportunities for Australian sharemarket investors to have a direct exposure to wholesale energy prices and to invest in the development of large scale renewable energy projects (albeit that it also involves substantial exposure to coal-fired power);
- short term selling by existing AGL Energy shareholders should be relatively limited because if they are currently invested in AGL Energy they should, by definition, be comfortable with a significant exposure to coal-fired power (although the Demerger provides them with an opportunity to recalibrate their exposure based on potential returns, risks and ESG preferences); and
- while Accel Energy shares may not appeal to institutions that are ESG sensitive, there are still a significant number of investors that are not averse to investing in a business with coal-fired power exposure particularly if:
  - there are reasonable prospects for attractive returns; and
  - there is an energy transition plan, even if longer term in nature.

On balance, there is little to suggest that Accel Energy should trade at a lower level than it is currently implicitly valued in the AGL Energy structure.

RERATING POTENTIAL

The costs and downside risks to Accel Energy are difficult to accurately determine but to put it in perspective, a hypothetical uplift in the value of AGL Australia in the order of $400-500 million because of its improved ESG credentials would broadly compensate for the costs (depending on how they are measured). At this level, shareholders would be value neutral. Such an uplift corresponds to an increase in

the implied EBITDA multiple for AGL Australia of approximately one times[51]. The question is therefore whether a rerating of a minimum of one times EBITDA is realistic.

In Grant Samuel's view, this is a reasonably arguable proposition although there is little in the way of "hard" evidence. However, analysis of the global energy industry indicates that since around 2017:

- companies with a clear focus on renewable energy have outperformed and enjoyed premium ratings over companies that have larger exposures to ESG sensitive sources of power. In this regard:
  - the premium widened from approximately two times EBITDA and two to four times EBIT (between 2017 and 2020) to a peak of over 8 times and 14 times respectively by the beginning of 2021; and
  - while this differential has narrowed over the last 12-15 months, companies focused on renewable energy generation continue to maintain a clear premium over its peers; and
- companies that are involved in ESG sensitive industries such as coal, gas or nuclear-fired power tend to trade at much lower multiples of forward EBITDA and EBIT. Within this group, companies that are "actively transitioning"[52] to a low carbon future have enjoyed a relatively consistent premium in terms of average market rating over companies with no clear plans to reach net zero carbon emissions by 2050. Analysis indicates a difference of approximately one times EBITDA (which has widened from circa 0.5 times EBITDA and EBIT prior to 2020).

The following charts summarise the historical forward EBITDA and EBIT multiples for listed retail and/or generation companies[53] since 2017:

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[51] Based on FY21 proforma EBITDA of $479 million ($488 million including income from associates).

[52] The distinction in relation to "actively transitioning" is difficult to define precisely and selection of the entities is largely judgemental. For the purposes of this analysis, "actively transitioning" has been defined as companies with a plan to meet net zero emissions by 2050 but excludes those companies that have stated that this objective may only be achieved through carbon offsets.

[53] Based on a global peer group of more than 40 listed companies that operate in electricity generation and/or retail. "ESG-sensitive exposure" includes 23 companies that currently derive more than 50% of their generation capacity from coal, gas or nuclear fired power. Within this subset, 11 companies have been categorised under ""ESG-sensitive exposure with net zero targets by 2050"' (see footnote 51 for further detail) and have been included in the brown line. The global peer group includes:

- Australian and New Zealand based "gentailers" such as Contact Energy Limited, Genesis Energy Limited, Mercury NZ Limited, Meridian Energy Limited, Origin Energy Limited and Trustpower Limited;
- North American generation and energy retail companies such as Alliant Energy Corporation, American Electric Power Inc., Capital Power Corporation, Constellation Energy Corporation, Duke Energy Corporation, Entergy Corporation, Exelon Corporation, IDACORP Inc., NextEra Energy Partners LP, Northland Power Inc., NRG Energy Inc., Portland General Electric Company, The AES Corporation, TransAlta Corporation, Vistra Corporation and Excel Energy Inc.;
- European generation and energy retail companies such as EnBW Energie Baden-Württemberg AG, RWE Aktiengesellschaft, Fortum Oyj, Uniper SE and CEZ, a.s.;
- Asia Pacific generation companies such as China Resources Power Holdings Company Limited, Huaneng Power International, Inc., Huadian Power International Corporation Limited and Datang International Power Generation Co. Ltd.; and
- "pure-play" renewable energy generation businesses such as Boralex Inc., Brookfield Renewable Partners LP, China Datang Corporation Renewable Power Co. Limited, China Longyuan Power Group Corporation Limited, Consolidated Edison Inc., Drax Group plc, Innergex Renewable Energy Inc., Neoen S.A., Ørsted A/S, TransAlta Renewable Inc., VERBUND AG and Via Renewables Inc.

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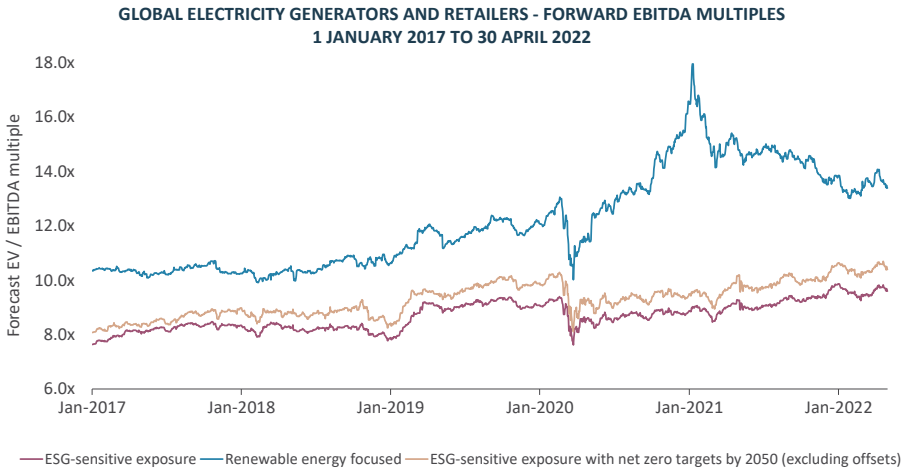
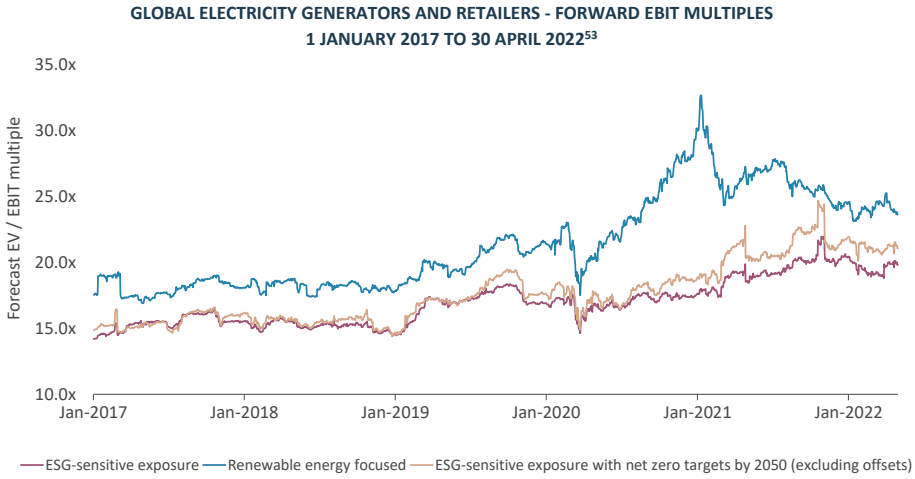


Source: CapitalIQ and Grant Samuel analysis



Source: CapitalIQ and Grant Samuel analysis

However, it should be noted that:

- there is not a precise distinction or categorisation of "good" ESG companies or "bad" ESG" companies (e.g. by fuel mix or transition policy);
- the renewable businesses tend to be generation only while the others typically have retail arms;
- AGL Energy or AGL Australia do not necessarily fit neatly into either category; and
- EBIT may be a more meaningful guide than EBITDA because renewable energy tends to require minimal ongoing capital expenditure while carbon intensive generation sources is generally very capital intensive.

Nevertheless, the analysis is supportive of the general proposition that better ESG credentials lead to a better market rating.

A key question for AGL Australia, however, is whether its arrangements would qualify it as an acceptable investment from an ESG perspective and therefore generate new sources of demand for its shares. Unfortunately, ESG assessment, by or on behalf of investors, is still in early stages of development. There is no uniform assessment process and no definitive criteria or authoritative third party accreditation process that determines whether any particular set of attributes and plans is acceptable or not. It is largely a matter of judgement by individual investors based on essentially subjective criteria. AGL Australia's "case" largely rests on it:

- being free of Scope 1 and Scope 2 emissions (which are effectively transferred to Accel Energy);
- having a clear pathway to reducing Scope 3 emissions following the end of the offtake agreement in FY27. AGL Australia has stated that it will achieve a 50% reduction in Scope 3 emissions by 2030 and complete elimination by 2040; and
- having committed to 3 GW of renewable and flexible capacity projects that AGL Energy advises would not occur under the current structure.

Whether this satisfies investors is uncertain at best and is likely to involve an ongoing process of education and feedback. Arguably, AGL Australia's fuel source is no different to AGL Energy (at least for the immediate future). AGL Australia's baseload power will be supplied by coal-fired power stations until at least FY27 and probably for some years afterwards (albeit to an ever declining degree). While this issue will probably confront all retailers sourcing baseload power, there may be some ESG focussed investors that do not consider AGL Australia's transformation sufficient.

On the other hand, it is a substantial improvement compared to AGL Energy and, if AGL Australia can develop a definitive program for securing a significant level of "green" energy over time (and certainly beyond FY27), a rerating at some level seems more likely than not. However, whether the rerating (if any) will immediately materialise or will occur over a longer period over time (as its post FY27 energy source becomes clearer) is uncertain. The market evidence indicatives that energy companies focused on renewable energy generation have traded at higher (and widening) multiples than those companies with material exposures to ESG sensitive activities. Further, the market evidence also supports the proposition that companies "actively transitioning" to a low carbon future also trade at a slight premium over companies that do not have a clearly established net zero carbon emissions target. A one times multiple improvement for AGL Australia is not demanding in the context of the market evidence although it may only emerge over time as AGL Australia demonstrates more definitive post FY27 plans for sustainable energy supply.

In any event, the arguably more important factor for shareholders is the potential for value enhancement that can be expected over the longer term from the cumulative effects of the strategic and operational freedom, narrower focus, increased scrutiny and targeted incentive structures available under the Demerger.

6.8 Dividends

The proposed dividend policies for the two separated entities are:

- AGL Australia will target a dividend payout ratio of 60-75% of underlying NPAT; and
- Accel Energy intends to adopt a policy of paying 80-100% of free cash flows after servicing net finance costs. Free cash flow is defined as operating cash flows (essentially EBITDA) less tax, working capital requirements, sustaining capital expenditure and contributions for planned growth (investment capital).

These policies compare to AGL Energy's current dividend policy of 75% of underlying NPAT. Whether the changes result in higher or lower dividends is uncertain. The AGL Australia payout ratio is lower than the status quo but the Accel Energy policy, while a higher nominal percentage, is on a different basis. Accel Energy's working capital movements have been relatively minor and capital expenditure has closely

matched depreciation. However, given Accel Energy's debt amortisation profile, it is likely that, other things being equal, shareholders will face lower aggregate dividends than under the status quo.

However:

- the sustainability of the current AGL Energy policy in the future is uncertain as debt markets become more challenging (and require lower debt loads);
- the combined earnings under the Demerger would be different to the status quo earnings over time; and
- dividend policies can be changed by boards at any time.

6.9 Summary and Conclusion

Evaluation of any demerger is not a simple quantitative exercise. Rather, it is largely a qualitative judgement about the medium to long term benefits weighed against the costs, disadvantages and risks.

Firstly, it is necessary to focus on the right questions. In this case, it is critical to understand that it is not a question of:

- whether the immediate combined market value of AGL Australia and Accel Energy is likely to be greater than the recent Brookfield Offer of $8.25. They are two fundamentally different things:
  - under the Brookfield Offer, shareholders would have been selling out for cash and control would have passed to the Brookfield Consortium. Shareholders would have had no ongoing exposure to the business; whereas
  - under the Demerger, shareholders will have liquid, portfolio investments in two entities that provide exposure to the long term performance of the respective businesses (for better or worse). Most importantly, they will retain the option to sell either or both companies in a future change of control event and capture a control premium at that point in time.

  The fact that the combined values of shares in AGL Australia and Accel Energy could be less than $8.25 is irrelevant. They are two different constructs. In any event, the Brookfield Offer is no longer on the table; or
- whether AGL Energy (or Accel Energy) should exit its coal-fired power business earlier than currently planned. That is a separate question to the merits of the Demerger. It is a strategic issue not a structural issue and is one that, if circumstances change, can be pursued under either the Demerger or the status quo. If shareholders want it to happen, they can seek to convince the respective boards to change direction. The relevant consideration for shareholders is how the Demerger impacts on the ability to pursue such an alternative strategy.

The questions that Grant Samuel believes need to be addressed are:

- is the Demerger better than the status quo? Are the benefits likely to outweigh the costs and the downsides?
- does the Demerger inhibit the flexibility to alter course in the future and adapt to changing circumstances (e.g. by closing coal-fired power earlier than planned if that becomes something that makes economic sense from a strategic or financial perspective)?
- does the allocation of debt (and other liabilities) create any additional risk for shareholders?
- is the Accel Energy business able to withstand a sustained period of electricity price weakness?
- does the Demerger impede or reduce the prospects of receiving a takeover offer (incorporating a premium for control) at some time in the future? and
- are there any alternatives that provide a patently better outcome?

The primary drivers for the Demerger are two-fold:

- the traditional baseload "gentailer" model where the price risks of the retail energy business are offset by ownership of baseload power production (typically coal-fired, at least in Australia) no longer provides an effective solution, largely as a result of the impact of renewables (including rooftop solar) on the daytime supply/demand balance and pricing. It is leading to increasing pressure on the operating models of coal-fired power stations and an increasing divergence in the objectives, priorities and strategies of energy retailers and baseload power producers; and
- the increasing sensitivity of equity market investors to ESG issues means that AGL Energy's cost of capital (both equity and debt) is adversely impacted by its ownership of coal-fired power stations that are not planned to be completely closed until as late as 2045. The Board of AGL Energy believes that AGL Australia will have much more acceptable ESG credentials that will translate into increased demand for its shares and a better share price and market rating (i.e. earnings multiple) than it receives as part of AGL Energy.

In Grant Samuel's view, there is a clear case that the status quo is suboptimal and that change is required. The real issue is whether, in the absence of a fully priced takeover offer, the issues are best solved by early closure of coal-fired power stations, sale (trade sale or IPO) of one or more businesses or spin off. The first two options have significant drawbacks:

- eventual closure of coal-fired power stations is inevitable as they have limited technical and economic lives. Bringing forward the closure dates for AGL Energy's coal-fired power stations may seem appealing but it would be value destructive to shareholders unless:
  - the plants are no longer viable at that time. Otherwise, shareholders are forgoing a valuable future cash flow stream; or
  - the returns from replacement projects are sufficient to cover both a return on that investment and to compensate for the forgone income from the coal-fired power stations; and

  In any event, early closure does nothing to address the mismatch between baseload generation and retail demand in the period until closure (i.e. the next decade or so); and
- sales processes are inevitably risky and, to a large extent, out of the control of the seller. There is no certainty that AGL Energy would be able to secure a satisfactory price for the coal-fired power stations at the current time. There is clearly a limited pool of buyers and current regulatory uncertainty is a significant deterrent. It is likely that better timing for a sale would be once it has "runs on the board" in accelerating the transition and in developing the energy hubs that it envisions for the three locations. Sale of the retail business is equally fraught with risks. It would be challenging to receive full value for the low carbon future of the retail business when it is embedded within a carbon intensive business that is out of favour with the market.

In contrast, the Demerger offers much higher transactional certainty, brings a number of benefits to the businesses and preserves the flexibility to change course as market circumstances evolve. It creates two smaller, leaner, more nimble and more focused organisations that have greater strategic and operational flexibility and the ability to pursue investment and other opportunities best suited to their business. More particularly, the Demerger:

- enables AGL Australia to remain a "gentailer" but with a portfolio of more flexible generation and storage assets that better matches its retail load profile;
- provides AGL Australia with a clear and relatively short pathway to a low carbon future that the Board expects will be much more acceptable to ESG sensitive investors (and to ESG conscious customers);
- frees AGL Australia to pursue initiatives that might have damaged Accel Energy under the status quo;

- seeds Accel Energy with renewable projects (as well as the energy hub plan and the planned ETIP funding) that provide an energy transition path for Accel Energy, even if it is over an extended period;
- establishes Accel Energy with a robust, defensive capital structure that enables it to amortise most, if not all, of its term debt by 2030 (when some of the local banking constraints will become effective). The ETIP facilitates funding for renewable developments and energy hubs based solely on the project assets (which should satisfy any ESG criteria);
- allows Accel Energy, as the offtake agreement volumes with AGL Australia taper down and roll off, to pursue commercial and industrial customers with stable load profiles that better suit its generation profile. The closure of Eraring should provide a market opportunity and Accel Energy will be very competitive in terms of cost;
- eliminates the competition for scarce capital between the retail business and the thermal assets (particularly the coal-fired power stations);
- gives each company the independence to advocate for regulatory and other outcomes that best suit its strategic priorities;
- avoids the need to find an acquirer for either business today but preserves the opportunity for shareholders to sell in the future; and
- creates new capital and liquidity (through Accel Energy's retained 15% interest in AGL Australia).

The Demerger can be seen as providing a sensibly calibrated solution to the issues facing AGL Energy that has the potential to deliver incremental value to shareholders over the medium to longer term.

A fundamental question for shareholders in the short term is whether the potential value uplift from AGL Australia's more acceptable focused business model and enhanced ESG credentials (if any) is likely to compensate for the implementation and incremental costs and the potential downgrade of the value of Accel Energy (relative to its notional market value as part of AGL Energy).

The costs include transaction costs of $260 million (albeit approximately $100 million is to be incurred after the Demerger vote if the Demerger is approved), an NPV loss of future tax deductions of approximately $125 million (albeit not an immediate cash cost) and increased interest costs (including interest on incremental collateral and working capital facilities for the trading business) and incremental operating costs of approximately $35 million per annum (although AGL Energy believes that these will be offset as a result of organisational simplification arising from the Demerger).

The investor reaction to Accel Energy is uncertain. At least initially, there could be "churn" with those existing AGL Energy shareholders that are concerned about ESG issues likely to exit rather than hold shares in what is largely a coal-fired power producer. On the other hand, if they are currently invested in AGL Energy, they should, by definition, be comfortable with an exposure to a carbon intensive business (and therefore have no cause to exit their Accel Energy holding). The more important question is where the price is likely to settle once the register has stabilised. Accel Energy may not appeal to ESG sensitive investors. However, there remains many institutions that are not averse to investing in coal-fired power, at least if there is a transition plan (even if a long term one) and the returns are attractive. There is no obvious reason for Accel Energy to be valued at less than it is valued as part of AGL Energy.

An uplift in the EV/EBITDA multiple of at least one times for AGL Australia would see an increase in value that broadly offsets the costs of the Demerger. Grant Samuel believes there is a reasonable prospect of this occurring. There is some evidence that energy companies with a focus on sustainable energy or near term ESG transition plans are rated higher by the market (although "hard" evidence is lacking and the criteria for "acceptability" are unclear and subjective). While AGL Australia's transition plan is not assured of broad acceptability by ESG sensitive investors, it is clearly a material improvement over AGL Energy.

However, any rerating may not be immediate and may only emerge over time as AGL Australia puts in place more definitive plans for securing sustainable sources of energy over time (particularly post FY27).

In any event, there are prospects for longer term value enhancement that flow from the cumulative benefits of the changes brought by the Demerger, including greater strategic and operational freedom, a narrower focus, more intense scrutiny and better targeted incentives.

In terms of the remaining questions:

- the Demerger does not appear to inhibit Accel Energy's ability to change its strategy and bring forward closure of Bayswater and/or Loy Yang if a change in circumstances warrants it as long as Accel Energy executes its growth plan. In this context:
  - it has agreed a co-investment partnership with GIP which will assist in funding new renewable projects and energy hub conversion projects over the next several years;
  - the offtake agreement with AGL Australia will have expired by FY27;
  - while Accel Energy is smaller than AGL Energy and does not have access to the same scale of financial resources (including cash flow from AGL Australia operations):
    - it plans to have largely amortised its term debt by 2030;
    - there is significant headroom under the current bank facilities;
    - the 15% shareholding in AGL Australia provides a substantial source of liquidity; and
    - it has access to equity markets and could call on shareholders to support a raising for projects of sufficient merit;

  Accordingly, there is no obvious financial reason why Accel Energy could not choose this path if it made sense at a future point in time. In addition, even if the status quo was maintained and Accel Energy had access to AGL Australia's cash flow to help fund a faster transition, it would also bear AGL Australia's debt load of circa $2 billion and it would not have the equity "created" by the 15% shareholding in AGL Australia that is not distributed to shareholders;
- Accel Energy will be exposed to wholesale energy prices to a greater extent than AGL Energy. Any sustained period of low prices would obviously damage profitability but:
  - the business undertakes a significant level of hedging of revenues and has approximately 90% of generation volumes contracted over the next twelve months, before progressively stepping down to 65% by FY25;
  - Accel Energy's low cost position the cost curve should enable it to remain above breakeven even when prices are weak (at least until renewables can provide sufficient baseload power to meet market demands);
  - the business has some flexibility (albeit limited) to:
    - reduce cash operating costs by changing the operating model; and
    - defer capital expenditure, if necessary;
  - the financial structure has been set up to provide:
    - headroom under the covenants and undrawn capacity in the bank debt facilities; and
    - additional liquidity through the 15% shareholding in AGL Australia;
- the debt allocation reflects the different credit attributes of the two entities and additional equity is created through Accel Energy's retained 15% shareholding in AGL Australia (see Section 7 for a more detailed discussion); and

- if anything, the Demerger increases the prospect of shareholders receiving an offer. There may be some parties interested in the whole of AGL Energy (in addition to the Brookfield Consortium) and who may place critical value of having access to the full portfolio of renewable and energy hub projects (which are being split between Accel Energy and AGL Australia) as well as the (structurally "short" retail business, but it is more likely that the two separate entities will attract a greater level of interest, particularly AGL Australia. Each entity will also be a more manageable "bite" from a financial point.

The evaluation of the Demerger is essentially subjective. At one level, there is little change arising from the Demerger. Shareholders will still own the same assets in the same proportions. The costs are relatively high and the risks are not inconsequential. However:

- the status quo is not an attractive option given the profound changes in electricity markets, consumer preferences and capital markets;
- the Demerger is superior to alternatives such as a sale or early closure and, in any event, those options are still available under the Demerger if circumstances change;
- there are positive reasons for pursuing the Demerger. Over the longer term, value enhancement from the greater strategic and operational flexibility, narrower focus, increased scrutiny and targeted incentives is realistic (even if not measurable); and
- there are reasonable prospects of the implementation and incremental costs in relation to Demerger being able to be offset (albeit perhaps not immediately). In any event, a significant proportion of the costs (related to "separation") would have been incurred under the alternative of selling one or other businesses.

In summary, in the absence of a fully priced takeover offer from a third party, the Demerger is the most attractive course of action in the current circumstances. Grant Samuel believes that, on balance, shareholders are likely to be better off if the Demerger is implemented than if it is not. Accordingly, the Demerger is in the best interests of shareholders.

6.10 Taxation Issues

6.10.1 Corporate Taxation

The Demerger is not expected to result in any capital gains tax ("CGT") or income tax liability for AGL Energy[54] which is expected to make a capital loss on the sale of AGL Australia to shareholders.

AGL Energy has Australian unused income losses. These losses are expected to be preserved within Accel Energy post Demerger. AGL Australia has no Australian unused income losses or capital losses.

Following implementation of the Demerger, Accel Energy Limited will remain the head company of the AGL Energy Australian tax consolidated group (but now including the previously separate Loy Yang group) and AGL Australia will exit AGL Energy's Australian tax consolidated group. As a result, Accel Energy will suffer a reduction in future tax depreciation deductions relating to Loy Yang, with the estimated net present value loss in order of $125 million. AGL Australia will form a new Australian tax consolidated group.

The effective tax rates of AGL Australia and Accel Energy as standalone companies is not expected to be materially different to that of AGL Energy if the Demerger did not proceed (apart from the effect on Accel Energy of the reduced future depreciation charges available for Loy Yang).

[54] To the extent the internal restructuring prior to the Demerger results in stamp duty (or similar) liabilities, these amounts have been allowed for in the estimate of one-off transaction costs.

6.10.2 Tax Consequences for Australian Resident Shareholders

The Demerger is not expected to give rise to significant adverse tax consequences for shareholders who are residents of Australia for income tax purposes and hold AGL Energy shares on capital account.

AGL Energy has applied to the ATO for a class ruling to confirm the Australian income tax consequences of the Demerger for Australian resident shareholders. AGL Energy has received a draft of the class ruling which sets out the ATO's preliminary views (a final ruling will not be received until after the implementation date). In summary, for Australian resident shareholders who hold their shares on capital account:

- AGL Energy will make a capital return of $4.74 per share and shareholders' tax cost base of their AGL Energy/Accel Energy shares will be reduced by this capital return (but not below zero). As long as a shareholder's cost base exceeds the amount of the capital return, there will be no tax payable. If the cost base is less than the capital return, any excess will be treated as a capital gain. AGL Energy believes that all shareholders who acquired their shares after 2006 will have a cost base above $4.74;
- the cost base of AGL Australia shares will be $4.74; and
- the AGL Australia shares will not be eligible for the CGT discount if they are sold within 12 months of the implementation date as the deemed acquisition date is the implementation date of the Demerger.

6.10.3 Disclaimer

The analysis set out above outlines that major tax consequences for Australian resident shareholders of the Demerger and should be viewed as indicative only. It does not purport to represent formal advice regarding the taxation consequences of the Demerger for shareholders. Further details of the taxation consequences of the Demerger are set out in Section 6 of the Demerger Booklet. In any event, the tax consequences for shareholders will depend upon their individual circumstances. If in any doubt, shareholders should consult their own professional adviser.

The non-Australian taxation implications for non-Australian resident AGL Energy shareholders will depend on the country of domicile of the shareholder. Non-Australian residents should seek their own taxation advice in relation to the taxation consequences of the Demerger.

6.11 Shareholder Decision

Grant Samuel has been engaged to prepare an independent expert's report setting out whether in its opinion the Demerger is in the best interests of shareholders and to state reasons for that opinion. Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Demerger, the responsibility for which lies with the directors of AGL Energy.

In any event, voting for or against the Demerger is a matter for individual shareholders based on each shareholder's views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the Demerger, shareholders should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in AGL Energy, AGL Australia or Accel Energy. These are investment decisions upon which Grant Samuel does not offer an opinion and are independent of a decision on whether to vote for or against the Demerger. Shareholders should consult their own professional adviser in this regard.

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7 Impact on AGL Energy's Ability to Pay its Creditors

7.1 Purpose and Scope

If the Demerger is approved, AGL Energy will undertake a capital reduction of $4.74 per share which will result in a reduction in AGL Energy's shareholders' funds by approximately $3.2 billion. It will not be distributed in cash but, instead, will be used on behalf of shareholders as consideration for shares in AGL Australia.

Grant Samuel has been requested to express an opinion as to whether the capital reduction associated with the Demerger materially prejudices AGL Energy's ability to pay its existing creditors. The purpose of the opinion is to support the statement by the Directors of AGL Energy in the Demerger Booklet.

Strictly, the question applies only to the head company (i.e. AGL Energy Limited) but, as it is party to a deed of cross guarantee (see below), the issue needs to be addressed in terms of the whole group. While the position of, and the effect on, each creditor of AGL Energy will depend on the nature of their exposure, the particular entity with which they have contracted, the nature of any security they hold (e.g. lessors) and the term of their credit, the question of a company's ability to pay creditors is, in Grant Samuel's view, best dealt with in terms of the aggregate corporate group's ability to pay (rather than individual subsidiaries or groups of subsidiaries).

7.2 Guarantees

7.2.1 Current Status

Creditors of AGL Energy are subject to two key sets of arrangements:

- **Deeds of Cross Guarantee**

  AGL Energy Limited and the vast majority of its wholly owned subsidiaries are parties to a deed of cross guarantee under which each company guarantees the debts of the others in the event of their winding up (the "Primary Closed Group").

  Separately, there is another deed of cross guarantee between AGL Generation Pty Limited and its wholly owned subsidiaries and three entities related to the Loy Yang power station (in which AGL Generation Pty Limited holds a 25% interest, with the other 75% interest separately owned by AGL Generation HoldCo Pty Limited ("the Loy Yang Closed Group").

  There are only two subsidiaries (NGSF Finance Trust and NGSF Operations Trust) that are not part of one or other closed group;

- **Guarantor Group/Negative Pledge Arrangements**

  The existing syndicated facility agreement program:

  - has a guarantor group (which is required to include subsidiaries which represent not less than 85% of group EBITDA and 90% of group assets);
  - includes negative pledge style provisions which are subject to customary carveouts; and
  - contains financial covenants in relation to leverage (net borrowings/EBITDA) and interest cover.

7.2.2 Impact of the Demerger

The Demerger will result in two independent corporate groups, AGL Australia and Accel Energy.

The Primary Closed Group will be adjusted to reflect the excision of AGL Australia and its subsidiaries. The outstanding share in AGL Generation HoldCo Pty Limited will also be acquired and the Loy Yang Closed Group entities will be joined into the (adjusted) Primary Closed Group.

AGL Australia will enter into a new deed of cross guarantee that will cover AGL Australia Limited itself (i.e. the parent company) and its wholly owned subsidiaries.

Both AGL Australia and Accel Energy have put in place guarantor groups and negative pledge arrangements under their respective banking arrangements which allow for the same kind of liquidity flexibility as the existing AGL Energy arrangement. They also include minimum requirements that the guarantor entities represent at least 90% of EBITDA and total assets (except for 85% of EBITDA in the case of AGL Australia).

7.2.3 Approach to Evaluation

The concern relating to a capital reduction materially prejudicing the ability to pay creditors arises because:

- existing creditors will have formed their own views about whether or not to extend credit to AGL Energy, at least in part, on the basis of AGL Energy's existing financial parameters including operating cash flows (e.g. quantum and volatility) and capital structure (e.g. the amount of shareholders' equity and the degree of financial leverage); and
- capital reductions (which are traditionally cash returns to shareholders) change the risk profile for a creditor by changing the financial position of the entity or group. Specifically, they:
  - reduce shareholders' funds (i.e. equity capital);
  - reduce cash resources and/or increase debt; and
  - reduce net operating cash flows (reduced interest income and/or increased interest expense).

Accordingly, there is a concern as to whether creditors interests have been materially adversely impacted by a capital reduction. However, the question in relation to a capital reduction in connection with a "clean" demerger is different:

- there is no cash return to shareholders (i.e. no cash is removed from the group except for transaction and implementation costs). Net debt is simply being split between two new corporate groups; and
- some AGL Energy group creditors will remain creditors of AGL Energy (and its subsidiaries), operating as Accel Energy. Others will become creditors of AGL Australia (and its subsidiaries). It is therefore not just a question of the impact on the continuing entity (i.e. AGL Energy/Accel Energy) but also the position of creditors of the demerged entity (AGL Australia).

As no capital (other than transaction costs) is removed from the group, the critical issue for creditors in a demerger is how the existing financial indebtedness of the group has been allocated between the two new groups and whether or not:

- the allocation fairly balances and reflects differences between the two groups in terms of their overall creditworthiness and, in particular, factors such as:
  - cash flow generating capacity (e.g. EBITDA, working capital and capital expenditure requirements); and
  - cash flow stability (e.g. sensitivity to macroeconomic factors, competitive environment and market dynamics); and
- the allocation endangers the financial sustainability of either group.

7.3 Analysis and Conclusion

In the case of the Demerger:

- aggregate operating cash flows across the two businesses is not materially changed by the Demerger. There are incremental cash operating costs estimated at approximately $35 million across Accel Energy and AGL Australia but it is anticipated that these will be able to be offset through ongoing

efficiency drives that are enabled by the Demerger. Implementation costs yet to be incurred at the time of the meeting to vote on the Demerger are approximately $100 million;

- the majority of borrowings has been allocated to AGL Australia ($2.0 billion pro forma net borrowings as at 31 December 2021). This allocation reflects:
  - the relatively stable earnings over the past few years particularly in the retail segment of the business. While that segment is highly competitive, AGL Australia has maintained its strong market share and has reported steady revenue (at circa $8.5-9.0 billion) with EBITDA margins of 4-5%. Supply and Trading segment EBITDA is more volatile and has declined in FY21 and HY22 due to legacy contracts, lower electricity prices and reduced demand. However, it is expected to be more stable going forward; and
  - lower capital intensity and stronger cash flows. Total capital expenditure over the last 3½ years has been in the order of 3% of revenue and less than 50% of EBITDA. Sustaining capital expenditure is estimated to be closer to 15-20% of EBITDA. Pro forma free cash flow since FY19 (after interest and tax) has averaged $220 million per annum.

  The AGL Australia facilities include:
  - $2,015 million of cash advance and working capital facilities that have a five year term;
  - $752 million of USPP Notes that have been transferred from AGL Energy. The notes mature progressively between 2022 and 2031; and
  - $425 million of bank guarantee facilities.

  Based on the proforma FY21 results and the proforma financial position at 31 December 2021, the key credit metrics for AGL Australia are:

AGL AUSTRALIA – KEY CREDIT METRICS

	POST DEMERGER PRO FORMA
Net borrowings (including lease liabilities)	$2,004 million
EBITDA/Finance Costs (FY21)	5.57 times
Leverage (net borrowings, based on HY22 EBITDA) [32,33]	4.99 times
Leverage (net borrowings, based on FY21 EBITDA) [32]	4.18 times
Gearing (31 December 2021)[34]	37%

SOURCE: Demerger Booklet and Grant Samuel analysis

These and other relevant credit metrics (such as FFO interest cover) are well within the covenants agreed with the banks that are providing the new debt facilities. AGL Australia has received a provisional Baa2 (equivalent to BBB) investment grade credit rating.

While some credit metrics are arguably on the "high side" (e.g. the leverage ratio is above 4 times), it is a less capital intensive business and it is expected that the ratio will come down over the next several years from free cash flow (after dividends);

- Accel Energy's pro forma net debt at 31 December 2021 was $753 million. This lower debt load reflects its more challenging business from a credit perspective given the rapidly changing environment in which it operates and its capital intensity. Capital expenditure over FY19-21 was between $450 and $500 million per annum (and represented 17% of revenue in FY21).

  The Accel Energy facilities that have been put in place include:
  - a $660 million syndicated loan facility that will amortise over seven years;
  - $51 million of CPI bonds amortising over five years;
  - $310 million of working capital facilities with a term of five years;

- $141 million of USPP notes with a term of seven years. The majority (nearly $120 million) will be amortising over the tenor of the note, while the remainder will require a bullet payment at maturity;
- $14 million of bilateral bank facility amortising over seven years; and
- $240 million of bank guarantee facilities.

Based on the proforma FY21 results and the proforma financial position at 31 December 2021, the key metrics are:

ACCEL ENERGY – KEY CREDIT METRICS

	POST DEMERGER PRO FORMA
Net borrowings (including lease liabilites) (31 December 2021)	$753 million
EBITDA/Finance Costs (FY21)	7.57 times
Leverage (net borrowings, based on HY22 EBITDA) [32,33]	0.76 times
Leverage (net borrowings, based on FY21 EBITDA) [32]	0.66 times
Gearing (31 December 2021)[34]	21%

Source: Demerger Booklet and Grant Samuel analysis

These credit metrics are also well within the covenants agreed with the banks providing Accel Energy's new debt facilities. Accel Energy is anticipated to receive a Baa3 (equivalent to BBB–) investment grade credit rating, a notch lower than AGL Energy's current rating. The lower rating reflects Accel Energy's reduced size and diversification and its carbon intensity. Its credit metrics on their own would support a better rating.

The financial strategy is to utilise the cash flows from Accel Energy's existing operations to substantially pay down the term debt by 2030. This strategy is premised on Accel Energy being able to fund its planned renewable projects and energy hubs through the proposed ETIP utilising:

- Accel Energy's equity contribution (for approximately 51%);
- GIP's equity contribution (for approximately 49%); and
- non recourse project debt funding.

The funding of these projects is expected to occur progressively over several years;

- both entities have committed term debt facilities as well as unutilised capacity within those facilities:

AGL AUSTRALIA AND ACCEL ENERGY – UNDRAWN FACILITIES ($ MILLIONS)

	AGL AUSTRALIA	ACCEL ENERGY
Total facilities (excluding leases and bond guarantees)	2,767	1,176
Pro forma gross borrowings at 31 December 2021 (excluding leases)	2,134	966
Undrawn facilities	**633**	**210**

Source: AGL Energy, Demerger Booklet and Grant Samuel analysis

Accel Energy will have an additional source of liquidity through its 15% holding in AGL Australia (pro forma book value at 31 December 2021 of $513 million) which is available to:

- contribute towards Accel Energy's share of the equity funding required for the ETIP; and
- meet any other pressing needs for cash (e.g. if the generation business underwent a period of significant underperformance).

In fact, it can be argued that the additional equity (and liquidity) created by this retained shareholding means that creditors across the combined groups are definitionally better off than they are under the status quo (even after costs);

- the providers of the new bank loan facilities to both Accel Energy and AGL Australia and the USPP Noteholders who have agreed to the effective transfer of the notes to AGL Australia and the new USPP Noteholders in Accel Energy are by far the largest creditors of the two demerged entities. They have made their own judgements as to the financial risk of each entity in full knowledge of their positions as creditors of the respective post Demerger groups and the impact of the Demerger. The bank loan facilities and the USPP Notes are all unsecured (although subject to negative pledge style provisions which are subject to customary carveouts) and therefore lenders are in the same position as all trade and other creditors. These funding commitments are effectively "third party endorsements" and suggest that the financial gearing of AGL Australia and Accel Energy is sustainable and that the companies have the financial capacity to pay their respective creditors; and
- as substantial listed companies, AGL Australia and Accel Energy would, if necessary, have access to the public equity markets to raise funds to support creditor payments (although there is absolutely no indication that this might be required).

In summary, the financial indebtedness appears to have been fairly allocated so that there is no obvious disadvantage to creditors of either group.

Accordingly, in Grant Samuel's opinion, the capital reduction associated with the Demerger does not materially prejudice the ability of AGL Energy to pay its existing creditors.

7.4 Other Factors

Other factors relevant to creditors include the following:

- most trade creditors are short term in nature (i.e. typically repayable within 60 days at any point in time) and accordingly, their existing debts will be repaid within, say, 2-3 months and they will have the opportunity at the time of implementation of the Demerger to reassess for themselves whether they wish to continue to grant credit to AGL Australia or Accel Energy.

  In this respect, the primary trade creditors at risk from the Demerger are those with exposures that are medium to longer term in nature. This includes lessors who had lease liabilities of $130 million (AGL Australia) and $23 million (Accel Energy) on a pro forma basis at 31 December 2021. However, lessors are protected through ownership of the underlying assets (e.g. properties); and
- the directors of AGL Energy have stated that in their opinion, the capital reduction will not materially prejudice AGL Energy's ability to pay its existing creditors.

7.5 Disclaimer

This opinion is provided solely for the benefit of the directors of AGL Energy to support their statement in the Demerger Booklet. Grant Samuel has no duty to creditors and makes no warranty, express or implied, as to the potential recoverability of existing or contingent debts owed by AGL Energy at the date of this report or at any subsequent time.

Grant Samuel's opinion relates only to the impact of the Demerger on AGL Energy's ability to pay its existing creditors. Future creditors can (and should) undertake their own investigations of the financial positions of AGL Australia and Accel Energy before advancing credit.

8 Qualifications, Declarations and Consents

8.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 580 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Stephen Wilson MCom (Hons) CA SF Fin and Jaye Gardner BCom LLB (Hons) CA SF Fin GAICD. Each has over 30 years of experience in relevant corporate advisory matters. Shaun Yu BBA CFA and Mitchell Skene BEng (Hons) BCom assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

8.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Demerger is in the best interests of shareholders and whether the capital reduction associated with the Demerger materially prejudices AGL Energy's ability to pay its existing creditors. Grant Samuel expressly disclaims any liability to any AGL Energy shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever (including creditors).

Grant Samuel has had no involvement in the preparation of the Demerger Booklet issued by AGL Energy and has not verified or approved any of the contents of the Demerger Booklet. Grant Samuel does not accept any responsibility for the contents of the Demerger Booklet (except for this report).

Grant Samuel has had no involvement in AGL Energy's due diligence investigation in relation to the Demerger Booklet and does not accept any responsibility for the completeness or reliability of the process which is the responsibility of AGL Energy.

8.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with AGL Energy or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Demerger.

Grant Samuel had no part in the formulation of the Demerger. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of $850,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Demerger. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

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8.4 Declarations

AGL Energy has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving negligence or wilful misconduct by Grant Samuel. AGL Energy has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where Grant Samuel or its employees and officers are found to have been negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action. Any claims by AGL Energy are limited to an amount equal to the total fees paid to Grant Samuel.

Advance drafts of this report were provided to AGL Energy. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

8.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Demerger Booklet to be sent to shareholders of AGL Energy. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

8.6 Other

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

6 May 2022

Grant Samuel & Associates

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APPENDIX 1

BACKGROUND ON DEMEGERS AND SPIN-OFFS

1 Overview

A "demerger" or "spin-off" is generally understood to be a pro-rata transfer of shares in a wholly owned subsidiary to shareholders of the parent company. The broad principle underlying demergers is that sharemarkets do not reward corporate diversification unless there are substantial synergies available to a corporate holder of a diversified portfolio of assets or there is some other strategic rationale. Investors can achieve diversification themselves and it is generally accepted that investors prefer the investment flexibility resulting from the separation of assets into separate companies that have relatively focused businesses. Consequently, demergers have typically been undertaken to create investment opportunities with a single geographic focus, a single industry focus or a single product focus. However, demergers may be undertaken for a variety of strategic reasons.

A pure demerger involves the transfer to existing shareholders of 100% of the shares in the subsidiary and there is no dilution of equity or transfer of ownership from the current shareholders. There are a number of variants that are also loosely referred to as demergers including:

- a partial demerger, where the parent distributes a portion of its interest in the subsidiary's shares to existing shareholders and either retains the remaining shares for a period or sells them immediately through an initial public offering ("IPO") or other sale process. The portion distributed could be a majority (>50%) or minority (<50%) interest. The carved-out subsidiary has its own board, management and financial statements while the parent company may provide strategic direction or central resources. The level of influence by the parent will reflect the interest retained and other factors;
- an equity carve-out, where the parent company sells a portion of a subsidiary's shares (usually less than 50%) through an IPO. Similar to a partial demerger, the carved-out subsidiary will have its own board, management and financial statements while the parent company provides strategic direction and central resources; and
- a divestiture IPO, where 100% of the shares in the subsidiary are sold to the public, often with some kind of preferential rights offered to the parent company shareholders.

The use of demergers as a method of divesting a subsidiary has become a common feature of equity markets. Demergers implemented in Australia from 2010 include:

SELECTED RECENT DEMERGERS IN AUSTRALIA[1]

DATE[2]	PARENT	BUSINESS/ MARKET FOCUS	DEMERGED ENTITY	BUSINESS/ MARKET FOCUS	% DEMERGED
Oct 2021	Liontown Resources Limited	Mineral exploration (lithium)	Minerals 260 Limited	Mineral exploration (gold, nickel, copper)	100%
Jul 2021	Sunrise Energy Metals Limited	Mineral exploration	Clean TeQ Water Limited	Water treatment solutions	100%
Jun 2021	Woolworths Group Limited	Food and everyday needs	Endeavour Group Limited	Retail drinks and hospitality	70.8%

[1] The following demergers have been excluded from the table:
- a number of small demergers involving companies primarily in the resources sector;
- the June 2013 demerger of the publishing business of News Corporation (now renamed Twenty-First Century Fox Inc.) from News Corporation as both are United States listed companies with secondary listings on the ASX; and
- Reckon Limited's August 2017 demerger of GetBusy plc on the AIM Market of the London Stock Exchange which also involved a £3 million capital raising for working capital purposes.

[2] Implementation date (i.e. when trading commenced as separate entities).

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SELECTED RECENT DEMERGERS IN AUSTRALIA[1] (CONT)

DATE[2]	PARENT	BUSINESS/ MARKET FOCUS	DEMERGED ENTITY	BUSINESS/ MARKET FOCUS	% DEMERGED
Nov 2020	Home Consortium	Property ownership, development and management (diversified)	HomeCo Daily Needs REIT	Property ownership (convenience focused assets)	50%
Oct 2020	Iluka Resources Limited	Mineral sands and rare earths	Deterra Royalties Limited	Resources (iron ore) royalty	80%
Oct 2020	Cassini Resources Limited	Base and precious metals development and exploration	Caspin Resources Limited	Mineral exploration	100%
Jul 2020	Alkane Resources Limited	Gold production and exploration	Australian Strategic Materials Limited	Critical materials	100%
Jun 2020	TPG Telecom Limited	Telecommunication services	Tuas Limited	4G mobile network in Singapore	100%
Mar 2020	GrainCorp Limited	Grain handling, storage, trading and processing	United Malt Group Limited	Commercial malt manufacture	90%
Oct 2019	Cardno Limited	Consulting	Intega Group Limited	Quality testing and measurement	100%
Jul 2019	Gindalbie Metals Limited	Iron ore exploration	Coda Minerals Limited	Copper-cobalt exploration	100%
Nov 2018	Wesfarmers Limited	Conglomerate	Coles Group Limited	Supermarket, liquor, convenience, financial services businesses	85%
Jun 2018	Westfield Corporation	Shopping centre development, management and ownership	OneMarket Limited	Retail technology	100%[3]
Nov 2017	Fairfax Media Limited	Media	Domain Holdings Australia Limited	Online property	40%
Dec 2016	Metals X Limited	Base metals	Westgold Resources Limited	Gold	100%
Jun 2016	APN News & Media Limited (renamed HT&E Limited)	Media and entertainment (Australia)	NZME Limited	Media and entertainment (New Zealand)	100%
Feb 2016	National Australia Bank Limited	Banking (Australia and New Zealand)	CYBG plc	Banking (United Kingdom)	75%
May 2015	BHP Billiton	Resources	South32 Limited	Metals and mining	100%
Dec 2013	Amcor Limited	Flexible and rigid plastics packaging (global)	Orora Limited	Diversified packaging (Australasia) and packaging distribution (North America)	100%
Dec 2013	Brambles Limited	Pallet and container pooling solutions	Recall Holdings Limited	Document management	100%
Jun 2011	Tabcorp Holdings Limited	Wagering, gaming and keno	Echo Entertainment Group Limited	Casinos	100%
May 2011	Foster's Group Limited	Beer	Treasury Wine Estates Limited	Wine	100%
Jul 2010	Orica Limited	Mining services, chemicals	DuluxGroup Limited	Coatings and home improvement products	100%
Jul 2010	Arrow Energy Limited	Coal seam gas (Australia)	Dart Energy Limited	Coal seam gas (international)	100%
Jan 2010	Macquarie Infrastructure Group (renamed Intoll Group)	Toll roads	Macquarie Atlas Roads Group	Toll roads	100%

Source: IRESS

[3] While 100% of OneMarket Limited was demerged, OneMarket Limited only owned 90% of the OneMarket business with the remaining 10% retained by Westfield Corporation and acquired by Unibail-Rodamco SE as part of its acquisition of Westfield Corporation.

Notably, the majority of demergers in Australia have involved distributing 100% of the subsidiary entity and in most other cases the balance was a minority interest that was either sold through other means or retained for a limited period[4]. However, partial demergers have occurred in Australia and other jurisdictions.

There has also been a number of high profile divestiture IPOs in Australia from 2010 including:

SELECTED RECENT DIVESTITURE IPOS IN AUSTRALIA

DATE	PARENT	BUSINESS/ MARKET FOCUS	DEMERGED ENTITY	BUSINESS/ MARKET FOCUS	% DIVESTED
Dec 2012	Woolworths Limited	Retail	Shopping Centres Australasia Property Group	Property ownership	100%
Dec 2011	Fairfax Media Limited	Media	Trade Me Group Limited	Online classifieds in New Zealand	34%
Dec 2010	Westfield Group	Shopping centre development, management and ownership	Westfield Retail Trust	Property ownership	100%

Source: IRESS

The outcome is similar whether the transaction is undertaken by way of a distribution of shares or an IPO. For example, Fairfax Media Limited's IPO of a 34% interest in Trade Me Group Limited in December 2011 created a standalone company (albeit controlled by Fairfax Media until it sold its residual 51% interest in December 2012).

The benefits typically cited for demergers largely revolve around the differences in business focus or strategic direction between the parent company and the demerged entity. However, at the same time there are a number of disadvantages, potential risks and costs associated with demergers. The primary issues raised are listed below:

ISSUES ASSOCIATED WITH DEMERGERS

ADVANTAGES/BENEFITS	DISADVANTAGES/RISKS/COSTS
• transparency • investor attraction and interest • enhanced flexibility to shareholders • clarity in capital allocation • flexibility in raising capital • independence and strategic flexibility to undertake growth initiatives • better targeted incentives and management/board focus	• loss of synergies • transaction costs • duplication of corporate costs • increased financing costs • loss of diversification and scale • reduced sharemarket liquidity and rating in key indices

[4] In relation to the less than 100% Australian demergers from 2010:

- Woolworths Group Limited owned an 85.4% interest in Endeavour Group Limited, with Bruce Mathieson Group holding the remaining 14.6% interest. Woolworths Group Limited demerged a 70.8% interest in Endeavour Group Limited and retained the remaining 14.6% interest. There are no restrictions on Woolworths Group Limited's ability to sell its shareholding;
- Home Consortium retained a 50% interest in HomeCo Daily Needs REIT at demerger which was subject to a one year voluntary escrow arrangement. In addition, in conjunction with the demerger, HomeCo Daily Needs REIT issued 228 million units to raise $300 million, reducing the interests of Home Consortium and Home Consortium shareholders to 27% each;
- Iluka Resources Limited retained a 20% interest in Deterra Royalties Limited at demerger as a long term investment although there are no restrictions on its ability to sell this shareholding (e.g. escrow arrangements);
- GrainCorp Limited retained a 10% interest in United Malt Group Limited at demerger although there are no restrictions on its ability to sell this shareholding (e.g. escrow arrangements);
- Wesfarmers Limited retained a 15% interest in Coles Group Limited at demerger on the basis that it provided an alignment of interests (given ongoing contractual arrangements and joint ownership of *flybuys*) and demonstrated its confidence in the business. Wesfarmers Limited sold a 4.9% interest in Coles Group Limited on market in February 2020 and sold a further 5.2% interest on market in March 2020, reducing its remaining interest to 4.9%;
- Fairfax Media Limited retained a controlling 60% interest in Domain Holdings Australia Limited at separation; and
- National Australia Bank sold the residual 25% interest in CYBG plc via an IPO at the time of the demerger.

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There is little definitive evidence as to whether or not demergers have been successful in enhancing shareholder value, largely because it is not possible to measure what the share prices would have been had the demergers not occurred (i.e. there is no counterfactual) and most of the academic studies relate to demergers in the United States or in Europe. Some of the evidence and views that have emerged are summarised below:

- several studies[5] have found that there was a positive impact on the share price (of around 3-6%) at the time of announcement (with a similar rise occurring where there was a targeted share or equity carve-out). One study[6] found that the positive impact on share price is lower in Australia (2.93%) than studies indicate for the United States market. Another study has shown that, in some circumstances, there is no decline in share price even if the demerger is ultimately withdrawn[7];
- several studies[8] have also found significantly positive abnormal returns over an extended period (of up to three years) following the demerger for the demerged company, the parent and the demerged company/parent combination. On the other hand, one study[9] found that demergers only delivered long term value benefits for the demerged subsidiary (and not the parent) and another study[10] found significant evidence that spin-offs create more value than carve-outs. In particular, recent studies[7,11] report weak evidence for long term wealth effects when using more refined measuring techniques;
- one analyst report[12] found that following a demerger, where the resulting entities are relatively similar in size, both entities generally underperform the market for a period of approximately six months. In the long term however, both stocks tend to outperform the market (implying that the market awaits a reporting period before committing to the new entities). In comparison, where the subsidiary is much smaller than the parent, the demerged entity is typically a strong outperformer while the parent moves with the market; and
- some of the reasons found to be associated with positive abnormal returns have included:
  - corporate restructuring activity[13]. Both the demerged subsidiary and the parent experience an unusually high incidence of takeovers in comparison to their control group comparable companies. The abnormal performance is limited to companies involved in takeover activity. The findings suggest that demergers provide a low-cost method of transferring control of corporate assets to bidders who are able to create greater value. This benefit will not apply in the case of partial spin-offs where the parent company retains control of the spun out entity;

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5 See for example: P.L. Anslinger, S.J. Klepper and S. Subramaniam, "Breaking up is good to do", The McKinsey Quarterly, 1999 Number 1; Thomas Kirchmaier, "The Performance Effects of European Restructures", Centre for Economic Performance, London School of Economics and Political Science, May 2003; UBS Investment Research, "Q-Series: Spin-offs and restructures", UBS Limited, 14 April 2005, Roger Rüdisüli, "Value Creation of Spin-offs and Carve-outs", Doctoral Dissertation, University of Basel (Switzerland), May 2005, CIMB Quantitative Research, "Spin-off Candidates", CIMB Securities (Australia) Ltd, September 2013, S. Zweiphenning, "Corporate Spin-Offs in the United Kingdom", Masters Thesis, Tilburg University, August 2014.

6 D. Chai, K. Lin and C. Veld, "Value-creation through spin-offs: Australian evidence", Australian Journal of Management, Vol 43, 2017.

7 K. Alli, G. Ramirez and K. Yung, "Withdrawn Spin-offs: An Empirical Analysis", The Journal of Financial Research, Winter 2001.

8 See for example: J. Wyatt, "Why Spinoffs Work for Investors", Fortune, October 16 1995, p72; P.J. Cusatis, J.A. Miles and J.R. Woolridge, "Restructuring Through Spin-outs, The Stock Market Evidence", Journal of Financial Economics, Volume 33 No. 3, June 1993, T.A. John, "Optimality of Spin-outs and Allocation of Debt" Journal of Financial and Quantitative Analysis, 1993, B.J. Hollowell, "The Long-Term Performance of Parent Firms and their Spin-offs", The International Journal of Business and Finance Research, Volume 3, No.1, 2009 and Morgan Stanley Asia Insight, "BHP Billiton Limited: A Detailed Look at South32", Morgan Stanley, April 2015.

9 Thomas Kirchmaier, "The Performance Effects of European Restructures", Centre for Economic Performance, London School of Economics and Political Science, May 2003.

10 Roger Rüdisüli, "Value Creation of Spin-offs and Carve-outs", Doctoral Dissertation, University of Basel (Switzerland), May 2005.

11 S. Zweiphenning, "Corporate Spin-Offs in the United Kingdom", Masters Thesis, Tilburg University, August 2014, N. Zakaria and G.C. Arnold, "Spin-off and Value Creation: The Case of Malaysia", 2014 and D. Boreiko and M. Murgia, "European Spin-offs: Origin, Value Creation, and Long-Term Performance", Draft Paper, Free University of Bolzano-Bozen, April 2013.

12 Macquarie Research Equities, "Australian Gas Light: Acquisitions, Restructures and Au Revoirs", 1 November 2005.

13 P.J. Cusatis, J.A. Miles and J.R. Woolridge, "Restructuring Through Spin-outs, The Stock Market Evidence", Journal of Financial Economics, Volume 33 No. 3, June 1993.

- mitigation of information asymmetry[14]. The hypothesis was that value would be enhanced if the demerged subsidiary is able to convey more information about its operating efficiency and future prospects when it is a separate entity than when it is part of a larger combined unit. The findings were that firms that engage in demergers have higher levels of information asymmetry compared to their industry and size matched counterparts and the information problems decrease significantly after the demerger as analyst scrutiny increases. The relationship is more pronounced for those companies that demerge related subsidiaries;
- increased management and board focus[15] translating into better operating and sharemarket performance. The abnormal returns for focus-increasing demergers are significantly larger than the corresponding abnormal returns for the non-focus-increasing demergers. A focus-increasing demerger reduces the diversity of assets under management and thereby increases the efficiency of management. However, an analysis of non-focus increasing demergers showed that companies are likely to undertake these demergers to separate underperforming subsidiaries from their parents with efficiency not being a major motivating factor. Indeed, positive returns after the demerger have been found to be due to pre-announcement sharemarket weakness;
- improved financing decisions[16]. Conglomerates tend to divide resources evenly between divisions thus investing too little in strong industries and too much in weaker industries. The study showed that capital expenditure showed greater sensitivity to changes in growth opportunities after a division became independent; and
- rebalancing of shareholdings by investors[17]. The study indicates that the ratio of continuing investors who choose to only hold one of the entities after spin-off is a significant predictor of abnormal returns. Therefore, it is differences in the opinions of shareholders about the relative prospects of the demerged entities which leads to excess returns rather than the business impacts of the transaction. This outcome is consistent with the thesis that separation will mean that each company will attract investors that are likely to value it the highest.

However, while finding a significant spin-off announcement effect, a recent study[4] concludes that none of these factors offers a solid explanation for the effect in Australia.

Grant Samuel has reviewed the relative performance of Australian companies that have undertaken demergers since 2000. While an admittedly imperfect basis of analysis and somewhat crude (given the wide range of factors that influence share prices), this review tends to support the thesis that demergers enhance shareholder value, particularly having regard to sharemarket performance one to two years after the demerger.

The following graph summarises the combined share price performance of the parent company and the demerged entity relative to the S&P/ASX 200 index, from last close prior to announcement to three months, one year and two years after the date the demerged entity was listed on the ASX for demergers from 2000 (with certain exclusions noted below the chart):

[14] S. Krishnaswami and V Subramaniam, "Information asymmetry, valuation and the corporate spin-out decision" Journal of Financial Economics, Volume 53, No. 1, July 1999.

[15] See for example: H. Desai and P.C. Jain, "Firm performance and focus: long-run stock market performance following spin-outs", Journal of Financial Economics, Volume 54, No. 1, October 1999 and L. Daley, V. Mehrotra and R. Sivarenmar, "Corporate Focus and Value Creation: Evidence from Spinoffs", Journal of Financial Economics, Volume 45, 1997.

[16] R. Gertner, E. Powers and D. Scharfstein, "Learning About Internal Capital Markets From Corporate Spinoffs", November 2000.

[17] T. Bhandari, "Differences of Opinion and Stock Prices: Evidence from Spin-Offs and Mergers", Draft Doctoral Dissertation at MIT Sloan School of Management, November 2013.

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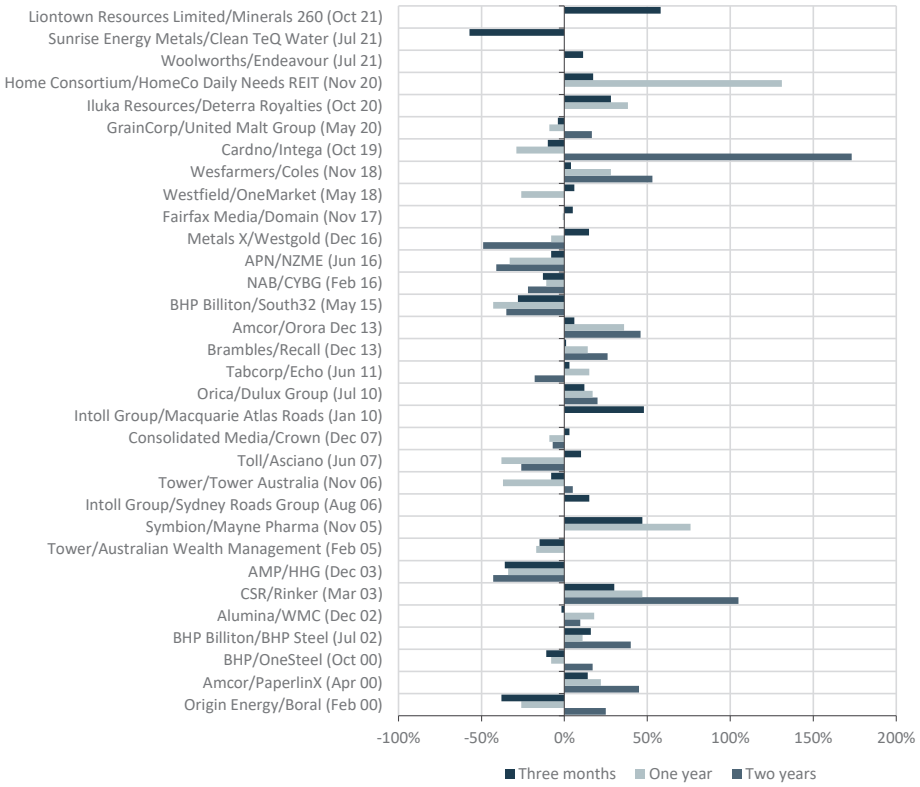
RETURNS OF SELECTED RECENT DEMERGERS VS S&P/ASX 200 INDEX

(MEASURED FROM LAST CLOSE BEFORE ANNOUNCEMENT TO PERIOD AFTER LISTING)



Source: IRESS

Notes:
(1) The share price performance from last close before announcement to listing is for the parent company. The share price performance subsequent to listing is the aggregated performance of the parent company and the demerged entity.
(2) No returns are shown in the chart for:
- Cassini Resources/Caspin Resources as Cassini Resources was acquired by OZ Minerals Limited on demerger;
- Alkane Resources/ASM as the ASM share price has increased substantially since the demerger on the back of production success. The three month and one year returns were 470% and 1,161% respectively;
- TPG Telecom/Tuas as the demerger of Tuas was undertaken in conjunction with the merger of TPG Telecom with Vodafone Hutchison Australia Limited;
- Gindalbie Metals/Coda Minerals as Gindalbie Metals was acquired by Angang Group Hong Kong (Holdings) Limited on demerger;
- Arrow Energy/Dart Energy as Arrow Energy was acquired by PetroChina Co. Ltd and Royal Dutch Shell plc on demerger; and
- Foster's Group/Treasury Wines as Foster's Group received a takeover offer from SABMiller plc within two months of the demerger.
(3) No one and two year returns are shown in the chart for:
- Liontown Resources/Minerals 260 which commenced trading separately on 12 October 2021;
- Sunrise Energy Metals/Clean TeQ Water which commenced trading separately on 2 July 2021;
- Woolworths/Endeavour which commenced trading separately on 24 June 2021;
- Intoll Group/Macquarie Atlas Roads as Intoll Group was acquired by CPPIB within one year of the demerger; and
- Intoll Group/Sydney Roads Group as Sydney Roads Group was acquired by Transurban Group within one year of demerger.
(4) No two year returns are shown in the chart for:
- Home Consortium/HomeCo Daily Needs REIT which commenced trading separately on 23 November 2020;
- Iluka Resources/Deterra Royalties which commenced trading separately on 23 October 2020;
- Westfield/Onemarket as Onemarket was delisted from the ASX on 2 December 2019;
- Fairfax Media/Domain as Fairfax Media was acquired by Nine Entertainment Co. Holdings Limited within two years of the separation;
- Symbion/Mayne Pharma as Mayne Pharma was acquired by Hospira Inc within two years of the demerger; and
- Tower/Australian Wealth Management as Tower demerged a second entity (Tower Australia) within two years of the demerger.

The above analysis indicates that the combined performance of demerged entities from announcement to immediately post demerger has been mixed, but that demerged entities have generally outperformed the

market within two years of listing[18]. However, this analysis must be treated with caution as, at best, it provides only a partial analysis of the market value consequences of demergers. In particular, it:

- does not fully reflect returns to shareholders following demerger as it either excludes entirely or only partially includes demergers where either the parent or demerged entity was acquired within two years of the demerger (e.g. Cassini Resources/Caspin Resources, Gindalbie Metals/Coda Minerals, Fairfax Media/Domain, Arrow Energy/Dart Energy, Foster's Group/Treasury Wines). In these cases, shareholders also benefited from receipt of control premia;
- does not reflect that some of the entities were either acquired (Cardno, Intega, Recall, Rinker, WMC Resources) or were involved in other corporate activity (Tower Australia, Australian Wealth Management) more than two years after, but within 3-4 years, of their demergers; and
- measures performance against an overall market index. The results may differ if performance is measured against a relevant sector index.

Furthermore, in many cases, significant underperformance or overperformance in the two years after listing reflects overall market conditions or factors specific to the demerging companies or the industries in which they operate and may not be attributable to the demerger itself. For example:

- AMP/HHG was impacted by a substantial write down in certain assets and a capital raising at a significant discount which were announced in conjunction with the demerger. The returns from this demerger measured from listing (rather than announcement) are positive;
- Tower/Tower Australia was impacted by the underperformance of the insurance sector relative to the market during 2007;
- Toll/Asciano was impacted by Asciano's need to reduce high gearing levels following the global financial crisis in 2008/2009;
- Consolidated Media/Crown was impacted by the underperformance of the media industry relative to the market following the global financial crisis in 2008/2009;
- Tabcorp/Echo was impacted by various legal and regulatory decisions relating to gambling and casino operations as well as competitive concerns;
- BHP Billiton/South32 was impacted by significant falls in commodity prices;
- NAB/CYBG was impacted by the 25% decline in NAB's share price from announcement of the demerger of CYBG in May 2015 to implementation in February 2016 as a result of a dilutive capital raising and the significant correction in global equities in August 2015;
- APN/NZME was impacted by the underperformance of the legacy media sector, the termination on regulatory grounds of the proposed merger of NZME with Stuff Limited (previously Fairfax New Zealand Limited) and the acquisition proposal received for NZME's Adshel business;
- MetalsX/Westgold was impacted by a sharp decline in the copper and gold prices in second half of 2018;
- the Wesfarmers/Coles wo year returns reflect the relatively limited impact of the COVID-19 pandemic on Coles' share price in particular in February/March 2020 (compared to the market as a whole); and
- the significantly positive two year returns for Cardno/Intega largely reflect corporate activity at both entities. Cardno announced a strategic review of the business in June 2021 (following several unsolicited approaches from interested parties) which resulted in the US$500 million sale of its Americas and Asia Pacific Consulting Divisions in October 2021. At the same time, Intega announced a

[18] This is supported by analysis by Goldman Sachs Australia in "Equity Strategy: Reviewing Large Cap Demerger Strategies", 15 February 2011; Bank of America Merrill Lynch in "Delivering Returns in Tough Times", 29 May 2013, Macquarie Securities (Australia) Limited in "Demergers: Breaking Up is Hard to Do", 14 June 2013 and CIMB Securities (Australia) Ltd in "Spin-off Candidates", 3 Sept 2013.

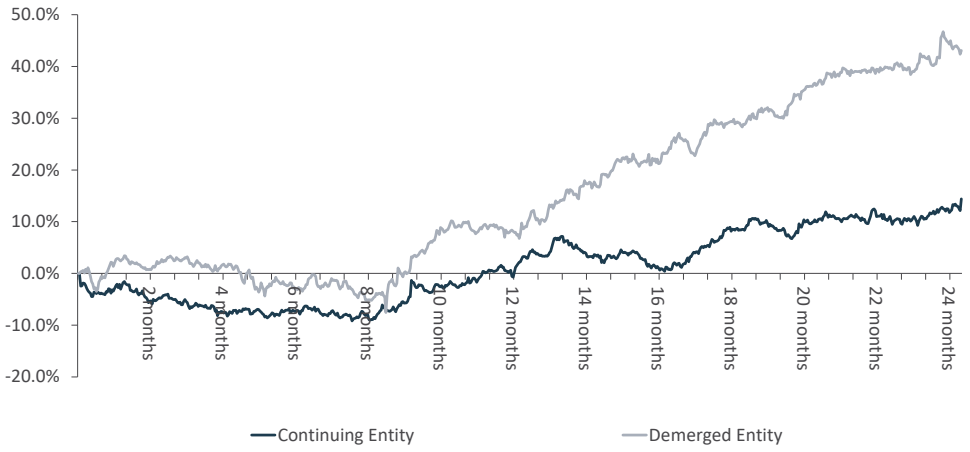
strategic review which culminated in the October 2021 announcement of the proposed acquisition of Intega by Kiwa N.V at $0.90 per share (a 58% premium to Intega's share price the day prior to announcement). Intega shareholders voted overwhelmingly in favour of the acquisition at a scheme meeting on 6 December 2021.

In addition, the one year returns for Home Consortium/HomeCo Daily Needs REIT were positively impacted by the establishment of a new HealthCo REIT by Home Consortium ($650 million equity raising), the successful $265 million equity raising by HomeCo Daily Needs REIT and a significant increase in assets under management of both entities, and the three month returns for Sunrise Energy Metals/Clean TeQ Water Limited reflect poor operating results for FY21 (largely driven by higher corporate costs).

Another way to assess the performance of demergers is to aggregate the data for all the entities. This analysis also indicates a significant level of outperformance, albeit over time. While the outperformance over the S&P/ASX 200 index is inconsequential over the first nine months post demerger, the benefits then begin to be steadily realised over the following 15 months. The relative outperformance over the S&P/ASX 200 index for the two year period is approximately 40% for the demerged entities and 15% for the continuing entities:

AGGREGATE DEMERGER PERFORMANCE RELATIVE TO S&P/ASX 200 INDEX

(MEASURED FROM DATE DEMERGER IMPLEMENTED)



Source: S&P Global Market Intelligence, Bloomberg and Grant Samuel analysis

Notes: (1) The relative performance calculation is based on the relative returns between the S&P/ASX 200 index and the average closing share prices of Continuing Entity and Demerged Entity measured from the date the demerger was implemented.

(2) No returns are shown in the chart for demergers that do not have two years of post demerger data i.e.:

- Liontown Resources/Minerals 260 which commenced trading separately on 12 October 2021;
- Sunrise Energy Metals/Clean TeQ Water which commenced trading separately on 2 July 2021;
- Woolworths/Endeavour which commenced trading separately on 24 June 2021;
- Home Consortium/HomeCo Daily Needs REIT which commenced trading separately on 23 November 2020;
- Iluka Resources/Deterra Royalties which commenced trading separately on 23 October 2020;
- Cassini Resources/Caspin Resources as Cassini Resources was acquired by OZ Minerals Limited on demerger;
- TPG Telecom/Tuas as the demerger of Tuas was undertaken in conjunction with the merger of TPG Telecom with Vodafone Hutchison Australia Limited;
- Gindalbie Metals/Coda Minerals as Gindalbie Metals was acquired by Angang Group Hong Kong (Holdings) Limited on demerger;
- Westfield/Onemarket as Onemarket was delisted from the ASX on 2 December 2019;
- Arrow Energy/Dart Energy as Arrow Energy was acquired by PetroChina Co. Ltd and Royal Dutch Shell plc on demerger;
- Foster's Group/Treasury Wines as Foster's Group received a takeover offer from SABMiller plc within two months of the demerger.
- Intoll Group/Sydney Roads Group as Sydney Roads Group was acquired by Transurban Group within one year of the demerger;
- Intoll Group/Macquarie Atlas Roads as Intoll Group was acquired by CPPIB within one year of the demerger;
- Fairfax Media/Domain as Fairfax Media was acquired by Nine Entertainment Co. Holdings Limited within two years of the separation;
- Tower/Australian Wealth Management as Tower demerged a second entity (Tower Australia) within two years of the demerger; and
- Symbion/Mayne Pharma as Mayne Pharma was acquired by Hospira Inc within two years of the demerger.

On the other hand, some studies have found that demergers may negatively impact value and that conglomerates have outperformed the market over some periods[19]. Conglomerate structures do have benefits including financial size and strength, better liquidity and higher index rating, lower earnings volatility and risk (if business units are not correlated in terms of economic cyclicality), greater depth of management and lower cost of capital (depending on other factors).

While the balance of evidence does favour demergers as adding value, the alternate views underline the fact that there is no universal structure for businesses. While some demergers create substantial value, others do not. In the end, the success of demergers depends on the specific circumstances of each case.

[19] Boston Consulting Group, "Conglomerates Reports", 2002.

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Section 9

Additional information

9. Additional information

9.1 AGL Energy Directors

The AGL Energy Directors at the date of lodgement of this Scheme Booklet for registration by ASIC are:

- Peter Botten AC, CBE (Chairman);
- Graeme Hunt (Managing Director and CEO);
- Jacqueline Hey;
- Diane Smith-Gander AO;
- Patricia McKenzie;
- Mark Bloom;
- Graham Cockroft; and
- Vanessa Sullivan.

9.2 Intention of directors

9.2.1 AGL Australia

Other than as disclosed in this Scheme Booklet, the AGL Australia Directors have indicated to the AGL Energy Board that it is their present intention following implementation of the Demerger to:

- continue the business of AGL Australia, as set out in Section 3.2;
- not make any major changes to the business of AGL Australia, except as contemplated within this Scheme Booklet; and
- continue the present policies of AGL Australia relating to the employment of its employees.

9.2.2 Accel Energy

Other than as disclosed in this Scheme Booklet, it is the present intention of the AGL Energy Board following implementation of the Demerger to:

- continue the business of Accel Energy, as set out in Section 4.2;
- not make any major changes to the business of Accel Energy, except as contemplated within this Scheme Booklet; and
- continue the present policies of AGL Energy relating to the employment of its employees.

9.3 Interests of AGL Energy and AGL Australia Directors

9.3.1 Interests

No marketable securities of AGL Energy are held by or on behalf of AGL Energy Directors or AGL Australia Directors as at the date of this Scheme Booklet other than the following interests:

Director	Number of AGL Energy Shares
Peter Botten AC, CBE	11,390
Graeme Hunt	30,475
Diane Smith-Gander AO	10,962
Graham Cockroft	20,000
Vanessa Sullivan	3,221
Patricia McKenzie	8,465
Christine Corbett	9,783
Jacqueline Hey	12,479
Mark Bloom	7,000

As at the date of this Scheme Booklet, no AGL Energy Director or AGL Australia Director holds any options over AGL Energy Shares. Graeme Hunt holds 297,374 AGL Energy Performance Rights and Christine Corbett holds 178,130 AGL Energy Performance Rights, both granted pursuant to AGL Employee Share Plans.

No marketable securities of AGL Australia are held by or on behalf of AGL Energy Directors or AGL Australia Directors as at the date of this Scheme Booklet.

AGL Energy Directors and AGL Australia Directors who hold AGL Energy Shares will be entitled to vote at the Meetings and receive AGL Australia Shares under the Demerger on the same terms as all other AGL Energy Shareholders.

9.3.2 Agreements or arrangements with AGL Energy Directors in connection with the Demerger

Other than the AGL Australia Directors' fee and indemnity arrangements referred to in Section 3.9, there are no agreements or arrangements made between any AGL Energy Director and any other person in connection with or conditional upon the outcome of the Demerger.

Other than as set out elsewhere in this Scheme Booklet, no director or proposed director of AGL Australia, and no firm in which a director or proposed director of AGL Australia is a partner or was a partner in the last two years, holds, or held at any time during the last two years before the date of this Scheme Booklet, any interest in:

- the formation or promotion of AGL Australia;
- any property acquired or proposed to be acquired by AGL Australia in connection with its formation or promotion or the Demerger; or
- the Demerger,

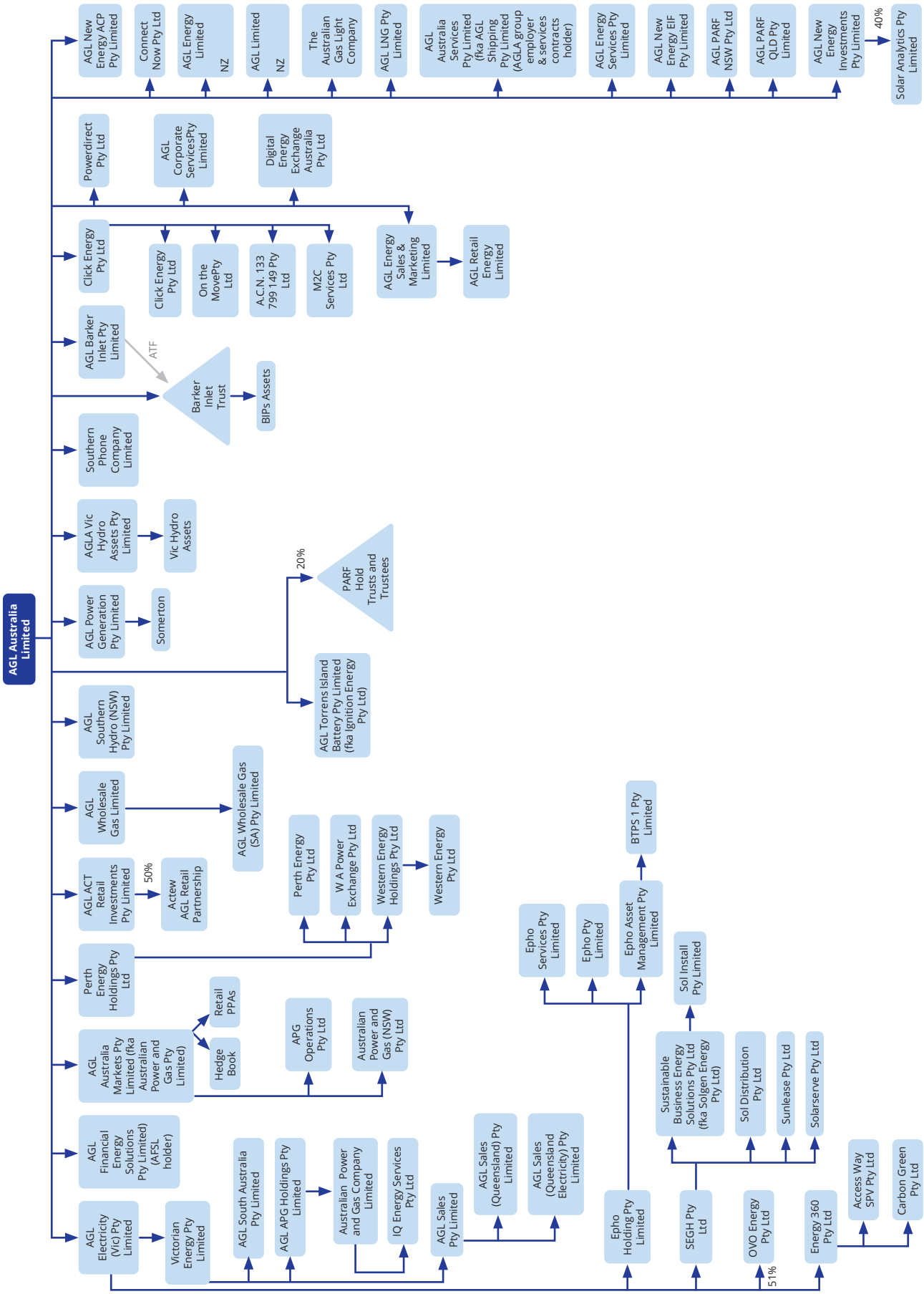
and no amounts (whether in cash or securities or otherwise) have been paid or agreed to be paid, and no one has given or agreed to give a benefit, to any director or proposed director of AGL Australia either to induce them to become, or to qualify them as, a director of AGL Australia, or otherwise for services rendered by them in connection with the formation or promotion of AGL Australia or the Demerger.

9.3.3 Payments and other benefits to AGL Energy Directors, secretaries or executive officers

It is not proposed that any payment or other benefit will be made or given to any AGL Energy Director, or secretary or executive officer of AGL Energy, or any related body corporate of AGL Energy, as compensation for loss of, or as consideration for or in connection with, his or her retirement from office as a director, secretary or executive officer of AGL Energy, or a related body corporate of AGL Energy as a consequence of, or in connection with, the Demerger.

9.4 AGL Australia Group structure

The AGL Australia corporate structure immediately after implementation is shown in the diagram below.



9.5 Overview of AGL Australia Constitution

9.5.1 Introduction

The rights and liabilities attaching to ownership of AGL Australia Shares arise from a combination of the AGL Australia Constitution, statute, the ASX Listing Rules and the general law.

A summary of the significant rights, liabilities and obligations attaching to the AGL Australia Shares and a description of other material provisions of the AGL Australia Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of AGL Australia Shareholders. The summary assumes that AGL Australia is admitted to the Official List.

9.5.2 Meetings of members

Each AGL Australia Shareholder is entitled to receive notice of, attend, and vote at, general meetings of AGL Australia and to receive all notices, accounts and other documents required to be sent to AGL Australia Shareholders under the AGL Australia Constitution, Corporations Act and ASX Listing Rules. AGL Australia must give at least 21 days' written notice of a general meeting.

The AGL Australia Board may determine to hold a general meeting using or with the assistance of any technology that gives the members, as a whole, a reasonable opportunity to participate. This facilitates general meetings being held at a physical location and/or by using technology.

9.5.3 Voting at a general meeting

At a general meeting of AGL Australia, every AGL Australia Shareholder present in person or by proxy, representative or attorney and entitled to vote is entitled to one vote on a show of hands and, on a poll, one vote for each AGL Australia Share held by the AGL Australia Shareholder (with adjusted voting rights for partly paid shares). If the votes are equal on a proposed resolution, the chairperson of the meeting has a casting vote in addition to any deliberative vote.

9.5.4 Dividends

The AGL Australia Board may pay any dividends that, in its judgement, the financial position of AGL Australia justifies. The AGL Australia Board may also pay any dividend required to be paid under the terms of issue of an AGL Australia Share and fix a record date for a dividend and method of payment.

9.5.5 Transfer of AGL Australia Shares

Subject to the AGL Australia Constitution and to any restrictions attached to an AGL Australia Share, AGL Australia Shares may be transferred by proper ASX Settlement and Transfer Corporation transfer effected in accordance with the ASX Settlement Operating Rules, Corporations Act and ASX Listing Rules or by a written transfer in any usual form or in any other form approved by the AGL Australia Board and permitted by the relevant laws and ASX requirements. The AGL Australia Board may decline to register, or prevent registration of, a transfer of AGL Australia Shares or apply a holding lock to prevent a transfer in accordance with the Corporations Act or the ASX Listing Rules.

9.5.6 Issue of further shares

The AGL Australia Board may, subject to the AGL Australia Constitution, Corporations Act and ASX Listing Rules issue, allot or grant options for, or otherwise dispose of, AGL Australia Shares on such terms as the AGL Australia Board decides.

9.5.7 Preference shares

AGL Australia may issue preference shares including preference shares which are, or at the option of AGL Australia or a holder are, liable to be redeemed or convertible to AGL Australia Shares. The rights attaching to preference shares are those set out in the AGL Australia Constitution unless other rights have been approved by special resolution of AGL Australia.

9.5.8 Winding up

If AGL Australia is wound up, then subject to the AGL Australia Constitution, the Corporations Act and any rights or restrictions attached to any AGL Australia Shares or other classes of shares, AGL Australia Shareholders will be entitled to a share in any surplus property of AGL Australia in proportion to the number of shares held by them.

If AGL Australia is wound up, the liquidator may, with the sanction of a special resolution, divide among the AGL Australia Shareholders the whole or part of AGL Australia property and decide how the division is to be carried out as between AGL Australia Shareholders or different classes of AGL Australia Shareholders.

9.5.9 Non-marketable parcels

In accordance with the ASX Listing Rules, the AGL Australia Board may sell AGL Australia Shares that constitute less than a marketable parcel by following the procedures set out in the AGL Australia Constitution. A marketable parcel of AGL Australia Shares is defined in the ASX Listing Rules and is generally a holding of AGL Australia Shares with a market value of not less than $500.

9.5.10 Proportional takeover provisions

The AGL Australia Constitution contains provisions requiring AGL Australia Shareholder approval in relation to any proportional takeover bid. These provisions will cease to apply unless renewed by AGL Australia Shareholders passing a special resolution by the third anniversary of either the date those rules were adopted or the date those rules were last renewed.

9.5.11 Variation of class rights

The procedure set out in the AGL Australia Constitution must be followed for any variation of rights attached to the AGL Australia Shares. Under the AGL Australia Constitution, and subject to the Corporations Act and the terms of issue of a class of shares, the rights attached to any class of shares may be varied:

- with the written consent of the holders of 75% of the shares of the class; or
- by a special resolution passed at a separate meeting of the holders of shares of the class.

9.5.12 Directors – appointment and retirement

Under the AGL Australia Constitution, the number of directors shall be a minimum of three directors and a maximum of eight directors, unless AGL Australia resolves otherwise at a general meeting. Directors are elected or re-elected at general meetings of AGL Australia.

No AGL Australia Director (excluding the CEO) may hold office without re-election beyond the third annual general meeting following the meeting at which that director was last elected or re-elected. The AGL Australia Board may also appoint any eligible person to be an AGL Australia Director, either to fill a casual vacancy on the AGL Australia Board or as an addition to the existing directors, who will then hold office until the conclusion of the next annual general meeting of AGL Australia following their appointment.

A person is eligible for election to the office of an AGL Australia Director at a general meeting if they are nominated or recommended by the AGL Australia Board or not less than the number of AGL Australia Shareholders required to give notice of a resolution under the Corporations Act (subject to timing requirements).

9.5.13 Directors – voting

Questions arising at a meeting of the AGL Australia Board must be decided by a majority of votes of the AGL Australia Directors present at the meeting and entitled to vote on the matter. In the case of an equality of votes on a resolution, the chairperson of the meeting has a casting vote in addition to his or her deliberative vote, unless there are only two AGL Australia Directors present or entitled to vote, in which case the chairperson of the meeting does not have a second or casting vote and the proposed resolution is taken as lost.

A written resolution of the AGL Australia Board may be passed without holding a meeting of the AGL Australia Board, if all of the eligible AGL Australia Directors sign or consent to the resolution.

9.5.14 Directors – remuneration

Under the AGL Australia Constitution, the AGL Australia Board may decide the remuneration to which each AGL Australia Director is entitled for his or her services as a director. The total aggregate amount provided to all Non-Executive Directors for their services as directors must not exceed in any financial year the amount fixed by AGL Australia in general meeting. The remuneration of an AGL Australia Director (who is not the CEO or an Executive Director) must not include a commission on, or a percentage of, profits or operating revenue. The current maximum aggregate sum of Non-Executive Director remuneration is set out in Section 3.9.2. Any change to that maximum aggregate amount needs to be approved by AGL Australia Shareholders.

AGL Australia Directors are entitled to be paid for all travelling and other expenses incurred in attending to AGL Australia's affairs, including attending and returning from general meetings of AGL Australia, meetings of the AGL Australia Board or AGL Australia Board committees. Any AGL Australia Director who performs extra services, makes any special exertions for the benefit of AGL Australia or otherwise performs services, which, in the opinion of the AGL Australia Board, are outside the scope of ordinary duties of a Non-Executive Director, may be remunerated for the services (as determined by the AGL Australia Board) out of the funds of AGL Australia.

AGL Australia Directors' remuneration is discussed further in Section 3.9.

9.5.15 Power and duties of AGL Australia Directors

The business and affairs of AGL Australia are to be managed by or under the direction of the AGL Australia Board, which (in addition to the powers and authorities conferred on it by the AGL Australia Constitution) may exercise all powers and do all things that are within the power of AGL Australia and that are not required by law or by the AGL Australia Constitution to be done by AGL Australia in general meeting.

9.5.16 Access to records

AGL Australia may enter into contracts with an AGL Australia Director or former AGL Australia Director agreeing to provide continuing access, for a specified period after the AGL Australia Director ceases to be a director of AGL Australia, to AGL Australia Board papers, books, records and documents which relate to the period during which the director or former director was an AGL Australia Director on such terms and conditions as the AGL Australia Board thinks fit. AGL Australia may procure that its Subsidiaries provide similar access to board papers, books, records or documents.

9.5.17 Indemnities

AGL Australia must indemnify each officer of AGL Australia on a full indemnity basis and to the full extent permitted by law against all losses, liabilities, costs, charges and expenses incurred by that person as an officer of AGL Australia or of a related body corporate.

AGL Australia may, to the extent permitted by law, purchase and maintain insurance or pay, or agree to pay, a premium for insurance for each officer of AGL Australia against any liability incurred by that person as an officer of AGL Australia or of a related body corporate, including but not limited to liability for negligence or for reasonable costs and expenses incurred in defending or responding to proceedings (whether civil or criminal and whatever the outcome).

9.5.18 Amendment

The AGL Australia Constitution can only be amended by special resolution passed by at least three quarters of the votes cast by AGL Australia Shareholders present (in person or by proxy, attorney or representative) and entitled to vote on the resolution at a general meeting of AGL Australia.

9.6 Substantial interests in AGL Energy

As at the date of this Scheme Booklet, the following shareholders hold a substantial interest in AGL Energy for the purposes of Part 6C.1 of the Corporations Act:

- Macquarie Group Limited, which notified a substantial holding of 5.14% in an initial substantial holder notice dated 2 March 2022, which is available on the ASX's website;
- Michael Alexander Cannon-Brookes, Galipea Partnership (by its partners CBC Co Pty Limited as trustee of the Cannon-Brookes Head Trust and Feroniella Pty Limited), CBC Co Pty Limited in its personal capacity and as trustee of the Cannon-Brookes Head Trust, Cannon-Brookes Services Pty Limited and each of their related entities from time to time, which notified a substantial holding of 8.44% (as well as an economic interest in an additional 2.84% of AGL Energy's issued shares under a cash settled total return swap) in an initial substantial holder notice dated 2 May 2022, which is available on the ASX's website; and
- JPMorgan Chase & Co. and its affiliates, which notified a substantial holding of 9.99999996% in an initial substantial holder notice dated 5 May 2022, which is available on the ASX's website.

Information in regard to substantial shareholdings arising after the date of this Scheme Booklet or in respect of which the relevant announcement is not available on the ASX's website is not taken into consideration above.

9.7 Regulatory waivers and consents

9.7.1 ASIC

ASIC has granted relief from the disclosure requirements that would otherwise apply to this Scheme Booklet under the Corporations Act with respect to payments and benefits to directors and officers in relation to their loss of office or retirement. ASIC has also granted relief from paragraph 8302(h) of Part 3 of Schedule 8 of the *Corporations Regulations 2001* (Cth), which requires an explanatory statement to set out whether, within the knowledge of the AGL Energy Directors, the financial position of AGL Energy has materially changed since the date of the last balance sheet laid before AGL Energy Shareholders in accordance with section 314 or 317 of the Corporations Act, being 30 June 2021. ASIC has granted AGL Energy relief from this requirement so that this Scheme Booklet only needs to set out whether, within the knowledge of the AGL Energy Directors, the financial position of AGL Energy has materially changed since 31 December 2021 (being the last date of the period to which the financial statements for the half year ended 31 December 2021 relate) and, if so, full particulars of any change.

AGL Energy has also sought the following relief from ASIC in relation to:

- **AGL Australia Sale and Top-up Facility:**
  - the managed investment scheme, licensing and product disclosure provisions of the Corporations Act that may otherwise apply to the AGL Australia Sale and Top-up Facility; and
  - the prospectus provisions in the Corporations Act to the extent ASIC considers that these apply to the acquisition of AGL Australia Shares under the AGL Australia Sale and Top-up Facility and on-sale of AGL Australia Shares following the Demerger; and
- **employee incentive relief:** various provisions in the Corporations Act, including those relating to disclosure, licensing, advertising and hawking, that may otherwise apply to the offers to be made under the new AGL Australia employee incentive plans in the three months following the Demerger.

9.7.2 ASX

The ASX has:

- confirmed that, for the purposes of satisfying ASX Listing Rule 1.3.5 in relation to the listing of AGL Australia the pro forma historical financial information that will be contained in the Scheme Booklet for the financial years ended 30 June 2019, 30 June 2020 and 30 June 2021, together with the additional segment disclosure that AGL Energy has made, will be acceptable to the ASX;
- confirmed that for the purpose of ASX Listing Rule 1.1, condition 3, AGL Australia may issue an information memorandum if it complies with the information memorandum requirements of ASX Listing Rule 1.4 and if the information memorandum incorporates the Scheme Booklet, rather than a prospectus for the purposes of admission to the Official List;
- confirmed that ASX Listing Rules 11.1.2, 11.1.3, 11.2 and 11.4 do not apply to the Demerger;
- confirmed that Accel Energy will not be considered and oil and gas exploration or production entity following the Demerger;
- granted a waiver for the purposes of ASX Listing Rules 6.23.2, 6.23.3 and 6.23.4 in relation to the treatment of performance rights granted to employees under the legacy employee incentive arrangements and the issue of replacement awards in AGL Australia and Accel Energy;
- provided an in-principle confirmation that a waiver will be granted for the purposes of ASX Listing Rule 10.14 in relation to the issue of an initial grant of AGL Australia Restricted Shares or AGL Australia Performance Rights to AGL Australia's Managing Director and CEO shortly following implementation of the Demerger, without shareholder approval; and
- confirmed that it does not object to the proposed timetable for the Demerger.

9.8 Consents and disclaimers

Each of the parties named in this Section 9.8 as consenting parties:

- has given and has not, before lodgement of this Scheme Booklet with ASIC, withdrawn its written consent to be named in this Scheme Booklet in the form and context in which it is named;
- has given and has not, before the lodgement of this Scheme Booklet with ASIC, withdrawn its written consent to the inclusion of the respective statements and reports (where applicable) noted next to its name in this Section 9.8, and the references to those statements and reports in the form and context in which they are included in this Scheme Booklet;
- does not make, or purport to make, any statement in this Scheme Booklet other than those statements referred to in this Section 9.8 in respect of that party's name (and as consented to by that party); and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Scheme Booklet.

Role	Consenting party
AGL Energy and AGL Australia Share Registry	Computershare Investor Services Pty Limited
Auditor	Deloitte Touche Tohmatsu
Financial adviser	Macquarie Capital (Australia) Limited
Investigating Accountant	Deloitte Corporate Finance Pty Limited, in relation to the Independent Limited Assurance Report in Section 7.
Independent Expert	Grant Samuel & Associates Pty Limited, in relation to the Independent Expert's Report in Section 8 and any statements based on that report.
Legal adviser	Herbert Smith Freehills
Taxation adviser	PricewaterhouseCoopers Securities Ltd, in relation to Section 6 (excluding Section 6.7.4) and any related tax statements.

9.9 Regulatory and legal

9.9.1 Foreign exchange controls

There are currently Australian exchange controls which restrict the remittances of dividends, interest or other payments by AGL Energy or AGL Australia to non-resident shareholders outside Australia, if they are certain persons or entities designated by the Australian Minister of Foreign Affairs or Minister for Trade (as applicable) as being associated with Democratic People's Republic of Korea (North Korea), Iran, Libya, the former government of the Federal Republic of Yugoslavia, Myanmar, Russia, Ukraine, Syria or Zimbabwe.

The Australian Government has also implemented certain financial sanctions made by the United Nations Security Council (which prevents dealing with financial resources owned by or giving financial resources to designated persons) in relation to: Al-Qaida, the Central African Republic, Counter-Terrorism, the Democratic Republic of the Congo, Guinea-Bissau, Iran, Iraq, ISIL (Da'esh), Lebanon, Libya, Syria, North Korea, Mali, Somalia, South Sudan, Sudan, the Taliban and Yemen.

For information on designated persons or entities, refer to the Department of Foreign Affairs and Trade's website at http://www.dfat.gov.au/un/unsc_sanctions/.

9.9.2 Restrictions on foreign ownership

Generally, the *Foreign Acquisitions and Takeovers Act 1975* (Cth) (**FATA**) applies to acquisitions of shares and voting power in a company of 20% or more by a single foreign person and its associates (**Substantial Interest**), or 40% or more by two or more unassociated foreign persons and their associates (**Aggregate Substantial Interest**). Where a foreign person holds a Substantial Interest in AGL Australia or foreign persons hold an Aggregate Substantial Interest in AGL Australia, AGL Australia may (subject to certain exceptions) itself be a 'foreign person' for the purpose of the FATA.

Where an acquisition of a Substantial Interest meets certain criteria, the acquisition may not occur unless notice of it has been given to the Federal Treasurer and the review process has been followed. The Federal Treasurer also has the power to prohibit an acquisition of an Aggregate Substantial Interest or, if the acquisition of a Substantial Interest has already occurred, unwind the acquisition, if it meets certain criteria. If the Federal Treasurer has been notified of the acquisition of a Substantial Interest or Aggregate Substantial Interest and has either stated that there is no objection to the proposed acquisition in terms of the Australian Government's Foreign Investment Policy or a statutory period has expired without the Federal Treasurer objecting, then the Federal Treasurer is prevented from making an order prohibiting or unwinding the transaction (subject to certain exceptions).

In addition, lower thresholds may apply in certain circumstances, including for example for foreign government investors or for any foreign person acquiring an interest in a national security business. Further, following recent changes to the FATA and associated regulations, the Federal Treasurer has more extensive powers in respect of investments by foreign persons and foreign government investors, including powers to review and make orders in respect of certain investments not meeting the thresholds referred to above in some circumstances.

9.9.3 Foreign selling restrictions

This Scheme Booklet does not constitute an offer of AGL Australia Shares in any jurisdiction in which it would be unlawful. In particular, this Scheme Booklet may not be distributed to any person, and the AGL Australia Shares may not be offered or sold, in any country outside Australia except to the extent provided below.

Canada

The AGL Australia Shares will be issued under the Scheme in reliance upon exemptions from the prospectus and registration requirements of the applicable Canadian securities law in each province and territory of Canada. No securities commission in Canada has reviewed or in any way passed upon this Scheme Booklet or the merits of the Scheme.

Hong Kong

WARNING: The contents of this Scheme Booklet have not been reviewed or approved by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the Scheme. If you are in any doubt about any of the contents of this Scheme Booklet, you should obtain independent professional advice.

This Scheme Booklet does not constitute an offer or invitation to the public in Hong Kong to acquire or subscribe for or dispose of any securities. This Scheme Booklet also does not constitute a prospectus (as defined in section 2(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong)) or notice, circular, brochure or advertisement offering any securities to the public for subscription or purchase or calculated to invite such offers by the public to subscribe for or purchase any securities, nor is it an advertisement, invitation or document containing an advertisement or invitation falling within the meaning of section 103 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

Accordingly, unless permitted by the securities laws of Hong Kong, no person may issue or cause to be issued this Scheme Booklet in Hong Kong, other than to persons who are "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder or in other circumstances which do not result in this document being a "prospectus" as defined in the Companies

(Winding Up and Miscellaneous Provisions) Ordinance or which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

No person may issue or have in its possession for the purposes of issue, this Scheme Booklet or any advertisement, invitation or document relating to these securities, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than any such advertisement, invitation or document relating to securities that are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder.

Copies of this Scheme Booklet may be issued to a limited number of persons in Hong Kong in a manner that does not constitute any issue, circulation or distribution of this Scheme Booklet, or any offer or an invitation in respect of these securities, to the public in Hong Kong. This document is for the exclusive use of AGL Energy Shareholders in connection with the Scheme. No steps have been taken to register or seek authorisation for the issue of this Scheme Booklet in Hong Kong.

This Scheme Booklet is confidential to the person to whom it is addressed and no person to whom a copy of this Scheme Booklet is issued may issue, circulate, distribute, publish, reproduce or disclose (in whole or in part) this Scheme Booklet to any other person in Hong Kong or use it for any purpose in Hong Kong other than in connection with consideration of the Scheme by AGL Energy Shareholders.

Malaysia

This Scheme Booklet may be delivered, and the AGL Australia Shares distributed, in Malaysia solely to existing AGL Energy Shareholders. This Scheme Booklet does not constitute of offer of securities in Malaysia. No approval from, or recognition by, the Securities Commission of Malaysia has been, or will be, obtained in relation to this Scheme Booklet.

New Zealand

This Scheme Booklet is not a New Zealand disclosure document and has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the Financial Markets Conduct Act 2013 or any other New Zealand law.

The offer of AGL Australia Shares under the Scheme is being made to existing shareholders of AGL Energy in reliance upon the Financial Markets Conduct (Incidental Offers) Exemption Notice 2021 and, accordingly, this Scheme Booklet may not contain all the information that a disclosure document is required to contain under New Zealand law.

Singapore

This Scheme Booklet and any other document relating to the Scheme have not been, and will not be, registered as a prospectus with the Monetary Authority of Singapore and the Scheme is not regulated by any financial supervisory authority in Singapore. Accordingly, statutory liabilities in connection with the contents of prospectuses under the Securities and Futures Act, Cap. 289 (**SFA**) will not apply.

This Scheme Booklet and any other document relating to the Scheme may not be made the subject of an invitation for subscription, purchase or receipt, whether directly or indirectly, to persons in Singapore except pursuant to exemptions in Subdivision (4) Division 1, Part XIII of the SFA, including the exemption under section 273(1)(c) of the SFA, or otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Any offer is not made to you with a view to AGL Australia Shares being subsequently offered for sale to any other party. You are advised to acquaint yourself with the SFA provisions relating to on-sale restrictions in Singapore and comply accordingly.

This Scheme Booklet is being furnished to you on a confidential basis and solely for your information and may not be reproduced, disclosed, or distributed to any other person. Any investment referred to in this Scheme Booklet may not be suitable for you and it is recommended that you consult an independent investment adviser if you are in doubt about such investment.

Neither AGL Energy nor AGL Australia is in the business of dealing in securities or holds itself out, or purports to hold itself out, to be doing so. As such, AGL Energy and AGL Australia are neither licensed nor exempted from dealing in securities or carrying out any other regulated activities under the SFA or any other applicable legislation in Singapore.

United Kingdom

Neither this Scheme Booklet nor any other document relating to the Scheme has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended (**FSMA**)) has been published or is intended to be published in respect of the AGL Australia Shares.

This Scheme Booklet does not constitute an offer of transferable securities to the public within the meaning of the UK Prospectus Regulation or the FSMA. Accordingly, this document does not constitute a prospectus for the purposes of the UK Prospectus Regulation or the FSMA.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 FSMA) received in connection with the issue or sale of the AGL Australia Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of the FSMA does not apply to AGL Energy or AGL Australia.

In the United Kingdom, this Scheme Booklet is being distributed only to, and is directed at, persons (i) who fall within Article 43 (members of certain bodies corporate) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005, or (ii) to whom it may otherwise be lawfully communicated (together, **relevant persons**). The investments to which this document relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document.

United States

This Scheme Booklet has not been filed with, or reviewed by, the US Securities and Exchange Commission or any US state securities authority and none of them has passed upon or endorsed the merits of the Scheme or the accuracy, adequacy or completeness of this Scheme Booklet. Any representation to the contrary is a criminal offence.

The AGL Australia Shares have not been, and will not be, registered under the US Securities Act of 1933 or the securities laws of any US state or other jurisdiction. Upon completion of the Scheme, the AGL Australia Shares will be issued pursuant to an exemption from the registration requirements under the US Securities Act of 1933 and applicable US state securities laws. The Scheme is not being made in any US state or other jurisdiction where it is not legally permitted to do so.

US shareholders of AGL Energy should note that the Scheme involves a distribution of securities of an Australian company in accordance with the laws of Australia and the listing rules of the Australian Securities Exchange. The Scheme is subject to disclosure requirements of Australia that are different from those of the United States.

It may be difficult for you to enforce your rights and any claim you may have arising under US federal securities laws, since AGL Energy and AGL Australia are located in Australia and most, if not all, of their officers and directors are residents of Australia. You may not be able to sue their respective officers or directors in Australia for violations of the US securities laws. It may be difficult to compel AGL Energy and AGL Australia to subject themselves to a US court's judgement.

9.10 Other information material to the making of a decision in relation to the Demerger

Except as set out in this Scheme Booklet, there is no other information material to the making of a decision in relation to the Demerger Resolutions being information that is within the knowledge of any AGL Energy Director, or any director of any related body corporate of AGL Energy, which has not previously been disclosed to AGL Energy Shareholders.

9. Additional information

9.11 Supplementary information

AGL Energy will issue a supplementary document to this Scheme Booklet if it becomes aware of any of the following between the date of lodgement of this Scheme Booklet for registration by ASIC and the Effective Date:

- a material statement in this Scheme Booklet is false or misleading;
- a material omission from this Scheme Booklet;
- a significant change affecting a matter included in this Scheme Booklet; or
- a significant new matter that has arisen and would have been required to be included in this Scheme Booklet if it had arisen before the date of lodgement of this Scheme Booklet for registration by ASIC.

Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, AGL Energy may circulate and publish any supplementary document by:

- placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- posting the supplementary document on AGL Energy's website (www.agl.com.au); or
- making an announcement to the ASX.

Any updated information about the Demerger which is not materially adverse to investors is likely to be made available by announcement to the ASX and on AGL Energy's website (www.agl.com.au). Where updated information about the Demerger is materially adverse to investors, a supplementary document will be issued and made available in accordance with regulatory requirements. ASIC's policy is that shareholders should be given at least 10 days to consider any supplementary documentation before voting on a scheme of arrangement.

Prior to the Meetings, AGL Energy will provide a copy of the updated information free of charge, to any person who requests a copy by calling the AGL Energy Shareholder Information Line on 1300 148 339 (within Australia) or +61 2 9066 4059 (international) on weekdays between 9:00am and 5:00pm (AEST).

AGL Energy Shareholders can also obtain a copy of AGL Energy's most recent financial report, the interim financial report for the half year ended 31 December 2021, from ASX's website (www2.asx.com.au/markets/company/agl), from AGL Energy's website (www.agl.com.au/about-agl/investors/results-centre) or by calling the AGL Energy Shareholder Information Line on 1300 148 339 (within Australia) or +61 2 9066 4059 (international) on weekdays between 9:00am and 5:00pm (AEST).

Section 10

Glossary

10.Glossary

$** or **A$	Australian dollars.
m, Am or **$ million**	million Australian dollars.
AAS	Australian Accounting Standards issued by the Australian Accounting Standards Board.
ACCC	Australian Competition and Consumer Commission.
Accel Energy Board	the board of directors of Accel Energy immediately following the Effective Date, or from time to time following the Effective Date, as the context requires.
Accel Energy Business	1 the business, activities and operations of the Group prior to the Implementation Date as described in Section 4, including: – the Accel Energy Wholesale Electricity Business; – the Accel Energy Trading Business; – the Generation Businesses; – the Upstream Gas Business; – the Accel Energy Commercial & Industrial Retail Business; and – the Accel Energy Renewables and Projects Business; and 2 any other business, operations or activities commenced or conducted, or interests acquired, by, or on behalf of, the Group anywhere in the world following the Implementation Date.
Accel Energy Commercial & Industrial Retail Business	the business at any time carried on by or on behalf of the Group in relation to the marketing and sale of electricity to certain commercial and industrial retail customers.
Accel Energy or **Accel Energy Group**	AGL Energy Limited (to be renamed Accel Energy Limited) ACN 115 061 375 and/or its Subsidiaries following the Demerger, as the context requires.
Accel Energy Performance Rights	rights to receive Accel Energy Shares, subject to the satisfaction of vesting and performance conditions.
Accel Energy Pro Forma Historical Financial Information	comprises: 1 the pro forma historical income statements of profit or loss of Accel Energy for the years ended 30 June 2019, 2020 and 2021 and six months ended 31 December 2021; 2 the pro forma historical statement of financial position of Accel Energy as at 31 December 2021; and 3 the pro forma historical statements of cash flows of Accel Energy for the years ended 30 June 2019, 2020 and 2021 and six months ended 31 December 2021.

Accel Energy Renewables and Projects Business	the Group's entire interest in renewable energy projects, including: 1 the Hallett and Hallett Hill Wind Farms, North Brown Hill Wind Farm, The Bluff Wind Farm and the Wattle Point Wind Farm; the Oaklands Hill Wind Farm, and the Macarthur Wind Farm; 2 development rights in relation to Bells Mountain pumped hydro development project; 3 development rights in relation to certain wind farm development projects including Bowmans Creek, Barn Hill, Twin Hills and Gnotuk; 4 the Willatook Wind Farm Project; 5 the Wellington North Solar Farm Project sold to Lighthouse BP in calendar year 2020 (including any rights to receive future payments); 6 the equity investment and associated rights in respect of RayGen Resources Pty Ltd, other than the RayGen offtake agreement; 7 the Dalrymple (ESCRI) battery; 8 the energy hubs to be developed at each of the Loy Yang Power Station, the Liddell Power Station and the Torrens Island Power Station, and includes the proposed Loy Yang battery (all stages), proposed Liddell battery (all stages) and any Liddell integrated industrial energy hub proposals and Antiene rail development such as the Liddell waste to energy plant and Liddell RayGen development; 9 the proposed establishment of an Energy Transition Investment Partnership (or equivalent named decarbonisation fund) for the conversion of Accel Energy's thermal generation sites to energy hubs; and 10 the Broken Hill battery (with associated Australian Renewable Energy Agency funding), but excluding the AGL Australia Renewables and Projects Business.
Accel Energy Restricted Shares	Accel Energy Shares that will vest subject to the satisfaction of vesting conditions.
Accel Energy Sale and Top-up Facility	the facility to be established and implemented by AGL Energy under which Accel Energy Shares may be sold or purchased, the terms of which are more fully described in Section 5.8.
Accel Energy Share	a fully paid ordinary share in the capital of AGL Energy Limited ACN 115 061 375 (post Demerger).
Accel Energy Shareholder	a registered holder of Accel Energy Shares (post Demerger).
Accel Energy Trading Business	the commodity trading portfolio held by or on behalf of the Group, other than the AGL Australia Trading Business.
Accel Energy Wholesale Electricity Business	the business at any time carried on by or on behalf of the Group in relation to the wholesale sale, purchase and hedging of electricity and includes: 1 the arrangements with the Tomago Smelter, the Portland Smelter and AquaSure Victorian desalination plant; and 2 the corporate power purchase agreement with Clean Energy Transfer Fund, but excludes the AGL Australia Wholesale Electricity Business.
AEMO	Australian Energy Market Operator Limited ACN 072 010 327.
AER	Australian Energy Regulator.
AEST	Australian Eastern Standard Time.
AGL Australia or **AGL Australia Group**	AGL Australia Limited ACN 651 096 114 and/or its Subsidiaries following the Demerger, as the context requires.

10.Glossary

AGL Australia Board	the board of directors of AGL Australia immediately following the Effective Date, or from time to time following the Effective Date, as the context requires.
AGL Australia Business	1 the business, activities and operations of the AGL Australia Group as at the Implementation Date as described in Section 3.2, including: – the Essential Services Retail Businesses; – the AGL Australia Wholesale Electricity Business; – the Wholesale Gas Business; – the AGL Australia Trading Business; – the Hydro and Gas Generation Business; – the AGL Australia Commercial & Industrial Retail Business; – the AGL Australia Renewables and Projects Business; – the AGL Australia Other Investments; and 2 any other business, operations or activities commenced or conducted, or interests acquired, by, or on behalf of, the AGL Australia Group anywhere in the world following the Implementation Date.
AGL Australia Commercial & Industrial Retail Business	the business at any time carried on by or on behalf of the Group in relation to the marketing and sale of electricity and gas to commercial and industrial retail customers but excluding the Accel Energy Commercial & Industrial Retail Business.
AGL Australia Constitution	the constitution of AGL Australia.
AGL Australia Director	a director of AGL Australia immediately following the Effective Date, or from time to time following the Effective Date, as the context requires.
AGL Australia Facilities	has the meaning given in Section 3.7.14.
AGL Australia Listing	the listing of AGL Australia on the ASX.
AGL Australia Other Investments	the Group's entire direct or indirect investments: 1 in any of Activate Capital Partners Fund L.P. (and if sold Pre-Demerger to an external third party, the rights to any proceeds contingent or otherwise), Energy Impact Partners' Europe, Honey Insurance Pty Ltd, Solar Analytics Pty Ltd, Sunverge Energy Inc., OVO Energy Pty Ltd, and in relation to Ecobee Inc the rights to any proceeds contingent or otherwise; and 2 various interests in energy retailer and energy and water ombudsman entities.
AGL Australia Performance Rights	rights to receive AGL Australia Shares, subject to the satisfaction of vesting and performance conditions.
AGL Australia Pro Forma Historical Financial Information	comprises: 1 AGL Australia pro forma historical statements of profit or loss for the years ended 30 June 2019, 2020 and 2021 and six months ended 31 December 2021; 2 AGL Australia pro forma historical statement of financial position as at 31 December 2021; and 3 AGL Australia pro forma historical statements of cash flows for the years ended 30 June 2019, 2020 and 2021 and six months ended 31 December 2021.

AGL Australia Renewables and Projects Business	the Group's entire interest in: 1 the Powering Australian Renewables Fund (**PowAR**) (including its indirect interest in the assets owned by that fund) and access to the PowAR platform; 2 the offtake arrangements in respect of the Silverton Wind Farm, the Coopers Gap Wind Farm, the Nyngan Solar Plant, the Broken Hill Solar Plant and the Project Galaxy facilities, Moranbah Power Station, ISIS bagasse plant, Rockingham Landfill, Glenorchy Landfill and Hobart Landfill; 3 the development and management of the facilities listed in paragraph 2 above; 4 the offtake arrangements in respect of the Wandoan (Vena) Battery Project; 5 the Torrens Island battery Stage 1 (250MW) and any future expansions of the Torrens Island battery project; and 6 early-stage proposals to develop battery projects including the proposed battery project near the Tarrone Terminal Station.
AGL Australia Restricted Shares	AGL Australia Shares that will vest subject to the satisfaction of vesting conditions.
AGL Australia Sale and Top-up Facility	the facility to be established and implemented by AGL Energy under which AGL Australia Shares may be sold or purchased, the terms of which are more fully described in Section 5.8.
AGL Australia Share	a fully paid ordinary share in the capital of AGL Australia.
AGL Australia Share Registry	Computershare Investor Services Pty Limited ACN 078 279 277.
AGL Australia Shareholder	a holder of an AGL Australia Share.
AGL Australia Trading Business	the electricity, gas, environmental product, carbon and other commodity trading portfolio held by or on behalf of the Group in relation to the AGL Australia Commercial & Industrial Retail Business, Essential Service Retail Businesses, Hydro and Gas Generation Business, Wholesale Gas Business or the AGL Australia Renewables and Projects Business, including the Transferring Hedge Book.
AGL Australia Wholesale Electricity Business	the business at any time carried on by or on behalf of the Group in relation to the wholesale sale, purchase and hedging of electricity in relation to: 1 the AGL Australia Commercial & Industrial Retail Business, Essential Service Retail Businesses, Hydro and Gas Generation Business, or the AGL Australia Renewables and Projects Business; 2 the power purchase arrangements in respect of the Sunraysia Solar Farm, Midgar Solar Farm and Maoneng battery derivatives (Lismore, Armidale, Tamworth 1 and Tamworth 2); 3 the corporate power purchase agreement with Transurban Operations Pty Ltd; and 4 the RayGen offtake agreement.
AGL Employee Share Plans	the employee incentive plans administered by AGL Energy.
AGL Energy	AGL Energy Limited ACN 115 061 375.
AGL Energy Board	the board of directors of AGL Energy.
AGL Energy Director	a director of AGL Energy.

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AGL Energy Historical Financial Information	comprises: 1 the historical income statements for the years ended 30 June 2019, 2020 and 2021 and the six months ended 31 December 2021; 2 the historical balance sheet as at 30 June 2021; and 3 the historical cash flow statements for the years ended 30 June 2019, 2020 and 2021 and the six months ended 31 December 2021.
AGL Energy Performance Rights	rights to receive AGL Energy Shares, subject to the satisfaction of vesting and performance conditions.
AGL Energy Restricted Shares	AGL Energy Shares that will vest subject to the satisfaction of vesting conditions.
AGL Energy Share	a fully paid ordinary share in the capital of AGL Energy.
AGL Energy Share Register	the register of AGL Energy Shareholders maintained under section 169 of the Corporations Act.
AGL Energy Share Registry	Computershare Investor Services Pty Limited ACN 078 279 277.
AGL Energy Shareholder	a registered holder of AGL Energy Shares.
AGL Energy Shareholder Information Line	the information line set up for the purposes of answering enquiries from AGL Energy Shareholders in relation to the Demerger. The information line numbers are 1300 148 339 (within Australia) or +61 2 9066 4059 (international), available on weekdays between 9:00am and 5:00pm (AEST).
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited, or the financial market operated by the Australian Securities Exchange, as the context requires.
ASX Listing Rules	the official Listing Rules of the ASX.
ASX Settlement Operating Rules	the official operating rules of the settlement facility provided by ASX Settlement Pty Ltd.
ATO	Australian Taxation Office.
Benefits Resolution	an ordinary resolution of AGL Energy Shareholders under section 200C of the Corporations Act relating to the provision of certain benefits to persons holding a managerial or executive office as described and in the form set out in the Notice of General Meeting.
Bridging Award	AGL Energy Performance Rights that were issued during FY20 with a three year performance period to assist with the smooth transition to a four year performance period of AGL Energy's Long Term Incentive Plan.
Business Day	has the meaning given in the ASX Listing Rules.
Buying Accel Energy Shareholder	an AGL Energy Shareholder (holding up to 500 AGL Energy Shares and having a registered address on the AGL Energy Share Registry in Australia or New Zealand as at the Record Date) who validly elects to purchase, and pays as directed the nominated amount (being an amount in $500 increments up to a maximum of $2,000) required to purchase, Accel Energy Shares under the Accel Energy Sale and Top-up Facility.

Buying AGL Australia Shareholder	an AGL Energy Shareholder (holding up to 500 AGL Energy Shares and having a registered address on the AGL Energy Share Registry in Australia or New Zealand as at the Record Date) who validly elects to purchase, and pays as directed the nominated amount (being an amount in $500 increments up to a maximum of $2,000) required to purchase, AGL Australia Shares under the AGL Australia Sale and Top-up Facility.
Capital Reduction	the reduction in the capital of AGL Energy by the Capital Reduction Amount to be applied equally against each AGL Energy Share on issue as at the Record Date in accordance with the terms of the Capital Reduction Resolution.
Capital Reduction Amount	the amount of the capital of AGL Energy that is to be reduced in accordance with the Capital Reduction Resolution, being the Capital Reduction Pro Rata Amount multiplied by the number of AGL Energy Shares on issue at the Record Date.
Capital Reduction Pro Rata Amount	$4.74 per AGL Energy Share.
Capital Reduction Resolution	an ordinary resolution concerning the Capital Reduction to be considered by AGL Energy Shareholders at the General Meeting in the form set out in the Notice of General Meeting contained in Section 13.1.
CEO	Chief Executive Officer.
CFO	Chief Financial Officer.
CGT	Capital Gains Tax.
CHESS	the clearing house electronic subregister system of share transfers operated by ASX Settlement Pty Limited.
Corporate Restructure	the restructure steps set out in the Restructure Agreement.
Corporations Act	*Corporations Act 2001* (Cth).
Corporations Regulations	*Corporations Regulations 2001* (Cth).
Court	the Supreme Court of New South Wales.
CPI	Consumer Price Index.
CT	carbon transition.
Deed Poll	the deed poll in favour of AGL Energy Shareholders, in the form set out in Section 12 (subject to any amendments permitted by its terms), under which AGL Australia undertakes to take the steps required to be taken by it for implementation of the Demerger.
Demerger	the proposed demerger of AGL Australia from AGL Energy, to be implemented through: 1 the Corporate Restructure; 2 the Scheme; 3 Capital Reduction; and 4 the AGL Australia Listing.
Demerger Principle	as described in Section 5.9.4.

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Demerger Resolutions	the Scheme Resolution, Capital Reduction Resolution and the Financial Assistance Resolution.
Effective	the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme.
Effective Date	the date on which the Scheme becomes Effective.
Eligible Shareholder	an AGL Energy Shareholder whose registered address on the AGL Energy Share Register on the Record Date is in: – Australia, New Zealand, Canada, Hong Kong, Malaysia, Singapore, the United Kingdom and the United States of America; or – a jurisdiction in which AGL Energy reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer the AGL Australia Shares to the AGL Energy Shareholder.
ESG	environmental, social and governance.
Essential Services Retail Businesses	the business at any time carried on by or on behalf of the Group in relation to the marketing and sale of energy (including the sale of bundled or non-bundled products and services associated with multi-service product retailing) to retail customers and associated customer support functions and also includes: 1 residential, commercial and industrial solar systems, batteries and business energy solutions; 2 virtual power plant, orchestration, demand response and electric vehicle services; 3 Connectnow; 4 AGL Energy and Southern Phone internet, nbn™ plans and mobile; and 5 the Group's interest in ActewAGL and the associated arrangements.
FATA	*Foreign Acquisitions and Takeovers Act 1975* (Cth).
Financial Assistance	the provision of financial assistance by the guarantor entities set out in Schedule 1 of the Notices of Meetings to AGL Australia as described and in the form set out in the Notices of Meetings.
Financial Assistance Resolution	a special resolution of AGL Energy Shareholders under section 260B(2) of the Corporations Act relating to the provision of financial assistance by the guarantor entities set out in Schedule 1 of the Notices of Meetings to AGL Australia as described and in the form set out in the Notices of Meetings.
Financial Information	collectively refers to the Accel Energy Pro Forma Historical Financial Information and the AGL Australia Pro Forma Historical Financial Information.
First Court Hearing	the days on which an application was made to the Court for orders under section 411(1) of the Corporations Act convening the Scheme Meeting to consider the Scheme, being 5 and 6 May 2022.
FY	financial year.
General Meeting	the General Meeting of AGL Energy Shareholders convened to consider: 1 the Capital Reduction Resolution; 2 the Financial Assistance Resolution; 3 the Name Change Resolution; and 4 the Benefits Resolution, to be held on Wednesday, 15 June 2022 at 10:30am (AEST).

General Meeting Voting Form	the proxy form for the General Meeting.
Generation Businesses	1 the business at any time carried on by or on behalf of the Group in relation to the generation of electricity at the Loy Yang Power Station, the Liddell Power Station, the Bayswater Power Station, the Hunter Valley Gas Turbines and the Torrens Island A and B Power Station; 2 the associated fuel contracts and coal hedges relating to the Bayswater Power Station and Liddell Power Station; 3 the CO2 customer contract with Air Liquide associated with the Torrens Island Power Station; 4 the Group's entitlement to the output from the Townsville Power Station (Yabulu) through its interest in the North Queensland Energy Joint Venture; and 5 rights in the Newcastle Power Station (gas peaker) development project including rights to land.
Group	AGL Energy and its Subsidiaries from time to time, including the AGL Australia Group in respect of the period before the Implementation Date.
Hydro and Gas Generation Business	the hydro and gas generation business carried on by or on behalf of the Group, including: 1 the Barker Inlet Power Station (including the associated stage 2 development rights in respect of the permitted additional gas generation to be developed at Torrens Island), the Somerton Power Station and Kwinana Swift Power Station, but excluding the Torrens Island A and B Power Station; 2 rights in the Tarrone Power Station (gas peaker) development project including rights to lease real property; 3 rights in the following gas peaking projects including any real property interests – Dalton (NSW), Madeline Downs (QLD), Woodstock (QLD); 4 the main hydroelectric schemes located in Victoria, being the Eildon Power Station (and regulating dam), the Dartmouth Power Station (and regulating dam) and the Kiewa Scheme (McKay/Bogong/Clover/West Kiewa) with Kiewa Scheme's associated dams, infrastructure and communications towers; and 5 the minor hydroelectric schemes located in Victoria and New South Wales, being the Copeton Power Station, the Rubicon Scheme (comprising of four power stations, associated dams and infrastructure), the Banimboola Power Station, the Yarrawonga Power Station, the Pindari Power Station, the Burrendong Power Station and the Glenbawn Power Station, but excluding: 6 the Cairn Curran Power Station.
IFRS	International Financial Reporting Standards adopted by the International Accounting Standards Board.
Implementation Date	the date of implementation of the Demerger and the transfer or distribution of AGL Australia Shares to AGL Energy Shareholders (apart from Ineligible Overseas Shareholders and Selling AGL Australia Shareholders), which is expected to be 30 June 2022, or such other date as determined by AGL Energy.
Implementation Deed	the deed between AGL Energy and AGL Australia under which each party undertakes specified obligations to give effect to the Demerger, a summary of which is set out in Section 5.9.2.
Independent Expert	Grant Samuel & Associates Pty Limited ACN 050 036 372.
Independent Expert's Report	the report of the Independent Expert can be found in Section 8.
Independent Limited Assurance Report	the independent limited assurance report of the Investigating Accountant on the AGL Australia Pro Forma Historical Financial Information and Accel Energy Pro Forma Historical Financial Information presented in this Scheme Booklet, as set out in Section 7.

10.Glossary

Investigating Accountant	Deloitte Corporate Finance Pty Limited ACN 003 833 127.
Ineligible Overseas Shareholder	an AGL Energy Shareholder who is not an Eligible Shareholder.
IPO	initial public offering.
Licensed Market	a financial market the operation of which is authorised by an Australian market licence under section 795B of the Corporations Act.
Meetings	the General Meeting and the Scheme Meeting.
Name Change	the change of company name from AGL Energy Limited to Accel Energy Limited.
Name Change Resolution	a special resolution of AGL Energy Shareholders in respect of the Name Change and in the form set out in the Notice of General Meeting.
NEM	National Electricity Market.
Non-Executive Director	a member of a board of directors of a company who does not form part of the executive management team.
Notice of General Meeting	the notice of meeting for the General Meeting set out in Section 13.1.
Notice of Scheme Meeting	the notice of meeting for the Scheme Meeting set out in Section 13.2.
Notices of Meetings	collectively refers to the Notice of General Meeting and Notice of Scheme Meeting.
Official List	the official list of the ASX.
Offtake Agreement	the agreement between AGL Hydro Partnership and AGL Australia Markets Pty Ltd in respect of certain electricity and environmental product derivatives, a summary of which is set out in Section 5.9.6.
PwC	PricewaterhouseCoopers Securities Ltd.
Record Date	7:00pm (AEST) on 23 June 2022.
Resolutions	the Demerger Resolutions, Name Change Resolution and Benefits Resolution.
Restructure Agreement	the agreement between AGL Energy and AGL Australia dealing with certain corporate restructuring steps, a summary of which is set out in Section 5.9.1.
Sale Agent	Macquarie Securities (Australia) Limited ABN 58 002 832 126.
Sale and Top-up Facility Form	the sale and top-up facility form which accompanies this Scheme Booklet or such other form as AGL Energy may permit or agree to in connection with the sale or purchase of AGL Energy Shares and AGL Australia Shares under the AGL Australia Sale and Top-up Facility and/or Accel Energy Sale and Top-up Facility, including an online sale election submitted at www.aglelections.com.au.

Sale Facility Participant	an Ineligible Overseas Shareholder, a Selling AGL Australia Shareholder, a Selling Accel Energy Shareholder, a Buying AGL Australia Shareholder or a Buying Accel Energy Shareholder.
Sale Period	the period starting on the second Business Day after the Implementation Date up to and including the 20th Business Day after that date (or, subject to obtaining any necessary ASIC exemptions or waivers, such longer period of time which AGL Energy and the Sale Agent determine).
Scheme	the scheme of arrangement under part 5.1 of the Corporations Act between AGL Energy and the AGL Energy Shareholders as described in this Scheme Booklet and as set out in Section 11, subject to any alterations or conditions made or required by the Court pursuant to section 411 of the Corporations Act.
Scheme Booklet	this booklet.
Scheme Meeting	the meeting of AGL Energy Shareholders ordered by the Court to be held at the later of 10:45am (AEST) or the conclusion of the General Meeting on Wednesday, 15 June 2022, to consider the Scheme Resolution.
Scheme Meeting Voting Form	the proxy form for the Scheme Meeting.
Scheme Resolution	the resolution to approve the Scheme to be considered by AGL Energy Shareholders at the Scheme Meeting set out in the Notice of Scheme Meeting.
Second Court Date	the date of the Second Court Hearing.
Second Court Hearing	the hearing of the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.
Section	a section of this Scheme Booklet.
Selling Accel Energy Shareholder	a Small Shareholder who validly elects to have all the AGL Energy Shares that they hold as at the Record Date sold using the Accel Energy Sale and Top-up Facility.
Selling AGL Australia Shareholder	a Small Shareholder who validly elects to have all the AGL Australia Shares that they would otherwise receive under the Scheme sold using the AGL Australia Sale and Top-up Facility.
Separation Deed	the deed between AGL Energy and AGL Australia dealing with certain commercial, transitional and legal issues arising in connection with the legal and economic demerger of AGL Australia from AGL Energy, a summary of which is set out in Section 5.9.4.
Small Shareholder	an Eligible Shareholder who holds 500 AGL Energy Shares or less as at the Record Date.
Subsidiary	has the meaning given in the Corporations Act.
Timetable	the timetable set out in the section outlining actions for AGL Energy Shareholders.
Trading Day	has the meaning given in the ASX Listing Rules.
Transferring Hedge Book	the derivative, forward purchase and sale, and related commodity contracts to be transferred to AGL Australia Markets Pty Ltd in accordance with the Restructure Agreement.

10.Glossary

TSA	Transitional Services Agreement between Accel Energy, AGL Australia and AGL Australia Services Pty Ltd in relation to the provision of certain transitional services by Accel Energy to AGL Australia and by AGL Australia to Accel Energy, a summary of which is set out in Section 5.9.5.
TSR or **total shareholder return**	the change in share value over a period of time, assuming that all dividends are reinvested as received.
Upstream Gas Business (Accel)	the business at any time carried on by or on behalf of the Group in relation to upstream gas through the Camden Gas Project the Silver Springs Gas Storage Facility, the Newcastle Gas Storage Facility (and if sold pre-Demerger to an external third party, the rights to any proceeds contingent or otherwise), and the Group's interest in the Moranbah Gas Project joint venture, North Queensland Energy Merchant Joint Venture and the joint venture interest in Cabawin PL1 (and if sold pre-Demerger to an external third party, the rights to any proceeds contingent or otherwise).
USPP	US Private Placement.
Voting Form	the General Meeting Voting Form and the Scheme Meeting Voting Form.
VPP	Virtual Power Plant.
VWAP	the volume weighted average price of the relevant shares traded on the ASX during the relevant period except for trades otherwise than in the ordinary course of trading.
Wholesale Gas Business (AGL Australia)	1 the operations and activities relating to the administration and management of purchasing gas, gas supply, storage and transportation, the supply of gas to other retailers, internal and third party gas-fired generators and other wholesale gas customers and the management of certain price exposures; 2 the minority interest in the Spring Gully Joint Venture; and 3 the infrastructure, operations or liabilities associated with the business described in paragraph 1, including the proposed but not approved Crib Point LNG import jetty (in the event of any liabilities), and the Group's storage rights at the Iona Gas Storage Facility, but excluding the Newcastle Gas Storage Facility.

Section 11

Scheme of Arrangement

11.Scheme of Arrangement

Scheme of arrangement

AGL Energy Limited

AGL Energy Shareholders

ANZ Tower 161 Castlereagh Street Sydney NSW 2000 Australia
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Scheme of arrangement

This scheme of arrangement is made under section 411 of the *Corporations Act 2001* (Cth)

Between the parties

AGL Energy	AGL Energy Limited ABN 74 115 061 375 of Level 24, 200 George Street, Sydney NSW 2000
AGL Energy Shareholders	Holders of fully paid ordinary shares in AGL Energy

1 Definitions, interpretation and scheme components

1.1 Definitions

Schedule 1 contains definitions used in this Scheme.

1.2 Interpretation

Schedule 1 contains interpretation rules for this Scheme.

1.3 Scheme components

This Scheme includes any schedule to it.

2 Conditions

2.1 Conditions precedent

This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

(a) between the date of the Scheme Booklet and the Scheme Meeting, a majority of the directors of AGL Energy recommending and not changing or withdrawing their recommendation to AGL Energy Shareholders to vote in favour of the Demerger Resolutions;

(b) AGL Energy Shareholders approving this Scheme by the required majorities under the Corporations Act at the Scheme Meeting;

(c) AGL Energy Shareholders passing the Capital Reduction Resolution and the Financial Assistance Resolution by the required majority under the Corporations Act at the General Meeting;

(d) all Regulatory Approvals being obtained and not revoked before 8.00am on the Second Court Date either unconditionally or on conditions reasonably satisfactory to AGL Energy;

(e) before 8.00am on the Second Court Date, ASX approving the admission of AGL Australia to the official list of ASX and the official quotation of the AGL Australia Shares on ASX, subject only to this Scheme taking effect and any other conditions which are acceptable to AGL Energy and AGL Australia; and

(f) the Court approving this Scheme in accordance with section 411(4)(b) of the Corporations Act (either unconditionally and without alteration or with alterations or conditions consented to in accordance with clause 6.5) and the lodgement with ASIC of an office copy of that Court order pursuant to section 411(10) of the Corporations Act.

2.2 Certificate

(a) AGL Energy will provide to the Court on the Second Court Date a certificate, or such other evidence as the Court requests, confirming (in respect of matters within its knowledge) whether or not all of the conditions precedent (other than the condition in clause 2.1(f)) have been satisfied.

(b) The certificate referred to in clause 2.2(a) constitutes conclusive evidence that such conditions precedent (other than the condition in clause 2.1(f)) were satisfied.

2.3 Effective Date

Subject to the satisfaction of the conditions precedent set out in clause 2.1 and subject to clause 2.4 of this Scheme, this Scheme will come into effect on and from the Effective Date.

2.4 End Date

This Scheme will lapse and be of no further force or effect if the Effective Date does not occur on or before the End Date.

3 Implementation of this Scheme

3.1 Lodgement of Court orders with ASIC

AGL Energy must lodge with ASIC, in accordance with subsection 411(10) of the Corporations Act, an office copy of the Court order approving this Scheme as soon as possible after the Court approves this Scheme and in any event by 5.00pm on the first Business Day after the day on which the Court approves this Scheme.

3.2 Implementation of the Capital Reduction and Scheme

On the Implementation Date, without the need for any further act by any Scheme Participant, AGL Energy will:

(a) reduce its share capital by the Capital Reduction Amount in accordance with the Capital Reduction Resolution;

(b) apply the Capital Reduction Entitlement of each Scheme Participant in accordance with clause 3.3.

3.3 Entitlements of Scheme Participants

The Capital Reduction Entitlement of each Scheme Participant will, on the Implementation Date, be applied (without the need for any further act by a Scheme Participant) as follows:

(a) for each Eligible Shareholder, by AGL Energy as consideration in full for the transfer to that Eligible Shareholder of that number of AGL Australia Shares which is equal to one AGL Australia Share for each AGL Energy Share held by that Eligible Shareholder on the Record Date;

(b) for each Ineligible Overseas Shareholder, by AGL Energy as consideration in full for the transfer to the Sale Agent of that number of AGL Australia Shares which is equal to one AGL Australia Share for each AGL Energy Share held by that Ineligible Overseas Shareholder on the Record Date; and

(c) for each Selling AGL Australia Shareholder, by AGL Energy as consideration in full for the transfer to the Sale Agent of that number of AGL Australia Shares which is equal to one AGL Australia Share for each AGL Energy Share held by that Selling AGL Australia Shareholder on the Record Date,

in accordance with clause 3.4.

3.4 Transfer of AGL Australia Shares

The obligations of AGL Energy under clause 3.3 will be discharged by AGL Energy:

(a) transferring all the AGL Australia Shares (other than the Retained Shareholding) to the Scheme Participants (or in the case of Ineligible Overseas Shareholders and Selling AGL Australia Shareholders, to the Sale Agent) in the numbers determined in accordance with clause 3.3; and

(b) procuring the entry in the AGL Australia Register:

(1) of the name of each Scheme Participant (other than Ineligible Overseas Shareholders and Selling AGL Australia Shareholders) in respect of the AGL Australia Shares transferred to the relevant Scheme Participant; or

(2) of the name of the Sale Agent in respect of those AGL Australia Shares referred to in:

(A) clause 3.3(b) for Ineligible Overseas Shareholders; and

(B) clause 3.3(c) for Selling AGL Australia Shareholders.

3.5 Dispatch of holding statements

As soon as practicable after the Implementation Date and in accordance with the Listing Rules, AGL Energy will procure that AGL Australia sends to each Scheme Participant (who is not an Ineligible Overseas Shareholder or Selling AGL Australia Shareholder) or the Sale Agent (as applicable), holding statements for the AGL Australia Shares transferred in accordance with clause 3.3, by pre-paid post to their registered address at the Record Date, or as otherwise directed by the relevant Scheme Participant or Sale Agent.

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3.6 Joint holders

In the case of Scheme Participants (who are not Ineligible Overseas Shareholders or Selling AGL Australia Shareholders) who are joint holders of AGL Energy Shares:

(a) entry in the AGL Australia Register must take place in the same order as the holders' names appear in the AGL Energy Register; and

(b) holding statements in relation to the AGL Australia Shares will be issued in the name of the joint holders and will be forwarded to the holder whose name appears first in the AGL Energy Register on the Record Date.

3.7 Status of AGL Australia Shares

AGL Energy, in transferring AGL Australia Shares to a Scheme Participant or the Sale Agent pursuant to clause 3.4, is deemed to have warranted to the relevant transferee that each such AGL Australia Share is, at the date of the transfer, fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and other interests, whether legal or otherwise, of the AGL Energy Group or any person claiming through, under or in trust for the AGL Energy Group, and restrictions on transfer of any kind, and that it has full power and capacity to transfer the AGL Australia Shares to Scheme Participants and the Sale Agent (together with any rights and entitlements attaching to those AGL Australia Shares) pursuant to the Scheme.

4 Sale and Top-up Facilities

4.1 The AGL Australia Sale and Top-Up Facility

(a) (**Sale or purchase of AGL Australia Shares**) AGL Energy will procure in accordance with the terms of the AGL Australia Sale and Top-Up Facility that:

(1) the Sale Agent, as soon as reasonably practicable (and in any event no later than the end of the Sale Period), will sell and purchase AGL Australia Shares on a Licensed Market in accordance with the valid elections made by eligible Small Shareholders;

(2) the AGL Energy Registry accounts to each Ineligible Overseas Shareholder and Selling AGL Australia Shareholder (as applicable) for the proceeds of sale and any income attributable to their AGL Australia Shares (on an averaged basis so that Ineligible Overseas Shareholders, Selling AGL Australia Shareholders and Buying AGL Australia Shareholders receive or pay (as applicable) the same price per AGL Australia Share, subject to rounding up to the nearest whole cent);

(3) for each Ineligible Overseas Shareholder and Selling AGL Australia Shareholder, the AGL Energy Registry remits the proceeds of sale due to each Ineligible Overseas Shareholder and Selling AGL Australia Shareholder to the Ineligible Overseas Shareholder or Selling AGL Australia Shareholder (as the context requires) no later than 7 Business Days after the end of the Sale Period, such amounts to be dispatched by:

(A) direct credit to the nominated bank account of each Ineligible Overseas Shareholder and Selling AGL Australia

Shareholder as noted in the AGL Energy Register at the Record Date; or

(B) where a bank account has not been nominated by an Ineligible Overseas Shareholder or Selling AGL Australia Shareholder for the purpose of paragraph 4.1(a)(3), cheque to be mailed to the address of that Ineligible Overseas Shareholder or Selling AGL Australia Shareholder as shown in the AGL Energy Register at the Record Date or in the case of an Ineligible Overseas Shareholder or Selling AGL Australia Shareholder who is a joint holder of AGL Energy Shares, by cheque issued in the name of the joint holders and to be mailed to the address of that Ineligible Overseas Shareholder or Selling AGL Australia Shareholder as shown in the AGL Energy Register whose name appears first in the AGL Energy Register on the Record Date. This does not apply if the Ineligible Overseas Shareholder or Selling AGL Australia Shareholder does not have a registered address, or where AGL Energy believes that such Ineligible Overseas Shareholder or Selling AGL Australia Shareholder is not known at their registered address; and

(4) holding statements are issued in accordance with the Listing Rules to Small Shareholders who have purchased additional AGL Australia Shares in the AGL Australia Sale and Top-Up Facility.

(b) (**Sale or purchase of AGL Energy Shares**) AGL Energy will procure in accordance with the terms of the AGL Energy Sale and Top-Up Facility that:

(1) the Sale Agent, as soon as reasonably practicable (and in any event no later than the end of the Sale Period), will sell and purchase AGL Energy Shares on a Licensed Market in accordance with the valid elections made by eligible Small Shareholders;

(2) the AGL Energy Registry accounts to each Selling AGL Energy Shareholder for the proceeds of sale and any income attributable to their AGL Energy Shares (on an averaged basis so that Selling AGL Energy Shareholders and Buying AGL Energy Shareholders receive or pay (as applicable) the same price per AGL Energy Share, subject to rounding up to the nearest whole cent);

(3) the AGL Energy Registry remits the proceeds of sale due to each Selling AGL Energy Shareholder within the timeframe and in the manner described in section 4.1(a)(3); and

(4) holding statements are issued in accordance with the Listing Rules to Small Shareholders who have purchased additional AGL Energy Shares in the AGL Energy Sale and Top-Up Facility.

4.2 Satisfaction of obligations

AGL Energy, by complying with the terms of clause 4.1(a) in respect of an Ineligible Overseas Shareholder or Selling AGL Australia Shareholder, will be taken to have satisfied and discharged its obligations to the relevant Ineligible Overseas Shareholder or Selling AGL Shareholder under the terms of the Capital Reduction Resolution and the Scheme. An Ineligible Overseas Shareholder or Selling AGL Shareholder will have no claim against AGL Energy or AGL Australia for any entitlement they would have had to AGL Australia Shares but for the terms of this Scheme.

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4.3 Acknowledgement

Under this Scheme, each Ineligible Overseas Shareholder and Selling AGL Australia Shareholder (including those Ineligible Overseas Shareholders and Selling AGL Australia Shareholders who do not attend the Scheme Meeting or the General Meeting, do not vote at either meeting or vote against the Demerger Resolutions) agrees and acknowledges that the sale in respect of that person's Distribution Entitlement under the AGL Australia Sale and Top-Up Facility or this Scheme by operation of clause 4.1(a) constitutes satisfaction of all that person's entitlements in and to that person's Distribution Entitlement.

4.4 Appointment as agent

Each Sale Facility Participant appoints AGL Energy as its agent to receive on its behalf any financial services guide or other notices which may be given by the Sale Agent to that Sale Facility Participant.

5 Dealings in AGL Energy Shares

5.1 AGL Energy Register

Subject to the Corporations Act, the Listing Rules and the Settlement Operating Rules, the establishment of who are Scheme Participants and their respective entitlements, will be determined solely on the basis of the AGL Energy Register and this Scheme.

5.2 Determination of Scheme Participants

To establish the identity of the Scheme Participants and their respective entitlements, dealings in AGL Energy Shares or other alterations to the AGL Energy Register will only be recognised if:

(a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the AGL Energy Register as the holder of the relevant AGL Energy Shares on or before the Record Date; and

(b) in all other cases, registrable transfers or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received on or before the Record Date at the AGL Energy Registry,

and AGL Energy will not accept for registration, nor recognise for any purpose, any transfer or transmission application or other request received after such times, or received prior to such times but not in registrable or actionable form, as appropriate.

6 General Scheme provisions

6.1 Agreement to become a member of AGL Australia

Under this Scheme, each Scheme Participant (including those Scheme Participants who do not attend the Scheme Meeting, do not vote at either meeting or vote against the Demerger Resolutions) who will receive AGL Australia Shares:

(a) agrees to become a member of AGL Australia, to have their name entered in the AGL Australia Register, accepts the AGL Australia Shares transferred to them and agrees to be bound by the AGL Australia Constitution; and

(b) agrees and acknowledges that the transfer of AGL Australia Shares in accordance with clause 3.3 constitutes satisfaction of all that person's entitlements in and to that person's Distribution Entitlement,

without the need for any further act by a Scheme Participant.

This clause 6.1 does not apply to Ineligible Overseas Shareholders and Selling AGL Australia Shareholders.

6.2 Appointment of agent and attorney

(a) Each Scheme Participant, without the need for any further act, irrevocably appoints AGL Energy as its agent and attorney for the purpose of executing any document or doing any other act necessary or desirable to give effect to the terms of this Scheme, including without limitation:

(1) the execution and delivery of any form or document required to effect the transfer of AGL Australia Shares to Eligible Shareholders, the Sale Agent or any other person in accordance with the terms of this Scheme, and the delivery of any such form to AGL Australia;

(2) executing any document or doing any other act necessary to give effect to the terms of this Scheme, including, without limitation, the communication of the Eligible Shareholder's consent, agreement, notification or instructions under clauses 4, 6.1, 6.3, 6.4 or 6.5; and

(3) the enforcement of the Deed Poll against AGL Australia,

and AGL Energy accepts such appointment.

(b) AGL Energy, as agent of each Scheme Participant, may sub-delegate its functions under clause 6.2(a) to all or any of its directors and secretaries (jointly and severally).

6.3 Instructions to AGL Energy

To the extent permitted by law, binding instructions or notifications between an Eligible Shareholder and AGL Energy relating to AGL Energy Shares or an Eligible Shareholder's status as an AGL Energy Shareholder (including, without limitation, any instructions in relation to payment of dividends (excluding AGL Energy dividend investment plan) or communications from AGL Energy) will, from the Record Date, be deemed by reason of this Scheme to be similarly binding instructions or notifications to, and accepted by, AGL Australia in respect of the AGL Australia Shares transferred to Eligible Shareholders until those instructions or notifications are, in each case, revoked or amended in writing addressed to AGL Australia at its share registry.

6.4 Scheme Participants' consent

Each Scheme Participant irrevocably consents to AGL Energy doing all things necessary, incidental or expedient to the implementation and performance of the Scheme and acknowledge that the Scheme binds AGL Energy and all of the Scheme Participants from time to time (including those who do not attend the Scheme Meeting, do not vote at either meeting or vote against the Demerger Resolutions).

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6.5 Amendments to the Scheme

AGL Energy may, by its counsel and with the consent of AGL Australia, consent, on behalf of all persons concerned (including a Scheme Participant), to any alterations or conditions to this Scheme as the Court thinks just to impose.

6.6 Further steps

AGL Energy will execute all documents and do all acts and things necessary or desirable for the implementation and performance of its obligations under this Scheme and will, on behalf of Scheme Participants, procure AGL Australia to execute all documents and do all acts and things necessary or desirable for the implementation and performance of the steps attributed to AGL Australia under this Scheme.

6.7 Scheme binding

To the extent of any inconsistency between this Scheme and the Constitution, this Scheme overrides the Constitution and binds AGL Energy and all Scheme Participants.

6.8 Enforcement of Deed Poll

AGL Energy undertakes in favour of each Scheme Participant that it will enforce the Deed Poll against AGL Australia on behalf of and as agent and attorney for Scheme Participants.

7 General

7.1 Costs and stamp duty

AGL Energy will pay any costs, and any stamp duty and any related fines or penalties, which are payable on or in respect of this Scheme or on any document referred to this Scheme, including, without limitation, all brokerage and stamp duty payable in connection with the transfer of AGL Australia Shares to Scheme Participants (or in the case of Ineligible Overseas Shareholders and Selling Shareholders, to the Sale Agent) in accordance with this Scheme.

7.2 Notices

(a) If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to AGL Energy, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at AGL Energy's registered office or at the office of the AGL Energy Registry.

(b) The accidental omission to give notice of the Scheme Meeting or General Meeting or the non-receipt of such notice by an AGL Energy Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting, the General Meeting or the proceedings of the Scheme Meeting or General Meeting.

7.3 Governing law and jurisdiction

(a) This Scheme is governed by the law in force in New South Wales.

(b) Each party irrevocably submits to the non-exclusive jurisdiction of courts exercising jurisdiction in New South Wales and courts of appeal from them in respect of any proceedings arising out of or in connection with this Scheme. Each party irrevocably waives any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

7.4 No liability when acting in good faith

Each Scheme Participant agrees that neither AGL Energy nor AGL Australia nor any director, officer, secretary or employee of either of those companies will be liable for anything done or omitted to be done in the performance of this Scheme or the Deed Poll in good faith.

11.Scheme of Arrangement

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Schedule 1

Definitions and interpretation

1 Definitions

The meanings of the terms used in this Scheme are set out below.

Term	Meaning
AGL Australia	AGL Australia Limited (ABN 31 651 096 114).
AGL Australia Board	the board of directors of AGL Australia.
AGL Australia Constitution	the constitution of AGL Australia as amended from time to time.
AGL Australia Listing	the listing of AGL Australia on the ASX.
AGL Australia Share	a fully paid ordinary share in AGL Australia.
AGL Australia Register	the register of members of AGL Australia.
AGL Australia Sale and Top-Up Facility	the facility to be established and implemented by AGL Energy under which AGL Australia Shares may be sold or purchased, the terms of which are more fully described in Section 5.8 of the Scheme Booklet.
AGL Australia Shareholder	a person who is registered in the AGL Australia Register as a holder of an AGL Australia Share following implementation of the Demerger.
AGL Energy Board	the board of directors of AGL Energy.
AGL Energy Group	AGL Energy and any of its subsidiaries, other than AGL Australia and any of its subsidiaries.

Term	Meaning
AGL Energy Register	the register of members of AGL Energy.
AGL Energy Registry	Computershare Investor Services Pty Limited (ABN 48 078 279 277) in its capacity as provider of registry services in respect of the AGL Energy Register.
AGL Energy Sale and Top-Up Facility	the facility to be established and implemented by AGL Energy under which AGL Energy Shares may be sold or purchased, the terms of which are more fully described in Section 5.8 of the Scheme Booklet.
AGL Energy Share	a fully paid ordinary share in AGL Energy.
AGL Energy Shareholder	a person who is registered in the AGL Energy Register as the holder of an AGL Energy Share.
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited (ABN 98 008 624 691), or the financial market operated by it as the context requires.
ASX Listing Information Memorandum	the information memorandum lodged by AGL Australia with ASX in connection with AGL Australia's application for admission to the official list of ASX.
ASX Operating Rules	the market operating rules of ASX as amended, varied or waived from time to time.
ASX Settlement	ASX Settlement Pty Limited (ABN 49 008 504 532) as the holder of a licence to operate a clearing and settlement facility.
Benefits Resolution	an ordinary resolution of AGL Energy Shareholders under 200C of the Corporations Act relating to the provision of certain benefits to persons holding a managerial or executive office as described and in the form set out in the AGL Energy notice of general meeting contained in Section 13.1 of the Scheme Booklet.
Business Day	has the meaning given to that term in the Listing Rules.

11.Scheme of Arrangement

Term	Meaning
Buying AGL Australia Shareholder	an AGL Energy Shareholder (holding up to 500 AGL Energy Shares and having a registered address on the AGL Energy Registry in Australia or New Zealand as at the Record Date) who validly elects to purchase, and pays as directed the nominated amount (being an amount in $500 increments up to a maximum of $2000) required to purchase, AGL Australia Shares under the AGL Australia Sale and Top-Up Facility.
Buying AGL Energy Shareholder	an AGL Energy Shareholder (holding up to 500 AGL Energy Shares and having a registered address on the AGL Energy Registry in Australia or New Zealand as at the Record Date) who validly elects to purchase, and pays as directed the nominated amount (being an amount in $500 increments up to a maximum of $2000) required to purchase, AGL Energy Shares under the AGL Energy Sale and Top-Up Facility.
Capital Reduction	the reduction in the capital of AGL Energy by the Capital Reduction Amount to be applied equally against each AGL Energy Share on issue as at the Record Date in accordance with the terms of the Capital Reduction Resolution.
Capital Reduction Amount	the amount of the capital of AGL Energy that is to be reduced in accordance with the Capital Reduction Resolution, being the Capital Reduction Pro Rata Amount multiplied by the number of AGL Energy Shares on issue at the Record Date.
Capital Reduction Entitlement	in relation to a Scheme Participant, the Capital Reduction Pro-Rata Amount multiplied by the number of AGL Energy Shares held by the Scheme Participant on the Record Date.
Capital Reduction Pro-Rata Amount	$4.74 per AGL Energy Share.
Capital Reduction Resolution	an ordinary resolution concerning the Capital Reduction to be considered by AGL Energy Shareholders at the General Meeting in the form set out in the AGL Energy notice of general meeting contained in Section 13.1 of the Scheme Booklet.
CHESS	Clearing House Electronic Sub-register System, operated in accordance with the Corporations Act.
Constitution	the constitution of AGL Energy as amended from time to time.

Term	Meaning
Corporate Restructure	those restructure steps set out in the Restructure Agreement that are required to be completed prior to the Implementation Date.
Corporations Act	the *Corporations Act 2001* (Cth) and the regulations made under that Act.
Court	the Supreme Court of New South Wales.
Deed Poll	the deed poll by AGL Australia in favour of Scheme Participants in the form of Section 12 of the Scheme Booklet (subject to any amendments permitted by its terms).
Demerger	the proposed demerger of AGL Australia from AGL Energy, to be implemented through: 1 the Corporate Restructure; 2 the Scheme and Capital Reduction; and 3 the AGL Australia Listing.
Disclosure Documents	1 the Scheme Booklet; and 2 the ASX Listing Information Memorandum.
Demerger Resolutions	1 the Scheme Resolution; 2 the Financial Assistance Resolution; and 3 the Capital Reduction Resolution.
Distribution Entitlement	one AGL Australia Share for each AGL Energy Share held at the Record Date.
Effective Date	the date on which the office copy of the Court order approving the Scheme is lodged with ASIC pursuant to section 411(10) of the Corporations Act.
Eligible Shareholder	a Scheme Participant whose registered address on the AGL Energy Register on the Record Date is in: 1 Australia, New Zealand, Canada, Hong Kong, Malaysia, Singapore, the United Kingdom and the United States of America; or 2 any other place where AGL Energy reasonably believes that it is not prohibited and not unduly onerous or impractical to

Term	Meaning
	implement the Scheme and to transfer AGL Australia Shares to Scheme Participants in that place.
End Date	30 September 2022 or such later date as is specified by AGL Energy.
Financial Assistance Resolution	a special resolution of AGL Energy Shareholders under section 260B(2) of the Corporations Act relating to the provision of financial assistance to AGL Australia by certain guarantor entities as described and in the form set out in the AGL Energy notice of general meeting contained in Section 13.1 of the Scheme Booklet.
General Meeting	the general meeting of AGL Energy Shareholders convened to consider, the Capital Reduction Resolution, the Financial Assistance Resolution, the Name Change Resolution and the Benefits Resolution and includes any adjournment of that meeting.
Government Agency	means a government or a governmental, semi-governmental or judicial entity or authority. It also includes a self-regulatory organisation established under statute or a stock exchange.
Group	AGL Energy and any of its subsidiaries, including AGL Australia and any of its subsidiaries.
Implementation Date	7:00pm on 30 June 2022 or such other date as determined by AGL Energy.
Ineligible Overseas Shareholder	a Scheme Participant who as at the Record Date is not an Eligible Shareholder.
Licensed Market	a financial market the operation of which is authorised by an Australian market licence under section 795B of the Corporations Act.
Listing Rules	the official listing rules of ASX from time to time as modified by any express written waiver or exemption given by ASX.
Name Change Resolution	a special resolution of AGL Energy Shareholders in respect of the Name Change and in the form set out in the AGL Energy notice of general meeting contained in Section 13.1 of the Scheme Booklet.

Term	Meaning
Record Date	the date for determining entitlements to AGL Australia Shares in accordance with clause 3.3, being 7.00pm (Sydney time) on 23 June 2022 or such other date as determined by AGL Energy.
Regulatory Approvals	such approvals, consents, waivers or other acts from or by Regulatory Authorities as are necessary or, in the reasonable opinion of AGL Energy, desirable in connection with or to implement the Demerger.
Regulatory Authority	includes: 1 ASX, ASIC and the Australian Competition and Consumer Commission; 2 a government or governmental, semi-governmental or judicial entity or authority; 3 a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; and 4 any regulatory organisation established under statute.
Restructure Agreement	the agreement between AGL Energy and AGL Australia dealing with certain corporate restructuring steps, a summary of which is set out in Section 5.9.1 of the Scheme Booklet.
Retained Shareholding	the number of AGL Australia Shares held or retained by AGL Energy, being 15 per cent of all AGL Australia Shares on issue as at the Implementation Date.
Sale Agent	Macquarie Securities (Australia) Limited ABN 58 002 832 126.
Sale Facility Participant	an Ineligible Overseas Shareholder, a Selling AGL Australia Shareholder, a Selling AGL Energy Shareholder, a Buying AGL Australia Shareholder or a Buying AGL Energy Shareholder.
Sale Period	the period starting on the second Business Day after the Implementation Date up to and including the 20th Business Day after that date (or, subject to obtaining any necessary ASIC exemptions or waivers, such longer period of time which AGL Energy and the Sale Agent determine).
Scheme	the scheme of arrangement under Part 5.1 of the Corporations Act between AGL Energy and the AGL Energy Shareholders as set out in this document, subject to any alterations or conditions made or required by the Court pursuant to section 411 of the Corporations

11.Scheme of Arrangement

Term	Meaning
	Act.
Scheme Booklet	the scheme booklet explaining the Demerger and containing, among other things, the Scheme, an explanatory statement in relation to the Scheme as required by Part 5.1 of the Corporations Act and the notice of meeting for the Scheme Meeting.
Scheme Meeting	the meeting of AGL Energy Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider the resolution set out in the notice of meeting for the Scheme contained in Section 13.2 of the Scheme Booklet, and includes any adjournment of that meeting.
Scheme Participant	subject to clause 5.1, an AGL Energy Shareholder as at the Record Date.
Scheme Resolution	the resolution to approve the Scheme to be considered by AGL Energy Shareholders at the Scheme Meeting set out in the AGL Energy notice of meeting for the Scheme contained in Section 13.2 of the Scheme Booklet.
Second Court Date	the date on which the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme is heard (or, if adjourned to a later date, that date).
Selling AGL Australia Shareholder	a Small Shareholder who validly elects to have all the AGL Australia Shares that they would otherwise receive under the Scheme sold using the AGL Australia Sale and Top-Up Facility.
Selling AGL Energy Shareholder	a Small Shareholder who validly elects to have all the AGL Energy Shares that they hold as at the Record Date sold using the AGL Energy Sale and Top-Up Facility.
Settlement Operating Rules	the operating rules of ASX Settlement.
Small Shareholder	an Eligible Shareholder who holds 500 AGL Energy Shares or less as at the Record Date.

2 Interpretation

In this Scheme:

(a) headings and bold type are for convenience only and do not affect the interpretation of this Scheme;

(b) the singular includes the plural and the plural includes the singular;

(c) words of any gender include all genders;

(d) other parts of speech and grammatical forms of a word or phrase defined in this Scheme have a corresponding meaning;

(e) a reference to a person includes any company, partnership, joint venture, association, corporation or other body corporate and any Government Agency as well as an individual;

(f) a reference to a clause, party, schedule, attachment or exhibit is a reference to a clause of, and a party, schedule, attachment or exhibit to, this Scheme;

(g) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or reenactments of any of them (whether passed by the same or another Government Agency with legal power to do so);

(h) a reference to a document (including this Scheme) includes all amendments or supplements to, or replacements or novations of, that document;

(i) a reference to '$', 'A$' or 'dollar' is to Australian currency;

(j) a reference to any time is, unless otherwise indicated, a reference to that time in Sydney, Australia;

(k) a term defined in or for the purposes of the Corporations Act, and which is not defined in clause 1 of this Schedule 1, has the same meaning when used in this Scheme;

(l) a reference to a party to a document includes that party's successors and permitted assignees;

(m) no provision of this Scheme will be construed adversely to a party because that party was responsible for the preparation of this Scheme or that provision;

(n) any agreement, representation, warranty or indemnity by two or more parties (including where two or more persons are included in the same defined term) binds them jointly and severally;

(o) any agreement, representation, warranty or indemnity in favour of two or more parties (including where two or more persons are included in the same defined term) is for the benefit of them jointly and severally;

(p) a reference to a body, other than a party to this Scheme (including an institute, association or authority), whether statutory or not:

(1) which ceases to exist; or

(2) whose powers or functions are transferred to another body,

is a reference to the body which replaces it or which substantially succeeds to its powers or functions;

(q) if a period of time is specified and dates from a given day or the day of an act or event, it is to be calculated exclusive of that day;

11.Scheme of Arrangement

(r) a reference to a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;

(s) if an act prescribed under this Scheme to be done by a party on or by a given day is done after 5.00pm on that day, it is taken to be done on the next day; and

(t) a reference to the Listing Rules and the ASX Operating Rules includes any variation, consolidation or replacement of these rules and is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a party.

3 Interpretation of inclusive expressions

Specifying anything in this Scheme after the words 'include' or 'for example' or similar expressions does not limit what else is included.

4 Business Day

Where the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the next Business Day.

Section 12

Deed Poll

12.Deed Poll

HERBERT
SMITH
FREEHILLS

Deed

Execution Version

Deed Poll

AGL Australia Limited

ANZ Tower 161 Castlereagh Street Sydney NSW 2000 Australia
GPO Box 4227 Sydney NSW 2001 Australia

T +61 2 9225 5000 **F** +61 2 9322 4000
herbertsmithfreehills.com DX 361 Sydney

HERBERT SMITH FREEHILLS

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12.Deed Poll

HERBERT SMITH FREEHILLS

Deed Poll

Date ▸ 2 May 2022

This deed poll is made by

AGL Australia	**AGL Australia Limited** ABN 31 651 096 114 of Level 24, 200 George Street, Sydney NSW 2000
in favour of	each holder of fully paid ordinary shares in AGL Energy Limited ABN 74 115 061 375 (**AGL Energy**) as at the Record Date (**Scheme Participants**)
Recitals	1 On or about the date of this deed poll, AGL Australia and AGL Energy entered into the Demerger Implementation Deed. 2 In the Demerger Implementation Deed, AGL Australia agreed to enter into this deed poll. 3 AGL Australia is entering into this deed poll for the purpose of covenanting in favour of Scheme Participants to perform its obligations under the Demerger Implementation Deed and the Scheme.

This deed poll witnesses:

99912084

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HERBERT SMITH FREEHILLS

1 Definitions and interpretation

1.1 Definitions

Unless indicated otherwise, capitalised terms used but not defined in this deed poll have the same meaning as in the Scheme. In addition, in this deed poll the following terms have the meaning set out below.

Term	Meaning
Demerger Implementation Deed	the Demerger Implementation Deed entered into by AGL Energy and AGL Australia on or about the date of this deed poll in relation to the implementation of the Scheme, and the other steps required for the Demerger.
Scheme	the scheme of arrangement under Part 5.1 of the Corporations Act between AGL Energy and AGL Energy Shareholders as set out in the Scheme Booklet, subject to any alterations or conditions made or required by the Court pursuant to section 411 of the Corporations Act.

1.2 Interpretation

In this deed poll:

(a) headings and bold type are for convenience only and do not affect the interpretation of this deed poll;

(b) the singular includes the plural and the plural includes the singular;

(c) words of any gender include all genders;

(d) other parts of speech and grammatical forms of a word or phrase defined in this deed poll have a corresponding meaning;

(e) a reference to a person includes any company, partnership, joint venture, association, corporation or other body corporate and any Government Agency as well as an individual;

(f) a reference to a clause, party, schedule, attachment or exhibit is a reference to a clause of, and a party, schedule, attachment or exhibit to, this deed poll;

(g) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or reenactments of any of them (whether passed by the same or another Government Agency with legal power to do so);

(h) a reference to a document (including this deed poll) includes all amendments or supplements to, or replacements or novations of, that document;

(i) the word 'includes' in any form is not a word of limitation;

(j) a reference to '$', 'A$' or 'dollar' is to Australian currency;

(k) a reference to any time is, unless otherwise indicated, a reference to that time in Sydney, Australia;

(l) a term defined in or for the purposes of the Corporations Act has the same meaning when used in this deed poll; and

(m) a reference to the Listing Rules and the ASX Operating Rules includes any variation, consolidation or replacement of these rules and is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a party.

1.3 Business Day

Where the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the next Business Day.

1.4 Nature of deed poll

AGL Australia acknowledges that this deed poll may be relied on and enforced by any Scheme Participant in accordance with its terms even though the Scheme Participants are not party to it.

2 Condition to obligations

2.1 Conditions

AGL Australia's obligations under this deed poll are subject to the satisfaction of each of the conditions in clause 2.1 of the Scheme.

2.2 Termination

If the conditions precedent in clause 2.1 of the Scheme are not satisfied on or before the End Date (or such later date agreed by AGL Energy and AGL Australia in writing and, if required, approved by the Court), subject to clause 2.3, AGL Australia's obligations under this deed poll automatically terminate.

2.3 Consequences of termination

If this deed poll is terminated under clause 2.2, in addition and without prejudice to any other rights, powers or remedies available to it:

(a) AGL Australia is released from its obligations to further perform this deed poll; and

(b) Scheme Participants retain the rights they have against AGL Australia in respect of any breach of this deed poll which occurs before it is terminated.

HERBERT SMITH FREEHILLS

3 Transfer of AGL Australia Shares

3.1 Agreement to become members of AGL Australia

Under clause 6.1 of the Scheme, each Scheme Participant (other than Ineligible Overseas Shareholders and Selling AGL Australia Shareholders) provides their agreement to become a member of AGL Australia, to have their name entered in the AGL Australia Register, to accept the AGL Australia Shares transferred to them and to be bound by the AGL Australia Constitution.

3.2 Obligation to update AGL Australia Register

On the Implementation Date, AGL Australia must enter into the AGL Australia Register:

(a) each Scheme Participant (other than Ineligible Overseas Shareholders and Selling AGL Australia Shareholders) in respect of the AGL Australia Shares to which they are entitled under the Scheme; and

(b) the Sale Agent, in respect of the AGL Australia Shares transferred to the Sale Agent and referrable to the Ineligible Overseas Shareholders and Selling AGL Australia Shareholders, under the Scheme.

3.3 Confirmation of allotment

(a) In accordance with clause 3.5 of the Scheme, as soon as practicable after the Implementation Date and in accordance with the Listing Rules, AGL Australia must dispatch or procure the dispatch to:

(1) each Scheme Participant (other than Ineligible Overseas Shareholders and Selling AGL Australia Shareholders) holding statements for the AGL Australia Shares to which they are entitled under the Scheme; and

(2) the Sale Agent the holding statements for the AGL Australia Shares transferred to the Sale Agent in respect of the Ineligible Overseas Shareholders and Selling AGL Australia Shareholders,

by prepaid post to their registered address as at the Record Date, unless that Scheme Participant (other than Ineligible Overseas Shareholders and Selling AGL Australia Shareholders) or Sale Agent has validly directed otherwise.

(b) In the case of Scheme Participants (who are not Ineligible Overseas Shareholders or Selling AGL Australia Shareholders) who are joint holders of AGL Energy Shares:

(1) entry in the AGL Australia Register must take place in the same order as the holders' names appear in the AGL Energy Register; and

(2) holding statements in relation to the AGL Australia Shares will be issued in the name of the joint holders and will be forwarded to the holder whose name appears first in the AGL Energy Register on the Record Date.

(c) This clause 3.3 does not apply to a Scheme Participant (other than Ineligible Overseas Shareholders and Selling AGL Australia Shareholders) who does not have a registered address, or where AGL Energy and AGL Australia believe that such Scheme Participant (other than Ineligible Overseas Shareholders and Selling AGL Australia Shareholders) is not known at their registered address.

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4 Other obligations of AGL Australia

4.1 Official quotation of AGL Australia Shares

AGL Australia must apply for admission of AGL Australia to the official list of ASX and apply for the granting by ASX of permission for official quotation of AGL Australia Shares to be transferred pursuant to the Scheme on a financial market operated by ASX, subject only to the Scheme taking effect and such other conditions that are acceptable to the AGL Energy Board and the AGL Australia Board.

4.2 General

AGL Australia covenants in favour of Scheme Participants to perform:

(a) the steps attributed to it under, and otherwise comply with, the Scheme as if a party to the Scheme; and

(b) all steps required of it under, and to otherwise comply with, the Demerger Implementation Deed (insofar as it relates to the Scheme).

5 Warranties

AGL Australia represents and warrants that:

(a) it is a corporation validly existing under the laws of its place of registration;

(b) it has the corporate power to enter into and perform, or cause to be performed, its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;

(c) it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance of this deed poll and to carry out the transactions contemplated by this deed poll; and

(d) this deed poll is valid and binding on it.

6 Continuing obligations

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

(a) AGL Australia has fully performed its obligations under this deed poll; or

(b) the earlier termination of this deed poll under clause 2.

7 Notices

7.1 How and where Notices may be sent

A notice or other communication in respect of this deed poll (**Notice**) must be in writing and delivered by hand or sent by pre-paid post or email to AGL Australia at the address

or the email address for AGL Australia set out below or as otherwise specified by AGL Australia by Notice:

Attention: Company Secretary

Address: Level 24, 200 George Street, Sydney NSW 2000

Email address: CompanySecretary@agl.com.au with a copy to Philippa.Stone@hsf.com

7.2 Notices to be in legible writing in English

A Notice to or by AGL Australia must be in legible writing and in English.

7.3 How a Notice must be signed

A Notice must be signed by the person giving the Notice or by a person duly authorised by that person.

7.4 Notice must not be given by electronic communication

A Notice must not be given by electronic means of communication (other than email as permitted in clause 7.1).

7.5 When Notices are taken to have been given and received

(a) A Notice sent by post is regarded as given and received in the ordinary course of post.

(b) A Notice sent by email is regarded as given and received when the email (including any attachment) comes to the attention of the recipient or a person acting on the recipient's behalf.

(c) A Notice delivered or received other than on a Business Day or after 4.00pm (recipient's time) is regarded as received at 9.00am on the following Business Day and a Notice delivered or received before 9.00am (recipient's time) is regarded as received at 9.00am.

8 General

8.1 Governing law and jurisdiction

(a) This deed poll is governed by the law in force in New South Wales.

(b) AGL Australia irrevocably submits to the non-exclusive jurisdiction of courts exercising jurisdiction in New South Wales and courts of appeal from them in respect of any proceedings arising out of or in connection with this deed poll. AGL Australia irrevocably waives any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

8.2 Waiver

(a) AGL Australia may not rely on the words or conduct of any Scheme Participant as a waiver of any right unless the waiver is in writing and signed by the Scheme Participant granting the waiver.

(b) No Scheme Participant may rely on the words or conduct of AGL Australia as a waiver of any right unless the waiver is in writing and signed by AGL Australia.

(c) The meanings of the terms used in this clause are set out below.

Term	Meaning
conduct	includes delay in the exercise of a right.
right	any right arising under or in connection with this deed poll and includes the right to rely on this clause.
waiver	includes an election between rights and remedies, and conduct which might otherwise give rise to an estoppel.

8.3 Variation

A provision of this deed poll may not be varied unless the variation is agreed to by AGL Energy in writing (and if required, the Court), in which event AGL Australia will enter into a further deed poll in favour of the Scheme Participants giving effect to the amendment.

8.4 Cumulative rights

The rights, powers and remedies of AGL Australia and the Scheme Participants under this deed poll are cumulative and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

8.5 Assignment

(a) The rights created by this deed poll are personal to AGL Australia and each Scheme Participant and must not be dealt with at law or in equity.

(b) Any purported dealing in contravention of clause 8.5(a) is invalid.

8.6 Further action to be taken at AGL Australia's expense

AGL Australia must, at its own expense (unless agreed to be borne by AGL Energy), do all things and execute all documents necessary to give effect to this deed poll.

HERBERT
SMITH
FREEHILLS

Signing page

Executed as a deed poll

Signed sealed and delivered by
AGL Australia Limited
by

sign here ►		*sign here* ►	
	~~Company Secretary/~~Director		Director
print name	CHRISTINE CORBETT	*print name*	DAMIEN NICKS

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Section 13

Notices of Meetings

13. Notices of Meetings

13.1 Notice of General Meeting

AGL Energy Limited (ACN 115 061 375) (**AGL Energy**) gives notice that a General Meeting of AGL Energy Shareholders will be held on Wednesday, 15 June 2022 at 10:30am (AEST). The General Meeting will be held at International Convention Centre Sydney, 14 Darling Drive Sydney NSW 2000 and online at https://meetnow.global/MD75Z5T.

13.1.1 Business of the General Meeting

The purpose of the meeting is to consider and, if thought fit, to pass the following resolutions.

Item 1: Approval of Capital Reduction

To consider and, if thought fit, approve the following resolution as an ordinary resolution:

"That, subject to and conditional on the scheme of arrangement described in Section 11 of the Scheme Booklet and proposed to be made between AGL Energy and the holders of its fully paid ordinary shares (**Scheme**) becoming effective in accordance with section 411(10) of the *Corporations Act 2001* (Cth) (**Corporations Act**), AGL Energy's share capital be reduced pursuant to section 256C(1) of the Corporations Act on the Implementation Date by the Capital Reduction Amount, with the reduction being effected and satisfied by applying such amount equally against each ordinary share in AGL Energy on issue at the Record Date and in accordance with the Scheme."

Item 2: Financial Assistance Resolution

To consider and, if thought fit, approve the following resolution as a special resolution:

"That, pursuant to section 260B(2) of the Corporations Act, approval is given for the financial assistance to be provided by all or any of the entities listed in Schedule 1 (the **Guarantor Entities**) in connection with the acquisition of shares in the Guarantor Entities (or their holding companies) by AGL Australia Limited (ACN 651 096 114) and the Scheme as described in section 4.1 of the Explanatory Notes."

Item 3: Name Change Resolution

To consider and, if thought fit, approve the following resolution as a special resolution:

"That, pursuant to section 157 of the Corporations Act, approval is given to change the name of AGL Energy Limited to Accel Energy Limited, effective from the date that ASIC updates its register to reflect the new name (to occur on or after the date on which the Scheme becomes effective in accordance with section 411(10) of the Corporations Act)."

Item 4: Approval of potential benefits to persons holding a managerial or executive office

To consider and, if thought fit, approve the following resolution as an ordinary resolution:

"That, subject to and conditional on the Scheme becoming effective in accordance with section 411(10) of the Corporations Act, approval is given for all purposes (including sections 200C and 200E of the Corporations Act), for the giving of benefits to any holder of a managerial or executive office in AGL Energy Limited or a related body corporate (as defined in section 200AA of the Corporations Act), in connection with the Demerger, on the terms set out in the Explanatory Notes which accompany the Notice of General Meeting."

A voting exclusion applies to this resolution – see below.

Voting exclusion statement

AGL Energy will disregard any votes cast on Item 4 as proxy by a person who is a member of the key management personnel (**KMP**) of AGL Energy at the date of the Meetings and their closely related parties, unless the vote is cast as proxy for a person entitled to vote on the relevant item:

- in accordance with the directions on the proxy form for the General Meeting (**General Meeting Voting Form**); or
- by the Chairman of the General Meeting pursuant to an express authorisation in the General Meeting Voting Form to exercise the proxy as the proxy decides, even though the resolution is connected with the remuneration of AGL Energy's KMP.

Explanatory notes and other information

For further details regarding each resolution, please read the Explanatory Notes accompanying and forming part of this Notice of General Meeting.

Terms used in this notice have the same meaning as set out in the Glossary in Section 10 of this Scheme Booklet (of which this Notice of General Meeting forms part), unless indicated otherwise.

If you would like to receive a hard copy of this Notice of General Meeting, please contact the AGL Energy Shareholder Information Line on 1300 148 339 (within Australia) or +61 2 9066 4059 (international) on weekdays between 9:00am and 5:00pm (AEST).

By order of the AGL Energy Board

John Fitzgerald
Company Secretary

6 May 2022

13. Notices of Meetings

13.2 Notice of Scheme Meeting

AGL Energy Limited (ACN 115 061 375) (**AGL Energy**) gives notice that, by order of the Supreme Court of New South Wales (**Court**) made on 6 May 2022 pursuant to section 411(1) of the Corporations Act, a meeting of holders of fully paid ordinary shares in AGL Energy (**Scheme Meeting**) will be held on Wednesday, 15 June 2022 at the later of 10:45am (AEST) or the conclusion of the General Meeting.

The Scheme Meeting will be held at International Convention Centre Sydney, 14 Darling Drive Sydney NSW 2000 and online at https://meetnow.global/MD75Z5T.

13.2.1 Business of the Scheme Meeting

The purpose of the meeting is to consider and, if thought fit, to agree (with or without modification) to the following resolution:

"That pursuant to, and in accordance with, section 411 of the Corporations Act, the scheme of arrangement proposed between AGL Energy Limited and the holders of its fully paid ordinary shares as contained in and more precisely described in the Scheme Booklet of which the notice convening this meeting forms part, is approved (with or without modification as approved by the Supreme Court of New South Wales)."

Explanatory notes and other information

For further details regarding each resolution, please read the Explanatory Notes accompanying and forming part of this Notice of Scheme Meeting.

Terms used in this notice have the same meaning as set out in the Glossary in Section 10 of the Scheme Booklet (of which this Notice of Scheme Meeting forms part), unless indicated otherwise.

If you would like to receive a hard copy of this Notice of Scheme Meeting, please contact the AGL Energy Shareholder Information Line on 1300 148 339 (within Australia) or +61 2 9066 4059 (international) on weekdays between 9:00am and 5:00pm (AEST).

By order of the Court and the AGL Energy Board

John Fitzgerald
Company Secretary

6 May 2022

13.3 Voting instructions

13.3.1 Eligibility to vote at the Meetings

For the purpose of voting at the General Meeting and Scheme Meeting (together, the **Meetings**), the AGL Energy Board has determined that you will be entitled to attend and vote at the Meetings if you are a registered shareholder of AGL Energy as at **7:00pm (AEST) on Monday 13 June 2022**. This means that transfers of AGL Energy Shares registered after that time will be disregarded in determining entitlements to participate at the Meetings and vote on the resolutions.

13.3.2 Voting at the Meetings and required majorities

The Scheme Resolution is required to be passed by:

- a majority in number (more than 50%) of AGL Energy Shareholders present and voting at the Scheme Meeting (whether in person or by proxy), unless the Court orders otherwise; and
- at least 75% of the total number of votes cast on the Scheme Resolution by AGL Energy Shareholders present and voting at the Scheme Meeting (whether in person or by proxy).

The Capital Reduction Resolution and the Benefits Resolution set out in the Notice of General Meeting are ordinary resolutions and will be passed if more than 50% of votes cast by AGL Energy Shareholders entitled to vote on the resolutions are cast in favour of the resolutions.

The Financial Assistance Resolution and Name Change Resolution set out in the Notice of General Meeting are special resolutions and will be passed if at least 75% of votes cast by AGL Energy Shareholders entitled to vote on the resolutions are cast in favour of the resolutions.

Voting at the Meetings will be conducted by way of a poll, subject to the requirements of the Corporations Act and the AGL Energy Constitution. Voting results will be announced to the ASX as soon as practicable after the Meetings.

The Chairman of the Meeting intends to vote all available proxies in favour of the resolutions.

On a resolution determined by a poll, each registered AGL Energy Shareholder participating in the Meetings, or present by proxy, representative or attorney has one vote for every fully paid ordinary share held.

13.3.3 Participating in the Meetings

The health and safety of our people, shareholders and the communities in which we operate is of paramount importance to us.

In light of the continued uncertainty and potential health risks associated with the COVID-19 pandemic, AGL Energy Shareholders will have the opportunity to participate in the Meetings in the following ways:

- **participate online**. The online platform will allow shareholders to view the meeting, and vote and submit questions in real-time;
- **attend in person**;
- **lodge a directed proxy (including by direct vote)** in advance of the Meetings;
- **lodge questions** in advance of the Meetings; or
- **watch a live webcast of the Meetings**. The Meetings will be available for viewing at https://meetnow.global/MD75Z5T.

Further details on how to participate in the Meetings is set out below.

Instructions on how to participate in the General Meeting via the online platform, including how to vote and ask written and verbal questions, are set out in these Notices of Meetings and the Online Meeting Guide available at https://meetnow.global/MD75Z5T.

In the event that it is necessary for AGL Energy to give further updates on the arrangements for the Meetings or to make alternative arrangements for the Meetings, we will inform you through AGL Energy's website and the ASX Market Announcements Platform.

(a) Participating via the online platform

AGL Energy Shareholders (or their proxies, attorneys or authorised corporate representatives) will be able to participate in the Meetings, including to vote and ask questions, in real-time via the Computershare Meeting Platform using either a computer, tablet or mobile device with an internet connection.

By participating in the Meetings online, you will be able to:

- hear the meeting discussion and view presentation slides;
- ask questions while the relevant meeting is progressing; and
- vote during the relevant meeting.

AGL Energy recommends that shareholders log in to the online platform at least 15 minutes prior to the scheduled start time for the Meetings in accordance with the instructions below.

- Shareholders can register to participate in the Meetings via the online platform by entering the following URL in their browser – https://meetnow.global/MD75Z5T.

Shareholders will need the following details in order to log in to the online platform:

- user name – your Shareholder Reference Number (**SRN**) or Holder Identification Number (**HIN**); and
- password – your password is your postcode registered on your holding if you are an Australian shareholder. Overseas shareholders should refer to the Online Meeting Guide.

Proxyholders will need to contact Computershare on (+61 3) 9415 4024 to obtain their login details to participate online. Online voting will be open between the commencement of the Meetings at 10:30am (AEST) on Wednesday 15 June 2022 and the time at which the Chairman of the relevant Meeting announces the poll is closed for the relevant Meeting. More information about how to use the online platform is available in the Online Meeting Guide at https://meetnow.global/MD75Z5T.

Technical difficulties

Technical difficulties may arise during the Meetings. The Chairman of the Meetings has discretion as to whether and how the Meetings should proceed if a technical difficulty arises. In exercising their discretion, the Chairman will have regard to the number of AGL Energy Shareholders impacted and the extent to which participation in the business of the Meetings is affected.

Where considered appropriate, the Chairman of the Meetings may continue to hold the Meetings and transact business, including conducting a poll and voting in accordance with valid proxy instructions. For this reason, shareholders are encouraged to lodge a proxy vote (including by direct vote), even if they plan to attend the Meetings in-person or virtually.

In the event of a technological failure that prevents AGL Energy Shareholders from having a reasonable opportunity to participate in the Meetings, AGL Energy will provide an update on its website and the ASX platform to communicate the details of any postponement or adjournment of the Meetings to shareholders.

(b) Attending and voting in person

While some AGL Energy Shareholders may be able to attend the Meetings physically, for the health and safety of all attendees, AGL Energy will be observing social distancing and any other government requirements that apply at the time. Attendance at the Meetings in person is subject to any COVID-19 restrictions that may be applicable on the day.

Please do not attend the Meetings if you feel unwell or have been in close contact with someone who may have been exposed to COVID-19. AGL Energy may implement screening procedures at admission to the General Meeting venue, for example, temperature checks, depending on circumstances at the time.

Other restrictions and precautionary measures may also be imposed on attendance if necessary.

You should arrive at the meeting venue 30 minutes before the time designated for the Meetings, if possible, so that your shareholding can be checked against the AGL Energy Share Register and attendances noted, or any power of attorney or certificate of appointment of corporate representative verified, and their attendance noted.

Alternative arrangements

In the lead up to the Meetings, AGL Energy will be closely monitoring the COVID-19 situation in Sydney. If it becomes necessary or appropriate to make alternative or supplementary arrangements to hold the Meetings to those set out in this notice, AGL Energy Shareholders will be given as much notice as possible. Information relating to alternative arrangements will be communicated to shareholders by way of an announcement to the ASX and published on AGL Energy's website at www.agl.com.au.

(c) Voting by proxy (including by direct vote)

Appointing a proxy

- All AGL Energy Shareholders who are entitled to attend and vote at the Meetings have the right to appoint a proxy to attend the Meetings and vote on their behalf. A proxy need not be an AGL Energy Shareholder.
- If you wish to appoint a proxy, you must complete and return the proxy form for the General Meeting and the proxy form for the Scheme Meeting (**Scheme Meeting Voting Form**) (together, the **Voting Forms**) or lodge your Voting Forms online. You can direct your proxy how to vote (i.e. to vote 'for' or 'against' or to 'abstain' from voting on the resolutions) by following the instructions on the Voting Forms.
- Given the current COVID-19 situation, AGL Energy Shareholders are encouraged to direct their proxies how to vote and to ask their proxies to participate using the online platform.
- If you are entitled to cast two or more votes at the Meetings, you may appoint two proxies and you may specify the proportion or number of votes that each proxy is appointed to exercise. If your appointment does not specify the proportion or number of your voting rights, each proxy may exercise half your votes (disregarding fractions) on a poll.
- **Chairman of the General Meeting as proxy:** You may appoint the Chairman of the Meetings as your proxy. If you provide a voting direction on a particular item of business, the Chairman must vote in accordance with your direction on a poll. AGL Energy Shareholders who return their Voting Forms with a direction how to vote but do not nominate the identity of their proxy will be taken to have appointed the Chairman of the Meetings as their proxy to vote on their behalf. If a Voting Form is returned but the nominated proxy does not attend the Meetings or chooses not to vote on a poll, the Chairman of the Meetings will act in place of the nominated proxy and vote in accordance with any instructions. The Chairman of the Meetings intends to vote all undirected proxies in favour of all resolutions to be considered at the Meetings.

Direct voting

The AGL Constitution provides for direct voting as a form of proxy voting. If a shareholder who is entitled to vote at the Meetings appoints a proxy, they may specify the way that the proxy is to vote in relation to a resolution and indicate that the specification is to be regarded as a direct vote. A direct vote will enable AGL Energy Shareholders to vote on resolutions considered at the Meetings by lodging their votes with AGL Energy prior to the meeting (and by the deadline set out in the section 'Lodging your Voting Forms' below).

By lodging a Voting Form and marking the 'Vote Directly' box, a shareholder will be deemed to have appointed the Chairman of the Meeting as their proxy, who will vote in accordance with the directions specified in the Voting Form.

A proxy appointment is not revoked by the shareholder participating and taking part in the Meetings in person or through the online platform, unless the shareholder specifically confirms they wish to revoke their proxy votes as they sign in to attend the meeting.

Lodging your Voting Forms

- To be effective, Voting Forms (and any Power of Attorney or other authority under which the Voting Form is signed, or a certified copy of that document) must be received by AGL Energy by no later than 10:30am (**AEST**) **on Monday 13 June 2022**.
- Voting Form(s) may be lodged with AGL Energy by:
  - **Website:** lodging online at www.investorvote.com.au. To submit your proxy voting instructions, you will need your Securityholder Reference Number (**SRN**) or Holder Identification Number (**HIN**) and allocated Control Number, as shown on your Voting Forms. A proxy cannot be appointed online if they are appointed under a Power of Attorney or similar authority. Custodians and other intermediaries who participate in the Share Registry's online system can also make a proxy appointment online via www.intermediaryonline.com in accordance with instructions provided; or
  - **Mail:** mailing the form to Computershare Investor Services Pty Limited at GPO Box 1282, Melbourne Victoria 3001, Australia (using the envelope provided); or
  - **Fax:** faxing the form to the AGL Energy Share Registry on 1800 783 447 (within Australia) or +61 3 9473 2555 (international).

(d) Questions from AGL Energy Shareholders

During the Meetings

AGL Energy welcomes questions from AGL Energy Shareholders who are attending the Meetings in person. In the interests of all present, please confine your questions to matters before the relevant Meeting that are relevant to AGL Energy Shareholders as a whole.

In addition, the online platform will contain additional details as to how to vote and ask questions during the Meetings.

In advance of the Meetings

Questions can be submitted in advance of the Meetings via Computershare at www.investorvote.com.au. Questions should be lodged no later than 5:00pm (AEST) on 8 June 2022.

(e) Webcast

The Meetings will be webcast live via the online meeting platform at https://meetnow.global/MD75Z5T.

If you are a visitor, you will not be able to vote or ask questions. If you are an AGL Energy Shareholder and intend to view and listen to the webcast only, you are encouraged to lodge the Voting Forms and submit written questions ahead of the Meetings.

Shareholders who are unable to participate in the Meetings can also watch an archived recording of the webcast after the Meetings which will be available from the AGL Energy website at https://www.agl.com.au/about-agl/investors/webcasts-presentations.

13.3.4 Corporate representatives

A company wishing to appoint a person to act as its representative at the Meetings must provide that person with a letter executed in accordance with the Corporations Act authorising him or her to act as the shareholder's representative, which must be received by AGL Energy in advance of the Meetings.

13.4 Explanatory notes

13.4.1 Scheme Meeting Court approval

In accordance with section 411(4)(b) of the Corporations Act, the Scheme (with or without modification) must be approved by an order of the Court. If the Scheme Resolution put to this meeting is passed by the required majorities and the other conditions to the Scheme are satisfied (including the Capital Reduction Resolution and the Financial Assistance Resolution being passed at the General Meeting), AGL Energy intends to apply to the Court on 20 June 2022 for approval of the Scheme.

The Board recommends that AGL Energy Shareholders vote in favour of this resolution.

13.4.2 General Meeting resolutions

Item 1: Approval of Capital Reduction

The Capital Reduction Resolution is being put to shareholders to obtain approval under section 256C of the Corporations Act to an equal capital reduction in AGL Energy Limited's ordinary share capital under section 256B of the Corporations Act.

The Capital Reduction is a return of capital on AGL Energy Shares which, under the Scheme, will be applied as consideration for the transfer of AGL Australia Shares to Scheme Participants (or in the case of Ineligible Overseas Shareholders and Selling AGL Australia Shareholders, to the Sale Agent) in accordance with the Scheme.

Under the Scheme, the Capital Reduction per AGL Energy Share will be $4.74. The amount by which the capital of AGL Energy is to be reduced will be $4.74 multiplied by the number of AGL Energy Shares on issue as at the Record Date (**Capital Reduction Amount**).

The Capital Reduction Resolution is being proposed in connection with the Scheme and is, as a result, conditional on the Scheme becoming effective in accordance with section 411(10) of the Corporations Act. Accordingly, the Capital Reduction Resolution will not come into effect unless and until the Scheme becomes effective in accordance with section 411(10) of the Corporations Act. Similarly, for the Scheme to become effective, certain conditions need to be satisfied, including the approval of the Capital Reduction Resolution by the requisite majority of AGL Energy Shareholders.

The effect on AGL Energy and its shareholders if the Capital Reduction Resolution is passed, together with all other factors that are material to the making of a decision by AGL Energy Shareholders whether to approve the Capital Reduction Resolution, is set out in the Scheme Booklet, of which this notice forms part.

If the Capital Reduction Resolution is passed by the required majority, it will take effect provided the Scheme is approved by the required majority of AGL Energy Shareholders and the Court and all other conditions to the Scheme are satisfied (or waived).

The AGL Energy Directors are of the view that, taking into account all relevant matters, the Demerger (which includes the Capital Reduction and the Scheme) is in the best interests of AGL Energy Shareholders and will not materially prejudice AGL Energy's ability to pay its creditors.

The Board recommends AGL Energy Shareholders vote in favour of the resolution in Item 1.

Item 2: Financial Assistance Resolution

The Financial Assistance Resolution is being put to shareholders to obtain approval under section 260B(2) of the Corporations Act for financial assistance to be provided by the Guarantor Entities in connection with the acquisition of shares in the Guarantor Entities (or their holding companies) by AGL Australia Limited (ACN 651 096 114) (AGL Australia) (the **Acquisition**), which is a preparatory step required to implement the Scheme.

Background to financial assistance

In order to effect the Scheme, AGL Australia will acquire from AGL Energy the entire issued share capital in certain subsidiaries of AGL Energy, such that each of the Guarantor Entities will become directly or indirectly owned by AGL Australia, resulting in an outstanding intercompany balance in respect of the purchase price (the **Acquisition Purchase Price**).

In order to fund the Acquisition Purchase Price, it is proposed that AGL Australia enter into one or more loan facility agreements with commercial bank lenders and other financing documents (the **Financing Arrangements**).

The Financing Arrangements provide for:

- cash advance facilities in an aggregate amount of approximately A$2,015m, to be applied for general corporate purposes including to fund the Acquisition Purchase Price and working capital requirements;
- the issue of letters of credit and other contingent instruments at the request of AGL Australia or other subsidiary borrowers necessary to support the business of AGL Australia and its subsidiaries;
- the issue of new notes by AGL Australia under a 'US private placement' program, in exchange for notes currently issued by AGL; and
- associated interest rate and currency hedging arrangements.

The terms of the Financing Arrangements contain guarantees and indemnities to be provided by AGL Australia as well as by each of the Guarantor Entities. It is a condition to availability of funding under the Financing Arrangements that the Guarantor Entities will accede as guarantors pursuant to the Financing Arrangements. Upon acceding as guarantors under the Financing Arrangements, the Guarantor Entities would (among other things) become bound by the guarantees, indemnities and undertakings and give the representations and warranties set out in the Financing Arrangements.

The entry into and participation by the Guarantor Entities in the Financing Arrangements, as described above, constitutes the giving of financial assistance in connection with the Acquisition, within the meaning of Part 2J.3 of the Corporations Act.

Requirement for approval of financial assistance

Pursuant to section 260A(1) of the Corporations Act a company may financially assist a person to acquire shares (or units of shares) in the company or a holding company of the company only if:

(a) giving the assistance does not materially prejudice:

1 the interests of the company or its shareholders; or

2 the company's ability to pay its creditors; or

(b) the assistance is approved by shareholders under section 260B of the Corporations Act; or

(c) the assistance is exempted under section 260C of the Corporations Act.

The requirements for shareholder approval under section 260B of the Corporations Act are described below.

Shareholder approval of financial assistance

Under section 260B of the Corporations Act, for a company to financially assist a person to acquire shares (or units of shares) in itself or a company of which it is a subsidiary, the financial assistance must be approved by:

(a) its shareholders; and

(b) if, immediately after the acquisition, the company will be a subsidiary of another:

1 domestic corporation that is listed in Australia (**Listed Australian Holding Company**); or

2 domestic corporation that is not listed in Australia and is not itself a subsidiary of another domestic corporation,

then the financial assistance must also be approved by a special resolution passed under section 260B(2) (in the case of a Listed Australian Holding Company) or 260B(3) of the Corporations Act at a general meeting of that corporation.

Immediately following the acquisition of the Guarantor Entities (or their holding companies) by AGL Australia, AGL Energy will be the Listed Australian Holding Company of the Guarantor Entities.

Accordingly, for the purposes of section 260B(2) of the Corporations Act, it is proposed that the giving by the Guarantor Entities of the financial assistance be approved by a special resolution of the shareholders of AGL.

Reasons for giving financial assistance

The reason for the giving of the financial assistance described above is to enable AGL Australia to obtain funding under the Financing Arrangements in order to fund the Acquisition Purchase Price.

If the Guarantor Entities do not accede under the Financing Arrangements as guarantors, no funding will be made available to AGL Australia, the Acquisition Purchase Price will remain outstanding and the Scheme will not be able to be implemented.

Effect of Financial Assistance

As AGL Australia, through which AGL Energy will (following the Acquisition) have its interest in the Guarantor Entities, will itself be liable for the amounts payable under the Financing Arrangements, the giving of the financial assistance described in this notice by the Guarantor Entities is unlikely to have any adverse effect on AGL Energy, except that the operations of the Guarantor Entities will be restricted by the representations and undertakings given by them under the Financing Arrangements.

The substantial effect of the financial assistance on the Guarantor Entities is that each Guarantor Entity will have guaranteed all amounts payable under the Financing Arrangements. The operations of the Guarantor Entities will also be restricted by the representations and undertakings given by them under the Financing Arrangements.

The AGL Energy Directors do not currently believe that either AGL Australia or any of the Guarantor Entities is likely to default in its obligations under the Financing Arrangements.

Advantages of the proposed resolution

The advantage to AGL Energy of the proposed resolution is that the Guarantor Entities will be able to accede as guarantors pursuant to the Financing Arrangements and so satisfy a condition to:

(a) funding being made available for the payment of the Acquisition Purchase Price; and

(b) the issue of new notes under a 'US private placement' program, in exchange for notes currently issued by AGL.

If these steps are not completed, this would be expected to prevent the implementation of the Scheme.

The advantages of the proposed resolution to the Guarantor Entities include:

(a) AGL Australia will be able to acquire and maintain ownership of the Guarantor Entities as contemplated by the Scheme;

(b) the Guarantor Entities will have greater access to funding in the bank and capital markets as a result of the Acquisition and the Scheme;

(c) the Guarantor Entities will have access to working capital and contingent instrument facilities under the Financing Arrangements;

(d) the AGL Energy Directors believe that the Financing Arrangements are the most efficient form of financing available to AGL Australia and its subsidiaries in connection with the Scheme; and

(e) some or all of the Guarantor Entities have provided guarantees of AGL Energy's existing financing arrangements, which will be simultaneously released.

The AGL Energy Directors believe that approving the transactions contemplated by this notice is in the interests of AGL Energy.

Disadvantages of the proposed resolution

Subject to the completion of the Scheme, as the financial assistance is being provided in connection with the implementation of the Scheme pursuant to which AGL Australia and each of the Guarantor Entities will cease to be AGL Energy subsidiaries, the AGL Energy Directors do not believe there are any disadvantages to AGL Energy from the giving of the financial assistance described in this notice by the Guarantor Entities.

The disadvantages of the proposed resolution to the Guarantor Entities include the following:

(a) they will become liable for the amounts due under the Financing Arrangements;

(b) their operations will be restricted by the representations and undertakings given by them under the Financing Arrangements;

(c) AGL Australia and any other borrowers may default under the Financing Arrangements; and

(d) the financiers may make a demand under the guarantees provided by the Guarantor Entities requiring immediate repayment of the amounts due under the Financing Arrangements.

A demand made under the guarantees may result in the winding up of the Guarantor Entities which may result in a return to its shareholders that is significantly lower than what could have been achieved had those assets been sold in the ordinary course of business or had the Guarantor Entities continued trading.

Passing the Financial Assistance Resolution

The Financial Assistance Resolution is set out in this notice.

The Financial Assistance Resolution will be passed if at least 75% of votes cast by shareholders entitled to vote (whether in person or by proxy) are in favour of the resolution.

The shareholders may vote either for or against the Financial Assistance Resolution.

The AGL Energy Directors consider that this notice and the Scheme Booklet contain all information known to AGL Energy that would be material to the AGL Energy Shareholders in deciding how to vote on the proposed resolution other than information which it would be unreasonable to require AGL Energy to include because it has been previously disclosed to the AGL Energy Shareholders.

The Board recommends that AGL Energy Shareholders vote in favour of this resolution.

Item 3: Name Change Resolution

The Name Change Resolution is being put to shareholders to obtain approval under section 157 of the Corporations Act for the change in name of AGL Energy Limited to Accel Energy Limited, effective from the date that ASIC updates its register to reflect the new name (which is to occur on or after the date on which the Scheme becomes effective in accordance with section 411(10) of the Corporations Act).

AGL Energy and Accel Energy are, and will remain, the same legal entity.

Given the strong association of the AGL brand with AGL Energy's retail business, which will be transferred to AGL Australia as part of the Demerger, AGL Australia will retain the AGL brand.

The choice of the new name 'Accel Energy' for AGL Energy highlights that, following the Demerger, a key focus of the business will be accelerating the energy transition.

In anticipation of the Name Change and to enable AGL Australia to obtain ASX code "AGL', AGL Energy will, subject to shareholder approval of the Name Change Resolution by the required majority, commence trading under its new name, Accel Energy Limited, and under code 'AXL' on 5 July 2022. AGL Australia will commence trading on ASX (on a deferred settlement basis) under code 'AGK' on 22 June 2022 and is expected to change its code from 'AGK' to 'AGL' in the second half of 2022.

The Board recommends that AGL Energy Shareholders vote in favour of this resolution.

Item 4: Approval of potential benefits to persons holding a managerial or executive office

Part 2D.2 of the Corporations Act restricts the benefits that can be given without shareholder approval to individuals who hold (or held in the previous three years) a managerial or executive office with AGL Energy or its related bodies corporate (the **Group**) in certain circumstances.

For the purposes of this Item 4, employees of the Group are categorised as either:

- employees who will be employed by AGL Australia or one of its related bodies corporate following the Demerger (**AGLA Remainers**);
- employees who will remain employed by Accel Energy or one of its related bodies corporate following the Demerger (**AXL Remainers**); or
- employees who have already left the Group as 'good leavers' or will leave the Group as part of the Demerger, and who hold unvested performance rights which remain subject to the performance criteria under the AGL Energy Long Term Incentive Plan (**Good Leavers**).

Why approval is being sought

Under section 200C of the Corporations Act, no person may pay a benefit to a person who holds or has held a managerial or executive office in the Group in connection with the transfer of any part of the undertaking or property of AGL Energy under the Demerger, unless the giving of the benefit is approved by the shareholders of AGL Energy.

AGL Energy is seeking shareholder approval under Item 4 for benefits that may be payable to LTIP participants who hold (or held in the previous 3 years) a managerial or executive office in the Group. Specifically, the proposed accelerated vesting of equity under the LTIP as described below, is considered to be a benefit that comes within the scope of section 200C because of the connection between the benefit to LTIP participants and the Demerger transaction.

Treatment of AGL Energy employee incentives upon implementation of the Scheme

Item 4 relates to the proposed treatment of AGL Energy's performance rights under the LTIP. Each performance right is a right to receive one AGL Energy Share in the future subject to meeting specified performance and/or employment conditions. A summary of the proposed treatment of the current AGL Energy incentive awards that are on foot in connection with the Demerger is set out in Section 5.6 of the Scheme Booklet.

Under the terms of the Scheme, a pro-rata portion of performance rights granted to existing participants in the LTIP that remain on foot will be tested based on the applicable performance criteria, and a vesting outcome determined.[1] The AGL Energy Board will determine the number or proportion that will vest based on the time period that has passed and the assessment of the relevant performance criteria (**Vested Performance Rights**). The remainder of the performance rights that are tested but do not vest will lapse. The proportion of performance rights that will not be tested at this point are referred to as the Unvested Performance Rights.

For the Vested Performance Rights, vesting will be accelerated so that it occurs prior to the Record Date for the Scheme. This will ensure LTIP participants are able to participate in the Scheme on the same basis as other shareholders.

Prior to the Record Date for the Demerger and based on the results of the testing outlined above, AGL Energy will treat the Vested Performance Rights and Unvested Performance Rights as set out below:

	AXL Remainers	AGLA Remainers	Good Leavers
Vested Performance Rights	Will receive shares in AGL Energy on vesting of the Vested Performance Rights and participate in the Scheme.	Will receive shares in AGL Energy on vesting of the Vested Performance Rights and participate in the Scheme.	Will receive shares in AGL Energy on vesting of the Vested Performance Rights and participate in the Scheme.
Unvested Performance Rights	Unvested Performance Rights will be cancelled and replaced with a combination of performance rights (subject to performance conditions) and restricted shares (subject to a service condition) granted under a new Accel Energy LTIP.	Unvested Performance Rights will be cancelled and replaced with a combination of performance rights (subject to performance conditions) and restricted shares (subject to a service condition) granted under a new AGL Australia LTIP.	Unvested Performance Rights will lapse.

In the interests of full transparency, Section 5.6 of the Scheme Booklet provides indicative vesting outcomes for each of the LTIP awards currently on foot, including the FY20 Bridging Award.

Value of potential benefits

The actual amount and value of the benefits that may be provided in connection with any accelerated vesting of LTIP awards cannot be ascertained in advance as they will depend on a number of factors that will, or are likely to, affect that value, including:

- in relation to the Vested Performance Rights:
  - the number of Performance Rights that vest will depend on an assessment of the performance criteria up to the date of testing; and
  - the share price of AGL Energy at the vesting date; and
- in relation to the Unvested Performance Rights for AGLA Remainers and AXL Remainers:
  - the number of replacement performance rights received by the participants, which will be determined based on the number of AGL Energy performance rights to be replaced multiplied by the combined share price of both AGL Australia and Accel Energy shares over their first 30 days trading on the ASX (i.e., the 30-day VWAP post-Demerger). This value will be divided by the VWAP for their relevant company to arrive at the number of replacement units for each participant;
  - the number of replacement performance rights that ultimately vest and/or lapse based on testing of the applicable performance conditions and other terms of the awards;
  - the share price of Accel Energy and AGL Australia (as applicable) at the relevant time; and
  - any other factors that the AGL Energy Board or AGL Australia Board (as applicable) considers relevant when exercising its discretions.

The Board recommends that AGL Energy Shareholders vote in favour of Item 4.

1 For participants who hold a FY20 Bridging Award, that Award will not be performance-tested in connection with the Demerger and will instead lapse, except for 'good leavers' who have ceased employment with AGL Energy prior to the Demerger. Those good leaver participants will have their FY20 Bridging Award performance tested and the grant on foot with the longest unserved performance period will be (or has already been) lapsed in accordance with AGL Energy's good leaver treatment.

13. Notices of Meetings

Schedule 1

List of Guarantor Entities

Company Name	ACN
AGL Electricity (Vic) Pty Limited	070 182 099
Victorian Energy Pty Limited	069 892 379
AGL South Australia Pty Limited	091 105 092
AGL APG Holdings Pty Limited	081 834 826
Australian Power and Gas Company Limited	077 206 583
IQ Energy Services Pty Ltd	121 696 768
AGL Sales Pty Limited	090 538 337
AGL Sales (Queensland) Pty Limited	121 177 740
AGL Sales (Queensland Electricity) Pty Limited	078 875 902
Epho Holding Pty Limited	603 077 416
Epho Services Pty Limited	168 630 402
Epho Pty Limited	166 733 017
Epho Asset Management Pty Limited	168 630 546
BTPS 1 Pty Limited	635 673 728
SEGH Pty Ltd	604 691 867
Sustainable Business Energy Solutions Pty Ltd	131 625 600
Sol Install Pty Limited	136 956 691
Sol Distribution Pty Ltd	146 905 286
Sunlease Pty Ltd	152 570 995
Solarserve Pty Ltd	163 542 318
AGL Financial Energy Solutions Pty Limited	620 639 125
AGL Australia Markets Pty Limited	118 609 813

Company Name	ACN
APG Operations Pty Ltd	120 076 379
Australian Power and Gas (NSW) Pty Ltd	116 613 435
Perth Energy Holdings Pty. Ltd.	611 228 221
Perth Energy Pty Ltd	087 386 445
WA Power Exchange Pty Ltd	094 981 478
Western Energy Holdings Pty Ltd	130 550 748
Western Energy Pty Ltd	102 984 252
AGL ACT Retail Investments Pty Limited	093 631 586
AGL Wholesale Gas Limited	072 948 504
AGL Wholesale Gas (SA) Pty Limited	094 384 291
AGL Southern Hydro (NSW) Pty Limited	056 452 601
AGL Torrens Island Battery Pty Limited	120 076 388
AGL Power Generation Pty Limited	086 586 192
AGLA Vic Hydro Assets Pty Limited	651 907 050
Southern Phone Company Limited	100 901 184
AGL Barker Inlet Pty Limited (including in its capacity as trustee of the Barker Inlet Trust)	622 351 660
Click Energy Group Holdings Pty Ltd	160 484 837
Click Energy Pty Ltd	116 567 492
On the Move Pty Ltd	124 508 845
A.C.N. 133 799 149 Pty Ltd	133 799 149
M2C Services Pty Ltd	152 026 750
Powerdirect Pty Ltd	067 609 803
AGL Corporate Services Pty Limited	093 015 724
Digital Energy Exchange Australia Pty Ltd	614 276 603

13. Notices of Meetings

Company Name	ACN
AGL Energy Sales & Marketing Limited	076 092 067
AGL Retail Energy Limited	074 839 464
AGL New Energy ACP Pty Limited	622 919 251
Connect Now Pty Ltd	097 398 662
The Australian Gas Light Company	145 094 711
AGL New Energy Investments Pty Limited	618 261 162
AGL LNG Pty Limited	628 236 288
AGL Australia Services Pty Limited	628 236 948
AGL Energy Services Pty Limited	074 821 720
AGL New Energy EIF Pty Limited	615 699 235
AGL PARF NSW Pty Ltd	615 408 770
AGL PARF QLD Pty Limited	619 439 226
Energy 360 Pty Ltd	143 440 260
Access Way SPV Pty Ltd	602 578 950
Carbon Green Pty Ltd	638 497 882

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Corporate Directory

AGL ENERGY

AGL Energy Limited
ABN 74 115 061 375

AGL AUSTRALIA

AGL Australia Limited
ABN 31 651 096 114

Website: www.agl.com.au
Telephone: +61 2 9921 2999

AGL ENERGY SHARE REGISTRY AND AGL AUSTRALIA SHARE REGISTRY

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GPO Box 2975

Melbourne VIC 3001
Website: www.computershare.com.au
Telephone: 1800 824 513 (within Australia) or
+61 3 9415 4253 (international)

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Grosvenor Place
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Design by | ideate

Financial Adviser

Legal Adviser

HERBERT
SMITH
FREEHILLS

AGL Energy Limited
ABN 74 115 061 375

Need assistance?

Phone:
1300 148 339 (within Australia)
+61 2 9066 4059 (outside Australia)

Online:
www.investorcentre.com/contact

AGL
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

YOUR VOTE IS IMPORTANT

For your proxy appointment to be effective it must be received by **10:30am (AEST) Monday, 13 June 2022.**

AGL Energy Limited Scheme Meeting Voting Form

This is an important document that requires your immediate attention. You should read the scheme booklet issued in connection with the Demerger (**Scheme Booklet**) dated 5 May 2022 carefully before completing and returning this form. Terms defined in the Scheme Booklet have the same meaning in this form (unless the context otherwise requires). Please also read this form carefully. If you need any assistance in deciding whether to complete this form, please contact your financial, legal, taxation or other professional adviser without delay.

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

VOTE DIRECTLY PRIOR TO THE MEETING

If you appoint a proxy, you may specify the way that the proxy is to vote in relation to a resolution and indicate that the specification is to be regarded as a direct vote.
By lodging a Voting Form and marking the 'Vote Directly' box in Step 1, a shareholder will be deemed to have appointed the Chairman of the Meeting as their proxy, who will vote in accordance with the directions specified in the Voting Form.
Voting 100% of your holding: Mark either the For, Against or Abstain box opposite each item of business. Your vote will be invalid on an item if you do not mark any box OR you mark more than one box for that item.
Voting a portion of your holding: Indicate a portion of your voting rights by inserting the number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement.

APPOINTMENT OF PROXY

Appoint a proxy to vote on your behalf at the Scheme Meeting (**Meeting**).
Appointing the Chairman of the Meeting as proxy: If you wish to appoint the Chairman of the Meeting as your proxy, please mark the box in Step 1 overleaf.
Appointing an individual or body corporate as proxy: If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the full name of that individual or body corporate in the space provided. If you leave this section blank or your named proxy does not attend the Meeting, the Chairman of the Meeting will be your proxy.
Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.
Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.
Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.
A proxy need not be a securityholder of the Company.

SIGNING INSTRUCTIONS FOR POSTAL FORMS

Individual: Where the holding is in one name, the securityholder must sign.
Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.
Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

PARTICIPATING IN THE MEETING

Corporate Representative
If a representative of a corporate securityholder or proxy is to participate in the meeting you will need to provide the appropriate "Appointment of Corporate Representative". A form may be obtained from Computershare or online at www.investorcentre.com/au and select "Printable Forms".

Lodge your Proxy Form: XX

Online:

Lodge your vote online at www.investorvote.com.au using your secure access information or use your mobile device to scan the personalised QR code.
Your secure access information is

Control Number: 999999
SRN/HIN: I9999999999
PIN: 99999

For Intermediary Online subscribers (custodians) go to www.intermediaryonline.com

By Mail:

Computershare Investor Services Pty Limited
GPO Box 1282
Melbourne VIC 3001
Australia

By Fax:

1800 783 447 within Australia or
+61 3 9473 2555 outside Australia

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

I 9999999999 I ND

Voting Form

Please mark ☒ to indicate your directions

Step 1 Indicate How Your Vote Will Be Cast *Select one option only*

XX

At the Scheme Meeting of AGL Energy Limited to be held at International Convention Centre Sydney, 14 Darling Drive Sydney NSW 2000 and online at https://meetnow.global/MD75Z5T on Wednesday, 15 June 2022 at the later of 10:45am (AEST) or the conclusion of the General Meeting of AGL Energy Limited and at any adjournment or postponement of that meeting, I/We being member/s of AGL Energy Limited direct the following:

A Vote Directly ☐ Cast my/our votes strictly in accordance with directions in Step 2.

PLEASE NOTE: *A Direct Vote will take priority over the appointment of a Proxy in section B below. By marking the 'Vote Directly' box, you will be deemed to have appointed the Chairman of the Meeting as your proxy, who will vote in accordance with the directions specified in Step 2. For a valid Direct Vote to be recorded you must mark FOR, AGAINST, or ABSTAIN on each item.*

OR

B Appoint a proxy to vote on your behalf

I/We hereby appoint:

☐ **The Chairman of the Meeting** **OR** ☐

Insert the name of the individual or body corporate you are appointing if this person is somebody other than the Chairman of the Meeting. ***PLEASE NOTE:*** *Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).*

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit).

Step 2 Items of Business

PLEASE NOTE: If you have appointed a proxy under Step 1, section B above and you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority. If you are directly voting under Step 1, section A above and you mark the **Abstain** box for an item, it will be treated as though no vote has been cast on that item and no vote will be counted in computing the required majority.

	For	Against	Abstain
1. Scheme Resolution	☐	☐	☐

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

Step 3 Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1	Securityholder 2	Securityholder 3	
			/ /
Sole Director & Sole Company Secretary	Director	Director/Company Secretary	Date

Update your communication details *(Optional)*

By providing your email address, you consent to receive future Notice of Meeting & Proxy communications electronically

Mobile Number	Email Address

AGL Energy Limited
ABN 74 115 061 375

Need assistance?

Phone:
1300 148 339 (within Australia)
+61 2 9066 4059 (outside Australia)

Online:
www.investorcentre.com/contact

AGL
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

YOUR VOTE IS IMPORTANT

For your proxy appointment to be effective it must be received by **10:30am (AEST) Monday, 13 June 2022.**

AGL Energy Limited General Meeting Voting Form

This is an important document that requires your immediate attention. You should read the scheme booklet issued in connection with the Demerger (**Scheme Booklet**) dated 5 May 2022 carefully before completing and returning this form. Terms defined in the Scheme Booklet have the same meaning in this form (unless the context otherwise requires). Please also read this form carefully. If you need any assistance in deciding whether to complete this form, please contact your financial, legal, taxation or other professional adviser without delay.

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

VOTE DIRECTLY PRIOR TO THE MEETING

If you appoint a proxy, you may specify the way that the proxy is to vote in relation to a resolution and indicate that the specification is to be regarded as a direct vote.
By lodging a Voting Form and marking the 'Vote Directly' box in Step 1, a shareholder will be deemed to have appointed the Chairman of the Meeting as their proxy, who will vote in accordance with the directions specified in the Voting Form.
Voting 100% of your holding: Mark either the For, Against or Abstain box opposite each item of business. Your vote will be invalid on an item if you do not mark any box OR you mark more than one box for that item.
Voting a portion of your holding: Indicate a portion of your voting rights by inserting the number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement.

APPOINTMENT OF PROXY

Appoint a proxy to vote on your behalf at the General Meeting (**Meeting**).
Appointing the Chairman of the Meeting as proxy: If you wish to appoint the Chairman of the Meeting as your proxy, please mark the box in Step 1 overleaf.
Appointing an individual or body corporate as proxy: If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the full name of that individual or body corporate in the space provided. If you leave this section blank or your named proxy does not attend the Meeting, the Chairman of the Meeting will be your proxy.
Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.
Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.
Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.
A proxy need not be a securityholder of the Company.

SIGNING INSTRUCTIONS FOR POSTAL FORMS

Individual: Where the holding is in one name, the securityholder must sign.
Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.
Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

PARTICIPATING IN THE MEETING

Corporate Representative
If a representative of a corporate securityholder or proxy is to participate in the meeting you will need to provide the appropriate "Appointment of Corporate Representative". A form may be obtained from Computershare or online at www.investorcentre.com/au and select "Printable Forms".

Lodge your Proxy Form: XX

Online:

Lodge your vote online at www.investorvote.com.au using your secure access information or use your mobile device to scan the personalised QR code.
Your secure access information is

Control Number: 999999
SRN/HIN: I9999999999
PIN: 99999

For Intermediary Online subscribers (custodians) go to www.intermediaryonline.com

By Mail:

Computershare Investor Services Pty Limited
GPO Box 1282
Melbourne VIC 3001
Australia

By Fax:

1800 783 447 within Australia or
+61 3 9473 2555 outside Australia

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

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Voting Form

Please mark ☒ to indicate your directions

Step 1 Indicate How Your Vote Will Be Cast *Select one option only*

XX

IMPORTANT NOTE: If any shareholder is an employee or director of AGL Energy Limited or a related body corporate and wishes to preserve their ability to receive benefits under the approval in item 4, then that shareholder and their associates should **not** vote on the resolution.

At the General Meeting of AGL Energy Limited to be held at International Convention Centre Sydney, 14 Darling Drive Sydney NSW 2000 and online at https://meetnow.global/MD75Z5T on Wednesday, 15 June 2022 at 10:30am (AEST) and at any adjournment or postponement of that meeting, I/We being member/s of AGL Energy Limited direct the following:

A Vote Directly ☐ Cast my/our votes strictly in accordance with directions in Step 2.

PLEASE NOTE: *A Direct Vote will take priority over the appointment of a Proxy in section B below. By marking the 'Vote Directly' box, you will be deemed to have appointed the Chairman of the Meeting as your proxy, who will vote in accordance with the directions specified in Step 2. For a valid Direct Vote to be recorded you must mark FOR, AGAINST, or ABSTAIN on each item.*

OR

B Appoint a proxy to vote on your behalf

I/We hereby appoint:

☐ **The Chairman of the Meeting** **OR** _____

Insert the name of the individual or body corporate you are appointing if this person is somebody other than the Chairman of the Meeting. ***PLEASE NOTE:*** *Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).*

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit).

Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), and I/we have not directed the proxy how to vote on item 4 in Step 2 below, by signing and returning this form I/we expressly authorise the Chairman of the Meeting to exercise my/our proxy on item 4 even though item is connected with the remuneration of key management personnel of the Company.

Step 2 Items of Business

PLEASE NOTE: If you have appointed a proxy under Step 1, section B above and you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority. If you are directly voting under Step 1, section A above and you mark the **Abstain** box for an item, it will be treated as though no vote has been cast on that item and no vote will be counted in computing the required majority.

	For	Against	Abstain
1. Capital Reduction Resolution	☐	☐	☐
2. Financial Assistance Resolution	☐	☐	☐
3. Name Change Resolution	☐	☐	☐
4. Benefits Resolution	☐	☐	☐

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

Step 3 Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1	Securityholder 2	Securityholder 3	
			/ /
Sole Director & Sole Company Secretary	Director	Director/Company Secretary	Date

Update your communication details *(Optional)*

By providing your email address, you consent to receive future Notice of Meeting & Proxy communications electronically

Mobile Number	Email Address

AGL Energy Limited
ABN 74 115 061 375

AGL

MR SAM SAMPLE
UNIT 123
SAMPLE STREET
SAMPLETOWN NSW 2001

Return your Form:

By Mail:
Computershare Investor Services Pty Limited
GPO Box 1282 Melbourne
Victoria 3001 Australia

For all enquiries:

Phone:
(within Australia) 1300 148 339
(outside Australia) +61 2 9066 4059

Web:
www.aglelections.com.au

Accel Energy Sale and Top-up Facility Form

See below for instructions on how to purchase your post-Demerger shares in AGL Energy Limited (which is to be renamed Accel Energy Limited (Accel Energy)) (Accel Energy Shares) under the Sale and Top-up Facility.
Turn over for instructions on how to sell your Accel Energy Shares under the Sale and Top-up Facility.

This is an important document that requires your immediate attention. It can only be used in relation to the shareholding represented by the details printed on this Form. If you are in doubt about how to deal with this form, please contact your financial or other professional adviser.

Details of the shareholding are shown on this Form. Please check the details provided and update your address via www.investorcentre.com if any of the details are incorrect. If you have a CHESS sponsored holding, please contact your Controlling Participant to notify a change of address.

This Form allows those registered holders of Accel Energy Shares (**Accel Energy Shareholders**) who are eligible to participate in the Sale and Top-up Facility to **either** increase or sell their shareholding in Accel Energy.

Option 1 - Electing to Purchase Additional Accel Energy Shares

Your payment must be received by 5:00pm (AEST) on Tuesday, 21 June 2022

Important: Receipt of payment under the Top-up Facility will override any election submitted under the Sale Facility. If you do not wish to participate in the Sale or Top-up Facility you are not required to do anything.

If you hold 500 AGL Energy Shares or less as at the Record Date and you have your registered address on the AGL Energy Share Register in Australia or New Zealand, you may elect to purchase up to $2000 worth of additional Accel Energy Shares under the Sale and Top-up Facility. Those Accel Energy Shareholders who validly elect to purchase additional Accel Energy Shares up to a maximum of $2,000 will pay the purchase price per Accel Energy Share as announced on or about 7 August 2022.

Neither Computershare Investor Services Pty Limited (**CIS**) nor Accel Energy accepts any responsibility for loss incurred through incorrectly completed BPAY® payments. It is the responsibility of the applicant to ensure that funds submitted through BPAY are received by this time. Eligible Accel Energy Shareholders must use the Biller Code and customer reference number shown on this Form when making payment under the Accel Energy Top-up Facility.

Make Your Payment:

You may elect to purchase additional Accel Energy Shares in increments of $500, $1000, $1500 or $2000.

BPAY

Biller Code:
Ref No:

If I/we am/are participating in the Top-up Facility, by making payment by BPAY and using the specific Biller Code and Reference Number for this Offer, I/we acknowledge and agree that I/we will be deemed to have:

- agreed to be bound by the terms and conditions of the Top-up Facility;
- acknowledged having personally received a printed or electronic copy of the scheme booklet issued in connection with the Demerger (**Scheme Booklet**), including or accompanied by this form, and having read them all in full;
- declared that all details and statements in this form are complete and accurate;
- declared that I/we, if a natural person, is/are over 18 years of age;
- acknowledged that, once Accel Energy or the AGL Energy Share Registry receives payment by BPAY, it may not be withdrawn;
- agreed to being allocated and issued the number of Accel Energy Shares as determined and allocated in a way described in the Scheme Booklet issued in connection with the Demerger, or no Accel Energy Shares at all;
- authorised Accel Energy and their respective officers or agents to do anything on my/our behalf necessary for Accel Energy Shares to be allocated to me/us, including to act on instructions received by the AGL Energy Share Registry upon using the contact details in this form;
- acknowledged that, in some circumstances, Accel Energy may not pay dividends, or that any dividends paid may not be franked;
- acknowledged and agreed that if the Demerger does not occur or proceed for any reason, the Top-up Facility will not proceed or be implemented.

Turn over for further instructions relating to the Sale and Top-up Facility

® Registered to **BPAY** Pty Limited ABN 69 079 137 518

Accel Energy Sale and Top-up Facility Form

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Option 2 - Sale of all Accel Energy Shares through a Sale Agent

CLOSING DATE: Your election must be received by 5:00pm (AEST) on Tuesday, 21 June 2022

Under the Accel Energy Sale and Top-up Facility, if you are an Accel Energy Shareholder who holds 500 AGL Energy Shares or less as at the Record Date, you may elect to have all your Accel Energy Shares sold by the Sale Agent in the Accel Energy Sale and Top-up Facility, and the proceeds remitted to you, free of any brokerage costs or stamp duty. Eligible Accel Energy Shareholders who validly elect to sell all AGL Energy Shares that they hold as at the Record Date will receive the sale price per Accel Energy Share as announced on or about 7 August 2022.

If you would like for your Accel Energy Shares to be sold under the Accel Energy Sale and Top-up Facility, please complete and return this Application Form, or submit your election online at www.aglelections.com.au. Please turn overleaf if you would like to increase your Accel Energy shareholding under the Accel Energy Sale and Top-up Facility.

Sale of all Accel Energy Shares through Sale Agent

Please mark the below box for your form to be valid

☐ **I/we elect for my/our Accel Energy Shares to be sold under the Accel Energy Sale and Top-up Facility**

Signature of Shareholder(s)

This section must be completed.

By signing and returning this form, I/we confirm that I/we elect to participate in the Accel Energy Sale and Top-up Facility.

If I/we am/are participating in the Sale Facility, by signing and returning this form, I/we acknowledge and agree that I/we will be deemed to have:

- agreed to be bound by the terms and conditions of the Sale Facility;
- acknowledged having personally received a printed or electronic copy of the Scheme Booklet, including or accompanied by this form, and having read them all in full;
- declared that all details and statements in this form are complete and accurate;
- declared that I/we, if a natural person, is/are over 18 years of age;
- acknowledged that, once Accel Energy or the AGL Energy Share Registry receives this signed form, it may not be withdrawn; and
- acknowledged and agreed that if the Demerger does not occur or proceed for any reason, the Sale Facility will not proceed or be implemented.

Signing Instructions
Individual: Where the holding is in one name, the securityholder must sign.
Joint Holding: Where the holding is in more than one name, all of the securityholders must sign.
Power of Attorney: Where signing as Power of Attorney (**POA**), you must attach an original certified copy of the POA to this form.
Companies: Where the holding is in the name of a Company, this form must be signed in accordance with the Corporations Act, either as:

- a Sole Director and Sole Company Secretary **OR** a Sole Director (if no Company Secretary exists), **OR**
- two Directors, **OR**
- a Director and Secretary.

Overseas Companies: Where the holding is in the name of an Overseas company (companies incorporated outside Australia) the form must be signed as above, or documentation must be provided showing that the company can sign in an alternate manner.
Deceased Estate: All executors must sign and a certified copy of Probate or Letters of Administration must accompany this form.

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary/ Sole Director (cross out titles as applicable)	Director	Director/Company Secretary (cross out titles as applicable)

Entering contact details is not compulsory, but will assist us if we need to contact you.

Contact Name _____ **Contact Daytime Telephone** _____ **Date** / /

Privacy Notice
The personal information you provide on this form is collected by CIS, as registrar for the securities issuers (the **issuer**), for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. In addition, the issuer may authorise us on their behalf to send you marketing material or include such material in a corporate communication. You may elect not to receive marketing material by contacting CIS using the details provided above or emailing privacy@computershare.com.au. We may be required to collect your personal information under the Corporations Act 2001 (Cth) and ASX Settlement Operating Rules. We may disclose your personal information to our related bodies corporate and to other individuals or companies who assist us in supplying our services or who perform functions on our behalf, to the issuer for whom we maintain securities registers or to third parties upon direction by the issuer where related to the issuers administration of your securityholding, or as otherwise required or authorised by law. Some of these recipients may be located outside Australia, including in the following countries: Canada, India, New Zealand, the Philippines, the United Kingdom and the United States of America. For further details, including how to access and correct your personal information, and information on our privacy complaints handling procedure, please contact our Privacy Officer at privacy@computershare.com.au or see our Privacy Policy at www.computershare.com/au/privacy-policies.

AGL Energy Limited
ABN 74 115 061 375

AGL
MR SAM SAMPLE
UNIT 123
SAMPLE STREET
SAMPLETOWN NSW 2001

Return your Form:

By Mail:
Computershare Investor Services Pty Limited
GPO Box 1282 Melbourne
Victoria 3001 Australia

For all enquiries:

Phone:
(within Australia) 1300 148 339
(outside Australia) +61 2 9066 4059

Web:
www.aglelections.com.au

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Accel Energy Sale Facility Form

CLOSING DATE: Your election must be received by 5:00pm (AEST) on Tuesday, 21 June 2022

Under the Accel Energy Sale Facility, if you are an eligible shareholder who holds 500 AGL Energy Shares or less as at the Record Date, you may elect to have all your post-Demerger shares in AGL Energy Limited (which is to be renamed Accel Energy Limited (**Accel Energy**)) (**Accel Energy Shares**) sold by the Sale Agent in the Accel Energy Sale Facility, and the proceeds remitted to you, free of any brokerage costs or stamp duty. Eligible Accel Energy Shareholders who validly elect to sell all AGL Energy Shares that they hold as at the Record Date will receive the sale price per Accel Energy Share as announced on or about 7 August 2022.

If you would like for your Accel Energy Shares to be sold under the Accel Energy Sale Facility, please complete and return this Form, or submit your election online at www.aglelections.com.au.

Sale of all Accel Energy Shares through Sale Agent

Please mark the below box for your form to be valid

☐ **I/we elect for my/our Accel Energy Shares to be sold under the Accel Energy Sale Facility**

Signature of Shareholder(s)

This section must be completed.

By signing and returning this form, I/we confirm that I/we elect to participate in the Accel Energy Sale Facility.

If I/we am/are participating in the Sale Facility, by signing and returning this form, I/we acknowledge and agree that I/we will be deemed to have:

- agreed to be bound by the terms and conditions of the Sale Facility;
- acknowledged having personally received a printed or electronic copy of the scheme booklet issued in connection with the Demerger, including or accompanied by this form, and having read them all in full;
- declared that all details and statements in this form are complete and accurate;
- declared that I/we, if a natural person, is/are over 18 years of age;
- acknowledged that, once Accel Energy Limited (**Accel Energy**) or the AGL Energy Share Registry receives this signed form, it may not be withdrawn; and
- acknowledged and agreed that if the Demerger does not occur or proceed for any reason, the Sale Facility will not proceed or be implemented.

Signing Instructions
Individual: Where the holding is in one name, the securityholder must sign.
Joint Holding: Where the holding is in more than one name, all of the securityholders must sign.
Power of Attorney: Where signing as Power of Attorney (**POA**), you must attach an original certified copy of the POA to this form.
Companies: Where the holding is in the name of a Company, this form must be signed in accordance with the Corporations Act, either as:

- a Sole Director and Sole Company Secretary **OR** a Sole Director (if no Company Secretary exists), **OR**
- two Directors, **OR**
- a Director and Secretary.

Overseas Companies: Where the holding is in the name of an Overseas company (companies incorporated outside Australia) the form must be signed as above, or documentation must be provided showing that the company can sign in an alternate manner.
Deceased Estate: All executors must sign and a certified copy of Probate or Letters of Administration must accompany this form.

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary/ Sole Director (cross out titles as applicable)	Director	Director/Company Secretary (cross out titles as applicable)

Entering contact details is not compulsory, but will assist us if we need to contact you.

Contact Name _____ **Contact Daytime Telephone** _____ **Date** ___ / ___ / ___

Privacy Notice

The personal information you provide on this form is collected by Computershare Investor Services Pty Limited (**CIS**), as registrar for the securities issuers (the **issuer**), for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. In addition, the issuer may authorise us on their behalf to send you marketing material or include such material in a corporate communication. You may elect not to receive marketing material by contacting CIS using the details provided above or emailing privacy@computershare.com.au. We may be required to collect your personal information under the Corporations Act 2001 (Cth) and ASX Settlement Operating Rules. We may disclose your personal information to our related bodies corporate and to other individuals or companies who assist us in supplying our services or who perform functions on our behalf, to the issuer for whom we maintain securities registers or to third parties upon direction by the issuer where related to the issuers administration of your securityholding, or as otherwise required or authorised by law. Some of these recipients may be located outside Australia, including in the following countries: Canada, India, New Zealand, the Philippines, the United Kingdom and the United States of America. For further details, including how to access and correct your personal information, and information on our privacy complaints handling procedure, please contact our Privacy Officer at privacy@computershare.com.au or see our Privacy Policy at www.computershare.com/au/privacy-policies.

AGL Australia Limited
ABN 31 651 096 114

AGLA
MR SAM SAMPLE
UNIT 123
SAMPLE STREET
SAMPLETOWN NSW 2001

Return your Form:

By Mail:
Computershare Investor Services Pty Limited
GPO Box 1282 Melbourne
Victoria 3001 Australia

For all enquiries:

Phone:
(within Australia) 1300 148 339
(outside Australia) +61 2 9066 4059

Web:
www.aglelections.com.au

AGL Australia Sale and Top-up Facility Form

See below for instructions on how to purchase post-Demerger shares in AGL Australia Limited (AGL Australia Shares) under the Sale and Top-up Facility.
Turn over for instructions on how to sell your AGL Australia Shares under the Sale and Top-up Facility.

This is an important document that requires your immediate attention. It can only be used in relation to the shareholding represented by the details printed on this Form. If you are in doubt about how to deal with this form, please contact your financial or other professional adviser.

Details of the shareholding are shown on this Form. Please check the details provided and update your address via www.investorcentre.com if any of the details are incorrect. If you have a CHESS sponsored holding, please contact your Controlling Participant to notify a change of address.

This Form allows those AGL Energy Shareholders who are eligible to participate in the Sale and Top-up Facility to **either** increase or sell their shareholding in AGL Australia Limited (**AGL Australia**).

Option 1 - Electing to Purchase Additional AGL Australia Shares

CLOSING DATE: Your payment must be received by 5:00pm (AEST) on Tuesday, 21 June 2022

Important: Receipt of payment under the Top-up Facility will override any election submitted under the Sale Facility. If you do not wish to participate in the Sale or Top-up Facility you are not required to do anything.

If you hold 500 AGL Energy Shares or less as at the Record Date and you have your registered address on the AGL Energy Share Register in Australia or New Zealand, you may elect to purchase up to $2000 worth of additional AGL Australia Shares under the Sale and Top-up Facility. Those AGL Energy Shareholders who validly elect to purchase additional AGL Australia Shares up to a maximum of $2,000 will pay the purchase price per AGL Australia Share as announced on or about 7 August 2022.

Neither Computershare Investor Services Pty Limited (**CIS**) nor AGL Australia accepts any responsibility for loss incurred through incorrectly completed BPAY® payments. It is the responsibility of the applicant to ensure that funds submitted through BPAY are received by this time. Eligible Shareholders must use the Biller Code and customer reference number shown on this Form when making payment under the AGL Australia Top-up Facility.

Make Your Payment:

You may elect to purchase additional AGL Australia Shares in increments of $500, $1000, $1500 or $2000.

BPAY

Biller Code:
Ref No:

If I/we am/are participating in the Top-up Facility, by making payment by BPAY and using the specific Biller Code and Reference Number for this Offer, I/we acknowledge and agree that I/we will be deemed to have:

- agreed to be bound by the terms and conditions of the Top-up Facility;
- acknowledged having personally received a printed or electronic copy of the scheme booklet issued in connection with the Demerger (**Scheme Booklet**), including or accompanied by this form, and having read them all in full;
- declared that all details and statements in this form are complete and accurate;
- declared that I/we, if a natural person, is/are over 18 years of age;
- acknowledged that, once AGL Australia or the AGL Energy Share Registry receives payment by BPAY, it may not be withdrawn;
- agreed to being allocated and issued the number of AGL Australia Shares as determined and allocated in a way described in the Scheme Booklet, or no AGL Australia Shares at all;
- authorised AGL Australia and their respective officers or agents to do anything on my/our behalf necessary for AGL Australia Shares to be allocated to me/us, including to act on instructions received by the AGL Energy Share Registry upon using the contact details in this form;
- acknowledged and agreed that if the Demerger does not occur or proceed for any reason, the Top-up Facility will not proceed or be implemented.

Turn over for further instructions relating to the Sale and Top-up Facility

® Registered to **BPAY** Pty Limited ABN 69 079 137 518

AGL Australia Sale and Top-up Facility Form

Option 2 - Sale of all AGL Australia Shares through a Sale Agent

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CLOSING DATE: Your election must be received by 5:00pm (AEST) on Tuesday, 21 June 2022

Under the AGL Australia Sale and Top-up Facility, if you are an Eligible Shareholder who holds 500 AGL Energy Shares or less as at the Record Date, you may elect to have all the AGL Australia Shares that you would otherwise receive under the Demerger sold by the Sale Agent in the AGL Australia Sale and Top-up Facility, and the proceeds remitted to you, free of any brokerage costs or stamp duty. Eligible AGL Energy Shareholders who validly elect to sell all AGL Australia Shares that they would otherwise receive under the Demerger will receive the sale price per AGL Australia Share as announced on or about 7 August 2022.

If you would like for your AGL Australia Shares to be sold under the AGL Australia Sale and Top-up Facility, please complete and return this Form, or submit your election online at www.aglelections.com.au. Please turn overleaf if you would like to increase your AGL Australia shareholding under the AGL Australia Sale and Top-up Facility.

Sale of all AGL Australia Shares through Sale Agent

Please mark the below box for your form to be valid

☐ **I/we elect for my/our AGL Australia Shares to be sold under the AGL Australia Sale and Top-up Facility**

Signature of Shareholder(s)

This section must be completed.

By signing and returning this form, I/we confirm that I/we elect to participate in the AGL Australia Sale and Top-up Facility.

If I/we am/are participating in the Sale Facility, by signing and returning this form, I/we acknowledge and agree that I/we will be deemed to have:

- agreed to be bound by the terms and conditions of the Sale Facility;
- acknowledged having personally received a printed or electronic copy of the Scheme Booklet, including or accompanied by this form, and having read them all in full;
- declared that all details and statements in this form are complete and accurate;
- declared that I/we, if a natural person, is/are over 18 years of age;
- acknowledged that, once AGL Australia or the AGL Energy Share Registry receives this signed form, it may not be withdrawn;
- acknowledged and agreed that if the Demerger does not occur or proceed for any reason, the Sale Facility will not proceed or be implemented.

Signing Instructions
Individual: Where the holding is in one name, the securityholder must sign.
Joint Holding: Where the holding is in more than one name, all of the securityholders must sign.
Power of Attorney: Where signing as Power of Attorney (**POA**), you must attach an original certified copy of the POA to this form.
Companies: Where the holding is in the name of a Company, this form must be signed in accordance with the Corporations Act, either as:

- a Sole Director and Sole Company Secretary **OR** a Sole Director (if no Company Secretary exists), **OR**
- two Directors, **OR**
- a Director and Secretary.

Overseas Companies: Where the holding is in the name of an Overseas company (companies incorporated outside Australia) the form must be signed as above, or documentation must be provided showing that the company can sign in an alternate manner.
Deceased Estate: All executors must sign and a certified copy of Probate or Letters of Administration must accompany this form.

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary/ Sole Director (cross out titles as applicable)	Director	Director/Company Secretary (cross out titles as applicable)

Entering contact details is not compulsory, but will assist us if we need to contact you.

Contact Name _____ **Contact Daytime Telephone** _____ **Date** / /

Privacy Notice
The personal information you provide on this form is collected by CIS, as registrar for the securities issuers (the **issuer**), for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. In addition, the issuer may authorise us on their behalf to send you marketing material or include such material in a corporate communication. You may elect not to receive marketing material by contacting CIS using the details provided above or emailing privacy@computershare.com.au. We may be required to collect your personal information under the Corporations Act 2001 (Cth) and ASX Settlement Operating Rules. We may disclose your personal information to our related bodies corporate and to other individuals or companies who assist us in supplying our services or who perform functions on our behalf, to the issuer for whom we maintain securities registers or to third parties upon direction by the issuer where related to the issuers administration of your securityholding, or as otherwise required or authorised by law. Some of these recipients may be located outside Australia, including in the following countries: Canada, India, New Zealand, the Philippines, the United Kingdom and the United States of America. For further details, including how to access and correct your personal information, and information on our privacy complaints handling procedure, please contact our Privacy Officer at privacy@computershare.com.au or see our Privacy Policy at www.computershare.com/au/privacy-policies.

AGL Australia Limited
ABN 31 651 096 114

AGLA
MR SAM SAMPLE
UNIT 123
SAMPLE STREET
SAMPLETOWN NSW 2001

Return your Form:

By Mail:
Computershare Investor Services Pty Limited
GPO Box 1282 Melbourne
Victoria 3001 Australia

For all enquiries:

Phone:
(within Australia) 1300 148 339
(outside Australia) +61 2 9066 4059

Web:
www.aglelections.com.au

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AGL Australia Sale Facility Form

CLOSING DATE: Your election must be received by 5:00pm (AEST) on Tuesday, 21 June 2022

Under the AGL Australia Sale Facility, if you are an Eligible Shareholder who holds 500 AGL Energy Shares or less as at the Record Date, you may elect to have all the post-Demerger shares in AGL Australia Limited (**AGL Australia Shares**) that you would otherwise receive under the Demerger sold by the Sale Agent, and the proceeds remitted to you, free of any brokerage costs or stamp duty. Eligible AGL Energy Shareholders who validly elect to sell all AGL Australia Shares that they would otherwise receive under the Demerger will receive the sale price per AGL Australia Share as announced on or about 7 August 2022.

If you would like for your AGL Australia Shares to be sold under the AGL Australia Sale Facility, please complete and return this Form, or submit your election online at www.aglelections.com.au.

Sale Facility

Please mark the below box for your form to be valid

☐ **I/we elect for my/our AGL Australia Shares to be sold under the AGL Australia Sale Facility**

Signature of Shareholder(s)

This section must be completed.

By signing and returning this form, I/we confirm that I/we elect to participate in the AGL Australia Sale Facility.

If I/we am/are participating in the Sale Facility, by signing and returning this form, I/we acknowledge and agree that I/we will be deemed to have:

- agreed to be bound by the terms and conditions of the Sale Facility;
- acknowledged having personally received a printed or electronic copy of the scheme booklet issued in connection with the Demerger, including or accompanied by this form, and having read them all in full;
- declared that all details and statements in this form are complete and accurate;
- declared that I/we, if a natural person, is/are over 18 years of age;
- acknowledged that, once AGL Australia Limited or the AGL Energy Share Registry receives this signed form, it may not be withdrawn; and
- acknowledged and agreed that if the Demerger does not occur or proceed for any reason, the Sale Facility will not proceed or be implemented.

Signing Instructions
Individual: Where the holding is in one name, the securityholder must sign.
Joint Holding: Where the holding is in more than one name, all of the securityholders must sign.
Power of Attorney: Where signing as Power of Attorney (**POA**), you must attach an original certified copy of the POA to this form.
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Individual or Securityholder 1	**Securityholder 2**	**Securityholder 3**
Sole Director and Sole Company Secretary/ Sole Director (cross out titles as applicable)	**Director**	**Director/Company Secretary (cross out titles as applicable)**

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Contact Name _____ **Contact Daytime Telephone** _____ **Date** / /

Privacy Notice

The personal information you provide on this form is collected by Computershare Investor Services Pty Limited (**CIS**), as registrar for the securities issuers (the **issuer**), for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. In addition, the issuer may authorise us on their behalf to send you marketing material or include such material in a corporate communication. You may elect not to receive marketing material by contacting CIS using the details provided above or emailing privacy@computershare.com.au. We may be required to collect your personal information under the Corporations Act 2001 (Cth) and ASX Settlement Operating Rules. We may disclose your personal information to our related bodies corporate and to other individuals or companies who assist us in supplying our services or who perform functions on our behalf, to the issuer for whom we maintain securities registers or to third parties upon direction by the issuer where related to the issuers administration of your securityholding, or as otherwise required or authorised by law. Some of these recipients may be located outside Australia, including in the following countries: Canada, India, New Zealand, the Philippines, the United Kingdom and the United States of America. For further details, including how to access and correct your personal information, and information on our privacy complaints handling procedure, please contact our Privacy Officer at privacy@computershare.com.au or see our Privacy Policy at www.computershare.com/au/privacy-policies.

AGL Energy Limited
ABN 74 115 061 375

AGL

MR SAM SAMPLE
UNIT 123
SAMPLE STREET
SAMPLETOWN NSW 2001

AGL Energy's General Meeting and Scheme Meeting

Dear Shareholder

It is my pleasure to invite you to AGL Energy's General Meeting and Scheme Meeting (the **meetings**), with the General Meeting being held at 10:30am (AEST) on Wednesday, 15 June 2022 and the Scheme Meeting being held at the later of 10:45am (AEST) on Wednesday, 15 June 2022 or the conclusion of the General Meeting.

This letter provides information to shareholders as to how to participate in the meetings. AGL Energy's website will also be kept up to date with all of the relevant information shareholders may need. The meetings will be hybrid, which means you will be able to attend, participate or vote in person or online.

Details of the meetings

Date: Wednesday, 15 June 2022

Time: For the General Meeting, 10:30am (AEST). For the Scheme Meeting, the later of 10:45am (AEST) or the conclusion of the General Meeting.

Website: **https://meetnow.global/MD75Z5T**

Venue: International Convention Centre Sydney, 14 Darling Drive Sydney NSW 2000

How to participate Online

Login

You can watch and participate in the meetings via the live webcast and online platform by visiting our website **https://meetnow.global/MD75Z5T**. A user guide is also available at this website.

To login you will need:

- Your SRN/HIN
- The postcode registered on your holding if you are an Australian shareholder. Overseas shareholders should select the country of your registered holding from the drop-down list.

Proxyholders will need to contact Computershare on +61 3 9415 4024 to obtain your login details to request your unique email initiation link prior to the day of the meetings.

Voting

Once polls are open, shareholders and proxyholders can vote by clicking on the vote icon.

Ask a question

Click the Q&A icon to submit a written question. Questions may be moderated or amalgamated if there are multiple questions on the same topic. You can ask a question via the teleconference facility. Details of the teleconference line will be available through the Computershare Meeting Platform.

How to participate in person

The meetings will be held at International Convention Centre Sydney, 14 Darling Drive Sydney NSW 2000. You can register from 9.30am (AEST) on the day of the meetings.

Make your vote count. All votes must be received by 10:30am (AEST) on Monday, 13 June 2022 to be valid.

Online

To lodge a proxy, access the Scheme Booklet and other meeting documentation scan the QR code or visit **www.investorvote.com.au** and use the below information.

Control Number: 136531

SRN/HIN:

For Intermediary Online subscribers (custodians) go to **www.intermediaryonline.com.**

Via post or fax

1. Complete the enclosed Voting Forms. Instructions on how to appoint a proxy (including voting directly) are detailed on the Voting Forms.

2. Voting Forms may be submitted by mail to AGL Energy Limited, GPO Box 1282, Melbourne VIC 3000, Australia or by fax to the AGL Energy Share Registry on 1800 783 447 (within Australia) or + 61 3 9473 2555 (international).

We encourage all shareholders to lodge a directed proxy as soon as possible in advance of the meeting.

If you appoint a proxy, you may specify the way that the proxy is to vote in relation to a resolution and indicate that the specification is to be regarded as a direct vote.

By lodging a Voting Form and marking the 'direct vote' box, a shareholder will be deemed to have appointed the Chairman of the relevant meeting as their proxy, who will vote in accordance with the directions specified in the enclosed Voting Form.

We thank you for your support and look forward to you joining us at the meetings.

Yours sincerely,

Peter Botten

Chairman

AGL Energy Limited
ABN 74 115 061 375

AGL
MR SAM SAMPLE
UNIT 123
SAMPLE STREET
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Control Number: 136531

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2. Voting Forms may be submitted by mail to AGL Energy Limited, GPO Box 1282, Melbourne VIC 3000, Australia or by fax to the AGL Energy Share Registry on 1800 783 447 (within Australia) or + 61 3 9473 2555 (international).

We encourage all shareholders to lodge a directed proxy as soon as possible in advance of the meeting.

If you appoint a proxy, you may specify the way that the proxy is to vote in relation to a resolution and indicate that the specification is to be regarded as a direct vote.

By lodging a Voting Form and marking the 'direct vote' box, a shareholder will be deemed to have appointed the Chairman of the relevant meeting as their proxy, who will vote in accordance with the directions specified in the enclosed Voting Form.

Demerger Sale and Top-up Facilities

If you are an eligible shareholder who holds 500 AGL Energy Shares or less as at the Record Date, you may elect to have all your post-Demerger shares in AGL Energy Limited (which is to be renamed Accel Energy Limited) (**Accel Energy Shares**) and/or post-Demerger shares in AGL Australia Limited (**AGL Australia Shares**) that you would otherwise receive under the Demerger sold by the Sale Agent, in each case with the proceeds of such sale(s) remitted, free of any brokerage costs or stamp duty.

If, as at the Record Date, you hold 500 AGL Energy Shares or less and your registered address on the AGL Energy Share Register is in Australia or New Zealand, you may also elect to purchase additional Accel Energy Shares and/or AGL Australia Shares up to a maximum of $2000 worth of additional shares, free of brokerage costs.

For further information and to submit an election online, scan the QR code or visit **www.aglelections.com.au** and use the below information.

SRN/HIN:

The postcode registered on your holding if you are an Australian shareholder. Overseas shareholders should select the country of your registered holding from the drop-down list.

Elections must be received by the AGL Energy Share Registry by 5:00pm (AEST) on Tuesday, 21 June 2022. If you experience any difficulties or if you hold 500 or less AGL shares and would like to request a paper copy of your election form, contact the AGL Energy Shareholder Information Line on 1800 148 339 (within Australia) or +61 2 9066 4059 (outside Australia) between 9.00am and 5.00pm (AEST) on Monday to Friday.

We thank you for your support and look forward to you joining us at the meetings.

Yours sincerely,

Peter Botten

Chairman

From: AGL Energy Limited <Test_OP1.Communications@mailservice.computershare.com.au>
Sent:
To:
Subject: Notices of Meetings: AGL Energy General Meeting & Scheme Meeting – 15 June 2022

AGL Energy Limited
ABN 74 115 061 375

NOTICES OF MEETINGS

The AGL Energy Limited General Meeting and Scheme Meeting (**Meetings**) will be held on Wednesday, 15 June 2022, with the General Meeting to be held at 10:30am (AEST) and the Scheme Meeting to be held at the later of 10:45am (AEST) or the conclusion of the General Meeting.

Your vote is important and the AGL Energy Directors unanimously recommend that you vote in favour of the resolutions to approve the Demerger.

We recommend that you read the Scheme Booklet in full as it sets out important information about the Demerger, including about the advantages, disadvantages and risks associated with the Demerger and will assist you to make an informed decision on whether or not to vote in favour of the Demerger and Notices of Meetings in their entirety before deciding to vote either at the Meetings or by proxy. If you have any questions about the Scheme Booklet or the Demerger, we encourage you to seek independent financial, legal and taxation advice before making any investment decision in relation to your securities. You are also welcome to call the AGL Energy Shareholder Information Line (details below).

You are encouraged to participate in the Meetings using the following options:

MAKE YOUR VOTE COUNT

Click the link below to appoint a proxy, including by lodging a direct vote, in advance of the Meetings and access the Scheme Booklet and Notices of Meetings.

If you appoint a proxy, you may specify the way that the proxy is to vote in relation to a resolution and indicate that the specification is to be regarded as a direct vote.

By lodging a Voting Form and marking the 'direct vote' box, a shareholder will be deemed to have appointed the Chairman of the relevant meeting as their proxy, who will vote in accordance with the directions specified in the Voting Form.

APPOINT A PROXY, INCLUDING LODGING A DIRECT VOTE, on the General Meeting

APPOINT A PROXY, INCLUDING LODGING A DIRECT VOTE, on the Scheme Meeting

Proxy appointments, including direct votes, must be received by 10:30am (AEST) on Monday, 13 June 2022.

ATTENDING THE MEETING VIRTUALLY

To watch the webcast, ask questions and vote on the day of the Meetings, please visit https://meetnow.global/MD75Z5T.

For instructions refer to the online user guide available here.

ATTENDING THE MEETINGS IN PERSON

The Meetings will be held at International Convention Centre Sydney, 14 Darling Drive Sydney NSW 2000

For more information about the Demerger please visit www.agl.com.au/demerger.

If you have further enquiries, please call the AGL Energy Shareholder Information Line, Monday to Friday between 9:00am and 5:00pm (AEST), on:

1300 148 339 (within Australia); or
+61 2 9066 4059 (international).

You have received this message because you have elected to receive electronic securityholder communications. To change your preferences login to Investor Centre, select the "Communication Preferences" option and follow the prompts. We may occasionally send marketing material about products and services. To opt-out of receiving these communications, reply with the word "unsubscribe".

From: AGL Energy Limited <donotreply@aglelections.com.au>
Sent:
To:
Subject: [TEST] Sale and Top-up Facilities

AGL Energy Limited
ABN 74 115 061 375

SALE AND TOP-UP FACILITIES

You would have recently received, or will shortly receive, an email regarding the General Meeting and Scheme Meeting of AGL Energy Limited (**AGL Energy**) convened to consider the demerger by AGL Energy of AGL Australia Limited (**AGL Australia**) as further described in the Scheme Booklet dated 6 May 2022 (**Demerger**) and certain related matters. You should refer to that email for information on the Demerger and the meetings, including how to vote and attend virtually. Capitalised terms not defined in this email have the meaning given to them in the Scheme Booklet.

This email contains information regarding the Accel Energy Sale and Top-up Facility and AGL Australia Limited Sale and Top-up Facility as outlined in the Scheme Booklet. We recommend that you read the Scheme Booklet and Notices of Meetings in their entirety before deciding to submit an election under these Sale and Top-up Facilities. We also encourage you to seek independent financial, legal and taxation advice before making any investment decision in relation to your securities.

The Accel Energy Sale and Top-up Facility and the AGL Australia Sale and Top-up Facility allow certain eligible shareholders who hold 500 AGL Energy Shares or less as at the Record Date the opportunity to either sell or increase their shareholding in AGL Energy Limited (which is to be renamed Accel Energy Limited (**Accel Energy**)) and / or AGL Australia under the respective facility.

Eligibility to participate in the Sale and Top-up Facilities

Only eligible shareholders with registered addresses on the AGL Energy Share Register as at the Record Date:

- in Australia or New Zealand are eligible to purchase additional post-Demerger shares in Accel Energy (**Accel Energy Shares**) and / or post-Demerger shares in

AGL Australia Limited (**AGL Australia Shares**) under the Sale and Top-up Facilities.
- in Australia, New Zealand, Canada, Hong Kong, Malaysia, Singapore, the United Kingdom and the United States of America are eligible to sell Accel Energy Shares and / or AGL Australia Shares under the Sale and Top-up Facilities.

AGL Australia Sale and Top-up Facility

If you are an eligible shareholder with a registered address on the AGL Energy Share Register in an eligible jurisdiction (as described above) and you wish to have:

- all the AGL Australia Shares that you would receive under the Demerger sold on ASX by the Sale Agent and the proceeds remitted to you, free of any brokerage costs or stamp duty; **or**
- purchase up to a maximum of $2000 additional AGL Australia Shares, free of brokerage costs,

you should submit your election online by clicking on the button below.

Under the AGL Australia Sale and Top-up Facility, Ineligible Overseas Shareholders, Selling AGL Australia Shareholders and Buying AGL Australia Shareholders will receive or pay (as applicable) the average purchase prices and average sale prices per AGL Australia Share, subject to rounding up to the nearest whole cent. The purchase price and sale price per AGL Australia Share will be announced or on about 7 August 2022.

Shareholders who wish to receive their AGL Australia Shares under the Demerger and do not wish to participate in the AGL Australia Sale and Top-up Facility do not need to take any action.

Accel Energy Sale and Top-up Facility

If you are an eligible shareholder with a registered address on the AGL Energy Share Register in an eligible jurisdiction (as described above) and you wish to have:

- all the AGL Energy Shares that you hold at the Record Date sold on ASX by the Sale Agent and the proceeds remitted to you, free of any brokerage costs or stamp duty; **or**
- purchase up to a maximum of $2000 additional Accel Energy Shares, free of brokerage costs

you should submit your election online by clicking on the button below.

Under the Accel Energy Sale and Top-up Facility, Selling Accel Energy Shareholders and Buying Accel Energy Shareholders will receive or pay (as applicable) the average purchase prices and average sale prices per Accel Energy Share, subject to rounding up to the nearest whole cent. The purchase price and sale price per Accel Energy Share will be announced on or about 7 August 2022.

Participation in the Accel Energy Sale and Top-up Facility is on an opt-in basis. If you do not make an election to buy or sell Accel Energy Shares in the Accel Energy Sale and Top-up Facility, you will retain your existing shareholding.

To make an election

1. **Read the Scheme Booklet:** Click here to read the Scheme Booklet. We recommend that you read the Scheme Booklet and Notices of Meetings in their entirety before deciding how to proceed. We would also encourage you to seek independent financial, legal and taxation advice before making any investment decision in relation to your securities.

2. **Submit your Election / Make your Payment:** Click on the button to view your personalised Sale and Top-up Facility Form and submit your election.

Click here to access your personalised link

For more information about the Demerger please visit www.agl.com.au/demerger.

If you have further enquiries, please call the AGL Energy Shareholder Information Line, Monday to Friday between 9:00am and 5:00pm (AEST), on:

1300 148 339 (within Australia); or

+61 2 9066 4059 (international).

You have received this message because you have elected to receive electronic securityholder communications. To change your preferences login to Investor Centre, select the "Communication Preferences" option and follow the prompts. We may occasionally send marketing material about products and services. To opt-out of receiving these communications, reply with the word "unsubscribe".

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