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ASX and Media Release

1H21 results announcement

11 February 2021

AGL Energy Limited (AGL) today announced its results for the first half of the financial year ended 31 December 2020 ("1H21").

1H21 Result Highlights

- Statutory Loss after tax: $2,287 million, including $2,686 million of onerous contract provision and impairment charges announced 4 February 2021
- Underlying EBITDA: $926 million, down 13 percent on 1H20
- Underlying Profit after tax: $317 million, down 27 percent, including $74 million of insurance receipts relating to FY20 Loy Yang Unit 2 outage
- Total services to customers: 4.2 million, up 246,000, including from Click Energy acquisition, broadband launch, and organic growth in energy
- Total generation volumes: 20,816 GWh, down 4.5 percent, reflecting reduced market demand and the impact of unplanned outages
- Flexible storage capacity development: 850 MW of grid-scale batteries well advanced with planning phase and successful tenderers announced
- Interim ordinary dividend of 31 cents per share and special dividend of 10 cents declared
- Guidance for FY21 Underlying Profit after tax of between $500 million and $580 million unchanged from 21 December 2020 update
- Guidance for FY21 Underlying EBITDA of between $1,585 million and $1,845 million
- $150 million of operating cost reduction identified for FY22, in addition to offsetting inflation
- Programs under way to deliver $100 million reduction in sustaining capital expenditure by FY23
- Actively assessing business model and capital structure to maximise shareholder value

CEO Commentary

AGL Managing Director & CEO, Brett Redman, said: "Our 1H21 result reflects the sharp decline in wholesale prices for electricity and large-scale renewable certificates over recent times, the impact of lower gross margin in Wholesale Gas, higher costs associated with the COVID-19 pandemic, and increased depreciation expense following recent investment.

"However, throughout the half, we have continued to make progress with delivering our strategy to become a multi-product retailer and enable the transition of Australia's energy supply by investing in flexible storage and generation capacity and expanding our decentralised energy activities.

"In Customer Markets, we recorded strong organic customer service growth and acquired Click Energy, making us Australia's biggest energy retailer, while the uptake of our new broadband and carbon neutral customer service offerings is exceeding our expectations.

"In Integrated Energy, we are on track to develop 850 MW of grid-scale batteries and we continue to progress our plans for the Crib Point liquified natural gas (LNG) import project, while we now have more than 100 MW of capacity and 50,000 customers participating in orchestration programs.

"AGL's strategic focus and financial strength create a solid foundation to withstand and emerge stronger after this period of challenging market and operating conditions. While earnings pressures are increasing, we are executing our strategy with discipline, while looking to the future to ensure our business is structured to lead the energy transition and deliver value for shareholders. We are committed to our position as an essential service provider to our customers and to the Australian community at large.

"We are on track to deliver $150 million of operating cost reductions, in addition to offsetting inflation, in FY22 and we are targeting a $100 million reduction in sustaining capital expenditure across the company. At the same time, we are actively assessing our business model and capital structure to maximise shareholder value and support our evolving strategy as the shaping forces of customer needs, community expectations and technology continue to accelerate."

Statutory and Underlying Profit

AGL's Statutory Loss after tax was $2,287 million. This included the $2,686 million in charges associated with onerous contract provisions, an increase in environmental restoration provisions and other asset impairments recognised in the Generation Fleet cash-generating unit and Natural Gas assets announced on 4 February 2021.

In addition to the impairment, the Statutory Loss included a positive movement in the fair value of financial instruments of $93 million, primarily reflecting the impact of lower forward prices for electricity relative to AGL's hedging of its electricity generation position to manage pricing risk through forward contracts. This movement is non-cash but is required under Australian accounting standards.

Underlying Profit after tax, which excludes movements in the fair value of financial instruments and Significant Items, was $317 million, down 27 percent.

Dividends and capital management

AGL delivered net cash from operating activities of $614 million in the half, down 46 percent on 1H20 as a result of the reduction in earnings as well as negative working capital movements associated with wholesale market positions for electricity – driven largely by outflows from margin calls compared with a large inflow in 1H20 – and renewable energy certificates. At 31 December 2020, AGL had approximately $600 million of cash and undrawn debt facilities available after funding the Click acquisition and repaying $400 million of bank debt over the period.

AGL has declared an interim ordinary dividend for FY21 of 31 cents and an interim special dividend of 10 cents per share. Both dividends are unfranked. This is consistent with guidance provided by AGL with its FY20 results for a Special Dividend Program in FY21 and FY22 to augment ordinary dividend payments of 75 percent of Underlying Profit after tax with a payout equal to a further 25 percent while franking was unavailable due to the use of historic tax losses. All future dividends remain subject to Board discretion, trading conditions and the ongoing funding and liquidity requirements of the business.

Both the ordinary and special dividends will be payable on 26 March 2021. AGL's dividend reinvestment plan (DRP) will operate with respect to both dividends. The last date at which shareholders can elect to participate in the DRP with respect to these dividends is 26 February 2021.

Outlook

AGL continues to expect Underlying Profit after tax for FY21 of between $500 million and $580 million, as stated in the 21 December 2020 trading update. This range reflects previously advised headwinds resulting from the deterioration of wholesale electricity and renewable energy certificate prices, lower-cost gas supply contracts rolling off, higher depreciation expense and costs associated with managing COVID-19, as well as the $25 million negative impact of the outage at Unit 3 of the Liddell Power Station.

AGL continues to expect FY21 operating costs (excluding depreciation and amortisation) to be broadly flat on FY20, excluding COVID-19 impacts and operating costs from acquired businesses. The FY21 Underlying Profit after tax range includes the expected $80 million to $100 million after tax benefit from insurance proceeds relating to FY20 unplanned outages at Unit 2 of AGL Loy Yang, which will not be repeated in FY22. AGL has also provided EBITDA guidance for FY21 of between $1,585 million and $1,845 million.

As stated on 21 December 2020, in addition to the non-recurrence of the $80 million to $100 million of insurance proceeds noted above, AGL anticipates a further material step-down in Wholesale Electricity earnings in FY22 as hedging positions established when wholesale prices were materially higher progressively roll off and are re-contracted at lower levels reflecting the deterioration in wholesale prices.

All guidance is subject to ongoing uncertainty in relation to variability in trading conditions and the economic impacts of the COVID-19 pandemic.

Presentation, Webcast and Conference Call

AGL will hold a webcast and conference call to discuss the 1H21 result and outlook at 10.45 am, Sydney time, today. Questions will be taken at the conclusion of the webcast.

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

All 1H21 documents, pre-recorded presentation and webcast are accessible via agl.com.au/interimfy21. Pre-registration is required to access the conference call and live question and answer session.

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

Authorised for release by AGL's Board of Directors.

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