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Changing Industry challenged by threats and opportunities

Company/ASX Code	AGL Energy Limited
AGM date	Thursday 19 September 2019
Time and location	10.30am International Convention Centre 14 Darling Drive Darling Harbour Sydney
Registry	Link Market Service
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Ian Graves assisted by Helen Manning
Pre AGM-Meeting	Yes, with the Chair Mr Graeme Hunt

Item 1	**Consideration of accounts and reports**
ASA Vote	**No vote required**

SUMMARY OF ASA POSITION

AGL reported an underlying net profit of $1,040m, an increase of 2.2% on last year, arising mainly from an increased contribution from electricity, resulting from higher customer numbers and unit margins. However, it foresees difficulties ahead with guidance for the 2020 financial year (FY20) implying an earnings decline, mainly from Loy Yang outage and higher depreciation and fuel costs. A pleasing aspect of the increased customer numbers is the increase in duel fuel customers (taking both gas and electricity). In September, the acquisition of Perth Energy was finalised, which will make AGL the third largest electricity provider to business customers in WA, as well as providing greater flexibility to AGL's gas portfolio.

To ensure future energy supplies, AGL's electricity generation portfolio is continuing to evolve, with Silverton, Coopers Gap and Barkers inlet nearing completion and another $2bn of developments underway, focusing on storage and flexible generation. AGL is also continuing to invest in its gas portfolio, with an LNP gas import jetty at Crib Point, Victoria, which has the potential to provide additional gas to customers in Victoria, South Australia and NSW. As well, AGL is exploring further alternative sources of energy and recognises the potential for hydrogen as an alternative fuel source as a replacement gas to LNP. It is also participating in a hydrogen energy supply chain to convert brown coal from AGL Loy Yang mine into Hydrogen.

Another potential future development was signalled with the recent announcement of a non-binding offer to Vocus, a telecom company. Although not proceeded with, it was a strategic move as the industry is transitioning from large scale power plants to multiple small-scale distributed power generation. This will increase reliance on data transmission to manage its network of generation and distribution, with the potential to lead convergence for energy and broadband distribution.

Although AGL has forecast reduced earnings for FY20, it is confident that with its underlying strong cash flows, it will be able to fund future capital requirements and has announced a buyback of up to 32,791,252 shares equivalent to 5% of its capital in FY20.

FINANCIAL PERFORMANCE

A final dividend of 64c per share, 80% franked, was declared, taking the total dividends for FY19 to $1.19 per share. Normalised earnings per share remained steady at 158.6c, although foreshadowed to reduce in FY20.

AGL is still not meeting ASA's expectations of adequate skin in the game (directors' shares worth 100% of base fees after 3 years). 4 directors purchased shares in September, although several still did not meet AGL's own guideline.

NON-EXECUTIVE CHANGES

Belinda Hutchinson retired on 12th December 2018 and Patricia McKenzie joined in May 2019.

EXECUTIVE CHANGES

Andy Vesey ceased to be the Managing Director and CEO from 23 August 2018. After holding the interim position, Brett Redman became the new Managing Director and CEO on 1 January 2019.

Of the five Key Management Personnel, only Doug Jackson and Richard Wrightson were described as being in the same positions they held at the beginning of the year, with Richard Wrightson resigning as of 20 August 2019.

Of the 10 strong executive team, only three of the positions remained with the same people in them over the course of the year. Whilst the promotion of Brett Redman to CEO meant the CFO position became vacant (Damien Nicks taking over), we are talking about an additional 5 positions or half of the executive team being replaced.

Summary

(As at FYE)	**2019**	**2018**	**2017**	**2016**	**2015**
NPAT ($m)	905	1,582	539	(408)	218
UPAT ($m)	1,040	1,018	802	701	630
Share price ($)	20.10	22.48	25.50	19.29	15.55
Dividend (cents)	119	117	91	68	64
TSR (%)	(5.3)	(7.3)	42.4	22.3	N/A
EPS (cents)	158.6	158.6	119.8	103.9	96.4
CEO total remuneration, actual ($m)	2.7	7.7	6.9	6.9	N/A

For 2019 the CEO's total actual remuneration was **31** times[1] the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics). Note - For May 2019, the Full-time adult average weekly total earnings (annualised) was $88,145.

Item 2	**Adoption of Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

The report suffers from a lack of clarity and is further limited by not including a Take Home Pay Table. This is unusual in ASX50 company and ASA requests that it to be included next year.

For the last 4 years ASA has voted against the remuneration report because of the short-term incentive (STI) balanced score card non-financial metrics performance measures and assessment.

It is pleasing to see some improvements in the STI assessment with a financial gateway, although there is dependency on the Group's overall financial performance (60%) and only 10% based on the individual's area of responsibility. Doubt is cast upon the rigour of the assessments in the non-financials, which account for 30% of the weighting, with all executives either meeting or exceeding targets.

Although the STI deferred equity component doesn't meet ASA's guidelines, we appreciate that this year's remuneration outcome is transitional and note that improvements are foreshadowed for next year.

Long term incentive is over a 3 year period and performance is 50% TSR measured against the ASX 100, and 50% ROE. ASA prefers a more specific comparator group. Again, we note that although the performance period is only 3 years and note that this will be increased to 4 years for the next performance period.

[1] It should be noted that the CEO was only appointed 1 January 2019. Prior to this he was CFO therefore this figure is not a true reflection of annual remuneration.

CEO remuneration framework

	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.65	34%	1.65	30%
STI - Cash	0.50	10%	0.83	15%
STI - Equity	0.50	10%	0.83	15%
LTI	2.15	45%	2.15	40%
Total	4.80	100.0%	5.45	100%

The amounts in the table above have been compiled from figures available in the Annual Report and the summary of the service agreement for the CEO released on his assuming the role. They are the statutory amounts that appear to be envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting. The figures have not been verified with AGL at time of publishing.

ASA supports this report and will vote all undirected proxies in favour of this resolution.

Item 3a	**Re-election of Jacqueline Hey**
ASA Vote	**For**

Summary of ASA Position

As a non-executive director since 2016, Jacqueline Hey's qualifications, Committees, Directorships and Experience are well laid out in the Notice of Meeting and the Annual Report. She worked for Ericsson for more than 20 years before becoming a full-time company director in 2011. In 2015 she was the winner of the Board/Management category at the Melbourne School of Business. With her appointment to the Chair of Bendigo and Adelaide Bank (effective 29 Oct 2019) Ms Hey will fill 5 directorships, which is the maximum the ASA considers desirable. None of the board members have what ASA would consider sufficient shareholding in AGL (skin in the game). It should be noted that she has increased her shareholding since the Annual Report was printed.

ASA supports her re-election and will vote all undirected proxies in favour of this resolution.

Item 3b	**Re-election of Diane Smith-Gander**
ASA Vote	**Undecided**

Summary of ASA Position

As a non-executive director since 2016, Diane Smith-Gander's qualifications, and experience are well laid out in the Notice of Meeting and the Annual Report.

ASA would normally recommend in favour of her re-election. However, we have concerns about her workload.

Her current public directorships are: ASX-listed Wesfarmers Limited, North Queensland Airports Group and Keystart Loans.

She also holds a number directorships of Government and not for profit organisations: Chair of Safe Work Australia and the Asbestos Safety and Eradication Council, Chair of CEDA, Deputy Chair of the UWA Business School advisory Board and member of the Norton Rose Fulbright Australia Partnership Council.

ASA considers 5 board positions to be enough of a workload for one person with the position of Chair equating to 2 board positions. ASA normally treats a paid role as a director of a government, semi-government or not for profit organisation as the equivalent of one directorship.

ASA is undecided on this matter and will seek clarification from Ms Smith-Gander at the AGM before voting on this resolution.

Item 3c	**Election of Patricia McKenzie**
ASA Vote	**For**

Summary of ASA Position

Patricia McKenzie's qualifications, and experience are well laid out in the Notice of Meeting and the Annual Report. She is a new appointee to the Board, since May 2019. We note that she has extensive experience in the energy sector both as director and executive, and it was for this reason, that she was deemed a good fit for the board.

ASA supports her election and will vote all undirected proxies in favour of this resolution.

Item 4	**Approval of LTI grant to CEO/Managing Director Brett Redman**
ASA Vote	**For**

Summary of ASA Position

This grant is for 214,108 performance rights under the long-term incentive plan. The grant has an initial value of $4,289,996 at a volume weighted average price (VWAP) over the 30 days up to 30 June 2019 of $20.0366 per share.

We support the 2019 Remuneration Plan from which these rights accrue.

Therefore, ASA will vote all undirected proxies in favour of this resolution.

Item 5a	**Special resolution – Amendment to the Constitution**
ASA Vote	**Against**

Summary of ASA Position

The following resolutions 5a has been proposed by an organisation called Market Forces while resolution 6 has been proposed by ACCR. The resolutions are not endorsed by the board. Whilst, on the face of it, a resolution to increase shareholder power may appear beneficial to shareholders, under the existing framework, shareholders who wish to raise an issue must propose a constitutional amendment in order to provide for such a power. We are reluctant to vote in favour of changing company constitutions in part due to the limited flexibility of the engagement – our preference is for a public policy consultation on whether there should be a right to more non-binding shareholder resolutions.

Item 5b and 6	**Special resolutions – Transition planning disclosure and Public health risks of coal operations**
ASA Vote	**Against**

Resolutions 5b and 6 are conditional on the resolution in Item 5a being passed by the required majority. The company intends to allow a reasonable opportunity at the AGM for shareholders to ask questions on these topics, and ASA supports discussion of the risks and challenges facing the company. The explanatory notes in the notice of meeting include the associated 249P statements and the company's response to these statements, which will allow shareholders to formulate questions for the meeting.

The individual(s) (or their associates) involved in the preparation of this voting intention has a shareholding in this company.