Bring on tomorrow, AGL to power ahead with renewables funded by improved powers station revenue.

Company/ASX Code	AGL Energy Limited/AGL
AGM time and date	10.30am Tuesday, 21 November 2023
Location	City Recital Hall, Angel Place Sydney
Registry	Computershare
Type of meeting	Hybrid
Monitor	Lewis Gomes and Julieanne Mills
Pre-AGM Meeting	With Chairman Patricia McKenzie, NED and Chair PPC Graham Cockroft, Lauren Redman and James Thompson.

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

1. How we intend to vote

No.	Resolution description	Voting
2	Remuneration Report	For
3	Re-election of directors	
	(a) Mr Mark Bloom	For
	(b) Mr Miles George	For
	(c) Mr Mark Twidell	For
4	Grant of Performance Rights to Damien Nicks	For
5	Approval of Termination Benefits for Eligible Senior Executives	For
6	Special Resolution – Reinsertion of Proportional Takeover Provisions	For
7	Conditional Spill Resolution	Against

2. Summary of Issues and Voting Intentions for AGM

Operational Matters

AGL's first half (1H) was challenging with a volatile energy market, significant outages and a prolonged outage at Loy Yang 2. The second half (2H) saw Loy Yang Unit 2 returned to service. Flexibility upgrades were completed at Bayswater and AGL Loy Yang with benefits in gross margins and reductions in emissions, leading to improvements in operating efficiencies.

In general, AGL is very clear in its reporting, but the ASA finds the clarity of the remuneration report could be improved. We also find the movement in fair value of financial instruments difficult to comprehend. We appreciate the benefits that these hedges have provided against the risk of variable price and availability of electricity but are concerned with the large numbers that AGL may be exposed to. The unrealised fair value movements don't give us much clarity around the maturity profile or how this may impact forward margins if these losses continue.

3. Matters Considered

Accounts and reports

AGL recorded a statutory loss after tax of $1,264 million including $680 million of impairment charges due to targeted earlier closure dates of thermal assets in line with AGL's accelerated decarbonisation plan. Also included was a negative movement on fair value of financial instruments of $890 million. Underlying EBITDA was up 12% on FY22 at $1,361 million and underlying net profit after tax of $281 million, up 25% on FY22. The total dividend for FY23 was 31 cents per share unfranked with the DRP suspended indefinitely. The dividend payout ratio has been adjusted in FY24 from 75% of underlying profit, to a range of 50-75%, to strengthen (finance) the core business and execute strategy.

A feature of its financial performance that AGL shares with most energy providers, is the significant swing in statutory profits due to impairments and derivatives positions; these arise as a result of large variations in wholesale electricity prices over the daily cycle as renewables come into the network in the morning, and then leave in the afternoon. Another big factor in recent times has been large variations in coal prices due to mining difficulties caused by bad weather and rail haulage problems. A temporary cap on coal prices in NSW was introduced during 2022 but is due to be removed in 2024. The major generators can rapidly swing from being suppliers of energy to the wholesale market to buyers to plug short term gaps in supply.

As experienced during 2023, pre-tax impairments (losses) were $943 million whereas in FY22 AGL recorded positive pre-tax impairments (profits) of $686 million. A turnaround of $1.63 billion compared with a UPAT of $281 million. A similar situation occurred with movements in the fair value of financial instruments (derivatives) which fell from a pre-tax profit of $212 million in FY22 to a pre-tax loss of $1,271 million on FY23, a turnaround of $1,480 million. The critical question is: how does AGL manage these large and often unforeseeable changes in circumstances? The Annual Report (Section 4.3.2) goes some way to describe its approach to hedging and financial risk management but the overall effectiveness of these measures, firstly at management level and then at board level, is not clear.

AGL has maintained its underlying earnings guidance for FY24 EBITDA between $1,875 and $2,175 million (up 38% to 60% on FY23) with underlying profit after tax between $580 and $780 million (up 106% to 178% on FY23). That is, AGL sees a substantial uplift in earnings over FY24 due to sustained periods of higher wholesale electricity pricing reflected in pricing outcomes and contract resets, and improved plant availability and flexibility of its asset fleet and non-recurrence of forced outages and market volatility impacts during FY23.

AGL notes that future earnings guidance will be impacted by the closure of Liddell Power Station and higher operating costs, increased competition, ongoing investment spend and ongoing impacts of inflation.

Financial performance

(As at FYE)	**2023**	**2022**	**2021**	**2020**	**2019**
NPAT ($m)	(1,264)	860	(2,058)	1,007	905
UPAT ($m)	281	225	537	808	1,040
Share price ($)	10.81	8.25	8.20	17.05	20.01
Dividend (cents)	31	26	75	98	119
Simple TSR (%)	34.8	3.78	(47.51)	(9.89)	(6.40)
EPS (cents)- Underlying	41.8	34.4	86.2	126.1	158.6
CEO total remuneration, actual ($m)	2.261*	2.182	N/A	3.898	3.198

*The CEO Damien Nicks remuneration does not reflect a full year as CEO and includes his remuneration as CFO 1 July-30 September 2022, and his interim role as CEO from 1 October until his appointment in January 2023.

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking) by the share price at the start of the year.

Governance and culture

The changes to board and management appear to have contributed to a significant shift in strategic priorities and improvement in culture. The confirmation of the new strategic direction and Climate Transition Action Plan (CTAP), along with a new purpose and values statement, and the support of major shareholders has delivered some positive momentum. The 10 person board is large, diverse, engaged and professional, while the chair would prefer a smaller board, they say it is working well.

Employee engagement has improved by 10% to 67%, participation increased, and turnover is coming down. There has been continued modest customer growth with a lift of 56,000 customer services to 4.3M in FY23. NPS +5 is down slightly on FY22.

Gender diversity is supported at board level with 40% women and 57% at the executive team level, however it reduces to 25% at senior manager level. There is a senior management pipeline in place to improve these numbers, but the company admits it is unlikely to reach its 50:50 goal within 3 years. There has been no gender pay gap at AGL for 4 years.

Reptrack[1] results are steady but show improved reputational positioning compared to competitors with AGL number 1 in two states. This is despite disruptions and price increases. AGL has 4.3 million services to customers which remains reasonably steady. AGL churn is 14.2% with the rest of market at 18.7%, reflecting a loyal customer base.

An overall community contribution of $4.8M increased 21% with investment in community and corporate partnerships, to reinforce the resilience of energy hub communities.

AGL has a family inclusive workplace with super paid on parental leave from FY24.

A second "Innovate" RAP (2024-25) is working on improving team cultural training, with *Sorry Business* leave being introduced and a database of cultural heritage sites within a 1km of AGL assets being established. Currently 1.3% of employees identify as indigenous, AGL is working to improve that to 3%, and improve the indirect employment of indigenous people. A First Nations recruitment agency has been engaged to understand employment numbers and First Nations procurement is to double over the next two years. AGL also supports the Clontarf and Stars Foundations and Redfern Youth Connect.

Board members have all purchased significant shareholdings in AGL over the past year. The non-executive directors' minimum shareholding requirement is for 100% of base fees over 4 years, with 50% within 2 years and at least 10% in the first year.

Acknowledging the cost of living pressures AGL is providing $70M over two years for customer support funding, alongside the $3bn in government support.

Key events

The most significant event during FY23 was the changes to the Board and management following the 2022 AGM (which is discussed below) and the consequent change in strategic direction towards a greater focus on renewables generation capability and capacity.

Progress has been made with the successful closure of Liddell and relocation of employees to Bayswater. This is just the beginning of a significant transformation, with the Tier 1 Strategic risks outlined in the Annual Report pg 12-14 clearly lay out the risks ahead.

Since February 2023 500MW of wind, 100MW of Solar and 400MW of battery storage in NSW and 500MW of battery storage in Queensland have been added. AGL has signed a 15-year 45% offtake agreement with Tilt energy for 513GWh/pa from Rye Park Wind Farm.

The development pipeline for renewables advanced by over 60% from 3.2GW to 5.3GW

In May 2023 AGL and a consortium of Australian and global energy companies submitted an application for 2.5GW offshore wind development in Bass Strait.

The Torrens Island Battery and Broken Hill Battery will add 250MW and 50MW of storage in the 1H24.

[1] The REpTrak Company provides reputation benchmarking scores.

Key board or senior management changes

Following on from the withdrawal of the proposed demerger in May 22. Patricia McKenzie replaced Peter Botten as chair, when he resigned along with non-executive director (NED) Diane Smith-Gander on the 19 September. The CEO/ Managing Director and past NED, Graeme Hunt, also resigned and left the business in September 2022. Damien Nicks replaced him as Interim CEO and was appointed Managing Director and CEO effective in January 2023. He was previously the CFO. Gary Brown was appointed as CFO in January 2023 having previously been in a Financial Advisor role at AGL from January 2022.

Miles George joined the Board in September 2022. 4 new directors, nominated by interests associated with Mike Cannon-Brooks, joined the board after being voted in at the November 2022 AGM. These new directors are Christine Holman, John Pollaers, Dr Kerry Schott and Mark Twidell. Dr Schott is very highly regarded in the energy and utilities sectors, and this was reflected in her very high vote at the last AGM. It was unfortunate that the board at that time chose not support the election of these candidates, but it is understood that since then the Board has worked harmoniously in the interests of AGL and its shareholders.

Sustainability/ESG

AGL is the largest electricity generation portfolio in the National Electricity Market (NEM) consisting of coal and gas-fired generation, renewables, battery firming and gas production and storage. Prior to the Liddell closure it produced 8% of Australia's greenhouse gas emissions. AGL's contribution to decarbonisation will be one of the largest in Australia as it moves from baseload to renewable and firming generation of power. In FY23 scope 1 & 2 emissions against FY19 dropped 18.5% to 35.2 $MtCO_2e$ due to outages and the closure of Liddell.

AGL's refreshed strategy and Climate Transition Action Plan (CTAP) was endorsed at the last AGM (November 2022). A successful $1.6bn of debt refinancing was completed in April 2023 "reflecting the debt market's confidence in AGL's business fundamentals and decarbonation plan", it included a $500M green capex loan.

Strategic review updates have targeted an exit of coal fired generation by 2035 with early closure of Torrens Island by 2026 and Loy Yang by 2035 with the aim of a responsible acceleration to a low carbon economy by reshaping AGL portfolio to clean and flexible and transitioning from coal to renewables.

CTAP key targets

- 17% reduction in Scope 1 & 2 emissions against FY19 baseline by FY 2024 with closure of Liddell
- 52% reduction in Scope 1 & 2 emissions against FY19 baseline by FY 2035 with closure of Bayswater in 2033.
- Net zero Scope 1 & 2 emissions with the closure of Liddell, Bayswater and Loy Yang A
- Net zero Scope1, 2 & 3 by 2050

Liddell Power Station closed safely in April 2023 after almost 52 years of operation with no forced redundancies and the relocation of 100 employees to Bayswater. This will remove 8 million tonnes of greenhouse gas emissions GHGe a year.

AGL is seeking to deliver 12GW of new renewable generation and firming capacity by the end of 2035 including the short term target of 5.3GW mentioned earlier.

Green revenue as a % of total revenue has increased to 17.5%

AGL is repurposing its existing thermal power generation sites to low carbon energy hubs to utilising existing infrastructure and communities.

“Decentralised assets under orchestration” refers to residential and commercial solar and batteries that are managed by AGL as virtual power plants. From FY23 this will include smelters.

AGL has 3 times the market share of commercial solar. The development of commercial and industrial solar and battery micro grids (VPP) has seen decentralised energy increase 47%.

The expansion of the strategy to develop energy as a service has seen decentralised energy and asset orchestration, monitoring and management through digital investment and innovation.

The new branding, “Join the change” reflects the need for partnerships with customers, financiers and industry.

AGL is seeking to equip customers with the information they need to further electrify their homes and vehicles. It has developed EV subscriptions and a BP pulse partnership to encourage home-based charging of electric vehicles and discounting on charging with BP.

4. Rationale for Voting Intentions

Item 1 - To receive and consider financial, directors’ and audit reports for FY23 (no voting)

Commentary of the financial performance of AGL is provided above. The only issue of concern is the approach to hedging and derivatives management, given the very large swings from profits to losses over the course of a year in these instruments which are largely beyond the control of the company. As this matter is not a voting item, no recommendation is given on the acceptance or otherwise of these reports.

Item 2 - Adoption of the Remuneration Report for FY23

At last year’s AGM, the remuneration report received 30.69% of cast votes against the report and hence a first strike was recorded. AGL made several changes to its remuneration plan as a consequence. The FY24 strategic objectives in the STI scorecard for the CEO have been increased in weighting from 15% to 20%, operating cash flow will be introduced as a second financial metric (not yet actioned), the carbon transition metrics in the LTIP were increased from 25% to 30% and the carbon transition metrics have been changed (“refined to align with the CTAP commitments”) We have some concerns that these metrics have been reduced from FY23 and may be easier to achieve.

Details of the remuneration framework for the CEO are presented in Appendix 1. While the overall framework seems reasonable, there are still several shortcomings in the plan. The assessment of the STI achieved is not clear and details that would make it so are not provided. Furthermore, the actual take-home remuneration of the CEO and other KMP are not provided for the year being reported, as is the case with nearly all other top ASX companies.

These concerns were raised by the ASA in our Pre-AGM meeting with an undertaking to further consider these matters. On this basis, the ASA will vote all undirected proxies in favour of this resolution.

Item 3 - Re-election of directors.

Due to the high proportion of directors elected in FY22, the board bought forward the re-election of Mr George and Mr Twidell to 2023 in order to spread elections over 3 years.

Item 3a Mr Mark Bloom

Mr Bloom was first appointed to the board in July 2020. He has over 35 years as a finance executive including roles as CFO at Scentre Group and Deputy Group CFO of Westfield Group. There is no doubt that Mr Bloom is a well-credentialled finance executive but the relevance of his property experience which has been his primary focus appears to be of little obvious benefit to AGL. The board believes he brings significant financial skills including audit and risk and hedging expertise. He is Chair of audit and risk committee. The ASA will vote all undirected proxies in favour of his re-election.

Item 3b Mr Miles George

Mr George was first appointed to the board in September 2022. He has engineering qualifications and more than 30 years' experience in the energy and infrastructure sectors with a focus on renewable energy systems. He has acted as an advisor to the Australian Energy Market Commission and the Australian Energy Market Operator (AEMO). He was chairman of the Clean Energy Council, CEO of CleanCo Queensland, MD of Infigen Energy and a director of Spark Infrastructure. Clearly Mr George is well qualified for the role of a director of AGL and the ASA will vote all undirected proxies in favour of his re-election.

Item 3c Mr Mark Twidell

Mr Twidell was appointed to the board in November 2022. He has qualifications in electrical and electronic engineering and has over 30 years' experience in building new markets, programs and teams globally in the solar and storage sectors. He is a member of the Australian Renewable Energy Agency (ARENA) Advisory Panel and has served as Director-Energy Programs at Tesla responsible for leading Tesla's energy business in Asia-Pacific. Mr Twidell also seems well qualified to be a director of AGL and the ASA will vote all undirected proxies in favour of his re-election.

Item 4 - Grant of performance rights under the AGL LTI Plan to Mr Damien Hicks

It is proposed to grant 162,146 Performance Rights to Mr Hicks under the LTI Plan to be tested over a four year period from 1 July 2023. The number of rights has been calculated from the maximum LTI opportunity of 120% of Fixed Remuneration of $1.40 million divided by the share price averaged over the 30 calendar days up to 30 June 2023, being $10.36. These rights will be tested 70% against a relative TSR against the ASX 100 and 30% against a combined carbon transition metric as outlined in Appendix 1 and in the Notice of Meeting.

The proposal is consistent with ASA guidelines and therefore the ASA will vote all undirected proxies in favour of this item.

Item 5 - Approval of termination benefits for eligible senior executives

The reasons for this item are explained in the Notice of Meeting. It is a relatively standard provision which gives AGL greater flexibility in granting termination benefits to eligible senior executives. The ASA will vote all undirected proxies in favour of this item.

Item 6 - Special resolution – Re-insertion of proportional takeover provisions

Again, this is a fairly standard provision that is explained in the Notice of Meeting. The ASA will vote all undirected proxies in favour of this item.

Item 7 - Conditional spill motion

The ASA generally votes against spill motions. Where we support the directors, we consider holding a spill meeting to be disruptive to the company for no gain. Should a second strike be incurred (ie greater than 25% votes are cast against the remuneration report), the ASA will vote all undirected proxies against this motion.

Appendix 1
CEO Remuneration Framework for FY24

Component	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.4	31	1.4	29
STI - Cash	0.7	16	0.84	18
STI - Equity	0.7	16	0.84	18
LTIP -performance rights	1.68	37	1.68	35
Total	4.48	100	4.76	100

. *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. Some remuneration framework set a maximum opportunity amount, but not all.

The Fixed Remuneration (FR) for the CEO was reset at $1.4 million, a 10% reduction on the FR for the previous CEO.

The FY23 STI is based on a mix of financial (55-60%) and non-financial measures. Underlying profit after tax is the key financial metric while non-financial metrics include safety 10%, customer and employee engagement (15%) and strategic objectives (15-20%) intended to drive long term value creation for shareholders. The STI is paid 50% cash and 50% restricted shares held for 2 years. In FY24 another financial metric operating cash flow is to be introduced.

The FY23 LTIP is based 75% on relative TSR against the ASX Top 100 (70% in FY24) and 25% on “carbon transition metrics” including emissions intensity of electricity supplied, new firming and renewable capacity and revenue uplift from green energy and carbon neutral products and services (30% in FY24). Further details are given in the Annual Report (Sections 8.3 and 8.4) and Notice of Meeting (Item 4). The LTIP performance period is 4 years with no further holding period.

Mr Nicks forfeiture of his $400,000 retention award on his appointment as CEO is to be commended.

No LTIs vested in FY23.