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ASX and Media Release

1H22 Results Announcement

10 February 2022

AGL Energy Limited (AGL Energy) today announced its results for the first half of the financial year ended 31 December 2021 ("1H22").

1H22 Result Highlights

- Statutory Profit after tax: $555 million, including $276 million of significant items related to onerous contract provision revaluations, and costs associated with separation, restructuring and integration
- Underlying EBITDA: $723 million, down 21 percent on 1H21
- Underlying Profit after tax: $194 million, down 41 percent on 1H21
- Total AGL services customers: 4.5 million[1], broadly flat on FY21
- Total generation volumes: 20,619 GWh, broadly flat on 1H21
- Interim ordinary dividend of 16 cents per share declared, to be fully underwritten
- Guidance range narrowed for FY22 Underlying EBITDA of between $1,275 to $1,400 million
- Guidance range narrowed for FY22 Net Profit after tax of between $260 to $340 million
- On track to deliver at least $150 million in operating cost reduction for FY22 and $100 million reduction in sustaining capital expenditure by FY23
- Well progressed with our plan to implement the proposed demerger by 30 June 2022, subject to Board, Shareholder and relevant regulatory approvals
- Outlined a clear set of climate commitments that demonstrate decisive action to accelerate our pathway to decarbonisation for AGL Australia and Accel Energy

CEO Commentary

AGL Energy Managing Director and CEO, Graeme Hunt, said: "Our 1H22 result reflects a solid first half performance by the business with continued resilience of operations and portfolio against the backdrop of another period of disruption from the pandemic.

"As anticipated, our 1H22 result reflects a reduction in earnings largely driven by the non-recurrence of $105 million in insurance proceeds received in 1H21. After adjusting for the non-recurrence of the insurance proceeds in 1H21, Underlying Profit after Tax was down 23 percent, reflecting the impact of lower wholesale prices over the past two years as we have progressively re-contracted our hedging positions from previously higher prices.

"With the rise of energy and commodity prices across the globe, AGL Energy is well positioned to benefit from improving wholesale electricity prices, seen over the past six months, and if it is sustained, we expect to see this reflected in future earnings beyond FY22 as hedging positions roll off. The strength of AGL Energy's long-term owned and contracted coal position and gas supply contracts ensures we can manage

[1] Includes approximately 300,000 services to customers of ActewAGL, in which AGL Australia will own a 50 percent shareholding in the retail operations.

the impact of the rise in commodity prices on our cost base and continue to provide affordable and reliable electricity.

"Our ongoing focus on cost discipline and cash preservation ensures the strength of the balance sheets of AGL Australia and Accel Energy following the proposed demerger. Operating costs decreased across the business, and we are on track to deliver our target of $150 million in savings compared with FY20, by the end of the year. We are also on track to achieve our targeted $100 million reduction in sustaining capital expenditure by FY23.

"In addition, we have completed the sale of our investments in EIP funds and Ecobee for approximately $100 million while other targeted asset sales, including the Newcastle Gas Storage Facility, are ongoing.

"We continue to see growth in our telecommunications customer numbers across both our AGL and Southern Phone Company brands. While our energy customer services numbers were impacted by the expected churn of Click Energy customers, the impact was lower than forecast as a result of targeted retention activity. As a trusted Australian brand with 4.5 million[1] services to customers we continue to lead in retail energy with our broad, convenient offerings. Our Net Promoter Score, measuring customer loyalty, continued to improve to +9, which is our highest score to date.

"Despite challenging operating conditions and lower system demand as a result of the impact of COVID-19, milder weather and household solar penetration, our energy supply portfolio delivered resilient generation output. Our investments in making the thermal generation assets more flexible and responsive to market signals assists in capturing value and to provide reliable electricity in increasingly volatile periods of demand. Continuing our focus on developing flexible and reliable generation assets, we are progressing well with our investments in battery projects, with the construction of the Torrens battery underway and planning approval received for the Loy Yang battery."

"We are well-progressed with our proposed demerger with completion on track for 30 June 2022. The proposed demerger will create a strong future for both parts of our business and through this enable a responsible and orderly transition towards a decarbonised energy future. With two industry leading companies – Australia's leading multi-service energy retailer and Australia's largest electricity generator – each organisation will have the ability to unlock value potential as they each pursue strategies tailored to their individual purpose. With distinct value drivers, ESG weightings and investment propositions, each business will be better placed to attract investors, access capital, and improve future value.

"AGL Australia and Accel Energy will have leading roles in the energy transition, and today we are pleased to outline a set of climate commitments for both companies that demonstrate decisive action to accelerate our pathway to decarbonisation for each organisation. These commitments continue AGL Energy's strong legacy of innovation and development in response to the climate challenge - in the last two decades AGL Energy has played a leadership role in Australia's transition investing more than $4.8 billion in renewable and firming generation, delivering more than 2,350 MW of new generation capacity since 2003.

"With these commitments we have set a new baseline for both AGL Australia and Accel Energy and it is against this that they will measure their success and strive to improve as the energy market evolves."

Climate Commitments

The AGL Australia and Accel Energy climate commitments strike a balance between Australia's current and future energy needs and the need to responsibly decarbonise and position both organisations to lead a responsible transition for Australia's energy market.

AGL Australia will be carbon neutral for all Scope 1 and 2 emissions upon listing with a pathway to net zero for Scope 1, 2 and 3 by 2040 with a 50 percent reduction on FY19 levels by 2030. It will be a leader in decentralised energy products and services and drive the development of renewable capacity, leveraging its position to deliver innovative low carbon or carbon neutral products for retail and businesses.

Accel Energy will provide reliable, low cost energy with a strong focus on repurposing existing thermal generation sites as low carbon industrial Energy Hubs as it brings forward its coal closure dates to no later than 2033 for Bayswater Power Station (previously 2035) and 2045 for Loy Yang A Power Station (previously 2048). As a result, emissions from Accel Energy's electricity generation assets will be reduced by a further 90 million tonnes over the period FY23 to FY50 compared to modelled outcomes of our previous commitments[2]. With Liddell scheduled to close by April 2023, Accel Energy will deliver a reduction in annual emissions of 18-27 percent between FY25-FY34 and by 55-60 percent in annual emissions between FY35-FY46 compared to an FY19 baseline.[3]

The readiness of the entire energy system to operate without our critical baseload generation will determine whether the earlier, more ambitious, targets within the range can be achieved. AGL Australia and Accel Energy are committed to working with government, industry and the community in pursuit of this and will be reporting annually on progress towards this ambition.

Demerger Update

AGL Energy is well progressed with the plan to implement the proposed demerger by 30 June 2022, subject to final AGL Energy Board, Shareholder, ATO and relevant regulatory and court approvals.

Since the announcement on 30 June 2021 confirming AGL Energy's intention to demerge, the organisational structures for both proposed entities have been completed. The new internal operational structures reflect more focused and leaner organisations, allowing each business to focus on their respective strategic opportunities. Through this process, AGL Australia and Accel Energy have identified further operating cost reduction targets for FY23, offsetting any growth activity, impact of acquisitions, and the duplication cost created by the proposed demerger. With respect to cash costs to execute the proposed demerger, these are expected to be between $220 million and $260 million. This includes debt refinance costs of approximately $40 million for new facilities and early repayment of certain existing facilities[4].

As previously announced, Peter Botten, current Chair of AGL Energy, will be Chair of Accel Energy, and Patricia McKenzie, current Non-Executive Director of AGL Energy, will be Chair of AGL Australia. AGL Energy can confirm that following the proposed demerger, the other existing AGL Energy Non-Executive Directors are proposed to be appointed to AGL Australia and Accel Energy as follows:

- Jacqueline Hey – Non-Executive Director, AGL Australia
- Mark Bloom – Non-Executive Director, AGL Australia
- Diane Smith-Gander – Non-Executive Director, Accel Energy
- Graham Cockroft – Non-Executive Director, Accel Energy

Additionally, Gary Brown has commenced at AGL Energy and has been identified as the Chief Financial Officer of Accel Energy following the proposed demerger.

Debt financing arrangements have been completed for both proposed entities, with an investment grade credit rating of Baa2 expected for AGL Australia and Baa3 expected for Accel Energy. Accel Energy will hold a 15 percent minority interest in AGL Australia, which will strengthen the balance sheet and financial flexibility of Accel Energy.

[2] Trajectory referenced in AGL Energy's 30 June 2021 announcement and the previously announced coal closure dates.

[3] FY19 baseline comprises Scope 1 and Scope 2 emissions for all electricity generation assets that will be operated by Accel Energy following demerger, as reported under the National Greenhouse and Energy Act 2007.

[4] Further information on post demerger dis-synergies to be included in scheme booklet.

Consistent with AGL Energy's previous announcements, it is proposed that the respective dividend policies for each entity to be adopted are:

- AGL Australia: 60 percent to 75 percent of underlying NPAT
- Accel Energy: 80 percent to 100 percent of free cash flows after servicing net finance costs

Mr Hunt said "Lender commitment to financing arrangements for AGL Australia and Accel Energy recognises the integral role both companies will play in the energy transition. We believe the dividend policies announced today allow both companies the flexibility to manage their capital for future growth and maintain debt whilst providing appropriate returns to shareholders."

AGL Australia and Accel Energy continue to progress the structure and finalisation of offtake and transitional services agreements.

Statutory and Underlying Profit

AGL Energy's Statutory Profit after tax was $555 million. This included the reversal of charges previously recognised and associated with onerous contract provisions reflecting the rise in forward prices on both electricity and large-scale generation certificates, the proposed demerger transaction and separation costs, and restructuring and integration costs. In addition, the Statutory Profit included a positive movement in the fair value of financial instruments of $85 million, primarily reflecting the impact of higher oil and gas forward prices relative to AGL Energy's hedged position.

Underlying Profit after tax, which excludes movements in the fair value of financial instruments and Significant Items, was $194 million, down 41 percent.

Dividends and Capital Management

AGL Energy delivered net cash from operating activities of $661 million, up 9 percent on 1H21. This increase was largely due to a positive movement in working capital. This included a positive movement in green certificate assets and a large inflow from margin calls compared with a small outflow in 1H21, associated with wholesale market positions. This was largely offset by a reduction in earnings.

At 31 December 2021, AGL Energy had over $700 million of cash and undrawn debt facilities available.

AGL Energy has declared an interim unfranked dividend for FY22 of 16 cents per share. The interim dividend is consistent with AGL Energy's dividend policy to target a payout ratio of 75 percent of Underlying Profit after tax. The interim FY22 dividend will be paid on 30 March 2022.

AGL Energy's DRP will operate with respect to the FY22 interim dividend, and no discount will apply to shares issued under the DRP. As previously announced, the DRP will be fully underwritten. AGL Energy has appointed Macquarie Capital (Australia) Limited as underwriter. The last date for shareholders to elect to participate in the DRP for the FY22 Interim Dividend is 25 February 2022.

Outlook

AGL Energy has narrowed underlying earnings guidance ranges for FY22 in line with the solid first half performance, with ranges narrowed as follows:

- Underlying EBITDA is expected to be between $1,275 and $1,400 million, previous guidance was between $1,200 and $1,400 million
- Underlying Net Profit after tax is expected to be between $260 and $340 million, previous guidance was between $220 and $340 million

These updated ranges reflect AGL Energy's solid first half performance due to a strong generation and trading performance in the second quarter. Despite the strong first half performance, earnings are expected to be lower in the second half due to increased costs of capacity to cover periods of peak electricity demand, which are higher in the summer months.

Additionally, wholesale gas consumption is expected to be lower due to seasonally warmer months in the second half, with haulage and storage costs remaining flat.

Customer margin is expected to improve in the second half, reflecting a reduction in solar feed-in tariffs, disciplined margin management, and a ramp up of commercial solar projects commissioned that were delayed by COVID-19.

AGL Energy is on track to deliver a $150 million reduction in operating costs (excluding depreciation and amortisation) in FY22 compared with FY20 and is on track to deliver a $100 million reduction in sustaining capital expenditure across the company to be delivered by FY23.

The forward wholesale prices of key commodities have improved and AGL Energy produces some of the lowest cost generation in the NEM; as a result, AGL Energy is well positioned to benefit from any sustained recovery in wholesale electricity prices, which will be reflected in earnings as hedge positions from prior periods roll off.

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

Presentation, Webcast and Conference Call

AGL Energy will hold a webcast and conference call to discuss the 1H22 result and outlook at 10.45am (AEDT), today, Thursday, 10 February 2022. 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 Energy's website.

All 1H22 documents, pre-recorded presentation and webcast are accessible via **agl.com.au/interimfy22**. Pre-registration is required to access the conference call and the live question and answer session.

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

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

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About AGL

Proudly Australian for more than 180 years, AGL supplies around 4.5 million energy and telecommunications customer services[5]. We're committed to becoming a leading multi-product retailer, making energy and other essential services simple, fair and transparent. AGL 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.

[5] 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 Energy owns a 50% equity stake of the retail operations.