

## ASX & Media Release

### Strategy Briefing presentation

**26 May 2015**

Attached is a presentation to be made today by AGL executives in the Hunter Valley, New South Wales.

#### Further inquiries:

##### Investors

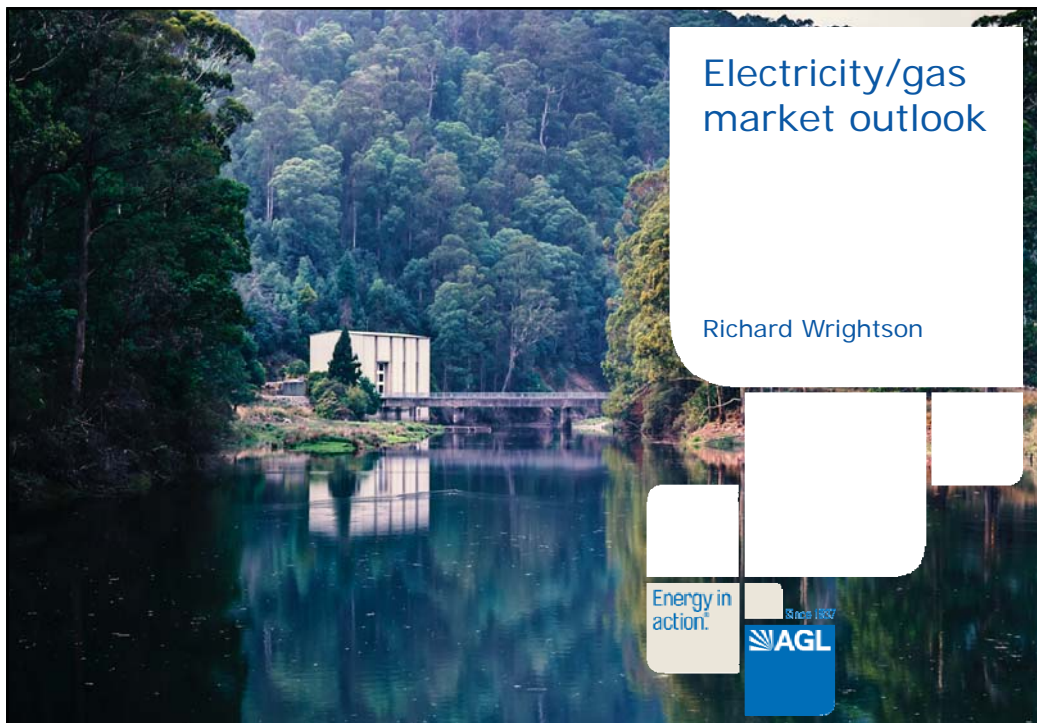
Nicole Rizgalla, Investor Relations Manager  
Direct: +61 2 9921 2691  
Mobile: +61 (0) 400 488 836  
email: [nrizgalla@agl.com.au](mailto:nrizgalla@agl.com.au)

##### Media

Kathryn Lamond, Media Manager  
Direct: +61 2 9921 2170  
Mobile: +61 (0) 424 465 464  
e-mail: [klamond@agl.com.au](mailto:klamond@agl.com.au)

#### About AGL

AGL is one of Australia's leading integrated energy companies and is the largest ASX listed owner, operator and developer of renewable energy generation in the country. Drawing on over 175 years of experience, AGL operates retail and merchant energy businesses, power generation assets and an upstream gas portfolio. AGL has one of Australia's largest retail energy and dual fuel customer bases. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, landfill gas and biomass. AGL is taking action toward creating a sustainable energy future for investors, communities and customers.



## Wholesale market drivers

2

- 1 > Demand
- 2 > LNG train ramp up in Queensland
- 3 > Generation trends

## Demand outlook

Green shoots signaling the end of decline.

3

### Electricity

- › Solar uptake to continue its growth, storage will become a factor over a longer lead time
- › Average household consumption drops are being off-set by population growth
- › Significant increase in load from LNG projects in coming 18 months
- › Improved profitability for aluminum smelters

### Gas

- › Demand to increase dramatically with LNG projects
- › Gas fired generation demand to reduce dramatically with price increases
- › Potential headwinds for local usage
- › Higher prices to make fuel switching more economic in residential space

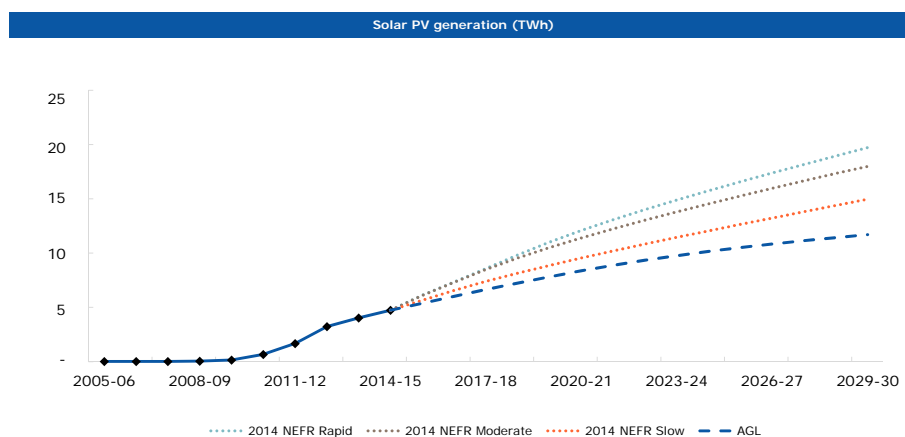
> Electricity/gas market outlook  
> Richard Wrightson  
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## Residential rooftop solar

Rooftop solar market is large and continues to grow.

4



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Source: Internal AGL market analysis & AEMO National Electricity Forecasting Report 2014

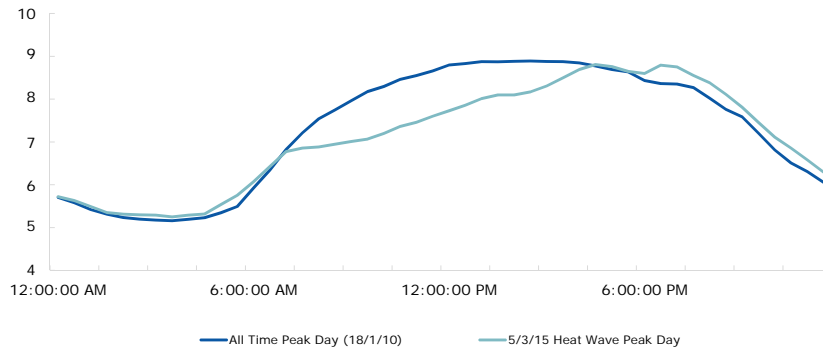


## Load profile

Rooftop solar is reducing mid-day load.

5

QLD Summer day profile (GW)



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Source: Internal AGL market analysis & AEMO National Electricity Forecasting Report 2014

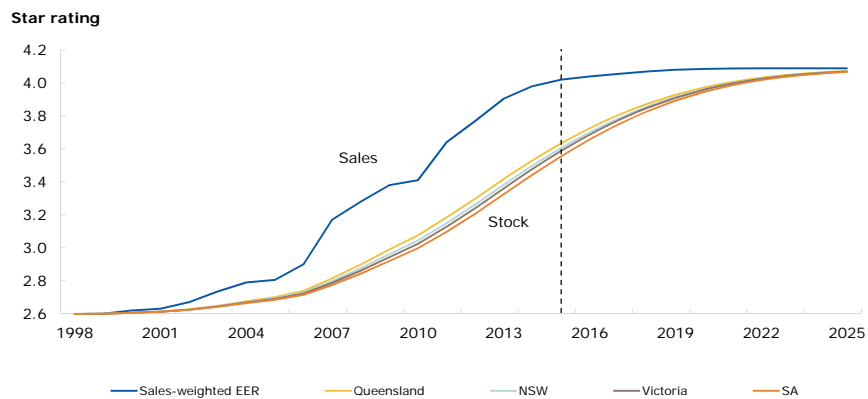


## Energy efficiency

Efficiency gains continue to reduce per capita electricity consumption.

6

Sales weighted average EER<sup>1,2</sup> vs Stock vintage weighted average EER



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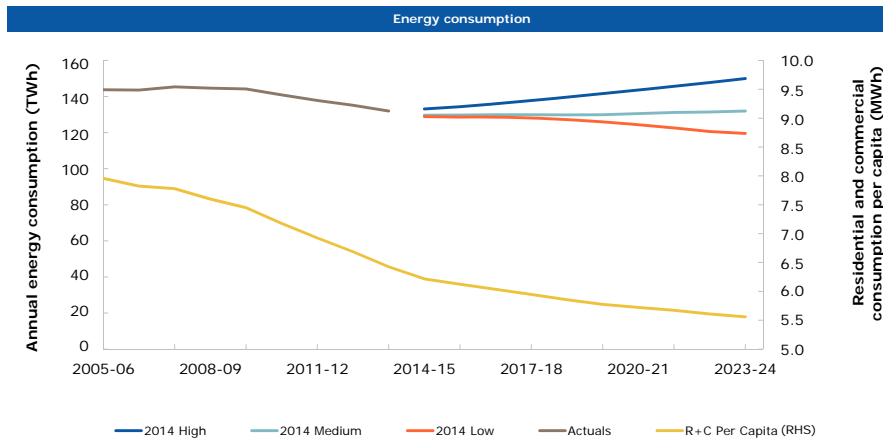
1. Energy efficiency ratio housing  
2. [www.energyrating.gov.au](http://www.energyrating.gov.au)



## Forecast demand: residential and SME

Per capita consumption offset by population growth.

7



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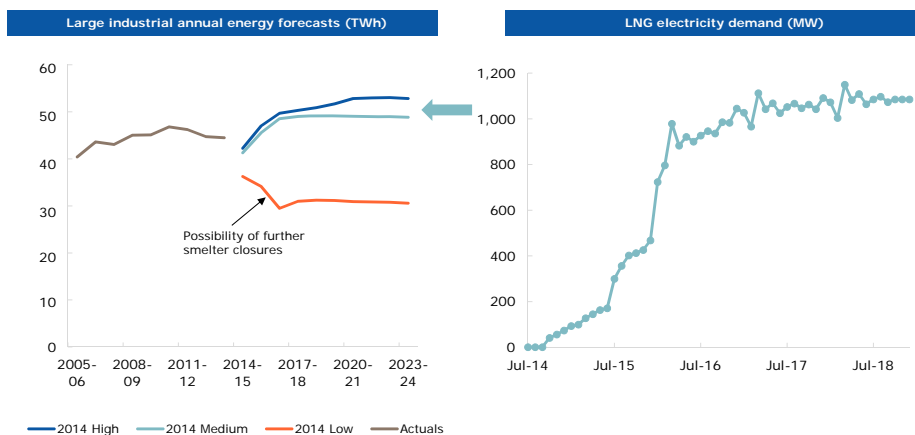
Source: AEMO National Electricity Forecasting Report 2014



## Forecast NEM demand: industrial

Industrial demand expected to grow due to LNG.

8



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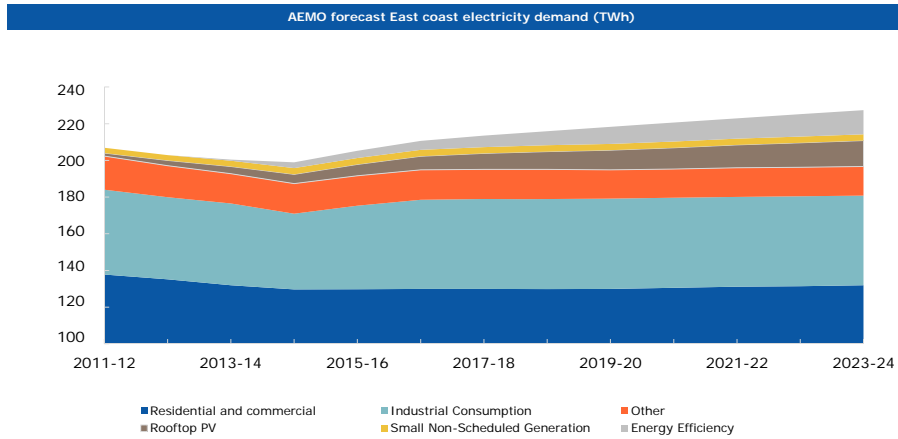
Source: AEMO National Electricity Forecasting Report 2014  
1) Low scenario includes further smelter shutdowns



## Forecast East coast demand: All segments

9

Recent demand decline is beginning to moderate.



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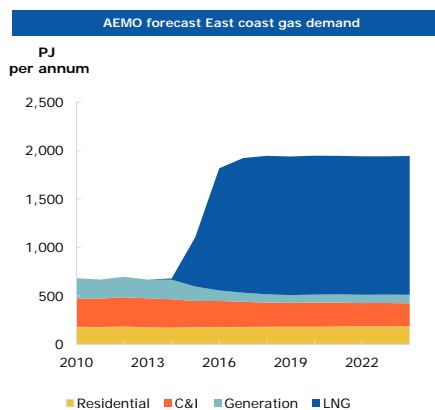
Source: AEMO National Electricity Forecasting Report 2014



## Forecast East coast gas demand

10

LNG driving a step change in demand.



	Potential drivers	Impact
LNG	Current 3 projects perform as expected	Short term delays
Gas powered generation	High gas prices, falling demand, RET outcomes	-ve
Industrial	Higher gas prices leading to permanent closures and efficiencies	-ve
Residential and Commercial	Efficiency and high gas prices leading to fuel switching, or uneconomic new connections	-ve

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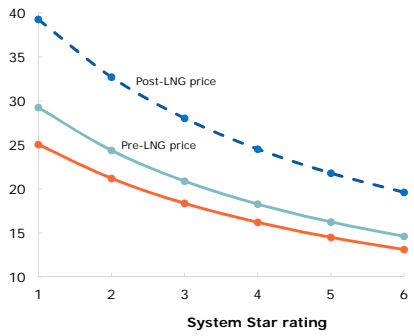
## Fuel switching

Likely in residential; more limited for industrial.

11

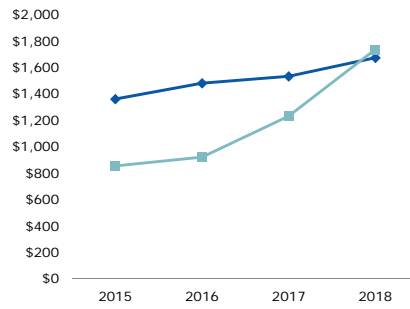
Residential heating costs - Melbourne

Heating Price  
(\$/GJ)



Electric Heat Pump (\$0.24813/kWh) Gas Heating (\$14.63/GJ)  
Gas Heating (\$19.63/GJ)

Running costs for industrial boilers (p.a.)



Electric Boiler Gas Boiler

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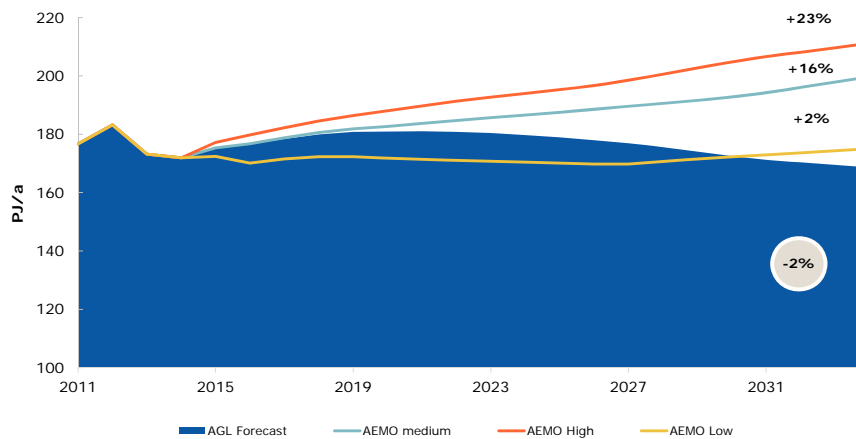


## East Coast gas demand - Residential

AGL expects modest decline in demand.

12

AGL forecast of East Coast residential gas demand



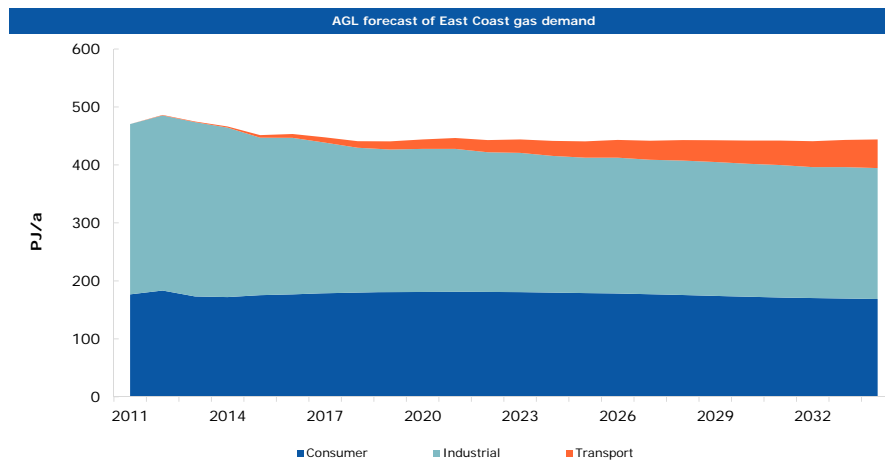
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## East Coast gas - Demand (ex-generation)

13

Decline driven by commercial/industrial sector.



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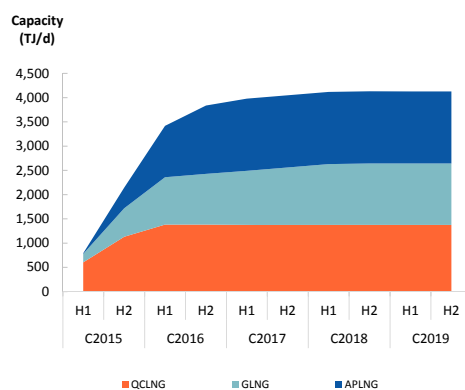


## LNG trains

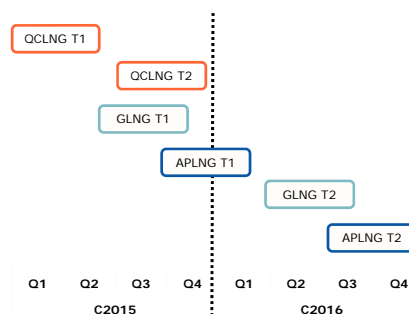
14

Expect four trains online by the end of 2016.

CSG-LNG train ramp (2015-2019)



Estimated LNG start-up dates (Apr'15)



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Source: AEMO, AGL internal

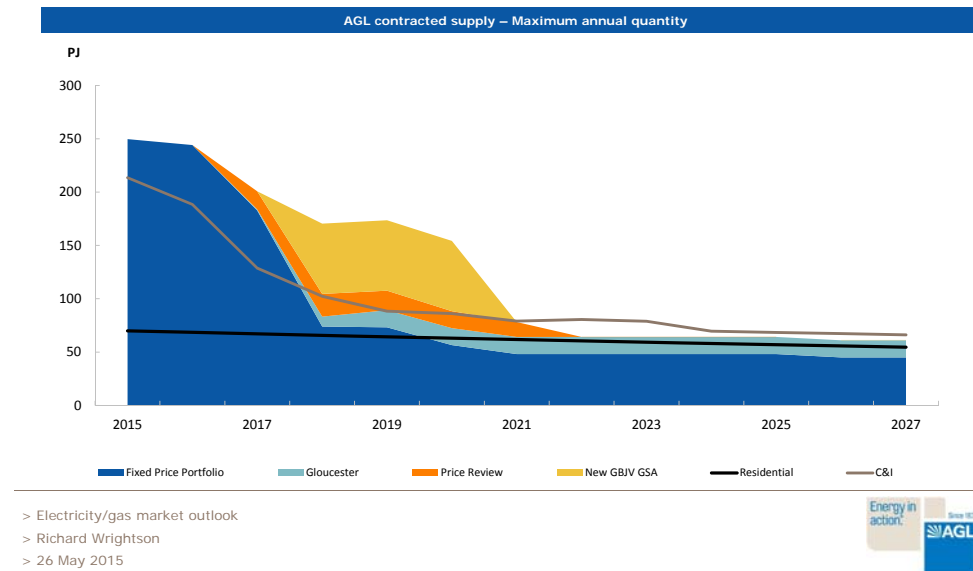




## Domestic gas market

AGL portfolio is well positioned.

15

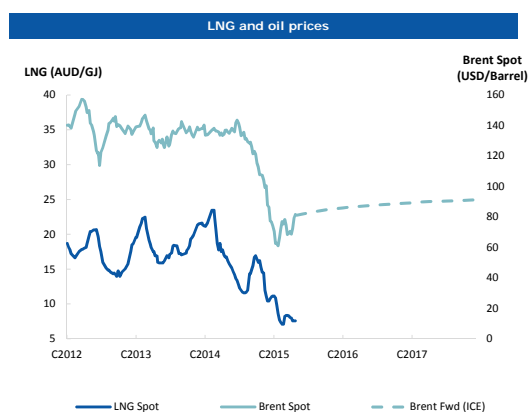


## Short term demand

Will LNG demand continue in a lower oil price world?

16

- > LNG demand is met by both long-term supply contracts and short/spot market volumes
- > Asian spot prices have fallen but Qld LNG committed under long term contracts at strong oil linked prices
- > Queensland LNG will continue to generate opportunities for additional gas sales



\* All prices in AUD (using 0.8 USD/AUD conversion)  
\*\* All LNG prices FOB Australia (Curtis Island)

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Source: Bloomberg, Reuters, AGL

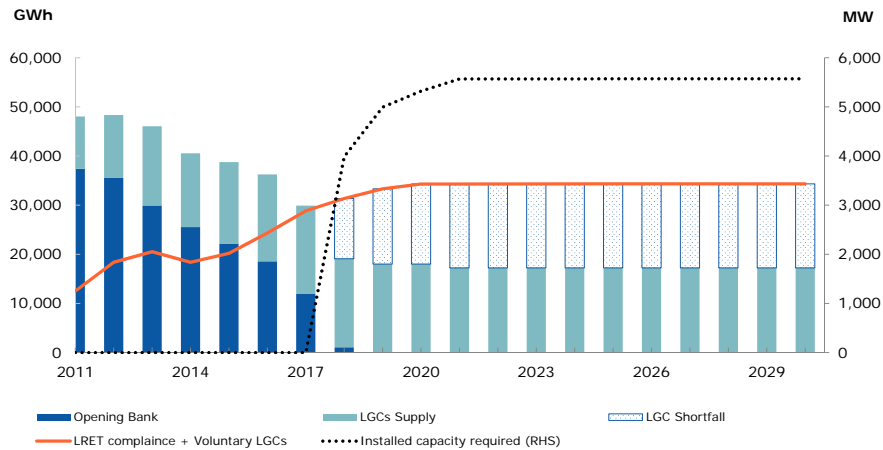


## LGC market model: 33,000 GWh by 2020

Short-term C&I contracts unlikely to support new projects and PPAs.

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Large-Scale Generation Certificate (LGC) market forecast for demand & supply



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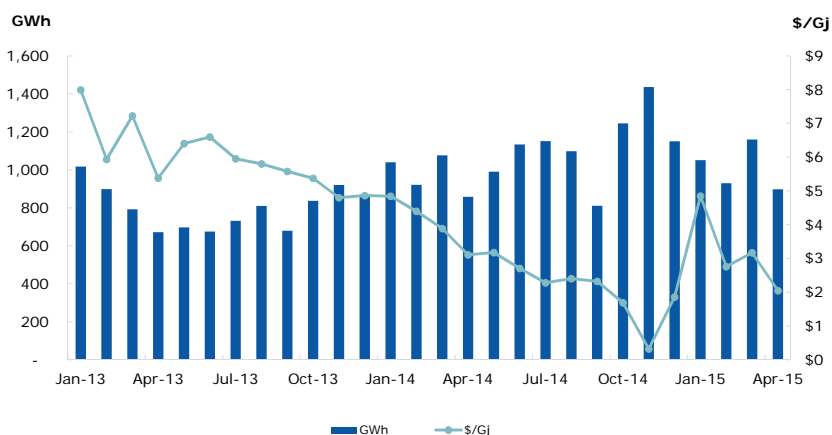


## Queensland gas generation

Significant reduction expected once ramp gas disappears.

18

Gas-fired generation output - Queensland



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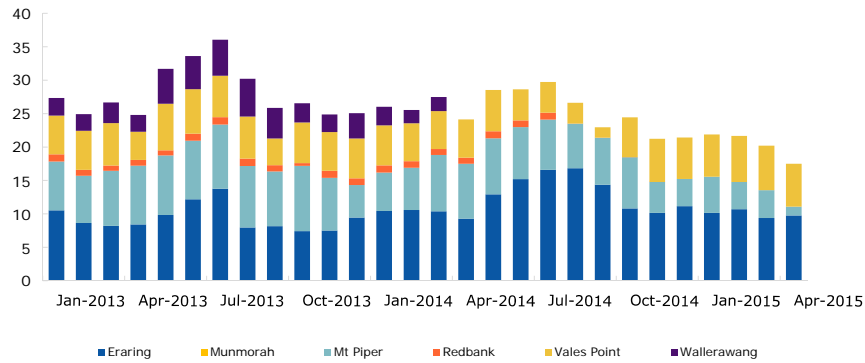


## NSW coal generation (ex-AGL Macquarie)

19

NSW falls driven by declines at Mt Piper and Wallerawang.

NSW monthly black coal generation (TWh (as-generated))



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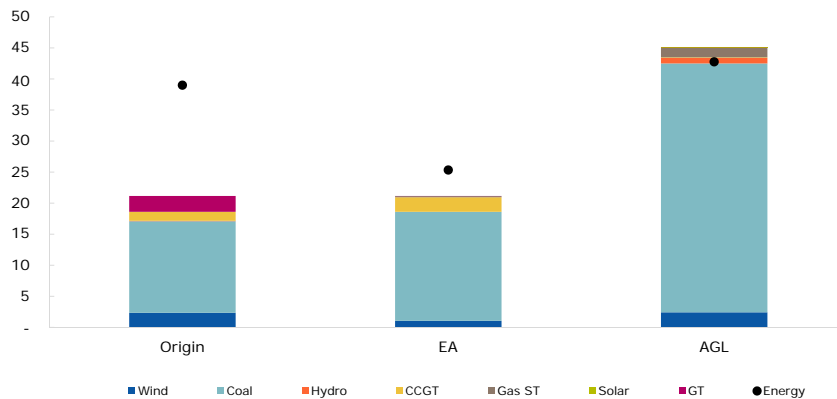


## NEM-wide energy generation vs. Demand

20

AGL's generation backed by low cost fuel supply.

Tier Retailer One level of vertical integration (TWh)



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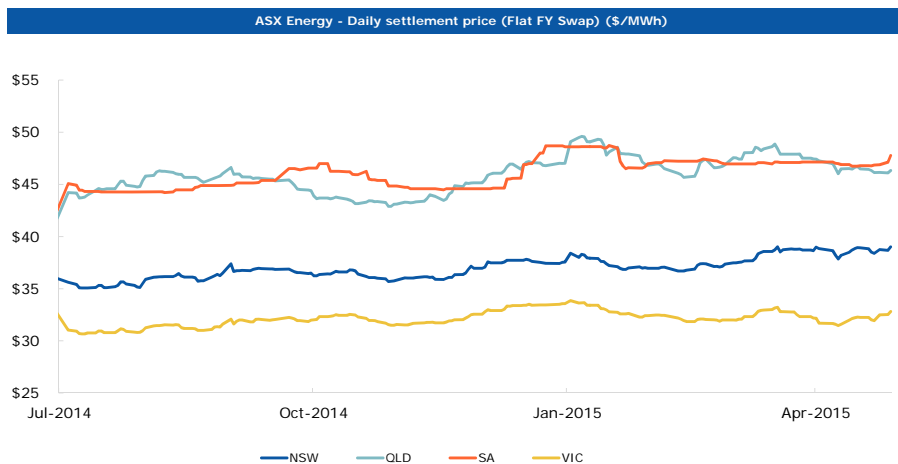
Are we there yet?



## Forward contract price

Signs of strengthening wholesale prices.

22



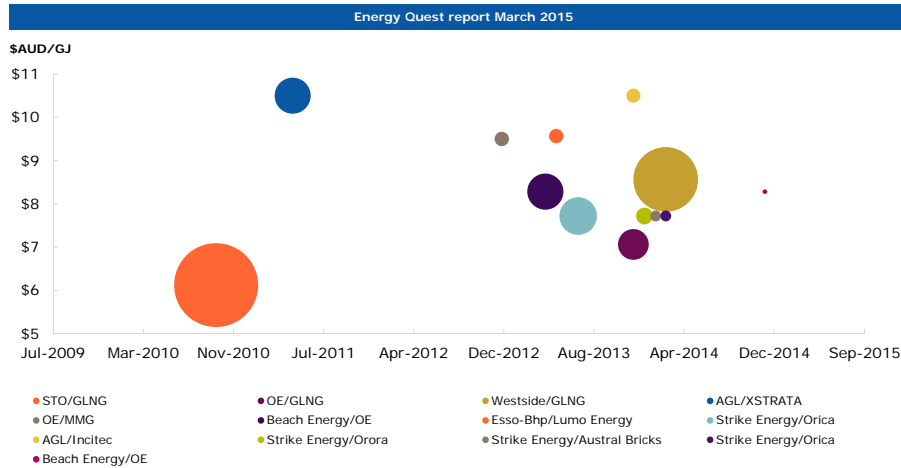
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## East Coast gas deals

Oil price movements has impacted recent deal making.

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## Retail energy markets across the NEM

An increasingly competitive market.

2

- › **More than 13 million energy customer connections<sup>1</sup>**
  - » Over 8.6 million electricity customers
  - » Over 3.6 million gas customers
  - » Around 1.2 million solar customers
- › **There are over 26 active retailers<sup>1</sup>**
  - » T1 – large, economies of scale, incumbent position, brand legacy
  - » T2 – strong existing business, leveraged into energy retail
  - » T3 – niche players, expanded into energy retailing, particularly electricity, often directly from solar or other like business
- › **AGL competes to win in all of these markets.**

> Retail competitive environment  
 > Mark Brownfield  
 > 26 May 2015

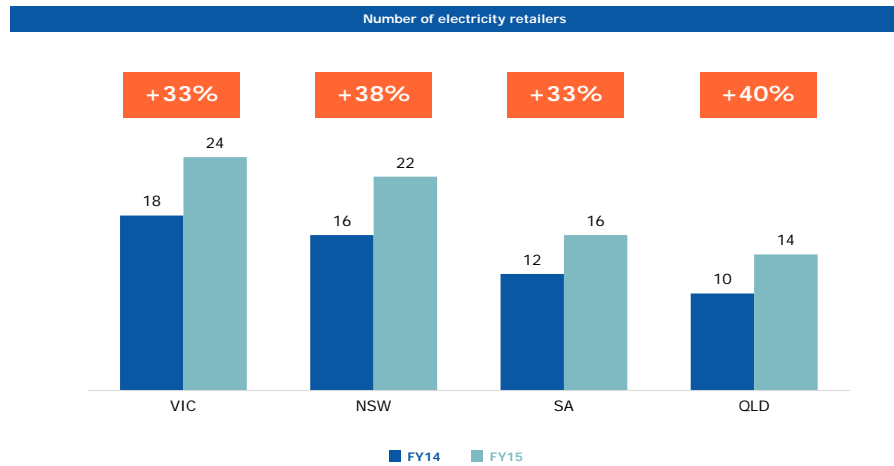
1. NEM = VIC, NSW, ACT, SA and SE QLD



## Retail competition remains elevated

The number of players has increased, channels to market have reduced.

3



- > Retail competitive environment
- > Mark Brownfield
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## Traditional advertising channels emerge

Replacing door to door sales and telemarketing.

4



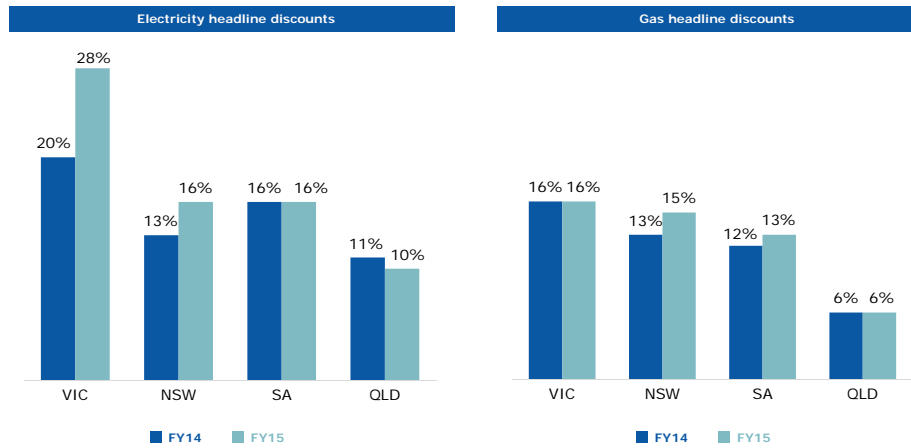
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## Discounting remains prominent

Headline discounts remain high, and so are opportunities for growth.

5



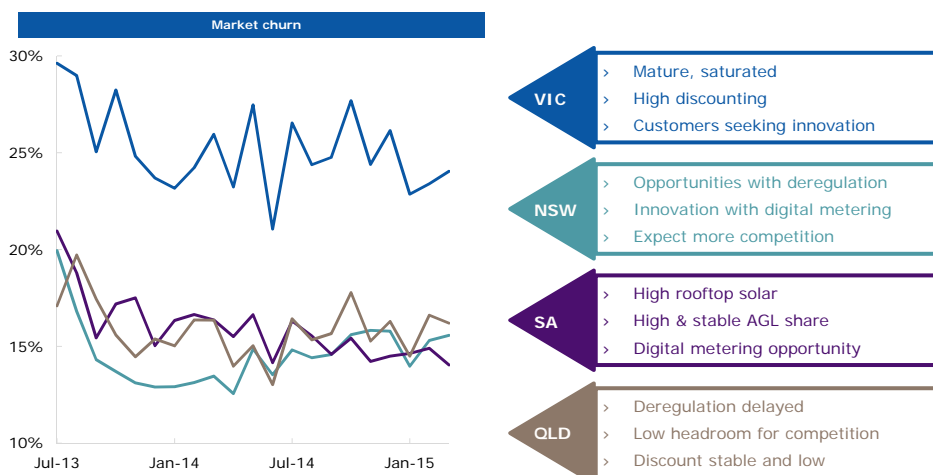
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## Different dynamics across markets

Customer churn has decreased, and stabilised over the past year.

6



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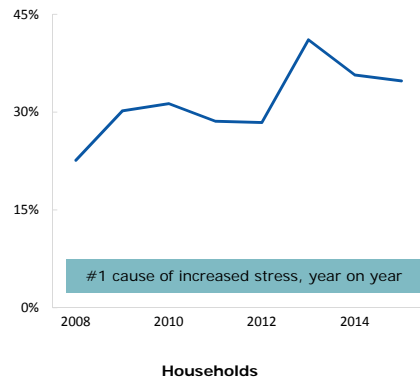


## Household budgets are under pressure

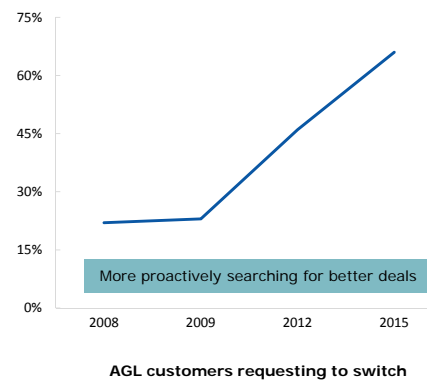
Driving customers to look for value from energy retailers.

7

Money concerns causing stress



Proactive churn



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Sources: AustraliaSCAN 2015, AGL churn research



## AGL is well placed

Our legacy and developed advantages will enable us to succeed.

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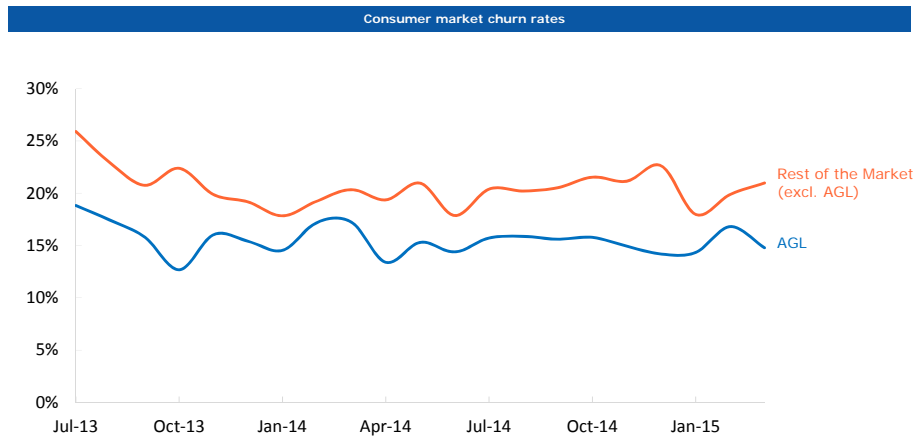
- 1 > Position of incumbency
- 2 > Strong brand
- 3 > Low reliance on external channels
- 4 > Digital and system innovations
- 5 > Increasingly integrated offerings



## AGL churn lower than market

Our customers churn at a 25% lower rate vs. the rest of the market.

9



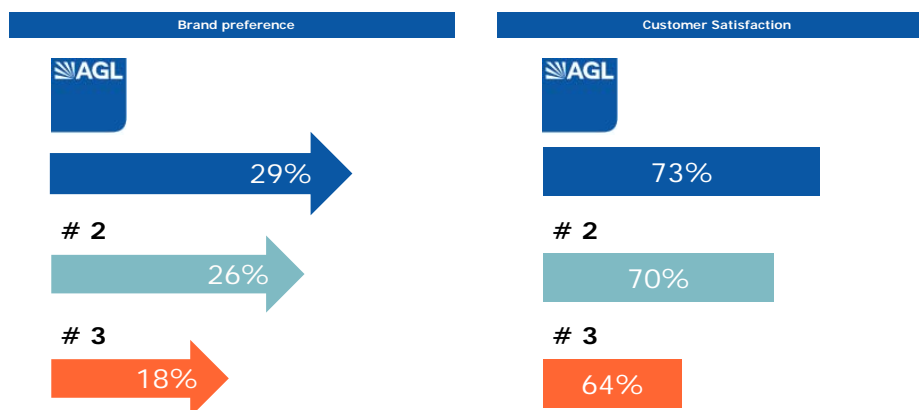
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## Strong brand

Customer perception helps drive acquisition and retention.

10



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Source: AMR



## AGL continue 'first to market' innovations

11

New ways to use technology to improve customer comfort and cost.

### AGL Energy Online & My AGL IQ

Apr '11 – Feb '13



#### Control

Information and tools to better manage energy.

### True Monthly Billing

Oct '13



#### Choice

Accurate monthly bills, issue date a customer choice.

### Interactive e-bill

May '14



#### Convenience

interactive paperless bill, straight on mobile device.

### My AGL App

Apr '15



#### Control

iPhone App with energy consumption, alerts and budgets

### 24/7 Customer Service

Dec '14

**Call AGL Anytime™**  
24/7 on 131 245.

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## Summary

Rooftop solar market is ~1.4 million installs and will continue to grow.

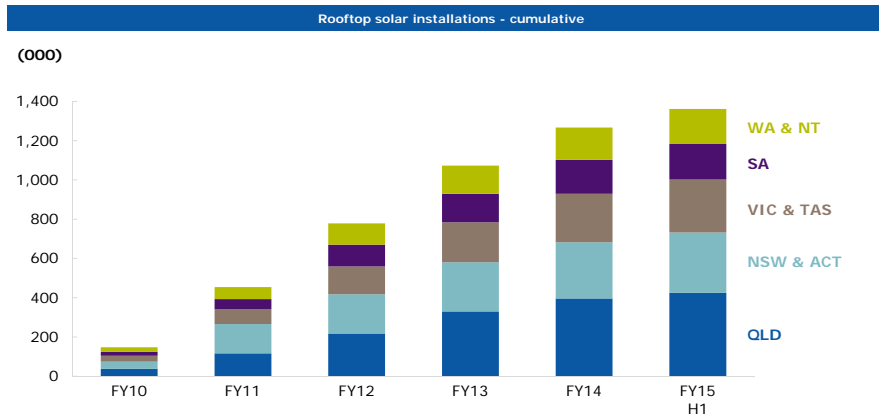
2

- > **Rooftop solar has grown rapidly to ~1.4m installs driven by:**
  - » High consumption based retail electricity tariffs
  - » Rapid system cost reductions
  - » High subsidies
- > **Growth will continue, as:**
  - » Headroom is still plentiful in homes and businesses
  - » Costs will continue to decline
  - » Technologies will continue to improve

## Growing solar installs across Australia

Rapid growth to 1.4 million installs.

3



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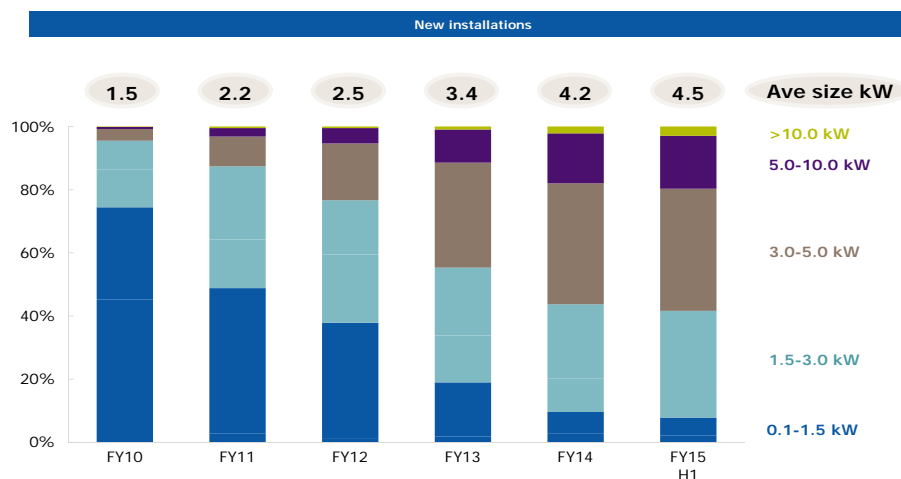
Source: CER, Sunwiz



## Increasing system sizes

Average system size grew from 1.5 kW to 4.5 kW in five years.

4



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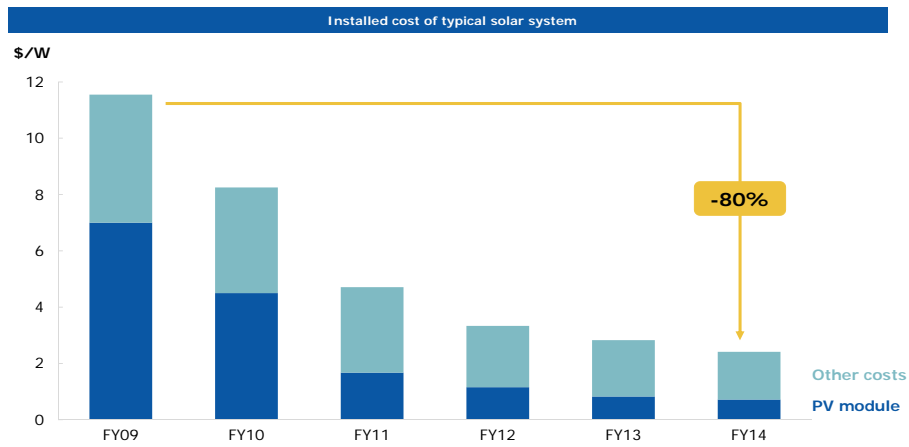
Source: Sunwiz



## Falling system costs

Cost of rooftop solar fell by 80% in five years.

5



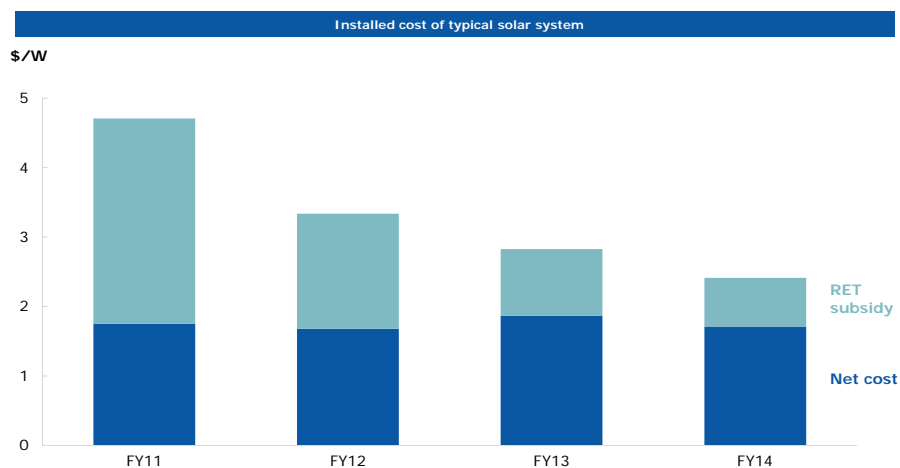
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## High upfront Commonwealth subsidy

RET subsidy substantially reduced the upfront cost.

6



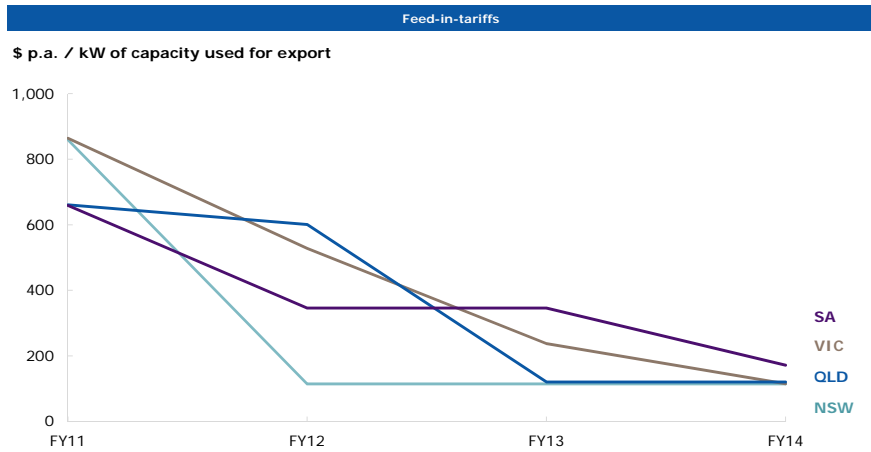
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## High ongoing state subsidies

State feed-in-tariffs provided an additional large ongoing benefit.

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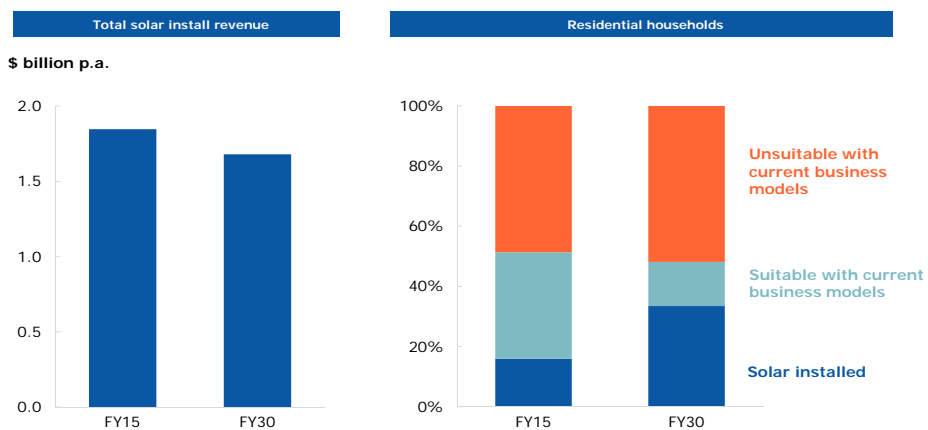
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## Large market with plenty of headroom

Lots of room for future growth even with current business models.

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## Robust future growth drivers

Solar will remain attractive.

9

### Falling costs + sophistication

- > **RET subsidy reductions** partly or fully **offset by further cost decline**
- > **Financing & more sophisticated commercial models** improve access to solar



### Increasing customer benefit

- > Better efficiency with **solar technology improvements**
- > Greater value capture with **energy storage technology**
- > More savings with **rising retail electricity prices**

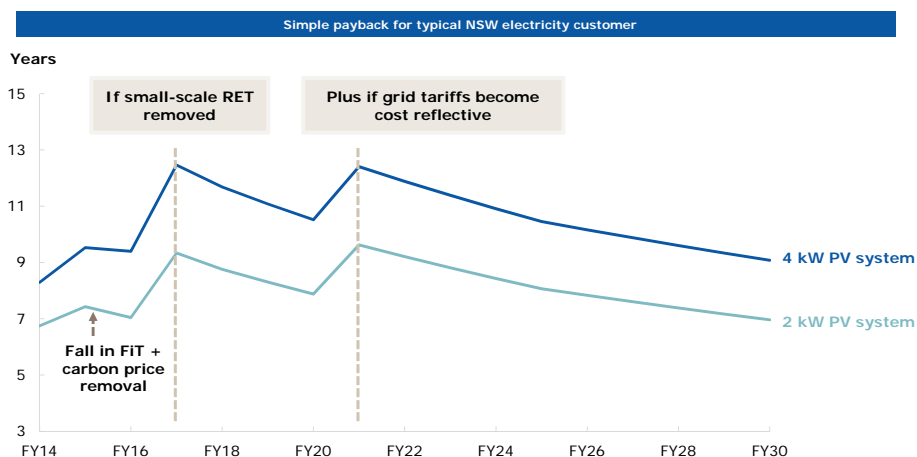
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## Resilient to policy & regulatory shifts

Impact of potential shifts likely to be temporary system downsizing.

10



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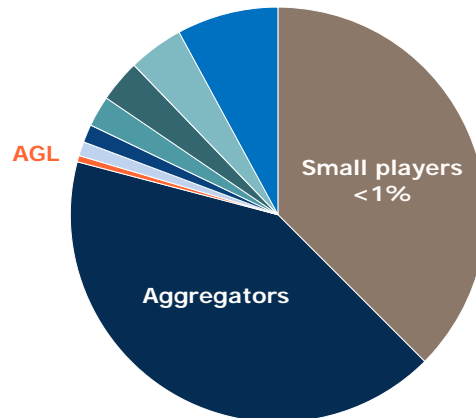


## Sophistication will drive consolidation

Highly fragmented market to date.

11

2014 rooftop solar market shares



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Source: Sunwiz

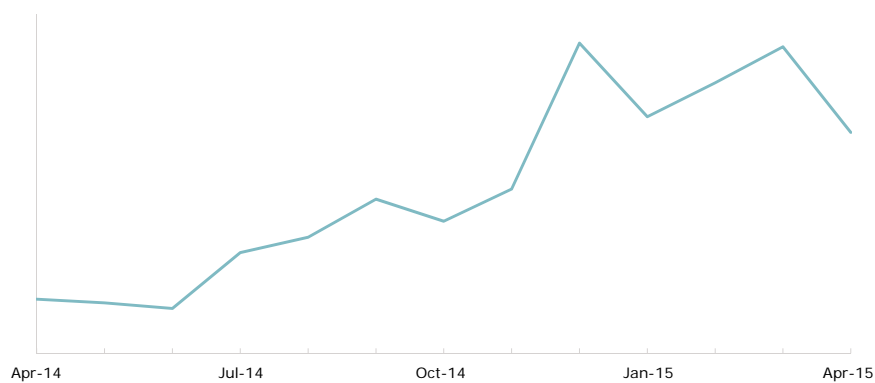


## AGL is pushing hard to get ahead

Still a way to go but making good progress.

12

AGL monthly solar sales



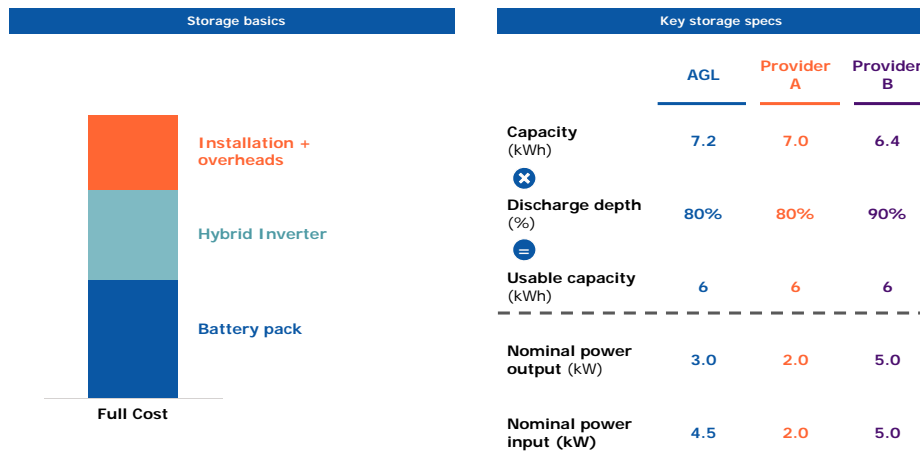
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## Energy storage has some complexity

Storage has a number of components, and key specifications differ.

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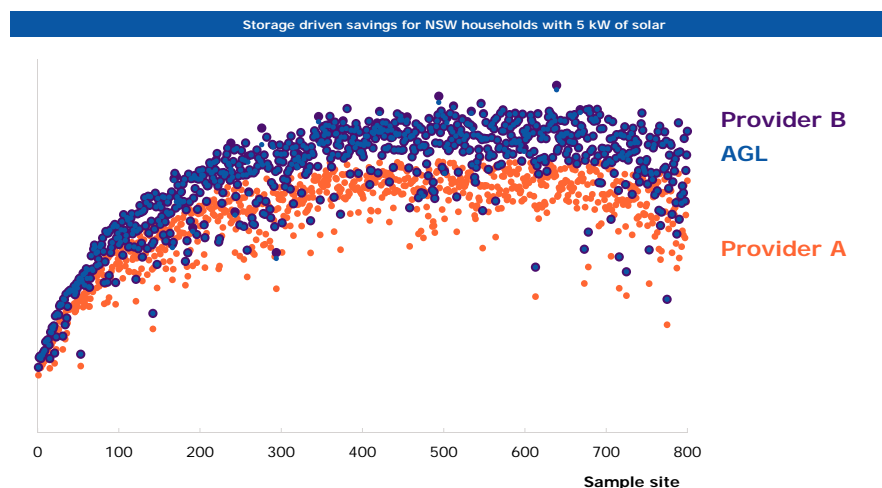
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## Detail matters for energy storage

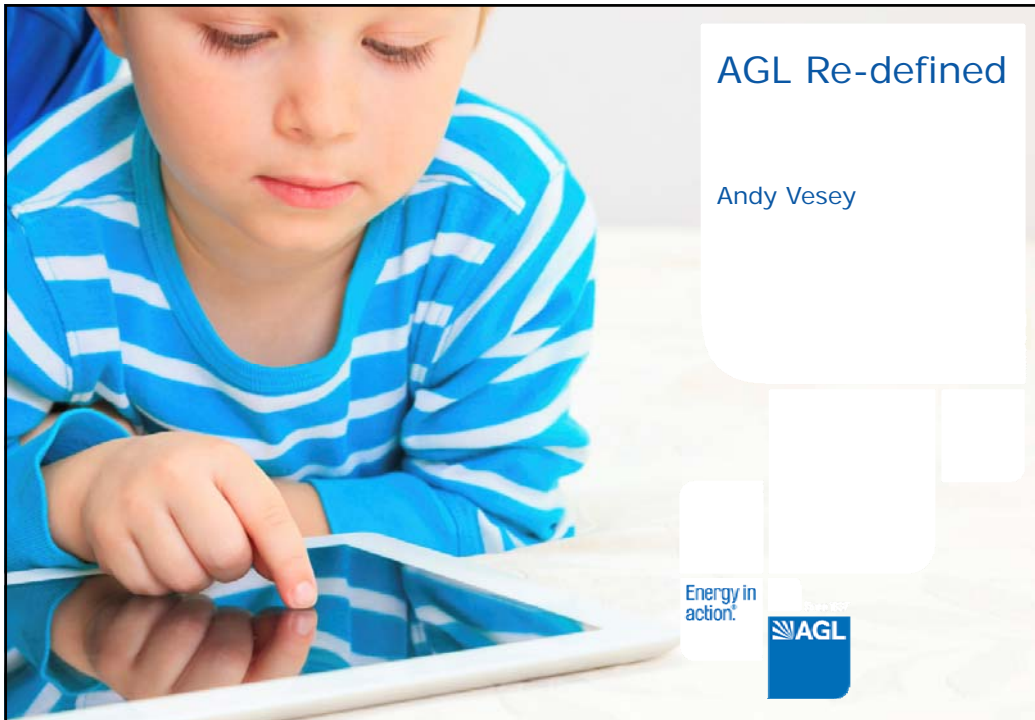
Not all storage is created equal.

14



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2

**AGL's  
business  
definition  
is to:**

**Harness insights to  
enrich the customer's  
energy experience**

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- > Andy Vesey
- > 26 May 2015

The 'Energy in action' logo and the AGL logo are displayed side-by-side. The 'Energy in action' logo is in a light blue box, and the AGL logo is in a dark blue box.

## AGL's strategic roadmap

3

### 1 Organise for Transformation

- › Align structure with strategy
- › Create anticipatory culture

### 2 Drive Productivity

- › Improve capital allocation
- › Improve operational efficiency

### 3 Unlock Growth

- › Grow retail energy's share of value
- › Invest in business models which exploit new technology

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## Anticipatory culture

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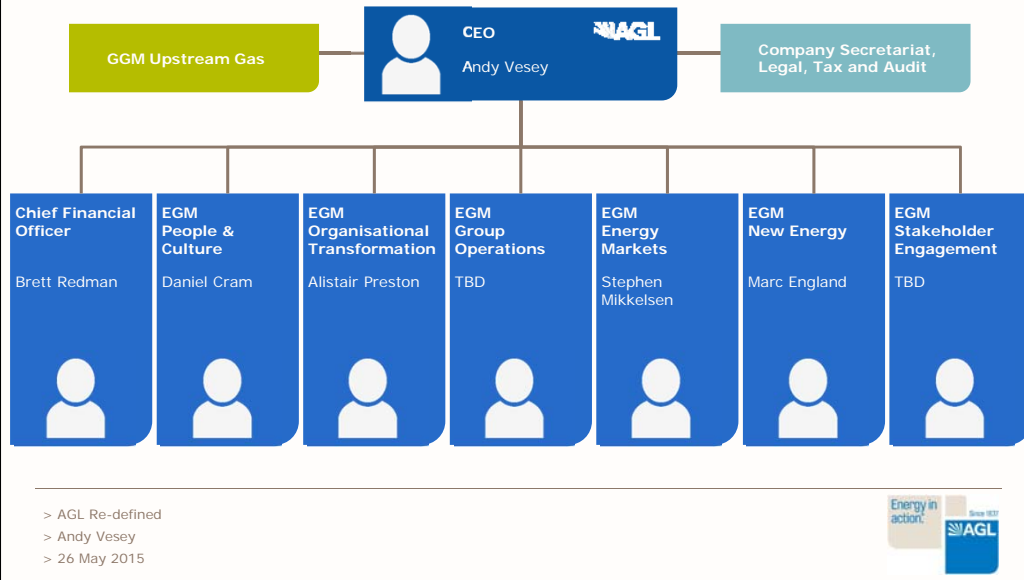
- › Market and technology intimacy
- › Scenario planning
- › Responsive portfolio management
- › Lean processes
- › Rapid organisational learning
- › Adaptive business partnerships and supply chains

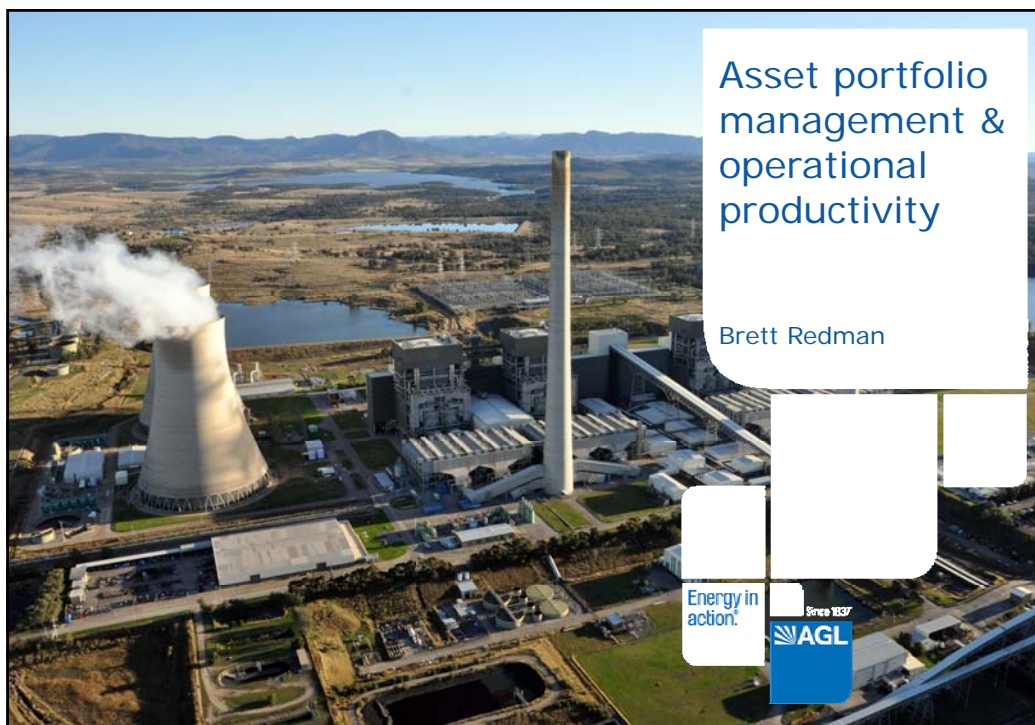
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## AGL's organisation structure

5





## Drive Productivity

Focus on productivity improvements to deliver improved returns.

2

1

*Drive  
Productivity*

- > While AGL has grown profits over the last five years, it has not met expected returns from its assets
- > AGL will **Drive Productivity** by:
  - » **Improving asset allocation**
  - » **Improving operational productivity**

> Asset portfolio management & operational productivity  
> Brett Redman  
> 26 May 2015



## AGL TSR vs Market

3

In the last five years, AGL's TSR has underperformed relative to market.



- > Asset portfolio management & operational productivity
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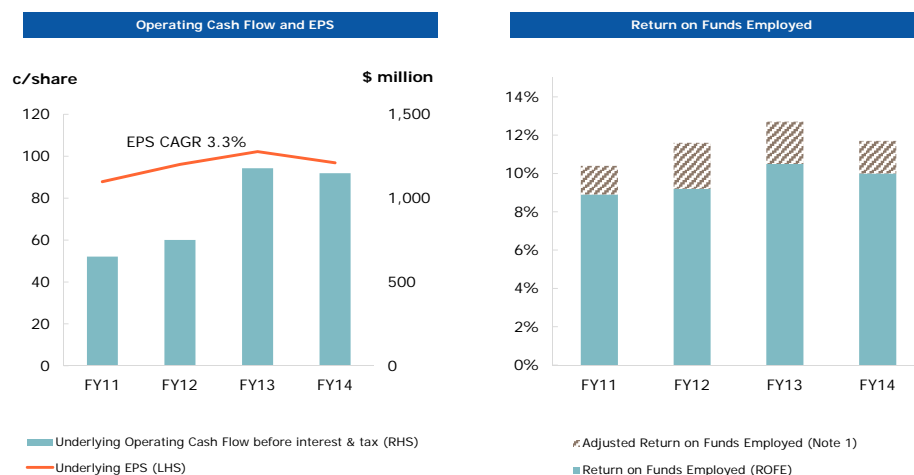
1. 1 May 2010 to 30 April 2015



## Historic profitability & ROFE

4

Strong growth in cash flow however EPS and ROFE below expectations.



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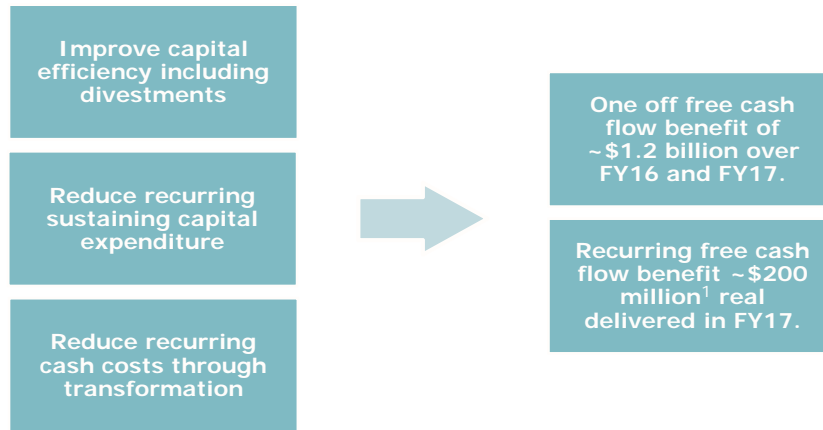
1. Adjusted for assets under construction and Upstream Gas



## Looking forward

Initiatives in place to significantly increase free cash flow by FY17.

5



> Asset portfolio management & operational productivity  
> Brett Redman  
> 26 May 2015

1. Reduction in sustainable capital expenditure and reduction in operating expenses less increase in PPA expenses from some asset sales, pre tax.



## Improve capital efficiency

One-off benefit to free cash flow of ~\$1.2b targeted for FY16 and FY17.

6

### Target ~\$1 billion through divestment of assets

- > Sale of AGL's 50% interest in Macarthur wind farm has commenced
  - » Net proceeds ~\$500 million
  - » No development profit
  - » Structured to provide lower ongoing PPA price
  - » Likely to be recurring net PPA cost of ~\$40 million
- > Majority of divestments to occur in FY16, completed by end of FY17

### Target ~\$200 million working capital reduction by end of FY17

- > Reduce surplus of LGCs and other green assets
- > Excess gas bank to be naturally consumed
- > Optimise coal stockpile at AGL Macquarie
- > Consumer credit and monthly billing initiatives

> Asset portfolio management & operational productivity  
> Brett Redman  
> 26 May 2015

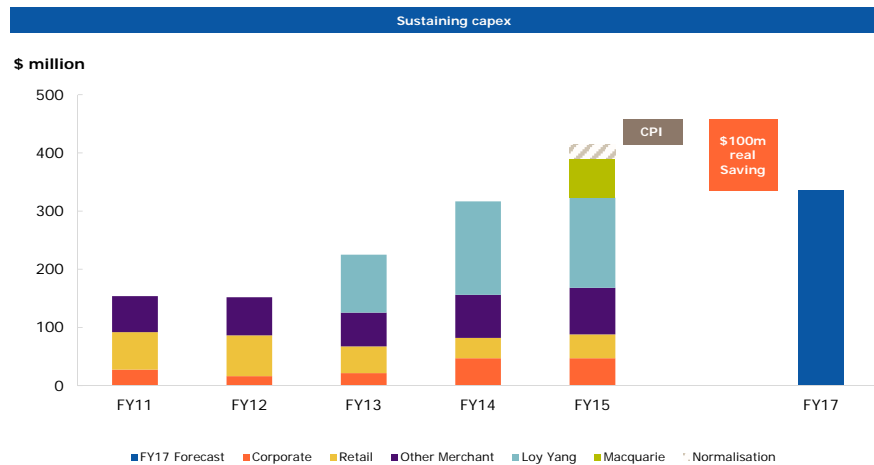




## Reduce sustaining capex

Saving of \$100m p.a. real targeted by FY17.

7



> Asset portfolio management & operational productivity  
> Brett Redman  
> 26 May 2015

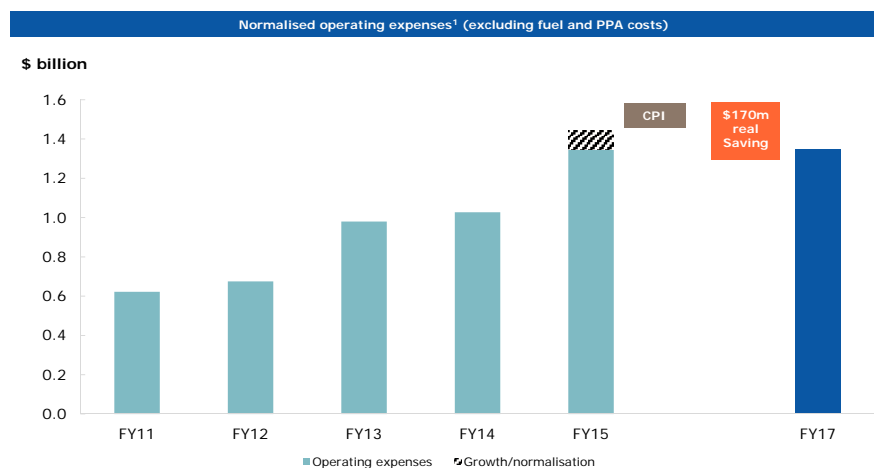
1. FY15 capital expenditure normalised for full year of AGL Macquarie, and forecast change in AGL Loy Yang mine plan switching treatment of overburden cost from capitalised to directly expensed under AASB Interpretation 20.



## Reduce recurring operating cash costs

Saving of \$170m real targeted by FY17.

8



> Asset portfolio management & operational productivity  
> Brett Redman  
> 26 May 2015

1. FY15 operating expenses adjusted for growth (primarily a full year of AGL Macquarie, New Energy, Solar and NGSF), and forecast change in AGL Loy Yang mine plan switching treatment of overburden cost from capitalised to directly expensed under AASB Interpretation 20.



## Executing the program

Programs in place to deliver the productivity targets.

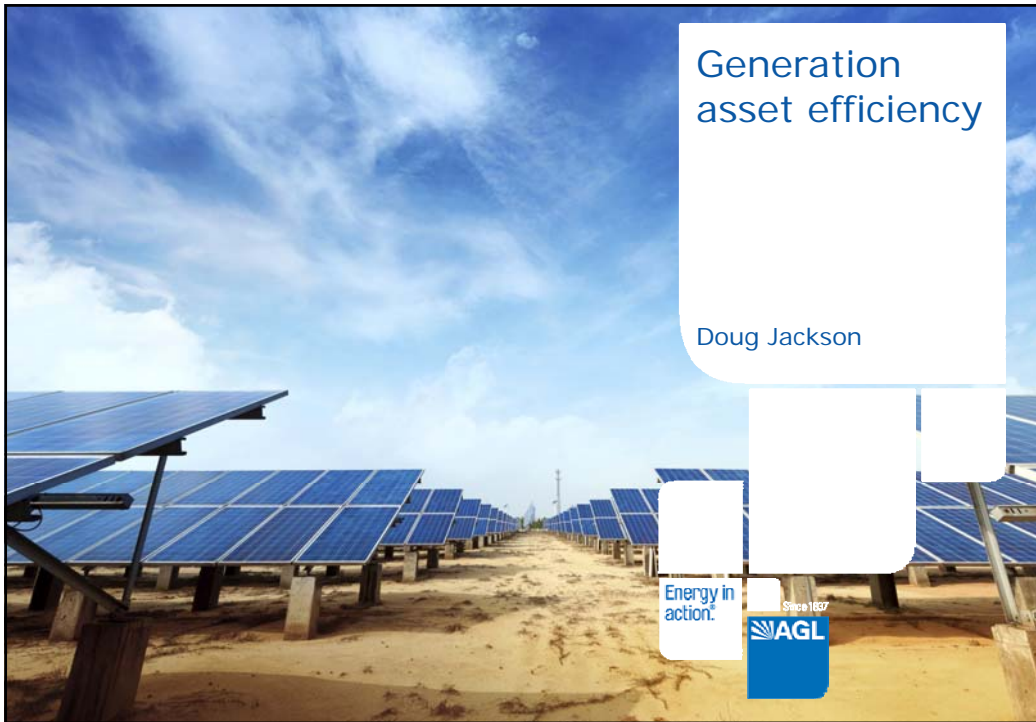
9

- › Organisation structure, leadership and accountability
  - » EGM Organisational Transformation (Alistair Preston) to drive productivity program across entire business
  - » EGM Group Operations (Doug Jackson - Acting) to drive major productivity improvement in Group Operations
- › Disciplined and comprehensive programs being created with metrics and targets
- › Initial focus on high-value, near-term wins:
  - » Significant progress expected during FY16
  - » Targeting to deliver benefits in FY17 with full run-rate benefit in FY18

---

> Asset portfolio management & operational productivity  
> Brett Redman  
> 26 May 2015





## Group operations

Producing safe, secure and low cost energy.

2

Clear objectives  
New structure  
Driving productivity  
Producing results



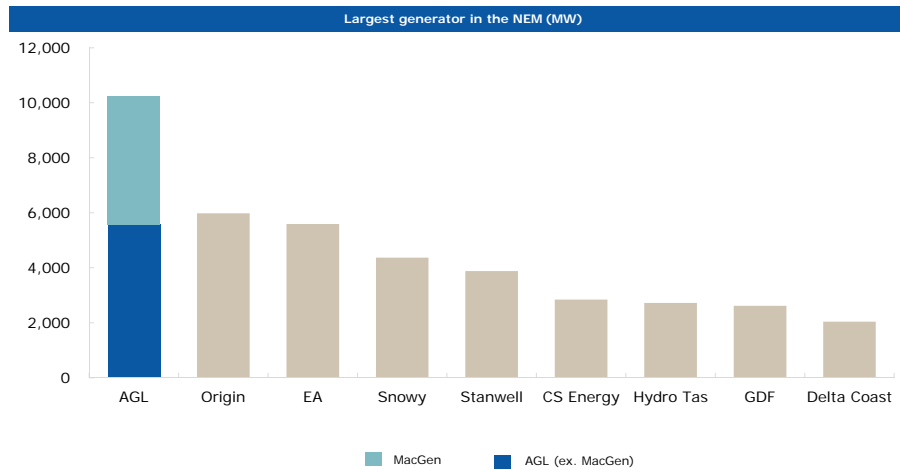
- > Generation asset efficiency
- > Doug Jackson
- > 26 May 2015



## Competitive advantage: Scale

Largest generator in the NEM.

3



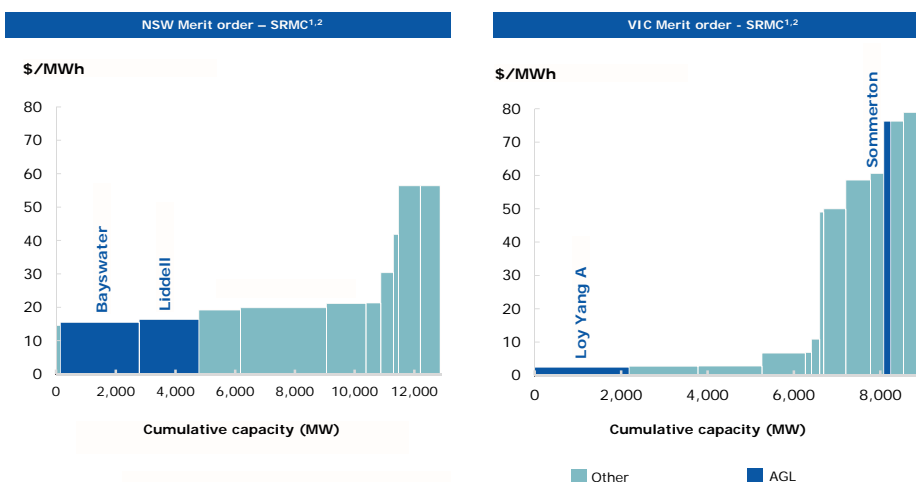
> Generation asset efficiency  
> Doug Jackson  
> 26 May 2015



## Competitive advantage: Low cost fuel

Infrastructure, contracting and mine access provide cost advantage.

4



> Generation asset efficiency  
> Doug Jackson  
> 26 May 2015

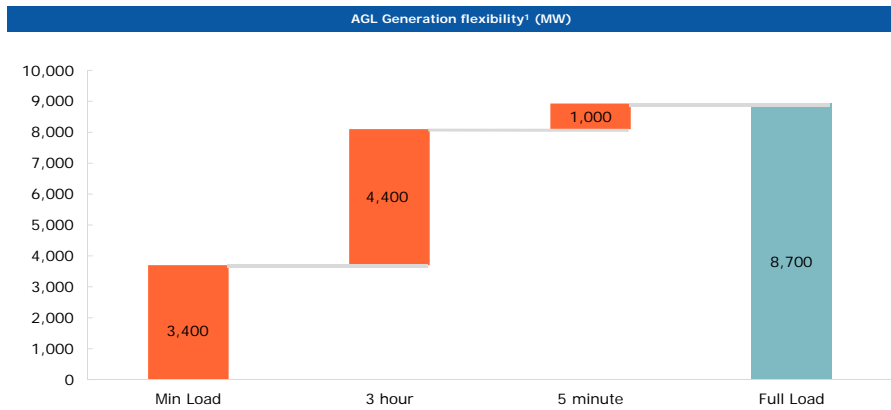
1. Short run marginal cost  
2. AGL & AER estimates (2014)



## Competitive advantage: Market agility

Flexible generation can rapidly respond to market signals.

5



> Generation asset efficiency  
> Doug Jackson  
> 26 May 2015

1. Excludes intermittent generation



## Group operations

Clear objectives; execute well.

6



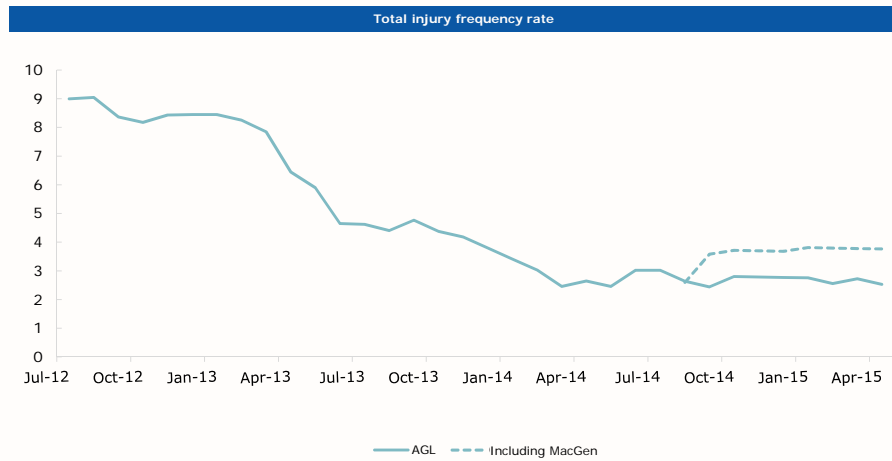
> Generation asset efficiency  
> Doug Jackson  
> 26 May 2015



## Safety first

Improving safety performance.

7



- > Generation asset efficiency
- > Doug Jackson
- > 26 May 2015



## Asset strategy: Anticipating trends

Disciplined capital investment decisions.

8

- > Decarbonised market
- > Technical end of life
- > Emissions profile
- > Asset performance
- > Value in the market



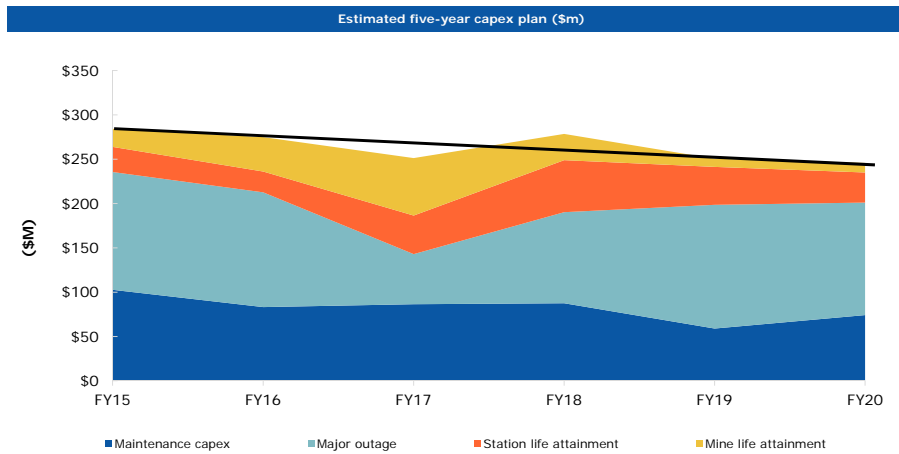
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## Capital discipline

Doing the right work; at the right time.

9



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## Driving productivity

Challenging the status quo and simplifying processes.

10

Idea generation



Execute plan



Measure results



Project Pulse

- > Generation asset efficiency
- > Doug Jackson
- > 26 May 2015



## Cost effective: Doing the right things

Leveraging scale and standard processes.

11

**Better  
buying**



**Right  
way**



**Work  
planned**



**Project Pulse**

**Work execution**

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- > Doug Jackson
- > 26 May 2015



## Harnessing insights

Data driven decisions that create better results.

12

**Predict failures  
Asset health monitoring  
Centralised expertise  
Improved results**



**PREDICT>it**



- > Generation asset efficiency
- > Doug Jackson
- > 26 May 2015



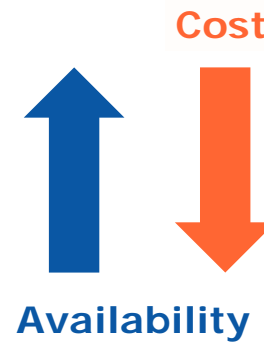


## Extracting value

Executing with discipline and focus.

13

- 1 > Clear asset objectives
- 2 > Reducing losses
- 3 > Simple processes
- 4 > Driving productivity
- 5 > Capital efficiency



> Generation asset efficiency  
> Doug Jackson  
> 26 May 2015





## Agenda

2

1

- > Success in achieving constructive public policy outcomes

2

- > Current public policy focus:
  - » Importance of competition and affordability
  - » Leading the tariff reform debate
  - » Competitive neutrality around new products
  - » Carbon reduction policies

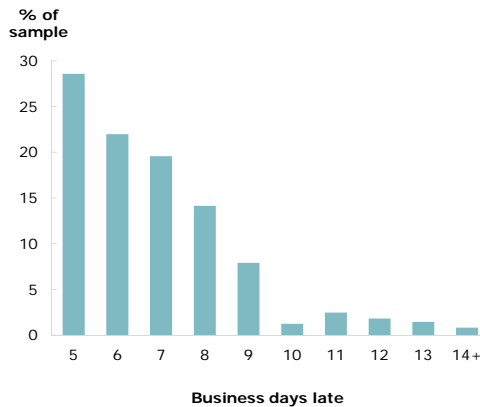
## An example of policy leadership

Introduction of contestable metering.

3

- › Metering contestability a key business objective
- › 2011/12 - Analysis showed poor customer experience
  - » 1 in 13 meter reads estimated
  - » \$120 million in annual deadweight losses
- › 2012/13 - Key stakeholders engaged: consumer groups, AEMC through Power of Choice
- › 2014/15 - Power of Choice review implementation of contestable metering

Number of business days late for the provision of metering information



> Advocate for constructive policy outcomes  
> Tim Nelson  
> 26 May 2015



## Competition, pricing and affordability

Sustainable deregulation dependent on addressing affordability.

4

### AGL is a strong supporter of price deregulation

- › Competition delivers innovation and improved consumer outcomes
- › Retail prices deregulated in all states except NSW (gas) and QLD (elec.)

### Price deregulation also requires a focus on affordability

- › Concessions reform
- › Affordability initiative

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> Tim Nelson  
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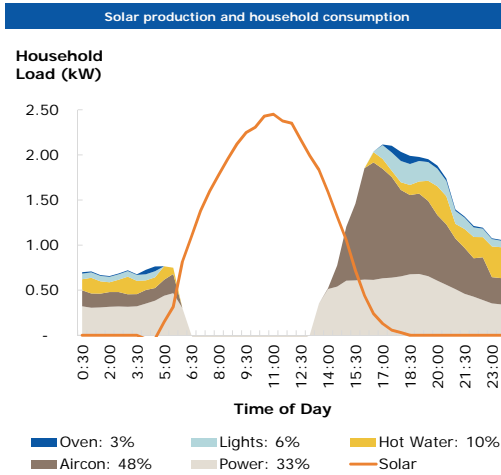


## Network tariff reform

AGL remains a strong advocate for demand tariffs at network level.

5

- > Current 'energy' tariffs result in consumer inequity
- > Demand tariffs price electricity more cost-effectively
- > Removes inequity related to distributed generation
- > Provides additional incentives for new products and services (e.g. batteries)



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 > Tim Nelson  
 > 26 May 2015



## Competitive neutrality

Competitive neutrality for new products and services a key focus.

6

### Networks

- > Competitive neutrality necessary to benefit consumers

### Consumer protection

- > Electricity is an essential service
  - » New products (e.g. batteries) require reasonable safety standards

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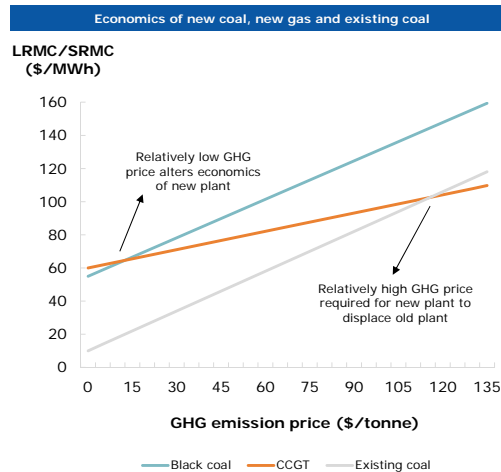


## Climate change

Carbon pricing unlikely to drive new low-emissions investment.

7

- › Carbon pricing debate in Australia has stalled
- › Carbon price of over \$100/tonne required to displace coal
- › International experience
  - » Moving away from carbon pricing
  - » US regulation for new power stations
  - » Canadian regulation for old power stations



> Advocate for constructive policy outcomes  
 > Tim Nelson  
 > 26 May 2015



## Climate change

Renewable investment dependent upon complementary closure policy.

8

- 1 > RET unlikely to deliver further investment due to financing constraints
- 2 > Policy has been successful at incentivising new generation
- 3 > Generation has not retired creating significant oversupply
- 4 > RET requires complementary policy to facilitate sustainable wholesale market outcomes (e.g. Canada)

> Advocate for constructive policy outcomes  
 > Tim Nelson  
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## Retail strategy

AGL's retail strategy is to grow its market share of customer value.

2

- 1 > Target higher value market segments
- 2 > Build loyalty with existing customers
- 3 > Pursue digital solutions
- 4 > Provide innovative products and services
- 5 > Understand the unique needs of vulnerable customers
- 6 > Maintain the lowest cost tier 1 retailer position

> Grow retail energy's share of market value  
> Stephen Mikkelsen  
> 26 May 2015



## Segmentation

The foundation for identifying high value customers.

3



### Researched:

- > 10,000 Residential
- > 4,000 Small businesses

### Insights:

- > Needs and preferences
- > Attitudes
- > Products & services appeal

### Implementation:

- > AGL customers tagged in SAP
- > Prospects tagged for targeting

### Targeting value:

- > Segments combined with life-stage
- > Retain and attract high value customers

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- > Stephen Mikkelsen
- > 26 May 2015



## Segmentation

Six meaningful needs and preferences segments have been identified.

4



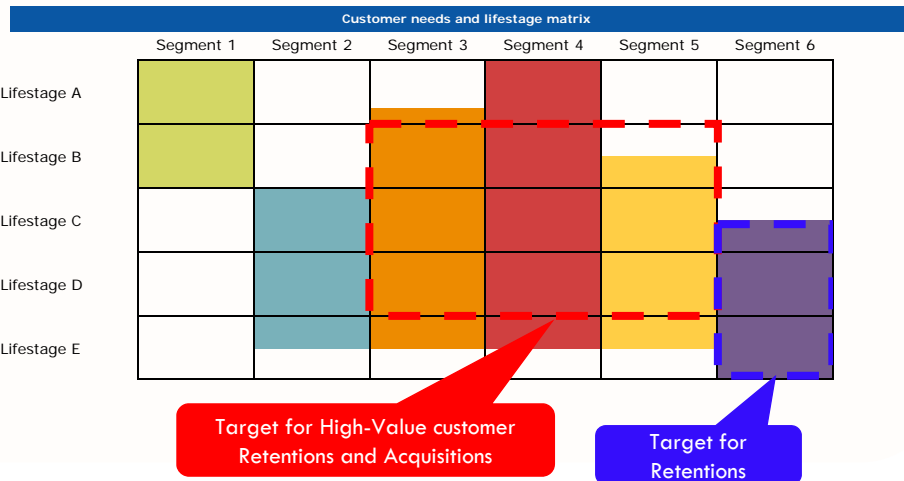
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## Segmentation

Nine high value segments identified.

5



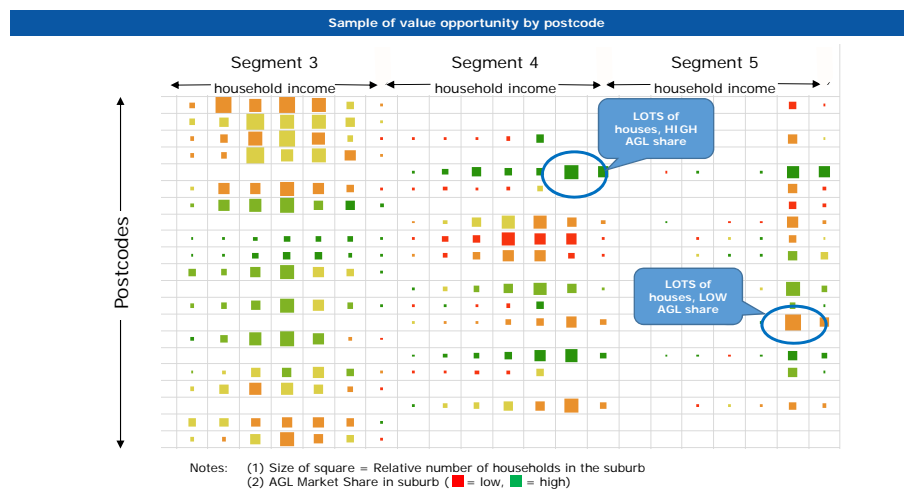
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## Customer value

Able to target value at a granular level.

6



- > Grow retail energy's share of market value
- > Stephen Mikkelsen
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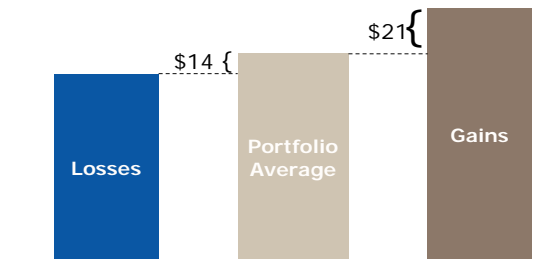


## Customer value

7

While only at the beginning of our journey, the results are promising.

Average value per customer: gains and losses (October 2014 to March 2015)



- > Grow retail energy's share of market value
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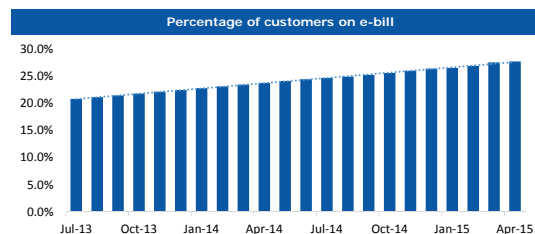
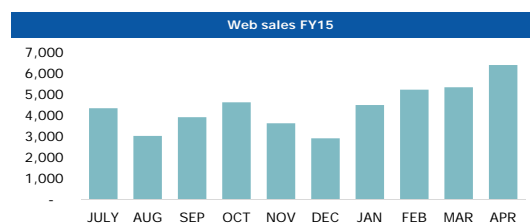


## Digital

8

Relentlessly pursue digital innovation.

- > Online is a primary channel for high quality and low cost acquisitions
- > AGL's market leading E-bill is the ongoing communication platform interface with the customer
- > AGL's newly launched App will be primary digital loyalty tool



- > Grow retail energy's share of market value
- > Stephen Mikkelsen
- > 26 May 2015

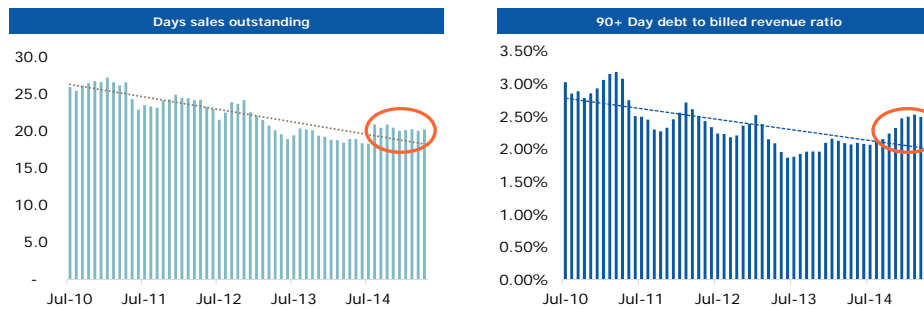


## Credit improvement program

We are not forgetting the basics that also drive value.

9

- > AGL's debtor performance is the best in the industry
- > Plateaued following the completion of specific initiatives and APG purchase



- > Grow retail energy's share of market value
- > Stephen Mikkelsen
- > 26 May 2015



## Innovation

At the forefront of providing innovation and service to our customers.

10

### FY15 Achievements:

- > 24/7 service
- > Free power Saturdays
- > Launch of the AGL App
- > Webchat
- > Leading loyalty programs



### FY16 Developments:

- > Digital metering products
- > AGL App development
- > Insight led value propositions
- > Home movers expansion

- > Grow retail energy's share of market value
- > Stephen Mikkelsen
- > 26 May 2015





## Summary

AGL is investing in business models which exploit new technologies.

2

- 1 > **New Energy' established in early 2015:**  
to embrace industry transformation
- 2 > **Clear strategic objectives:**  
short, medium and long term focus
- 3 > **An understanding of how value will be created:**  
early progress with new business models
- 4 > **A focused and balanced lean start-up approach:**  
execution excellence, first mover advantage and test & learn
- 5 > **Bold goals over the next 5 years:**  
fast revenue growth and profitable within three years

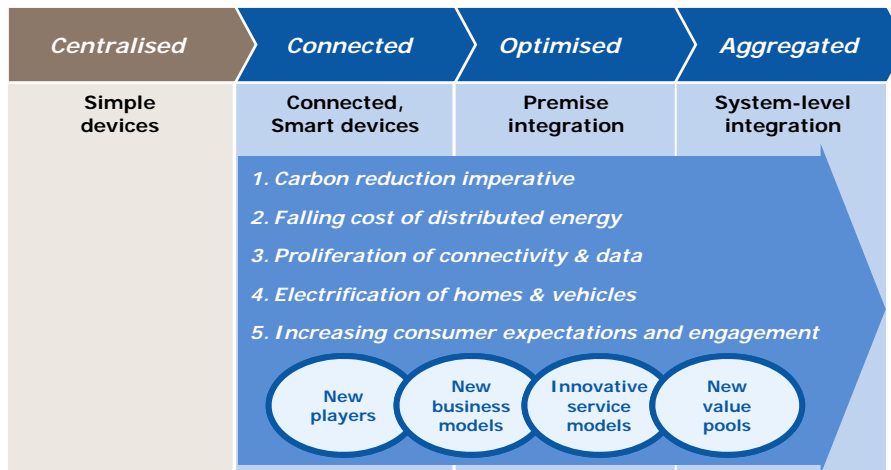
> Invest in business models which exploit new technology  
> Marc England  
> 26 May 2015



## Evolving energy industry

There are major shifts transforming our industry.

3



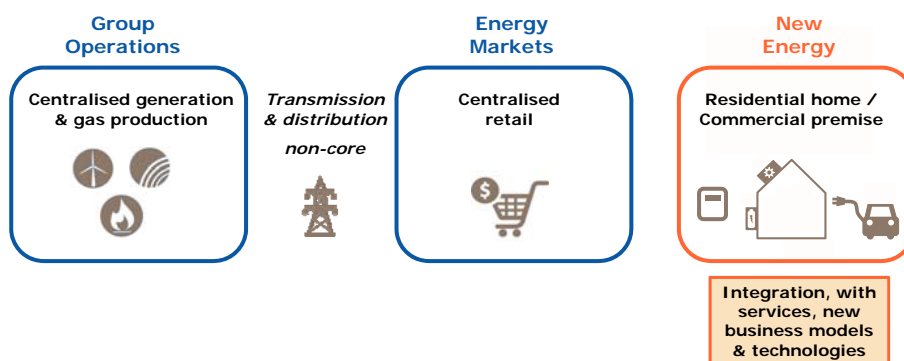
- > Invest in business models which exploit new technology
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## Repositioning AGL's business

New Energy has been established to embrace this change.

4



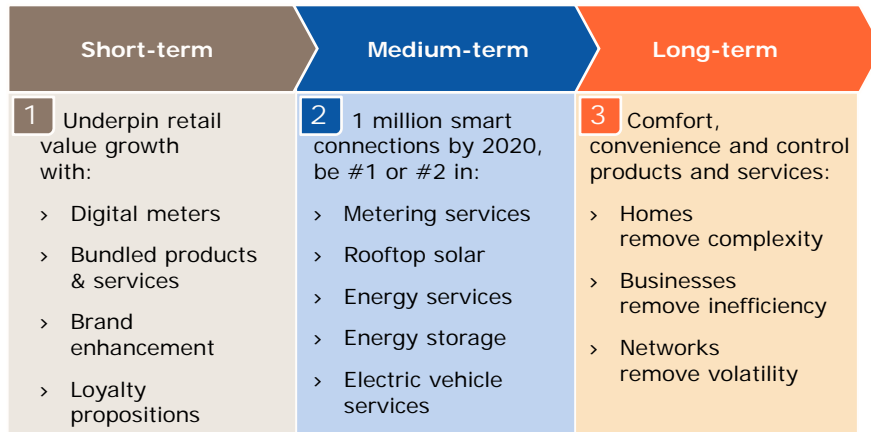
- > Invest in business models which exploit new technology
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## New Energy primary strategic objectives

New Energy will underpin retail growth and expand into new areas.

5



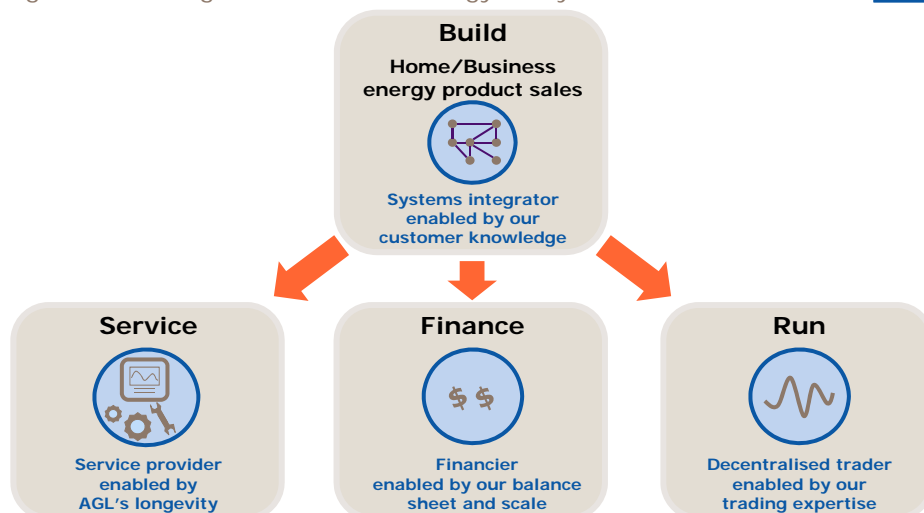
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## Investing in new business models

Integrate technologies to create an energy ecosystem for customers.

6



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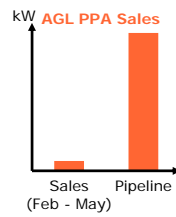
## Making early progress

Engage customers through subscription based business models.

7

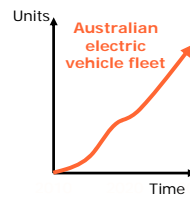
### Finance

Solar PPA launched in Feb 2015 with numerous term options



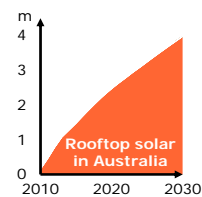
### Build & Integrate

Launched EV home charging product bundle



### Service

Imminent launch of a solar service product, with our strategic partner



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## Entering new customer segments

Expand the definition of who we see as a customer.

8

1

> Network businesses

2

> Construction companies

3

> Building management companies

4

> Landlords

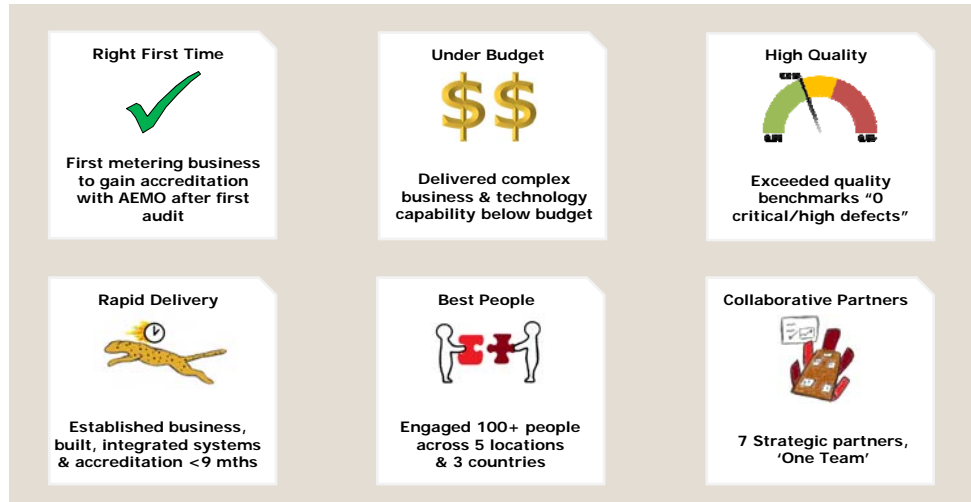
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## Excellence in execution

9

Maintain delivery excellence, as with recent launch of metering services.



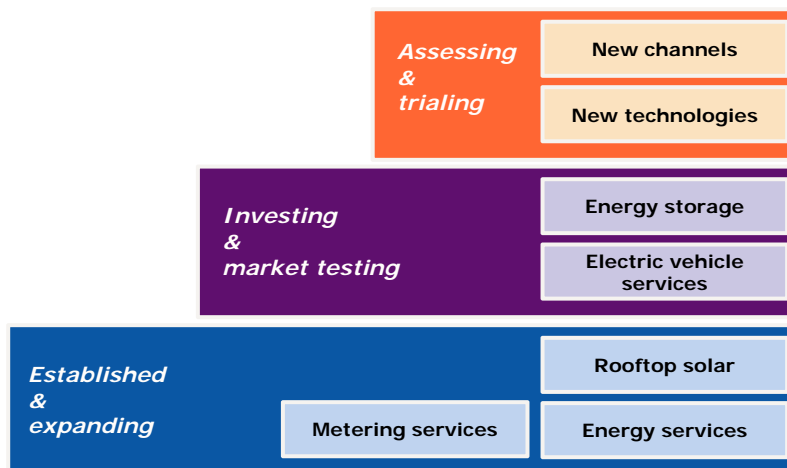
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## Building optionality

10

Maintain an agile approach.



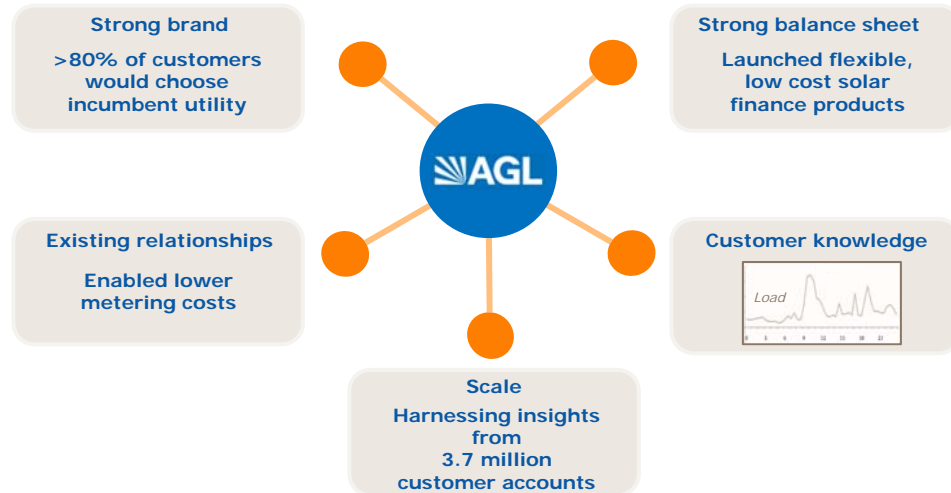
- > Invest in business models which exploit new technology
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## Maximising AGL's strengths

AGL's position will help us get ahead in new areas.

11



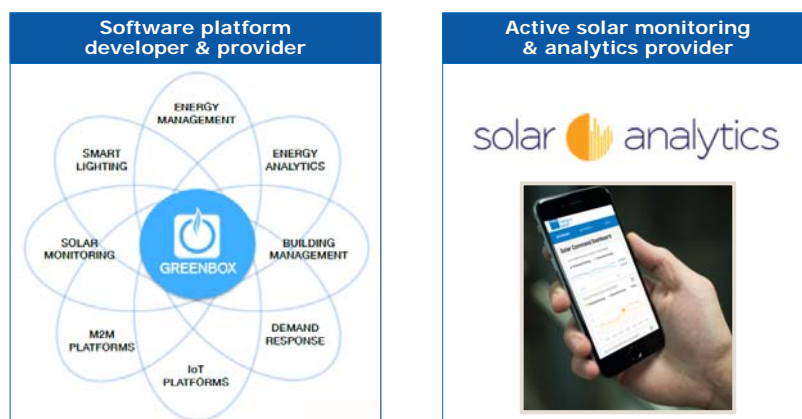
- > Invest in business models which exploit new technology
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## Establishing strategic partnerships

Create partnerships where we have a capability gap.

12



- > Invest in business models which exploit new technology
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## Diversity of people and 'lean' approach

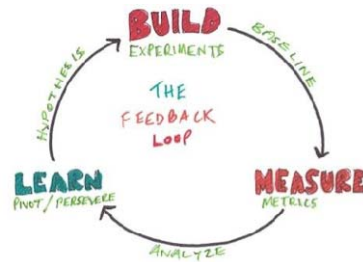
Deep and growing talent pool, supported by a fail fast culture.

13

### New Energy team

- > Over 200 and growing
- > Diverse commercial and technical skills, with backgrounds from start-ups to large established companies across the globe
- > Smart, curious, enthusiastic, creative thinkers

### Lean product development



- > Invest in business models which exploit new technology
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## New Energy commitments

Fast growth and profitable within three years.

14

1

- > 1 million smart connections by 2020

2

- > \$400m revenue, 45% CAGR, by 2020

3

- > 600 GWh p.a. rooftop solar generation

4

- > EBIT breakeven by 2018

- > Invest in business models which exploit new technology
- > Marc England
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## Performance measures & outlook

Brett Redman

Energy in  
action.

Since 1824  
AGL

## Financial scorecard

Eight initiatives will be reported, commencing with full year results.

2

1

- > One-off cash flow benefit from optimising working capital and asset sales

2

- > Recurring free cash flow benefit through transformation

3

- > Cost of generation (\$/MWh)

4

- > EBIT per customer

> Performance measures & outlook  
> Brett Redman  
> 26 May 2015

Energy in  
action.  
Since 1824  
AGL

## Financial scorecard

(continued)

3

5

> New Energy – Break-even by 2018<sup>1</sup>

6

> New Energy – Smart connections

7

> New Energy – Revenue growth

8

> Return on Funds Employed – Leading indicator for TSR

> Performance measures & outlook  
> Brett Redman  
> 26 May 2015

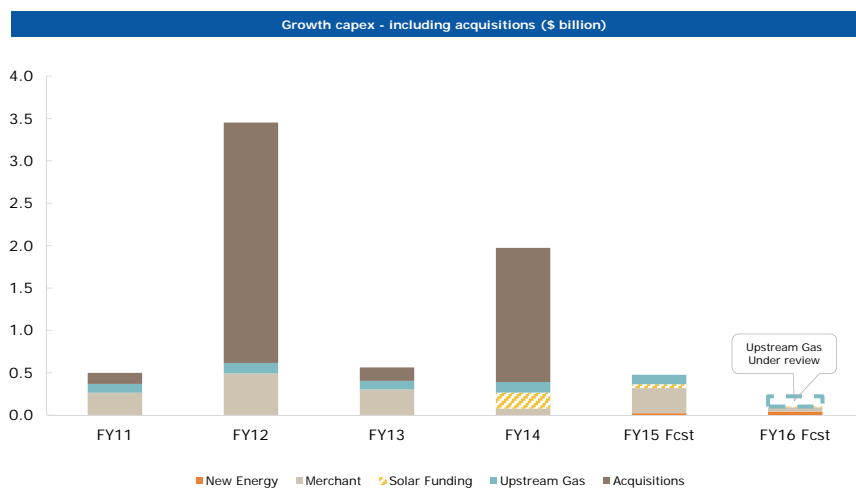
1. New Energy business unit as previously reported including solar and meters. May adjust target if new product lines added.



## Additional cash available

For growth, debt repayment and/or distribution to shareholders.

4



> Performance measures & outlook  
> Brett Redman  
> 26 May 2015



## Looking ahead

AGL well placed to respond to and manage industry challenges.

5

- > Expectation that electricity, gas and REC wholesale prices will rise modestly
- > Higher retail margins targeted however competition to remain intense
- > Retail markets change and AGL response ongoing:
  - » Average consumer electricity consumption expected to decline ~1% p.a.
  - » Early signs of lower average consumer gas consumption
  - » New Energy business unit up and running, initial pre tax loss running ~\$45m p.a.
- > Transformation and organisation restructure to deliver opex and cash benefits from FY16
- > Non cash accounting changes expected to reduce pre tax profit in FY16 ~\$50 million
  - » Higher depreciation from review of key asset lives
  - » Loy Yang mine plan update likely to reduce overburden cost capitalised under AASB Interpretation 20, increasing operating costs and reducing sustaining capital expenditure
- > AGL Macquarie continuing to perform ahead of investment case
- > Loy Yang EBA negotiations commence in H1 FY16

> Performance measures & outlook  
 > Brett Redman  
 > 26 May 2015



## FY15 Outlook

Guidance reconfirmed.

6

- > Guidance range of \$575-\$635 million reconfirmed<sup>1,2</sup>
  - » Result expected to be in the top half of the range
  - » Consumer volumes tracking in line with expectation
  - » Generation volumes above expectation with some wholesale price improvement
  - » Better than expected performance of Macquarie acquisition
- > Organisational review in progress
  - » Restructure costs ~\$30 million pre tax expected to be booked as significant item
  - » Upstream Gas operations and asset valuations under review
- > GHG policy released April 2015
- > Installation of 1.36 million solar PV modules at Nyngan solar farm completed
- > Newcastle Gas Storage Facility completed on time and on budget

> Performance measures & outlook  
 > Brett Redman  
 > 26 May 2015

1. Subject to normal market conditions.  
 2. Moranbah is classified as "held for sale" and, in accordance with accounting standards, is no longer depreciated. If at 30 June 2015 Moranbah is not sold and is no longer classified as held for sale, then non-cash depreciation of approximately \$25 million (pre-tax), for the period 1 January 2014 to 30 June 2015, would need to be recognised. No profit on sale is assumed for providing Underlying Profit guidance.

