



## Just managing in a difficult environment

<b>Company/ASX Code</b>	AGL
<b>AGM date</b>	7 October 2020
<b>Time and location</b>	10:30am online at <a href="https://agmlive.link/AGL20">https://agmlive.link/AGL20</a>
<b>Registry</b>	Link Market Services
<b>Webcast</b>	The AGM is all online due to COVID-19 pandemic
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Helen Manning assisted by Ian Graves
<b>Pre AGM Meeting?</b>	Yes with chair Graeme Hunt

Please note any potential conflict as follows: The individual(s) (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

<b>Item 1</b>	<b>Consideration of accounts and reports</b>
<b>ASA Vote</b>	No vote required

### Summary of ASA Position

*Directors and Boards:* For the past few years we have been querying the workload of directors that are up for election. Given the current COVID-19 crisis and the changes that may happen in energy markets this is particularly important right now. We are also monitoring the shareholding of the non-executive directors as these shareholdings indicate a level of confidence in the performance of any company.

*Remuneration, Culture and Performance:* For the past few years we have been monitoring the level of remuneration of the CEO and the hurdles or lack of them inherent in variable pay.

*Risk management:* Two areas of interest here this year.

- The scale and amount of the hedging windfall that went through to the Statutory Profit.
- The publication of scenario analysis on climate change.

### Governance and culture

AGL posts an annual online Corporate Governance Statement which is available

<https://www.agl.com.au/-/media/aglmedia/documents/about-agl/asx-and-media-releases/2020/corporate-governance-statement-2020.pdf?la=en&hash=C7FBA9E1EF4B772BFE92D5545F67169B>

The annual report was prepared with reference to the international Integrated Reporting Council's (IIRC) international integrated reporting framework. The report also follows and relies on numerous guidelines outlined in 'About this report' in the preface to annual report.

In short: AGL puts a lot of effort into reporting and governance.

### **Financial performance**

For FY20, AGL reported a Statutory Profit of \$1,015 million, up 12 percent on last year as a result of a positive non-cash movement in the fair value of financial instruments. These derivatives have become so material for AGL's business that it is covered extensively both in the Notes to the Consolidated Financial Statement (Pages 152 to 161) and in the Auditors Report as a Key Audit Matter (Page 173). We asked AGL about the size of this amount and whether it would continue to impact the profit. They responded that they will continue to manage the risk from both the demand and supply side of the business and referred us to page 158 of the annual report.

Underlying profit was \$816 million, down 22 percent on last year. There had been the unplanned outage at the Loy Yang power station, reduction in gas sales volumes, lower wholesale electricity and large scale generation certificate prices and increased depreciation and amortisation expense. The FY21 guidance for underlying profit will be even lower at between \$560 and \$660 million.

AGL is also maintaining its payout ratio of 75% of underlying profit after tax on dividends. The FY20 dividends were 98c per share with 80% franked. For FY21 and FY22 the dividends won't be franked, but there is the intention to pay special dividends.

### **Key events**

In August 2020 AGL announced the completion of a 5% of capital buyback for a total consideration of \$622m.

### **Key Board or senior management changes**

Les Hosking will retire from the Board after serving for 11 years, effective from the 2020 AGM.

Mark Bloom joined the Board on 1 July 2020 as a non-executive director.

Last year we mentioned big upheavals in the executive team (and mentioned 2 new appointments which are only reported on this year), following the departure of Andy Vesey as CEO. This year, only 2 new appointments in a 9 strong executive team occurred in the 2020 calendar year.

### **ASA focus issue**

The COVID-19 pandemic and its response is well laid out in the annual report and seems to be well thought out and executed.

### **Progress on renewable energy questions**

We asked AGL about the following:

- **Storage:** AGL is committed to continuing to develop energy storage projects such as pumped hydro and batteries to provide firming capacity to the market. AGL is currently investigating a pumped hydro plant at Bells Mountain in NSW and have made multiple announcements of grid scale battery projects including partnerships Wandoan and Maoneng, in NSW and Queensland. In addition, AGL is currently tendering for 850MW of integrated grid scale batteries, on multiple sites included Broken Hill and Liddell.
- **Hydrogen:** The Hydrogen Energy Supply Chain (HESC) pilot project is underway. For further detail [thehub.agl.com.au/articles/2018/04/piloting-new-opportunities-with-a-hydrogen-energy-supply-chain](https://thehub.agl.com.au/articles/2018/04/piloting-new-opportunities-with-a-hydrogen-energy-supply-chain)

## Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT (\$m)	1,015	905	1,582	539	(408)
UPAT (\$m)	816	1,040	1,018	802	701
Share price (\$)	17.05	20.01	22.48	25.50	19.29
Dividend (cents)	98	119	117	91	68
TSR (%)	(15%)	(5.3)	(7.3)	42.4	22.3
EPS (cents)	127.4	158.6	155.2	119.8	103.9
CEO total remuneration, actual (\$m)	3.8	2.7	7.7	6.9	N/A

For 2020, the CEO's total actual remuneration was **41.3 times** the Australian Full time Adult Average Weekly Total Earnings \$91,983, based on May 2020 data from the Australian Bureau of Statistics).

Note - For May 2020, the Full-time adult average weekly total earnings (annualised) was \$91,983 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings").

<b>Item 2</b>	<b>Adoption of Remuneration Report</b>
<b>ASA Vote</b>	<b>For</b>

## Summary of ASA Position

### CEO Remuneration Framework

CEO rem. framework	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.650	30	1.650	30.3
STI - Cash	0.495	15	0.825	15.2
STI - Equity	0.495	15	0.825	15.2
LTI	1.073	40	2.145	39.3
Total	3.713	100%	5.445	100%

The amounts in the table above are the statutory amounts that are 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 Report is limited by not including the actual take home pay, which in ASA 's opinion would add greater transparency. This is unusual in an ASX 50m Company. ASA again asks that AGL consider disclosing this next year.

Last year we voted in favour of the remuneration report although with some misgivings about the Balanced scorecard and the Long-Term Incentive (LTI) being over 3 years instead of 4 years.

This year although AGL continues to use the Balanced scorecard approach for the Short-Term Incentive (STI). We are more comfortable with the disclosures which support AGL's contention that they have a disciplined approach to its assessment.

There continues to be a dependency on Group assessment 50-60% with 10-20 % based on the individuals own area of responsibility. This is supported by Performance assessment and confidential Employee Reviews.

This year the non-financial Performance measure are supported by measurable improvements with Safety and Customer complaints being significantly improved.

The LTI is also improved now over a 4-year period which is in line with ASA's preferred period.

The LTI is assessed on two measures 50% based on a Cash ROE and 50% on Relative total shareholder return. Although the benchmark remains against the ASX 100, ASA prefers the benchmark to be more specific.

There will be a change in the LTI metrics next year to 3 metrics with the inclusion of Carbon Transition.

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

<b>Item 3a</b>	<b>Re-election of Peter Botten as a Director</b>
<b>ASA Vote</b>	<b>Undecided</b>

### Summary of ASA Position

As a non-executive director since 2016, Peter Botten's qualifications, Committees, Directorships and Experience are well laid out in the Notice of Meeting and the annual report. This states that

*Peter was Managing Director of Oil Search Limited for 25 years from 1994 until February 2020. Peter oversaw the development of Oil Search Limited into a major Australian Securities Exchange-listed company. Peter has extensive worldwide experience in the oil and gas industry, holding various senior technical, managerial and board positions in a number of listed and government-owned organisations.*

Peter holds the following directorships

*Chairman of the Oil Search Foundation, NiuPower Limited, Hela Provincial Health Authority and the National Football Stadium Trust in Papua New Guinea, Council Member of the Australia PNG Business Council.*

The ASA considers that 5 directorships is the maximum desirable workload and counts the position of a chair as equivalent to 2 directorships. On querying the workload to AGL it was pointed out that Peter had resigned as managing director of Oil Search in February this year.

The ASA is undecided on the amount of time that may be available for him given the COVID crisis and the current challenges in the energy market.

We note that Peter Botten bought 1500 more shares in AGL as reported to the ASX on 1 September 2020. The ASA thinks that after 3 years a board member should hold 1-year's worth of fees in shares. AGL uses a 4-year time period. This announced purchase would bring him close to that for the 4-year period that he has been a director in the company.

<b>Item 3b</b>	<b>Re-election of Mark Bloom as a Director</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

As a non-executive director, appointed 1 July 2020, Mark Bloom's qualifications, Committees, Directorships and Experience are well laid out in the Notice of Meeting and the annual report. Amongst other things he brings years of experience from Westfield and the Directors consider that his significant financial experience make him valuable to the board. Having only one other directorship (Pacific Smiles Group Limited) he should be able to give the required time in the current COVID and energy market upheavals.

We note that Mark Bloom bought 7000 AGL shares as reported to the ASX on 1 September 2020. The ASA thinks that such an early purchase is a good signal of confidence.

<b>Item 4</b>	<b>Approval of the Grant of Performance Rights under the AGL Long Term Incentive Plan to Brett Redman</b>
<b>ASA Vote</b>	<b>For</b>

*"That approval is given for AGL to grant to its Managing Director and Chief Executive Officer, Brett Redman, 124,139 performance rights under AGL's Long Term Incentive Plan in respect of the financial year ending 30 June 2021 on the terms set out in the Explanatory Notes which accompany the Notice of Meeting."*

#### **Summary of ASA Position**

As we support the 2020 the Remuneration Plan from which these rights accrue. Therefore, ASA will vote all undirected proxies for this resolution.

<b>Item 5</b>	<b>Approval of termination benefits for Eligible Senior Executives</b>
<b>ASA Vote</b>	<b>For</b>

*"That approval is given for all purposes (including Part 2D.2 of the Corporations Act 2001 (Cth) (Corporations Act)) for the giving of benefits by the Company or a related body corporate to any current or future holder of a managerial or executive office in the Company or a related body corporate (as defined in section 200AA of the Corporations Act), in connection with that person ceasing to hold that office, on the terms set out in the Explanatory Notes which accompany this Notice of Meeting."*

### **Summary of ASA Position**

This Resolution talks to the payment of Termination benefits to eligible Senior Executives, excluding the managing director and chief executive officer. It allows for payments in lieu of notice for periods of between 3 and 6 months. It also allows for ancillary benefits such as Superannuation and vehicle novated lease payments. Relevant Executives are generally not eligible for any contractual payments (including payments in lieu of notice) - aside from for statutory entitlements - where their employment is terminated for a cause.

ASA generally prefers rolling contracts for executive KMP's and oppose termination benefits exceeding 12 months. As these payments do not exceed 12 months ASA will support this resolution.

ASA will be voting all undirected proxies in favour of this resolution

<b>Item 6</b>	<b>Special Resolution – Reinsertion of Proportional Takeover Provisions for a further 3 years</b>
<b>ASA Vote</b>	<b>For</b>

*"That proportional takeover provisions in the form contained in Clause 12 of AGL's Constitution (as last approved by shareholders at the 2017 AGM) be reinserted for a period of three years from the date of the meeting."*

### **Summary of ASA Position**

This is a procedural motion to protect shareholders interests against a partial predatory takeover where the bidding is only for a proportion of shares. This needs to be renewed every three years.

Therefore, ASA supports the resolution and will be voting all undirected proxies in favour of this resolution

<b>Item 7a</b>	<b>Amendment to the constitution</b>
<b>ASA Vote</b>	<b>Against</b>

To consider, and if thought fit, to pass the following resolution as a special resolution:

*"To amend the constitution to insert a new clause 32.4: Member resolutions at general meeting - The Members in general meeting may by ordinary resolution express an opinion or request information about the way in which a power of the company partially or exclusively vested in the directors has been or should be exercised. However, such a resolution must relate to an issue of material relevance to the company or the company's business and cannot either advocate action which would violate any law or relate to any personal claim or grievance. Such a resolution is advisory only and does not bind the directors or the company".*

### Summary of ASA Position

Resolutions 7a and 7b are promoted by the Australasian Centre for Corporate Responsibility and have been put forward by a very small shareholding in the company.

In the Notice of Meeting for the AGM, the Board states that it doesn't believe that this special resolution is necessary for fostering engagement with its shareholders. The Board also says that it regularly assesses and refines its processes with the aim of fostering engagement with its shareholders. We support that dialogue process. From our discussions we understood that AGL held discussions with ACCR.

It is ASA's opinion that this motion seeks to limit the Board's ability to act in the best interests of all stakeholders and has the potential to restrict the Board in discharging its duties.

ASA opposes this motion and will be voting all undirected proxies against this resolution.

<b>Item 7b</b>	<b>Coal closure dates</b>
<b>ASA Vote</b>	<b>Against</b>

Subject to and conditional on the resolution in Item 7(a) being passed by the required majority, to consider and, if thought fit, to pass the following resolution as an ordinary resolution:

*"Shareholders affirm our company's commitment to decarbonisation and welcome the FY20 scenario analysis. Shareholders request that our company align the closure dates of the Bayswater and Loy Yang A coal-fired power stations with a strategy to limit the increase in global temperatures to 1.5°C above pre-industrial levels. Nothing in this resolution should be read as limiting the Board's discretion to take decisions in the best interests of our company".*

### Summary of ASA Position

This amendment is the reason that the previous item 7(a) was proposed and it is meant to tap into (an arguably) broad community support for mitigating climate change. The resolution also references Scenario D, one of the scenarios described in AGL's own modelling from its 'Pathways to 2050 - FY20 TCFD Report'. As shareholders, but also as members of the community there is a

lot of support for speeding up the lowering of emissions. It would be in everyone's interest that AGL would find real opportunities for the company as it goes about navigating its transition to renewable energy. In this way AGL becomes a viable and sustainable business for the future.

It is ASA's opinion that this motion seeks to direct the Boards to discharge duties that are not in the best interests of all stakeholders and could restrict the Board in discharging its other duties. ASA opposes this motion and will be voting all undirected proxies against this resolution.

**ASA Disclaimer**

*This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:*

- makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

*This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.*