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AGL transitioning to renewables on the back of profitability.

Company/ASX Code	AGL Energy Limited/AGL
AGM time and date	10:30am AEST Wednesday, 25 September 2024
Location	Melbourne Convention and Exhibition Centre 1 Convention Centre Place, South Wharf, Victoria https://meetnow.global/MTYPUZG
Registry	Computershare
Type of meeting	Hybrid
Monitor	Julieanne Mills and Lewis Gomes
Pre-AGM Meeting	Yes, with Chair: Patricia McKenzie, Remuneration Chair: Graham Cockroft and Future Chair: Miles George and Investor Relations Manager: James Thompson.

Monitor Shareholding: The individuals involved in the preparation of this voting intention have a shareholding in this company.

1. How we intend to vote

No.	Resolution description	
2	To adopt the Remuneration Report for FY24	For
3a	Re-election of Director Mr Graham Cockroft	For
3b	Re-election of Director Ms Christine Holman	For
3c	Re-election of Director Ms Vanessa Sullivan	For
4	Grant of performance rights under the AGL LTIP to Damien Nicks	For

2. Summary of Issues and Voting Intentions for AGM

- Climate Transition Action Plan (CTAP) progress
- Remuneration alignment with CTAP, longer term responsibility, thinking beyond four years long term incentives (LTI's)
- Succession plan and new chair, size of board and skills needed
- Balancing the reputational risk: profit to build renewables; customer costs and govt regulation; and shareholder returns
- Skills matrix could be improved with reference to individual Director's skills, otherwise very good. Does it include 360 degree feedback?
- Government support and energy politics in an election year.

See ASA Voting guidelines and Investment Glossary for definitions.

3. Matters Considered

Accounts and reports

It has been a good year for AGL with greater profitability, and progress with its CTAP investments along with better performance of thermal assets and more stable pricing of energy. Government policies have also provided some support.

AGL's annual report is clear, transparent and concise. It has incorporated the climate related issues into to the company's core business strategy and explaining how that drives financial values for shareholders. Business driver simplification and key metrics are reported on Page 9 of the AR

AGL continues to invest in renewables and firming power. The development pipeline for its CTAP has improved to 6.2GW since the CTAP was released in September 2022 including wind, solar, gas peakers, pumped hydro and batteries. A joint venture with Someva Renewables is providing access to a 1.2GW windfarm and 300MW of solar. The 250MW Torrens Island Battery and 50MW Broken Hill Battery are now operational and construction has started on the 500MW Liddell Battery in the Hunter bringing AGL's total flexible capacity to 7.4GW.

Upgrades of Bayswater and Loy Yang have seen power now able to be flexed down to 60-70% of full capacity improving the flexibility of use and raising the equivalent availability factor to 76.6 (available time without outages).

There are still challenges ahead with political forces providing some policy uncertainty and the need for a stable and efficient regulatory environment to provide investment certainty.

Financial performance

(As at FYE)	**2024**	**2023**	**2022**	**2021**	**2020**
NPAT ($m)	711	(1264)	860	(2058)	1007
UPAT ($m)	812	281	225	537	808
Share price ($)	10.83	10.81	8.25	8.20	17.05
Dividend (cents)	61	31	26	75	98
Simple TSR (%)	5.83	34.8	3.78	(47.51)	(9.89)
EPS (cents)-underlying	120.7	41.8	34.4	86.2	126.1
CEO total remuneration, statutory ($m)	3.267	2.26	2.182	N/A	3.898

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.

Financials

Underlying profit (UPAT) of $812m was up 189% from FY23. Underlying earnings before interest, tax and depreciation (EBITDA) of $2,216m was up 63% year on year (YOY), largely due to: fleet availability, portfolio flexibility, a strong performance in the retail business, and $28m from 9 months of Torrens Battery operation.

Net debt is down $942m to $1.8bn. The gearing ratio was reduced from 34.9% to 24.7%. The credit rating has been maintained at Baa2. A $510m Asian Term Loan Facility and a $468m US Private Placement have been implemented on top of the $1.6bn refinanced in FY23.

Operating costs have increased by $40m largely due to maintenance costs, net bad debt expenses and inflationary impacts.

A final dividend of 35c was declared, bringing the total unfranked dividend to 61c in FY24.

The outlook for FY25 is lower with UPAT in the range of $530m to $730m due to lower wholesale electricity prices, consumer margin compression, broadly flat operating costs and increased depreciation and amortisation. AGL now has a 50-75% payout ratio of annual UPAT to accommodate greater investment in new energy and intends to begin paying partially franked dividends from the FY25 interim dividend.

AGL is expected to deploy $3-4bn of balance sheet capital by 2030 and an additional $5-6bn by 2035 to deliver the 12GW ambition. Leveraging strong operating cash flows to fund this transition.

Governance and culture

Board governance has been transformed since the shareholder rejection of the demerger in 2022. A quick turnaround in strategy with new board support and stabilization has provided AGL with a revised vision and energy.

The minimum shareholder requirement is 1 year's base fee over 4 years, 50% within 2 years, with all directors complying. It is worth noting the shareholding commitment all new directors made in their first year.

An external board review in FY23 found no skills or experience gaps and our discussion with the incoming chair indicating a well-functioning board. Ongoing education is provided to board members.

The gender 40:40:20 policy implementation sees senior leadership at 36% for female personnel but AGL has targets in place for a management pipeline and the workforce. Gender pay gap has been further reduced to 29.3% with a 0% pay gap in like for like roles. At board level, there are 4 female and 6 male directors (meeting the 40/40/20 ratio) but that will drop to 33% on the retirement of Ms McKenzie but may recover with a possible replacement director.

Ombudsmen complaints rose significantly due to higher energy and cost of living pressures but are now trending down. AGL has increased staffing and the use of AI for proactive and early engagement with customers who are struggling. Its reputation dropped from number 1 in 2 states to 1 in 1 state.

There has been a significant increase in cyber and data security investment.

Employee Engagement score has continued to increase to 72%. Inclusivity index is at 75% with AGL at AWEI platinum level. Inclusivity will be aligned to remuneration in FY25. AGL was awarded workplace of the year by AFR Boss.

The audit will go out to tender in 2025.

Key events

Development pipeline which in September 2022 was 3.2GW is now 6.2GW of renewables and firming, making reasonable progress towards its 12GW by 2035 ambition. It includes:

- Muswellbrook Pumped Hydro JV will provide 400MW and 8 hours of storage and is targeted for 2029.
- A 20% stake in Gippsland Sky Offshore Wind in Victoria will provide 2.5GW.
- The 250MW Torrens Island Battery and Broken Hill Battery are now operational.
- Construction has started on the 2 staged Liddell Battery with 250MW by Dec 2025 and another 250MW expected by April 2026.
- August 2024 announcement of $250m purchase of Firm Power (BESS) and Terrain Solar adding additional solar and battery.

Progress is being made in transitioning existing thermal sites into integrated energy hubs with 10 memorandums of understanding (MOU) signed, including with solar manufacturing and recycling, solar cable manufacturing and lithium battery recycling industries.

AGL purchased a 20% equity stake in Kaluza, a billing platform that provides additional customer experience efficiencies, will simplify the business, leverage data and facilitate product innovation. It will be deployed over the next 3 years. AGL has agreed to make an approximately $150m investment in Kaluza to fund the next phase of its growth. This purchase appears to replicate a similar billing strategy of Origin Energy with its Octopus investment.

The retail transformation program is expected to cost $300m over the next 4 years with savings of $70-90m pa from 2029.

The new Virgin and Netflix partnerships along with telco packaging have increased customer retention in a competitive market.

Key board or senior management changes

The Chair, Patricia McKenzie has announced her intention to retire at the half-year results in February 2025 after 5 years as a director, and two as Chair. She will be replaced by Miles George. Patricia has steered AGL through a tumultuous time and should be congratulated for turning around the strategy, embracing the new shareholder nominated board members, introducing the first CTAP, the successful closure of Liddell, and appointing the new CEO and stabilising management in her time as Chair.

Miles George was appointed in September 2022. He has 30 Years' experience in the energy industry and no other directorships. He was a former Director of Spark Infrastructure, an Adviser to AEMC and AEMO, Chair of the Clean Energy Council, MD of Infigen Energy and CEO of Clean Co Qld. He is seen as an advocate for renewable energy.

The largely refreshed board will after the AGM, have 9 directors, 8 of which were appointed in 2022. There are no plans at this stage to change the board.

Sustainability/ESG

Good progress has been made on the 2022 CTAP. A new CTAP will be prepared in FY25 and presented to shareholders at the 2025 AGM.

TCFD reporting continues and many of the changes to AGL's reporting reflect preparation for the Australian Sustainable Reporting Standards (ASRS) to be implemented in January 2025.

Green revenue is now at 19.3% of total revenue. Scope 1 & 2 emissions have been reduced by 23% against the FY19 baseline exceeding the CTAP target of 17%. AGL has committed to 12GW of new renewable and firming capacity by 2035 and the closure of coal fired power stations.

A poor total injury frequency rate (TIFR) of 3.5 (per million hours worked) was recorded driven by an increase in low impact injuries. Remuneration has been adjusted downwards accordingly. New safety processes are being implemented.

The cost of living has seen an increase of $20m in the two year customer support package to $90m with $63m of customer support provided in FY24 to assist those most in need. The government's $381m bill relief payment will be paid out this year. It was apparent from our meeting with the Chairman that AGL is making considerable efforts to assist customers who are having cost-of-living challenges with numerous support packages available. AGL regards the costs of these packages as very much a cost of doing business expense in order to maintain political and community support. For example, installation of free solar has been provided for 100 low income households and partial debts are being written off.

AGL is involved in the development of a new low carbon concrete which replaces 80% of cement with coal ash which has a range of useful cementitious properties.

No political donations have been made and there is a policy in place for no donations. AGL will proactively engage with all political parties to input into policies. It has no plans for nuclear currently.

AGL made a $6m contribution in FY24 to support communities in which it operates.

A second reconciliation Action Plan (RAP) includes $5.9 procurement from 54 First Nations suppliers with plans to improve indigenous employment opportunities.

ASA focus issues (not discussed above or under remuneration report or re-election of directors)

This is a difficult environment to operate in with many variables and unknowns ahead. Gas prices are likely to rise significantly as will the cost of energy generally. Which raises the issue of affordability and its ongoing pressures on business costs and cost of living. The electricity system and the rate of change that the economy and society can tolerate is already approaching real limits.

AGL has a critical role in the decarbonisation of many sectors of the economy and society, its success is important to us all.

4. Rationale for Voting Intentions

Resolution 2 Adoption of the Remuneration Report for FY24 (for)

CEO and CFO fixed remuneration (FR) remained the same for FY24 but the CCO and COO received increases of 12.9% and 5% respectively, after benchmarking. The short-term incentive (STI) outcome was 83.8% of maximum for the CEO and between 83-86% for other KMP. The long-term incentive (LTI) for FY21 vested for the first time in 4 years with a 53.2% outcome. It was the first time carbon metrics had been included in the LTI and they were mostly met.

Changes to the remuneration report in FY25 will see an increase in remuneration to all KMP inline with benchmarking. The CEO has seen an increase in his FR to $1.5m from September 2024 while his STI maximum reward has been increased to 125% of FR and LTI reward has been increased to 130% of FR. Overall potential maximum remuneration has increased to $5.324m (see below in appendix).

The FY24 STI was measured against underlying NPAT, operating free cash flow, TIFR, NPS and digital customer numbers, and employee engagement. FY25 will see a change from NPS to customer satisfaction metric (CSAT). The company believes the CSAT is a recognised benchmark in the market and a better measure of customer experience through transformation than NPS.

The LTI is measured against relative TSR (70%) and CTAP targets (30%)

There are appropriate minimum shareholder policies for KMP and board and incentive awards are aligned to shareholders with 50% of STI paid in restricted shares vesting after 2 years and LTI's paid in performance rights vesting after 4 years. There is the ability for the board to utilise discretion and clawback. None was applied in FY24.

Non-executive director (NED) fees remained unchanged.

The ASA sees this as a reasonable, clear and transparent remuneration report. There is some complexity around the CTAP target alignment but perhaps this is necessary. The chair of the remuneration committee is aware of the need for ambitious goals to achieve the targets and feels equity holdings align with the longer term.

There is no actual remuneration table, the ASA would prefer to see this reinstated.

Resolution 3a Re-election of Graham Cockroft (for)

Independent NED since Jan 2022.

Chair of the People & Performance Committee and a member of the Audit & Risk Management Committee and the Nominations Committee.

Mr Cockroft's significant financial expertise and experience in the energy industry, are valuable to the Board's existing skills and experience. Mr Cockroft also adds considerable strength and leadership to the Committees on which he serves, including as Chair of the People & Performance Committee. In particular his experience as a director of the 100% renewables energy company in NZ, Meridian, is welcome.

Workload: NED Meridian Energy, and Tuatahi First Fibre Ltd.

Mr Cockroft 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.

Resolution 3b Re-election of Christine Holman (for)

Independent NED since Nov 2022

Member of the Audit & Risk Management Committee, the People & Performance Committee and the Nominations Committee.

Ms Holman's significant experience in technology and her ASX-listed experience, and retail and customer relationship focus add to the Board's existing skills and experience and diversity.

Workload: NED- Metcash (retiring at Sept AGM), Collins Foods, National Intermodal Corporation, Indara (chair of Australian Tower Network audit and risk committee) not-for-profit (NFP) NED: McGrath Foundation and State Library of NSW Foundation.

Ms Holman is well qualified for the role of a director of AGL and the ASA will vote all undirected proxies in favour of her re-election.

Resolution 3c Re-election of Vanessa Sullivan (for)

Independent NED since March 2022

Chair of the Safety & Sustainability Committee and a member of the People & Performance Committee and the Nominations Committee.

"Ms Sullivan's significant sustainability expertise and experience in the energy industry, are valuable to the Board's existing skills and experience. Ms Sullivan also adds considerable strength and leadership to the Committees on which she serves, including as Chair of the Safety & Sustainability Committee."

Workload: Chair of NFP Centacare's Advisory Board and Port of Townsville. Member of the Ministerial Energy Council Hydrogen Development sub-committee and a member of a Griffith University Business School Advisory Board.

Ms Sullivan is well qualified for the role of a director of AGL and the ASA will vote all undirected proxies in favour of her re-election.

Resolution 4 Grant of performance rights under the AGL LTIP to Damien Nicks (for)

Shareholder approval is being sought for the proposed grant of 185,661 Performance Rights to AGL's MD & CEO, Mr Damien Nicks, under the LTIP in FY25.

It is proposed to grant 185,661 Performance Rights to Mr Hicks under the LTI Plan to be tested over a four year period from 1 July 2024. The number of rights has been calculated from the maximum LTI opportunity of 130% of Fixed Remuneration of $1.50m divided by the share price averaged over the 30 calendar days up to 30 June 2024, being $10.50. 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.

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Appendix 1
Remuneration framework detail for FY24

CEO rem. Framework for FY24	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.4	33.3%	1.40	30%
STI - Cash	0.7	16.7%	0.84	17.5%
STI – Equity restricted for 2 years	0.7	16.7%	0.84	17.5%
LTI performance rights vesting after 4 years	1.4	33.3%	1.68	35%
Total	4.2	100.0%	4.76	100%

The amounts in the table above are the 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. Some remuneration frameworks set a maximum opportunity amount, but not all.

Remuneration framework detail for FY25

CEO rem. Framework for FY25	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.50	33.3%	1.500	28.2%
STI – Cash (50%)	0.75	16.7%	0.937	17.6%
STI – Equity restricted for 2 years (50%)	0.75	16.7%	0.937	17.6%
LTI performance rights vesting after 4 years	1.50	33.3%	1.950	36.6%
Total	4.50	100.0%	5.325	100.0%

Relative Total Shareholder Return vesting schedule (70% weighting)

Performance Measure	Measured Against	Outcome	Vesting of award subject to this metric (% of maximum)
Relative TSR	Constituent companies in the S&P/ASX 100	<50th percentile	0%
		Between 50th-75th percentile	Straight-line vesting from 50-100%
		≥75th percentile	100%

Carbon transition vesting schedules (30% weighting)

Emissions intensity of electricity supplied in FY28	Vesting of award subject to this metric (% of maximum)	New renewable and firming capacity from 1 July 2022 to 30 June 2028	Vesting of award subject to this metric (% of maximum)	Revenue uplift of green energy and carbon neutral products & services in FY28 from FY19 base	Vesting of award subject to this metric (% of maximum)
More than 0.838 (tCO_2e/MWh)	0%	Less than 3.1 GW	0%	Less than 90%	0%
0.838 to 0.825 (tCO_2e/MWh)	Straight-line vesting between 25% and 50%	3.1 GW to 3.5 GW	Straight-line vesting between 25% and 70%	90% to 96%	Straight-line vesting between 25% and 50%
0.825 to 0.819 (tCO_2e/MWh)	Straight-line vesting between 50% and 90%	3.5 GW to 3.7 GW	Straight-line vesting between 70% and 90%	96% to 106%	Straight-line vesting between 50% and 100%
0.819 to 0.812 (tCO_2e/MWh)	Straight-line vesting between 90% and 100%	3.7 GW to 4.0 GW	Straight-line vesting between 90% and 100%	More than 106%	100%
Less than 0.812 (tCO_2e/MWh)	100%	More than 4.0 GW	100%		

Source AGL Annual Report FY24

Relative Total Shareholder Return vesting schedule (70% weighting)

Performance Measure	Measured Against	Outcome	Vesting of award subject to this metric (% of maximum)
Relative TSR	Constituent companies in the S&P/ASX 100	<50th percentile	0%
		Between 50th-75th percentile	Straight-line vesting from 50-100%
		≥75th percentile	100%

Carbon transition vesting schedules (30% weighting)

Emissions intensity of electricity supplied in FY27	Vesting of award subject to this metric (% of maximum)	New total firming and renewable capacity from 1 July 2023 at 30 June 2027	Vesting of award subject to this metric (% of maximum)	Revenue uplift of green energy and carbon neutral products & services in FY27 from FY19 base	Vesting of award subject to this metric (% of maximum)
More than 0.907 (tCO_2e/MWh)	0%	Less than 1.5 GW	0%	Less than 75%	0%
0.907 to 0.884 (tCO_2e/MWh)	Straight-line vesting between 25% and 50%	1.5 GW to 1.9 GW	Straight-line vesting between 25% and 50%	75% to 85%	Straight-line vesting between 25% and 50%
0.884 to 0.871 (tCO_2e/MWh)	Straight-line vesting between 50% and 90%	1.9 GW to 2.1 GW	Straight-line vesting between 50% and 80%	85% to 95%	Straight-line vesting between 50% and 100%
0.871 to 0.868 (tCO_2e/MWh)	Straight-line vesting between 90% and 100%	2.1 GW to 2.4 GW	Straight-line vesting between 80% and 100%	More than 95%	100%
Less than 0.868 (tCO_2e/MWh)	100%	More than 2.4 GW	100%		

Equivalent Availability Factor **The fraction of a given operating period in which a generating unit is available without any outages or equipment deratings**.

Source AGL Annual Report FY24