

## ASX & Media Release

### 2016 Annual General Meeting

**28 September 2016**

AGL Energy Limited (AGL) is today holding its 2016 Annual General Meeting.

Attached are:

- > The Chairman's opening address; and
- > The Managing Director's presentation slides.



John Fitzgerald  
**Company Secretary**

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#### About AGL

AGL is one of Australia's leading integrated energy companies. It is taking action to responsibly reduce its greenhouse gas emissions while providing secure and affordable energy to its customers. Drawing on over 175 years of experience, AGL serves its customers throughout eastern Australia with meeting their energy requirements, including gas, electricity, solar PV and related products and services. 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, solar, landfill gas and biomass.

## **2016 ANNUAL GENERAL MEETING CHAIRMAN'S ADDRESS**

Good morning Ladies and Gentlemen.

My name is Jerry Maycock and I am your Chairman.

Welcome to AGL's Annual General Meeting of Shareholders. AGL's Board and senior management are here to report to you today on the state of your company, its performance and accomplishments in the past year, and the opportunities and challenges for the future.

May I ask you to make sure that your mobile phones are turned off or switched to silent while the meeting is in progress. Filming of the meeting is not permitted. I also ask that you note where your nearest exit is in the unlikely event it becomes necessary to evacuate the building. In the event of an emergency, you will hear two audible emergency alarms. The first alarm sounds like a 'BEEP BEEP.' On hearing this alarm, you should stand by for instructions to evacuate. The second alarm sounds like a 'WHOOOP WHOOOP.' On hearing this alarm, you should immediately begin to evacuate the building. Emergency exits are located either side of the stage. In the event of an emergency please do not use the lifts. All emergency exits must remain unimpeded.

The Notice convening this Meeting has been sent to all registered Shareholders and the necessary quorum is present here today.

I will start by explaining the running order for today's meeting.

Shortly, I will introduce the rest of the AGL Directors and senior management team. Then I will make a few remarks about the financial results for the year just completed. After that, Andy Vesey, AGL's Managing Director, will give you more details about the operational highlights and strategic achievements for the year as well as giving you an update on our expectations for the year ahead. Between Andy and I, we will seek to answer many of the questions that shareholders have notified us of in advance.

Then we will attend to the formal business of the meeting. There are 3 items of ordinary business and 2 items of special business. There are 6 motions on which you will be asked to vote.

You will have the opportunity to speak on, or ask questions about, each item of business. Please note that only persons holding yellow or red cards are entitled to ask questions at this meeting. Visitors holding a blue or green card are not eligible to vote or speak, but are most welcome to listen.

I would now like to introduce your Directors to you.

Starting on my near left is Belinda Hutchinson. Belinda is a member of the Audit and Risk Management Committee, the People and Performance Committee and the Nominations Committee. Belinda is standing for re-election as a Director and you will have an opportunity to hear her speak about her candidacy.

John Stanhope is Chair of the Audit and Risk Management Committee and a member of both the People and Performance Committee and the Nominations Committee.

Seated to John Stanhope's left is Diane Smith-Gander. As outlined in the Notice of Meeting, the Board has recommended that shareholders vote in favour of the resolution to appoint Diane as a non-executive Director. The Board has invited Diane to join us on the podium today in order to speak to you about her candidacy for election to the Board.

Seated next to Diane is AGL's Managing Director, Andy Vesey.

Bruce Phillips is a member of the Audit and Risk Management Committee, the Safety, Sustainability and Corporate Responsibility Committee and the Nominations Committee. Bruce will be retiring from the Board at the end of the meeting, having served as a Director since 2007. I will have more to say about that shortly.

Jacqueline Hey is a member of the Safety, Sustainability and Corporate Responsibility Committee, the Audit and Risk Management Committee, and the Nominations Committee. Jacqueline was appointed to the Board in March this year and is also standing for re-election as a Director.

Les Hosking is Chair of the People and Performance Committee and a member of the Audit and Risk Management Committee and the Nominations Committee.

Graeme Hunt is Chair of the Safety, Sustainability and Corporate Responsibility Committee and a member of the People and Performance and Nominations Committees. As Graeme is currently abroad the Board has granted him leave of absence from today's meeting.

Also on the podium are the Company Secretary, John Fitzgerald, and the Chief Financial Officer, Brett Redman. Other members of the senior management team, whom I will now introduce, are seated at the front of the hall.

From your left, Stephen Mikkelsen is the Executive General Manager of Energy Markets. Next to Stephen is Doug Jackson, Executive General Manager of Group Operations. Dan Cram, AGL's Executive General Manager of People and Culture and Acting Executive General Manager of Stakeholder Relations is standing next to Alistair Preston, who is the Executive General Manager of Organisational Transformation. Finally, Elisabeth Brinton, the newest addition to the Executive Team, is Executive General Manager of New Energy.

A laminated card containing a short biography of each Executive Team member was placed on your seat before the meeting. We hope that this will allow you to become better acquainted with the skills and experience of the company's management team.

Finally, AGL's external auditors, Deloitte, are here this morning. The senior audit partner, Greg Couttas, is available to answer any relevant questions you wish to ask later in the meeting and I thank him for attending today.

Turning now to our financial results for 2016.

AGL's statutory loss after tax attributable to shareholders was \$408 million. This compares with a statutory profit after tax of \$218 million in the 2015 financial year. Statutory operating cash flow after tax in 2016 was \$1,186 million, up 13.6%. As we note in the Annual Report, the statutory loss was due mainly to the effect of significant items, including impairments to the carrying values of our Upstream Gas assets at Gloucester and Camden in New South Wales and at Moranbah, Silver Springs and Spring Gully in Queensland.

For many years, AGL has used underlying profit to more meaningfully track company performance. Underlying profit is calculated excluding significant items and especially the 'mark to market' impact of the large hedging positions held by AGL in the wholesale energy market.

In relation to our electricity hedging positions, the accounting values of these are calculated at a point in time on balance date, but their true economic impact only occurs when the positions mature - at which time their realised value is included in the profit statement. This year included a non-cash reduction in the derivative value of a long term contract. We remain firmly of the view that, whilst required by accounting standards, these entries should be ignored when assessing company performance.

The impairments of the company's gas assets follows AGL's announcement in February 2016 that exploration and production of upstream gas assets will no longer be a core business activity for the company due to the volatility of commodity prices and the risks associated with long development lead times for these projects. The

two major drivers of the impairments were the fall in global oil prices, and its consequential impact on long-term Queensland gas prices, and, at Gloucester, the main factor was the Waukivory Pilot well data indicating lower than expected production volumes for the Gloucester Gas Project, rendering the project sub economic.

While the impairments to the carrying value of the gas assets are disappointing it is worth noting that, taken as a whole, AGL's upstream gas investments have created very significant net shareholder value over the past decade. This value includes the profits realised in prior years from the sales of our former gas interests in Papua New Guinea and shareholding in QGC, as well as the ongoing benefits of low priced gas purchase contracts also stemming from the former QGC investment. This net benefit notwithstanding, the Board did ensure that when it was equitable to do so, those executives responsible at the time did feel the impact of the significant items on their remuneration.

Returning to underlying profit, AGL's Net Profit After Tax for the year was \$701 million, up 11.3% on last year. The main reasons for the increase were the strong performance by AGL's generation assets and improved gross margins in our retail business, underpinned by a focus on cost discipline and operational execution. The Board considers this to be a very good result.

By now, you should all have received the fully franked final dividend of 36 cents a share paid on 22 September 2016. When this is added to the interim dividend of 32 cents per share, the total dividend for the year was 68 cents per share, fully franked. This represents a healthy 6% increase on last year's total dividend, and is another record high.

In the last financial year, AGL delivered a total shareholder return of 22%, compared with negative 2% for the benchmark S&P/ASX100 Accumulation Index. Total shareholder return over the last five full financial years has been 77%, compared with 48% for the ASX100. Over the same five year period, our return on equity has increased to 8.3% from 7.5%. Shareholders who participated in our May 2012 and August 2014 equity raisings to fund (respectively) the acquisitions of Loy Yang A and Macquarie Generation have seen a strong return on their investment.

I would now like to discuss the management of AGL's capital position. In considering the efficient management of its capital position, the Board's priorities are to fund improvements to the core business and provide the capability to take advantage of strategic growth opportunities. The Board also is intent on retaining appropriate financial strength to withstand future shocks, and retaining strong liquidity.

We have a pipeline of growth opportunities, and continue to evaluate more, but in the short to medium term the strength of our liquidity position, and cash generative nature of our portfolio, means we now also have the capability to provide additional returns to shareholders who have supported the company.

Accordingly the Board has today approved changes to AGL's dividend policy and announced an on-market share buy-back.

Starting with the FY17 interim dividend, AGL will target a payout ratio of approximately 75% of Underlying Profit, compared to the existing guideline of a progressively increasing dividend based on approximately 60% of Underlying Profit. We do not expect to have sufficient franking credits to fully frank the higher dividend level, however, rather than constrain the absolute level of dividend, we will pay the available franking balance which is expected to mean that not less than 80% will be franked.

Secondly, AGL intends to carry out an on-market buy-back of up to 5% of its issued share capital representing 33,735,619 shares (with a market value of \$596 million based on AGL's closing share price on 27 September 2016). This buy-back will commence in the near future.

So, to re-iterate, AGL will continue to focus on improvements to its core business and prioritise and explore strategic investment opportunities, whilst maintaining a strong balance sheet within the parameters of our Baa2 credit rating. Within this context, our new dividend policy and our decision to deploy excess cash in the shorter-term via a share buy-back, reflect the Board's confidence in AGL's cash position and intent to provide additional returns to shareholders.

I would like to make some brief remarks about the important issue of climate change and AGL's role in helping Australia to transition to a more carbon constrained economy. Australia has committed to reducing emissions by 26-28% of 2005 levels by 2030. AGL supported the Government's negotiations at the Paris climate summit, and has committed to play its proportionate part in reaching these targets. These commitments have profound implications for the operation of the markets within which AGL operates. Addressing climate change is complex. It is not a simple discussion, particularly in the current environment, but it is one we must continue to engage in with all of our stakeholders.

An important contribution to this discussion is AGL's recent report, 'Carbon Constrained Future: AGL's approach to climate change mitigation: a scenario analysis. This report outlines the activities AGL is undertaking to reduce greenhouse gas emissions and the results of economic modelling of emission reduction scenarios. At its core, AGL supports a national and coordinated approach to managing the transition to a decarbonised energy system in an orderly manner. An

uncoordinated approach without policies in place to progressively replace fossil powered generation, and create supporting infrastructure for renewables, will be disastrous in terms of the reliability and cost of power. AGL believes there are three key policies which require consideration by governments:

- First, it is necessary to ensure that the transition to a low-emissions electricity system occurs in an orderly rather than disorderly way. A policy framework that ensures the orderly retirement of ageing emissions-intensive power stations is required. Such a policy has precedent given, for example, the existence of age-based limitations on power station operations in Canada.
- Second, it is necessary to revisit the design of the NEM. Energy-only markets require extreme pricing volatility to produce adequate revenues to incentivise new investment in renewables and complementary capacity (such as open-cycle gas turbines or advanced batteries). A new market design that values firm capacity as well as energy should be developed. Importantly, a traditional capacity market is unlikely to be the answer but new thinking will be required.
- And third, it is necessary to develop robust and nationally consistent policy frameworks for incentivising new renewable generation capacity. This is particularly important as the large scale renewable energy target of 33,000 GWh is due to be met by 2020, after which this target remains constant from 2020 to 2030.

To our knowledge, AGL's carbon constrained report is the first of its kind in the Australian energy sector and only one of a handful completed by an Australian company. The publication has provided our investors, customers, communities, NGOs, employees and policy makers with a snapshot of AGL's perspective on a range of issues.

I now would like to address the topic of Board renewal. As noted in the Annual Report, on 30 June this year, Sandra McPhee retired from the AGL Board after approximately 10 years' service. Bruce Phillips, also a Director, with nine years' service, will retire at the conclusion of today's meeting. I want to acknowledge the valuable contribution made by both Sandra and Bruce as Directors of AGL over the past decade. Each has demonstrated an unfailing commitment to their duties as a Director and they leave AGL with the Board's thanks and good wishes for the future.

While acknowledging the contribution of Sandra and Bruce as Directors, the Board has embraced the opportunity created by their retirement to review its future requirements and identify the skills that will be required to guide the company's future growth and development.

In March, following an extensive search, the Board welcomed Jacqueline Hey as a non-executive Director. Jacqueline brings to the Board deep experience in managing the business impacts of technological change and driving improvements in customer experience. She has already made a worthy contribution to AGL's digital strategy as the company responds to the dual challenges of technological change and evolving customer expectations.

As mentioned earlier, the Board is today recommending that shareholders vote in favour of a resolution to appoint Diane Smith-Gander to the Board. Diane has an extensive background as an executive manager and non-executive director in the areas of information technology, operations, and large-scale commodities. The Board strongly supports Diane's candidacy.

Since the Notice of Meeting was sent to Shareholders, we have been able to finalise the appointment of another highly credentialed non-executive Director to the Board. I am pleased to confirm that, as announced to the ASX this morning, Peter Botten will join the Board with effect from 21 October 2016.

Peter is currently the Managing Director of Oilsearch Limited which is a role that he has held since 1994. Peter has worked in the oil and gas industry for more than 40 years and is one of the ASX's longest serving CEOs. The Board believes that Peter's background and experience in the oil and, more particularly, gas industry will be extremely valuable to AGL as we continue to grow our east coast wholesale and retail gas businesses.

While Peter's appointment increases the number of non-executive Directors from seven to eight, at least for the near term, the Board considers this to be a prudent step in order to ensure that, as the company grows, it continues to have the requisite range and depth of skills and experience on the Board, and manages the transition to three new directors. Whilst Peter will continue to serve as Managing Director of Oilsearch, the Board is satisfied that Peter's executive responsibilities will not impede the proper performance of his duties to AGL.

Shareholders will of course be afforded the opportunity to vote on Peter's re-election at the 2017 Annual General Meeting.

Finally, I would like to deal with Chair succession. I consider it to be a really important function of company Chairs to organise an efficient and effective process to replace themselves. Having been a member of the AGL Board for 10 years, and Chair for 6 years, I have proposed to my colleagues that we should plan for my succession at the conclusion of my current term of office this time next year. Whilst they consider it prudent to retain the option of nominating me for another term if circumstances mean that is in the best interests of the company at that time, our current plan is to work towards an orderly transition during the next twelve months.



In conclusion, I would like to thank my colleagues on the Board and all AGL employees for their hard work during 2016. I would also like to thank all of you, our shareholders, for your continued support of the company.

It is now my pleasure to invite Andy Vesey, our Managing Director and CEO, to say more about AGL's operating performance, our strategic initiatives, and our earnings expectations for 2017.

END



# 2016 Annual General Meeting

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**Andy Vesey, Managing Director and  
CEO**





**Date**  
28 September 2016

Energy in  
action.




Since 1837



# Core generation and retail operations driving results

|                       |   |                         |  |
|-----------------------|---|-------------------------|--|
| Total generation      |  | <b>up 14% to 45 TWh</b> | <ul style="list-style-type: none"><li>&gt; Two additional months of AGL Macquarie</li><li>&gt; Commissioning of solar sites</li></ul>                                |
| Operating costs       |  | <b>down \$122m</b>      | <ul style="list-style-type: none"><li>&gt; Re-organisation driving results</li><li>&gt; Consumer opex/gross margin improved 6.6 ppts to 49.9%</li></ul>              |
| EBIT per customer     |  | <b>up 25% to \$108</b>  | <ul style="list-style-type: none"><li>&gt; Customer value strategy driving disciplined pricing</li><li>&gt; Reduced cost to serve</li></ul>                          |
| Customer satisfaction |  | <b>up 0.3 to 7.3/10</b> | <ul style="list-style-type: none"><li>&gt; Increased customer communication options and service delivery enhancements</li><li>&gt; Reduction in complaints</li></ul> |

# Emphasising the importance of AGL's people and our customers

|   |  |  |  |   |
|---|--|--|--|---|
|  | Employee engagement above industry norms amid significant AGL transition | Diversity and Inclusion initiatives including Shine LGBTI program                  |  |  |
| Ongoing focus on safety following disappointing increase in FY16 injury rate      |  |  | Support for customers suffering hardship through affordability initiatives | Domestic violence initiative supporting customers and employees                     |

# Strategic Framework delivering for shareholders

## Embrace Transformation

### FY16 achievements

- > Scenario planning rollout
- > Confirmed exit of Upstream Gas

### FY17 priorities

- > Embed scenario planning
- > Embed Lean and Agile processes
- > Modernise EBAs
- > Digital Transformation Program

## Drive Productivity

### FY16 achievements

- > Asset sales inc. Macarthur Wind Farm, Diamantina Power Station
- > Opex savings ahead of plan
- > Working capital reduction on track

### FY17 priorities

- > Deliver \$100m capex reduction
- > Complete asset divestments
- > Remainder of working capital and opex reduction targets
- > Digital Transformation Program

## Unlock Growth

### FY16 achievements

- > PARF launched
- > Sunverge investment
- > Electric vehicle charging initiative
- > Customer value strategy

### FY17 priorities

- > Enable PARF new build projects
- > Virtual Power Plant
- > Facilitate market/regulatory reform
- > Digital Transformation Program

# Powering Australian Renewables Fund: stimulating investment in clean energy

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# Virtual Power Plant: trialling innovative business models for distributed energy

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# Digital Transformation Program: igniting customer engagement and advocacy

Three key components to drive customer value and efficiency

## 1 Uplifting our Foundational Capability

Investing in SAP, other core technology, the operating model and processes to allow AGL to support digital interactions

## 2 Digital Adoption

Driving customer adoption of digital experiences across all interactions such as via a web-page or an app on their smart device

## 3 Signature Moments

Unique customer experiences designed to build trust and advocacy while differentiating AGL from our competitors.



# Positive FY17 earnings outlook despite challenging start to the year

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- › Primary drivers of FY17 growth expected to be:
  - › Wholesale electricity margin (phasing of benefit to reflect competitive environment, timing of retail price changes and AGL hedging profile)
  - › Customer value strategy
  - › Delivery of operational transformation targets
- › Underlying Profit (after tax) expected to be between \$720 million and \$800 million<sup>1</sup>
- › Year-on-year improvement expected to be weighted towards second half
- › Outlook reflects strength of AGL business despite previously disclosed challenges:
  - › Unseasonably mild July/August weather
  - › Anticipated reduction in gas portfolio EBIT of at least \$100 million vs FY16
- › Continue to negotiate Macquarie and Loy Yang EBAs

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<sup>1</sup> Subject to normal trading conditions for the remainder of FY17