

## **2018 ANNUAL GENERAL MEETING CHAIRMAN'S ADDRESS**

Good morning Ladies and Gentlemen.

My name is Graeme Hunt and I am your Chairman.

Welcome to AGL's 2018 Annual General Meeting.

I would like to start the meeting by acknowledging the traditional owners of the land on which we meet today, the Wurundjeri people of the Kulin nation, and pay our respects to their elders past and present.

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.

In a moment, I will make a few remarks about the results for the 2018 financial year, and about other topical matters. Then, Brett Redman, AGL's Interim CEO, will speak. We will then attend to the formal business of the meeting.

Thank you to those shareholders who have submitted written questions in advance of the meeting. Brett and I will seek to answer many of those questions in our prepared comments.

You will have the opportunity to speak to - or ask questions about - each item of business. Please note that only persons holding yellow or blue cards are entitled to ask questions or make comments at this meeting. Visitors holding a red or green card are not eligible to vote or speak but are most welcome to listen. Please also note this AGM is being filmed for webcasting purposes.

I would now like to introduce my fellow Directors.

I will ask each Director to raise their hand as I introduce them. They are: Les Hosking, John Stanhope, Jacqueline Hey, Belinda Hutchinson, Peter Botten and Diane Smith-Gander.

Also on the stage today are the Interim CEO, Brett Redman, Company Secretary, John Fitzgerald, and Interim Chief Financial Officer, Damien Nicks. Seated in the front row of the room are members of your company's Executive Team.

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

I would like to start by taking a few moments to share the Board's thoughts on the CEO succession. As you will be aware, on 23 August, we announced that Andy Vesey, AGL's Managing Director and Chief Executive Officer, would be leaving AGL and resigning from the Board.

Your Board, consistent with good governance practices, has a constant focus on succession planning, and in the months leading up to this change, the Board increased its focus on the development of internal candidates and on potential external candidates with the capability to guide the business through the next phase of its multi-year development.

Andy made a significant contribution during his years leading AGL and in particular has driven our transformation agenda. He leaves the company in a strong financial position ready to meet the current industry challenges as well as take on the future opportunities.

Brett Redman has been appointed to act as Interim CEO. Brett is an experienced and very capable executive who has been with AGL since 2007 and served as CFO since 2012. Brett has more than 25 years' experience in senior roles in blue-chip industrial companies in Australia and North America. Brett has a deep understanding of AGL's business and the energy industry and I am confident he will lead AGL effectively while the Board completes the succession process.

The Board is well progressed with the next stages of a domestic and international search to find the right person to lead AGL in the long-term. The search to date has identified strong internal and external candidates. On present indications we expect to announce the results of this process by the end of the year.

Otherwise, AGL's programs and commitments disclosed at our 2018 Full Year results are unchanged. The overall strategic direction of the business remains the same. Our priorities continue to be the safe and reliable operation of our assets, serving our customers to the best of our ability and listening and responding to all stakeholders. That includes listening to our people and continuing to consider government energy policy and the regulatory framework as it evolves.

Turning now to our financial results for 2018.

AGL's statutory profit after tax was 1,587 million dollars. This compares with 539 million dollars in the 2017 financial year.

The increase in Statutory Profit after tax in the 2018 Financial Year included a post-tax gain on the fair value of financial instruments of 562 million dollars primarily due to movements in forward wholesale electricity prices. The accounting values of these instruments are such that their true economic impact only occurs when the positions mature - at which time their realised value is included in the profit statement.

For many years, AGL has regarded Underlying Profit as the more useful measure of company performance. Underlying Profit after tax is calculated by excluding significant items and the 'mark to market' impact of the large hedging positions and other financial instruments. Underlying Profit for the 2018 financial year was 1,023 million dollars, up 28 per cent on last year.

The final dividend of 63 cents per share (which was 80 per cent franked) was paid on 21 September 2018. When added to the interim dividend of 54 cents per share, the total dividend for the year was 117 cents per share, franked at 80 per cent. This represents an increase in total dividends declared over last year of 26 cents per share, an increase of 29 per cent. The increase is consistent with the increase in profit and AGL's policy to pay out 75 per cent of annual underlying profit after tax – at a minimum franking level of 80 per cent - as a dividend.

Today we confirm the earnings outlook provided at the 2018 Full Year results for the 2019 financial year as within the range of 970 million dollars to 1,070 million dollars, subject to normal trading conditions. The midpoint of this range represents a broadly flat outlook for earnings when compared to the 2018 result.

The outstanding performance of the business in the past year has been delivered because of the multi-billion-dollar investments over recent years in our portfolio of thermal and renewable generation assets. With significant ongoing investment and operating discipline, these assets have performed well during a period of favourable market conditions. This has resulted in strong returns.

While we are pleased that our investment in these assets has delivered strong returns to shareholders, the Board acknowledges the widespread concern about energy affordability and reliability. For a complex range of reasons, prices have risen significantly, and probably unsustainably, in recent years.

As the recent ACCC inquiry has found, these factors include higher prices for the coal and gas that is needed to generate electricity, the abrupt closure of several non-AGL coal fired power stations and higher network costs. This situation has been exacerbated by continued uncertainty in the policy environment.

Despite this uncertainty, AGL continues to invest in energy supply that should enhance affordability and contribute to reliability, while enabling the long-term transition of our energy fleet to lower emissions technologies. AGL is currently developing more than two billion dollars' worth of electricity generation projects aimed at modernising and improving energy supply. This includes investment in the Coopers Gap and Silvertown wind farms, Barker Inlet gas-fired Power Station, the upgrade of the Bayswater coal-fired power station, a gas-fired power station near Newcastle and the Crib Point LNG import jetty.

AGL has also worked closely with state and federal governments to introduce measures to ease the impact of higher prices, especially for those customers that are in difficult economic circumstances or on low incomes. We continue to explore new ways of making energy more affordable for all customers and working to protect our customers most in need of assistance. This includes our recently announced 50 million dollar debt relief package for customers experiencing hardship. It also includes loyalty discounts for customers who have been with us for two years or more but have not engaged with us to seek a plan better than the standing offer tariff.

We will continue to work with regulators, government and the industry to achieve the market reform that is needed to improve the reliability and affordability of Australia's energy supply.

The Board appreciates the central role of AGL's assets in delivering reliable, secure and affordable energy. So, as we plan for the future, we continue to invest in these assets so that they can continue to operate safely and reliably for the benefit of not only our customers, but the broader community.

In addition to the two billion dollars of new energy generation projects we are developing, we are also committed to investing in our existing plant. Over the next three years, that entails a sustaining capital investment program of over 400 million dollars a year to ensure our plants continue to be reliable. Reliability is especially important as we head into the summer months.

We will continue to invest in new generation so that as our existing assets reach the end of their operating lives, new assets can take their place. We are firmly of the view that this continued investment by AGL and other industry participants is essential to ease the supply and demand imbalances that have been driving higher prices for both gas and electricity.

Policy certainty is key to continued investment across the sector.

While AGL, as well as other industry participants, supported the National Energy Guarantee as a means to provide this certainty, we are now focused on working with the new federal energy minister, Angus Taylor, and with all stakeholders, to address the challenges Australia faces in relation to energy. These include affordability, especially for the most vulnerable in our society, developing policy that can stimulate further investment in new supply, and ensuring Australians feel confident in the industry as a whole.

We know that certainty of energy affordability and supply is key for every Australian.

I would like to make a few brief remarks about the issue of corporate governance. The past year has highlighted, if ever it was needed, the fundamental need for the community to have trust in our core institutions. I want to assure you that your Board is working diligently to ensure that, in the words of the Australian Prudential Regulation Authority, the company's financial success does not "dull our senses" when it comes

to managing non-financial risk. We operate in a dynamic and transforming market. While we will always maintain an appropriately active focus on delivering long term sustainable returns to our shareholders, we will work just as hard to ensure that your company is operating in a way that meets community standards of ethical governance and risk management, where the customer voice is heard.

As one example, AGL senior leadership engages regularly with a Stakeholder Advisory Council. This Council includes external members across the investment, customer, social services, civil society, government and environmental fields. Some of the key matters discussed during the 2018 Financial Year included how AGL is seeking to address the energy affordability issues our customers are facing and how we approach transition following the staged closure of AGL's coal-fired power stations.

During the 2018 Financial Year, we launched a program to hear directly from our customers and surveyed almost 1.5 million people. We are using the comprehensive results to inform and improve customer experience and to create products and services that are better aligned to our customers' needs and wants.

We also recognise that effective engagement with, and investment in, the communities in which we operate is vital to our long-term success. During the 2019 Financial Year, we plan to host at least four community events for each operational or development site to allow for community views to be raised and discussed. We know open dialogue matters.

During the 2018 Financial Year, we also revised our Board and Committee Charters. A key focus of this review was to allow the Board Committees to take a deeper dive on issues such as safety, customers and culture, while also establishing more comprehensive reporting to the Board.

I will now turn to the topic of Board renewal.

The Board is committed to a managed and gradual Board succession and renewal process. We have devoted considerable time to identifying the collective skills and experience that the Board will require to oversee the strategic direction and governance of the company as we face the challenges and opportunities of a transforming industry.

As I noted in the Annual Report, both Les Hosking and Belinda Hutchinson, who have been on the Board since 2008 and 2010 respectively, have indicated that they do not intend to stand for re-election when their current terms expire and pending his re-election at today's meeting, John Stanhope has indicated that this will be his last term. I would like to take this opportunity to thank them all for the contribution and commitment to the ongoing performance of your company.

It is now my pleasure to invite Brett Redman, your Interim CEO, to address you. Following Brett's address, we will move to the formal business of the meeting.

## INTERIM CEO'S ADDRESS

Thank you, Chairman, and good morning everyone.

It was such an honour for me to be named AGL's interim CEO, and I'm really pleased that the AGM is my first public engagement in the role. It's a great opportunity to meet with you - our shareholders.

I thought it made sense to introduce myself to you. I have worked for AGL for 11 years, first as head of finance in merchant energy and upstream gas, then as head of group strategy and, since 2012, as chief financial officer.

The role of CFO involves a great deal of customer and shareholder engagement. In this role over the past six years, I have always welcomed the opportunity to connect with the Australian retail investors that make up the overwhelming majority of our 119,000 shareholders. More than half of our shareholders – many of them customers and many of them former or current AGL employees – own less than 1,000 shares each. We know that when we deliver strong results and increase dividends as we have in recent years, these are the people who are benefitting.

During my time as CFO it has been an honour to have led growth initiatives and teams who have delivered for AGL and our shareholders. This includes the acquisitions of the Macquarie and Loy Yang power station businesses, whose performance under AGL's management has driven our recent strong financial results. Another growth achievement has been creating the Powering Australian Renewables Fund, now one of the biggest private developers of clean energy projects in our country. And I'm delighted that joining us on stage for the first time today, as interim chief financial officer, is Damien Nicks. Damien has been integral to AGL's success as part of the finance team since joining us in 2015.

Since I became interim CEO last month, I have spent much of my time connecting with customers, with AGL's people at our sites around Australia, and with other stakeholders in the community. Safety, as always, is a core focus of AGL's people – and I am pleased to say that having visited many of our sites in recent weeks, I am confident our safety culture is stronger than ever.

In these discussions perhaps the most common question I have been asked is whether I anticipate a change in strategic direction for AGL. My answer, in a word, is no.

For several years we have referred to two strategic imperatives that drive AGL's decision-making. They are: to prosper in a carbon-constrained future, and to build customer advocacy. We define these things as "imperatives" because, frankly, we know we have to respond to them or be left behind. We must meet changes in technology. And we must meet and try to exceed customer and community expectations.

So, I would like to tell you what we are doing for our customers. Amid continuing uncertainty, I believe the customer is our North Star. When in doubt, go where the customer is going. To do that we have to know our customers well, we have to ensure they are well informed; and we have to give them a reason to trust and believe in us. But we know that, over the past 20 years, while competition has increased dramatically as successive governments have opened up the energy utility market, the increased choice available to consumers has not delivered for everyone as it should have done. Some customers don't know how to get a better deal, while many of those that do find the range of offers and the practices of discounting confusing. And the increases in customers energy costs arising from the sharp increases in network and generation costs over recent years is a lot to absorb for the most vulnerable in our society.

For these reasons I too am a passionate supporter of AGL's measures to increase fairness, simplicity and transparency for energy consumers – such as our AGL Essentials product launched this year, which offers customers a simple low-rate electricity bill with no confusing discount pricing, our recent moves to provide loyalty benefits to standing offer customers and our ongoing initiatives to support customers in financial hardship, including the 50-million-dollar debt relief package we announced at our results last month.

But we recognise that our industry still has some way to go on these issues and the community expects us to do more to make things easier for customers.

We will continue to work constructively and engage deeply with all levels of government, with regulators and consumer groups and with customers directly to accelerate progress and eliminate confusion.

We will be working to demonstrate that any new measures can be deployed to maximise transparency and ease for customers, and not in a restrictive way that damages confidence in the investment needed to bring prices down and deliver the better services that customers want.

Never has the importance of investment and of innovation been greater. Customers' expectations of their energy providers are undergoing profound change – driven by the rise of the internet and mobile commerce – and companies like AGL cannot stand still. That is why we are investing 300 million dollars in digital transformation which will allow us to better engage with our customers, giving them better service. And it's why we will continue to seek out opportunities to invest in more new and better services for our customers. Today we are putting our increasingly connected customer at the centre of everything we do and delivering real actions to make their lives easier.

Similarly, we know the long-term transition to lower carbon technologies is already happening. AGL recognises that the community's focus today is on ensuring the transition does not have unintended consequences in terms of affordability – and that people want to understand how we will keep the electricity system reliable as transition occurs.

That's why the question of how to provide the back-up capacity in the system for when wind and solar generation is not available – known in the industry as “firming capacity” – is, in my opinion, such a key component of making energy more affordable for all. Simply put, an electricity market that only pays generators for the energy they sell requires periods of extreme high prices to provide a return on new investment. That's because firming plant costs a lot to build but isn't required to generate electricity much of the time. Yet this price volatility – to the extent that it affects prices for customers – is an understandable cause for concern. We believe the solution is a long-term capacity market that rewards generators for providing back-up capacity, removes the requirement for high prices and provides stability for new investment to deliver lower prices.

Certainty on how these key policy questions will be resolved remains the most important signal for investment in the new generation that our country needs to bring energy prices sustainably lower for all. We are committed to listening to and working with our customers, government, regulators and the communities in which we operate to ensure a stable transition occurs.

We also recognise that coal-fired generation has been the basis of Australia's prosperity for decades – and, since the Macquarie and Loy Yang acquisitions, of AGL's strong profit growth in recent years. There is no question in my mind that its continued responsible operation will be fundamental to Australia's energy system, at least in the medium term. But as Australia's largest emitter of carbon, we have an obligation to our shareholders and other financial counter-parties, in a responsible and measured way, to manage their exposure to carbon risk.

It was in that context, in 2015, we gave long-term notice of our intentions in relation to the ongoing responsible operation of our coal-fired plants, including their anticipated closure dates. The question of closure dates is an operational one: of ensuring ageing coal plants are retired responsibly and safely as we work through transition. It is not a question of ideology on our part. Far from it. And neither is the need to address our carbon exposure more generally. It is a question of prudent and pragmatic risk management, working alongside all stakeholders, to deliver a sustainable and responsible transition in which the power sector continues both to enable and to participate in Australia's future prosperity.

Amid the widespread and very real concerns about energy affordability and reliability, we recognise that to retain the right to play our part in delivering an affordable, sustainable and reliable energy future for the Australian economy and industry as a whole, we have to retain our licence to operate. We recognise that for that to be able to occur we need to build people's trust in us to do what's right during the complex transition under way in the energy sector – whether they are shareholders, customers, employees or members of the wider community.

We want AGL's shareholders and our people to take pride not just in our 180-year heritage but also the things we are doing today to make our company and our communities stronger. At the same time, we want them to be excited by the opportunities that transitioning to new technology will allow us to offer our customers. We want you, our shareholders, not just to think of us twice a year when you bank your dividends, but to be our advocates as the leaders and responsible stewards of change. We are committed to continue to invest to deliver the best outcomes for you, for our customers and for the community at large.

Thank you.