2020 ANNUAL GENERAL MEETING – CHAIR OF PEOPLE & PERFORMANCE COMMITTEE

Good morning ladies and gentlemen.

AGL's Remuneration Report commences on page 67 of the Annual Report.
It sets out AGL's policy in respect of remuneration paid to the Board and senior executives and describes the link between company performance and executive remuneration outcomes for the 2020 financial year.

As the Chairman has noted, it is clear that AGL will receive a first strike in respect of the FY20 Remuneration Report. The Board takes this result very seriously and we will review our remuneration structure in the coming year having regard to the feedback of our shareholders.

I wanted to further explain the Board's rationale in relation to the key areas of concern identified by some proxy advisors and investors. But firstly, for context, I will summarise the key remuneration outcomes for AGL's executive team for FY20.

No changes were made to Executive Team fixed remuneration levels for FY21. The Board agreed with management's recommendation that the company context and the economic impact on AGL's customers and our community arising from the COVID-19 pandemic made any remuneration increases inappropriate.

Short Term Incentive awards for the financial year were in the range of 70.8% to 90.4% of maximum opportunity. Your board awarded the Managing Director & CEO 80% of his maximum opportunity. In granting these awards we had regard to AGL's performance during the year, which was strong despite the challenges associated with the COVID-19 pandemic, and demonstrated progress against AGL's strategy. 50% of this award is deferred in equity for the CEO and 25% is deferred in equity for other executives to provide for ongoing shareholder alignment.

The performance conditions for the long-term incentives granted in FY18 were tested. Only 28% of these grants vested because the company did not meet the relative total shareholder return measure (being placed at the 22.58th percentile of the S&P/ASX100 comparator group) but partially met the three-year average return on equity hurdle at 11.73. The return on equity measure was adjusted to remove the positive effect of share buy-backs.
I will now discuss the key concerns raised by proxy advisors and investors with the FY20 Remuneration Report.

One proxy advisor raised concerns that the assessment of both the FY19 and FY20 STI financial measures appeared generous and the impact of the Loy Yang A Unit 2 Outage was not thoroughly accounted for. The AGL Board believes the approach we took allowed remuneration outcomes to reflect the full impact of the outage and adjustments were made.

Some proxy advisers raised a concern that the FY20 STI financial targets and payments were not aligned with AGL's performance. The FY20 STI outcomes were assessed against a performance scorecard focusing on group-wide objectives linked to AGL's Business Value Drivers, which was set at the start of the period based on AGL's budget and the perceived degree of difficulty in that budget based on internal forecasts, prevailing market conditions and information available to the Board at that time.

Despite the unprecedented operating environment during FY20 and additional COVID-19 related costs, AGL delivered a positive financial outcome against the target range, whilst also completing a share buy-back and continuing to pay dividends to shareholders. At the same time, customer and employee engagement and safety performance outcomes were also at or above target for FY20. In light of this overall strong performance by executives in delivering against agreed objectives under the scorecard approach, and the substantial response by management in supporting customers and ensuring employee safety through COVID-19, the Board considered the STI awards for FY20 to be appropriate and consistent with overall outcomes.

Another concern related to the LTIP Bridging Grant, which AGL made in FY20 to certain Executives to ensure a smooth transition from a three-year to a four-year performance period for the LTIP and part of a package of changes AGL made to its executive remuneration framework in FY20 to bring it in line with contemporary pay practices.

The Bridging Grant was designed to retain and motivate continuing executives in their roles and provide an opportunity for vesting each year under the LTI through the transition, as would have been the case had we maintained a 3 year LTI plan. Although for FY20 there was a double grant, there is no opportunity for double vesting to occur in any year. For bridging grant recipients, the Board will specify the treatment of their long-term incentives on cessation of employment in the remuneration report. It is the Board's intention that it will exercise its discretion to ensure no additional benefit is provided compared to our prior arrangements.

There has also been some criticism of the new carbon metrics included in the LTIP. Equally we have received positive commentary. The carbon transition metrics were included in FY21 considering AGL's commitment to reduce its carbon footprint and to facilitate the transition of AGL's generation fleet responsibly over time. Managing this transition effectively is fundamental to AGL's long-term financial returns, arguably more than any other company due to AGL's position as the nation's largest carbon emitter. The metrics are quantitative and set at stretching levels.

AGL listened to a wide range of stakeholder views in determining the best place for carbon transition metrics. Climate transition is a long-term issue, it will take decades to responsibly transition the NEM to a low carbon economy. AGL has commenced planning and management is now making incremental decisions which will yield long-term results for both AGL's portfolio and the climate. Therefore, the Board determined that the long-term nature of carbon transition objectives is better aligned with the long-term incentive plan. The vesting ranges were set to ensure they are both stretching and achievable while holding AGL to account for the delivery of its existing carbon transition objectives, with threshold vesting reflecting full achievement of those plans and full vesting reflecting delivery significantly in excess of those plans.

Finally, there were also concerns raised in relation to the ROE target in the LTIP, in particular that the ROE allowing vesting of the incentives is too low. Setting ROE targets is inherently difficult in the rapidly evolving Australian energy market. This year, the exercise has been made more challenging as AGL faces increasing costs and bad debt provisions given the economic impact of the COVID-19 pandemic. Even in a declining ROE environment, the Board considers it important that the measure continue to be included in the LTI as it provides a direct measurement of capital allocation effectiveness.

The Board approved a four-year vesting range of 5% to 8% for the FY21 grant. We recognise that this is a drop in the ROE targets from prior years, however, this vesting range still provides significant stretch in the current environment. In setting the range we considered AGL's outlook and internal business plans which show a decline in earnings due to the continued fall in wholesale energy prices an impact accelerated by COVID-19.

It is the intention of the Board that the LTI plan remains one of realistic stretch for management relative to the operating environment anticipated at the time the vesting range is set and to avoid discretion at the end of the performance period. However, if there is a material change in market conditions outside of management's control influencing the eventual outcome, the Board will take this into account when determining vesting outcomes to ensure there is an appropriate alignment of shareholder interests.

We recognise that some shareholders are disappointed with this year's remuneration outcomes. The Board focuses on striking a balance between executive remuneration set at levels which are commensurate with the Company's performance and community expectations while also being sufficient to attract and retain the talent that is required for AGL's future success.

In the coming year we will continue to engage with shareholders and other stakeholders to find ways to further align our remuneration structure with company performance and to help drive long-term shareholder value.