2014 ANNUAL GENERAL MEETING
CHAIRMAN’S OPENING REMARKS

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.

Financial Results
Turning now to our financial results for 2014.

AGL's record statutory net profit after tax of $570 million was a record high for the Company.

However, as many of you know, we use underlying profit to more meaningfully track company performance. Underlying profit is calculated excluding significant items. Most importantly, it excludes the 'mark to market' impact of the large hedging positions held by AGL in the wholesale energy market. In the annual accounts the values of these positions are calculated at 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.

On this underlying basis, AGL's Net Profit After Tax for the year was $562 million, down 3.9% on the prior year.

There are a number of reasons for the slightly lower profit, but the most important was an overall reduction in demand for electricity and gas. This was due to a combination of an unusually mild winter in New South Wales and Victoria, ongoing energy efficiency measures adopted by consumers, rooftop solar installations and reductions in output from the manufacturing sector.

One consequence of the lower profit, together with a modest increase in the funds employed in the business, was that we made no headway this year in improving the returns on funds employed in the business. Our ratio of EBIT to Funds Employed was 10%, still below the level we seek to fairly compensate our shareholders for the level of risk in our industry.

Looking on the brighter side, AGL's energy business performed better than its peers, and recent trends suggest the rate of demand reduction seen in the last few years may be slowing.

Encouraged by the strong cashflow result, the Board decided to hold dividends at the same level as the prior year.

I would now like to cover three other matters.
Firstly, AGL’s recent acquisition of the Macquarie Generation assets in New South Wales.

Secondly AGL’s coal seam gas exploration and development activities in New South Wales.

Finally, I will say a few words about the retirement of AGL’s Managing Director, Michael Fraser, after 7 years at the helm.

**Macquarie Generation assets**
Firstly, the Macquarie Generation assets which AGL completed the acquisition of just a few weeks ago, at the start of September.

In approving AGL’s bid for these assets, the Board was mindful of the challenges facing electricity generators in Australia. Over the last few years falling demand for energy, coupled with a rapid uptake by many households of rooftop solar power, has seen an oversupply of electricity generation capacity in the National Electricity Market. This has resulted in a sustained period of low and flat wholesale prices for electricity.

However, the Board was satisfied that these factors were fully reflected in the price AGL paid to buy the assets. It’s no secret that when the New South Wales government first mooted the prospect of selling its generation assets, the price it then expected to receive for Macquarie Generation was substantially higher than the price it ultimately received from AGL. The Board was also satisfied that the price AGL was prepared to pay took into account a number of potential risks. For example, in our valuation model we assumed that one of the power stations, Liddell, would close in 2017 because of the possibility that one of Macquarie Generation’s major customers - the Tomago aluminium smelter – may close within that timeframe. But there is every chance that this won’t happen. The Tomago plant is one of the more cost efficient aluminium smelters around the world, while aluminium prices have been strengthening in global commodity markets. The weakening of the Australian dollar should also help. If the Tomago smelter remains open, then Liddell will continue to operate and will provide incremental profits to AGL over and above that assumed in our base case valuation for Macquarie Generation.

The acquisition of Macquarie Generation is also consistent with the strategy of vertical integration that AGL has pursued for several years. In New South Wales, our electricity customer base has rapidly increased from approximately 400,000 in 2012 to now number approximately 800,000. Macquarie Generation, as one of the lowest cost generators in the market, provides an effective hedge against the risk of unexpected increases in wholesale electricity prices, preserving our retail margins and our competitiveness in New South Wales. The scale of Macquarie Generation means that we can also better manage the wholesale electricity costs relating to our electricity customer base in Queensland.

The funding of the acquisition price was heavily skewed toward equity rather than debt to make sure that we preserved our investment grade credit rating. In approving the decision to ask our shareholders to provide us with more share capital, the Board insisted that all shareholders – large and small – be given
equal opportunity to participate. We were well aware that this was the second
time in little more than two years that we had asked our shareholders to support
the funding of a major transaction. We recognised that not all shareholders
would have the desire, or the financial capacity, to make a further investment in
the Company. So it was important that the equity raising was structured to
make sure that those shareholders who chose not to participate would be
compensated for the effect of any dilution of their proportional equity interest in
AGL. The Board is pleased that the renounceable rights entitlement offer
achieved these requirements. Approximately 95 percent of institutional
shareholdings and 70 percent of retail shareholdings accepted the offer and
agreed to subscribe for new AGL shares at a cost of $11.00 per share. Those
shareholders who did not want to accept the offer were able to realise cash by
either selling their rights on the market or waiting until the offer closed to
receive proceeds from the sale of their rights into a bookbuild process.

By now shareholders who sold their rights should have received these proceeds,
giving them the option, if they so choose, to reinvest in the company.

**NSW Gas Activities**
I would now like to spend a few minutes talking about gas. In particular, gas in
New South Wales.

Natural gas is an established feature of the lifestyle of average Australians.
More than 5 million households are now using natural gas. Natural gas is also a
crucial input for a very large number of businesses around the country. Around
30 percent of gas supplied in eastern Australia comes from coal seams. The
vast majority of known gas reserves in eastern Australia are to be found in coal
seams.

New South Wales is Australia’s most populous State. It also has the largest
economy in the country. This means that it is the State most reliant on natural
gas for the wellbeing of its citizens and its businesses. Yet New South Wales
only produces 5 percent of its own gas – which, by the way, is already from coal
seams. The remaining 95 percent of its gas needs have been imported from
other States. Historically, this has not been problematic. In the past, retail
sellers of gas, such as AGL, have been able to secure gas under very long term
contracts with gas producers in other States to buy large volumes of gas at what
are, by today’s standards, very low prices. But these contracts are coming to an
end. Within the next 3 years they will expire. The major producers are no longer
prepared to sell gas to energy retailers on the same terms as those that applied
in the past. Instead, massive volumes of gas are soon to be diverted to large
scale LNG projects in Queensland and shipped to Asian buyers at prices much
higher than the producers were previously getting from selling in the domestic
markets in Australia. This places New South Wales at great risk of being
materially short of gas from 2017. The consequences will be felt most directly in
the industrial sectors of the economy, although the flow on effects in terms of
higher prices and higher unemployment will be felt more broadly across the
State.

The solution to this problem lies within State control. New South Wales has
abundant supplies of natural gas, most of which is currently trapped within coal
seams lying deep underground across several parts of the State. While our own
industry could doubtless have done a better job of making the case for gas field
development, plentiful gas reserves in places close to Sydney have now been
quarantined because of recent changes in policy by the New South Wales
government brought about as a result of community campaigns against coal
seam gas extraction.

For AGL, our Gloucester Gas Project had already received regulatory approval
before the government announced its restrictions on new coal seam gas
projects. We are currently undertaking a pilot programme to hydraulically
fracture four wells which were drilled more than two years ago. The pilot
programme will meet the strict environmental conditions of our regulatory
approvals as well as giving us data about the quality and quantity of gas flows
from gas reserves near Gloucester, a few hours drive north of Sydney. We hope
that the pilot programme will provide us with enough confidence to commit to
the substantial investment of money to undertake larger scale activities which
could increase the level of gas self-sufficiency in New South Wales from its
current 5 percent to something closer to 20 percent. However, even our most
ambitious estimates do not foresee large quantities of gas from this project
being available until 2017. Even with gas from Gloucester, New South Wales will
continue to face materially higher gas prices unless additional projects also come
on stream.

Although we are now proceeding with the early stages of its development, and
have an increasing level of local support, we know that there are still people who
are opposed to our Gloucester project.

The opponents of the project have largely focused on three key issues:

- The effect of coal seam gas activities on the health of local residents and
  on the local environment;
- The effect of coal seam gas activities on water reserves, particularly water
  aquifers used for drinking water and irrigation of arable land; and
- The nature of our dealings with local landowners and the community more
generally.

Let me take each of these points one at a time.

Firstly, I can assure you that the health of local residents and the wellbeing of
the environment is a matter of paramount importance to the Board.

I mentioned earlier that only 5 percent of the gas in New South Wales is
produced in New South Wales. That gas, methane, comes from coal seams, and
is produced by AGL from its operations at Camden in Sydney’s west, side by side
horse studs, dairies, farms, and private residences. These operations have been
in place for more than 13 years. During that time, almost 150 wells have been
drilled at Camden, more than 100 of which have been hydraulically fractured,
with no evidence of any harm to local residents or to the local environment.
Although methane is odourless and non-toxic, a routine part of our operations is
to monitor for any leakages. We have invested in laboratory quality equipment
to regularly take air samples around the Camden gas project. We are using this
same technology to get baseline measurements at Gloucester so we can quickly
identify and respond to any changes.
I should also add that, in spite of the many alarmist claims, hydraulic fracturing has been around for a long time. It is not new to the industry and it is not new to AGL. When we do use hydraulic fracturing we use mostly water and sand. Other additives are similar to those used in a variety of household products such as detergents and salad dressing. We have never used the more exotic chemicals used overseas, even before they were banned by the New South Wales government. It is also worth noting that hydraulic fracturing has been used approximately 1.2 million times in the United States since 1947. In Australia, fracture stimulation of wells has been used safely for more than 40 years.

In relation to the Gloucester Gas Project, the Commonwealth and State government approvals in place include a requirement that we satisfy almost 100 operating conditions designed to make sure we protect the health of local residents and safeguard the local environment. We have employed many people with expertise and wide experience in drilling for coal seam gas to make sure we comply with all the operating conditions.

The Chief Scientist & Engineer has also recently undertaken an independent review of coal seam gas activities in New South Wales. Her final report was released late last month which sets the whole debate into sensible balance.

The report notes that the review drew on information from a large number of experts from around the world. It also consulted extensively with community groups, industry and government agencies.

The review concluded that the technical challenges and risks of coal seam gas extraction can be managed through various measures which include:

- High standards of engineering and professionalism in CSG companies;
- Comprehensive monitoring of CSG operations with ongoing scrutiny of the resulting data; and
- A well trained and certified workforce.

We welcome the additional recommendations proposed by the Chief Scientist. Our operations are already conducted at or beyond these recommendations so that we can be confident we are looking after local residents and the local environment.

The second concern is about protecting our water resources.

Water is a precious resource, especially in a continent as dry as Australia. Especially important are the shallow aquifers, those lying within 50 metres of the surface, because they provide the water for agriculture and for general community use. Water from the deeper aquifers is too salty for agricultural use unless it is blended or treated to reduce salinity levels. We need to make sure that water which is extracted from the deeper aquifers does not contaminate the shallow aquifers.

So let me tell you what we are doing to make sure we look after the water resource.
- We protect the aquifers during the drilling process. We do this by lining the hole we drill with multiple layers of steel which are cemented into place. The casing runs down from the top of the well, beyond all the shallow aquifers which provide drinking and irrigation water. This is designed to keep potable water separate from lower level aquifers, and to prevent gas that comes up the well from entering into the aquifers.
- Abandoned wells are plugged with concrete from just below the surface through to the bottom of the hole. This will prevent water from moving, up or down.
- We have in place a comprehensive water monitoring program. At Camden, we monitor at 15 locations. We have almost 50 water monitors in place at Gloucester. Water monitoring will be continuous at the Waukivory site where we are conducting a pilot drilling program. The data from all our water monitoring is publically available on our website.
- We have funded an independent environmental scientist who has been directly engaged by the Gloucester Shire Council to provide an additional layer of oversight.
- We are proposing to treat water extracted from coal seams at Gloucester using a reverse osmosis desalination facility to create a new freshwater resource for the community. The salt produced from this process is not toxic and will be disposed of in a licensed landfill site.
- We have our own team of expert hydrogeologists to supervise all our drilling activities for compliance with water safeguards.

Ladies and gentlemen, AGL is committed to looking after our water resource. I hope I have shown that we are taking the actions necessary to demonstrate that commitment.

The last concern relates to the support of the local community. It is important that the work we do is respectful of the interests of people living on or near to the land where we want to conduct our drilling and production activities. In relation to landowners, we want them to get fair financial compensation for any disruption our activities cause to them. We have in place land access agreements with more than 200 landholders in New South Wales. We have signed up to new land access principles which mean we will only conduct our activities on land if and when we have the agreement of the landowner. We make sure we leave the land in the same, or better, condition after we have finished with a gas well.

In relation to the broader community, I acknowledge that, on some matters, our industry was slow to respond to legitimate community concerns about our activities. We have tried to remedy this by doing a number of things. We now have in place bigger and dedicated local community relations teams who are available to readily provide information about what we are doing. We host regular community open days and visits to our operating sites. We provide financial and non-financial support to a great many community bodies.

While we still have to convince some people that AGL is one of the best companies to undertake gas exploration and production, the Board is pleased that there are encouraging signs that many more people are supportive of what we are doing and how we are doing it.
AGL's business and prospects
So to wrap up these remarks on our business, there are always plenty of armchair critics around when it comes to energy. Depending on your point of view you can criticise fossil fuels in general - or you can single out natural gas production as either being a vital transition fuel to a lower carbon world or as being a terrible threat to the environment. You can be strongly in favour of, or strongly opposed to, renewable energy projects. You can advocate deregulated markets to drive competitive behaviour, or you can advocate regulated markets to protect consumers.

Navigating amongst all these extreme views, AGL is in the business of creating competitive energy solutions for our 3.8 million customers in an environmentally responsible manner and seeking to earn a satisfactory return for you, our owners. Your company has been in the business for 177 years - you can be proud that today it is the largest private sector renewable energy producer in Australia as well as the largest and most competitive thermal energy supplier. We know there will be challenges and opportunities as energy markets evolve, and are well placed to deal with those.

CEO Retirement
AGL’s Managing Director and Chief Executive Officer, Michael Fraser, informed the Board earlier this year of his intention to retire by 30 June 2015. Over the term of his stewardship, Michael has made a significant contribution to your Company, taking the helm in 2007 at a time of uncertainty for the Company and later guiding it capably through the global financial crisis. He has overseen substantial growth in AGL’s business as well as a marked improvement in the quality of service we provide our customers. He will leave AGL in a strong financial position with the legacy of a highly engaged workforce, ready to meet the current industry challenges as well as take on the future opportunities that will characterise and reshape the industry.

On behalf of the Board, I would like to personally thank Michael for his contribution to the Company over more than 30 years, seven of them as CEO and Managing Director.

The Board has commenced a domestic and international search to find the right person to lead AGL. The search has covered a strong field of both internal and external candidates. On present indications we expect to announce the results of this process within the next month or so.

On behalf of the Board, I would like to thank Michael and all AGL employees for their hard work during 2014. I would also like to thank our shareholders for their continued support of the company.

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