2013 ANNUAL GENERAL MEETING
REMUNERATION REPORT

Good morning ladies and gentlemen.

AGL's Remuneration Report can be found commencing on page 64 of the Annual Report.

It sets out AGL's policy in respect of remuneration paid to the Board, the Managing Director and senior leaders and describes the elements of remuneration paid to the Managing Director and senior leaders, the links to Company and individual performance and the criteria used to assess performance.

It also explains how non-executive Directors' fees are determined within the aggregate limit approved by Shareholders.

Finally, it sets out the remuneration details for each Director and each of the specified executives.

The Corporations Act specifies that the resolution on the Remuneration Report is advisory only. This means that companies are not directly bound by the results of the shareholder vote on the resolution. It is also recognition that the Remuneration Report is a "backward looking" report which describes the remuneration practices actually adopted in the year just gone. However, that does not mean that the result on the vote is ignored. Far from it. The practical reality is that Boards pay very close attention to how shareholders vote on this resolution. More recent changes to the Corporations Act mean that all the company's Directors face the prospect of having to stand for re-election if there are two consecutive votes of at least 25 per cent against adoption of the Remuneration Report. Consequently, the Board will take the result of the resolution into account when making future changes to AGL's remuneration policies.

Consistent with the purposes of these provisions of the Corporations Act, a key objective of the AGL's remuneration policy is to align the remuneration paid to the Managing Director and senior executives with the interests of our shareholders. The Board thinks that AGL has achieved that objective.

AGL's Long Term Incentive Plan is one of very few among ASX listed companies to have an effective mechanism to reduce unvested entitlements if actual achievement against performance hurdles in later years is poor. In fact, under very weak performance circumstances, the company has to make up significant ground in the subsequent year before any new benefits can start to be earned. This was demonstrated two years ago when share performance rights previously banked in relation to the return on funds employed performance hurdle were entirely eliminated. For AGL's Executives this meant that AGL's return on funds employed had to make up all of the ground lost before new share performance rights were granted in relation to that performance hurdle.

The results this year show that the Long Term Incentive Plan is continuing to operate as intended to achieve full alignment of executive remuneration with the interests of our Shareholders.

The Plan rewards executives based on the results of two key performance measures. The first measure is total shareholder return. Over the course of 2013, the total returns for AGL shareholders was minus 1 per cent, with the value of dividends received during the year more than offset by a fall in the value of AGL shares. Consequently, executives received no new share rights in respect of this measure.

The second performance measure has been tied to improvement in the return on funds employed in the business. In 2013, the return on funds employed increased by 11.4 per cent - from 11.6 per cent to 12.9 per cent.

As a result, share performance rights allocated to executives in respect of this measure increased compared with previous years. There has been recent comment in the media that executives have unfairly benefited from this measure as the calculation of return on shareholder funds under the Plan was calculated using profit before significant losses, not profit after significant losses.

It should be pointed out that this method of calculation has been widely communicated and consistently applied during the four year life of the Plan. It is important to note that it is also a two-way street. In years when there have been extraordinary profits treated as significant items, these have also been excluded from the calculation, to the detriment of executives.

Furthermore it should be noted that the short-term incentives received this year by the Managing Director and several executive team members were in fact materially reduced by some of these significant items.

In the time since this measure was introduced in 2010, the return on funds has increased by almost 20 per cent. This is an excellent outcome, which has benefitted all shareholders. The Board believes that the Long Term Incentive Plan has been instrumental in delivering this result, with executive management sharing appropriately in some of the shareholder value created as a consequence of the improved performance.

In the Annual Report, the Chairman indicated that the primary purpose of this performance measure had now been accomplished. The nature of a return on funds employed measure is that it cannot continue to grow indefinitely without taking increasing levels of risk. There is also the risk that projects which add shareholder value would not be undertaken simply because they would not increase an already high return on funds employed. For these reasons, the Board has agreed to adopt a new measure to replace the return on funds employed measure with effect from this financial year.

Whilst retaining the absolute TSR measure, instead of the second measure being return on funds employed we will substitute relative TSR. That is, Executives will now be rewarded based on how returns for AGL's shareholders compare with the returns enjoyed by shareholders of other top 100 companies listed on the Australian Securities Exchange. The mechanism to reduce unvested benefits if there is a subsequent deterioration in performance will also apply to this performance measure.

The Board believes that the combination of the two measures, absolute TSR and relative TSR, will continue to incentivise executive management to produce superior financial and operating results on a sustainable basis. The change in one of the measures also means that none of the calculations of performance under the plan will be reliant on accounting based measures, which removes a potential source of contention such as we saw this year.

Finally, you will also note that, in recognition of the very challenging market conditions at present, neither the directors nor the senior management will receive any increase in fixed pay this financial year.

I commend the Remuneration Report to shareholders.