

## **2014 ANNUAL GENERAL MEETING REMUNERATION REPORT**

### **Les Hosking (Chair - People & Performance Committee)**

Good morning ladies and gentlemen.

AGL's Remuneration Report commences on page 53 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. 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 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. In further support of that objective, the Board takes independent advice from a specialist remuneration consultant.

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.

The Plan rewards executives based on the results of two key performance measures. The first measure is total shareholder return. This measures the returns enjoyed by shareholders in the form of dividends and increases in AGL's share price. Over the course of 2014, the total returns for AGL shareholders was 11.8 per cent. Consequently, executives received a full entitlement of share rights in respect of this measure.

The second performance measure is relative total shareholder return. This is the first year this measure has applied, having been introduced to replace the

previous performance measure – Return on Funds Employed. Under this measure, Executives are 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. This year, the total returns enjoyed by AGL’s shareholders ranked only in the 35<sup>th</sup> percentile, below the threshold of the 40<sup>th</sup> percentile before SPRs are awarded to Executives. Consequently, Executives received no share rights this year in relation to that measure. Further, they have no opening balance in their notional bank account.

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.

I commend the Remuneration Report to shareholders.

**END**