AGL Energy Limited
ABN: 74 115 061 375

Locked Bag 1837
St Leonards NSW 2065
AUSTRALIA

Level 22, 101 Miller St
North Sydney NSW 2060
AUSTRALIA

T: +61 2 9921 2999
F: +61 2 9921 2552
www.agl.com.au

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ASX & Media Release

AGL 2015 Shareholder Update

24 September 2015

AGL Energy Limited advises that it has today commenced mailing the attached 2015 Shareholder Update to Shareholders.

Further inquiries:

Investors

Nicole Rizgalla, Investor Relations Manager
Direct: +61 2 9921 2691
Mobile: +61 (0) 400 488 836
email: nrizgalla@agl.com.au

Media

Kathryn Lamond, Media Manager
Direct: +61 2 9921 2170
Mobile: +61 (0) 424 465 464
e-mail: klamond@agl.com.au

About AGL

AGL is one of Australia's leading integrated renewable energy companies and is taking action to gradually reduce its greenhouse gas emissions while providing secure and affordable energy to its customers. Drawing on over 175 years of experience, AGL serves its customers throughout eastern Australia with their energy requirements, including gas, electricity, solar PV and related products and services. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, solar, landfill gas and biomass.

2015 Shareholder Update

Full Year ended
30 June 2015

Energy in action.®

Since 1837

AGL

"AGL has significant growth opportunities both in its core retail business and in new closely-related businesses as new energy technologies become more competitive and economical."

ANDY VESEY

As AGL's CEO & Managing Director I'd like to welcome you to this update of recent events at your company.

Strategic Update

On 26 May 2015, I announced a strategic roadmap to improve return on funds employed and deliver sustainable earnings growth and reposition our business to harness insights to enrich the customer's energy experience. The strategic roadmap builds on AGL's strengths and recognises the opportunities and challenges in the existing business and as the energy industry evolves. The plan will increase business productivity, drive retail profit and position AGL for success as the energy industry transforms. It recognises that an organisational transformation will be required, including the creation of an anticipatory culture and commitment to transitioning to a carbon constrained future.

In order to improve capital allocation, AGL is conducting a thorough review of its asset portfolio and targeting around $1 billion in non-strategic and under-performing asset divestments by the end of FY17. Working capital reductions of around $200 million are also targeted within this timeframe.

We will drive an improvement in operational efficiency, targeting a reduction of around $170 million in our operating cost base and around $100 million reduction in sustaining capital expenditure by FY17. AGL has committed to achieving below-CPI cost increases in electricity generation over FY16 and FY17.

Total recurring cash benefit targeted by FY17 is around $200 million after netting potential increases to power purchase agreement costs linked to some asset divestments.

AGL has significant growth opportunities both in its core retail business and in new closely-related businesses as new energy technologies become more competitive and economical. We have established a New Energy Group to embrace the major changes transforming the energy industry and to create new business models to meet customers' needs.

Our intention is to create one million 'smart' connections to consumers and businesses by 2020 by becoming one of the leading providers of metering services, rooftop solar, commercial energy services, energy storage and electric vehicle services.

Upstream Gas Review

Following a comprehensive review of the Upstream Gas business in July 2015, I announced that AGL would focus on core gas projects and divest non-core and under-performing gas assets and activities.

Core projects to be retained include the Camden Gas Project, Gloucester Gas Project, Silver Springs underground storage facility, Wallumbilla Liquefied Petroleum Gas plant and the recently opened Newcastle Gas Storage Facility. These assets enhance AGL's flexibility in managing its gas portfolio.

AGL also confirmed that it would not proceed with the proposed Camden Northern Expansion Project which has been on hold since February 2013.

The Gloucester Gas Project has the potential to assist AGL to secure competitively priced gas for our NSW customers. Flow testing of the four Waukivory pilot wells will occur over the next six months. This is an important step toward reaching a final investment decision, expected in 2016.

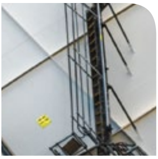
The Moranbah assets comprise AGL's 50% interest in the Moranbah Gas Project, back-in rights in the wider Bowen Basin (ATP 1103P) and the North Queensland Energy (NQE) business. NQE includes the Yabulu Power Station power purchase agreement (PPA) and associated gas supply agreement (GSA) and gas transportation agreement (GTA).

For the past 18 months, the Moranbah assets have been designated as "held for sale". To date, the sale process has not identified a buyer.

Historically the Moranbah assets had been valued collectively. A review of the assets has concluded that the NQE business should now be valued separately to recognise that lower than expected gas volumes are not generating sufficient revenue to cover the fixed costs associated with the Yabulu PPA and associated GTA.

The Upstream Gas review has resulted in a pre-tax loss of $603 million ($435 million after tax) which was included as a Significant Item in the FY15 results.

The recently opened Newcastle Gas Storage Facility



Greenhouse Gas Policy

On 17 April 2015, I released AGL's new Greenhouse Gas Policy which provides a pathway to decarbonisation of our electricity generation by 2050.

Currently 88 percent of Australia's electricity generation comes from fossil fuels.

AGL recognised that it has a key role to play in reducing greenhouse gas (GHG) emissions while providing secure and affordable electricity for over 3.7 million Australian households and businesses. Already AGL is the nation's largest privately owned renewable energy investor and we will continue to invest in low-emissions technologies to reduce the emissions intensity of Australia's electricity supply.

To support the Commonwealth Government's commitment to work towards the two degree goal[3], companies such as AGL need to take the lead.

The electricity sector is currently over-supplied with more generation than is required. It is important that government policy incentivise investment in lower-emitting technology while at the same time ensuring that older, less efficient and reliable power stations are removed from Australia's energy mix to make room for more renewable generation.

Some of the key commitments in our GHG Policy are that AGL will:

- Continue to provide the market with safe, reliable, affordable and sustainable energy options
- Not build, finance or acquire new conventional coal-fired power stations in Australia (i.e. without carbon capture and storage)[4]
- Not extend the operating life of any of its existing coal-fired power stations
- Close, by 2050, all existing coal-fired power stations in its portfolio
- Continue to invest in new renewable and near-zero emission technologies
- Make available innovative and cost-effective solutions for its customers, such as distributed renewable generation, battery storage and demand management solutions

As a consequence of this policy we have committed to closing our Liddell Power Station (2,000 MW) in the Hunter Valley in 2022.

AGL remains committed to working with its stakeholders in government and the community in moving towards a lower carbon future.

3. The Commonwealth Government has committed to work towards a global agreement that limits global warming to less than 2° C above pre-industrial levels.

4. The term conventional is used to refer to coal-fired power plants that have a higher lifecycle emissions intensity than a combined cycle gas turbine (CCGT).

2015 AGM

This year's AGM will be held at the Melbourne Recital Hall at 10.30am on 30 September 2015.

One of the resolutions on the agenda has been proposed by the Australasian Centre for Corporate Responsibility (ACCR) to alter the company's constitution. It is disappointing in light of AGL's leading greenhouse gas policy, commitment to close the Liddell Power Station and engagement with the ACCR that they have proceeded with this resolution.

Decarbonisation of Australia's electricity generation is critical but it is essential that there is an orderly transition to achieve this.

Our Notice of Meeting explains why directors are recommending shareholders vote against this resolution.

Dividend Reinvestment Plan changes

Commencing with the FY16 interim dividend, the Dividend Reinvestment Plan (DRP) is being amended so that any residual balances are carried forward to the following dividend issue instead of being rounded-up to the next whole share. A copy of the Terms and Conditions of the DRP is available on our website and has also been sent to existing DRP participants.

Earnings guidance

AGL will provide formal guidance of its FY16 earnings outlook at its Annual General Meeting on 30 September 2015.

Summary

It is an exciting but also challenging time for AGL. The structure of the entire electricity industry will be dramatically altered over the next decade and it is imperative that we position ourselves to embrace this future. The development of an anticipatory culture will prepare us for this uncertain environment.

Given AGL's strong cash flow and sound balance sheet, we are well positioned to take advantage of the opportunities that present themselves to deliver continued profitable growth.

The primary objective of the directors, myself and the entire management team is improve shareholder returns at the same time as transforming your company.

I look forward to your continuing association with this great Australian company.

Andy Vesey
Managing Director & CEO

FY15 Financial Results

On 12 August 2015, we reported the FY15 results which saw AGL's Underlying Profit[1,2], increase by 12.1% to $630 million. The Macquarie Generation acquisition which completed in early September 2014, has been a major driver of the significant improvement in profit and operational cash flow and more than offset the effect of removal of the carbon tax.

A final dividend of 34.0 cents per share was declared which brings the total dividend for the year to 64.0 cents, fully franked. The statutory net profit after tax for FY15 was down 61.8% on FY14 largely due to higher Significant Items in the current financial year. Significant Items of $578 million which included costs associated with the Macquarie Generation acquisition of $117 million and a $435 million impairment of Upstream Gas assets.

Revenue

$10,678M

2.2%↑

Statutory NPAT

$218M

61.8%↓

Underlying Profit After Tax

$630M

12.1%↑

Statutory EPS

33.3 CPS

66.1%↓

FY15 Dividends

64.0 CPS

1.0 cps↑

Underlying EPS

96.4 CPS

0.5 %↓

Underlying Operating Cash Flow Before Interest & Tax

$1,527M

$378M↑

1. Underlying Profit has been presented with reference to the Australian Securities and Investment Commission Regulatory Guide 230 "Disclosing non-IFRS financial information" issued in December 2011. AGL's policy for reporting Underlying Profit is consistent with this guidance. The Directors have had the consistency of the application of the policy reviewed by AGL's external auditors.
2. Underlying Profit is the statutory net profit after tax adjusted for Significant Items and changes in the fair value of certain energy derivatives.

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