## 2015 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.

**2015 Financial Results**

Turning now to our financial results for 2015.

AGL's statutory net profit after tax was $218 million. This was a reduction of 62 percent on last year's result. As we note in the Annual Report, this was due mainly to the effect of significant items, including impairments to the carrying values of several of our Upstream Gas assets, and transactions costs associated with the acquisition of the Macquarie Generation power stations.

For many years, AGL has used underlying profit to more meaningfully track company performance. Underlying profit is calculated excluding significant items and the 'mark to market' impact of the large hedging positions held by AGL in the wholesale energy market.

In relation to our electricity hedging positions, the accounting values of these are calculated at a point in time on 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. We remain firmly of the view that, whilst required by accounting standards, these entries should be ignored when assessing Company performance.

Impairments of some of the Company's gas assets is however more notable. There were a variety of factors contributing to these negative revaluations. A material factor was the reduction in global oil and gas prices that has affected many companies including AGL. Secondly there were adjustments to reserves calculations at Gloucester in New South Wales due to the effect of planning constraints and to more recent technical analysis. Lastly at Moranbah, in Queensland, a joint venture gas field where AGL is not the operator has consistently failed to meet its production targets, which in turn has led to a shortage of gas at the gas-fired Yabulu Power Station near Townsville, which reduced the value of AGL's interests there.

The only other material significant item in the accounts was the acquisition costs for Macquarie Generation, which can no longer be capitalised under accounting standards and so were expensed. Naturally these were expected, and their economic impact fully included in the investment case for Macquarie.

Whilst this year's adjustment in the carrying value of the gas assets was disappointing it is worth noting that, taken as a whole, AGL's upstream gas investments have created, and continue to create, significant net shareholder value. This value includes the profits realised in prior years from the sales of our former gas interests in Papua New Guinea and shareholding in QGC, as well as the ongoing benefits of low priced gas purchase contracts also stemming from the former QGC investment.

Going back to the underlying profit, AGL's Net Profit After Tax for the year was $630 million, up 12.1% on last year. The main reason for the increase was the contribution from the Macquarie Generation assets, which AGL acquired in September last year, and higher sales of gas to large industrial customers in Queensland. The Board considers that this is a good result for the year, especially considering that the repeal of the carbon tax from 1 July 2014 had the effect of reducing earnings by almost $120 million compared with 2014.

The Board is delighted that the Macquarie Generation assets are performing well, with production and earnings both above those assumed when the acquisition was approved. To partly fund the acquisition, AGL raised additional share capital under a renounceable rights entitlement offer that was very well supported by our shareholders. The new share capital, coupled with the strong cash flow from the business over the year, has put AGL in a strong financial position. Shareholders have already seen an uplift in their investment. Encouraged by the strong cash flow result, the Board decided to increase the dividend paid to shareholders.

AGL’s stronger cash generation performance and recently articulated cost reduction targets have prompted some speculation that the Board may soon consider so-called capital management options. In other words that AGL may consider returning capital to shareholders or paying higher dividends. Whilst the prospect of generating cash surplus to foreseeable requirements is encouraging, the Board considers that it is premature to encourage any such speculation. Firstly we have to deliver on the forecasts. We also have to maintain a strong balance sheet and a strong credit rating to fund investment in attractive growth projects. If and when that is achieved, we will carefully weigh up all the options available to maximise the value of the company.

By now, you should all have received the fully franked final dividend of 34 cents a share paid on 24 September 2015. When this is added to the interim dividend of 30 cents, the total dividend for the year was 64 cents, fully franked. This was paid on the increased number of shares and is an increase of one cent on last year’s dividend. I also note that as a result of shareholder suggestions raised at last year’s AGM we have brought forward the payment schedule for dividends by two weeks at the interim and by one week for the final payment.

**Power Generation assets**

Another matter I would like to cover at this stage concerns the ramifications of AGL’s change in generation mix over the past few years.

Those of you who have owned AGL shares for some time will recall that during the last decade AGL has been the largest private sector developer of large-scale renewable energy projects in Australia. Mainly this has been in the form of wind-powered generators, although more recently we have also built two very large solar farms in western New South Wales. One of these – at Nyngan – is already operational. The other – at Broken Hill – is due to be commissioned soon. However, the rate at which we have committed to further investments of this type has slowed dramatically, in line with other investors, as political uncertainty surrounding the Federal Renewable Target became acute.

Also in the past few years, AGL has purchased two large base load generating businesses - the Loy Yang A plant here in Victoria, and the Bayswater and Liddell plants of Macquarie Generation in the Hunter Valley in New South Wales. Both these businesses were acquired on attractive terms for AGL shareholders, and are producing significant profits and cash flow. Your company now has the largest generation capacity in the National Electricity Market, and the lowest cost generating position in Australia's two biggest States. With these two businesses we inherited their substantial $CO_2$ emission profiles and increased our own carbon intensity, although I note there was of course no change to the national carbon intensity as these generators have been in business for many years. I should also add that Bayswater and Loy Yang are the lowest emitters amongst their respective black and brown coal peers in Australia, and the actual or potential economic cost of the emission profile was fully considered when assessing the shareholder value potential of each acquisition.

We are now asked regularly how this higher $CO_2$ emission profile fits with our renewable generation position, and how we reconcile it with societal expectations that action needs to be taken to deal with the link between carbon dioxide emissions and potential climate change.

It is a complex topic but I will summarise it as follows.

Firstly, AGL has clarified its greenhouse gas policy by explicitly supporting global action to progressively transition away from fossil fuel generation. Amongst other commitments, we have set out our intention not to construct further coal-fired generators in the absence of technology such as carbon capture and sequestration. Given our base load generation capacity is now adequate to meet our needs we will not acquire any further coal fired plants, nor will we extend the technical lives of our existing coal fired generators.

Secondly, whilst we hold the view that the need for a purposeful plan to decarbonise Australia's power generation is clear, this requires the introduction of a coherent national plan and support of relevant government policies, and realistically will take several decades if we are to avoid immense and unaffordable cost impacts on Australian consumers and the economy.

Thirdly, from an AGL shareholder's perspective, the profits and cash flow from the these coal powered generators will enable us to continue to invest in renewable assets if and when the investment climate improves, as well as, for example, funding investment in new digital technology and energy storage products which will soon become a more significant feature in many Australian households.

Overall AGL is committed to working with policy makers, and playing a proactive part in enabling Australia to meet its carbon reduction targets, consistent with the objective of limiting human induced climate change impacts to warming levels of less than 2 degrees celsius. We are acting to do so whilst taking care of our obligations to our shareholders, and whilst providing a secure, reliable and affordable supply of electricity and gas to our 3.8 million customers.

The formal business of this meeting includes consideration of a resolution to amend AGL's Constitution to impose certain obligations on the Company in pursuit of climate change limitation goals.

Whilst we may be supportive of the intent, the Notice of Meeting sets out the Board's detailed reasons for recommending that shareholders not support this resolution. I will speak more about that when we come to that item of business later in the meeting.

**New Chief Executive Officer**

Finally, the other major change for AGL this year has been the appointment of a new Chief Executive Officer. Andy Vesey joined AGL in January and took over as CEO in February after the half-year results. As we note in the Annual Report, he has already made a number of changes to the Company's strategic framework, financial objectives and organisational design. He has also set a number of challenges for the year ahead. He brings to AGL very broad experience from a number of countries and in most parts of the energy value chain, and is intent on taking the performance of your Company to a higher level. In particular we need to lift the Company's level of return on equity to one more commensurate with the business risk we take in the unregulated part of Australia's energy sector.

Before I introduce him to you, I would like to thank my colleagues on the Board and all AGL employees for their hard work during 2015. I would also like to thank all of you, our shareholders, for your continued support of the Company.

It is now my pleasure to invite Andy Vesey, our Managing Director and CEO, to say more about AGL's financial and operating performance, and about our earnings expectations for 2016.

**END**