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ASX & Media Release

2020 Annual General Meeting

7 October 2020

AGL Energy Limited is holding its 2020 Annual General Meeting (AGM) today.

Attached are copies of the addresses to be given at the AGM by AGL's:

- Chairman;
- Managing Director & CEO; and
- Chair of People & Performance Committee.

Authorised for release by AGL's Board of Directors.

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About AGL

Proudly Australian for more than 180 years, AGL supplies energy and other services to more than 3.8 million customer accounts. We're committed to making energy, alongside other essential services, simple, fair and transparent. AGL operates the largest electricity portfolio in the National Electricity Market made up of traditional coal and gas-fired generation, and renewables such as wind, hydro and solar. We also operate gas storage and production assets. We're focussed on developing flexible supply, building on our history as Australia's leading private investor in renewable energy, to support the transition to a new energy system. We have a passionate belief in progress and a relentless determination to make things better for our communities, customers, the Australian economy and our planet.

2020 ANNUAL GENERAL MEETING
CHAIRMAN'S ADDRESS

Good morning Ladies and Gentlemen.

My name is Graeme Hunt and I am your Chairman.

Welcome to AGL's 2020 Annual General Meeting. The health and safety of our people, Shareholders and the communities in which we operate is of paramount importance to AGL. That is why, in light of the potential health risks created by the COVID-19 pandemic, we decided it was prudent not to hold the meeting in a physical location this year. We are, therefore, conducting this years' Annual General Meeting in a virtual format.

There are several matters I need to mention with the format of our meeting being different from that of previous years. Every effort has been made to ensure that the meeting runs smoothly. However, if you encounter any technical issues which preclude you from attending the meeting live, a recording and transcript of the meeting will be available on our website after the meeting.

Shareholders have the opportunity to ask questions in this virtual meeting format. If you are a shareholder or proxy, attorney or representative of a shareholder and wish to ask a question about an item of business, please click the icon "Ask a Question" on your screen and click "Submit Question" once you have typed your question.

If you have a question already prepared, please submit it now on the platform so that I can answer as many questions as possible when I come to the relevant agenda item. You do not need to wait until the relevant item of business. I ask that you please keep your questions brief so that as many shareholders as possible have an opportunity to ask a question.

Questions sent via the online meeting platform will be moderated to avoid repetition, and if questions are particularly lengthy, we may need to summarise them in the interests of time. To assist with the smooth running of the meeting, James Hall, General Manager, Corporate Finance, will read out the name of the shareholder and their question. We will give all shareholders present a reasonable opportunity to ask questions, but it is possible that not all questions will be answered today.

A number of shareholders also submitted questions in advance of the meeting. Individual responses have been sent to those shareholders ahead of the meeting. We will also address the key themes raised in my address and in the Managing Director and CEO's address.

I now confirm that a quorum is present and I declare the meeting open.

I would like to start the meeting by acknowledging the traditional owners of the land on which I am chairing this meeting from today, the Wurundjeri people, and pay our respects to their elders past, present and emerging. Directors and shareholders listening in are doing so from other ancestral lands, and I also pay my respects to the traditional owners of those lands and their elders past and present.

I will now explain the running order for today's meeting.

In a moment, I will make a few remarks about the results for the 2020 financial year, and about other topical matters. Then, Brett Redman, AGL's Managing Director and CEO, will speak. We will then attend to the formal business of the meeting.

As I mentioned, shareholders may vote and submit questions about each item of business using the online platform. All resolutions to be put to the meeting today will be decided on a poll. I now declare the poll open.

In order to cast your vote, please click the “Get a Voting Card” icon on your screen. Then enter your Shareholder Number (that is your SRN or HIN) or Proxy Number and click “Submit Details and Vote”. Please complete your voting card for each item of business and then click “Submit Vote or “Submit Partial Vote” as appropriate.

I would now like to introduce my fellow Directors who are joining us today via the online platform.

They are: Les Hosking, John Stanhope, Jacqueline Hey, Patricia McKenzie, Peter Botten, Diane Smith-Gander, Mark Bloom and our Managing Director and CEO, Brett Redman.

Also attending this meeting today is our Company Secretary, John Fitzgerald, and Chief Financial Officer, Damien Nicks as well as the other members of the Executive Team.

AGL’s external auditors, Deloitte, are also attending this meeting. The senior audit partner, Jason Thorne, is available to answer any relevant questions you may wish to ask later in the meeting and I thank him for attending today.

As we begin, let me acknowledge the extraordinary challenges faced by the Australian people since the 2019 AGM. This includes the impacts of widespread and severe drought, followed by devastating bushfires and the health and economic effects of the COVID-19 pandemic, which have been extreme and are continuing.

Mindful of AGL’s role as an essential service provider, I am proud of the way AGL has, and is continuing, to respond to these challenges. AGL has acted quickly to ensure that we keep the lights on and the gas flowing for our customers while providing carefully targeted financial support to our affected customers, employees and communities.

I am particularly proud of the way AGL and our people responded during the COVID-19 pandemic, including by adopting new ways of working with a large proportion of the workforce pivoting to remote working while a number of AGL's people at generation sites continue to work with additional health and safety measures in place so that there is no disruption to customer experience and AGL's operations.

We also recognise the financial stress that our customers are facing as a result of these challenges, and AGL continues to provide ongoing payment support options to customers who cannot pay their bills because they have lost their job or business, or because their health has been impacted by the pandemic.

Amid this environment, I am pleased to say that AGL remains in a robust financial position. We retain the financial strength that is needed to ensure that our generation portfolio keeps the lights on for Australians. I will now discuss our results for the 2020 financial year.

AGL's statutory profit after tax was 1,015 million dollars. This compares with 905 million dollars in the 2019 financial year. The increase in statutory profit after tax in the 2020 financial year was a result of a positive non-cash movement in the fair value of financial instruments.

Given the volatility of these non-cash fair value movements every year, AGL regards Underlying Profit as the more useful measure of company performance. Underlying Profit is calculated by excluding significant items and the 'mark to market' impact of fair value movements.

Underlying Profit after tax for the 2020 financial year was 816 million dollars, down 22 per cent on the previous year, but in line with the guidance range we provided in August 2019. The main drivers of the decrease in profit were the unplanned outage at Loy Yang in the first half of the year, reduction in gas sales volumes, lower wholesale electricity and large-scale generation certificate prices, and increased depreciation and amortisation expense.

The final dividend of 51 cents per share (which was 80 per cent franked) was paid on 25 September 2020. When added to the interim dividend of 47 cents per share, the total dividend for the 2020 financial year was 98 cents per share, franked at 80 per cent.

AGL's cash flow and financial position remain strong, with net cash flow from operating activities after interest and tax up 35 per cent to 2,156 million dollars during the period. This strong cash flow enabled us to undertake a 622 million dollar on-market share buy-back in the 12 months to August 2020 and to announce our intention to pay special dividends in FY21 and FY22. We are not proposing to pay franked dividends during this period while we utilise historic tax losses. The special dividend program will in effect increase our target dividend payout ratio to 100% of Underlying Profit after tax during this period, helping to offset the impact of the loss of franking. Both ordinary dividends and special dividends will remain subject to Board discretion, trading conditions and the ongoing funding and liquidity requirements of our business.

Today we confirm the earnings outlook for the 2021 financial year as being within the range of 560 million dollars to 660 million dollars provided as part of the FY20 results in August. This guidance represents a material reduction on FY20, reflecting the operating and market headwinds that our company is facing, with reduced gross margin in wholesale gas and wholesale electricity; further increases in depreciation expense from recent investment in plant, systems and growth; and COVID-19 cost challenges. Brett will talk more about the detail of the outlook shortly. As mentioned earlier, cash flow and liquidity remain strong and we have material headroom to fund investment and further capital market initiatives.

Our strategy remains focused on Growth, Transformation and Social Licence.
Consistent with this strategy, AGL published a new Climate Statement earlier this year setting out our target to achieve net zero emissions by 2050. Our Climate Statement includes five key commitments to help manage carbon risk and reach this target. They are:

- offering customers the option of carbon neutral prices across all our products;
- supporting the evolution of Australia’s voluntary carbon markets;
- continuing to invest in new sources of electricity supply;
- responsibly transitioning our energy portfolio; and
- being transparent.

In the past year, we have also continued to execute on our growth strategy. In September 2019, AGL acquired Perth Energy, an integrated energy company operating in Western Australia, which expanded our position in Western Australia.

In December 2019, we acquired Southern Phone Company, providing a foundation for AGL’s future broadband and mobile offerings. We are continuing to grow our customer base while supporting our customers through challenging times by delivering better service and simplified products.

We have made good progress on our growth strategy this year, including through the acquisition of Click Energy, which completed on 30 September 2020, but recognise that there is more to be done and so, this year, AGL has set a number of long term growth targets as we quantify our vision for the future.

I would also like to take a few moments to outline the changes to the Board since the 2019 AGM.

In July 2020, Mark Bloom joined the Board, bringing over 35 years’ experience as a finance executive. You will have the opportunity to hear a little more about Mark later when considering his election.

Peter Botten will retire by rotation at the end of the meeting and is standing for re-election at today’s meeting.

At the conclusion of the AGM, Les Hosking will retire from the Board. On behalf of the Board, I would like to thank Les for over 10 years of invaluable service.

As a Board, we will continue to focus on ensuring that we have the appropriate mix of skills, experience and diversity to guide your company through the challenges of the present and the opportunities of the future.

I will now speak briefly about two resolutions that we received from a small group of Shareholders for consideration at the AGM. These are items 7a and 7b in the Notice of Meeting.

The Board respects the right of Shareholders to put forward resolutions. However, the Board does not consider these resolutions to be in the best interests of AGL, for the reasons detailed in the Notice of Meeting, and the Board recommends that Shareholders vote against these items.

Item 7b is contingent on the outcome of Item 7a, being the special resolution to amend AGL's Constitution.

Based on the proxy and direct votes received ahead of the meeting, and the number of votes that I have been informed are represented at this meeting today, Item 7a will not receive sufficient support from Shareholders to be passed and therefore, as advised to Shareholders in the Notice of Meeting, Item 7b will not be put to the meeting. However, we will give Shareholders an opportunity to ask questions about these resolutions later in the meeting.

I want to assure Shareholders that AGL takes the matters raised in the shareholders' resolutions Items 7a and 7b very seriously and they are matters that the Board continues to monitor closely.

AGL is Australia's largest integrated electricity generator and retailer, as well as a major investor in renewable energy. AGL is also Australia's largest carbon emitter, and therefore, we recognise that AGL must continue to evolve, innovate and adapt in order to continue to serve millions of Australian households and businesses.

AGL has been publishing reports under the Taskforce for Climate-related Financial Disclosure (TCFD) framework since 2018. We consider the TCFD framework is useful because it recognises that the exact path of decarbonisation is unknown and enables companies to use scenario analysis to consider the potential impacts upon its business of a number of possible futures.

In 2020, AGL extended its TCFD scenario analysis to 2050 and modelled four scenarios, including one (“Scenario A”) that reflected current policy settings and closure schedules in Australia and one (“Scenario D”) in which concerted action on climate change occurred to limit global temperature increases to no more than 1.5 degrees Celsius above pre-industrial levels. This analysis demonstrated that AGL’s business was resilient to all scenarios, with many opportunities present, but that earlier closure of the AGL Loy Yang power station would be required in Scenario D than in all other scenarios modelled.

Resolution 7(b) requests AGL to commit to the earlier closure timetable modelled in Scenario D. This request is not consistent with the purpose of scenario analysis, which is to recognise that the future is uncertain, and to model a business’ resilience to that uncertainty. It is not the objective of scenario analysis, nor AGL’s policy, to commit unilaterally to outcomes of particular scenarios. This is especially the case when moving toward that scenario requires concerted and collaborative efforts across industry, regulators and society as a whole.

In AGL's 2015 Greenhouse Gas Policy, AGL committed to not extend the life of its coal-fired power plants. AGL’s coal-fired power stations at Bayswater and Loy Yang A ensure energy reliability and security and provide AGL with the financial strength to progress the energy transition. AGL remains committed to not extending the life of these coal fired power stations and closing them no later than 2035 and 2048 respectively.

As these assets age and reach the end of their technical life, AGL will continue to run them responsibly and safely to supply affordable and reliable electricity to its customers. AGL will also support our people and local communities through change and remain flexible to how customers, community and technology shape the pace of the energy transition.

However, AGL does not consider that it is in the best interests of shareholders or other stakeholders for AGL to make firm commitments at this time to phase out coal power generation earlier than the existing planned closure dates. Rather, it is in the best interests of shareholders for AGL to focus on delivering its commitments made in the Climate Statement and to continue to work constructively with industry, regulators and government on delivering orderly transition to a decarbonised energy system.

AGL will continue to evolve the scenario analysis it undertakes each year in relation to carbon risk and to engage with relevant stakeholders and keep shareholders fully informed.

I also wish to make some comments on the second item on today's agenda, the Remuneration Report. The Chair of the Board's People & Performance Committee, Diane Smith-Gander, will speak to the Remuneration Report in more detail shortly, but I wanted to acknowledge the concerns raised by some proxy advisors and shareholders, which has resulted in a number of shareholders voting against the approval of the report and the granting of Long-Term Incentive rights to the CEO. This will mean we will incur a first strike against the Remuneration Report.

I want to assure you that your Board takes the feedback it receives on AGL's remuneration practices seriously. We devote significant time to striking the right balance between setting remuneration for executives at levels commensurate with the company's performance and community expectations, while also being sufficient to attract and retain talent. In keeping with this approach, last year we made a number of changes to our remuneration framework to reflect this principle – including extending the vesting periods on incentive schemes.

However, given the concerns expressed this year, we will engage with shareholders over the coming year to fully understand your views and we will review our remuneration structure and consider opportunities to further align the structure with company performance and long-term shareholder value.

In summary, it has been another year of resilient performance for AGL amid significant external challenges. The 2021 Financial Year will be significantly more challenging with a materially lower earnings outlook. Despite these challenges, your Board is confident that the appropriate strategy is in place, supported by a strong company culture and capable management team, to drive the right outcomes for customers and the community and continued value creation for our Shareholders over the long-term.

It is now my pleasure to invite Brett Redman, your CEO, to address you. Following Brett’s address, we will move to the formal business of the meeting.

MANAGING DIRECTOR & CEO'S ADDRESS

Thank you, Graeme, and good morning everyone.

It is a pleasure to be here, albeit in unusual circumstances, after what has been an extraordinary year. I want to take this opportunity to thank you for your ongoing support.

The Chairman has provided a summary of our FY20 results, and some highlights in terms of capital management and the execution of our strategy, as well as confirmed our guidance for FY21. I will provide more detail regarding our operational performance, strategy and outlook.

But first, let me start with safety. Any injury to any person on an AGL site is not acceptable and there is always more to do. Nonetheless, this year, our Total Injury Frequency Rate decreased to 3.1 per million hours worked. Injury severity also decreased, while our reporting of near misses – that is, incidents that in other circumstances may have led to an injury – continued to improve.

Another key focus area of mine is workforce engagement. This year we have received encouraging feedback from our people through an increased employee engagement score of 73 percent. Our aim is to return to and, ultimately, exceed best employer standing.

Turning now to our operating and financial performance.

We maintain a strong financial position, with more than 1 billion dollars in cash and undrawn facilities at 30 June 2020 providing ample headroom to fund investment in the core business and growth opportunities as they arise.

Our FY20 financial result was consistent with our guidance. As we had flagged throughout the year, we faced several headwinds, including a major outage of one of the four units at the AGL Loy Yang power station, lower wholesale energy prices, and COVID-19.

But, operationally, the business was resilient. Our electricity generation portfolio delivered broadly flat output compared with the prior year. The AGL Macquarie power station delivered higher generation, while we added the Silverton and Coopers Gap wind farms and Barker Inlet Power Station to the portfolio.

In addition to this strong operational performance, we achieved good progress against our strategic priorities of Growth, Transformation and Social Licence as we build a business that is not just resilient to the energy transition underway across Australia but also leading it across our two business units: Customer Markets and Integrated Energy.

In Customer Markets, four years ago, we began a substantial investment in our customer systems and platforms, upgrading the digital experience and building on our strong customer service culture.

Our FY20 results demonstrated we are gaining traction. We are winning customers despite high levels of competition, ombudsman complaints have reduced materially, and our Net Promoter Score – a measure of customer advocacy – became positive for the first time.

Customers have responded positively to our improved systems and service, our simplified product mix and our low-rate based pricing.

We have supported our growth agenda with several acquisitions, most recently Click Energy. The purchase builds on the acquisitions of Perth Energy and Southern Phone Company in the 2020 financial year. The Click acquisition, which closed on 30 September, brings 215,000 new energy services on to AGL's leading customer service platform.

In addition, our organic customer growth has continued in the first three months of the 2021 financial year, building on the strong growth we achieved in 2020.

Our total services provided to customers are now 4.2 million. It is a big step towards achieving our target of 4.5 million services by FY24.

Amid tough market and economic conditions, a large, diverse customer base provides the strongest possible base.

A similar philosophy guides our approach to growth and transformation in our Integrated Energy business.

There are many opportunities as we look to a future of meeting customer demand through flexible, low carbon energy supply.

This includes the gas-fired power station at Newcastle on which we expect to reach a final investment decision in the second half of this financial year.

I have talked before about the dawn of the battery age.

Last month, we announced plans for a multi-site integrated battery system across a number of AGL sites.

The Australian energy system needs batteries, gas and other dispatchable forms of energy supply to support renewables when the wind is not blowing or sun shining.

Backed by our large customer base and trading expertise, AGL has a big role to play as an enabler of this transformation.

We also hope to progress the Crib Point liquified natural gas import jetty in Victoria to support flexibility in the gas market and satisfy our customer demand.

Along with our ongoing role as a major contractor of gas supply, we see the Crib Point project as an opportunity for us to play our part.

The project is progressing well and currently undergoing the appropriate environmental approvals.

AGL has engaged extensively with both the community and local and state governments to ensure we understand concerns regarding the project's impact on local marine life, as well as the broader environment.

Our passion to lead Australia's energy market transition was reflected in the targets we set to support the commitments outlined in our recent Climate Statement.

As we work towards the closure of our coal-fired power plants over the years ahead, we are committed to reaching net zero emissions by 2050 and at the same time remaining accountable to our customers, the community and our shareholders.

We will continue to respond through our development of new sources of energy supply to the forces of customer demand, how communities act, and how technology evolves.

We do this against a backdrop of great uncertainty and depressed wholesale energy prices.

Given this uncertainty, the guidance range we have provided for the year is for Underlying Profit after tax of 560 million to 660 million dollars – including 80 million dollars to 100 million dollars of insurance proceeds that will not be repeated in FY22.

The guidance range represents a wider range than usual because of the uncertainty we face.

The expected year-on-year decline in earnings reflects the accelerating impact of the COVID-19 pandemic on a number of pre-existing market and operating headwinds. These include:

- In Wholesale Gas, the impact of higher supply costs as legacy supply contracts mature, as well as lower year-on-year gas prices, and
- In Wholesale Electricity, the impact of sharply declining wholesale prices for both electricity and large-scale renewable energy certificates.

We also guided that we expect higher year-on-year depreciation expense and higher credit losses from customer hardship related to COVID-19, as well as other COVID-19 cost impacts to maintain safe and uninterrupted site access.

In the early months of FY21, economic and operating conditions have remained extremely challenging.

We are seeing pressure from reduced customer volumes related to extended lockdowns and a warmer than usual winter.

Looking beyond FY21, wholesale electricity prices, the single biggest driver of AGL's profit, are substantially down.

Taking Victoria as an example, futures contracts are trading around 45 dollars per megawatt hour for FY22 and FY23.

That represents a fall from an average of about 75 dollars over FY20.

While we expect wholesale prices to recover over time to levels more conducive to stimulating new investment, current economic condition and the uncertainty created by the COVID pandemic mean this recovery may take some time.

This is a severe headwind for AGL's earnings at a time when the maturing of legacy fuel supply contracts and falls in wholesale gas and renewable energy certificate prices are also creating pressure.

While our contracting and hedging strategies protect us from feeling the full impact of such falls in wholesale price immediately, they indicate further material earnings pressure into FY22 and beyond.

And, of course, the 80 to 100-million-dollar post tax insurance proceeds benefit we anticipate in FY21 will also not repeat in FY22.

While this presents a challenging outlook, we are confident in our ability to navigate this period because of our clear strategic priorities and strong financial position.

We continue to grow our customer base and to progress the projects that will transform our energy supply portfolio for the long term.

We are passionate about our role in keeping the lights on and gas flowing to millions of homes and businesses.

And never has the importance of the role we play as an essential services provider been more front of mind for us than now.

I am proud of what our people continue to achieve, and I am confident we will continue to rise to the challenges of delivering for our customers, communities and you, our shareholders.

Thank you.

2020 ANNUAL GENERAL MEETING –
CHAIR OF PEOPLE & PERFORMANCE COMMITTEE

Good morning ladies and gentlemen.

AGL's Remuneration Report commences on page 67 of the Annual Report.
It sets out AGL's policy in respect of remuneration paid to the Board and senior executives and describes the link between company performance and executive remuneration outcomes for the 2020 financial year.

As the Chairman has noted, it is clear that AGL will receive a first strike in respect of the FY20 Remuneration Report. The Board takes this result very seriously and we will review our remuneration structure in the coming year having regard to the feedback of our shareholders.

I wanted to further explain the Board's rationale in relation to the key areas of concern identified by some proxy advisors and investors. But firstly, for context, I will summarise the key remuneration outcomes for AGL's executive team for FY20.

No changes were made to Executive Team fixed remuneration levels for FY21. The Board agreed with management's recommendation that the company context and the economic impact on AGL's customers and our community arising from the COVID-19 pandemic made any remuneration increases inappropriate.

Short Term Incentive awards for the financial year were in the range of 70.8% to 90.4% of maximum opportunity. Your board awarded the Managing Director & CEO 80% of his maximum opportunity. In granting these awards we had regard to AGL's performance during the year, which was strong despite the challenges associated with the COVID-19 pandemic, and demonstrated progress against AGL's strategy. 50% of this award is deferred in equity for the CEO and 25% is deferred in equity for other executives to provide for ongoing shareholder alignment.

The performance conditions for the long-term incentives granted in FY18 were tested. Only 28% of these grants vested because the company did not meet the relative total shareholder return measure (being placed at the 22.58th percentile of the S&P/ASX100 comparator group) but partially met the three-year average return on equity hurdle at 11.73. The return on equity measure was adjusted to remove the positive effect of share buy-backs.
I will now discuss the key concerns raised by proxy advisors and investors with the FY20 Remuneration Report.

One proxy advisor raised concerns that the assessment of both the FY19 and FY20 STI financial measures appeared generous and the impact of the Loy Yang A Unit 2 Outage was not thoroughly accounted for. The AGL Board believes the approach we took allowed remuneration outcomes to reflect the full impact of the outage and adjustments were made.

Some proxy advisers raised a concern that the FY20 STI financial targets and payments were not aligned with AGL’s performance. The FY20 STI outcomes were assessed against a performance scorecard focusing on group-wide objectives linked to AGL’s Business Value Drivers, which was set at the start of the period based on AGL's budget and the perceived degree of difficulty in that budget based on internal forecasts, prevailing market conditions and information available to the Board at that time.

Despite the unprecedented operating environment during FY20 and additional COVID-19 related costs, AGL delivered a positive financial outcome against the target range, whilst also completing a share buy-back and continuing to pay dividends to shareholders. At the same time, customer and employee engagement and safety performance outcomes were also at or above target for FY20. In light of this overall strong performance by executives in delivering against agreed objectives under the scorecard approach, and the substantial response by management in supporting customers and ensuring employee safety through COVID-19, the Board considered the STI awards for FY20 to be appropriate and consistent with overall outcomes.

Another concern related to the LTIP Bridging Grant, which AGL made in FY20 to certain Executives to ensure a smooth transition from a three-year to a four-year performance period for the LTIP and part of a package of changes AGL made to its executive remuneration framework in FY20 to bring it in line with contemporary pay practices.

The Bridging Grant was designed to retain and motivate continuing executives in their roles and provide an opportunity for vesting each year under the LTI through the transition, as would have been the case had we maintained a 3 year LTI plan. Although for FY20 there was a double grant, there is no opportunity for double vesting to occur in any year. For bridging grant recipients, the Board will specify the treatment of their long-term incentives on cessation of employment in the remuneration report. It is the Board's intention that it will exercise its discretion to ensure no additional benefit is provided compared to our prior arrangements.

There has also been some criticism of the new carbon metrics included in the LTIP. Equally we have received positive commentary. The carbon transition metrics were included in FY21 considering AGL's commitment to reduce its carbon footprint and to facilitate the transition of AGL's generation fleet responsibly over time. Managing this transition effectively is fundamental to AGL's long-term financial returns, arguably more than any other company due to AGL's position as the nation's largest carbon emitter. The metrics are quantitative and set at stretching levels.

AGL listened to a wide range of stakeholder views in determining the best place for carbon transition metrics. Climate transition is a long-term issue, it will take decades to responsibly transition the NEM to a low carbon economy. AGL has commenced planning and management is now making incremental decisions which will yield long-term results for both AGL's portfolio and the climate. Therefore, the Board determined that the long-term nature of carbon transition objectives is better aligned with the long-term incentive plan. The vesting ranges were set to ensure they are both stretching and achievable while holding AGL to account for the delivery of its existing carbon transition objectives, with threshold vesting reflecting full achievement of those plans and full vesting reflecting delivery significantly in excess of those plans.

Finally, there were also concerns raised in relation to the ROE target in the LTIP, in particular that the ROE allowing vesting of the incentives is too low. Setting ROE targets is inherently difficult in the rapidly evolving Australian energy market. This year, the exercise has been made more challenging as AGL faces increasing costs and bad debt provisions given the economic impact of the COVID-19 pandemic. Even in a declining ROE environment, the Board considers it important that the measure continue to be included in the LTI as it provides a direct measurement of capital allocation effectiveness.

The Board approved a four-year vesting range of 5% to 8% for the FY21 grant. We recognise that this is a drop in the ROE targets from prior years, however, this vesting range still provides significant stretch in the current environment. In setting the range we considered AGL's outlook and internal business plans which show a decline in earnings due to the continued fall in wholesale energy prices an impact accelerated by COVID-19.

It is the intention of the Board that the LTI plan remains one of realistic stretch for management relative to the operating environment anticipated at the time the vesting range is set and to avoid discretion at the end of the performance period. However, if there is a material change in market conditions outside of management's control influencing the eventual outcome, the Board will take this into account when determining vesting outcomes to ensure there is an appropriate alignment of shareholder interests.

We recognise that some shareholders are disappointed with this year's remuneration outcomes. The Board focuses on striking a balance between executive remuneration set at levels which are commensurate with the Company's performance and community expectations while also being sufficient to attract and retain the talent that is required for AGL's future success.

In the coming year we will continue to engage with shareholders and other stakeholders to find ways to further align our remuneration structure with company performance and to help drive long-term shareholder value.