

1. Our remuneration policy

The key principle underpinning our remuneration policy is to promote and recognise excellence in a way that is fair to all stakeholders.

Our remuneration policy is designed to promote excellent performance while meeting these goals:

- > align the interests of shareholders, employees, customers and the community with AGL's objectives and values
- > attract and retain key talent
- > keep employees committed and motivated by providing fair remuneration and other benefits to all employees
- > meet long-term people needs through effective talent management and succession planning
- > meet AGL's commitment to a diverse and inclusive workplace
- > promote AGL as an employer of choice
- > comply with relevant legislation and corporate governance principles.

The remuneration policy is reviewed and ratified annually by the Board's People and Performance Committee.

External Advisors

The People and Performance Committee (Committee) retained PricewaterhouseCoopers (PwC) as their independent remuneration advisor throughout the year. PwC's role in this regard was to provide independent remuneration advice to the Committee and Board, as and when required.

Share Plan participation

AGL actively promotes employee participation in Share Plans.

AGL offers its employees participation in the following Share Plans:

- > **AGL Long-Term Incentive Plan (LTIP):** Executives are granted Share Performance Rights (SPRs) that vest when specified applicable performance conditions are met.
- > **AGL Share Reward Plan:** eligible employees are granted up to \$1,000 worth of AGL shares each year subject to AGL meeting specific performance hurdles. Shares awarded under the Plan must be held for at least three years or until the employee ceases employment. (Note, participants in the Share Reward Plan are not eligible to participate in the LTIP described above).
- > **AGL Share Purchase Plan:** the Plan Trustee acquires AGL shares on-market at market price during permitted trading periods generally for Directors and employees who have salary-sacrificed a portion of their pre-tax salary.

The number of employees participating in the Share Reward Plan and Share Purchase Plan is 1,400 (out of 1,935) and the number of AGL shares held is 522,033.

2. Our remuneration framework

The remuneration of our Executives is composed of three elements: Total Fixed Remuneration, which is fixed; and Short-Term and Long-Term Incentives, both of which are variable (at risk).

The CEO and Executives are remunerated by a combination of fixed remuneration and short and long-term incentives. Executive remuneration therefore has three elements:

- > total fixed remuneration (TFR)
- > short-term incentive (STI) payments
- > long-term incentive (LTI) payments.

The mix varies for individual roles and is determined by comparison with market remuneration practice, taking into account the complexity of the business and the industry.

A rigorous approach to establishing remuneration levels for each Executive is informed, in part, by relevant market remuneration data information sourced from Hay Group, an independent external organisation. Hay Group provided three remuneration market survey samples for Executives, as well as three remuneration market survey samples for the CEO which were considered when reviewing the remuneration of the Executives and CEO. These market survey samples were:

- > A large survey sample containing executive positions in ASX Industrial & Service organisations was utilised for executives. For the CEO, only CEO positions in ASX Industrial & Service organisations were reviewed. This remuneration benchmark is useful because it is large, and hence, less volatile year-on-year. As such it is more likely to track indicative market trends over time in a more stable way.
- > A smaller survey sample drawn from the same Industrial & Service organisations, but only containing positions that represent a close functional match to each executive position was utilised for executive positions. This sample has the advantage of higher perceived relevance when used in conjunction with the larger sample because it assists in identifying market differentials for various positions. However, due to the smaller sample size, it is potentially more volatile from year to year.
- > For both the CEO and executive positions, a specialist survey sourced from disclosed market remuneration data for the previous 12 months for ASX-listed entities ranked 10 to 50 by market capitalisation. These entities are chosen by size as they are 20 either side of AGL's market capitalisation. This sample, when used in conjunction with the other two surveys, assists in identifying remuneration differentials due to the market capitalisation of the organisation.
- > For the CEO's position, a further specialist survey was sourced from disclosed market remuneration data for the previous 12 months for ASX-listed entities with a market capitalisation of between \$5 billion and \$10 billion. These entities are chosen because they are each side of AGL's market capitalisation of \$8 billion. This sample, when used in conjunction with the other two CEO surveys, assists in identifying remuneration differentials due to the market capitalisation of the organisation.

Total Fixed Remuneration (TFR)

TFR is specified in the Executive's Service Agreement and is in line with market rates. TFR is reviewed regularly.

TFR is the non-variable component of an Executive's annual remuneration. It consists of the base salary plus any superannuation contributions paid to a complying super fund on the Executive's behalf, and the cost (including any component for fringe benefits tax) for other items such as novated vehicle lease payments. The amount of TFR is established based on relevant market analysis, and having regard to the scope and nature of the role and the individual Executive's performance, expertise, skills and experience.

3. Linking remuneration to performance

Remuneration is linked to performance to attract and retain high calibre executives by motivating them to achieve performance goals which are aligned to AGL's interests.

The two remaining elements of executive remuneration, STI and LTI, are directly linked to the performance of both the Executive and the company.