Australian Shareholders' Association

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WHAT A DIFFERENCE A YEAR MAKES!

Company/ASX Code	Orocobre/ORE
AGM date	Tuesday 30 November 2021
Time and location	11.00am (Brisbane time); https://web.lumiagm.com/339412398
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll
Monitor	Mike Sackett assisted by James Hart
Pre AGM Meeting?	With Chairman, Mr Martin Rowley and Investor Relations staff

An individual involved in the preparation of this voting intention has a shareholding in this company.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Over the past year, two developments have had a colossal impact on Orocobre (ORE). Firstly, demand for the lithium products it sells has greatly increased, resulting in a tripling of realised prices. Secondly, a merger of equals with Galaxy, the West Australian-based spodumene producer, was completed on 25 August 2021. These events have transformed the market capitalisation of ORE from $440 million on 30 June 2020 to over $6 billion today. At current prices the company is firmly entrenched in the ASX 100.

Each of the similar-sized merging companies had a combination of productive assets and those under development. Galaxy brings to the party the spodumene hard rock production at Mt Cattlin, WA together with the Sal de Vida brine project in Argentina and James Bay hard rock prospect in Quebec, Canada, both of which are under development. Orocobre contributed the Olaroz brine project, the first stage of which has been in production for several years, while a second stage is at an advanced state of construction. Olaroz and Sal de Vida are in neighbouring provinces of Argentina, and substantial opportunities for collaboration and cost-sharing exist. Orocobre also has a borax production operation in Argentina and the Naraha, Japan lithium hydroxide plant joint venture, with Toyota, scheduled to enter production in early 2022.

We are concerned that a merger of equals is a challenging exercise at any time. This is particularly so in the case ORE given covid-related travel restrictions and the number of jurisdictions in which the company has operations. At the AGM we shall be looking for evidence that the Argentina-based CEO has achieving a single “Allkem culture” (the proposed new name of the combined company) high on his agenda.

While commodity prices are notoriously cyclical and difficult to predict, there are a number of factors which suggest that the very low lithium prices in covid-ravaged 2020 were the aberration, rather than today’s relatively high prices. These factors include the surge in adoption of electric vehicles globally (with Australia lagging far behind), fuelled by a growing widespread acceptance that achieving net zero greenhouse gas emissions as early as possible is vital to the future welfare of the planet. In the short to medium term, supplies of lithium may struggle to keep pace with demand leading to sustained pricing at or above current levels.

In response to a question at our pre-AGM meeting, the chairman said that ORE was committed to carbon net zero by 2035, which is ahead of many ASX peers. This is achievable through the solar drying of brine in Argentina and the expected use of hydro-electricity to power the James Bay operation. Apparently the carbon emissions of producing lithium chemicals are important to the buyers of such products.

Financial performance

As an early stage company, ORE has never paid a dividend. It made an inaugural profit of US$1.9m in FY18, which vastly improved to $55m in FY19. However, in FY20 this fell to a loss of US$67m, due principally to the collapse in the global price of lithium. In FY21 ORE produced a net loss after tax of US$89.5m, despite the improving lithium prices in the latter part of the year. This included an income tax expense of US$67.9m compared with a benefit of US$9.9m in FY20. Some time was invested by ASA in having the company explain exactly how this tax expense came about. In summary, it resulted from the deferred tax liability which arose from the divergence between depreciation levels in the income statement and the tax statement. This was exacerbated by the Argentine Government increasing the 30% company tax rate to 35%, when a cut to 25% had originally been announced and provided for by the company. A combination of hyperinflation in Argentina and adverse foreign exchange movements also contributed to the income tax expense

Lithium carbonate production in FY21 was 5.8% up on the previous year, while sales volumes increased 27% as stocks were drawn down. The average FY21 realised lithium carbonate price recovered by almost 11% from the previous year to US$5,520/tonne in FY21. In October 2021 ORE have advised that their realised price had increased by over 200% from the previous year and that realised price guidance for the December 2021 quarter was around US$12,000/tonne, which augers well for FY22.

Summary

(As at FYE)	**2021**	**2020**	**2019**	**2018**	**2017**
NPAT (US$m)	-89.5	-67.2	54.6	1.9	19.4
UPAT (US$m)	-83.7	-52.2	28.9	7.7	-4.2
Share price ($)	6.47	2.31	2.82	5.17	3.47
Dividend (cents)	0	0	0	0	0
TSR (%)	180%	-18%	-45%	49%	-28%
EPS (US cents)	-18.0	19.6	20.9	0.8	9.2
CEO total remuneration, actual (US$m)	1.163	1.225	2.013	1.124	0.812

Note: Above currencies are US dollars except for AUD share price.

Item 2	Resolution 1 - Adoption of the Remuneration Report
ASA Vote	**For**

CEO Rem. Framework FY21	Target US$m	% of Total	Max. Opportunity US$m	% of Total
Fixed Remuneration	0.700	50%	0.700	47%
STI - Cash	0.250	18%	0.350	23%
STI - deferred	0	0%	0	0%
LTI	0.450	32%	0.450	30%
Total	1.400	100.0%	1.500	100%

The actual realised FY21 pay of the CEO, who was first appointed in January 2019, was US$1.16 million, a decrease of 5% from the previous year. This was due to a reduction in the STI component. The FY20 STIs were abnormally high as they were paid against the first 18 months of the then new CEO's appointment. The LTI component was made up exclusively of Commencement and Retention Rights to the tune of US$250,000, the same as in FY20. Converted to AUD the CEO's total remuneration was, according to Godfrey Remuneration Group (GRG) data, a little below that of the 75th percentile for companies of the capitalisation which ORE had at the start of FY21. Given that the market capitalisation of the company increased by 280% over FY21 (from what was probably an artificially low level at 30 June 2020) CEO remuneration is not considered to have been excessive.

KPIs are clearly described and quantified in the Rem Report. Those for the CEO were considered to have been 85% achieved in FY21 with 100% achievement in productivity/cost reduction and in "qualitative" attributes, listed as decisiveness, engaging for impact, agility and adaptiveness, and delivering reliability. Delivery on growth initiatives (Olaroz Stage 2 and Naraha processing plant in Japan) was judged to have only been 60% achieved, with covid-related delays probably being a significant factor.

Other positive feature of the Rem Report include:

- Approximately half of KMP pay is genuinely at risk;
- LTIs are based on TSR with 50% weighting to absolute performance and 50% relative to the constituent companies of the ASX300 Resources index;
- LTI gateway requires a positive absolute TSR;
- Share grants are at market value;

- KMPs have significant share holdings;
- Comprehensive and clear.

Areas for improvement

- LTI performance rights are measured over three years, not the ASA preferred standard of four years.

Item 3	**Resolution 2 - Change of Name of the Company**
ASA Vote	**For**

The board is recommending a change in name of the company from Orocobre Limited to Allkem Limited in order to reflect the strategic vision for the newly merged group as a producer of lithium chemicals, which are expected to be an increasing part of the global carbon emissions reduction solution.

Item 4	**Resolution 3 – Election of Director – Martin Rowley** **Resolution 4 - Election of Director – Florencia Heredia** **Resolution 5 – Election of Director – John Turner** **Resolution 6 - Election of Director – Alan Fitzpatrick**
ASA Vote	**For all four Resolutions**

These resolutions represent one of the final stages of the formal merger of Orocobre and Galaxy. The merged company's nine member board will comprise five members from the previous eight person Orocobre board plus four from the six person Galaxy board. The composition of the new board was no doubt the subject of delicate negotiations with respect to balance between the two previous companies, geographical representation and gender. There appears to be a good mix of skills in the new board. With five Australian and three Argentinian nationals on the board together with a director based in Canada, international considerations are well covered. Regrettably only two (22%) of the new board are female. This is better than the 17% female composition of the previous Galaxy board, but a backward step from the 25% female composition of the previous Orocobre board. At the time of the merger it was advised that both the deputy chair and chair would retire over the next two years. Given this fluidity, ASA should keep board composition under review in subsequent years.

Item 5	Resolution 7 – Increase to Non-Executive Directors Remuneration
ASA Vote	For

An increase in the aggregate fee pool for NEDs from AU$850,000 per annum to US$1.5 million per annum is proposed. This is equivalent to an increase of about 145%. ASA is supporting this very large increase for the following reasons:

- The current maximum was set four years ago;
- The newly merged company is of far greater complexity and market capitalisation than in 2017;
- The size of the proposed US$1.5 million aggregate fee pool is about 8% below the GRG benchmark median for ASX companies in the $5-10 billion capitalisation range.
- Denomination of the pool in US dollars is justified by the truly international nature of the company and the fact that three of the eight non-executive directors are based in Argentina/Canada.

Item 6	Resolution 8 – Grant of STI Performance Rights to the CEO and Managing Director Resolution 9 – Grant of LTI Performance Rights to the CEO and Managing Director Resolution 10 - Grant of Merger Completion Performance Rights to the CEO and Managing Director
ASA Vote	For

In quantitative terms the proposed performance rights comprise:

- STIs - 62,661;
- LTIs – 156,653;
- Merger Completion – 49,731
- Total – 269,045

The STI quantum is based on a maximum of 50% of the FY22 fixed salary component of US$840,000, while the LTI quantum is based on 150% of the FY21 fixed salary component. Potentially this arrangement could increase the CEO actual remuneration from US$1.16 million in FY21 to US$2.64 million in FY22. This is reflective of the company's increase in market capitalisation (up from $440 million at the start of FY21 to its current level in excess of US$6 billion) and complexity. The STIs and LTIs have what appear to be comprehensive, relevant and demanding performance objectives including those relating to:

- Staff safety;
- Output production and cost targets for the operational Olaroz brine and Mt Cattlin hard rock facilities;
- CO_2 emissions intensity targets per tonne of product.;
- Completion of projects in Argentina and Japan, and advancing other developments in Argentina and Canada.

The main condition to be satisfied with the Merger Completion Rights is the retention of the CEO with half of the rights vesting after one year and the remainder after two years from the date of the merger. Arguably the two year post-merger period will be a particularly demanding time for the company as the cultures of the two former companies are merged into one. The brunt of this task will fall upon the CEO, who is based in Argentina.