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It's being called a glide path to decarbonisation

Company/ASX Code	AGL Energy Limited/AGL
AGM date	22 September 2021
Time and location	10:30 am online through Lumi web.lumiagm.com/300629639
Registry	Computershare
Webcast	The AGM is all online due to the COVID-19 pandemic
Poll or show of hands	Poll on all items
Monitor	Helen Manning assisted by Ramaswamy Rajagopal & David Jackson
Pre AGM Meeting?	Yes with chair AGL Peter Botten, Diane Smith-Gander AGL chair, People and Performance Committee, Fiona Balzer ASA Policy & Advocacy Manager, Ramaswamy Rajagopal ASA, David Jackson ASA, Helen Manning ASA

Please note any potential conflict as follows: The individual(s) (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

Summary of issues for meeting

The biggest concern for the AGM is the continuing poor performance of the company in relation to both profitability and share price. Because of that performance, the vote on the remuneration following last year's first strike, and the voting on the non-board endorsed carbon transitioning agenda items, will be used as levers by the shareholders at this meeting.

The new chairman, Peter Botten, describes the carbon transition path for Australia's largest generator of electricity away from its reliance on coal as a glide path. In negotiating this path, the company is hoping to manage an orderly transition through the challenges facing Australia's energy industry.

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

Summary of ASA Position

AGL releases extensive reporting in its annual accounts and in its periodic reports. The level and quality of reporting is not the issue with AGL.

<u>**Financial performance**</u>

Statutory Loss after tax was $2,058 million, down $3,065m from last year. This included $2,929m of significant items, about half of which were asset impairment losses, and about half due to onerous contracts recognised. This year there was a $334m movement in the fair value of financial instruments as compared to $216m last year. Earnings per share on statutory profit were (330.3) cents, down from 157.2 cents last year.

At the beginning of September 2021, it was announced that AGL will drop off the ASX50 list due to its worsening share price. From its high of over $26 per share in April 2017 the share price at 10 September 2021 was $6.11.

Key events: proposed demerger

In June 2021 AGL proposed its intention to demerge. This will result in two separate companies - Accel Energy (ASX:AXL) and AGL (ASX:AGL). Accel will be Australia's leading baseload electricity supplier, and AGL its largest energy customer. The demerger will go to a shareholder vote, which is targeted for the June quarter of 2022.

At our pre-AGM meeting with AGL it was explained that the demerger was coming about due to the increased cost of borrowings for a carbon-heavy business.

Key Board or senior management changes

The chief executive officer (CEO) of AGL, Brett Redman resignation in April 2021 was a surprise and the chairman at time, Graeme Hunt, took over the role on 22 April. Peter Botten, previously a non-executive director became chairman on 22 April.

Summary

(As at FY21)	**2021**	**2020**	**2019**	**2018**	**2017**
NPAT ($m)	(2058)	1007	905	1582	539
UPAT ($m)	537	808	1040	1018	802
Share price ($)	8.20	17.05	20.01	22.48	25.50
Dividend (cents)	75	98	119	117	91
Simple TSR (%)	(48)	(15)	5.3	7.3	42.4
EPS (cents)	(330.3)	126.1	158.6	155.2	119.8
CEO total remuneration, actual ($m)	# N/A	3.8	5.9	5.7	6.9

The ASA likes to show the actual earnings of the CEO (defined as the cash payments made during the year including the fixed remuneration, the short-term incentive (STI) and deferred STI, plus any vesting of equity incentives at share price on the date of vesting) against the Average Full time Adult Average Weekly Total Earnings. #Due to the change of the CEO in April this is meaningless for 2021. However, the fixed remuneration of the previous CEO at $1.65m is 17.7 times the average wage.

Note - For May 2021, the Full-time adult average weekly total earnings (annualised) was $93,444 (http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0, "Full-time adult average weekly total earnings".

Simple TSR is the return calculated as the percentage change in the share price at the end of the year plus dividends paid during the year, excluding franking compared with the share price at the start of the year.

Item 2	**Adoption of Remuneration Report**
ASA Vote	**Against**

CEO rem. Framework for FY22	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.55	49	1.55	30
STI - Cash	0.31	10	0.52	10
STI - Equity	0.31	10	0.52	10
LTI	1.00	32	2.59	50
Total	3.17	100.0	5.18	100

Summary of ASA Position

At the 2020 AGM, 46.5% of shareholders voted against the remuneration report resolution (a 'First Strike'). This is a very large vote and came in large part from the proxy advisors, ISS and CGI Glass Lewis, who according to media reporting via The Australian and Australian Financial Review newspapers will be supporting the remuneration this year. Should the 2021 AGM see another vote against the remuneration report resolution of 25% or more shares voted (a 'Second Strike'), the contingent resolution to spill the Board will be put to the shareholders.

AGL remuneration comes in 3 parts – a fixed remuneration, a short-term incentive (STI) and a long-term incentive (LTI). It is worth describing the current components.

<u>Fixed Remuneration:</u> The fixed remuneration for the CEO has come down from $1.65m to $1.55m on the change of CEO. It was noted that no key management personnel received an increase this year.

<u>The STI hurdles comprise:</u>

- a 50-60% financial metric looking at underlying profit. (The ASA prefers the use of statutory profit.) New to this year's annual report are the reporting of target ranges and targets. Due to the fall in underlying profit the result was below target range for the financial year ended June 2021 (FY21).

- A 30% metric described as 'strategic' consisting of a 15% component on safety, 7.5% on customers and 7.5% on employee engagement. The safety and customer metric were in target range for FY21. The employee engagement metric was below the threshold range, reflecting the effect on employees of the uncertainty due to changes in management, and the possible demerger.
- A 10-20% metric for individual strategic objectives.

At the board's discretion, and particularly due to both poor financial performance and the shareholder experience, no STI was awarded for AGL executives for FY21.

<u>The LTI hurdle composition:</u>

For FY21 this had been 33% relative total shareholder return (rTSR), 33% return on equity (ROE) and 33% for carbon transition metrics (CT).

This will change for FY22 as follows:

- Relative total shareholder return to have a 75% weighting. The shareholder return will be compared against the ASX100.
- The carbon transition metric at 25%

You can see that this removes the return on equity metric (ROE) altogether and that the weighting for the carbon transition metric has gone down from 33% to 25%.

Long term incentives seek to reward the achievement of long-term goals. The climate transition has to be important in this: as the chairman Peter Botten says – it has to be a glide path.

The notice of meeting terms these changes as arising from an intention to "better align our remuneration structure with company performance, drive long term shareholder value". We see reducing the CT is sending the wrong signal given the importance of rewarding performance for this transition, and similarly the removal of a key metric for shareholders in the ROE is not a good look.

The vesting outcome of the FY19 LTI was 0%.

Brett Redman the departing CEO had stated that he had been instrumental in the strategy surrounding the demerger. His surprise and unexpected departure, 3 weeks after it had been announced, raises questions. We are not in a position to understand why he is considered to be a 'good leaver'. The surprising appointment of Graeme Hunt as CEO follows from his period as chairman of the board from September 2017. This period exactly charts the significant destruction of value in the company and the collapse of the share price to its current levels.

The remuneration isn't supporting the direction the company needs to make in its current situation. The ASA doesn't support this motion and will vote all undirected proxies against the remuneration report.

Item 3a	**Re-election of Ms Jacqueline Hey as a Director**

ASA Vote	**For**

Summary of ASA Position

As a non-executive director since 2016, Jacqueline Hey's qualifications, committees, directorships and experience are well laid out in the notice of meeting and the annual report. She worked for Ericsson for more than 20 years before becoming a full-time company director in 2011. Ericsson is a technology company. In 2015 she was the winner of the Board/Management category at the Melbourne School of Business. She is the chair of the Safety, Customer and Corporate Responsibility Committee and sits on the Audit and Risk Management Committee as well as the Nominations committee. She has the equivalent of 123% of her base fees invested in AGL shares.

ASA supports her re-election and will vote all undirected proxies in favour of this resolution.

Item 3b	**Election of Mr Ashjayeen Sharif as a Director**
ASA Vote	**Against**

Summary of ASA Position

Mr Sharif is an 18-year-old student, who started studying at the University of Melbourne this year. His election is endorsed by Greenpeace. Mr Sharif provided details of himself that were included in the Notice of Meeting. In response to his nomination, mention is made in the notice of meeting that since August 2021 the board is undertaking succession planning and seeking to appoint an ESG/Climate specialist to the Board. AGL also states that they look to new board members to add to the overall skills and experience of the board.

Whilst the ASA supports diversity in the boardroom, directors of large ASX-listed companies need to exhibit appropriate skills and experience to carry out the role. We agree with the reasons given by the board in the notice of meeting recommending shareholders don't support the election of Mr Sharif. The ASA will direct all undirected proxies against this resolution.

Item 4	**Approval of LTI grant to CEO/Managing Director Graeme Hunt**
ASA Vote	**Against**

The 297,374 performance rights have been calculated to give a value of 167% of Graeme Hunt's fixed remuneration. This amounts to $2,588,000 due to his fixed remuneration being $1.55m. The price of those rights was determined by the volume weighted average price of AGL shares for the 30-day calendar period to 30 June 2021. This means the shares were valued at $8.7045 each.

The performance period is for 4 years which means the outcome will be reported in FY25.

Summary of ASA Position

The LTI changes from last year were described in our summary of the remuneration report. This particular grant is comprised of 75% relative (to the ASX100) total shareholder return and a 25% carbon transition metric.

We think the dropping of the ROE metric disadvantages shareholders and the reduction of the weighting of the carbon transition metric from 33% to 25% is giving the wrong signal and incentive to long term shareholder return.

For those reasons we will direct all undirected proxies to vote against this resolution.

Item 5	**Spill motion (contingent resolution)**
ASA Vote	**Against**

We will be voting against this resolution if it is put to the meeting. While we disagree with the adjustments that have been made to the hurdles in the remuneration framework for FY22, we believe the existing directors need to focus on the demerger rather than on director elections in the next few months.

Summary of ASA Position

Item 6a	**Amendment to the constitution**
ASA Vote	**Against**

Summary of ASA Position

Resolutions 6a and 6b are promoted by the Australasian Centre for Corporate Responsibility (ACCR).

In the notice of meeting for the AGM, the board states that it doesn't believe that this special resolution is necessary for fostering engagement with its shareholders. The board also says that it regularly assesses and refines its processes with the aim of fostering engagement with its shareholders. We support that dialogue process. From our discussions we understood that AGL held discussions with ACCR.
It is ASA's opinion that such an amendment is not required and is not appropriate for inclusion the company's constitution. AGL proposed to include a board-sponsored say on climate resolution to the AGMs to be held by each of the demerged entities in FY22.

For these reasons the ASA cannot support this motion. ASA opposes this motion and will be voting all undirected proxies against this resolution.

Item 6b	Paris Goals and Targets
ASA Vote	For

Summary of ASA Position

This resolution is conditional on the previous item 6(a) being passed. It is meant to tap into the broad community support for mitigating climate change.

As shareholders, but also as members of the community there is a lot of support for speeding up the decarbonisaton process. It would be in everyone's interest that AGL would find real opportunities for the company as it goes about navigating its transition to renewable energy. In this way, AGL, or any of its demerged entities, become viable and sustainable businesses for that future.

On the surface, this resolution is also a reasonable request to make, as it asks for transparency, which will assist in the decision on how to vote on demerging. However, ASA acknowledges that this kind of disclosure is already happening with regard to emission targets although not specifically to the Paris Agreement. We are also aware with the demerger creating a newly formed company, some elements that are requested can only be facilitated by the board of the yet to be created company

In asking for the alignment of capital expenditure and remuneration frameworks this resolution asks what all good businesses should do: align themselves to their strategy.

The ASA supports the board in discharging its duties.

While AGL is already moving to make disclosures of this nature to assist shareholders in their decision to vote on the upcoming merger, we will be voting all undirected proxies for this resolution.

In this way we will confirm support for the inclusion of information relating to short, medium and long-term targets for reductions in the proposed demerged companies' Scope 1, 2 and 3 emissions that are aligned with articles 2.1 (a) and 4.1 of the Paris Agreement in the demerger documents.