

October 12th 2021

Genesis Energy Limited (GNE)

The company will hold its Annual Shareholders Meeting at **10.00am Friday 29 October 2021**

Due to the uncertainty around Covid restrictions it will be a virtual meeting.

You can join the meeting at

<https://apps.online.computershare.com/MeetingsShareholderWeb/FindMeeting?Country=NZ&Locale=en>

Company Overview

The company sells electricity, reticulated natural gas and LPG through its retail brands of Genesis Energy and Energy Online. It is New Zealand's largest energy retailer with around 470,000 customers. It generates electricity from a diverse portfolio of thermal and renewable generation assets located in different parts of the country. The company also has a 46% interest in the Kupe Joint Venture, which owns the Kupe Oil and Gas Field offshore of Taranaki.

Current Strategy

The company's strategy is to participate in markets for the long term to create value for shareholders in a sustainable way.

Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

Disclaimer

To the maximum extent permitted by law, New Zealand Shareholders Association Inc. (NZSA) will not be liable, whether in tort (including negligence) or otherwise, to you or any other person in relation to this document, including any error in it.

Forward looking statements are inherently fallible

Information on www.nzshareholders.co.nz and in this document may contain forward-looking statements and projections. For any number of reasons, the future could be different – potentially materially different. For example, assumptions may be wrong, risks may crystallise, unexpected things may happen. We give no warranty or representation as to any future financial performance or any other future matter. We may not update our website and related materials for changes.

There is no offer or financial advice in our documents/website

Information included on www.nzshareholders.co.nz and in this document is for information purposes only. It is not an offer of financial products, or a proposal or invitation to make any such offer. It is not financial advice and does not take into account any person’s individual circumstances or objectives. Prior to making any investment decision, NZSA recommends that you seek professional advice from a licensed financial advice provider.

There are no representations as to accuracy or completeness

The information, calculations, and any opinions on www.nzshareholders.co.nz and in this document are based upon sources believed reliable. The NZSA, its officers and directors make no representations as to their accuracy or completeness. All opinions reflect our judgement on the date of communication and are subject to change without notice.

Please observe any applicable legal restrictions on distribution

Distribution of our documents and materials on www.nzshareholders.co.nz (including electronically) may be restricted by law. You should observe all such restrictions which may apply in your jurisdiction.

Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	See comments below.
Director share ownership	A	Not disclosed if Directors are required to own shares.
Executive Remuneration	A	See comments below.
Golden parachutes/handshakes	A	Not disclosed is these or similar payments are offered.
Director Independence	G	Good disclosure.
Board Composition	A	See comments below.
Director Tenure	G	See comments below.
ASM Format	G	See comments below.
Company Sec independence	G	Generally good disclosure however not disclosed if receives a profit-based incentive.

Directors Fees: While disclosure is generally clear, there is no disclosure as to whether retirement benefits or share options are available for Directors.

Executive Remuneration: Genesis' CEO is paid in the form of fixed remuneration, short-term incentive (STI) and a long-term incentive (LTI). NZSA encourages fulsome disclosure in relation to these incentives, including disclosure of measures (or measure 'groups'), weightings, targets and the level of achievement associated with any awards.

Genesis clearly discloses the measure groups used to assess the level of STI and LTI for the CEO. For both STI and LTI, on-target performance is paid at 50% of fixed remuneration, with the maximum payable for STI disclosed at 75%. Weightings of measure groups are also disclosed, with achievement shown in terms of overall outcome (133%).

NZSA prefers a weighting towards long-term incentive rewards, based on total shareholder return, with STI comprising <33% of at-risk pay. We also note that the maximum opportunity available is greater than the base salary.

Board Composition: We note that only 2 directors of Genesis (James Moulder, Paul Zealand) have executive experience within the industry. NZSA prefers to see at least one more director with executive experience (ie, at least a third of the company's directors). We do note that Catherine Drayton is a former director of Meridian, and had focused on merger and acquisition transactions within the energy industry during her time with PWC.

We note that that the Chair, Barbara Chapman, holds a number of other governance roles in NZX-listed and other organisations. NZSA adopts a cautious approach to individuals holding more than five governance roles, with a Chair's role counting as two. This is exacerbated by the potentially complex nature of her other directorships.

We note that the company does not participate in the IoD’s “Future Directors Programme”. NZSA feels that given the status of Genesis within the NZX-listed community, it would provide an effective experience for emerging directors.

Director Tenure: NZSA looks for evidence of ongoing succession or ‘staggered’ appointment dates that allow effective knowledge transfer in the event of succession. We note that Genesis have a range of appointment dates, reducing the risk of knowledge loss for investors and ensuring that the company can manage director succession effectively within appropriate timelines. We note that all directors have served less than 9 years.

NZSA appreciates clear signals from companies in relation to succession, in order to ensure long-term governance sustainability.

ASM Format: While NZSA prefers ‘hybrid’ ASM’s (ie, physical and virtual) as a way of promoting shareholder engagement while maximising participation, we understand the company’s approach in planning a virtual-only meeting given the current Covid-19 restrictions across New Zealand.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Good disclosure
Audit rotation	A	See comments below.

Audit Rotation: Whilst the company ensures the Lead Audit Partner is rotated at 5 years it does not disclose if the Audit Firm is rotated at 10 years. Like many other companies on the NZX, it also does not disclose the appointment dates of the Lead Audit Partner or the Audit Firm.

NZSA notes that under the Public Audit Act 2001, the Auditor-General ultimately makes the decision on auditor appointments for Genesis.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure.
Political donations	G	No political donations are made.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	A	We note the earnings per share were 3.22 cents whilst the dividend was 17.4 cents.
Capital Raise process	n/a	There was no capital raising

Genesis Energy's share price rose from \$2.94 to \$3.24 (as of September 30th) over the last 12 months – a 10% increase. This is comparable with the NZX 50 which increased by 12% in the same period.

The Performance Factor for GNE is 0.87.

Metric	2021	2020	Change
Revenue	\$3,221m	\$2,592m	24%
Operating Expenses	\$2,863m	\$2,236m	28%
EBITDA	\$358m	\$356m	1%
NPAT	\$34m	\$46m	-27%
EPS ¹	\$0.032	\$0.044	-28%
PE Ratio	101	66	
Current Ratio	0.78	1.46	-46%
Debt Equity	1.56	1.21	28%
Operating CF	\$324m	\$308m	5%
Operating CF (cps)	\$0.31	\$0.30	5%
NTA Per Share ¹	\$1.58	\$1.65	-4%
Dividend Per Share ¹	\$0.174	\$0.172	1%

¹ per share figures based off actual shares at balance date (not weighted average)

Genesis Energy had a stable year in 2021 with revenues up by 24% to \$3,221m - but operating expenses also increased comparatively by 28% to \$2,863m, meaning EBITDA was almost flat at \$358m. This meant GNE delivered EPS of \$0.032 and places them on a high PE of 101.

The Gentailers, including GNE, are not priced on their earnings but rather their operating cashflows and the ability to deliver dividend streams. GNE's operating cashflow was up by 5% to \$324m, this equates to \$0.31 in cents per share. Genesis declared slightly increased dividends for FY 21 of \$0.174 per share. As Genesis Energy pays tax on its profits, and dividends are far greater than their profits, dividends are only partially imputed.

Depreciation is a large component of their expenses, coming in at \$197m.

While dividends are supported by operating cashflows, there may be some concern as to the funding of future large-scale asset replacement – although Genesis has the balance sheet and sector flexibility that allows it to utilise other methods of funding for asset investment.

The company is in a sound financial position with the current ratio at 0.78 and the debt equity ratio at 1.56. GNE has \$380m of short-term debt and \$1,048m of non-current debt for total interest-bearing debt of \$1,428m. This is up slightly on 2020.

The NTA for GNE is \$1.58, we note that the stock trades at a hefty premium due to the expectation of ongoing cashflow.

Resolutions

1. To re-elect Barbara Chapman as an Independent Director.

Barbara Chapman was appointed to the Board in May 2018 and assumed the role of Chairman in October 2018. She is also the Chair of NZME, a Director of Fletcher Building and the Bank of New Zealand and is the Deputy Chair of The New Zealand Initiative. Barbara is the Chair of the APEC CEO Summit Committee and co-Chair of the APEC Business Leadership Group.

NZSA has commented on the significant directorships held by Barbara earlier in this document and has discussed this further with Ms Chapman. We believe that recent and likely changes in governance responsibilities, her ongoing intent to review workloads and her sole focus as a fulltime director are factors that support her ability to manage her workload appropriately.

We will vote undirected proxies **IN FAVOUR** of this resolution.

2. To re-elect James Moulder as an Independent Director.

James Moulder was appointed to the Board in October 2018. He was Chairman of the Electricity Authority's Market Development Wholesale Advisory Group, and previously chaired the NZ Electricity Commission: Market Development Advisory Group. His previous directorships include CO2 New Zealand Limited, Rodney Properties Limited and Bosco Connect.

We will vote undirected proxies **IN FAVOUR** of this resolution.

3. To increase the Directors Fee Pool by \$132,950, from \$940,000 to \$1,072,950.

Genesis proposes that the annual total pool for Directors' remuneration be increased by \$132,950, from \$940,000 to \$1,072,950, with the increase taking effect from 1 November 2021. The company notes that the last increase to the Director Fee Pool was in 2016.

The company has commissioned an independent report by Korn Ferry, and has sent a copy of that report to shareholders. From discussions, we understand that the company also intends to post this report on its website shortly. The company had also engaged with NZSA on this matter earlier this year.

We will vote undirected proxies **IN FAVOUR** of this resolution.

Proxies

You can vote online or appoint a proxy at <https://www.investorvote.com.au/>

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **10.00am Wednesday 29 October 2021.**

Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

STANDING PROXIES - AUTOMATICALLY APPOINT NZSA AS YOUR PROXY

MAKE YOUR VOTE COUNT!

Details on the NZSA website.

<http://www.nzshareholders.co.nz/shareholders-standing-proxies.cfm>

The Team at NZSA