Australian Shareholders' Association

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Results marked by volatile one-offs but aspiring to 2050 climate targets

Company/ASX Code	Origin Energy/ORG
AGM date	Wednesday, 19 October 2022
Time and location	10am AEDT, Fullerton Hotel, No 1 Martin Place, Sydney
Registry	Boardroom
Type of meeting	Physical (webcast)
Poll or show of hands	Poll on all items
Monitor	Lewis Gomes assisted by Mike Batchelor and Raja Rajagopal
Pre AGM Meeting?	Yes with Chair - Scott Perkins, Chair of Remuneration & People Committee - Steve Sargent, General Manager Capital Markets - Peter Rice, Company Secretary - Helen Hardy

Monitor Shareholding: The individuals (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

Proposed Voting Summary

No.	Resolution description	
2	Election of Dr Nora Scheinkestel as Independent Non-executive Director	For
3	Re-election of Mr Greg Lalicker, Independent Non-executive Director	For
4	Adoption of Remuneration Report	For
5	Equity grants to Managing Director and Chief Executive Officer Mr Frank Calabria	For
6	Non-executive Director Share Plan	For
7	Reinsertion of proportional take-over provisions	For
8	Approval of the Climate Transition Action Plan	For
9	Requisitions by groups of shareholders	
9(a)	Amendment to the constitution	Against
9(b)to 9(e)	Contingent advisory resolutions if 75% or more votes cast for 9(a)	Against 9(b) withdrawn

Summary of issues

Origin's Integrated Gas business had a good FY22 with strong production and higher sales prices due to increasing global demand for LNG. On the other hand, its Energy Markets business continued to struggle with a range of challenging local issues including coal supply shortfalls to its Eraring Power Station. Origin's underlying profit figures were somewhat dwarfed by the massive swings in derivative values, one off divestments and impairments.

Origin delivered a statutory loss of $1,429 million compared to a loss of $2,281 million in FY21. Its underlying profit increased by 30% to $407m from $314m in FY21. Origin's result is the sum of several complicated moving parts. In a nutshell its Energy Markets business made an underlying loss of $111m (compared to an underlying profit of $427m in FY21) and its share of APLNG made an underlying profit of $1,044m (compared to an underlying profit of $224M in FY21).

In October 2021, Origin announced the sale of a 10% interest in APLNG for $2.12 billion but increases in global prices for LNG compensated for the reduced volumes attributable to Origin. This sale enabled a reduction in net debt of $1,801m to $2,838m at 30 June 2022, well below the debt levels of past years which reached about $9 billion at one stage. Origin also activated a share buyback worth about $250m and invested a further $80m in Octopus during FY22 and a further $163m in August 2022 to bring its shareholding back to 20% after several other parties invested in the UK-based company that has developed the Kraken platform for managing customer accounts. Origin's investment in Octopus is now valued at about $1 billion, well above Origin's buy-in costs, and Kraken now hosts more than 2.2 million Origin customer accounts with further accounts still to be migrated.

Typical of the sector, Origin is experiencing the pain of energy transition undergoing write-downs in its generation assets of $2,196m (compared with a write-down of $1,404m in FY21). At the same time, it saw the change in "fair value" of derivatives of plus $1,155m (negative $809m in FY21). There were significant positive contributions to cash flow of net $1,957m from the divestment of 10% of APLNG, $433m from the receipt of unfranked dividends and $1,112m in proceeds from APLNG buyback of Mandatorily Redeemable Cumulative Preference Shares (MRCPS).

The total shareholder return (TSR) for FY22 was +32%, markedly better than the three prior years which saw negative returns of around 20% each year.

Origin's Climate Transition Action Plan (CTAP) is a good start but short on detail around how it will get to its goals. Specific investments to reach its 2030 targets and beyond are unclear and given the lead time of greenfield renewable project identification, approval, construction and commissioning, its 2030 target seems ambitious.

Origin announced the sale of its Beetaloo prospect immediately prior to the ASA's pre-AGM meeting with the Chairman, meaning the uncertain carbon contribution of this project and the complicated relationship with traditional landowners will no longer pose risks to the company. This divestment is seen as a significant derisking of Origin's exposure to new gas developments and to Beetaloo, in particular, while Origin has retained some upside in an agreed royalty on any future production of gas and the right to purchase output from the project.

In February 2022, Origin announced the early retirement of Eraring Power Station by August 2025 (previously 2032). Eraring currently accounts for about 75% of Origin's current Scope 1 emissions and has been significantly impacted by a range of operational issues, breakdowns and interruptions to coal supplies which had to be replaced by purchases on very expensive spot markets. As alternatives to Eraring, Origin is progressing plans to develop a 700MW battery at the site and has acquired 1,600MW of renewable energy development projects with an intention to grow this figure to 4,000 MW by 2030 "under a capital-light model", the details of which are unclear at this stage. Origin has also developed a 250MW virtual power plant (VPP) by aggregating numerous small-scale household and industrial solar generation platforms with the aim of expanding this capacity to 2,000MW.

Origin's longest serving director is Bruce Morgan at 9 years and 9 months which is within the 4xthree year term maximum tenure recommended by ASA. The composition of the board is sound, with an appropriate range of skills and experience. The company appears to be well governed. A newly appointed director Dr Nora Scheinkestel is seeking election and Mr Greg Lalicker is seeking re-election to the board. These appointments are discussed below under the individual AGM resolutions. We also note that James Magill joined as Executive General Manager, Origin Zero, in March 22 and is responsible for the newly formed Origin Zero business.

ASA questioned the Chairman about the controls on derivative trading given the large impact on the company's statutory results of the value of these contracts. ASA was satisfied that the board understands the risks and complexities of the derivative markets, however the large movements in the values of these contracts from year to year are concerning.

Summary of Performance (as at FYE)

Item	**2022**	**2021**	**2020**	**2019**	**2018**
NPAT ($m)	(1,429)	(2,281)	83	1,211	218
UPAT ($m)	407	314	1,023	1,028	1,022
Share price ($) 30 June	5.73	4.63	5.84	7.31	10.03
Dividend (cents)	29	20	25	25	0
Simple TSR (%)	32.4	(19.7	(17.7)	(26.1)	46.2
EPS (cents) underlying	23.2	17.8	57.6	58.4	58.2
CEO total remuneration, actual ($m)	4.190	3.768	3.586	3.157	2.959

Simple TSR is calculated by dividing (change in share price plus dividends paid during the year, excluding franking) by the share price at the start of the year.

Resolution 2: Election of Dr Nora Scheinkestel as Independent Non-executive Director

Dr Scheinkestel was appointed to the board in March 2022 and is now standing for election at this year's AGM. She has Bachelor of Laws and Doctor of Philosophy. We note that Dr Scheinkestel has over 30 years' experience in regulated sectors as well as banking experience. The board, in its 6 months review, found her to be a high-performing director with skills complimentary to the other board members. Dr Scheinkestel recently retired from the board of Telstra and has only two other NED roles with listed companies, being Brambles and Westpac. She is therefore considered to have sufficient time and interest to be an effective director of Origin.

ASA will therefore vote all undirected proxies in favour of the election of Dr Nora Scheinkestel.

Resolution 3: Re-election of Mr Greg Lalicker as Independent Non-executive Director

Mr Lalicker has a Bachelor of Petroleum Engineering, a Masters of Business Administration and a law degree. Mr Lalicker is CEO of Hilcorp Energy Company based in Houston, USA, and brings substantial gas and energy skills and experience to Origin. He joined the board in March 2019 and has been an active contributor with his insights to current practices in the USA and a deep knowledge of global markets. The board in its review found that Mr Lalicker is a high performing director with particular skills in strategy and global knowledge as well as industry expertise. While he is based in the USA and has a CEO role to fulfil there, he has no other NED commitments in Australia and has been readily available for board matters.

ASA will therefore vote all undirected proxies in favour of the re-election of Mr Greg Lalicker.

Resolution 4: Adoption of Remuneration Report

The remuneration structure, summarised in the Appendix, appears to be a reasonable balance of fixed pay, short term cash and equity, and long term equity. We note that LTI's partially vested in 2022 and 2021 after 8 years of non-vesting. We questioned the company's ability to retain key staff given the difficult Energy Markets performance. The Chairman thought the leadership team understood and accepted the performance hurdles and continued to be motivated with the company's commitment to its strategy.

The summary table in the Appendix shows the CEO's actual total remuneration in FY22 to be 23% below target and 42% below maximum opportunity, a situation that has persisted for some years due to the challenging circumstances facing Origin.

ASA will therefore vote all undirected proxies in favour of the adoption of the Remuneration Report.

Resolution 5: Equity grants to Managing Director and Chief Executive Officer Mr Frank Calabria

Under Listing Rule 10.14, shareholder approval is required for the issue of securities to any director under an employee incentive scheme. While shareholder approval is not required if shares are purchased on market, Origin wishes to seek shareholder approval for transparency and good governance.

We consider the 5-year vesting of LTIs, in this case Performance Share Rights (PSRs) and Restricted Share Rights (RSRs), to be good practice and balanced with the CEO's fixed pay. At maximum opportunity levels, these rights could progressively deliver shares up to a face value of $2,346,000 (based on a VWAP of $5.8951 at 30 June 202) which represents 120 per cent of his Fixed Remuneration on 1 July 2022.

ASA will therefore vote all undirected proxies in favour of the equity grants to Managing Director and Chief Executive Officer Mr Frank Calabria.

Resolution 6: Non-executive Director Share Plan

Under Listing Rule 10.14, shareholder approval is required for the issue of securities to any director unless purchased on market. Origin intends to purchase the shares on market but wishes to retain the flexibility to issue shares if it is in the best interests of the company to do so.

This scheme is a salary sacrifice scheme where a non-executive director may sacrifice up to 50% of director fees for the purchase of shares at a cost per share being the weighted average price of

Origin's shares for the five trading days leading up to the grant date. The shares are subject to dealing restrictions and vesting dates following "Closed Periods" after the release of half and full year results. We believe that the opportunity for NEDs to fee sacrifice helps align their interests with the company and is good practice.

ASA will therefore vote all undirected proxies in favour of the adoption of the Non-executive Director Share Plan.

Resolution 7: Reinsertion of proportional take-over provisions

This proposal is largely procedural. The Corporations Act permits a company's constitution to include a provision that enables it to refuse to register shares acquired under a proportional takeover bid, unless shareholders approve the bid. Rule 15 of the constitution was approved by shareholders in 2019, but that approval (and therefore the rule) ceases to have effect on 16 October 2022.

The directors consider it in the interests of shareholders to continue to have a proportional takeover provision and ASA sees no reason not to have the Rule reinserted. The explanatory notes to the Notice of Meeting recognise that there is the potential that the provision may discourage certain takeovers, however, Origin is unaware of any potential takeovers that did not proceed while the rule was previously on foot. The explanatory notes also detail that the advantages of the rule include preventing shareholders being locked into minority positions without an adequate control premium and increasing shareholder bargaining power.

ASA will therefore vote all undirected proxies in favour of the proposal for the reinsertion of proportional takeover provisions in its constitution.

Resolution 8: Approval of the Climate Transition Action Plan (CTAP)

We note that this is an "advisory" resolution that is being framed as an opportunity for shareholders to discuss and provide feedback on the CTAP.

It is a three-year plan and consistent with a 1.5 degree celsius pathway. As an energy utility, Origin wishes to be a leader in the transition to a low emission future. The plan identifies a 40% reduction in Scope 1,2 and 3 emission intensities by 2030 and net zero emissions by 2050.

While we support Origin's efforts to commit to a net zero future, we are somewhat concerned that the investments required to achieve the 2030 target have not been fully identified and, with project lead times generally extending within the renewable industry, the targets will be difficult to achieve by 2030. It is also not clear exactly what an Australian company can do to achieve reductions in Scope 3 emissions by Origin's customers from the use of its LNG exports. Coupling Scope 3 emission reductions with Scope 1 and 2 reductions, which are generally within the control of the company, seems problematical to ASA.

Nevertheless, ASA is very supportive of Origin progressing its CTAP and providing more details in coming years. The recent sale of its Beetaloo interests and its announced early closure of Eraring are clear evidence of Origin's commitment to the energy transition it espouses. ASA will therefore vote all undirected proxies in favour of the resolution to approve the Climate Transition Action Plan.

Resolution 9(a): Amendment to the constitution

As occurred in 2021, this resolution has been put forward by a group of shareholders seeking a constitutionally entrenched power to express an opinion or make a request on the exercise of powers vested in the directors. As a special resolution, it requires a vote of 75% or more to be adopted.

ASA is opposed to such resolutions as shareholders already have ample opportunities to express their views. ASA will therefore vote all undirected proxies against the resolution to amend the constitution.

If Item 9(a) fails to be adopted, the following resolutions, which are ordinary resolutions, will not be put to a vote but the company has advised it will allow reasonable debate on these motions at the AGM. These are identical resolutions to those that were put to the 2021 AGM.

Resolution 9(b): Climate Accounting and audit.

This resolution has been withdrawn by the proponent.

Resolution 9(c) Water

With the sale of the Beetaloo prospect we expect that this resolution is less relevant to Origin however ASA will vote against it if 9(a) succeeds.

Resolution 9 (d) Cultural Heritage

With the sale of the Beetaloo prospect we expect that this resolution is less relevant to Origin however ASA will vote against it if 9(a) succeeds.

Resolution 9(e) Consent

With the sale of the Beetaloo prospect we expect that this resolution is less relevant to Origin however ASA will vote against it if 9(a) succeeds.

Appendix 1
CEO remuneration framework detail for FY22

Remuneration Component	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.880	34.5%	1.880	25.8%
STI - Cash	0.940	17.2%	1.570	21.6%
STI - Equity	0.940	17.2%	1.570	21.6%
LTI (PSRs plus RSRs)	1.692	31.1%	2.256	31.0%
Total	5.452	100.0%	7.276	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. The number of share rights is calculated at face value based on the 30-day VWAP at financial year end.
*Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting. Further details are provided in the Annual Report and Notice of Meeting.