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Origin Energy: A tale of two businesses

Company/ASX Code	Origin Energy (ORG)
AGM date	Wednesday 20 October 2021
Time and location	10.00 am (AEDT) Virtual AGM
Registry	Boardroom
Webcast	Yes: web.lumiagm.com/374437175
Poll or show of hands	Poll on all items
Monitor	Lewis Gomes assisted by Michael Batchelor
Pre AGM Meeting	Yes with Chairman Scott Perkins and Chairman of Remuneration and People Committee Steven Sargent

The individuals or their associates involved in the preparation of this Voting Intentions have a shareholding in this company.

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

Summary of performance and outlook

Origin has seen a further divergence in the prospects of its two core businesses during FY21 namely Energy Markets, which services retail, industrial and commercial energy customers, and Integrated Gas which comprises a 37.5% share of the APLNG project based near Gladstone, Queensland. Origin is the upstream operator of the coal seam gas (CSG) to LNG facility which exports most of its output to Asian markets and whose co-equity partners include several major customers.

Energy Markets has continued to feel the pressure of falling wholesale power prices due to a combination of increasing supply from renewables as well as the impacts of increased network and metering costs, higher gas supply costs and the roll-off of certain gas supply and transport capacity sales contracts. Covid 19 lockdowns have also affected demand for power and increased costs due to mobility restrictions.

Underlying EBITDA for Energy Markets for FY21 was $991 million compared with $1,459 million for the previous year, a reduction of 32%. The forward outlook suggests further declines with FY22 guidance in the range of $450 million to $600 million, that is, almost one third of that from FY20. The only good news is that Origin is expecting an upturn in fortunes in FY23 and beyond due to a partial recovery in wholesale prices for electricity and further savings in operating costs through its investment in Octopus Energy and its Kraken customer interface.

While Integrated Gas achieved an FY21 EBITDA of $1,135 million, down 35% on the FY20 figure of $1,741 million, throughput remained strong but was affected by global declines in oil prices due to Covid-reduced demands and other factors, only partly offset by oil hedging gains.

More positively, the outlook for Integrated Gas is strong, with FY22 guidance in the range of $1,400 million to $1,550 million based on a relatively stable oil price environment, reducing production costs and replenishment of reserves. The demand for LNG from Asian customers is expected to grow as older coal fired power generation capacity is gradually retired in favour of combinations of renewables and gas fired plants.

The board's strategy is directed to "driving further value from the energy transition." Notable initiatives include accelerating renewables business model and securing growth in green fuels. At the ASA meeting with the Chairman, Origin reiterated its focus on capital and cost management, its retail transformation through initiatives such as the Kraken roll out, commodity price risk management, delivering value from APLNG, unlocking value from upstream (Beetaloo) and reducing emissions.

Financial performance

Origin's statutory profit for FY21 was negative $2,291 million compared with $83 million for FY20 with underlying profit down to $318 million from $1,023 million in the previous year. Underlying EBITDA was down to $2,048 million from $3,141 million for FY20. Free cash flow (before major growth projects) was also down to $1,140 million from $1,644 million. Adjusted net debt was reduced by $519 million to $4,639 million. The final dividend for FY21 was 7.5 cps making the total FY21 dividend 20 cps which was 31% of free cash flow.

The statutory loss reflected non-cash impairments relating to Energy Markets ($1,578 million), recognition of deferred tax liabilities in respect of its investment in APLNG ($669 million), costs relating to a decision to defer the surrender of large-scale generation certificates ($198 million) and unrealised losses on fair value and FX movements.

The non-cash impairments to Energy Markets mainly impacted on the carrying value of Eraring Power Station and reflect lower wholesale electricity prices and goodwill writedowns associated with the purchase of Integral Energy and Country Energy from the NSW Government back in 2010. Origin still carries about $3.8 billion of goodwill on its balance sheet relating to these earlier purchases when wholesale power prices were much higher.

The deferred tax liability relates to tax that will become payable by Origin once dividends flow to it from APLNG whereas to date payments from APLNG to Origin have been in the form of interest and capital payments on Mandatorily Redeemable Cumulative Preference Shares (MRCPS).

Origin has advised that a further deferred tax liability of $810 million remains unrecognised. The deferred tax liability will be utilised over coming years as APLNG pays unfranked dividends from operating profits and payments to its shareholders from retained earnings. That is, over the long term, tax payable should be offset by the deferred tax provisions.

The issues relating to large-scale generation certificates (LGC's) are complex and subject to regulation by the Clean Energy Regulator but Origin notes that a further $102 million is likely to be incurred in the first half of FY22.

Governance and culture

Origin has a well-developed risk management culture which is described in detail within the Annual Report covering strategic, financial and operational risks and is overseen by the board's Risk Committee.

Origin has committed itself to a range of emissions reduction targets including lowering Scope 1 and 2 emissions by 50% and Scope 3 emissions by 25% by 2032. It also aims to achieve net zero Scope 1 and 2 emissions by 2050 and work is progressing on updated emission reduction targets in line with a pathway to limit global temperature increases to 1.5 deg C. Origin intends to put its climate reporting framework to a non-binding advisory vote of shareholders at its 2022 AGM.

Origin is also progressing renewable (green) hydrogen studies in Tasmania and developing a range of services to integrate the energy usage of customers within virtual power networks using roof-mounted solar panels.

Origin is a signatory to the 40:40 Vision, an investor-led initiative targeting gender balance in executive leadership by 2030. It also has programs supporting mental health and wellbeing as well as cultural awareness programs focused on Aboriginal and Torres Strait Islander cultures, histories and achievements.

Key board and senior management changes

Origin welcomed 3 new directors during FY21 being Ilana Atlas, Mick McCormack and Joan Withers while farewelling Gordon Cairns as Chairman who was replaced by serving director Scott Perkins. The 3 new directors are subject to voting at the upcoming AGM while Scott and fellow director Steven Sargent are standing for re-election.

Among the executive team, the main change is the departure of Mark Schubert to become CEO of Cleanaway. Mark was Executive General Manager of Integrated Gas and has been replaced by Andrew Thornton as Acting GM of Integrated Gas. Andrew joined Origin in 2012 and prior to then had a background in commercial and investment banking with Goldman Sachs and Morgan Stanley.

Financial Summary

(As at FYE)	**2021**	**2020**	**2019**	**2018**	**2017**
Statutory NPAT ($m)	(2,291)	83	1,211	218	(2,226)
Underlying NPAT ($m)	318	1,023	1,028	1,022	550
Share price ($)	4.51	5.84	7.31	10.03	6.86
Dividend (cents)	20	25	25	0	0
TSR (%)	(19.7)	(17.7)	(26.1)	46.2	19.3
Statutory EPS (cents)	(130.2)	4.7	68.8	12.4	(126.9)
CEO total remuneration, actual ($m)	3.77	3.59	3.16	2.96	2.66

For 2020, the CEO's total actual remuneration was 40 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2021 data from the Australian Bureau of Statistics).

Item 2	**Election of Ms Ilana Atlas as a Director**
ASA Vote	**For**

Summary of ASA Position

Ms Atlas joined the board in February 2021 and, subject to election, will join the Remuneration and People Committee. Ms Atlas has extensive financial services and legal experience and has held executive and non-executive roles across many sectors. She is currently a director of Scentre Group and ANZ Banking Group. She was previously chairman of Coca Cola Amatil Ltd and a director of Treasury Corporation of NSW, Westfield Group and Suncorp. Prior to her non-executive director roles, she was Group Executive, People and Group Secretary and General Council at Westpac Banking Corporation and a partner at Mallesons Stephen Jacques.

The ASA notes that while she has extensive public company director experience, she appears to have had little experience in energy generation or retailing nor in CGS/LNG industries. Nevertheless, as the board supports her election and in our meeting with Origin's Chairman she was strongly endorsed, the ASA will vote all undirected proxies FOR her election. At the AGM, the ASA will ask Ms Atlas to speak specifically to the skills and experience she brings to the board.

Item 3	**Election of Mr Mick McCormack as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr McCormack joined the board of Origin in December 2020 and is a member of the Health, Safety and Environment Committee and the Remuneration and People Committee. He is chairman of Central Petroleum Limited and a director of Austal Limited. Mr McCormack is well known as the recently retired CEO of APA Group, a position he held for 15 years after joining the company in 2000. He achieved significant growth and success for APA and its shareholders. He has more than 36 years of experience in the energy and infrastructure sectors including gas-fired and renewable energy power generation, gas processing and underground storage.

Given his track record of success in his fields of expertise, the ASA will be voting all undirected proxies FOR his election.

Item 4	**Election of Ms Joan Withers as a Director**
ASA Vote	**For**

Summary of ASA Position

Ms Withers joined the board in October 2020 and is a member of both the Audit and Risk Committees. She spent over 25 years working in the media industry, holding CEO positions at both Fairfax NZ Ltd and The Radio Network. She is currently chairman of The Warehouse Group and a director of ANZ Bank New Zealand Ltd. She previously held the role of chairman of Auckland International Airport, Mercury NZ Ltd and TVNZ. Her experience in the energy sector appears to be limited to her role as a director of Meridian Energy Ltd in New Zealand.

As with Ms Atlas, given the support of the board and, specifically that of the Chairman in our meeting with him, the ASA will be voting all undirected proxies FOR the election of Ms Withers. At the AGM, the ASA will ask Ms Withers to speak specifically to the skills and experience she brings to the board.

Item 5	**Re-election of Mr Scott Perkins as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Perkins joined the board of Origin in September 2015 and became Chairman in October 2020. He is a non-executive director of Woolworths Ltd and Brambles Ltd. He has extensive Australian and international experience as a leading corporate advisor and was formerly Head of Corporate Finance for Deutsche Bank Australia and New Zealand.

The ASA has had regular engagement with Mr Perkins over a number of years in his previous role as Chair of the Remuneration and People Committee and has always found him to be receptive to and supportive of the views of our members. The ASA therefore will be voting all undirected proxies FOR his re-election.

Item 2	Re-election of Mr Steven Sargent as a Director
ASA Vote	**For**

Summary of ASA Position

Mr Sargent joined the board in May 2015 and is Chair of the Remuneration and People Committee and a member of the HSE, Risk and Nominations Committees. He is currently chairman of OFX Group and deputy chairman of Nanosonics Ltd and was briefly a director of Veda Group Ltd. His executive career included 22 years at General Electric where he led businesses across the USA, Europe and Asia Pacific in global mining technology and services, energy, oil & gas, aviation, healthcare and financial services.

The ASA has been engaging with Mr Sargent in recent years in his role as Chair of the Remuneration and People Committee and have found him to be receptive to the ASA's views on remuneration and commend him on the recent changes to the remuneration framework. The ASA will therefore be voting all undirected proxies FOR his re-election.

Item 7	Adoption of 2021 Remuneration Report
ASA Vote	**For**

Summary of ASA Position

A summary of the CEO's remuneration framework for FY21 is presented in the following table. Actual remuneration received comprised $1.831m fixed remuneration (FR) plus $0.712m cash short term variable remuneration (STVR) plus $1.225m deferred equity STI and LTI awards from previous years for a total remuneration of $3.768m. Deferred equity shares are valued on the 5 day VWAP of the group's ordinary shares immediately preceding the vesting date (30 June).

The STI is assessed in two components being a total of 60% against six financial metrics and 40% against four non-financial metrics. Target STI is 100% of Fixed Remuneration (FR) while maximum opportunity is capped at 167% of FR. For the CEO, the assessed STI was 62.2 % of maximum but the Board exercised a downwards adjustment of 25% to 46.6% to reflect the shareholder experience of the declining share price and reduced dividends. This adjustment resulted in a total STI of $1.425m of which 50% was paid in cash and the other 50% being in Restricted Shares which are subject to a two year deferral period. Other executives were similarly subject to downwards adjustments.

Origin flagged prior to last year's AGM that it was reassessing its longterm incentive (LTI) remuneration framework and advised that it would amend the LTI from two financially-based metrics (RTSR and ROC) based on a 50:50 split to an equal split of Restricted Shares Rights (RSR) subject to Board discretion and a single financial metric being Relative Total Shareholder Return (RTSR). In recognition of the reduced metric assessment of the LTI, the Board applied a 33% reduction in the LTI maximum opportunity resulting in a 13.4% overall reduction in total remuneration and increased the deferral period from 4 years to 5 years. The minimum shareholding requirements of executives were also increased.

The testing period for the RTSR awards, referred to as Performance Share Rights (PSR), is 3 years with a further two years holding lock. The RTSR is assessed against the S&P/ASX 50 being a broad range of the 50 top companies on the ASX by market value. The RSR award grants are released in three equal tranches at the end of Year 3, Year 4 and Year 5 respectively. However, the first tranche is subject to a 2 year holding lock while the second tranche is subject to a one year holding lock and the final tranche has no holding lock. That is, all RSR awards are subject to a total 5 year deferral. Malus and clawback provisions apply.

For the CEO the maximum LTI is now 120% of FR compared with 180% previously and for other executives it is 80% compared with 120% previously. Board discretion for the Restricted Share Rights is made against a broad range of considerations including risk and reputation, employee relations, contribution to business strategy and achievements against the annual Sustainability Report.

Following a salary freeze in FY21, modest adjustments have been made to FR for Executive KMP from 1 July 2021 in order to maintain market competitiveness. The CEO's FR was increased by 2.7% while other KMP's were increased by an average of 2.3% in line with adjustments to Origin's workforce more generally. There have been no changes to the LTI Plan for FY22 and no changes to the structure or level of NED fees.

CEO Remuneration Framework for FY21

CEO Remuneration	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.831	34	1.810	25
STI – Cash at 50%	0.916	17	1.529	22
STI – Equity at 50%	0.916	17	1.529	22
LTI - Deferred	1.648	32	2.197	31
Total	5.310	100	7.086	100

*LTI is based on face value of shares assuming 100% vesting

The ASA believes the remuneration plan meets its requirements for objective assessments that reflect the shareholder experience. The reductions in overall maximum remuneration and extended deferral periods are welcome changes to the previous plan. The ASA therefore will be voting all undirected proxies FOR the resolution.

Item 8	**Grant of securities to CEO, Frank Calabria**
ASA Vote	**For**

Summary of ASA Position

Approval is being sought for the issue to the CEO of LTI awards for FY21 to the value of $2,197,200 being 120% of his FR of $1,831,000. This sum represents an equal number of 235,989 PSR's and 235,989 RSR's based on the 30-day share price VWAP to 30 June 2021 of $4.65. The grants are subject to the requirements detailed in Item 7 above.

Approval is also sought for the issue on 3 November 2020 of 183,416 PSR's and 183,414 RSR's issued to the CEO for FY20 which were the subject of a resolution at last year's AGM that was withdrawn prior to the meeting.

As these awards are consistent with the remuneration framework described in Item 7, the ASA will be voting all undirected proxies FOR this resolution.

Item 9	**Renewal of approval of potential termination benefit**
ASA Vote	**For**

Summary of ASA Position

At the company's 2018 AGM, shareholders' approval was received for potential termination benefits to be paid or granted to KMP's whose employment terminated in the 3 years following that AGM. Shareholders are being requested to provide a further 3 year approval period to the conclusion of the 2024 AGM. The rationale for this resolution is covered in some detail in the Notice of Meeting.

As this renewal simply seeks to extend an existing approval and is not directed at any particular KMP, the ASA will be voting all undirected proxies FOR this resolution.

Item 10a	Amendment to the constitution (special resolution)
ASA Vote	**Against**

Summary of ASA Position on 10a

This resolution has been put forward by a small 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.

The board believes that if passed, it would allow groups of shareholders to use the general meeting process for philosophical or ideological purposes and may not advance the interests of shareholders as a whole. The ASA is opposed to such resolutions as shareholders already have ample opportunities to express their views and is concerned with the tendency for activist groups to dominate question time at AGM's to the detriment of most other attendees. The ASA therefore will be voting all undirected proxies AGAINST this resolution.

If Item 10a 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.

Item 10b	Water
ASA Vote	**Against**

Item 10c	Cultural heritage
ASA Vote	**Against**

Item 10d	Consent & FPIC
ASA Vote	**Against**

Summary of ASA Position on 10b to 10d

These resolutions have been put forward by interests claiming to represent local native title holders essentially seeking to stop Origin from exploring and testing for potential high grade gas deposits within the Beetaloo area in the Northern Territory. Details of the statements presented by these interests are given in the Notice of Meeting along with detailed responses from Origin.

The board has advised that it consults actively with local indigenous people and that many of the views expressed by the proponents of these resolutions do not actually fairly represent local interests. Details of this engagement and of Origin's activities in the Beetaloo area are provided in detail in the Annual Report. These matters have a long history and the ASA is satisfied that Origin has indeed been very engaged with local communities and has their general support. The ASA will therefore be voting all undirected proxies AGAINST these resolutions should they put to a vote.

Item 10e	**Climate-related lobbying**
ASA Vote	**Against**

Item 10f	**Paris-aligned capital expenditure**
ASA Vote	**Against**

Summary of Position of ASA on Resolutions 10e and 10f

These resolutions have been put forward by the ACCR. Item 10e seeks to limit Origin's engagement with industry groups that promote the use of gas as a transition fuel on the journey towards net zero emissions by 2050 while Item 10f seeks to reduce Origin's capital expenditure profile to essentially prevent any continuing or new expenditure on oil or gas exploration or development. The company has responded to both resolutions in detail in the Notice of Meeting and further elaborates on its transition planning in support of global efforts towards a lower carbon intensive planet in its Annual Report. The ASA supports the board's views on these resolutions and will therefore be voting all undirected proxies AGAINST these resolutions should they be put to a vote.