Australian Shareholders' Association

Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, Level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235
t (02) 9252 4244 | f (02) 9071 9877
e share@asa.asn.au

Origin shows resilience through difficult times

Company/ASX Code	Origin Energy/ORG
AGM date	Tuesday 20 October 2020
Time and location	10.00 am Virtual AGM
Registry	Boardroom
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Lewis Gomes assisted by David Jackson
Pre AGM Meeting	Yes with Chairman Gordon Cairns and Chairman of Remuneration and People Committee Steven Sargent

One of 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 ASA Position

In an extraordinary year, Origin quietly celebrated its 20th year as a listed company after being divested in 2000 by Boral. Origin is now Australia's number one energy retailer and a significant energy producer and a major contributor to the Australian economy. Like most companies in the energy sector, Origin faced a number of serious headwinds during the financial year but particularly in the second half as COVID-19 sent oil (and hence gas) prices plummeting as global demand dropped by more than 20% due to dramatic reductions in air travel, personal and business travel, and reductions in industrial production.

To add to Origin's challenges, the Commonwealth Government has continued to pressure energy producers and retailers to reduce prices to consumers and to address perceived gas shortages to customers in eastern Australia. The transition away from coal-fired electricity generation to renewables is dramatically affecting the reliability and stability of network supply while increasing the importance of gas as a transition fuel. With its 37.5% equity partnership in APLNG based on Curtis Island near Gladstone, gas production and exporting of LNG has become increasingly important to Origin, notwithstanding the drop in global LNG prices, as it seeks to ameliorate the impacts of falling wholesale pricing from renewables and government pressure on the domestic electricity market.

Governance and culture

Governance and culture are addressed primarily in the Remuneration Report of Origin's Annual Report. Origin appears to be somewhat behind other large companies which are devoting more attention to these important matters and demonstrating more awareness of broader community expectations. Origin does have a comprehensive approach to risk identification and management and operates on a "three lines of defence" framework through lines of business, internal oversight by management and finally through internal audit and board oversight. Risks are assessed under the headings of strategic, financial and operational. However, reputation risk appears to be missing in its considerations.

Origin has a firm focus on people conduct and accountability through its Behaviourally Anchored Rating Scale (BARS) methodology which assesses individual performances against specific examples of behaviour required of different roles and levels within the organisation. This methodology is overseen by the Remuneration and People Committee and is part of the performance assessment process whereby awards may be increased or decreased. There are no details of any observed behaviour concerns or actions taken by Origin in response to what might be unacceptable behaviour. This is an area of possible improvement for Origin in future reporting.

Financial performance

Origin's underlying business performance continued to improve across the year, driving growth in free cash flow which allowed further debt reduction, disciplined investment in growth and distributions to shareholders. Origin delivered a stable underlying profit of $1,023 million in FY20 compared with $1,028 in FY19. However, statutory profit was almost wiped out by large writedowns of the carrying value of its share of APLNG and an item referred to as "onerous contract provision charges". This latter provision relates to a contract entered into by Origin in 2013 to purchase about 0.25 million tonnes per annum (mtpa) of LNG from the US-based Cameron LNG terminal at prices that have been adversely affected by recent falls in LNG prices. Total writedowns of $1.2 billion reduced statutory profit to a mere $83 million from $1,211 million in FY19.

Through its Integrated Gas business, Origin received a cash contribution from APLNG of $1,275 million as record production of over 700 PJ of gas (equivalent to about 12.5 mtpa of LNG) was achieved by APLNG. In Energy Markets, electricity gross profit was lower following the introduction of retail price regulations, reduced demand and significant falls in wholesale electricity pricing resulting from increased renewable supplies. Adjusted net debt was reduced by $773 million excluding the impact of new lease accounting requirements which added $514 million back to bring total net debt to $5,158 million. Offsetting the new leasing liability was an asset "Right of Use" recognition of $467 million arising from the introduction of AASB 16 Leases.

Integrated Gas delivered underlying EBITDA of $1,741 million, down 8% on FY19 due to more sales into weaker spot markets, lower domestic sales volume and prices, and increased production costs from accounting changes. Total operating and capital expenditure in FY20 was $3.50/GJ. Energy Markets delivered an underlying EBITDA of $1,459 million, down 7% on FY19 due to lower electricity margins only partly offset by higher retail gas margins.

Origin declared a total dividend for FY20 of 25 cents per share (cps) unfranked which represented 27% of free cash flow. Guidance for FY21 is subdued, with Integrated Gas production expected to be down, along with prices, and Energy Markets also down due to reduced demand and price compression. Capital expenditure in FY21 is expected to be lower by about 10% to around $450 million.

Key events

The most consequential event during FY20 was, of course, the arrival of the COVID-19 virus and the resulting human and economic effects from health impacts and government-imposed restrictions on movements, business activities and job losses. The immediate impacts were sudden reduced demand and prices for gas as well as increased government intervention in the domestic electricity market.

Origin also had to respond to hardship cases arising from the summer bushfires in regional NSW and Victoria as well as further hardship situations arising from customers affected by job losses and business downturns due to the pandemic. Origin, like most businesses, had to rapidly adapt to working from home (WFH) arrangements with most office-based staff while also dealing with COVID-19 working restrictions at its production facilities.

Gas exploration has resumed in the Beetaloo Basin in the Northern Territory (NT) after pausing in March because of the pandemic. Despite some local opposition from indigenous and environmental groups, Origin remains committed to this project which has the potential to deliver longterm economic and social benefits for the NT and Australia more broadly.

In May 2020, Origin announced a strategic partnership with Octopus Energy, a fast growing UK retailer, "to radically transform our retail operations". It is not clear how this objective is to be realised nor what costs and benefits may be obtained. The ASA will be seeking further information from Origin at the AGM on the Octopus partnership.

Key board and senior management changes

The most notable board change this year is the retirement of Gordon Cairns as chairman, having joined the board in 2007 and becoming chairman in 2013 after Origin found itself overinvested in the APLNG project. Gordon has overseen many changes to governance, culture and operational matters and the business is now in much better shape than it was back then. Scott Perkins , a director since September 2015 and former Chair of the Remuneration and People Committee, will assume the role of chairman after the upcoming AGM.

Existing director Maxine Brenner is standing for re-election at the upcoming AGM.

Kate Jordan has joined the Executive Leadership Team (ELT) as General Counsel and Executive Manager , Company Secretariat, Risk and Governance. Prior to joining Origin, Kate was Deputy Chief Executive Partner at Clayton Utz, responsible for people and development. She has over 20 years of legal experience across a range of corporate transactions.

Financial Summary

(As at FYE)	**2020**	**2019**	**2018**	**2017**	**2016**
Statutory NPAT ($m)	83	1,211	218	(2,226)	(628)
Underlying NPAT ($m)	1,023	1,028	1,022	550	365
Share price ($)	5.84	7.31	10.03	6.86	5.75
Dividend (cents)	25	25	0	0	10
TSR (%)	(17.7)	(26.1)	46.2	19.3	(42)
Statutory EPS (cents)	4.7	68.8	12.4	(126.9)	(39.8)
CEO total remuneration, actual ($m)	3.59	3.16	2.96	2.66	2.6

For 2020, the CEO's total actual remuneration was 39 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Note - For May 2020, the Full-time adult average weekly total earnings (annualised) was $91,983 (http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0, "Full-time adult average weekly total earnings"

Item 2	**Re-election of Ms Maxine Brenner as a Director**
ASA Vote	**For**

Summary of ASA Position

Maxine Brenner joined the board in November 2013 and is chairman of the Risk Committee and a member of the Audit and Nominations Committees. She was previously a Managing Director of Investment Banking at Investec Bank (Australia) Ltd. Prior to Investec, Maxine was a Lecturer in Law at the University of NSW and a lawyer at Freehills specialising in corporate law.

She holds 28,367 shares in Origin which is just above the minimum number required of non-executive directors, being equivalent to one year's base fee.

Maxine is a non-executive director of Orica and Qantas Airways. She is also an independent director of Growthpoint Properties Australia and a member of the University of NSW Council. She holds a Bachelor of Arts and a Bachelor of Laws.

The ASA will be seeking further information on her specific contributions to Origin as a director but subject to any adverse response intends to vote FOR her re-election.

Item 3	**Adoption of 2020 Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

A summary of the CEO's remuneration framework for FY20 is presented in the following table. Actual remuneration received comprised $2.20m fixed remuneration (FR) plus $1.21m cash short term variable remuneration (STVR) plus $0.486m deferred equity awards from previous years. Deferred equity shares are valued on the 5 day VWAP of the group's ordinary shares immediately preceding the vesting date.

FY20 Remuneration

Origin's FY20 remuneration framework for the CEO comprised a Fixed Remuneration (FR) payment plus a Short Term Incentive (STI) with 50% paid in cash and 50% paid in shares restricted for two years. Target and Maximum Opportunity (Max Opp) levels for the STI were 100% and 167% respectively of FR. The Long Term Incentive (LTI) maximum for the CEO was 180% of FR and 120% for other KMP's, and was based on two performance measures of equal weight being Relative Total Shareholder Return (RTSR) and Return on Capital Employed (ROCE).

The STI outcomes for the FY20 year reflected above-target results and in some cases approached stretch targets. The CEO's STI outcome was 83.5% of Max Opp (FY19 was 68.2%) while the aggregate STI outcome for KMP's was 84.15% of Max Opp (FY19 was 73.7%). The STI assessment is measured against 7 financial metrics totalling 65% of STI and 3 non-financial metrics totalling 35% of STI. For the CEO, the assessment gave him a score of 88.0% which was reduced under board discretion to 83.5% based on "a final review of all results".

The ASA believes that Origin should simplify its STI financial metrics as most companies use only 2 or 3 metrics and those used by Origin are not all independent of one another and hence tend to measure related attributes (ie a tendency to double count outcomes).

Origin's Engagement Score rose to top quartile while safety outcomes improved by 40% as measured by Total Recordable Injury Frequency Rate (TRIFR). Origin also recorded its highest ever Strategic Net Promoter Score and RepTrak reputation score.

No Long Term Incentives (LTI) vested during the year although a partial vesting is expected from the FY17 LTI in the current financial year (FY21). In fact, no LTI awards have vested for many years and this lead the Origin board to develop a new LTI framework that was to be presented to the AGM. However, as advised in Item 4 below, this new framework has since been withdrawn after negative feedback from shareholders, proxy advisors and the ASA.

CEO Remuneration Framework for FY20

CEO Remuneration	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.83	26	1.83	22
STI – Cash at 50%	0.91	13	1.52	19
STI – Equity at 50%	0.92	14	1.53	19
LTI - Deferred	3.29*	47	3.29	40
Total	6.95	100	8.17	100

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

Given that the overall remuneration levels achieved by the CEO and KMP's were well below target levels, primarily due to the absence of LTI awards vesting, and were based on a pre-existing framework, the ASA recommends voting FOR this resolution.

Item 4	**Grant of securities to CEO, Frank Calabria - WITHDRAWN**
ASA Vote	**Not required**

Summary of ASA Position

As noted above, the proposed new LTI framework and grant of securities under this new framework have been withdrawn from consideration at this AGM. It is understood that a revised LTI framework will be developed and discussed with the ASA and others before presentation to next year's AGM. In the meantime, no longterm awards for FY21 will be made to the CEO or other executives.

Item 5	**Resolutions requisitioned by a group of shareholders**
ASA Vote	**Against**

Summary of ASA Position

A small group of shareholders representing approximately 0.0157 per cent of Origin's ordinary shares has proposed Resolutions 5(a), 5(b) and 5(c) under section 249N of the Corporations Act. Resolution 5(a) seeks an amendment of the Company's constitution and Resolutions 5(b) and 5(c) are contingent advisory resolutions. Resolution 5(a) is a special resolution that requires 75% or more of votes in favour of it to be adopted and should it fail to achieve this level of support, the other resolutions cannot be put to the AGM.

Resolution 5(a) has been put forward by the Australasian Centre for Corporate Responsibility (ACCR) in order to permit the raising of advisory resolutions by way of ordinary resolution that would require only 50% of votes in favour to be carried.

Resolution 5(b) relates to concerns about fracking in the Beetaloo Basin and associated views and entitlements of Native Title holders. Resolution 5(c) relates to commitments under the Paris Agreement on reductions in green-house gas emissions and specifically to targeted net zero emissions in the electricity sector by 2050. Statements in support of all three resolutions tabled by the ACCR are presented in the Notice of Meeting.

The Origin board has advised that the resolution to change the constitution is not in the best interests of the company and that there are other ways for shareholders to raise issues of concern or to make recommendations to the company. Origin has given detailed responses to the statements made by the ACCR on each of its three resolutions in the Notice of Meeting.

The ASA is also of the view that changes to the constitution along the lines requested by the ACCR are not appropriate. The ASA therefore recommends a vote AGAINST this resolution.

Should Resolution 5(a) be passed, the ASA recommends voting AGAINST Resolutions 5(b) and 5(c) as they are not supported by the board and are not appropriate resolutions to be considered at an AGM.