



**Beach treads water for a year or two.**

<b>Company/ASX Code</b>	Beach Energy/BPT
<b>AGM date</b>	Wednesday, 10 November 2021
<b>Time and location</b>	10.30am Virtual Meeting
<b>Registry</b>	Computershare
<b>Webcast</b>	Yes, Virtual Meeting
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	James Hahn assisted by Malcolm Holden
<b>Pre AGM-Meeting?</b>	Yes, with Chair Glenn Davis

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**

It was a great disappointment for the company to significantly lower its reserves of condensates at Western Flank by 20 MMboe. However, this can be viewed as returning to mean with the low reserve status. A drilling rig has now been deployed for additional exploration activity.

Given the downgrade of Western Flank, the revenue centres will revolve around the existing Cooper Basin production. From 2022 and 2023 the Ottway Basin will be expanded. Waitsia gas from the Perth Basin is expected to become an important revenue stream from 2024.

Beach Energy has a passive interest in the Santos operated CCS carbon capture scheme in the Cooper Basin. It was suggested by the Chairman their share is equivalent to 415,000 tonnes annually, which happens to match carbon output of the company.

**Consideration of accounts and reports**

**Governance and culture**

Governance is generally good with the Chairman and board representing all shareholders despite Seven Group Investment Holdings having 30% shareholding and two nominated board members as of 30 June 2020. Six of the nine directors are independent, but the Chairman was elected to the board in 2009 and therefore ASA no longer deems him to be independent.

**Financial performance**

Net Profit After Tax was down from \$499 million in 2020 to \$316.5 million in 2021. Impairments to assets contributed 117 million to the reduction in revenue. Earnings per share dropped from 22cps to 13.9cps. As stated in the chart below Total Shareholder Returns were negative 17.1%.

Annual production was down 4%, largely owing to the declining performance of Western Flank. However, the balance sheet is strong with net gearing of 1.5% and liquidity of \$402 million. Beach has positioned itself as a growth company and has a significant investment pipeline, particularly in

the Perth and Otway Basins. These developments will only reap rewards in 2023 and 2024, so a longer-term view must be held to realise increases in revenue and income.

Oil price stabilised in the year, but a significant proportion of revenue is in long-term contract. This is typical of the gas market. The main volume and price increase in gas sales will occur in the next two years. The company made an announcement on 27 September 2021 of a Heads of Agreement with BP Singapore Pte. for the sale of 3.75 million tonnes of LNG from the Waitsia Gas Project. This aligns with strategy of growth in next two years.

### **Key events**

Two bolt-on acquisitions were made in Cooper and Bass Basins.

### **Key Board or senior management changes**

The company announced that Mr Ryan Stokes and Ms Joycelyn are retiring as directors and not seeking re-election. Ms Margaret Hall has been nominated to replace Mr Ryan Stokes as the Seven Group Holdings nominated representative and has held that position from May 3, 2021.

### **ASA focus issue**

Beach Energy satisfies the requirements of the ASA focus issues. Throughout the current Covid Pandemic the company continued to operate safely, recording a record low injury rate. The CEO has not achieved REM hurdles and has not been compensated. Shareholder communication is satisfactory, and no capital raisings have occurred during the financial year. All directors have adequate share holdings.

### **Summary**

(As at FYE)	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
NPAT (\$m)	316.5	501	577.3	198.8	387.5
UPAT (\$m)	363	461	560	301.5	161.7
Share price (\$)	1.24	1.52	1.985	1.755	0.575
Dividend (cents)	2.0	2.0	2.0	2.0	1.5
Simple TSR (%)	-17.1	-22.4	14.2	209	-1.7
EPS (cents)	13.88	22	25.35	9.16	20.38
CEO total remuneration, actual (\$m)	1,203	1,410	1,782	1,268	1,243

For 2021, the CEO's total actual remuneration was **13.1 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2020 data from the Australian Bureau of Statistics).

<b>Item 1</b>	<b>Adoption of Remuneration Report</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

There were no changes in the Remuneration Criteria from the previous year.

There were no senior executive fixed salary increases this year, with the CEO receiving \$1,266,000 fixed remuneration. Base Board fees were also unchanged from 2020. The board decided that no STI would be awarded, even though one of the hurdles was met. The 2017 LTI performance rights fully vested following the achievement of the hurdles.

The quantum of the CEO salary, at \$1,202,868, is satisfactory compared to metrics such as ASX 100-200 companies and multiples of average salaries. We support the resolution and believe the board have used their judgement to be conservative in their payments to executive. We acknowledge that the senior staff are also participating with shareholders in the down cycle of the oil and gas industry.

Detailed description of the Remuneration Framework, along with commentary on its contents, is included at Appendix 1.

<b>Item 2</b>	<b>Election of Margaret Hall as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Ms. Hall was appointed to the board in May 2021 as an alternative director for Mr. Stokes. She is nominated by Seven Group Holdings. This company owns 30% of the existing shares of Beach Energy.

Ms Hall is the chief executive officer of Seven Group Holding Energy, a subsidiary of Seven Group Holdings Limited. Ms Hall is an engineer and has over 28 years' experience in the oil and gas industry.

We believe she is a suitable candidate for a directorship of Beach Energy.

<b>Item 3</b>	<b>Approval of LTI grant to Managing Director Matthew Kay</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Mr Kay will be awarded the maximum number of performance rights shares in December 2021. The number of shares will be determined by the formula of 'Base Package \* Max LTI% / Rights Value. The value will be the market price of Beach Energy shares on the date of issue. The maximum number of shares issued will be \$1,266,000/share price on day in December 2021. This would be 100% of fixed remuneration. The stretch performance hurdle is to outperform the ASX 200 Energy Total Return Index by a compounding 5.5% CAGR over a three-year period.

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## Appendix 1

CEO rem. Framework for FYXX	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.266	50%	1.266	33.3%
STI - Cash	0.3165	12.5%	0.633	16.7%
STI - Equity	0.3165	12.5%	0.633	16.7%
LTI	0.633	25%	1.266	33.3%
Total	2.532	100.0%	3.798	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.

\*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.

Take home pay is disclosed separately, as well as the statutory disclosure. The MD has significant skin in the game with 3,918,255 shares as of 30 June 2021.

The STI for 2021 splits the performance criteria 60/40 to company and individual performance for KPIs and 75/25 for the CEO. The company performance hurdles are well written, relevant, and easy to understand. The amount of STI available to executives is a maximum of 45% of fixed remuneration and 100% of fixed remuneration to the CEO. If vesting occurs, half is paid in cash and the other half is used to purchase shares that vest over a one- and two-year period. We have expressed our opinion that the ASA position is for no STIs for the CEO.

Beach has a gateway that gives the board discretion not to award the incentive payments if the company performs below the ASX Energy Total Return or has a return on capital of below 10%. It also has claw-back provisions. We believe this to be good practice.

The LTI is a single performance criterion that vests 50% when Beach Energy equals the index return of ASX 200 Energy Total Return Index and vests 100% when this is outperformed by 5.5%, with a prorated number between these points. The ASA prefers another financial hurdle to be included in the LTI, but the board has set a minimum return benchmark and the Total Shareholder Return must be positive to vest. The LTI is only vested over 3 years rather than ASA preferred 4 years. This scheme is set at a maximum of 50% of fixed remuneration to senior executives and 100% of fixed remuneration for the CEO. The shares are granted using market value and calculated by using the market price on December 1.

The report is easy to understand and offers good detail for the hurdle requirements. We believe that the disadvantages of issuing STI for the CEO, a three-year LTI vesting period and only one metric for LTI are balanced by use of a gateway, good reporting, reasonable quantum, use of VWAP for calculation of performance rights and effective alignment of management with shareholders.