New Zealand Shareholders Association Inc.

NZSA®

Many Investors, One Voice

18 September 2023

Genesis Energy Limited (GNE)

The company will hold its Annual Shareholders Meeting at **10.00am Friday 13 October 2023.**

The location is **World Cup Lounge West, Level 4, South Stand, Eden Park, Reimers Avenue, Kingsland, Auckland.**

You can also join the meeting online here.

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 over 480,000 customers. It generates electricity from a diverse portfolio of thermal and renewable generation assets located across 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. There has been some media speculation as to Genesis' future investment intentions as regards Kupe and whether it will effectively realise shareholder value.

Current Strategy

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

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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

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Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	Good disclosure.
Director share ownership	G	Directors are not required to own shares.
Executive Remuneration	G	See below.
Golden parachutes/handshakes	A	See below.
Director Independence	G	All Directors are independent.
Board Composition	A	See below.
Director Tenure	G	See below.
ASM Format	G	Hybrid.
Independent Advice for the Board and Risk Management	G	See below.

Directors Fees: Director's fees and the fee pool are clearly disclosed in the annual report. We note that directors are entitled to be compensated for additional work, however there were no payments made to directors under this provision in FY23. The total available for such payments is around 3% of the total director fee pool.

Executive Remuneration: The CEO is paid a salary, a short-term incentive (STI) and a long-term incentive (LTI). The salary and STI are paid in cash and the LTI by way of performance share rights. The STI and LTI are both set at a target of 45% of salary. NZSA prefers a weighting towards the LTI to align with long-term shareholders' interests.

NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure 'groups'), weightings, targets and the level of achievement associated with any awards.

The measure groups, weightings and overall outputs are clearly described for both STI and LTI.

Golden parachutes/handshakes: In the interests of transparency, NZSA believes there should be explicit disclosure around the severance terms associated with the CEO, including whether specific termination payments are offered.

Board Composition: The company does not participate in the IoD's Future Director programme designed to develop and mentor the next generation of Directors. NZSA expect NZX50 companies to participate as part of a responsibility to develop and mentor the next generation of Directors.

Whilst the Annual Report includes a skills matrix, it does not attribute skill sets to individual Directors to demonstrate how they contribute to the governance of the company.

The nature of the company's board indicates a commitment to thought, experiential and social diversity, with relevant experience for Genesis. We note the relatively high workload of Chair Barbara Chapman, who is also Chair of listed entity NZME, a Director of Fletcher Building and the BNZ.

Director Tenure: NZSA looks for evidence of ongoing succession or 'staggered' appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We also prefer a term maximum of 9-12 years, unless there are exceptional circumstances that may apply.

Genesis Directors have been appointed between 2016-22, indicating a thorough commitment to director renewal balanced with institutional knowledge.

Independent Advice for the Board & Risk Management: NZSA looks for evidence, through disclosures, that a Board has access to appropriate internal and external expertise to support board assurance activities. We also look for evidence that Boards are across their risk management responsibilities.

The Board Charter notes that "*individual Directors may (with the prior approval of the Chairman) engage and consult with professional advisors from time to time, with any costs being met by the Company.*" The Company Secretary is also accountable to the Chair on governance matters, although it is less clear as to the extent to which other internal assurance staff have unfettered access to the Board.

Genesis offers clear disclosure of strategic, business, and financial risks, as well as the processes that support risk management (further disclosed in the Corporate Governance Statement). The company also discloses a materiality matrix in the Annual Report to focus on longer-term sustainability risks and their mitigations.

Audit

NZSA assessment against its key policy criteria is summarised below:

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

Audit Rotation: Whilst the company ensures the Lead Audit Partner is rotated at 5 years as required by the NZX Listing Rules, it does not disclose if the Audit Firm is rotated at 10 years. NZSA notes that under the Public Audit Act 2001, the Auditor-General makes the decision on auditor appointments for Genesis and ensures the Lead Audit Partner is rotated at 5 years.

Notwithstanding auditor tenure, NZSA also expects disclosure of the appointment dates of the Lead Audit Partner and Audit Firm to improve transparency for investors.

Environmental Sustainability

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment
Approach	G
Sustainability Governance	G
Strategy and Impacts	G
Risk and Opportunity	G
Metrics and Targets	G
Assurance	A

Overall approach: In 2023, Genesis Energy has produced its first Integrated Report, which includes sustainability as part of the Integrated Reporting Framework. After producing their first Climate Risk Report in 2022, they have prepared their Climate Related Disclosures in 2023 ahead of the mandatory climate-related disclosure requirements in FY24.

Sustainability Governance: Genesis discloses a Director Skills Matrix which shows the number of directors with primary or secondary level of expertise in 12 skill areas, including sustainability.

Strategy and Impact: Genesis Energy provides effective commentary that demonstrates the key environmental and external impacts on its strategy. They also disclose an adaptation roadmap, *Our Future-gen*, to reduce emissions from generation by displacing non-renewable energy sources with renewable sources.

Risk and Opportunity: Genesis has an excellent disclosure of their physical and transitional risks, including disclosures extending beyond climate change. They also provide good disclosure of their mitigation strategies and potential opportunities.

Metrics and Targets: Genesis Energy discloses its Scope 1 to 3 GHG Emissions profile, with limited assurance provided by EY, and has comparative data from previous years. They have developed Science-Based (SBTi) emission reduction targets. Genesis is also one of a few companies that have incorporated sustainability metrics into their short-term executive incentives.

Assurance: While Genesis Energy has provided limited assurance for their GHG Inventory, they have yet to provide assurance for other environmentally-related claims made in their sustainability report.

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 donations are made.

Financial & Performance

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Policy Theme	Assessment	Notes
Capital Management	G	See commentary below.
Takeover or Scheme	n/a	

Genesis Energy's share price fell from $3.00 to $2.46 (as of 11th September 2023) over the last 12 months – an 18% decline. This compares unfavourably with the NZX 50 which declined by 4% in the same period. The capitalisation of GNE is $2.6b placing it 20th out of 128 companies on the NZX by size and makes it a large company.

Metric	2021	2022	2023	Change
Revenue	$3,221m	$2,834m	$2,374m	-16%
Operating Expenses	$2,863m	$2,394m	$1,860m	-22%
EBITDA	$358m	$440m	$514m	17%
NPAT	$34m	$222m	$196m	-12%
EPS[1]	$0.032	$0.211	$0.184	-13%
PE Ratio	101	14	13	
Capitalisation	$3.5b	$3.1b	$2.6b	-17%
Current Ratio	0.78	1.05	0.75	-29%
Debt Equity	1.56	1.22	1.12	-8%
Operating CF	$324m	$262m	$423m	61%
Operating CF (cps)	$0.31	$0.25	$0.40	59%
NTA Per Share[1]	$1.58	$1.91	$1.91	n/c
Dividend Per Share	$0.174	$0.176	$0.176	n/c

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

For Genesis Energy, 2023 was as year with mixed metrics. *Revenues* were down by 16% to $2,374m but operating expenses were down by a larger 22% to $1,860 meaning an increased EBITDA of $514m was achieved. After a revaluation to account for the change in fair value of financial instruments of $66m, depreciation of $255m, and other items, GNE delivered a *NPAT* of $195m, down by 12% on the prior year. This provided *EPS* of $0.184 and places GNE on a *PE* of 13.

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 61% to $422.6m, equating to $0.40 per share. Operating cashflows were somewhat flattered by a 30% reduction in inventories to $143m (FY22 $203m).

Genesis' dividend was unchanged for FY23 at $0.176 per share. This year Genesis had sufficient imputation credits to fully impute both the interim and final dividend.

Depreciation is a large component of Genesis's expenses, being $254.8m. This somewhat explains the large divergence between operating cashflows and *NPAT*.

The company is in a sound financial position with the *current ratio* at 0.75 and the *debt equity* ratio improved to 1.12. GNE has $446.8m of short-term debt and $919.9m of non-current debt for total interest-bearing debt of $1,367m – a reduction on FY22. Net Financing costs rose slightly from $63.6m to $79.5m as the cost of debt has risen across the board.

The *NTA* for GNE stayed flat at $1.91 and GNE trades at a 29% premium to NTA.

The crown is the largest shareholder with a 51.23% controlling stake.

Resolutions

There are no resolutions.

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 11 October 2023.**

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

The Team at NZSA