

To	Company Announcements Office	Facsimile	1300 135 638
Company	ASX Limited	Date	30 July 2021
From	Helen Hardy	Pages	5
Subject	Origin expects to recognise non-cash charges for FY2021 and issues guidance for FY2022		

Please find attached a release on the above subject.

Regards

A handwritten signature in blue ink, appearing to read 'H Hardy'.

Authorised by:
Helen Hardy
Company Secretary

02 8345 5000



ASX/Media Release

30 July 2021

Origin expects to recognise non-cash charges for FY2021 and issues guidance for FY2022

Origin Energy Limited (Origin) expects to recognise non-cash post-tax charges of \$2,247 million in its FY2021 Statutory Income Statement to be released with its full-year results on 19 August 2021. Origin has also issued guidance for FY2022.

Summary

FY2021 non-cash charges

- Impairment charges of \$1,578 million post-tax expected for Energy Markets goodwill and generation assets.
- Tax expense of \$669 million relating to a deferred tax liability, reflecting the expectation of increased distributable free cash flow and future unfranked distributions from Australia Pacific LNG.

Guidance

- Previously issued FY2021 guidance unchanged.
- Cash distributions from Australia Pacific LNG of \$709 million in FY2021.
- FY2022 Energy Markets Underlying EBITDA expected to be lower at \$450-\$600 million, largely offset by increased earnings from Australia Pacific LNG with cash flow to Origin estimated to be greater than \$1 billion¹ net of oil hedging.
- FY2023 Energy Markets Underlying EBITDA expected to rebound by an estimated \$150-\$250² million to \$600-\$850 million, assuming current forward commodity prices continue and flow through to tariffs.

FY2021 non-cash charges

Details of the Energy Markets non-cash post-tax impairment charges and the deferred tax liability relating to Origin's investment in Australia Pacific LNG are provided below. These estimates are subject to finalisation of Origin's full-year audited financial statements.

Energy Markets impairments

Origin's assessment of the carrying value of its tangible and intangible assets in Energy Markets considers a range of macroeconomic factors, including market prices for wholesale electricity, Large-scale Generation Certificates (LGCs) and gas, retail market dynamics, discount rates and costs. The principal changes since the last assessment at 31 December 2020 are a significant reduction in wholesale electricity prices and a contraction in near-term

¹ Assuming an APLNG realised JCC oil price of US\$68/bbl, an average AUD/USD rate of 0.75 and assuming all APLNG debt serviceability tests are met. Origin hedge losses estimated to be \$134 million based on the same assumptions.

² Based on current forward prices for key commodities such as electricity, coal and oil. Assuming JKM prices reduce by US\$2-US\$3/mmbtu from current forward prices, and assuming no material change in sales volumes and other costs.



gas earnings as a result of higher procurement costs and subdued business customer demand.

As a result, Origin expects to recognise an impairment for its generation assets of \$583 million post-tax, with the lower outlook for wholesale electricity prices driven by new supply expected to come online, including both renewable and dispatchable capacity, impacting the valuation of the generation fleet, particularly Eraring Power Station.

An expected impairment to goodwill of \$995 million post-tax primarily relates to lower electricity prices impacting margins on long-term renewable power purchase agreements, as well as lower near-term gas earnings, neither of which have specific assets carried on the balance sheet.

The impairment reflects a discount rate of 6.7-6.9 per cent post-tax (9.6-9.8 per cent pre-tax) and a terminal growth rate of 2.3 per cent on the relevant cash flows.

A breakdown of the pre- and post-impairment carrying values is detailed below.

Carrying value summary \$ millions	Pre-impairment June-21	Post impairment June-21	Impairment charge (pre- tax)	Impairment charge (post-tax)
Generation PP&E	3,626	2,793	(833)	(583)
Energy Markets goodwill	4,807	3,812	(995)	(995)
Total	8,433	6,605	(1,828)	(1,578)

Deferred tax liability – investment in Australia Pacific LNG

As previously disclosed, Origin had an unrecognised deferred tax liability relating to its investment in Australia Pacific LNG.

Current oil prices and improved productivity at Australia Pacific LNG are expected to drive higher distributable cash flow in the near-term. This means, it is probable that the MRCPS³ securities will be fully redeemed in the near-term and Australia Pacific LNG will begin to distribute ordinary dividends to shareholders. As a result, Origin expects to recognise a deferred tax liability of \$669 million in FY2021.

The \$669 million to be recognised represents 30 per cent of the dividends likely to be paid in the foreseeable future from current equity accounted retained earnings.

There is no cash impact in FY2021, and future economic impacts will be driven by the timing and quantum of dividends, capital returns or disposal.

The remaining unrecognised liability at 30 June 2021 is \$804 million, which may reverse partly or fully in the future. An assessment for the recognition of the remaining unrecognised deferred tax liability is completed each reporting period.

³ Mandatorily Redeemable Cumulative Preference Shares.



Outlook

The following guidance is provided on the basis that market conditions and the regulatory environment do not materially change and noting there continues to be considerable uncertainty in economic conditions and increased volatility in commodity markets.

There is no change to the previous guidance provided for FY2021.

Origin expects FY2022 Underlying EBITDA for Energy Markets to be lower at \$450-\$600 million, largely offset by increased earnings from Australia Pacific LNG with cash flow to Origin estimated to be greater than \$1 billion⁴ net of oil hedging.

In Energy Markets, Origin had previously foreshadowed lower earnings for FY2022 primarily due to a ~\$20/MWh reduction in forward electricity prices flowing through to customer tariffs compared to ~16TWh of relatively fixed supply costs, as well as higher gas supply costs. More recently, elevated coal and gas prices have led to higher than expected generation fuel costs in the electricity business. Higher gas supply costs are expected to be partially offset by repricing of retail customer tariffs. Gas supply price reviews have now completed with no further reviews until FY2024.

In Integrated Gas, based on an Australia Pacific LNG realised oil price of US\$68/bbl, cash flows to Origin are estimated to be greater than \$1 billion⁴, net of oil hedging. At 28 July 2021, Origin estimates that approximately half of Australia Pacific LNG's FY2022 JCC oil price exposure has been priced at US\$68/bbl based on the long-term LNG contract lags.

Origin continues to target \$100-\$150 million in capital and operating cost savings in the retail business by FY2024, over and above the \$100 million in retail savings already achieved in FY2021.

In FY2023, Origin expects a recovery in Energy Markets Underlying EBITDA of an estimated \$150 to \$250 million⁵ to \$600-\$850 million, provided current forward commodity prices continue and flow through into customer tariffs.

Origin CEO Frank Calabria said, "As previously outlined, the Energy Markets business faces significant headwinds in FY2022, though fortunately this is expected to be largely offset by higher earnings from Integrated Gas, demonstrating the benefits of Origin's diversified business.

"Origin's net cash flow from Australia Pacific LNG in FY2022 is expected to be more than \$1 billion as it benefits from a higher realised oil price.

"FY2022 presents challenges for the Energy Markets business, and we are responding by targeting significant capital and operating cost savings, including from the introduction of the Kraken platform and new low cost and more efficient retail operating model, with customer migrations to the new platform continuing to progress very well.

⁴ Assuming an APLNG realised JCC oil price of US\$68/bbl, an average AUD/USD rate of 0.75 and assuming all APLNG debt serviceability tests are met. Origin hedges losses estimated to be \$134 million based on the same assumptions.

⁵ Based on current forward prices for key commodities such as electricity, coal and oil. Assuming JKM prices reduce by US\$2-US\$3/mmbtu from current forward prices, and assuming no material change in sales volumes and other costs.



“The outlook for the business improves from next year, with Origin expecting to see a material rebound in Energy Markets earnings, based on the commodity price outlook and supported by disciplined cost management,” Mr Calabria said.

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