Origin sees strong financial recovery after takeover offer lapses

Company/ASX Code	Origin Energy/ORG
AGM Time and date	10am AEDT Wednesday, 16 October 2024
Location	10am at Fullerton Hotel, No1 Martin Place, Sydney
Registry	Boardroom
Type of meeting	Physical plus live webcast (not hybrid)
Monitor	Lewis Gomes assisted by Partha Sarathy
Pre AGM Meeting	Yes, with Chair - Scott Perkins, Chair of Remuneration & People Committee - Steve Sargent, General Manager Capital Markets - Peter Rice, Company Secretary - Helen Hardy

Monitor Shareholding: The individuals (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

How we intend to vote

No.	Resolution description	Voting
1	Financial Report	No vote required
2	Re-election of Ms Ilana Atlas	For
3	Re-election of Mr Mick McCormack	For
4	Re-election of Mr Scott Perkins	For
5	Re-election of Dame Joan Withers	For
6	Election of Mr Deion Campbell	For
7	Remuneration Report	For
8	Equity Grants to MD/CEO Mr Frank Calabria	For
9	Renewal of approval of potential termination benefits	For

Summary of Issues

- Outcomes from failed takeover offer from Brookfield/EIG
- Strong financial performance by both Energy Markets and Integrated Gas
- Arrangements for extension of Eraring operations confirmed with NSW Government
- Reduced performance from Octopus but outlook still strong
- Board changes and director elections
- Origin's Sustainability Report

Matters Considered

Financial Performance

Origin showed a marked improvement over recent years in its financial performance. Statutory profit was $1,397 million up 32% on FY23, underlying profit was up 58% to $1,183 million, adjusted free cash flow (AFCF) up 34% to $1,296 million while net debt to underlying EBITDA was down from 1.2 to 1.0. A total dividend of 55 cps was declared for FY24, being 73% of AFCF.

The improvement was most notable within Energy Markets where underlying EBITDA increased by 59% to $1,655 million driven by increased electricity gross margins as higher wholesale costs were recovered following a period of under recovery and fuel costs were lower due to the legislated coal price cap. Integrated Gas produced an underlying EBITDA of $1,951 million only slightly higher than FY23 while overall production at APLNG increased 3% to 694 PJ due to continuing well and field optimisation activities. Origin's share of Octopus underlying EBITDA declined to $55 million from $240 million due to lagged recovery of higher wholesale prices in FY23 and further investments into its international markets.

Origin has provided forward guidance in its 2024 Annual Report[1] for FY25 of EBITDA for Energy Markets being $1,100 million to $1,400 million while APLNG will have essentially unchanged production in the range of 685 PJ to 710 PJ. A gain in LNG trading for FY25 is expected to be in the range of $400 million to $450 million, dropping to $50 million to $150 million in FY26. For Octopus Energy, FY25 EBITDA is expected to be in the range of $100 million to $200 million.

5 Year Financial Table

Item	**2024**	**2023**	**2022**	**2021**	**2020**
NPAT ($m)	1,397	1,055	(1,429)	(2,281)	83
UPAT ($m)	1,183	747	407	314	1,023
Share price ($) 30 June	10.86	8.41	5.73	4.51	5.84
Dividend (cents)	55.0	36.5	29	20	25
Simple TSR (%)	35.7	47.6	32.4	(19.7)	(17.7)
EPS (cents) underlying	68.7	43.4	23.2	17.8	57.6
CEO actual rem ($m)	5.601	4.916	4.190	3.768	3.586

Simple TSR is calculated by dividing (change in share price plus dividends paid during the year, excluding franking) by the share price at the start of the year.

Governance and culture

The current board has 9 non-executive members plus the CEO of which 4 are women (ie 40%). There are currently 5 Executive KMP (including the CEO) of whom all are male. The Annual Report advises that the percentage of female senior leaders has decreased from 46.0% in FY23 to 44.2%

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[1] Guidance is based on the market conditions and the regulatory environment current at the time of the Annual Report, with a caveat that ongoing volatility in market conditions is likely and may adversely impact operations.

in FY24. The employee engagement score has remained steady at 7.7 out of 10 while the Total Recordable Injury Frequency Rate (TRIFR) was up slightly from 3.8 to 4.1.

Key events

The key event during FY24 for Origin was the failure of the Brookfield/EIG takeover offer to gain sufficient shareholder support at the Scheme meeting held in November 2023. A notable stumbling block for the bidders was the very firm rejection of the bid by Origin's largest shareholder, AustralianSuper, which increased its shareholding during the bidding process to over 17% (reduced to 16.5% at 30 June 2024). Another significant factor was the increasing market price of Origin Energy shares as recovery in its Energy Markets became increasingly apparent. The share price has continued to remain strong since the Scheme vote, essentially vindicating the stance taken by AustralianSuper and many of its retail shareholders.

While the intention of the two bidders was to separate the company into an energy business, run by Brookfield, and an LNG business run by EIG, Origin has maintained its intention to hold onto both operations. Origin has also essentially resumed its pre-bid capital management plan wherein about $4 billion to $5 billion is to be invested in the renewables segment of Energy Markets whereas Brookfield was offering to spend $20 billion and up to $30 billion in this segment. It was this very large commitment by Brookfield that was influential in it gaining ACCC approval for its offer. Origin has taken a different approach to capital management with a focus on owning and operating key generating assets such as gas peaking plants while entering into power purchase agreements (PPA's) for renewable supplies.

Origin successfully concluded negotiations with the NSW Government for the continuation of Eraring Power Station for another 2 years to August 2027, striking a balance between security of supply and affordability of power to customers while maintaining a reasonable return to Origin. Given the widespread view that the rollout of renewables infrastructure and generation remains well behind expectations, it is open to Origin to run the power station for another 2 years until 2029. Under the current deal with the NSW Government, it will compensate Origin for 80% of operating losses capped at $225 million. If Eraring makes a profit, Origin will pay the NSW Government up to $40 million. Eraring has also received approval from the regulator, AEMO to reduce its minimum operating power generation to 180 MW per unit from a maximum output of 720 MW during periods of high output from wind and/or solar generation.

The so-called "APLNG Reversion" saga continues and is covered in detail in the Annual Report (Pages 48 and 49). In summary, this matter arises from an initial legal claim against the partners of APLNG by a company called Tri-Star which believes it is entitled to a range of reversionary rights from acreages it originally owned or leased, and which would account for about 18% to 19% of assessed coal seam gas reserves. The claims began in 2008, but other claims have since been added to the legal actions. Origin advises that if the claims from Tri-Star are successful, the financial performance of APLNG "may be materially adversely impacted" and that "Origin may be significantly affected". There is still no indication from Origin as to the likely outcome of these actions which are complex and ongoing.

Origin significantly increased its support for customers, recognising cost-of-living challenges across the economy, including the effects of higher energy prices. Origin has committed $100 million in support over FY24 and FY25 including freezing tariffs for these customers. This support was evidenced through increases in bad and doubtful debt expense reflected in higher bill sizes and slower collections. Impairment losses recognised increased by $50 million or 34% to $198 million in FY24, primarily in Energy Markets, while receivables greater than 91 days increased by $107 million or 63% to $276 million for FY24 (refer Page 106 of AR).

Key board or senior management changes

The board and senior management composition was unchanged during FY24 given the focus on the Brookfield/EIG offer but Steven Sargent will not be standing for re-election at the upcoming AGM. Maxine Brenner was re-elected at the last AGM although it had been expected that she would retire at that AGM but for the takeover offer. Mr Deion Campbell was appointed to the board in September 2024 and will stand for election at the AGM.

Among the Executive KMP, Mr Laurie Tremaine stepped down from the role of CFO on 30 June 2024 and ceased employment at the end of July 2024. Mr Anthony Lucas was appointed to the CFO role effective 1 July 2024.

Sustainability/ESG

Origin released its 2024 Sustainability Report in September 2024 which includes an update on its Climate Transition Action Plan (CTAP) released in August 2022. One of its strategic priorities is to grow its renewables and storage capacity to 4 GW to 5 GW by 2030. In May 2024 it acquired the 1.5 GW Yanco Delta Wind Farm and 800 MWh battery storage development in the NSW South West Renewable Energy Zone (REZ). In the New England REZ, Origin acquired renewable energy developer Walcha Energy including its proposed 870 MW Ruby Hills Wind Farm and 450 MW Salisbury Solar Farm and the nearby Northern Tablelands Wind Farm.

Construction is underway on Stage 1 of the Eraring battery adjacent to the power station and in July 2024, Stage 2 was announced as approved for construction. Construction will soon commence on a battery at Mortlake Power Station in Victoria. Also, the offtake from the Supernode battery in Queensland has been contracted.

Origin's Virtual Power Plant (VPP), known as Origin Loop, is aggregating and orchestrating distributed assets to optimise supply and demand in the electricity market. Loop has grown to 1.4 GW across 392,000 connected services, making it one of the world's largest VPP's.

Origin's absolute Scope 1, 2 and 3 emissions were lower this year by 8 million tonnes carbon dioxide equivalent (CO_2-e) or 16% compared to the FY19 baseline while emissions intensity was 13% lower. The higher output from Eraring and its extended use to 2027 will lead to an increase in Scope 1 emissions but the longer term targets remain unchanged. Extensive data on Origin's generation assets and emissions are provided in the Climate Report.

Rationale for Voting Intentions

Resolutions 2 to 5: Re-elections of Ms Ilana Atlas, Mr Mick McCormack, Mr Scott Perkins and Dame Joan Withers - For

All of these independent directors have served with distinction on the board of Origin and ASA is supportive of their re-election and will vote all undirected proxies in favour of their respective resolutions. However, in respect of Mr Perkins, we will seek a clear statement from him at the AGM that he will give the necessary time and commitment to the role of Chairman of Origin while also serving on the board of Woolworths where he is currently also chairman. We will request him to explain how he intends to meet the concurrent expectations of both roles.

Resolution 6: Election of Mr Deion Campbell - For

Mr Campbell was appointed to the board of Origin in September 2024 and is a member of the Safety and Sustainability Committee and the Audit and Risk Committee. He is currently the operating partner with global infrastructure manager Morrison. He has 30 years of executive experience across the energy and infrastructure sectors, including power generation and renewables. He was CEO of Tilt Renewables Ltd and holds a Master of Electrical Engineering from Canterbury University New Zealand.

Subject to Mr Campbell confirming at the AGM his intended commitment and contributions to Origin, ASA will vote all undirected proxies in favour of his election.

Resolution 7: Adoption of Remuneration Report – For

Following an annual benchmarking review, increases in fixed remuneration (FR) ranging between 3.5 and 5.5% were applied to Executive KMP early in FY24. For FY25, a further market benchmarking is expected to increase FR by 3.6% in addition to the 0.5% uplift in superannuation effective 1 July 2024 (total 4.1%). Board fees have remained unchanged since FY20 but for FY25 and beyond, NED remuneration is expected to increase by approximately 3.7%. It is noted that the number of board committees will be reduced by one as a result of merging the Audit Committee and the Risk Committee to form the Audit and Risk Committee.

Under the Short Term Incentive Plan (STIP) the scored outcome for the CEO was 73.9% of the maximum and ranged from 69.5% to 87.0% for the Executive KMP. The Long Term Incentive (LTI) granted in November 2020 were tested during the year and vested in full at the end of August 2023 subject to further restrictions and holding lock until August 2025. Half of the grant was in Performance Share Rights (PSRs) subject to a relative TSR test against an ASX 50 reference group which ranked at the 83rd percentile with an equivalent CAGR of 20.3% and the award was granted in full, being over the designated 75th percentile hurdle. The other half of the LTI award was in restricted Share Rights (RSRs) which were subject to non-financial metrics assessed by the board as being met in full.

As a result of the conditions associated with the takeover offer from Brookfield/EIG, at the time of determining the vesting of LTI awards in August 2023, awards were made in the form of deferred cash at 75% of the normal face-value allocation rather than share awards. Following the termination of the takeover conditions, in February 2024 an additional award was made of 25% of the normal face value allocation which brought the awards to the normal face-value amounts.

LTI awards granted in August and October 2021 have been tested and will vest in full at the end of August 2024 subject to further restrictions and a holding lock until August 2026. The TSR metric saw Origin ranking first against the peer group (CAGR of 38.4% over the past 3 years). Also due to vest at the end of August 2024 is the second of the 3-stage progressive vest of RSRs awarded in November 2020.

As a consequence of the efforts applied by Executive KMP and others during and after the takeover offer, one-off elevated LTI allocations for FY25 only were made. These elevated allocations will be at a level of half the normal annual allocation and will be made in August and October 2024. At the same time as the normal awards.

Details of the current remuneration framework for the CEO are given in Appendix 1 and for all Executive KMP and NEDs in the Annual Report (Pages 57 to 70). Origin has minimum shareholding requirements for both directors and Executive KMP, all of which meet these requirements.

ASA is satisfied that the above arrangements are reasonable and take into account the effects of the takeover offer on share price and staff performance and will therefore vote all undirected proxies in favour of the resolution.

Resolution 8: Equity grants to MD/CEO Mr Frank Calabria - For

This resolution proposes the grant of 190,237 performance share rights (PSRs) and 190,237 Restricted Share Rights (RSRs) to Mr Frank Calabria under Origin's Long Term Incentive Plan. The grants are based on a total long-term incentive opportunity of $3,812,400 being 180% of his fixed remuneration (FR) of $2,118,000. It is noted that the usual LTI maximum opportunity is 120% of FR but this has been increased to 180% for FY25 as a one-off adjustment in recognition of the efforts made during and after the takeover bid during 2023. The number of grants is based on a 60 day VWAP to 30 June 2024 of $10.02 per share. Further details are given in the Notice of Meeting.

ASA is satisfied that these arrangements are reasonable and take into account the effects of the takeover offer on share price and staff performance and will therefore vote all undirected proxies in favour of the resolution.

Resolution 9 Renewal of approval of potential termination benefits - For

This resolution seeks approval for potential termination benefits to be paid or granted to KMP's whose employment is terminated in the 3 years following this AGM, in alignment with the company's remuneration framework and practices.

The rationale for this resolution is covered in some detail in the Notice of Meeting and expresses a consciousness of the need to strike an appropriate balance between ensuring fair treatment of Relevant Executives on cessation of employment and avoiding excessive termination payouts. Careful consideration was given to this when setting the employment arrangements, remuneration, individual contractual entitlements, benefits and incentive plan treatments for Relevant Executives.

As this renewal is line with the remuneration framework and is required as a consequence of deferred remuneration in that framework, ASA will be voting all undirected proxies FOR this resolution.

Appendix 1
CEO remuneration framework for FY25 (including one-off increases for FY25 only)

Remuneration Component	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	2.118	26	2.118	22
STI - Cash	1.059	13	1.769	19
STI - Equity	1.059	13	1.768	19
LTI (PSRs plus RSRs)	3.812	48	3.812	40
Total	8.048	100	9.467	100

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. The number of share rights is calculated at face value based on the 60-day VWAP at financial year end (30 June 2024) being $10.02 per share. See p5 of this report for comment on the one-off increases for FY25 only.

*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. Further details are provided in the Annual Report and Notice of Meeting.