origin

To	Company Announcements Office	Facsimile	1300 135 638
Company	ASX Limited	Date	15 July 2020
From	Helen Hardy	Pages	4
Subject	Origin expects to recognise non-cash charges in FY2020		

Please find attached a release on the above subject.

Regards

Authorised by:
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Company Secretary

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origin

ASX/Media Release

15 July 2020

Origin expects to recognise non-cash charges in FY2020

Origin Energy Limited (Origin) expects to recognise non-cash post-tax charges in the range of $1,160 million to $1,240 million in its FY2020 Statutory Income Statement to be released with its full year results on 20 August 2020.

The non-cash charges relate to updated year-end valuation estimates primarily driven by revised commodity price assumptions, the associated economic impacts of the COVID-19 pandemic, and the progressive transition to a lower carbon energy supply. In addition, Origin expects to revise its restoration and rehabilitation provisions for generation assets.

Origin CEO Frank Calabria said, "Origin has responded quickly to COVID-19 and the decline in commodity prices, reducing operating costs and capital expenditure, and these actions have improved resilience and helped to mitigate some of the impacts on our business. These factors, and the broader macroeconomic environment, have contributed to our revised medium and long-term outlook for commodity prices.

"Origin is well positioned over the long-term with a business spanning energy retailing, power generation and natural gas which generates strong cash flow, along with exposure to future growth opportunities in renewable energy and new technologies."

A breakdown of the expected charges is included below and detailed explanations follow.

$ millions	Statutory Profit after tax	Underlying Profit after tax
Integrated Gas – Australia Pacific LNG impairment	(720) – (770)	-
Integrated Gas – Onerous contract provision (Cameron LNG)	(440) – (460)	-
Energy Markets – Bad and doubtful debts provision	(25) – (35)	(25) – (35)
Energy Markets – Reduction in rehabilitation provision	25	25
Total	**(1,160) - (1,240)**	**0 - (10)**

These estimates are subject to finalisation of Origin's full year audited financial statements, are post-tax and have no impact on FY2020 cash flow. Origin expects no change to FY2020 guidance, including Energy Markets Underlying EBITDA of $1.4 - $1.5 billion.

Integrated Gas

Australia Pacific LNG impairment

Origin's assessment of the carrying value of its equity accounted investment in Australia Pacific LNG considers a range of macroeconomic and project assumptions, including oil price, AUD/USD exchange rates, discount rates and costs. The principal change since the last assessment at 31 December 2019 is a reduction in oil price assumptions over the near term (see Appendix for details) and a revised long-term Brent crude oil price assumption of US$60/barrel (real 2020) from FY2026, partially offset by cost reductions from improved field and operating performance. As a result, Origin expects to recognise an impairment relating to its share of Australia Pacific LNG of $720 - 770 million.

The impairment valuation also includes a long-term AUD/USD rate of 0.70 from FY2026 and a discount rate of 7.4% post-tax (10.3% pre-tax). A US$1.00/bbl increase in oil prices in isolation would result in a A$233 million increase in the valuation.

The impairment charge is expected to be excluded from FY2020 Underlying Profit. It is not expected to have any impact on tax expense as the impact will be offset by recognising part of a previously unrecognised deferred tax liability. As a result, there will be no difference between the pre and post-tax impairment charge.

Onerous contract provision related to Cameron LNG

Origin expects to recognise a non-cash charge of $440 - $460 million post-tax (US$ 300 – US$315 million) relating to an onerous contract provision associated with Cameron LNG. Since the last assessment at 31 December 2019, the primary changes in assumptions relate to a reduction in JKM LNG prices reflecting weaker medium-term demand and moderately lower long-term prices driven by expected lower US gas liquefaction fees, as well as lower US Treasury bond rates.

As previously disclosed, Origin agreed in 2013 to purchase from Cameron LNG 0.25 million tonnes per annum of LNG (3-4 cargoes per annum) Free-On-Board for 20 years with the first cargo delivered in June 2020. Origin buys the LNG at a Henry Hub-linked price plus a fixed tolling fee and assumes it will sell it at a JKM-linked price.

The provision valuation includes a long-term JKM LNG price of US$7.15/mmbtu (real 2020) from FY2026, a long-term Henry Hub gas price of US$2.60/mmbtu (real 2020) from FY2026, and a range of US Treasury bond rates that average approximately 0.81 per cent over the term of the contract. Accounting Standards for onerous contract provisions require cash flows to be discounted at a rate that reflects a current market assessment for the risk-free time value of money (i.e. US Treasury bond rates).

The non-cash charge will be excluded from Underlying Profit in FY2020, with future realised losses or gains accounted for in Underlying Profit. As a result, over the next 20 years Origin estimates an average annual charge to Underlying Profit associated with the Cameron contract of approximately A$25 million post-tax, taking into account current forward market prices and the long-term assumptions outlined above.

The provision will continue to be assessed at each reporting date, which is expected to result in volatility in the statutory Income Statement. A US$1.00/mmbtu increase in the spread between Henry Hub and JKM prices results in a A$213 million (US$146 million) post-tax reduction in the charge.

Energy Markets

Bad and doubtful debt provision increase related to COVID-19

Origin expects to recognise an additional non-cash $25 million - $35 million post tax provision for bad and doubtful debts associated with the potential impacts of COVID-19 on customers' ability to pay their energy bills. The provision covers outstanding amounts for customers up to 30 June 2020.

The increased provision factors in observed customer payment behaviour, the mix of customers in COVID-19 high risk segments, the economic restrictions in place and assumes no additional government or business economic support over and above what has already been announced. The provision is in addition to the amount already set aside for bad and doubtful debts and is expected to be included within Underlying Profit.

Provisions for restoration and rehabilitation of generation sites

Origin reviews its restoration and rehabilitation[1] provisions for power generation assets at least annually. As a result of the latest review, Origin expects to increase the provision for restoration of generation sites by $249 million primarily driven by Eraring Power Station ($187 million) and gas generation sites ($62 million). The increased provision reflects an updated plan to restore sites to enable a wider range of future commercial and industrial uses. The restoration provision increase is a balance sheet adjustment and has no impact on FY2020 Statutory Profit.

In addition, Origin has released to Underlying Profit $25 million (post-tax) of the rehabilitation provision for Eraring Power Station, which covers soil and groundwater contamination. The change is a result of more detailed analysis and sampling that has been undertaken, providing a clearer indication of rehabilitation requirements.

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Appendix

Oil prices and AUD/USD exchange rates used in assessment of Origin's carrying value in Australia Pacific LNG.

	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Brent oil (Nominal, US$/bbl)	40	45	50	55	61	66
Brent oil (Real, US$/bbl)	40	44	48	52	56	60
AUD/USD exchange rate	0.69	0.69	0.69	0.70	0.70	0.70

[1] Restoration provisions cover the general decommissioning of sites, including demolition of buildings. Rehabilitation provisions cover the obligation to remediate soil or groundwater contamination at sites.