



ASX/Media Release

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Origin reports solid performance from continuing operations

Origin Energy Limited (Origin) today reported a solid underlying performance from its continuing operations during HY16 with Underlying EBITDA of \$807 million and Underlying Profit¹ of \$243 million. Origin recorded a Statutory Loss of \$254 million.

The strong performance of Origin's Energy Markets business, which delivered a 16 per cent increase in Underlying EBITDA during the period, contributed to Origin's steady Underlying EBITDA despite a 70 per cent fall in the US dollar oil price over the past 18 months.

Financial Summary ¹	1H16	1H15
Statutory Loss	\$(254) million	\$(25) million
Statutory EPS	(18.1) cps	(2.0) cps
Items excluded from Underlying Profit	\$(508) million	\$(371) million
Underlying Profit – total operations	\$254 million	\$346 million
Underlying EPS – total operations	18.1 cps	27.4 cps ²
Underlying EBITDA – total operations	\$868 million	\$1.08 billion
Underlying Profit – continuing operations	\$243 million	\$308 million
Underlying EBITDA – continuing operations	\$807 million	\$846 million
Interim Dividend per share	10 cps (unfranked)	25 cps (unfranked)

Origin Chairman, Mr Gordon Cairns said, "During the period, Origin continued to take action to strengthen its balance sheet and build further resilience in the current low oil price environment.

"As well as achieving \$5.5 billion in debt reduction during the period, Origin has initiated cash preservation measures to reduce net debt to below \$9 billion in FY17. A pleasing feature in our results has been the increase in Energy Markets' contribution driven by an increase in EBIT to sales margin from 9.4 to 11.2 per cent.

"The first production and export of LNG by Australia Pacific LNG has also been a very important milestone in the development of the Company. Given the long-term nature of this project we believe our investment in Australia Pacific LNG will be rewarding for shareholders, notwithstanding the current low oil price environment," Mr Cairns said.

"Decisions taken previously to reduce debt and preserve cash through restructuring initiatives, discontinuing geothermal activities and deferral of large-scale IT projects are the largest contributors to a non-cash impairment of \$244 million.

"In line with guidance provided at the time of the Entitlement Offer, the Board has determined an unfranked interim dividend of 10 cents per share, which represents a payout ratio of 55 per cent of underlying earnings.

1. A reconciliation between statutory and underlying profit measures can be found in note A1 of the Origin Consolidated Financial Statements.

2. Prior period adjusted for the bonus element (discount to marketplace) of the September 2015 rights issue.



“As we enter the second half of the year, oil prices have fallen to levels well below expected prices at the time of the Entitlement Offer. Origin will of course pursue all opportunities to achieve ongoing debt reduction. Should the current low oil price environment persist through the second half of FY16, which puts at risk ongoing debt reduction, the Company will suspend dividends until appropriate debt levels are achieved,” Mr Cairns said.

Improved resilience to oil price

Origin Managing Director, Mr Grant King said, “During the period, we made good progress on cash preservation initiatives to ensure that Origin can withstand lower oil prices for longer.

“Following the sale of our interest in Contact Energy and subsequent equity raising, Origin is targeting a further reduction in net debt to below \$9 billion in FY17. Origin has \$6.8 billion³ of committed undrawn debt facilities and cash, which is more than sufficient to support its remaining contributions to Australia Pacific LNG.

“To guard against falls in oil price in FY17 below US\$40 per barrel, Origin has purchased put options to provide a partial offset to any additional contributions to Australia Pacific LNG. In the short-term, as Upstream operator for Australia Pacific LNG, Origin is working on reducing Australia Pacific LNG’s breakeven costs by A\$3-5 per barrel.

“We have realised significant cost savings across Origin during the period. A \$1 billion planned reduction in Australia Pacific LNG’s upstream operating costs has been achieved six months ahead of schedule. Our Electricity and Natural Gas Cost to Serve continues to fall and Energy Markets remains on track to achieve a targeted \$100 million cost reduction by the end of FY16. We also remain on target to deliver \$200 million in functional cost savings from FY17 and during the past 12 months, employee numbers⁴ have reduced by 1,900 across the business.

“The recently announced \$110 million sale of Mortlake Terminal Station demonstrates progress in our asset divestment program. As part of narrowing our focus to two core businesses and strengthening our balance sheet, we are targeting at least \$800 million from asset sales.

“To drive improved returns for Origin shareholders in a low oil price environment, we have set ourselves three priorities: grow the contribution from Energy Markets; increase production and further reduce the cost base in Integrated Gas; and maintain adequate funding and an appropriate capital structure,” Mr King said.

Energy Markets posts earnings growth

Underlying EBITDA for the Energy Markets business increased by \$100 million or 16 per cent to \$721 million, due to increased natural gas volumes and margins, stable electricity contribution, and continued improvement in Cost to Serve. This is also reflected in an improved Underlying EBIT margin for Energy Markets of 11.2 per cent, which increased from 9.4 per cent in the prior corresponding period.

Despite rising wholesale prices, Origin’s flexible portfolio helped to maintain stable gas and electricity procurement costs, resulting in margin expansion of both natural gas and electricity.

Natural gas and electricity Cost to Serve continues to fall with improvements in billing and collection performance; a reduction in outsourcing costs and other operational improvements resulting in savings of \$25 million.

3. As at 31 December 2015, excluding bank guarantees.

4. Including contractors.



Total customer accounts increased by 1,000 in the half, reflecting the addition of 9,000 natural gas accounts and reduction of 8,000 electricity customer accounts. Origin continues to focus on the retention of high-value customers and the use of cost-effective internal channels for customer acquisition and retention.

The introduction of a new sales and service operating model and an enhanced digital platform supporting easier payment and online account management, as well as new value propositions such as the Origin cash voucher, saw customer experience improve during the period.

Mr King said, “Pleasingly, solar sales grew by 42 per cent during the period – driven by growth in the SME segment, initiatives such as Solar as a Service and Tesla’s battery offering. More broadly, we continue to evaluate the potential of large scale solar and the approval of the Development Application for Darling Downs Solar Farm provides an opportunity for Origin to accelerate the transition to a greater contribution from renewable energy.”

Integrated Gas achieves major milestones

Integrated Gas Underlying EBITDA decreased 50 per cent to \$137 million.

Exploration & Production EBITDA decreased \$94 million to \$117 million. This is due to a non-cash write-off of exploration expense of \$53 million in Vietnam following a decision to withdraw from all international exploration activity (excluding New Zealand), lower liquids prices and lower production.

During the period, Origin limited its capital expenditure to: commissioning Yolla-5 and Yolla-6; connecting Halladale and Speculant to Otway with first gas expected in FY17; and meeting exploration commitments in the Cooper and Beetaloo basins.

LNG EBITDA decreased \$42 million to \$20 million reflecting a reduction in cost recovery from Australia Pacific LNG as upstream expenditure fell, and the impact of low oil prices on the project’s oil-linked gas sales to QGC which commenced during the period.

The Upstream project is complete and performing at or above expectations with all key facilities commissioned, including the three final gas processing trains at Combabula and the Spring Gully Pipeline Compression Facility.

The Downstream project produced first LNG in the period and to date has exported five LNG cargoes, including three to Sinopec. First cargo from Train 2 is expected to occur in 1H17.

During the period Origin’s net cash contribution to Australia Pacific LNG was \$856 million⁵ down from \$1.41 billion in the prior period.

Mr King said, “As Upstream operator for Australia Pacific LNG, Origin is reducing costs and improving flexibility. This, together with an increasing expectation of greater than nameplate capacity across the project, provides a sound basis for continued reduction in breakeven costs for Australia Pacific LNG.”

Outlook

In line with earnings guidance for Origin’s existing businesses provided at the time of the Entitlement Offer⁶, the Company reaffirms that it expects:

5. Origin’s cash contribution to Australia Pacific LNG for the current year is net of \$140 million of interest income received on Mandatorily Redeemable Cumulative Preference Shares.

6. Refer to the Origin’s Entitlement Offer presentation released to the ASX on 30 September 2015 for a list of the forward looking assumptions on which guidance has been based.



- FY16 Underlying EBITDA (excluding LNG Underlying EBITDA) to be \$1.45 billion – \$1.55 billion; and
- FY17 Underlying EBITDA (excluding LNG Underlying EBITDA) to be \$1.90 billion – \$2.10 billion.

LNG's EBITDA and NPAT guidance at the time of the Entitlement Offer were premised on the following key assumptions:

- Bechtel Performance Date for Train 1 would occur in the third quarter of FY16. This is now expected to occur in the fourth quarter of FY16; and
- Oil price for FY16 would be US\$54/bbl and for FY17 US\$59/bbl. The AUD/USD exchange rate would be \$0.73 across both financial years. Since the Entitlement Offer, the oil price has further declined and oil prices for FY16 and FY17 are now assumed to be US\$43/bbl and US\$45/bbl respectively⁷.

Following changes in the Bechtel Performance Date and oil price assumptions, Origin now expects:

- Consistent with prior guidance⁸, approximately \$1 billion in remaining contributions to Australia Pacific LNG from 1 January 2016 until the project is self-funding;
- Oil put options that have been put in place will provide a partial offset to any additional contributions Origin may be required to make to Australia Pacific LNG should oil prices be below US\$40/bbl (A\$55/bbl)⁹ in FY17;
- FY16 LNG Underlying EBITDA to be \$30 million – \$80 million and contribution to Underlying NPAT to be (\$170) – (\$220) million (within the original guidance range); and
- FY17 LNG Underlying EBITDA to be \$650 million – \$750 million reflecting a lower oil price assumption, timing of Train 2 completion and recognition of the oil put premium expense (\$117 million, non-cash).

Interim dividend

An unfranked interim dividend of 10 cents per share will be paid on 31 March 2016 to shareholders of record on 25 February 2016. Origin shares will trade ex-dividend from 23 February 2016 and the Dividend Reinvestment Plan will apply to this dividend.

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7. AUD/USD FX assumption of \$0.70 for FY16 and \$0.72 for FY17.

8. Previous guidance of Origin's remaining contribution to Australia Pacific LNG was \$1.8 billion from 1 July 2015 less \$856 million contributed in the six months to 31 December 2015, based on a Train 2 start date of mid 1H17.

9. 15 million barrels of Japan Customs-cleared Crude (JCC) at a strike of A\$55/bbl for 75 per cent of volume and US\$40/bbl for 25 per cent of volume.