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**Takeover offer seeks to take advantage of substantial improvements in Energy Markets and the contribution of Octopus Energy**

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|---|---|
| **Company/ASX Code** | Origin Energy/ORG |
| **AGM time date** | Wednesday, 18 October 2023 at 10am |
| **Location** | Shangri-La Sydney, 176 Cumberland Street, The Rocks, Sydney |
| **Registry** | Boardroom |
| **Type of meeting** | Physical plus live webcast (not hybrid) |
| **Monitor** | Lewis Gomes assisted by Mike Batchelor |
| **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.

## 1. How we intend to vote

| No. | Resolution description | Vote |
|---|---|---|
| 1 | Receive and consider the reports for FY23 | No vote required |
| 2 | Re-election of Ms Maxine Brenner, Independent Non-executive Director | For |
| 3 | Adoption of Remuneration Report | For |

This meeting is being held in the shadow of the offer from Brookfield Asset Management (Brookfield) and MidOcean Energy (a US-based entity under the control of private equity investor EIG) to acquire all issued shares in Origin Energy, details of which are described below. As a consequence of the terms of the offer, there will be no resolution in respect of awarding share rights to the CEO for FY24 as would normally be the case. For the same reasons, Resolution 3 on the Remuneration Report considers the impacts of the offer on current awards to executive staff and is therefore somewhat limited in scope. Furthermore, the board of Origin decided against any changes to its membership as all directors would be expected to resign if the offer proceeds to implementation. Ms Brenner, who was intending to retire at this AGM, is nominated for re-election as her 3 year term expires at this AGM and the board decided it would not be appropriate to bring a new director onto the board at this time to replace her.

The status of the offer is currently uncertain as a critical decision by the ACCC with respect to Brookfield's interests in AusNet is imminent. Should the ACCC rule against the proposal proceeding because of competition concerns, Origin has advised the ASA that it will not appeal the decision but that Brookfield/EIG may do so. Should these outcomes arise, there will continue to uncertainty around the offer for quite some time.

## 2. Summary of Issues for AGM/EGM

**The Brookfield/EIG Takeover Bid**

- The most pressing issue is the status of the takeover offer from Brookfield/EIG. This offer was made public in November 2022 at a time when the share price of Origin had been in the $5 to $6 range for some years and hence the offer of $9 per share may have looked attractive. Also, the profitability of Origin had been quite weak for some years due mainly to the declining performance of Energy Markets (as measured by EBITDA) over several years. However, over the last year, the improved performance of Energy Markets has been quite dramatic, due to a range of factors but most notably, reduced costs (eg coal from price caps) and substantial increases in the retail electricity and gas prices which consumers pay. AGL with similar challenges in its retail businesses, has seen its share price almost double over the last year for much the same reasons as has that of Origin, that is, reduced costs and much higher selling prices. The question now is: does the offer price for Origin still represent a good outcome for shareholders? In the absence of the Brookfield/EIG offer, would the share price of Origin also have improved significantly to around current levels (about $8.50) or possibly higher?
- It should be noted that the offer price is subject to a partial payment in US dollars which will be affected by the prevailing currency exchange rate at the time. There are also provisions for reductions in the offer price for dividends paid during the currency of the offer including the 16.5 cps interim and 20.0 cps final dividends. A further consideration is a 4.5 cps monthly "ticking fee" payable to shareholders if implementation of the scheme is delayed beyond 30 November 2023.
- One of the attractions of the Brookfield/EIG offer was that Brookfield has stated that it would invest up to $20 billion and possibly up to $30 billion into Energy Markets to allow it to develop the renewable infrastructure that it needs to meet expected power demands. As at 30 June 2023, Origin had total net debt (less cash) of $2.9 billion and shareholders equity of $8.9 billion for an enterprise value of $11.8 billion versus an ASX market cap of about $15 billion which includes the uplift in share price from the offer. The ability of Origin to fund such a large investment on its own as a listed entity is uncertain whereas Brookfield has substantial financial resources available to it and, as a long term investor, would not need to seek immediate returns.
- Shareholders don't yet have a report from an independent expert stating its view on whether the offer is fair and reasonable or not. We are unlikely to see such a report until regulatory approvals are received and the matter is ready to go to shareholders for their approval. Consequently, at the present time, shareholders are not well placed to assess whether this offer is a good deal or not. In ASA's recent discussions with Origin, we were advised that the expert report will take into consideration the current financial outlook for Origin rather than comparing the offer to the situation as it was when the offer was made public
- The next issue is the state of regulatory approvals, firstly from the ACCC with regard to Brookfield's recent acquisition of AusNet and secondly from the FIRB with respect to EIG's foreign (United States) ownership and its likely ownership of Origin's share of Australia Pacific LNG (APLNG) equity (27.5% of total APLNG equity, Origin having sold a 10% portion

in FY23 to another APLNG partner, Chevron). At this point in time, we have no indications from either authority as to their views or current thinking. The share price of Origin on the ASX has never matched the offer price and has usually traded between high $7 and mid $8 per share. This suggests that the market has some doubts about the deal going ahead.

- Would shareholders be better off if the bid was refused approval? With the benefits of improved profitability going to current shareholders, the share price may rise above the offer price. At this point in time, we can't and may never know.
- A further factor is the loss of the cash flow and dividends from APLNG that currently go to Origin shareholders would, in future, go to overseas interests. For many years, APLNG was burdened by excessive debt levels and, with low global LNG prices, rarely looked financially attractive. However, in recent years, the debt levels within APLNG have been substantially reduced and APLNG is now a very attractive asset benefitting from much higher LNG prices since the Russian invasion of Ukraine. Origin shareholders have borne the pain of many years of high debt levels and low LNG prices, and if the offer succeeds, they will pass the benefits of the greatly improved outlook to the new owner, EIG. Does the current offer reflect the improved outlook for APLNG or is EIG picking up a bargain? The expert report should give a view on this question.
- The ASX has lost quite a few infrastructure/utility stocks in recent years due to takeovers and the loss of Origin would add another significant company to the list, thereby reducing the pool of investable stocks available to Australian shareholders. Does the price currently on offer to existing shareholders more than offset the possible future loss of another important Australian listed company?

**Octopus Energy**

- Octopus Energy, the UK-based electricity provider in which Origin participated as an early investor to a level of 20%, has shown significant growth and now profitability over the last year. Origin has maintained its equity at 20% and it now represents a significant asset on the books of Origin in addition to having other benefits such as its Kraken customer management system which Origin uses. It seems unlikely that the takeover offer has fully priced in the current and future value of this investment but again the expert report should consider this matter.

**APLNG Reversionary Legal Claims**

- These complex claims have been on foot for many years and their outcome is still unknown. This VI provides some further details as does the Annual Report but the possible financial impacts on Origin are simply unable to be assessed. Furthermore, it is unclear how this matter would be handled if the takeover succeeds. Do the risks stay with the Origin shareholders under some form of indemnity or do they pass to Brookfield/EIG or do they pass directly to EIG as the new owner of the APLNG investment? Origin advised the ASA in our recent meeting that this risk passes directly to the offering parties and does not remain with existing shareholders.

**Eraring Power Station**

- The NSW Government has recently announced that it intends to enter into negotiations with Origin to continue the operation of Eraring Power Station beyond the scheduled closure date in 2025. The need for this continuation is hardly in doubt as the rollout of renewable energy supplies to replace Eraring falls further and further behind initial expectations. How these negotiations might develop and what the financial outcomes to both parties might be is completely unknown, but the outcome is likely to be favourable to Origin given that it owns the asset which the Government wants to keep running. The Eraring factor has not been priced into the bid offer, as far as we know, and would be difficult assess because serious negotiations are yet to commence.

## 3. Matters Considered

**Financial Performance**

Origin made a statutory profit for FY23 of $1,055 million compared with a loss of $1,429 million for FY22. Underlying profit increased to $747 million, more than double the $340 million achieved in the previous year. Underlying EBITDA rose by $993 million (or nearly 50%) to $3,107 million. This remarkable turnaround came from significantly improved earnings across Energy Markets and Octopus Energy, and a strong contribution from Integrated Gas.

Underlying EBITDA for Energy Markets was $1,038 million, up $637 million on the prior year. Electricity earnings improved as higher wholesale costs from previous periods were recovered through increased supply tariffs and lower coal supply costs as a result of the introduction of the coal price cap by the NSW Government (which is expected to be removed in mid 2024). Higher sales revenue and LNG trading outcomes also contributed to higher earnings in the natural gas segment. Origin expects EBITDA for Energy Markets for FY24 to be in the range of $1,300 million to $1,700 million from higher tariffs and an increased contribution from Eraring and the peaking fleet but anticipates some reduction in electricity gross profit in FY25 as regulated tariffs decline in line with wholesale costs.

A standout result arose from Octopus Energy in the UK, in which Origin has a 20% stake, as it continued its significant growth in the UK and other markets as well as growing the licensing of its Kraken customer management and billing system. Origin's share of Octopus's underlying EBITDA was $240 million compared with a loss of $36 million in the previous year. Origin has decided to now separately report Origin's share of Octopus's earnings.

Underlying EBITDA for Integrated Gas was $1,919 million, only slightly higher by $82 million than the prior year, mainly due to higher commodity prices. APLNG production was down slightly by 3% due to persistent adverse weather over the well sites but is expected to remain around current levels for the next few years.

LNG trading reported EBITDA for FY24 to be in the range of $40 million to $60 million but increasing substantially across FY25 and FY26 to around $450 million to $600 million. This apparent windfall is unlikely to continue beyond FY26 as the Cameron contract under which these earnings were made will expire after FY26.

The financial accounts for Origin are complex as they involve large positions in derivatives and other instruments to provide some protection against significant swings in prices for power station coal, the purchasing of power from other generators (Origin is a net buyer of power) and the cycling of power prices during the day as renewables tend to come onstream in the morning and diminish in the afternoon. It also needs to manage significant interest rate and foreign exchange risks which are usually hedged.

It is noted in the Annual Report that 2P reserves of coal seam gas (CSG) are now around 3,000 PJe, down 35% from the 2P reserves reported in FY19. While on the face of it, this downgrade appears concerning, Origin advised in the recent meeting with the ASA that the ongoing assessment of reserves at both 2P and 3P level are likely to restore 2P levels to what they were when the CSG fields were first developed. It also advised that extraction rates and technology continue to improve the quality and quantity of reserves in the field. The current contracts to supply several major Asian customers run until 2035 and Origin expects that there will still be usable reserves left in the ground by that date.

**5 Year Financial Table**

| Item | **2023** | **2022** | **2021** | **2020** | **2019** |
|---|---|---|---|---|---|
| NPAT ($m) | 1,055 | (1,429) | (2,281) | 83 | 1,211 |
| UPAT ($m) | 747 | 407 | 314 | 1,023 | 1,028 |
| Share price ($) 30 June | 8.41 | 5.73 | 4.51 | 5.84 | 7.31 |
| Dividend (cents) | 36.5 | 29 | 20 | 25 | 25 |
| Simple TSR (%) | 47.6 | 32.4 | (19.7) | (17.7) | (26.1) |
| EPS (cents) underlying | 43.4 | 23.2 | 17.8 | 57.6 | 58.4 |
| CEO actual rem ($m) | 4.916 | 4.190 | 3.768 | 3.586 | 3.157 |

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%), one of whom is the longest serving director (Maxine Brenner) having been appointed in November 2013. As noted earlier, Ms Brenner was to retire but will stand for re-election to avoid the need for a new replacement director.

There are currently 5 Executive KMP (including the CEO) of whom all are male. There have been no changes to the senior management given the current offer situation.

The Annual Report advises that the percentage of female senior leaders has increased from 40.8% in FY22 to 46% in FY23.

**Key events**

In November 2022 Origin received an indicative, conditional and non-binding proposal from a consortium consisting of Brookfield and MidOcean Energy (an LNG company controlled by the US-based private equity firm EIG) to acquire all the issued shares in Origin by way of a scheme of arrangement. In March 2023, the parties executed a binding Scheme Implementation Deed (SID) in relation to the proposal which remains subject to various conditions including a number of regulatory and ministerial approvals. The takeover proposal is for a payment of $9.00 per share which would be reduced by the value of any dividends declared after the Scheme was confirmed. At the time of the offer, it was estimated to have an enterprise value of $18.4 billion including net debt of about $2.8 billion. From the above table, it can be seen that the average share price over the 3 year period FY20 to FY22 inclusive was about $5.40 so the offer price represented a substantial 67% premium to the then market share price.

Under the Scheme, the Integrated Gas business would go to EIG while Brookfield would take the Energy Markets business. No confirmed values were given for the two separate businesses but it was speculated at the time that the former was worth about $7 billion and the latter about $11.5 billion. At the time of writing this VI, the proposal was still being assessed by the ACCC given Brookfield's earlier takeover of Victorian energy provider AusNet while there have been no indications so far from the FIRB as to how it views the role of foreign investor EIG which will be needed before the Treasurer makes a final determination on the offer. Origin hopes to conclude the Scheme early in the 2024 calendar year.

In November 2022, Origin completed the sale of its interests in the Northern Territory's Beetaloo Basin, where low CO2 gas deposits have been found, to ASX listed explorer Tamboran Resources. Origin received an upfront consideration of $60 million plus a royalty agreement covering future production as well as an offtake agreement that would supply an initial 36.5 PJ per annum of gas to Origin. It's fair to say that Origin took on a lot of activist opposition to the Beetaloo Project due to concerns around fracking in an underground artesian basin as well as general opposition from various indigenous groups. The timing of this sale with that of the offer from Brookfield/EIG may not have been entirely coincidental as the Beetaloo project was being increasingly seen as a growing distraction for Origin and would have clouded consideration of the Brookfield/EIG offer.

Origin also exited several other CSG exploration arrangements including the Canning Basin and the Cooper-Eromanga Basin. It has recently executed a $70 million funding agreement with the Commonwealth Government for the implementation of the Hunter Valley Hydrogen Hub project.

The outlook for the Eraring Power Station in terms of its proposed closure in 2025 is still the subject of much debate given the looming energy shortages predicted for NSW as renewable energy sources continue to lag behind expected progress. It is expected that the NSW Government will enter into an agreement with Origin to keep the Station generating well into the future. In the meantime, Origin has made a final investment decision on the first phase of the proposed Eraring battery and has invested in a number of other renewable energy projects in the Newcastle and New England areas.

The so-called APLNG Reversion saga continues and is covered in detail in the Annual Report (Pages 49 and 50). 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% or 19% of assessed CSG 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. It is targeting $45 million to support customers under hardship this year of top of $30 million spent last year.

**Key board or senior management changes**

As noted above, there have been no reported changes to the composition of the Board or to the KMP ranks.

**Sustainability/ESG**

Origin released its Climate Transition Action Plan prior to last year's AGM where it received a very strong 94.5% vote in favour of the report in a non-binding vote. No updated report has been issued this year but Origin has reported on progress and maintains its short term and longterm targets. Specifically, it achieved a cumulative reduction of 9 million tonnes of $CO_2e$ between FY21 and FY23 against an FY17 baseline. It has restated its longterm ambition to achieve net zero Scope 1,2 and 3 emissions by 2050. Targets for 2030 require a 40% reduction in combined Scope 1, 2 and 3 emissions against an FY19 baseline.

In the recent meeting with the ASA, Origin confirmed that achieving these targets is very dependent on the closure of Eraring which, as discussed above, is now less certain in terms of timing. In fact, Origin notes in its reporting that total Scope 1 and 2 emissions rose by 5% due to the need to support market demand for power.

Further details on these topics are provided in the Annual Report.

## 4. Rationale for Voting Intentions

**Resolution 2: Re-election of Ms Maxine Brenner as Independent Non-executive Director**

The reasons for this nomination have been explained earlier. Ms Brenner joined the board in November 2013. She is a very experienced and well-respected public company director. Current directorships include Telstra, Woolworths and, perhaps controversially, Qantas. Further details on Ms Brenner are provided in the Notice of Meeting.

Given the unusual circumstances of this AGM, the ASA will vote all undirected proxies in favour of the re-election of Ms Brenner.

**Resolution 3: Adoption of Remuneration Report**

Origin has a reasonably conventional remuneration framework with a combination of Fixed Remuneration (FR), a Short Term Incentive Plan (STIP) and a Long Term Incentive Plan (LTIP). Details are provided in the Remuneration Report included in the Annual Report. There are also minimum share ownership requirements for directors and senior executives, all of which are currently met. The table in the Appendix 1 shows the CEO's remuneration framework for FY23 and indicates a reasonable balance between the cash and equity components at both target and maximum levels.

Following a review and benchmarking of executive remuneration, the FR for the CEO was increased by 4% at the start of FY23 to $1.955 million with other KMP's increased by 3.5%. There have been no changes to the STIP or LTIP during FY23. The STI award is assessed across 7 metrics, 4 of which are financially based (totalling 60%) and 3 are regarded as strategic or non-financial measures (totalling 40%). The CEO scored 75.3% of the maximum available STI award or $2.458

million, half of which is paid in cash and the other half deferred into two instalments over two years. LTI awards partially vested at 16% of maximum or $375,000 for the CEO based on 4 separate tests on awards granted in calendar years 2017 and 2019, after 8 years of no LTI awards vesting. These past LTI awards were based on two equal measures being TSR (Total Shareholder Return) and ROCE (Return on Capital Employed).

Origin changed its LTIP several years ago and it is now divided into two equal tranches, one being Performance Share Rights (PSR) and the other being Restricted Share Rights (RSR). The PSR are subject to a single TSR test while the RSR are assessed against 30 key metrics and are expected to be awarded subject to Board discretion. PSRs vest at the end of the 3 year performance period while the RSRs vest in 3 equal instalments over 3 to 5 years after the testing period.

Due to the terms of the Brookfield/EIG takeover, which do not allow the continuation of future share rights, changes have been made for FY24 wherein future rights will be settled in cash but in the case of LTI equity awards, at a reduced face value termed the "risk" value being 90% of FR. Further details are available in the Remuneration Report.

Origin also put in place targeted retention arrangements during December 2022 with 232 employees (including one KMP) at a conditional value of $17 million deemed critical to continuing safe operations.

There will be no changes to the structure or level of non-executive director (NED) fees for FY24.

The ASA is satisfied that the above arrangements are reasonable and take into account the effects of the takeover offer on share price (which increased significantly thereby inflating the normal TSR benefit that would have accrued) and will therefore vote all undirected proxies in favour of the adoption of the Remuneration Report.

.**Appendix 1**
**CEO remuneration framework detail for FY23**

| Remuneration Component | Target* $m | % of Total | Max. Opportunity $m | % of Total |
|---|---|---|---|---|
| Fixed Remuneration | 1.955 | 34.5 | 1.955 | 25.8 |
| STI - Cash | 0.978 | 17.2 | 1.632 | 21.6 |
| STI - Equity | 0.977 | 17.2 | 1.632 | 21.6 |
| LTI (PSRs plus RSRs) | 1.760 | 31.1 | 2.346 | 31.0 |
| Total | 5.671 | 100.0 | 7.565 | 100.0 |

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 30-day VWAP at financial year end. *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.