



**CHAIRMAN'S ADDRESS
ANNUAL GENERAL MEETING
17 OCTOBER 2002**

Ladies and Gentlemen,

On behalf of the Board I am pleased to report on what has been another good year for your company.

The company's net profit after tax of \$128.7 million was a 31% increase over last year with earnings per share increasing 18% to 20.2 cents per share over an expanded capital base. Operating cash flow after tax increased 49% to \$299 million, demonstrating the underlying strength of Origin's businesses which have performed strongly this year.

After reviewing the results, directors have declared a final dividend of three cents per share fully franked payable on 21 October 2002, increasing the total dividends for the year to five cents compared to four cents last year. I will talk more about our policy on dividends later in this address.

As we reflect on the past year, there have been a number of dramatic events that have had significant impact on the world's economy and capital markets. The tragic events of September 11 last year and the political and military responses to those events have affected the economic environment. In addition, a number of high profile corporate failures both here and overseas have resulted in an increased focus on the integrity of company's accounting and governance processes, placing further pressure on equity markets. Despite these events and the instability they have caused, Origin has continued to improve its operational performance over the last year. In our first two years as a separately listed company revenues have grown by nearly 60%, profit after tax has increased 70% and operating cash flow has more than doubled and we have significantly outperformed the share market.

This performance reflects increasing recognition of Origin's strategy, improved financial performance and growth. These results have been reflected in a substantial appreciation in share price with our market capitalisation increasing three-fold over the same period to over \$2.2 billion. When I spoke to you last year Origin's share price was \$3.14 and since then the market has been volatile with our share price trading as high as \$3.90 and closing yesterday at \$3.59. This represents an increase in share price of 14% over the year. We have substantially outperformed the All Ordinaries Index which has fallen by 6% in the same period.

When Origin was formed in February 2000 we said our target was to achieve total shareholder returns in the top third of ASX 100 companies.

You can see that we have achieved that objective and are among the top performers in the ASX 100.

While we can be pleased in looking at our past performance, the challenge is to continue to produce good results for shareholders - a challenge made more difficult for reasons I have previously mentioned. In order to continue our good performance the Board will maintain its focus in a number of critical areas.

It is important that the company maintains its strong financial position. Origin has a strong cash flow, more than doubling over the past three years.

This reflects the strengthening of Origin's position by a number of development projects and acquisitions. In 2001 we significantly increased our retail customer base to 1.8 million with the acquisition of the Powercor electricity retail business in Victoria. During the past year we have continued our expenditure on growth, with capital expenditure of \$338 million on acquisitions and new projects. Early this year we acquired new strategic interests in coal seam gas consolidating Origin as the largest supplier of coal seam gas in Australia. In August we successfully completed the purchase of the CitiPower electricity retail business adding a further 260,000 customers to our Victorian retail customer base, taking it to over 2 million in total and positioning Origin as the second largest energy retailer in Australia.

This growth has been funded by our strong operating cash flow and \$200 million raised through an equity placement and a share purchase plan in 2001. This was supported by the availability of debt financing with Origin having achieved a BBB+ credit rating by Standard and Poors.

Over the year debt was reduced from \$727 million to \$633 million resulting in a net debt to equity ratio of 39% at year end. We have since paid for the acquisition of CitiPower and further coal seam gas assets from debt facilities and our net debt to equity ratio has remained at a conservative 49%. This places Origin in a strong financial position to take advantage of opportunities for further growth which we believe will arise as the industry continues to restructure.

Much has been written about the standard of corporate governance in Australia over the last few months. The community is naturally concerned about some listed companies which have exhibited unacceptable corporate governance practices.

Shareholders would expect me to make some comment upon this important topic in relation to their company.

In the Annual Report for the 2002 year, we have devoted considerable space to the corporate governance regime adopted by the Company.

I would like to comment on two aspects of the debate.

Firstly, much has been written about the appropriateness of a company issuing options to executives.

As we have pursued our performance and growth objectives we have also been mindful of the concerns that have been raised in the wider community about executive remuneration including the issuance of share options to executives.

The Board regularly reviews remuneration policies and outcomes to ensure that there is an alignment between the rewards to the executives and the returns to shareholders. We believe that options are an appropriate long term incentive for executives provided the terms of the options are properly designed - in particular that performance hurdles are set as a condition of exercise. The plan requires significant performance hurdles that must be attained before those options can be exercised. That is, Origin's Total Shareholder Return must outperform at least 50% of a reference group of over 50 comparable companies - then only half of those options are exercisable which will only become fully exercisable if Origin's Total Shareholder Return outperforms 75% of that reference group. Options currently issued under the plan represent less than 2% of the company's equity which is well below the 5% maximum specified in the plan.

Nevertheless, we are mindful of the wider concerns about executive options and, given the likelihood of changes to the accounting and tax treatment of options, we propose to undertake a complete review of our equity based compensation programme. We will meet our commitment to the issuance of options for performance in the past year, however for the reasons I have just outlined we will suspend future issuances pending the outcome of that review and will report to shareholders through the Stock Exchange when that review is completed.

The other matter relates to the proposal for structural reforms in the CLERP 9 Discussion Paper issued by the Federal Government and by the Policy Guidelines on governance issued by the Governance Council established by the Australian Stock Exchange. I am happy to report that the governance standards adopted by the Company are generally in advance of those suggested by the Stock Exchange and proposed in CLERP 9.

However, at the end of the day, good governance requires directors whose knowledge and skill together with their values and integrity will contribute to the company's success.

We will continue as a board to ensure that our processes and practices and our directors meet the highest standards, expected by shareholders, investors, regulators and the community. At the same time, we recognise we must continue to focus upon improving the financial performance of the Company and returns to all stakeholders, especially our shareholders.

While the appreciation in the company's share price that has been achieved over the past year represents a return for shareholders, many shareholders particularly our large base of retail shareholders, rely on the payment of dividends to meet their income requirements.

To date our policy has been to pay dividends up to the level of franking credits available. After taking into account the strength of the company's financial performance including its operating cash flow, the Board has concluded that the company should continue to pay dividends at or above the current levels. The current dividend represents approximately 25% of our earnings per share. Directors have decided that future dividends will be targeted at around 40% of earnings per share regardless of the level of franking credits available. We believe this is a prudent level in the light of the company's continuing requirement for cash to fund significant capital projects in the next three years. These include BassGas, SEA Gas and the

development of the gas prospects in the Offshore Otway Basin and our recent investment in coal seam gas in Queensland.

Outlook

Over the past two years the company's net profit after tax has grown 30% per annum. It would not be reasonable to expect growth to continue at this rate. The worldwide downturn in economic activity which also affects Australia, will have an impact on most businesses. The production and sale of energy has been shown over the years to be largely unaffected by changes in economic activity and has continued to grow, although that growth may be reduced in times of low economic activity. We do however, expect to report growth of 10-15% in net profit after tax in the year ahead as recent acquisitions and developments made by the Company make an initial full year contribution to profits. The Managing Director, Grant King will outline expected developments over the next few years and how we expect we will achieve these targets.