



## CHAIRMAN'S ADDRESS ANNUAL GENERAL MEETING

24 October 2011

Ladies and Gentlemen,

The last financial year was another significant one for Origin Energy.

In March, Origin became Australia's largest gas and electricity retailer, with the acquisition of customers from Country Energy and Integral Energy in New South Wales. The same transaction saw us acquire the rights to electricity output from the Eraring Power Station and from hydro power stations in the Shoalhaven. We now control one of the largest portfolios of power generation assets in Australia in terms of owned and contracted rights.

In July of this year, along with our partner ConocoPhillips, we announced the Final Investment Decision for the first phase of the Australia Pacific LNG coal seam gas to liquefied natural gas project in Queensland. In the months since that announcement, the project has remained on course to deliver first gas in 2015.

Origin also raised a significant amount of both debt and equity through the year, to finance these investments.

The company saw strong growth in earnings and profit in 2010-11. Underlying EBITDA increased 32% and Underlying Profit increased 15% over the twelve months.

This growth reflects the operational completion of investments made in prior years; a four-month contribution from the newly acquired NSW assets<sup>1</sup>; and strong underlying performance across the existing business.

Our Managing Director, Grant King, will provide a more detailed account of operations when he speaks. Let me talk briefly about the company's strong financial performance in financial year 2011.

### **Financial performance over the year**

Statutory Net Profit After Tax was 70% down on the prior year. This reflected a higher Underlying Profit offset by higher impairment of assets, a decrease in the fair value of financial instruments and higher transition and transaction costs primarily relating to the NSW retail acquisition.

Underlying Profit, which excludes from Statutory Profit items what directors consider do not present an appropriate assessment of the results of ongoing operations, rose 15% to \$673 million.

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<sup>1</sup> The NSW assets or NSW retail acquisition is a reference to the Integral Energy and Country Energy retail businesses and the Eraring GenTrader arrangements.

Underlying earnings per share also increased 10% to 71 cents per share<sup>2</sup> - on a weighted average capital base of 948 million shares.

Group Operating Cash Flow After Tax was \$1.585 billion<sup>3</sup>.

A final fully franked dividend of 25 cents per share was paid on 29 September 2011, taking the full year dividend for the 2011 financial year to 50 cents per share, representing 70% of underlying earnings.

The company's balance sheet remains strong.

During the year, Origin invested \$5 billion in development and acquisitions and committed \$6 billion to fund its share of Australia Pacific LNG. I wish to assure shareholders that Origin is well placed to fund ongoing capital expenditure requirements and Australia Pacific LNG, while maintaining balance sheet strength.

In March and April we raised \$2.3 billion through a share rights issue using an innovative structure to ensure that retail shareholders who wished to sell their rights were treated equally with institutional shareholders. Retail investors took up 79% of the shares on offer.

In April we also completed syndication of a \$2.15 billion and US\$350 million bank debt facility.

In June we raised €500 million (approximately \$680 million) from a European hybrid capital issue.

Since the end of the financial year, we have raised a further US\$500 million from US 144A debt capital markets.

As at 30 September, our gearing ratio was 23% and we had \$4.6 billion<sup>4</sup> of existing committed undrawn debt facilities and cash, meaning we have significant capacity to borrow in order to fund further long-term growth.

## Share price

While it has been an outstanding year in operational and financial terms, this success has not been fully reflected in our share price.

The share price is down by 9% from this time last year, and has fallen by approximately 12% over the last six months, broadly in line with the ASX200.

The ASX200 Energy Index fell by 19% over that period, so Origin has significantly outperformed its energy peers.

Nonetheless Origin shareholders have come to expect returns well above the ASX average.

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<sup>2</sup> FY2010 Underlying EPS of 66.6 cps restated to 64.8 cps for the bonus element of the rights issue completed in April 2011.

<sup>3</sup> Group OCAT means operating cash flow after tax of the Consolidated Group including 50% of Australia Pacific LNG.

<sup>4</sup> Adjusted to account for US\$500 million of ten year senior unsecured notes issued in the United States 144A market on 14 October 2011.

I believe there are three reasons for the failure of the equity market to reflect Origin's strong year.

### **1. Global environment**

Foremost is the current global economic uncertainty. Over the last six months equity markets have been volatile and fallen in value, with an average decline in the United States, United Kingdom, German and Japanese markets of 15%.

This has been driven by acute sovereign debt issues in Europe, minimal GDP growth in the United States due to high unemployment and weak consumer sentiment. It is clear the economic recovery in the United States is faltering.

This uncertainty has clearly impacted Origin's share price through the year, just as it has impacted other Australian companies in our sector.

### **2. Australia Pacific LNG**

A second pressure on our share price is the market's response to the Australia Pacific LNG project. We do not believe the true value of the project is currently reflected in Origin's share price.

Australia Pacific LNG will deliver substantial value to shareholders over time. The project has met all milestones set for it so far, and remains on schedule for first gas in 2015 as first signalled more than two years ago.

Our foundation partner ConocoPhillips is the world's largest producer of coal seam gas, and is very experienced in delivering LNG train construction. Through a period of restructuring its own portfolio, ConocoPhillips has consistently and publicly reaffirmed that Australia Pacific LNG remains one of its key global priorities.

Our foundation customer and new equity partner, Sinopec, ensures that the project is connected directly into the economic growth in China at a time of uncertainty in Europe and the United States.

We expect the considerable value locked in the Australia Pacific LNG project will be reflected in the Origin share price over time, as we deliver against milestones.

Our domestic Australian business, by contrast to the global economic uncertainty, continues to benefit from a relatively strong domestic economy and ongoing growth in demand for gas and electricity.

### **3. Australian policy environment**

Nevertheless, a third source of uncertainty for investors in our sector is Australian public policy.

Origin's diverse and integrated Australian business is very well placed to manage policy outcomes around issues such as carbon, taxation and increasing environmental regulation:

- For example, Origin has long supported an emissions trading scheme as the lowest cost and most flexible way to reduce Australia's emissions, and we

are well placed to benefit under the Clean Energy Future package currently before the Senate.

Carbon emissions from Origin's electricity portfolio are lower than the market average, and the Eraring power station is one of the most efficient coal fired generators in the country. A carbon price also increases the long-term value of renewable projects such as our proposed Purari hydro project in Papua New Guinea.

If a carbon price is repealed by a future Government, Origin is also well positioned. The value of gas as a cleaner burning fuel is widely recognised in other countries, and international prices reflect that demand. Australian gas prices will rise as the LNG industry connects us with fast-growing Asian markets. This will continue to increase the value of both Australia Pacific LNG and our substantial domestic gas portfolio.

- Uncertainty is also being driven by social and environmental concerns about different sources of energy. A two kilometre exclusion zone for wind farms was introduced this year in Victoria, which will increase the cost of delivering wind energy in years to come.

However the Victorian decision does not affect Origin's Stockyard Hill wind farm. With a permitted capacity of up to 450 MW, Stockyard Hill would be the largest wind farm in Australia if built today. Stockyard Hill was permitted before the new Victorian legislation came into existence.

- There are also calls in some quarters for more regulation of coal seam gas. Much of the public discussion of this issue lacks balance and raised concerns not supported by the facts. I would like to make some simple points.

First, CSG is not new or untested. It has been used for cooking and heating in Queensland's homes since 1996. Today it provides 90% of Queensland's natural gas and 15% of Queensland's electricity.

Second, CSG is a big part of the solution for the impact of climate change. Electricity from natural gas produces roughly half the emissions of coal, with less smog and local air pollution and fewer local health impacts.

Third, Origin has not had a single documented case of our CSG operations causing health problems in the local community, since we commenced operations in 1996.

Fourth, Origin has signed more than 600 land access agreements with farmers and drilled around 1,000 wells - without ever once going to the Land Court.

Queensland's CSG industry operates in a tightly regulated environment. Contrary to what you might have heard:

- We are not permitted to operate within two kilometres of a city or township without agreement from the local council and community;

- We treat our CSG water most of which is highly saline to a quality that surpasses Australian drinking water guidelines;
- We only release water treated to drinking water standards into rivers under strict licence conditions;
- Treated water is made available on a case by case basis to townships and agricultural users; and,
- We do not use BTEX in our fracking fluids.

We also operate in a very transparent environment:

- While more than 97% of fracking fluid comprises sand and water, a miniscule amount of chemicals are used. A full list of these chemicals is available to the public on our website. Fracking fluid does not contain anything that you don't already eat, drink or wash in; and,
- We share all our water monitoring data with government - data from more than 450 existing landholder bores and from 80 bores drilled specifically by us to monitor water levels and water quality. That information will be available for the public and for scientists to use.

Thanks to the CSG industry, the Surat basin will become one of the best understood underground water systems in the world, giving scientists and regulators much more information about how to manage the resource in the long term.

CSG currently accounts for nearly 80% of Eastern Australia's gas reserves so it is vitally important for the nation's future energy security.

Over time I am confident the public - and investors - will become increasingly clear about the benefits the industry will bring.

If you would like additional information about these topics, I refer you to the Origin website where you will find a link to a range of information.

## **Foundation**

Let me move now to other matters.

Origin and Australia Pacific LNG are very active in a range of local communities around our coal seam gas and generation assets.

However our main vehicle for making a philanthropic contribution to Australian society is the Origin Foundation.

July 2011 marked the end of the first full year in the life of the Origin Foundation.

The Foundation was established in 2010 with a lump-sum donation of \$50 million to mark Origin's tenth year since listing on the ASX in February 2000.

Its focus is the broad area of education, training and development. This reflects what we feel are core elements of the Origin culture - a commitment to dealing with complex problems in a sustainable long term way.

In its first twelve months, the Origin Foundation distributed approximately \$4 million to 12 organisations.

More information is available online and the Foundation's first annual review is available in the foyer.

## **People**

The health and safety of our people and contractors remains Origin's first priority. This year, we reported a company-wide Total Recordable Incident Frequency Rate<sup>5</sup> of 6.0, an increase from 5.6 in the prior year. Many of Origin's business units showed a positive change reflecting their commitment to improving safety, however a number of our colleagues still sustained injuries while at work.

Consequently, the short-term incentive payment for the Managing Director and other senior executives was affected, as these included a target for safety performance. In addition, our employees also did not receive an annual bonus of up to \$1,000 worth of shares under the Employee Share Plan, as the target to obtain this also related to safety performance.

We continue to focus on the challenge of improving safety performance.

Consistent with the ongoing growth of our business, the Origin team has also grown. At the end of the financial year, Origin had a total of 5,213 employees, an increase of 821 people on the prior year, reflecting expanded operations and project activities.

## **Diversity**

Origin recognises that it is very important to improve the participation rates of women in executive ranks and the Board.

The company's Diversity Council is chaired by the Managing Director and diversity issues are dealt with at the Executive Committee level.

We continue to pursue measures aimed at attracting, retaining and developing female employees and increasing the number of women in underrepresented areas including management and leadership positions.

Areas of current focus include educating senior managers around unconscious bias, providing targeted development programs for women and increasing the number of women on short lists for recruitment.

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<sup>5</sup> Measures the total number of recordable injuries that occur per million hours worked on a rolling 12 month basis. Recordable injuries include lost time cases, restricted work cases and medical treatment cases.

We continue to offer a range of flexible working conditions to both male and female employees.

## **Outlook**

At the Full Year Results Announcement in August, Origin advised that based on operations to date and the then prevailing market conditions, the company anticipated:

- Underlying EBITDA to increase by around 35% when compared with FY2011; and,
- Underlying Profit to increase by around 30% when compared with FY2011.

Increasing uncertainty in world financial markets, greater volatility in commodity prices and the patchy performance of the Australian and New Zealand economies makes full year forecasting more challenging.

Based on operational performance of the company to date we re-affirm this guidance.

## **Conclusion**

In conclusion, I would like to thank all my colleagues at Origin for their dedication and commitment to delivering outcomes for the business, our shareholders and all of our stakeholders.

Finally, I would like to thank you, our shareholders, for your continuing support of Origin.