

27 August 2001

Directors' Review of Results

The Directors submit their report for the full year ended 30 June 2001.

In this Review of Results current year figures are compared with the proforma result for Origin Energy's continuing energy business for the year ended 30 June 2000. Discontinued activities associated with Boral's building and construction materials business have been removed from last year's results. However, as required by law, comparisons in the attached ASX Report reflect the full results for the Company, which include the building and construction materials business for the six months ending 31 December 1999.

Financial Review

Highlights

Origin Energy is pleased to announce a profit after tax (PAT) of \$98.0 million, an increase of 30% over the result for the prior year. This result is built on an increase in total revenue of 10.3% to \$1.7 billion, and an increase in EBITDA of 12.5% to \$305.2 million.

The primary performance measure of returns used within the Company is Operating Cash Flow after Tax over Funds Employed. A return of 13.0% has been achieved, up from 7.4% in the first year of operation.

At the time of the half year result the Company communicated to shareholders its intention to pay dividends when they can be fully franked. The Directors are therefore pleased to declare a fully franked final dividend of 4.0 cents per share. It will be paid on 9 October 2001 with a record date of 17 September. The Dividend Reinvestment Plan election will apply to this dividend at market price.

The Directors are also pleased to announce today an opportunity for all shareholders to participate in a Share Purchase Plan, details of which are provided later in this review.

The increase in revenue, profit and cashflow are underpinned by full year contributions from projects such as the Ladbroke Grove development, and contributions were made for part of the year by the Peat coal seam gas project, the Bulwer Island cogeneration project and most recently the Powercor acquisition. The 2001/02 financial year will see a full year contribution from these projects adding to underlying earnings. Projects such as the acquisition of the Worsley cogeneration plant and the development of the Quarantine power station will provide contributions for a portion of the year and form part of an ongoing project development stream that will deliver continued growth in earnings in the coming years.

Profit & Loss

Total revenue for the year was up 10.3% to \$1.7 billion. The majority of this increase came from the Retail & Trading segment, despite there only being one month's contribution from the Powercor electricity retailing business acquired in June, 2001.

EBITDA increased by 12.5% from \$271.4 to \$305.2 million, reflecting the continued strong cash from the business. The Upstream segment was again the major provider of cashflow contributing two thirds of the EBITDA result, and the Generation segment showed a 55% increase in this measure.

	EBITDA \$m		
	2000/01	1999/00	% change
Exploration & Production	201.3	186.5	7.9%
Retail & Trading	66.5	58.4	13.9%
Generation	25.0	16.1	54.8%
Networks	21.9	22.6	(2.8)%
Corporate	(9.5)	(12.2)	22.5%
Total	305.2	271.4	12.5%

EBIT again showed strong growth with a 32% improvement to \$173.3 million. The proportionally higher increase in EBIT resulted from decreased depreciation and amortisation charges following the write down of some exploration and production assets at the end of the prior reporting period.

Net interest expense for the year was \$31.7 million, up 5.8% from last year. The increase from last year is largely due to the costs associated with funding the \$315 million Powercor acquisition in June.

Tax expense for the year totalled \$38.0 million. The increase over last year primarily reflects the higher pre tax profit and a lower benefit from the Stratus asset acquisition.

The improvement on Oil Company of Australia's 2000 result is reflected in the higher level of profit attributable to outside equity interests. At \$98 million, Origin Energy's profit after tax is 30% above last year's level.

Capital Expenditure

The Company undertook a number of major projects during the course of the year, resulting in total capital expenditure of \$536 million.

Stay-in-business capital expenditure associated with the maintenance of ongoing operations was \$83 million. The majority of expenditure was associated with drilling and facilities development activities in the South Australian and Queensland sectors of the Cooper Basin.

Growth capital expenditure associated with new business initiatives increased to \$117 million. This included approximately \$40 million on the development of power generation projects at Quarantine Island, Bulwer Island and Ladbroke Grove, \$13 million on systems for full retail contestability in electricity and natural gas, over \$23 million on exploration expenditure in Greenfields areas, \$17 million exploring and developing coal seam gas resources in Queensland, and \$20 million on other exploration and production activities.

Capital expenditure on acquisitions totalled over \$340 million, reflecting the purchase of the Powercor electricity retail business (\$315 million), an increase in the share of the Bulwer Island cogeneration project from 33.3% to 50% (\$21 million) and various Retail and Upstream activities.

Proceeds from the sale of assets amounted to \$14.6 million, including \$9.9 million from the sale of reservoirs in the Port Campbell area and \$1.6 million from the sale of the Tintaburra oilfields and the partial sale of interests in the Naccowlah Block by Oil Company of Australia.

Cashflow

Working Capital improved significantly during the period. An overall negative movement in working capital in 1999/2000 was reversed to a positive movement of \$39 million during the period reflecting increased management focus on this aspect of performance.

The primary measure used by the Company to measure its performance is operating cashflow after tax over average funds employed (referred to as the OCAT Ratio). The measure is calculated from EBITDA as the primary source of cash contribution, but adjusted for stay-in-business capital expenditure, changes in working capital and tax paid. Funds employed are averaged over the year to match the timeframe of the cashflows.

The strong performance in EBITDA, net working capital management and control of stay-in-business capital expenditure provides for an improved performance in operating cash flow. Tax payments have increased due to the profitability of Oil Company of Australia. Average funds employed by the business decreased compared to the prior period as the result of write-downs in exploration and

production assets at the end of the prior period. The Powercor acquisition contributes to the average funds employed, but only for one month.

These factors provide for a significant increase in the OCAT Ratio from 7.4% in the prior period to 13%.0 in the year ending June 2001.

Funding and Capital Management

Net debt increased from \$431 million at 30 June 2000 to \$727 million at 30 June 2001. The net increase of \$296 million is essentially attributable to the use of debt to fund the Powercor acquisition. This left Origin Energy with a debt to equity ratio of 55% at 30 June, above its gearing target of 50%.

At the time of the Powercor acquisition the Company announced that while it did not need additional equity to fund the acquisition, if it were to pursue other growth opportunities additional share capital might be required. Accordingly, on 12 July the Company raised \$125 million of equity through placement of 44.2 million shares with institutional investors at \$2.83. This placement reduced the net debt to equity ratio to around 40% in mid August.

Today the Directors are pleased to confirm the opportunity for all shareholders to participate in a Share Purchase Plan (SPP), under which each shareholder on the register last Friday will be able to purchase up to 1,000 Origin Energy shares at a price of \$2.79. This price reflects the institutional placement price of \$2.83 adjusted by 4 cents because the dividend announced today will not be payable on the new shares issued under the SPP. If SPP subscriptions exceed \$50 million the maximum number of shares issued to each shareholder may be scaled back. Details will be sent to shareholders within the next week.

During the early months of this year Origin Energy sought a Credit Rating through the rating agency Standard and Poor's. In July the Company was advised that it had received a solid BBB+ rating. This result will reduce future long term debt costs.

Distributions to Shareholders

For the first half year Origin Energy was not in a position to pay a franked dividend and elected instead to offer shareholders the option of a tax effective distribution through an on-market share buy-back. Approximately 3,000 shareholders took advantage of the buy-back, with Origin acquiring 1.76 million shares at \$2.27 per share.

The 4 cent fully franked dividend declared today relies upon the recently announced fully franked dividend from Oil Company of Australia, Origin's 85% owned subsidiary company. Origin itself has consolidated accumulated tax losses in excess of \$320 million at 30 June 2001, so will be unable to generate its own franking credits for several years.

Although the Company does not expect to have sufficient franking credits to permit the payment of a fully franked interim dividend next year, a final fully franked dividend for the 2002 year of at least 4 cents per share is anticipated to be paid in the second half of 2002. If no interim dividend is paid, consideration will be given to implementing another on-market share buy-back in April for those shareholders seeking a cash distribution.

Business Development

Origin Energy is continually seeking to identify development opportunities within each business and which also benefit from synergies across the Company's operations. The coming year will see continued focus on the following business opportunities;

- Integration of the Powercor acquisition to ensure that synergies across the retail businesses are optimised;
- Implementation of full retail contestability for natural gas and electricity;
- Further development of the portfolio of opportunities under the Company's Clean Energy Advantage program including the Ecosaver retail product, natural gas vehicles, GeoExchange geothermal ground loop technology and solar photo voltaic research and development;
- Completion of the Quarantine Power project to service peaking power opportunities in the south eastern Australian market;
- Planning and development of the SEA Gas Pipeline from Victoria to South Australia, now likely to have a capacity of 70 PJ per annum;
- Accelerating the pace of the BassGas (Yolla) development;
- Ongoing appraisal of major offshore gas discoveries at the Thylacine and Geographe fields in the offshore Otway Basin made during 2000/01; and
- Ongoing exploration efforts around upstream producing assets, including the Perth Basin in Western Australia and coal seam gas fields in Queensland.

Outlook

Origin Energy has positioned itself for consolidation and further growth in 2001/02. Over the coming year the Company will primarily focus on:

- Integration of new business and projects and ensuring that the benefits these businesses promise are delivered;
- Managing the transition to fully contestable energy markets through continuing effective development of systems, business skills and risk management practices; and
- Continuing to initiate and develop new growth projects to further develop and grow the business.

External factors will also influence performance, primary amongst these being the price of oil and the impact of weather on retail sales. Oil price and currency hedging, vertical integration in the LPG market, the favourable hedge book purchased from Powercor, and the ownership and continued development of

peaking power generation capacity combine to place Origin Energy in a strong position to manage volatility in Australian energy markets.

Results for the coming year will also be influenced by delays to retail contestability of natural gas. An agency fee is paid to the Victorian Government and was scheduled to be discontinued with the onset of full retail contestability (FRC) for gas in September 2001. However contestability has been delayed until July 2002 at the earliest, and Origin Energy remains in discussions with the government over the treatment of the agency fee during this period.

Origin Energy is confident of delivering higher earnings during the coming financial year and the Company is well positioned to continue the growth of its business into the future.

Divisional Performance Highlights

Exploration & Production

External sales revenue for the Exploration and Production (Upstream) segment increased 5% to \$278.2 million on the back of sales of natural gas (including coal seam gas), ethane, LPG, condensate and crude oil totalling 87 PJe, marginally lower than the prior corresponding period. Origin Energy has maintained a policy of partially hedging oil price and exchange rates. After accounting for these positions the average price received for oil during the year was A\$44 per barrel, compared with A\$33 per barrel in the prior year.

EBITDA for the period was \$201.3 million, up 7.9% on the prior year of \$186.5 million. EBIT increased by 26% to \$122.1 million. The significantly greater increase in EBIT relative to EBITDA reflects the impact of a write-down of the carrying value of several Upstream assets at the end of the last financial year.

Compared to the prior year, increases in sales volumes were recorded from Beharra Springs, Tubridgi, Katnook/Ladbroke Grove, the Surat Basin, and the Moura and Peat coal seam gas fields, collectively adding nearly 10 PJe to annual production. In particular, the Peat coal seam gas field was brought on line during the course of the year to service the Bulwer Island cogeneration plant. This field contributed an additional 2.2 PJe to production and is expected to provide 8 PJe from a full year of production in 2001/02 .

These increases were offset by a decline of 7.2 PJe in the Port Campbell areas as a result of the sale of reservoirs under pre-existing agreements. Marginal declines in sales from the Cooper Basin and the Denison Trough were also recorded, and the natural decline of oil producing fields in the Bodalla area saw 1 PJe less production from this asset. Although production from the Denison Trough was marginally down due to reduced demand from QAL, continued high

contract gas prices resulted in an 11% increase in profit contribution from that area.

A total of 147 development, appraisal and exploration wells were drilled during the year. A success rate of 83% was achieved. Inclusive of acquisition and reserves adjustments a net increase to reserves of 32 PJe was recorded, offset by production of 81 PJe. Total Proved and Probable (2P) reserves as at 30 June 2000 were 975 PJe, a decrease of 49 PJe over the year. Total 2P reserves life is 12.0 years at 2000 production levels.

This year a new category of reserves has been added to Origin Energy's reporting of resources. Designated "Scope for Recovery", this category is designed to account for fields such as the Thylacine and Geographe discoveries which require further definition but can reasonably be expected to mature into producing fields. A total of 259 PJe representing Origin Energy's 30% share of these two discoveries has been booked in this category. When added to the proved and probable reserves position Origin Energy has recorded a 20% increase over the reserves position at 30 June 2000.

Activity in Greenfields exploration focussed on the drilling of the Thylacine and Geographe wells in the offshore Otway Basin. Both wells provided new field gas discoveries, with gross hydrocarbon columns of 280 metres and 240 metres respectively. Further appraisal drilling will take place on these fields in 2001/02. In addition one well was drilled in the Taranaki Basin in New Zealand and two wells were drilled in the onshore Otway Basin in South Australia. Each of these wells encountered gas bearing reservoirs, but in all three cases reserves were significantly below expectation. The Limestone Ridge 1 well has been cased and suspended for testing at a later date and retains the potential of producing commercial hydrocarbons.

These encouraging drilling results during 2000/01 have been followed by success in the Perth Basin this financial year with the drilling of Beharra Springs North 1. This well encountered a 28 metre gas bearing sandstone reservoir with preliminary reserves estimates in excess of 10 PJe gross.

Retail & Trading

Retail & Trading recorded external sales amounting to \$1.2 billion dollars, an increase of 17% over the previous year. EBITDA increased 13.9% to \$66.5 million, and EBIT rose 43.4% to \$23.7 million. The result included one month contribution from the Powercor retail business and was achieved despite continuing mild weather conditions, with winter temperatures well above the average of the last ten years.

A significant milestone was Origin's acquisition of the Victorian electricity retail business of Powercor on 1 June. This has increased the Company's customer base by 582,000 to 1.8 million, and significantly increased the footprint of Origin Energy retail businesses in Victoria. The customers and capabilities acquired will

provide the Company with a strong platform for dual-fuel offerings and the provision of other value-added products and services across one of Australia's most significant energy markets.

Origin Energy has focussed significant resources and capital to ensure that systems and processes are in place to meet the requirement of fully contestable energy markets, and that the Company will be in a position to compete effectively in this new environment. These projects are operating to a strict project schedule and continue to pass all significant milestones. The timetable for contestability varies from state to state and by product, but all systems are scheduled to be operational prior to the onset of contestability.

Natural gas

A cooler winter than in 1999 contributed to additional gas sales of 1.8PJ this financial year and saw external sales of natural gas increased to \$755 million, up 7% on the previous year. Performance of the large industrial retailing group improved significantly, with supplied natural gas volumes increasing by 10% to 54.2PJ to this sector. The first tranche of industrial Victorian natural gas customers were declared contestable and this resulted in approximately 20 percent of them changing supplier. Although Origin did initially suffer some losses, by the end of the year these had been largely offset. Gross margins fell slightly, in line with expectations for the onset of contestability and consistent with the modelling of business returns at the time of the acquisition of the Energy 21 gas retailing business.

Tariff reviews in most markets provided favourable outcomes for Origin Energy. In Queensland a tariff increase was obtained for the first time since 1992, and increases were also obtained in South Australia.

LPG

External sales revenue across Origin Energy's LPG business increased 12% to \$350 million for the financial year. Wholesale activity increased significantly over the year, but a decline in retail volumes in response to the high world price of LPG saw the overall volume traded decrease by nearly 20% to 19 (PJe). Nonetheless tight margin management resulted in an increase in profitability of the LPG business.

Electricity

Despite enjoying only one month's contribution from the Powercor business during the financial year sales, revenue from the electricity segment rose by over 100% to \$116 million on sales of 7.6 PJe (2.1 terawatt-hours).

Origin's electricity business was mostly stable in the year under review. Although contestability applies only to larger customers in the electricity market, contribution from that area increased, albeit from a modest base, as Origin

continued to develop its capability as a dual fuel energy supplier. The acquisition of the Powercor retail business has substantially increased Origin's electricity retailing and wholesaling capabilities.

Generation

Revenue for the Generation business increased 45% over the year to \$35.5 million. EBITDA for the year was \$25.0 million, an increase of 55% over the corresponding period last year. Total electricity dispatched increased from 0.97 TWh last financial year to 1.34 TWh this financial year.

The generation segment has continued to provide significant growth within Origin Energy. Contributions are made directly from the power projects themselves and also from the pull through effect of higher gas sales from Origin Energy's upstream assets. In this fashion the Bulwer Island cogeneration project has supported development of the Peat coal seam gas field, and the Ladbroke Grove project has facilitated development of the previously uncommercial Ladbroke Grove field.

The Bulwer Island project began commercial operations in January this year and supplies 32MW of electrical power and 55 MW of thermal energy as steam to BP's Clean Fuels project at the Bulwer Island refinery. Origin Energy increased its interest in the project to 50 percent in February this year.

The 82MW Ladbroke Grove plant is located in regional South Australia and supplies most of that area's power requirements. Although initially designed to operate as a peaking plant, the operation has switched to base load operation to take advantage of electricity prices that continually exceed its marginal cost of operation.

During the year a generator failure resulted in one of the two Ladbroke Grove units being off-line for several months. The cost of restoring the generator was largely covered by the equipment supplier. A claim has been made on the Company's insurers for ancillary and business interruption costs totalling approximately \$7 million and that amount has been recognised in the current year's generation segment result. Although the Company has received strong legal advice that the claim is justified, the insurers are not accepting liability for the loss at this time. Litigation may be required to resolve the matter. Since the outcome of litigation cannot be certain, a provision equal to the amount claimed has been established in the Corporate segment

Construction of the Quarantine power station on Torrens Island, Adelaide, is underway and the project is scheduled to commence generation before Christmas 2001. The plant will help meet the anticipated record electricity demand being forecast for South Australia this summer. The initial open-cycle plant can be converted to more efficient combined cycle operation in future, further increasing generation capacity from 95MW up to 200MW.

In late June, Origin signed a conditional agreement to buy Fletcher Challenge South West Cogeneration Limited, which holds a 50 percent interest in the South West Cogeneration Joint Venture. The agreement is subject to a number of conditions precedent and pre-emptive rights not being exercised. The unincorporated joint venture owns and operates a 120MW natural-gas-fired cogeneration facility which supplies steam and power under long-term contracts to the Worsley Alumina Refinery near Bunbury in Western Australia and electricity to Western Power Corporation. The acquisition will complement Origin's existing energy base in Western Australia and allow it to participate more readily in emerging energy growth opportunities in that state, using the integrated model successfully implemented in the eastern states.

In the year under review, Origin successfully applied for Federal funding for a range of clean energy programs, including a \$16 million Greenhouse Gas Abatement Program (GGAP) grant for gas-fired cogeneration. Origin, the largest single recipient of first-round funding, is now advancing cogeneration developments at several major industrial sites.

Overall, Origin Energy's power projects now save over one million tonnes per year of greenhouse gas emissions compared with electricity market averages. The Company will continue to grow its generation activities, providing cleaner solutions for customers' needs.

Networks

Networks achieved an EBITDA of \$21.9 million on the back of revenues of \$110.7 million. This result was marginally lower than the prior year, reflecting lower incentive fees from Envestra and lower income from the disposal of assets, partially offset by a higher distribution from Envestra. EBIT contribution was \$19.8 million, down 5% from the prior year.

In 2000/01 Origin Energy Asset Management (OEAM) connected more than 23,000 new natural gas customers to the networks under management for Envestra, a strong performance attributed to the pre-GST demand for housing construction and a better than expected demand post-GST.

Approximately 220 km of new mains were laid and 230 km of existing mains replaced within areas managed on behalf of Envestra. A new fully integrated work management and geographical information system was developed and commissioned. Significant cost reductions were achieved resulting in incentive bonus payments from Envestra.

OEAM will continue the promotion of natural gas to maximise the utilisation of networks under management and will also introduce further cost reductions.

Many new business opportunities were evaluated during the year and some new clients gained. Infrastructure management services will be expanded where they complement the existing business.

Distributions from Envestra totalled 9.25 cents per share an increase of .25 cents per share on last year's figures. This increase was consistent with the 5% growth in operating cash flow achieved during the year, and underpinned by new customers connections and the laying and replacing of lines mentioned above. With this level of growth expected to continue indefinitely, Origin has maintained its policy of recognising the full Envestra distribution as current period income.

Corporate

On 12 July Origin Energy and the Brisbane City Council contracted to sell to Mirvac Limited approximately 60% of their combined properties in the Brisbane suburb of Newstead. Mirvac will be responsible for remediation of the whole site and the owner's contribution to remediation costs will be capped. As a result, the amount provided in the accounts to rehabilitate the site has been reduced by \$6.5 million.

The market price of the Company's 17% shareholding in Magellan Petroleum improved strongly over the year. Consequently the amount provided against the original cost of this investment has been reduced by \$3.5million so that it is now being carried at \$1.85 per share, the lowest traded price of Magellan shares since 6 September 2000.

The above two favourable outcomes, offset by the Ladbroke Grove insurance claim provision, have caused a reduction in Corporate costs compared with last year.

Origin Energy Continuing Businesses Pro forma Consolidated Profit and Loss Account

	Current period \$M	Previous corresponding period # \$M	% change +/-
Sales revenue	1,655.4	1,496.1	10.6%
Share of associates' and joint venture entity's net profit attributable to members	8.1	5.1	58.8%
	1,663.4	1,501.2	10.8%
Other revenue	23.9	28.6	-16.3%
Total revenue	1,687.4	1,529.8	10.3%
EBITDA	305.2	271.4	12.5%
Depreciation	73.6	73.0	0.8%
Amortisation	58.3	67.3	-13.4%
EBIT	173.3	131.1	32.2%
Net interest expense	31.7	29.9	6.7%
Profit before tax	141.6	101.1	40.0%
Tax expense/(benefit)	38.0	22.6	67.8%
Profit after tax	103.6	78.5	32.0%
Outside equity interests	5.6	3.2	76.1%
Profit after tax attributable to members	98.0	75.3	30.2%
Profit before tax / sales revenue	8.6%	6.8%	
Profit after tax / net assets	7.6%	6.2%	
Earnings per share*	17.1 cents	13.3 cents	

*Earnings per share for June 2001 and 2000 are calculated based on 571,989,823 and 568,050,178 shares respectively.
Excluding abnormal items (\$72.6 million) and building and construction materials businesses.