

26 August 2002

Directors' Review of Results for the year ended 30 June 2002

The Directors submit their review of the results for the year ended 30 June 2002.

Financial Review

Financial Highlights

Origin reported a net profit after tax of \$128.7 million for the year ended 30 June 2002, a 31% increase on the profit in the prior year.

Earnings per share increased by 18% to 20.2 cents per share on a capital base that was increased by 11%. A final dividend of 3 cents per share, fully franked, will be paid on 21 October 2002 to shareholders of record on 30 September 2002. Origin shares will trade ex-dividend as from 24 September 2002. This final dividend will lift the total dividend paid for the year to 5 cents per share from 4 cents per share last year.

The Board has also determined that the Dividend Reinvestment Plan will continue to apply and that for this dividend, a discount of 5% will apply to the shares allotted under the Plan.

EBITDA of \$404.6 million is up 33% on the prior year. A small reduction in Exploration and Production (E & P) earnings has been more than offset by a significant increase in the contribution from Retail and improved earnings from Generation and Networks.

The main factors contributing to the result include:

- Strong contribution from electricity following the acquisition of the Powercor retail business in June 2001;
- A 13.5% increase in Victorian electricity prices on 13 January 2002, reflected in full following a restructuring of the Powercor retail acquisition;
- Significant improvement in the performance of the LPG business due mainly to lower operating costs and lower supply costs resulting from a reduction in world oil prices;
- Increased contribution from power generation reflecting the acquisition of the Worsley Cogeneration interest and the commissioning of the new

Quarantine Power Station, offset by lower prices received for sales from merchant plants;

- Reduced contribution from oil production due to reductions in volumes arising from the sale of the Bodalla assets and lower world oil prices; and
- A 35% increase in net interest costs, reflecting additional borrowings used to fund the company's development and acquisition program.

Capital raisings and strong operating cashflows during the year enabled the reduction of net debt from \$727 million at 30 June last year to \$633 million at 30 June 2002, resulting in a final net debt to equity ratio of 39%.

Financial Performance

External sales revenue increased to \$2,389.2 million from \$1,655.4 million in the prior year. The increase was due to a full year contribution from the electricity retail business acquired from Powercor, but contains no contribution from the business acquired from CitiPower after 30 June 2002.

Total revenue increased by 44% to \$2,437.1 million and includes distributions from Envestra.

Segment contributions to EBITDA were:

	EBITDA \$m		
	2001/02	2000/01	% change
Exploration & Production	186.2	201.3	(7)
Retail	173.5	66.5	161
Generation	30.4	25.0	22
Networks	22.9	21.9	4
Corporate	(8.4)	(9.5)	11
Total	404.6	305.2	33

Depreciation and amortisation expense increased by 32% to \$173.9 million. The increase was due primarily to an amortisation charge of \$26 million against commodity hedging contracts acquired from Powercor in June 2001, higher depreciation charges against plant and equipment in the generation segment, and a full year of amortisation charges against licence fees following the acquisition of Powercor's electricity retail business.

EBIT again showed strong growth with a 33% improvement to \$230.7 million.

Net interest expense for the year was \$42.8 million, up 35% from last year. The increase from last year is largely due to the costs associated with funding the acquisition of the electricity retail business of Powercor in June 2001.

Tax expense for the year totalled \$54.3 million, an increase of 43% from last year. The increase over last year primarily reflects the higher pre tax profit and the non-deductibility of amortisation of electricity licences and contracts acquired from Powercor.

Employee Share and Option Plans

During the year the company issued 3,525,000 options under the Senior Executive Option Plan at an exercise price of \$3.20 each and 495,000 at an exercise price of \$2.74. The exercise prices were equal to the market price at the date of approval. 629,145 shares were issued to employees under the Employee Share Plan.

There has been considerable public discussion recently about the expensing of employee shares and options, however there is no general consensus as to the appropriate measurement and recognition criteria, and there is limited guidance in existing Australian accounting standards. Accordingly, the reported net profit after tax of \$128.7 million does not include any amount for the expensing of the options issued during the year.

In the absence of Australian guidance, US accounting standard (FAS 123) prescribes that options and shares be measured at fair value at the date of grant and amortised over the period to vesting date. Using this approach, Origin would have reported a proforma expense of \$1.2 million in respect of options and \$1.9 million in respect of the Employee Share Plan, for a total of \$3.1 million in the current year.

Capital Expenditure

Capital expenditure on growth and stay-in-business projects was \$255.2 million, 28% higher than last year.

Stay-in-business capital expenditure associated with the maintenance of ongoing operations was \$64.9 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 \$190.3 million. This included approximately:

- \$40 million on development of the Quarantine Power Station;
- \$50 million on systems for full retail contestability (FRC) in electricity and natural gas;
- \$30 million on exploration and development expenditure in Greenfields areas;

- \$30 million on similar activities around the producing centres of the Cooper, Perth and onshore Otway Basins; and
- \$9 million exploring and developing coal seam gas (CSG) resources in Queensland.

Capital expenditure on acquisitions totalled over \$148 million, reflecting the purchase of CSG interests and acquisition of a 50% interest in the South West Cogeneration Joint Venture.

Total capital expenditure including acquisitions, was \$403.2 million, 24% lower than the prior year.

Proceeds from the sale of assets amounted to \$18.6 million, principally from the sale of the Bodalla oil interests.

Cash Flow

The primary measure used by the company to measure its performance is operating cash flow 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. The strong performance in EBITDA, management of working capital and control of stay-in-business capital expenditure resulted in an improved performance in operating cash flow.

These factors produced an OCAT Ratio of 13.7% in the year ended June 2002.

Cash flow available for funding growth and distributions to shareholders (free cash flow) was \$256 million compared with \$170 million last year.

Funding and Capital Management

The company's balance sheet remains strong with a net debt to equity ratio of 39% as at 30 June 2002. This compares with 55% as at 30 June 2001. The company undertook capital raisings of \$123 million by a private placement in July 2001 and \$74 million through a share purchase plan in September 2001. These funds were used to fund the company's developments and reduce debt. Consequently gearing has improved and net borrowings have reduced from \$727 million at 30 June 2001 to \$633 million at 30 June 2002. Interest cover remains robust at 5.4 times.

Origin has established a debt issuance program that has enabled the company to issue medium term notes and commercial paper using its recently acquired A-2 (short term) and BBB+ (long term) credit rating by Standard and Poor's. The facility will enable the company to refinance its existing borrowings to reduce interest costs and lengthen its debt maturity. As at 30 June 2002 Origin had

raised \$180 million through the medium term note program and utilised \$185 million of the commercial paper facility.

Risk Management

The company continued to hedge a significant portion of its exposure to both the oil price and the USD exchange rate. Currently, the company has hedged 53% of its oil and condensate exposure over the 12 months to 30 June 2003 at prices above \$US23 per barrel and 51% of its exposure to the USD at an average of less than US53.5 cents.

Origin only undertakes energy contracting and trading activities as part of optimising the value of its physical assets and energy retailing activities. During the year the Board undertook a review of the commodity risk management policies. This included the implementation of short term and long term risk limits for the trading of electricity and natural gas, oil and renewable energy credits (RECs); an assessment of contracting and risk management strategies; and a review of risk reporting and delegated authorities. The company complies with these policies and will continue to review risk management strategies on a regular basis.

Returns to Shareholders

A fully franked final dividend of 3 cents per share has been declared, payable on 21 October 2002 to shareholders of record on 30 September 2002.

The Dividend Reinvestment Plan will continue to operate and for this dividend a discount of 5% will apply to the shares allotted under the Plan.

The availability of franking credits for the final dividend is the result of a fully franked dividend being received from Origin's 85% owned subsidiary Oil Company of Australia Limited (OCA). OCA has foreshadowed a significant reduction in its level of dividends and franking credits. Origin will therefore have limited capacity to frank dividends for several years. The introduction of the new tax consolidation regime may further defer the payment of tax by Origin and its wholly owned subsidiaries.

Future returns to shareholders, including dividend policy and DRP discount, are currently under review by the Board.

Issued Capital

An additional 2,693,165 shares were issued during the period under the company's Dividend Reinvestment Plan, 761,650 shares were issued as a result of the exercise of options, 629,145 shares were issued to employees under the Employee Share Plan, 44.2 million shares were issued as a result of a private placement and 26.5 million shares were issued to shareholders under a Share Purchase Plan. As at 30 June 2002, Origin had 647,829,152 shares on issue.

Divisional Performance Highlights

Exploration and Production

	2001/02 \$m	2000/01 \$m	% Change
EBITDA	186.2	201.3	(7)
EBIT	104.4	122.1	(15)

Sales Volumes

	2001/02	2000/01	% change
Natural Gas (PJ)	72.54	71.74	1
Crude Oil (kbbbls)	804.12	1,040.75	(23)
Condensate/naphtha (kbbbls)	676.42	638.14	6
LPG (ktonnes)	61.44	65.60	(6)
Ethane (ktonnes)	46.88	43.71	7
Total (PJe)	86.34	86.76	(0.5)

External sales revenue for the E & P segment decreased by 6% to \$262.9 million. The overall reduction in revenue was largely the result of reduced oil production following the sale of the Bodalla interests in October 2001 together with lower oil prices.

EBITDA for the period was \$186.2 million, down \$15.0 million or 7.5% on the prior year of \$201.3 million. EBIT decreased by \$17.7 million to \$104.4 million reflecting the lower EBITDA, increased amortisation and depreciation and exploration write-offs of \$10.7 million, \$3.4 million higher than last year.

Compared with the prior year, increases in gas, condensate and ethane sales volumes were recorded from the Cooper Basin and the Denison Trough. Natural gas sales from coal seam gas increased by 75% and sales from the onshore Otway Basin increased by 8%.

These increases were offset by reduced natural gas sales from the Perth, Carnarvon and Surat Basins.

Oil production from the Cooper and Surat Basins and from the Denison Trough was lower. Several oil fields in the Eromanga Basin of central Queensland were sold during the year for \$16.5 million resulting in a further overall decrease in oil production.

A total of 127 development, appraisal and exploration wells were drilled during the year. A success rate of 84% was achieved. Inclusive of acquisition and

reserves adjustments, Proved and Probable (2P) reserves increased by 248 petajoule equivalents (PJe). This was offset by production of 83 PJe and represents a reserves replacement ratio of close to 300%. Total 2P reserves as at 30 June 2002 were 1,140 PJe, a net increase of 165 PJe or 17% over the prior year. Total 2P reserves life is 13.7 years at 2001 production levels. This reserves assessment does not include the gas reserves discovered in the Thylacine and Geographe fields during 2001. These resources will remain in the category "Scope for Recovery" until development concepts are finalised. It also does not include the reserves acquired through the purchase of additional interests in the Fairview and Durham fields announced on 1 July 2002.

Greenfields exploration activity was concentrated on appraisal of the Thylacine and Geographe gas fields in the offshore Otway Basin, south-west Victoria, and drilling in the onshore Perth Basin, Western Australia, onshore Otway Basin, South Australia and in New Zealand. Overall, the drilling campaign in these regions achieved a 45% success rate recording several commercially significant successes. These included a new field gas discovery at Beharra Springs North 1 which flowed 30 million cubic feet per day on test from the Wagina Sandstone, a new field oil discovery at Hovea 1 which flowed 1880 barrels per day on test from the Dongara Sandstone, and a new field gas discovery at Hovea 2 which flowed 16.5 million cubic feet per day on test from the High Cliff Sandstone.

Beharra Springs North 1 has been connected to the Beharra Springs gas plant and will be produced over an extended period to determine the level of reserves being accessed by this well. Appraisal of the Hovea 1 oil pool and Hovea 2 gas pool will continue through late 2002 to determine the reserves attributable to these accumulations. Production from the Hovea oil field commenced in early 2002 and was shut-in in June pending the current appraisal drilling program. Production will recommence in September increasing incrementally until full production is reached during the course of next year.

The BassGas development is scheduled to commence construction in November this year subject to final environmental and project design approvals. The construction contract with Clough Engineering was executed in June and first gas is expected for delivery in third quarter 2004. During the year Origin increased its interest in the BassGas development by acquiring an additional 7.5% interest in the Yolla gas field bringing its total interest in the Yolla field to 37.5%.

OCA, which is 85% owned by Origin, acquired major interests in the Fairview and Durham coal seam gas (CSG) projects and in exploration permits over the Walloon coal measures area of the Surat Basin in central Queensland. In July 2002, OCA acquired further interests in these fields giving OCA total equity interests of 25.5% of Fairview, 57.4% of Durham and 78.7% of Durham Transfield. OCA's share of 2P reserves from these fields is now approximately 380 PJs.

In July 2002 OCA secured a 10 year agreement to supply up to 5.4 PJ/annum of CSG to Australian Magnesium Corporation (AMC). This is in addition to existing

long term contracts with BP and Energex and it is expected CSG will continue to provide an increasing proportion of reliable gas to major industrial customers.

To meet these growing opportunities OCA will now focus on further development of the Durham areas as well as continued development of its foundation CSG projects in Peat and Moura.

Retail

	2001/02 \$m	2000/01 \$m	% Change
EBITDA	173.5	66.5	161
EBIT	99.4	23.7	320

	Natural Gas*	Electricity	LPG
Revenue (A\$m)	803	825	402
Gross Margin (A\$m)	96	160	113
Sales - (PJ)	118		
Sales - (TWh)		8.4	
Sales - (ktonnes)			489
Total Sales (PJe)	118	30.4	24.1
Customer # ('000)	986	582	209

* Revenue for natural gas is the gross revenue received from customers (including Retained Profit component). Gross margin is after payment of Retained Profit.

Retail saw improved performance throughout the year boosted by a full year contribution from the electricity retail business in Victoria, acquired in June 2001.

Natural Gas

Sales of natural gas continued to be affected by mild weather. The measure of average degree-days, which provides an indication of heating requirements, continued to be below long-term averages. Sales in Origin's key markets of Victoria and South Australia remained low in the first half of the year but were assisted by cooler weather during the early months of winter, resulting in an overall increase in volume by 1% over the prior year.

Favourable natural gas tariff increases were also achieved with increases of 2.5% in Victoria, 3.1% in South Australia and 6.7% in Queensland.

The business has been preparing for the introduction of full retail contestability (FRC) for domestic customers in the Victorian natural gas market which was deferred for 13 months until October 2002. Following negotiations with Gascor, the company's agency agreement will terminate on 1 October 2002, regardless of any further delays in FRC. The net profit retained by Gascor under that agreement was \$29 million for 2001/02 and for the first quarter of next year it is expected to be in the order of \$11 million.

Wholesale natural gas sales to contestable industrial customers grew nationally by around 10% to 54.6 PJ with increases in all States, demonstrating Origin's ability to compete effectively in these open markets.

The acquisition of the Gasmart appliance stores in Victoria added over \$6 million in gross margin. As well as providing direct contribution to income, the rebranded Origin Energy Shops have provided another value adding service and opportunity for Origin to differentiate itself with retail energy customers.

Electricity

Electricity revenue increased by over \$700 million and gross margins by over \$100 million, mostly due to the contribution from the business acquired from Powercor in June 2001. A cool summer in Victoria resulted in unseasonably low volumes, offset by a favourable mix of peak/off peak revenue and electricity purchase costs. A 13.5% increase in average electricity tariffs from 13 January 2002 was achieved in Victoria. Special Power Payments directly to customers by the Victorian government reduced the impact of this increase on customers.

FRC for electricity was introduced in Victoria in January 2002. Customer inertia and the small scope for price competition has limited customer churn during the first six months of FRC. Preparation for electricity FRC was a significant task, which impacted most of the Retail business processes and systems. However, these systems are now in place and are ready for application to FRC in gas when this is introduced in October 2002.

In July 2002, Origin was successful in bidding for the CitiPower Victorian electricity business adding over 260,000 new electricity customers. The acquisition will complete on 30 August and has therefore not contributed to the results for the year ended 30 June 2002.

LPG

The LPG business performed strongly during the year due to improved margins in a number of market sectors, greater efficiencies, lower operating costs, improved asset utilisation and favourable movements in the Contract Price (CP) (the international benchmark price for Propane).

The improved result was achieved even though external sales were down 17% to \$402 million due to lower sales volumes. Autogas volumes accounted for 50% of the reduction in sales volume, and mild weather affected residential demand.

Funds employed by the business were reduced by \$28.5 million. This was achieved through improved debtor performance, better bill/debt processes, reduced debtor days, reduced unbilled amounts and lower stock holdings.

These business improvements have positioned the business well to effectively manage price fluctuations and competition from alternate fuel suppliers.

Generation

	2001/02 \$m	2000/01 \$m	% Change
EBITDA	30.4	25.0	22
EBIT	15.8	17.2	(8)

	2001/02	2000/01	% Change
Total Sales (TWh)	1.86	1.34	38

The Generation business recorded a 49% growth in total segment revenue to \$63 million. This was largely due to the acquisition of a 50% interest in the South West Cogeneration Joint Venture and the commissioning of the Quarantine Power Station in South Australia.

Generation EBITDA rose 22% to \$30.4 million, despite lower prices for sales from its merchant plants.

Contributions from contracted plants were significantly boosted by the acquisition of the 50% interest in the South West Cogeneration Joint Venture, which owns and operates a 120 MW natural gas fired cogeneration facility at the Worsley Alumina Refinery near Bunbury in Western Australia. The results include a full year of operation from this asset. The Bulwer Island Cogeneration Plant was affected by lower than expected availability, which improved in the second half of the year.

Merchant operations were boosted by the Quarantine Power Station, which was completed under budget and on schedule in December 2001. However, sales from the plant were less than expected as South Australia had its coolest summer on record.

Market prices over the peak earning periods in Queensland and South Australia were considerably lower than in the previous year. Average pool prices for the year were 13% lower and 43% lower respectively in these States.

Networks

	2001/02 \$m	2000/01 \$m	% Change
EBITDA	22.9	21.9	4
EBIT	20.4	19.9	3

The Network business EBITDA of \$22.9 million was 4% higher than the prior year.

Management fees charged to Envestra increased from 2.5% to 3% of Envestra haulage revenue for South Australia, Queensland and Northern Territory. Significant cost reductions were also achieved during the year resulting in the payment of incentive fees amounting to \$1.5 million. The company acquired an additional 17.4 million shares in Envestra as a result of a private placement of shares in March 2002. This together with an increase in the unit distributions from Envestra has resulted in an increased contribution from Origin's investment in Envestra.

During the year more than 24,000 new customers were connected to the natural gas networks under management; a strong performance assisted by a better than expected housing demand. Approximately 290 kms of new mains were laid and 140 kms of existing mains were replaced.

SEA Gas Pipeline

In March 2001 the SEA Gas Partnership (50% Origin and 50% Australian National Power) was selected by the South Australian Government as the preferred developer of a new high-pressure gas pipeline from south-western Victoria to Adelaide. The project achieved financial close in May 2002. The project remains on schedule with construction expected to commence in October 2002. First commercial gas is scheduled to be delivered in January 2004. Origin has entered into a long-term contract to transport up to 35 PJ/annum of gas on the pipeline.

Corporate

Net corporate costs for the year decreased by \$0.3 million to \$9.3 million.

Last year \$6.3 million was provided in case losses arising from a failure of one of the Ladbroke Grove generators were not recoverable from the company's insurers. During the year the insurance claim was settled but, with cover for those generators no longer economically available, the provision has been retained and not brought to account in the current year.

People, Health, Safety and Environment

Employee numbers increased from 2,200 to 2,721 reflecting the growth in the retail business and the increased requirements for customer contact in the FRC environment.

A continued focus on safety performance has assisted in reducing the lost time injury frequency rate by 39% from 4.9 to 3.0. There were no significant environmental incidents during the year and there were no breaches of significant environmental regulations that relate to the company's operations.

Employees with 12 months' service have been able to become shareholders of the company over the past year under the Employee Share Plan, in recognition of the financial performance of the company and the achievement of a significantly improved safety record.

Outlook

In the year ahead Origin will build on the performance to date and continue to generate opportunities for growth.

Retail will benefit from the addition of the CitiPower electricity retail business, together with the impact of a full year contribution from increased tariffs for electricity and natural gas in Origin's existing operations. The cessation of profit retention by the Victorian Government should also add significantly to the bottom line for natural gas. Balancing these effects will be costs associated with the integration of CitiPower, higher depreciation charges associated with the new FRC enabled systems, and higher operating costs associated with managing customer relationships and customer churn in the contestable environment.

Performance of the E & P and Generation businesses will be largely dependent on commodity prices. Production volumes for gas in the E & P segment are expected to be relatively constant, but oil production will decrease following the sale of oil assets in Queensland. The relative profit performance compared to last year will therefore most likely depend on variations in the oil price and foreign exchange. In the Generation segment earnings will largely depend on the pool price achieved by the merchant plants.

Taking these factors into account, the outlook is for an increase in profit in the coming financial year.

During the coming year the company will continue to develop opportunities that provide the basics for future growth. These include:

- Completion of the final plant design and the award of environmental licences for the BassGas Project, followed by the commencement of

construction in November 2002. First commercial gas is expected in late calendar 2004.

- Continuing work on the commercialisation of the Thylacine and Geographe discoveries in the offshore Otway Basin. First gas from these fields is expected in early calendar 2006.
- Commencement of construction of the SEA Gas pipeline later this year, with first commercial gas to be delivered to Adelaide in early 2004.
- Contracting and developing OCA's CSG assets in Queensland.
- Continuing the active exploration efforts of the last few years in the Otway, Bass and Perth Basins and in New Zealand.

Notwithstanding the recent acquisitions Origin maintains a conservatively geared balance sheet. This, combined with the company's strong cash flows, means that Origin is well placed to take advantage of emerging opportunities at a time when the energy industry is continuing to consolidate.