

28 February 2001

Directors' Report for the six months ended 31 December 2000

In accordance with the Corporations Law, the Directors of Origin Energy Limited (the company) submit their report on the consolidated entity, being the company and its controlled entities, for the six months ended 31 December 2000.

Except where otherwise stated, all figures in this report relate to continuing Origin Energy businesses for the six months ended 31 December 2000 compared with the six months ended 31 December 1999. Activities associated with Boral's building and construction materials business has been excluded from the results for the December 1999 half. It should be noted that the attached ASX Report reflects the results of the company including the building and construction materials business in the December 1999 half-year.

Review of Operations

Financial Review

Origin Energy reported a profit after tax (PAT) of \$49.5 million for the six months ended 31 December 2000, a 77% increase on the pre-abnormals profit in the previous corresponding period.

This result further consolidates the improvement reported in the June half of the 2000 financial year. As indicated in last year's Annual Report, much of the focus over the past three years has been on reinvesting the funds raised from the float of Envestra into growing the company's activities in the competitive segments of the energy chain. Returns from this activity started to become apparent in the June 2000 half and have further strengthened in this half.

Further growth in earnings will continue over the next six months as other projects such as the Peat coal seam gas (CSG) field and the BP Bulwer Island cogeneration plant begin contributing to earnings.

In addition, with a strong cash flow and continuing strong balance sheet, Origin Energy is well positioned to pursue other growth opportunities which will further enhance shareholder value. This includes an aggressive exploration drilling program planned for the June 2001 half, power generation and cogeneration opportunities and the further development of the company's energy retailing capability.

Financial highlights

Sales revenue increased to \$672.0 million from \$561.9 million in the previous corresponding period. Total revenue, including agency income relating to the Victorian natural gas business and the distribution from Envestra, grew by 17% to \$792.5 million.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 37% to \$155.2 million, with earnings before interest and tax (EBIT) almost doubling to \$88.5 million. EBITDA and EBIT margins improved to 23% and 13% respectively.

The main factors driving the substantial improvement included:

- a \$16 million turnaround in Retail & Trading driven by a combination of improved margin management and higher sales volumes as a result of a cooler winter and the addition of a number of large industrial users;
- increased natural gas sales volumes in Exploration & Production;
- higher oil prices; and
- a six month contribution from the Ladbroke Grove power station.

Tax expense increased from \$2.2 million to \$20.6 million, in part reflecting the increase in earnings, but also due to a lower tax benefit in relation to the acquisition of the Energy 21/Stratus Network business.

As a result of the above factors, Origin Energy reported a PAT of \$49.5 million, a 77% increase on pre-abnormals profit in the previous corresponding period.

Earnings per share for the December 2000 half increased from 4.9 cents to 8.7 cents.

Funding and Capital Management

The company's balance sheet continued to strengthen with a net debt to equity¹ ratio of 31.3% as at 31 December 2000. This compares with 35.6% as at 30 June 2000. Interest cover remains robust at 5.7 times.

Capital expenditure during the six month period of \$70 million was 22% lower than in the previous corresponding period. Over 80% of the capital expenditure during the period occurred in Exploration & Production following an extensive \$40 million development (including plant and equipment) program.

The management of working capital has been a major focus for the company over the past year. As a result of this focus, a \$1.3 million reduction to the provision for bad and doubtful debts was made in the December 2000 half.

¹ Excludes Outside Equity Interests

Risk Management

The company has continued to hedge a significant portion of its exposure to both the oil price and the USD exchange rate. Currently, the company has hedged 50% of its oil and condensate exposure over the next 12 months at prices above US\$26.00 per barrel and 73% of its exposure to the USD at an average of US57.5 cents.

Returns to Shareholders

Origin Energy is unable to pay a franked dividend and expects limited franking credits to become available over the next three to five years.

Shareholders are taxed at their marginal rates on unfranked dividends. The Directors are particularly concerned for the 50,000 shareholders who elect to reinvest their dividend in the company through the Dividend Reinvestment Plan. Unfortunately, in doing so, these shareholders must fund the consequential tax liability from other sources. Under a buy-back option, the effect of reinvesting dividends into the company can be replicated by simply not participating in the buy-back. This also has the added advantage of not crystallising any tax liability.

The Board recognises however many shareholders wish to receive cash returns. Share buy-backs are an effective capital management tool and provide shareholders with the option of realising cash returns. As most Origin Energy shareholders have a cost base close to, or in excess of, the company's current market price (as a direct result of the Demerger), they will pay little or no capital gains tax on the proceeds from a buy-back.

A review of the alternative forms of share buy-back concludes that any buy-back should be conducted on-market.

The Directors are concerned, however, that traditional on-market share buy-backs are not readily accessible by small shareholders and involve relatively high transaction costs. This deficiency can be overcome by providing each shareholder with an equal opportunity to sell a fixed proportion of his or her holding into the buy-back without incurring brokerage.

The Board considers that this equal access on-market buy-back represents an attractive addition to the capital management options available to the company.

In order to facilitate this form of buy-back, a change to the company's Constitution will be put to a general meeting of shareholders scheduled for the first half of April 2001. This will enable such buy-backs to be conducted from time to time.

Pending the outcome of the shareholders meeting in April, the decision on payment of an interim dividend has been deferred. If the buy-back proposal is adopted, it is intended Origin Energy will offer to buy-back up to 5% of its issued shares during May.

Decisions on future returns to shareholders will be reviewed on an ongoing basis. As franking credits are received from investments and partly owned subsidiaries, they will be utilised to pay dividends. A small (one or two cents per share) fully franked dividend is likely to be paid in the second half of 2001.

Issued Capital

An additional 6,295 789 shares were issued during the period in relation to the company's Dividend Reinvestment Plan. As at 31 December 2000, Origin Energy had a total of 574,345,967 shares on issue.

In order to effectively manage its shareholder base, the company implemented a process post half-year end to sell unmarketable parcels on behalf of relevant shareholders. The sale of such unmarketable parcels will be completed by the end of March 2001.

Operational Review

Exploration & Production

A 5% increase in sales volumes to 44.9 PJe and high oil prices saw a 14% increase in Exploration & Production EBITDA to \$105.9 million. EBIT grew strongly to \$65.0 million from \$48.7 million in the previous corresponding period.

Higher sales volumes were primarily driven by higher gas sales, particularly in the Perth, Carnarvon and Surat Basins. Combined with increased volumes supplied to Origin Energy's Ladbroke Grove power station, this more than offset the decline in sales arising from the relinquishment of rights to the Port Campbell field, declining sales from the Cooper Basin into NSW and the decline in production of liquids.

Exploration & Production Sales Volumes			
	Dec 00	Dec 99	% change
Natural Gas (PJ)	37.12	33.75	10.0
Crude Oil (kbbbls)	492.22	635.76	(22.6)
Condensate/naphtha (kbbbls)	354.49	337.23	5.1
LPG (ktonnes)	32.72	40.00	(18.2)
Ethane (ktonnes)	22.62	24.56	(7.9)
Total (PJe)	44.91	42.78	5.0

The average price received for oil and condensate during the period was 44% higher at A\$45.51 per barrel. Liquid sales accounted for two-thirds of the earnings increase, while increased gas volumes provided the remaining one-third.

During the six month period total capital expenditure was \$57 million. This includes expenditure on plant and equipment together with participation in 80 development, exploration and appraisal wells at a total cost of \$56.8 million.

Development (including plant and equipment) expenditure increased from \$21.8 million to \$39.7 million. This includes:

- a high level of drilling activity in the Cooper Eromanga Basin, where 33 development wells - 30 gas and three oil - were drilled with all but one well cased for production; and
- the construction of the production facility at the Peat CSG field in Queensland which was completed in preparation for supply of gas in early February 2001 to the BP Bulwer Island Clean Fuels Project.

The main highlights of the \$17.1 million exploration and appraisal program include:

- a 7.8 PJe (OCA's share) increase in gas reserves in the Denison Trough, enabling the extension of the QAL contract for a further 14 months;
- an expected increase in the daily production of oil by 600 barrels in the Bodalla South and Kenmore fields following the successful drilling of four wells;
- 14 wells cased for production in the Cooper-Eromanga Basin;
- an additional 4 TJ per day deliverability in the Peat CSG field;
- the drilling of a further 11 CSG wells, targeting increased production at the Dawson Valley project in Moura. The success of these wells will be known in early March 2001 following fracture stimulation and completion operations; and
- the Tuihu-1 well in the onshore Taranaki Basin in New Zealand was plugged and suspended for potential re-entry at a later date. Results from the well were inconclusive, but provided indications of a likely oil column and a likely gas/condensate column in fractured reservoirs.

As part of the company's strategy to focus on adding reserves to economically address markets, Origin Energy continued to adjust its portfolio including:

- agreeing terms with ARC Energy NL to earn up to a 50% interest in the L1 and L2 production leases in the Perth Basin;
- acquiring the exploration permit ATP 692P within the northern Surat Basin, targeting shallow CSG (through Oil Company of Australia in conjunction with Suncor Energy Inc. of Canada);
- relinquishing its interest in offshore Otway Basin permit EPP24;
- selling its interests in offshore Carnarvon Basin permits WA256P and WA257P to Wandoo Petroleum for \$0.8 million;
- acquiring the new permit, PEL83, in the onshore Otway Basin; and
- expanding its interests in New Zealand through the farm-in to onshore Taranaki Basin permits PEP38718 and PEP 38728.

During the second half of 2000/01, Origin Energy expects to participate in the drilling of 86 wells. This includes at least five greenfield wells - two in the offshore Otway Basin and three in the onshore Perth and Otway Basins. Many of these greenfield wells will be drilled on 3D seismic data sets acquired and interpreted during the past year. Of particular note, the two offshore Otway Basin wells will target potentially large gas reserves.

Retail & Trading

Retail and Trading saw a \$16.2 million turnaround during the half to report an EBIT of \$10.2 million compared with a loss of \$6.0 million in the prior year. EBITDA increased by 101% to \$29.7 million. The improvement in EBIT and EBITDA was driven by stronger natural gas sales, up 9% to 58.1 PJ, on the back of a cooler winter and additional volumes resulting from contracts entered into with a number of new large industrial users.

It is estimated the cooler winter contributed an additional 2.5 PJ in natural gas sales to the retail mass market resulting in around \$8 million in additional EBIT. It should be noted however that the six months to December 2000 were still considerably warmer than the long term average with particularly warm weather during spring. The impact of this is estimated to have had a negative impact of just under \$5 million on EBIT when compared with an average winter.

Natural gas volumes to large industrial customers increased by 10%, boosted by renewals to contract customers and a number of new users, including BP, Kraft, Uncle Tobys, Murray Goulburn and Carter Holt Harvey, which more than offset the loss of customers such as Amcor. Contracts, ranging between 1 and 15 years, entered into with large industrial users during the half totalled 22 PJ, comprising around 50% additional and 50% renewed volumes.

A 4.0% natural gas tariff increase was approved in Queensland effective from July 2000, the first tariff increase since 1992. Tariff increases were also approved in South Australia, Victoria and New South Wales during the period.

Despite ongoing high wholesale LPG costs - related to the high world oil prices and strong Northern Hemisphere demand - profitability in LPG improved over the previous corresponding period reflecting improved margin management. LPG volumes and prices remain under considerable pressure, particularly as competing fuels are not experiencing the same volatility as LPG.

Autogas volumes and margins also suffered from the high LPG cost, impacting severely on the performance of Vitalgas during the half. With no immediate relief expected from high world LPG prices, the focus for Vitalgas management remains firmly on retail pricing. At the same time, Origin Energy has been working with its joint venture partner, Caltex Australia, to improve Vitalgas's competitive position regarding its purchased commodity and services.

The contribution from Rockgas improved over the previous corresponding period, with a cooler winter driving heating demand and with favourable autogas prices relative to petrol and diesel. In New Zealand, LPG is purchased under long term supply contracts; hence Rockgas has not seen the price volatility of its Australian peers or of competing fuels.

A major focus on the effective management of working capital during the six months resulted in the reduction of bad debts by \$1.3 million. Further efforts aimed at reducing working capital and operating costs are progressing.

As part of the effort to reduce costs, a pilot program was launched in conjunction with Australia Post that enables the presentation and payment of gas accounts over the internet. This program will be formally rolled out to customers during the second half of the year and supports previous initiatives, such as the on-line ordering of LPG cylinders. These programs aim to reduce cost to serve and enhance customer offerings through the effective use of on-line technologies.

The company has also extended its service despatch operations to provide services to other companies with similar needs. This initiative contributed modestly to earnings in the last six months.

In preparation for full retail contestability, Origin Energy embarked on a major process and systems development program. To date, this program has reviewed all business processes required to comply with new regulations and codes, and support future sales and marketing efforts to retain and acquire customers in a competitive market. In conjunction with this program, Origin Energy has undertaken to consolidate its billing systems in order to achieve scale and replace the high cost legacy system in Victoria. Origin Energy expects to invest approximately \$40 million to ensure it has systems, which are specific, scalable and maintain Origin Energy's low cost to serve. The systems will be fully tested, integrated and implemented in advance of contestability.

Over the last 18 months, Origin Energy has been examining options for the management of wholesale electricity market risk in the mass market competitive retail environment. Following half-year end, Origin Energy entered into an agreement with a major generator which will allow the efficient and effective management of electricity purchase risk. The agreement will add long-term competitive advantage to Origin Energy's mass market presence and allows Origin Energy to grow its electricity retailing business in a manner which will create long-term shareholder value. Retail mass market customers will see significant benefit from the agreement as Origin Energy now has an enhanced ability to offer competitive energy products, including dual-fuel, providing cost-effective long-term solutions to meet their needs.

A total energy facility was successfully commissioned in the Townsville hospital, further increasing Origin Energy's profile in the area of energy facility management. Origin Energy has received either short listing or preferred supplier status on a number of other projects in the health and hospitality sector.

Generation

A six month contribution from the Ladbroke Grove power station saw Generation contribute \$8.9 million EBIT for the six month period. This compared with a loss of \$0.6 million for the six months ended 31 December 1999. EBITDA increased from \$1.2 million to \$12.7 million.

During the half, the Roma power plant generated 56GWh of electricity and received an average spot price of \$93 per MWh, well in excess of the average Queensland pool price of \$41 per MWh. Supply constraints in South Australia during the period saw the pool price in that state average \$55 per MWh. As a result of the high pool prices Ladbroke Grove operated in excess of 90% utilisation, generating 319GWh of electricity during the half.

In December 2000, the Ladbroke Grove power station experienced a failure in one of its generators. The unit is currently being repaired under warranty and is expected to be fully operational by April 2001. The loss of profit attributable to the failure of the unit is currently subject to an insurance claim.

During the half, inlet air-cooling was installed at Ladbroke Grove power station, enhancing the generation capacity on hot, dry days by up to 30%. This equipment sprays a fine fog of water into the inlet of the gas turbine engines, thereby cooling the air reaching the engine and increasing output.

The Bulwer Island Energy Partnership cogeneration plant was progressively commissioned from August 2000. This 32MW plant supplies all the power and the majority of the steam requirements to BP's \$500 million Clean Fuels expansion and the existing BP Brisbane Refinery. Origin Energy, together with its co-venturer ATCO Power, have purchased half each of the one-third interest in the project held by Lend Lease for a total of \$30 million. This will take Origin Energy's interest in the project to 50% effective 1 January 2001.

Development work continued during the half on a number of new power and cogeneration projects.

As part of Origin Energy's commitment to provide customers with the option of purchasing clean energy products, Advanced Energy Systems Limited commenced a \$2.5 million research and development program to develop power conditioning equipment for Origin Energy. This program complements the Epilift™ solar photovoltaic cells currently being developed for Origin Energy by scientists at the Australian National University.

Networks

Networks EBIT of \$10.3 million during the half was up 14% on the previous corresponding period. EBITDA was up 12% to \$11.3 million comprising \$6.5 million distribution relating to its equity investment in Envestra and operation and management fees of \$4.8 million.

During the six month period, a total of 11,500 consumers were connected to networks operated and maintained by Origin Energy, an increase of almost 20% over the prior period. This strong performance appears to be associated with the carry over of pre-GST demand for housing construction.

On behalf of Envestra, Origin Energy began developing an Asset Management System to facilitate improved management of key business processes associated with the creation, operation and maintenance of the gas network assets it manages. This system will replace and consolidate a range of legacy information systems across Victoria, South Australia and Queensland resulting in significant cost savings for Envestra.

Origin Energy continues to await SAIPAR's final decision regarding the SA Access Arrangement.

Corporate

Corporate costs marginally increased during the period from \$5.5 million to \$6.0 million.

During the half, the company successfully introduced the Ariba Buyer e-procurement system in order to enhance its ability to capture and control indirect expenditure through pre-negotiated contracts with preferred suppliers. To date, 28 suppliers have been connected to the system with a further 50 suppliers planned to be brought from the test environment to production in March 2001. As one of the first companies in Australia to introduce such a system, Origin Energy is positioned at the forefront of B2B e-business and is now looking to future cost reduction opportunities as horizontal and vertical e-marketplaces are introduced in Australia.

The GST was introduced with little adverse impact on the business.

Health, Safety & Environment (HSE)

The lost time injury frequency rate (LTIFR) as at 31 December 2000 was 5.4, down slightly from 5.9 as at 30 June 2000. The company believes this rate is too high and as such undertook a review of its HSE management system. Following the review the company has commenced the roll out of a number of changes to the system.

Outlook

Origin Energy is well positioned to pursue further growth opportunities. This includes an aggressive exploration drilling program planned for the June 2001 half-year, power generation and cogeneration opportunities and the continued development of the company's energy retailing capability.

Over the next 12-18 months full retail contestability in the electricity and natural gas markets will be introduced. In preparing for this, Origin Energy is placing a strong focus on operational improvement, enabling it to compete in a sustainable manner. Initiatives to date include investing in customer systems, e-procurement and focusing on margin management and working capital.

The main factors influencing earnings during the June 2001 half-year will include:

- contribution from Peat CSG which came on-line early February;
- contribution from BP Bulwer Island cogeneration plant;
- impact of weather conditions on natural gas sales in the mass market;
- impact of the Victoria to NSW Duke pipeline on Cooper Basin natural gas sales into NSW;
- failure of the turbine at Ladbroke Grove power station and the outcome of the insurance claim; and
- movement in the world price for LPG and oil.

Balancing these factors with the strong performance in the December half, Origin Energy expects earnings for the full year to materially exceed that of the last year.

Directors

There were no changes to the Board of Directors during the period.

The names of the Directors holding office during the half-year ended 31 December 2000 and until the date of this report are as follows:

H Kevin McCann	Chairman
Grant A King	Managing Director
Bruce G Beeren	Executive Director, Finance & Administration
Trevor Bourne	Director
Colin B Carter	Director
J Roland Williams	Director

Rounding

The company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors:

Mr H Kevin McCann
Chairman

Mr Grant A King
Managing Director

Sydney, 28 February 2001

Origin Energy Limited Consolidated Profit and Loss Account

(equity accounted)

Six months ended 31 December

	2000 \$'000	1999 Pro forma \$'000	% change
Sales revenue	671,978	561,908	19.6
Share of associates' net profit attributable to members	2,392	1,618	47.8
Other revenue	674,370	563,526	19.7
Total revenue	792,497	678,736	16.8
EBITDA	155,173	113,437	36.8
Depreciation	36,515	32,324	13.0
Amortisation	30,201	35,419	-14.7
EBIT	88,457	45,694	93.6
Net interest expense	15,628	13,741	13.7
Profit before tax and abnormal items	72,829	31,953	127.9
Tax expense/(benefit)	20,632	2,193	840.8
Profit after tax, before abnormal items	52,197	29,760	75.4
Outside equity interests	2,669	1,810	47.5
Profit after tax attributable to members, before abnormal items	49,528	27,950	77.2
Total abnormal items (net of tax and outside equity interests)	-	8,760	
Profit after tax and abnormals attributable to members	49,528	36,710	34.9
Profit before tax and abnormals / sales revenue	10.8%	5.7%	
Earnings per share (before abnormal items)	8.7 cents	4.9 cents	77.6