

23 August 2000

## Directors' Review of Results

The Directors submit their report for the full year ended 30 June 2000.

Except where otherwise stated, all figures in this Report relate to continuing Origin Energy businesses for the year ended 30 June 2000 compared with the year ended 30 June 1999. Discontinued activities associated with Boral's building and construction materials business have been excluded from the analysis. However, the attached ASX Report reflects the full results for the company, including building and construction materials for the six months ending December 1999.

### Financial Review

#### *Highlights*

Origin Energy recorded an equity accounted net profit after tax and before abnormal items of \$75.4 million for the year ending 30 June 2000, an increase of 24% on the prior year. The improved performance for the year was driven predominantly by the strong performance in Exploration and Production and to a lesser extent increased contributions from both Generation and Networks.

Compared with the prior year, earnings per share before abnormal items increased by 2.6 cents per share to 13.3 cents per share.

A final unfranked dividend of 6.0 cents per share was declared. The dividend is payable on 23 October 2000.

#### *Profit & Loss*

Revenue for the year was up 34.1% to \$1.4 billion. Two thirds of this increase was due to a full twelve months contribution from the natural gas business in Victoria, Energy 21, which was acquired in April 1999.

All operating segments contributed to a 49% increase in EBITDA to \$271.4 million compared with \$181.7 million in the previous corresponding period. Earnings before interest and tax (EBIT) of \$131.1 million was 62% above the prior year.

	EBITDA \$m		
	1999/00	1998/99	% change
Exploration & Production	186.5	117.6	58.6
Retail & Trading	58.4	49.7	17.3
Generation	16.1	6.4	151.8
Networks	22.6	10.3	120.0
Corporate	(12.2)	(2.3)	
Total	271.4	181.7	49.4

Net interest for the year was \$29.9 million. Prior to the Energy 21 purchase in April 1999, the energy division of Boral had a cash surplus arising from the float of Envestra. As a consequence, interest expense for the 1998/99 financial year was minimal.

Tax expense for the year totalled \$22.6 million. This reflects a benefit of \$16.2 million from the acquisition of tax losses from Envestra and the non-deductibility of amortisation of licences, goodwill and certain exploration assets.

### ***Funding and Capital Management***

Net debt increased during the year by 7.8% to be \$431 million as at 30 June 2000. Net debt to equity is still conservative as at the end of the year at 34.8%. Origin believes a net debt to equity ratio up to 60% would be reasonable given its range of business activities.

Capital expenditure for the year totalled \$145 million excluding acquisitions, significantly down from \$208 million in the prior year. Stay in business capital expenditure was unchanged at \$69 million with growth capital expenditure, excluding acquisitions, totalled \$77 million down significantly from \$139 million in the previous year.

### ***Abnormals***

An abnormal loss of \$72.6 million after tax and outside equity interests was recorded for the year, comprising predominantly of a write-down of the company's upstream oil and gas assets of \$81.7 million before tax following the adoption of discounted future cash flows for determining the carrying value of assets.

GST implementation costs for the year totalled \$2.9 million after tax.

The company also made abnormal provisions of \$18.0 million after tax, comprising of \$3.2 million environmental provision for the remediation of contaminated land and a \$14.8 million provision principally for the write down of investments including the autogas joint venture, Vitalgas, and Magellan.

Offsetting the above to a certain extent was a \$13.2 million abnormal tax benefit resulting from changes to taxation law and an abnormal benefit of \$10.2 million relating to the recognition of exploration tax benefits.

### ***Dividend***

A final unfranked dividend of 6.0 cents per share, payable on 23 October 2000 was declared.

The Dividend Reinvestment Plan (DRP) will be reinstated for the final dividend. The DRP was suspended in December 1999 so as to avoid any complication arising from the interim dividend changing the number of shares in the middle of the demerger. The price at which shares will issued under the DRP will be calculated using the weighted average price of Origin shares traded for the five days preceding the record date of 22 September 2000.

Origin Energy is not expected to pay Australian tax for the next 3 to 5 years. Consequently, its capacity to pay franked dividends over this period is severely limited.

Due to the recently introduced tax reforms which discount taxable capital gains for many shareholders by as much as 50%, shareholders may see capital growth as more attractive in the future than unfranked dividends on which tax may be paid. Origin is closely monitoring dividend policy developments arising out of the tax reforms.

### ***Outlook***

The outlook for this financial year is for further improvements in earnings.

Weather conditions for the month of July were significantly colder than in the prior year. This has resulted in a good start to the financial year, with domestic natural gas sales in Victoria more than 800 TJ above last year.

A full twelve month contribution from Ladbrooke Grove and the commencement of BP Bulwer Island cogeneration plant in September are expected to result in improved earnings in Generation.

The Peat coal seam gas field is expected to come on line in January 2001, supplying the BP Bulwer Island cogeneration plant. Offsetting this will be the reduction in natural gas sales from Port Campbell in Victoria.



A significant portion of the company's exposure to both the oil price and the USD exchange rate has been hedged at improved levels to that achieved in the 1999/00 financial year. 55% of the company's oil & condensate exposure is hedged at prices above US\$25.00 per barrel and 57% of the exposure to the exchange rate is hedged at under US60 cents.

## Divisional Performance Highlights

### *Exploration & Production*

Upstream EBITDA of \$186.5 million was up significantly on the prior year of \$117.6 million on the back of higher natural gas sales and the strong oil price. As a result of the higher gas sales, depreciation and amortisation was up by 32% for the year. EBIT for the year increased by 94% to reach \$96.9 million.

Average price received for oil during the year was A\$36 per barrel compared with A\$22 in the prior year. The increase in the oil price accounted for 50% of the increase in upstream earnings for the year.

Total sales volumes of natural gas, ethane, LPG, condensate, crude oil and CSG totalled 87 PJe, up significantly from 74 PJe last year. This increase in production was mainly due to higher natural gas sales, in particular from the Port Campbell field in Victoria which accounted for almost half of the increase. Under a pre-existing option, the rights to these producing fields were relinquished in June 2000.

A total of 71 development, appraisal and exploration wells were drilled during the year at a cost of \$65 million. A success rate of 86% was achieved with an 110 PJe additions and revisions to reserves. Total reserves as at 30 June 2000 were 1,019 PJe, a net increase of 25 PJe over the year. Total reserves life is 11.7 years at 2000 production levels.

Significant progress on the development of coal seam gas as a commercially viable alternative to traditional sources of natural gas was made during the year with the signing of the first two long term CSG supply contracts in Australia for 30 PJ over 10 years to the BP and 11 PJ over five years to Energex.

Activity in greenfields exploration during the year focused on acquiring high-resolution 3D seismic surveys in several offshore areas with the aim of maturing exploration prospects for drilling over the next three years. In particular, a 760 square kilometre seismic survey was completed in the offshore Otway Basin, from which the company is confident that at least two prospects will be matured for drilling in the 2001-2002 timeframe.

The 2001 financial year drilling program currently consists of 149 development, appraisal and exploration wells at a total cost of \$93 million.

### ***Retail & Trading***

While Retail & Trading recorded an increase in EBITDA of 17% to \$58.4 million, earnings for the year were lower than expected as a result of the warmest winter on record in Victoria during the first half of the financial year and a near doubling of the average international price of LPG to A\$425 per tonne.

Total energy sales (including agency sales in Victoria) for the year were up significantly from 93 PJe to 139 PJe. This increase was predominantly due to a full 12 months of natural gas sales in Victoria (Energy 21), resulting in natural gas sales increasing to 99 PJ from 58 PJ in the prior year.

Despite vigorous competition in the contestable segments of the market, Origin was successful in maintaining its market position in Victoria, South Australia and Queensland.

Energy 21 was successfully integrated into the existing retail business, including the establishment of a retail head office in Melbourne and the integration of customer communication into the Origin customer call centre in Adelaide. The integration was achieved with no business interruption or degradation to customer service levels and has resulted in significant operating synergies being achieved.

The international price for LPG increased by A\$200 per tonne over the year, resulting in significant pressure on LPG margins. A major focus on improved margin management saw margins in residential and industrial and commercial markets improve during the second half of the year. However, in autogas, margins were severely compressed, and Vitalgas, the autogas joint venture with Caltex Australia, was unable to maintain profitability. A review of LPG distribution activities resulted in a consolidation of operations and the disposal of under-utilised assets. These initiatives resulted in an annual cost saving of approximately \$4 million.

Despite political unrest in Fiji and the Solomon Islands towards the end of the year, market growth in the Pacific was steady.

Wholesale electricity trading increased during the year to reach 10.3 TWh.

### ***Generation***

Over the past two years, Origin Energy has invested more than \$100 million in natural gas fuelled cogeneration and power generation. The 1999/00 year saw both the Osborne cogeneration plant and the Roma power station contributing for the first time for the full twelve months. As a result EBITDA rose by two and a half times to reach \$16.1 million.

The Osborne cogeneration plant, which was commissioned in December 1998 and is 50% owned by Origin, contributed \$4.9 million in equity income during the year, compared to \$1.5 million for the seven months it was operational in the prior year.

During the year, the Roma power station operated in line with expectations, generating 83 GWh of electricity and receiving an average spot price of \$160 per MWh.

The 82 MW Ladbroke Grove Power Plant was constructed on budget and commissioned on schedule, with the first 41 MW unit fully operational in mid January and the second unit in June. Since commissioning, the first unit has generated 152 GWh of electricity and received an average spot price of \$67 per MWh.

Construction of the Bulwer Island Energy Partnership cogeneration plant (33% owned by Origin) is on schedule for completion in September 2000 with the new substation and auxiliary boiler commissioned successfully in June.

Complementing the company's clean energy advantage in natural gas fuelled power and cogeneration, Origin expanded its development focus during the year to include renewable generation opportunities. As part of this initiative, the Australian Greenhouse Office awarded Origin a \$0.75 million grant to commercialise renewable power generation using plantation softwood timber mill waste in the Green Triangle region of South Australia and Victoria.

### ***Networks***

Network EBITDA of \$22.6 million was up significantly on the prior year. This increase comprised both higher infrastructure management fees resulting from a full 12 months operation and management of Envestra's Victorian natural gas networks and an increase in the distribution relating to Origin's 19.97% equity investment in Envestra from \$5.7 million to \$9.8 million.

During the year, both the Stratus networks in Victoria and the Palm Valley pipeline in the Northern Territory were successfully integrated into Origin's infrastructure management operations.

In excess of \$100 million of capital investment was completed on behalf of clients during the year, including several major projects such as the construction of natural gas transmission pipelines and distribution networks to service Bundaberg, Maryborough, Hervey Bay and Mildura.



### *Corporate*

As a result of Origin being demerged from Boral's building and construction materials businesses and subsequent listing on the Australian Stock Exchange in February 2000, corporate costs increased to \$12.9 million for the year. This compares with \$2.4 million in the prior year which represents Origin's allocation of the previously unallocated Boral corporate costs of \$13.8 million in 1998/99.

## Origin Energy Continuing Businesses Pro forma Consolidated Profit and Loss Account

(equity accounted)

	Current period \$M	Previous corresponding period \$M	% change +/-
Sales revenue	1,164.6	965.1	20.7%
Share of associates' net profit attributable to members	5.1	2.2	131.8%
	1,169.7	967.3	20.9%
Other revenue	209.9	61.7	240.2%
<b>Total revenue</b>	<b>1,379.6</b>	<b>1029.0</b>	<b>34.1%</b>
<b>EBITDA</b>	<b>271.4</b>	<b>181.7</b>	<b>49.4%</b>
Depreciation	73.0	58.8	24.1%
Amortisation	67.3	41.9	60.6%
<b>EBIT</b>	<b>131.1</b>	<b>81.0</b>	<b>61.9%</b>
Net interest expense	29.9	0.8	
<b>Profit before tax and abnormal items</b>	<b>101.2</b>	<b>80.2</b>	<b>26.2%</b>
Tax expense/(benefit)	22.6	17.2	31.4%
<b>Profit after tax, before abnormal items</b>	<b>78.6</b>	<b>63.0</b>	<b>24.8%</b>
Outside equity interests	3.2	2.0	60.0%
<b>Profit after tax attributable to members, before abnormal items</b>	<b>75.4</b>	<b>61.0</b>	<b>23.6%</b>
Abnormal items (net of tax and outside equity interests)			
Profit on sale of businesses/investments	-	11.0	
GST implementation and Y2000 costs	(2.9)	(2.8)	
Change in tax rate	13.2	-	
Recognition of exploration tax benefits	10.2	-	
Provision for write down of assets due to:			
- change in accounting policy	(75.1)	-	
- other	(14.8)	-	
Environmental provision	(3.2)	-	
<b>Total abnormal items</b>	<b>(72.6)</b>	<b>8.2</b>	
<b>Profit after tax and abnormals attributable to members</b>	<b>2.8</b>	<b>69.2</b>	
<b>Profit before tax and abnormals / sales revenue</b>	<b>8.7%</b>	<b>8.3%</b>	
<b>Profit after tax before abnormal items / net assets</b>	<b>6.3%</b>	<b>4.9%</b>	
<b>Earnings per share (before abnormal items) *</b>	<b>13.3 cents</b>	<b>10.7 cents</b>	

\*based on 568,050,178 shares

## Origin Energy Continuing Businesses Pro forma Consolidated Balance Sheet

as at 30 June	At end of current period \$M	Previous corresponding period* \$M
<b>CURRENT ASSETS</b>		
Cash	18.6	25.0
Receivables	341.3	315.4
Inventories	37.4	38.7
Other	26.7	31.6
<b>TOTAL CURRENT ASSETS</b>	<b>424.0</b>	<b>410.7</b>
<b>NON-CURRENT ASSETS</b>		
Receivables	48.8	144.2
Investments	146.1	135.5
Property, plant and equipment	918.2	1,008.9
Intangibles	473.3	489.5
Other	220.8	212.6
<b>TOTAL NON-CURRENT ASSETS</b>	<b>1,807.2</b>	<b>1,990.7</b>
<b>TOTAL ASSETS</b>	<b>2,231.2</b>	<b>2,401.4</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	221.9	233.1
Borrowings	19.6	25.0
Provisions	77.5	178.8
<b>TOTAL CURRENT LIABILITIES</b>	<b>319.0</b>	<b>436.9</b>
<b>NON-CURRENT LIABILITIES</b>		
Accounts payable	45.6	63.9
Borrowings	430.0	400.0
Provisions	196.3	212.8
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>671.9</b>	<b>676.7</b>
<b>TOTAL LIABILITIES</b>	<b>990.9</b>	<b>1,113.6</b>
<b>NET ASSETS</b>	<b>1,240.3</b>	<b>1,287.8</b>

\*1999 amounts are as disclosed in the "Scheme of Arrangement between Boral Limited and the holders of its ordinary shares", issued 15 December 1999.