



## CHAIRMAN'S ADDRESS ANNUAL GENERAL MEETING 31 OCTOBER 2007

In a challenging year in the electricity and gas markets, we delivered a solid financial performance and consolidated a strong platform for the ongoing growth of the company.

### Results

Our statutory profit for the year was \$457 million, which was up 38% on the prior year.

The result was boosted by a number of significant items, which after tax added \$86.7 million to the statutory result.

These items included gains on the sale of our Networks business of \$76 million and the impact of fair value changes to financial instruments of \$29.1 million, offset by a reduction in the fair value of our Cooper Basin Assets of \$51.7 million. After excluding these items, our underlying profit was \$370 million, which is an increase of 10% on last year.

We have continued our progressive dividend policy - our final fully franked dividend of eleven cents per share paid on 3 October, took total dividends to 21 cents per share which is a 17% increase over last year. Our payout ratio this year was 47% of our underlying profit. Our average annual increase in dividends has been around 25% since 2001.

Looking at our Total Shareholder Returns which incorporates share price and the value of re-invested dividends, you can see we have delivered excellent shareholder value over the past seven years and significantly out-performed the market.

During the year we invested over \$2 billion on acquisitions and new capital projects, \$1.2 billion was spent on acquiring the Sun Retail Business in Queensland from the Queensland Government and a further \$800 million on new projects to expand the gas production from our Coal Seam Gas properties in Queensland and the BassGas, Offshore Otway and Kupe projects. This investment was funded through the sale of our networks business for \$556 million, \$470 million additional equity through an institutional placement and share purchase plan and cash generated from Origin's existing business.

Despite the high level of capital investment in our business, our balance sheet remains strong. Our gearing at 42% (after excluding the favourable impact of mark to market movements on financial instruments) is within our targeted range of 40-45%.

I should explain that our reported results have been affected by changes to the accounting treatment of our commodity hedges arising from the adoption of the International Financial Reporting Standards (or A-IFRS). As a prudent energy retailer we have adopted a conservative risk mitigation strategy in which we forward purchase electricity and enter into financial instruments to limit our exposure to extreme fluctuations in the spot price. This strategy has served us well in the fluctuations that occurred in the wholesale markets for gas and electricity during the year.

However, the adoption of the A-IFRS has required us to mark-to-market these instruments at year end, where there has been a gain, reflect these as a change to equity or (if they are deemed "ineffective" under the accounting standard) reflect them in the P&L. Consequently we have added \$2.2 billion to equity and around \$29.1 million to our profit after tax. We believe that the accounting standards do not reflect the true economic effect of these instruments and accordingly we have reported "Underlying Profit" which shows the results before accounting for the change in the "fair value" of these financial instruments. We believe that this is a more accurate representation of our after tax profit. We will continue to report on this basis in the coming year.

### **Platform for growth**

The acquisition of the Sun Retail business and sale of our network business continue our focus on the competitive segments of the energy markets in Australia and New Zealand. This acquisition has substantially expanded the scale of our Retail business.

We have announced a significant increase in our gas reserves following an 80% increase in our coal seam gas reserves in Queensland. We have also committed to almost double our electricity generation capacity through the development of the Darling Downs Power Station in Queensland and the expansion of the Quarantine Power Station in South Australia.

These and other projects have seen us commit an additional \$1.4 billion to new projects which is in addition to around \$600 million we have spent on projects in construction during the year.

These acquisitions and our new projects, continue to deepen the integration across Origin's upstream, generation and retail segments and provide a platform for ongoing growth.

### **Safety**

Safety remains a high priority for the Board. We are pleased that our safety performance in 2006/07 improved following a deterioration last year. Our lost time injury and moderate medical injury frequency rate fell from 5.5 to 4.9 per million hours worked, an 11% improvement over the past year. Despite this improvement we are continuing to seek further improvements to our safety record.

### **Climate Change**

An important issue for our shareholders, customers and the whole community is that of climate change.

In response to this challenge, we have continued to develop lower emission energy sources, particularly gas which can generate power at around half the greenhouse gas emissions of coal fired power plants. Origin is well positioned with its vast gas reserves, as gas will play an important role in the supply chain for electricity generation as Australia and New Zealand move towards becoming carbon constrained economies. We are also investing in solar power through the development of the new photovoltaic SLIVER® technology. We have a pilot manufacturing plant in Adelaide which is seeking to commercialise this product to provide solar panels for electricity supply. We also have invested in geothermal power through an investment in Geodynamics, a company seeking to develop a geothermal project at Moomba in South Australia. This project is at a very early stage of development and is seeking to develop geothermal resources which have never before been exploited. We recently announced that we have entered into a joint venture to acquire a 30% direct interest in this project.

Origin has taken a leading position in the climate change policy debate by actively proposing the introduction of proper carbon pricing into the energy market. The energy industry requires large investments over a long time scale and so requires certainty with respect to carbon costs to support its investment decisions. It is important therefore that the Commonwealth government acts decisively to provide the necessary framework for the introduction of a carbon trading scheme that will allow the market to reduce carbon at competitive costs.

## Governance

I would like to thank my fellow directors for their contribution and commitment this year. The board has had been extremely busy with seven non scheduled meetings in which they reviewed and approved a number of significant investments and made a number of critical decisions.

Directors spent considerable time evaluating a proposal brought to us by AGL for a nil-premium merger. After careful consideration, your board determined that the merger terms proposed would not have delivered value to our shareholders and it was rejected. This decision has since been roundly vindicated by the market.

In May this year we saw the retirement of Colin Carter from the Board who had been a director since listing in 2000. I would like to acknowledge the contribution that Colin made during a period in which Origin has undergone significant growth and development.

In June we announced the appointment of Gordon Cairns to the board. Gordon is the former CEO of Lion Nathan and currently a director of Westpac. Gordon will stand for election today together with Roland Williams and Trevor Bourne who are retiring by rotation and seeking re-election. I will outline the expertise and experience they each bring to the board later in the meeting.

I now will hand over to Grant to speak about our operations and provide further detail on our performance for the year.

## Concluding remarks

In the coming year the Board will be focussed on ensuring we deliver the growth in earnings from our significant acquisition and investment in major projects.

We hope that the New South Wales Government will proceed with the privatisation of the Retail industry in 2008 in line with the recommendations of the Owen Report. Origin would expect to be a bidder for appropriate assets.

We expect that the consolidation of the energy industry will continue in the current year and we expect that this will give rise to additional opportunities for Origin Energy.

Based on our results for the first quarter and the expectation we now have that the Otway project will not commence full production until January 2008, we believe that the outcome for this year is for underlying profit to be between 10-15% higher than last year with most of this increase occurring in the second half of the year.

In concluding I would like to thank our Managing Director, Grant King, and all Origin Energy employees for their contribution to our strong performance during 2006/07. Finally I would like to thank you, our shareholders for your continuing support of Origin Energy.