

20 February 2003

Directors' Report for the six months ended 31 December 2002

In accordance with the Corporations Act, 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 2002.

Except where otherwise stated, all figures in this report relate to Origin Energy's businesses for the six months ended 31 December 2002 compared with the six months ended 31 December 2001.

Financial Review

Financial Highlights

Origin Energy reported a profit after tax and outside equity interests (PAT) of \$89.6 million for the six months ended 31 December 2002, a 64% increase on the profit for the previous corresponding period.

EBITDA of \$255.9 million is up 33% on the previous corresponding period. Retail significantly lifted contribution with increased results also delivered by Generation. Contribution from the Exploration and Production business was lower as a result of higher costs and lower oil production partially offset by improved oil prices.

Revenue from ordinary activities increased 35% to \$1,670 million from \$1,237 million in the previous corresponding period. The increase was largely due to increased sales from the recently acquired electricity retail businesses.

The main factors contributing to the result include:

- Higher revenues from the electricity retail business in Victoria following the increase in electricity tariffs in December 2001 and the acquisition of the CitiPower retail business in August 2002;
- Lower unit electricity purchase costs due to favourable hedging;
- Termination of fees payable to the Victorian Government under the Agency Agreements for sale of natural gas in the Victorian domestic market;
- Higher Generation plant availability and the first year of contribution from Quarantine Power Station;
- Increased exploration provisioning and reduced oil production partially offset by higher realised oil prices;
- Increased interest payments due to higher debt partially offset by lower average interest rates; and

- Increased tax expense from \$25.8 million to \$47.2 million primarily reflecting the higher earnings and a change to the tax treatment relating to the Victorian gas business.

As a result of the above factors, Origin reported a PAT of \$89.6 million, a 64% increase on profit in the previous corresponding period.

Basic earnings per share for the December 2002 half increased to 13.8 cents, up from 8.7 cents.

Financial Performance

External sales revenue increased 36% to \$1,658 million from \$1,223 million in the prior corresponding period. This was primarily due to an increase in revenues from the electricity retail business following tariff increases, the acquisition of the CitiPower customer base and the termination of the Gascor Agency Agreement on 1 October 2002.

Segment contributions to EBITDA were:

Half Year Ending 31 December	EBITDA \$m		
	2002	2001	% change
Exploration & Production	90.2	102.3	-11.8
Retail	133.8	67.7	97.7
Generation	19.5	10.4	87.5
Networks	12.3	12.2	1.1
Total	255.9	192.6	32.8

Costs previously included in the Corporate segment have been fully allocated to Business segments.

Depreciation and amortisation expense increased by 6.0% to \$92.3 million. The increase was largely due to the commencement of the depreciation of FRC systems and amortisation of goodwill arising from the CitiPower acquisition.

EBIT showed strong growth with a 55% improvement to \$163.7 million.

Net interest expense for the half year was \$24.8 million, up \$2.3 million from last year. The increase is due to the higher average debt levels over the period. However, the refinancing of existing facilities under the debt issuance program established in January 2002, has allowed the company to lengthen its debt maturity profile and reduce interest costs.

The increase in tax expense reflects the higher profits and the non-recognition of certain tax loss transfers. In 1999, as part of the acquisition of the Victorian gas business, Origin entered into a Subvention Deed with Envestra Limited under

which tax losses arising from the gas distribution network were to be transferred to the Origin group. At that time Origin obtained advice of senior counsel as to the availability of the loss transfers before entering into the arrangement with Envestra.

The Australian Taxation Office has indicated that it considers that the loss transfers under the Subvention Deed are not available to the Origin group. Origin has made representation to the Taxation Office disputing this view and to date no assessment has been issued disallowing the loss transfers. If the company is ultimately unsuccessful in this matter it has alternative tax losses available to replace Subvention Deed losses claimed to date.

Pending resolution of the matter, tax benefits arising from the loss transfers are not being recognised, resulting in an increase in tax expense for the half year of \$5.65 million.

Capital Expenditure

Capital expenditure on growth and stay-in-business projects was \$113 million.

Stay-in-business capital expenditure associated with the maintenance of ongoing operations was \$44 million, \$8 million higher than in 2001. The major part of this expenditure was associated with drilling and facilities development activities in the Cooper Basin.

Growth capital expenditure was \$69 million, \$34 million lower than in 2001. This included expenditure on development of the coal seam gas (CSG) assets in Queensland, the Hovea oil and gas field in Western Australia, the BassGas Project, and the Thylacine and Geographe fields in the offshore Otway Basin.

Capital expenditure on acquisitions totalled \$269 million, reflecting the purchase of the CitiPower electricity retail business; the additional CSG assets in central Queensland; and the Mt Stuart power plant in Queensland.

Funding and Capital Management

The company's balance sheet remains strong with a net debt to equity ratio of 41% (net debt to total capitalisation of 30%) as at 31 December 2002. This compares with 39% as at 30 June 2002. Over the half-year net borrowings have increased by \$72 million to \$705 million. Interest cover remains robust at 6.6 times EBIT.

In 2002 Origin established a debt issuance program that has enabled the company to issue medium term notes and commercial paper using its A-2 (short term) and BBB+ (long term) credit rating by Standard and Poor's. The facility has enabled the company to refinance its existing borrowings. Amounts raised under this facility varied during the period averaging between \$300 and \$400 million. The company intends to further restructure its debt facilities to provide greater funding flexibility. It is expected that these initiatives will include securities

issued in the US for terms of up to 15 years. Funds raised will be used to reduce bank debt.

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, non-cash items and tax paid. Funds employed are averaged over the relevant period.

The strong performance in EBITDA, strict management of working capital and control of stay-in-business capital expenditure resulted in further growth in operating cash flow after tax of \$84 million to \$216 million.

These factors produced an OCAT Ratio of 16.5% for the 2002 calendar year compared to 12.4% for 2001.

Cash flow available for funding growth and distributions to shareholders (free cash flow) was \$191 million compared with \$110 million last year.

Risk Management

The company manages its risk exposure in energy markets through a combination of natural physical hedges in the business, physical contracts and financial hedges. Risk exposure is assessed and managed against policy limits for each commodity or relevant variable which have been established by management and approved by the Board. Regular reporting is provided to the Board to review exposures and compliance with these limits.

Consistent with this policy framework Origin hedges a significant portion of its exposure to electricity, oil price and LPG prices and the USD exchange rate.

In the electricity market Origin assesses its exposure limits against extreme events. Within the risk limits determined as acceptable by the Board, Origin has arrangements in place to cover extreme price and demand events as well as average forecast demand for the near term.

In relation to crude oil, Origin has hedged 49% of its oil and condensate exposure over the six months to 30 June 2003 at prices above US\$24 per barrel and 52% of its exposure to the USD at an average of less than US53 cents.

Returns to Shareholders

An interim dividend of five cents per share franked to two cents has been declared payable on 24 March 2003 to shareholders of record on 7 March 2003. This represents 36% of basic earnings per share over the half-year period. The Dividend Reinvestment Plan will apply to the dividend with a discount of 5% on the volume weighted average price over the five days prior to the record date.

The company has announced that this discount will be reduced to 2.5% for future dividends.

Origin's present policy is to pay annual dividends at a target level of around 40% of net profit irrespective of the availability of franking credits.

Employee Share and Option Plans

Under commitments for the year ending 30 June 2002, the company issued 2,580,000 options under the Senior Executive Option Plan at an exercise price of \$3.56 each. The exercise price was equal to the volume weighted average price in the five days prior to the record date of the final dividend. As the Australian Accounting Standard does not provide for the expensing of options the cost of these options was not charged against profit. If the US Standard FAS 123 were applied the charge to profit for outstanding options including those issued during the half year would have been \$757,000. As announced at the Annual General Meeting, the company has decided to suspend further operation of the Senior Executive Option Plan, pending a review of the long-term incentive policy.

The Employee Share Plan provides for the granting of up to \$1,000 of shares to all employees based on the company achieving financial and safety targets. In 2002 these targets were achieved and all qualifying employees were granted the maximum number of shares, which were acquired on-market for a cost of \$1.8 million. This amount has been fully expensed and is reflected in the profit results for the half year.

Issued Capital

An additional 4,488,808 shares were issued during the period. 3,062,208 shares were issued in relation to the company's Dividend Reinvestment Plan and 1,426,600 shares were issued as a result of the exercise of options. As at 31 December 2002, Origin had 652,317,960 shares on issue.

Segment Results

Exploration & Production

	Dec 02 \$m	Dec 01 \$m	% Change
EBITDA	90.2	102.3	-11.8
EBIT	47.1	57.4	-17.9

Sales Volumes

	Dec 02	Dec 01	% change
Natural Gas (PJ)	38.7	38.6	0.4
Crude Oil (kbbls)	334.9	438.9	-23.7
Condensate/naphtha (kbbls)	343.1	382.4	-10.3
LPG (ktonnes)	33.1	29.3	13.0
Ethane (ktonnes)	21.1	23.2	-9.0
Total (Pje)	45.3	45.9	-1.3

External sales revenues for the Exploration & Production division increased by 2.7% to \$144.6 million as a result of higher average commodity prices despite marginally lower sales volumes. Sales of natural gas rose by 0.4% to 38.7 PJ with an increase in sales volumes from CSG production of 12.6% to 4.74 PJ, offsetting marginal decreases in other areas.

Sales of crude oil fell by 23.7% to 335 kbbls following the sale of the Eromanga Basin oil interests. The average oil price received after hedging of price and foreign exchange exposure was \$48.03 per barrel compared with \$42.44 per barrel in 2001.

Total sales of natural gas (including CSG), ethane, LPG, condensate and crude oil totalled 45.3 PJe marginally lower than 2001.

The lower volumes, higher costs and exploration write-offs offset by improved oil prices, saw a lower EBITDA of \$90.2 million compared with \$102.3 million in 2001. EBIT was \$47.1 million compared to \$57.4 million in 2001 after lower depreciation and amortisation of \$43.1 million, 4% lower than the \$44.9 million for the same period last year.

Capital expenditure for the six-month period was up \$12.0 million to \$87.0 million. This included expenditure on plant and equipment purchases and participation in 72 development, appraisal and exploration wells. A high success rate was maintained with 79% of the 33 conventional oil and gas wells cased and suspended as potential producers (20 gas and six oil). Of the 39 CSG wells, 30 were cased and suspended as potential producers and eight CSG wells were drilled as cored evaluation slimholes.

Origin through its subsidiary Oil Company of Australia Limited (OCA) increased its interest in the key CSG fields of Fairview and Durham in central Queensland at a cost of \$48 million. These acquisitions added approximately 170 PJ of new gas reserves and brings OCA's net CSG reserves to around 460 PJ. Additional drilling has been undertaken to prove further reserves with results to date being promising of further reserves upgrades.

Origin and OCA are working towards contracting this valuable reserves base. In July 2002 OCA contracted to supply 5.4 PJ per annum for 10 years to Australian Magnesium Corporation's operations in Gladstone.

In December 2002 Origin and OCA agreed a long term supply arrangement with AGL for 340 PJ of gas for a period of 15 years from May 2005. Of this approximately 52% will be supplied by OCA predominantly from its CSG reserves.

In December, Origin and its Cooper Basin co-venturers also signed a long term supply arrangement with AGL for up to 505 PJ of gas over a period of 14 years from 2003. Origin's net share of this supply will be up to 71 PJ.

During the half year the company continued development of a number of projects that will position the company for significant revenue growth in the medium to long term.

The BassGas Project, in which Origin has a 37.5% interest and is the operator, is planned to deliver the Yolla field gas and liquids to Victorian markets over 15 years commencing in the second half of 2004. The Yolla joint venture committed to the construction phase of the project involving expenditures of a further \$400 million over the next 18 months. Construction commenced in January 2003.

In the offshore Otway Basin feasibility studies have concluded that a joint development of the Thylacine (T/30P) and the Geographe (VIC/P43) fields is economically viable. In early February 2003 agreement was reached between the participants for equity redistribution and joint development of these fields. Facility engineering designs are being finalised and the environmental assessment studies are being prepared. Conditional gas sales agreements have been signed by the operator Woodside Petroleum for its shares of production and delivery of gas to the Victorian and South Australian markets is envisaged in early 2006.

In the onshore Perth Basin in Western Australia Origin undertook a drilling program to follow up last year's discoveries at Beharra Springs North 1 (gas) and Hovea 1 (oil). The Hovea 2 well resulted in a new field gas discovery which flowed gas at a rate of 16.5 MMcfd. Hovea 3/3ST1 intersected a 26 metre oil column and began production at 2000 bopd in October 2002. Hovea 4 drilled in late 2002 encountered a 44 metre oil column and is now in production at over 2500 bopd. The Hovea 6 appraisal well encountered a 22 metre oil column while the Hovea 7 well is currently being drilled. Origin has a 50% interest in the Hovea field.

The Jingemia 1 exploration well in the Perth Basin intersected a 28 metre oil column and has tested oil at 2000 bopd. Jingemia will commence a long term production test in late February. Origin has a 49.2% interest in the Jingemia field.

In the Myall Creek area in the Surat Basin in Queensland three of four wells drilled successfully tested gas. The extent of the gas pools discovered by these wells is currently being assessed.

The company is continuing to evaluate and secure additional oil and gas exploration acreage in Australia.

Retail

	Dec 02 \$m	Dec 01 \$m	% Change
EBITDA	133.8	67.7	97.6
EBIT	94.6	34.8	172.3

	*Natural Gas	Electricity	LPG
Revenue (A\$M)	459	744	211
Gross Margin (A\$M)	79	151	55
Sales - (PJ)	68		
Sales - (TWh)		8	
Sales - (k tonnes)			257
Total Sales (PJe)	68	28	13
Customer # ('000)	993	836	209

* Revenue and Gross Margin for Natural Gas are quoted before deducting agency arrangements.

Retail reported a significantly increased contribution with EBITDA of \$133.8 million, an increase of 98% on the corresponding period in 2001.

Electricity

Electricity revenue increased by \$334 million largely due to the CitiPower retail acquisition in August 2002. Gross margins increased by \$89 million benefiting from CitiPower and tariff increases of 13.5% effective in the second half of last year. The increased customer base provided by the CitiPower acquisition has established Origin as a retailer to over 60% of all Victorian households.

Contributions were improved through lower purchase costs despite the lift in pool prices. For example Victorian average pool prices increased by \$4/MWh over the prior year.

The integration of the CitiPower business to the existing Retail Division is proceeding on schedule. In the current half year some integration costs have been incurred from this acquisition which are expected to reduce over the coming half year.

The Victorian Government has rejected proposed electricity tariff increases and has implemented a 4% tariff reduction to customers in the former CitiPower area. Due to the expected higher cost of purchasing electricity in the second half of the financial year, this decision will adversely impact margins in this half year.

Full Retail Contestability (FRC) was introduced in Victoria in January 2002 and the business was prepared with all systems in place on time. Customer churn in the Victorian electricity market is averaging approximately 6% per annum with little change in Origin's total customer numbers to date.

The Green Earth product range enabling customers to buy electricity from renewable sources has been well received providing an expanding customer base across its existing market areas as well as into New South Wales and South Australia. The product has provided strong competitor differentiation and has attracted over 24,000 customers and continues to grow.

Origin has commenced expanding its electricity retail business into South Australia with FRC commencing on 1 January 2003. Offers will be made to residential customers and small businesses leveraging off the existing natural gas customer base.

Natural Gas

Gas revenues increased although sales of natural gas continued to be adversely affected by mild winter weather in the key markets of Victoria and South Australia. The measure of average degree days, which provides an indication of heating requirements, continued to be well below long-term averages. Margins however were improved due to cost savings in Victoria and South Australia.

Gas revenues increased primarily as a result of the termination of the Gascor Agency Agreement with the Victorian Government as from 1 October 2002.

FRC was introduced in Victoria for gas in October 2002 and the business was prepared with all required systems in place on time. Customer churn since then has seen only very small changes in customer numbers.

The Victorian Government has rejected tariff increases for gas which will result in flat average prices for the second half of the year from Victorian customers.

In South Australia a 6% tariff increase for residential customers has assisted contribution for the first half and will continue to boost revenues from this market in the second half year.

Customer acquisition channels have continued to be established through the Origin Energy Shops and the service and installation business Origin Energy '24 Direct' in Victoria and South Australia. This has been enhanced with negotiation of installation deals with several major builders in Victoria.

LPG

The LPG business continued to perform strongly during the half year as a result of improved margins and reduced operating expenditure.

The international benchmark price for propane, the Contract Price or CP, increased 9% from the prior corresponding period and averaged \$503 per tonne. Whilst the cost of gas supply increased this was partially offset by increased revenues through CP linked contracts with major customers and focussed price management for other market segments. Margins improved with a favourable change in the mix of sales towards the higher margin customers and overall increases in volume.

Sales in Australia have been affected by lower demand in drought affected rural and regional areas. It is anticipated that volumes in the second half will be impacted by the ongoing drought. The switch to alternative fuel for motor vehicles caused by the increase in LPG prices has impacted volumes in the autogas segment.

Increases in the CP will create additional challenges for the LPG business in managing and protecting its margins. Continued improvements with operating cost reductions and better management of stock and debtors has lifted profitability of the business and positioned it well to manage these price fluctuations and continuing competition.

Generation

	Dec 02 \$m	Dec 01 \$m	% Change
EBITDA	19.5	10.4	87.5
EBIT	10.5	2.5	325.8

Sales Volumes

	Dec 02	Dec 01	% Change
Total Sales (MWh)	1,011,452	686,891	47.3

The Generation Division result reflected improved trading conditions and increased investment compared with the corresponding half last year, with EBITDA of \$19.5 million being up 87.5% on the prior corresponding period.

Stronger wholesale electricity prices in South Australia and Queensland together with the inclusion of Quarantine Power Station for the full half-year contributed to the improved result. Contracted plant operations performed well, reflecting higher availability and the impact of improved electricity prices. The Mt Stuart operation contributed for the first time in the month of December.

The acquisition of the 288 MW Mt Stuart peaking plant, completed in January 2003, has boosted Origin's generation capacity by around 50% to 886 MW. Under long-term contract to Queensland Government owned Enertrade, the project is an excellent strategic fit, and is expected to contribute additional EBITDA of \$17 million in a full year, and enhance the earnings stability of the division.

Power project development efforts focussed on several potential opportunities in South Australia, Victoria and Western Australia. A consortium of Origin Energy and ANZ Infrastructure Services is one of four groups short listed for a 240 MW capacity tender by Western Power which will be decided in the third quarter of 2003.

Origin has pursued opportunities to secure non-greenhouse producing energy sources, with wind monitoring established at several prospective sites in South Australia. Origin has also entered into an option agreement with Pacific Hydro to acquire a 50% interest in the 52.5 MW Chalicum Hills wind farm now under construction near Ararat in Western Victoria.

The research on solar photovoltaic power undertaken by the Australian National University and funded by Origin made a significant breakthrough with the announcement of Sliver Cell™ technology which is capable of commercial utilisation in solar panels. Planning for development of a pilot plant has commenced.

Networks

	Dec 02 \$m	Dec 01 \$m	% Change
EBITDA	12.3	12.2	1.1
EBIT	11.4	10.9	5.0

Network's EBITDA result of \$12.3 million was up 1.1% on the previous corresponding period. Earnings included \$5.0 million in management fees and a \$7.7 million distribution relating to the equity investment in Envestra which increased following the acquisition of additional stapled securities in February 2002.

Gas delivered by Envestra was 60.2 PJ which was 1% higher than last year. The result was essentially driven by increased volume delivered in Queensland but was again constrained by unseasonably warm winter weather in both Victoria and South Australia.

During the six-month period, 11,741 new consumers were connected to the networks under management. At 12% higher than last year, this was a strong result compared with expectations, due to the continued growth of the residential housing market through to the end of 2002. The 148 kilometres of new mains laid was similar to last year.

The SEA Gas pipeline project connecting the South Australian gas market to Victoria, continues to make excellent progress. In September 2002 the pipeline capacity was increased significantly with the effective pipeline diameter enlarged to 18 inches following agreement with TXU to join the project as a one third equity participant and foundation shipper. The expanded project will now be capable of delivering up to 125 PJ per annum into South Australia. Field construction commenced in October 2002, and the project remains on schedule to deliver gas into South Australia later in 2003.

People, Health, Safety & Environment (HSE)

Employee numbers increased over the half year by 149 to 2,961 (8.7%). This was largely the result of the acquisition of the CitiPower retail business and the increased requirements for customer contact with FRC across gas and electricity markets as well as the additional staffing requirements for the developments on the CSG and BassGas projects. In all, 137 employees made the transition from CitiPower to Origin and the company is pleased to have retained their skills and commitment. During the half year there was no time lost to industrial disputes.

The focus on improving safety performance has continued and the lost time injury frequency rate for the half-year decreased from 3.6 to 3.3. The total reportable case frequency rate, which includes medical treatment injuries as well as lost time injuries fell from 33.7 to 24.1.

During the half-year there were no significant environmental incidents and no breaches of significant environmental regulations that relate to the company's operations.

Outlook

The performance of the company over the first half was enhanced by the electricity tariff increase granted in December 2001, contributions from the CitiPower business and the termination of the retained profit payments to the Victorian government in part offset by increased costs.

These factors have set a new benchmark for Origin's performance however the company's profit profile remains seasonal and weighted towards the first half results. Consequently, while good performance is expected to continue, the second half will not be as strong as the first half. However, the full year profit is expected to exceed last year's profit by around 20%.

The main factors influencing earnings during the June 2003 half year will include:

- The Victorian Government's decision to reject tariff increases for natural gas and electricity, and to reduce electricity tariffs for domestic customers in the former CitiPower area will constrain margins from the retail gas and electricity business in Victoria;
- Electricity purchase prices are expected to be higher on average and in general more volatile than in the first half leading to lower anticipated electricity margins in the second half;
- The termination of the Gascor Agency Agreement in October 2002 will improve earnings from the gas retail business;
- Oil production will be lower in the second half than in the same period last year due to the sale of the Bodalla assets in 2002 although this will be offset by production from Hovea and Jingemina in the Perth Basin;
- Higher oil prices are likely to slightly offset the lower production but higher oil prices will most likely result in lower LPG margins;
- The Mt Stuart generation facility will deliver six months of contribution; and
- Earnings remain sensitive to weather with warmer winter weather and cooler summers reducing natural gas retail income and electricity pool prices.

Looking further ahead the company has invested in a number of important projects, which will make significant contributions in future years. These include:

- The BassGas project which has entered the construction phase will start to deliver gas to the Victorian market in late 2004;
- The commencement of development of the offshore Otway project expected in 2004 is planned to deliver gas into the South Australian and Victorian markets from early 2006;
- The long term supply arrangements with AGL for the supply of gas over 15 years from May 2005 from CSG fields in Queensland and the Cooper Basin will permit accelerated development of the company's recently acquired CSG resources; and
- Construction of the SEA Gas pipeline will be completed and will deliver first gas to Adelaide in the first quarter of 2004.

Origin's balance sheet remains conservatively geared and its credit rating will facilitate the raising of additional debt financing when required. This combined with the company's strong cash flow means that Origin continues to be well placed to take advantage of further growth opportunities.

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 2002 and until the date of this report are as follows:

H Kevin McCann	Chairman
Grant A King	Managing Director
Bruce G Beeren	Executive Director, Commercial
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, 20 February 2003