



## Directors' Report for the year ended 30 June 2007

# Contents

1.	Principal activities .....	3
2.	Result .....	3
3.	Significant changes in the state of affairs .....	4
4.	Events subsequent to balance date.....	5
5.	Dividends.....	5
6.	Review of operations .....	5
7.	Business strategies, future developments and expected results .....	6
8.	Directors .....	7
9.	Information on Directors and the Company Secretary .....	7
10.	Directors' meetings .....	10
11.	Directors' interests in shares and options of Origin Energy Limited .....	10
12.	Environmental regulation and performance .....	11
13.	Indemnities and insurance for Directors and officers .....	11
14.	Auditor independence.....	12
15.	Rounding of amounts .....	12
16.	Remuneration .....	12

## Directors' Report for the year ended 30 June 2007

In accordance with the Corporations Act 2001, the Directors of Origin Energy Limited report on the Company and the consolidated entity, being the Company and its controlled entities ('Company'), for the year ended 30 June 2007.

### 1. Principal activities

During the year, the principal activity of the Company was the operation of energy businesses including:

- Exploration and production of oil and gas;
- Electricity generation;
- Wholesale and retail sale of electricity and gas; and
- Investment in, and the management of, utility infrastructure.

### 2. Result

Origin Energy reported a net profit after tax and outside equity interests of \$456.9 million for the year ended 30 June 2007 ("Statutory Profit"), a 38% increase on the prior year. After removing the after tax effect of significant items including the sale of the Networks business, impairment of producing assets, changes in fair value of financial instruments on commodities, termination of the Mt Stuart Power Purchase Agreement and legislated changes in the New Zealand tax rate, the underlying net profit after tax ("Underlying Profit") increased by 10% to \$370.2 million from \$337.9 million.

Year ended 30 June	2007 (\$m)	2006 (\$m)	Change (%)
Total external revenue	6,456	5,880	10
EBITDAF <sup>(1)</sup>	1,201	1,076	12
EBIT	943	791	19
Net profit after tax before elimination of minority interests	592	454	30
Minority interests	135	122	10
Statutory Profit	457	332	38
Significant items	87	(6)	-
Underlying Profit	370	338	10
Basic earnings per share on Statutory Profit (cents)	54.7	41.9	30
Basic earnings per share on Underlying Profit (cents)	44.3	42.7	4
Free cash flow <sup>(2)</sup>	595	583	2
Capital expenditure	2,027	897	126
OCA Ratio <sup>(3)</sup>	11.5%	12.5%	-
Adjusted [net debt/(debt + equity)] <sup>(4)</sup>	42%	42%	-

(1) EBITDAF is defined as earnings before interest, tax, depreciation, amortisation, and changes in the fair value of financial instruments.

(2) Free cash flow is defined here as cash available to fund distributions to shareholders and growth capital. It includes deductions for stay-in-business capital, interest and tax.

(3) OCA Ratio = (OCA - interest tax shield) / funds employed.

(4) Adjusted to exclude impact of derivative financial instruments.

### 3. Significant changes in the state of affairs

The following significant events occurred during the year:

- Acquisitions

Sun Retail - On 1 February 2007 the Company acquired the Sun Retail electricity retail business from the State of Queensland for \$1.2 billion. The acquisition was partly funded by the placement of 56.3 million shares and a Share Purchase Plan for 11.7 million shares raising net \$473 million. The balance of the purchase price was funded by debt.

- Divestments

Networks business - An agreement to sell the Networks business was signed on 4 April 2007. Completion of the SEA Gas Pipeline portion of this business was effected on 29 June 2007. The completion of the sale of the balance of the business was effected 2 July 2007.

- Commenced operations

BassGas - On 1 September 2006 the BassGas development began operations and commercial production. The project is expected to produce 20 PJ of sales gas and around 1.4 million barrels of liquids (condensate and LPG) per annum for the next 15 years. Origin Energy is the operator and has a 42.5% interest in the project.

- Projects under construction

Kupe Gas Project - Construction of the Kupe Gas Project in New Zealand commenced in July 2006 and continued towards a target of first production of commercial gas and liquid hydrocarbons in mid 2009. The project is expected to produce around 20 PJ of gas, 1.7 million barrels of condensate and 90,000 tonnes of LPG per annum. Origin Energy is the operator and has a 50% interest in the project.

Otway Gas Project - Construction of the Otway Gas Project continued towards expected commencement of production in September 2007. The project is expected to produce around 60 PJ of gas and one million barrels of liquid hydrocarbons per annum. Origin Energy has a 30.75% interest in the project.

- Projects approved

Spring Gully Gas field - On 3 April 2007 the Company committed to the expansion of coal seam gas production from the Spring Gully gas field to 20 TJ per day and the construction of a reverse osmosis water treatment plant for a capital cost of \$53 million.

Quarantine Power Station - On 10 May 2007 the Company committed to the expansion of the Quarantine Power Station on Torrens Island in South Australia. The power station development will involve the construction of an additional 120MW gas fired peaking power generator for an estimated capital cost of \$80 million. The development is expected to be completed by December 2008.

Darling Downs Power Station - In May 2007 the Company committed to the development of a 630 MW gas fired power station at the Darling Downs site in Queensland for an estimated capital cost of \$780 million. Further gas field development and the associated pipeline infrastructure to supply the power station with an additional 44 PJ per annum was approved for a further capital expenditure of \$500 million. The plant is expected to be in production by early 2010.

- Reserves

Gas reserves were increased following the annual review of reserves across the Company's Exploration and Production interests. Proved and probable reserves were increased by 42% from 2,436 petajoules equivalent (PJe) to 3,471 PJe. This included a net increase in coal seam gas reserves of 80% or 1,095 PJe to 2,470 PJe.

The events described above and those as disclosed in the Financial Statements represent the significant changes in the state of affairs of the Company for the year ended 30 June 2007.

## 4. Events subsequent to balance date

The following events occurred following 30 June 2007:

- The sale of the Networks business was completed on 2 July 2007 including the sale of the Origin Energy Asset Management and related businesses and the 17% shareholding interest in Envestra Limited. The proceeds for the sale of this part of the business will be included in the results for the year ended 30 June 2008.
- On 13 August 2007 the Company announced that its New Zealand subsidiary, Origin Energy Contact Finance No.2 Ltd, would raise NZ\$200 million with the ability to accept over subscriptions of NZ\$50 million, by the issue of preference shares in New Zealand to be used to refinance existing bank debt.
- On 3 July 2007 the Company announced the entry into a long term gas supply agreement with Rio Tinto Aluminium to supply up to 470 PJ of gas over 20 years from the company's coal seam gas fields from 2010.

## 5. Dividends

Dividends paid during the year by Origin Energy Limited were as follows:

	\$'000
Final dividend of 9 cents per ordinary share, fully franked at 30%, for the year ended 30 June 2006, paid 29 September 2006.	71,697
Interim dividend of 10 cents per ordinary share, fully franked at 30%, for the half year ended 31 December 2006, paid 30 March 2007.	86,957

In respect of the current financial year, the Directors have declared a final dividend as follows:

	\$'000
Final dividend of 11 cents per ordinary share, fully franked at 30%, for the year ended 30 June 2007, payable 3 October 2007.	95,952

## 6. Review of operations

Total revenue increased by 10% to \$6,456 million. Within Origin Energy's Australian operations the increase was 25% primarily reflecting higher revenues from the Retail segment after the acquisition of Sun Retail and higher revenues from the Exploration and Production segment. Total external revenue from Contact Energy decreased by 16% as lower wholesale electricity prices in New Zealand reduced the total revenue earned from its generation assets.

EBITDAF increased 12% to \$1,201 million from \$1,076 million in the prior year, of which segment contributions were:

## Earnings before interest, tax, depreciation/amortisation, and change in fair value of financial instruments (EBITDAF)

Year ended 30 June	2007 (\$m)	2006 (\$m) <sup>(1)</sup>	Change (%)
Exploration & Production	254	209	22
Generation	99	58	69
Retail	341	292	17
Contact Energy <sup>(2)</sup>	477	488	(2)
Networks (Discontinued business) <sup>(3)</sup>	30	29	1
<b>Total</b>	<b>1,201</b>	<b>1,076</b>	<b>12</b>

(1) The 2006 EBITDAF by segment has been calculated from the 2006 EBITDA with adjustments made to exclude the change in fair value of financial instruments and derivatives, and also for the reallocation of other businesses taken out of the Generation and Retail segments as part of the Networks business.

(2) 100% of Contact Energy's EBITDAF is included in the consolidated income statement.

(3) The Networks business has been sold. This business included Origin Energy Asset Management business which provides management and operations services to Envestra Limited, a 17% interest in Envestra Limited and a 33.3% interest in the SEA Gas Pipeline, together with minor cogeneration assets which previously were reported in the Generation segment and a variety of small assets including the SESA pipeline and Natural Gas Vehicle business previously reported in the Retail segment. Segmental results for 2007 and 2006 include these businesses in the Networks segment, and consequently the 2006 results for the Generation and Retail segments have been restated.

**Exploration & Production** increased its EBITDAF contribution by 22% to \$254 million. The business delivered record energy sales of 92.5 petajoules equivalent (PJe); 11% higher than the prior year of 83.8 PJe. This reflects higher CSG sales and over six months contribution from the BassGas Project, which more than offset declines in production and sales from the more mature Cooper, Perth and onshore Otway basins.

**Generation** EBITDAF grew by 69% to \$99 million from \$58 million. This primarily reflects a contract termination payment received with respect to the Mt Stuart power station of \$19.6 million before tax, and the flexibility of inclusion of Mt Stuart in the operating portfolio of Origin Energy.

In **Retail**, EBITDAF grew by \$49 million or 17% from \$292 million to \$341 million. This was primarily due to a five month contribution from the acquisition of the Sun Retail business which was acquired on 1 February 2007, and includes one-off costs associated with the Sun Retail integration of \$13.7 million. During the year the Company increased its natural gas and electricity customer accounts numbers (excluding those purchased with Sun Retail) by 22,000, increased dual fuel accounts by 81,000, and by 30 June 2007 had signed over 250,000 green power customers.

**Contact Energy** contributed \$477 million to EBITDAF, 2% lower than the \$488 million recorded last year. This was primarily due to higher gas costs and lower earnings from the generation business as a consequence of a return to more normal weather conditions resulting in lower pool prices in New Zealand.

An agreement to sell the **Networks** business was signed on 4 April 2007 and this is reported as a discontinued business within this result. EBITDAF for the business was essentially constant with last year, up less than 1% to \$30 million.

## 7. Business strategies, future developments and expected results

Origin Energy's financial objectives are to generate steady and predictable cashflows and earnings per share growth of 10-15% per annum on average. Origin Energy's strategy to achieve these objectives is to be positioned as a fuel integrated generator retailer in the competitive segments of the Australian and New Zealand energy industry. Integration across these segments enables the Company to better manage risk through natural hedges and enhance the range of growth opportunities.

In the year to 30 June 2008 the Company expects:

- a full year contribution from the integration of the Sun Retail business;
- increasing contribution from the Exploration and Production business as CSG production rises to meet new contracts, the BassGas project contributes a full year, partially offset by lower contributions from declining production in the Perth and Cooper basins;
- commencement of production from the Otway gas project;
- a consistent contribution from Contact Energy; and
- no earnings from the discontinued Networks business (a one-off gain on sale for the portion of this business which settled on 2 July 2007 will be reported in the results for the 2008 financial year).

Based on current market conditions and normal weather prevailing the Company is targeting an increase in Underlying Profit for 2007/08 of approximately 15%.

In subsequent years the Company will benefit from a number of projects already committed, including the expansion of Quarantine power station which is due on line in December 2008, the Kupe Gas Project which is scheduled to commence production by mid 2009, the Darling Downs power project and related CSG developments due on line in early 2010, and the commencement of supply to the Rio Tinto Alumina project, also in 2010. The Company will achieve reductions in cost to serve in the Retail business when the transitional service agreement for Sun Retail ends in March 2008 and further initiatives to reduce cost to serve are implemented.

## 8. Directors

The Directors of Origin Energy Limited at any time during or since the end of the financial year are:

H Kevin McCann (Chairman)  
 Grant A King (Managing Director)  
 Bruce G Beeren  
 Trevor Bourne  
 Dr Helen M Nugent  
 Dr J Roland Williams  
 Gordon M Cairns - appointed 1 June 2007  
 Colin B Carter - resigned 30 April 2007

## 9. Information on Directors and the Company Secretary

Information relating to current Directors' qualifications, experience and special responsibilities and the qualifications and experience of the Company Secretary is set out below.

**H Kevin McCann AM**  
**Independent Non-executive Chairman**  
 Aged 66

Kevin McCann joined the Board as Chairman in February 2000. He is a member of the Audit, Remuneration, Nomination, and Health, Safety & Environment committees. Kevin McCann is Chairman of Healthscope Limited (since March 1994) and Sydney Harbour Federation Trust. He is lead independent director of Macquarie Bank Limited (a director since December 1996) and a director of BlueScope Steel Limited (since May 2002).

He practiced as a commercial and corporate lawyer at Allens Arthur Robinson, a national law firm for over 34 years. He was Chairman of Allen Allen & Hemsley and Allens Arthur Robinson for nine years. Kevin McCann was previously Chairman of Triako Resources Limited (April 1999-September 2006).

He is also a member of the Australian Takeovers Panel, the Defence Procurement Advisory Board and the Council of the National Library of Australia. He has an Arts degree, a Law

degree (Honours), a Masters in Law and is a fellow of the Australian Institute of Company Directors.

His community activities include the Chair of the Development Council National Library of Australia, the Sydney University Law School Campaign and member of the Council of Playing Healthy.

His extensive legal and commercial expertise, particularly in the resources industry, and his experience as a director of successful Australian companies together with service on State and Commonwealth authorities has been valuable to the Origin Energy Board, and in his role as Chairman.

**Grant A King**  
**Managing Director**  
Aged 52

Grant King was appointed Managing Director of Origin Energy at the time of its demerger from Boral Limited, in February 2000, and was Managing Director of Boral Energy from 1994. Prior to joining Boral, he was General Manager, AGL Gas Companies. Grant King is Chairman of Contact Energy Limited (since October 2004) and Chairman of Energy Supply Association of Australia Limited (since November 2005). He is a former director of Envestra Limited (1997-2007). He is a councillor of the Australian Petroleum Production and Exploration Association. Grant has a Civil Engineering degree and a Master of Management.

**Bruce G Beeren**  
**Non-executive Director**  
Aged 58

Bruce Beeren joined the board as an executive director in March 2000. He retired from his position as executive director on 31 January 2005, and continues on the Origin Energy board as a non-executive director. He is a member of the Audit, Remuneration and Nomination committees. With over 30 years experience in the energy industry, he was Chief Executive Officer of VENCORP, the Victorian gas system operator, when it was established in 1997 and held several senior management positions at AGL, including Chief Financial Officer and General Manager, AGL Pipelines. He is a director of Contact Energy (since October 2004), Coal & Allied Industries Limited (since July 2004) and Equipsuper Pty Limited (since August 2002). He is a former director of Envestra Limited (2000-2007) and Veda Advantage Limited (2004-2007). He has a Science degree, a Commerce degree and a Master of Business Administration, and is a fellow of CPA Australia and the Australian Institute of Company Directors.

Bruce Beeren's extensive energy industry experience and financial expertise has proven valuable, and he brings to the Board an understanding of the key issues that the Company faces.

**Trevor Bourne**  
**Independent Non-executive Director**  
Aged 61

Trevor Bourne joined the Board in February 2000 and is Chairman of the Remuneration Committee and a member of the Nomination and Health, Safety & Environment committees. He retired in December 2003 as Chief Executive Officer of Tenix Investments Pty Limited. Prior roles include Managing Director of Brambles Australia Limited, and several directorships in Brambles subsidiaries and joint-ventures. Trevor Bourne is Chairman of Hastie Group Limited (since November 2004), a director of Coates Hire Limited (since February 2004), a director of Caltex Australia Limited (since March 2006) and Lighting Corporation Limited (since February 2004). He has a Mechanical Engineering degree (with Merit) and a Master of Business Administration.

His broad business background and his leadership experience ensures that he brings to the Board an understanding of the key issues that will drive the Company's success.

**Helen M Nugent AO**  
**Independent Non-executive Director**  
Aged 58

Helen Nugent joined the Board in March 2003 and is a member of the Audit, Remuneration, Nomination and Health, Safety & Environment committees.

She is an experienced professional non-executive director, who is currently Chairman of Swiss Re Life and Health (Australia), Funds SA and Hudson Australia/New Zealand, as well as being a director of Macquarie Bank (since June 1999) and Freehills. Previously, she has been a director of UNiTAB (July 1999-October 2006) and Carter Holt Harvey (from May 2003 to January 2006).

Prior to becoming a non-executive director, she was Director of Strategy at Westpac Banking Corporation; Professor in Management and Director of the MBA programme at the Australian Graduate School of Management; and a partner with McKinsey & Company, where she specialised in financial services and mining. Helen has a Bachelor of Arts (Honours) Degree and a Doctorate of Philosophy from the University of Queensland and a Master of Business Administration with Distinctions from the Harvard Business School. She is a fellow of the Australian Institute of Company Directors.

Her extensive commercial, risk management and strategic expertise, and her experience on the boards of a number of major companies, have been of considerable value to the Origin Energy Board.

**J Roland Williams CBE**  
**Independent Non-executive Director**  
Aged 68

Roland Williams joined the Board in February 2000 and is Chairman of the Audit Committee and a member of the Nomination and Health, Safety & Environment committees. He retired in June 1999 as Chairman and Chief Executive of Shell Australia Limited prior to which he held the positions of Managing Director, Shell International Gas, and President, Shell Coal International. Roland Williams was previously a director of Woodside Petroleum (1995-1999), Chairman of Australian Magnesium Corporation Limited (2000-2003) and a director of United Group Limited (1999-2003). He is a director of Boral Limited (since 1999), a Council Member of the Australian Strategic Policy Institute Limited and Chairman of the General Aviation Strategic Industry Leadership Group. He holds a Chemical Engineering degree (Honours) and a Doctorate of Philosophy. He is a Fellow of the Australian Institute of Company Directors, a Fellow of the Institution of Chemical Engineers and a Companion of the Institution of Gas Engineers and Managers.

His extensive experience in the petroleum and resources industry and broad commercial expertise has proven valuable to the Board and in his role as Chairman of the Audit Committee.

**Gordon M Cairns**  
**Independent Non-executive Director**  
Aged 57

Gordon Cairns joined the board on 1 June 2007 and is a member of the Remuneration, Nomination and Health, Safety and Environment committees. He has extensive Australian and international experience as a senior executive, most recently as Chief Executive Officer of Lion Nathan Limited. He has held a wide range of senior management positions in marketing and finance with Pepsico, Cadbury Schweppes and Nestlé.

Gordon is currently a director of Westpac Banking Corporation, Opera Australia and The Centre for Independent Studies. He is also an advisor to Caliburn Partnership and McKinsey & Co and a member of the Asia Pacific Advisory Board of CVC Capital Partners. He holds a Master of Arts (Honours) from the University of Edinburgh.

Gordon brings to the Origin Energy board a wealth of management expertise and broad experience from highly competitive retail markets. His management and marketing expertise will be particularly valuable in view of Origin Energy's growth profile and significant retail business.

**Bill Hundy**  
**Company Secretary**  
 Aged 49

Bill Hundy joined Origin Energy in July 2001, and is responsible for the company secretarial, insurance, legal and compliance functions. Prior to joining Origin Energy, he was company secretary for Email Limited and Placer Pacific Limited. Bill has a Bachelor of Law and Bachelor of Commerce from the University of New South Wales. He is a Fellow of the Chartered Institute of Secretaries and the Australian Institute of Company Directors.

## 10. Directors' meetings

The number of Directors' meetings, including Board committee meetings, and the number of meetings attended by each Director during the financial year are shown in the table below:

Directors	Board Meetings		Meetings of Board Committees							
	H	A	Audit		Remuneration		HSE		Nomination	
			H	A	H	A	H	A	H	A
H K McCann	18	18	4	4	5	5	3	3	5	5
G A King	18	18					3	3		
B G Beeren	18	17	4	4			3	3	5	5
T Bourne	18	18			5	5	3	3	5	5
C B Carter <sup>(1)</sup>	16	15			4	4	3	3	4	4
G M Cairns <sup>(2)</sup>	1	1							1	1
Dr J R Williams	18	18	4	4			3	3	5	5
Dr H M Nugent	18	18	4	4	5	5	3	3	5	5

H: Number of meetings held during the time that the Director held office or was a member of the committee during the year. There were 11 scheduled meetings and seven unscheduled Board meetings held during the year.

A: Number of meetings attended.

(1) Up to date of resignation 30 April 2007.

(2) Since appointment 1 June 2007.

## 11. Directors' interests in shares and options of Origin Energy Limited

The relevant interests of each Director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the companies within the consolidated entity and other related bodies corporate, as notified by the Directors to the Australian Stock Exchange in accordance with section 205G (1) of the Corporations Act 2001, at the date of this report is as follows:

Director	Ordinary shares and prescribed interests as at 29 August 2007	Options over ordinary shares as at 29 August 2007	Ordinary shares and prescribed interests in Contact Energy Limited as at 29 August 2007
H K McCann	261,725	-	-
G A King	301,046	2,000,000 <sup>(1)</sup>	-
B G Beeren	805,020	550,000 <sup>(2)</sup>	5,940
T Bourne	42,966	-	-
G M Cairns	2,500	-	-
Dr J R Williams	38,237	-	-
Dr H M Nugent	18,398	-	-

Exercise price for share options:

(1) 500,000: \$4.15, 500,000: \$5.98, 500,000: \$7.21, 500,000: \$6.50

(2) 275,000: \$4.15, 275,000: \$5.98

## 12. Environmental regulation and performance

The Company's operations are subject to significant environmental regulation under Commonwealth, State and Territory legislation. There have not been any breaches of significant environment regulations and there were no fines or penalties imposed upon Origin Energy during the year.

## 13. Indemnities and insurance for Directors and officers

Under Origin Energy's Constitution, it must indemnify the current and past Directors, secretaries and senior managers against all liabilities to other persons (other than the Company or a related body corporate) that may arise from their positions as Directors, secretaries or officers of Origin Energy Limited and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. Origin Energy has entered into agreements with current Directors and certain former Directors whereby it will indemnify those Directors from all liability in accordance with the terms of the Constitution for a period of seven years after they cease to be Directors.

The agreements stipulate that Origin Energy Limited will meet the full amount of any such liabilities, including costs and expenses.

Since the end of the previous financial year, the Company has paid insurance premiums in respect of Directors' and officers' liability, and legal expense insurance contracts for current and former Directors and officers, including executive officers and Directors of Origin Energy Limited and executive officers and secretaries of its controlled entities.

## 14. Auditor independence

There is no former partner or director of KPMG, the Company's auditors, who is or was at any time during the year ended 30 June 2007 an officer of the Origin Energy group. The auditor's independence declaration (made under section 307C of the Corporations Act 2001) is attached to and forms part of this report.

The amounts paid or payable to the Origin Energy group auditor KPMG for non-audit services provided by that firm during the year are as follows:

1.	Acquisition audit and accounting advice	\$371,000
2.	Taxation services	\$306,000
3.	Other regulatory audit services	\$61,000

Further details of amounts paid to the Company's Auditors are included in Note 25 to the full financial statements.

In accordance with advice provided by the Audit Committee, the Board has formed the view that the provision of those non-audit services by the auditor is compatible with, and did not compromise, the general standards of independence for auditors imposed by the Corporations Act. The Board's reasons for concluding that the non-audit services provided did not compromise the auditor's independence are:

- All non-audit services were subject to the corporate governance procedures that had been adopted by the Company and were below the pre-approved limits imposed by the Audit Committee.
- All non-audit services provided did not undermine the general principles relating to auditor independence as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.
- There were no known conflict of interest situations nor any circumstance arising out of a relationship between the Company (including its Directors and officers) and the auditor which may impact on auditor independence.

## 15. Rounding of amounts

Origin Energy Limited is a company 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.

## 16. Remuneration

The Remuneration Report is attached and forms part of this Directors' Report.

Signed in accordance with a resolution of Directors:



Kevin McCann, Chairman  
Sydney, 29 August 2007

