17 August 2004

# Directors' Review of Results for the year ended 30 June 2004

The Directors of Origin Energy Limited (the Company) submit their review of the results of the Company and of the consolidated entity for the year ended 30 June 2004.

Except where otherwise stated, all figures in this report relate to Origin's businesses for the 12 months ended 30 June 2004 compared with the 12 months ended 30 June 2003.

**Financial Review**

***Profit and Dividend Declaration***

Origin reported a profit after tax and outside equity interests (PAT) of $204.9 million for the year ended 30 June 2004, a 27% increase on the profit for the prior year. Basic earnings per share increased by 25% to 30.9 cents per share.

A final fully franked dividend of 7 cents per share will be paid on 15 September 2004 to shareholders of record on 26 August 2004. Origin shares will trade ex-dividend from 20 August 2004.

The Board has also determined that the Dividend Reinvestment Plan will continue to apply for this dividend. As foreshadowed, no discount will apply.

***Financial Highlights***

| | 2003/04 ($m) | 2002/03 ($m) | Change % |
|---|---|---|---|
| **Revenue** | 3,556 | 3,352 | 6 |
| **EBITDA** | 532 | 491 | 8 |
| **Net Profit After tax** | 205 | 162 | 27 |
| **Free Cash Flow** | 350 | 350 | stable |
| **Capital Expenditure** | 509 | 524 | (3) |
| **Basic Earnings per share** | 30.9¢ | 24.8¢ | 25 |
| **Dividends per share*** | 13¢ | 10¢ | 30 |
| **Net Debt/Capitalisation** | 31% | 29% | |
| **OCAT/Funds Employed** | 14.8% | 15.6% | |

*Fully franked

The main factors contributing to the result included:

- Significantly higher oil production in the onshore Perth Basin increased Exploration and Production earnings. This was partly offset by disruption to the Moomba Gas plant reducing after tax profit by approximately $6 million, and a provision of $16.2 million created at the half year for the write-down of the Cooper Basin interests as a result of the restatement of reserves by operator Santos as at 31 December 2003.



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- Higher gas and electricity tariffs coupled with colder winter weather resulted in higher revenues for the Retail segment partially offset by higher energy supply costs.

- Higher earnings in the LPG retail business resulting from lower purchasing costs and three months contribution from the Rockgas acquisition.

- A full year of contribution from the Mt Stuart Power Station and an additional capacity payment received, adding a total of $8 million to profit after tax.

- A benefit of $9.6 million being Origin's share of the reduced deferred tax liability of Osborne Cogeneration Pty Ltd (an associated entity) upon its entry into the new tax consolidation regime.

- Reduced tax expense arising largely as a result of the ATO decision in relation to the Victorian gas business.

- The acquisition of the minority interests of Oil Company of Australia Limited (now known as Origin Energy CSG Limited) reducing outside equity interests.

The following events occurred after the year end which will or may have a material effect on the Company's operations:

- **Acquisition of Contact Energy:** On 20 July 2004 Origin entered into a conditional agreement to acquire a 51.2% interest in Contact Energy Limited from Edison Mission Energy (EME) for a consideration of NZ$1,675 million or NZ$5.67 per share. The agreement to acquire the interest is subject to an exemption being granted by the NZ Takeovers Panel which would allow EME to sell its NZ holding company to Origin rather than its Contact shares. Should the Agreement become unconditional Origin will proceed to bid for the remaining share capital of Contact at the same price as paid to EME.

- **Acquisition of Onshore Otway Assets:** On 19 July 2004 Origin agreed to acquire the interests of Santos Limited in certain production permits in the onshore Otway basin in Victoria for $25.8 million. The acquisition is subject to pre-emptive rights that may be exercised by existing joint venture interest holders.

***Group Financial Performance***

Total revenue increased 6% to $3,556 million from $3,352 million in the prior year. This increase was primarily due to increased oil sales and higher retail gas sales.

EBITDA of $532 million was up 8%.

Segment contributions to EBITDA were:

| | | EBITDA $m | |
|---|---|---|---|
| | **2003/04** | **2002/03** | **% change** |
| **Exploration & Production** | 197.2 | 187.6 | 5 |
| **Retail** | 236.2 | 232.1 | 2 |
| **Generation** | 69.4 | 48.3 | 44 |
| **Networks** | 29.4 | 23.4 | 25 |
| **Total** | 532.2 | 491.3 | 8 |

Year on year comparisons are provided in the divisional highlights sections which follow.

Depreciation and amortisation expense increased by 4% to $203 million. The increase was largely due to increased investment in plant and equipment and increased oil production, partially offset by lower amortisation of electricity hedging contracts.

EBIT increased 11% to $329.2 million.

Net interest expense for the year was $45.4 million, down from $48.7 million in the prior year. The lower interest expense was the result of capitalising $7.7 million of interest in relation to three exploration and production assets: the BassGas Project; the Otway Gas Project; and the Spring Gully coal seam gas development, in accordance with Australian Accounting Standards.

***Taxation***

Tax expense for the year was $76.9 million a decrease of 4% from the prior year reflecting a lower effective rate of 27% compared with 33% in the prior year. The lower effective rate is primarily due to the net impact of several factors, largely relating to the Victorian gas business tax deductions, as outlined below.

As announced in February 2004, the ATO advised that it would not take any further action in relation to the tax deductions transferred to Origin in respect of the Victorian gas distribution business. The amount of unutilised losses available at 30 June 2003 in relation to this matter was $78.5 million and this benefit has been brought to account. As a separate matter the new tax consolidation regime raises doubts over rights to future tax losses associated with this business. As a consequence Origin has taken the prudent course of writing off this asset ($24.8 million).

Now that the Victorian gas business tax losses have become available, the utilisation of other tax losses will be deferred. As a consequence of this deferral and a detailed review of the Group's carried forward tax losses, certain losses no longer satisfy the test of "virtual certainty". Future income tax benefits of $34.9 million have been derecognised.

Prior to year end the Company resolved that a tax consolidated group would be formed between the Company and its wholly owned Australian controlled entities effective from 1 July 2003. While this will simplify the tax affairs of the group going forward, it is not expected to have a significant impact on Origin's financial results.

***Cash Flow***

Operating cash flow after tax remained strong at $402 million up from $399 million in the prior year. Funds employed through the year increased to over $2.6 billion producing an OCAT Ratio[1] of 14.8% well above the Company's target of 9.4%.

Cash flow available for funding growth and distributions to shareholders (free cash flow) was constant at $350 million.

This year's cash flows have been adversely affected by:

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[1] Origin's primary performance measure is operating cash flow after tax over average funds employed (referred to as the OCAT Ratio). OCAT 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.

- An increase in accrued and trade debtors of around $16 million due to higher retail sales as the result of colder weather in the June quarter compared with the corresponding period in 2003; and

- The full impact of lost sales arising from the Moomba incident estimated at $19 million.

***Funding and Capital Management***

The Company's balance sheet remains strong with a net debt to capitalisation ratio of 31% as at 30 June 2004. This compares with 29% as at 30 June 2003.

A total of $44.6 million in equity was raised during the year through share issuances under the Dividend Reinvestment Plan ($39.8 million) and as a result of the exercise of options ($4.8 million).

The continued strength of the Company's cash flow over the year has meant that net borrowings increased by only $128 million to $861 million despite the Company spending $509 million in capital projects and acquisitions as outlined below. Interest cover (including capitalised interest) remains robust at 6.2 times EBIT.

***Capital Expenditure***

Capital expenditure on growth and stay-in-business projects was $323 million.

Stay-in-business capital expenditure associated with the maintenance of ongoing operations was $86 million, $11 million lower than in the prior year.

Growth capital expenditure was $237 million, $85 million higher than in the prior year. This included the expenditure on the following:

- Development of the coal seam gas (CSG) assets in Queensland ($52 million);

- Exploration and development activities in the Perth Basin in Western Australia ($28 million);

- Development of the Bass Basin including the BassGas Project ($95 million); and

- Development of the offshore Otway Basin including the Thylacine and Geographe fields ($23 million).

Capital expenditure on acquisitions totalled $185 million, which mostly related to the acquisition of:

- Minority interests in Oil Company of Australia Limited ($74 million);

- A 50% interest in the Kupe field in New Zealand ($30 million);

- The remaining 50% interest in Rockgas Limited ($14 million); and

- An equity contribution to the SEA Gas Partnership ($56 million) on completion of the project.

Total capital expenditure, including acquisitions, was $509 million or 3% lower than the prior year.

*Risk Management*

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

In the electricity market, Origin assesses its exposure limits against extreme events and a wide range of potential outcomes. 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 currently has hedged 58% of its oil and condensate exposure over the 12 months to 30 June 2005 at prices above US$27 per barrel. With this level of hedging in place Origin estimates that using current foreign exchange rates a US$1 movement in the average price of oil over the year will have an impact of approximately $1.6 million on revenue.

With regard to foreign exchange, Origin is significantly hedged over the next 12 months due to a combination of external hedging and internal natural hedging that arises on the ongoing US dollar expenditure associated with major upstream projects and expects that variability in the US exchange rate will have minimal impact on the group.

*Returns to Shareholders*

A final fully franked dividend of 7 cents per share has been declared payable on 15 September 2004 to shareholders of record on 26 August 2004. The Dividend Reinvestment Plan (DRP) will apply to the dividend. The DRP shares will be issued at the volume weighted average price over the five days prior to the books close without discount.

Origin's present policy is to pay annual dividends at a target level of around 40% of net profit. Combined with the fully franked interim dividend of 6 cents per share paid on 18 March 2004, the dividend payout ratio for the year ended 30 June 2004 is 42%.

*Issued Capital*

An additional 10,978,609 shares were issued during the period. Of these 8,465,259 shares were issued as a result of the Company's Dividend Reinvestment Plan and 2,513,350 shares were issued as a result of the exercise of options.

As at 30 June 2004, Origin had 668,688,360 shares on issue.

# Segment Results

## Exploration and Production

**Increased oil sales and higher gas prices lifted the contribution from the Exploration and Production segment which was partly offset by disruption to Moomba's production. The Kupe acquisition in New Zealand, additional reserves and new projects to come on stream by 2007 have positioned the business for significant growth in coming years.**

| Year ended 30 June | 2003/04 $m | 2002/03 $m | % Change |
|---|---|---|---|
| **EBITDA** | 197.2 | 187.6 | **5** |
| **EBIT** | 105.1 | 103.3 | **2** |

***Sales Volumes***

| | 2003/04 | 2002/03 | % Change |
|---|---|---|---|
| **Natural gas (PJ)** | 67 | 74 | (9) |
| **Crude oil (kbbls)** | 1,899 | 854 | 122 |
| **Condensate/naphtha (kbbls)** | 434 | 644 | (33) |
| **LPG (ktonnes)** | 49 | 62 | (21) |
| **Ethane (ktonnes)** | 35 | 35 | 1 |
| **Total (PJe)** | 84.9 | 87.4 | (3) |

A fire in the Moomba Gas Plant in January 2004 caused a major disruption to gas and liquids production during the second half of the year. Gas production was reinstated to full capacity by March 2004, and liquids production capacity is being returned in stages. Full liquids production capacity is expected to be restored during August. The loss to pre-tax earnings as result of the disruption is approximately $9 million, after taking into account expected insurance recoveries.

Sales volumes for the year were 3% lower than last year at 84.9 PJe, largely as a result of the Moomba incident. Gas sales were 9% lower than last year, reflecting constrained gas sales from Moomba over January and February, while sales of condensates and LPG were significantly lower due to the more substantial and longer task of restoring liquids production capacity. These lower production levels were partially offset by increased oil production out of the Perth Basin as the Hovea, Eremia and Jingemia fields were appraised and developed.

Total sales revenue was $345.3 million up $15 million or 5% on the previous period. This reflects oil sales revenue that is $40 million higher than last year (inclusive of the impact of hedging), and higher average realised gas prices (up 3.5% on average), offset by lower sales of gas and liquids as outlined above.

In line with the increased sales revenue, EBITDA increased from $187.6 million to $197.2 million, an increase of $9.6 million or 5%. Net provisioning and write-offs of $15.5 million, mostly attributable to the Cooper Basin reserves write-down, were in line with last year ($16.6 million). EBITDA margin was maintained at 57%.

Depreciation and amortisation (D&A) charges of $92.1 million were up $7.8 million or 9% from last year in line with production increases in the Perth basin and higher D&A rates in the Cooper Basin resulting from the reserves write-down in December 2003.

This higher D&A charge resulted in only a modest increase in EBIT, up $1.8 million or 2% from $103.3 million to $105.1 million

Capital expenditure on growth and stay-in-business projects increased by 29% to $262 million due to construction on the BassGas Project and development of the Spring Gully and Otway Gas Projects.

Origin participated in the drilling of 163 wells during the year. This included 83 development wells primarily in the Cooper Basin, coal seam gas (CSG) areas and the Perth Basin. Origin also participated in 80 exploration and appraisal wells including 36 in CSG areas, 27 wells in the Cooper Basin, 11 wells in the Perth Basin and one well in New Zealand. Origin achieved a success rate of 66% from these exploration and appraisal wells. In addition Origin undertook recording 3D seismic surveys in the offshore Otway Basin and Surat Basin (in progress), and will record a further 3D survey in the Perth Basin this year. The improvement in data quality provided by these surveys is expected to provide significant follow-up potential over the coming years.

Origin increased its 2P reserves by 647 PJe or 41% over the year, representing a reserves replacement ratio of over 800%.

**Proved and Probable (2P) Reserves (PJe)**

| | **PJe** |
|---|---|
| **2P reserves at 30 June 2003** | **1,573** |
| Net effect of additions, revisions & adjustments | |
| plus CSG reserves additions | 572 |
| plus Kupe acquisition | 169 |
| plus other (WA, Otway, central Qld) | 25 |
| less Cooper Basin reserves write down | (39) |
| less production | (80) |
| **2P reserves at 30 June 2004** | **2,220** |

**Perth Basin (Western Australia):** Oil production from Hovea, Eremia and Jingemia fields increased to average 6,700 barrels of oil per day (bopd) across the year (Origin share 50%), a three-fold increase on production in the prior year. During the coming year production is expected to increase towards 10,000 bopd as Jingemia 4 is fully commissioned and the Hovea field is further developed.

Three new gas discoveries at Xyris 1, Apium 1 and Tarantula 1 are planned to be brought on stream during 2004/05.

**Spring Gully Project (Surat/Bowen Basin - Queensland):** Scheduled for commissioning by 30 June 2005, the Spring Gully Project will supply contracts signed with AGL and Queensland Alumina Limited (QAL). The latter was signed in November 2003 for 180 PJ of gas supplied over 15 years from November 2006. Origin increased its average equity in the Spring Gully project to 96.6% by acquiring the interests of some minor parties. The engineering design phase for the project was completed and orders placed for gas plant and pipeline equipment.

Continuing exploration, appraisal and development activities across Origin's CSG tenements led to the booking of an additional 572 PJe of 2P reserves during the year.

**Surat Basin (Queensland)**: As the result of continuing appraisal, the Myall Creek gas field now has established reserves (2P) of 52 PJe which will provide additional flexibility to Origin in managing the portfolio of contracts it supplies from central Queensland. Myall Creek 6 and 7 achieved flows of 6.5 mmscfd and 10.5 mmscfd respectively while the nearby Horseshoe 3 well flowed at 3.6 mmscfd. A 3D seismic program currently being recorded will provide the basis for ongoing appraisal and development of the field.

**BassGas Project (Bass Basin - Tasmania/Victoria):** During the year the BassGas platform was successfully installed and drilling operations commenced. Yolla 4 has since been successfully drilled and completed, with production tests flowing at gas and condensate at high rates from three individual gas zones. However weather related delays in completing electrical work at the onshore plant will cause project start-up to be delayed into October. Origin has a 37.5% interest in the project which will deliver 20 PJ of gas and more than 1 million barrels of liquids per annum, and has contracted to take all the sales gas produced from the field.

**Otway Gas Project (Otway Basin - Victoria):** In May 2004, the Otway Gas Project joint venture announced it would proceed with the development of the Thylacine and Geographe fields. Origin has a 29.75% interest in the project which will supply 60 PJ of gas, more than 100,000 tonnes of LPG and 800,000 barrels of condensate per annum once commissioned in mid 2006. Origin has signed gas purchase agreements with two of its co-venturers and will take 48.85% of the sales gas produced from the field.

**Kupe Gas Project (Taranaki Basin - New Zealand):** In February 2004, Origin acquired a 50% interest in, and assumed operatorship of, the Kupe gas field for $30 million. Scheduled to be in production by mid 2007, the field is expected to produce around 20 PJ of gas and 1.5 million barrels of liquid hydrocarbons per annum. Origin's share of the gas is contracted to Genesis Power. Surveys for the platform site, pipeline routes and potential gas plant sites have been completed, and Worley has been engaged to develop the front end engineering design.

**Exploration:** In the coming year, Origin plans to drill two exploration wells in Vic/P37 (V) in the offshore Otway Basin and the Trefoil 1 exploration well in T/18P adjacent to the Yolla production licence in the Bass Basin.

The exploration program in the onshore Perth Basin is continuing with 12 exploration wells planned for 2004/05, while in the offshore Perth Basin the Fiddich 1 oil exploration well will be drilled during the latter half of 2004.

The momentum in the Surat and Bowen Basins will continue with 25 exploration and appraisal wells planned.

## Retail

**Origin supplies electricity, natural gas and LPG to more than two million customers. Of these 65% are in Victoria where colder weather and small tariff increases drove an improved result for the Retail business.**

| Year ended 30 June | 2003/04 $m | 2002/03 $m | % Change |
|---|---|---|---|
| **EBITDA** | 236.2 | 232.1 | 2 |
| **EBIT** | 155.1 | 143.8 | 8 |

***Energy Sales Statistics***

| | Natural Gas | Electricity | LPG |
|---|---|---|---|
| **Revenue ($m)** | 856 | 1,663 | 398 |
| **Gross Margin ($m)** | 142 | 242 | 131 |
| **Sales – (PJ)** | 114 | | |
| **Sales – (TWh)** | | 15.9 | |
| **Sales – (ktonnes)** | | | 490 |
| **Total Sales (PJe)** | 114 | 57 | 24 |
| **Customer # ('000)** | 967 | 887 | 289 |

Total revenue was $3.0 billion, up 5% on the prior year. EBITDA increased by 2% to $236.2 million, reflecting higher purchasing costs for electricity. Lower amortisation of hedging contracts acquired from Powercor resulted in a more significant increase in EBIT of 8% to $155.1 million.

Total Retail energy sales of natural gas, electricity and LPG of 196 PJe were 3% lower than for the same period last year, but revenue from the sale of these products increased as the result of higher unit prices derived from the mix of products sold and higher gas and electricity tariffs.

Total operating costs were flat year on year, as improved efficiencies were offset by expenditure on preparation for full gas contestability in South Australia and higher churn related costs as discussed in subsequent paragraphs.

The result is strongly seasonal due to the significant mass market demand for energy over the winter months of July, August and September, with 62% of the result coming from the first half.

Total depreciation and amortisation of $81.1 million was $7.1 million lower than last year, mainly as a result of lower amortisation of the Powercor hedge contracts as the volume of these contracts declined offset by an increase in amortisation of intangibles. This partially offset higher electricity purchasing costs associated with replacement contracts.

Notwithstanding small increases in tariffs and higher churn, EBIT to sales margins for the year across the Retail business were slightly higher than last year at 5.2%.

Electricity and natural gas customer numbers were maintained even though there was an increase in market churn in Victoria to an average of 13.5% across the year compared with 9% in the previous financial year. The volume of customer transfers increased from around 50,000 in 2003 to over 140,000 during 2004. Overall customer numbers increased by 36,000 across the year. The Electricity business expanded to new geographic markets, and now has almost 35,000 customers in South Australia and more than 3,000 customers in New South Wales. Full retail contestability for South Australia commenced in July 2004.

Origin also maintained its solid market position through a number of product initiatives and affinity programs. The most high profile of these was the AFL Inside50 Program which offers Victorian and South Australian customers who sign a market contract with Origin $50 off their 2004 and 2005 club memberships. Launched in February 2004, Inside50 has delivered more than 20,000 customers and driven a significant improvement in top-of-mind brand awareness. Origin now also has over 45,000 customers signed to its GreenEarth range of electricity offerings.

Natural gas sales were 7% lower than last year at 114 PJ, largely due to the closure of the Mobil refinery in Adelaide and loss of other major customers (-10 PJ), partially offset by increased retail gas sales as a consequence of colder winter weather (+3 PJ). Standing tariffs for natural gas were increased by 5% in Victoria and by around CPI in South Australia and Queensland. These tariff increases, and the change in customer mix, produced an increase in the average unit tariffs received and led to an increase in natural gas revenue of 2% to $856 million for the year. The increase in revenue, coupled with the cessation of payments to the Victorian Government in the 2003 financial year led to a 9% increase in gross margin for natural gas from $131 million to $142 million.

Electricity sales increased 6% from 15 TWh to 15.9 TWh in the year ended 30 June 2004. Tariff increases to the mass market segment in the second half of the year, combined with the increased volumes, led to an increase in revenue of 6% to $1.7 billion. This was offset by an increase in electricity network and energy charges and the need to replace the favourable hedge contracts acquired from Powercor with contracts at current market prices. These factors led to a 9% increase in purchasing and distribution costs and as a consequence the gross margin from electricity sales was down 9% from $266 million to $243 million.

LPG sales increased by 11 ktonnes as a consequence of three months contribution from the additional 50% of Rockgas purchased in March 2004, offset by a decrease in autogas volumes. Purchasing costs decreased significantly during the year, with the international Contract Price averaging A$415 per tonne, being A$103 per tonne or 20% lower than in 2003. However it should be expected that a portion of the benefit will be eroded as customer contracts are renewed and LPG prices move to match the recent oil price rises. Gross margin rose 15% from $114 million to $131 million.

## Generation

**The Generation segment includes a fully-contracted portfolio of peaking and base-load power plants with a total capacity of 883 MW and renewable energy developments and investments. A full year of ownership of the Mt Stuart Power Station and a one-off tax adjustment for Osborne Co-generation has lifted the business' contribution.**

| Year ended 30 June | 2003/04 $m | 2002/03 $m | % Change |
|---|---|---|---|
| **EBITDA** | 69.4 | 48.3 | 44 |
| **EBIT** | 42.2 | 26.5 | 59 |

*Sales Volumes*

| | 2003/04 | 2002/03 | % Change |
|---|---|---|---|
| **Total Sales (MWh)** | 1.83 | 1.90 | (4) |

Total revenue was $117 million up 20% on the prior year. EBITDA increased by 44% to $69 million.

Origin's Generation business contracts the capacity of a number of its gas fired power plants to the Retail business, formalising the natural hedge provided by these assets. The output from these plants (Ladbroke Grove, Roma and Quarantine power stations) is sold directly into the National Electricity Market. Under this arrangement, Generation received internal revenue for the year of $43 million.

Sales revenue from externally contracted plant increased by 36% to $74 million largely due to inclusion of 12 months revenue from the Mt Stuart Power Station in Townsville, Queensland, which was purchased in December 2002. Mt Stuart maintained high availability. Changes in despatch levels resulted in an additional capacity payment being received under the Enertrade Power Purchase Agreement. This resulted in a $7 million improvement to net profit complemented by an additional six months of contribution which added a further $5 million to net profit.

Origin has a 50% share of cogeneration plants contracted to BP Bulwer Island in Queensland, Worsley Alumina and Western Power in Western Australia and NRG Flinders and Penrice Soda Products in Osborne, South Australia. All these plants recorded a high level of availability during the year.

As advised at the half-year, the application of tax consolidation rules resulted in a one-off tax adjustment for Osborne Cogeneration Pty Ltd. Origin's 50% share of this adjustment is $9.6 million and is included on an equity accounted basis in EBITDA.

The further development of the Generation business is an ongoing focus within Origin, including the assessment and development of gas fired and renewable generation opportunities.

During the year Origin participated in the evaluation of several opportunities to invest in or construct gas fired power plants. This included an unsuccessful bid to construct a 250 MW peaking project in Western Australia and the high-grading of development sites to permit for new combined cycle power plants in Victoria and Queensland where Origin has access to significant gas resources.

Origin has also been active in evaluating and permitting sites for the potential construction of wind generation. Two sites in South Australia, Kemiss Hill and Troubridge, are well advanced. However moves to progress to construction of these facilities will depend on the level of policy support provided by governments for renewable generation.

Construction of a $21 million Sliver® Solar Cell demonstration plant in Regency Park, South Australia was completed during the year. The facility is focussed on commissioning cell and module lines to produce Sliver® Solar Modules for commercial sale in early 2005.

Origin holds a 17.8% interest in Geodynamics Limited which continues to develop a world class geothermal resource in South Australia's Cooper Basin. Origin contributed approximately $8 million in funding during the year, for development of the project which included the drilling of the first well, and acquisition of rights to innovative technology which allows greater economic heat extraction from geothermal resources.

## Networks

**Origin's Networks business includes asset management services, an investment in Envestra Limited and a one-third interest in the SEA Gas Pipeline which delivered additional contribution to earnings over the second half of the year.**

| Year ended 30 June | 2003/04 $m | 2002/03 $m | % Change |
|---|---|---|---|
| **EBITDA** | 29.4 | 23.4 | 25 |
| **EBIT** | 26.9 | 21.6 | 24 |

Networks EBITDA of $29.4 million was 25% higher than the prior corresponding period. This reflected a maiden contribution of $4.6 million from the SEA Gas Pipeline which was commissioned on time and on budget on 1 January 2004, and played an important role in alleviating the gas shortage in South Australia caused by the Moomba fire and subsequent supply disruption.

A colder winter in Victoria and South Australia drove an increase in network management fees from Origin's principal customer and network owner, Envestra. This was partially offset by slightly lower incentive fees received from Envestra from the year's performance. Distributions from Origin's 18% holding in Envestra contributed $12.8 million consistent with last year.

In July 2003 Origin, in a joint venture with United Utilities, successfully took over the operations and management of the water and wastewater assets of Coliban Water in central Victoria under a 10-year contract. Management fees and an equity income share from the CAMS joint venture with United Utilities also contributed to the improved EBITDA for the Networks segment.

## People, Health, Safety & Environment (HSE)

Employee numbers increased 11% to 3,211 mostly due to staffing requirements for the Spring Gully and BassGas Projects and the Rockgas acquisition in New Zealand. There was no time lost to industrial disputes.

The Lost Time Injury Frequency Rate improved from 3.1 at 30 June 2003 to 2.8 at 30 June 2004. The Total Reportable Case Frequency Rate, which includes medical treatment injuries as well as lost time injuries, improved from 24.5 to 20.8.[2]

On 10 June 2004 the Tarantula 1 gas well in the Perth Basin Western Australia experienced an uncontrolled gas flow, which was contained by well control experts on 23 June 2004. In the process of securing the site, four contractor personnel received scalding injuries from hot mud and required first aid treatment. Origin is co-operating with the Western Australian Department of Industry and Resources investigation, and is reviewing systems and procedures to reduce the risk of a similar incident occurring again.

Other than the Tarantula 1 gas well, there were no other significant environmental incidents that relate to the Company's operations.

Origin produced its second Sustainability Report to Stakeholders outlining the Company's environmental, social and economic impacts on the communities in which it operates. The report provides more information on the Company's health, safety and environment performance and is available at www.originenergy.com.au/sustainability.

## Employee Share and Option Plans

During the year the Company issued 3,910,000 options under the Senior Executive Option Plan at an exercise price of $4.31 each. Origin does not record an expense on either the granting of an option to employees or upon the subsequent exercise of the option by employees. Origin has estimated the cost attributable to the current year of all options issued by the Company in the current and prior years, using the guidance in Australian Accounting Standard 2 "Share Based Payment" (AASB 2) to be $2.9 million (2003: $1.8 million).

Under the Employee Share Plan up to $1,000 of shares are granted to all eligible employees as long as the Company achieves its financial and safety targets. In 2003 all full-time qualifying employees were each granted 219 shares, which were acquired on-market for $1.8 million.

Further details of The Executive Option Plan and Employee Share Plans will be included in Origin's 2004 Annual Report.

## International Financial Reporting Standards

The adoption of Australian equivalent International Financial Reporting Standards (A-IFRS) will apply from 1 July 2005, that is, for the year ending 30 June 2006, although retrospective application is required for comparatives (for the year ended 30 June 2005) The effective transition date to A-IFRS is therefore 1 July 2004.

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[2] Lost Time Injury Frequency Rate and Total Reportable Case Frequency are measured in terms of incidents per million hours worked

Adoption of A-IFRS will require changes to Origin's current accounting policies, which may impact the recognition and measurement of income, deferred tax balances, share-based payments, employee related provisions, asset valuations and the amortisation of goodwill. Accounting policy decisions will not be finalised until all standards have been agreed internationally, accordingly the detailed impact of A-IFRS is not yet quantifiable. Although the amortisation of goodwill will cease under A-IFRS, changes in asset impairment tests and hedging and documentation criteria in relation to financial instruments may introduce significant volatility into the Company's results and thus it is not possible to predict the impact of A-IFRS on future earnings.

## Outlook

The year ahead will see continued growth in earnings with increased contributions from Exploration and Production, Retail and Networks.

Production from the BassGas Project is expected to come on stream in October making an immediate contribution and lifting the Exploration and Production segment results in the second half. Oil production from the Perth Basin is expected to increase towards 5,000 bopd net to Origin over the next few months and the re-establishment of full production at Moomba is expected to be achieved in the September quarter which will restore production contribution over the coming year. The long-term supply contract with AGL for coal seam gas will commence in May 2005 providing a contribution to production results for the coming year.

The Retail business will benefit from a full year of tariff increases that were approved from 1 January 2004 in Victoria and from 1 August in South Australia and increased volumes from higher customer numbers.

The LPG business will benefit from a full year of contribution from the wholly owned Rockgas business in New Zealand.

The SEA Gas pipeline which commenced operation on 1 January 2004 will make a full year of contribution to Network's results.

As a result of these factors Origin expects that earnings for the coming year from its existing businesses will increase consistent with the targeted growth rate of 10-15% per annum.

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

- The commencement of development of the offshore Otway project in the June quarter 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 and QAL over 15 years from November 2006 from CSG fields in Queensland will permit accelerated development of the Company's CSG resources; and

- The Kupe gas field in New Zealand is expected to commence production of gas and liquids in mid 2007 which will add 10 PJ of gas and 750,000 of liquid hydrocarbons to Origin's annual production.

If the agreement to acquire 51.2% of Contact Energy from EME becomes unconditional and Origin proceeds with its acquisition of the interest, the effect on Origin's results is expected to be significant over future years. After goodwill amortisation the acquisition is expected to be accretive on earnings per share over the next year. Thereafter the acquisition is expected to be significantly positive for earnings and strongly cash generative.

Funding of the acquisition will be undertaken with a combination of debt and equity. The amount of funding required will depend upon the acceptance level of the Contact minority shareholders. Origin's debt/capitalisation ratio is expected to remain below 45%.

Sydney, 17 August 2004