Origin energy

29 August 2005

Directors' Review of Results for the full year ended 30 June 2005

The Directors of Origin Energy Limited (the Company) submit their review of the results of the Company and the consolidated entity for the year ended 30 June 2005.

Except as otherwise stated, all figures in this report relate to Origin's businesses for the 12 months ended 30 June 2005 compared with the 12 months ended 30 June 2004. All references to $ in this report are references to Australian dollars unless specifically stated otherwise.

The acquisition of a 51.4% interest in Contact Energy Limited ("Contact") was completed on 1 October 2004. The results include the consolidation of Contact's financial performance from that date.

Financial Review

Profit and Dividend Declaration

Origin reported a net profit after tax and outside equity interests (NPAT) of $266 million for the year ended 30 June 2005, a 30% increase on the profit for the prior year. The most significant factors contributing to the result were the initial nine month contribution from Contact Energy, increased sales of oil and other liquids, and an increased contribution from the energy retail business.

In April 2005 112.5 million shares were issued through a Renounceable Rights Issue. Including the effects of dilution from this issuance, basic earnings per share increased by 24% to 37.2 cents per share. In order to better represent earnings per share, a normalised earnings per share has been calculated based on the assumption that the Rights Issue occurred on 1 October 2004 being the date on which the acquisition of Contact took place. This assumption decreases normalised earnings per share to 34.9 cents, which is a 16.3% increase on the prior year.

A fully franked final dividend of 8 cents per share will be paid on 26 September 2005 on the expanded capital base to shareholders of record on 7 September 2005. Origin shares will trade ex-dividend as from 1 September 2005.

The Dividend Reinvestment Plan will apply to this dividend with no discount.

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Group Financial Performance

	2005 ($m)	2004 ($m)	Change %
Revenue	4,914	3,556	38
Net Profit after Tax	266.0	204.9	30
EBITDA	928	532	74
Free Cash Flow	447	350	28
Capital Expenditure	1,474	509	190
Basic Earnings per Share	37.2	30.0	24
Normalised Earnings per share (cents)[1]	34.9	30.0	16
Net Debt/Capitalisation	41%	31%	
OCAT/Funds Employed[2]	14.4%	14.8%	

(1) Assuming Rights Issue occurred on 1 October 2004
(2) Excludes nine months of Contact. For details see discussion on Cash Flow

The acquisition of 51.4% of Contact Energy was completed on 1 October 2004. The consolidation of Contact's financial performance from this date includes 100% of Contact's revenue, EBITDA, EBIT and cash flow contributions. The interests attributable to minority shareholders are recognised as Outside Equity Interests in the reporting of Net Profit after Tax and Total Equity.

Total revenue increased 38% to $4,914 million from $3,556 million in the prior year. This increase was primarily due to the consolidation of Contact's results and higher revenues from the sale of oil and other liquids.

EBITDA increased 74% to $927.8 million with segment contributions as follows:

	2005 ($m)	2004 ($m)	Change %
Exploration & Production	245.5	197.2	25
Retail[1]	254.1	237.6	7
Generation[1]	52.7	68.0	(23)
Networks	29.8	29.4	1
Contact	345.6	0	-
Total	**927.8**	**532.2**	**74**

(1) Changes in Management Structure have led to minor reallocation of last year's result

Earnings from **Exploration and Production** increased as a result of higher oil production from the Perth Basin, higher liquids sales from the Cooper Basin which had been affected by the Moomba fire in the prior year, higher prices achieved for oil and liquids and $10.5 million profit on the sale of the Carpentaria Gas Pipeline.

Retail earnings were higher with improved margins from lower electricity purchasing costs. This was partially offset by reduced sales volumes due to mild weather in Origin's larger markets, and lower natural gas customer numbers.

Generation earnings were lower than the prior year due to non-recurrence of a one-off tax consolidation gain of $9.4 million for the Osborne plant, lower supplementary capacity charges and higher fuel requirements at the Mt Stuart Power Station in Queensland and increased costs associated with the solar business and power generation development projects.

Networks earnings were marginally improved benefiting from a full year contribution from the SEA Gas pipeline, offset by lower contribution from Asset Management reflecting the impact of milder weather on incentive payments.

The consolidation of **Contact Energy** for the nine months from 1 October 2004 made a significant contribution to EBITDA and after deducting the cost of debt funding and recognition of outside equity interests has increased net profit after tax by $22.3 million.

Depreciation and amortisation expense increased by 54% to $312.6 million reflecting the inclusion of Contact, a higher capital base in the Perth Basin and higher depletion charges in the Cooper and onshore Otway Basins.

EBIT increased by $285.9 million or 87% to $615.2 million, of which $249.9 million was attributable to Contact. Of the balance increases from Exploration and Production (+$29.3 million), Retail (+$19.6 million) and Networks (+$1.2 million) were partially offset by a decrease in EBIT in the Generation segment (-$14.1 million).

Net interest expense for the year was $135.1 million up from $45.4 million in the prior year. The increase was due to the consolidation of Contact's interest expense ($55.0 million) and higher borrowings to fund the Contact acquisition ($45.5 million). An additional $20 million of interest has been capitalised for major development projects.

Taxation

Tax expense for the year was $147.4 million, an increase of $70.5 million over the prior year primarily resulting from the consolidation of Contact. This represents an effective tax rate of 31% compared with 27% in the prior year. The increase in the effective tax rate reflects the higher New Zealand corporate tax rate (33%).

Funding and Capital Management

Origin's net debt to capitalisation ratio was 41% as at 30 June 2005. This compares with 31% as at 30 June 2004.

During the year a total of $670.7 million in equity was raised through a Renounceable Rights Issue ($633.4 million), by share issuances under the Dividend Reinvestment Plan ($29.4 million) and as a result of the exercise of options ($7.8 million).

Consideration for the acquisition of Contact was $1.0 billion after deducting the NZ$535 million of Edison Mission debt. Origin funded the acquisition through the issuance of Convertible Undated Preference Shares (CUPS) ($595 million, net of transaction costs) and external debt facilities ($426 million). Immediately following the acquisition Origin further drew down its external debt facilities to repay NZ$285 million of the NZ$535 million of debt assumed from Edison Mission.

The CUPS were classified as equity in Origin's statement of financial position in the form of outside equity interests in accordance with Australian GAAP. Accordingly the dividends in respect of the CUPS were not expensed and the CUPS were not included in determining the weighted number of ordinary shares in calculating the basic EPS and the diluted EPS at the half year.

In April 2005 a 1 for 6 Renounceable Rights Issue at $5.70 per share raised $633 million net of costs which was applied towards the redemption of the CUPS.

Following the acquisition of Contact and subsequent capital raising, Origin was re-rated from A-/negative watch to BBB+/stable by Standard and Poors.

In June 2005 Origin completed the placement of NZ$422 million and US$50 million of senior unsecured notes into the US private placement debt market. This was used to repay the NZ dollar debt bridge facility.

In total an additional 121,028,309 shares were issued during the financial year. Of these 112,531,123 shares were issued under the Renounceable Rights Issue, 4,692,486 shares were issued as a result of the Dividend Reinvestment Plan and 3,804,700 shares were issued as a result of the exercise of options.

In order to better represent earnings per share for the period a normalised earnings per share has been calculated based on the assumption that the Rights Issue occurred on 1 October 2004 being the date on which the Contact acquisition took place. Based on this assumption the weighted average number of shares used for calculating a normalised earnings per share was 762,499,358. As at 30 June 2005, Origin had 789,716,669 shares on issue.

Capital Expenditure

Capital expenditure on growth and stay-in-business was $506.9 million, up from $323.3 million in the prior year.

Stay-in business capital expenditure associated with the maintenance of ongoing operations was $131.5 million, up from $86.3 million from the prior year. The increase was due almost entirely to the inclusion of $46 million from Contact, with modest decreases in Exploration and Production (-$6 million) and Generation (-$3 million) offset by an increase in the Retail segment (+$8 million).

Growth capital expenditure was $375.4 million, $138.4 million higher than the prior year. This included expenditure (exceeding $10 million) in the following areas:

- Coal Seam Gas (CSG) assets in Queensland ($103.8 million);
- The BassGas Project ($38.9 million);

- The Otway Gas Project including the Thylacine and Geographe fields ($82.2 million);
- Perth Basin oil and gas assets in Western Australia ($28.7 million);
- Cooper Basin ($19.1 million); and
- Construction of the South East South Australian (SESA) pipeline lateral ($16.0 million).

Capital expenditure on acquisitions totalled $968 million, largely comprising $943 million for the 51.4% interest in Contact (net of debt and acquired cash balances) and $20 million (net of adjustments) for assets acquired from Santos in the onshore Otway Basin.

During the year Origin's interest in the Carpentaria Gas Pipeline was divested with net proceeds of $10.5 million.

Total capital expenditure including acquisitions net of the proceeds from divestments was $1,474.5 million, compared with $508.6 million in the prior year.

Cash Flow

The operating cash flow after tax (OCAT) has grown from $402 million to $598 million for the year largely due to the inclusion of Contact's cash flow from 1 October. Working capital was held constant in the Retail business but increased overall due to the timing of cash calls on major development projects. Tax paid increased substantially from a refund of $2 million in 2004 to a payment of $181 million resulting from Origin electing to pre-pay tax to fully frank its dividend (Origin tax paid of $46 million) and Contact tax paid of $135 million. The actual tax paid by Contact was impacted by the change in timing of instalments resulting from the change in year end.

Cash flow available for funding growth and distributions to shareholders (free cash flow) was $447 million compared with $350 million in the prior period.

The OCAT Ratio[1] for the Origin business excluding Contact for the year ended 30 June 2005 was 14.4% compared to 14.8% for the year ended 30 June 2004. Contact has been excluded from the ratio as it only contributed nine months cash flow to the result.

Risk Management

Origin manages its risk exposure in energy markets through a combination of natural hedges in the business, contracts and financial hedges. Risk exposure is assessed and managed against policy limits for each commodity 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 portion of its exposure to electricity, oil and LPG prices, interest rates and USD and NZD denominated revenue.

[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 expenditure, changes in working capital, non-cash items and tax paid. Funds employed are averaged over the relevant period

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

Origin has a policy of hedging a portion of its expected production of crude oil and condensate over a rolling 12 month period. For the 12 months to 30 June 2006 Origin has hedged approximately 1,320,000 barrels of its forecast oil and condensate sales at an average price of US$36.36 per barrel. As a consequence Origin estimates that a US$1 increase in the price of oil will increase earnings by approximately $2 million before tax.

With regard to foreign exchange, Origin is hedged over the next 12 months through a combination of external USD and NZD hedging and ongoing US dollar expenditure associated with major development projects. Origin expects that variability in the USD and NZD exchange rates will not have a material impact on group profitability.

Origin has also hedged a portion of its interest expense over the next 12 months and expects that variability in interest rates will not have a material impact on Group profitability.

Returns to Shareholders

An interim fully franked dividend of 8 cents per share has been declared, payable on 26 September 2005 to shareholders of record on 7 September 2005. The Dividend Reinvestment Plan (DRP) will apply to the current dividend without discount.

Tax legislation allows Origin to elect to pay sufficient tax to fully frank its dividends, notwithstanding the availability of carried forward tax losses.

Employee Share and Option Plans

The Company issued 3,571,000 options under the Senior Executive Option Plan. 775,000 were issued at an exercise price of $6.14 each, 2,596,000 at an exercise price of $5.88 each and 200,000 at an exercise price of $6.75 each.

Under the Employee Share Plan up to $1,000 worth of shares are granted to all eligible employees as long as the Company achieves its financial and safety targets. In 2004 all full-time qualifying employees were granted 166 shares each. These shares were acquired by the Company on-market for $2.0 million and this amount appears as an expense in the accounts for the year ended 30 June 2005.

International Financial Reporting Standards

From 1 July 2005, the consolidated entity is required to comply with Australian equivalents to International Financial Reporting Standards (A-IFRS) issued by the Australian Accounting Standards Board. The expected impact of the resulting changes in accounting policies are disclosed in note 14 of the financial report.

The adoption of A-IFRS increases the 2004/05 earnings from $266.0 million to $311.5 million. After adjustment for the one-off and ongoing effects of adopting A-IFRS, the recurring impact to earnings is an increase of $33.0 million, resulting in restated earnings of $299.0 million. A table summarising these adjustments is set out below.

Summary of A-IFRS Impacts	EBIT ($m)	NPAT after OEI ($m)
Total reported under Australian GAAP	**615.2**	**266.0**
A-IFRS adjustments (net of tax where appropriate):		
Goodwill and licence amortisation	39.9	39.9
Contingent asset – Moomba claim	9.4	6.6
Deferred tax	-	4.2
Dismantling, removal & restoration provisions	(0.5)	(5.3)
Share based payments	(4.3)	(4.3)
Acquisition of minority interests	1.2	1.2
Business combinations restatement	-	-
Defined benefits superannuation plan	9.5	3.1
Investments in equity accounted entities	(0.1)	(0.1)
Total A-IFRS adjustments	**55.2**	**45.4**
Total restated under A-IFRS at 30 June 2005	**670.4**	**311.5**
Less:		
Contingent asset – Moomba claim[1]	(9.4)	(6.6)
Effective yield adjustment to Envestra distributions[2]	(4.9)	(5.9)
Estimated recurring A-IFRS adjustments	**40.9**	**33.0**
Estimated recurring A-IFRS earnings	**656.1**	**299.0**

(1) This is a non-recurring adjustment.
(2) This adjustment is only made from 1 July 2005 when AASB 139 is applied. No further adjustments have been made in respect of AASB 139.

A presentation on this issue is attached to the Results presentation accompanying this release.

Divisional Performance Highlights

Exploration and Production

A significant increase in revenues received from the sale of liquid petroleum products and ethane raised the contribution from the Exploration and Production segment. Exploration success, reserves upgrades and significant progress on most major projects, including the first commercial sales from the Spring Gully Coal Seam Gas project, have positioned the business well for future growth.

Year ended 30 June	2004/05 $m	2003/04 $m	% Change
EBITDA	245.5	197.2	**25**
EBIT	134.4	105.1	**28**

Sales Volumes

	2004/05	2003/04	% Change
Natural gas (PJ)	66	67	-3%
Crude oil (kbbls)	2,187	1,899	15%
Condensate/naphtha (kbbls)	648	434	49%
LPG (ktonnes)	51	49	5%
Ethane (ktonnes)	44	35	24%
Total (PJe)	86.5	84.9	2%

Total sales revenue of $405.0 million was up $59.8 million or 17% on the previous period. The increase was predominantly due to a 43% increase in sales revenue from liquid petroleum products and ethane (net of hedges) from $129 million to $184 million. The result was also boosted by a $10.5 million contribution to EBIT from the sale of the Carpentaria Gas Pipeline in December 2004.

The increased sales revenue for liquids was driven by:

- Increased oil production from the Perth Basin where the completion of production facilities at the Jingemia oil field helped boost Origin's net production from this area to an average of over 4,500 bopd for the year;
- The restoration in August 2004 of full liquids processing capabilities at the Moomba gas processing plant in the Cooper Basin; and
- Record high prices for oil and products such as ethane which have a natural or contractual link to the oil price.

Revenue from the sale of natural gas was up marginally from $203 million to $206 million, despite a modest decline in sales volumes from 67.3 PJ to 65.5 PJ. Sales from the Cooper Basin, the Beharra Springs field in the Perth Basin and the Tubridgi field in the Carnarvon Basin were lower due to natural field decline and lower contractual commitments, partially offset by an increase in sales from coal seam gas assets. Origin has now sold its interest in the Tubridgi field with the transaction completed on 1 July 2005.

EBITDA increased from $197.2 million to $245.6 million, an increase of $48.4 million or 25%, and EBITDA margin increased to 61%.

Depreciation and amortisation expense increased nearly $19 million reflecting the higher capital base in the Perth Basin and higher depletion charges following reserves write-downs in the Cooper Basin and onshore Otway Basin (Katnook) areas.

Net provisioning and write-offs of $4.8 million were significantly lower than last year when the net impact of provisions and write-offs amounted to $15.5 million.

EBIT increased 28% or $29.3 million from $105.1 million to $134.4 million.

Capital expenditure on growth and stay-in-business projects increased by 39% from $262 million to $364 million due to construction on the Spring Gully, BassGas, and Otway Gas projects and development expenditure in the Perth Basin.

During the year Origin participated in the drilling of 109 wells including 66 development wells, 24 exploration wells and 19 appraisal wells. In total 88 wells were cased for future production. The most significant exploration successes included the discovery of a liquids rich gas field at Trefoil in the Bass Basin, gas discoveries at Halladale and Blackwatch in the offshore Otway Basin, 7 new field gas discoveries from 9 wells drilled in the Cooper Basin and two new fields in the Perth Basin.

Origin achieved a reserves replacement ratio of 100% for the year, with 2P reserves steady across the year at 2,220 PJe. Reserves added through exploration and upgrades to reserves at Kupe, Yolla and Spring Gully balanced the combined effect of production (83 PJe) and a net reduction of reserves in the Otway and Cooper Basins (49 PJe). It should also be noted that while discoveries were made offshore at Trefoil, Halladale and Blackwatch no reserves have as yet been booked in these fields as further technical studies are required to quantify these resources.

Proved and Probable (2P) Reserves (PJe)

	PJe
2P reserves at 30 June 2004	**2,220**
Net effect of additions, revisions & adjustments	
plus CSG reserves additions	67
plus Kupe reserves upgrade	28
plus BassGas reserves upgrade	28
plus Perth Basin discoveries and miscellaneous	9
less Cooper Basin and Otway reserves write down	(49)
less production	(83)
2P reserves at 30 June 2005	**2,220**

During the course of the year Origin made significant progress in its major development projects:

- **Spring Gully Project (Queensland)** In June 2005, Origin's Spring Gully CSG project was commissioned on schedule and on budget. Spring Gully has commenced supplying contracts to service agreements with AGL, and will progressively be developed to supply further contracts with Queensland Alumina and Incitec Pivot.

- **BassGas Project (Victoria/Tasmania)** During the course of the 2005 financial year the BassGas Project experienced significant delays. Originally intended to commence operations in the September quarter of 2004, the project is now scheduled to commence commissioning of the integrated onshore and offshore facilities early in the December quarter of 2005. The delays in completion of the project remain the subject of a dispute with the lead contractor for the original engineering, procurement, installation and commissioning contract, Clough Engineering Limited.

- **Otway Gas Project (Victoria/Tasmania)** By June 2005, the project was 42% complete. Regulatory approvals have been received and the project is on schedule for commissioning in mid-2006.

- **Kupe Gas Project (New Zealand)** Development planning, assessment of tenders and regulatory approvals are progressing. A number of responses to tenders have been received and are being evaluated. District Council and Regional Council consents have been obtained, although one appeal has been lodged which will be heard in the coming months. The current project schedule is targeting for all project approvals to be received by the first quarter 2006. The joint venture is investigating strategies to mitigate any potential impact that regulatory appeals and the current high level of construction activity in the petroleum industry may have on first gas deliveries.

Retail

Origin supplies electricity, natural gas and LPG to more than two million customers. The business experienced mild winter conditions, high levels of churn in contestable markets and a significant increase in wholesale purchasing costs for LPG. These adverse conditions were offset by strong performance in the electricity business and a full year contribution from the additional 50% of Rockgas purchased in February 2004.

Year ended 30 June	2004/05 $m	2003/04 $m	% Change
EBITDA	254.1	237.6	7
EBIT	176.1	156.4	13

Energy Sales Statistics

	Natural Gas	Electricity	LPG
Revenue ($m)	848	1,670	485
Gross Margin ($m)	134	276	147
Sales - (PJ)	117		
Sales - (TWh)		15.7	
Sales - (ktonnes)			506
Total Sales (PJe)	117	56	25
Customer # ('000)	900	913	289

Total Retail energy sales of natural gas, electricity and LPG of 198 PJe were 1% higher with marginally higher gas and LPG sales more than offsetting lower electricity sales volumes. Total revenue was $3.1 billion, up 3% on the prior year, again on higher LPG sales. EBITDA increased by $16.5 million or 7% to $254.1 million. This reflected higher gross margins in the electricity and LPG businesses, partially offset by higher operating costs associated with the LPG business and the impact of churn in contestable markets.

EBIT increased by $19.7 million or 13% to $176.1 million, reflecting the EBITDA improvements and lower amortisation of hedging contracts acquired from Powercor. The EBIT to sales margin for the year across the Retail business increased from 5.2% to 5.7%.

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 EBITDA and 68% of the EBIT contribution coming from the first half.

Heightened levels of competition and churn were experienced in contestable retail markets. After experiencing a net loss of 99,000 customers in the first half of the year, Origin attained a net gain of 39,000 customers in the second half, to end the year with 1,813,000 gas and electricity customers, a net loss of 60,000 customers. Including LPG, Origin continues to service around 2.1 million customers.

An on-going focus on transactional efficiency has enabled the additional demands of high churn to be largely absorbed within the existing cost structure. Operating costs for gas and electricity retailing in the mass market segment increased by only $1.8 million compared with last year despite including an additional $4 million on customer marketing activities. However the inclusion of a full year of Rockgas, higher fuel costs and higher general employee costs resulted in a significant increase in operating costs within the LPG business.

- **Electricity** Despite an increase in customer numbers electricity sales volumes decreased marginally. Origin successfully entered the New South Wales market gaining 14,000 new electricity accounts and added a further 38,500 new accounts in South Australia. Revenue of $1,670 million was marginally higher than last year reflecting slightly lower volumes offset by modest tariff increases.

  The gross margin on electricity sales increased by 14% to $276 million due to reduced purchasing costs.

- **Natural Gas** Natural gas volumes were marginally higher at 117 PJ reflecting lower mass market sales but an increase in wholesale gas sales. Mass market sales were lower as the result of milder weather in Victoria and South Australia, and the loss of gas customers following the introduction of mass market competition in South Australia in July 2004. Customer losses were offset in part by a 6.5% average tariff increase for natural gas granted in South Australia and a 10% increase in tariffs in Queensland. Sales to larger industrial customers were lower in Victoria and South Australia, offset by increases in sales to other wholesale market participants.

  Overall, natural gas revenues were down 1% to $848 million, while the gross margin from natural gas sales was down 2% to $134 million, reflecting the relative increase in sales to larger customers.

- **LPG** Sales of LPG increased by 16 kilotonnes to 506 kilotonnes reflecting a full-period contribution from the Rockgas business in New Zealand, offsetting a decrease in sales volumes for the Australian domestic market and autogas sector.

  Escalating world oil prices affected the international Contract Price (CP) for LPG, which rose by 25% to average $519 per tonne across the year. This increased cost was passed through to customers as far as practical, and together with increased volumes led to a 22% increase in sales revenue. Gross margins increased in absolute terms by 12% to $147 million, although this represented a lower percentage of sales than last year (30% vs 33%).

  In October 2004 Origin assumed management of the shipping supply logistics required to provide LPG to its Pacific and East Coast operations, including the full-time charter of two supply vessels.

Generation

Origin's Generation business includes a portfolio of peaking and base load power plants and renewable and low emission technology investments and developments.

Year ended 30 June	2004/05 $m	2003/04 $m	% Change
EBITDA	52.7	68.0	(23)
EBIT	26.8	40.8	(34)

Sales Volumes

	2004/05	2003/04	% Change
Total Sales (MWh)	1.78	1.84	(3)

Total sales revenue was $125.2 million up 7% on the prior year.

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. Under this arrangement, Generation received internal revenue for the year of $48 million, an increase of approximately $5 million or 11% on last year, reflecting recoveries of higher gas consumption and costs.

Sales revenue from externally contracted plant increased by 2% to $76 million. The Mt Stuart Power Station was called on to run for longer hours, however the increased run-time revenue was offset by lower supplementary capacity payment received under the Enertrade Power Purchase Agreement. An extended planned outage at Osborne saw availability reduced from 98% last year to 83% resulting in reduced contribution to revenue. Other income was also significantly lower due to the non-recurrence of the Osborne tax-consolidation gain of $9.4 million.

Operating costs associated with development activities within the Generation segment increased significantly. During the year over $4 million was spent on planning and permitting activities associated with power project developments, an increase of $1.4 million over the previous year. Origin has also been actively pursuing the development of its solar photo-voltaic Sliver® cell technology. This project has commenced commercial production and had an adverse EBIT impact of $5.7 million in the current year.

As a consequence of this higher expenditure, non-recurrence of tax benefit and marginally higher operating costs the Generation segment has reported an EBITDA of $52.7 million representing a decrease of $15 million or 23%. Depreciation and amortisation charges at $26.0 million were 5% lower than last year, resulting in EBIT decreasing from $40.8 million in 2003/04 to $26.8 million this year.

Networks

The Networks business manages utility networks on behalf of Origin and third parties, and invests in energy infrastructure through its interest in Envestra Limited. Earnings in the segment increased modestly this year as the combined result of higher earnings through a full year contribution from the SEA Gas pipeline, partially offset by lower incentive fees from Envestra.

Year ended 30 June	2004/05 $m	2003/04 $m	% Change
EBITDA	29.8	29.4	1
EBIT	28.1	26.9	4

Sales revenue for the network segment was 6% lower than last year at $158.7 million. During the prior year significant expenditure occurred on behalf of Envestra on information technology systems to support the introduction of full retail contestability in South Australia in July 2004. Reduced capital expenditure this year and associated lower cost recovery from Envestra was the main component of the lower revenue.

EBITDA of $29.8 million was $0.4 million or 1% higher than last year.

The contribution from the SEA Gas pipeline increased from $4.5 million in the prior year when the pipeline operated for only six months to $6.7 million this financial year. The lower proportional return resulted from the replacement of part of the initial equity used to fund the construction of the pipeline with debt early in the financial year, increasing interest costs.

The higher contribution from SEA Gas was partially offset by a decrease of $1.8 million in incentive fees from Envestra. Lower capital expenditure noted above reduced the opportunity to achieve capital savings while mild weather across all markets reduced gas volumes delivered through Envestra's networks by 4 PJ or 3.5%, putting upward pressure on unit operating costs and reducing the opportunity to earn operating incentive fees.

The distribution received from Envestra as a result of Origin's 17.53% stake in the company was the same as last year at $12.8 million.

Depreciation and amortisation charges decreased from $2.5 million to $1.7 million due to a lower corporate cost allocation. Consequently EBIT increased $1.2 million or 4% from $26.9 million to $28.1 million.

During the year, the number of customers connected to Envestra's networks increased by 2.2% to 947,000. In order to accommodate this growth 365km of new mains were laid, while 131km of existing mains were replaced.

In addition to servicing Envestra's networks Origin Energy Asset Management, in a joint venture with United Utilities, operates and manages the water and wastewater assets of Coliban Region Water Authority in central Victoria under a 10 year contract. The joint venture's financial performance was in line with expectations.

Contact Energy Limited

Origin Energy owns a 51.4% stake in Contact Energy of New Zealand and consolidates its accounts.

Contact is an integrated energy company with operations focussed in New Zealand. Contact owns a substantial portfolio of thermal, hydro and geothermal generation in New Zealand representing 27% of the installed generation capacity. It has around 600,000 gas and electricity customers representing approximately 40% and 28% of these markets respectively.

This year marks the first contribution of Contact Energy to Origin's results.

Contribution to Origin Energy Nine months ended	**Jun 05 $m**	**Jun 04 $m**
EBITDA	345.6	-
EBIT	249.9	-

Performance of operations

Nine months ended	**Jun 05**	**Jun 04**
Total Gas Sales	42.5 PJ	-
Retail Electricity Sales	5,180 GWh	-
Electricity Generated	7,971 GWh	-
Electricity Customers	513,000	-
Gas Customers	85,000	-

Origin completed the acquisition of a 51.4% interest in Contact on 1 October 2004. The full year results for Origin include the consolidation of Contact's financial performance for the nine months from that date.

A financial report entitled "Management Discussion of Audited Financial Results for the nine months ended 30 June 2005" covering the period 1 October 2004 to 30 June 2005 was issued by Contact to the New Zealand Stock Exchange on Wednesday 17 August 2005 and is available on Origin's website www.originenergy.com.au. That document contains details regarding Contact's financial and operating performance during the period, including comparisons to the performance of Contact in the prior corresponding period.

Origin has consolidated 100% of Contact as required by Australian accounting standards. The interests attributable to minority shareholders are recognised as Outside Equity Interests in the final reporting of Net Profit After Tax and Total Equity.

In consolidating Contact's results Origin has used an average exchange rate for the period of NZ$1.08 to the A$. An adjustment on consolidation was the reversal of the loss on the sale of Red Energy during the period of $3.2 million against a provision raised at the time of acquisition.

This resulted in the consolidation of $345.6 million EBITDA (100% of Contact's adjusted EBITDA converted to A$), and $249.9 million EBIT. After the recognition of outside equity interests, deducting Origin's acquisition debt funding expenses of $45.5 million (before tax), and other tax and D&A related adjustments, Contact contributed $22.3 million to Origin's net profit after tax.

As reported at the time of Origin's half year results, a number of steps have been taken aimed at ensuring the ongoing financial and operating strength of Contact's businesses and ensuring that the acquisition adds value to shareholders of both companies.

This has included changes to the Board and senior management of Contact, and changes to Corporate Governance procedures and the Constitution. The reporting period for Contact has been changed to a financial year ending on 30 June to align its reporting with Origin and KPMG has been appointed as common auditors of Origin and Contact.

From financial, operational and strategic perspectives the performance of Contact has matched or exceeded Origin's expectations at the time of acquisition. This reflects the strength of the Contact management team and the significant efforts of its employees.

People, Health, Safety and Environment

Direct employees of Origin Energy increased during the year by 21 to 3,152. A major restructure of the senior management reporting structure of Origin was undertaken effective 1 February 2005.

The Lost Time Injury Frequency Rate remained constant at 2.6. The Total Reportable Case Frequency Rate, which includes medical treatment injuries as well as lost time injuries, fell from 20.4 to 17.5.

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

In May 2005 Origin released its third annual Sustainability Report to Stakeholders in order to provide a clear and transparent view of its operations. The report is available on-line at www.originenergy.com.au or can be ordered by emailing sustainability@originenergy.com.au.

Outlook

The profit of the Company over the year was enhanced by nine months of contribution from Contact and increased contributions from the Exploration and Production and Retail businesses.

In the coming year Contact Energy will provide a full year of earnings and a number of Origin's long term growth projects will make their first significant contributions. Production from the Spring Gully project commenced in June 2005 and will provide a 12 month contribution as it delivers into the ramp-up phase of the AGL contract. Commissioning of the BassGas project is expected to commence in the December Quarter 2005 and will reach full production in the following months, while towards the end of the financial year the Otway Gas Project is likely to commence commissioning and may make a minor contribution. The Retail business is expected to again experience high levels of competition and market churn which will maintain pressure on retail margins, while the Generation contribution is likely to be stable with continuing expenditure on power generation and solar developments.

As discussed previously the financial year ending 30 June 2006 will be the first year to be reported under the new International Financial Reporting Standards (A-IFRS). It is possible that these new standards will introduce a higher degree of volatility into the financial results reported by Origin, particularly in relation to the treatment of financial instruments used to hedge the company's exposure to the purchase price of electricity and to movements in foreign exchange rates and interest rates.

These new reporting standards make forecasting of financial results more difficult. Under these circumstances and based on prospects for the coming year, Directors' current expectation is that estimated recurring A-IFRS earnings of $299 million will increase by approximately 10% in 2006.

Looking further ahead the Company continues to plan for and develop a number of major projects, which will make significant contributions in future years. These include the Kupe Gas project in New Zealand, planning and approvals for major power generation projects in Queensland and Victoria, and the ongoing development of Origin's solar business.