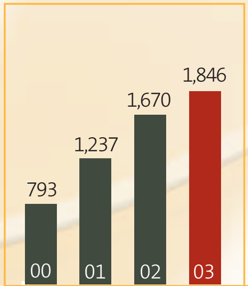
# Half Yearly Report to Shareholders

For the half year ended 31 December 2003

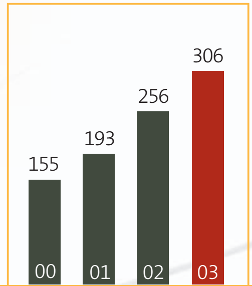
Origin energy

REVENUE ($M)



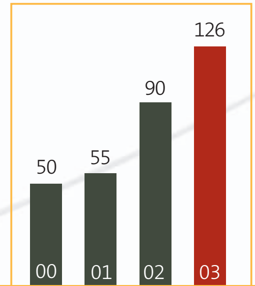

$1,846m **UP 11%**

EBITDA ($M)




$306m **UP 20%**

PROFIT AFTER TAX ($M)




$126m **UP 40%**

# Half Year in Brief

**Note: The bar charts above relate to financial results for the first half of the financial year.**

- **Earnings per share of 19.2 cents, up 39%**
- **Strong balance sheet with net debt to capitalisation of 28%**
- **Dividend of 6 cents per share fully franked to be paid on 18 March 2003**
- **Dividend Reinvestment Plan – 2.5% discount to apply**

Note: Except where otherwise stated, all figures are compared to the December 2002 half year.

# Dear Shareholders

We are pleased to report a profit after tax and outside equity interests of $125.6 million for the six months ended 31 December 2003, a 40% increase on the prior corresponding period. Earnings per share increased by 39% to 19.2 cents per share primarily due to higher contributions from energy retailing, oil production and power generation.

The main operating factors contributing to the result include:

- Significantly increased oil production in the onshore Perth Basin;
- The acquisition of the minority interests of Oil Company of Australia (OCA) reducing outside equity interests;
- Higher sales from the Retail gas business boosted by cooler weather in the key markets of South Australia and Victoria; and
- An additional capacity payment received in respect of the Mt Stuart Power Station, adding $7 million to pre-tax profit.

The last two factors above cannot be expected to repeat in the second half. The first half contribution to full year results is, therefore, likely to be higher than would be expected based on normal seasonal trends.

A number of one-off items are also included in the result, the net impact of which adds $1 million to net profit after tax. On an after tax basis, these include:

- A net tax benefit of $4.1 million, arising largely as a consequence of the Australian Tax Office (ATO) decision in relation to the Victorian gas business; and
- A benefit of $9.3 million, being Origin's 50% share of the reduced deferred tax liability of Osborne Cogeneration Pty Limited (an associated entity) upon its entry into the new tax consolidation regime.

These were largely offset by the net effect of:

- A provision for write-down of the Cooper Basin by $16.2 million; and
- The reversal of a provision of $3.8 million for the write-down of the Surat Basin assets.

| EBITDA | **2003 $m** | 2002 $m | Change % |
|---|---|---|---|
| **Exploration & Production** | **102.9** | 90.2 | 14 |
| **Retail** | **146.7** | 129.5 | 13 |
| **Generation** | **43.7** | 23.9 | 83 |
| **Networks** | **13.2** | 12.3 | 7 |
| **Total** | **306.5** | 255.9 | 20 |

The following events occurred after the half year end which will have a material effect on the company's operations in the current or future financial years:

- Moomba incident – A fire at the Moomba Gas Plant on 1 January 2004 will disrupt production in the six months ending 30 June 2004. The plant is operated by Santos and Origin has a 13.2% interest. The estimated impact on profit for the current year is a reduction of $6 to $7 million after tax.
- SEA Gas – Origin contributed $55.6 million in equity to the SEA Gas Pipeline Project on 2 January 2004.
- Kupe acquisition – On 13 February 2004 Origin acquired a 50% interest in the Kupe gas field in the offshore Taranaki Basin in New Zealand from Genesis Power. The cash consideration for the purchase was NZ$33 million.

## Group financial performance

Total revenue increased 11% to $1,846 million from $1,670 million in the prior corresponding period.

External sales revenue increased to $1,829 million from $1,658 million. This increase was primarily due to higher oil, gas and electricity sales over the half year.

EBITDA increased 20% to $306.5 million from $255.9 million.

Depreciation and amortisation expense increased by 9% to $100.6 million largely due to increased investment in plant and equipment and increased amortisation of intangible items.

EBIT showed strong growth with a 26% improvement to $205.9 million.

Net interest expense for the half year was $24.0 million, down from $24.8 million in the prior corresponding period. The effective interest rate has declined as a number of unfavourable interest rate hedging contracts expired during the period.

## Taxation

Tax expense for the half year was $54.8 million, an increase of 16.1% over the prior corresponding period reflecting higher taxable income partly offset by a lower effective rate of 30% compared with 34% in the prior period. The lower effective rate is primarily due to the $4.1 million net impact of several factors largely relating to the Victorian gas business tax losses.

In November, the ATO advised that it would not take any further action in relation to the tax losses transferred to Origin in respect of the Victorian gas 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 accounting test of 'virtual certainty'. Future income tax benefits of $49.7 million have therefore been derecognised.

## Funding and capital management

The company's balance sheet remains strong with a net debt to capitalisation ratio of 28% as at 31 December 2003. This compares with 29% as at 30 June 2003. A total of $17.2 million in equity was raised through the Dividend Reinvestment Plan during the half. Strong cash flow over the half year has meant that net borrowings increased by only $12 million to $744 million, despite the company spending over $240 million on capital projects and acquisitions as outlined below. Interest cover remains robust at 8.6 times EBIT.

In December 2003 Standard and Poor's issued a credit rating upgrade from BBB+ to A-.

## Capital expenditure

Capital expenditure on growth and stay-in-business projects was $158 million.

Stay-in-business capital expenditure associated with the maintenance of ongoing operations was $40 million, $4 million lower than in the prior corresponding period.

Growth capital expenditure was $118 million, $49 million higher than in the prior corresponding period. This included expenditure in the following areas:

- Coal seam gas (CSG) assets in Queensland ($22.4 million);
- Perth Basin oil and gas assets in Western Australia ($11.6 million);
- The BassGas Project ($56.9 million); and
- The offshore Otway Basin including the Thylacine and Geographe fields ($8.2 million).

Capital expenditure on acquisitions totalled $84 million, which mostly related to the acquisition of the minority interests in OCA ($73.8 million).

Total capital expenditure including acquisitions was $241.2 million, 37% lower than the prior corresponding period.

## Cash flow

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.

The annualised OCAT Ratio for the 2003 calendar year was 16.1% compared to 16.5% for calendar year 2002.

Operating cash flow after tax has grown from $216 million to $254 million for the half year due to strong EBITDA performance, strict management of working capital and control of stay-in-business capital expenditure.

Continued acquisitions and capital expenditure on growth projects have increased average funds employed by $320 million to $2.6 billion.

Cash flow available for funding growth and distributions to shareholders (free cash flow) was $230 million compared with $191 million in the prior corresponding period.

## Risk management

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

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

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 extreme price and demand events, as well as average forecast demand for the near term.

Origin has hedged approximately 45% of its oil and condensate forecast exposure for the 12 months to 31 December 2004 at prices above US$25 per barrel. With regard to foreign exchange, Origin is significantly hedged over the next 12 months, due to a combination of external hedging and ongoing US dollar expenditure associated with major upstream projects, and expects that variability in the USD exchange rate will have minimal impact on group profitability.

## Returns to shareholders

An interim fully franked dividend of six cents per share has been declared payable on 18 March 2004 to shareholders of record on 26 February 2004. The Dividend Reinvestment Plan (DRP) will apply to the current dividend with a discount of 2.5% on the volume weighted average price over the five days up to and including the record date.

Recent legislative changes allow Origin to elect to pay sufficient tax to fully frank its dividends, notwithstanding the availability of substantial carried forward tax losses. The cost of funding tax prepayments is more than outweighed by the benefits of franking to shareholders. Based on current tax legislation, Origin intends to fully frank its future dividends.

Given the company's new policy on dividend franking and its strong operating cash flows, the 2.5% discount on the DRP will no longer apply. Origin's policy is to pay annual dividends at a target level of around 40% of full year profit.

## Employee Share and Option Plans

The company issued 3,910,000 options under the Senior Executive Option Plan at an exercise price of $4.31 each. The exercise price was equal to the volume weighted average price in the five days prior to the Annual General Meeting on 16 October 2003.

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.

## People, health, safety and environment

Employee numbers increased since June 2003 by 58 to 2,915 mostly due to staffing requirements for the CSG and BassGas Projects. During the half year there was no time lost to industrial disputes.

The Lost Time Injury Frequency Rate decreased from 2.9 at 30 June 2003 to 2.1 at 31 December 2003. The Total Reportable Case Frequency Rate, which includes medical treatment injuries as well as lost time injuries, fell from 25.7 to 24.0.

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

## Outlook

The performance of the company over the first half was enhanced by increased contributions from all business segments. For seasonal reasons, Origin expects that first half earnings would normally comprise 55 to 60% of full year earnings. Cooler than normal weather in the first half and the additional capacity payment from Mt Stuart Power Station, are unlikely to occur in the second half. In addition, the impact of the disruption to production at the Moomba Gas Plant will reduce earnings in the second half. For these reasons Origin expects first half earnings to comprise 60 to 65% of full year earnings and expects full year earnings per share to be around 20% higher than last year.

Looking further ahead the company continues to develop a number of major projects, which will make significant contributions in future years. These include:

- The BassGas Project, which is entering the final stages of construction and will deliver gas to the Victorian market in the September quarter 2004;
- The offshore Otway Project, which is expected to commence development in the June quarter 2004 and to deliver gas into the South Australian and Victorian markets from early 2006;
- CSG contracts with AGL for 15 years from May 2005 and Queensland Alumina Limited (QAL) for 15 years from November 2006, which will drive development of the company's CSG reserves in Queensland; and
- The Kupe gas field in New Zealand, which is expected to produce around 20 PJ of gas and 1.5 million barrels of hydrocarbons per annum from mid 2007.

On the basis of these projects, the company expects to be able to maintain annual growth in earnings per share of 10 to 15% in the medium term.

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

H Kevin McCann
Chairman

Grant A King
Managing Director

Detailed segment results are available on our website **www.originenergy.com.au/investor**

# Statement of Financial Performance

| for half year ended 31 December | Consolidated | |
|---|---|---|
| | **2003 $'000** | 2002 $'000 |
| Revenue from ordinary activities | **1,845,755** | 1,669,903 |
| Expenses from ordinary activities excluding borrowing costs | **(1,654,384)** | (1,512,481) |
| Borrowing costs | **(25,350)** | (25,485) |
| Share of net profits of associates and joint venture entities accounted for using the equity method | **15,882** | 6,928 |
| **Profit from ordinary activities before related income tax expense** | **181,903** | 138,865 |
| Income tax expense relating to ordinary activities | **(54,806)** | (47,201) |
| **Net profit** | **127,097** | 91,664 |
| Net profit attributable to outside equity interests | **(1,481)** | (2,065) |
| **Net profit attributable to members of the parent entity, Origin Energy Limited** | **125,616** | 89,599 |
| **Non-owner transaction changes in equity:** | | |
| Net exchange difference relating to self-sustaining foreign operations attributable to members of Origin Energy Limited recognised directly in equity | **(966)** | 1,126 |
| **Total changes in equity from non-owner related transactions attributable to members of the parent entity, Origin Energy Limited** | **124,650** | 90,725 |
| Basic earnings per share | **19.2 cents** | 13.8 cents |
| Diluted earnings per share | **19.1 cents** | 13.7 cents |

# Statement of Financial Position

| as at | Consolidated | |
|---|---|---|
| | **Dec 2003 $'000** | Jun 2003 $'000 |
| **Current assets** | | |
| Cash assets | **18,912** | 16,431 |
| Receivables | **543,574** | 621,085 |
| Inventories | **54,130** | 53,913 |
| Other | **54,689** | 43,063 |
| **Total current assets** | **671,305** | 734,492 |
| **Non-current assets** | | |
| Receivables | **11,345** | 31,675 |
| Investments accounted for using the equity method | **66,145** | 55,272 |
| Other financial assets | **174,005** | 170,713 |
| Property, plant and equipment | **1,393,314** | 1,352,527 |
| Exploration, evaluation and development expenditure | **170,605** | 154,300 |
| Intangible assets | **848,477** | 777,948 |
| Deferred tax assets | **52,874** | 123,192 |
| Other | **5,171** | 8,622 |
| Total non-current assets | **2,721,936** | 2,674,249 |
| **Total assets** | **3,393,241** | 3,408,741 |
| **Current liabilities** | | |
| Payables | **394,501** | 475,026 |
| Interest-bearing liabilities | **160,047** | 85,522 |
| Current tax liabilities | **3,905** | 546 |
| Provisions | **69,286** | 71,330 |
| **Total current liabilities** | **627,739** | 632,424 |
| **Non-current liabilities** | | |
| Payables | **2,085** | 11,840 |
| Interest-bearing liabilities | **603,273** | 663,012 |
| Deferred tax liabilities | **229,846** | 243,904 |
| Provisions | **60,401** | 67,957 |
| **Total non-current liabilities** | **895,605** | 986,713 |
| **Total liabilities** | **1,523,344** | 1,619,137 |
| **Net assets** | **1,869,897** | 1,789,604 |
| **Equity** | | |
| Contributed equity | **436,971** | 418,612 |
| Reserves | **109,794** | 110,764 |
| Retained profits | **1,316,414** | 1,223,977 |
| Total parent entity interest | **1,863,179** | 1,753,353 |
| Outside equity interests | **6,718** | 36,251 |
| **Total equity** | **1,869,897** | 1,789,604 |

# Statement of Cash Flows

| for the half year ended 31 December | Consolidated | |
|---|---|---|
| | **2003 $'000** | 2002 $'000 |
| **Cash flows related to operating activities** | | |
| Cash receipts in the course of operations | **2,101,113** | 1,913,902 |
| Cash payments in the course of operations | **(1,814,062)** | (1,653,187) |
| Dividends/distributions received from associates/joint venture entities | **5,000** | 4,000 |
| Other dividends received | **339** | 399 |
| Interest received | **23** | 1,093 |
| Borrowing costs paid | **(23,564)** | (25,615) |
| Income taxes paid | **(3,832)** | (15,353) |
| Subvention payments | **(4,000)** | (6,000) |
| Net cash provided by operating activities | **261,017** | 219,239 |
| **Cash flows from investing activities** | | |
| Payments for property, plant and equipment | **(106,535)** | (57,338) |
| Payments for exploration, development and mine properties | **(54,421)** | (96,991) |
| Payments for investments | **(9,697)** | – |
| Payments for businesses | **–** | (131,614) |
| Purchase of outside equity interests in controlled entity | **(73,820)** | – |
| Loans to associated entities | **(17,438)** | – |
| Net proceeds from disposal of investments | **2,671** | – |
| Proceeds from sale of non-current assets | **1,181** | 2,200 |
| Net cash used in investing activities | **(258,059)** | (283,743) |
| **Cash flows from financing activities** | | |
| Proceeds from borrowings | **230,500** | 328,115 |
| Repayment of borrowings | **(215,714)** | (236,662) |
| Dividends paid | **(16,247)** | (10,943) |
| Proceeds from issues of securities | **1,202** | 3,794 |
| Net cash provided by/(used in) financing activities | **(259)** | 84,304 |
| **Net increase in cash held** | **2,699** | 19,800 |
| **Cash and cash equivalents at the beginning of the year** | **16,431** | 10,551 |
| **Effect of exchange rate changes on cash** | **(218)** | 67 |
| **Cash and cash equivalents at the end of the half year** | **18,912** | 30,418 |

# Glossary of Terms

**Coal seam gas (CSG)** – Natural gas contained within coal seams.

**Cogeneration** – The production of two or more forms of energy from one fuel source. In general, cogeneration plants operated by Origin produce steam and electricity from natural gas.

**EBIT** – Earnings before interest and tax.

**EBITDA** – Earnings before interest, tax, depreciation and amortisation.

**Hedge contract** – A financial instrument to manage the risk created by price volatility for a commodity (such as electricity or crude oil) on a spot market. Buyers and sellers of the commodity may enter into long or short-term contracts that set an agreed price for the commodity outside the spot market.

**HSE** – Health, safety and environment.

**LTI** – Lost time injury.

**LTIFR** – Lost Time Injury Frequency Rate. Calculated as LTIs per million hours worked.

**LPG** – Liquefied petroleum gas.

**OCA** – Oil Company of Australia Limited.

**Operating Cash Flow After Tax Ratio (OCAT Ratio)** –
OCAT Ratio – EBITDA
less change in working capital
less stay-in-business capital
less tax
divided by funds employed

**Origin** – Origin Energy Limited.

**The company** – Origin Energy Limited and its controlled entities.

**TRCFR** – Total Reportable Case Frequency Rate.

**Upstream** – Part of Origin's business that is involved in the exploration and production of hydrocarbon liquids and gases.



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**Shareholding Enquiries**
ASX Perpetual Registrars Limited
Locked Bag A14
Sydney South NSW 1235

Telephone 1300 664 446
e-mail registrars@asxperpetual.com.au
Web site www.asxperpetual.com.au

**Other Enquiries**
Company Secretary
Origin Energy Limited
GPO Box 5376
Sydney NSW 2001

Telephone (02) 9220 6400
e-mail investor.relations@originenergy.com.au
Web site www.originenergy.com.au

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