18 February 2002

Directors' Report for the six months ended 31 December 2001

In accordance with the Corporations Act, the Directors of Origin Energy Limited (the company) submit their report on the consolidated entity, being the company and its controlled entities, for the six months ended 31 December 2001.

Except where otherwise stated, all figures in this report relate to Origin Energy's businesses for the six months ended 31 December 2001 compared with the six months ended 31 December 2000.

Financial Review

Financial Highlights

Origin Energy reported a profit after tax (PAT) of $54.7 million for the six months ended 31 December 2001, a 10.4% increase on the profit in the previous corresponding period.

EBITDA of $192.6 million is up 24% on the previous corresponding period. Small reductions in Upstream and Generation earnings, reflecting lower contribution from oil production and lower wholesale electricity prices have been more than offset by a significant increase in contribution from the retail business particularly from the recently acquired electricity retail business.

Sales revenue increased to $1,223 million from $832.0 million in the previous corresponding period. The increase was due to a full six-month contribution from the electricity retail business acquired from Powercor.

Total revenue including agency income relating to the Victorian natural gas business and the distribution from Envestra, increased by 45.5% to $1,237 million.

The main factors contributing to the result included:

- Strong contribution from the electricity retail business in Victoria following the acquisition of the Powercor retail business in June 2001;
- Significant improvement in the performance of the LPG business due mainly to lower supply costs resulting from a reduction in world oil prices;

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- Reduced contribution from oil production due to reductions in volumes produced and lower realised prices reflecting lower world oil prices;
- Reduced contribution from merchant generation operations as a result of lower prices compared to previous corresponding period; and
- Interest costs increased 38% reflecting additional borrowings used to fund the company's development and acquisition program.

Tax expense increased from $20.6 million to $25.8 million primarily reflecting the non-deductibility of amortisation of electricity licences and contracts acquired from Powercor.

As a result of the above factors, Origin Energy reported a PAT of $54.7 million, a 10.4% increase on profit in the previous corresponding period.

Earnings per share on the expanded capital of the company for the December 2001 half were steady at 8.7 cents.

Funding and Capital Management

The company's balance sheet remains strong with a net debt to equity ratio of 35.5% as at 31 December 2001. This compares with 55% as at 30 June 2001. The company undertook capital raisings of $123 million by a private placement in July 2001 and $74 million through a share purchase plan in September 2001. These funds were used to fund the company's developments and reduce debt. Consequently gearing has improved and borrowings have reduced from $743 million at 30 June 2001 to $567 million at 31 December 2001. Interest cover remains robust at 4.7 times.

Capital expenditure during the six-month period of $138.4 million was 97% higher than in the previous corresponding period. This was due to higher expenditure in greenfields exploration (including drilling of two offshore wells in the Otway Basin and several onshore wells in the Otway and Perth Basins), construction of the Quarantine Power Station and expenditure on retail systems in readiness for Full Retail Contestability (FRC).

Origin has established a debt issuance program that will enable the company to issue medium term notes and commercial paper using its recently acquired A-2 (long term) and BBB+ (short term) credit rating by Standard and Poors. The facility will enable the company to refinance its existing borrowings to reduce interest costs. $130 million has been raised under this facility to date.

Risk Management

The company has continued to hedge a significant portion of its exposure to both the oil price and the USD exchange rate. Currently, the company has hedged 61% of its oil and condensate exposure over the six months to 30 June 2002 at prices above US$26 per barrel and 70% of its exposure to the USD at an average of less than US57 cents.

Origin undertakes energy contracting and trading activities as a natural part of optimising the value of its physical assets and business positions. During the half year the Board undertook a thorough review of these activities within the business. This included the implementation of rigorous short term and long term risk limits for the trading of electricity and natural gas, assessment of contracting and risk management strategies, and review of business reporting and accountability measures. The company is fully compliant with these policies and the Board will continue to review risk management strategies on a regular basis.

Returns to Shareholders

A fully franked interim dividend of two cents per share was declared payable on 22 March 2002 to shareholders of record on 7 March 2002.

Origin's present policy is to only pay fully franked dividends and the availability of franking credits for the interim dividend is the result of a fully franked dividend being received from its subsidiary Oil Company of Australia Limited. The company expects to have limited franking credits available over the next two years.

To assist small shareholders, particularly those who participated in last years share buy-back, the company is implementing a sale facility to enable those shareholders to realise additional returns on their investment. These shareholders will be able to sell up to 5% of their holdings free of brokerage. The facility will also allow shareholders with unmarketable parcels to sell their total holdings free of brokerage. Shareholders will be informed of the details of the facility during February.

Decisions on future returns to shareholders, including its dividend policy, will be reviewed on an ongoing basis.

Issued Capital

An additional 1,653,355 shares were issued during the period in relation to the company's Dividend Reinvestment Plan. 44.2 million shares were issued as a result of a private placement and 26.5 million shares were issued to shareholders under a Share Purchase Plan. As at 31 December 2001, Origin had 646,312,069 shares on issue.

Exploration and Production

	Dec 01 $m	Dec 00 $m	% Change
EBITDA	102.8	105.9	-2.9
EBIT	58.1	65.0	-10.7

Sales Volumes

	Dec 01	Dec 00	% change
Natural Gas (PJ)	38.6	37.0	4.4
Crude Oil (kbbls)	438.9	492.2	-11.0
Condensate/naphtha (kbbls)	382.4	354.5	7.9
LPG (ktonnes)	29.3	32.5	-9.9
Ethane (ktonnes)	23.2	22.7	2.1
Total (PJe)	45.9	44.5	3.0

EBITDA of $102.8 million was down 2.9% on the previous corresponding period reflecting lower average oil prices and reduced oil production.

Sales of crude oil fell by 11.0% as a result of declining production in fields in the Cooper and Eromanga Basins. This was partially offset by increased sales of condensate reflecting the increased natural gas sales volumes from the Cooper Basin and production from more liquids rich gas fields.

Insurance proceeds from the claim for disruption to the liquids handling plant at Moomba have been included in the results for the half year.

Prices for oil fell significantly during September but this effect was mitigated by Origin's continued policy of hedging oil sales. Consequently, the average oil price achieved in the half year was down only 6.7% to $42.44 per barrel compared to $45.51 in the corresponding period in 2000.

Total sales were marginally higher due to increased natural gas sales volumes from the Cooper Basin and the Peat and Dawson Valley (Moura) fields. These increases were partially offset by falls in gas production from the Perth and Surat Basins.

Capital expenditure for the six-month period was up $17 million to $74.9 million. This included expenditure on plant and equipment purchases and participation in 67 development, appraisal and exploration wells. Of these wells, 79% were subsequently cased and suspended for future production.

In February 2002, the company's 85% subsidiary Oil Company of Australia Limited acquired major interests in the Fairview and Durham Coal Seam Gas (CSG) projects and in exploration permits over the Walloon Coal Measures areas of the Surat Basin in Central Queensland for a purchase price of $49.2 million.

During the half year the company continued development of a number of significant projects. This included the Bassgas project, which is planned to bring the Yolla field gas to Victorian markets. In July, gas sales agreements were signed with two parties to the joint venture for Origin to purchase their share of the Yolla gas production. Tenders for the construction of onshore and offshore facilities were received and evaluated. A site for the onshore gas plant was secured and negotiation for pipeline easements commenced. Approval was obtained from the Victorian and Commonwealth Governments for the Environmental Effects and Environmental Impact Statements to be put on public exhibition. A final decision on the development will be made in the first quarter of 2002.

Origin acquired a further 7% interest in the Yolla field from AWE Petroleum lifting its interest to 37.5%.

Drilling of the appraisal well Thylacine 2 in the offshore Otway Basin was successful with gas flowing at 28 million cubic feet a day. A comprehensive feasibility study into the development of the Geographe and Thylacine gas fields is being conducted by incoming operator Woodside.

Agreement was reached between Oil Company of Australia and Beach Petroleum NL for the sale of oil interests in the Bodalla and Naccowlah assets in South West Queensland for a consideration of $16.5 million. The agreement has effect from 1 October 2001 and will complete in February 2002.

The Yellowbank Flare Project in the Denison Trough was commissioned in November 2001 as a valid emissions reduction (VER) project. The facility is Origin's first Greenhouse abatement project and is expected to save 700,000 tonnes of greenhouse gas emissions over four years.

In the onshore Perth Basin, the company has had considerable success including the discovery of a new oil field at Hovea which flowed oil at 950 bpd and gas at 0.1 million cubic feet a day from an initial drill stem test, and the discovery of gas at the Beharra Springs North 1, which flowed gas at 30 million cubic feet a day on test.

In the offshore Perth Basin the company entered into a farm-in with Dana Petroleum plc and Black Rock Petroleum in January to earn 30% equity and assume operatorship of the highly prospective WA 226P permit in the new offshore Northern Perth Basin oil province.

Retail and Trading

	Dec 01 $m	Dec 00 $m	% Change
EBITDA	72.5	29.7	144
EBIT	41.3	10.2	304

	Natural Gas	Electricity	LPG
Revenue (A$M)	346	410	216
Gross Margin (A$M)	35	62	77
Sales - (PJ)	61.8		
Sales - (TWh)		6.9	
Sales - (k tonnes)			259
Total Sales (PJe)	61.8	24.7	12.7
Customer # ('000)	980	590	200

Retail and Trading reported a significantly improved performance with EBITDA of $72.5 million, an increase of 144% on the corresponding period in 2000.

The improved performance was driven by the successful integration of the electricity retail business recently acquired from Powercor into Origin's existing retail business. The large trading positions acquired with the Powercor business have performed better than original expectations. The electricity retail business contributed an incremental $46.4 million in gross margin compared to last year from a volume of 2,767 GWh.

Total gas sales volumes were up 6% to 61.8PJ. Retail gas sales volumes were relatively flat at 36.2PJ reflecting similar year on year weather conditions, particularly in Origin's major market in Victoria where the degree days remained 9% below the long term average.

Natural gas sales to existing large industrial customers increased over the half year with new contracts for additional volumes entered into with BP Refinery Bulwer Island, Queensland Magnesium, Anaconda Nickel and Adelaide Brighton Cement. These sales, together with additional sales to the Mobil Oil Refinery in Adelaide under an existing contract have contributed additional gross margin with no corresponding increase in operating expenditures.

The profitability of the LPG business improved despite a reduction in sales volumes. A reduction in the international contract price for LPG resulted in an improved EBITDA through significantly lower costs. Autogas demand was low, as LPG/petrol price differentials remained narrow. Domestic and commercial volumes remained relatively static. Although revenues were reduced by the reduction in volumes, this was more than offset by favourable movements in LPG costs and stronger price discipline.

The Victorian Government has approved a 13.5% electricity tariff increase for standing offer prices effective from 13 January 2002. Government subsidies will offset this increase resulting in a net price increase to customers of 4%. This will result in an annualised revenue increase of $75 million. A 2.5% increase in gas tariffs was also implemented effective January 2002 and should provide annualised revenue increases of up to $15 million.

Overall, retail operating expenditure increased largely due to electricity customer operation costs and increased service recharges directly attributable to the electricity business.

The major challenge for the retail business is the introduction of Full Retail Contestability (FRC) starting with the introduction of electricity competition in Victoria from January 2002. In preparation, Origin has reviewed all business processes required to comply with new regulations and codes, developed its competitive strategy, delivered system capability to provide sales and marketing support and is implementing brand and communication programs. As a result, Origin is well placed to compete in the new FRC environment. Expenditure to half year end on systems to facilitate FRC has been $47 million with a further $57 million expected over the rest of the year.

The Gasmart chain of retail stores, Victoria's leading retailer of gas appliances, was acquired for $7.5 million in November 2001. The acquisition will make Origin the only energy retailer in Victoria able to provide a fully integrated end to end service to the customer.

During the period regulators in South Australia and Queensland delivered final access arrangement determinations covering networks in those States. Origin will now seek tariff reviews in these States based on the new underlying costs.

Codrington Wind Farm, for which Origin has contracted 100% of the output, produced almost 2GWhs more than forecast for the half year. This puts Origin in a sound position to meet its obligations under the Federal Government's Renewable Energy legislation and has helped to establish Origin as a leader in environmental energy products. Origin's residential green power scheme has the largest number of customers in Australia.

Generation

	Dec 01 $m	Dec 00 $m	% Change
EBITDA	10.6	12.6	-16.5
EBIT	2.6	8.9	-70.3

Sales Volumes

	Dec 01	Dec 00	% Change
Total Sales (MWh)	926,584	764,610	21.2

The Generation division encountered adverse trading conditions compared with the corresponding half last year, with EBITDA of $10.6 million being $2.1 million below the prior corresponding period.

The principal cause was low sales and profits from merchant operations due to low market prices and lower output. Prices in Queensland and South Australia were significantly lower following commissioning of major new base load capacity in both States. South Australia also experienced the mildest start to summer since 1969. The average price in South Australia was $26.40/MWh, 52% less than the prior corresponding half, and 4% below the average price in NSW.

Merchant output was 22% lower due to reduced dispatch at Roma and scheduled maintenance outages at Ladbroke Grove.

Contract operations made an improved contribution with a full six months operation of the Bulwer Island Energy Partnership cogeneration plant and the South West cogeneration joint venture plant, offset by lower production from the Osborne Cogeneration project due to a major scheduled maintenance shutdown. The Cyclone gas turbines, which are used to power the Bulwer Island project, have suffered a number of failures. The turbine providers, Alstom, are providing a rectification plan to allow the facility to achieve design output and availability.

Development efforts achieved several significant milestones in the half. The 95MW Quarantine Power Station on Torrens Island, South Australia, was completed ahead of schedule and under budget. Two of the four turbine generators commenced operation in mid December 2001, and the other two in early January 2002. The project, which was developed to meet growing peak demand in South Australia and Victoria, includes four new gas turbines, each rated at 24 MW and equipped with the latest low nitrogen oxide technology to meet Adelaide’s stringent urban air quality standards.

Development Approval was granted in January 2002 for upgrading the Quarantine plant to combined cycle, which will increase output to 180 MW. Detailed design work is progressing in anticipation of a target start up in 2004.

Construction of the Townsville Hospital energy facility was also completed in December 2001. Origin will operate and maintain the plant, which provides essential utility services to the hospital.

In July 2001, Origin signed a contract to purchase Fletcher Challenge South West Cogeneration Pty Ltd, which owns a 50% interest in the 120 MW South West Cogeneration Project in Western Australia. Most of the conditions precedent in the contract have been agreed, and it is expected outstanding matters will be finalised in first quarter calendar 2002. A contribution of $3.1 million from the project has been included in the results for Generation for the half year. Pending completion, an interest charge of $1.5 million has been accrued and a provision of $1.6 million has been charged to Corporate.

Development activities on the SEA Gas pipeline between Victoria and South Australia made excellent progress over the half. The 680 km pipeline route was fully surveyed and easement options concluded with the vast majority of landholders along the route. Community consultation on the pipeline's environmental impact was successfully completed in both States, while the Commonwealth determined the pipeline would not be a declared action under the Environmental Protection and Biodiversity Conservation Act. In February 2002 a pipeline licence was granted in South Australia. Negotiations with construction contractors and financiers are at an advanced stage and the project is on schedule to achieve financial closure in the first quarter of calendar 2002, targeting first gas deliveries in third quarter calendar 2003.

Origin Energy Solar, a new business to develop and retail solar photo-voltaic (PV) installations, was launched in November. This complements other Origin Clean Energy Advantage products, all of which deliver energy related services at significantly lower greenhouse gas emissions than conventional technologies. Research into solar PV and related technologies funded by Origin continues to make good progress.

Networks

	Dec 01 $m	Dec 00 $m	% Change
EBITDA	12.3	11.3	9.2%
EBIT	11.0	10.3	6.7%

Network's EBITDA result of $12.3 million was up 9% on the previous corresponding period. Earnings included $6.7 million distribution relating to the equity investment in Envestra and operation and management fees of $5.6 million. The management fees had been increased from 2.5% to 3.0% for South Australia, Queensland and Northern Territory, contributing to the improved result.

During the period regulators in South Australia and Queensland delivered final determinations for access arrangements covering Envestra's distribution networks in these States. This has significantly reduced the regulatory uncertainty associated with Envestra's earnings and has led to a significant appreciation in Envestra's share price.

Operating cash flow decreased $7.7 million, reflecting payments received for capital projects completed for Envestra in 1999/00.

Gas delivered for Envestra to the variable haulage revenue market increased by 1%, a result that was again constrained by unseasonably warm winter weather in both Victoria and South Australia.

During the six-month period, 10,400 new customers were connected to the networks under management. Although a decrease from the prior year, this was a strong result compared to expectations due largely to the continued growth of the residential housing construction market through to the end of 2001. Overall, 136 kilometres of new mains were laid, an increase of 40%, predominantly from higher subdivision activity. Also, as part of the program to reduce leakage and associated maintenance costs, 56 kilometres of mains were replaced.

There has been continued work on business expansion opportunities. Successful outcomes included the purchase of natural gas vehicle refuelling assets in Victoria and the securing of additional contracts for plant maintenance and pipeline mapping services. New opportunities to leverage the diverse range of skills and experience gained in managing large networks and related infrastructure remain a high priority.

In preparation for gas Full Retail Contestability in Victoria, Origin is developing for Envestra new systems that will encompass meter reading and software to enable fast and efficient communication with the other key participants in the marketplace.

Corporate

Corporate costs increased during the period from $6.0 million to $7.5 million. This reflected the inclusion of a provision of $1.6 million raised pending the completion of the South West Cogeneration Project acquisition.

Health, Safety & Environment (HSE)

The lost time injury frequency rate (LTIFR) as at 31 December 2001 was 3.7 significantly down from 6.7 for the previous corresponding period, and down from 4.9 at 30 June 2001. This remains above the company's short term target of 3.5. The company is implementing a new HSE management system and undertaking a number of awareness initiatives to improve safety performance.

Outlook

The main factors influencing earnings during the June 2002 half year will include:

- reduced contributions from oil production reflecting the sale of the Bodalla assets and the prospect of lower oil prices compared to the previous period.
- increased contributions from energy retailing reflecting tariff increases implemented for electricity and gas sales in Victoria.
- increased contributions from Generation as the Quarantine Power Station is now in operation.

Earnings are also sensitive to weather with mild summer weather potentially reducing earnings from Generation whilst unseasonable winter weather will affect retail earnings.

Based on performance in the December half year and taking the above factors into consideration, Origin expects earnings for the full year to comfortably exceed last year's results.

Looking further ahead, progress on various projects and initiatives being undertaken by the company provide significant potential for the continued growth. The company's strong cash flow and low gearing ensure that the company is well placed to fund that growth.

Directors

There were no changes to the Board of Directors during the period.

The names of the Directors holding office during the half-year ended 31 December 2001 and until the date of this report are as follows:

H Kevin McCann	Chairman
Grant A King	Managing Director
Bruce G Beeren	Executive Director, Commercial
Trevor Bourne	Director
Colin B Carter	Director
J Roland Williams	Director

Rounding

The company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the Financial Report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors:

Mr H Kevin McCann	Mr Grant A King
Chairman	Managing Director

Sydney, 18 February 2002