Origin Energy Results for the year ended 30 June 2008
Management Discussion and Analysis

Contents

Report for the full year ended 30 June 2008
Management Discussion and Analysis

All figures in this report relate to businesses of the Origin Energy Limited Group ("Origin" or "the Company") for the 12 months ended 30 June 2008 compared with the 12 months ended 30 June 2007 (the "prior year"), except where otherwise stated. All reference to $ is a reference to Australian dollars unless specifically marked otherwise.

1. Profit and Dividend Declaration

1.1 Statutory Profit – $517 million up 13%

Origin reported a net profit after tax and minority interests ("Statutory Profit") of $517 million for the 12 months ended 30 June 2008, an increase of 13% compared with $457 million reported last year.

1.2 Underlying Profit - $443 million up 20%

The Statutory Profit for Origin contains the impact of a number of significant items as outlined in the table below. This includes positive impacts from the sale of the Networks business and Contact's Mokai geothermal assets. These positive impacts are partially offset by changes in fair value of financial instruments (predominantly associated with the Company's energy procurement activities), charges for asbestos removal and related costs associated with the New Plymouth Power Station and one-off costs associated with the purchase of the Sun Retail business. These significant items provide an overall benefit of $74 million after tax and the elimination of minority interests.

The profit after tax and minority interests and before significant items ("Underlying Profit") for Origin for the year ended 30 June 2008 was therefore, $443 million, an increase of 20% compared with the Underlying Profit of $370 million for the year ended 30 June 2007.

	2008 ($m)		2007 ($m)		
	After Tax and Minority Interests Impact	NPAT	After Tax and Minority Interests Impact	NPAT	Change (%)
Statutory Profit		**517**		**457**	**13**
Significant items					
Asset Sales					
- Networks	145		76		
– Mokai geothermal assets	9		-		
Changes in FV of financial instruments					
Commodity instruments	(58)		23		
Financing instruments	(5)		7		
New Plymouth asbestos removal & related costs	(10)		-		
Impairment of Producing assets	-		(52)		
Sun Retail one-off costs	(8)		(10)		
Change in NZ tax rate	-		29		
Termination of Mt Stuart PPA	-		14		
Total significant items	**74**	**74**	**87**	**87**	
Underlying Profit		**443**		**370**	**20**
Statutory EPS (cents per share)		*59.0*		*54.7*	*8*
Underlying EPS (cents per share)		*50.6*		*44.3*	*14*

A more detailed reconciliation of the before and after tax impact of these significant items is provided in Appendix 1.

The increase in Underlying Profit was predominantly driven by higher earnings from the Retail segment as a result of inclusion of a full year of Sun Retail.

1.3 Earnings per share – Up 14% on Underlying Profit

Earnings per share calculated from the Underlying Profit increased 14% to 50.6 cents on an expanded weighted average capital base of 875 million shares compared with 836 million in the prior year. This compares to 44.3 cents based on the same calculation on Underlying Profit last year.

1.4 Dividends – Final dividend of 13 cents per share fully franked

A final fully franked dividend of 13 cents per share will be paid on 3 October 2008 to shareholders of record on 9 September 2008 (compared with 11 cents in the prior year). Origin shares will trade ex-dividend from 3 September 2008. This brings the total dividend for the year to 25 cents per share, an increase of 19% over the prior year. This represents a dividend payout ratio of 42% of Statutory earnings per share, or nearly 50% of Underlying earnings per share.

The Dividend Reinvestment Plan will apply to the current dividend without a discount.

1.5 EBITDAF – Up 12% to $1,309 million

With the introduction of IFRS in recent years, the accounting standards require that changes in the fair value of certain financial instruments be reflected in the Profit and Loss statement. This can introduce significant volatility to the earnings reported for the year. To provide a clearer understanding of operational performance, the Company is reporting earnings before interest, tax, depreciation, amortisation, significant items and the impact of fair value changes to financial instruments (EBITDAF). Other significant items detailed in section 1.2 are accounted for below this line.

To best compare the operational performance of the business with the prior year all comparisons of EBITDAF will reference continuing businesses only. The prior year, therefore, excludes the contribution from the Networks business, the sale of which was settled in two tranches on 29 June and 2 July 2007.

For the year to 30 June 2008 EBITDAF was $1,309 million, a 12% increase from the prior year of $1,165 million. For more details see Section 4.3.

2. BG Takeover Offer and CSG monetisation process

2.1 BG Takeover Offer

On 29 April Origin received an unsolicited proposal from BG Group Plc. ("BG") for all the shares in the Company by way of a Scheme of Arrangement for a cash price of $14.70 per share (less any dividend). On 30 May 2008, Origin's Directors rejected BG's revised proposal of $15.50 per share (less any dividend). Origin's Directors gave careful consideration to the proposal and concluded that it undervalued Origin.

On 24 June 2008, BG announced a hostile and conditional takeover offer for Origin, at the same price. Following consideration of BG's proposed conditional off market takeover bid, Origin's Directors announced on 4 July 2008 their intention to recommend that shareholders reject the bid. BG lodged a Replacement Bidder's Statement with ASIC on 30 July 2008. Origin issued its Target's Statement on 19 August 2008 recommending that shareholders reject the BG takeover offer.

2.2 CSG Monetisation Process

Following rejection of BG's proposal on 30 May 2008, Origin's Directors commenced the CSG monetisation process to seek proposals to accelerate the development of Origin's CSG reserves. Origin has shortlisted a number of global participants in the energy industry, each of which have proposed a CSG to LNG project. Continuing this process will allow Origin to determine whether direct participation in a CSG to LNG project may deliver additional value to Origin shareholders.

Prior to the closing date of BG's Offer, Origin's Directors intend to provide Origin shareholders with an Independent Expert's Report. This report will, amongst other things, include a valuation of Origin shares based on all relevant information about Origin's value and prospects, including the outcome of the CSG monetisation process.

3. Outlook

Origin's financial performance and business development activities in the last year have continued to build on the Company's fuel-integrated generation and retail business.

In the coming year a number of the projects Origin has been developing are expected to make initial, or significantly increased, contributions to Origin's financial performance. These include:

- A full year contribution from the Otway Gas Project in Victoria;
- A full year contribution from the oil and gas production assets purchased from Swift Energy in New Zealand;
- Continuing increases in CSG production to meet existing contracts;
- An initial contribution from the Uranquinty Power Station which has already commenced commissioning and which is expected to be operational by December; and
- An increased contribution from the Quarantine Power Station following the expansion which is expected to commence commissioning by the end of 2008.

These projects will more than offset the decline in contribution from mature upstream assets such as the Cooper and Perth Basins.

For these reasons and based on current market conditions the Company is targeting an increase in Underlying EPS for 2008/09 of at least 10%.

During the year it is expected that a number of developments that could create substantial opportunities for Origin will either be resolved or progressed. The completion of the CSG monetisation process will allow Origin to determine whether direct participation in a CSG to LNG project may deliver additional value for shareholders when compared with other alternatives available to Origin to monetise its CSG reserves and resources. The Federal Government will continue to formulate its Carbon Pollution Reduction Scheme. Origin believes its business strategy and investments over the last decade position the Company favourably for the transition to a lower carbon economy. These opportunities could add substantially to the longer term growth of Origin.

In addition, the Company will continue to progress the development of several major projects which are expected to make contributions following the end of the current financial year, including:

- The Kupe Gas Project in New Zealand which is targeting to commence gas production in mid calendar year 2009;
- Continued development of CSG production, which is expected to more than double and reach over 100 PJ per annum by 2011;
- The 126 MW expansion of the Mt Stuart Power Station in Townsville – due for completion in late calendar year 2009;
- Construction of the 30 MW Cullerin Range Wind Farm in NSW due for completion in mid calendar year 2009;
- Completion of the 630 MW combined cycle, base load, gas fired Darling Downs Power Station in Queensland which is expected to commence commissioning in late 2009; and
- Development of the 550 MW gas fired peaking power station at Mortlake in Victoria due for completion in late calendar year 2010.

Contact Energy of New Zealand is also planning the expenditure of over $2 billion in renewable energy projects over the next 3 to 5 years as it increases its investments in geothermal energy developments and embarks on a plan to construct up to 727 MW of wind farm capacity in New Zealand.

With this range of opportunities before it, the Company continues to target ongoing growth in Underlying EPS averaging 10-15% per annum.

4. Financial Review

4.1 Financial Review Summary

Year ended 30 June 2008	2008 ($m)	2007 ($m)	Change (%)
Total external revenue	8,275	6,436	29
EBITDAF	1,309	1,165	12
EBIT	1,090	943	16
Net profit after tax before elimination of minority interests	622	592	5
Minority interests	(105)	(135)	(22)
Statutory Profit	517	457	13
Significant items	74	87	(15)
Underlying Profit	443	370	20
Basic earnings per share on Statutory Profit (cents)	59.0	54.7	8
Basic earnings per share on Underlying Profit (cents)	50.6	44.3	14
Free cash flow	622	595	5
Capital expenditure (inc acquisitions)	1,685	2,027	(17)
OCAT Ratio (excl. CAPWIP)	12.3%	13.7%	n/a
Adjusted [net debt/(debt + equity)]	42%	42%	n/a

4.2 Revenue - $8,275 million, up 29%

Total external revenue increased by 29% to $8,275 million. Within Origin's Australian operations, the increase primarily reflected higher revenues from the Retail segment from a full year contribution of Sun Retail and tariff increases as well as record revenues from the Exploration and Production segment. Total external revenue from Contact Energy increased by 35% as higher wholesale electricity prices in New Zealand increased the revenue earned from its generation assets.

4.3 EBITDAF [1] - $1,309 million, up 12%

For the year to 30 June 2008 EBITDAF was $1,309 million, a 12% increase from the prior year of $1,165 million. The segment contributions to this result were:

EBITDAF

Year ended 30 June	2008 ($m)	2007 ($m)	Change (%)
Exploration & Production	264	254	4
Generation	56	79[2]	(29)
Retail	499	355[3]	41
Contact Energy[4]	490	477	3
Networks	-	30	n/a
Adjustment for discontinued business	-	(30)	n/a
Total	1,309	1,165[5]	12

Exploration & Production increased its EBITDAF contribution by 4% to $264 million. The business delivered record energy sales of 101 petajoules equivalent (PJe); 9% higher than the previous record set in the prior year of 93 PJe. This reflects higher CSG sales, a full year contribution from the BassGas Project and an initial contribution from the Otway Gas Project which more than offset declines in production and sales from the more mature Cooper, Perth and onshore Otway basins. Details are available in Section 11.1.

Generation EBITDAF declined by 29% to $56 million from $79 million. This primarily reflects the non-recurrence of a $20.9 million payment made under contractual arrangements which have now been terminated with respect to the Mt Stuart Power Station. Details are available in Section 11.2.

In **Retail,** EBITDAF grew by $144 million from $355 million to $499 million. This was primarily due to a full year contribution from the acquisition of the Sun Retail business. Origin's comprehensive risk management policies with respect to electricity purchasing, have resulted in a weighted average cost of electricity for the full year well below the market contract prices available at the beginning of the year. Churn rates were high in the newly contestable Queensland market and in the highly competitive Victorian market. While Origin recorded a slight decline in electricity customer numbers, it continued to increase dual fuel accounts (up by 98,000 to 888,000) and continues to be the market leader in the sale of green energy (customer numbers up by 57% to 423,000). Despite the cost of higher churn, Origin increased its Retail EBITF [6] margin from 8.4% to 9.2% across gas and electricity. Details are available in Section 11.3.

Contact Energy contributed $490 million to EBITDAF, 3% higher than the $477 million recorded last year. This was primarily due to increases in retail volumes and tariffs. While electricity wholesale prices were significantly higher than the

[1] To best compare operational performance across the periods, EBITDAF is reported here on the basis of continuing businesses. This requires the elimination of the contribution from the Networks business segment in the 2007 financial year which made no contribution to Origin's EBITDAF in the 2008 financial year. Significant items are not included in EBITDAF.
[2] Excluding the contract termination payment of $19.6m in relation to the Mt Stuart PPA recorded as a significant item in the 2007 financial year.
[3] Excluding the Sun Retail one-off integration costs recorded as a significant item in the 2007 financial year.
[4] 100% of Contact Energy's EBITDAF is included in the consolidated income statement.
[5] Adjusted for items in footnotes 2 & 3. The 2007 Report recorded a total EBITDAF of $1,201 million, including the Network business contribution.
[6] EBITF: Earnings before interest, tax, significant items and the movement in fair value of financial instruments.

prior period increases in wholesale revenue were largely offset by increases in gas costs and energy purchases. Details are available in section 11.4.

An agreement to sell the **Networks** business was signed on 4 April 2007 with the business sold in two tranches on the 29 June 2007 and 2 July 2007. No EBITDAF was recorded for the segment in the 2008 financial year and it is treated here as a discontinued business. Details are available in Section 11.5.

4.4 EBIT - $1,090 million, up 16%

A number of items are recorded between EBITDAF and EBIT as detailed below:

Depreciation and amortisation expense (expense of $345 million)

Depreciation and amortisation expense increased by 5% to $345 million. This was primarily related to the upstream producing assets and Contact Energy.

Changes in the fair value of commodity financial instruments (expense of $77 million)

Under IFRS a pre-tax expense of $77 million is included in the Profit and Loss associated with the value of valid commodity hedging instruments which do not qualify for hedge accounting. Further explanation of the accounting treatment of these instruments is included in Section 7. This compares with a pre-tax benefit of $32 million last year.

Gain on sale of businesses (benefit of $243 million)

During the 2007 financial year, Origin concluded an agreement to sell its Networks business to APA Group. Settlement of the transaction has taken place in two parts. Settlement for the sale of the SEA Gas Pipeline portion of this business was effected on 29 June 2007 and a pre-tax profit on sale of $114 million was included in the accounts for the financial year ended 30 June 2007. The sale of the balance of the business took place on 2 July 2007 and resulted in a pre-tax profit on sale of $225 million reported in the results for the year ending 30 June 2008. During the 2008 financial year Contact sold its Mokai geothermal assets resulting in a pre-tax profit of $18 million.

New Plymouth asbestos removal and related costs (expense of $30 million)

A charge of $30 million has been made to the Profit and Loss for costs associated with the removal of asbestos and other site related costs from Contact's New Plymouth Power Station.

Sun Retail one off costs (expense of $12 million)

Costs associated with the integration of the Sun Retail business were charged to the Profit and Loss for the year ended 30 June 2008. No further integration expenses are expected with respect to this acquisition.

After accounting for these items, EBIT increased 16% to $1,090 million.

4.5 Interest - $220 million, up 2%

Net financing costs for the year were $220 million, up 2% from $215 million in the prior year. This does not include capitalised interest of $55 million associated with major development projects. Capitalised interest for the year ended 30 June 2007 was $30 million.

4.6 Tax - $235 million, up 50%

Tax expense for the year was $235 million, 50% higher than the prior year. Prima facie tax was higher, reflecting the higher pre-tax profits. The effective tax rate is 27.4% compared to 20.9% last year. Excluding the one-off benefit resulting from the reduction in the New Zealand tax rates from 33% to 30%, the effective tax rate last year would have been 28.5%.

4.7 Profit – Underlying Profit of $443 million, up 20%

The profit after tax for the consolidated entity for the period, prior to the elimination of minority interests, was $622 million, an increase of $30 million or 5% over the prior year.

After elimination of minority interests of $105 million, Origin recorded a Statutory Profit of $517 million, 13% higher than last year.

As outlined in Section 1.2 the Statutory Profit contains a number of significant items totalling $74 million. Removing these items provides an Underlying Profit of $443 million, an increase of 20% over the prior year.

5. Cash flow

On a consolidated basis, the operating cash flow after tax increased by 7% to $875 million from $818 million. The key drivers for the increase were a significantly higher EBITDAF partially offset by an increase in working capital requirements.

Cash flow available for funding growth and distributions to shareholders (free cash flow) was $622 million compared with $595 million in the prior year.

Funds employed excluding CAPWIP [7] in the business increased by 19% as the result of the continuing development expenditure in the Exploration and Production business and full year impact of owning Sun Retail.

Due primarily to this increase in funds employed Origin's OCAT Ratio [8] excluding CAPWIP for the year to 30 June 2008 decreased to 12.3%, from 13.7% in the prior year.

[7] CAPWIP is capital work in progress.
[8] Operating cash flow after tax (OCAT) Ratio = (OCAT – tax shield on interest) / funds employed.

6. Capital expenditure (including acquisitions) and divestments

Capital expenditure on growth and stay-in-business projects was $1,576 million, approximately double the prior year.

Stay-in-business capital expenditure associated with the maintenance of ongoing operations was $178 million of which $80 million was attributable to Contact Energy, $49 million related to Exploration and Production (predominantly the Cooper Basin), and $42 million related to Retail (customer systems and LPG).

Growth capital expenditure was $1,398 million, 141% higher than in the prior period. This included expenditure of over $20 million in the following areas:

- Kupe Gas Project ($291 million);
- CSG assets in Queensland ($273 million);
- Darling Downs Power Station ($248 million);
- Contact Energy ($128 million including $32m for the Wairakei generation project and several projects under $20 million);
- Geodynamics ($105 million);
- Otway Gas Project including the Thylacine and Geographe fields ($48 million);
- Quarantine Power Station ($45 million);
- Cooper Basin ($35 million);
- Mt Stuart Power Station ($24 million).

Capital expenditure on acquisitions totalled $109 million covering the acquisition of Exploration and Production assets from Swift Energy in New Zealand and the Halladale and Blackwatch fields off the south west Victorian coast.

Total capital expenditure including acquisitions was $1,685 million, compared with $2,027 million last year. The 2007 financial year included the acquisition of Sun Retail for $1,240 million.

On 4 April 2007, Origin announced the sale of its Networks business to APA. This business included the Origin Energy Asset Management business that provided management and operations services to Envestra Limited, a 17% interest in Envestra Limited, a 33% interest in the SEA Gas pipeline, and a range of smaller complementary assets. The sale of the SEA Gas portion of this business was completed on 29 June 2007. Settlement on the balance of the business took place on 2 July 2007 and the proceeds are reflected in the accounts for this year ended 30 June 2008.

7. Movements in fair value of financial instruments

Origin utilises a range of financial instruments and derivatives in order to hedge the various price, interest rate and foreign exchange risks to which it is exposed. The intention of hedging is to reduce these risks and deliver a higher level of certainty to the cash flows of Origin's business. While Origin utilises valid economic risk management instruments to hedge these risks, these instruments must also meet the stringent criteria prescribed under IFRS in order to qualify for hedge accounting. If the instruments do not qualify for hedge accounting then the change in fair value of these instruments is recognised in the Profit and Loss, rather than in the Balance Sheet through the Equity Hedge Reserve.

The most notable instruments that do not qualify for hedge accounting are electricity cap products. These products are used by Origin (and other electricity retailers) to protect the Retail business from extreme price events, but do not qualify for hedge accounting, as the timing of potential events they protect against cannot be predicted with sufficient certainty.

The following tables summarise the key balances at 30 June 2008:

Summary of derivatives movements

Balance Sheet	Net Assets ($m)		Change ($m)
	2008	2007	
Commodity Risk Management	273	3,301	(3,028)
Contact Energy	(212)	(258)	46
Treasury and Other	(16)	(13)	(3)
Origin Group	**45**	**3,030**	**(2,985)**

Reconciliation of Balance Sheet and Profit and Loss items associated with derivatives movements	($m)
Change in net assets	(2,985)
Recognised in the Balance Sheet	2,895
Recognised in the Profit & Loss	90

The fair value of financial instruments as measured against market prices is recorded in the Balance Sheet in the derivative asset and derivative liability balances. The large decrease in the forward prices of electricity at 30 June 2008 compared to 30 June 2007 has resulted in a large decrease in the fair value of these financial instruments. This is effectively a reversal of the significant increase observed in the 2007 financial year when the forward prices for electricity rose steeply.

The total year-on-year decrease in the value of financial instruments is $2,985 million of which $2,895 million qualifies for hedge accounting and is recognised in the Equity Hedge Reserve. The balance of $90 million is recognised as an expense in the Profit and Loss and is predominantly associated with the value of electricity caps. This compares with a benefit of $52 million in the prior year.

8. Funding and capital management

8.1 Net Debt, Equity and Interest Cover

Under IFRS accounting standards, net debt for the consolidated entity increased 11% from $2,958 million at 30 June 2007 to $3,283 million at 30 June 2008. The A-IFRS calculation of net debt includes mark-to-market adjustments of $325 million ($430 million in the prior year) which act to reduce the net debt quoted. Excluding these mark-to-market adjustments, the "adjusted net debt" for the Company was $3,608 million at 30 June 2008 ($3,389 million at 30 June 2007), an increase of 6%. This best reflects the underlying debt position of the Company.

The equity of the Company has decreased from $6,969 million to $5,176 million. This was primarily due to a decrease in the Hedge Reserve of $2,030 million and a decrease in the Available-For-Sale Reserve of $52 million, primarily due to changes in the fair value of financial instruments. Removing the effects of this change in fair value, the "adjusted equity" of shareholders has increased from $4,683 million to $4,972 million. This increase in equity reflects the earnings from Company operations, capital raised during the year through the dividend reinvestment plan, and employee share and option plans, offset by movements in the foreign currency translation reserve and dividends paid.

The following table provides two calculations of the Net Debt to Net Debt plus Equity ratio, using definitions from IFRS or the adjusted definitions discussed above.

Calculation as reported:

	2008 ($m)	2007 ($m)	Change (%)
Net debt as reported	3,283	2,958	11
Equity as reported	5,176	6,969	(26)
Net debt/(net debt + equity)	39%	30%	

Calculation based on adjusted amounts excluding mark-to-market movements:

	2008 ($m)	2007 ($m)	Change (%)
Adjusted net debt	3,608	3,389	6
Adjusted equity	4,972	4,683	6
Adjusted [net debt/(net debt + equity)]	42%	42%	

Origin believes that the calculation based on adjusted values provides the best long term measure of the strength of the Company's Balance Sheet.

EBIT cover of interest (including capitalised interest) is 4.2 times, compared with 4.1 times at 30 June 2007.

8.2 Share Capital

During the period an additional 8,485,266 shares were issued. This included 4,767,266 shares issued under the Company's Dividend Reinvestment Plan (DRP) which raised $45 million and 3,718,000 shares issued as the result of the exercise of options which raised $19 million.

As a consequence the total number of shares on issue at 30 June 2008 rose to 880,773,722 from 872,288,456 at 30 June 2007. The weighted average number of shares used to calculate basic earnings per share increased 5% to 875,376,019.

9. Risk management

9.1 General

Origin manages its risk exposure in energy markets through a combination of natural hedges in the business, contracts and financial hedges. Policy limits have been approved by the Board for products or financial variables for which there is a material risk exposure. 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 and oil prices and the US dollar exchange rate.

9.2 Electricity and Gas

In the electricity and gas markets Origin assesses its policy limits against a combination of profit at risk and extreme events. Within the policy limits Origin has arrangements in place to cover extreme price and demand events as well as average forecast demand for the near to mid term.

9.3 Oil

Each year Origin assesses its anticipated medium term production volumes and forward oil prices and enters into hedges for a portion of this volume. Of Origin's 2008 production, approximately 1,065,000 barrels of oil and condensate had been previously hedged over a number of years at an average price of US$64.48 per barrel. The average price received for sales of oil, condensate and naphtha over the period including the impact of hedging was A$96.54 per barrel – an increase of 30% over the average price received in the prior year.

Origin currently has 690,000 barrels of its anticipated production for the financial year ending 30 June 2009, subject to hedges previously entered into by the Company at an average price of around US$69.00 per barrel and AUD/USD of $0.82.

9.4 Foreign Exchange

With regard to foreign exchange, Origin is prudently hedged over the next 12 months through external hedging arrangements. Origin expects that variability in the US dollar exchange rate will not have a material impact on group cash flows.

10. People, Health, Safety & Environment

Employee numbers (excluding Contact) increased during the year by 189 to 3,940. This included increased staffing in the Retail business and in Exploration and Production project areas.

Origin maintains a strong focus on the health and safety of its employees. Since June 2007, Origin's Total Recordable Incident Frequency Rate (TRIFR) has decreased from 16.3 to 8.5, which represents an improvement of more than 47%.

In the same period Origin's Lost Time Case Frequency Rate (LTCFR) decreased by around 12% from 3.3 to 2.9.

Origin is committed to minimising its impact on the environment around its producing facilities and ensures that all significant environmental incidents are reported. This year there were a number of spills reported that were considered potentially serious. Most spills were contained, but three spills involving loss of containment occurred at Exploration and Production's operations during the 2008 financial year:

- Approximately 20,000 litres of produced water was discharged onto a dirt road at Spring Gully as a result of the failure of a pump discharge hose fitting.

- Approximately 800 litres of oil were reported as being spilled to ground at Spring Gully following the overfilling of an oil tank and subsequent failure of the waste handling "humeceptor". Approximately 400 litres of the spilled oil was recovered.

- Approximately 790 litres of crude oil was spilt at Surat when a tilt tray truck operator opened a discharge valve on a test tank in the vicinity of the rig. It is estimated that approximately 320 litres was recovered.

Following Origin's opening of a reverse osmosis water treatment plant at Spring Gully in May of this year, Origin has called for submissions from companies interested in partnering with Origin to optimise the commercial and beneficial use of the water. Origin was awarded the 2008 Australian Petroleum Production and Exploration Association (APPEA) environment award for this water treatment facility.

In December 2007 Origin was awarded Sustainable Company of the Year by Ethical Investor Magazine. This award recognises Origin's broad leadership and achievements in sustainability, its workplace and community programs and the Company's commitment to providing easy and affordable green options to customers.

11. Operational Review

11.1 Exploration & Production

Year ended 30 June	2008 ($m)	2007 ($m)	Change (%)
Total revenue	527	484	9
EBITDAF	264	254	4
EBIT	119	41 [9]	189

Sales Volumes

Year ended 30 June	2008	2007	Change (%)
Natural gas (PJ)	85	75	14
Crude oil (kbbls)	1,252	1,540	(19)
Condensate/naphtha (kbbls)	762	784	(3)
LPG (ktonnes)	67	65	3
Ethane (ktonnes)	25	31	(19)
Total (PJe) [10]	101	93	9

In 2008 the Exploration and Production division achieved record production, sales and revenues; increased CSG production by 75% to 39PJ per annum; increased 2P reserves by 66% and clearly established the Company as the leading CSG producer and holder of the largest CSG reserves in Australia.

11.1.1 Production, Sales and Revenues

Details of production may be found in the final Quarterly Production Report for the year to 30 June 2008 which was released on 31 July 2008.

Sales volumes increased by 9% to 101 PJe from 93 PJe. Sales increased from CSG assets (+15 PJe) and the BassGas Project (+2 PJe). Full commercial operation of the Otway Gas Project was achieved late in the year and resulted in sales of 4 PJe while an initial contribution was made from assets in the onshore Taranaki Basin in New Zealand (+0.2PJe). These gains more than offset declines from the Cooper Basin (-7 PJe), the Perth Basin (-2 PJe), the Denison Trough/Surat Basin (-3 PJe) and the onshore Otway Basin (-1 PJe).

Total revenue increased by 9% as a result of higher sales volumes and higher prices realised for oil, condensate and LPG. This more than offset a modest decline in average gas prices primarily reflecting the lower unit price of gas associated with an increasingly industrial load profile.

11.1.2 Expenses

The following table outlines the major categories of expenses within the Exploration and Production business. Year-on-year total costs have increased by around 14% or $33 million including higher general operating costs ($27 million) associated with higher production, employee numbers and wage inflation, partially offset by a favourable movement in tariff costs.

[9] Includes impairment of assets totalling $74 million in 2007.
[10] Petajoule equivalents – a measure of energy.

Exploration and Production costs	2008 ($m)	2007 ($m)	Change (%)	Comments
Cost of goods sold	(29)	(19)	53	Higher COGS in line with higher oil prices for third party purchases together with inventory adjustments primarily in the Cooper Basin.
Royalties and tariffs	(59)	(64)	(8)	Lower production in royalty subject areas. No royalty or PRRT for BassGas or the Otway Gas Project.
General costs (Labour, JV costs, etc)	(142)	(115)	23	Main contributions to higher costs include higher production (up 16%); higher employee numbers (up 22%) and sector wage inflation (approx 10%).
Exploration write-downs	(33)	(32)	3	Consistent with overall activity.
	(263)	(230)	14	

11.1.3 EBITDAF

EBITDAF increased 4% to $264 million from $254 million in the prior year.

11.1.4 Depreciation, Amortisation and Impairment

Depreciation and amortisation charges increased 7% to $144 million from $135 million. This reflects commencement of production from the Otway Gas Project (and hence depreciation of its asset base) and a full year depreciation of the BassGas Project.

In the 2007 financial year a review of the carrying value of upstream assets resulted in an impairment charge of $74 million recorded across the Cooper Basin and onshore Otway Basin assets. There is no similar charge this year.

11.1.5 EBIT

EBIT for the 2008 financial year was $119 million compared with $41 million for the year ended 30 June 2007. EBIT for the year ended 30 June 2007 was adversely impacted by an impairment charge of $74 million. When excluding this impairment charge EBIT increased by 3% when compared to the prior year.

11.1.6 Reserves

Origin announced its annual review of reserves across its Exploration and Production interests in July 2008 and increased its 2P Reserves by 66% from 3,471 PJe to 5,770 PJe. This includes a net increase in 2P CSG reserves of 92% from 2,470 PJe to 4,751 PJe.

Origin 2P reserves by Region (PJe)	2P Reserves 30 Jun 2007	Additions (revisions)	Production	2P reserves 30 Jun 2008
Queensland				
Coal Seam Gas	2,470	2,320	(39)	4,751
Conventional (Surat/Denison)	84	8	(11)	81
Cooper Basin				
SA Cooper Basin	143	21	(14)	150
SWQ Cooper Basin	60	5	(13)	52
Other Onshore Australia				
Western Australia	22	6	(7)	21
Otway Basin - Onshore	0	1	(1)	0
Offshore Basins				
Otway Basin – Offshore	315	(4)	(5)	306
Bass Basin	183	6	(11)	179
New Zealand				
Offshore Taranaki (Kupe)	194	-	-	194
Onshore Taranaki	-	37	(0)	36
Total	3,471	2,400	(101)	5,770

The reserves increase has been achieved mainly through the additions in Origin's CSG tenements in Queensland. Origin has replaced production in the Cooper Basin this year, and further reserves have been added through the acquisition of producing assets from Swift Energy in New Zealand.

The change in Origin's CSG reserves and resources across the year is further detailed below:

Origin Equity Interest CSG Reserves (PJ)[11]	Reserves 30 June 2007	Net Increase	Reserves 30 June 2008	Increase %
Proved (1P)	1,107	268	1,375	24
Proved and Probable (2P)	2,470	2,281	4,751	92
Proved, Probable and Possible (3P)	4,578	5,560	10,138	121

Origin Equity Interest CSG Resources (PJ) [11]	Resources 30 June 2008
Contingent Resources (2C)	15,869
Prospective Resources	17,947

The 2008 assessment of Origin's CSG reserves has been prepared by internationally recognised petroleum consultant Netherland, Sewell & Associates, Inc.(NSAI).

[11] Some of Origin's CSG interests are subject to reversionary rights. Reversion only occurs when cumulative revenue exceeds cumulate expenditure plus an uplift factor (which is calculated monthly at a rate of 8% per annum on cumulative capital, operating and overhead expenditure) and only applies to the reserves and resources remaining at that future date. This test is applied on an aggregated basis across the entire portfolio of interests which are subject to reversionary rights. Origin believes that under current market conditions and planned developments, none of Origin's 3P CSG reserves will revert.

Due to the extensive nature of the coal seams within Origin's CSG tenement areas Origin has extended reporting of its CSG resource to include 3P reserves, Contingent Resources and Prospective Resources.

NSAI has assessed Origin's 3P reserves position at 30 June 2008 as 10,138 PJ, a net increase of 121% compared with Origin's assessment at 30 June 2007.

The 2C or best estimate Contingent Resource in Origin's acreage is an additional 15,869 PJ, over and above the 3P reserves assessment, while the assessment of Prospective Resources is a further 17,947 PJ, located in the Gallilee basin in Central Queensland.

For more information on the reserves upgrade, please see Origin's release to the ASX on the 31 July 2008 accessible on the Origin website. [12]

11.1.7 Producing Assets

Coal Seam Gas (Queensland)

Origin is developing a diversified and flexible portfolio of producing assets in central Queensland with coal seam assets in both the Bowen Basin (Fairview and Spring Gully fields) and the Walloons (Talinga, Argyle and Kenya fields). By 30 June 2008 Origin's net Coal Seam Gas production had increased by 75% to 39.4 PJ from 22.5 PJ for the year ended 30 June 2007.

Origin's equity share of CSG production reached 131 TJ/d by the year ending 30 June 2008, reinforcing the Company's position as the largest CSG producer in Australia.

At Spring Gully production continued to ramp up and achieved peak gas sales of 105 TJ/d (Origin share approximately 97%). Phase 5 of the Spring Gully project is progressing; this is designed to increase plant processing capacity to 150 TJ/d to service contractual commitments to the Darling Downs Power Station. A reverse osmosis unit, designed to treat nine megalitres of water per day, commenced operations in late December 2007. Origin drilled a total of 43 wells in the Spring Gully area during the year.

At Fairview the operator, Santos, announced a development and exploration program aimed at increasing gross production capacity to 110 TJ/d by 2009. Origin participated in 42 wells drilled in the Fairview field as part of an ongoing program designed to underwrite future production and reserves growth.

Gas sales from Origin's interests in CSG fields operated by Queensland Gas Company (QGC) in the Walloons area commenced early in the 2008 financial year. Production from this area will service a 7 PJ per annum contract with Incitec Pivot (Origin interest 41%). Origin participated in 62 wells operated by QGC in this area during the year.

Origin approved the first major phase of its 100% owned development at Talinga in December 2007. The program includes an initial 100 wells together with gas and water processing facilities to achieve production of 90 TJ/d. Origin drilled 18 wells in this area during the year. The gas from Talinga will supplement supply from the Spring Gully field to meet contractual commitments.

In total, Origin participated in 169 CSG wells during the financial year ended 30 June 2008, including 4 wells outside the areas included above. This included 74 exploration and appraisal wells and 95 development wells.

[12] http://www.originenergy.com.au/files/ReservesRelease31-7-08.pdf

Otway Gas Project (Victoria/Tasmania)

After an initial delay due to rectification of a pipeline leak and equipment repairs, commissioning of the production facilities commenced in earnest in March 2008 and was completed in June 2008. The production facilities have operated reliably throughout and the acceptance testing included a sustained period of operation at the peak design rate of 205 TJ/day. Origin has booked its share of revenues, costs and production from the project from the start of the fourth Quarter of the 2008 financial year.

Bass Basin (Victoria/Tasmania)

For the year ended 30 June 2008, the BassGas Project produced a total of 10.5 PJe comprised of 7.8 PJe of natural gas and ethane, 319.8 kbbls of condensate and 18.6 ktonnes of LPG. The BassGas Project has returned to full production capacity following the resolution of some capacity constraints in the onshore gas processing plant at Lang Lang during the June Quarter of the 2008 financial year. The Yolla 3 well was shut-in during the first half of the financial year pending remedial work which was completed in February 2008. Liquids production was lower than anticipated due to these constraints.

Cooper/Eromanga Basin (Queensland/South Australia)

Production from the Cooper Basin continued to decline during the year. Origin's share of total production decreased 13% for the 2008 financial year to 26.3 PJe compared with 30.4 PJe in the prior year. Gas production fell by 15% from 24.6 PJ to 20.9 PJ. However, oil production rose by 7% from 308 kbbls to 330 kbbls for the year ended 30 June 2008 reflecting the success of the accelerated oil production programme. Origin participated in 78 wells in the Cooper Basin during the year, including 58 wells associated with the oil program (42 exploration and appraisal wells and 16 development wells) and 20 gas wells of which 17 were development wells.

Perth Basin (Western Australia)

Oil production from the Hovea, Jingemia and Eremia fields continued on a natural decline. Origin's net share of oil production from these fields decreased by 43% from 997 kbbls to 568 kbbls.

Gas production remained flat at around 4 PJ per annum. Declining gas rates from the established fields were offset with the connection of the successful Apium 2 and Beharra Springs 4 wells.

Other Producing areas

In the Surat Basin and Denison Trough areas of Queensland, Origin's share of production for the 2008 financial year was 10.9 PJe compared with 12.9 PJe in the prior year, a 16% decrease. A drilling program commenced in December 2007 with the drilling of the successful Emu Apple 2 and 3 appraisal wells, both of which have been cased as future oil producing wells.

Production from the onshore Otway Basin continued to decline with total production of 0.7 PJe compared with 2.1 PJe for the year ended 30 June 2007. This reflected the cessation of production from the Ladbroke Grove field and the continuing natural decline of the remaining conventional gas fields in the area. These have now been sold.

11.1.8 Development Projects

Kupe Gas Project (New Zealand)

In July 2007, the Kupe JV advised that the expected completion cost of the Kupe Gas Project had increased by around 10%.

Following completion of the offshore drilling and construction programme, the Kupe JV has reviewed cost and advises that the expected completion cost has risen by around a further 10%.

Of the overall increase since project sanction, around 40% of the cost increase is due to changes to the project scope that have enhanced project value. The balance is due to higher than expected rig mobilisation costs and weather downtime, growth in quantities and higher than expected equipment, material and labour costs. Over the same period, liquids prices have risen strongly such that total revenue from the project has now increased by over 50% since sanction.

The project is due to commence gas production in mid 2009.

11.1.9 Exploration

Origin has continued to pursue new exploration opportunities both in onshore and offshore Australia and overseas.

Origin was the successful bidder (100%) for Block 121 in the Song Hong Basin, offshore Vietnam.

Seismic data has been acquired in the Cooper, offshore Otway, Surat and Bass Basins. Interpretation of Origin's 2006/2007 Lamu Marine seismic survey in Kenya has been completed and the very large Mbawa prospect has been matured to drillable status.

Origin participated in two offshore wells in New Zealand during the year, Moana 1 in the Northland Basin and Momoho 1 in the Taranaki Basin. Moana 1 was plugged and abandoned after failing to find hydrocarbons and Momoho 1, which was still drilling at the end of the financial year, resulted in a small discovery which will be further evaluated in the coming year.

During the year Origin participated in the drilling of 127 exploration and appraisal wells across its areas of interests. This included 74 CSG wells, 45 wells in the Cooper Basin predominantly associated with the Cooper oil programme and 2 offshore wells in New Zealand. In all, 90 of these wells were cased for future production or evaluation delivering a 71% success ratio.

11.1.10 Acquisitions/Divestments

Swift Assets (New Zealand)

In December 2007 Origin entered into an agreement with Swift Energy New Zealand to acquire certain of Swift's New Zealand assets for a consideration of approximately NZ$115 million. This included its two main producing areas in the onshore Taranaki Basin, some additional permits and inventory.

Under a separate arrangement between Contact Energy and Origin, Contact Energy has contributed approximately NZ$54 million of the total purchase price for the right to own and develop the Ahuroa field as an underground gas storage facility and purchase the remaining gas and LPG reserves in the Ahuroa reservoir. The agreement is subject to Ministry of Economic Development approval.

Halladale and Blackwatch fields

In February 2008 Origin announced the acquisition of Woodside Petroleum Limited's 62.5% interest in the exploration permits containing the Halladale and Blackwatch fields off the south west Victorian coast for $13.6 million. These fields are estimated to contain a contingent resource of 55 PJe of recoverable gas and condensate and the acquisition takes Origin's interest in the fields to 100%. The fields have the potential to be developed through extended reach drilling from shore, and also have the potential in the future to be used for gas storage.

CSG Monetisation Process

Following rejection of BG's proposal on 30 May 2008, Origin's Directors commenced the CSG monetisation process to seek proposals to accelerate the development of Origin's CSG reserves. Details of this process are outlined in Section 2.

11.2 Generation

Year ended 30 June	2008 ($m)	2007 ($m)	Change (%)
Total revenue	86	103[13]	(16)
EBITDAF	56	79[14]	(29)
EBIT	38	79	(51)

Sales Volumes

Year ended 30 June	2008	2007	Change (%)
Total Sales (TWh)	1.5	1.6	(5)

In the 2008 financial year EBITDAF for the Generation segment declined by 29% to $56 million from $79 million in the prior year. Operating performance of the business was steady with the reduction in EBITDAF reflecting the transition of the Mt Stuart Power Station from being an externally contracted plant to being contracted internally to Origin's Retail segment.

Under the Mt Stuart PPA with Enertrade, a Compensation for Shortfall in Energy Requested (CSER) payment of $20.9 million was received in the year ended 30 June 2007 to offset lower electricity sales and was in addition to capacity payments. However, as an internally contracted plant for the 2008 financial year Mt Stuart receives only a standard capacity payment from the Retail segment to cover its cost of capital consistent with the treatment of Origin's other internally contracted plant. Revenues and costs resulting from its operation accrue to the Retail segment. Generation earnings have therefore reduced by approximately the value of the CSER payment of $20.9 million. This has been recovered in the Retail segment via the benefits realised through not having to purchase additional caps and receiving pool revenues when Mt Stuart operates.

A key driver for the Generation segment is high plant availability. This ensures high utilisation of plant and increases the chances that peaking plants are available to take advantage of price spikes in the market. The Ladbroke Grove, Mt Stuart and Roma power stations met or exceeded their target reliability and availability for the year ended 30 June 2008.

Depreciation charges of $17 million were 13% lower than the prior year primarily due to lower depreciation charges on the Mt Stuart and Ladbroke Grove power stations. After termination of the Enertrade Power Purchase Agreement the depreciation period for Mt Stuart was extended to reflect the effective life of the plant. Ladbroke Grove's useful life has been extended as a result of a major component overhaul in October 2006.

EBIT declined by 51% to $38 million from $79 million for the year ended 30 June 2007, predominantly reflecting the transition of Mt Stuart to an internally contracted plant and the non-recurrence of a one off contract termination payment of $19.6 million recorded as a significant item in the accounts for the year ended 30 June 2007.

[13] Total revenues excludes a one-off contract termination payment of $19.6 million for Mt Stuart recorded as a significant item.
[14] EBITDAF excludes a one off contract termination payment of $19.6 million for Mt Stuart recorded as a significant item.

11.2.1 Power developments

Origin is currently committed to the development of over 2,000 MW of generation capacity in Australia, including 2,066 MW of gas-capable power generation and a wind farm development of 30 MW at Cullerin Range (refer to section 11.2.2 below).

Construction of the Darling Downs Power Station (DDPS) project was commenced in November 2007. At 630 MW, the DDPS will be Australia's largest combined cycle gas-fired power plant. The project remains on budget with expected commissioning in early 2010.

Origin also commenced construction of a 120 MW expansion of its Quarantine Power Station in December 2007. The open cycle gas-fired turbine will supplement peaking capacity in the South Australian market. The project is on budget and is expected to commence commissioning in late December 2008.

An expansion of Mt Stuart Power Plant peaking facility was announced on 1 February 2008. Origin has committed to purchasing a 126 MW 9E gas turbine from GE Energy for the development. The construction phase is expected to take 18 months with completion in late calendar year 2009.

In October 2007 Origin announced it had sought tenders for the first phase of its proposed 1,000 MW Mortlake Power Station. In July 2008 Origin committed to the construction of the initial 550 MW of the peaking power station at Mortlake to be online in late calendar year 2010. The power station is pre-designed for conversion to a combined cycle power station at a later date.

Throughout the 2008 financial year Origin continued to pursue development opportunities that enhanced its integrated business strategy and in July 2008 Origin announced the acquisition of the (640 MW) Uranquinty Power Station from Babcock and Brown Power. The power station is an open cycle gas turbine (4x160 MW) peaking plant located in southern NSW with access to gas from across the east coast and is expected to be operational by December 2008.

11.2.2 Renewables

In addition to Origin's portfolio of gas-fired generation and cogeneration plants, the Company is also developing renewable technologies which produce power with low or no greenhouse gas emissions. During the 2008 financial year, Origin substantially increased its investment and commitment to Renewable Energy generation. This has included Origin taking interests in wind and geothermal projects and continuing its investments in solar technology.

In January 2008 Origin announced the acquisition of an option to source up to 590 MW of wind farms from Epuron, a subsidiary of the German company Conergy. The 30 MW Cullerin Range wind farm will be the first to be constructed and is expected to be completed during the latter half of the 2009 financial year. This site is well located close to infrastructure and has a capacity factor of 44% which is among the highest in Australia.

In October 2007, Origin entered into a farm-in agreement providing a 30% interest in a joint venture covering various geothermal permits in northern South Australia held by Geodynamics Limited. Origin expects to invest approximately $150 million in the Geodynamic joint venture over the next three years.

Origin remains focussed on commercialising its SLIVER® solar photovoltaic technology. We recently achieved full migration of the cell design into a cheaper silicon wafer and certification by European authorities of commercial panels manufactured using SLIVER® technology. We are working on plans for the large scale production of SLIVER® to enable commercial development of the product.

11.3 Retail

Year ended 30 June	2008 ($m)	2007 ($m)	Change (%)
Total revenue	5,506	4,082	35
EBITDAF	499	355[15]	41
EBIT	347	329	6

In 2008 the Retail segment increased revenues by 35% and increased EBITDAF by 41%. This was predominantly due to a full year contribution from Sun Retail and increased electricity and gas tariffs across markets in which Origin operates, and despite both continuing high churn in gas and electricity markets and tighter margins in the LPG business due to higher wholesale purchasing costs.

Total customer numbers were steady at 3.01 million. The business grew its accredited green customer base by 57% to 423,000 customers and for the fourth time, Origin has been rated as having the best green electricity products in the market by Green Electricity Watch, a representative group consisting of the Australian Conservation Foundation, Total Environment Centre and WWF Australia.

These achievements coupled with over 30%[16] market share of GreenPower™ cement Origin's pre-eminent position as Australia's largest retailer of green energy products.

11.3.1 Financial Performance

Introduction

In 2008 Origin fully integrated the electricity and LPG customers that it acquired through the Sun Retail business acquisition which was completed on 1 February 2007. A full year contribution of the 16 TWh of electricity and 31 ktonnes of LPG that this acquisition delivered was realised in 2008.

Financial Performance - Summary

The Retail segment recorded revenues of over $5.5 billion for the year ended 30 June 2008, an increase of 35% driven by the full year contribution of Sun Retail. Performance is discussed and referenced to the product splits in the following table.

[15] Sun Retail one off costs of $13.6m were recorded as a significant item. EBITDAF of $355m is before significant items.
[16] Source :National GreenPower Accreditation Program Status Report, Quarter 2 – 1 April to 30 June published at http://www.greenpower.gov.au shows that Origin's GreenPower customers account for 30% of all GreenPower customers and 36% of all GreenPower sales in Australia.

Performance metrics by product

2008	Natural Gas	Electricity	LPG
Revenue ($m) [17]	928	3,781	613
Gross Profit ($m)	132	644	121
Retail EBITDAF ($m)	464		34
Retail EBITF ($m)	434		12
Sales - (PJ)	127		
Sales - (TWh)		32	
Sales - (ktonnes)			462
Total Sales (PJe)	127	114	23
Customer accounts ('000)[18]	896	1,757	358

Electricity

Electricity sales volumes increased by 38% to 32 TWh, revenues increased 53% and Gross Profit increased 50%, predominantly due to the full year contribution of Sun Retail.

In April 2008 customers acquired through the integration of Sun Retail were transferred from the systems operated by the previous owner, Energex, to Origin's systems. During the cut-over and reconciliation of customer accounts, 28,632 customers were identified as being misclassified by Energex. This resulted in Origin applying a downward revision to customer numbers and therefore the prior year customer account numbers reported by Origin have been adjusted to reflect this. Origin's valuation of Sun Retail was based on volume and margin analysis neither of which are impacted by this change. As a consequence this reduction in customer numbers does not impact the value inherent in the Sun Retail acquisition.

Despite high wholesale electricity prices, which due to fixed tariffs have the effect of lowering available margins for new entrants, there was higher than expected churn rates which resulted in a 1.6% reduction in customer numbers. Origin effectively managed the adverse electricity market conditions in the first half of the year and unseasonable record high temperatures in South Australia in March 2008 to deliver a result in line with prior guidance.

Origin's comprehensive risk management policies with respect to electricity purchasing has resulted in a weighted average cost of electricity for the full year well below the market contract prices available at the beginning of the year.

In the second half of the year, the Retail business benefited from increased electricity tariffs in Victoria and lower average wholesale prices. This more than offset the lower margins that resulted from the low volatility and high average wholesale prices that were prevalent in the first half of the year. This had the overall result of recovering the margin that was lost in the first half of the year and brought margins for the full year back in line with prior years.

[17] Natural gas sales volumes and revenue reported here exclude trading sales, which predominantly comprise arrangements in which Origin Energy Retail has acted as an intermediary on wholesale contracts between the Exploration and Production segment and third parties. Gross Profit for natural gas is not materially impacted as these trading sales are passed through with minimal margin.

[18] An adjustment has been made to the opening customer numbers by -28,632 to account for lower Sun Retail customers on migration. The 30 June 2007 year-end position was based on advice from Energex as they performed billing functions on Origin's behalf. This opening balance adjustment was made upon conclusion of the Energex Transitional Service Agreement and migration of detailed billing data to Origin's systems.

Natural Gas

Natural gas sales volumes increased from 125 PJ to 127 PJ across the portfolio. Revenues of $928 million were up $45 million on last year ($883 million) reflecting the gas tariff increases and higher wholesale gas prices across all states. Sales to residential customers were flat. A number of market and environmental factors contributed to this. Average customer usage in Victoria and South Australia was lower than the prior year. Customer acquisition in New South Wales and Queensland resulted in increased market share in these markets. Gross Profit declined marginally from $136 million to $132 million, largely reflecting higher costs in Victoria for wellhead gas.

Electricity and Natural Gas Margins

Retail EBITF across the gas and electricity business increased by 53% from $283 million to $434 million while the Retail EBITF margins increased from 8.4% to 9.2%. This reflects the increases in electricity and gas tariffs, the prudent strategies employed to minimise electricity and gas purchasing cost including the utilisation of internally contracted generation, integration benefits and a steady cost to serve per customer. EBITDAF per customer improved by $34 to $175 per customer based on final customer numbers of 2.65 million for gas and electricity.

LPG

The LPG business recorded sales revenue of $613 million, 6% higher than last year. This was achieved on sales volumes which were 5% lower than last year and reflects the active management of prices to pass on higher wholesale purchasing costs. The pass-through of high international costs for LPG and unfavourable weather conditions have contributed to lower average consumption in the residential segment.

Gross profit for the LPG business declined 15% as a result of the net impact of the divestment of Rockgas, a full year contribution from Sun Retail, and a $225/tonne rise in Saudi CP [19] over the year. The rapid rise in Saudi CP resulted in a lag in fully passing increased costs through to the customer creating pressure on customer margins during the year.

EBITDAF for the LPG business of $34 million was 27% lower than the prior year.

11.3.2 Market Churn

At the end of the financial year, Origin had slightly over 3 million customer accounts across electricity, natural gas, and LPG. This remains in line with last year.[20]

In a year of high churn Origin won 482,000 new accounts across its gas and electricity businesses and recorded a decline of 22,000 accounts or less than 1%. This decline occurred in an environment of strong competition, particularly in areas where Origin is the incumbent and most susceptible to the impact of higher churn. The LPG business recorded an increase of 22,000 customer accounts. Overall this resulted in Origin's total customer account numbers remaining steady, ending the financial year with slightly over 3 million customer accounts.

Recent trends in market churn continued. Origin's electricity customer gains in South Australia and New South Wales were offset by losses in Victoria and Queensland. Origin now has over 300,000 electricity customers across South

[19] International market prices for LPG in the Asia-Pacific region are generally based on the monthly Saudi Aramco Contract Price (Saudi CP). The monthly contract prices are posted for both propane and butane, and these reflect prevailing spot market sales concluded for the relevant month.
[20] See appendix 2.

Australia and New South Wales. Origin experienced a net loss of gas customer accounts in Victoria, however this more than offset these with gains in the other states.

A gain of approximately 22,000 LPG accounts primarily in the residential customer segment, predominantly in south Queensland and New South Wales, resulted in an 7% increase in the number of LPG customer accounts from June 2007.

Origin continues to pursue a number of initiatives to optimise its acquisition and retention costs, and to manage the impact of high levels of churn on margins.

11.3.3 Dual fuel

During this financial year Origin increased its dual fuel customers by 98,000, from 790,000 in June 2007 to 888,000 in June 2008.

11.3.4 Green Energy

Origin continues to be Australia's leading provider of accredited Green Power products. As at 30 June 2008, the Company has signed more than 423,000 [21] green energy customers, an increase of 57% from 30 June 2007. Origin has a 30% [22] market share of national Green Power customers. Origin's solar business continues to go from strength to strength with sales of both solar PV and solar hot water units increasing by over 250% on the prior year.

For the fourth time, Origin has been rated as having the best green electricity products in the market by Green Electricity Watch, a representative group consisting of the Australian Conservation Foundation, Total Environment Centre and WWF Australia.

Origin's Carbon Reduction Scheme (CRS) which was launched in 2007 delivered a strong performance in its first full year of operation. During the year, Origin sold 140,000 tonnes of carbon offset through direct and third party retail channels.

[21] This figure includes Green Power, Green Gas and green customers in transfer as at June 30 2008.

[22] National GreenPower Accreditation Program Status Report, Quarter 2 – 1 April to 30 June published at http://www.greenpower.gov.au shows that Origin's GreenPower customers account for 30% of all GreenPower customers and 36% of all GreenPower sales in Australia.

11.4 Contact Energy

Year ended 30 June	2008 ($m)	2007 ($m)	Change (%)
Total revenue	2,348	1,740	35
EBITDAF	490	477	3
EBIT	360	355	2

Performance of operations

Year ended 30 June	2008	2007	Change (%)
Electricity Generated (GWh)	11,035	11,020	-
Customer Electricity Sales (GWh)	7,800	7,564	3
Gas Sales (PJ)	21	14	50
LPG Sales (Tonnes)	84,334	17,467	377
Total Sales (PJe)	54	41	31
Electricity Customers ('000)	520	513	1
Gas Customers ('000)	75	75	-
LPG Customers (including franchisees) ('000)	53	49	7
Total Customers	648	637	2

Origin owns a 51.4% interest in Contact Energy of New Zealand and consolidates 100% of Contact Energy in accordance with Australian accounting standards. The interests attributable to minority shareholders are recognised as Minority Interests in the Financial Statements.

A presentation entitled "Annual Financial Results – Financial Year ended 30 June 2008" containing a section entitled "Management discussion of financial results" was issued by Contact Energy to the New Zealand Stock Exchange on Tuesday 26 August 2008 and is available on Origin's website www.originenergy.com.au. That document contains details regarding Contact Energy's financial and operating performance during the period, including comparisons to the performance of Contact Energy in the prior year.

11.4.1 Performance of Operations

On consolidation, Contact Energy contributed $490 million to Origin's EBITDAF, 3% higher than the prior year of $477 million. Significant operating factors that contributed to the financial performance for the 12 months ended 30 June 2008 were:

- total wholesale electricity revenue increased by 82%, driven by high wholesale electricity prices. However this was largely offset by a 21% increase in average gas cost and an increase in electricity purchase costs of 114%;
- an increase in contribution from retail revenue of 6%, driven by a 3% increase in volume and 3% increase in retail prices;
- an increase in transmission costs of approximately NZ$34m primarily due to increases in reserve and frequency keeping costs reflecting the relatively dry conditions and accordingly, limitations on capacity in the market;
- the benefits of the drilling programme, particularly in Ohaaki has resulted in increased Geothermal generation output that more than offset the reduced hydro and thermal generation output resulting from relatively dry conditions and the reduced output of the New Plymouth Power Station respectively; and

- full year contribution of the addition of the Rockgas LPG business purchased from Origin.

The result was achieved under markedly different market conditions than in the 2007 financial year.

In consolidating Contact Energy's results, Origin has used an average exchange rate for the period of NZ$1.16 to the A$, compared with NZ$1.14 to the A$ for the prior year. Origin has consolidated $490 million at the EBITDAF level compared with $477 million in the prior year and $360 million at the EBIT level compared with $355 million in the prior year. At the EBIT level the result for the year to 30 June 2008 included NZ $33.7 million of asbestos removal and related costs for New Plymouth Power Station and a NZ$21.3 million gain on the sale of the Mokai Geothermal Land and Rights. These two items result in a net NZ$12.4 million charge against EBIT.

11.5 Networks (Discontinued Business)

Year ended 30 June	2008 ($m)	2007 ($m)
Total revenue	-	209
EBITDAF	-	30
EBIT	225	140

The sale of the Networks business was settled in two tranches in late June and early July 2007. It made no contribution to the operational performance of the business in the 2008 financial year.

The current full year contribution noted against EBIT in the table above represents the before-tax profit on sale and has been treated as a significant item. It is included in the calculation of Statutory Profit, but has been excluded from the calculation of Underlying Profit.

H Kevin McCann
Chairman

Sydney, 28 August 2008

12. Origin Energy Key Financials

Year ended 30 June	2008 ($m)	2007 ($m)	Change (%)
Profit & Loss			
Total external revenue	8,275	6,436	29
EBITDAF	1,309	1,165	12
EBIT	1,090	943	16
Profit before tax	856	748	14
Profit after tax	622	592	5
Profit after tax and minority interests	517	457	13
Underlying Profit	443	370	20
Cash Flow			
Free cash flow[23]	622	595	5
OCAT ratio (inc CAPWIP)[24]	9.9%	11.5%	n/a
OCAT ratio (excl CAPWIP)[24]	12.3%	13.7%	n/a
Capital expenditure	1,685	2,027	(17)
Balance Sheet			
Total assets	12,568	14,765	(15)
Adjusted total assets[25]	11,552	11,200	3
Net debt	3,283	2,958	11
Adjusted net debt	3,608	3,389	6
Shareholders equity	5,176	6,969	(26)
Adjusted shareholders equity	4,972	4,683	6
Key Ratios			
Earnings per share - Statutory	59.0¢	54.7¢	8
Earnings per share – Underlying	50.6¢	44.3¢	14
Free cash flow per share	71.0¢	71.2¢	-
Total dividend per share	25.0¢	21.0¢	19
Net asset backing per share	$5.88	$7.99	(26)
Adjusted net asset backing per share[25]	$5.65	$5.37	5
Net debt to debt plus equity	39%	30%	n/a
Adjusted net debt to debt plus equity[25]	42%	42%	n/a
Interest cover[26]	4.2x	4.1x	3
Adjusted return on equity[25]	13.4%	12.7%	n/a
Underlying adjusted return on equity[27]	11.5%	10.3%	n/a
Segment Analysis (EBITDAF)			
Exploration & Production	264	254	4
Generation	56	79[28]	(29)
Retail	499	355[29]	41
Contact Energy	490	477	3
Networks (discontinued)	-	30	(100)

[23] Free cash flow is defined here as cash available to fund distributions to shareholders and growth capital. It includes deductions for stay-in-business capital, interest and tax.
[24] OCAT Ratio = (OCAT – interest tax shield) / funds employed. CAPWIP is capital work in progress.
[25] Adjusted to exclude impact of derivative financial instruments.
[26] EBIT/Interest – Includes capitalised interest, excludes unwinding discounts on provision.
[27] Underlying adjusted return on equity excludes significant items and the impact of movement in financial instruments.
[28] Adjusted down for the one-off contract termination payment of $19.6m in relation to the Mt Stuart PPA.
[29] Adjusted up for the Sun Retail one-off costs of $13.6m.

Appendix 1 – Reconciliation of Statutory Profit and Underlying Profit

2008 Reconciliation	Before Tax Impact ($m)	Tax ($m)	Minority Interests ($m)	After Tax Impact ($m)	NPAT ($m)
Statutory NPAT					**517**
Significant Items					
Asset Sales - Networks	225	(80)	-	145	
Asset Sales - Mokai Geothermal	18	-	(9)	9	
Changes in FV of financial instruments					
Commodity trading instruments	(77)	23	(4)	(58)	
Financing instruments	(13)	4	4	(5)	
New Plymouth asbestos and related costs	(30)	10	10	(10)	
Sun Retail one-off costs	(12)	4	-	(8)	
Total significant items	**112**	**(40)**	**1**	**74**	**(74)**
Underlying Profit					**443**
Underlying Basic EPS					**50.6**

2007 Reconciliation	Before Tax Impact ($m)	Tax ($m)	Minority Interests ($m)	After Tax Impact ($m)	NPAT ($m)
Statutory NPAT					**457**
Significant Items					
Asset Sales - Networks	114	(38)	-	76	
Changes in FV of financial instruments					
Commodity trading instruments	32	(9)	-	23	
Financing instruments	20	(7)	(7)	7	
Impairment of producing assets	(74)	22	-	(52)	
Sun Retail one-off costs	(14)	4	-	(10)	
Change in NZ tax rate	-	57	(28)	29	
Termination of Mt Stuart PPA	20	(6)	-	14	
Total significant items	**98**	**23**	**(35)**	**87**	**(87)**
Underlying Profit					**370**
Underlying Basic EPS					**44.3**

Appendix 2 - Customer Numbers Movements and Adjustments

	Electricity	Gas	LPG	Total
Opening Balance 30 June 2007	1,815,127	888,981	336,000	3,040,108
Restatement of customer numbers adjustment	*(28,632)*	-	-	*(28,632)*
Adjusted Opening Balance 30 June 2007	1,786,495	888,981	336,000	3,011,476
Wins	*344,559*	*137,612*	*22,000*	*504,171*
Losses	*(373,424)*	*(130,883)*	*-*	*(504,307)*
Net Win/(Loss)	**(28,865)**	**6,729**	**22,000**	**(136)**
Closing Balance 30 June 2008	1,757,630	895,710	358,000	3,011,340