Origin Energy Results for the year ended 30 June 2007
Management Discussion and Analysis

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29 August 2007

Report for the full year ended 30 June 2007
Management Discussion and Analysis

All figures in this report relate to businesses of the Origin Energy Limited Group ("Origin Energy" or "the Company") for the 12 months ended 30 June 2007 compared with the 12 months ended 30 June 2006 (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 – $456.9 million up 38%

Origin Energy reported a net profit after tax and minority interests ("Statutory Profit") of $456.9 million for the 12 months ended 30 June 2007, an increase of 38% compared with $331.9 million reported last year.

1.2 Underlying Profit - $370.2 million up 10%

The Statutory Profit for Origin Energy 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, changes in fair value of financial instruments (predominantly associated with the Company's energy procurement activities), legislated changes in the New Zealand tax rate and termination of the Mt Stuart Power Purchase Agreement with Enertrade. These positive impacts are partially offset by impairment charges on producing assets and one-off costs associated with the purchase of Sun Retail business. These significant items provide an overall benefit of $86.7 million after tax and the elimination of minority interests.

The profit after tax and minority interests and before significant items ("Underlying Profit") for Origin Energy for the year ended 30 June 2007 was therefore $370.2 million. Calculating last year's profit on the same principles results in an Underlying Profit of $337.9 million. The year-on-year increase in Underlying Profit is 10%.

	2007 ($m)		2006 ($m)		
	After Tax Impact	NPAT	After Tax Impact	NPAT	Change (%)
Statutory Profit		**456.9**		**331.9**	**38**
Significant items					
Changes in FV of financial instruments					
Commodity instruments	22.4		(14.1)		
Financing instruments	6.7		2.6		
Asset Sales					
- Networks –SEA Gas	76.0				
– Valley Power			15.9		
Termination of Mt Stuart PPA	13.7				
Impairment of producing assets	(51.7)				
Reduction in NZ tax rate	29.2				
Sun Retail one-off costs	(9.6)				
Costs of proposed merger with Contact Energy			(10.4)		
Total significant items	**86.7**	**(86.7)**	**(6.0)**	**6.0**	
Underlying Profit		**370.2**		**337.9**	**10**

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

The increase in Underlying Profit was driven by higher earnings from each of Origin Energy's Australian business segments, which more than offset a modest decline in the contribution of Contact Energy from New Zealand. The Exploration and Production segment delivered record production, sales and earnings as long-term investments in the BassGas Project and coal seam gas (CSG) began to contribute to earnings; the Generation segment provided higher earnings from a strong contribution from the Mt Stuart asset; while the Retail segment benefited from the acquisition of the Sun Retail business in Queensland in February 2007.

1.3 Earnings per share – Up 4% on Underlying Profit

Earnings per share calculated from the Underlying Profit increased 4% to 44.3 cents on an expanded weighted average capital base of 836 million shares. This compares to 42.7 cents based on the same calculation on Underlying Profit from last year.

The share capital of the company increased significantly in the year following a placement of 56 million shares with institutional investors in December 2006 and a Share Purchase Plan (SPP) for retail shareholders which resulted in a further 12 million shares being issued. These share issues raised $473 million net of costs to partially finance the acquisition of the Sun Retail business in Queensland.

1.4 Dividends – Final dividend of 11 cents per share fully franked

A final fully franked dividend of 11 cents per share will be paid on 3 October 2007 to shareholders of record on 10 September 2007 (compared with 9 cents in the prior year). Origin Energy shares will trade ex-dividend from 3 September 2007. This brings the total dividend for the year to 21 cents per share, an increase of 17% over the previous year. The Dividend Reinvestment Plan will apply to the current dividend without discount.

This represents a dividend payout ratio of 38% of Statutory earnings per share, or 47% of Underlying earnings per share.

1.5 EBITDAF – Up 12% to $1,201 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, and the impact of fair value changes to financial instruments (EBITDAF). Proceeds from the sale of major assets and impairment of assets will also be accounted for below this line.

For the year to 30 June 2007 EBITDAF was $1,201 million, a 12% increase from the prior year of $1,076 million. For more details see Section 3.3.

2. Outlook

As we look ahead the Company has established a strong platform for growth. The Company acquired the Sun Retail business in Queensland for $1,202 million[1] providing significant scale and purchasing benefits to its Retail business nationally; sold its Rockgas LPG distribution business in New Zealand to Contact Energy for NZ$156 million[2]; and agreed to sell its Networks business to the APA Group for $556.5 million[3]. These transactions have focussed the Company on the competitive segments of the energy markets in Australia and New Zealand.

Furthermore the Company has progressed major development opportunities including:

- bringing the BassGas Project into production and achieving design throughput;
- negotiating the early termination of the Mt Stuart Power Purchase Agreement with Enertrade which has subsequently provided Origin Energy with the ability to support some of the demand requirements of Sun Retail from this asset;
- committing to the expansion of the Quarantine power station in South Australia, to add 120 MW of gas fired peaking power at an estimated capital cost of $80 million. The development is expected to be completed by December 2008;
- committing to the development of a 630 MW combined cycle gas fired power station at the Darling Downs site in Queensland under contracts worth $780 million. Gas field development and associated pipeline infrastructure to supply the power station with up to 44PJ per annum of CSG was approved for an additional capital expenditure of $500 million. The plant is expected to be in production by early 2010;
- entered into a gas sales agreement with Rio Tinto Aluminium to supply up to 470 PJ of CSG over 20 years from 2010. This will require an additional $260 million capital investment; and
- increasing 2P reserves by 42% from 2,436 PJe to 3,471 PJe. This includes a net increase in CSG reserves of 80% or 1,095 PJ to 2,470 PJ.

In the year to 30 June 2008 the Company can expect:

- a full year contribution from the integration of the Sun Retail business;
- increasing contribution from the Exploration and Production business as CSG production rises to meet new contracts, the BassGas Project contributes a full year, partially offset by lower contributions from declining production in the Perth and Cooper basins;
- commencement of production from the Otway Gas Project;
- a consistent contribution from Contact Energy; and
- no earnings from the discontinued Networks business (a one-off gain on sale for the portion of this business which settled on 2 July 2007 will be reported in the results for the 2008 financial year).

Based on current market conditions and normal weather prevailing the Company is targeting an increase in underlying profit for 2007/08 of approximately 15%.

Looking further ahead the Company will benefit from a number of projects already committed, including the expansion of Quarantine power station which is due on line in December 2008, the Kupe Gas Project which is scheduled to commence production by mid 2009, the Darling Downs power project and related CSG developments due on line in early 2010, and the commencement of supply to the Rio Tinto Alumina project, also in 2010. The Company will achieve reductions in

[1] $1,240 million after adjustments and costs.
[2] NZ$161.8 million after adjustments.
[3] $561.9 million after adjustments.

cost to serve in the Retail business when the transitional service agreement for Sun Retail ends in March 2008 and further initiatives to reduce cost to serve are implemented.

This year Origin Energy achieved a milestone of over 250,000 customers signed onto its Green Energy products, with GreenEarth Solar and GreenEarth Wind electricity products rated number 1 and 2, respectively by Green Electricity Watch for the third consecutive year. The Company continued to find new and innovative ways to help its customers reduce their carbon footprint, launching Origin Energy's Carbon Reduction Scheme and was successful in its bid for the first Solar Cities project in Adelaide.

Given the recognition of the long-term need to reduce carbon from power generation, the Company continues to invest in development of new photovoltaic SLIVER® technology and, through Geodynamics, invests in geothermal energy.

With this range of opportunities before it, the Company re-affirms its target of delivering 10-15% growth in Underlying EPS on average for the next few years.

3. Financial Review

3.1 Financial Review Summary

Year ended 30 June	2007 ($m)	2006 ($m)	Change (%)
Total external revenue	6,456	5,880	10
EBITDAF	1,201	1,076	12
EBIT	943	791	19
Net profit after tax before elimination of minority interests	592	454	30
Minority interests	135	122	10
Statutory Profit	457	332	38
Significant items	87	(6)	-
Underlying Profit	370	338	10
Basic earnings per share on Statutory Profit (cents)	54.7	41.9	30
Basic earnings per share on Underlying Profit (cents)	44.3	42.7	4
Free cash flow[4]	595	583	2
Capital expenditure	2,027	897	126
OCAT Ratio[5]	11.5%	12.5%	-
Adjusted [net debt/(debt + equity)][6]	42%	42%	-

3.2 Revenue - $6,456 million, up 10%

Total external revenue increased by 10% to $6,456 million. Within Origin Energy's Australian operations the increase was 25% primarily reflecting higher revenues from the Retail segment after the acquisition of Sun Retail and record revenues from the Exploration and Production segment. Total external revenue from Contact Energy decreased by 16% as lower wholesale electricity prices in New Zealand reduced the revenue earned from its generation assets.

3.3 EBITDAF - $1,201 million, up 12%

For the year to 30 June 2007 EBITDAF was $1,201 million, a 12% increase from the prior year of $1,076 million. The segment contributions to this result were:

4 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.

5 OCAT Ratio = (OCAT – interest tax shield) / funds employed.

6 Excludes the impact of mark-to-market impacts on net debt and on equity (see Section 7.1).

Earnings before interest, tax, depreciation/amortisation, and change in fair value of financial instruments (EBITDAF)

Year ended 30 June	2007 ($m)	2006[7] ($m)	Change (%)
Exploration & Production	254	209	22
Generation	99	58	69
Retail	341	292	17
Contact Energy[8]	477	488	(2)
Networks - Discontinued Business[9]	30	29	1
Total	1,201	1,076	12

Exploration & Production increased its EBITDAF contribution by 22% to $254 million. The business delivered record energy sales of 92.5 petajoules equivalent (PJe); 11% higher than the previous record set in the prior year of 83.8 PJe. This reflects higher CSG sales and over six months contribution from the BassGas 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 10.1.

Generation EBITDAF grew by 69% to $99 million from $58 million. This primarily reflects a contract termination payment received with respect to the Mt Stuart power station of $19.6 million before tax, and the flexibility of inclusion of Mt Stuart in the operating portfolio of Origin Energy. Details are available in Section 10.2.

In **Retail,** EBITDAF grew by $49 million or 17% from $292 million to $341 million. This was primarily due to a five month contribution from the acquisition of the Sun Retail business which was acquired on 1 February 2007, and includes one-off costs associated with the Sun Retail integration of $13.7 million. During the year the Company increased its natural gas and electricity customer accounts numbers (excluding those purchased with Sun Retail) by 22,000, increased dual fuel accounts by 81,000, and by 30 June 2007 had signed over 250,000 green power customers. Details are available in Section 10.3.

Contact Energy contributed $477 million to EBITDAF, 2% lower than the $488 million recorded last year. This was primarily due to higher gas costs and lower earnings from the generation business as a consequence of a return to more normal weather conditions resulting in lower pool prices in New Zealand. Details are available in section 10.4.

An agreement to sell the **Networks** business was signed on 4 April 2007 and this is reported as a discontinued business within this result. EBITDAF for the business was essentially constant with last year, up less than 1% to $30 million. Details are available in Section 10.5.

[7] The 2006 EBITDAF by segment has been calculated from the 2006 EBITDA with adjustments made to exclude the change in fair value of financial instruments and derivatives, and also for the reallocation of minor business taken out of the Generation and Retail segments for sale with the Networks business. A full reconciliation is provided in Appendix 4.

[8] 100% of Contact Energy's EBITDAF is included in the consolidated income statement.

[9] The Networks business has been sold. This business included Origin Energy Asset Management business which provides management and operations services to Envestra Limited, a 17% interest in Envestra Limited and a 33.3% interest in the SEA Gas pipeline, together with minor cogeneration assets which previously were reported in the Generation segment and a variety of small assets including the SESA pipeline and Natural Gas Vehicle business previously reported in the Retail segment. Segmental results for 2007 and 2006 include these businesses in the Networks segment, and consequently the results for the Generation and Retail segments have been restated.

3.4 EBIT - $943 million, up 19%

Four categories of items are recorded in the accounts between EBITDAF and EBIT. These are:

- Changes in the fair value of commodity financial instruments;
- Gain on sale of businesses;
- Impairment of assets; and
- Depreciation and amortisation expense.

Changes in the fair value of commodity financial instruments (benefit of $32 million)

Under A-IFRS a benefit of $32 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 6. This compares with an expense of $20 million last year.

Gain on sale of businesses (benefit of $114 million)

During the year Origin Energy concluded an agreement to sell its Networks business to APA Group for $556.5 million[10]. 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 is included in the accounts for the financial year ended 30 June 2007. The sale of this asset for $133.2 million[11] has resulted in a pre-tax profit on sale of $113.8 million. The sale of the balance of the business took place on 2 July 2007, and proceeds from this portion will be reported in the results for the year ending 30 June 2008.

Impairment of assets (expense of $74 million)

A charge of $73.8 million has been made to the Profit and Loss for impairment of assets in the Exploration and Production business. This includes $65.3 million associated with the Cooper Basin and $8.5 million associated with the Katnook and Ladbroke Grove fields in the onshore Otway Basin. Further details are provided in Section 10.1.4.

Depreciation and amortisation expense (expense of $330 million)

Depreciation and amortisation expense increased by 11% to $330 million, primarily reflecting the commencement of production from the BassGas development, the ramping up of production from the Spring Gully Project, and acquisition of the Sun Retail business.

After accounting for these items EBIT increased 19% to $943 million.

3.5 Interest - $215 million, up 23%

Net financing costs for the year were $215 million, up 23% from $175 million in the prior year. This was due to the increase in debt required to partially fund the acquisition of the Sun Retail business together with higher interest expense as development projects – which have interest capitalised during construction – move into production.

[10] $561.9 million after adjustments.
[11] $131.2 million net of costs.

3.6 Tax - $157 million, down 7%

Tax expense for the year was $157 million, 7% lower than the previous year. Prima facie tax was higher than last year reflecting the higher pre-tax profits. However a legislated change in the New Zealand corporate tax rate from 33% to 30% which will take place in July 2008 has led to a reduction in deferred tax liabilities of $56.9 million, which is recognised as a benefit in the Profit and Loss. Excluding this benefit results in an effective tax rate of 28.5% (compared with 27.1% last year). Inclusion of this benefit produces an effective tax rate of 20.9%.

3.7 Profit – Underlying Profit of $370.2 million, up 10%

The profit after tax for the consolidated entity for the period prior to the elimination of minority interests was $591.6 million, an increase of $137.5 million or 30% over the prior corresponding period.

After elimination of minority interests of $134.7 million Origin Energy recorded a Statutory Profit of $456.9 million, 38% higher than last year.

As outlined in Section 1.2 the Statutory Profit contains a number of significant items totalling $86.7 million. Removing these items provides an Underlying Profit of $370.2 million, an increase of 10% over the prior year.

4. Cash flow

On a consolidated basis the operating cash flow after tax increased by 7% to $819 million from $768 million. The key drivers for the increase were a significantly higher EBITDAF and lower stay-in-business capital expenditure, which were only partially offset by higher tax paid and an increase (unfavourable change) in working capital. The increase in working capital was primarily due to the scale added by the Sun Retail business and cold weather in June which increased energy consumption and hence the level of debtors in Origin Energy's Retail business.

Cash flow available for funding growth and distributions to shareholders (free cash flow) was $595 million compared with $583 million in the prior year.

Funds employed in the business increased by 15% as the result of the acquisition of Sun Retail and continuing development expenditure in the Exploration and Production business.

Due primarily to this increase in funds employed Origin Energy's OCAT Ratio[12] for the year to 30 June 2007 decreased to 11.5%, from 12.5% in the prior year.

5. Capital expenditure and divestments

Capital expenditure on growth and stay-in-business projects was $758 million.

Stay-in-business capital expenditure associated with the maintenance of ongoing operations was $179 million of which $68 million was attributable to Contact Energy, $57 million related to Exploration and Production (predominantly the Cooper Basin), and $49 million related to Retail (customer systems and LPG).

Growth capital expenditure was $579 million, 14% higher than in the prior period. This included expenditure of over $10 million in the following areas:

[12] Origin Energy uses the measure of operating cash flow after tax over average funds employed (referred to as the OCAT Ratio). OCAT is calculated from EBITDA as the primary source of cash contribution, but adjusted for stay-in-business capital expenditure, changes in working capital, non-cash items and tax paid. Funds employed are averaged over the relevant period.

- CSG assets in Queensland ($149 million);
- The Kupe Gas Project ($97 million);
- The offshore Otway Basin including the Thylacine and Geographe fields ($68 million);
- Generation Projects – including Darling Downs, Quarantine, Spring Gully and Mortlake ($66 million);
- Contact Energy ($58 million);
- Perth Basin oil and gas assets in Western Australia ($24 million);
- Growth capital in the Cooper Basin ($23 million);
- LPG assets ($19 million);
- The BassGas Project ($17 million); and
- Solar ($15 million).

Capital expenditure on acquisitions totalled $1,269 million. This included settlement on the acquisition of Sun Retail for $1,240 million (including working capital adjustments and acquisition costs), $12 million for additional equity in the BassGas development and onshore Otway Basin acquired from CalEnergy and AWE respectively, and the purchase of additional shares in Envestra for $13 million through that company's Distribution Reinvestment Plan.

Total capital expenditure including acquisitions was $2,027 million, compared with $897 million last year.

On 4 April 2007, Origin Energy announced the sale of its Networks business to APA for $556.5 million[13]. This business included Origin Energy Asset Management business which provides management and operations services to Envestra Limited, a 17% interest in Envestra Limited, a 33.3% 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 for $133.2 million[14]. Settlement on the balance of the business took place on 2 July and the proceeds will be reflected in the accounts for the year ending 30 June 2008. During the year Origin Energy also disposed of all of its remaining shares in Magellan Petroleum for $5.1 million.

Net proceeds on divestments during the year amounted to $136.3 million.

During the year Origin Energy sold the Rockgas LPG business to Origin Energy's owned subsidiary Contact Energy for NZ$156 million. As Contact Energy is consolidated in the accounts of Origin Energy no profit or loss was recorded in the Origin Energy's consolidated accounts.

6. Movements in fair value of financial instruments

Origin Energy utilises a range of financial instruments and derivatives in order to manage the various price, interest rate and foreign exchange risks to which it is exposed. Due to the volatility of the energy markets in which Origin Energy operates and the size of the transactions the company undertakes the accounting outcomes can have a significant impact on the Group's financial results.

Under accounting standards hedges are deemed to either be "effective" and qualify for hedge accounting and recognition in the Equity Hedge Reserve, or are deemed "ineffective" and must be recognised in the Profit and Loss.

A hedge is deemed to be "effective" if the changes in fair value or cash flow of the hedged item and the hedging instrument offset each other, or if the hedge substantially offsets risk associated with the change in fair value of the hedged item. There must also be sufficient certainty with respect to the occurrence of the risk which is being offset for a hedge to quality as "effective".

[13] $561.9 million after adjustments
[14] $131.2 million net of costs

"Ineffective" hedges are those instruments which, while they may be valid economic risk management instruments, do not meet the stringent criteria above.

For example financial instruments ("caps") used to match supply with demand in hot weather cannot be accurately forecast with sufficient certainty to qualify for hedge accounting. They therefore contain an element of "ineffectiveness" as defined under the accounting standards.

The following tables summarise the key balances at 30 June 2007:

Summary of derivatives movements

Balance Sheet	Net Assets ($m) 30-Jun-07	Net Assets ($m) 30-Jun-06	Change ($m)
Commodity Risk Management	3,301	76	3,225
Contact Energy	(258)	(128)	(130)
Treasury and Other	(13)	(111)	98
Origin Group	**3,030**	**(163)**	**3,193**

Reconciliation of Balance Sheet and Profit and Loss items associated with derivatives movements		($m)
Change in net assets		**3,193**
Recognition of "effective" instruments in Balance Sheet		**3,140**
Recognised in Equity (Hedge Reserve post tax)	2,197	
Recognised in Deferred Tax Liability	943	
Recognition of "ineffective" instruments in Profit & Loss		**52**

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 increases in the forward price of electricity at 30 June 2007 has resulted in a large increase on the fair value of these financial instruments. Origin Energy now has $3,301 million of net assets recognised in association with commodity risk management instruments, with a net increase of $3,225 million recognised this year. Including the impact of other financial instruments and consolidating Contact Energy the year-on-year change in net assets associated with changes in value of derivatives is $3,193 million.

These changes in value are either recognised in Equity (Hedge Reserve) or the Profit and Loss each period. The total year-on-year change in the value of derivatives which qualify for hedge accounting is $3,140 million (pre-tax) and is recognised in the Hedge Reserve in Equity. The pre-tax increase is partially offset by an increase in Deferred Tax Liability of $943 million, resulting in an after tax increase in Hedge Reserve of $2,197 million.

The balance of $52.3 million (pre-tax) is recognised in the Profit and Loss and is associated with the value of valid hedging instruments which either do not qualify for hedge accounting or are assessed to contain an element of "ineffectiveness" under the accounting standards. These relate primarily either to the Company's commodity risk management activities (managing risk associated with oil price and electricity purchasing costs) or to interest rate and foreign exchange risk management.

7. Funding and capital management

7.1 Net Debt, Equity and Interest Cover

Under A-IFRS accounting standards net debt for the consolidated entity increased 23% from $2,411 million at 30 June 2006 to $2,958 million at 30 June 2007. The A-IFRS calculation of net debt includes mark-to-market adjustments of $430 million ($226 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 $3,389 million at 30 June 2007 ($2,637 million at 30 June 2006), an increase of 29% and best reflects the underlying debt position of the Company.

The equity of the Company has increased from $3,646 million to $6,969 million. This was primarily due to an increase in the Hedge Reserve of $2,197 million, 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 $3,582 million to $4,683 million. This reflects the impact of capital raisings during the year as well as value added during the year to shareholders funds from Company operations, particularly the acquisition of Sun Retail and the ongoing development of the Exploration and Production assets.

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

Calculation as reported:

	2007 ($m)	2006 ($m)	Change (%)
Net debt as reported	2,958	2,411	23
Equity as reported	6,969	3,646	91
Net debt/(net debt + equity)	30%	40%	

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

	2007 ($m)	2006 ($m)	Change (%)
Adjusted net debt	3,389	2,637	29
Adjusted equity	4,683	3,582	31
Adjusted [net debt/(net debt + equity)]	42%	42%	

Origin Energy 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 4.1 times, compared with 4.2 times at 30 June 2006.

7.2 Share Capital

During the period an additional 78.0 million shares were issued. This included 56.3 million shares issued to raise a net $395 million in an equity placement to institutional investors in December 2006 and 11.7 million shares to raise $77.8 million in a Share Purchase Plan (SPP) to help finance the acquisition of the Sun Retail business in Queensland. It also included 5.6 million shares issued under the Company's Dividend Reinvestment Plan (DRP) which raised $41.3 million and 4.4 million shares issued as the result of the exercise of options which raised $15.0 million.

As a consequence the total number of shares on issue at 30 June 2007 rose to 872,288,456 from 794,337,258 at 30 June 2006. The weighted average number of shares used to calculated basic earnings per share increased 5% to 835,770,613.

8. Risk management

8.1 General

Origin Energy 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 Energy hedges a significant portion of its exposure to electricity and oil prices and the US dollar exchange rate.

8.2 Electricity and Gas

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

8.3 Oil

For the year ended 30 June 2007 Origin Energy hedged approximately 58% of its production of oil and condensate at an average price of US$56.20 per barrel. The average price received for sales of oil, condensate and naphtha over the period including the impact of hedging was A$74.15 per barrel – an increase of 15% over the average price received in the previous year.

Looking forward Origin Energy currently has hedged 975,000 barrels of its anticipated production for the financial year ending 30 June 2008 at an average price of around US$62.20 per barrel.

8.4 Foreign Exchange

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

9. People, Health, Safety & Environment

Employee numbers increased during the year by 267 to 3,751. This included increased staffing requirements for upstream CSG operations, generation and major development projects together with the inclusion of 105 employees from the Sun Retail business acquired in February 2007. In July 2007, 486 employees were transferred to APA Group in the sale of Origin Energy's Networks business.

Origin Energy has used as its primary safety performance measure the number of injuries causing lost time for employees and contractors and the number of injuries defined as Moderate Medical Injuries for employees per million hours worked. This ratio improved from 5.5 in June 2006 to 4.9 in June 2007, an 11% improvement. The industry standard measure of Total Recordable Incident Frequency Rate (TRIFR), which captures all incidents, improved by 32% from 23.9 to 16.3 at 30 June 2007.

During the year there have been no breaches of significant environmental regulations and no fines or penalties imposed. During the year there was one minor environmental incident, with 5,000 litres of condensate overflowing into a bunded area, at our Beharra Spring gas plant in Western Australia. The condensate was recovered and returned to process with no lasting environmental impact.

There was no reported loss of time during the year due to industrial disputes.

10. Operational Review

10.1 Exploration & Production

Year ended 30 June	2007 ($m)	2006 ($m)	Change (%)
Total revenue	484	435	11
EBITDAF	254	209	22
EBIT[15]	41	99	(58)

Sales Volumes

Year ended 30 June	2007	2006	Change (%)
Natural gas (PJ)	**74**	**66**	**13**
Crude oil (kbbls)	**1,540**	**1,780**	**(14)**
Condensate/naphtha (kbbls)	**784**	**495**	**58**
LPG (ktonnes)	**65**	**55**	**17**
Ethane (ktonnes)	**40**	**41**	**(4)**
Total (PJe)[16]	**92.5**	**83.8**	**10**

In 2007 the Exploration and Production division achieved record production, sales and revenues; completed construction and commissioning of the BassGas Project; increased reserves by over 40%; and negotiated agreements for the sale of up to 1,350 PJ of gas over the next 20 years.

10.1.1 Production, Sales and Revenues

Details of production may be found in the final Quarterly Production Report for the year to 30 June 2007, released on 31 July 2007.

Sales volumes increased by 10% to 92.5 PJe from 83.8 PJe. Sales increased from the BassGas Project (+8.6 PJe), CSG assets (+4.8 PJe) and the Denison Trough/Surat Basin (+1.8PJe), more than offsetting declines from Cooper Basin (-3.0 PJe), and the onshore Otway Basin (-1.7 PJe). Total sales volumes from the Perth Basin were essentially steady with a decrease in oil production balanced by higher production of gas and related liquids.

Total revenue increased by 11% 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 (due primarily to the conclusion of a favourable gas sales contract from the Denison Trough which contained oil price linkages).

10.1.2 Expenses

The following table outlines the major categories of expenses within the Exploration and Production business. While year-on-year total costs have remained practically flat, benefits from lower exploration write-offs, lower costs of goods sold and favourable inventory adjustments have essentially offset increases in general production costs, royalties and tariffs and a decrease in other income. General production costs have risen by 19% compared with a 12% rise in production; unit production costs have therefore risen by around 6%. This reflects a full nine

[15] Includes impairment of assets totalling $74 million
[16] Petajoule equivalents – a measure of energy

months of costs from BassGas while production ramped up from commissioning to target levels, the continuing ramp-up of CSG production and general cost inflation being experienced by the oil and gas industry.

Exploration and Production costs	2007 ($m)	2006 ($m)	Change (%)	Comments
Cost of goods sold and inventory adjustments	(19)	(43)	(55)	Lower purchases of oil (-$11.3 million) and gas (-$6 million) predominantly in the Cooper Basin plus favourable inventory revaluation.
Other expenses/income	(1)	15	(107)	Non-repeat of insurance recoveries and minor asset sales in 2006
Royalties and tariffs	(64)	(58)	10	Higher royalties and tariffs in line with increases in production.
General costs (Labour, JV costs, etc)	(114)	(96)	19	Cost increase higher than production increase of 12% reflecting continued ramp-up of CSG and BassGas Projects and increasing cost environment in the Exploration and Production industry.
Exploration write-downs	(32)	(45)	(29)	Drilling program focused on lower cost and lower risk appraisal and development targets close to producing fields, partially offset by a higher level of seismic activity.
	(230)	(227)		

10.1.3 EBITDAF

EBITDAF increased 22% to $254.4 million from $208.8 million in the prior year.

10.1.4 Depreciation, Amortisation and Impairment

Depreciation and amortisation charges increased 27% to $134.7 million from $106.4 million. This reflects commencement of production from the BassGas Project (and hence depreciation of its asset base), higher depletion charges in the Perth Basin following a reserves write-down, and further growth in production and asset base of Origin Energy's CSG projects.

After a review of the carrying value of upstream assets an impairment charge of $74 million has been recorded across the Cooper Basin and onshore Otway Basin assets. This includes a $65 million impairment of the Cooper Basin assets reflecting the long term decline in production combined with higher forecast operating expenses and capital expenditure than required to preserve Origin Energy's previous carrying value of the assets. The balance of $9 million was impairment of the onshore Otway Basin assets reflecting the cessation of production from the Ladbroke Grove field and the impending final production from the Katnook field.

10.1.5 EBIT

Excluding the impairment charges on assets described above EBIT was $115 million, an increase of 16% compared with the previous year. Including the impairment charge for the Cooper Basin and onshore Otway Basin assets results in an EBIT of $41.2 million which is 58% lower than the $99.0 million recorded last year.

10.1.6 Reserves

Origin Energy announced its annual review of reserves across its Exploration and Production interests in July 2007 and increased its 2P Reserves by 42% from 2,436 PJe to 3,471 PJe. This includes a net increase in CSG reserves of 80% or 1,095 PJe to 2,470 PJe.

Origin Energy 2P Reserves By area at 1 July 2007 PJe	**2P Reserves 1 July 06**	**Additions (revisions)**	**Production**	**2P Reserves 1 July 07**
Queensland Coal Seam Gas				
Bowen Basin CSG	1,237	463	(22)	1,677
Walloons (Undulla Nose) CSG	138	655	(0)	793
Queensland Conventional				
Denison Trough	52	1	(6)	46
Surat Basin	42	2	(7)	37
Cooper Basin				
SA Cooper Basin	147	11	(15)	143
SWQ Cooper Basin	80	(5)	(16)	60
Other onshore Australia				
Western Australia	37	(5)	(10)	22
Otway Basin - Onshore	2	0	(2)	0
Offshore Basins				
Bass Basin	193	-	(9)	183
Otway Basin - Offshore	315	-	-	315
New Zealand	194	-	-	194
Total	2,436	1,122	(87)	3,471
Year-on-year increase				**1,035**

For more information on the reserves upgrade, please see our website at www.originenergy.com.au.

10.1.7 Producing Assets

Queensland CSG and Conventional Gas

Origin Energy is developing a diversified and flexible portfolio of producing assets in central Queensland including its conventional gas assets in Surat Basin and Denison Trough, together with coal seam assets in both the Bowen Basin (Fairview and Spring Gully fields) and the Walloons (Talinga, Argyle and Kenya fields). Production from these combined areas of 35 PJe in the year to 30 June 2007 exceeded the Company's production from the Cooper Basin.

In September 2006, Origin Energy commenced supplying a new contract to Queensland Alumina in Gladstone for 12 PJ per annum. This replaced a previous contract from the Denison Trough Joint Venture to which Origin Energy had been a 50% participant. Demonstrating the flexibility of its portfolio, Origin Energy is now supplying this new contract from both conventional and CSG fields.

In order to create shareholder value; Origin Energy has been progressively adding value to its CSG portfolio by:

- acquiring highly prospective CSG exploration acreage;
- adding reserves in these tenements and securing them under production licences;
- contracting these reserves; and
- delivering production projects on time and on budget.

During the year Origin Energy:

- acquired rights to four new exploration tenements and has applications lodged for five new production licences;

- added over 1000 PJ of 2P Reserves;
- negotiated agreements to commercialise up to 1350 PJ of CSG to supply the Darling Downs power station (indicatively up to 44 PJ for 20 years) and Rio Tinto Alumina (470 PJ over 20 years); and
- continued to ramp up production from Spring Gully and Fairview and commenced production from its Walloons interests operated by Queensland Gas Company.

Over the next several years development of CSG reserves at Spring Gully and the Talinga field in the Walloons to service the Darling Downs power station and Rio Tinto Alumina contract will result in the addition of 66 PJ per annum of capacity. This will include a new dedicated pipeline from the Wallumbilla gas hub to Darling Downs, effectively connecting Origin Energy's conventional gas production and storage facilities in the Surat Basin to the Spring Gully and Talinga CSG fields and Darling Downs power generation site.

Cooper Basin (Queensland/South Australia)

In line with expectations for a mature asset, production from the Cooper Basin continued to decline during the year. Total production decreased 10% this financial year to 30.4 PJe compared with 33.4 PJe in the prior year. Purchases of oil and gas from third parties of 3.2 PJe were 40% lower than the 5.0 PJe in the prior year. Total sales consequently reduced by 13% from 38.6 PJe to 33.6 PJe.

The Cooper Basin producers extended the existing ethane supply agreement with Quenos to the beginning of 2013. A further 56 PJ of ethane (Origin share 7.4 PJ) will be supplied at prices linked to the world oil price.

During the year, 66 wells were drilled in the Cooper Basin of which 39 wells were part of the oil drilling campaign using automated rigs. While the results of this campaign have been mixed, the overall program has given an adequate return on investment with 29 of the wells cased for future development (75% success ratio).

Perth Basin (Western Australia)

Three successful appraisal/development wells were drilled in the Perth Basin during the first half of the year (Jingemia 8, Eremia 6 and Hovea 12). The rate of decline of oil production from the Perth Basin was significantly reduced and for a period of time reversed by the addition of these wells. However, by the end of the year production was again in decline, and detailed remapping of these fields has resulted in a reserves downgrade of 1.1 million barrels. As a result the Perth Basin oil fields were assessed to hold 1.2 million barrels of oil net to Origin Energy as at 30 June 2007.

Gas production from the Perth Basin increased by 25% to 4.0 PJ with significant contribution from the liquids-rich Tarantula gas field. A new gas supply contract commenced with HIsmelt in Western Australia for the supply of 9 PJ over 2 years.

Onshore Otway Basin (Victoria/South Australia)

As anticipated, production from the onshore Otway Basin continued to decline with total production of 2.0 PJe compared with 3.7 PJe in the previous year.

Bass Basin (Victoria/Tasmania)

Production testing of the BassGas Project commenced late last financial year. By 1 September 2006 the project began consistently producing commercial gas for sale and Origin Energy commenced recognising sales revenue and costs from the project.

A plant shut-down was undertaken in February 2007 to investigate and rectify difficulties encountered in achieving process stability at high production levels. This rectification work has been successful with design throughputs now achieved with full recovery of LPGs. Production of sales gas averaged over 60 TJ per day in June 2007, well above the rate of 55 TJ per day required on average to achieve contracted volumes of 20 PJ per annum.

10.1.8 Development Projects

Otway Gas Project (Victoria/Tasmania)

Commissioning of the offshore Otway Gas Project has commenced with the successful introduction of gas from the Victorian grid into the onshore plant on 27 July 2007. The operator Woodside Petroleum, has also been granted a full 5 year unconditional Licence to Operate a Major Hazard Facility by the Victorian Workcover Authority. This completes the approvals required from designated authorities for the project.

The operator, Woodside Petroleum, has advised that in line with many major offshore projects the cost of the Otway Gas Project has suffered some cost pressures, but that the cost increase is expected is expected to be no more than 20% of the original approved budget.

Kupe Gas Project (New Zealand)

Steady progress has been made on the Kupe Gas Project in New Zealand. Platform jacket fabrication was completed and the jacket shipped successfully to Port Taranaki, New Zealand in August, with fabrication of the topsides on schedule to be completed in Thailand in September. The Ensco 107 drilling rig is expected to arrive in September 2007 to install the platform components and commence development drilling.

Construction work for the subsea pipeline, directional drilling for the coastal crossing, and earthworks and civil works at the production station site are progressing satisfactorily.

As previously advised in the Quarterly Production Report for June 2007, the project has experienced some cost pressures associated with continuing high worldwide industry activity levels which have increased the expected completion cost by around 10% of the original approved budget.

The project remains on schedule for commercial gas in the first half of 2009.

10.1.9 Exploration

Origin Energy has continued to pursue new exploration opportunities with new exploration permits awarded in the offshore Canterbury Basin in New Zealand, in the offshore Bass Basin in Tasmanian waters, in areas of the Galilee Basin which are prospective for CSG, and in the Walloons CSG areas.

Seismic data has been acquired in the Surat Basin in Queensland, the Taranaki, Northland and Canterbury basins in New Zealand and in the Lamu Basin in Kenya. Interpretation of seismic surveys completed last year in the Bass, Otway and Taranaki basins is continuing.

During the year Origin Energy participated in the drilling of 189 exploration, appraisal, and development wells across its areas of interests. In all, 163 of these wells were cased for future production or evaluation.

An active drilling program is planned in the 2007/08 financial year, including 61 CSG wells, 58 wells in the Cooper Basin, 8 wells in the Surat Basin, 6 exploration wells in the Perth Basin, 3 wells in the Kupe area and 1 well in the Offshore Otway Basin.

10.2 Generation

Year ended 30 June	2007 ($m)	2006 ($m)	Change (%)
Total revenue	122	96	27
EBITDAF	99	58	69
EBIT	79	35	123

Sales Volumes

Year ended 30 June	2007	2006	Change (%)
Total Sales (TWh)	1.62	1.62	-

In 2007 Origin Energy successfully negotiated the end of the Mt Stuart Power Purchase Agreement with Enertrade; committed to the expansion of the Quarantine power station; committed to build Australia's largest combined cycle gas turbine power plant at Darling Downs; and increased EBITDAF by 69%.

Total revenue was 27% higher than last year at $122 million, primarily as a consequence of a higher capacity payment at Mt Stuart, a significant payment on termination of the Mt Stuart Power Purchase Agreement and the added flexibility of inclusion of Mt Stuart in the operating portfolio of Origin Energy.

The Mt Stuart power station received a net capacity payment of $17.5 million during the first half of the financial year compared with $12.7 million during the previous financial year. In addition Origin Energy received a payment on termination of the Power Purchase Agreement with Enertrade of $19.6 million (pre tax).

A key driver for the Generation segment is high plant availability. This ensures high utilisation of the base load plant and increases the chances that peaking plants are available to take advantage of price spikes in the market. The Ladbroke Grove, Quarantine, Bulwer Island and Worsley power stations all improved availability year-on-year. The Roma refurbishment program continued, and despite lower availability the plant approximately doubled output from last year. Mt Stuart availability was over 93% and output more than doubled on the prior year. Availability for Osborne power station was marginally lower than the prior year, but again output increased on the prior year.

EBITDAF increased by over 69% to $99 million from $58 million in the prior year.

Depreciation charges of $20 million were 14% lower than the previous year primarily due to lower depreciation charges on the Mt Stuart power station. After termination of the Enertrade Power Purchase Agreement the depreciation period was extended to reflect the effective life of the plant.

Consequently EBIT increased 123% to $79 million from $35 million.

10.2.1 Power developments

During the year Origin Energy committed to expanding its 95 MW open cycle gas turbine Quarantine power station in South Australia by an additional 120 MW of peaking capacity. It is anticipated that the expansion will be completed in the December quarter of 2008 at a cost of $80 million. Natural gas for this new power station will come from the SEA Gas pipeline while electricity generated will support Origin Energy's growing retail business.

In June 2007, Origin Energy announced the development of a 630 MW combined cycle gas-fired power station at Darling Downs, in Queensland. A construction contract worth $780 million has been signed and construction commenced in August 2007. Commissioning of the plant is scheduled to commence in the December quarter of 2009. This power station will have one of the lowest operating costs in the National Electricity Market and it is ideally located near major transmission lines serving Queensland and New South Wales.

Origin Energy also has regulatory approvals for two 1000 MW gas fired power station projects at Mortlake in Victoria and Spring Gully in Queensland. The Company is evaluating the potential of these projects and demand for additional power in these regions.

10.2.2 Renewables

In addition to Origin Energy'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.

Reliability testing of the 75W SLIVER® technology solar power panels was successfully conducted and early stage commercial production has commenced at Origin Energy's solar photovoltaic manufacturing plant at Regency Park, South Australia.

Origin Energy also has a 10.6% interest in Geodynamics Limited, which is developing a geothermal resource in South Australia's Cooper Basin. This involves using the heat trapped five kilometres deep in the earth's crust to generate electricity. Geodynamics have drilled two wells down to this depth and have successfully generated steam at the surface. A third well, Habanero 3 is now being drilled to further test the concept.

During the year Origin Energy formally joined the CO2CRC, a collaborative research organisation exploring geosequestration - carbon dioxide capture and geological storage. During the period the CO2CRC was successful in attracting an additional $6 million to fund an expanded scientific program at the Otway Basin pilot project.

10.3 Retail

Year ended 30 June	2007 ($m)	2006 ($m)	Change (%)
Total revenue	4,082	3,206	27
EBITDAF	341	292	17
EBIT	329	231	43
Adjusted Retail Earnings Metrics			
Adjusted Retail EBITDAF [17]	355	292	22
Adjusted Retail EBITF [18]	305	248	23

In 2007 the Retail business increased its customer numbers by 47% to 3.04 million, cemented its pre-eminent position as Australia's leading retailer of green energy products with over 32% market share, and maintained healthy EBITDAF margins despite high churn and volatile wholesale commodity prices.

10.3.1 Financial Performance

Introduction

Origin Energy acquired the Sun Retail business in Queensland on 1 February 2007. On acquisition, the business had over 890,000 customers across electricity and LPG and annual sales volume of 16 TWh of electricity and 31 ktonnes of LPG.

The acquisition has resulted in transitional costs for integration of $13.7 million before tax. Analysis of the performance of the Retail segment is based on an Adjusted Retail EBITDAF as tabulated above which excludes these one-off costs. To enable a comparison with margins quoted in prior years at the EBIT level, an Adjusted Retail EBITF is also calculated which excludes the impact of both the Sun Retail one-off costs and changes in the fair value of financial instruments. This treatment has been applied consistently to the results of both financial years.

Financial Performance - Summary

The Retail segment recorded revenues of over $4 billion for the year ended 30 June 2007, an increase of 27% driven by the acquisition of Sun Retail. Performance is discussed and referenced to the product splits in the table below.

[17] Excludes one-off Sun Retail integration costs of $13.7 million before tax in 2007.
[18] Excludes changes in fair value of financial instruments and Sun Retail one-off integration costs.

Performance metrics by product and variance from prior year[19]

2007	Natural Gas	Electricity	LPG
Revenue ($m)[20]	883 *(-0%)*	2,477 *(+48%)*	577 *(+4%)*
Gross Profit ($m)	136 *(-8%)*	427 *(+38%)*	143 *(-1%)*
Adjusted Retail EBITDAF ($m)	308 *(+27%)*		47 *(-4%)*
Adjusted Retail EBITF ($m)	283 *(+27%)*		22 *(-10%)*
Sales - (PJ)[20]	125 *(+5%)*		
Sales - (TWh)		23 *(+47%)*	
Sales - (ktonnes)			486 *(-7%)*
Total Sales (PJe)	125 *(+5%)*	82 *(+47%)*	24 *(-7%)*
Customer accounts ('000)	889 *(+1%)*	1,815 *(+90%)*	336 *(+12%)*

Electricity

Electricity sales volumes increased by 47% to 23 TWh, customer numbers increased by 90% to 1.8 million, revenues increased 48% and Gross Profit increased 38%, predominantly on the back of the Sun Retail acquisition. Risk management in the electricity business is a key factor in this result. While average wholesale electricity pool prices across the markets in which Origin Energy operates increased by around 60% Origin Energy's average unit cost of goods sold increased by only 2%. This demonstrates the prudent nature of the Company's hedging policies.

Natural Gas

Natural gas sales volumes increased from 120 PJ to 125 PJ across residential, commercial and wholesale customers. Revenues of $883 million were essentially flat on last year ($884 million) reflecting a greater proportion of low tariff and low margin industrial and wholesale customers. Sales to residential customers declined from 39.5 PJ to 34.5 PJ primarily as a consequence of milder weather which reduced demand. In Queensland 14,000 customers acquired from Sun Retail as "hot water" accounts are now reported as gas customers. Gross Profit declined 8% from $147 million to $136 million reflecting the lower residential usage and change in volume mix.

Electricity and Natural Gas Margins

Adjusted Retail EBITDAF across the gas and electricity business increased by 27% from $243 million to $308 million while the Adjusted Retail EBITDAF margins decreased from 9.5% to 9.2%. This reflects the change in customer mix in natural gas, modest increase in electricity purchasing cost and steady cost to serve per customer. Based on weighted average customer numbers for gas and electricity of 2,210,000 EBITDAF per customer improved by $7 to $139 per customer.

Adjusted Retail EBITF also increased 27% from $223 million to $283 million reflecting the same factors as above and an increase in Depreciation and Amortisation charges from Sun Retail in line with increased earnings. Margins at this level decreased from 8.7% to 8.4%. Based on weighted average customer

[19] See Appendix 3 for restatement of prior year on a consistent basis.
[20] 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. Such sales were included in this table last year. Consequently sales volumes for the year ended 30 June 2006 have been revised from 127 PJ to 120 PJ and revenue disclosed in this table last year from natural gas sales has been revised from $909 to $884 million. This does not impact total sales revenue for the Retail segment. Gross Profit for natural gas is not materially impacted as these trading sales are passed through with minimal margin.

numbers for gas and electricity of 2,210,000 EBITF per customer improved by $6 to $128 per customer.

LPG

The LPG business recorded sales revenue of $577 million, 4% higher than last year. This was achieved on sales volumes which were 7% lower than last year and reflects the active management of prices to pass on higher wholesale purchasing costs. Sales volumes were lower due to wholesale arrangements with other LPG retailing companies, lower commercial usage and lower residential usage which was driven by milder weather.

During the year the Rockgas LPG business in New Zealand was sold to Contact Energy effective 30 April 2007 for NZ$156 million and the Sun Retail LPG business in Queensland and Northern NSW was acquired effective 1 February 2007. The Rockgas LPG business has annual sales of approximately 90 ktonnes compared with 31 ktonnes for Sun Retail.

EBITDAF for the LPG business of $47 million was 4% lower than the previous year.

10.3.2 Market Churn

At the end of the financial year Origin Energy had around 3,040,000 customer accounts across electricity, natural gas, and LPG. This compares with 2,135,000 accounts last year.

Excluding the acquisition of Sun Retail, Origin Energy won 386,000 new accounts across its gas and electricity businesses to record a year-on-year increase of 22,000 accounts. This compares to the prior year in which Origin won 325,000 accounts and increased account numbers by 22,000.

Recent trends in market churn continued. Net gains in electricity accounts in South Australia and New South Wales were partially offset by a net loss of electricity accounts in Victoria, and the loss of gas customers across Victoria and South Australia. Origin Energy now has nearly 230,000 electricity customers across South Australia and New South Wales. LPG accounts increased by approximately 36,000 from June 2006, primarily due to the net impact of the acquisition of Sun Retail LPG and the sale of Rockgas in New Zealand.

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

10.3.3 Dual fuel

During this financial year Origin Energy increased its dual fuel customers by 81,000, from 709,000 in June 2006 to 790,000 in June 2007.

10.3.4 Green Power

Origin Energy continues to be Australia's leading provider of accredited Green Power products. As at 30 June 2007, the Company has signed more than 250,000 green energy customers resulting in 33% market share of national Green Power customers.

For the third time, Origin Energy has been rated by Green Electricity Watch (a representative group of environmental NGOs, and led by the Australian Conservation Foundation) as having the best green electricity product in the market.

Over the last year Origin Energy led a successful consortium in bidding for the Adelaide Solar City Project - which was awarded to Origin Energy in August 2006 - and participated in the successful Ballarat Solar Cities bid announced in June 2007. Both programmes will be supported by Federal Government funding. The Adelaide Program includes the trial of interval meter installations, energy efficiency campaigns, and the installation of solar panels at iconic buildings.

During the year, Origin Energy also signed an agreement with the AFL to launch a program titled “AFL Green”. This program will offset greenhouse emissions resulting from AFL match day, administration and travel activities.

In March 2007, Origin Energy launched its Carbon Reduction Scheme (CRS), a proactive way of helping businesses to reduce their carbon footprint. The CRS is cost effective, transparent and externally verified and enables the development of a wide range of carbon offset products for various applications. The CRS allows companies to either reduce their emissions by purchasing offsets or to generate offset products to on-sell.

10.4 Contact Energy

Year ended 30 June	2007 ($m)	2006 ($m)	Change (%)
Total revenue	1,740	2,075	(16)
EBITDAF	477	488	(2)
EBIT	355	400	(11)

Performance of operations

Year ended 30 June	2007	2006	Change (%)
Electricity Generated (GWh)	11,020	11,534	(5)
Customer Electricity Sales (GWh)	7,564	7,361	3
Gas Sales (PJ)	14.2	20.8	(32)
LPG Sales (Tonnes)	17,467	-	-
Total Sales (PJe)			
Electricity Customers	513,000	515,000	-
Gas Customers	75,000	79,000	(5)
LPG Customers	35,000	-	-
Total Customers	623,000	594,000	5

Origin Energy 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 financial report entitled "Management discussion of audited consolidated financial results for the 12 months ended 30 June 2007" was issued by Contact Energy to the New Zealand Stock Exchange on Tuesday 28 August 2007 and is available on Origin Energy'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.

10.4.1 Performance of Operations

On consolidation Contact Energy contributed $477 million to Origin Energy's EBITDAF, 2% lower than the prior year of $488 million. Significant operating factors that contributed to the financial performance for the 12 months ended 30 June 2007 were:

- a 20% increase in the unit cost of natural gas, both for internal use in Contact Energy's thermal electricity generation plants, and for supply to wholesale and retail customers.
- significantly lower prices received for Contact Energy's electricity generation after high rainfall in key hydro catchments resulted in increased wholesale electricity supply;
- increased hydro generation across the market and a commensurate reduction in contribution from Contact Energy's thermal generation plant;
- a stronger contribution from Contact Energy's retail base, due to lower retail electricity purchase costs;

The result was achieved under markedly different market conditions than in the 2006 financial year.

Wholesale electricity prices decreased 42% compared with the prior year from an average of NZ$93.00 to NZ$54.00. While as a net generator this has an adverse impact of Generation earnings, Contact Energy's integrated model saw the Retail segment benefit from lower electricity purchasing costs. Contact Energy's diversified generation portfolio also meant that it was able to generate more from its hydro assets and reduce its requirements to run gas fired generation thereby reducing its average cost of generation.

In consolidating Contact Energy's results, Origin Energy has used an average exchange rate for the period of NZ$1.14 to the A$, compared with NZ$1.12 to the A$ for the prior year. Origin Energy has consolidated $477 million at the EBITDAF level compared with $488 million in the prior year and $355 million at the EBIT level compared with $400 million in the previous year. At the EBIT level the result for the year to 30 June 2006 included a benefit of $30.9 million on the sale of Contact Energy's interest in Valley Power generation asset which has not repeated in this financial year.

A new corporate tax rate, enacted in May 2007, will reduce corporate tax from 33% to 30%. Although this new rate will not come into effect until Contact's income tax year ending 30 June 2009, the enactment of the reduced tax rate has triggered the restatement of deferred tax balances at 30 June 2007. This has resulted in a net tax benefit of $57 million in Origin Energy's accounts (or $29 million impact after eliminating the Minority Interests).

10.5 Networks (Discontinued Business)

Year ended 30 June	2007 ($m)	2006 ($m)	Change (%)
Total revenue	209	188	11
EBITDAF	30	29	1
EBIT	140	25	456

In November 2006, after the successful acquisition of the Sun Retail business in Queensland, Origin Energy announced its intention to sell its Network business. While this primarily included Origin Energy Asset Management business which provides management and operations services to Envestra Limited, a 17% interest in Envestra Limited, and a 33.3% interest in the SEA Gas pipeline the Company also chose to include several small, low growth business activities including minor cogeneration assets which previously were reported in the Generation segment and a variety of small assets including the SESA pipeline and Natural Gas Vehicle business previously reported in the Retail segment.

In April 2007, Origin Energy entered into an agreement to sell its Networks business to the APA Group for $556.5 million ($561.9 million after adjustments). Within this result this segment is reported as a discontinued business.

EBITDAF for the business was essentially constant with last year, up less than 1% to $29.7 million.

Settlement for the SEA Gas Pipeline portion of this business was effected on 29 June 2007 and is included in the accounts for the financial year ended 30 June 2007. The before tax profit on sale was $113.8 million and is included in EBIT of $140 million. This compares with $25 million in the prior year.

The sale of the balance of the business took place on 2 July 2007, and proceeds from this portion will appear in the accounts for the year ending 30 June 2008.

H Kevin McCann
Chairman

Sydney, 29 August 2007

11. Origin Energy Key Financials

Year ended 30 June	2007 ($m)	2006 ($m)	Change (%)
Total external revenue	6,456	5,880	10
EBITDAF	1,201	1,076	12
EBIT	943	791	19
Profit before tax	748	623	20
Profit after tax	592	454	30
Profit after tax and minority interests	457	332	38
Underlying Profit	370	338	10
Free cash flow[21]	595	583	2
OCAT ratio[22]	11.5%	12.5%	-
Capital expenditure	2,027	897	126
Total assets	14,765	8,665	70
Adjusted total assets[23]	11,195	8,372	34
Net debt	2,958	2,411	23
Adjusted net debt[23]	3,389	2,637	29
Shareholders equity	6,969	3,646	91
Adjusted shareholders equity[23]	4,683	3,582	31
Key Ratios			
Earnings per share - Statutory	54.7 ¢	41.9 ¢	30
Earnings per share – Underlying	44.3 ¢	42.7 ¢	4
Free cash flow per share[21]	71.2 ¢	73.6 ¢	(3)
Total dividend per share	21.0 ¢	18.0 ¢	17
Net asset backing per share	$7.99	$4.59	74
Adjusted net asset backing per share[23]	$5.37	$4.51	19
Net debt to debt plus equity	29.8%	39.8%	-
Adjusted net debt to debt plus equity[23]	42.0%	42.4%	-
Interest cover[24]	4.1x	4.2x	-
Return on equity	7.8%	12.3%	(37)
Underlying return on equity[25]	10.3%	12.9%	-
Segment Analysis (EBITDAF)			
Exploration & Production	254	209	22
Generation	99	58	69
Retail	341	292	17
Contact Energy	477	488	(2)
Networks (discontinued)	30	29	1

[21] 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.
[22] OCAT Ratio = (OCAT – interest tax shield) / funds employed.
[23] Adjusted to exclude impact of derivative financial instruments.
[24] EBIT/Interest – Includes capitalised interest, excludes unwinding discounts on provision.
[25] Underlying return on equity excludes significant items and the impact of movement in financial instruments.

Appendix 1 – Reconciliation of Statutory Profit and Underlying Profit

2007 Reconciliation	Included in EBITDAF	Before Tax Impact ($m)	Tax ($m)	Minority Interests ($m)	After Tax Impact ($m)	NPAT ($m)
Statutory NPAT						**456.9**
Significant Items						
Changes in FV of financial instruments						
Commodity trading instruments	No	32.1	(9.6)	(0.1)	22.4	
Financing instruments	No	20.1	(6.7)	(6.8)	6.7	
Asset Sales - Networks	No	113.8	(37.8)		76.0	
Termination of Mt Stuart PPA	Yes	19.6	(5.9)		13.7	
Impairment of producing assets	No	(73.8)	22.2		(51.7)	
Reduction in NZ tax rate	No		56.9	(27.7)	29.2	
Sun Retail one-off costs	Yes	(13.7)	4.1		(9.6)	
Total significant items		**98.2**	**23.1**	**(34.6)**	**86.7**	**(86.7)**
Underlying Profit						**370.2**
Underlying Basic EPS						**44.3**

2006 Reconciliation	Included in EBITDAF	Before Tax Impact ($m)	Tax ($m)	Minority Interests ($m)	After Tax Impact ($m)	NPAT ($m)
Statutory NPAT						**331.9**
Significant Items						
Changes in FV of derivatives						
Commodity trading instruments	No	(20.1)	6.0		(14.1)	
Financing instruments	No	7.4	(2.4)	(2.4)	2.6	
Asset Sales – Valley Power	No	30.9		(15.0)	15.9	
Costs of proposed merger with Contact Energy	Yes	(16.9)	2.8	3.7	(10.4)	
Total significant items		**1.3**	**6.4**	**(13.7)**	**(6.0)**	**6.0**
Underlying Profit						**337.9**
Underlying Basic EPS						**42.7**

Appendix 2 - Movements in fair value of financial instruments

Summary of Derivative Movements	
Change in Net Assets	3,193
Recognised in Hedge Reserve (post tax)	2,197
Recognised in Deferred Tax	943
Recognised in P&L	52
	3,193

Balance Sheet	Derivative Asset ($m)		Derivative Liability ($m)		Net Change $m
	30-Jun-07	30-Jun-06	30-Jun-07	30-Jun-06	
Commodity Risk Management	3,453	246	152	170	3,225
Contact	41	7	299	135	(130)
Treasury & other	139	4	152	115	98
Origin Group	**3,633**	**257**	**603**	**420**	**3,193**

Equity	Hedge Reserve - Equity (pre tax) $m			Hedge Reserve - Equity (post tax) $m		
	30-Jun-07	30-Jun-06	Net Change	30-Jun-07	30-Jun-06	Net Change
Commodity Risk Management	3,165	54	3,111	2,214	37	2,177
Contact	-	(7)	7	-	(2)	2
Treasury & other	13	(10)	23	10	(7)	17
Origin Group	**3,178**	**37**	**3,141**	**2,224**	**28**	**2,197**

Profit & Loss	Profit Before Tax $m		
	30-Jun-07	30-Jun-06	Net Change
Commodity Risk Management	34	(19)	53
Contact	20	8	12
Treasury & other	(1)	-	(1)
Origin Group	**52**	**(11)**	**64**

Appendix 3 – Performance by product and key metrics

Performance metrics by product - 2006

2006	Natural Gas	Electricity	LPG
Revenue ($m)	884	1,678	557
Gross Profit ($m)	147	309	145
Adjusted Retail EBITDAF ($m)	243		49
Adjusted Retail EBITF ($m)	223		25
Sales – (PJ)	120		
Sales – (TWh)		15.6	
Sales – (ktonnes)			522
Total Sales (PJe)	120	56	26
Customer accounts ('000)	880	955	300

Performance metrics by product - 2007

2007	Natural Gas	Electricity	LPG
Revenue ($m)	883 *(-0%)*	2,477 *(+48%)*	577 *(+4%)*
Gross Profit ($m)	136 *(-8%)*	427 *(+38%)*	143 *(-1%)*
Adjusted Retail EBITDAF ($m)	308 *(+27%)*		47 *(-4%)*
Adjusted Retail EBITF ($m)	283 *(+27%)*		22 *(-10%)*
Sales – (PJ)	125 *(+5%)*		
Sales – (TWh)		23 *(+47%)*	
Sales – (ktonnes)			486 *(-7%)*
Total Sales (PJe)	125 *(+5%)*	82 *(+47%)*	24 *(-7%)*
Customer accounts ('000)	889 *(+1%)*	1,815 *(+90%)*	336 *(+12%)*

Retail Key Metrics

Gas and Electricity	Jun 06 Pre-MtM	Jun 07 Pre-MtM
$ per Customer:		
Gas and Electricity customers ('000) (Weighted average across the year used for 2007)	1,834	2,210
Gross Margin / Customer	250	255
EBITDAF / Customer	132	139
EBITF / Customer	122	128
Cost to serve / Customer	118	116
Margin		
EBITDAF	9.5%	9.2%
EBITF	8.7%	8.4%

Appendix 4 – Reconciliation EBITDA 2006 to EBITDAF 2006

	2006 EBITDA	FV adjustment	Gain on sale of business	Re-statement Networks sale	2006 EBITDAF
Exploration & Production	205	3	-	-	209
Generation	60	-	-	(1)	58
Retail	273	17	-	1	292
Contact	519	-	(31)	-	488
Networks	30	-	-	-	29
Total	**1,087**	**20**	**(31)**	**-**	**1,076**