# BG's takeover offer for Origin Energy

24 June 2008



# Introduction & purpose

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- Outline the terms of BG's offer
- Explain why BG's cash offer of $15.50/share represents full and fair value
- Set out why BG's proposal, previously supported by the Origin Board, should be put before Origin shareholders

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# Key Messages

**BG's views can be summarised:**

- BG's cash offer of $15.50/share represents full and fair value
- BG's offer has valued Origin at a premium to relevant indices
- Origin's suggestion of $16bn for its CSG fundamentally overstates value
- The Santos / Petronas deal does not provide an appropriate valuation metric
- Step-change in reserves seems driven by new estimating methodology
- Insufficient wells drilled to give confidence in the reserves step-change
- JV alternative is undefined, lags competitors and carries substantial risk
- Today, Origin doesn't have the reserves to underpin its LNG alternative

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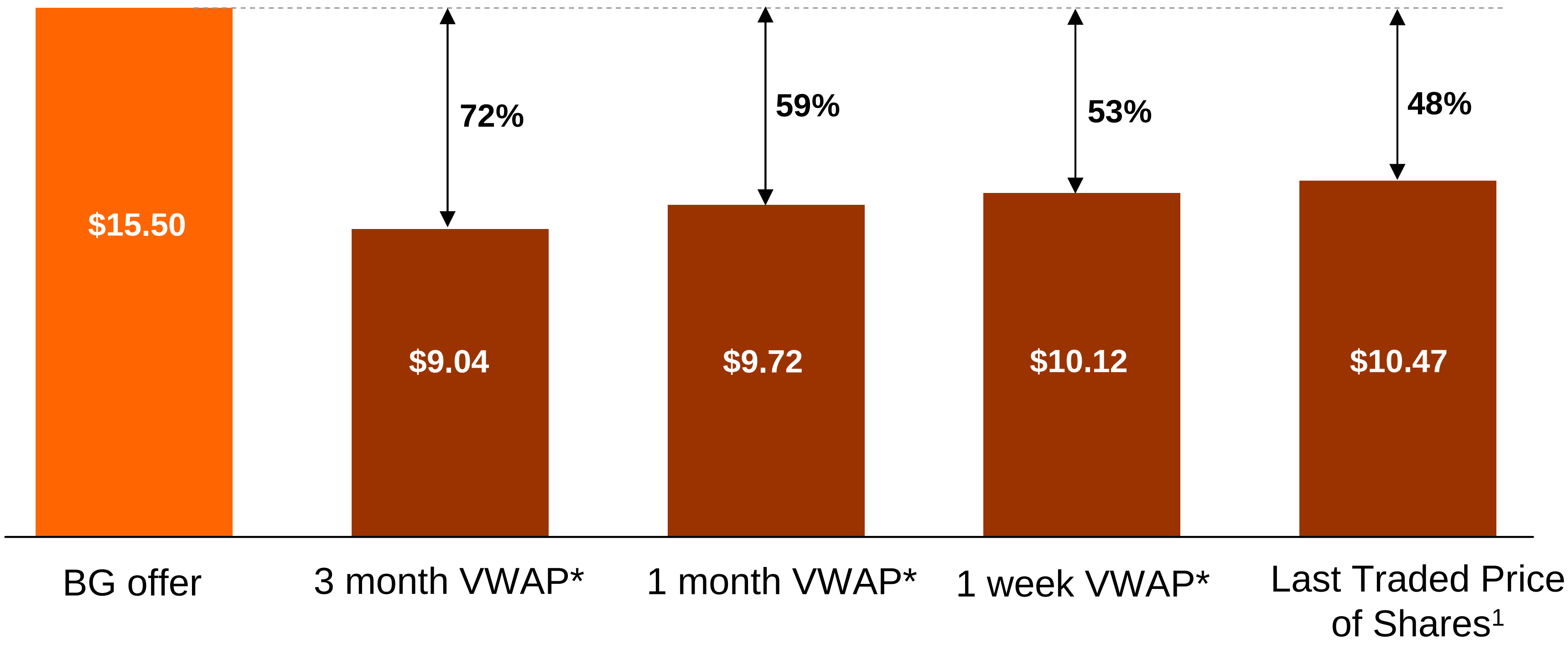
# BG offer highlights

- All cash offer of $15.50/share less any dividend
- Full and fair value for whole business (retail, generation, E&P)
- BG intends to invest in and grow all of Origin's Australian businesses
- Cash certainty to Origin's shareholders vs. risks of JV alternative

BG's cash offer of $15.50/share represents full and fair value

# Offer represents a substantial premium




*Source: IRESS*

*Note: All VWAP calculations are based on the period leading up to and including Origin's closing price on 29-Apr-2008, being the day immediately prior to the announcement of BG's initial proposal*

1. *Closing price on 29 Apr 2008*
2. *Closing price on 23 Jun 2008, $15.52*

* VWAP = Volume Weighted Average Price

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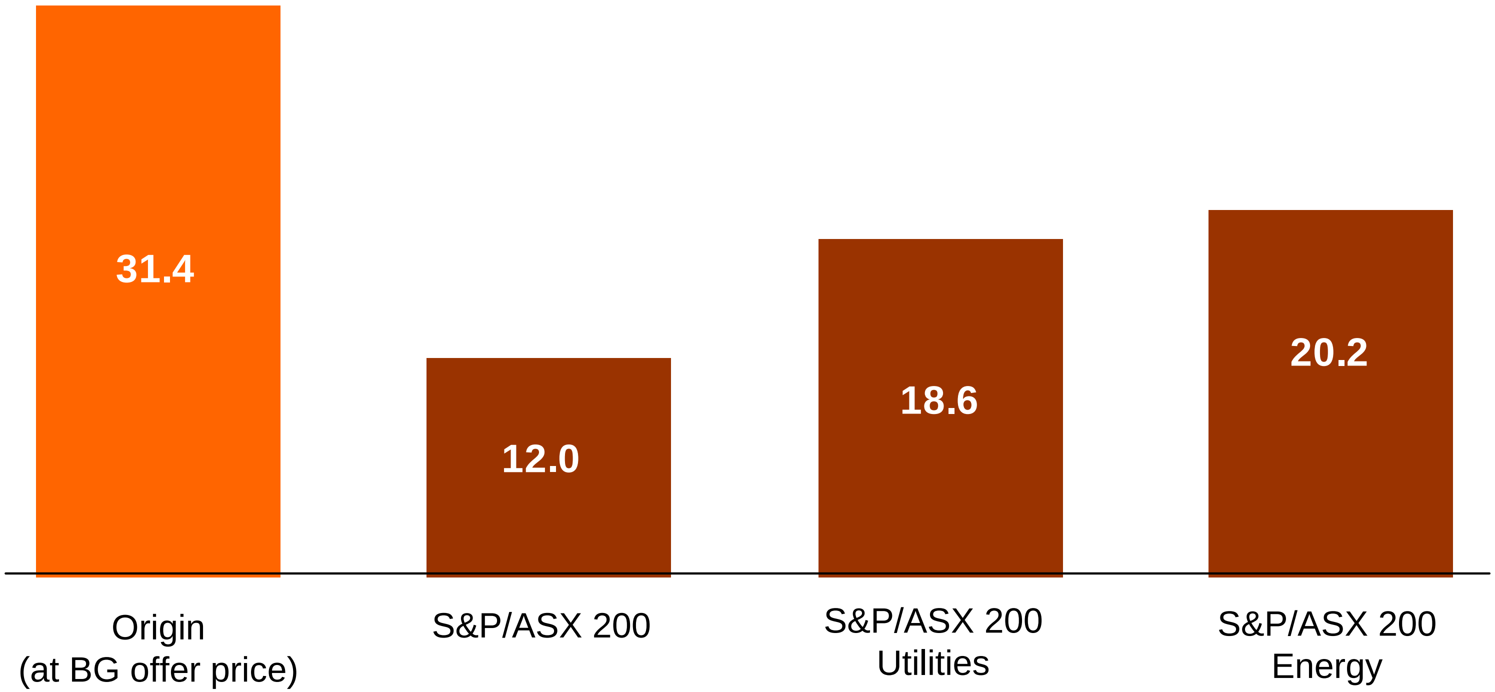
# Offer represents substantial value

- At BG's offer price, Origin is valued at 31.4x FY2008 earnings, representing substantial value relative to relevant indices
- BG's Offer attributes significant value to the current utility business and future prospects




***Source: Datastream IBES estimates as of 23-Jun-2008***

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# Conditions include

- A minimum acceptance of 50.1%
- Necessary clearances and approvals including:
  - FIRB
  - ACCC
  - OIO in New Zealand
- No material acquisitions or disposals by Origin
- BG Group shareholder's approval (ordinary resolution)

All conditions set out in full in today's announcement

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# BG's proposal to Origin

- On 28 May 2008, Origin agreed that a revised BG proposal at $15.50 per share should be put to Origin shareholders
- Origin then withdrew support citing:
  - Santos-Petronas impact on value of the company's CSG reserves
  - A new reserves report (which had been received and considered by Origin prior to the 28 May 2008 confirmation)

# Santos-Petronas deal is inappropriate benchmark

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- Origin promotes a headline price of $1.65/GJ
- This is inappropriate because:
  - Transaction included reserves (c 5500PJ gross) *and* value for a well developed, integrated LNG project
  - Petronas not just buying feed gas; LNG value chain
  - BG estimates notional price at $0.95/GJ
  - Origin does not today have the reserves for an LNG scheme given downstream commitments and reversion rights
  - Origin LNG facility would be years behind. Price should be discounted to around $0.70/GJ

Origin significantly behind Santos in LNG export scheme

# Arrow-Shell deal benchmark more appropriate

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- Arrow-Shell transaction provides a more appropriate guide for the value of pure domestic CSG reserves
  - Shell paid $435 million for a direct interest in Arrow's CSG tenements
  - Price attributed to CSG (3P reserves) on its own was $0.52/GJ

- The two transactions benchmark at around $0.50 - $0.70/GJ

Appropriate benchmark $0.50 - $0.70/GJ

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# CSG reserves growth

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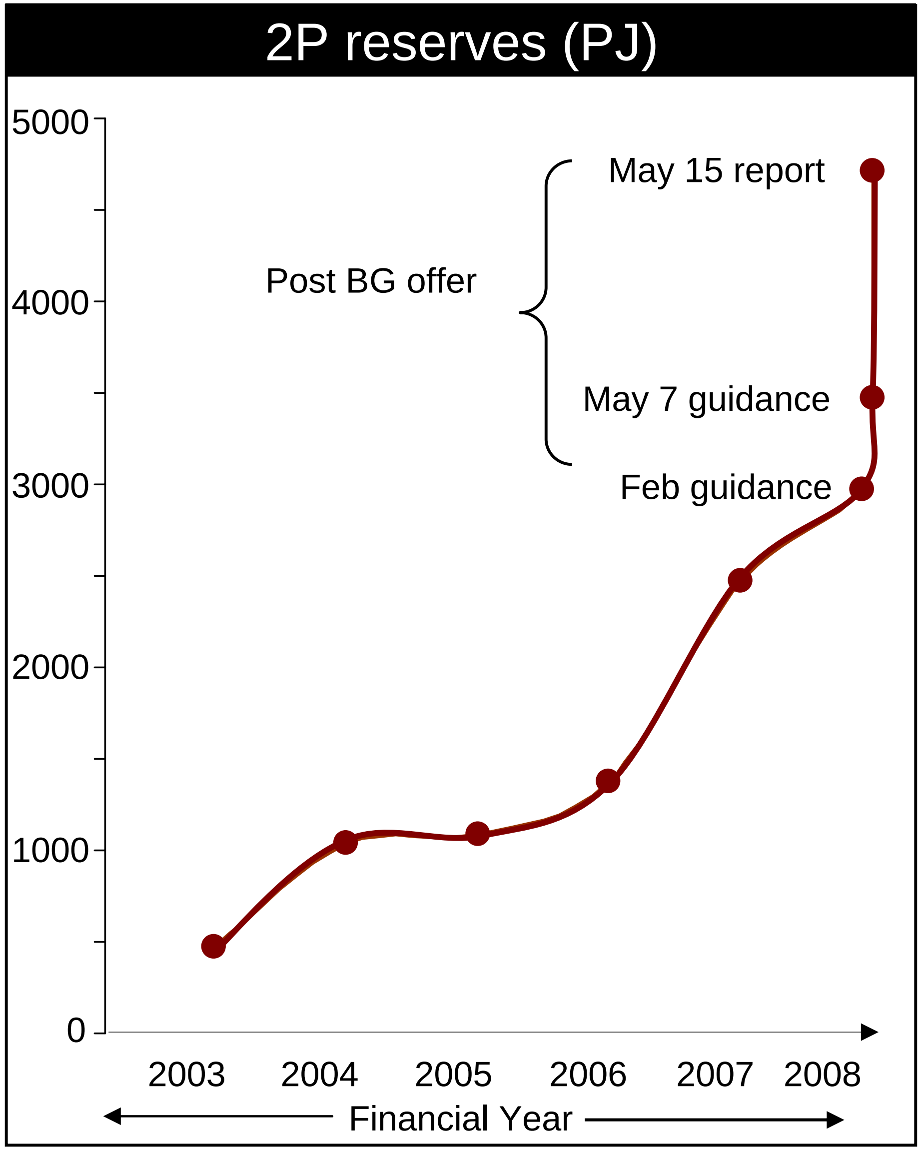


- Reserves as at May 15, 2008

| Reserves (PJ) | | Increase from 1st Jul 2007 | |
|---|---|---|---|
| 1P | 1,330 | 223 PJ | +20% |
| 2P | 4,715 | 2,245 PJ | +91% |
| 3P | 10,122 | 5,544 PJ | +121% |

- Has there been a change in the methodology for calculating reserves?
- How much of the reserves uplift has come from drilling activity?
- Where have the wells been drilled?

**Step Change in reserves not accompanied by step up in actual Origin E&A drilling**

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# Implied 3P reserves added per E&A well

| | QGC | ORIGIN |
|---|---|---|
| 3P Reserve Adds | 4,162PJ | 5,544PJ |
| Net wells | 31.8 | 18.6 |
| Reserves added per well | 131PJ | 299PJ |
| Reserves added per operated well | 131PJ | 530PJ * |

** Origin wells operated by QGC (9.1 net) and Santos (1.7 net) assumed to add 131 PJ each*

*Reserves as at June 2008 versus June/July 2007*

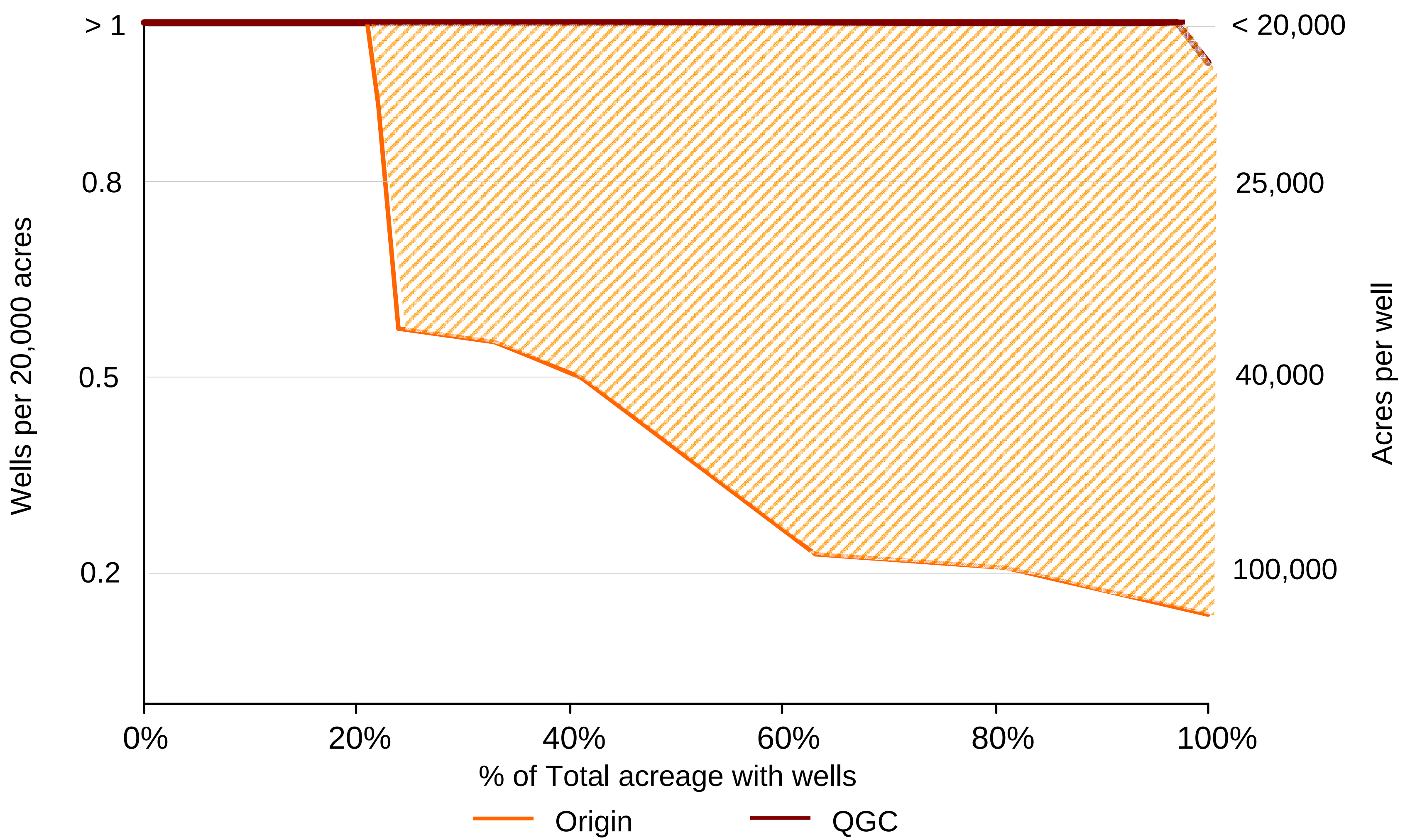
*E&A wells drilled from July 2007 to March 2008 (inclusive)*

*Net wells reflects equity interest in each well*

**Not possible to add 530PJ per CSG exploration and appraisal well**

# Competitors' drilling density

## Origin's drilling density is significantly lower than its peers




Source: BG analysis

**Significant time and effort needed for Origin to reduce reserves risk**

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# Reversion rights

- Derived from acquisition by Origin in 2002
- Reversionary interest is 45% of the interest acquired in certain tenements
- Costs being carried now and no payment to Origin on reversion
- Only really brought to light following BG's announcement on 30 May 2008
- BG is of the view that:
  - If reversion is not triggered it means payback is not reached
    - ⇒ Affected "reserves" not economic and therefore not reserves
  - If reversion does trigger
    - ⇒ Potentially material since affects a third of reserves

**Greater clarity needed on reversion rights**

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# Summary on reserves

**BG has concluded that:**

- 70% of reserves added due to changes in estimating methodology
- Insufficient wells drilled to support reserves step-change
- Significant reserve increase attributed to Origin operated blocks which lack support from appraisal drilling or production testing
- Substantial capital, human and equipment resources needed to prove up reserves
- Greater clarity needed on reversion rights and their impact on value

**Full disclosure of step change in reserves needed**

# The JV alternatives

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**Origin is attempting to create an export JV, involving sale of upstream assets**

- Origin lacks existing LNG scheme, down the queue at Gladstone
- Highly capital intensive, very long-term
- Origin lacks skills and experience
- Does Origin's balance sheet have sufficient capacity?
- Partner does not guarantee economic outcome

Alternative carries substantial risk; BG offer is certain premium

# Reserves for the JV alternatives

**Today, Origin has insufficient reserves for an LNG scheme**

- Origin must first satisfy its domestic needs which BG estimates at more than 3000PJ from CSG
- Selling reserves now increases the economic risks to its existing investments and businesses
- Need to take account of reversionary interests
- Establish 1P and 2P reserves for LNG financing & sales contracts before Final Investment Decision

**Origin currently has insufficient 1P reserves to underpin an LNG project**

# Project implementation

**Commercialising Origin's reserves involves significant project risk**

- Implementing large scale projects is not straightforward
- Major uncertainties: cost growth and schedule delays
- Significant investment required: first revenues unlikely before 2015/16
- Slippage of 2 - 3 years can destroy 20 - 30% of NPV

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# Markets

**Access and speed to market will be crucial to realising value**

- Significant supply-demand balance uncertainties
- Significant pricing and economic uncertainties
- CSG is an unproven supply source
- Customers for LNG require security of supply
- BG flexible portfolio critical to managing CSG supply risks
- Speed to market is a critical economic driver
- Origin will face major risks in delivering a timely LNG project

Significant uncertainties

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**A world leader in natural gas**