



**MACQUARIE CONFERENCE - SYDNEY - 7 MAY 2008**  
**TRANSCRIPT OF PRESENTATION BY MR GRANT KING, MANAGING**  
**DIRECTOR**

**Start of Transcript**

Presenter: It's been a busy week for Origin and we're very grateful to have Grant King come and present to us today.

Grant King: The disclaimer is probably longer than it would normally be in this presentation given current circumstances. You're aware that you don't have a presentation in front of you because uncharacteristically for me I was actually contemplating this presentation at the beginning of last week; suffice to say it's changed a little bit in that time. There will be a copy available to you but just not right at the moment.

I should make one other comment that I don't intend to comment specifically on the proposal that BG's made, other than to say that the companies are in discussion. Discussion is occurring between the companies obviously at senior level, but I don't intend in this presentation to comment on those discussions or answer any questions on those discussions. Nor do I intend that my comments should in any way be taken to reflect a response that the company might actually, or it will inevitably make to the proposal.

What I do intend to do though is talk about Origin in the way that we normally would and, in particular, postulate or contemplate what do we think BG's proposal means in terms of how you would think about the value of Origin. Hopefully that will be useful to you and if not, delighted to answer any questions you might have following the presentation.

In that context it's not surprising that we begin with a little bit of history; of course our history as a listed company goes back to



2000. At that time we were continuing to implement a strategy put in place in the mid-90s and it was a strategy which today and we have for many years described, as being a fuel integrated generator retailer. For those of you who have attended presentations by us in recent times you will have noticed we've continued to increase that description as a fuel integrated generator retailer and more recently talked about the importance of that fuel position and the value that we believe in the energy supply chain nets back to that fuel position. I think at the core of the proposal that we see from BG is what is the value of that fuel position.

At the end of the day that's the outcome of a consistently implemented strategy over now much more than 10 years. In so doing, the company has grown its physical positions, if you like, quite strongly; its retail business clearly through acquisitions, its generation capacity as we backfill into that retail business, and again, for the reasons I just mentioned, our resource position, which I think has become of increasing interest.

Over that time our profits have grown quite dramatically, compound growth rate of around 24% a year, bearing in mind that the proposition we've always put to investors is that we seek to grow on average around 10 to 15% per annum, and this year consensus of around \$430 million. So the company has grown strongly and consistently over that period of time in terms of profits. And not surprisingly, our market capitalisation has grown accordingly.

When we look back over the time, and this is prior to receipt of the BG proposal, our market capitalisation has doubled every three to four years. In that context a proposition that of course is a substantial increase on the current value in our view looks like only a few years' work, and I think that's one of the considerations that investors would ultimately have to make, because we see ourselves on a continued path of growing our company and the value of our company.



Other than for the current circumstances we would have talked to you about how we intend to continue that growth, and suffice to say the continued implementation of that strategy of a fuel integrated generator retailer sees us with quite a rich portfolio of opportunities. Otway is just coming on stream as we speak, and it's very pleasing to see that project now effectively online at its designed capacity. Kupe next year, continued growth in our coal seam gas activities etc. Similarly in generation, a lot of construction project development activity happening. And equally in retail, perhaps we will have an opportunity at long last to look at one of the New South Wales retail businesses, given the outcomes of the Labor Party Conference and the New South Wales Government's stated determination to sell those retail businesses.

We see ahead of us quite a significant pipeline of opportunities, all of which we believe we are advantaged in pursuing through the strategy that the company's put in place. We would expect our earnings to continue to grow and based on history, of course, a continued increase in the capitalisation of the company.

Having said that, BG's proposal clearly does present a bit of a watershed; at least it causes us to pause and think about how one might think about Origin. Our view as is perhaps evidenced on the top chart is that historically because the proposition we've put to investors is a company that intends to produce strong, predictable cashflows, that's the way we've described it, growing on average at 10 to 15% per annum. It's not surprising that we see Origin as a company that's typically been valued off its earnings. The question investors often ask and puzzle over is what sort of PE should the company trade at.

Historically we've traded in a PE range of 16 to 22 times earnings and not surprisingly, if you look at our earnings growth in that PE range, obviously you come up with the valuation or capitalisation of the company.



It would seem, particularly in the context that the proposal by BG from my memory implies, about a 27 times earnings. But in the context of earnings based companies that would imply on a traditional basis, a growth rate perhaps higher than even we might contend that we would achieve. And does suggest that perhaps it's time to take a different view of Origin and look at it more on a resource base.

If you look at Origin from a resource perspective, then even on the basis of the BG proposal, other multiples are not at all challenging in the context of companies in similar positions in terms of their development of the resources, whether they be gas or minerals etc, coal, that are available to them.

In that regard we don't consider those sorts of valuations challenging at all. But that does imply a greater understanding of the resource position that the company has. What I want to do is address the balance of my comments today to that resource position, because quite clearly, or it seems to me quite clearly, that's at the core of the BG proposal and at the core of investor interest in Origin.

This is a chart we've historically used. It indicates that Origin is currently carrying 2,500 PJ of CSG reserves on a 2P basis and are now both the leading producer and, if you like, a carrier of reserves, if there's any such term, of all of those in the CSG business here in Australia.

Having said that, I would like to, as I say, talk a bit to whether that is reflective of the true resource position that Origin is involved in. I would like to talk briefly about the characteristics of coal seam gas as a resource, and in doing so help you understand why it is possible to get some quite dramatic shifts in valuation, depending on conclusions you come to about that resource.

While this chart is schematic, it allows us to draw out in one respect an extremely obvious but, nonetheless, very important



point. That is not surprisingly the coal seam gas resource available is entirely a function of price. If there is an increasing view that the gas price escalates and escalates quite materially, then so too does the resource base. That relationship is very strong, it's a very material, very substantial escalation of the resource base with price.

The third variable is of course cost, because as that resource base expands as one's realised price increases, clearly one would normally seek to access the most profitable resources first. So the cost base will also go up a bit. That last unit of CSG will cost a lot more to produce than the first unit.

The key to valuation is thinking about effectively the interplay or interrelationship of those three variables. What drives the price or the net back for the gas that's going to be produced? How does the resource vary in relation to that net back? And what happens to the cost structure or that marginal cost of production as that resource base grows? That's the key to understanding and valuing coal seam gas resources.

To hopefully put that in a bit of perspective, again there's nothing new in this chart. Origin has an extensive acreage position in coal seam gas. If I'm allowed a little bit of hyperbole, we would say the best acreage position in coal seam gas as we span the two - what has certainly proven to be the two sweet spots so far in the CSG industry in Queensland, and that's the Undulla Nose area in the Walloons, and the Fairview Spring Gully fields in the Bowen Basin. They are, I think, or I trust as investors would know now, proven to be exceptional, absolutely exceptional CSG resources.

That extensive acreage position is really only partially addressed so far through development activity and if I could call that colour perhaps grey or something like that, the two areas, the Undulla Nose area and the Fairview Spring Gully area, are the only two areas and extensive acreage position where we've done a lot of development and appraisal activity.



Historically, as you saw in the previous chart, as of June last year - we do our reserve bookings each year - we're carrying 2,500 PJ of 2P, and we've indicated through the course of the year that if one was to think about a 3P position or perhaps an ultimate recoverable position, around 4,500 PJ. But effectively that only talked to those two areas in which we've done a degree of work.

This time last year we indicated that our target was to add around 500 PJ of reserves each year. I would say this year we will add over 1,000 PJs of reserves, that is over 1,000 PJ will move into that 2P category. That should indicate to you the very expandable nature of that coal seam gas resource, that reserve addition is a very, very cost effective unit cost - or cost per unit of reserve added - is very low, and I would be quite confident in expecting to book at least 1,000 PJs of additional resource by June. Quite clearly we continue to rapidly expand that resource base.

The problematic question, the challenging question though, and interestingly people are sort of using a term ultimate recoverable - I'm not sure if 3P in the way the petroleum industry has conventionally used the term is quite appropriate - but in the acreage that we feel we have some knowledge, which are the areas, that's not the full acreage position per se, but those areas in circles where we have some knowledge either by way of production activity or appraisal activity or seismic and slim hole type activity, we think it's quite reasonable to suggest the resource base is 10,000 PJ, that's the ultimate recoverable.

I would not contend, because of course, it is a function of price though it's necessary to limit, but at the end of the day we would expect when one's thinking about Origin, you'd be thinking about how do you monetize 10 TCF of gas.

I have to say, compared to our expectations of 10 or so years ago when we got involved, I didn't think I'd be standing in any presentation saying that we were sitting on top of 10 TCF of gas.



So there is a very, very substantial resource base there. And the rate at which we are demonstrating the movement of those resources into 2P categories should give you confidence that that's not the sort of figure that is trotted out with hyperbole. I mean, that's a figure that we believe has some very sound, factual basis behind it.

So the valuation question becomes how do you monetise that resource, how do you think about valuing it? We have now for I guess the last six months articulated a view that we think there is clearly now substantial drivers for increased price of gas. At least two of those drivers, one coming from carbon, the other coming from export, will, in our view, see a substantial increase in gas prices.

We put this chart up not because the abatement chart is necessarily right, but because it's one of many data points that indicate that if Australia as any other country in the world, takes on any meaningful share of the carbon reduction task, then we would expect to see carbon prices of at least \$20 per tonne, and more likely closer to \$60 per tonne.

Prices in the range of \$20 to \$30 per tonne we will begin to see strong upward pressure on gas prices. Totally independent of what might happen in terms of LNG or any export market, we already see in place those mechanisms which will result in a significant increase in gas prices.

Our view, at around \$20 to \$30 tonne is we start to see \$2 or so increases in gas prices over and above current gas prices. As you start to see those higher gas prices flow back, of course you see the resource base expand. And not surprisingly, you get an almost exponentiation of value as you get both a resource and price lever that work.

We see those mechanisms coming into place; we're already seeing higher gas prices evident insofar as we won't even tender for gas



now at prices at the level we would have six months or a year ago. Have said that, it's not without risk. At the end of the day the emissions trading scheme and the targets are not set, but in our view we will see through 2010, 2012 these trends become evident and these impacts flow back into gas price.

Quite clearly the second trend that's causing people great interest is what happens if you really do open up an extra channel to market. When I say extra channel to market, if I go back to Origin and the strategy, the strategy we've been pursuing since the beginning, we've always sought to develop deep channels to market, and clearly through our retail and generation businesses we've achieved that, and therefore to the extent that the resource base grows, our view is that entire resource base will be monetised through those existing channels to the domestic market, that is through our retail and generation business.

But, of course, we've not previously had access to a third channel which is of course an export channel, the LNG channel to market. What we're seeing contemporaneously, and it's not additive to, it's as well as, the pressures that come about through increased carbon prices, it's quite clearly the effect of LNG netbacks on these domestic gas resources. The emergence over the last six months or so of a number of competing LNG projects in Queensland has clearly, I think, for investors, created the view that perhaps at least one of these projects is real and that there is a real likelihood that an LNG channel to market will also be developed.

The key issue here is that the netbacks are in many respects linked to oil prices, and again it introduces an element of uncertainty because I'm not sure anybody's willing to make the call as to what oil prices will be with certainty going forward. But the relationship between oil price and LNG price is reasonably well established and so too are the netbacks, and our view again remains that it's very easy to see netbacks to these sort of domestic gas resources, at least several dollars a gigajoule higher than has historically been



the case. Again, this only adds to that mechanism that tends to increase the resource base, the higher the net back.

So if I then go back to our simple chart, that sort of S-shaped curve is quite important, because quite clearly once gas prices pass a certain threshold, the resource base does expand. I won't go as far as saying exponentially, but certainly very, very dramatically. And the returns to increase in gas prices are quite phenomenal. But of course at the end of the day your cost structure eventually catches up with you as you produce the more marginal resources, and of course returns on that last unit of production are of course much less.

And at the core its understanding that balance that I think is the key to thinking about the value of anybody in the CSG business, and quite clearly in the current context the value of Origin.

I think it's fair to say from Origin's perspective that our board is quite clearly seeking from management how it should think about those three variables; price, resource and cost. And not surprisingly, it takes some time to make sure these matters are assessed thoroughly. And that's quite clearly the process that we are in the middle of right now. We would not want to underestimate the value of the resources we control, and I'm sure investors wouldn't want us to underestimate the value of resources that we control.

So that work is underway and will be a core piece of our deliberation before we make any response.

Having said that, just to add a few more thoughts before going to questions. Of course, it is not singularly about CSG. It's just that CSG has put us in this extraordinary position of adding for example a TCF of gas a year. I think last year we added 1,200 petajoules, and this year as I say quite confidently, we will add at least another 1,000.



We have been positioning ourselves very actively to address conventional gas resources as well, or petroleum resources. And quite clearly in a world which is valuing gas more and more highly, we would be seeking to continue to add gas resources on an economic basis. I have to say it's difficult to do that through acquisition, and obviously even more difficult to do it through acquisition apropos last Tuesday, because the price of these resources keeps going up.

But exploration provides one avenue to do that, and over the next two to three years we expect to address some very significant opportunities to add to those resources.

Again, it seems quite strange to say, but in the Northland Basin for example, we see unrisks prospects of 10 TCF sitting in the book, but they're highly risky. One would caution investors in doing anything other than noting that fact. But Origin is not just a Coal Seam Gas story, it has assembled a substantial portfolio of opportunities to expand that resource base and extract the obviously increasing value that has been ascribed to people with strong positions in natural gas.

I might just touch on the other resource position that we think is early days but has merit, and that's of course geothermal. We've quite deliberately referred to Origin as a fuel integrated generator retailer, because we see ourselves moving across fields as we perceive the value that is likely to accrue to them. And quite clearly as gas prices go up and coal prices go up, so too will energy prices as carbon costs come on. The fact of the matter is we are heading into a far more expensive world in terms of energy costs. And in so doing, clearly some forms of energy, particularly renewable energy, will take on additional value.

I've said in previous presentations that we've secured, in our view, a very strong position in by far and away the best geothermal prospect in Australia in the Cooper Basin, simply because of its



scale. Its scale is vast. And that's exactly the same approach we took to Coal Seam Gas just over 10 years ago.

The clearing price for renewable energy which you'd have to say is driven by wind at around \$100 say on average is well in excess of what we're hopefully targeting in terms of the cost of geothermal energy. If you do your maths in terms of the sheer amount of energy that is resident in those prospects and look at them being produced on a several thousand megawatt basis. We think we're again looking at a value creating opportunity of the like of Coal Seam Gas 10 or 12 years ago. But of course you would want to risk that very substantially because it is challenging and it's very early days.

But that hopefully gives you a view of how we think about Origin; a company that has over the years through a very deliberate and consistently implemented strategy sought to build substantial fuel positions and monetise those fuel positions through deep channels to market. And somewhat surprisingly, it works. We've put ourselves in that position and it's pleasing to see at some level that value recognised, of course which is the situation we're in today.

We suspect it is time to think about Origin differently. Often when I've met with investors it does seem that the immediate earnings outlook is what is of greatest interest. I would contend that it is time to think about the resource position and how one would value that resource position. And in that context, even at the current bid, the PE is in my view not challenging.

In our view East Coast gas prices will increase. There will be a variety of views around the level of those increases. But once those increases move beyond a goal or two, you start to get into a material expansion of the resource base, and then you get both resource and price impacting significantly upon valuation.

The bottom line is we continue to build in our view compelling resource positions, not just in Coal Seam Gas but in conventional



gas, so particularly through exploration and also in the long run, in geothermal. And I must also comment to you that I'm sure our colleague David Baldwin, has also told you how rich Contact is in similar opportunities, particularly in geothermal.

So ladies and gentlemen, that was my intention today, to reinforce that view of the company. I would be delighted to take any questions that any of you might have. Thank you.

Question: (Paul Barnes, QIC) I'm interested in just furthering your comments on gas prices via resources. Given you're about to book an additional TCF potentially of resource come June, what sort of outlook does Origin take on the pricing of gas, given that it's going to take five, 10 years to actually have that gas actually being utilised?

Can you sort of talk us through the mechanics of how Origin sort of use that, given your comments today?

Grant King: Yeah. There's a chart in other presentations we've given, I didn't include it here today, but it shows our contracted position. And in broad terms - and I mean I must say historically, answer that question by saying if you took 4,500 petajoules is say a reasonable view of the resource base, I'll get a bit bold and say take 10,000 petajoules has been a reasonable view of the resource base.

Now 2,000 of that is essentially what we call contracted. But of that, about 1,000 is contracted to third parties. So about 1,000 or 10% of that is sort of fixed or fixed in escalation. The 1,000 that we call contracted but not necessarily fixed is simplistically what's going to go into the power stations that we own. And that's not fixed in price because if the price of energy goes up we will receive that net back to the fuel.

So we say the majority of the position we have is open to that price upside. Then the question is at what rate do we begin to see these prices start to impact. Our view is that there are quite a number



of Coal Seam Gas producers obviously, so I think very small amounts of gas you may not see huge price uplifts. The real tests are when someone comes along and wants to contract a substantial amount of gas. As we look at the market, that's a few years, so it might take a few years before it becomes evident through written contracts as to those prices.

But when we look at the price negotiations we're having with customers, my view is as I said earlier, is we're already seeing movements in gas prices today. But when will we see \$5 or \$6 gas prices; I suspect that's post 2010, 2012. I have to say that's an opinion, but I think that's the timeframe. When we do our model in our analysis, we don't think there's a switch that's being flicked tomorrow. It will take time for those prices to materialise.

Question: (Chris) In your opinion is there room for more than two LNG projects in Queensland?

Grant King: I would clearly comment on that from the sort of supply and development side of it, because the other side is a marketing side and I don't profess or we don't believe Origin necessarily can answer it from that perspective.

From a point of view of resource base, yes, because if you took a view that Origin represented, maybe 30% of the sort of acreage or the resource base, then we say it's not unreasonable to suggest industry is looking at 20-30 TCF of gas. But you do then run into practical difficulties in terms of accessing resources. There's a lot of drilling activity involved in proving up costs in gas. There's a lot of what people call ramp-up gas that has to be accommodated in the market. So I think you do hit practical limitations as to the rate at which you can ramp-up an industry.

I think people involved in promoting certainly the large projects understand that issue and are contemplating how one phases the development. Instead of perhaps building one 4 million or 5 million



tonne plant, you would build two 2 million trains to manage that ramp-up.

When you say one or two, perhaps the better question is five or 10 million tons, because you could have one project that's a scale project, or two projects that are smaller scale. But certainly the resource base must support five to 10 million tonnes of LNG I would have thought. Whether that sits in one or two projects - I suspect it's fair to say that the interest in Origin at least partly reflects the desire to win that race. So whether one project or two projects gets up, I'm not sure I can comment on. But in terms of sheer size I suspect you could support a lot of LNG production.

Question: (Crispin Murray - BT) Putting aside the BG bid, do you think that the true intrinsic value you talked about in the upstream business can be realised in your integrated structure as you stand now? Or would you now consider actually splitting that out in some form?

Grant King: I don't intend to specifically answer the last part of the question, because the Board will make that decision as to how it intends to respond. But the first part of the question I'm very happy to comment on.

We would say yes. If one holds the view, and clearly this is what we've been contemplating prior to the BG bid, and I've said this to many of you. If one holds the view that any material LNG export creates that feedback loop into the domestic market and it's perfect, then the answer is yes, because the depth of channels we have to market will move the sorts of volumes even in a 10 TCF resource.

To give you a way of thinking about it from an execution risk perspective - if we were to build a Darling Downs power station approximately every two years, which in terms of demand growth in the electricity market is not challenging, and it's a bit like a cookie cutter process in the sense that you're doing the same thing



again and again. That for example would create the same demand growth for the substantial LNG project would do.

And we would contend from an execution risk point of view there's probably much lower execution risk around that pathway. So we've always felt very comfortable that those domestic channels to market would monetise that resource base.

I think the question is does an LNG project or does the proponent of an LNG project, are they able to capture value over and above the value ascribed to the fuel. And BG may well contend as an example they can, therefore they see extra value. That's something that needs to be tested.

Question: Would it be fair to say that there's been a disconnect in the market in recent times between the value of pure players like QGC and your own valuation in terms of the Coal Seam assets that you have. And I would contend that the bid has sort of brought your valuation of your assets in line with what was being valued in the market in the pure plays. So you could argue there has been an inefficiency that your structure has led to.

Grant King: I could be a debater and answer in two respects that you said if there had been, and it's now been corrected. So arguably if there was, it's been corrected. The point may have had merit but perhaps no longer, firstly.

Secondly, the valuations seem to be leap frogging each other as best as I can tell. I don't say this as a criticism because I think it is very difficult - let me go another way. I think it's very difficult for analysts and investors to say where do you come out on price, resource and costs from the outside looking into the whole CSG resource. That must look very opaque from an investor's perspective.

It would be fair to say that BG through their QGC acquisition, has a good view of the resource; certainly a better view than most



others, and we understand the price levers. And therefore I think they have provided perhaps a very relevant benchmark as to value. But the market sees that and the market moves on and says that gives me a new benchmark.

I'm not sure I could swear that I've got the numbers in my head, but it looks to me like we see this continued to compound in evaluations as new benchmarks become available.

End of Transcript