

Publication: Financial Review

 Date: Monday 8th March 2010

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Shell in \$3bn gas takeover play

- Bid to acquire Arrow Energy
- Cements role in Qld gas boom

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CORPORATE MOVES

Royal Dutch Shell has tabled a \$3.3 billion-plus takeover offer for Arrow Energy in the latest push by a multinational to cement its position in Queensland's booming liquefied natural gas industry.

The Australian Financial Review understands the Anglo-Dutch energy giant made the approach late on Friday evening, forcing the Queensland-based company to cancel a planned investor road show in London this week.

Global energy players have scrambled to secure a seat at the emerging sector over the past few years. Shell joins Britain's BG Group in outlaying billions of dollars to snap up local coal-seam gas producers, which aim to convert the natural resource into LNG for export into Asia. Having

'BHP Billiton has secured a 55pc increase in coking coal prices from a key Japanese customer, ending a decades-old system of annual pricing contracts.'
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failed in a bid to acquire Origin Energy, BG paid \$5.6 billion in October 2008 to buy Queensland Gas Co.

The state expects up to \$50 billion could be committed to the coal-seam gas industry over the next two decades with four separate ventures, in-

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In the pipeline ... Queensland's Arrow Energy is the latest local target of major global companies.

Photo: GLENN HUNT

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cluding Arrow, poised to make final investment decisions on competing projects this year.

The Queensland coal-seam gas ventures have the potential to more than double Australia's current LNG output, with a total of 33 million tonnes a year of capacity in line to be approved.

Shell's move is believed to have been sparked by the recent ownership restructure of Arrow's proposed Fisherman's Landing LNG project near Gladstone, including Arrow's stated need to explore funding options to finance up to \$2.2 billion in capital expenditure.

In particular, to help fund the cost of the Fisherman's Landing project, a potential sell-down of Arrow's stakes in its domestic coal-seam gas acreage — in which Shell holds a 30 per cent interest — is believed to have sparked concern within the multinational.

The Hague-based Shell also holds a 10 per cent share in Arrow's international unit.

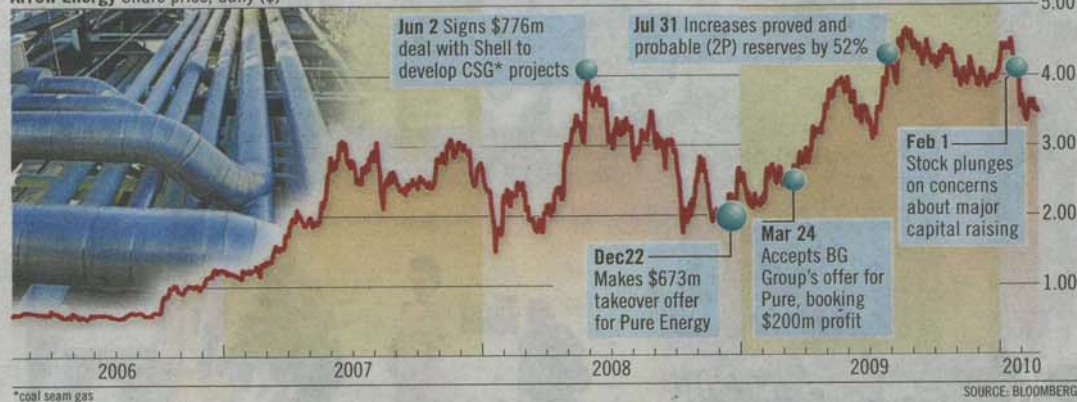
The takeover bid may have also been prompted by Arrow's largest shareholder, New Hope Coal, which holds just under 17 per cent, exploring options last year for its holdings including a sale to fund managers or a corporate party such as Shell.

It was unclear last night whether Arrow would accept or reject the Shell offer. It declined to comment when contacted by the *AFR*.

Shares in Arrow closed 4¢ higher at \$3.48 on Friday, valuing the com-

Bullseye

Arrow Energy Share price, daily (\$)



*coal seam gas

SOURCE: BLOOMBERG

pany at \$2.6 billion. That price is 25 per cent lower than its record high of \$4.64 on August 28, as investors anticipated a large capital raising to fund its LNG project.

The Shell offer is believed to be pitched around or above the \$4.50 a share level.

Speaking before Shell made its approach, Arrow's chief executive for Australia, Shaun Scott, told the *AFR* last Wednesday that, while the oil major had seconded eight staff to Arrow's headquarters, it was not seeking to impose its international weight on the Brisbane-based minnow.

"Part of our strategy with Shell was that they have recognised they are a huge company and we are a

small company," he said. "We both recognise that if we came together with them in a way where they smothered us with love, and we end up with all of the Shell processes, then you kind of destroy what it was that they wanted to get involved with in the first place."

Mr Scott said Arrow was confident of finding more gas after announcing a 50 per cent increase in reserves in 2009.

"You've got what we're trying to do at Fisherman's Landing, and Shell wants to do 16 million tonnes a year at Curtis Island, so converting resources into reserves and deliverability has become very important to us."

Fisherman's Landing is the most

advanced of several projects in the region to be fuelled by the state's vast coal-seam gas reserves. It rivals others being promoted variously by BG, a Santos/Petronas joint venture and Origin Energy alongside ConocoPhillips.

Developers extract gas by drilling into coal seams which releases the gas to the surface.

The product is then cooled to make LNG, which enables it to be transported by tanker to lucrative international markets.

Arrow already has environmental approvals for its plant, unlike the other projects, and claims the largest coal-seam gas reserves in Queensland, which would provide Shell with

direct access to 65,000 square kilometres of acreage.

Shell is pushing ahead with a separate wholly-owned LNG project on the nearby Curtis Island, which sits across the channel from Fisherman's Landing. Unlike its global rivals active in the region, it does not hold enough reserves to justify the planned spending on its own LNG processing plant.

Royal Bank of Scotland analysts flagged a possible takeover in a research note on February 18. The broker said Arrow's buy-out of partners in the Fisherman's Landing project "and possible sell-down of upstream equity may not be compatible with Shell's longer-term ambitions for Arrow and its acreage".

(The downstream component refers to the LNG processing facilities and plant, while upstream covers the gas producing fields themselves.)

"If Shell harbours ambitions to one day own or control all aspects of an integrated large-scale LNG project at Gladstone, it may have to move to take over Arrow before the sell-down process is complete," RBS analysts Nik Burns and Sam Turner wrote.

"While Shell would have pre-emptive rights over the upstream component of any sell-down, waiting for the sale process to be completed would result in a market price being set on a hefty component of Arrow's total value — something which Shell may be keen to avoid," they wrote.