

November 10, 2008

Centrica Acquires Marathon's Heimdal Area

Deal Summary & Strategic Rationale

Announcement Date:**7/9/2008**

Centrica plc acquired Marathon's Heimdal area assets for US\$375 million and US\$41 million in Norwegian tax pool assets. Marathon reported that the assets included 4.8 mmboe proved reserves and an estimated total risked resource of 17.5 mmboe.

Effective Date:**1/1/2008****Closing Date:****10/31/08****Acquiring Company:****Centrica Plc**

The Seller's Perspective

Marathon describes assets as non-core and views the divestiture as part of an ongoing portfolio management program aimed at generating US\$2 to US\$4 billion in gross proceeds by mid-2009.

Divesting Company:**Marathon Oil Corporation**

The Buyer's Perspective

Transaction Value US\$MM:**\$375**

This acquisition establishes Centrica's first production in the Norwegian sector. It adds to the company's position within the Norwegian and UK sectors of the North Sea. Over the past two years Centrica has acquired interests in twelve exploration licenses in the Norwegian sector and holds interests in over thirty producing, development or exploration stage assets in the UK sector.

Sam Laidlaw, Chief Executive of Centrica, said:

"This investment is in line with our strategy to reduce the Group's exposure to movements in gas prices through securing additional upstream assets. It also increases the level of gas reserves to supply our British Gas customers and gives us our first producing interests in Norway, building on our existing exploration position."

"This deal underlines our commitment to invest in energy supplies from across the globe as the UK's existing North Sea production declines. It also provides us with a good combination of producing fields, discoveries and exploration prospects."

Assets Acquired

Table 1

| License | Working Interest | Fields & Discoveries | Status At Time of the Deal | Operated | Year Expiring |
|-----------|------------------|--------------------------------------|----------------------------|----------|---------------|
| PL 36 | 46.904% | Vale Field | Producing | No | 2021 |
| PL 036 BS | 23.798% | Heimdal Field | Producing | No | 2021 |
| PL 88 | 50% | Heimdal East Discovery | Concept | No | 2025 |
| PL 102 | 20% | Skirne/Byggve Field & Peik Discovery | Producing & Concept | No | 2022 |

Centrica will acquire interests in 3 producing fields that are yielding 7 Mboe/d at the time of the deal as well as two discoveries.

Centrica estimates the reserve potential from the assets is 27.5 Mmboe (roughly 10 Mmboe more than published estimates from Marathon). GES reserve estimates based on our cash flow models are 152 Bcfe.

The all in per boe costs of this deal are shown in Table 2 using Marathon's reserves estimates. It should be noted that estimated all in cost ranges from US\$33.20 using Marathon's reserve estimates to US\$21.13 based on Centrica's reserve estimates with GES estimates essentially the same as Centrica's.

Gas currently being produced from the fields is contracted until 2011 at prices directly linked to the UK market. After 2011, Centrica could deliver the gas to the UK or continental Europe.

Summary Metrics

Table 2: Centrica Heimdal Area Acquisition Metrics

| | Acquisition Price \$mm | Contingent Payment \$mm | Future Development Cost \$mm | All In Costs \$mm |
|-------------------------------------|---------------------------|----------------------------|---------------------------------|----------------------|
| Net Reserves mboe | \$375 | \$0.00 | \$206.0 | \$581.0 |
| Proved | 4.8 | | | |
| Proved & Probable | 17.5 | | | |
| Centrica Share | 100% | | | |
| Proved | 4.8 | | | |
| Proved & Probable | 17.5 | | | |
| \$/boe Proved | \$78.13 | \$0.00 | Na | Na |
| \$/boe Proved & Probable | \$21.43 | \$0.00 | \$11.77 | \$33.20 |

Note: Reserves are as estimated by Marathon. Future development cost is as estimated by Centrica over the next four years. Centrica estimates the net reserve potential from the assets is 165 Bcfe or 27.5 Mmboe.

Cost of Comparable Asset Deals

The acquisition metrics of this deal are compared in Table 3 to three other recent transactions in Norway and one in the Netherlands. All of the assets except Goliat are currently in production or involve significant producing assets mixed with some exploration or development assets. Goliat is the FEED stage of preparation for development.

Table 3

| Asset | Buyer | Seller | Acquisition Price \$/boe | Contingent Payment \$/boe | Future Development Cost \$/boe | All In Costs \$/boe | Reserve Class | Date Announced |
|---------------------|-----------------|-----------------|--------------------------|---------------------------|--------------------------------|---------------------|---------------|-----------------|
| Goal Petroleum | Total | Talisman | \$30.28 | \$0.00 | \$0.00 | \$30.28 | 2P | 9/3/2008 |
| Heimdal Area | Centrica | Marathon | \$21.43 | \$0.00 | \$11.77 | \$33.20 | 2P | 7/9/2008 |
| Jotun | DNO | Lundin | \$15.78 | \$0.00 | \$0.00 | \$15.78 | 2P | 3/14/2008 |
| Ula | Dong | Svenska | \$10.00 | \$0.00 | \$0.00 | \$10.00 | 2P | 6/2/2008 |
| Goliat | StatoilHydro | DONG | \$6.07 | \$1.10 | \$4.87 | \$12.05 | 1P | 10/13/2008 |

Economic Assessment

The economics of this deal are evaluated using GES field-specific cash flow models for both the legacy assets and the potential new development assets. A WTI mid-cycle price case of US\$70 per barrel is also assumed.

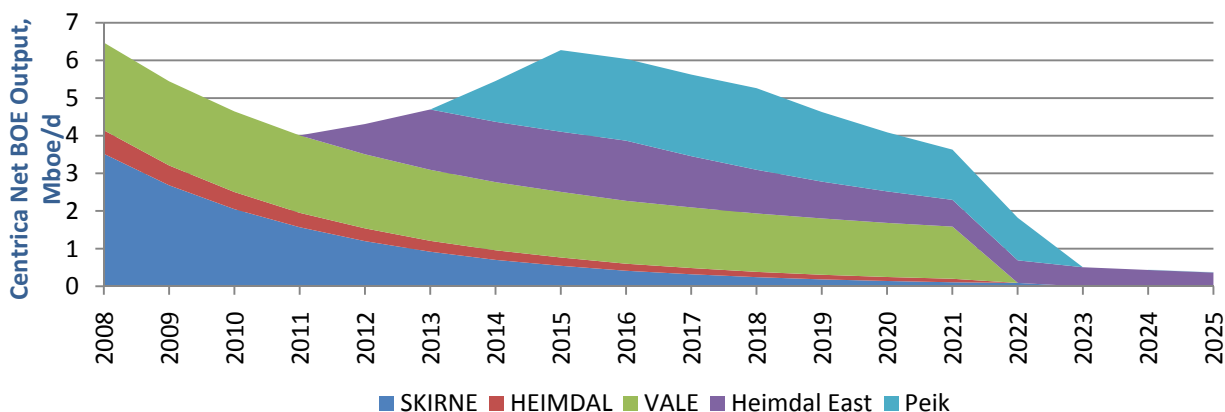
Output, Cash Flow and Rate of Return Estimates

GES projections of Centrica's net boe output are shown in Figure 1. Net cash flow projections are shown in Figure 2 with a breakout of producing fields and new development assets.

We are projecting declining output through 2011 due to normal declines associated with the producing fields. In 2012 and 2014 we project startup of Heimdal East and Peik with the result that output returns in 2015 nearly to its level at the time of the acquisition.

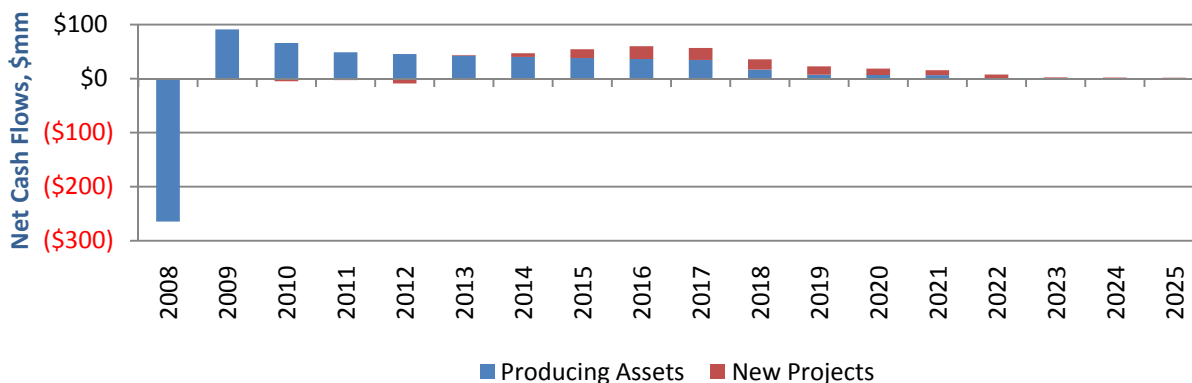
Note that licenses associated with the producing fields are scheduled to expire in 2021 (Vale and Heimdal) and 2025 (Skirne).

Figure 1: Projected Centrica Production and Net Cash Flows from the Acquired Assets



Note: Production forecasts are derived from GES models.

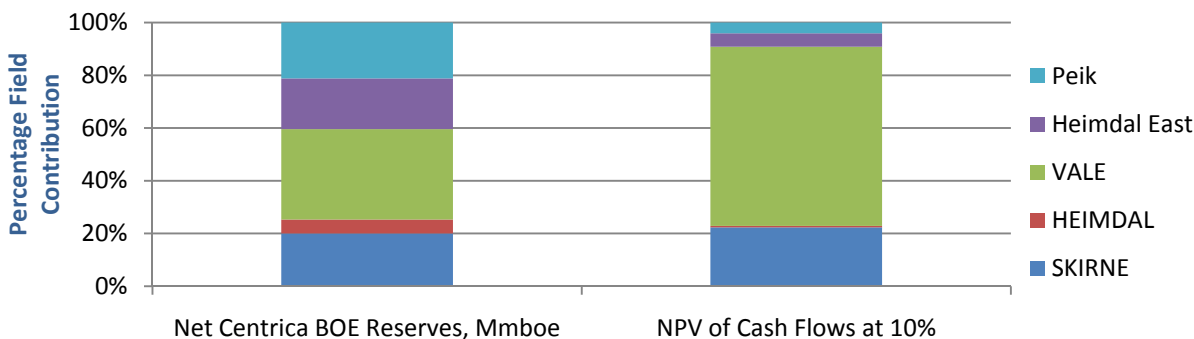
Figure 2: Projected Centrica Net Cash Flows from the Acquired Assets



The acquisition cost is deducted from producing asset cash flows in 2008. The results shown here do not include capital outlays associated with maintenance spending for existing producing fields. New project cash flows reflect GES estimates of development costs.

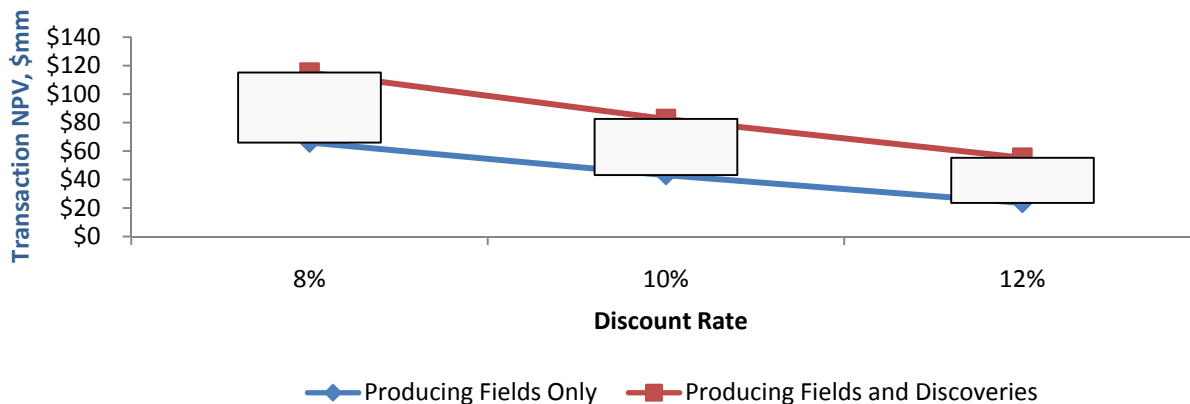
The roles of the acquired fields in terms of contribution to reserves and net present value are shown in Figure 3. Skirne and Vale clearly dominate the totals for fairly obvious reasons: current production and relatively modest capital requirements. As would be expected with startups delayed until 2012 and 2014, Heimdal East and Peik add considerably to reserves (roughly 20% of the total for each project) but have limited impact on the value of the transaction.

Figure 3: Volume versus Value, Comparative Contributions of Fields to Reserves and Net Present Value



The discounted value of net cash flows (net of acquisition cost and GES estimates of future capital spending) is shown in Figure 4:

Figure 4: Transaction Net Present Value Sensitivities



This transaction is projected to be value adding to Centrica under the US\$70 WTI mid-cycle case at all three discount rates even if we consider only the fields that are currently producing oil and gas. The development prospects are both value adding at all discount rates as well.

Relevance of the Deal

From Centrica’s perspective these assets add significant production. Prior to this deal Centrica’s production base was limited to Morecambe, Statfjord and Grove. From a broader perspective this deal may prove to be only an initial step with more to follow. While the working interests are relatively high, none of the properties are operated.

Likely Divestiture Follow-Up Opportunities

There are no identifiable opportunities to acquire assets as a result of this deal.