

**Company:** Oil Search Limited  
**Title:** Oil Search rejects Woodside non-binding conditional indicative proposal  
**Date:** 14 September 2015  
**Time:** 9:30am

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### Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to Oil Search's conference call regarding the Company's rejection of Woodside's non-binding conditional indicative proposal. At this time, all participants are in a listen only mode. There will be a briefing followed by a question and answer session at which time, if you wish to ask a question, you will need to press star one on your telephone key pad. Please be advised that this conference is being recorded today, Monday 14 September 2015. I would now like to hand the conference over your speaker today, Mr Rick Lee. Thank you sir, please go ahead.

Rick Lee: Thank you very much and welcome everyone and thanks for finding the time at such short notice to participate in this call. My name is Rick Lee and I'm Chairman of Oil Search. Alongside me are representatives from our key advisers, Nick Godhard from Morgan Stanley and Jamie Garis from Luminis Partners. Peter Botten, the Managing Director of Oil Search, is travelling on company business and is unfortunately available to make this call.

By now you will have seen the statement issued by our Company to the ASX earlier this morning outlining our response to the non-binding indicative and conditional proposal from Woodside Petroleum Limited. The statement advises that the Board of Oil Search has unanimously rejected Woodside's proposal. After a detailed evaluation, the Board concluded that the proposal was highly opportunistic, grossly undervaluing the Company. I advised the Chairman of Woodside of our unanimous decision prior to the ASX announcement this morning.

Oil Search is committed to acting in the best interests of shareholders at all times. In this instance, our Company sought out and listened intently to the views of our shareholders, large and small and the overwhelming feedback was consistent with the Board's view that Woodside's proposal had little merit. Let me be clear that we will certainly engage with any party if they present a proposal that reflects compelling value for Oil Search shareholders, but as I have already stated, it was clear that the proposal from Woodside fell well short of that test.

As you know, Oil Search has a proud and successful history in Papua New Guinea. We began operations there in 1929 and we have sincere and deep links with the local communities and governments that we work with. Our social commitment is fundamental to the way we do business and has proven to be a unique and successful global business model. We are in a very strong position both operationally and financially with clear growth opportunities supported by an excellent track record of delivery. Woodside's proposal would significantly alter the fundamental characteristic of an investment in Oil Search, diluting the present growth profile available to our shareholders, as well as our pure exposure to PNG.

As an independent major player in the regional energy sector, Oil Search has excellent growth opportunities with a low cost, high quality production base which is generating strong cash flows. With our operators,

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ExxonMobil and Total and our joint venture partners, Oil Search has access to competitively priced project finance for its LNG developments and substantial corporate debt capacity. Oil Search is committed to further building and creating shareholder value through our own strong growth prospects.

I will now take questions.

Operator: Ladies and gentlemen, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, just press the pound hash key. Once again, it is star one to ask a question. Your first question comes from the line of Nik Burns from UBS. Please go ahead.

Nik Burns: (UBS, Analyst) Thank you. Thanks Rick. Just on Woodside's proposal, now it was an all script offer, just wondering any analysis you had that you have completed on the proposal can't just be done on an absolute basis, but also on a relative basis, just wondering first of all have you had an opportunity to form an opinion on Woodside's values and its assets? Secondly, is your rejection of the bid solely on the absolute value of the bid or were you also concerned about the relative value of Woodside's base assets and growth profile versus Oil Search's? Thank you.

Rick Lee: The proposal that we received 10 days ago was a detailed proposal. It came with a supporting information pack, so there was no shortage of information and I don't believe any lack of understanding of what the Woodside proposal meant for Oil Search. We spent quite considerable time and effort analysing the proposal from every angle, but particularly from the perspective of Oil Search shareholders, which is obviously our responsibility. The conclusion we came to was that the proposal, on whatever basis you applied it, was significantly undervaluing Oil Search and certainly was not one that encouraged us to consider it further, therefore leading to the unanimous decision to reject.

Nik Burns: (UBS, Analyst) Right. Okay, just another question from me if I can. There has been plenty of press around the fact that there was a meeting scheduled for yesterday and Woodside confirmed today that that meeting didn't occur. Just wondering why it was that you originally planned to hold the meeting with Woodside and what caused you subsequently to cancel that meeting.

Rick Lee: Our approach once we received the proposal was to thoroughly analyse it, which we did and we felt certainly that it was a proposal that we needed to confer with our full Board. The first time the full Board was able to get together in possession of the information that we'd gathered during the week and the analysis that we'd made was last night. So it was a matter of doing the analysis that the proposal warranted and then consulting with our Board, given that that's the directors' responsibility to do that and we wanted to make sure all directors were able to participate in that discussion. The first time we could get those directors available was last night.

Nik Burns: (UBS, Analyst) Right, thank you.

Operator: Once again, if you wish to ask a question, please press star one. Your next question comes from the line of Nik Burns from UBS. Please go ahead.

Nik Burns: (UBS, Analyst) I thought I might just ask another, given there doesn't seem to be other questions on there. Your release talked about the fact that the overwhelming feedback from substantial shareholders is that the proposal has little merit. Obviously we've got the PNG Government in there who is a major shareholder in Oil Search, can we confirm from that that the PNG Government is aligned with your view that this proposal has little merit at this point?

Rick Lee: Well certainly the PNG Government is - and we're not going to speak on behalf of the PNG Government, but the feedback we got from all of the major shareholders that we consulted with confirmed that the proposal was one that should be rejected. I think the PNG Government will, no doubt, be able to speak for themselves and I don't want to get into the business of trying to speak on their behalf.

Nik Burns: (UBS, Analyst) Okay, great. Thank you.

Operator: Your next question is from Kirit Hira from Macquarie. Please go ahead.

Kirit Hira: (Macquarie, Analyst) Morning Rick, just one question from me regarding potential interlopers and Oil Search's sound financial position. Obviously you speak to the available equity but also other financing options around project financing with Total and Exxon, just wondering how the Board is thinking about potential white knights here and to ensure that the process, if it was to continue, remains competitive. Obviously one of the conditions put in place by Woodside was the condition of exclusivity. I don't think it seems like you've got the conditions; it seems like the offer has been rejected on price up front. But just wondering how the Board's thinking about keeping the process fairly competitive if it was to continue.

Rick Lee: Well we considered the proposal that we received and obviously that proposal had attached to it a number of conditions that were factored into our deliberations. Should other people choose to make a proposal, we will apply exactly the same test to that proposal. But keeping in mind that our primary obligation is to Oil Search shareholders and we will be going through a similar process with anyone who puts on the table something that we need to respond to. Other than that, we have been focusing, over the last week or so, on the proposal that's in front of us and considering that as a Board in the context of the proposal.

Kirit Hira: (Macquarie, Analyst) Okay, just one other question from me. You mentioned that the proposal put forward doesn't recognise some of the growth options that Oil Search have got ahead of itself, but also potentially doesn't recognise a recovery in oil prices. Peter's been fairly vocal around his views around oil prices, lower for longer, part of that is obviously conservative and managing the business for a lower price environment, just wondering how the Board weighs up their view on oil prices versus Peter's expectations of oil prices. Understandably the Board's probably thinking a bit longer term than Peter who has to manage the business, but is there a big difference there?

Rick Lee: No, none whatsoever. I think from a management point of view and a Board point of view, clearly Oil Search has to be prepared for whatever the oil market delivers us. We, I don't think, have any better insights into the short, medium or longer term outlook for oil than anyone else. But from a management point of view, our priority obviously is to ensure that we're as well positioned to survive whatever market conditions face us, so no real differences there.

We believe that with the low cost production that we have, the cash flow that's coming from that and from our financial resources cash and undrawn credit lines, that we are in a very strong position to continue to support the growth projects that we have in PNG LNG expansion and in Papua LNG and that's what we have been focused on and that's what we'll remain focused on.

Kirit Hira: (Macquarie, Analyst) Okay and just last question from me regarding Woodside's capabilities, you've obviously got some fairly strong partners in Exxon and Total, just wondering how the Board thought about some of the capabilities that Woodside suggested bringing to the table through this offer, whether it be operatorship or LNG marketing or just trying to understand if the Board actually even considered that, given the already strong partners that you've got.

Rick Lee: Well you've answered the question yourself. We have strong partners in PNG LNG and in Papua LNG. In terms of operatorship, those companies, Exxon and Total, have very strong credentials and operatorship and we have no power as a company to change that, so Woodside really doesn't come into the equation in that context.

In terms of LNG marketing, likewise the LNG in both projects would be marketed at a joint venture level and again, both joint ventures are quite capable of dealing with the LNG market, again in whatever market situation arises. So we didn't see either of those elements of a Woodside association as really changing the position the Company was in. So from that point of view there were no real synergy benefits that were obvious to us and I think that probably applies to our partners as well.

Kirit Hira: (Macquarie, Analyst) Okay, fantastic. Thanks, Rick.

Rick Lee: Next question is from the line of Dale Koenders from Citigroup. Please go ahead.

Dale Koenders: (Citigroup, Analyst) Hi. I was just wondering, in terms of the [bidder], how do you think about those growth opportunities which you've said are obviously not reflected in the bid at this point in time? Do you see them as low risk and realistically, if there was an offer on the table that the Board was willing to accept it would need to pay full value for that growth? How do you think of the risk profile?

Rick Lee: Well, I think certainly in relation to PNG LNG, it's an established, commissioned project with strong partners and certainly its first 12 to 15 months of operation has demonstrated that it is a very reliable low-cost, strong asset with considerable scope for expansion both in relation to de-bottlenecking and also Train 3. So I think in the context of PNG LNG expansion we would see that and I think the market sees that, as a very, very manageable risk and one that's already established itself at the bottom of the global costs curve. Papua LNG clearly is earlier stage than that but from all we see, it is a strong resource yet to be fully determined, but that's obviously subject to a lot of work that's going on now within the joint venture.

We see the fundamental economics of that project also being very strong indeed, and I think supported by our partners, see that as being a very low-cost player in due course in the market and while obviously risks prior to fees and FID for Papua LNG would have to be looked at as slightly higher, we see that, and I think the market sees it, as again one of the most attractive new projects, particularly in a low oil price environment like the one we've got now. So I think from an Oil Search point of view we are very comfortable with the

position that we see within our growth portfolio and very confident that we are able to play our part in the development of both projects and commissioning down the road.

Dale Koenders: (Citigroup, Analyst) I don't know if you're willing to quantify, but do you think that the bid reflects maybe full value for producing assets and nothing for growth, or it includes value for Train 3 but not Antelope? How should we be thinking about the upside you see?

Rick Lee: No, I don't want to go into any kind of further analysis of that. From our overall point of view I think we've made our position clear in the ASX release that we see the overall proposal as grossly undervaluing the Company.

Dale Koenders: (Citigroup, Analyst) Just one other question if I may, following on from I guess Kirit's question. I understand one of the angles that Woodside sees value is the trading business and the high quality product, obviously a high calorific value in the PNG projects and very likely to move forward over the next five years. Is there any way that you think that Woodside could have extracted value from a trading business that you can't with Exxon for any of that?

Rick Lee: The simple answer to that is no. We think Exxon and Total have very strong credentials in the LNG market. I think the product that comes out of PNG LNG, and we have no reason to believe that Papua LNG will be any different, will be a very attractive product for customers and we will certainly not be relying on what would you say, trading skills, whatever that might mean, to have the value of those projects recognised by customers and the market overall. So we don't see that as being a significant factor that we should take into account in the future of those projects and our involvement.

Dale Koenders: (Citigroup, Analyst) Okay, very good. Thanks.

Operator: The next question comes from Mark Samter from Credit Suisse. Please go ahead.

Mark Samter: (Credit Suisse, Analyst) Morning. I don't know if you're able to give us any sense of just what costs you thought could have been taken out of Oil Search from an acquirer given the lack of any synergies at an asset level. I guess it's really just a head office cost et cetera. Just to give us a feel for what you thought was or wasn't there from that side of things.

Rick Lee: Well, I think the - when you look at the synergies that were implied in the proposal beyond head office costs, which are really in the context of the kind of assets and cash flows and values that we're talking about are really not significant, other than that there were very little benefits. I think from our point of view and from our assessment of our shareholders' perspectives and confirmed by our consultation with shareholders, the net result for Oil Search shareholders of the Woodside proposal would be a dilution of those shareholders' interests in our growth projects which we saw as not being in their interests at all.

Mark Samter: (Credit Suisse, Analyst) I guess this probably goes to Dale and Kirit's questions, but besides that was there anything in the Woodside proposal that suggested a different operating structure going forward? For example, would they have wanted to consider equity marketing Train 3 and Elk-Antelope gas? Did it go to that level? Whether you guys see the upside in the trading business or not, was there any comments around that?

Rick Lee: No. No, we analysed what was presented to us in the proposal and we assessed the supporting information that we were provided with and we came to our conclusions based on that information and our own analysis. So I think we perhaps see the world a little differently from the way Woodside sees it and we believe our shareholders do the same, and on the basis of that we unanimously rejected the proposal.

Mark Samter: (Credit Suisse, Analyst) Great. Okay, thanks, Rick.

Operator: Once again, if you wish to ask a question please press star-1. The next question comes from the line of William Morgan from Intrinsic Investment. Go ahead.

William Morgan: (Intrinsic Investment Management, Analyst) Rick, did you - were you in a position to accept Woodside's offer of confidentiality on this proposal?

Rick Lee: Were we in a position to accept it?

William Morgan: (Intrinsic Investment Management, Analyst) Well, obviously if someone tables a - it's investment banking trick 101 to represent the best interests of a target to leak a confidential proposal, but if you didn't accept their offer of confidence then obviously there's no breach from Oil Search's perspective. I'm just interested in that angle.

Rick Lee: The reality was that there were references in the press early last week which meant under our disclosure obligation we, and I believe Woodside have the same advice that we had, no choice other than to disclose the existence of the offer. So it wasn't that the decision was based on our assessment as directors' obligations, not in relation to whether we were in a position to do anything in relation to confidentiality. It was simply us obeying the law.

William Morgan: (Intrinsic Investment Management, Analyst) Okay. Thank you.

Operator: The next question comes from the line of Mark Wiseman from Goldman Sachs. Please go ahead.

Mark Wiseman: (Goldman Sachs, Analyst) Hi, Rick. Thanks for the update. Just a quick question. If this is in the rear vision mirror now, just wondering whether this causes you to review capital allocation just in terms of exploration capital, divestments as non-core assets or the like?

Rick Lee: In relation to Oil Search?

Mark Wiseman: (Goldman Sachs, Analyst) Yes.

Rick Lee: Certainly the assessment we took was based on Oil Search as we see it today and as we see it going forward. So there is nothing in the proposal that made us reassess our priorities. We are very much focused on the development of PNG LNG and Papua LNG and we've spent a lot of time and I think communicated pretty extensively to the market over the last 12 months or so about our capacity to support that from a financial and operational point of view, and there was nothing in the proposal that made us revisit any of that. So from our point of view it's business as usual. Our focus is very much PNG and our focus remains expansion of LNG, PNG LNG, and also getting the Papua LNG project to the point where we have decisions around FID in the kind of timeframes that have been made public.

Mark Wiseman: (Goldman Sachs, Analyst) Okay. Thanks, Rick.

Operator: Once again, if you wish to ask a question please press star-1. There are no further questions at this time. Please continue.

Rick Lee: No further questions? Well, I think if there are no further questions we will call the conference to an end. Thank you very much for your participation and interest and we look forward to engaging with you again in due course. Thank you.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for participating, you may all disconnect.

**End of Transcript**