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ASX / Media Release

Santos

20 July 2021

Santos confirms Oil Search Merger Proposal

Santos refers to the Oil Search ASX release this morning and ongoing speculation regarding a possible merger of Oil Search and Santos. In light of this, and in order to keep the market fully informed, Santos confirms that on 25 June 2021 it submitted a confidential, non-binding indicative all-scrip merger proposal to the Oil Search Board ("Merger Proposal"). A copy of the Merger Proposal is attached to this announcement.

The Merger Proposal provides that the transaction would be implemented through a Scheme of Arrangement under which Oil Search shareholders would receive 0.589 new Santos shares for each Oil Search share held. Following approval of the Scheme, Oil Search shareholders would own 37 per cent of the merged group and Santos shareholders would own 63 per cent.

The ownership ratio implied a transaction price of A$4.25 per Oil Search share, based on Santos' closing price on 24 June 2021. This represented a 12.3 per cent premium to the Oil Search closing price on 24 June 2021 of A$3.78 and a 9.8 per cent premium to the Mubadala block trade sale price of A$3.865.

On 9 July 2021 Santos received a letter from Oil Search which acknowledged the strengths of the combined company and the rationale for the Merger Proposal but noted that the proposal did not offer appropriate value for Oil Search shareholders or a basis on which discussions could be progressed. Santos has subsequently sought to engage the Oil Search board on the transaction rationale and the opportunity for Oil Search shareholders to participate in the value created by the merger.

The potential merger of Santos and Oil Search is a logical combination of two industry leaders to create an unrivalled regional champion of size and scale with the following features:

- Pro forma market capitalisation of A$22 billion which positions the merged entity in the top-20 ASX-listed companies and the 20 largest global oil and gas companies
- Diversified portfolio of high quality, long-life assets across Australia and Papua New Guinea
- Robust balance sheet with strong liquidity that can self-fund growth options and an investment grade credit rating
- Larger portfolio of development assets and opportunities for optimisation
- Strong ESG credentials providing greater access to debt and equity capital
- Opportunity to create value on day one from substantial combination synergies and expected re-rating in share prices
- Santos has an excellent track record of integration and recently merged Quadrant Energy and the ConocoPhillips WA and NT business unit into its low cost operating model

Media enquiries
James Murphy
+61 (0) 478 333 974
james.murphy@santos.com

Investor enquiries
Andrew Nairn
+61 8 8116 5314 / +61 (0) 437 166 497
andrew.nairn@santos.com

Santos Limited ABN 80 007 550 923
GPO Box 2455, Adelaide SA 5001
T +61 8 8116 5000 F +61 8 8116 5131
www.santos.com

The combination would create greater alignment in Papua New Guinea supporting the development of key projects including Papua LNG, deliver new jobs and help support the local economy.

Santos has put forward the prospect of a genuine merger where the ownership of the merged entity is based on relative contribution and value. Oil Search shareholders continue to participate in the merged entity and retain the opportunity to realise a premium for control as part of the merged entity. The strategic rationale for a merger is clear and offers superior value to Oil Search shareholders rather than continuing on a standalone basis.

Santos continues to believe that the Merger Proposal represents an extremely attractive opportunity to deliver compelling value accretion to both Santos and Oil Search shareholders.

Citigroup and JB North & Co are acting as financial advisers and Herbert Smith Freehills and Dentons are acting as legal advisers to Santos.

Ends.

This ASX announcement was approved and authorised for release by Kevin Gallagher, Managing Director and Chief Executive Officer.

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Santos Limited ABN 80 007 550 923
GPO Box 2455, Adelaide SA 5001
T +61 8 8116 5000 F +61 8 8116 5131
www.santos.com

Santos Ltd
ABN 80 007 550 923
Santos Centre
60 Flinders Street
Adelaide South Australia 5000

GPO Box 2455
Adelaide South Australia 5001
Telephone: +61 8 8116 5000
www.santos.com

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25 June 2021

Board of Directors
Oil Search Limited
1 Bligh Street
SYDNEY NSW 2000

Attention: Mr Richard Lee AM, Chairman

CONFIDENTIAL NON-BINDING INDICATIVE MERGER PROPOSAL

Dear Rick

I refer to our various discussions over the last 6 months.

Santos Limited is pleased to submit a confidential, non-binding indicative proposal for the merger of Santos and Oil Search Limited to create a regional champion of size and scale and a diversified portfolio of long-life, low-cost energy assets ("Merger Proposal"). The combination of Oil Search and Santos has a strong strategic rationale and is highly beneficial to Oil Search shareholders.

Merger Proposal

The Merger Proposal will be implemented through a Scheme of Arrangement under which Oil Search shareholders will receive 0.589 new Santos shares for each Oil Search share held on the relevant date. Following approval of the Scheme, Oil Search shareholders will own 37% of the merged group and Santos shareholders will own approximately 63%.

The ownership ratio implies a transaction price of A$4.25 per Oil Search share, based on Santos' closing price on 24 June. This represents a 12.3% premium to the Oil Search closing price on 24 June of A$3.78; and a 9.8% premium to the Mubadala block trade sale price of A$3.865. The ownership ratio also implies a premium of 10.7% based on the 1 month VWAP of both companies. From an Oil Search perspective, the ownership ratio is consistent with and favorable to the market value of which the two companies have traded over the past six months. *(See Annexure).*

The Merger Proposal provides a unique opportunity for Oil Search shareholders to realise a premium to the market price for their shares whilst retaining economic exposure to Oil Search's underlying assets. Importantly, Oil Search shareholders will be able to participate in future value creation through the ongoing benefits of the merger.

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The merged entity will have the following features.

- A **regional champion of size & scale** that is well positioned to compete with larger global peers. The merged entity will be in the top 20 ASX-listed companies and the 20 largest global O&G companies. *(See Annexure)*.
- A combined **portfolio of high quality, long-life, low-cost assets** that provides balance, optionality and a reduced risk profile. This is particularly important in the context of the recent IEA recommendations that there should be no new oil and gas fields approved for development beyond 2021. This will also increase the risk of a change in government policies to reflect the recommendations.
- A **strong balance sheet** with the ability to self-fund development projects (Alaska, PNG expansion, Dorado and Barossa) without needing to rely on asset sell-downs or additional equity finance. The merged entity will be in a position to pay sustainable dividends during the future growth and the energy transition periods.
- A **global leadership position in ESG** through key commitments to sustainability, climate change and community contributions. The combined entity will have a credible plan to meet net zero CO2 emissions targets through CCS and transition to hydrogen-based fuels.
- A potential **value uplift in share price** driven by combination synergies and investors seeking sustainable low-cost production and growth opportunities as the world transitions to a clean energy future.

About Santos

Santos' corporate purpose is to provide sustainable returns for our shareholders by supplying reliable, affordable and cleaner energy to improve the lives of people in Australia and Asia.

Santos has a clear and consistent strategic framework of ***Transform Build Grow*** to deliver this vision. At the heart of this framework is a disciplined low-cost operating model that drives decisions around capital allocation and enables sustainable growth and development throughout the cycle.

Santos has been a committed participant in PNG for over 40 years and enjoys a strong working relationship with the PNG Government and its PNG LNG joint venture partners ExxonMobil, JX Nippon, Kumul, MRDC and Oil Search. Santos is supportive of the backfill and expansion of PNG LNG through the development of the P'nyang field and other opportunities. Santos also has a strong working relationship with Total through the GLNG joint venture.

Our strategic vision complements Oil Search's disciplined three phase strategy to *Focus, Deliver and Evolve.* We are completely aligned regarding the need for a low-cost base and capital efficiency. We share the same aspirations for the delivery of the LNG expansion in PNG. In relation to Alaska, we would be supportive of Oil Search working towards FEED and FID as publicly announced. We are committed to ESG and measurable action on sustainability.

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Transaction Structure and Implementation

The Merger Proposal is to combine Santos and Oil Search via a Scheme of Arrangement under which Oil Search shareholders would receive new Santos shares in exchange for their existing shares at the ownership ratio.

Following the merger, there would be an opportunity for Oil Search directors to join the board of Santos.

A Transition Committee would be established with representatives from both companies in order to achieve a smooth transition to a merged operating model.

Senior executives of Oil Search would join a combined management team of the merged entity. Roles would be determined through consultation and on the basis of who is the best executive for the job. As part of the due diligence, Santos would review the Oil Search executive remuneration arrangements and seek to deal with restricted shares and vested entitlements under the Scheme. Unvested entitlements for continuing employees would be replicated under the Santos remuneration plans on an equivalent basis.

Santos has an excellent track record in transition and integration and has used this approach in the acquisition of Quadrant Energy in 2018 and ConocoPhillips' Northern Australia business in 2020.

Following a mutual due diligence period, we anticipate that the terms and conditions of the merger will be contained in a Merger Implementation Agreement ("MIA") on customary terms.

The merger would then be announced on ASX on signing of the MIA.

We anticipate that the merger would be supported by the unanimous recommendation of the Oil Search board and the Santos board.

Key Terms and Conditions

Implementation of the Merger Proposal as outlined above is conditional on:

- satisfactory completion of due diligence
- negotiation and execution of an MIA; and
- there being no material change to Oil Search's business, operations or capital structure (including any distribution or material asset acquisition or divestment) from the date of this letter until an MIA is executed.

Due Diligence

As both Santos and Oil Search are ASX-listed and are joint venture partners in PNG, we anticipate a confirmatory due diligence process for both parties. That process would commence with a mutual confidentiality agreement followed by presentations by each management team on their respective business. Each party would establish a data room to enable access to key information.

Santos is able to have a team commence due diligence on such information at short order and in accordance with the timetable set out below.

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Merger Implementation Agreement

In parallel with the due diligence process, we expect that the parties will also negotiate the MIA. The negotiations will be conducted in good faith and on an exclusive basis.

The MIA will be based on standard market practice for transactions of this nature and contain customary provisions relating to:

- proposing and implementing a scheme of arrangement;
- applicable regulatory matters and approvals;
- profile of the merged entity regarding board and management;
- conduct of business pending completion;
- exclusivity and deal protections;
- customary conditions including no material adverse change;
- representations and warranties;
- public announcements and communications; and
- timetable

Timetable

As this transaction would have a material effect on the price and value of our respective shares, we think it is imperative that we move quickly to evaluate the Merger Proposal and announce an agreed transaction to the market as soon as possible.

Santos has a team of financial and legal advisers in place and is ready to engage on due diligence and an MIA. We anticipate that the process could be completed within 4-6 weeks after which we would be able to announce an agreed transaction.

Other

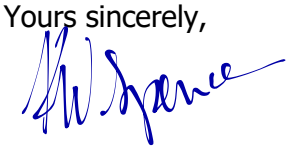
This Merger Proposal is intended as a confidential expression of our interest and is not intended to constitute, and does not constitute a legally binding offer.

It represents an incomplete and non-binding proposal. Any legally binding obligations would be subject to, among other things, Santos board approval and the execution of definitive transaction documentation.

We believe that the Merger Proposal presents an extremely attractive proposition that delivers compelling value and is in the best interests of our respective shareholders.

We look forward to hearing from you with respect to this Merger Proposal at your earliest convenience.

Yours sincerely,



Keith Spence
Chairman

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ANNEXURE

MergeCo Combination Metrics

Key Metrics		Santos	Oil Search	MergeCo	Contribution
Market Cap (Spot)[1]	*US$bn*	11.3	5.9	17.2	66% / 34%
Market Cap (6M VWAP)[1]	*US$bn*	11.2	6.3	17.5	64% / 36%
Ent. Value[1,2]	*US$bn*	14.4	8.1	22.6	64% / 36%
Broker NAV[3]	*US$bn*	11.8	7.0	18.8	63% / 37%
CY22 EBITDAX[4]	*US$bn*	2.8	1.2	4.1	70% / 30%
CY21 Production[5]	*Mmboe*	88	27	115	76% / 24%
2P Reserves[6]	*Mmboe*	933	445	1,378	68% / 32%
2C Resources[6]	*Mmboe*	2,282	1,323	3,605	63% / 37%
Indicative ratio	-	-	-	-	63% / 37%

Sources: FactSet, IRESS, Company filings, broker reports. Market data as at 24 Jun 2021. Balance sheet data as at 31 Mar 2021. Reserves & Resources as at 31 Dec 2020.
Notes: (1) Assumes 0.75 AUDUSD FX rate – MergeCo assumes nil premium and is based on shares outstanding; (2) Enterprise value excludes lease liabilities (Santos lease liabilities and financial derivatives as at 31 Dec 2020) (3) As per broker reports; (4) As per mean FactSet broker consensus estimates; (5) As per mid-point of CY21 guidance; (6) Oil Search gas reserves converted using Oil Search conversion factor of 5,100 scf = 1 boe.

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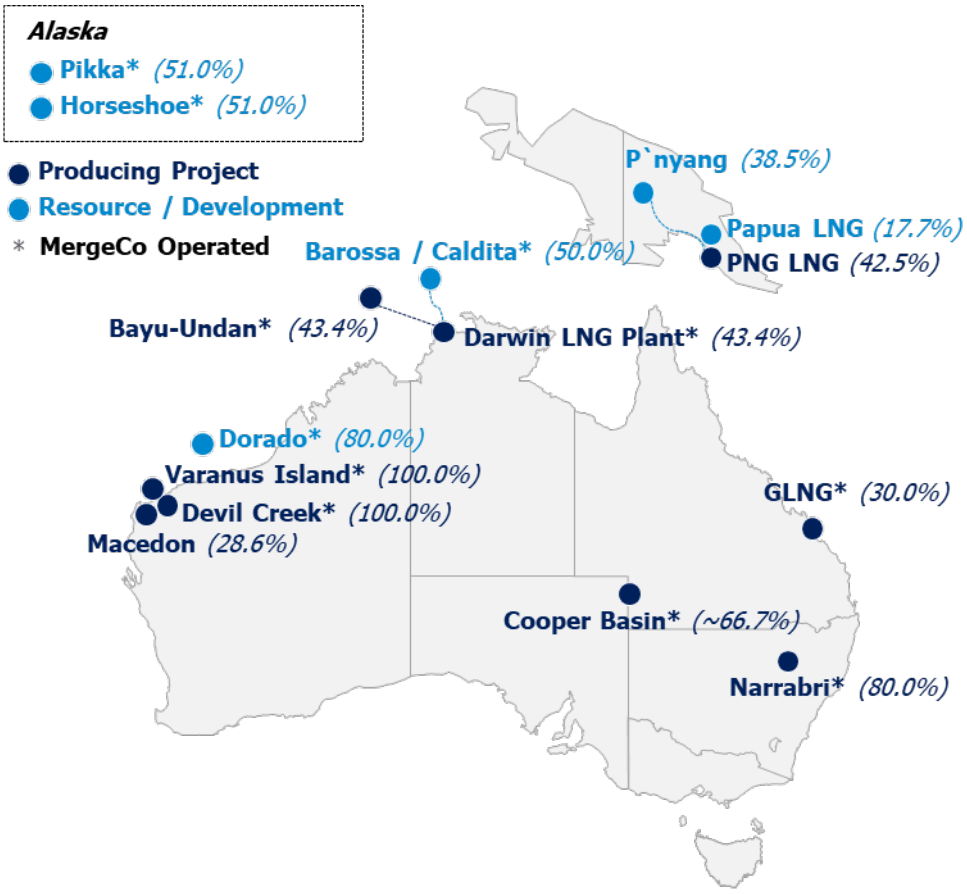
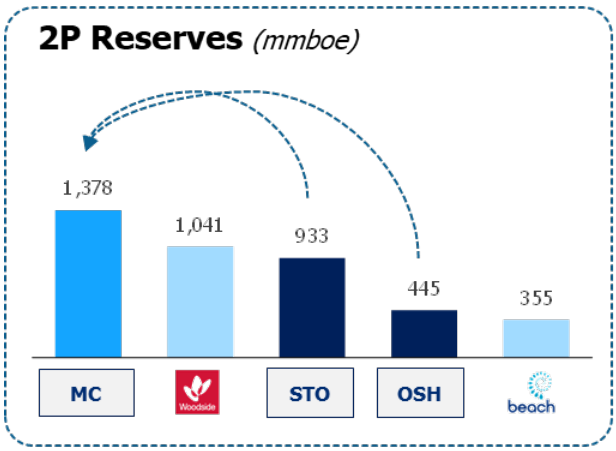
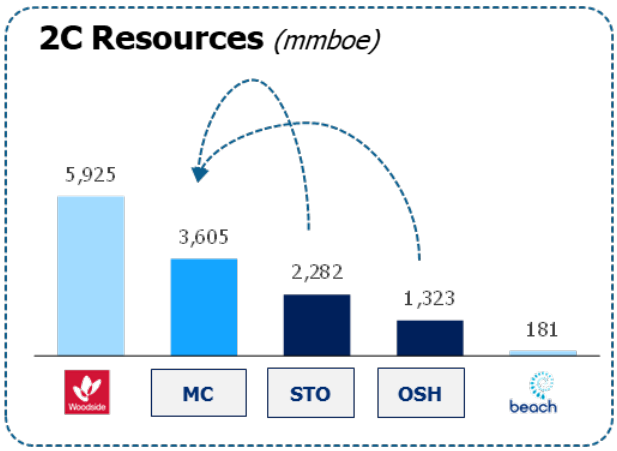
Creates a Leading ASX-Listed Player







Sources: Company filings, MC denotes MergeCo

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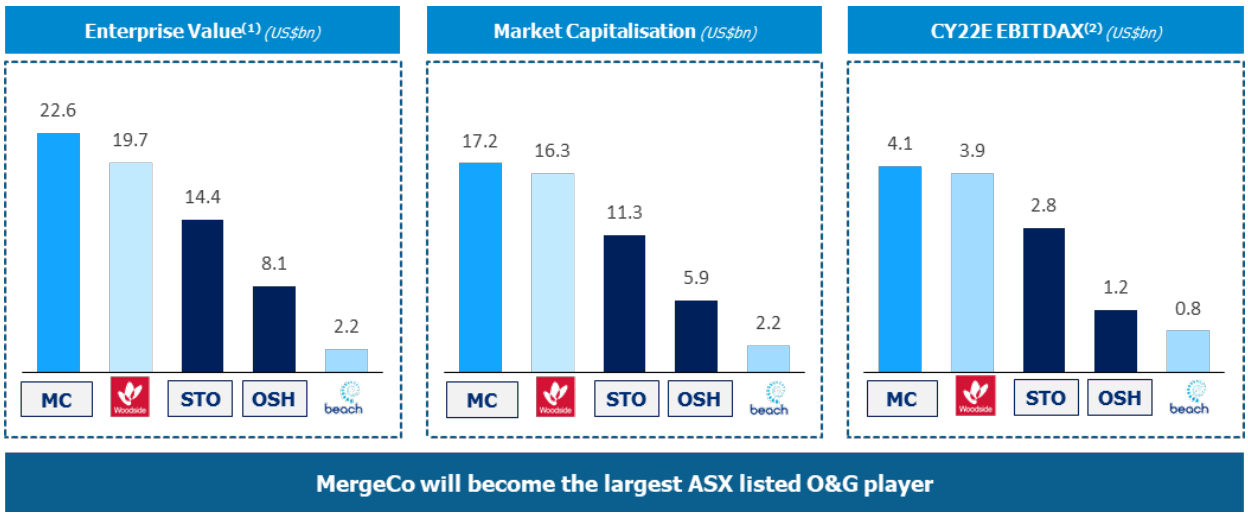
Key Financial Metrics

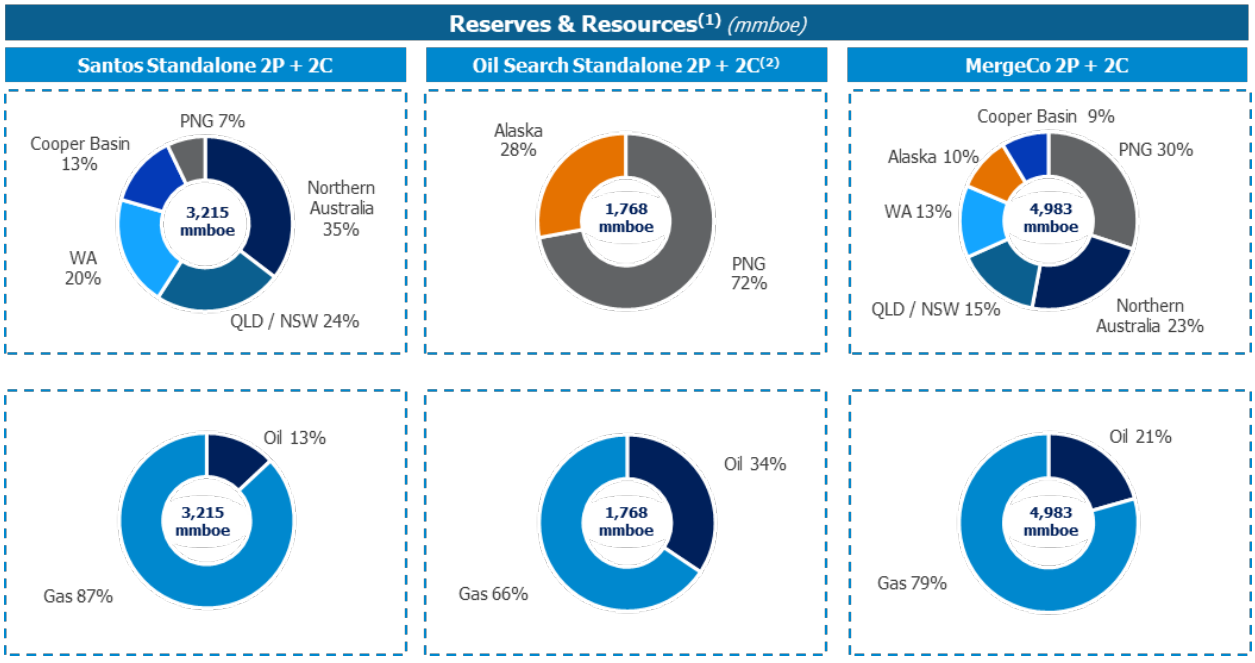
The combined market capitalisation of MergeCo will position the company well for inclusion in global indices



Sources: FactSet, Company filings. Market data as at 24 June 2021. AUDUSD = 0.75, MC denotes MergeCo
Notes: (1) Enterprise value excludes lease liabilities (Santos lease liabilities and financial derivatives as at 31 Dec 2020) (2) Based on mean FactSet broker research estimates

MergeCo Delivers a High Quality Portfolio of Long-Life, Low-Cost Assets

A key benefit of the combination will be greater portfolio diversity which creates valuable optionality and materially reduced risk with less dependence on any single project



Sources: 2020 Annual Report
Notes: (1) Reserves & Resources as at 31 Dec 2020 (2) Oil Search gas reserves converted using Oil Search conversion factor of 5,100 scf = 1 boe

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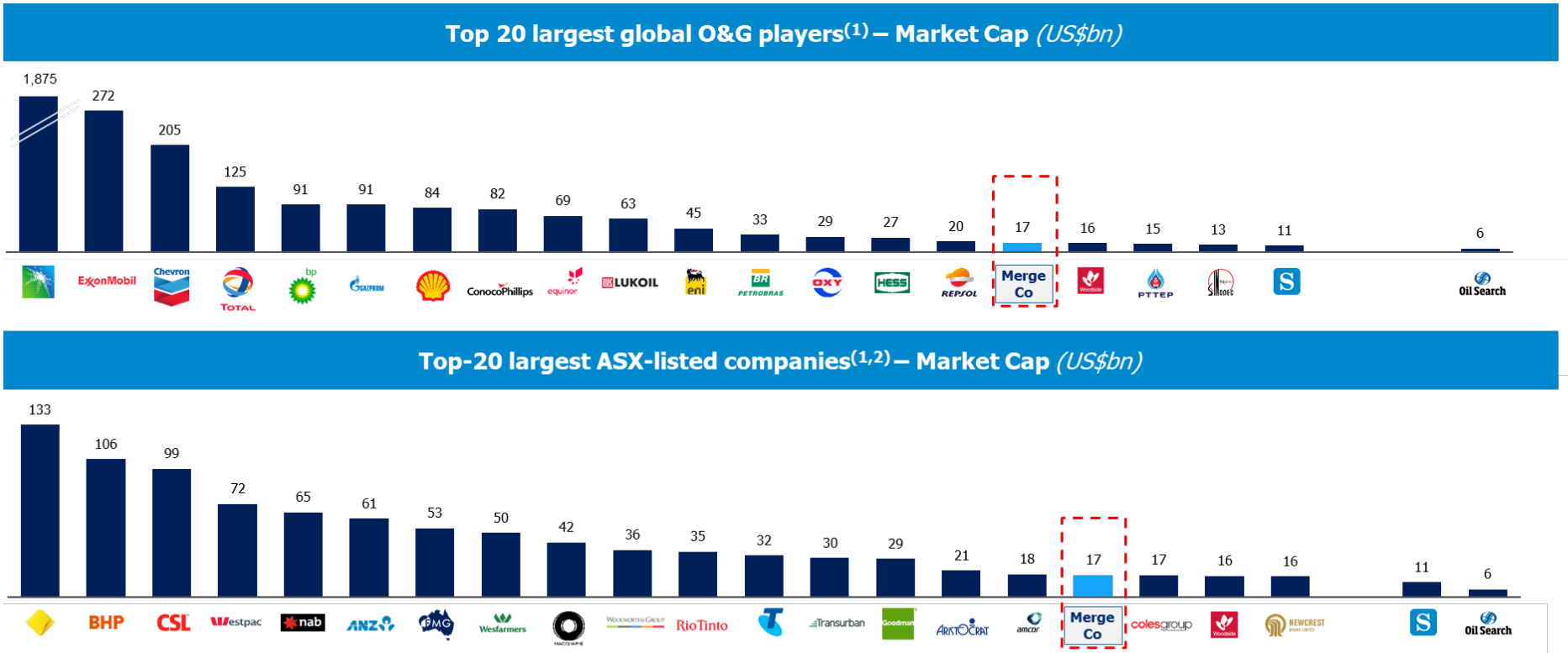
MergeCo will benchmark against Global Oil and Gas Majors and ASX-20 Companies

The combined groups will sit inside the top 20 ASX-listed companies and global O&G peers



Sources: FactSet. Market data as at 24 June 2021.
Notes: (1) MergeCo assumes nil premium transaction (2) ASX-20