



ASX Release

Beach Energy Ltd
ABN: 20 007 617 969
ASX Code: BPT

25 Conyngham Street
GLENSIDE SA 5065

GPO Box 175
ADELAIDE SA 5001

Tel: +61 8 8338 2833
Fax: +61 8 8338 2336

Web:
www.beachenergy.com.au
Email:
info@beachenergy.com.au

For immediate release – 24 March 2016

Ref. #026/16

ASX Ltd
Companies Announcement Office
Electronic Lodgement System

MERGER SYNERGIES APPROACHING \$30 MILLION PER ANNUM; FURTHER COST SAVINGS EXPECTED

- **Recurring annual cost savings of \$28 million (pre-tax) identified; to be fully realised in FY17**
- **Headcount reduced by 56; expected headcount of 226 by 30 April 2016**
- **Convertible notes to be redeemed; net cost saving of \$7 million per annum**

Beach Energy Limited (ASX: BPT, “Beach”) provides the following update in relation to its merger with Drillsearch Energy Limited (“Drillsearch”) (the “Merger”).

Merger synergies

A key driver of the Merger was eliminating duplicated costs, which partly arose from joint ownership of Western Flank oil and gas assets. Business integration commenced on 1 March 2016 and since then cost-out initiatives have identified recurring annual savings of approximately \$28 million (pre-tax). These savings include: redundancy of the majority of Sydney-based employment positions (including all former Sydney-based executives), cessation of Drillsearch Board fees, termination of contractors and consultants, and redemption of convertible notes.

These merger synergies have exceeded original expectations and will be fully realised in FY17. Further savings will be achieved in the areas of operations, administration and closure of the Sydney office, with an update to be provided in due course. Estimated merger synergies identified to date are summarised below.

Estimated merger synergies¹	\$ million
Headcount reduction	13
Board and executives	5
Contractors and consultants	3
Financing costs ²	7
Total (annual, pre-tax)	\$28 million

1. Pre-allocation of expenses to joint ventures; incremental to the \$10 million – \$15 million of annual cost reductions announced by Drillsearch in February 2015; excludes one-off integration costs

2. Redemption of US\$125 million Drillsearch convertible notes: 6.0% coupon rate; 2.0% deposit interest foregone; US\$:A\$ exchange rate of 0.74 assumed

Headcount

The Merger resulted in duplication of operational and corporate employment positions. Integration has focused on eliminating such duplication, with Sydney-based headcount reduced by 28 to date, 28 positions to be made redundant by 30 April 2016, and further reductions expected. This represents a 20% reduction in combined headcount as a result of the Merger, and is incremental to the 8% reduction undertaken by Beach in H1 FY16 and the 33% reduction undertaken by Drillsearch in H2 FY15. Expected headcount by 30 April 2016 is summarised below.

Headcount ¹	Beach	Drillsearch	Total
Headcount as at 30 June 2015	236	65	301
Reductions in H1 FY16	(19)	-	(19)
Total pre-Merger headcount	217	65	282
Post-Merger redundancies			(56)
Expected headcount by 30 April 2016			226
Reduction attributable to Merger			20%

1. Includes executives; excludes Board members and contractors

In conjunction with merger integration, a review of Beach's organisation structure has been completed by a global consulting firm. The review concluded that Beach has been operating with a lean structure and top-quartile staffing metrics. However, changes were recommended to assist with the current environment of low oil prices and the integration of Drillsearch. These recommendations are being implemented and will allow Beach to absorb the majority of Sydney-based workload into existing resource levels. A further update on organisational change will be provided with Beach's FY16 third quarter report (due for release on 28 April 2016).

Convertible note redemption

All conditions have been satisfied to redeem outstanding Drillsearch convertible notes, with redemption to occur on or around 11 April 2016. These notes were issued with an aggregate face value of US\$125 million and a coupon rate of 6.0%. Following redemption, annual net borrowing costs will reduce by approximately \$6.8 million¹ and currency risk associated with US\$ denominated debt will be removed. The notes will be paid out using existing cash reserves.

The Merger has further strengthened Beach's financial position, which has enabled redemption of the convertible notes. Following redemption, Beach is expected to have cash reserves of approximately \$150 million, drawn debt of \$150 million and undrawn facilities of \$350 million.

In relation to the Merger, Acting Chief Executive Officer, Neil Gibbins, said "Results from the early stages of integration clearly support the rationale for merging Beach and Drillsearch. The previous joint ownership of our flagship Western Flank oil and gas permits presented a unique opportunity to rationalise the operation of these assets. Pleasingly, it has become clear that the existing Beach resource levels are capable of operating the combined portfolio of assets. This has allowed us to accelerate cost-out initiatives, with our initial synergy estimate already exceeded. At least \$28 million of pre-tax annual savings will be fully realised in FY17, with further synergies expected as we eliminate Sydney-based corporate costs.

¹ Assumes US\$:A\$ exchange rate of 0.74 and deposit interest foregone of 2.0% per annum

I would also like to acknowledge the support and professionalism of the Drillsearch team, and thank them for their considerable efforts during the integration process.”

Operational update

In response to low oil prices, Beach continues to adapt its operational processes and procedures, and implement cost saving initiatives to mitigate revenue declines. Such measures undertaken since 1 January 2016 are noted below. Associated savings are incremental to the 11% reduction in operating costs achieved in H1 FY16.²

- **Reduced field contractors:** Rotation of head-office staff through the field has reduced reliance on contractors. Activities predominantly relate to site supervision and have resulted in a reduction of eight field contractors. The associated annual cost saving is approximately \$3 million.
- **Drag reducing agents:** Drag reducing agents have been trialled to increase pipeline throughput across the network. Trials to date have been successful, with throughput improvements of up to 20%. This has reduced reliance on daily trucking of oil, with three trucks now operating compared with four previously. A further reduction in trucks is targeted, which may yield total annual cost savings of up to \$1 million.
- **Supply contracts:** Re-tendering of various supplies and services has achieved savings across the Western Flank operations. Associated costs are expected to reduce by up to \$2 million per annum due to new contracts negotiated.
- **Field camp consolidation:** In line with lower activity, field camp usage has been rationalised, including some consolidation into the Callawonga camp. Associated camp contractor savings of up to \$0.5 million per annum are expected.
- **Artificial lift program:** Installation of three variable speed beam pumps in the Chiton, Kalladeina and Sceale fields has resulted in aggregate incremental production of approximately 440 bopd (net). Variable speed technology automates beam pump speed to optimise inflow from the wellbore, with live data recorded and monitored remotely. The result is increased well production, superior downhole failure prediction and improved operator cost efficiencies.

A detailed review of Drillsearch legacy assets, operations and capital expenditure is currently underway. An update will be provided with Beach’s FY16 third quarter report (due for release on 28 April 2016), including revised FY16 production and capital expenditure guidance for the combined operations.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Neil Gibbins", followed by a long horizontal line extending to the right.

Neil Gibbins
Acting Chief Executive Officer

² All savings quoted pre-tax, net to Beach and are expected to be realised in FY17



For more information please contact the following on +61 8 8338 2833

Corporate

Neil Gibbins

Acting Chief Executive Officer

Investor Relations

Derek Piper

Investor Relations Manager