



8 December 2017

The Manager
Company Announcements Office
Australian Securities Exchange
Level 4, 20 Bridge Street
Sydney NSW 2000

Dear Sir/Madam

Off-market bid by CERCG to acquire 100% of the shares in AWE Limited

Please see attached an announcement of an off-market bid by China Energy Reserve and Chemical Group Australia Pty Ltd ACN 615 286 443 (**CERCG Australia**), a subsidiary of China Energy Reserve and Chemicals Group Co., Ltd, for all of the shares in AWE Limited ACN 077 897 440.

CERCG Australia proposes to make the takeover offer through its wholly owned subsidiary CERCG Aus Gas Pty Ltd ACN 622 835 894.

We request that this announcement is immediately released to the market through AWE's announcements platform page.

Yours faithfully

Liping Xuan
Managing Director CERCG Australia

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8 December 2017

For Immediate Release

CERCG Announces \$0.73 Cash Takeover Offer for AWE

- All cash takeover offer of \$0.73 per AWE Share
- Compelling value and certainty for AWE shareholders
- AWE shareholders to receive significant premium to key benchmarks based on the price of AWE Shares up to and including 29 November 2017
 - ✓ **33.9% premium** to the closing price of AWE Shares of \$0.545 per Share
 - ✓ **46.0% premium** to the issue price of AWE's recent \$38 million capital raising of \$A0.50 per Share
 - ✓ **36.8% premium** to the 30-day VWAP of AWE Shares of \$0.5335 per Share
 - ✓ **46.1% premium** to the 90-day VWAP of AWE Shares of \$0.4997 per Share
- Enables AWE Shareholders to avoid the significant risks and uncertainties associated with a continuing investment in AWE
- Conditions are readily capable of being satisfied, with FIRB approval well advanced and no Chinese regulatory approvals or financing conditions
- Offer Price of \$0.73 per AWE Share reflects further analysis by CERCG which indicates AWE should be able to update its attributable Waitisia 2P Reserves estimate to at least 500 PJs

Offer Overview

China Energy Reserve and Chemicals Group Co., Ltd (**CERCG**), through its subsidiary, China Energy Reserve and Chemical Group Australia Pty Limited (**CERCG Australia**), is pleased to announce its intention to make a takeover offer to acquire all the Shares of AWE Limited (ASX: AWE) (**AWE**) for \$0.73 cash per Share (the **Offer**).

The Offer will be made by CERCG Australia's wholly owned subsidiary, CERCG Aus Gas Pty Ltd and will extend to:

- all Shares issued under AWE's recently announced Share Purchase Plan (**SPP**); and
- all shares issued on valid vesting of all cash share rights currently on issue, and in accordance with Condition (i)(ii) of this Offer in the Schedule.

The Offer values AWE at approximately \$463 million on a fully diluted basis.

Offer Background

CERCG is an international and fully integrated energy company. CERCG invests in, develops, operates and manages oil and gas exploration projects, field developments, gas processing facilities, liquefied natural gas (LNG) production plants, gas and fuel storage, compressed natural gas (CNG) transportation and distributions and petrol chemicals. The business is involved in all three of the upstream, midstream and downstream oil and gas sectors.

CERCG was established in 1981 and has more than 10,000 employees, with its head office located in Beijing and other offices located in Australia, Canada and Shanghai.

CERCG has recently decided to expand its international operations and is pursuing assets which meet its technical and quality criteria. It is an objective of CERCG to become a significant and reliable domestic gas supplier of the Australian market.

CERCG Australia has been in discussions with AWE for the past two months about acquiring AWE and has endeavoured to engage on a friendly and collaborative basis. Following unproductive engagement with AWE's Board, CERCG Australia has now decided to make a direct offer to AWE Shareholders. This decision also follows encouragement from AWE Shareholders for CERCG Australia to do so.

Further analysis of Waitsia undertaken by CERCG has indicated that AWE should be able to update its attributable Waitsia 2P Reserves estimate to at least 500 PJs. This supported an increase from the indicative proposal price of \$0.71 to the Offer Price of \$0.73. If the AWE Board were to agree to provide CERCG with due diligence access to specific and previously requested non-public information, this may reveal other currently unidentified value.

Managing Director of CERCG Australia, Ms Liping Xuan, said:

"We are pleased to make this Offer directly to AWE Shareholders which provides them with the opportunity to lock in certain all cash value at an attractive price while removing the significant operational and market risks associated with AWE. We are also pleased that AWE Shareholders, who are the ultimate decision makers, will have an opportunity to realise compelling value for their Shares."

Key Reasons Why AWE Shareholders Should ACCEPT the Offer

(a) **AWE has consistently failed to deliver acceptable shareholder returns**

Over the past decade, AWE has fallen well short of delivering acceptable shareholder returns – a point that was acknowledged at AWE's recent 2017 Annual General Meeting by retiring chairman, Mr Bruce Phillips.

As outlined in the FY2017 Annual Financial Report, total shareholder returns for the three (3) years to 30 June 2017 have been **negative 76%** compared with the ASX 300 Energy Index of negative 31%. AWE delivered reported statutory **losses** for FY2017, FY2016 and FY2015 of \$217.5 million, \$363.0 million and \$230.2 million, respectively.

Despite AWE's significant erosion of shareholder value and underperformance to peers, CERCG Australia acknowledges that the Waitsia Gas Field, and its increasing 2P Reserves and future development, has the potential to return value to AWE Shareholders in the longer term.

It is for this reason that CERCG Australia is prepared to pay such a substantial premium for AWE. This substantial premium recognises future but uncertain value. CERCG cautions Shareholders that meaningful positive cashflow from Waitsia is not expected until at least the back-end of calendar year 2020, some three (3) years in the future.

AWE Shareholders now have a clear choice to make: they need to weigh up the future benefits and risks of remaining a shareholder of a company with a track record of NOT delivering acceptable shareholder returns against the alternative they now have of accepting a compelling cash Offer to acquire all of their Shares at a significant premium.

(b) **Significant premium to key price benchmarks**

Based on the price of AWE Shares up to and including 29 November 2017, being the last trading day prior to AWE publicly disclosing CERCG Australia's indicative proposal of \$0.71 cash per AWE Share, the improved Offer Price of \$0.73 represents an attractive premium to key AWE price benchmarks, being a:

- ✓ **33.9% premium** to the closing price of AWE Shares of \$0.545 per Share;
- ✓ **46.0% premium** to the issue price of AWE's recent \$38 million capital raising of \$0.50 per Share;
- ✓ **36.8% premium** to the 30-day VWAP of AWE Shares of \$0.5335 per Share¹; and
- ✓ **46.1% premium** to the 90-day VWAP of AWE Shares of \$0.4997 per Share¹.

(c) **All cash certainty**

Being an 'all cash' offer, the Offer provides AWE Shareholders with the opportunity to realise full and certain cash value for all their AWE Shares, with no transaction costs and no exposure to the potential risks and uncertainties associated with a continuing investment in AWE (as to which, see paragraph (d) below).

(d) **Significant risks and uncertainties associated with a continuing investment in AWE**

In addition to the risks of remaining a shareholder of a company with a track record of NOT delivering acceptable shareholder returns, there are significant risks and uncertainties associated specifically with a continuing investment in AWE, including:

- ✗ **Waitsia Stage 2 Development:**
 - the key permits, being Production Licences 1 & 2, have expired;
 - no binding gas sale agreements (GSAs) have been secured;
 - FID has been delayed with no date indicated other than "2018"; and
 - AWE has not previously operated a major gas field in Australia;
- ✗ continuing risks and uncertainties in relation to Bass Gas field life and abandonment liabilities;
- ✗ uncertainty regarding timing and capital expenditure to extend Casino field life;

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- ✘ Ande Ande Lumut operator ownership uncertainty and risks regarding Indonesian Government tax investigation;
- ✘ financial weakness relative to joint venture partners, presenting a risk that AWE may be vulnerable to and adversely affected by the project funding and timing decisions of those partners;
- ✘ declining production, revenue and operating cashflow since FY2014, with AWE FY2018 guidance indicating further declines are expected;
- ✘ increasing balance sheet debt, currently reported at \$81 million;
- ✘ delays and increasing uncertainty that proceeds from the sale of AWE's Bulu PSC interest will be received; and
- ✘ ongoing financing, potential equity dilution and market risks.

(e) **The trading price of AWE Shares may fall if the Offer is unsuccessful**

The trading price of AWE Shares may fall and trade lower than the Offer Price if the Offer is unsuccessful.

AWE Shareholders have experienced this twice in the past four (4) years with the failure of two non-binding indicative change of control proposals. Those proposals, firstly from Senex and then Lone Star, involved meaningful premiums which AWE Shareholders never had the opportunity to consider. To avoid this risk and history repeating, CERCG Australia has elected to make this formal Offer directly to the owners of AWE.

(f) **Conditions readily able to be satisfied**

The Offer is subject to a 50% minimum acceptance condition, FIRB approval and other conditions as set out in full in the schedule to this announcement. CERCG Australia is well advanced in obtaining FIRB approval. Importantly, the Offer is not subject to any Chinese regulatory approval or funding related conditions.

CERCG Australia is confident that the 50% minimum acceptance condition can be satisfied given the compelling nature of the Offer. However, CERCG Australia recognises that the satisfaction of this condition is ultimately a matter for AWE Shareholders and is within their collective control. To that end, Shareholders are encouraged to accept the Offer as soon as it is open for acceptance.

CERCG Australia considers that a number of the other conditions are substantially within the control of the AWE Board, and should readily be satisfied in the ordinary course of activities for AWE.

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Next Steps & Timetable

CERCG Australia is finalising its Bidder's Statement, which will contain further information about the Offer. The Bidder's Statement will be lodged with ASIC, ASX and AWE and then sent to AWE's shareholders in due course.

Advisers

Argonaut is acting as Financial Adviser and MinterEllison is acting as Legal Adviser to CERCG Australia in relation to the Offer.

Further Information

For further details on this announcement, please contact:

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About CERCG

CERCG is an international and fully integrated energy company. CERCG invests in, develops, operates and manages oil and gas exploration projects, field developments, gas processing facilities, liquefied natural gas (LNG) production plants, gas and fuel storage, compressed natural gas (CNG) transportation and distributions and petrol chemicals. The business is involved in all three of the upstream, midstream and downstream oil and gas sectors.

CERCG was established in 1981 and has more than 10,000 employees, with its head office located in Beijing and other offices located in Australia, Canada and Shanghai.

CERCG generates an annual turnover in excess of 40 billion RMB (c.US\$600 million).

As at September 2017, CERCG:

- has built, owns and operates more than 1,100km of major high pressure natural gas pipelines;
- owns and operates 300 LNG fuelled trucks for LNG transportation and distribution;
- owns and manages more than 100 LNG and CNG filling stations in China; and
- has built, owns and maintains the networks for natural gas supply to more than 50 large cities in China.

CERCG has been appointed as the exclusive LNG fuel supplier for the 2022 Winter Olympics in Beijing.

CERCG Australia is an Australian company controlled as to 80% by CERCG and as to 20% by Mr Jianguo Wang, who has had a long partnership with CERCG across multiple asset and business joint ventures in China.

For further information on CERCG, please refer to: www.cercg.com

Endnotes

1. VWAPs are calculated on the basis of ASX and Chi-X trading data sourced from IRESS, inclusive of both ASX and Chi-X trading data and off-market special crossings

Schedule – Offer Conditions

(a) **Minimum Acceptance Condition**

During or before the end of the Offer Period, the Bidder has a relevant interest in more than 50% of AWE Shares on a Fully Diluted Basis.

(b) **AWE's confirmation regarding L1 and L2**

No later than 3 Business Days prior to the Conditions Date, AWE releases an announcement to the ASX stating that licences L1 and L2 have been, or will be, renewed and that those renewed licences will be on terms no less favourable to AWE than the terms on which L1 and L2 were issued.

(c) **No change of control or pre-emptive rights**

No person has any pre-emptive or other right (whether subject to conditions or not) as a result of the Bidder acquiring AWE Shares to:

- (i) acquire, or require AWE or a subsidiary of AWE to dispose of, or offer to dispose of, any material asset of AWE or a subsidiary of AWE, including any interest in the Key AWE Projects; or
- (ii) terminate or vary, or cause the acceleration of any obligations under, any material agreement with AWE or a subsidiary of AWE, including in respect of any interest in the Key AWE Projects, or any financing commitments or debt obligations of AWE.

(d) **No new gas sales agreements in relation to Waitsia below A\$5.50 per GJ**

Neither AWE nor any subsidiary of AWE enters into, offers to enter into, or agrees to enter into any hydrocarbon sales agreements, offtake agreement, pre-sale agreement or similar arrangement in relation to the current or future production from AWE's Waitsia project at a price below A\$5.50 per GJ (Real 2020 Gas Price).

(e) **No material disposals or new development or financing commitments**

None of the following events occurs during the period from the Announcement Date to the end of the Offer Period (each inclusive) without the prior written approval of the Bidder:

- (i) AWE or any subsidiary of AWE disposes of, offers to dispose of or agrees to dispose of, or grants an option, or other right or entitlement (including a pre-emptive right) the effect of which could be the disposal or loss of control of:
 - (A) one or more entities, businesses or Assets (or any interest in one or more entities, businesses or Assets) for an amount, or in respect of which the book

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value (as recorded in AWE's consolidated statement of financial position as at 30 June 2017) is, in aggregate, greater than A\$10 million; or

(B) any interest in the Key AWE Projects;

- (ii) AWE or any subsidiary of AWE enters into, offers to enter into, agrees to enter into any transaction, or is otherwise affected by any transaction or proposal under which any third party would acquire any legal or economic interest in any of the Key AWE Projects, any current or future hydrocarbon production (including royalties) from those Key AWE Projects, or right to sell or market that hydrocarbon production;
- (iii) AWE or any subsidiary of AWE enters into, offers to enter into, or agrees to enter into any loan, debt funding arrangement, refinancing or contract for financial accommodation for an amount or value greater than A\$10 million;
- (iv) AWE or any subsidiary of AWE enters into, offers to enter into, or agrees to enter into any engineering, procurement and construction arrangement or build-own operate arrangement (or any substantially similar arrangement) in relation to the development of the Waitsia project, for one or more related items with an aggregate amount or value greater than A\$10 million; or
- (v) AWE or any subsidiary of AWE announces an intention to do any of the matters referred to in paragraphs (e)(i) to (e)(iv) above, or brings forward the time for performance of any commitments to, or releases any rights it has against, third parties relating to such matters in existence at the Announcement Date.

(f) **No material adverse change**

Before the end of the Offer Period, no event, change or circumstance occurs, is announced or becomes known to the Bidder where that event, change or circumstance (either individually or aggregated with other events, changes or circumstances) has had, or could reasonably be expected to have any of the following effects:

- (i) diminishing the fair market value of the net assets of the AWE Group by \$10 million or more;
- (ii) diminishing the revenue of the AWE Group by at least \$20 million per year;
- (iii) any material rights under any contract in which an AWE Group Entity has an interest, being suspended, revoked, invalidated, varied, terminated, released or otherwise coming to an end;
- (iv) a material restraint on or hindrance to the development, timely completion, feasibility, operation, or profitability of the Key AWE Projects;

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- (v) the incurring of any obligations, liabilities, accounting impairment, costs or expenses (whether contingent or otherwise) where the quantum (whether individually or when aggregated) exceeds \$10 million; or
- (vi) any person announcing, commencing or threatening any litigation against any AWE Group Entity or joint venture partner of any AWE Group Entity (whether in aggregate or for any single litigation) which may result in a judgment against the AWE Group Entity or joint venture partner of any AWE Group Entity of more than \$10 million (individually or in aggregate),

but does not include any of the following, which are taken not to constitute a material adverse change:

- (vii) any matter fairly disclosed to the ASX before the Announcement Date; or
- (viii) any change in accounting policy required by law.

(g) **FIRB approval**

Prior to the end of the Offer Period the Treasurer (or a delegate of the Treasurer) unconditionally consents or gives Approval under FATA to the proposed acquisition by CERCG Australia (through the Bidder) of all AWE Shares, and the Treasurer is taken to have so consented or given Approval if CERCG Australia receives written notice from or on behalf of the Treasurer (such notice being unconditional) to the effect that the acquisition by CERCG Australia (through the Bidder) of all AWE Shares is not objected to under FATA.

(h) **Adviser fees capped at \$4 million**

The costs and expenses paid, to be paid, or agreed to be paid, to the advisers of AWE in connection with the Offer do not exceed \$4 million.

(i) **No increase in termination benefits or vesting of Cash Share Rights**

Prior to the end of the Offer Period, the AWE Board does not, and does not agree to, without the prior written approval of the Bidder:

- (i) exercise any discretion to pay any termination benefit to, or make any change in the amount or the terms of any termination benefit of, any current or proposed director, executive officer, manager or other employee; or
- (ii) vest or accelerate the vesting of any unvested Cash Share Rights.

(j) **No regulatory actions**

During the period from the Announcement Date to the end of the Offer Period (each inclusive):

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- (i) there is not in effect any preliminary or final decision, order or decree issued by any Public Authority;
- (ii) no action or investigation is announced, commenced or threatened by any Public Authority; and
- (iii) no application is made to a Public Authority (other than by the Bidder or its associates),

in consequence of or in connection with the Offer (other than an application to, or a decision or order of, ASIC or the Takeovers Panel for the purpose or in exercise of the powers and discretions conferred on it by the Corporations Act), which:

- (iv) restrains, prohibits, or impedes or threatens to restrain, prohibit or impede or may otherwise materially adversely impact upon the making of the Offer, the acquisition of AWE Shares under the Offer, the rights of the Bidder in its capacity as a shareholder of AWE, or the completion of any transaction contemplated by the Offer or the Bidder's Statement; or
- (v) seeks to require the divestiture of any AWE Shares by the Bidder; or
- (vi) seeks to require the divestiture of any material Assets by any AWE Group Entity; or
- (vii) imposes any new terms on, amends the existing terms of or otherwise materially affects the rights held by AWE as at the Announcement Date under any Approval, licence or permit issued by any Public Authority to AWE.

(k) **No distributions**

Between the Announcement Date and the end of the Offer Period (each inclusive), AWE does not make, determine as payable or declare, or announce an intention to make, determine as payable or declare any distribution (whether by way of dividend, capital reduction or otherwise and whether in cash or in specie).

(l) **No prescribed occurrences**

None of the events specified in section 652C(1) and 652C(2) of the Corporations Act happens:

- (i) during the period commencing on the Announcement Date and ending at the end of the day immediately preceding the date the Bidder's Statement is given to AWE (each inclusive); or
- (ii) during the period between the date that the Bidder's Statement is given to AWE and the end of the Offer Period (each inclusive).

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Definitions

Capitalised terms in this document that are not otherwise defined, have the meaning set out below:

Announcement Date means 8 December 2017.

Approval means:

- (a) a consent, authority, licence, approval, order, ruling, waiver or exemption which is required by law or by a Public Authority; or
- (b) in relation to anything which will be fully or partly prohibited or restricted by law if a Public Authority intervenes or acts in any way within a specified period after lodgement, filing, registration or notification, the expiry or termination of that period without intervention or action.

ASIC means the Australian Securities and Investments Commission.

Assets means includes assets, facilities, real and personal property, goods, services, rights under authorisations or contracts, and intellectual property.

associate has the meaning given in section 12 of the Corporations Act.

ASX means ASX Limited ABN 98 008 624 691 or, as the context requires, the financial market operated by it.

ASX Listing Rules means the Listing Rules of ASX.

AWE means AWE Limited ACN 077 897 440.

AWE Board means board of directors of AWE.

AWE Group means AWE and its subsidiaries and controlled entities, and **AWE Group Entity** means any of one them.

AWE Share or **Share** means one ordinary fully paid share in AWE.

AWE Shareholder or **Shareholder** means a person registered in the register of members of AWE as a holder of AWE Shares.

Bidder's Statement means the statement to be provided under Part 6.5 of the Corporations Act relating to the Offer.

Business Day has the meaning given in the ASX Listing Rules.

Cash Share Rights means the cash share rights granted by AWE pursuant to its long term incentive plan.

CERCG Aus Gas or **Bidder** means CERCG Aus Gas Pty Ltd (ABN 72 622 835 894).

Condition means a condition to the Offer set out in this Schedule.

Conditions Date means the date that is seven days before the last day of the Offer Period.

Corporations Act means the *Corporations Act 2001* (Cth) as relevantly modified or varied by ASIC.

FATA means the *Foreign Acquisitions and Takeovers Act 1975* (Cth).

FIRB means the Foreign Investment Review Board.

Fully Diluted Basis means all AWE Shares to which the Offer relates including:

- (a) any new AWE Shares issued during the Offer Period pursuant to the Share Purchase Plan; and
- (b) any new AWE Shares that are able to be issued (whether subject to vesting or satisfaction of a condition or otherwise) during the Offer Period on vesting of Cash Share Rights that are on issue as at the Register Date.

GJ means gigajoules.

Key AWE Projects means the Waitsia, Bass Gass, Casino and Ande Ande Lumut projects.

L1 means petroleum licence L1 granted under the *Petroleum and Geothermal Energy Resources Act 1967* (WA).

L2 means petroleum licence L2 granted under the *Petroleum and Geothermal Energy Resources Act 1967* (WA).

Minimum Acceptance Condition means the condition described at paragraph (a) of this Schedule.

Offer means the Bidder's offer for AWE Shares.

Offer Period means the period during which the Offer remains open for acceptance in accordance with its terms.

Offer Price means \$0.73 per AWE Share.

PJ means petajoules.

Public Authority means any Australian or Indonesian government or any governmental, semi-governmental, statutory or judicial entity or authority, or any minister, department, office or delegate of any Australian or Indonesian government. It also includes any self-regulatory organisation established under statute and any stock exchange in Australia or Indonesia.

Real 2020 Gas Price means the price of gas per GJ in 2020.

Register Date means the time and date notified by the Bidder to AWE under section 633(2) of the Corporations Act.



Share Purchase Plan means AWE's proposed share purchase plan announced to the ASX on 15 November 2017.

Takeovers Panel means the Takeovers Panel under the Corporations Act.

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