

Presentation of Brattle Evidence to the Commission of Inquiry into the UBS Loan

PRESENTED BY

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Agenda

Updates to our evidence given on 15 July 2021

The collar loans:

- the March 2014 Collar Loan
- the December 2014 Collar Loan
- the February 2016 Collar Loan and its unwind

Dividends on the Oil Search shares owned by the State / KPHL

UBS fees

Overall financial impact of the UBS transactions on the State

Updates to the Brattle evidence given on 15 July 2021

The collar loans

Nature of the collar loans provided by UBS

A collar is a financial strategy that limits the possible returns on a financial asset such as a stock

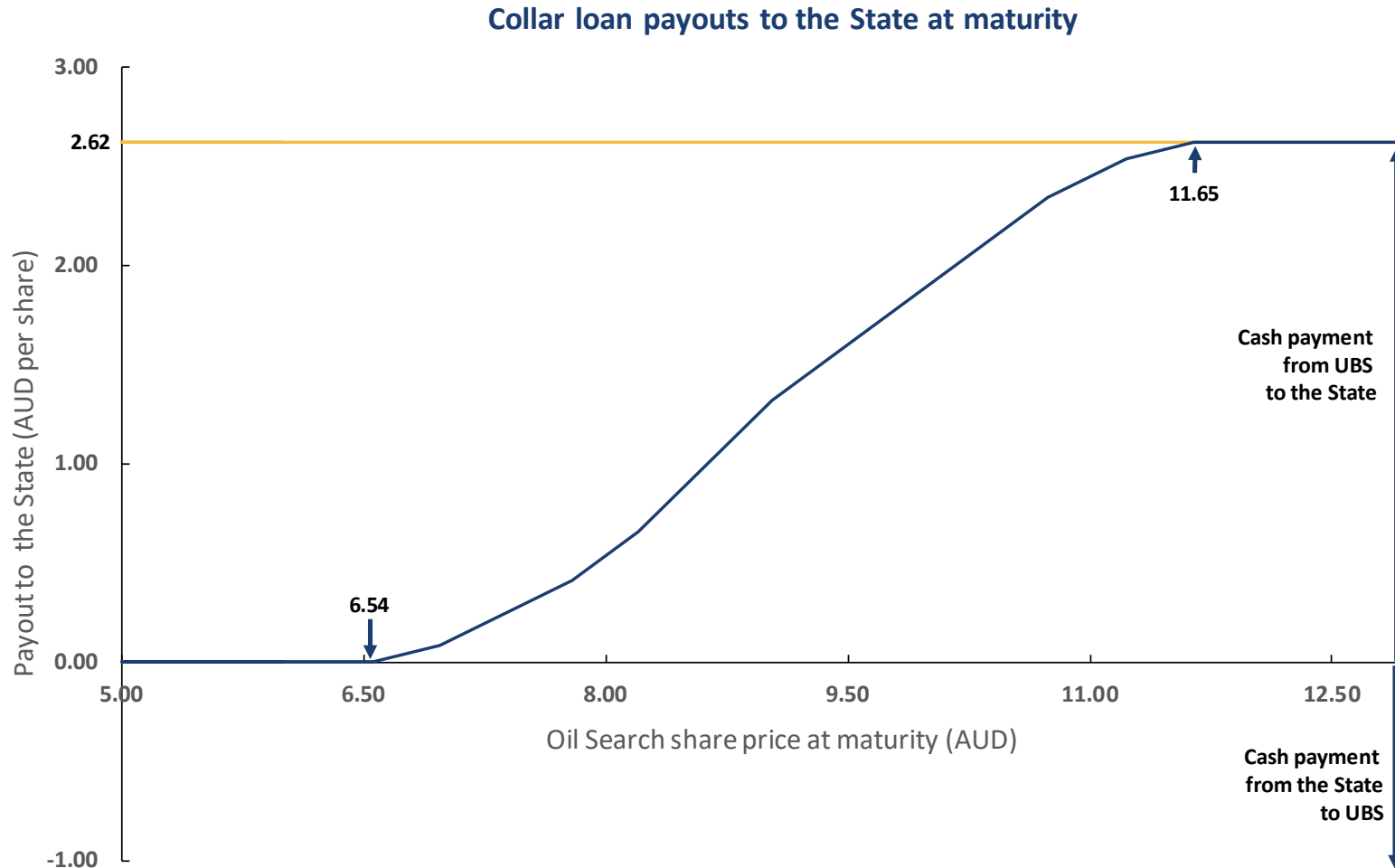
In its simplest form, this strategy is formed by holding a stock, a put option on the stock and writing (or issuing) a call option of the stock

In this case the collar was combined with a loan, the loan was used to buy shares, and the shares were collateral for the loan:

- The State (or KPHL) owed UBS the sum borrowed plus interest.
- **But** the State/KPHL could discharge all of its obligation to UBS by delivering the Oil Search shares
- If the Oil Search share price on expiry of the collars is above the collar floor price, UBS is obliged to pay the difference to the State/KPHL
- If the Oil Search share price on expiry of all of the collars is below the collar floor price, there is no payment in either direction
- Under no circumstances will the State/KPHL need to pay UBS anything after the loan is set up

Payout of the collar loans

The chart below shows the payout at maturity of the March 2014 Collar Loan (the other loans have a similar structure)



Fair pricing of the collar loans

Each of the collar loans transferred value from the State to UBS because the terms of the loans were different from the terms we would expect if the pricing had resulted from a competitive process.

Summary of the UBS collar loan transactions

	Interest component		Collar premium component		Value transferred to UBS
	Paid	Fair	Paid	Fair	
March 2014 Collar Loan	106.3	54.0	0.0	-24.5	76.9
December 2014 Collar Loan	6.6	2.9	2.5	-0.9	7.1
February 2016 transactions	84.6	47.1	17.2	16.0	38.8
Unwind of February 2016 Collar Loan	-25.6	-20.4	-111.1	-133.9	17.6
Total for all collar loan transactions	171.9	83.5	-91.4	-143.3	140.3

Note

Does not include fees paid to UBS or others.

A negative number represents a payment to the State.

Dividends on the Oil Search shares owned by the State / KPHL

Dividends received by the State and by UBS

While the State / KHPL owned Oil Search shares (March 2014 to September 2017), dividends on the shares were paid to UBS in the first instance

The terms of the collar loans required UBS to pay to the State / KPHL

- Actual dividends on about 15% of the shares
- An agreed amount specified in the loan documents on the remaining 85%

Oil Search dividends on the State's shares

Transaction	Received by UBS	Paid to the State	Potentially retained by UBS
March 2014 Collar Loan	40.0	19.0	21.0
December 2014 Collar Loan	3.0	2.5	0.5
February 2016 Collar Loan	20.5	2.7	17.8
Total	63.5	24.2	39.3

Figures in AUD millions

Fair treatment of dividends

The amount UBS paid to KPHL as agreed in the February 2016 Collar Loan was zero. We think this was unreasonable.

If the agreed amount had been equal to a reasonable estimate of future dividends, UBS would have paid KPHL an additional AUD 20.6 million of dividends between February 2016 and September 2017.

In addition, this ongoing obligation would have increased the market value of the loan as at September 2017 by AUD 7.8 million above the figure we gave earlier.

Altogether, the unreasonable treatment of dividends transferred AUD 28.3 million from the State to UBS.

UBS fees

Overall financial impact of the UBS transactions on the State

Total net payments from the State to UBS

In total the State paid AUD 336.3 million net to UBS.

Cost of the transactions to the State - sum of cash payments to/from UBS

March 2014 Bridge Loan interest payments	[1]	22.0
Dividends	[2]	-23.2
March 2014 Bridge Loan extension fee	[3]	5.0
Funds from Letter of Credit	[4]	270.3
Front Collar Additional Consideration Amount	[5]	97.4
Unwind payment from February 2016 Collar Loan	[6]	-35.1
Total	[7]	336.3

Notes

[1]–[2]: These are cash payments and are net of a small amount of other costs. These costs are included in other rows of the table, so the net amount needs to be recorded here to avoid double-counting.

[3]: Although not explicitly stated as such in the UBS spreadsheet, we think that this fee must have been paid in cash since this makes the total reconcile to the UBS figure.

A negative number represents a payment to the State.
Includes only fees paid to or via UBS.

Value transferred from the State to UBS

The transactions were not fairly priced, so the State paid UBS more than it would have done if the prices had been fair. The total value transferred was AUD 174.8 million.

Summary of the UBS transactions

	Total paid by the State	Fair value	Transfer to UBS due to pricing above fair value
March 2014 Bridge Loan	24.6	18.4	6.2
March 2014 Collar Loan	106.3	29.5	76.9
December 2014 Collar Loan	9.1	2.0	7.1
February 2016 transactions	101.8	63.0	38.8
Unwind of February 2016 Collar Loan	-136.7	-154.3	17.6
Dividends	-24.2	-52.6	28.3
Total	80.9	-94.0	174.8

Note

Does not include fees paid to UBS or others.

A negative number represents a payment to the State.

Overall financial impact on the State

The overall financial impact on the State is equal to the net amount paid to UBS, plus the cost of any advisors not paid via UBS.

Total costs to the State including fees

Purchase Oil Search shares at AUD 8.20	1,225.0
Fair value of the UBS transactions	-94.0
Value transferred to UBS	174.8
UBS Bridge Loan fee	11.7
UBS advisory fees	16.5
Other fees	3.1
Sell Oil Search shares at AUD 6.70	-1,000.9
Total	336.3

A negative number represents a payment to the State.

Overall financial impact on the State

The overall financial impact would have been much smaller if the transactions had been fairly priced. The Oil Search share price fell by AUD 1.50 but the costs to the State were AUD 2.04 per share. With fair pricing the cost would have been AUD 0.88 per share.

Total cost to the State

	Actual		Transfer to UBS (AUD million)	Fair Pricing	
	AUD million	AUD per share		AUD million	AUD per share
Market movement on shares	224.1	1.50		224.1	1.50
Market movement on collar protection	-91.4	-0.61	52.0	-143.3	-0.96
Financing costs	196.5	1.32	94.5	101.9	0.68
Dividends received by the State	-24.2	-0.16	28.3	-52.6	-0.35
Sub-total (excluding fees)	304.9	2.04	174.8	130.1	0.87
Fees to UBS and others	31.3				
Total	336.3				

A negative number represents a payment to the State.

The State bought shares at AUD 8.20 and realised a net price of AUD 6.16 after all costs. With fair pricing the State could have realised AUD 7.33.