

Development Challenges & Solutions in our Oil & Gas Sector | 23 Years on...

ANU - UPNG | 2015 PNG Update

Friday, 19th June 2015



Oil Search



Oil Search Limited

ARBN 055 079 868

ASX: OSH | POMSxX: OSH | US ADR: OISHY

www.oilsearch.com

Disclaimer

While every effort is made to provide accurate and complete information, Oil Search Limited does not warrant that the information in this presentation is free from errors or omissions or is suitable for its intended use. Subject to any terms implied by law which cannot be excluded, Oil Search Limited accepts no responsibility for any loss, damage, cost or expense (whether direct or indirect) incurred by you as a result of any error, omission or misrepresentation in information in this presentation. All information in this presentation is subject to change without notice.

This presentation also contains forward-looking statements which are subject to particular risks associated with the oil and gas industry. Oil Search Limited believes there are reasonable grounds for the expectations on which the statements are based. However actual outcomes could differ materially due to a range of factors including oil and gas prices, demand for oil, currency fluctuations, drilling results, field performance, the timing of well work-overs and field development, reserves depletion, progress on gas commercialisation and fiscal and other government issues and approvals.



Agenda

Item 1 Who is Oil Search?

Item 2 The Growth Story....one we should be proud of

Item 3 Challenges

Item 4 The Future...continuing that growth trajectory



Agenda

Item 1 Who is Oil Search?

Item 2 The Growth Story...one we should be proud of

Item 3 Challenges

Item 4 The Future...continuing that growth trajectory

Oil Search Profile



- » Established in Papua New Guinea (PNG) in 1929
- » Market capitalisation ~A\$11bn (~US\$8.56bn)
- » > 95% of OSH's assets in PNG
- » Operates all PNG's currently producing oil fields
- » 29% interest in 6.9Mtpa PNG LNG Project, operated by ExxonMobil. First LNG cargoes shipped in May 2014. Project has transformed OSH into regionally significant oil and gas producer
- » Comprehensive exploration and appraisal programme to underpin LNG expansion in PNG
- » Exploration interests in Middle East/North Africa
- » Listed on ASX (Share Code: OSH) and POMSOX, plus US ADR programme (Share Code: OISHY)

PNG licence interests





Agenda

Item 1 Who is Oil Search?

Item 2 PNG's Growth Story

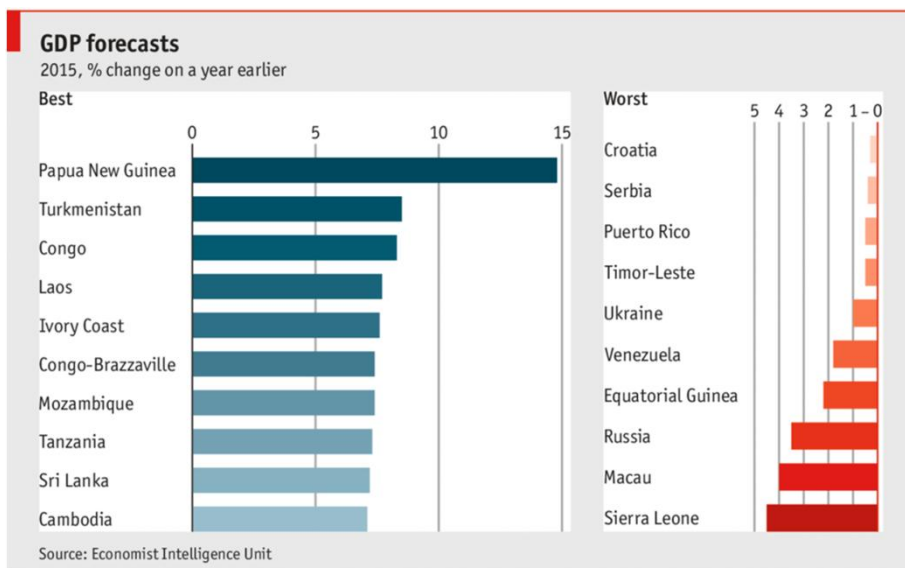
Item 3 Challenges

Item 4 The Future...continuing that growth trajectory

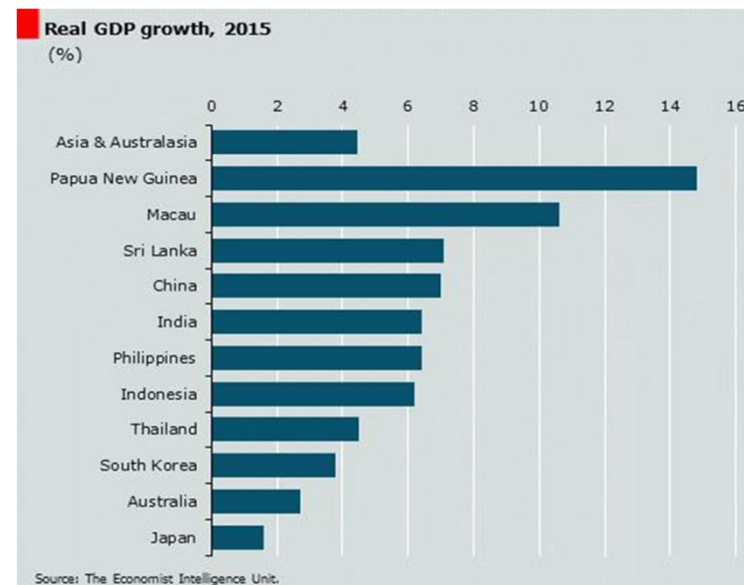
PNG's Expected Annual Growth Rate Highest in the Region



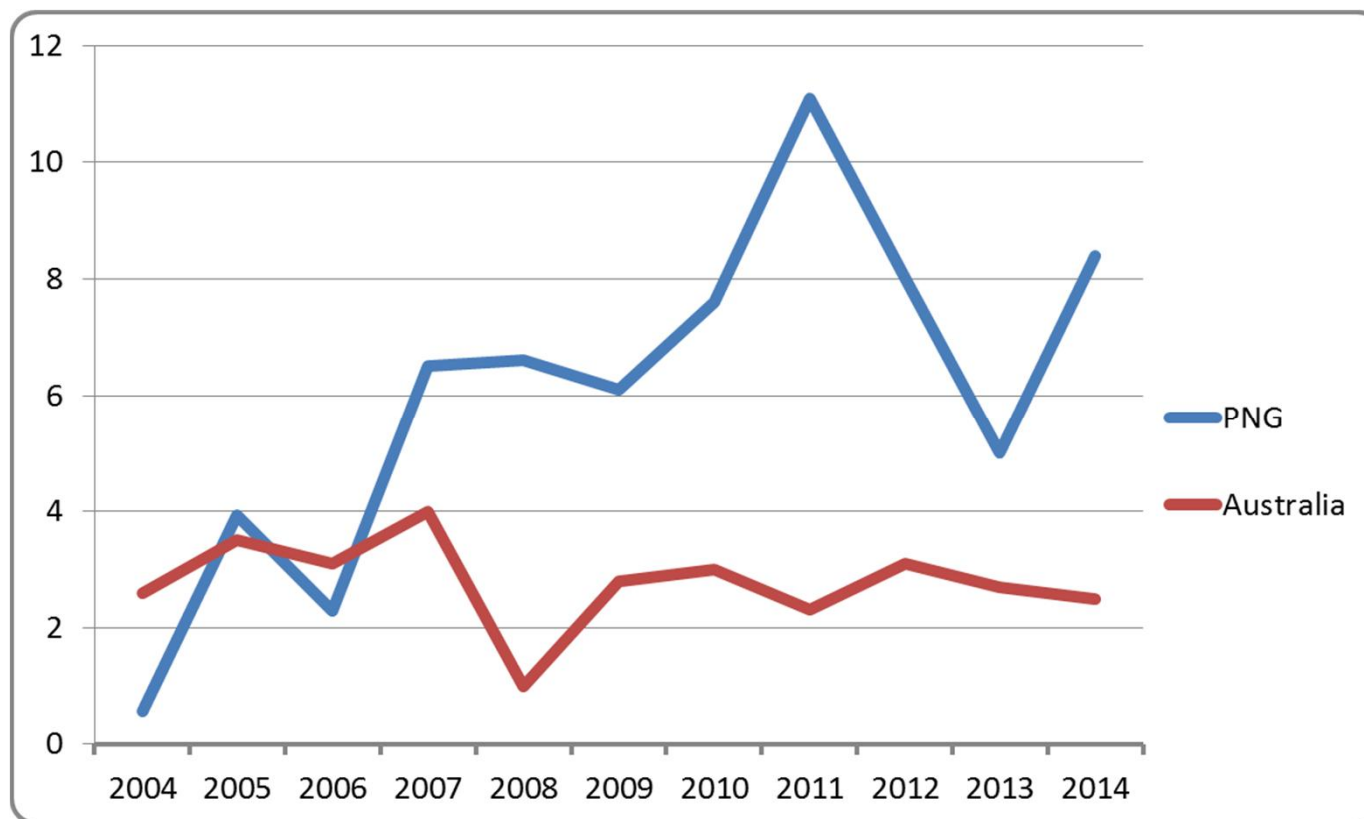
- » Aug 25, 2014. *The Economist*. Asia's fastest-growing economy in 2015 will be a country that most investors will not have considered closely before. Papua New Guinea tops the regional rankings with a GDP growth rate of 14.8%, owing to a huge increase in its energy exports as a giant new ExxonMobil-led liquid natural gas (LNG) project comes on stream
- » Jan 5, 2015. *The Economist*. Papua New Guinea is predicted to be the zippiest economy of all, expanding by almost 15%, nearly twice as fast as any other country



[Economist.com/graphicdetail](http://economist.com/graphicdetail)

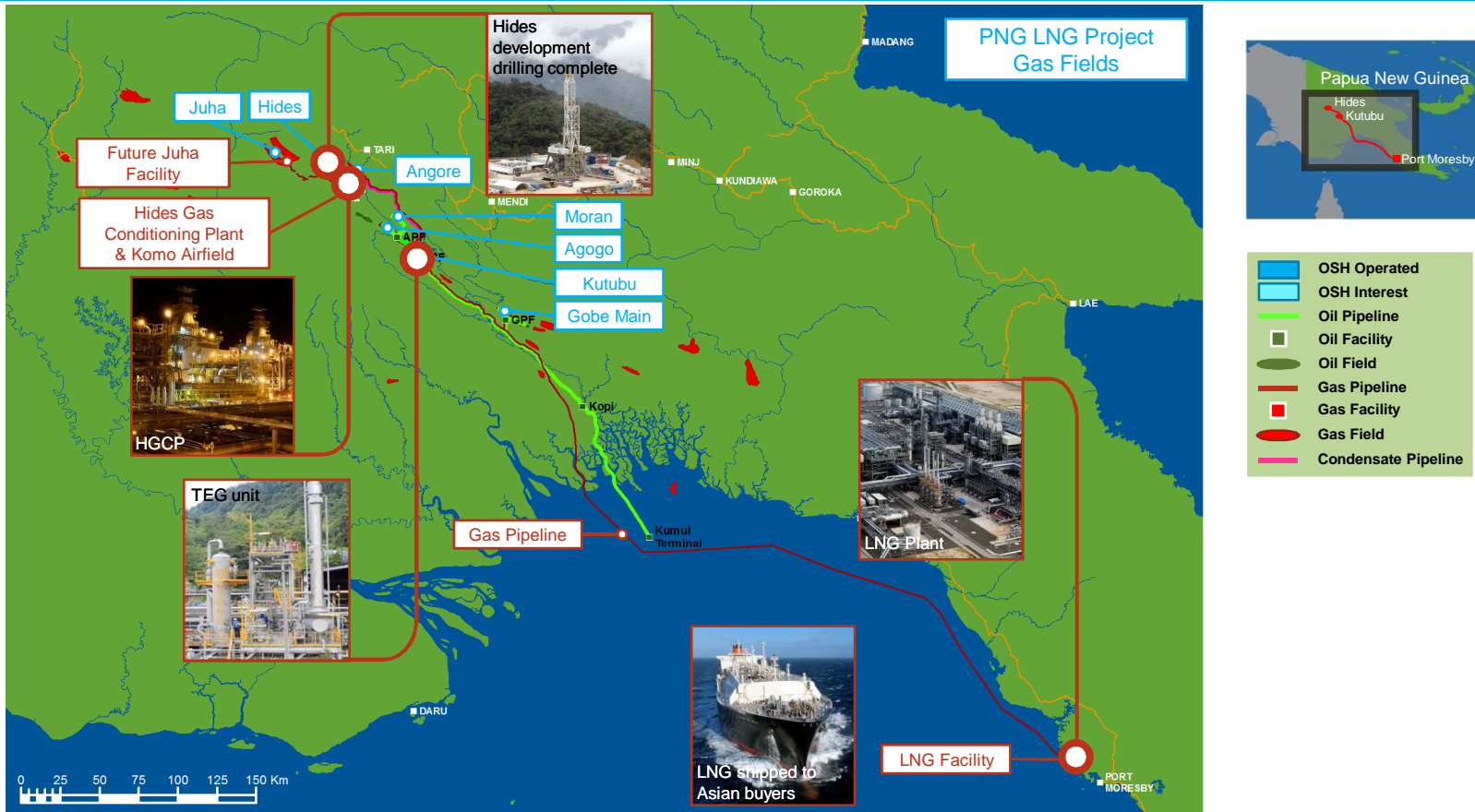


GDP Annual Rate of Growth | How do we compare with our nearest neighbour?



Source: <http://www.tradingeconomics.com/>

PNG LNG Project



First PNG LNG shipment arrived in Japan in early June 2014



Unloading of first PNG LNG cargo at TEPCO Futtsu-2 Terminal

Source: ExxonMobil

Methane Spirit, 100th LNG cargo departed PNG on 12 June 2015 bound for TEPCO, Japan



PNG LNG Project – performing ahead of expectations, has delivered strong platform for future growth



Oil Search

- » PNG LNG Project – a major success story:
 - Delivered ahead of expectations and within revised US\$19bn budget
 - Operational and financial completion achieved in February 2015
 - To date, Project has exported >7 million tonnes of LNG and shipped ~100 LNG cargoes
- » Both trains now consistently operating at or above nameplate capacity of 6.9 MTPA
- » Focus on production optimisation/debottlenecking
- » Project has delivered major infrastructure, Government and landowner support, Tier 1 LNG customers, financier confidence



Images courtesy ExxonMobil



Agenda

Item 1 Who is Oil Search?

Item 2 The Growth Story...one we should be proud of

Item 3 Challenges

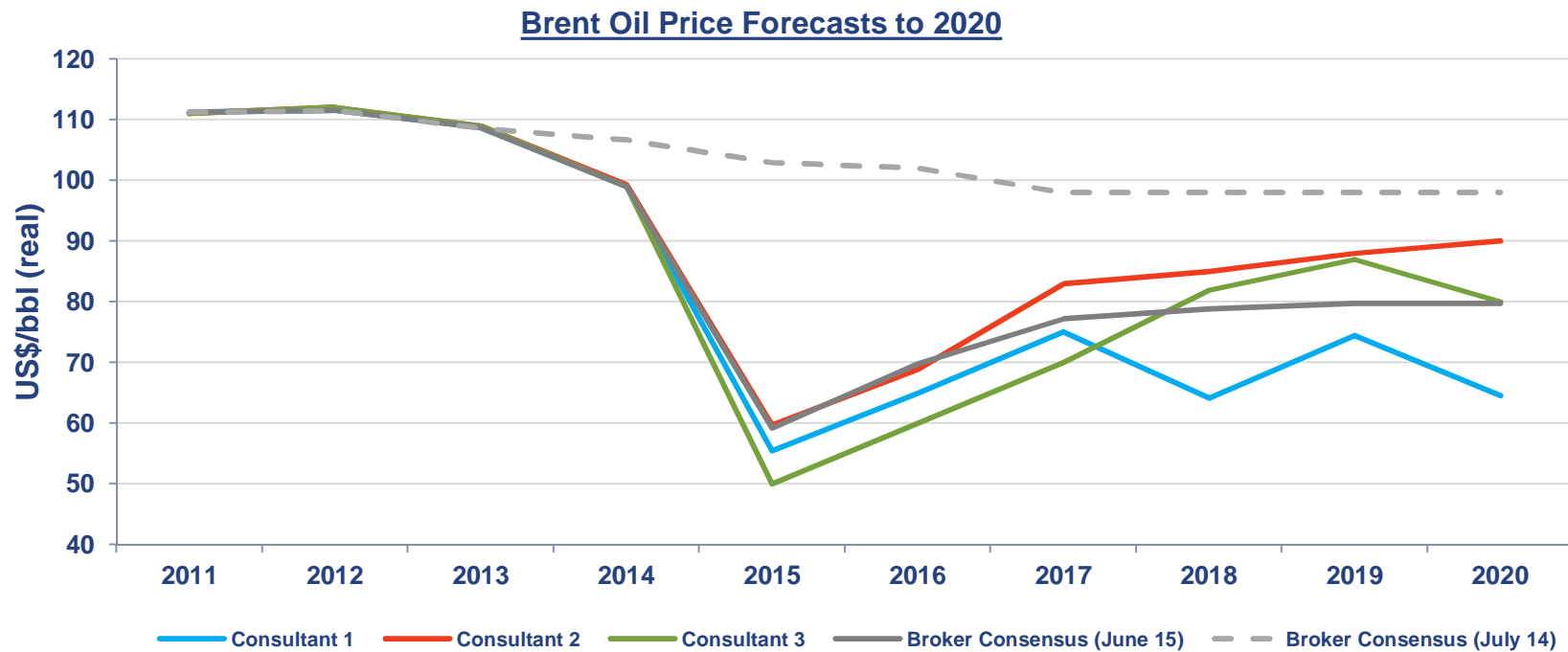
Item 4 The Future...continuing that growth trajectory

Global Challenge | new oil price environment



Oil Search

- » Size and speed of oil price fall was unexpected
- » Industry capital cost deflation now taking place



Source: FACTS Global Energy, Wood Mackenzie, Various Brokers, OSH analysis



Our Response

- » OSH is in strong position to manage lower oil price environment, with profitable production
- » Proposed LNG growth projects remain attractive based on current long-term oil price assumptions
- » Industry capital cost deflation now taking place
- » Presents opportunity to recalibrate cost structure
- » Overall, strategic direction remains unchanged
- » Plan for the worst, hope for the best'
- » 2015 capex and opex reduced, actively engaging with contractors to reduce costs further, by targeted 15 – 25%
- » Business Optimisation Programme initiated. Strategic, measured and reasoned approach to improve work efficiencies and build value, without compromising safety and long-term sustainability
- » Looking to high-grade PNG portfolio to further support strategic initiatives
- » Focus is to maintain top quartile returns to shareholders, underpinned by delivery of at least two new LNG trains in PNG

| 2015 Spending Cuts | | |
|----------------------------------|------|---|
| PNG Oil and Gas production costs | ~20% | ↓ |
| Exploration and evaluation spend | ~25% | ↓ |
| Production capital | ~20% | ↓ |
| Corporate capital | ~40% | ↓ |





Domestic Public Policy Challenges

- » The ability of our Government to convert the resource boom into development outcomes for their Districts and Provinces
- » Our sector has had to respond to survive – is it the same issue for the public sector?
- » Growth vs austerity in bringing debt under control
- » Transformation agenda for regulator to keep pace with industry evolution, driven by regulatory philosophy (self-regulation vs prescriptive vs somewhere in between)
- » Balanced fiscal regime – the wisdom of our forebears in putting in place a balanced regime will ensure the sustainability of our industry in PNG – the RRT ensures we share more of the upside in a high oil price environment
- » Gas Development Strategy for our country which addresses 3rd party access/strategic infrastructure
- » Identifying our competitive advantage =>which informs the industrialization strategy =>the role of DMO (if any) in promoting that strategy=>broaden industrial base and reduce overreliance on non-renewable sector. There are a few missing pieces in that jigsaw



Domestic Public Policy Challenges

- » National Content / indigenous enterprise / landowner business
- » NOC/State Nominee strategy (revenue pass through vs assuming exploration risk)
- » Gestation period for gas projects and the need to address vacuum between PRL expiry and PDLA to promote security of tenure
- » PNG LNG Benefits Management using PPP to assure delivery to address legacy of unfulfilled commitments
- » National Energy Policy and unbundling our electricity value chain
- » Addressing factors of production (access to and mobilising land bank, skilled and affordable labour, encouraging State owned, indigenous and foreign enterprise and access to affordable capital)
- » Sovereign Wealth Fund
- » Resource nationalism

PNG LNG Non Tax Benefits | Shared Responsibility with Government for delivery is an imperative



| Benefits Stream | Quantum | Beneficiary | Type | | Governance Approach |
|--|--|--|---|----------|--|
| Royalty | 2% of wellhead value | Landowners | Statutory | Cash | 40% cash to landowners, 30% each to CIT & FGT |
| Development Levy | 2% of wellhead value | 5 Impacted Provincial Governments ie. sub national level | Statutory | Cash | Mobilising funds against defined goals and assist implementation |
| Business Development Grant | K120m | Landowners | Contractual | Cash | Distributed in 2010 – too late |
| Infrastructure Development Grant | K1.2bn released @ K120m pa from 2010 | 5 Impacted Provinces | Contractual | Cash | Lost 2010 – 2013 Infrastructure delivery partnership with Gov't forward plan |
| High Impact Infrastructure Projects (next slide) | Project list – unrealistic designated cost | 5 Impacted Provinces | Contractual | Non Cash | Infrastructure delivery partnership with Gov't |
| Landowner equity | | Landowners | Statutory & extra equity is contractual | Non Cash | Managed by a corporate trustee per royalty |

PNG LNG Non Tax Benefits | Shared Responsibility to deliver High Impact Infrastructure Projects needed

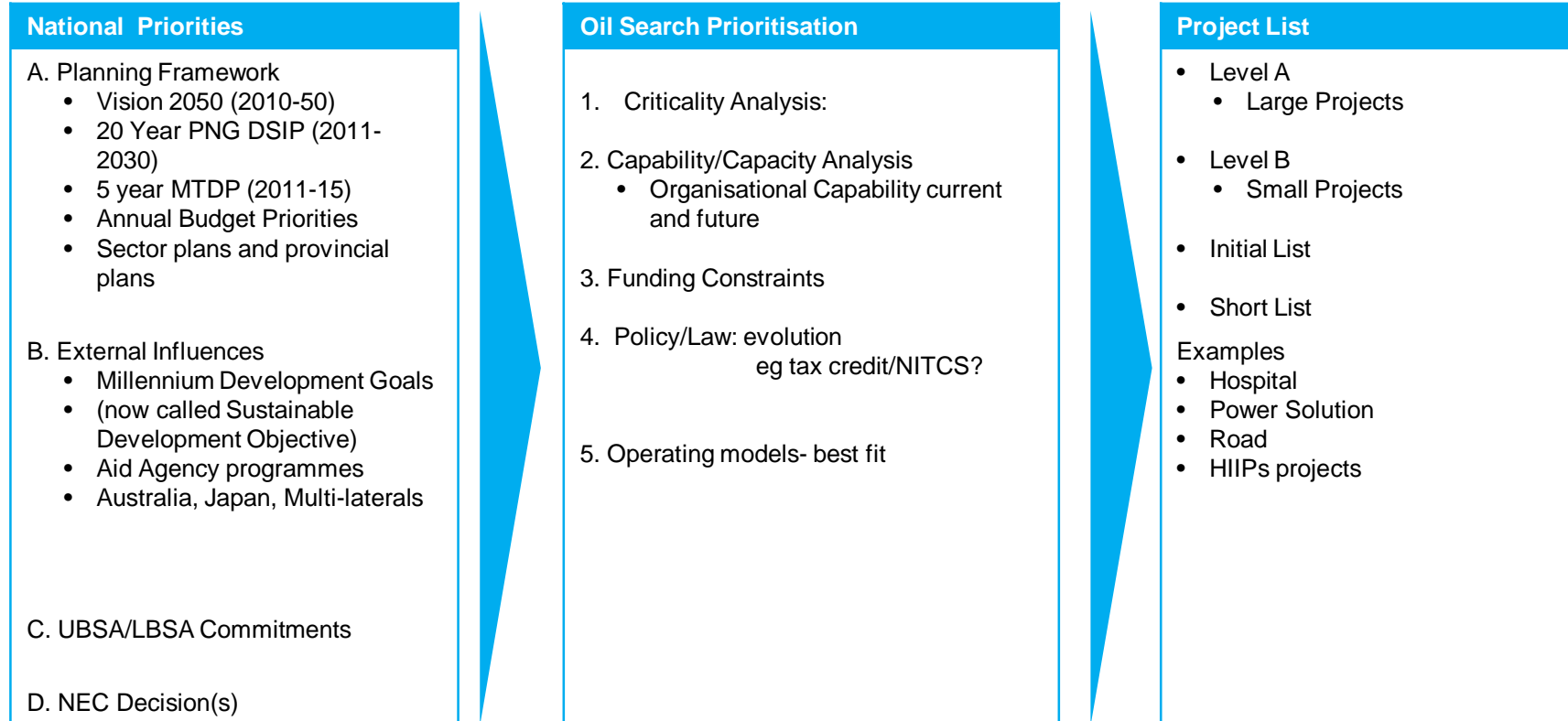


Oil Search

| Project | Designated |
|---|------------|
| Kikori-Kutubu-Tari-Koroba-Kopiago North Coast Road (Tax Credit Scheme*) | K100m |
| Komo to Tari road sealing | K 90m |
| Hela City Development (first phase) | K100m |
| International airport at Tari (first phase) | K 90m |
| Komo Township | K 15m |
| Magarima Township | K 15m |
| Kutubu Township | K 15m |
| Koroba Township (including hospital) | K 20m |
| Nogoli Growth Centre | K 15m |

*The Tax Credit Scheme is a legislated infrastructure delivery model that permits the mobilization of 0.75% - 2% of a Developer’s taxable income to fund project delivery by the Developer

Shared Responsibility with Government to deliver public and social infrastructure priorities





Agenda

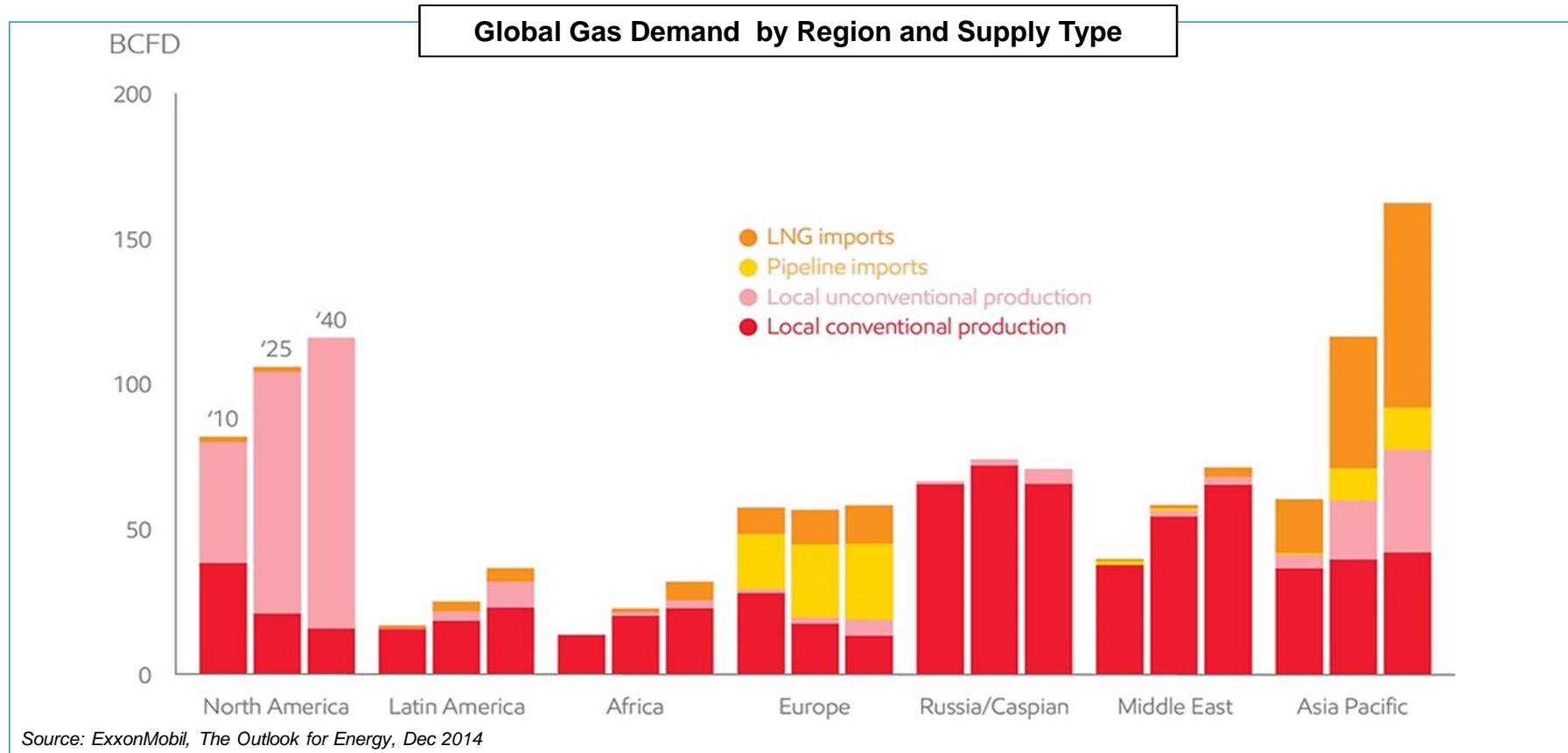
Item 1 Who is Oil Search?

Item 2 The Growth Story...one we should be proud of

Item 3 Challenges

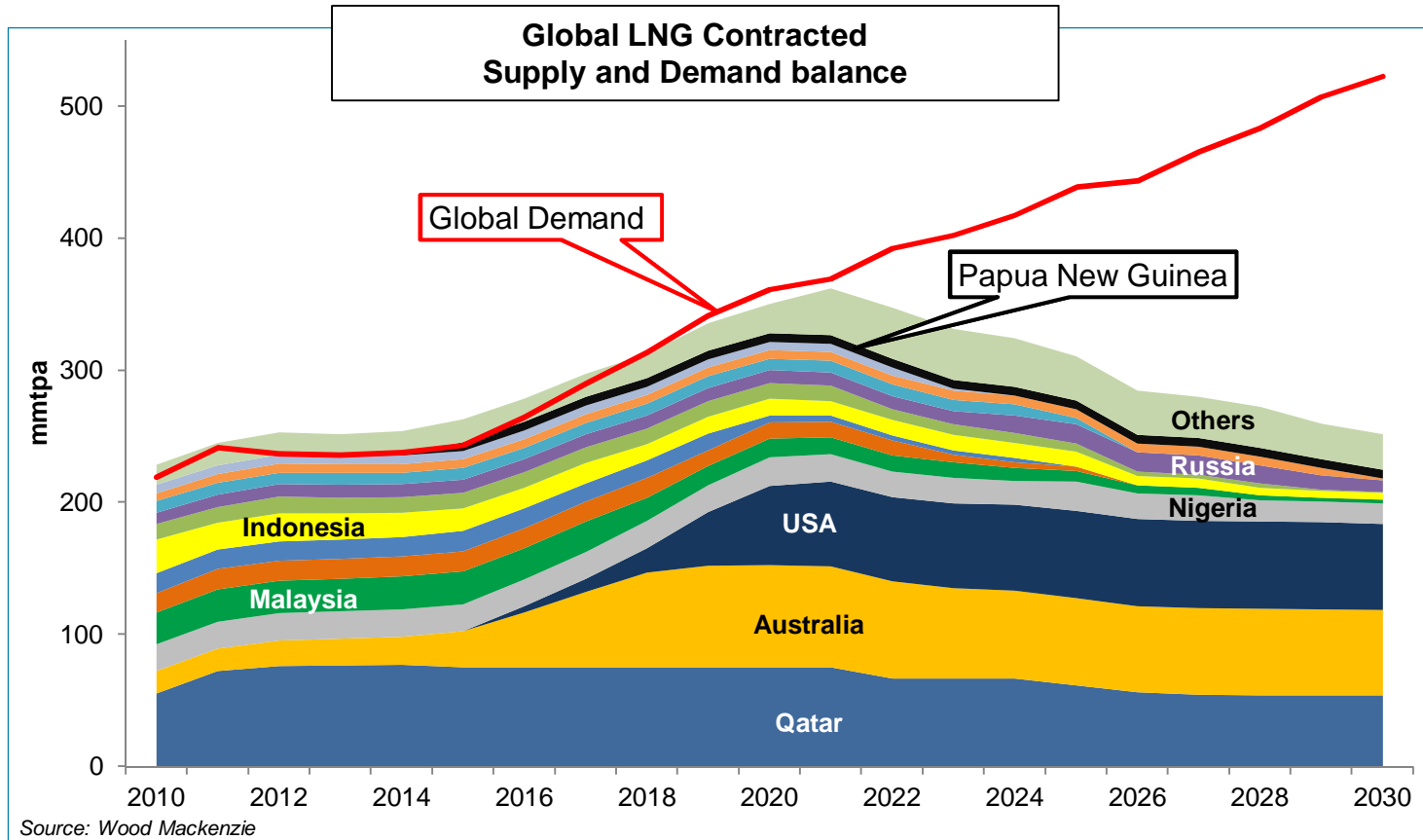
Item 4 The Future...continuing that growth trajectory

Global LNG demand forecast to nearly double over next decade

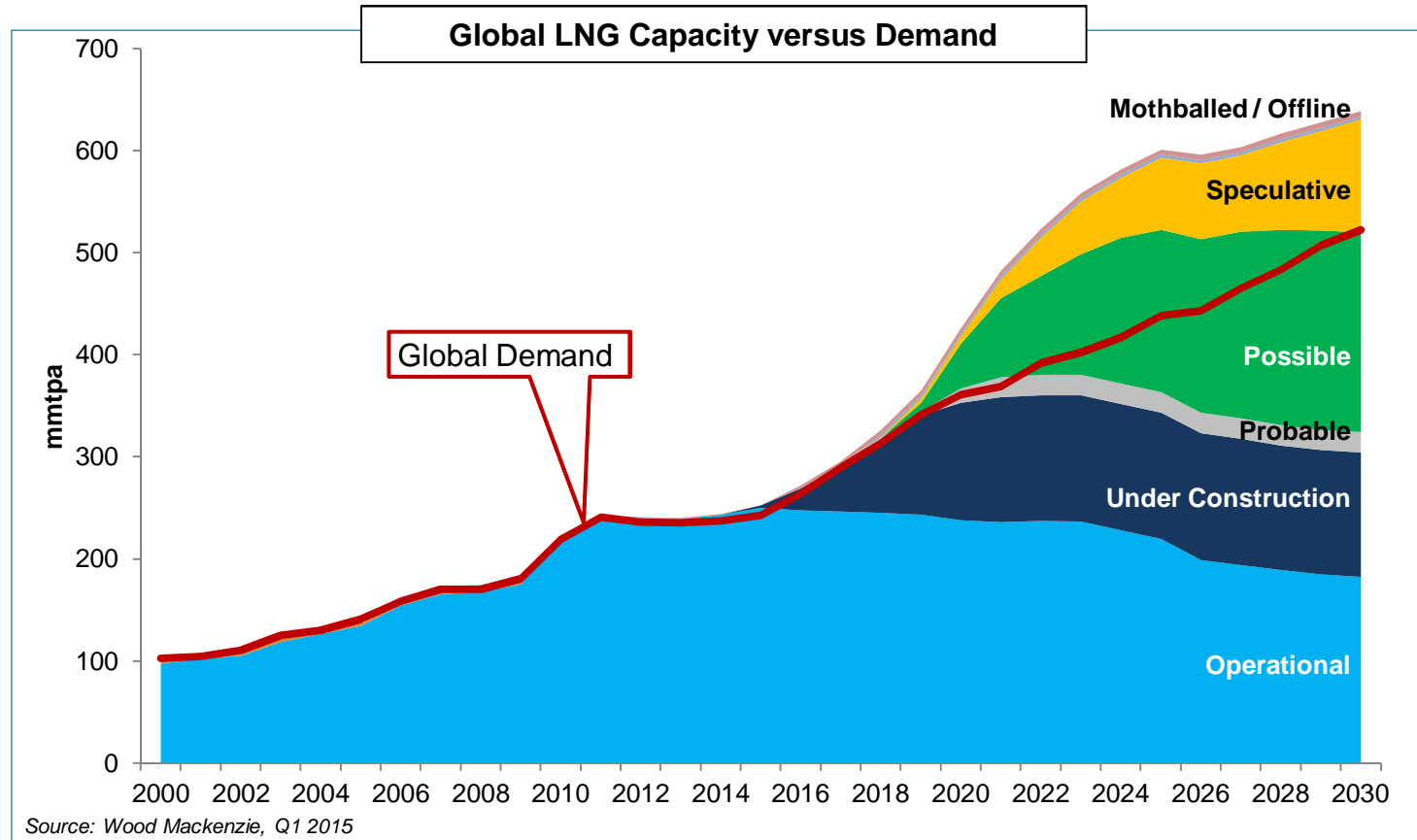




LNG Market well supplied until post 2020



Many global LNG projects proposed but how many work in new pricing paradigm?





LNG from PNG has competitive advantages

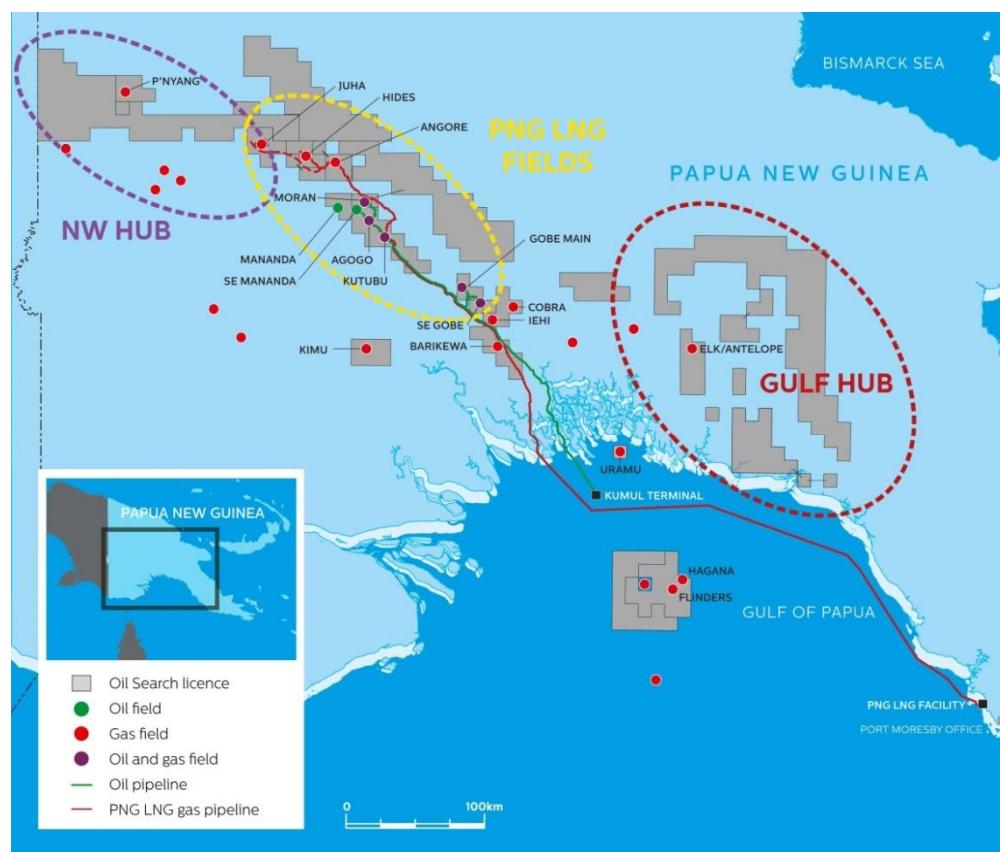
- » Conventional LNG projects with no new technology utilised in development
- » Substantial reserves base with high heating value, suitable for Asian reticulation network
- » High liquids, enhancing economics
- » Onshore location with existing infrastructure base from oil and LNG developments
- » Located close to growing Asian LNG markets
- » Stable fiscal regime with strong Government support
- » Aligned Joint Ventures. Highly respected Operators able to deliver and operate major projects, augmented by OSH's 86 years of in-country experience
- » Provide attractive returns and robust to product price movements



Image courtesy ExxonMobil

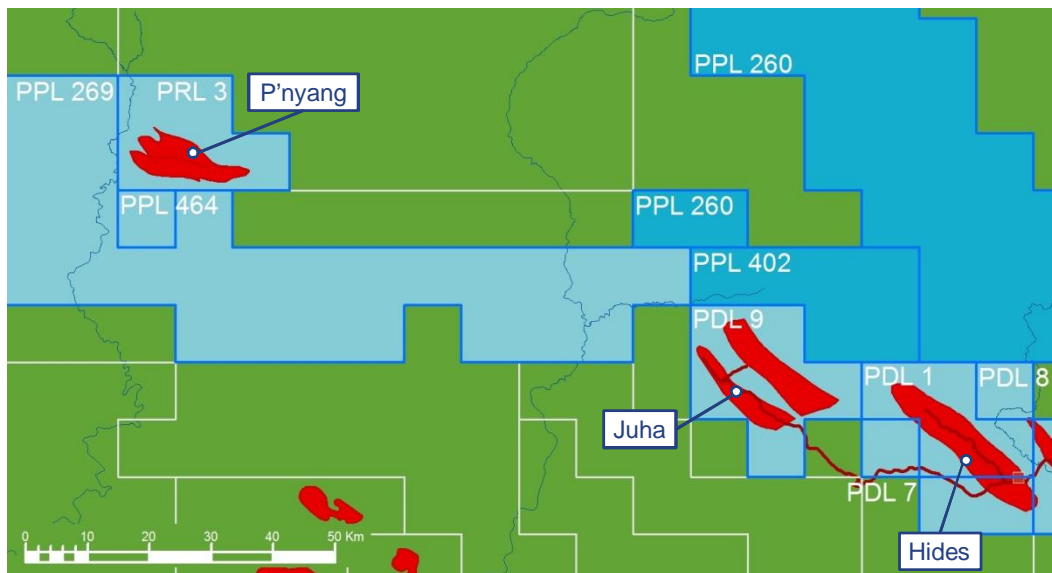
Key focus for OSH is commercialising PNG's undeveloped gas

- » PNG LNG Project has delivered strong platform for growth
- » PNG can deliver at least two more LNG trains underpinned by existing undeveloped resources in NW Highlands and Gulf areas and third train with modest drilling success
- » PNG LNG expansion and Elk/Antelope development are economically attractive
- » Multiple exploration opportunities remain, to potentially provide backfill gas or additional trains
- » Delivery of near-term additional trains is common objective for industry, communities and Government
- » OSH well positioned to play key role to ensure optimum development outcome for all stakeholders





NW Hub: LNG expansion and power MoU signed

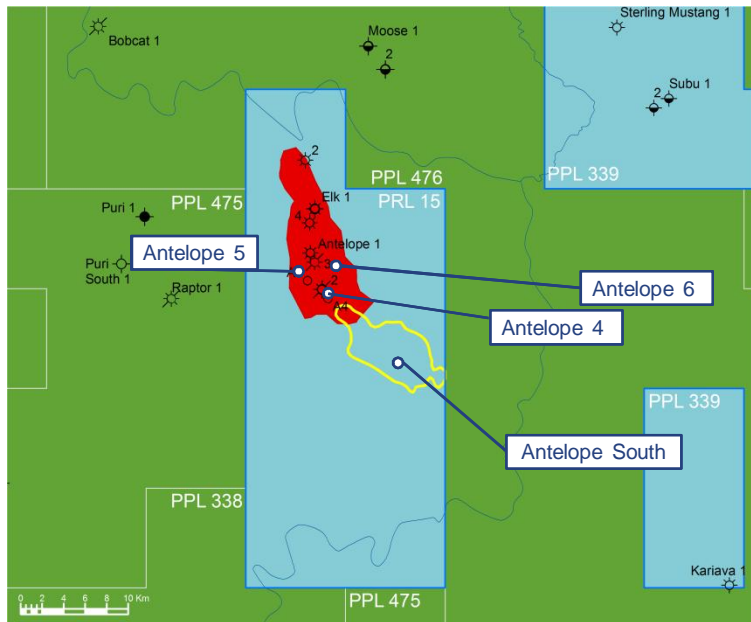


| PRL 3 | WI % |
|--|------|
| ExxonMobil affiliates (operator Esso PNG P'nyang Ltd) | 49.0 |
| Oil Search | 38.5 |
| JX Nippon | 12.5 |

- » ExxonMobil PNG Limited (as operator of PNG LNG and PRL 3) and PNG Government signed MoU in Jan 2015
- » Sets roadmap for development of P'nyang to provide long-term gas resources to support domestic power and potential PNG LNG Project expansion
- » Power sale agreement with PNG Power, to supply 25MW of power for local use, signed in April 2015
- » P'nyang 2C contingent resource could increase materially
- » Planning for an appraisal well underway



Gulf Hub: PRL 15 (Eik/Antelope) appraisal



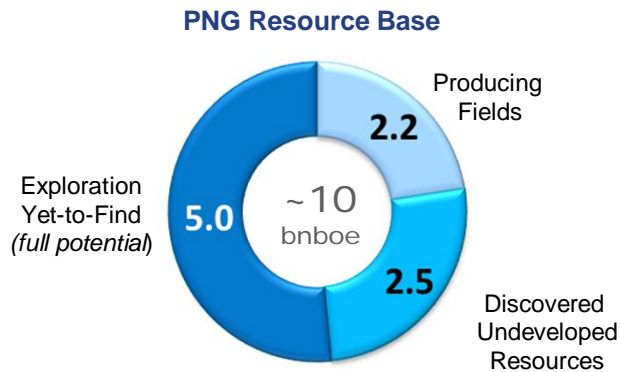
| PRL 15 | WI % |
|-------------------|-------------|
| Total | 40.1 |
| InterOil | 36.5 |
| Oil Search | 22.8 |
| Minorities | 0.5 |

- » Potential second world-scale LNG development in PNG
- » Comprehensive appraisal programme underway, with initial results encouraging
 - *Antelope 4*: Located ~1 km south of Antelope 2. Well presently suspended and plans underway to sidetrack well using Rig 103 (subject to final JV approvals)
 - *Antelope 5*: Located ~1.8 km west of Antelope 2. Initial test completed in April. Additional testing, with pressure monitoring in Antelope 1, underway
 - *Antelope 6*: Located in eastern part of field. Well site preparation underway
- » Aim to complete resource evaluation, select broad development concept and move into pre-FEED in 2015:
 - Preliminary discussions on project financing, marketing and environmental and social mapping activities underway

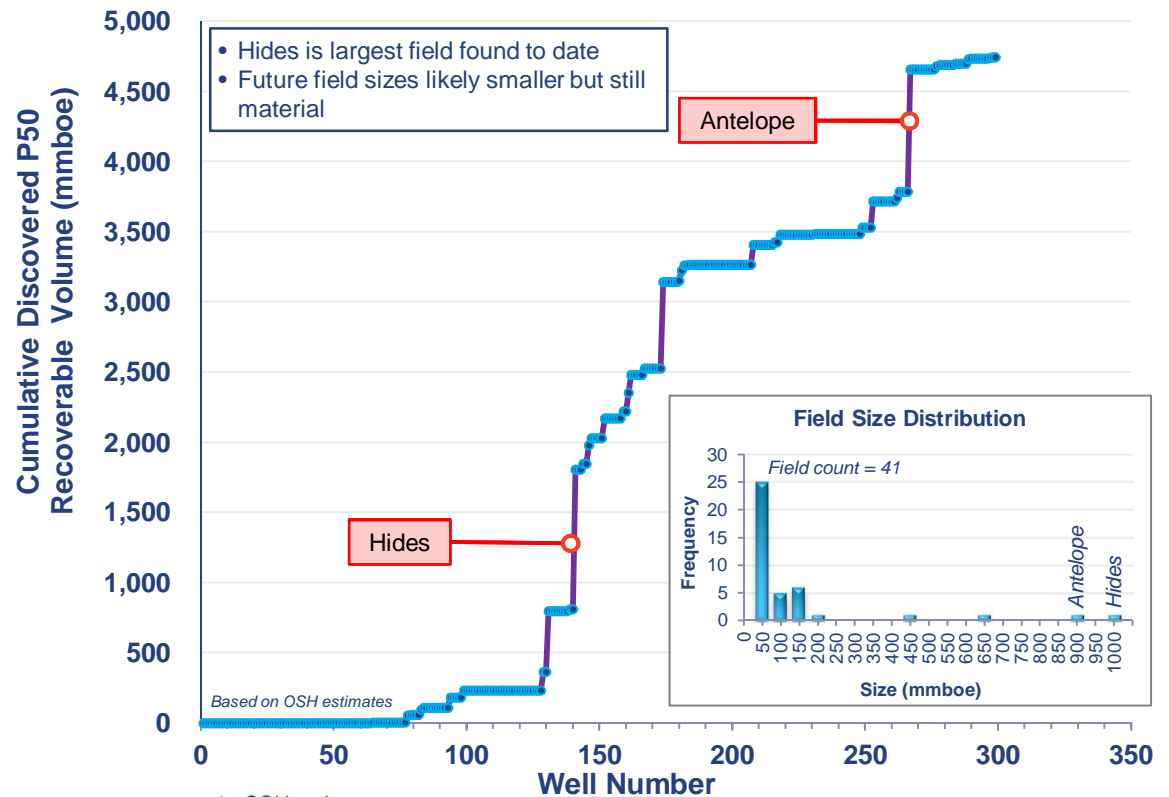
The Future | only 1/2 of PNG's full resource potential has been discovered



- » Internal and external assessments indicate only half of PNG's full resource potential has been discovered
- » Significant remaining gas potential in Highlands and Gulf areas



YTF = USGS P50 & IHS Estimates

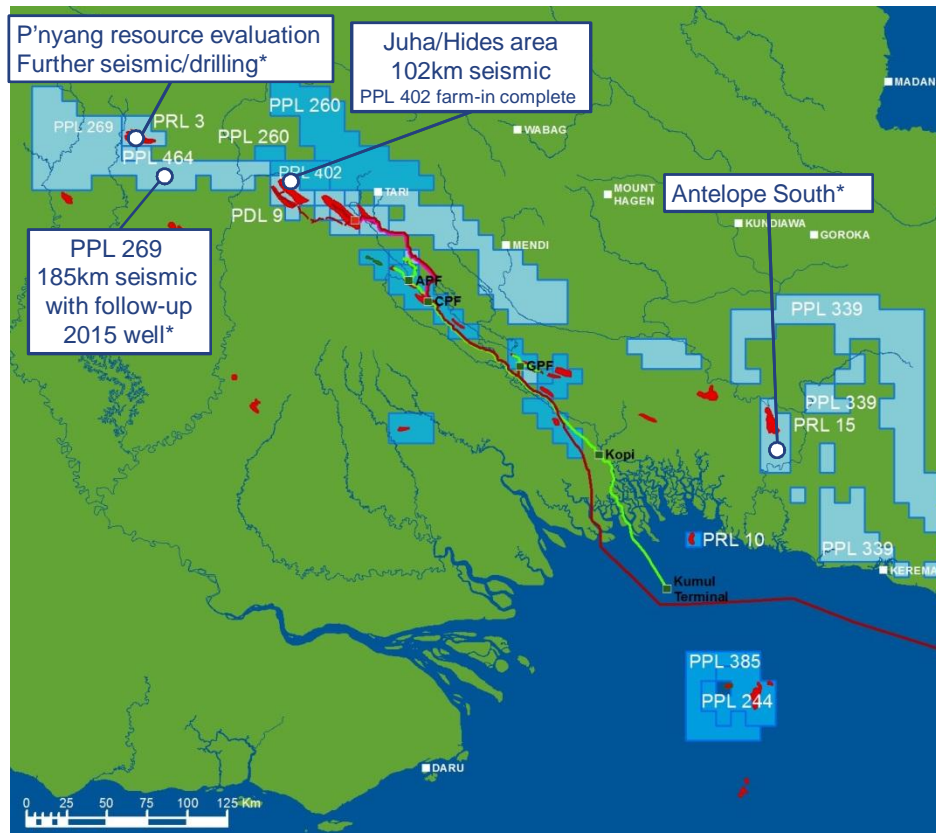


* OSH estimates

** Cumulative numbers based on arithmetic sum of P50 resource



PNG gas exploration activities



* Subject to JV approval

» Focus of 2015 PNG exploration and evaluation programme is to mature material gas prospects to support PNG LNG expansion or additional trains for 2016/17 drilling

» Key gas exploration activities in 2015/16:

- Antelope South exploration well*
- Exercised option to farm-in to 70% interest in PPL 339 in May 2015 (OSH-operated). Drilling in 2016
- Extensive seismic and field work in NW Highlands exploration licences
- Well to be drilled in PPL 269* (Talisman-operated)
- Major PNG basin-wide review underway, focused on acquiring strategic material licence interests, to support long-term programme

Contributing to long-term sustainability in PNG – some essentials

- » Landowners and community expectations will not change with oil price halving
- » Requirement of efficient benefits distribution
- » Partnership between State and Private Sector has never been more important
- » Focus areas:
 - Provision of competitively priced, reliable power
 - Port Moresby
 - Highlands and Ramu Grids
 - Platform for industry development
 - Small scale LNG for resource projects and remote communities
 - Partnerships on infrastructure development
 - Partnerships on health programmes
 - Capacity development



Thank You

