

**Oil Search Limited**  
ARBN 055 079 868



# 2016 Annual Meeting

## *Strong Foundations*

9.30am, Friday 13 May, 2016

Crowne Plaza Hotel, Port Moresby, PNG

ASX: OSH | POMSoX: OSH | US ADR: OISHY

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# Presentation by Managing Director

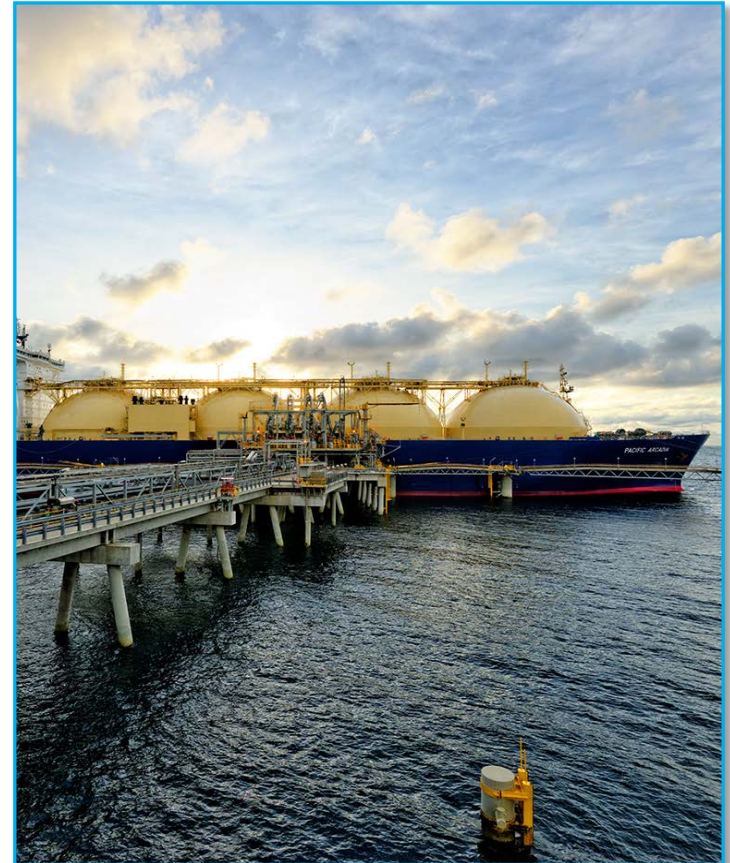
Peter Botten



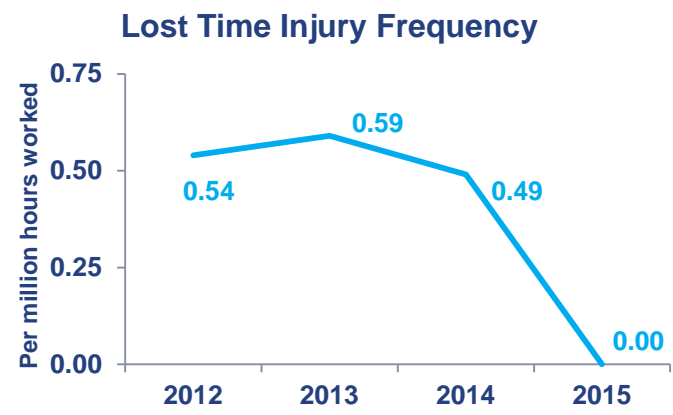
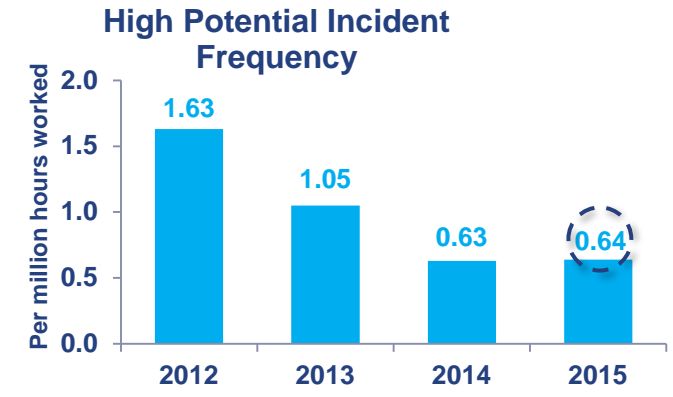


## Strong performance in challenging environment

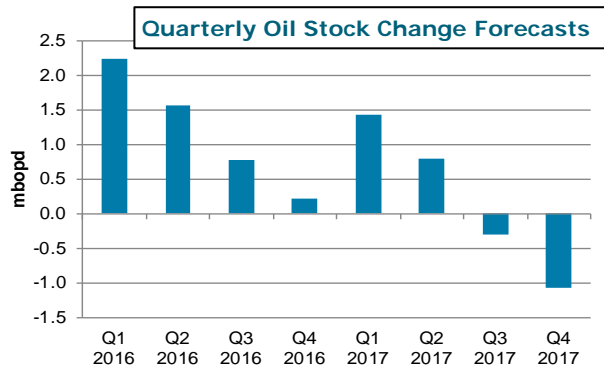
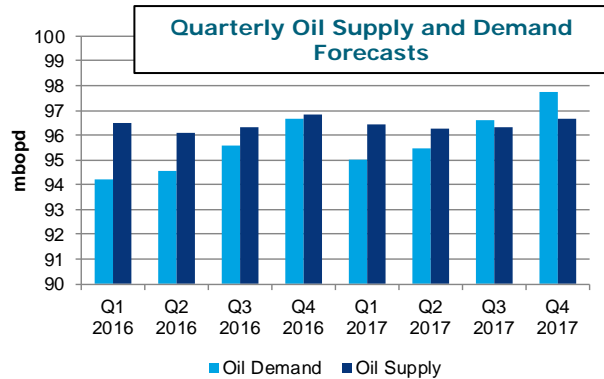
- » Strong production from high quality, low cost quality assets with low sustaining capital requirements
- » OSH generating positive cash flows even at current oil prices:
  - Cash flow breakeven (opex plus interest) in 2016 forecast at ~US\$19/bbl and in low US\$30s/bbl after principal repayments and sustaining capex
- » Solid balance sheet with cash and borrowing facilities of ~US\$1.7bn
- » Making progress on high-potential LNG growth opportunities. Expansion of PNG LNG and Papua LNG Project assessed to have breakeven costs in lowest quartile in region
- » Major near-field gas exploration/appraisal campaign planned for 2016/2017+
- » Number of initiatives implemented in 2015 to recalibrate costs and prioritise capital spend, reaping rewards in 2016



# 2015: Third consecutive year of improved safety performance



# Global oil supply and demand – world is swimming in oil, but supply:demand will be in balance by 2017



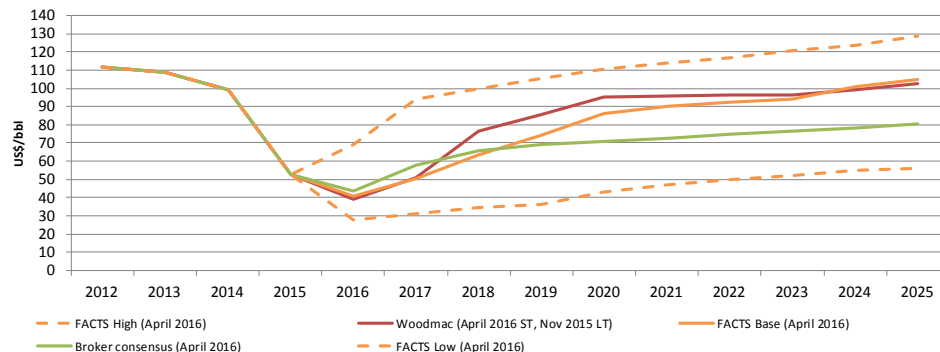
Source: Wood Mackenzie, 29 April 2016

- » Production exceeded demand by ~ 2 mmbbl/d in early 2016
- » Global oil demand growth forecast to average 1.1 mmbbl/d in 2016 and 1.0 mmbbl/d in 2017
- » Inventories at highest levels for many years, with Iranian production increasing
- » Weaker demand in China (6.5% - 7% GDP target), Japan, Europe
- » Global liquids supply forecast to increase marginally in 2016 to 96.4 mmbbl/d and remain flat in 2017
- » Oil market expected to progressively tighten over next 18 months

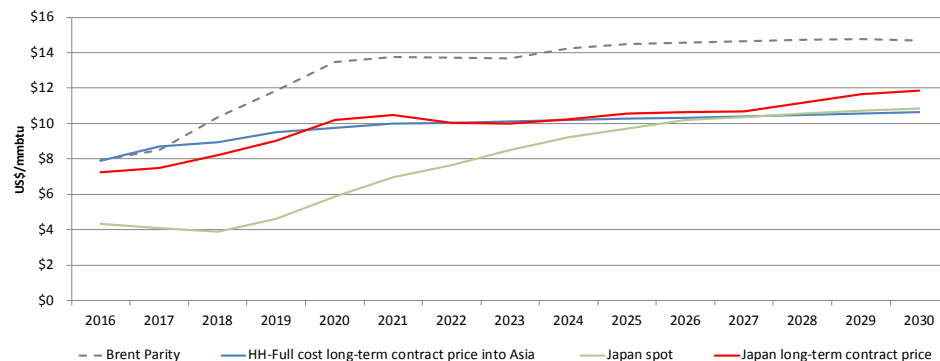
# Wide range of oil & LNG price forecasts, all with significant volatility

- » Base oil price forecast range remains low
  - 2016: US\$40 - \$44/bbl
  - 2017: US\$50 - 58/bbl
- » Considerable uncertainty on future prices, with large price range from forecasters:
  - 2017/2018 \$50 - \$75/bbl
- » Over next five years, LNG supply will increase by 50%, mainly from Australia and Qatar
- » LNG price likely to decouple from oil prices:
  - Average LNG slope for Japanese long term contract prices to 2030 is forecast at ~13%

## Real Oil Price Forecasts



## Real LNG Price Forecasts

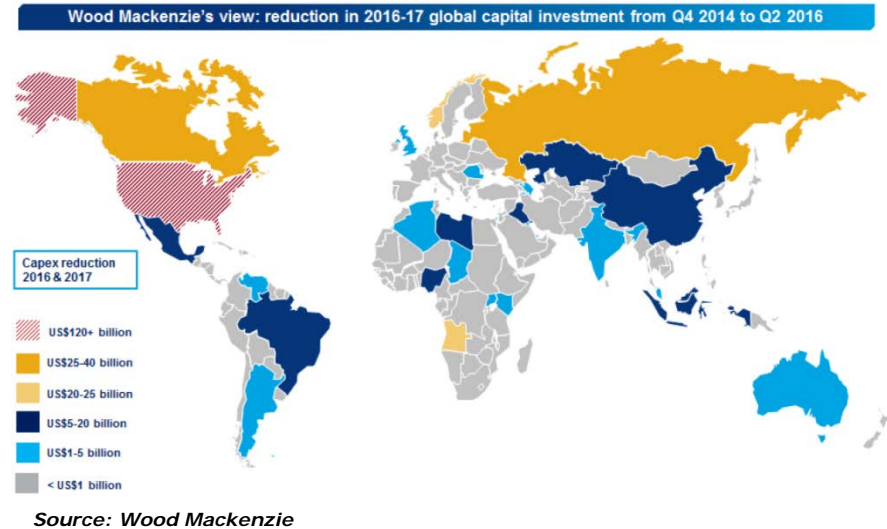


# Industry reaction to changed price dynamics



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- » Investment in new oil projects decimated. Since 4Q14, US\$370 billion (30%) of global capex cut over 2016-2017, US\$620 billion (22%) cut out to 2020
  - 42 E&P companies filing for bankruptcy
- » Global production expected to be down 3% in 2016, 4% in 2017 with onshore US comprising 70% of fall
- » Project delays and cancellations
  - Greenfield project delays and cancellations e.g. Browse FLNG, Shell's Carmon Creek Canadian oil sands
- » Oil reliant countries experiencing severe budget deficits
- » Significant downsizing led by contractors
- » Capital deflation likely to exceed 30%

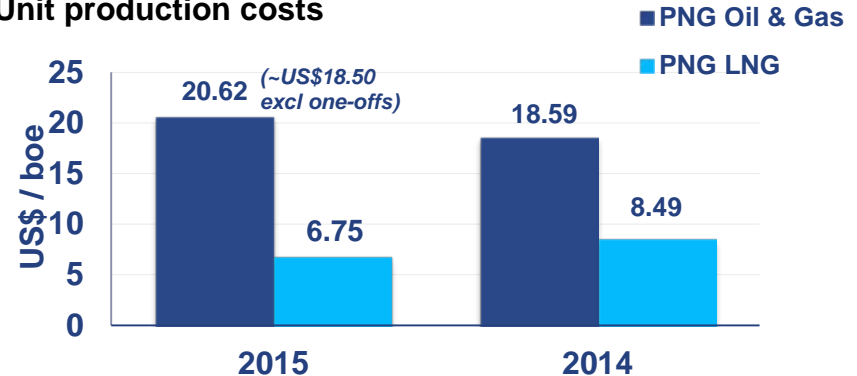


# Unit production costs reduced to US\$10.08/boe in 2015, more to come

- » Organisation efficiency and effectiveness:
  - Closed Brisbane office, reduced MENA office, reduced footprints in field operations, re-set organisation and streamlined decision-making
- » Production optimisation and drilling performance:
  - Step change focus on work efficiency, shutdown and well intervention planning, rationalised facilities' projects
  - Drilling spread rate reduction, minimise mob/demob costs, fit-for-purpose civils, rig technology
- » Cost reduction and cost effectiveness:
  - 3rd party rates renegotiated
  - Services and facilities
  - Spend management
- » Citizen Development Programme
  - Long-term capability of citizens
  - Increased citizen senior management
  - Accelerated development programme, focused leadership training succession planning

**Total unit costs:**  
**2014 – US\$12.21/boe**  
**2015 – US\$10.08/boe**

**Unit production costs**





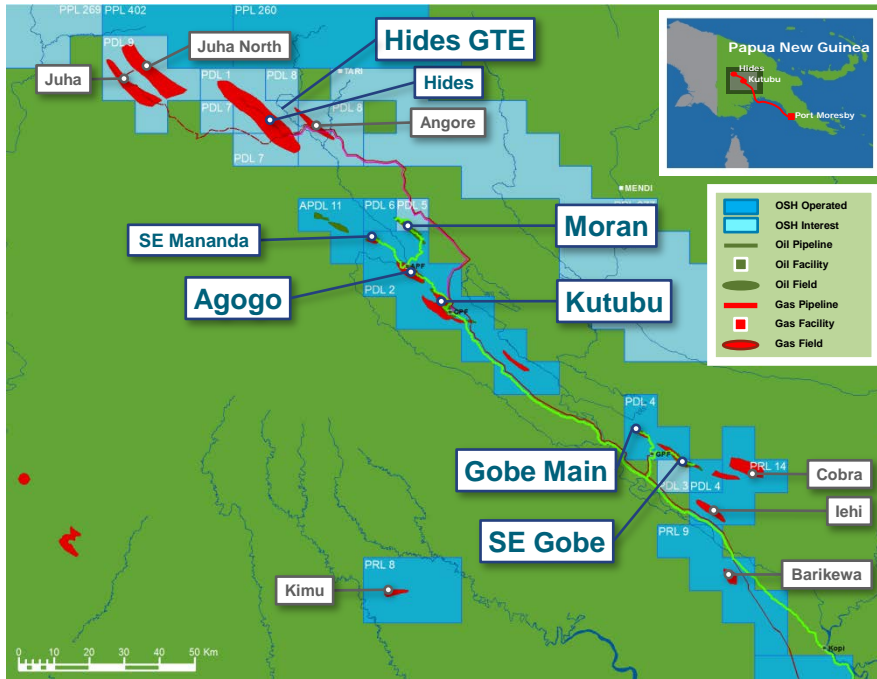
# PNG LNG Project – performing well above expectations

- » Annualised production in 1Q16 at record rate of 8.0 MTPA (16% above nameplate):
- » Very high facilities uptime from LNG trains and HGCP plus strong productivity from wells
- » Evaluation of potential debottlenecking opportunities ongoing
- » OSH contributes gas from OSH-operated oil fields (Kutubu, Gobe Main, SE Gobe) plus handles export of all Project condensate through liquids export system



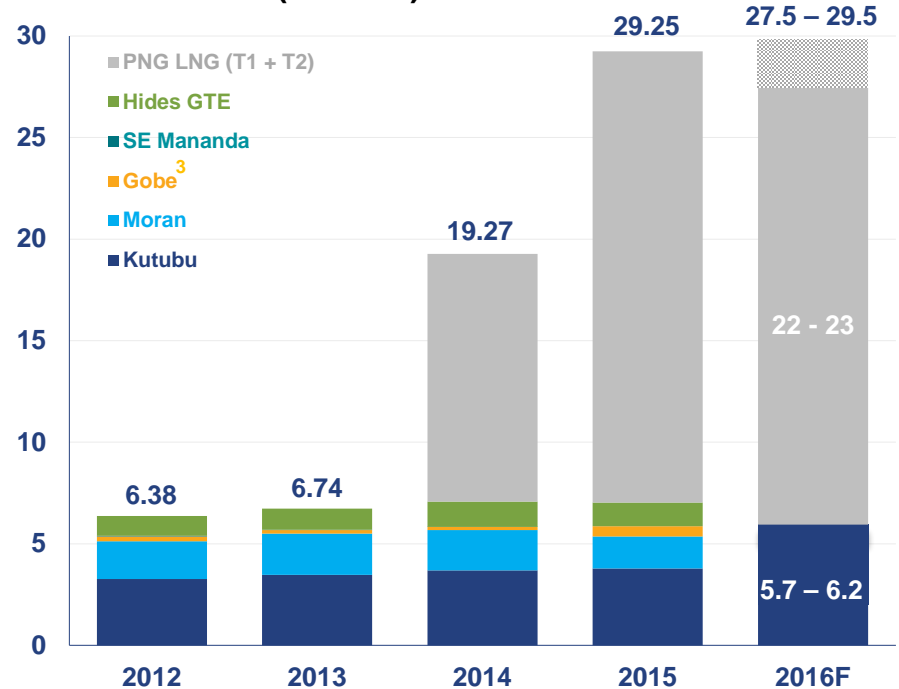
# 2016 Production Outlook

» 2016 production forecast of 27.5 – 29.5 mmboe



\* Includes 2.8 – 3.0 bcf (net) of SE Gobe gas sales (OSH – 22.34%) exported to the PNG LNG Project

Net Production (mmboe)<sup>1,2</sup>



<sup>1</sup> LNG sales products at outlet of plant, post fuel, flare and shrinkage

<sup>2</sup> Gas:oil conversion rate used from 2014 onwards: 5,100 scf = 1 barrel of oil equivalent (prior years 6,000 scf/boe)

<sup>3</sup> Includes SE Gobe gas sales to the PNG LNG Project, which commenced May 2015

# Potential PNG LNG expansion, underpinned by P'nyang and existing gas fields

» Potential PNG LNG Project expansion includes:

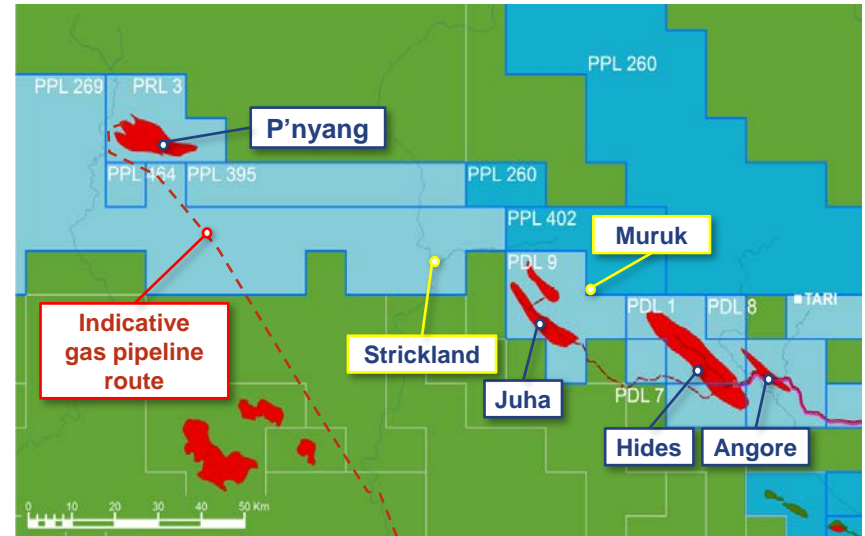
- High-value production optimisation/debottlenecking
- Potential third LNG train (~4 MTPA)
- Delivery of domestic power

» Benefits of brownfield expansion:

- Fiscal regime in place
- Relatively straightforward expansion of project finance facility
- Reduced capex due to use of existing infrastructure

» Resource base for potential expansion:

- Integration of P'nyang (PRL 3) into PNG LNG Project
- Recertification of Foundation Project fields in 2H16



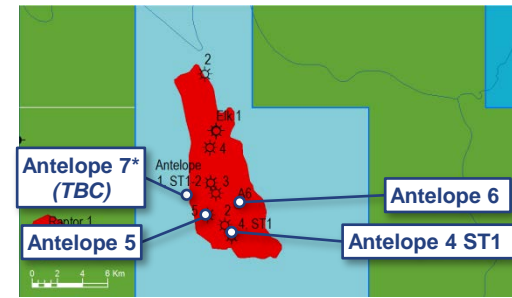
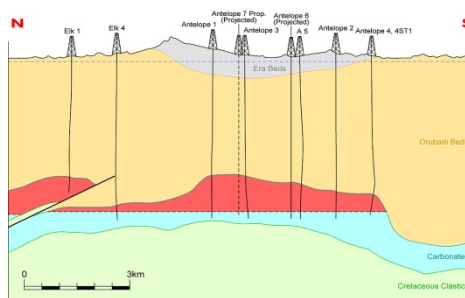
PRL 3 (P'nyang)	WI %
ExxonMobil affiliates (operator Esso PNG P'nyang Ltd)	49.0
Oil Search	38.5
JX Nippon	12.5

# Papua LNG – potential next LNG development in PNG



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

- » Positive appraisal results with further appraisal well, Antelope 7, under consideration for drilling in 2H16
- » Certification by two independent world-class certifiers commenced Mar 16, results anticipated mid-year
- » Completion of appraisal programme and confirmation of resource size will enable selection of final development concept and number of LNG trains
- » OSH expects final investment decision in 2018 preceded by early works
- » JV maturing PRL15 exploration prospects to drill-ready status





# Lessons from other projects

## Curtis Island

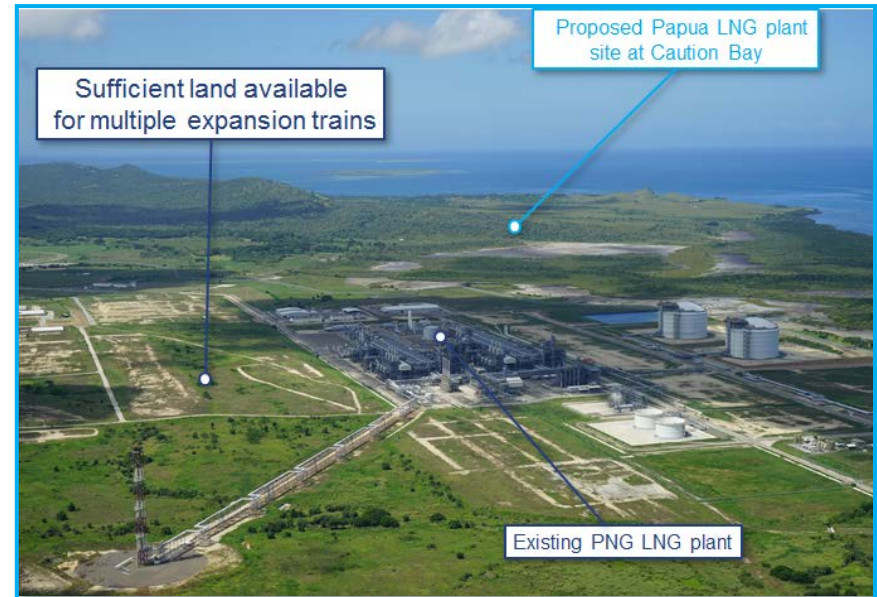


- » PNG can learn from other global LNG developments and expansions
- » Value destruction has been typical in many LNG developments:
  - Governments and shareholders the major losers
- » Maximising capital efficiency is a corporate obligation to all stakeholders
- » Lessons for PNG:
  - Cooperation in multi train developments will deliver higher value for all stakeholders
  - Next 12-18 months critical in pursuing development coordination
  - Failure to achieve high level of co-operation would be missed opportunity

Source: *Googlemaps*

# Maximising value of next phase of LNG development in PNG

- » Low oil price provides impetus to maximise value of PNG LNG Project expansion and proposed Papua LNG Project through cooperation and integration
- » Co-location of LNG plant sites would provide opportunity to drive capital efficient investment, cost and operational synergies and schedule optimisation
- » Current gross undeveloped resource across both projects of ~10 tcf delivers two x 4 MTPA LNG trains, with option of third expansion train subject to proving up additional proven resource base
- » Coordinated development would allow developers to optimise employment / contractor deployment and extend increasingly skilled labour force across successive developments
- » In-country resources and regulator better able to support one large cooperative development



# Time is right to drive greater cooperation and potential integration of PNG's LNG projects



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- » Focus in 2016 is on resource confirmation and definition of development plans
- » Strong case for more cooperation, where it makes sense for all parties. Includes potential full integration, with potential for material benefits for all parties
- » Current oil price and cost environment conducive to alignment
- » OSH's role:
  - Unique position with interests in PNG LNG and Elk-Antelope resources and in key NW Highlands and Gulf Province exploration licences
  - Well positioned to support operators, ExxonMobil and Total, and to promote benefits of cooperation
  - Leverage strong foundations – extensive in-country operating experience, strong Government, community and landowner relationships
- » PNG Government will also have equity in both projects and will be major beneficiary of cost-effective and timely development
- » Integrated LNG projects have been successfully delivered globally (Trinidad, Egypt and Qatar)

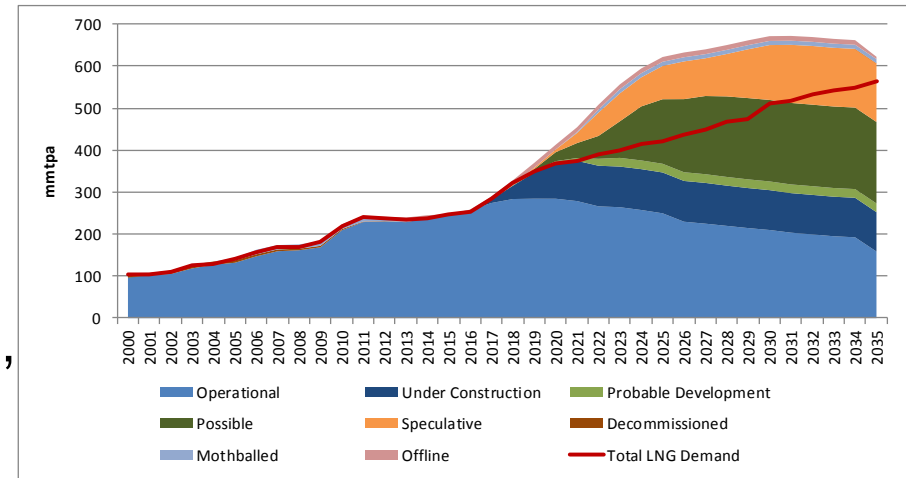
## Examples of potential areas of cost savings

Base Cost	Existing Contractor Rel.
	Contractor/Op Synergy
	Lessons Learned
	Execution Experience
Infrastructure	LNG Tank
	Jetty Spur
	Accommodation
	Pipeline Corridors
	Access Roads
	Warehousing
Front end	Shipping Channel
	Site foundation surveys
	Pre-FID costs
	FEED
KPS	Environmental Approvals & Surveys
	Export System
	Pipeline Distance
Project	Improved Schedule
	PMT
	Contractor Execution Plan
	Detailed Engineering
	Reduced Contingency
Process	Commissioning & Start up
	Pre-treatment
	Sparing
	LNG, LPG and NGL Process



# LNG industry: Undergoing fundamental change

- » Current oversupply through commissioning of major projects in Australia, US
- » Gas prices globally have normalised, Asian spot LNG now trading in US\$4-5/mmBtu range
- » More globally connected and significantly more LNG being traded, increased pricing and delivery flexibility with short–medium term commitments
- » Project delays or deferrals globally, with economics challenging

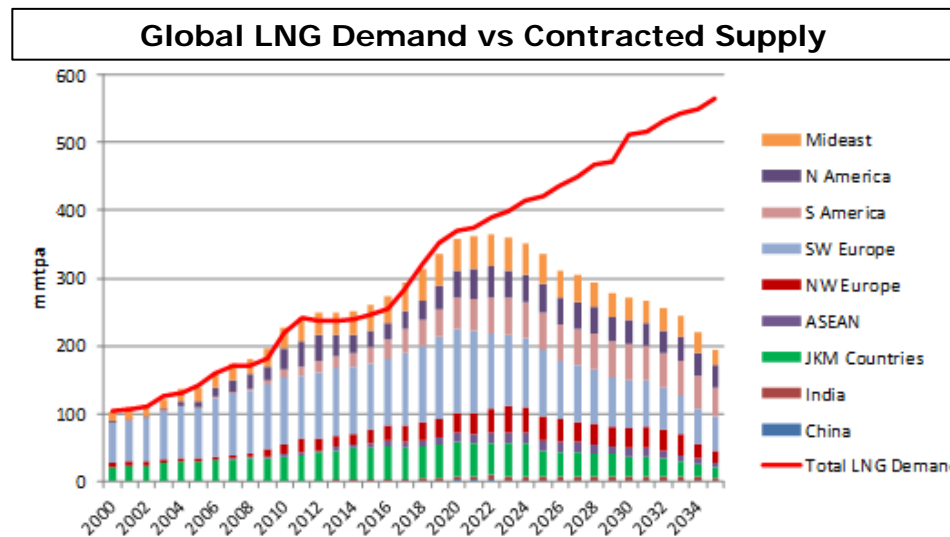






# LNG long term growth story remains intact

- » Medium and long term demand growth in Asia remains intact:
  - Expiry of existing long-term contracts
  - Window opening aligns with timeframes for potential PNG LNG third train and Papua LNG, aimed at high quality Asian customers
- » Good demand expected for low cost, high heating value LNG from PNG

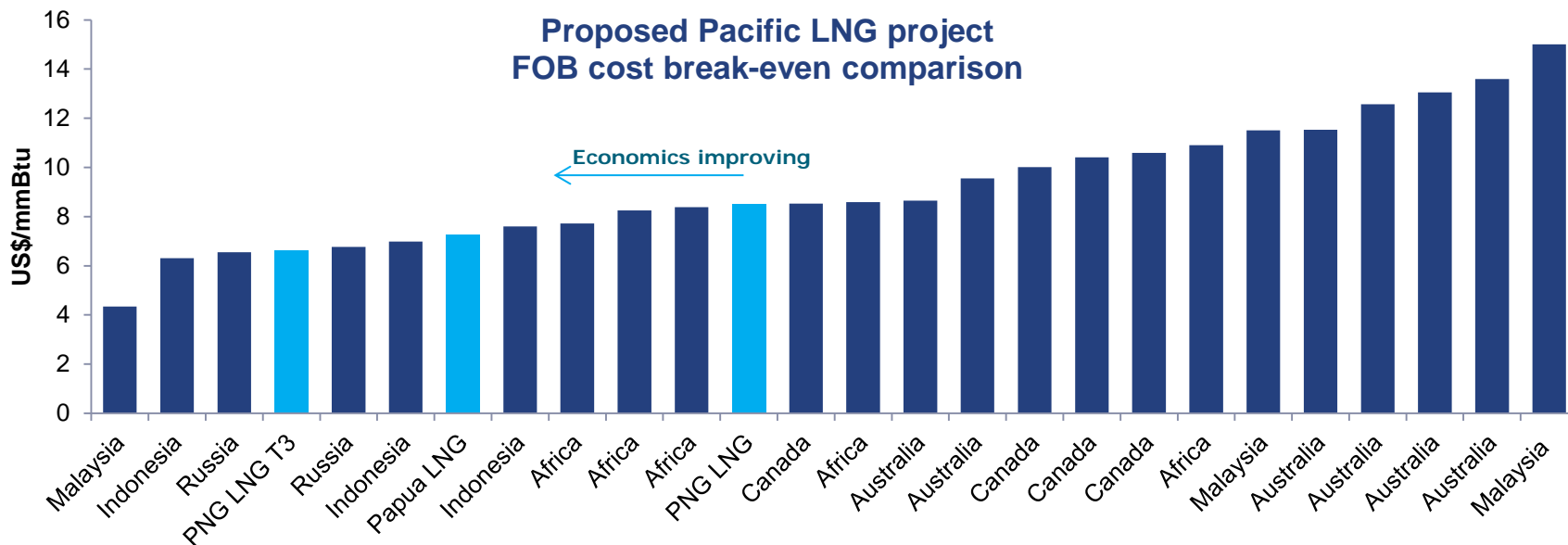


Source: Wood Mackenzie, LNG Tool, December 2015



# LNG projects from PNG very competitive (WoodMac)

- » PNG LNG well placed compared to recently commissioned Australian projects. Production optimisation adding material value
- » OSH analysis demonstrates PNG LNG train 3 has robust economics
- » Papua LNG 1 or 2 train options highly competitive against global LNG project alternatives

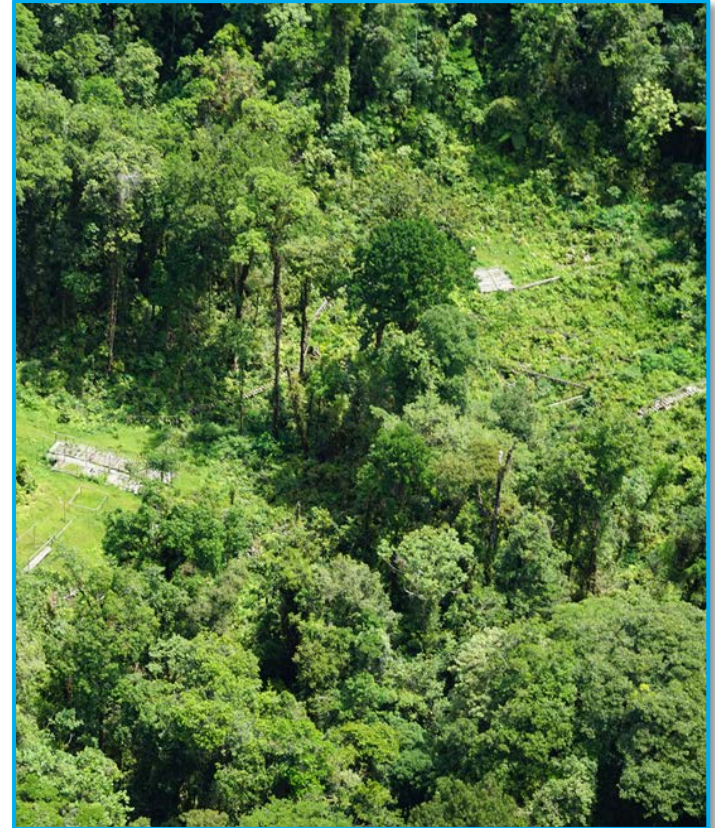


Source: Wood Mackenzie, LNG Tool, February 2016



# Significant remaining exploration upside in PNG

- » Exploration approach in 2016 is to reduce costs, focus on core areas and build long-term growth options
- » International activities pared back to focus on PNG
- » Nine new PNG licence applications submitted:
  - Optimise partnerships with Total and Exxon
- » Exploration:
  - Muruk (PPL 402) and Strickland (PPL 269) matured for drilling in 2016
  - Preparations to drill Kalangar (PPL 339) in 2017
- » Appraisal:
  - Possible Antelope 7 well (PRL 15) in 2H16
  - Preparations to drill Kimu West (PRL 8), Barikewa 3 (PRL 9) and Uramu 2 (PRL 10) in 2017





# Contributing to long-term sustainability in PNG

- » Operating and political stability essential for long-term sustainability
- » Focus on provision of competitively priced, reliable power:
  - Port Moresby
  - Highlands
  - Ramu Power Project
  - Small-scale LNG for resource projects and remote communities under consideration
- » Partnerships on infrastructure development (eg Infrastructure Tax Credit Scheme - Manasupe (Marea) House and PNG National Football Stadium)
- » Partnerships on health programmes, women's empowerment and protection and education (Oil Search Foundation)
  - Includes Public-Private Partnership agreements with Government for Hela Regional Hospital
- » Capacity development
- » Partnership between State and private sector vital





# Summary

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- » Strong production, with excellent performance from PNG LNG Project
- » Robust cash flows with low breakeven
- » Steady progress on potential PNG LNG Project expansion and Papua LNG Project. Both globally competitive and commercially sound, with opportunity to maximise value and returns through cooperation/integration
- » Recalibrated cost base, improved organisational structure:
  - Expect to drive further efficiencies and innovation in 2016
- » Strong balance sheet, with sufficient liquidity to fund growth activities
- » Monitoring opportunities to take advantage of low oil price to optimise portfolio and support strategic priorities

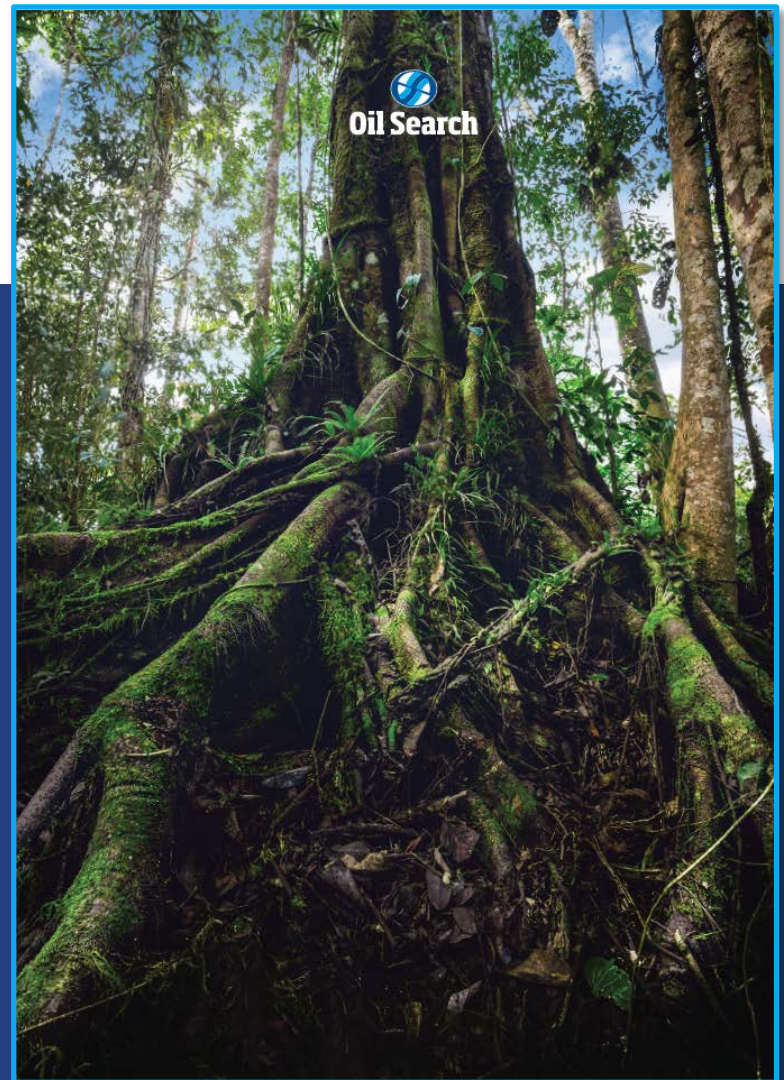


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Thank you

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