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Investor Sustainability Briefing 10 September, 2013



Sustainable. Oil Search.



Global Compact Network
Australia

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2013 Sustainability Briefing Agenda

Sovereign and Political Risk	Peter Botten, Managing Director
Managing Social Risks	Gerea Aopi, EGM & Executive Director
Oil Search Health Foundation	Ross Hutton, Mgr Strategy & Finance
Sustainability Strategy Update	Megan Christensen, Group Mgr Corporate Sustainability
Q & As	
Closing Remarks	Peter Botten

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2013 Sustainability Briefing Agenda

Sovereign and Political Risk – Sovereign Wealth Fund – Corruption – Benefits Distribution – Government Capacity Building	Peter Botten
Managing Social Risks	Gerea Aopi
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Dynamic Operating Environment

- Long standing relatively stable oil operations, with well developed relationships and understanding
- Active development, with significant investment:
 - PNG LNG Trains 1 and 2
 - Other developments:
 - Possible LNG expansion
 - Mananda Ridge
 - Active exploration across the country
 - Mining activities
- Significant areas of the country impacted
- Increasing expectations, especially for service delivery

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Dynamic Operating Environment

- Population now over 7 million people with 52% aged 19 or younger
- Still largely family and clan based society
- Society undergoing significant change:
 - Better education
 - Greater access to wealth creating opportunities
 - Clan discipline and structure under challenge
 - Better communications
 - Social and economic impacts of major developments
- Essential to understand this and have core strategies to manage operating risks

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Social Understanding - A Core Competency

- Oil Search sees itself as a key member of PNG society:
 - Endeavour to understand PNG culture and play a part in managing change
 - Fundamental to core strategy is enabling operating stability and continual value creation
- Use a multi-faceted approach to government and community affairs:
 - Dominates strategy development and delivery

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Acting responsibly is inherent in culture and the way we do things

- Social licence to Operate at the heart of how we manage operating risks
- Well developed processes of community benefits, generating goodwill, ensuring stable workforce and maintaining business continuity

Negligible disruption to
production
from community
unrest since 2003



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New era of political stability in PNG

- O'Neill Government making inroads on issues of accountability and risk to foreign investment:
 - Sovereign Wealth Fund established
 - O'Neill Government commitment to combatting corruption
 - Independent Commission against Corruption (ICAC) and taskforce
 - Commitment to participate in EITI
 - Transformation of the industry regulator from a department to an authority
 - Establishment of the National Petroleum Company of PNG (NPCP)
 - Kumul Petroleum Holding
 - Conservation and Environment Protection Authority (CEPA) - replaces DEC



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Strong relationships with Government

- Close working relationship with government agencies
- Facilitating interaction between State agencies and impacted communities across the project footprint. Examples include:
 - Organisation of Benefits Sharing Agreements between national and sub-national government and impacted communities were a prerequisite for the PNG LNG project
 - Field work associated with the determination of the PNG LNG Project impacted community beneficiaries
- Working with host provincial governments to build infrastructure planning and delivery capacity
- Delivery of Government infrastructure and management of infrastructure funds through the tax credit scheme
- Many practical examples

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How the PNG Petroleum Regime fits in the World

- Comprehensive package of benefits to the State and the Project Area Landowners

Direct benefits such as:

- Petroleum tax
- Salaries and wages tax
- Stamp duty, withholding tax, development levies
- Royalties
- Equity dividends etc

Indirect benefits such as:

- Employment and training
- Local business development
- Tax credit projects and infrastructure
- Public health, child and maternal health
- Agricultural programmes
- Community infrastructure projects
- Donations of various sorts

- Some prescribed, some discretionary, dependent on operator approach

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Social Responsibility: The Oil Search Approach

- See landowners as partners, particularly in social and community development activities
- Activities within a framework of transparency and sustainability
- We see major benefit from this approach:
 - Improved communication with local communities
 - Sustainable livelihood development achieved
 - Capacity building of the local government institutions and local organisations improving sustainability
 - Improved corporate reputation locally, with shareholders, peers, financiers etc.
- Most important in present operating climate

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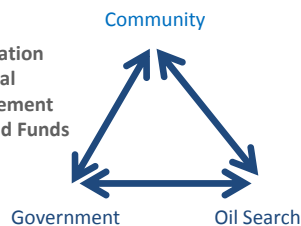
Partnering with Government and Community to deliver sustainable economic benefit

Our Focus

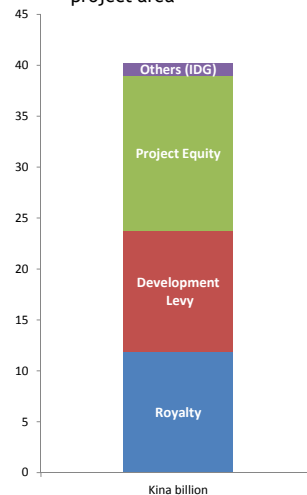
- Develop institutional framework at national and provincial level
- Provide interim professional support in project management
- Active participation by landowners, provincial and local governments in project identification and selection
- Alignment with national plan and priorities

Key Elements

- Project Formulation
- Project Approval
- Project Management
- Governance and Funds Management



Direct benefits flow to project area



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Government capacity building supported by partnerships

- Inherent weaknesses in existing institutional mechanisms and we are pro-actively advocating for more effective outcomes.

Since 2003 OSH spent PGK196.4M on 205 TCS projects in health, education and transport projects in Southern Highlands Province

- Two new national infrastructure projects to support government's ability to deliver services:
 - Marea Haus - Refurbishment of 12 storey building for Department of the Prime Minister and National Executive Committee
 - New 25000 seat multi-purpose stadium - Lloyd Robson Oval Redevelopment
 - Total investment of PGK100,000,000 for Marea Haus and PGK155,000,000 for the stadium
- Department of Health and Oil Search Health Foundation

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Social understanding - now more important than ever

- Oil Search is developing a series of highly valuable growth opportunities:
 - Delivery of these opportunities is, in part, dependent upon maintaining a stable operating environment
 - Key aspects for this:
 - Relationships
 - Transparency
 - Broad effective benefits distribution
 - Understanding social change
- A core competency of Government and Community Affairs team is needed now more than ever

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Managing Social Risks — Transparency initiatives — Local Content — Landowner Companies — Community Relationships	Gerea Aopi
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Increasing transparency and accountability

- Long term track record in transparency
- Aim to lead by example:
 - Strong advocacy role in PNG EITI adoption
 - Walking the talk
 - OSH Payments Report
 - Industry Payments Report
 - In-country bi-lingual Sustainability Report
- Expansion of Corruption Prevention Framework



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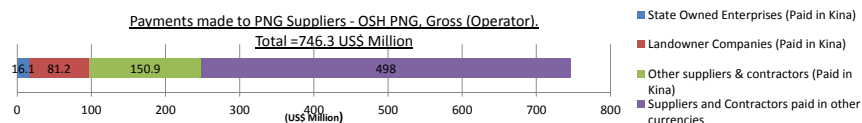
Utilising Local Content to Manage Social Risk

- Deep commitment to employing and developing local people and businesses where-ever possible

PNG citizens make up 83% of our total workforce in PNG

43% increase in spending to local landowner companies to US\$81M in 2012

- Important for:
 - Skilled workforce
 - Reliable supply chain
 - Positive social and economic legacy for communities
 - Positive landowner and community relationships



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Managing social risk - Kutmor Ltd

- Following success of Transwonderland (TWL)
- Historically provided support, training and mentoring to build business capacity in areas of governance, management, book-keeping practices and safety.
- Recently increased our efforts promoting good governance and management practices.
- Assisted the local landowner companies to come together to establish a new umbrella landowner company, Kutmor Ltd:
 - Creates a broader based and diversified ownership model to capture local opportunities and broader markets
 - Increases technical competence, cost-effectiveness, accountability, consistency and transparency of revenue to community shareholders
 - Reduce our supplier administration costs
 - Generate good will with communities from increased transparency and consistency.

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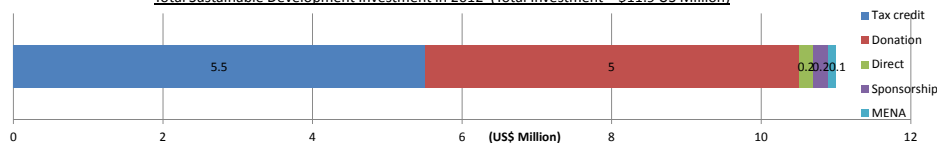
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Unparalleled commitment to maintaining community relationships

- Successful model based around:
 - continual dialogue and reliable intelligence
 - strong social investment and community development programs
 - local economic opportunities and employment opportunities
 - good stewardship of the environment
 - compassion and respect

**71 Community Affairs employees
26 Village Liaison Officers
Invested almost US\$12M in community in 2012**

Total Sustainable Development Investment in 2012 (Total Investment = \$11.9 US Million)



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HEALTH FOUNDATION
Caring for Communities
PNG PROUD

“Where national health systems are overburdened, we believe that the proactive participation of the corporate sector is not only needed, but an obligation.”



Ross Hutton, Manager of Strategy and Finance, Oil Search Health Foundation



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Business rationale

- ✓ A social license to operate
- ✓ Leveraging existing corporate systems
- ✓ Going outside of the fence is smart business
- ✓ Good return on investment
- ✓ Building 'social capital'



Approach

- ✓ Extending our occupational Malaria Program
- ✓ Public health initiatives and experience
- ✓ 'Enclaves Project' and further expansion
- ✓ Align with National standards and policies
- ✓ Amplify impacts with partnerships
- ✓ Managing Global Fund grants for HIV & malaria



Achievements

- ✓ We have eliminated on-site occupational malaria transmission in our OSH operation sites.
- ✓ We have developed an innovative social-franchising model to diagnose and treat malaria at the village level.
- ✓ We have supported the establishment of 55 new HIV testing sites.
- ✓ In July this year we performed our 30,000th HIV test.
- ✓ We have improved the coverage of essential childhood vaccinations.
- ✓ We have increased the number of women who deliver their baby under the supervision of a trained healthcare worker.
- ✓ Overall we are now operating in 6 provinces: SHP, Gulf, Hela, Western, Morobe, Milne Bay.



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Sustainability strategy on track

- Primary objective: ensure appropriate platform to support needs of growing business and changing expectations of stakeholders
- A focus on: governance, systems and controls, broadening capability, communication, risk review
- Significant achievements have included:
 - Board and management governance structure
 - Policies: Sustainability and Diversity
 - UN Global Compact and EITI
 - Establishment of emissions abatement target
 - Reporting suite
 - Internal engagement
 - Comprehensive review of environmental management system and controls
- Current focus:
 - Corporate management system and controls
 - Human rights review

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Question and Answer

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Closing Remarks