

# 21st CLSA Investors' Forum

Hong Kong, September 2014



## Oil Search



**Oil Search Limited**

ARBN 055 079 868

# Oil Search Profile



- » Established in Papua New Guinea (PNG) in 1929
- » Market capitalisation ~A\$14.5bn (US\$13bn)
- » Listed on ASX (Share Code OSH) and POMSOX, plus ADR programme (Share Code OISHY)
- » Operates all PNG's currently producing oil fields
- » 29% interest in PNG LNG Project, world scale LNG project operated by ExxonMobil. First LNG sales commenced May, will quadruple OSH production from 2015
- » Exploration interests in PNG, Middle East/North Africa

# 2014 First Half Highlights

- » PNG LNG Project start-up – major milestone for Oil Search and PNG:
  - Condensate production in March, LNG production in April and first LNG sales in May
- » Transformational impact of Project seen for first time in 1H14 results:
  - 1H14 production up 68% to 5.4 mboe, NPAT up 34% to US\$152.5m
- » Positioning for next phase of gas development
- » PRL 15 acquisition (Elk/Antelope gas fields) – provides potential new LNG opportunity:
  - Largest undeveloped gas resource in PNG
  - Appraisal programme to start shortly, to determine whether gas resources can support one or two LNG trains

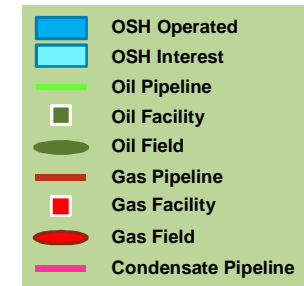
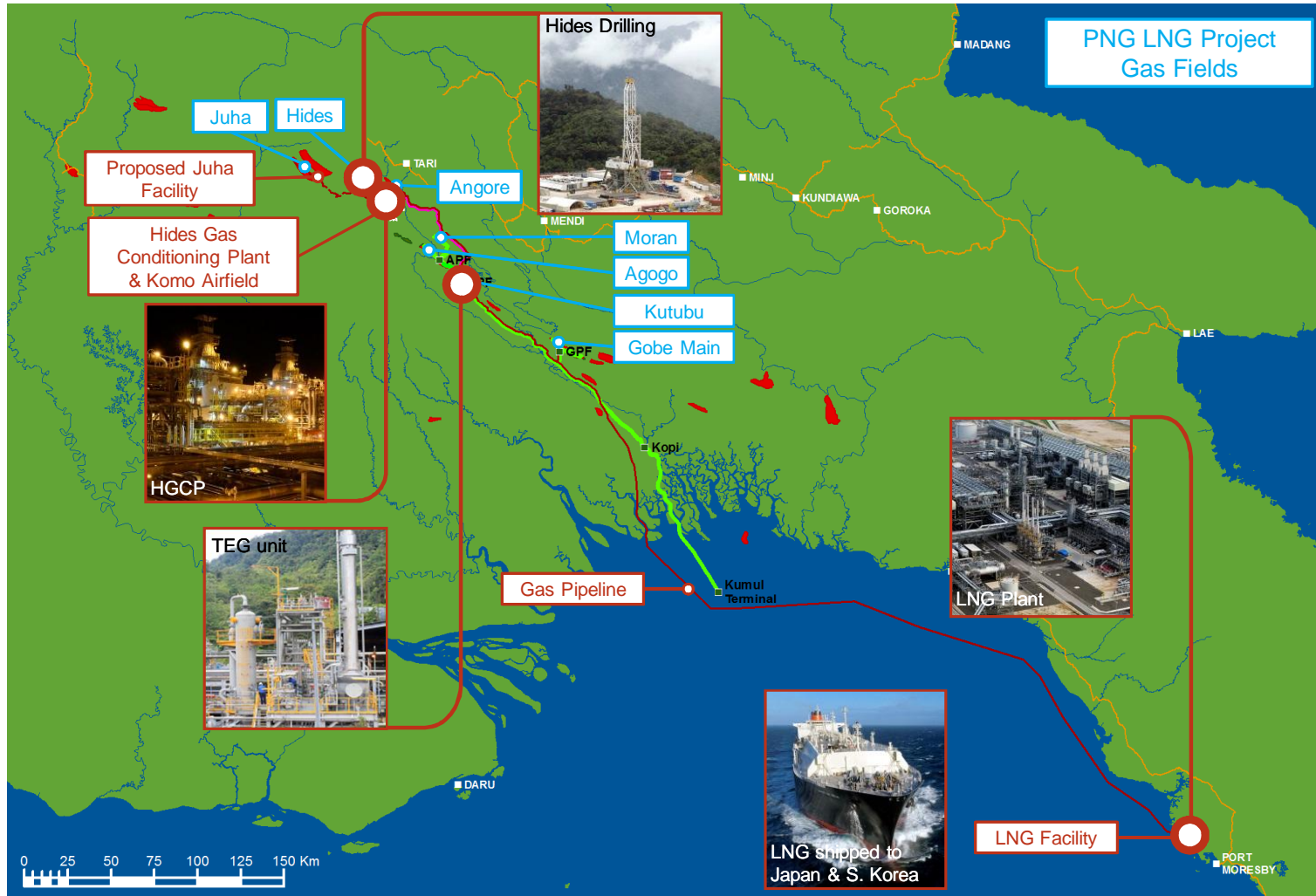


# 2014 First Half Highlights cont.

- » Encouraging results from Taza appraisal programme in Kurdistan:
  - Taza 2 appraisal well confirmed northern extent of structure
  - Testing operations temporarily suspended due to supply chain issues. Other appraisal activities ongoing on this high potential oil field
  
- » Work on Strategic Review making good progress:
  - All-encompassing review, focused on next phase of growth, given transformational cash flows from PNG LNG Project have now started
  - Initial work indicates potential to underwrite at least two further LNG trains and expansions from gas in NW Highlands and Gulf Basin
  - Review includes establishing appropriate balance between reinvestment into value accretive growth projects and capital returns to shareholders



# PNG LNG Project



# PNG LNG Project Overview



- » 6.9 MTPA, 2 train development, operated by ExxonMobil
- » Expected to produce more than 9 tcf of gas and 200+ million barrels of associated liquids over its 30 year life
- » Equity Interests:
  - ExxonMobil (33.2%), Oil Search (29.0%), National Petroleum Company of PNG (PNG Govt) (16.8%), Santos (13.5%), Nippon Oil (4.7%), MRDC (PNG Landowners) (2.8%)
- » 6.6 MTPA contracted to Asian buyers:
  - Sinopec (China) ~2.0 MTPA
  - TEPCO (Japan) ~1.8 MTPA
  - Osaka Gas (Japan) ~1.5 MTPA
  - CPC (Taiwan) ~1.2 MTPA
- » Development delivered within US\$19bn revised budget

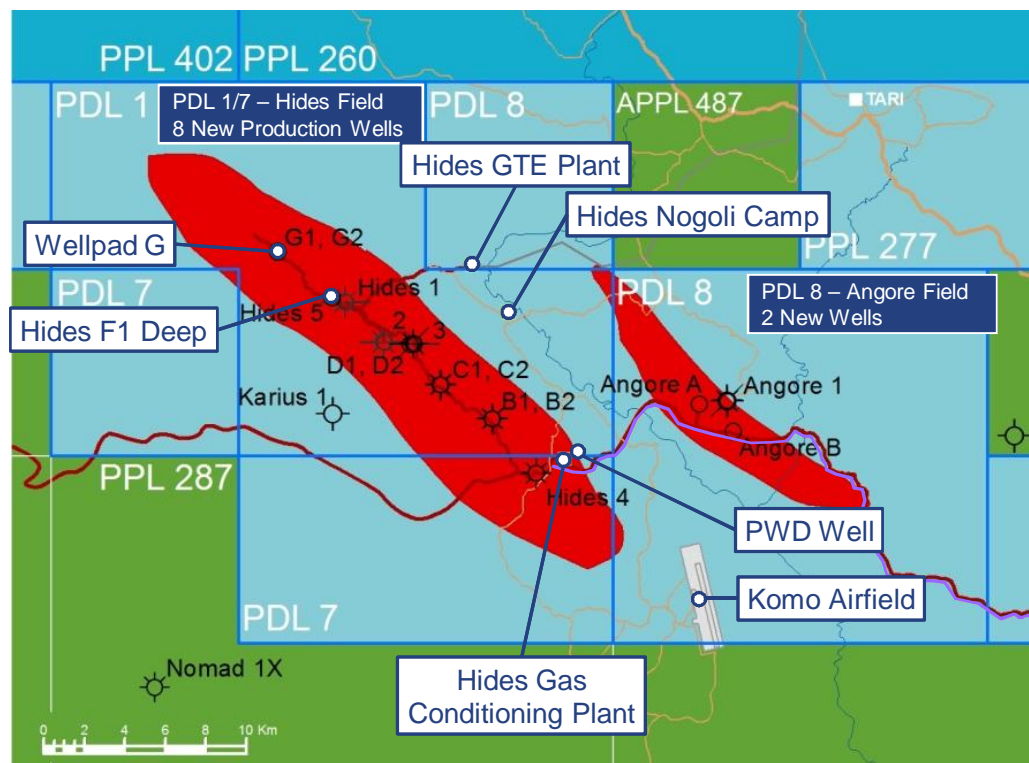
# PNG LNG Project start-up – historic milestone for OSH



- » PNG LNG Project condensate production commenced late March, with LNG production from Train 1 in April and Train 2 in May, ahead of schedule
- » Sales of new Kutubu Blend, comprising Hides liquids and oil field production, commenced in April
- » First LNG shipments to Asian markets in May:
  - Cargos sold on spot market, prior to start of long term contract sales later in 2014
- » Both trains now operating at full capacity of 6.9 MTPA (3 month ramp-up)



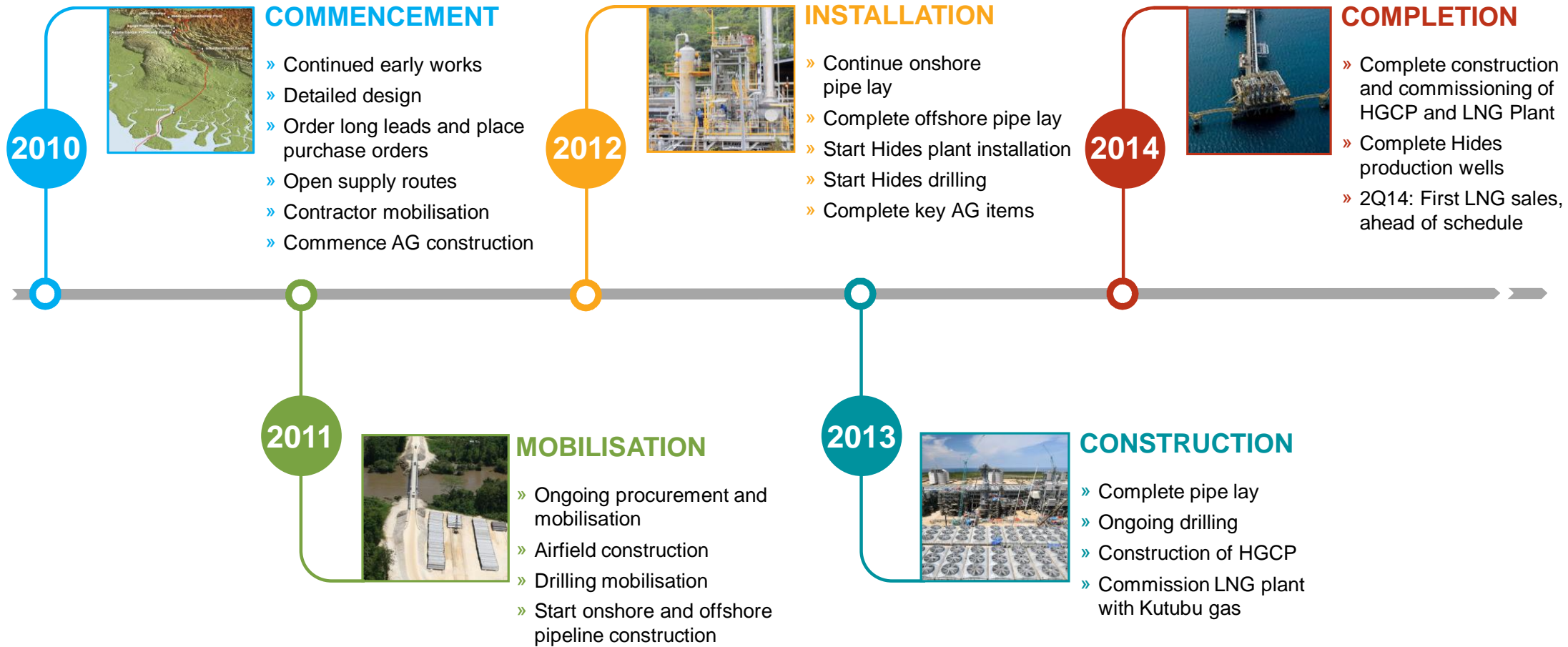
# PNG LNG development drilling



- » Six Hides production wells at three wellpads (B,C and D) complete
- » Final two Wellpad G (north west area) wells drilled to TD and being completed as producers
- » Produced Water Disposal (PWD) well drilled to TD. Analysis of log and pressure data underway
- » Structural remapping and reservoir modelling, based on information from all development wells, to commence shortly with results expected early 2015. Will help constrain gas volume/distribution
- » Hides F1 Deep to spud 4Q14
- » First of two wells on Angore field to spud 4Q14



# Project delivered on time and within revised budget



# First PNG LNG shipment arrived in Japan in early June 2014



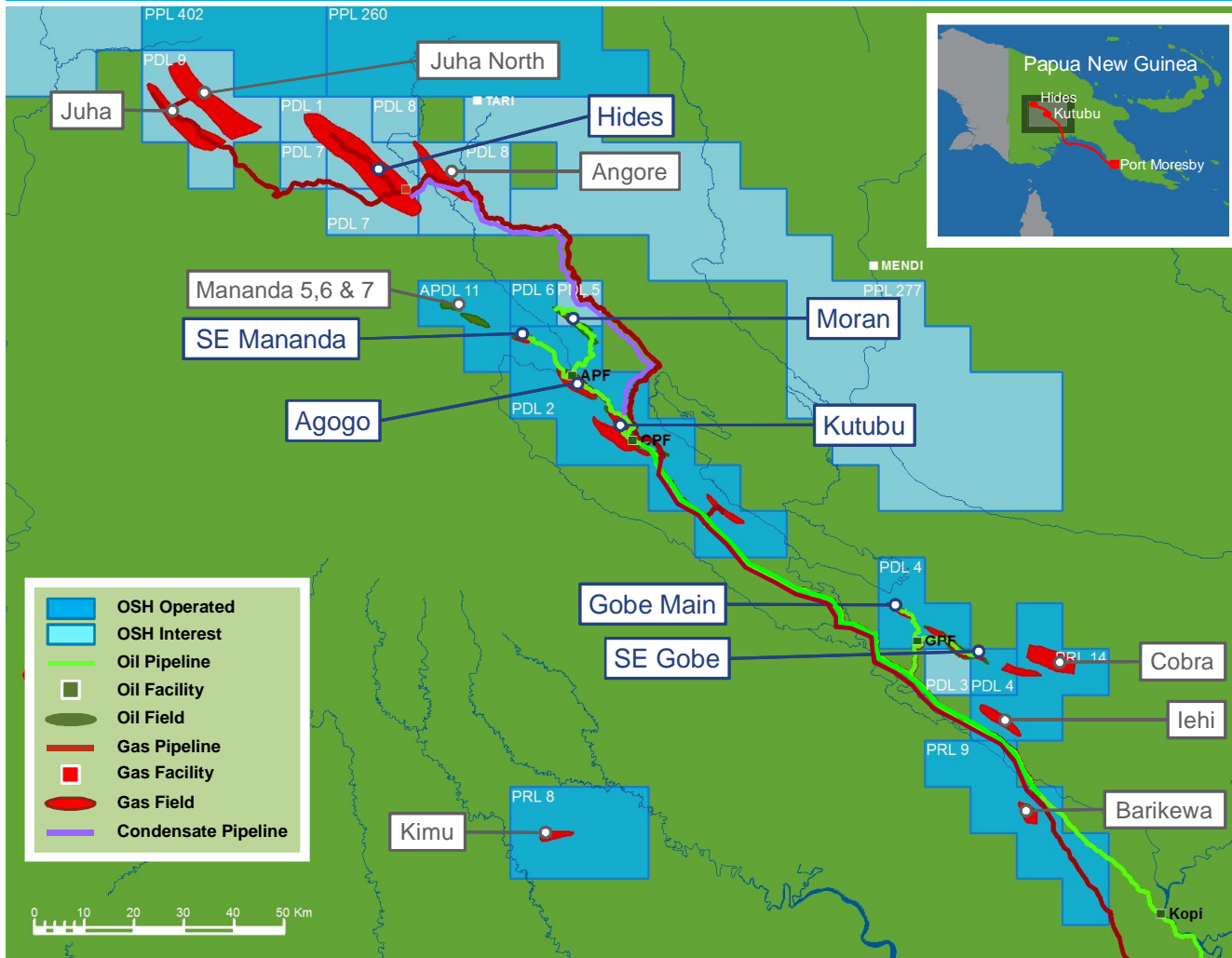
Source: ExxonMobil

# All PNG LNG facilities now complete





# Strong production from PNG oil fields

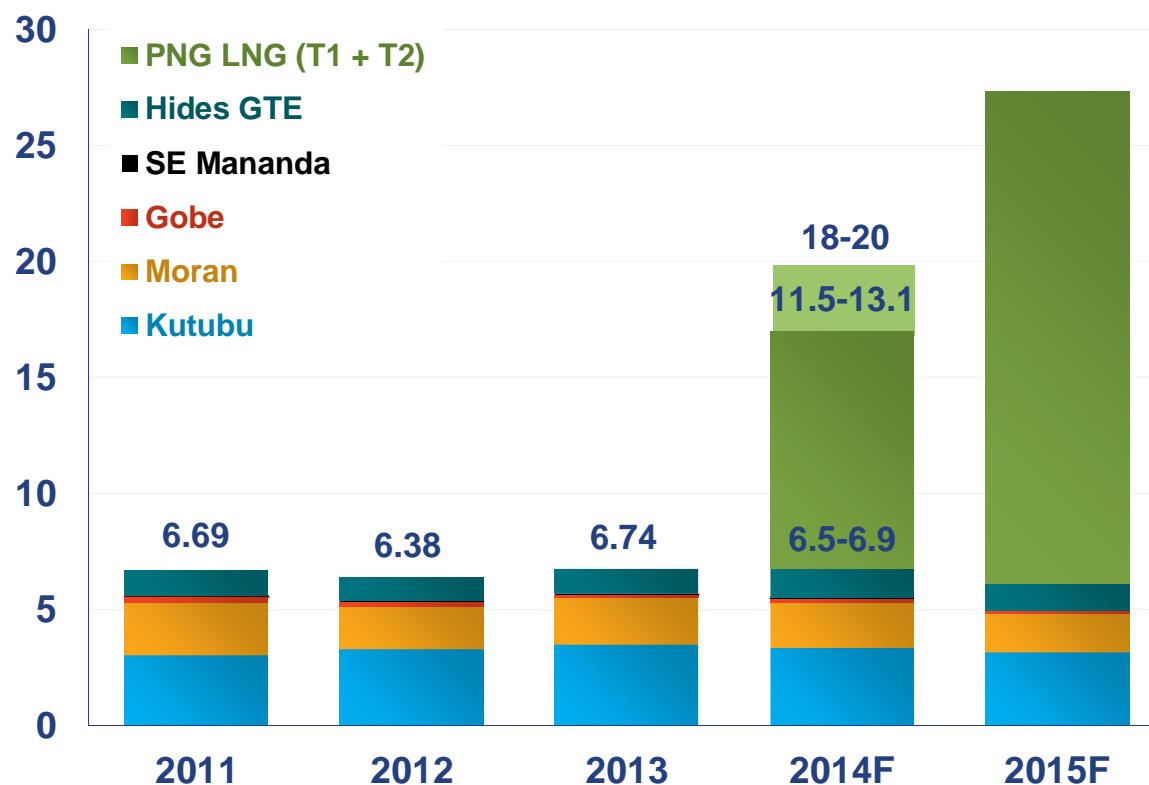


- » Strong reservoir performance and contributions from Kutubu and Moran fields
- » Continued success of development drilling and field management activities
- » Oil production not impacted by start-up of PNG LNG gas deliveries
- » PNG LNG Hides liquids being blended with oil field production and sold as Kutubu Blend

# Production Outlook

- » Total production guidance for 2014 narrowed, to 18 – 20 mmboe
- » Production from oil fields forecast at 6.5 – 6.9 mmboe, up slightly due to strong performance in 1H14
- » In first full year (2015), PNG LNG expected to add ~21 mmboe net to Oil Search production (~18 mmboe LNG and ~3 mmboe liquids)
- » 2015 oil production forecast not yet finalised, but expected to be broadly consistent with 2014

**Net Production (mmboe)**



1 LNG sales products at outlet of plant, post fuel, flare and shrinkage

2 Oil forecast assumes successful development drilling in 2014/15

3 Gas:oil conversion rate used in 2014 & 2015: 5,100 scf = 1 barrel of oil equivalent (prior years 6,000 scf/boe)

# Next phase of gas growth in PNG

## » PNG LNG has delivered:

- Major infrastructure including processing facilities, pipelines, support infrastructure (roads, airstrips, camps etc)
- Government and landowner support
- Customer confidence
- Financier confidence
- Tremendous platform for further growth

## » The next phase of growth requires:

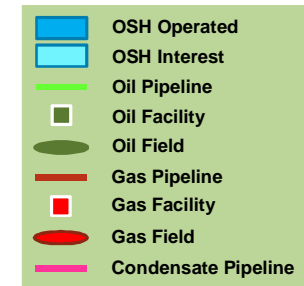
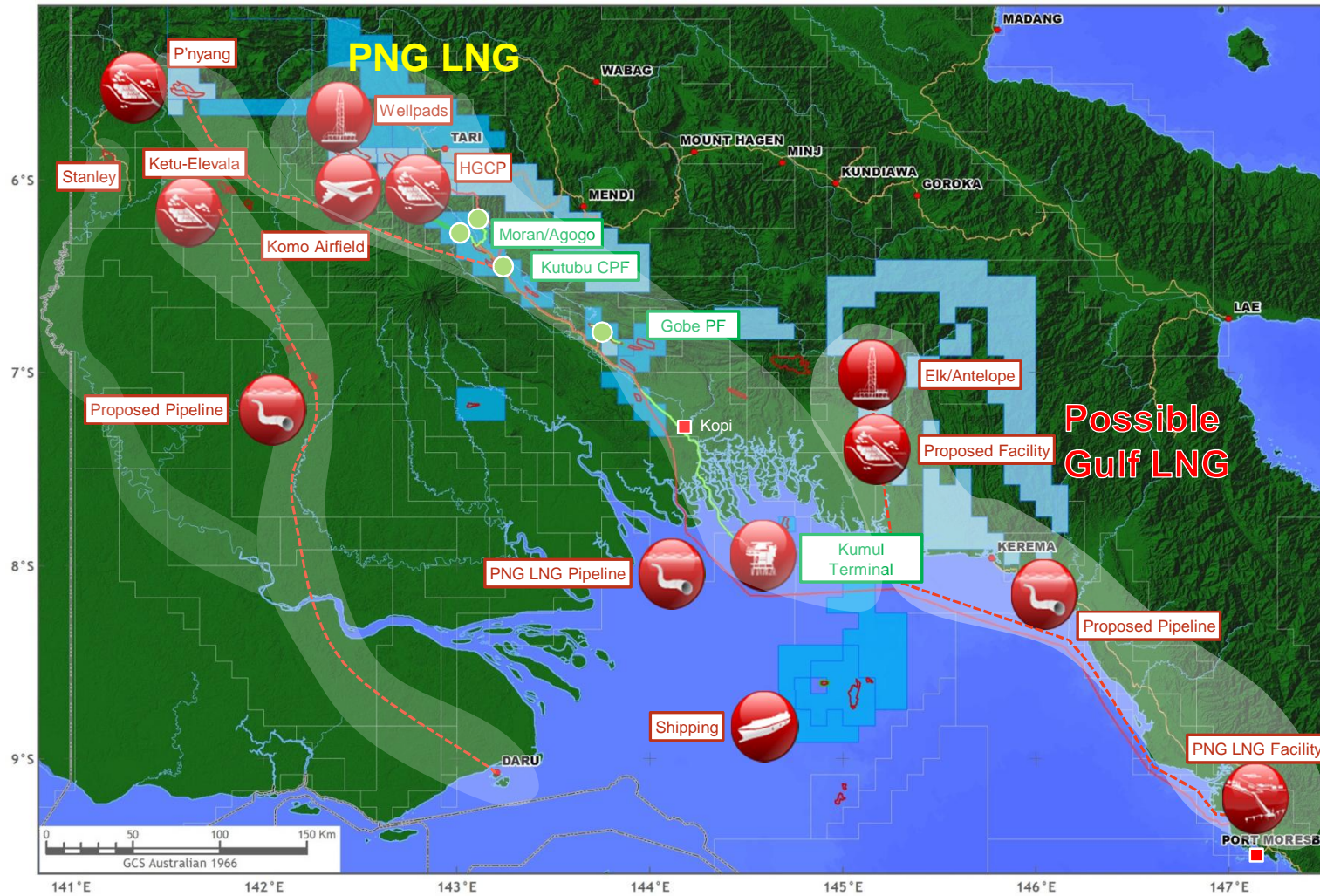
- Confirmation of reserves
  - Major appraisal drilling taking place
- Confirmation of:
  - Fiscal terms and development agreements
  - Landowner involvement and benefits process
  - Market confirmation
  - Further financing



# PNG has capacity to deliver multiple trains over next decade



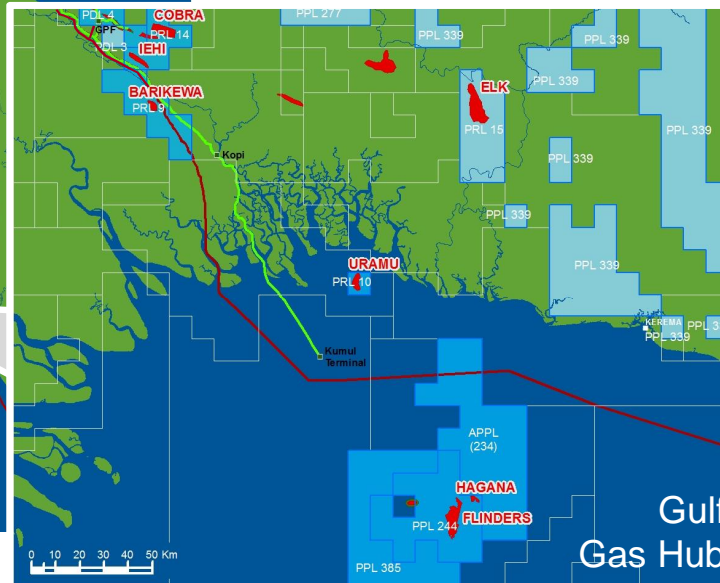
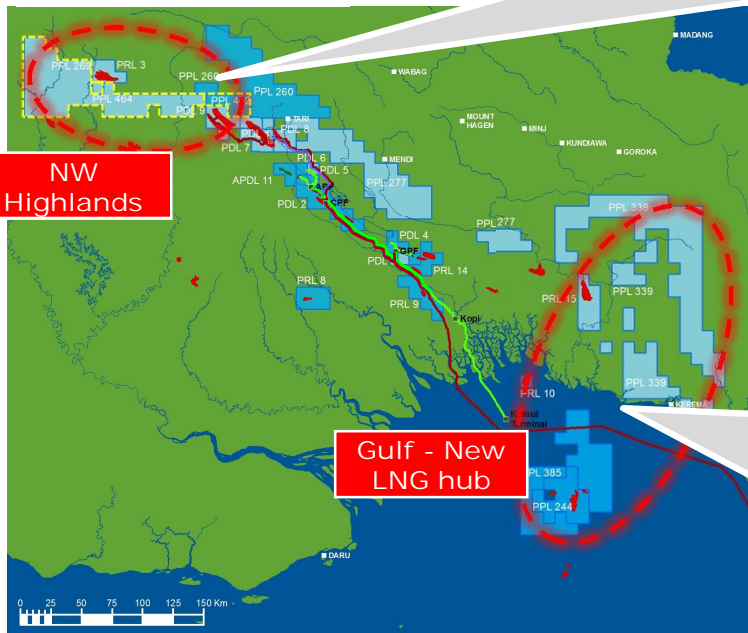
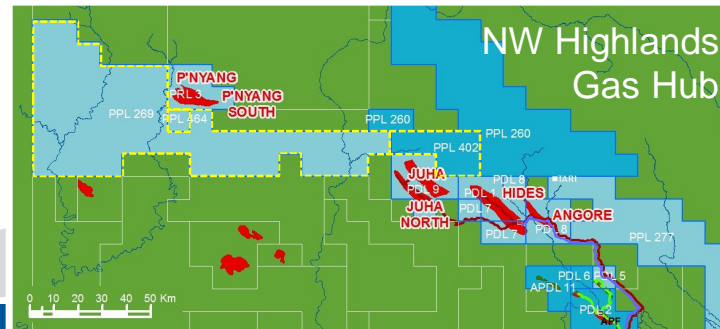
**Oil Search**



# Oil Search Gas Growth Strategy



**Oil Search**

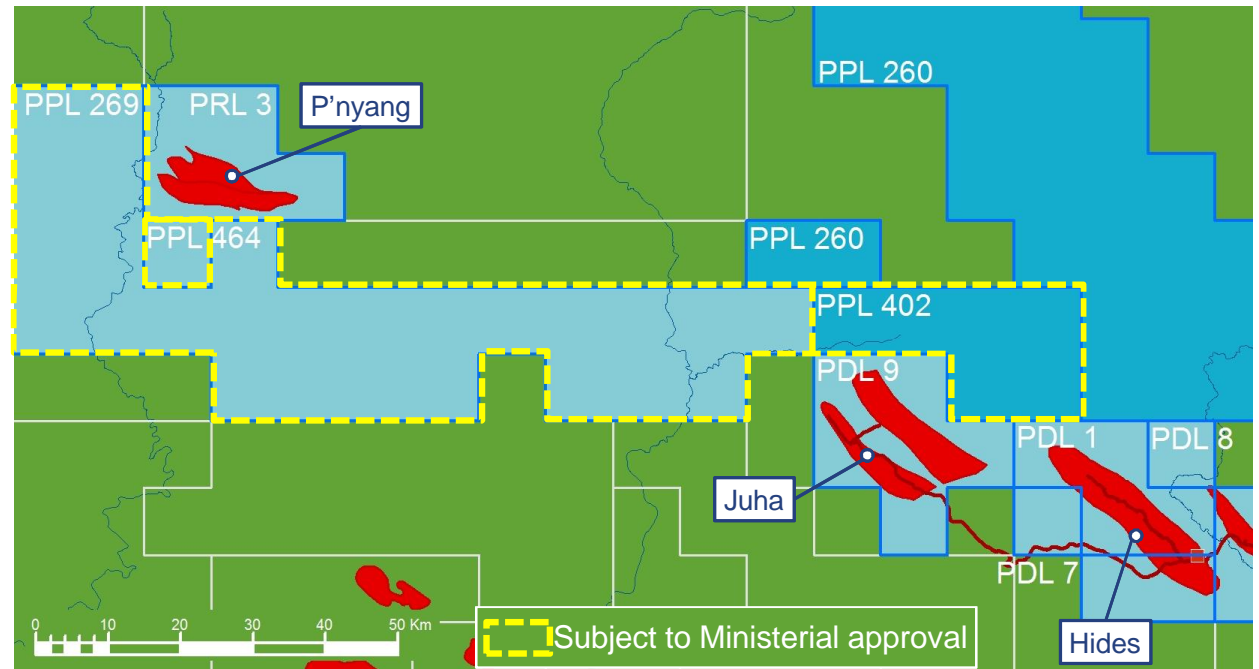


- » Focus on aggregating gas in two hubs – NW Highlands and Gulf Basin – to underwrite additional LNG from PNG LNG Project and other LNG developments
- » In NW Highlands:
  - Proven gas in P'nyang
  - Upside in 1P reserves plus exploration at Hides
  - Substantial discovered undeveloped gas resources (eg Juha North)
  - Exploration potential
- » In Gulf Basin:
  - Proven reserves in PRL 15, upside being tested by drilling programme
  - Offshore Gulf prospects being matured
- » Oil Search well positioned to realise value from future phases of development, as significant resource and infrastructure owner and proven operator



# P'nyang - PRL 3

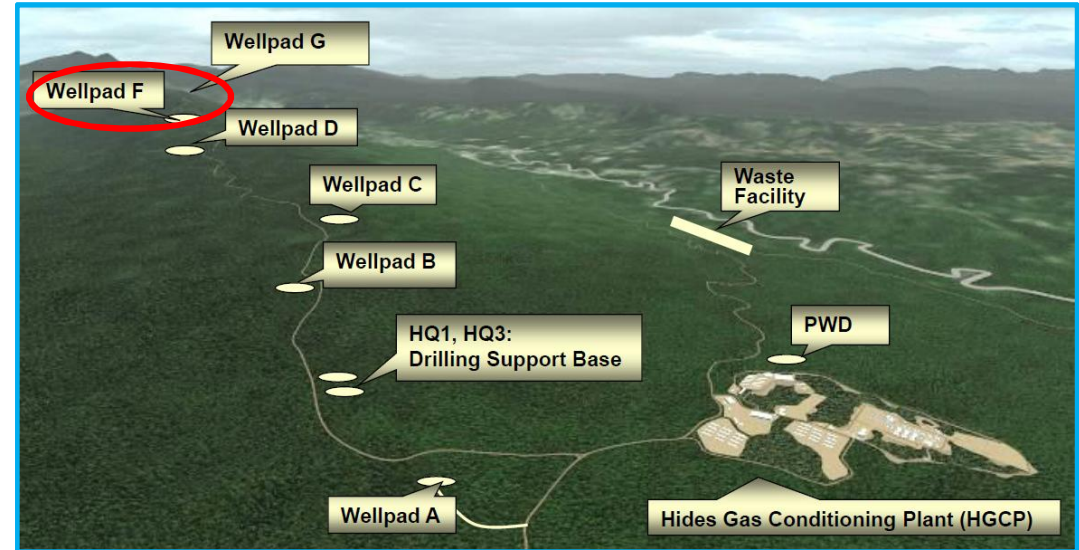
- » Key resource to support potential growth from PNG LNG Project
- » Located 120 kilometres NW of Hides
- » Concept selection work well advanced – engineering, environmental and social mapping
- » Development work to continue through to submission of PDL application in early 2015



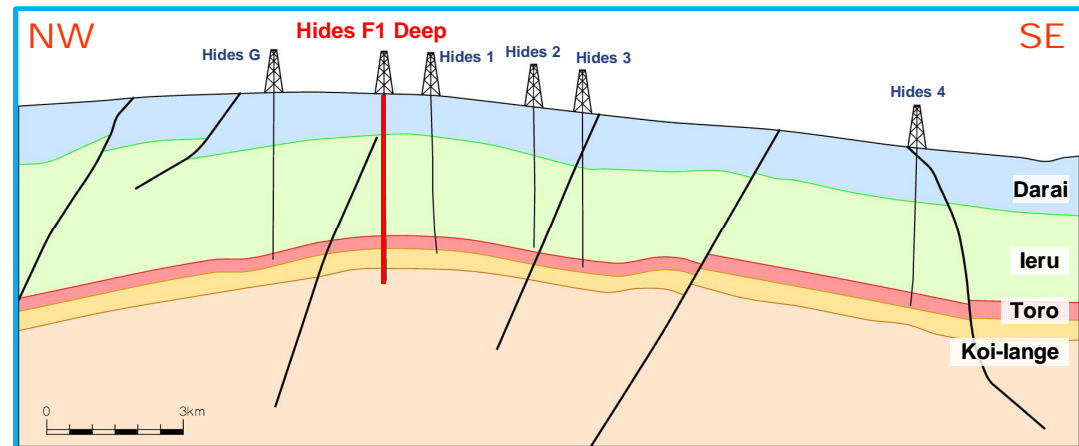
PRL 3	WI %
ExxonMobil affiliates (operator Esso PNG P'nyang Ltd)	49.0
Oil Search	38.5
JX Nippon	12.5

# Hides F1 Deep Exploration Well

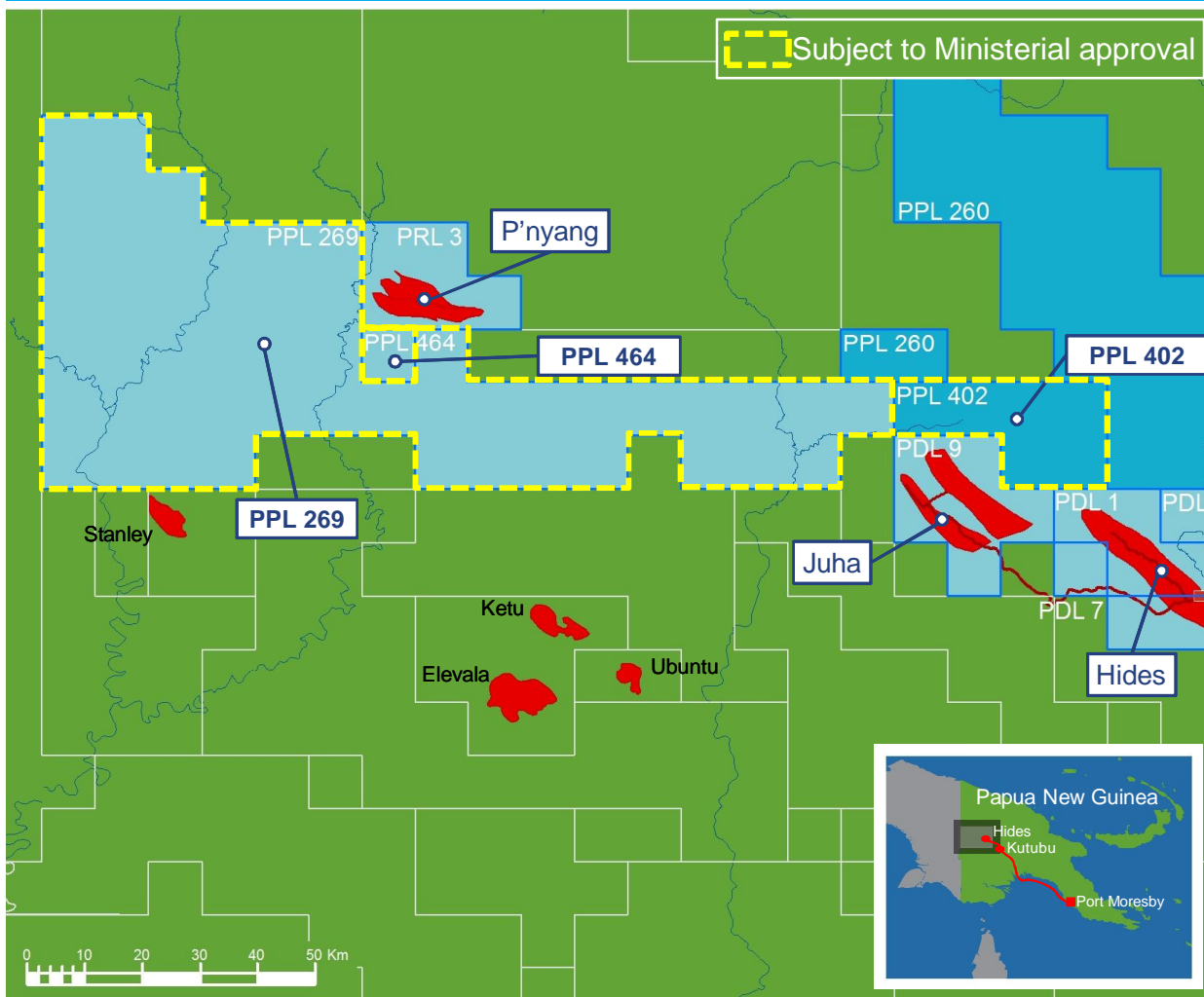
- » Hides F1 Deep designed to penetrate Koi-lange reservoir (currently mapped ~700m below Hides Toro/Digimu reservoirs)
- » Well to be drilled from Wellpad F, deepening of F1 development well
- » Site complete, drilling scheduled to commence in 4Q14
- » Significant resource potential



PDL 1	WI %
ExxonMobil affiliates	36.8
Oil Search	16.7
Santos	24.0
Kroton No 2 (PNG Govt)	20.5
Gas Resources Gigira (landowners)	2.0



# NW Highlands



- » NW Highlands - gas province with good potential for material resources to support additional LNG production
- » Seismic taking place in 2014 / 2015, to mature prospects for drilling in 2015:
  - Includes Juha North area segment (not within PNG LNG Project), gas proven with significant potential upside, but appraisal necessary
- » OSH has expanded NW Highlands acreage footprint. New licences have additional gas potential :
  - 50% in PPL 464, south of P'nyang field
  - 100% in PPL 402, north of Hides and Juha fields
  - 10% interest in PPL 269
  - Subject to Ministerial Approvals

# Elk/Antelope – PRL 15 Gulf Basin gas hub



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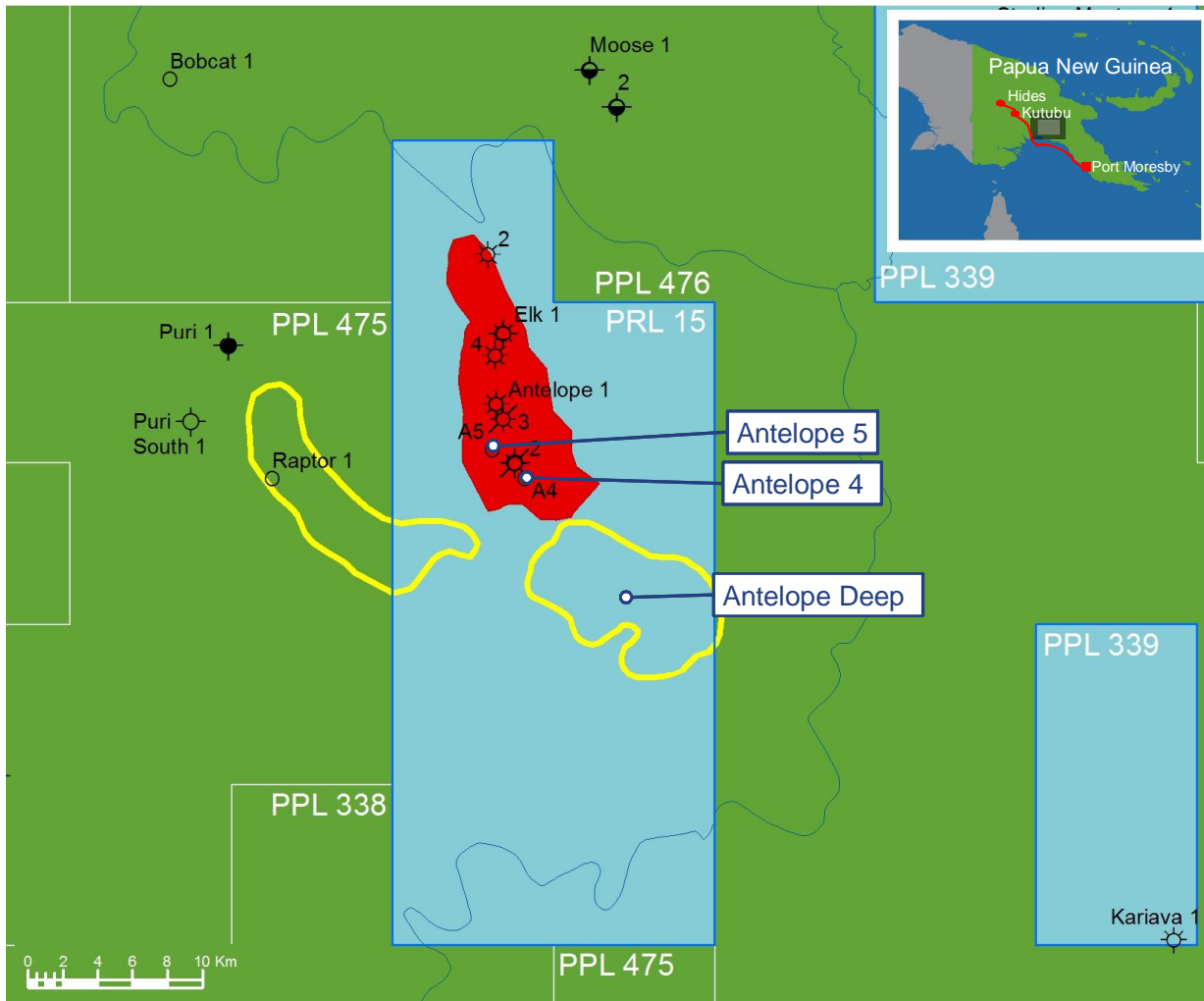


- » Acquired 22.8% gross interest in PRL 15, containing Elk/Antelope gas fields, in March 2014
- » Largest undeveloped gas resource in PNG with significant exploration upside
- » Acquisition in line with strategy to aggregate gas resources – complements offshore acreage position
- » Arbitration hearing on dispute relating to sale of interest in PRL 15 from InterOil to Total SA, scheduled for November. Substantial additional value, if successful

# PRL 15 appraisal programme

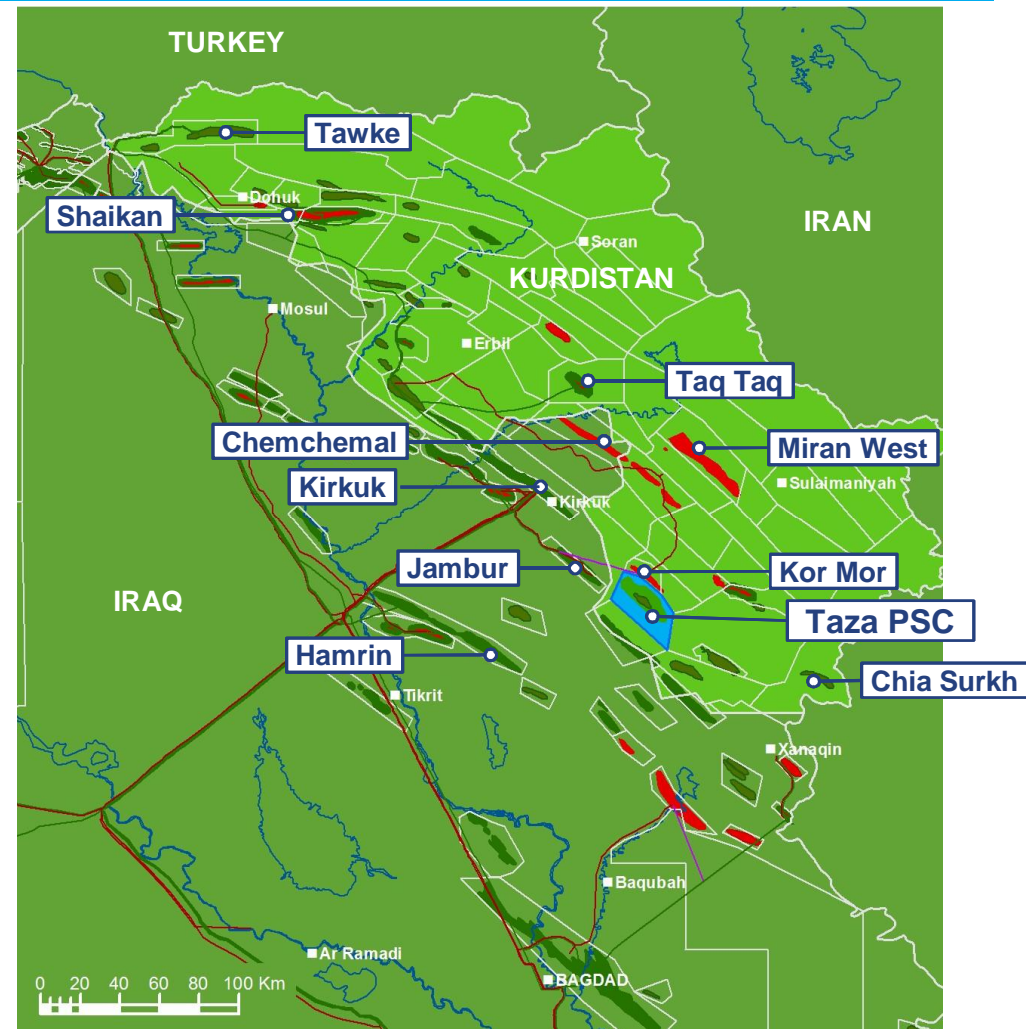


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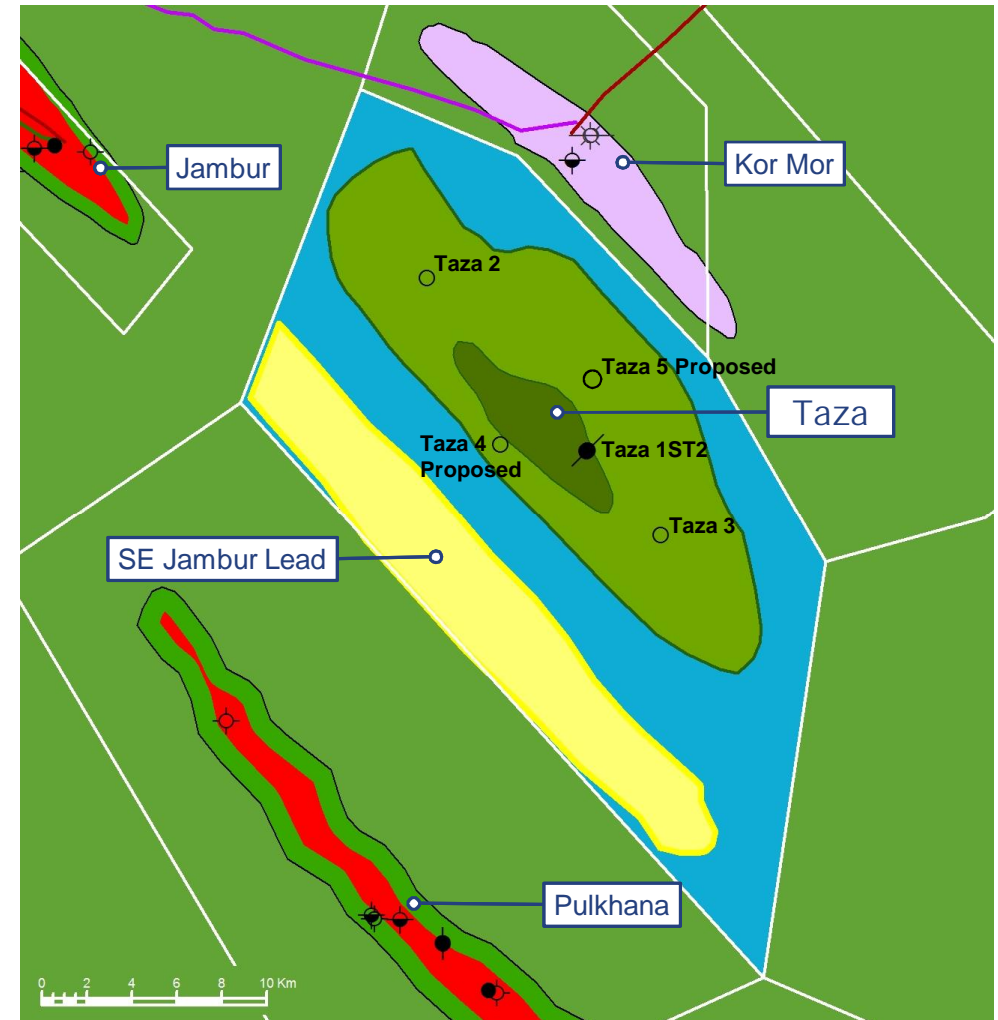
- » Up to three appraisal wells to be drilled, to determine whether gas resources can support one or two LNG trains
- » Antelope 4 and 5 both expected to spud in 2H14:
  - Comprehensive data acquisition and testing programme planned
  - Possible Antelope 6 well, located in eastern part of field, to be drilled following 4 and 5
- » Preliminary planning underway for possible exploration well on Antelope Deep prospect
- » Scope of Concept Select studies being considered by JV:
  - Likely to include both greenfield standalone and integrated LNG developments concepts

# Oil Discovery at Taza, Kurdistan: Appraisal Underway



# Oil Discovery at Taza, Kurdistan: Appraisal Underway

- » Taza PSC (OSH 60% Operator, Total 20%, KRG 20%)
- » Taza 1 discovery (2013) – light oil proven across Jeribe/Dhiban and Euphrates/Kirkuk intervals
- » Taza 2 appraisal well, located 10km NW of Taza 1. Oil observed in same intervals as Taza 1, plus in deeper Kirkuk, Jadalla and Shiranish
- » Current security situation in northern Iraq extremely dynamic. Safety of OSH personnel is paramount and situation is monitored daily
- » Taza 2 temporarily suspended due to regional security impact on supply chain. Testing to take place once security situation allows supply chain to be safely re-established
- » Other operations continuing, including rigging up of Taza 3, 6km SE of Taza 1, and 3D seismic acquisition
- » Further appraisal planned:
  - » Taza 4 on western flank
  - » Taza 5 to east
- » Plan to install Early Production Facility (EPF) on one well in mid-2015



# Strategic Review – Positioning for Next Phase of Growth

- » Major Strategic Review well advanced:
  - Will set objectives and programmes for Oil Search for next five years
  - Focus is to maintain top quartile returns to shareholders
- » Review is analysing:
  - How to optimise PNG assets and ways to capture full value
  - Ways to optimise PNG portfolio and manage operating risks
  - Evaluation of non-PNG assets
  - Review of PNG and international new ventures
  - Balance between investing in high returning growth projects and various capital management initiatives
  - Review of organisational structure and capabilities required to continue to deliver top quartile returns for next 5 -7 years
- » Strategy Day planned for 23 October 2014

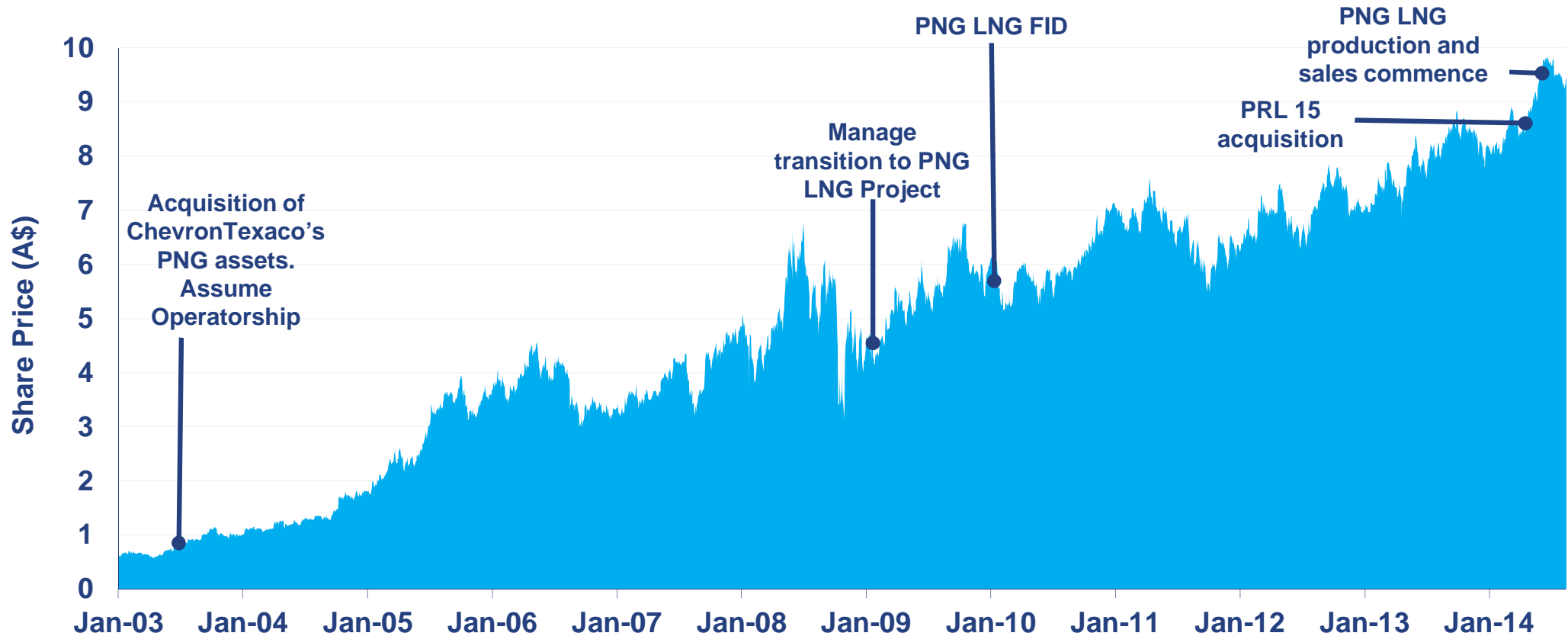




# Total Shareholder Return of 752% for ten years to June 2014



- » Core strategies have delivered steady long-term share price appreciation
- » Focus of Strategic Review is to establish programmes that can deliver continued top quartile TSR for next five+ years



# Ensuring long term sustainability

- » Government cash flows significantly boosted by PNG LNG Project
- » Vital that revenues flow into community, to ensure long term social stability
- » OSH is committed to using resources, skills and knowledge to support regulatory change and sustainable development:
  - Public: Private partnerships, to assist Government delivery and capacity build
  - Transparency initiatives
- » Comprehensive programmes, to manage and mitigate operating and investment risks and give back to the community:
  - Tax credit infrastructure activities
  - Oil Search Health Foundation and ongoing community programmes
  - Build on current strengths in new regions of operation eg Kurdistan
- » Depth of programmes being reviewed as part of Strategic Review
- » Share register stable, following maturing of exchangeable bonds (IPIC 13%) and 10% placement to PNG Government

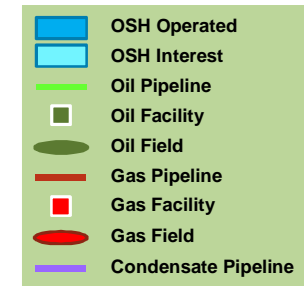
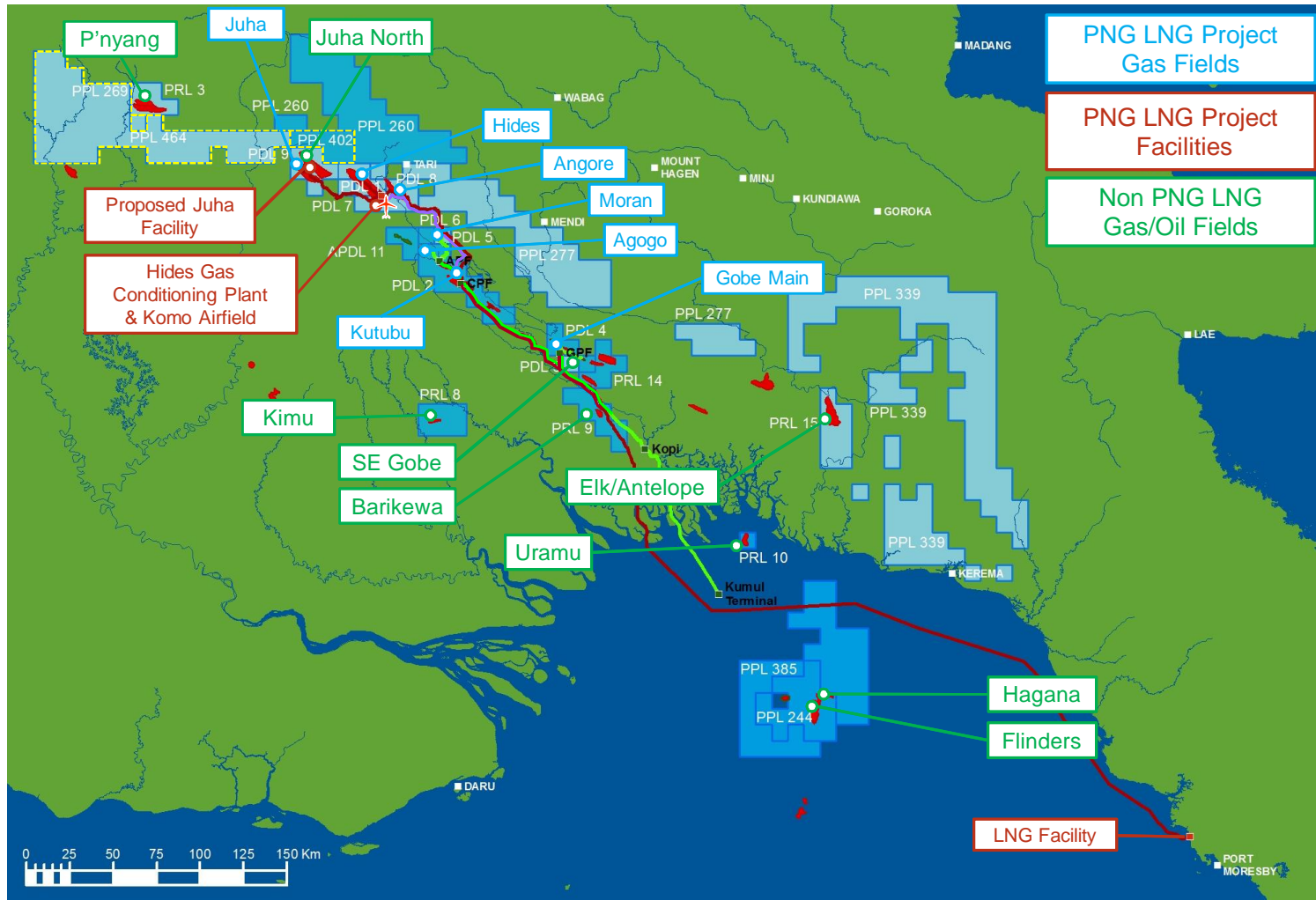


## Transformation has begun:

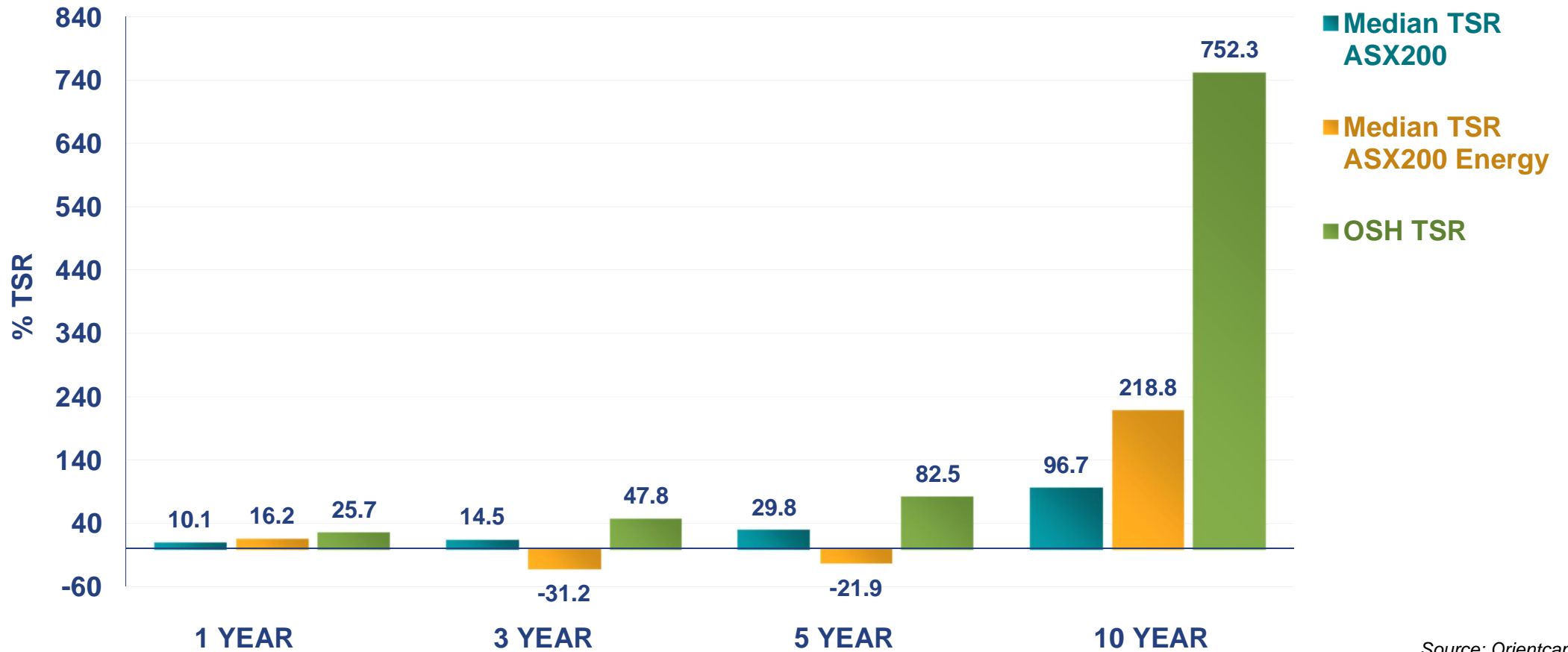
- » PNG LNG Project delivered ahead of schedule and within revised budget:
  - Will quadruple production 2013 – 2015
  - Delivers material cash flow to re-invest in high returning projects and fund higher dividends
- » Existing assets have potential to underwrite at least two further LNG trains and expansions
- » Taza oil discovery has significant upside potential
- » Oil business remains strong
- » Balance sheet is strengthening rapidly with LNG revenues
- » Strategic Review will provide programme to deliver continued superior returns for next five years



## Appendix 1: Oil Search Licence Interests, PNG



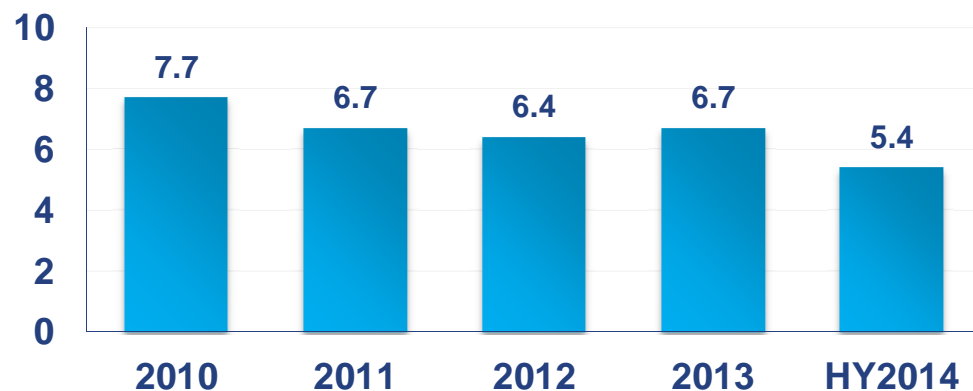
# Appendix 2: TSR performance



Source: Orientcap

# Appendix 3: Key Metrics

**Production (mmboe)**



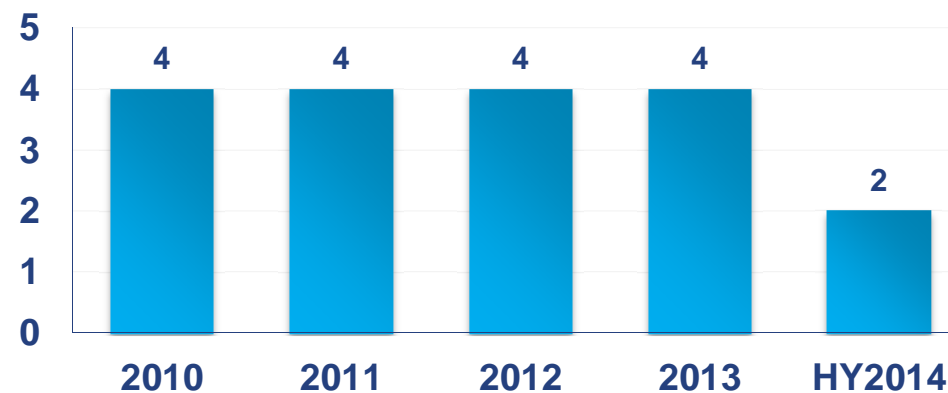
**NPAT (US\$M)**



**Oil Price (US\$/bbl)**



**DPS (US cents)**





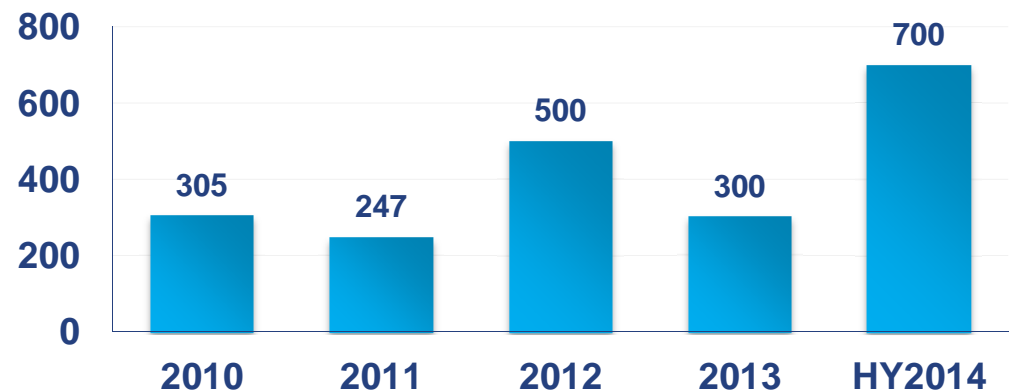
# Appendix 4: Treasury Update

- » New bilateral revolving facilities totalling US\$250 million established during 1H14
- » Total liquidity of US\$1,068 million at 30 June comprising US\$368 million cash, US\$450 million available under US\$500 million non-amortising corporate revolving facility and US\$250 million under new bilateral facilities
- » US\$4.08 billion (OSH share) drawn down under PNG LNG Project finance facility
- » 2014 interim unfranked dividend of two US cents per share, to be fully funded via underwritten DRP

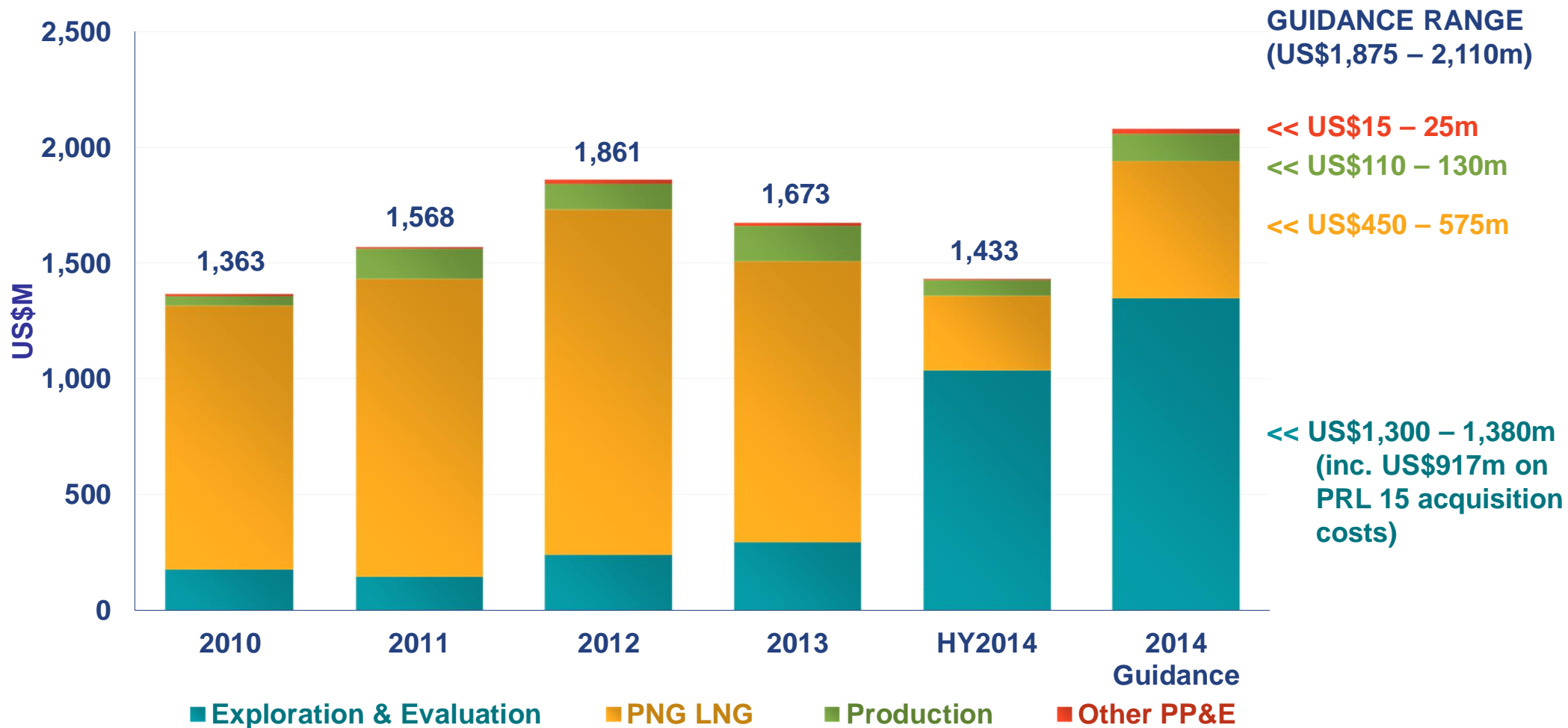
**Cash (US\$M)**



**Corporate Facilities Available (US\$M)**



# Appendix 5: Investment Outlook





# Appendix 6: FY 2014 Guidance Summary



## Production

Oil Search operated (PNG Oil and Gas)	6.5 – 6.9 mmboe <sup>1</sup>
PNG LNG Project	
LNG	49 – 57 bcf
Liquids	1.8 – 2.0 mmbbl
Total PNG LNG Project	11.5 – 13.1 mmboe <sup>1</sup>
<b>Total Production</b>	<b>18 – 20 mmboe</b>

## Operating Costs

Production costs	US\$12 – 15 / boe
Other operating costs <sup>2</sup>	US\$130 – 150 million
Depreciation and amortisation	US\$13 – 15 / boe

Numbers may not add due to rounding

<sup>1</sup> Gas volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf per boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale. The change to a specific boe conversion factor more closely reflects the energy content of the Company's gas reserve portfolio compared to the previous conversion factor of 6,000 scf per boe.

<sup>2</sup> Includes Hides GTE gas purchase costs, royalties and levies, selling and distribution costs, rig operating costs, corporate administration costs (including business development) and inventory movements.

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