

# Investor Field Trip

November 2014



**Oil Search**



**Oil Search Limited**  
ARBN 055 079 868

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



**Oil Search**

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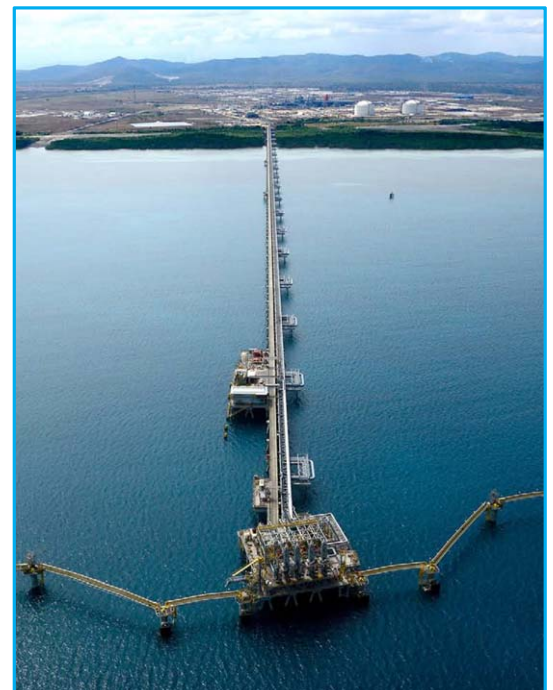
# Field Trip Route



Oil Search Field Trip - 17-21 November 2014

# Presentation Agenda

<b>Welcome</b>	<b>Peter Botten</b>
<b>2014 Strategic Review Overview</b>	<b>Peter Botten</b>
<b>PNG Production</b>	<b>Paul Cholakos</b>
<b>Gas Development</b>	<b>Julian Fowles</b>
<b>Exploration</b>	<b>Julian Fowles</b>
<b>Sustainability</b>	<b>Peter Botten / Gereia Aopi</b>
<b>Finance Summary</b>	<b>Stephen Gardiner</b>
<b>Wrap up</b>	<b>Peter Botten</b>



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# 2014 Strategic Review Overview



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## Transformation underway

- » Oil Search (OSH) undergoing major corporate transformation with commencement of PNG LNG Project and legacy cash flows:
  - PNG LNG Project start-up in 2Q 14 a major milestone for Oil Search and PNG
  - In first full year (2015), will quadruple OSH's production and boost operating cash flows before interest to ~US\$1.5bn pa (based on US\$90/bbl)
- » Impact of Project seen in recent results:
  - 1H14 production up 68% to 5.4 mmbbl, NPAT up 34% to US\$152.5m
  - 3Q production up 81% to 6.67 mmbbl, nearly same level as for 2013 full year
- » Have recently completed a major strategic review to re-evaluate Company's position and future strategy



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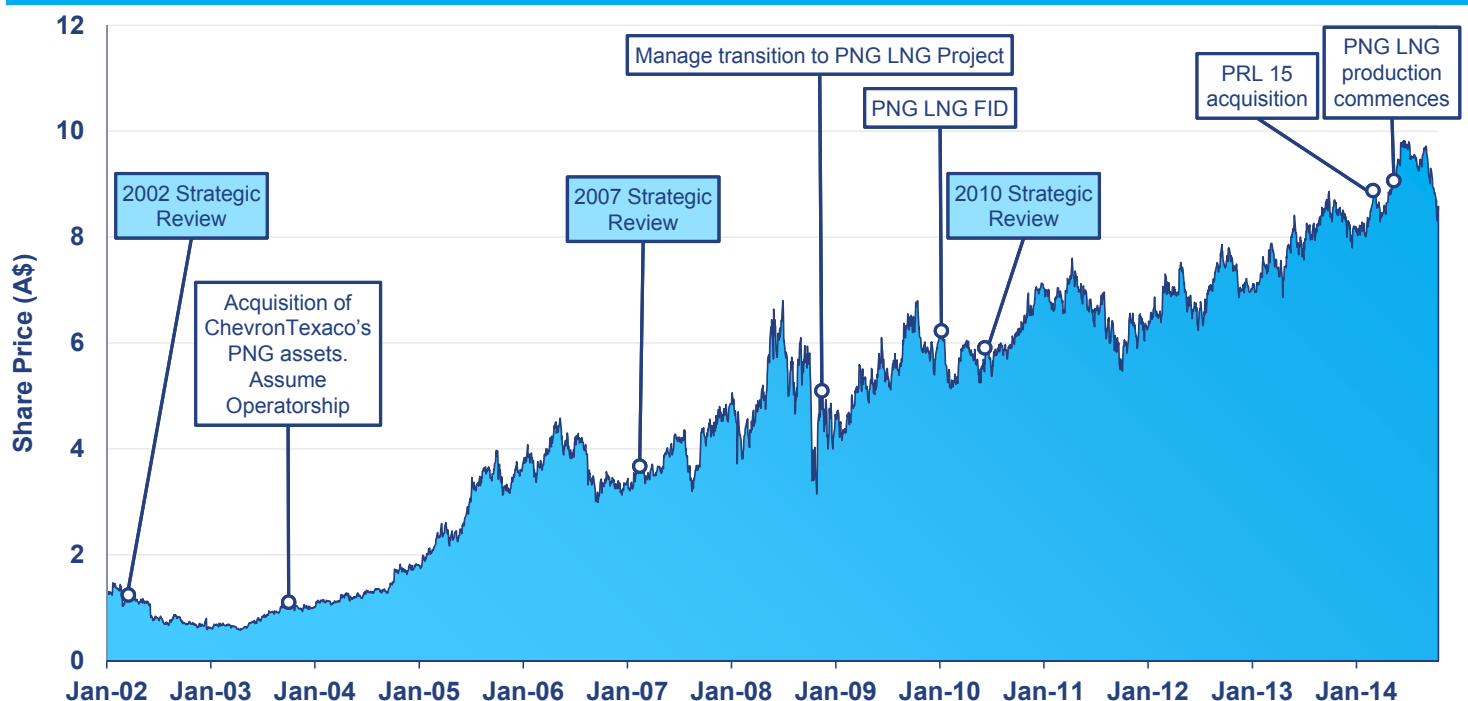
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# 2014 Strategic Review

- » All-encompassing review focused on setting roadmap for next phase of growth:
  - Thorough review of overall strategy, asset portfolio, operational capabilities, skills, succession planning, capital management and dividend policy
- » Multi-disciplined internal team seconded for six months to undertake Strategic Review
- » Range of external consultants also utilised – provided extensive data and reports
- » Renewed vision, strategic objectives and initiatives endorsed by the Board:
  - Designed to ensure continued delivery of top quartile returns to shareholders



## Implementing core strategies from previous strategic reviews has delivered significant share price appreciation





## Key findings

- » OSH can continue to deliver top quartile returns to shareholders over next five years based on assets within its existing portfolio
- » Strong platform for growth in PNG:
  - Optimisation opportunities from core PNG LNG and oil business
  - Sufficient discovered gas in PNG to support at least two, and possibly three, LNG expansion trains
  - Significant additional exploration upside
- » OSH's core competency is operating in developing countries, in particular PNG:
  - Significant competitive advantage, unrivalled expertise and experience
- » High returning growth opportunities in PNG mitigate immediate requirement to expand internationally unless outstanding opportunities arise

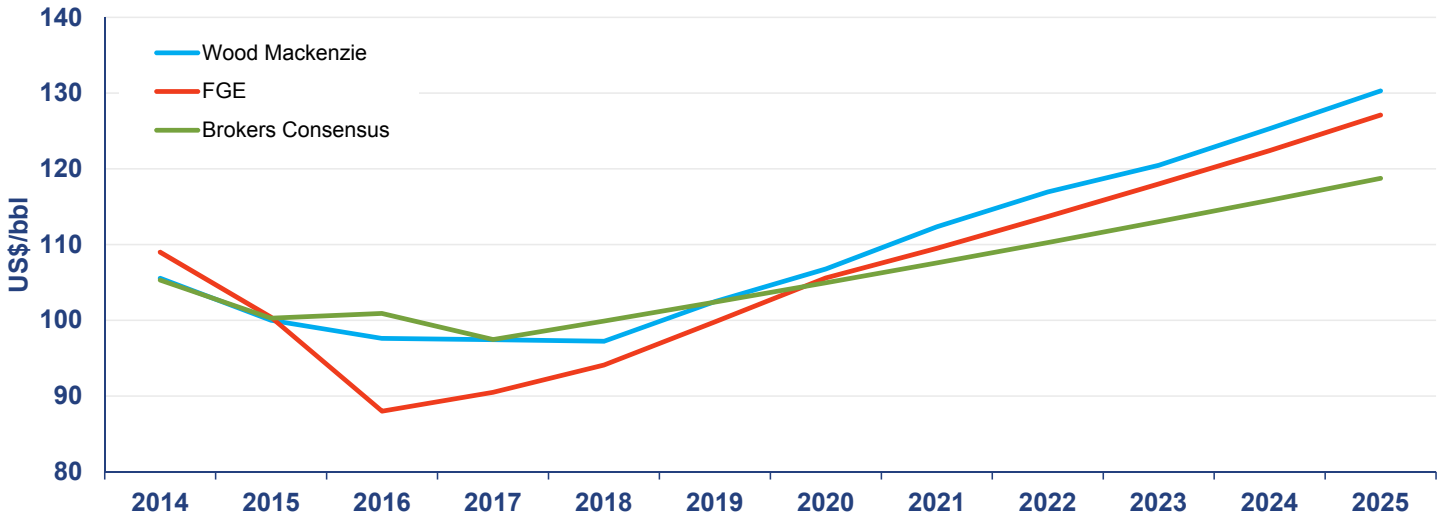


## Key findings cont.

- » Outlook for energy industry remains attractive, with ongoing growth in Asia-Pacific LNG demand
- » OSH business is very robust in lower oil price environment
- » Focus to be maintained on delivering shareholder value, underscored by investment discipline
- » Based on cash flow forecasts, OSH can support both high returning growth initiatives and pay material dividend stream to shareholders
- » Organisational restructure underway, to ensure capabilities to deliver next phase of growth and build capacity, especially in PNG

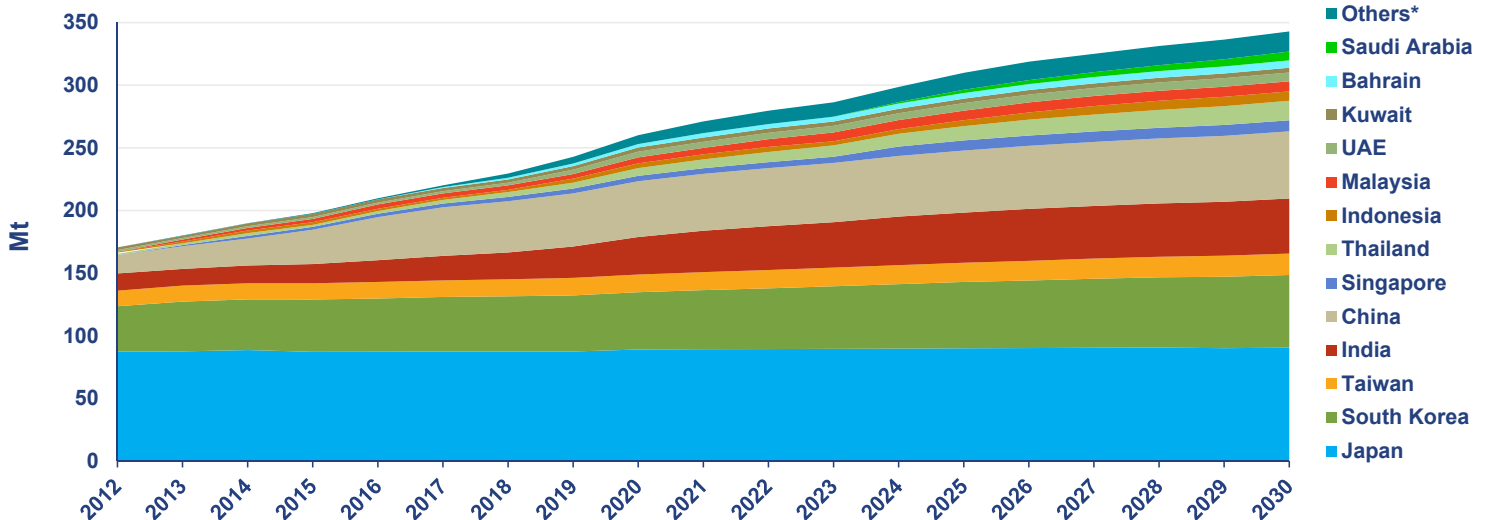


## Nominal Brent oil price outlook



- » Chart shows predictions during Strategic Review
- » Softer Brent price has arrived sooner than expected
- » Long-term support at US\$90/bbl

# Long term demand growth for energy from Asia still strong, especially for LNG

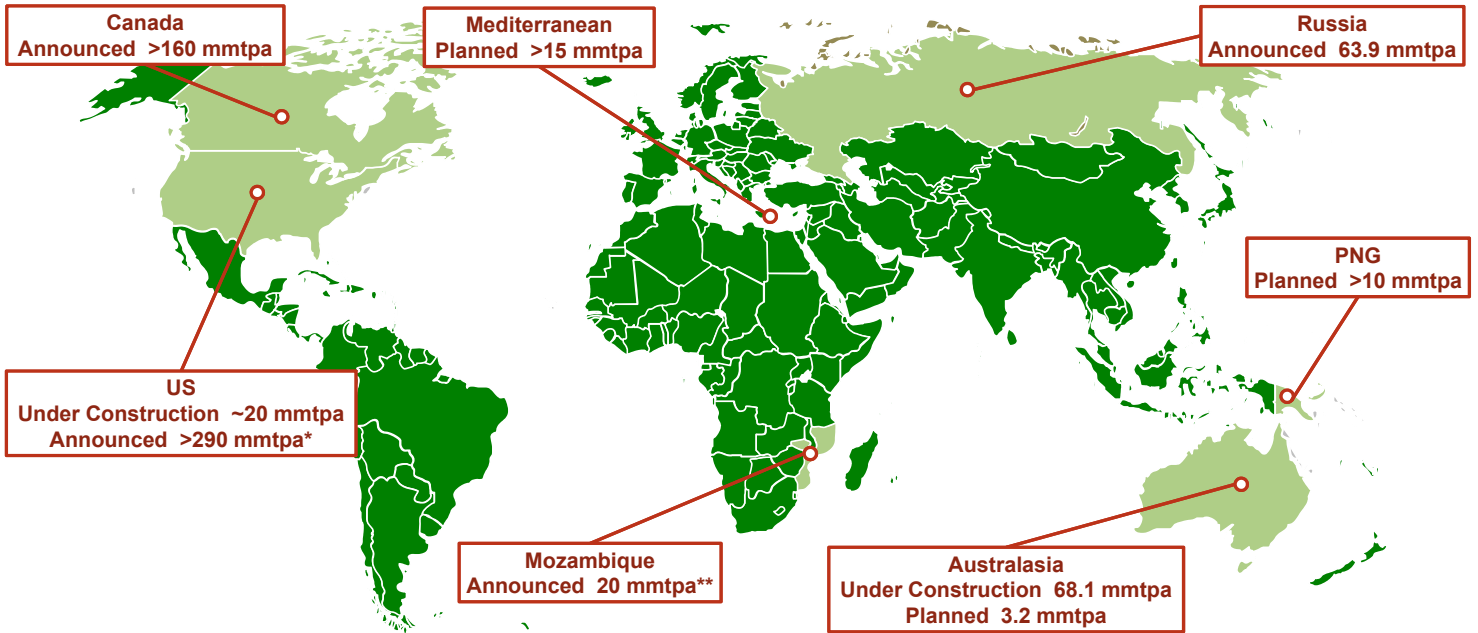


- » Asian and ME LNG demand nearly doubles by 2030
- » Incremental demand in Asia will be driven primarily by China and India
- » Demand from Thailand, Singapore and Malaysia will further prop regional demand
- » Philippines, Pakistan and Vietnam may emerge as potential buyers

Source: FGE report for OSH, July 2014



# Many potential new LNG Suppliers....



\*Capacity per Department of Energy authorization to Free Trade Agreement countries, in addition to capacities under construction  
 \*\*Project partners' plan includes expansion up to 50 mtpa

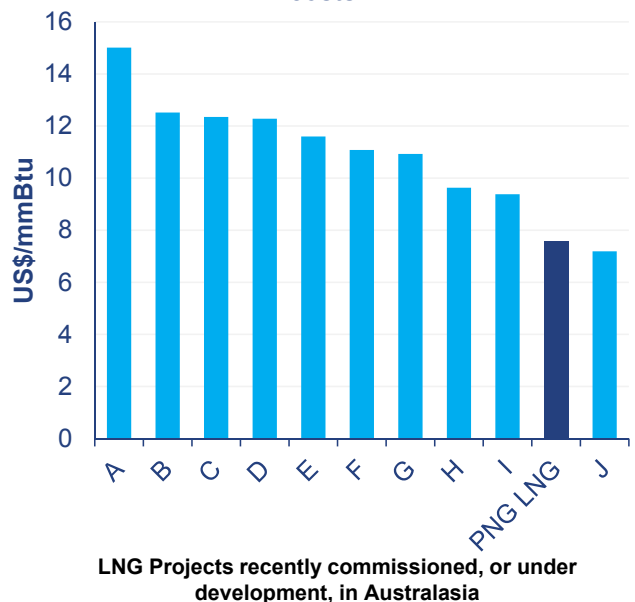
Source: Goldman Sachs, FGE

## ...but LNG from PNG has significant competitive advantages



- » Conventional LNG projects, no new technology utilised in development
- » Substantial certified 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 local knowledge
- » Provides attractive returns and is robust to product price movements

Australasian LNG plant break-even costs

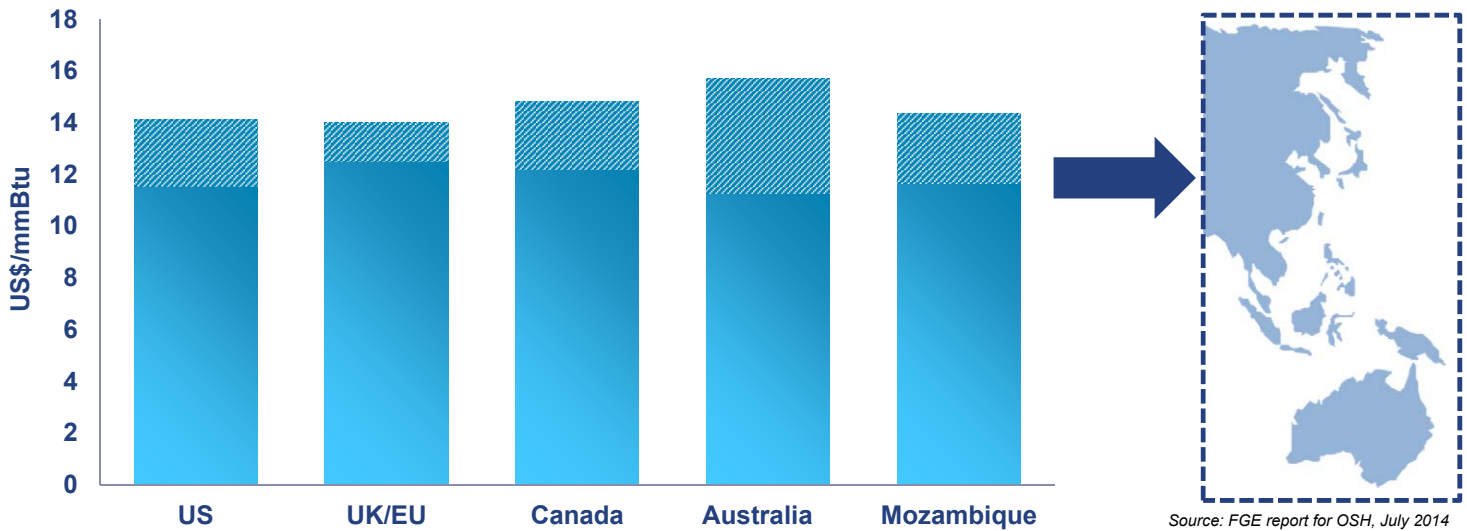


LNG Projects recently commissioned, or under development, in Australasia

Source: Oil Search and Wood Mackenzie, Q3 2014, Project names removed

# Delivered LNG prices expected to settle at US\$12-14/mmBtu at destination, regardless of indexation

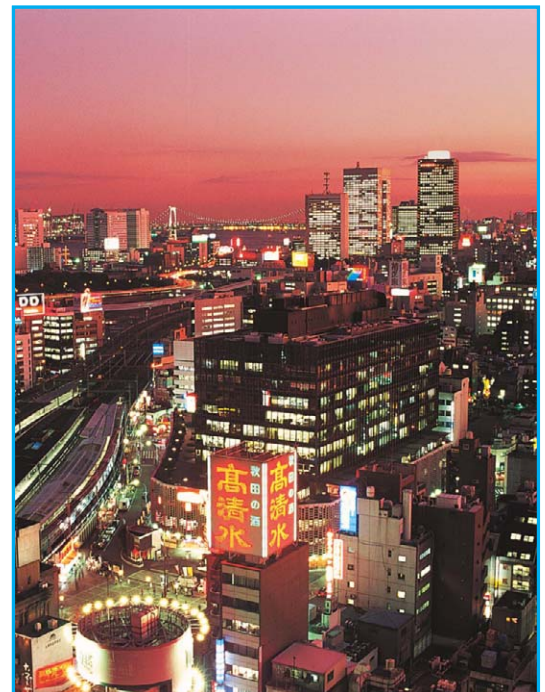
Forecast landed LNG Price in 2020 to Northeast Asia\* from various sources\*\*



\*\*Based on FGE scenarios for Henry Hub, NBP, slope indexation, and/or shipping costs. \*Japan (Chiba) used as proxy for Asia Pacific

## Conclusion: External environment remains supportive

- » Softening global oil price but support for long-term floor ~US\$90/bbl
- » Long-term demand growth for energy from Asia still strong, especially for LNG
- » Asia Pacific LNG price base expected to be US\$12-14/mmBtu for 2020 -2025 supply
- » PNG is in highly competitive position to capture LNG markets
- » LNG in PNG provides material returns and is robust to product price movements





# Capabilities & Competences: OSH's competitive advantage in PNG

- » Strategic Review has concluded OSH should focus on delivering high returning projects from existing assets in PNG over next five years
- » Supported by capabilities and competencies integral to historic and future success:
  - Unrivalled operating experience (+85 years) in PNG
  - Strong PNG Government and regulator relations
  - Deep-rooted community affairs/landholder relations
  - PNG basin mastery
  - Proven success optimising production from mature oil fields
- » Delivery of further three trains of LNG in PNG will create value for shareholders and ~US\$40 billion of taxes and levies for PNG
- » Skills developed in PNG are transferable to other regions



## Objective and Strategies

**Vision** To generate top quartile returns for shareholders through excellence in socially responsible oil and gas exploration and production

**Objective** Achieve top quartile value growth performance versus peer group over next five years, by pursuing the following strategies:



**Optimise Value of Existing Assets**

Sustain and optimise oil and gas assets through safe and reliable operations



**Commercialise Gas in PNG**

Commercialise additional LNG trains resourced from NW Highlands and Gulf hubs



**Pursue High Value Opportunities**

Explore for and appraise high value oil and gas accumulations in PNG and progress high value global new venture opportunities



**Lead PNG Sustainability**

Maintain Oil Search as a leading corporate citizen in PNG. Protect value and enable growth by mitigating risks and promoting a stable operating environment



**Enhance Organisational Capability**

Enhance organisational capabilities to deliver our strategic commitments



**Optimise Capital Management**

Optimise capital and liquidity management to support investment and reward shareholders

# PNG Production



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## Strategy 1: Optimise value of existing assets

- » Strategic Review has confirmed OSH's operating strategy to sustain and optimise value of PNG operating assets.
- » PNG LNG T1 + T2 – the new base business:
  - In first full year (2015), PNG LNG expected to add ~21 mmboe net to Oil Search production (vs total production of 6.74 mmboe in 2013)
- » Potential T1 & T2 debottlenecking is highest returning opportunity in OSH portfolio
- » Will continue to pursue production optimisation opportunities within operated oil fields
- » Operations extended by 30 years, requiring integrated asset planning while meeting or exceeding PNG LNG delivery obligations
- » Maintaining excellent process and personal safety record a key priority

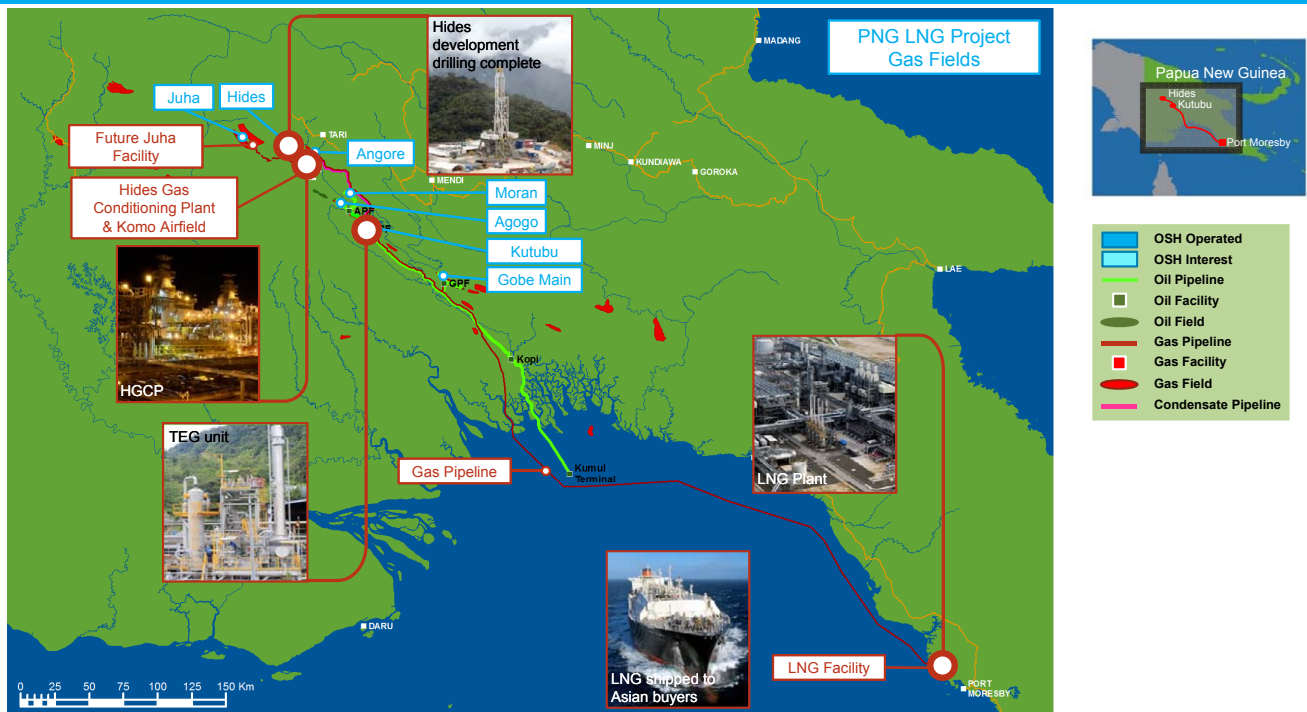


Image courtesy ExxonMobil

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# PNG LNG Project



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# PNG LNG Project – quick facts

OVERVIEW		INFRASTRUCTURE	
Nameplate capacity	6.9 MTPA, 2 train development	LNG jetty length	2.4km
Project investment	US\$18.8 billion	LNG tank capacity	2 x 160,000m <sup>3</sup>
Joint Venture partners	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%)	HGCP production capacity	960mmcf/day
Contracts	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	Komo Airfield length	3.2km
<b>PRODUCTION</b>		Total length of pipelines	~800km (including condensate lines)
Production over Project life	>9tcf gas and >200 mmbbl condensate	Highest altitude of onshore pipeline	2,700m above sea level
Associated oil fields contribution	~20%	Onshore pipeline length	292km
Cargo loads per year	>90 cargoes	Offshore pipeline length	407km
LNG ship size	125,000 – 220,000m <sup>3</sup>	<b>WORKFORCE</b>	
LNG ship count	6 ships	Total construction workforce	>55,000
<b>DRILLING</b>		Peak construction workforce	21,220 (4Q 2012), comprising 40% PNG citizens
Drilling rigs	2 x 60m tall weighing 725 metric tonnes	Construction work hours completed	~200 million
Wells (field life)	13 production wells (9 Hides* + 2 Angore + 2 Juha) + 1 produced water disposal well	<b>SOCIAL ENGAGEMENT DURING CONSTRUCTION</b>	
Production well depth	Up to 3,000m (excluding PWD)	Landowner company spend	>2.72 billion Kina
* Includes Hides F1Deep well drilled to Toro reservoir		In-country spend	~11 billion Kina
		Training provided	>2.17 million hours via ~13,000 training programmes
		Entrepreneurs assisted	>17,000 via Enterprise Centre to develop business capacity
		Community engagements	>4,500 engagements with >165,000 attendees

Source: ExxonMobil

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

- » Project delivered ahead of schedule and within revised budget
- » Condensate production commenced late March 2014, with LNG production from Train 1 in April and Train 2 in May
- » Sales of Kutubu Blend, comprising Hides liquids and oil field production, commenced April
- » First LNG shipments to Asian markets in May:
  - Cargoes sold on spot market, prior to start of long-term contract sales
- » Full operating capacity of 6.9 MTPA reached in late July (3 month ramp-up)
- » First LNG cargo sold under long-term contract delivered in September 2014. All long-term contracts expected to commence by end 4Q14



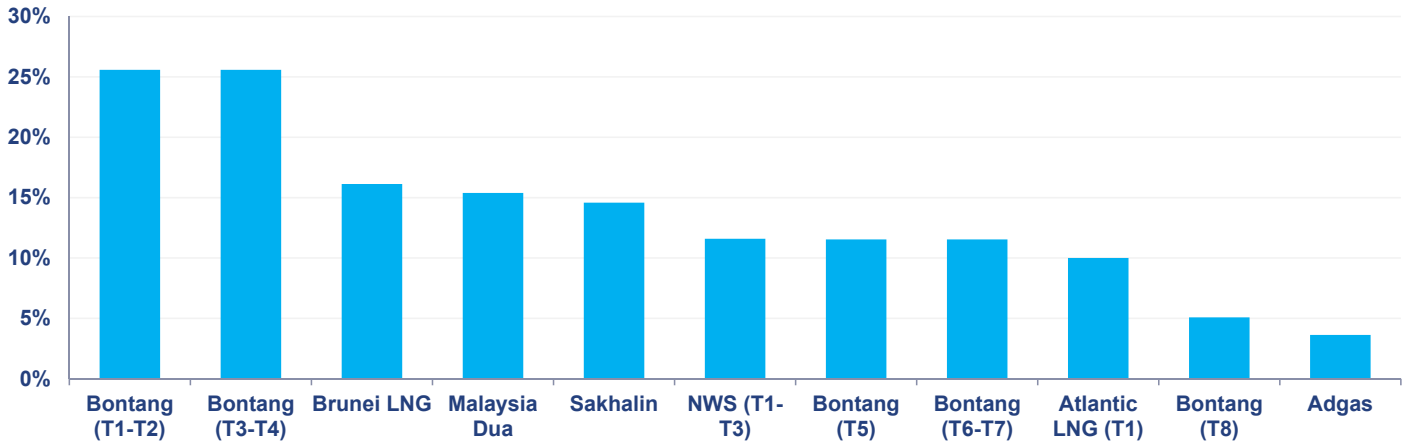
Source: ExxonMobil

# PNG LNG T1 & T2 – the new base business

- » In first full year (2015), PNG LNG expected to add ~21 mmboe net to Oil Search production
  - 18 mmboe LNG
  - 3 mmboe liquids
- » Project expected to produce +9 tcf gas and +200mmboe associated liquids (gross) over 30 year life:
  - LNG component to remain broadly flat
- » Four OSH-operated fields (Kutubu, Moran, Agogo, Gobe Main) to supply ~20% of total Project gas ('Associated Gas Fields')
- » Associated Gas field life extended by 30+ years, supporting ongoing sustainability of operations and facilities



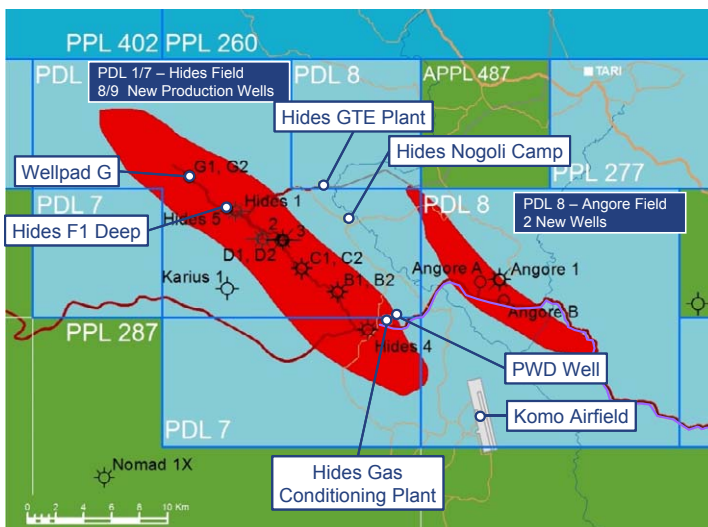
# Debottlenecking of PNG LNG T1 & T2 offers potential for substantial incremental value



Source: FACTS Global Energy

- » Global benchmarks suggest 10-15% increase in capacity achievable through debottlenecking
- » High value add – generally, minimal capex required
- » OSH believes potential debottlenecking of PNG LNG T1 & T2 represents highest returning opportunity in its portfolio

## PNG LNG – 2015 activities



- » Structural remapping and reservoir modelling of Hides field underway with results expected 2015:
  - Based on information from eight development wells and PWD well
  - Will help constrain gas volume/distribution
- » Hides F1 Deep spudded in October with Rig 703
- » First of two wells on Angore field also spudded in October with Rig 702

# PNG LNG facilities



**Hides GCP**

*Source: ExxonMobil*



**LNG Plant**



**Associated Gas**



**LNG Tanker at Jetty**



**Hides GCP**

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# Unloading LNG from PNG LNG in Japan

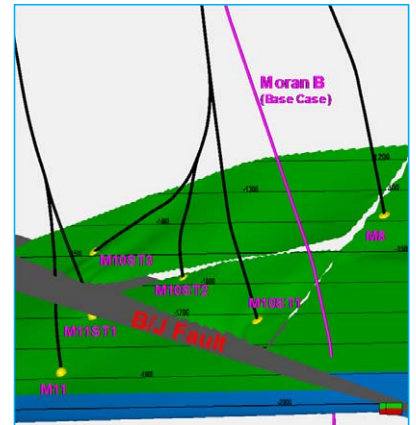
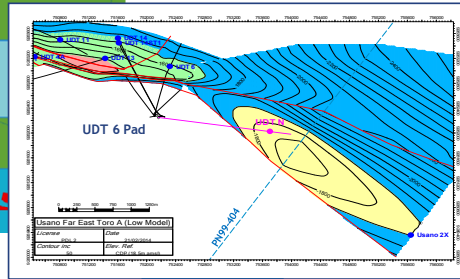
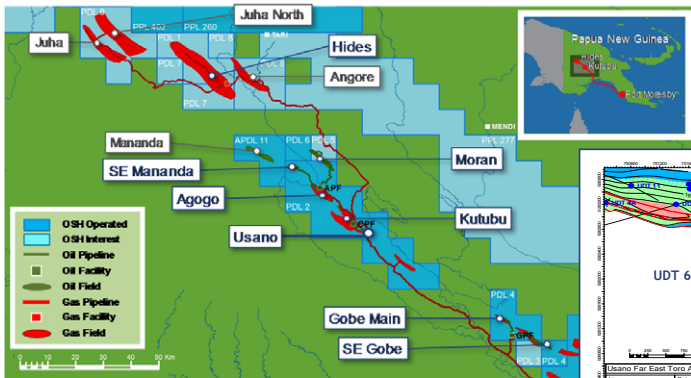


**Unloading of first PNG LNG cargo at TEPCO Futtsu-2 Terminal**

*Source: ExxonMobil*

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# 2014/15 oil field development activity



» Ongoing strategy to maximise oil production

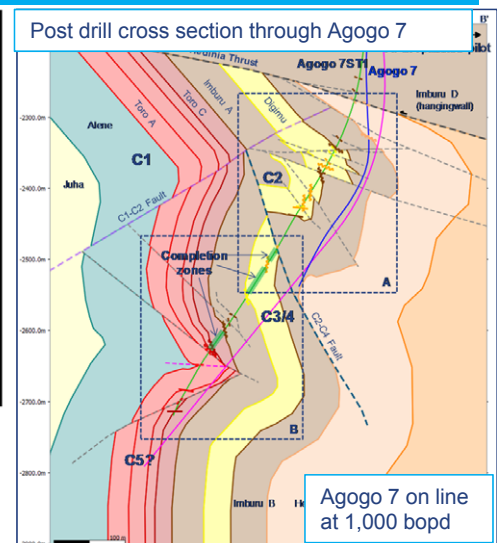
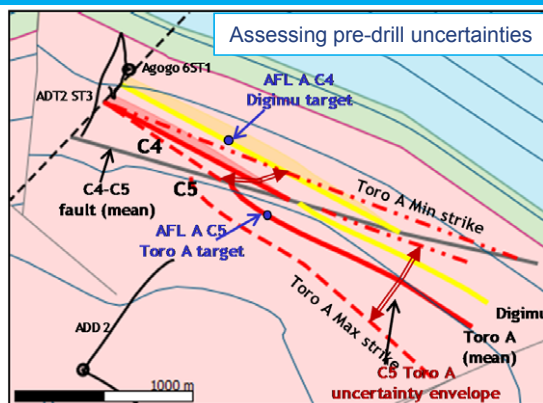
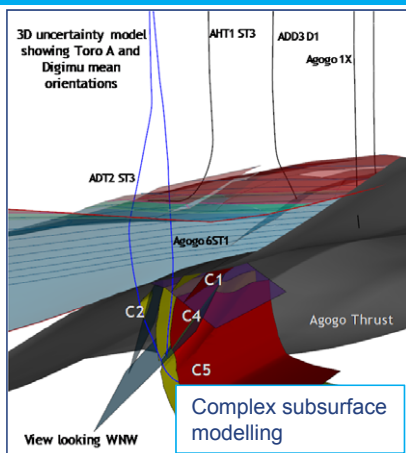
» 2014 wells:

- Success at Agogo 7 (Agogo forelimb development)
- Usano 5 – near field exploration well currently drilling to test prospect SE of Usano

» 2015 planned activities

- Moran MB well (1.9 mmstb) and NW Moran Sidetrack (1.4 mmstb)
- ADD 1 (Agogo) workover (0.5 mmstb)
- Agogo Forelimb – planning for next development well

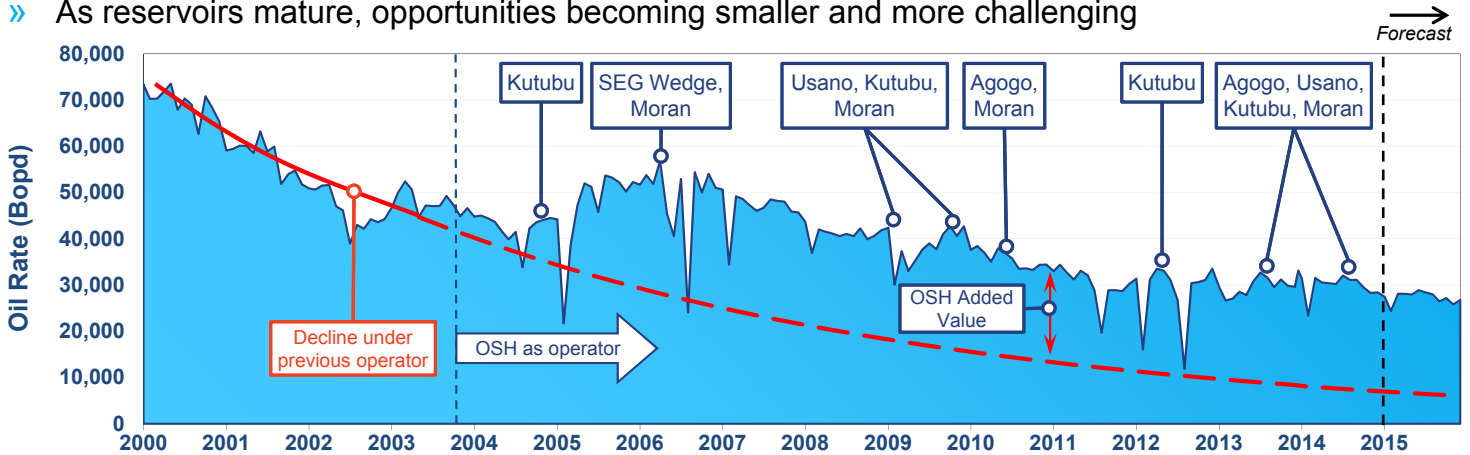
# Further Agogo forelimb development



- » Continuing development of Agogo forelimb
- » Oil-in-place ~30-40 mmbbl but complex structure to appraise and challenging drilling
- » Phased development, ADT 2 ST3, Agogo 6 ST1 and Agogo 7:
  - Learning from data acquired in each successive well
  - Construction of subsurface models which help to assess key uncertainties
  - Now planning Agogo 8 following success of Agogo 7

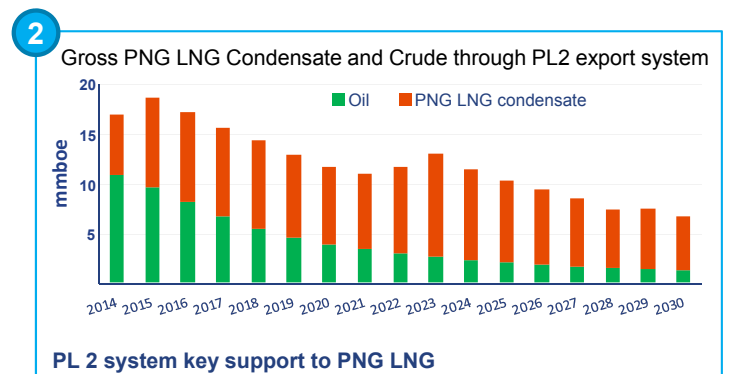
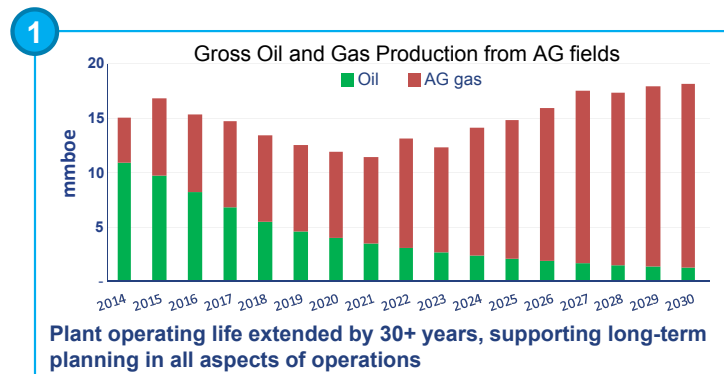
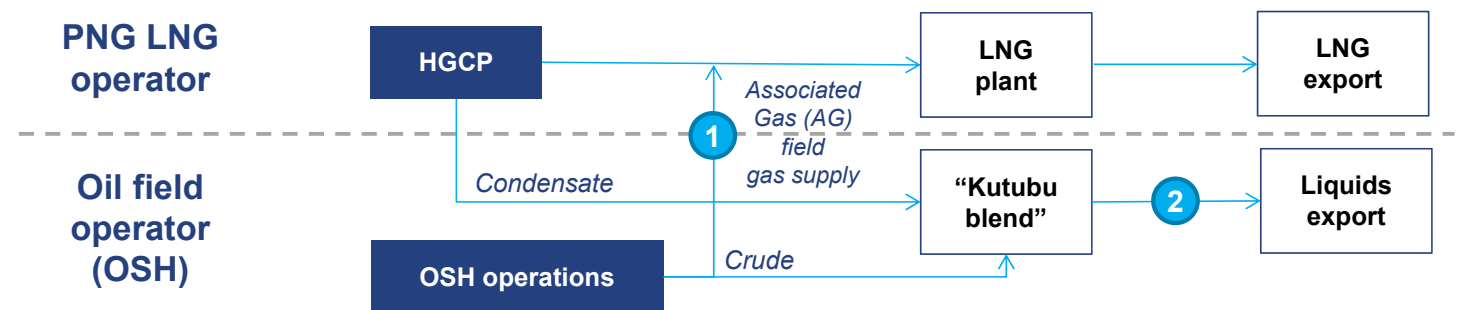
# Proven success optimising production from mature oil fields

- » Since taking over oil field operatorship in 2003, OSH has:
  - Drilled 41 development wells with ~85% success rate
  - Added +50mmbbls oil (gross) to 2P expected ultimate recoveries (+75mmbbls to 1P EUR)
- » Achieved key 2010 objective of maintaining oil production broadly flat until first PNG LNG production
- » As reservoirs mature, opportunities becoming smaller and more challenging



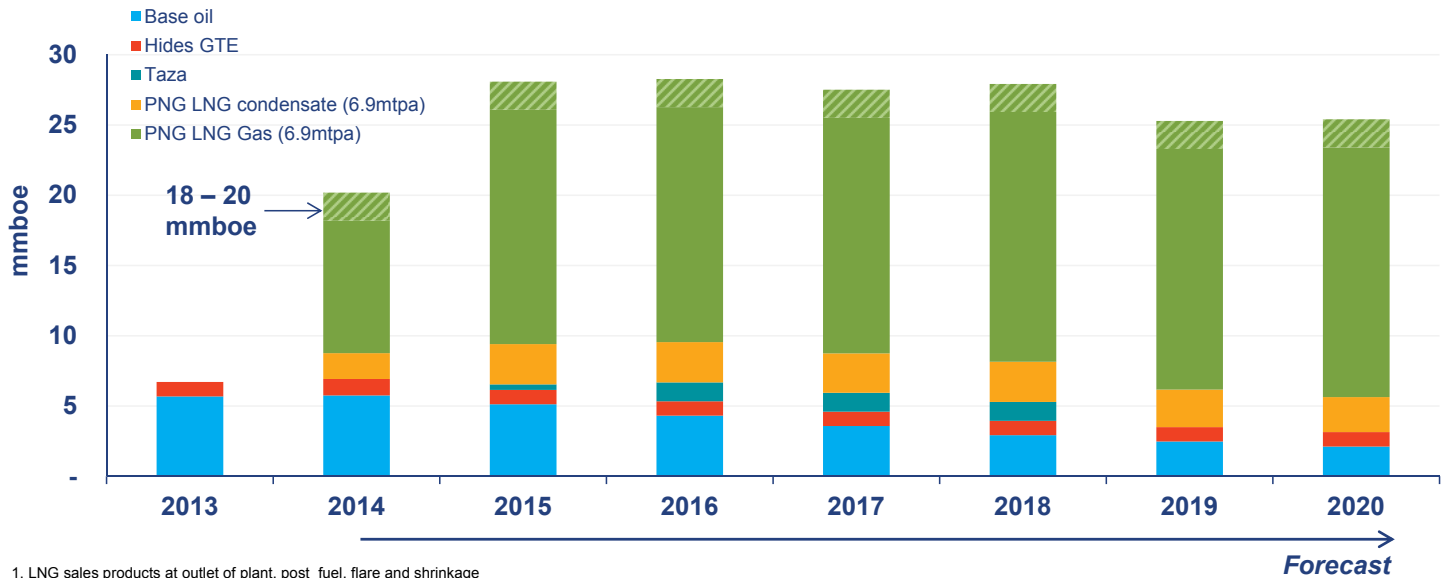
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# Reliability of OSH's PNG operations integral to meeting PNG LNG obligations for next 30+ years



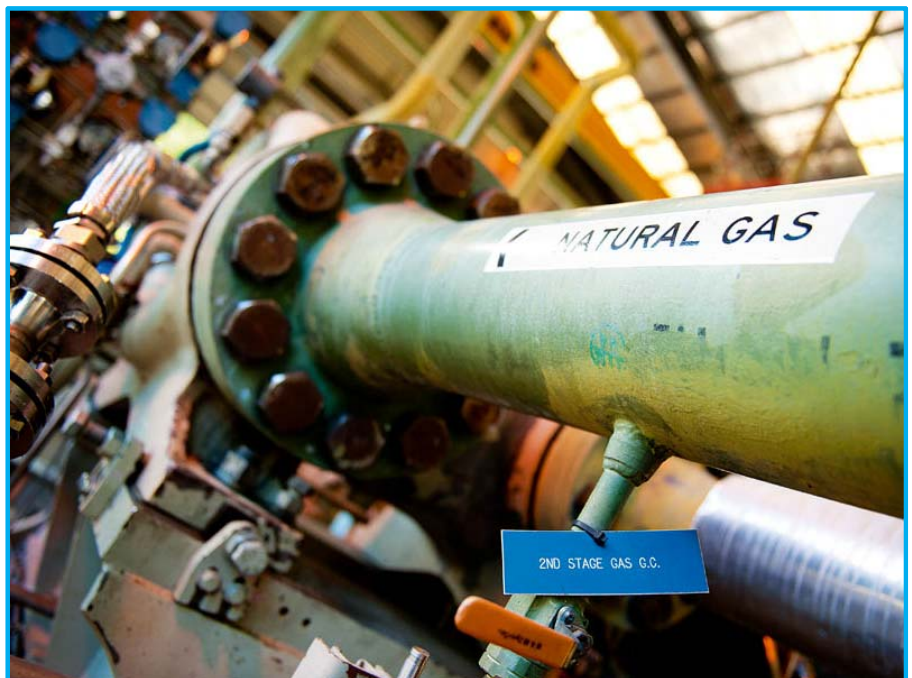
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1. LNG sales products at outlet of plant, post fuel, flare and shrinkage  
 2. Gas:oil conversion rate used in 2014 & 2015: 5,100 scf = 1 barrel of oil equivalent (prior years 6,000 scf/boe)  
 3. Taza forecast includes 4 year EWT 2015-2018 only

## PNG Gas Development



# Strategy 2: Commercialise gas in PNG

- » PNG LNG Project has delivered strong platform for growth:
  - Major infrastructure, government and landowner support, Tier 1 LNG customers and financier confidence
- » OSH played significant role in PNG LNG project execution and has a key role to play in ongoing operations, to deliver the optimum development outcome for all stakeholders
- » PNG has resources to deliver at least two expansion trains underpinned by existing undeveloped resources and a third expansion train with modest drilling success. Two key resource hubs, in which OSH holds strong positions, will supply next phase of development:
  - North Western Hub (P'nyang field)
  - Gulf Hub (Elk/Antelope fields)
- » Multiple exploration opportunities remain, to provide backfill gas for all trains or additional expansion trains
- » Delivery of additional trains is common objective for industry, communities and Government

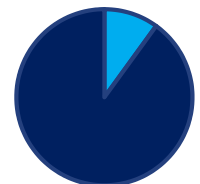


Images courtesy ExxonMobil

## >20 tcf of discovered gas in PNG of which only 9 tcf is under development



Undeveloped (best estimate)  
 PNG LNG Project dedicated 2P reserves and 2C resources



\* OSH/other operator estimates  
 \*\* Cumulative numbers based on arithmetic sum of best estimate resource



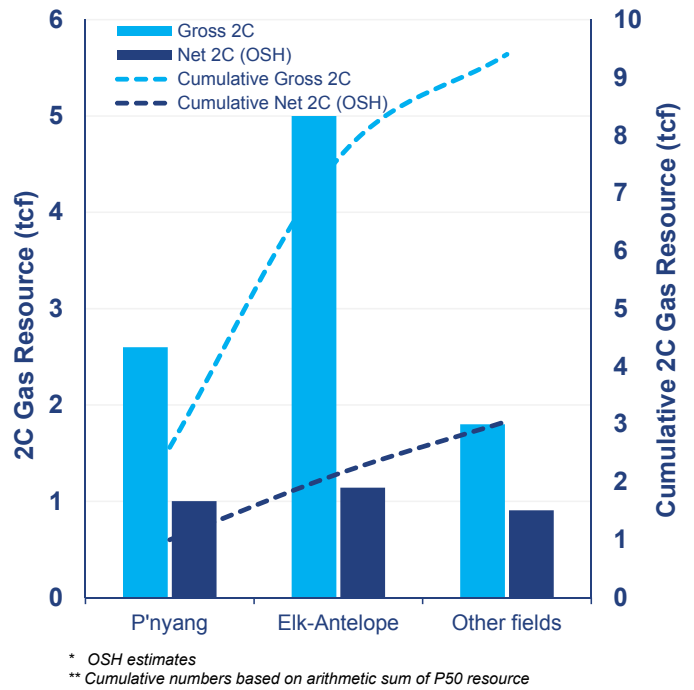
# ...of which OSH has interests in >9tcf gross

» OSH uniquely positioned to be lead gas aggregator in PNG:

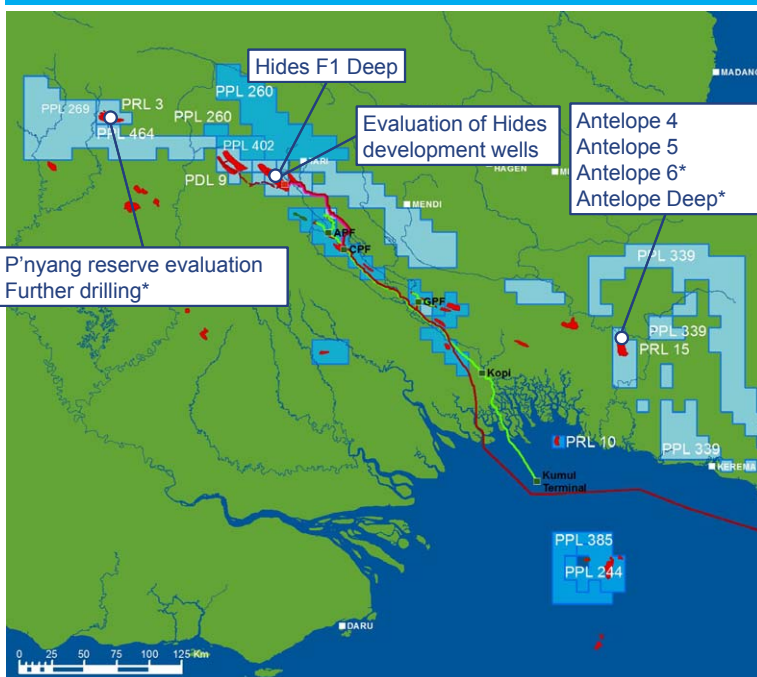
- One of largest holders of undeveloped resource, with equity positions in major gas fields that will underpin expansion

» OSH participates in licences with total undeveloped resource of >9 tcf (P50) with OSH net resources of 3.1 tcf across 12 fields

» Material upside in P'nyang and other fields, based on recent evaluation



## Gas resource evaluation ongoing in two key hubs – NW Highlands and Gulf



» Key resource evaluation activities are ongoing. Will provide greater certainty through 2015 on development plans:

- Structural remapping and reservoir modelling based on information from Hides development wells will help constrain gas volumes
- P'nyang evaluation ongoing plus possible further drilling to determine upside
- Hides F1 Deep well – material exploration target underlying Hides field, recently commenced drilling
- Antelope 4 and 5 appraisal wells – will establish whether resource can underpin two trains. Possible further drilling (Antelope 6) to assess upside
- Antelope Deep exploration well – planning underway for potential 2015 spud, high potential play

» PRL 15 arbitration outcome expected 1Q15, important for development cooperation and timing

\* Subject to JV approval



# NW Highlands: P'nyang (PRL 3)

» Key resource to support potential expansion from PNG LNG Project:

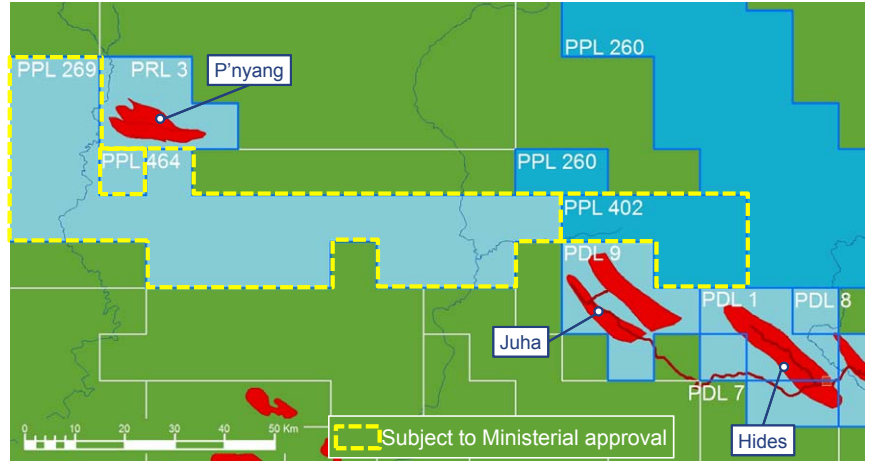


- OSH expects P'nyang resource base to increase

» Located 120 km NW of Hides

» Concept selection work well advanced

» 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

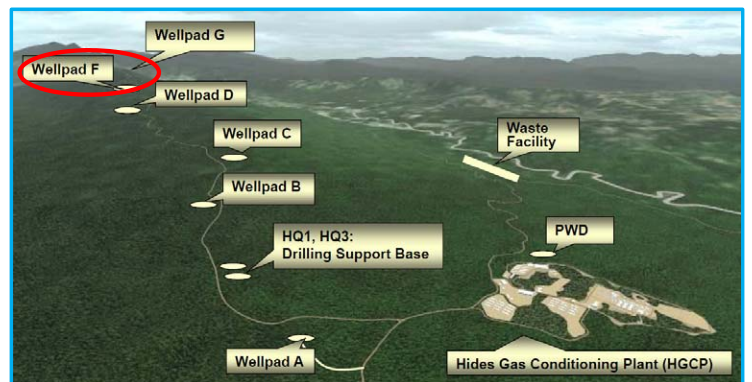


# NW Highlands: Hides F1 Deep Exploration Well

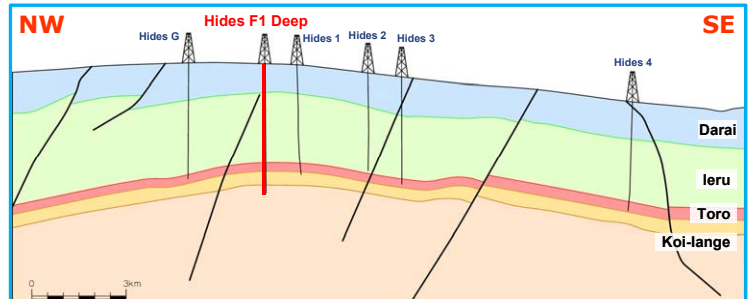
» Hides F1 Deep spudded in October from Wellpad F

» Designed to be completed as a Hides development well and to penetrate Koi-lange reservoir (currently mapped ~700m below Hides Toro/Digimu reservoirs)

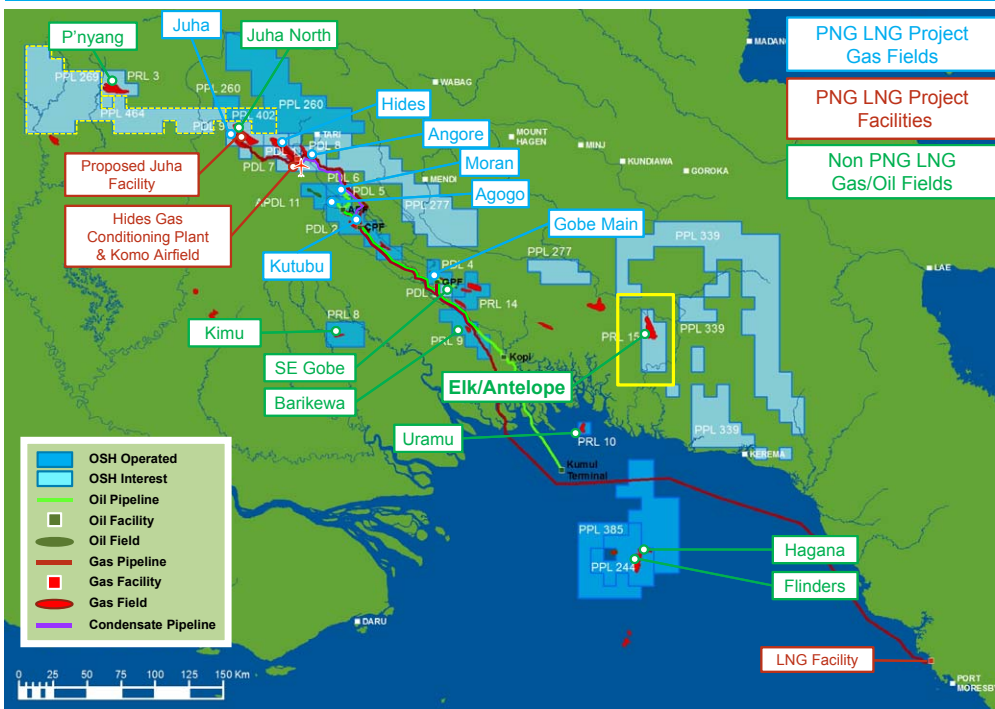
» Significant resource potential



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



# Gulf Hub: Elk/Antelope – PRL 15

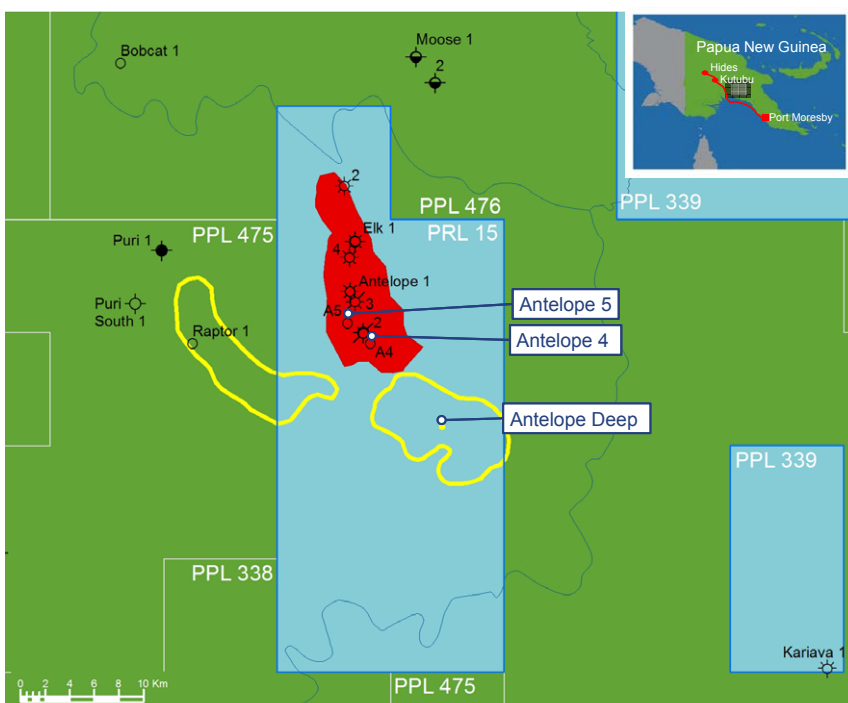


- » Acquired 22.8% gross interest in PRL 15, containing Elk/Antelope gas fields, in March 2014
- » Largest undeveloped gas resource in PNG with significant appraisal and exploration upside
- » Appraisal programme underway
- » Arbitration hearing in late November on dispute relating to sale of interest in PRL 15 from InterOil to Total SA. Substantial additional value for all stakeholders if OSH is successful

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# PRL 15 drilling programme



- » Up to three appraisal wells to be drilled, to determine whether gas resources can support one or two LNG trains
- » Antelope 4 spudded in September:
  - Located 1 km south of Antelope 2
  - Testing southern part of structure
  - Comprehensive data acquisition and testing programme planned
- » Antelope 5 expected to spud in 4Q14:
  - Located 1.7km west of Antelope 2
  - Testing western extent of structure
- » 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

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# Resource requirements for next phase of LNG development

## » NW Hub train:

- OSH estimates ~4 tcf 2P required to underpin development decision
- Expansion is commercially attractive even based on shorter duration LNG contracts

## » Gulf Hub train – economics also attractive:

- OSH assessment:
  - ~ 3 tcf 2P for 1 PNG LNG-sized (3.45 MTPA) train, ~7 tcf 2P for 2 trains
  - ~ 5 tcf 2P for 5 MTPA train

## » Targeting final investment decisions by end 2016, with progressive delivery of additional trains 2019 – 2021

## » Train sizing and start-up dates dependent on extent of cooperation



Image courtesy ExxonMobil

# Maximising value of expansion trains

## » PNG can learn from other global LNG developments and expansions

## » Co-located brownfield projects will reduce investment, accelerate schedule and maximise project economics for all stakeholders:

- Lower financing costs and attractive investment profile
- Sustainable employment profile
- Higher and accelerated government tax take, gas for local market
- Reduced environmental footprint

## » Potential to increase value through pre-investment and cooperation:

- Early understanding of, and investment in, upstream infrastructure and pre-investment in key elements of downstream facilities
- Achieve alignment with PNG Government and joint venturers to optimise schedule

## » ~US\$3 billion of potential capital cost savings and ~ 2 years of production acceleration



Image courtesy ExxonMobil



# OSH's role in future developments

- » Unique opportunity over next 12 months to drive optimal development plan, through promoting cooperation agenda:
  - Extensive equity interests spanning sources of expansion gas
  - Alignment with PNG Government; gas for local market
- » Leverage OSH's unique local knowledge and PNG LNG experience through role in upstream development:
  - OSH operates Associated Gas Fields, which contribute ~20% of PNG LNG Project gas as well as liquids export system
  - Successfully delivered key components of PNG LNG infrastructure
  - Key role supporting PNG LNG operator in Government and landowner negotiations



Image courtesy ExxonMobil

# Summary

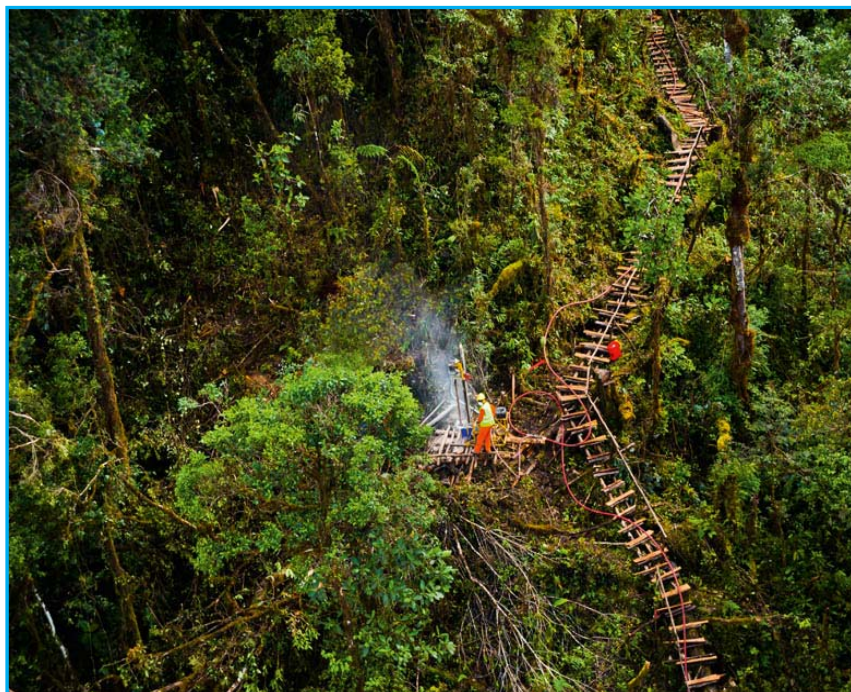


- » Undeveloped gas in existing portfolio can support at least two additional LNG trains in PNG. With modest drilling success during 2015, third additional train possible
- » Integrating future projects will add value for all stakeholders
- » OSH intends to be a leader in next phase of development, working closely with Government, partners and communities
- » Significant longer term resource and train upside through exploration:
  - 4/5 trains operating at capacity for decades to come



Image courtesy ExxonMobil

# Exploration



Oil Search Field Trip - 17-21 November 2014

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## Strategy 3: Pursue high value opportunities

- » Renewed focus on resource replacement as well as growth for future projects, given step change in production and resource conversion with PNG LNG Project start-up
- » Exploration programmes to target 150% resource replacement (five year rolling average)
- » Significant exploration upside remains in PNG, with only half of PNG's estimated full potential of 10 bnboe discovered so far
- » New Ventures will focus on:
  - PNG growth opportunities
  - Development of international material oil exploration opportunities to support longer term growth:
    - Any new entries will be disciplined and assessed against high returning PNG growth assets
- » Total exploration and appraisal budget (PNG & international) for 2015–2016 of US\$350-450m pa
  - Spend focus is in PNG with clear short and medium term programme



Oil Search Field Trip - 17-21 November 2014

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## Proven exploration performance

- » OSH has track record of success in PNG and MENA across range of geological environments
- » Exploration look-back analysis 2003-2013:
  - Net expenditure of nearly US\$1.5bn
  - Drilled 59 wells
  - Discovered ~440 mboe net to OSH
  - Commercial Success Rates:
    - Wildcat drilling – 21%
    - Near-field exploration – 75%
  - Unit Finding Cost ~US\$3.31 per boe

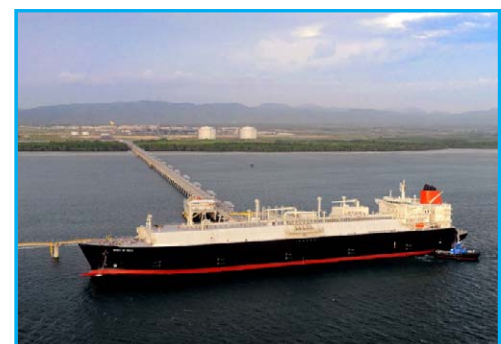


Image courtesy ExxonMobil



## Planned PNG exploration activities

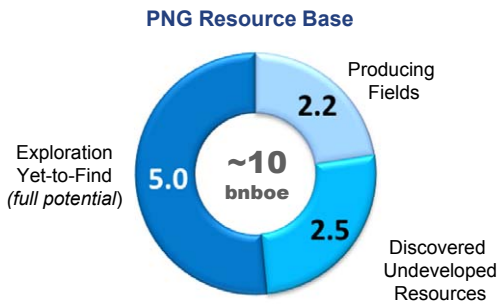
- » Focus on proving high impact gas resources to drive further LNG development:
  - Accelerated data acquisition to maintain prospect portfolio
  - ‘Game changer’ campaign focused on large foldbelt prospects
- » Active programme underway:
  - Multi-rig drilling programme through to end 2016
  - Continued seismic data acquisition to de-risk leads and prospects
- » Net annual PNG spend in 2015-2016 of ~US\$350m (~50:50 exploration and appraisal activities)



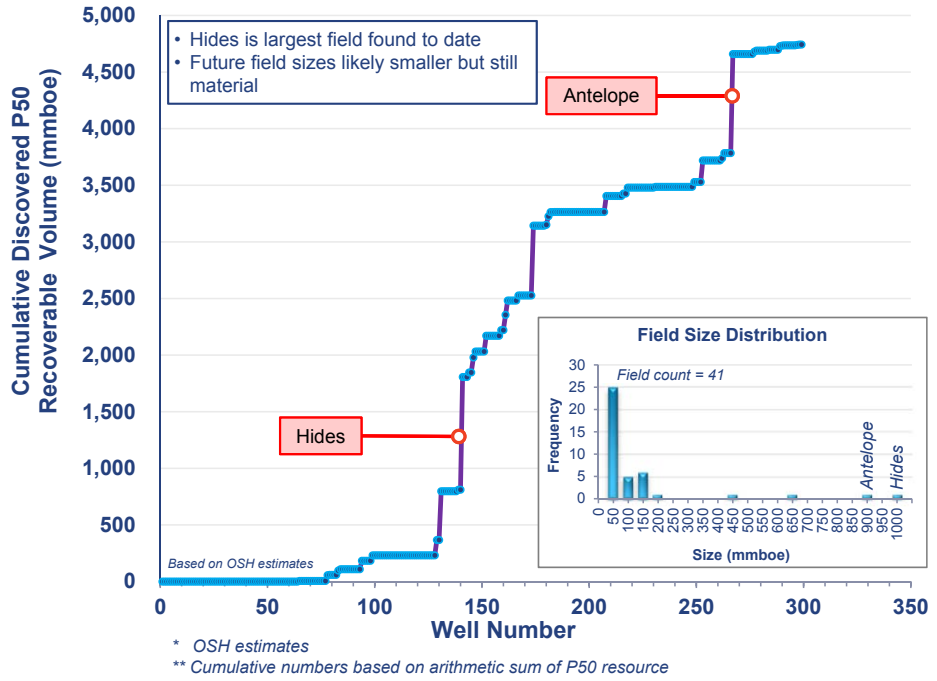


# PNG exploration running room

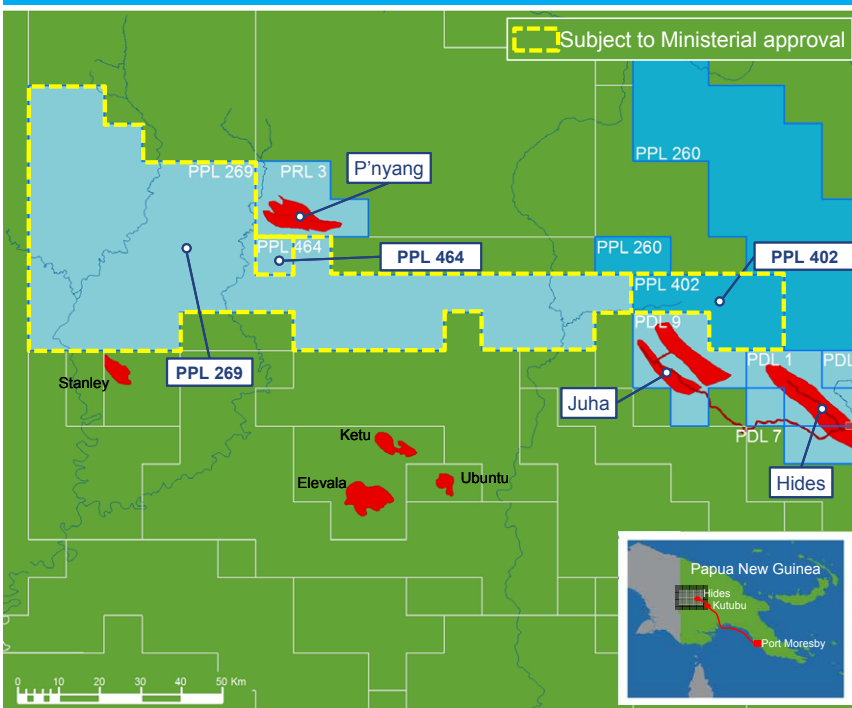
- » Internal and external assessments indicate only half of PNG's full resource potential has been discovered
- » Significant remaining gas potential in Highlands and Gulf areas



YTF = USGS P50 & IHS Estimates



# NW Highlands – 11 tcf unrisked potential



- » NW Highlands contains mix of undeveloped resource plus material running room:
  - Lead inventory currently contains ~11 tcf unrisked, 1.5 tcf on risked basis
  - Potential exploration targets with average prospective pool sizes in 700bcf range
- » Seismic taking place in 2014/15, to mature prospects for drilling in 2015/16:
  - Includes Juha North area (not within PNG LNG Project), gas proven with significant potential upside, but appraisal necessary
- » OSH has expanded NW Highlands acreage footprint\*:
  - 50% in PPL 464, south of P'nyang field
  - 100% in PPL 402\*, north of Hides and Juha fields
  - 10% interest in PPL 269\*
- » New infrastructure continues to open up new areas to exploration

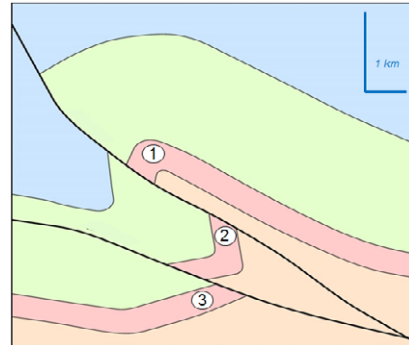
\*Subject to Ministerial Approvals



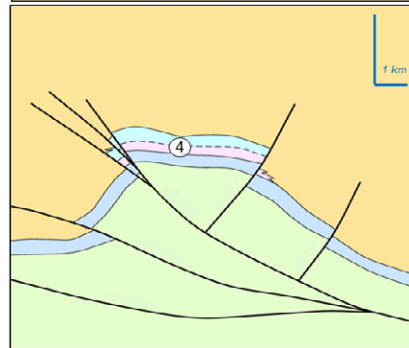
# PNG – cream proven plays, test best emerging plays

Oil Search

- » Continue to drill out lower risk proven plays:
  - Hanging walls
  - Forelimbs
- » Test high impact emerging plays:
  - Highlands Footwall
  - Hides Deep
  - Antelope Deep\*
- » Preference for opportunities in close proximity to existing infrastructure
- » Mananda: updating resource evaluation and implications for field development given complexity evident in Mananda 7



- ① Hanging wall
- ② Forelimb
- ③ Footwall



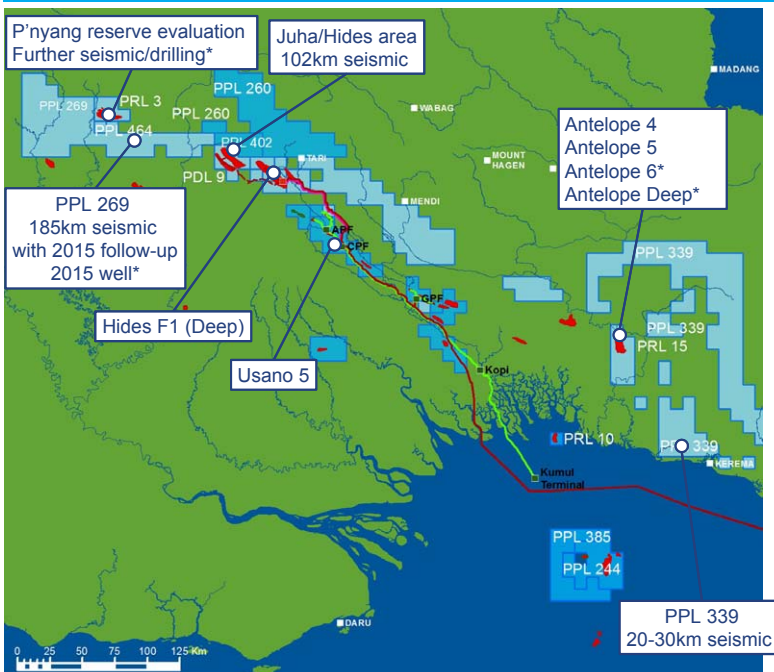
- ④ Intra-thrust "rafted reef play": Antelope

\*Subject to JV approvals

# PNG exploration activities 2014-2015



Oil Search



- » Key gas exploration activities:
  - Hides F1 Deep well – material exploration target underlying Hides field, drilling ahead
  - Extensive seismic programmes in NW foldbelt to mature 2015-2017 drilling targets
  - 1 well to be drilled in PPL 269 (Talisman-operated)
  - Antelope Deep exploration well – planning underway for potential 2015 spud, high potential play
- » Near-field oil exploration continues with Usano 5, testing deeper, separate prospect, recently spudded

\* Subject to JV approval

# International exploration

» International focus:

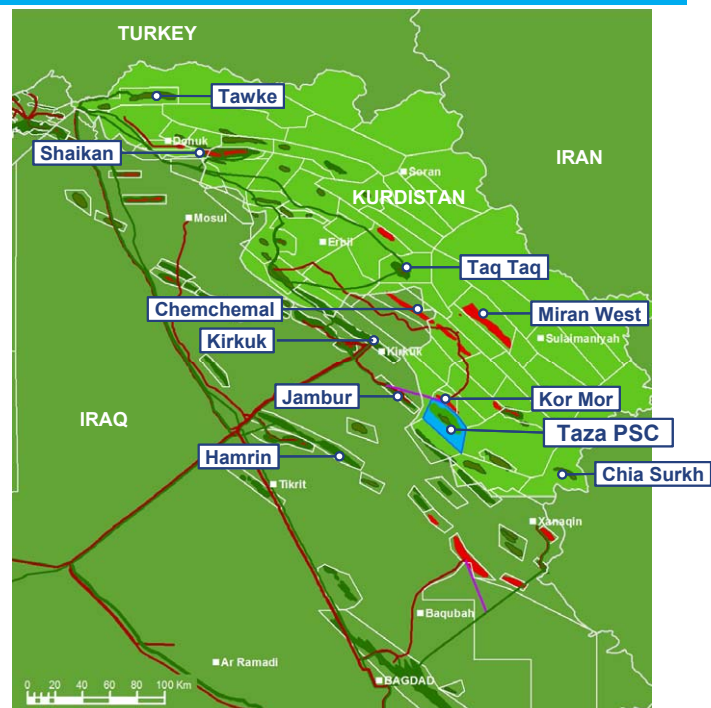
- Appraising high potential OSH operated Taza oil discovery
- Measured pursuit of material, high returning liquids-prone opportunities, with long term running room

» Leverage strong regional relationships and skills base to further develop focused international portfolio

» Pace dependent on availability of high reward opportunities relative to timing of PNG capital commitments



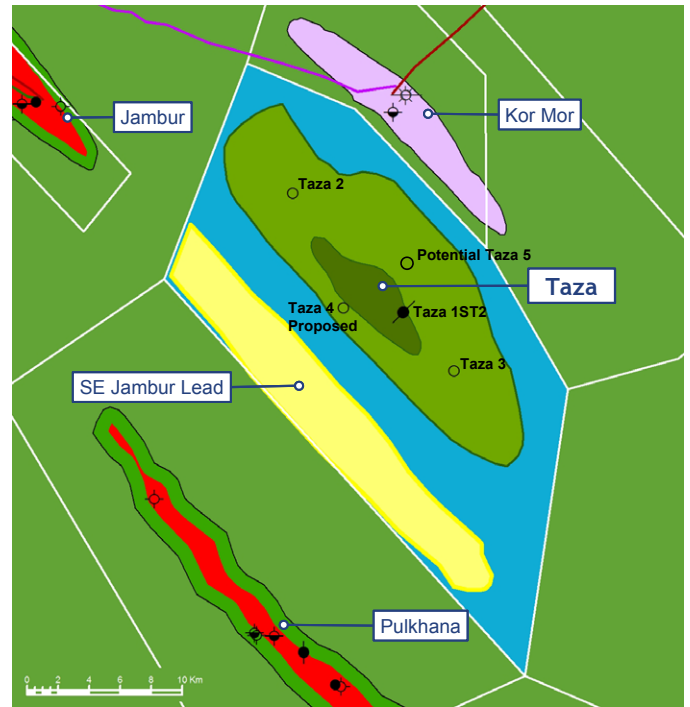
## Oil discovery at Taza, Kurdistan Region of Iraq: Comprehensive appraisal underway





# Comprehensive appraisal of Taza

- » 2014-15 focus on defining field size and maximising value
- » Appraisal programme:
  - » >600km<sup>2</sup> of 3D seismic (includes SE Jambur lead) ~95% complete
  - » Taza 2 – oil proven 10km NW of Taza 1: testing 4Q14/1Q15
  - » Taza 3 – testing SE extent
  - » Taza 4 – to test highly fractured zones on west flank, due to spud 2Q15
- » Further drilling dependent on results
- » Extended Well Test planned in mid-2015
- » Declaration of Commerciality expected 4Q15



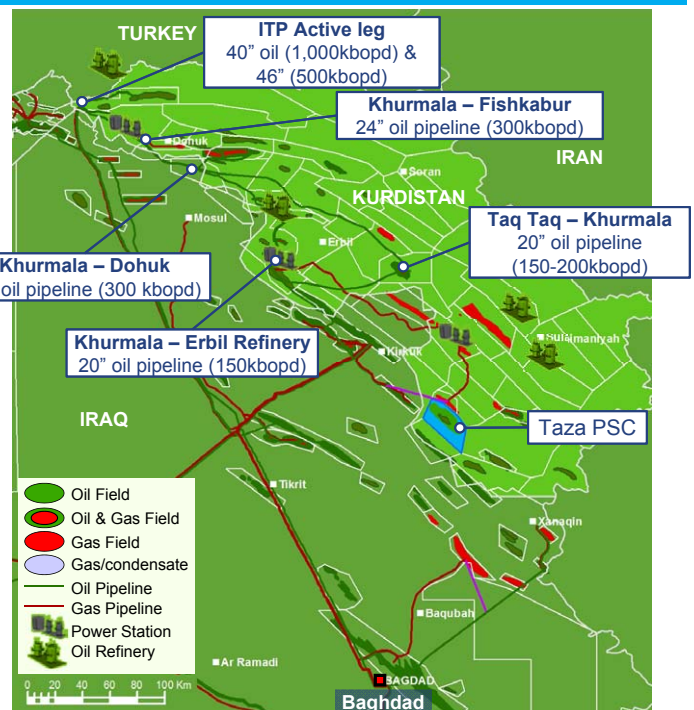
Taza PSC	WI %
Oil Search (Iraq) Limited <sup>1</sup>	60
Total E&P Kurdistan Region of Iraq (Taza) B.V.	20
Kurdistan Regional Government (KRG)	20

<sup>1</sup> Oil Search's funding interest is 75%, with the KRG's 20% interest carried by Oil Search and Total E&P Kurdistan Region of Iraq (Taza) B.V.

# Current Kurdistan operating environment



- » Modest improvement in security situation in Kurdistan - Peshmerga have regained control of vast Kirkuk oil field
- » Growing export momentum – pipeline exports have increased from 185kbopd in August to ~300kbopd in November
  - Targeting ~400kbopd by end 2014, ~500kbopd by end 1Q15
  - KRG production target of 1mbopd by end 2015/early 2016
- » In 2014, 34.5mmbbls oil exported to Turkey (21.5mmbbls sold via pipe to port of Ceyhan, balance via truck to port of Mersin)
  - ~US\$2.9bn revenue generated implying sales price of ~US\$83/bbl
- » KRG has announced intention to make initial US\$75m payment to international oil companies in November, with regular payments to follow
- » New Iraqi government appears more inclusive – interim agreement reached with KRG including:
  - Iraqi government to make initial payment of US\$500m to KRG
  - KRG to deliver 150kbopd to the Iraqi government
- » Indicative of growing oil export system from Kurdistan, though still in early stages



# Summary

- » Significant exploration upside remains in PNG, with only half of PNG's estimated full potential of 10 bnboe discovered so far
- » Aim to support PNG gas growth through drilling high impact wells through 2015-2016
- » Maximise value of existing international portfolio
- » New Ventures will focus on:
  - PNG growth opportunities
  - International exploration/appraisal oil assets
  - Any new entries will be disciplined and assessed against high returning PNG growth assets
- » Exploration programmes targeting 150% resource replacement (5 year rolling average)
- » Total exploration and appraisal budget (PNG & international) for 2015-2016 of US\$350-450m pa
  - Spend focus is in PNG with clear short and medium term programme

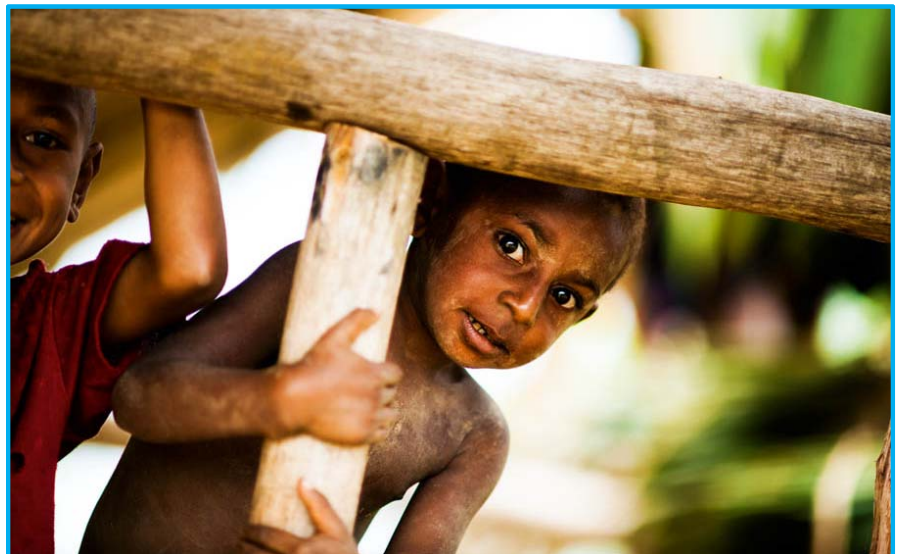


Sustainable Oil Search.



MEMBER OF  
**Dow Jones  
Sustainability Indices**  
In Collaboration with RobecoSAM

# Sustainability





# Strategy 4: Lead PNG sustainability

- » Strategic Review highlighted majority of OSH value growth over next 5-7 years will come from assets in PNG
- » Social responsibility, sustainable development and enduring government and community relationships has been, and will continue to be, integral to OSH’s historic and future success
- » Dynamic social environment, combined with significant economic changes, requires active management
- » Managing PNG country issues critical to preserving OSH value, generating growth and maintaining our social licence to operate
- » OSH has comprehensive series of social programmes to help government and communities address social and economic challenges across infrastructure, education and health



# Working collaboratively with Government to lead development of PNG’s oil and gas sector



- » Expectations within PNG for basic service delivery – schools, hospitals, roads, power etc – has never been higher
- » Capacity of National and Provincial Governments to deliver core services are challenged
- » Important that OSH plays a role to facilitate and augment Government capacity to deliver services critical to maintaining stable operating environment
- » OSH committed to playing lead role in:
  - Ensuring Government is aligned to support delivery of next two/three LNG trains
  - Supporting institutional capacity building within Department of Petroleum and Energy, Department of Environment and Conservation, Treasury, Planning, provincial and local level governments
  - Encouraging transparent governance framework
  - Proactively contributing to current tax review process
  - Proactively engaging with state and key agencies to ensure fiscal and regulatory regime stability



# Ensure PNG LNG benefits commitments are delivered

- » Delivery of PNG LNG benefits commitments, as agreed in Umbrella Benefits Sharing Agreement, critical for project stability, to avoid social unrest and operational disruptions
- » Improved governance required for distribution of an estimated >K110 billion<sup>1</sup> (>US\$40 billion) total cash flow to PNG Government and landowners over 30-year life\*
- » OSH to assist the operator, ExxonMobil PNG, using its Government and landowner relationships
- » Continue to promote transparency in benefits distribution:
  - EITI application
  - Sovereign Wealth Fund
  - Publish where benefits are paid, how much, to whom



\*PNG LNG Economic Impact Study, ACIL Tasman, April 2009

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# Facilitate delivery of key infrastructure projects

- » OSH manages >US\$200m of infrastructure projects on behalf of Government, largely through National Infrastructure Tax Credit Scheme (NITCS). Projects funded by State and project-managed by OSH, leveraging our core skills
- » Has proven to be good way to ensure projects are delivered in transparent and timely manner
- » OSH committed to continuing this work, to deliver Government nominated and funded key infrastructure projects
- » Implement transparent model to deliver projects, based on Shared Responsibility Model (partnership between OSH, ExxonMobil, Government and project impacted communities)
- » Numerous community based programmes being delivered:
  - Churches, water supply, agricultural programmes etc



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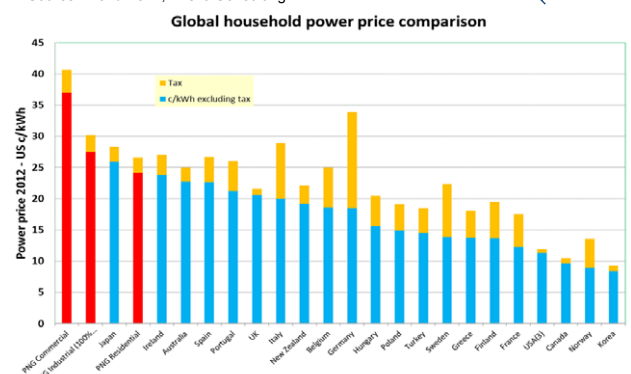
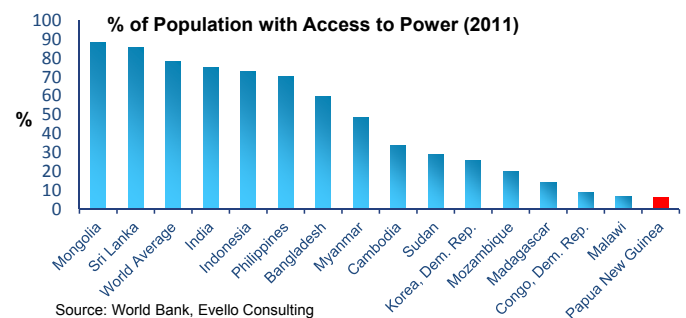
# Strategic sustainable development and social responsibility

- » OSH has made significant contribution to health outcomes for staff and communities over past 10 years:
  - Major provider of healthcare across operating areas in PNG
  - Working with National and Provincial Authorities to deliver:
    - HIV Aids management programmes
    - Child and maternal health initiatives
    - Malaria eradication and control
    - Medical services
  - Oil Search Health Foundation supported by external agencies including Global Fund, DFAT, Asian Development Bank, Gates Foundation etc
- » OSH reviewing expansion of Foundation, with long-term commitment seeking transformational change
- » Projects under review include:
  - Further health programmes addressing TB, HIV, cervical cancer
  - Providing PNG women with means to break cycle of gender-based violence
  - Programmes for women’s empowerment
  - Developing PNG through building next generation of leaders
- » Feasibility work now underway, significant institutional support



# Delivery of power solutions

- » Provision of power solutions in PNG an emerging political and social issue:
  - Electricity penetration among lowest in world. ~6% of population have access to delivered power
  - Electricity prices among highest in world
  - Industry held back by supply and black-outs, particularly in Lae region
  - Major constraint on economic growth and social development
- » The next phase of LNG development can deliver gas-for-power to local economy:
  - Coordinated LNG developments can deliver secure and reliable power solutions



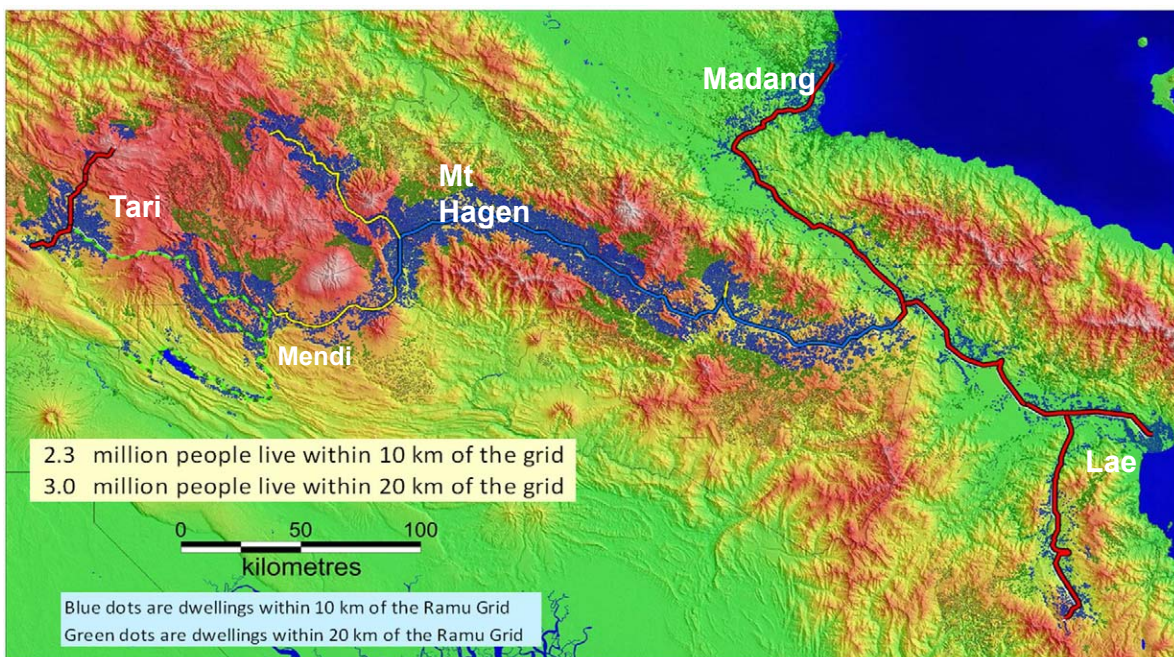


# Delivery of power solutions cont.

- » OSH can play pro-active role in coordinating industry and Government to deliver integrated power solution:
  - Drive growth in PNG and industries supporting LNG expansion and operations
  - Accelerate LNG tail gas and monetise potential stranded resources
  - Ensure local communities benefit from LNG and gas developments
- » Potential solutions may involve:
  - Small scale LNG for Highlands and remote power
  - Gas generation from peripheral fields
  - Biomass project for northern power grid
  - Gas-swaps
- » Focused on generation, helps manage possible future Domestic Market Obligation, uses smaller peripheral gas fields
- » Low capital costs, small but important contribution to profits



# Highlands / Lae power opportunity





## Strategy 5: Enhance organisational capability

- » Strategic Review has highlighted importance of PNG to OSH's future value growth
- » Number of organisational changes will take place, to manage programmes needed to deliver this growth
- » Several senior managers will be based in PNG:
  - Executive General Manager for PNG Assets
  - Senior Gas and Commercial executives
  - Operations and Development executives
- » Will deliver significant management depth to address key challenges in-country and understanding of in-country issues
- » Will assist development of deeper relationships with key PNG stakeholders
- » Will facilitate senior management development and succession planning
- » Board has appointed consultant to undertake gap analysis and help steer succession planning



## Financial Summary





## Strategy 6: Optimise capital management

- » In light of commencement of cash flows from PNG LNG Project, OSH's financial and capital management policies were major component of Strategic Review
- » Key objective is to ensure all future growth opportunities can be fully funded and financial flexibility maintained while also sharing profits from PNG LNG Project with shareholders
- » Balance sheet (gearing and liquidity) to be conservatively managed



## Funding to support growth projects

- » Anticipate that future LNG trains in PNG will be funded utilising project financing, MENA growth from internal funding sources (cash and corporate borrowings):
  - Project finance assumes conservative 60:40 debt:equity (70:30 for PNG LNG Project)
- » Consideration now being given to key project finance issues:
  - Timing for raising project financing for ExxonMobil-led Highlands train may be similar to timing of Total-led PRL 15 train. Will require co-ordination to minimise logistical challenges as well as addressing potential funding capacity issues in debt markets
  - OSH to maintain strong forecast liquidity profile and work with project operators to commence early discussions with potential LNG project lenders, to deliver best outcome
- » Investment hurdle rate well above WACC

# Balance sheet and cashflows to be optimised to secure cost effective financing

- » Balance sheet to be conservatively managed to ensure all future growth opportunities can be prudently funded while accommodating dividend distributions in accordance with new dividend policy
- » Maintenance of committed undrawn credit lines and surplus cash to ensure immediate access to cost effective funds and meet project completion guarantor requirements
- » OSH will not seek credit rating at present:
  - OSH rating capped by PNG country rating of B+. Country sovereign risk ratings will not be re-visited by rating agencies until at least 2 – 3 years post PNG LNG start up.
  - Corporate credit rating less relevant when seeking project finance, particularly if rating is sub investment grade
  - Unlikely to deliver debt pricing benefits
  - Will continue to monitor
- » No hard gearing target but expect gearing not to materially exceed 30 June 2014 level (~ 45%)

# OSH's new capital management policy

- » Review process included:
  - Extensive cashflow / earnings scenario analysis. Stress tested for:
    - Two/three LNG trains plus other growth opportunities such as Taza
    - Quantum and phasing of capital spend
    - Opex
    - Oil price volatility (down to US\$70/bbl flat)
  - Review of energy sector dividend policies
  - Survey of major shareholders
- » Oil Search to adopt a proportional dividend policy, commencing with 2014 final dividend
  - Target dividend payout ratio of 35% – 50% of core net profit after tax\*
  - Payout ratio will be reviewed in event of substantial rise or fall in oil prices
  - Dividend reinvestment plan to be suspended, commencing with 2014 final dividend
- » Cash surplus to future needs will be returned to shareholders in form of special dividends or share buy-backs, depending on relative value outcomes for shareholders

\*excludes any material one-off adjustments to income



# Cash Flow Priorities

## Available Cashflows

After scheduled debt servicing, sustaining capital expenditure and commitments

## Dividends

Payment in accordance with new dividend policy

## Growth Capital Investment I

LNG expansion

## Growth Capital Investment II

Exploration, New Ventures, M&A

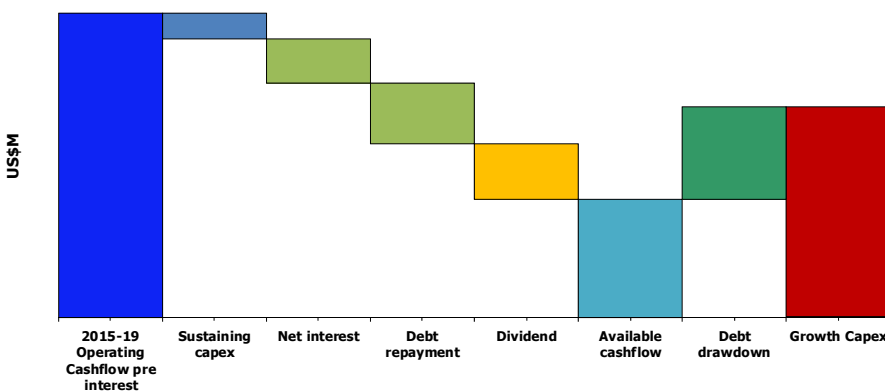
## Surplus Capital

Return to Shareholders:  
- Share Buy-Backs, Special Dividends

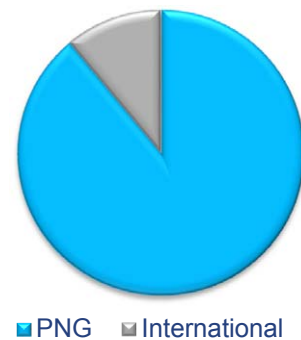
# Application of free cash-flow, based on three LNG train development 2015 – 2019



Allocation of cash generated



PNG vs International Capex Splits



- » Expect to generate ~US\$1.5bn pa in operating cash flow before interest over next five years\*
- » OSH has low sustaining capex requirements, <US\$650m over 5 year period (2015-2019)
- » OSH can fully fund its growth strategy as well as provide significant dividends under three train expansion case

\* Based on flat Brent oil price of US\$90/bbl

# Investment, based on three LNG train development 2015 – 2019

## Investment allocation



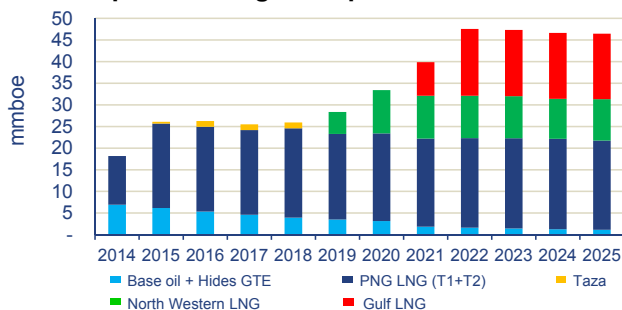
- PNG Gas Development
- PNG Appraisal
- MENA Appraisal
- PNG Exploration
- MENA Exploration
- PNG LNG (T1 + T2)
- PNG Oil
- Other

- » Investment spend being directed primarily to business expansion
- » Of total expenditures, ~20% to be spent on appraisal and ~24% on exploration. Primary focus of exploration is on finding gas in PNG for LNG expansion beyond third train and international oil opportunities

## Summary

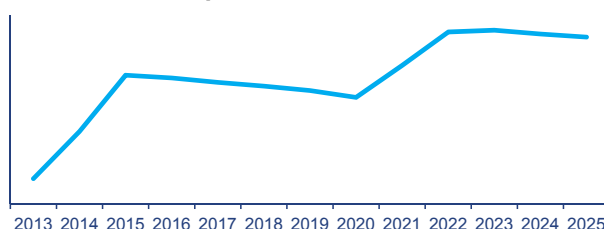
- » Transformation underway, with fourfold increase in production expected between 2013 and 2015
- » OSH has high-returning growth opportunities in PNG, with enough gas in existing portfolio to support at least two and, with modest drilling success, three additional LNG trains
- » Provides potential to double production again between 2015 and early 2020s and drive continued top quartile performance
- » Significant remaining exploration upside in PNG
- » Continue to pursue high returning oil opportunities internationally
- » Expansion of PNG sustainability programmes
- » Organisational changes to address PNG relationships, structured succession planning
- » **Able to provide both growth and dividends**

### Possible production growth profile



- <sup>1</sup> LNG sales products at outlet of plant, post fuel, flare and shrinkage
- <sup>2</sup> Oil forecast assumes successful development drilling in 2014/15
- <sup>3</sup> Gas:oil conversion rate used in 2014 & 2015: 5,100 scf = 1 barrel of oil equivalent for PNG LNG. No debottlenecking shown
- <sup>4</sup> Taza forecast includes 4 year EWT 2015-2018 only

### Indicative dividend profile





# Appendix 1: Key catalysts 2014 – 2015

	2014	2015			
	Q4	Q1	Q2	Q3	Q4
<b>External Factors</b>		PNG LNG Financial Completion	Increasing resource certainty →		
<b>Highlands Based Activity</b>	PNG LNG Trains 1 & 2 Debottlenecking studies				
		PRL 3 PDLA			
		Ongoing P'nyang development activity, possible drilling*			
	Hides F1 Deep				
<b>Gulf Based Activity</b>	Antelope 4				
		PRL 15 Arbitration Result			
		Antelope 5	Antelope 6*	Antelope Deep*	
	Ongoing Elk/Antelope development activity				
<b>International</b>	Taza	Declaration of Commerciality			
	Yemen	Licence expiry			
	Tunisia	Licence expiry			

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Appraisal/development

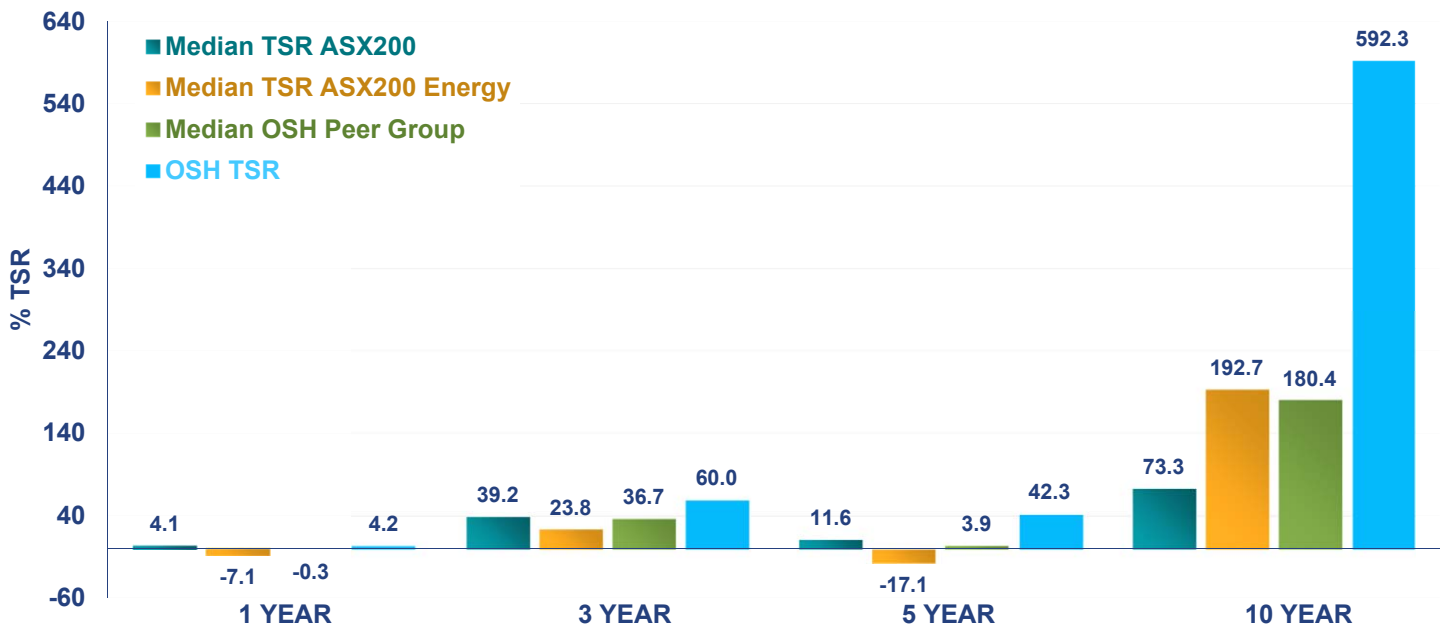
Exploration

\*Subject to JV approvals

# Appendix 2: Total shareholder return (TSR) outperformance relative to ASX 200 Energy/ASX 200 and energy peers



## Relative TSR to 30 September 2014

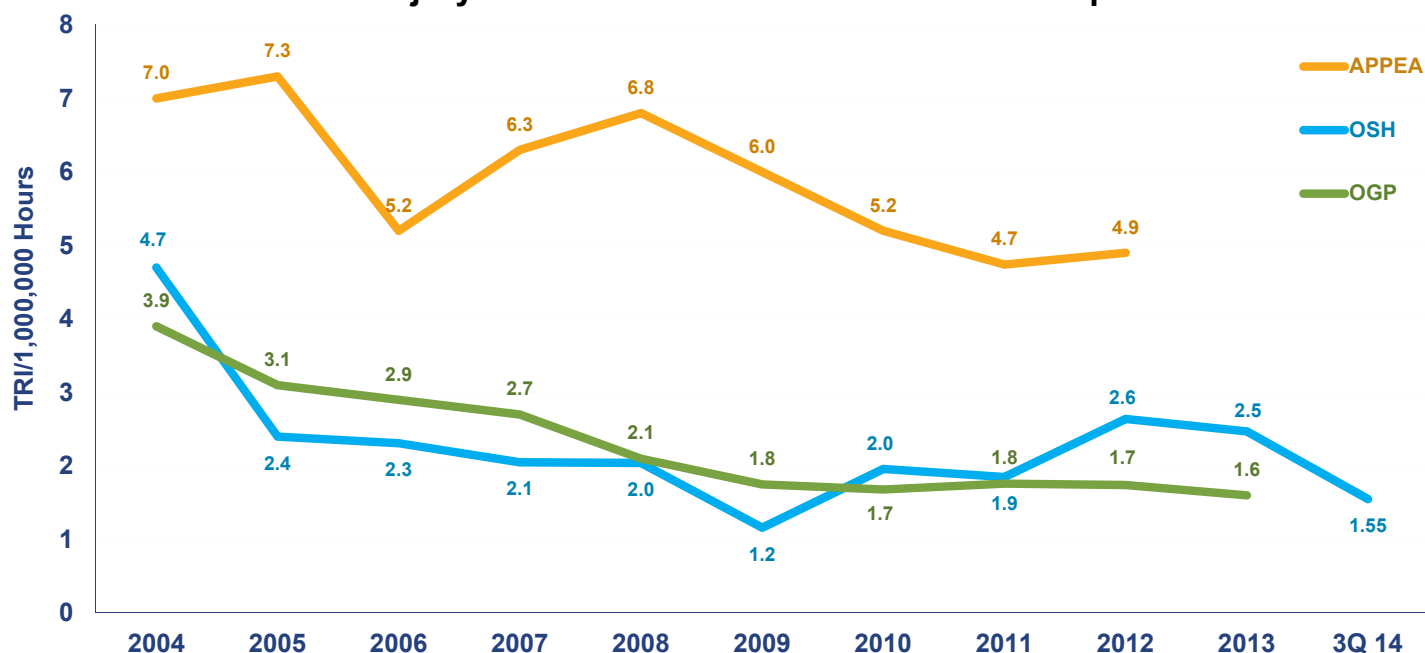


Source: Orientcap



# Appendix 3: Strong safety performance has been key component in delivering superior returns

**Total Recordable Injury Rate of 1.55 for nine months to 30 September 2014**



# Appendix 4: Treasury update

- » Total liquidity of US\$1,295 million at 30 September comprising US\$595 million cash, US\$500 million undrawn non-amortising corporate revolving facility and US\$200 million available under US\$250 million bilateral facilities
- » US\$4.14 billion (OSH share) drawn down under PNG LNG Project finance facility
- » 2014 interim unfranked dividend of two US cents per share, fully funded via underwritten DRP

**Cash (US\$M)**



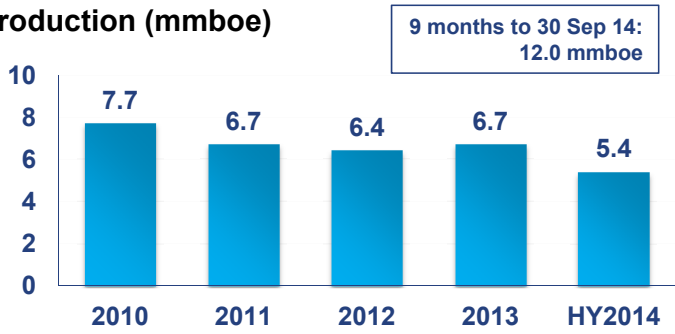
**Corporate Facilities Available (US\$M)**



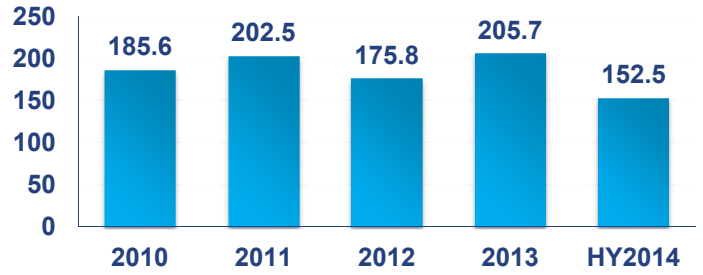


# Appendix 5: Key metrics

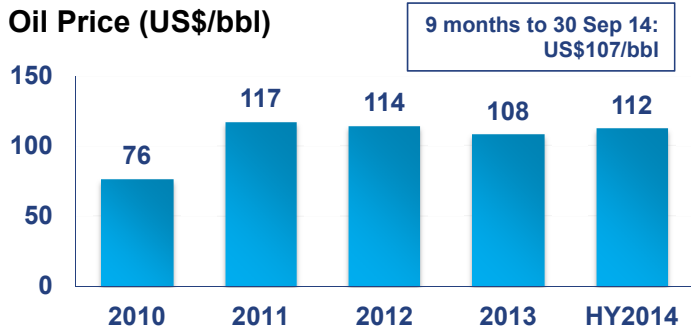
**Production (mmboe)**



**Net Profit After Tax (US\$M)**



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



**DPS (US cents)**

