

Social Responsibility Investor Roundtable

June 2015



Oil Search



MEMBER OF
Dow Jones Sustainability Indices
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EITI Extractive Industries Transparency Initiative



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Social Responsibility Investor Roundtable Agenda



Oil Search

Introduction

Rick Lee

2014 Performance

Gerea Aopi

Maintaining a stable operating environment in PNG

- Managing social and political risks
- Role of key partnerships
- Sustainable development
- Environmental management

Peter Botten

Oil price and Business Optimisation Programme

Peter Botten

Emerging areas of stakeholder interest

Peter Botten

Closing remarks and Q&A

Peter Botten

Social responsibility embedded in our vision and strategies



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2014 Performance

» Safety:

- 20% reduction in TRIR to 1.97 (from 2.47 in 2013)
- 3 Tier 1, 4 Tier 2 process safety incidents (compared to 3 Tier 1, 9 Tier 2 in 2013)
- One fatality

» Environment:

- 1 spill >1bbl (compared to 8 in 2013)
- 8% reduction in greenhouse gas emissions to 830 kTCO₂-e. On track to achieve 2015 emissions target to reduce emissions by 12% by 2016 (2009 baseline)

» Payments transparency:

- US\$246m paid in royalties, taxes, dividends and levies to the PNG, Kurdish, Yemeni and Tunisian governments
- US\$42m in managed infrastructure projects as part of the PNG Government's Infrastructure Tax Credit Scheme

» People:

- 83% of OSH PNG workforce comprised PNG citizens
- 22% of OSH workforce, 15% of OSH leadership roles comprised women

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2014 Performance cont'd

» Sustainable development:

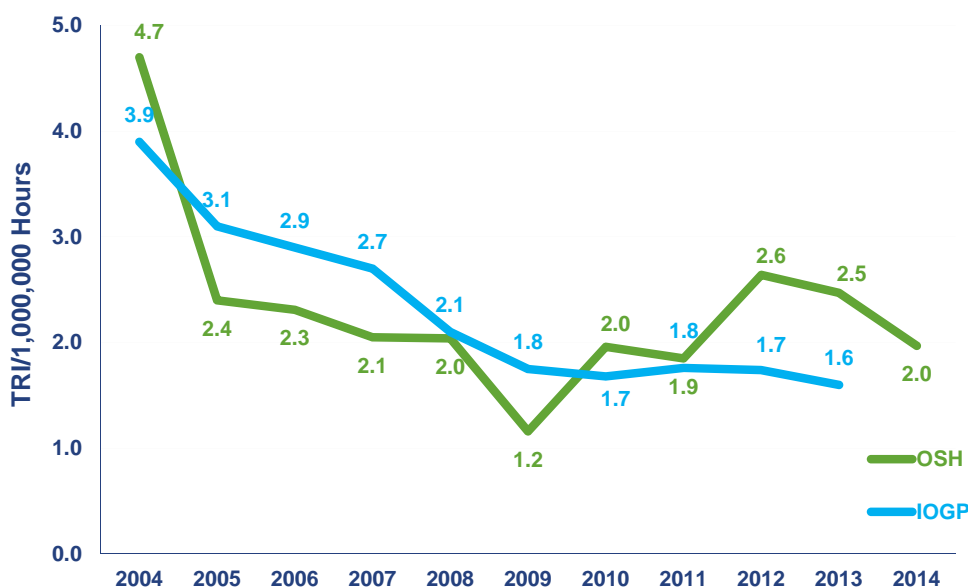
- US\$69m paid for work contracted with Lancos in PNG
- US\$8m invested in sustainable development programmes (including US\$6m on OSH Health Foundation - OSHF)
- 310 community members (231 women) provided with training on farming techniques
- 10 Community Area Planning projects completed in PNG (to deliver health, education, water and power infrastructure)
- 26 students (11 women) graduated from tertiary education institutions with OSH sponsorship
- 4 women's agricultural co-operatives supported (including business advice, agricultural training, equipment)

» Global recognition:

- 2nd year OSH included in Dow Jones Sustainability Index Australia
- Recognised by ACSI as one of three ASX 200 energy companies to receive "Leading" rating for sustainability reporting disclosure practices

Safety performance

Total Recordable Injury Rate (TRIR) of 1.97 for 2014



- » TRIR of 1.97, ↓ from 2.47 in 2013
- » LTIR of 0.49, ↓ from 0.59 in 2013
- » Improvement due to focus on high-risk exposures and implementation of corrective actions in core PNG operations
- » Fatality of seismic contractor in Tunisia – first fatality at OSH since 2007. Investigation conducted and procedural and engineering control changes implemented
- » Implementation of multi-year Process Safety Improvement Plan (PSIP) continued – focused on awareness and prevention of Major Accident Events



2014 Strategic Review highlighted...

- » Majority of OSH value growth over next 5-7 years will come from assets in PNG
- » Social responsibility, in particular strong government and community relationships, has been integral to historic and future success
- » Dynamic socio-political 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
- » Organisational restructure and optimisation required to ensure capabilities to deliver next phase of growth and build capacity



Transformational impact of PNG LNG – expectations in PNG never been higher



- » PNG LNG Project has transformational impact on PNG:
 - GDP growth, long-term recurring revenue stream to Government, landowners, local communities
 - Government revenue impacted by fall in global oil prices. However landowner and community expectations remain high, especially for service and infrastructure delivery
- » Partnership between Government and private sector critical to ensure Project benefits delivered to PNG citizens in timely, equitable, efficient and transparent way
- » Focus areas:
 - Provision of competitively priced, reliable power
 - Partnerships on infrastructure development
 - Partnerships on health programmes
 - Capacity development
- » Operating and political stability essential for long-term sustainability

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

- » Given constrained capacity of National and Provincial Governments, important that OSH plays a role to facilitate and augment Government 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, Conservation and Environment Protection Authority, Treasury, Planning, provincial and local level governments
 - Encouraging transparent governance framework
 - Proactively contributing to current PNG tax review process
 - Proactively engaging with state and key agencies to ensure fiscal and regulatory regime stability



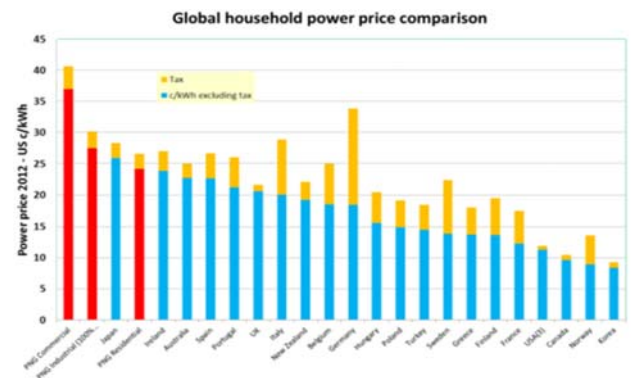
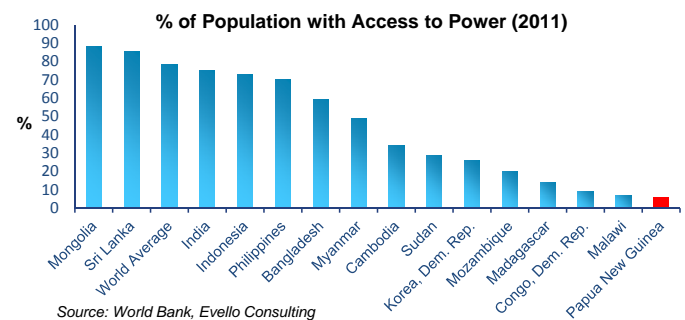
Ensure PNG LNG benefits commitments are delivered

- » Delivery of PNG LNG benefits commitments, as agreed in Umbrella Benefits Sharing Agreement, critical for project stability, to avoid social unrest and operational disruptions
- » OSH assisting operator, ExxonMobil PNG, using its Government and landowner relationships
- » Transparency in benefits distribution:
 - PNG candidacy for EITI
 - Sovereign Wealth Fund
 - Publish where benefits are paid, how much, to whom
- » Three potential additional LNG trains would provide material additional taxes and levies to PNG Government and landowners



A political reality and social priority – delivery of power solutions

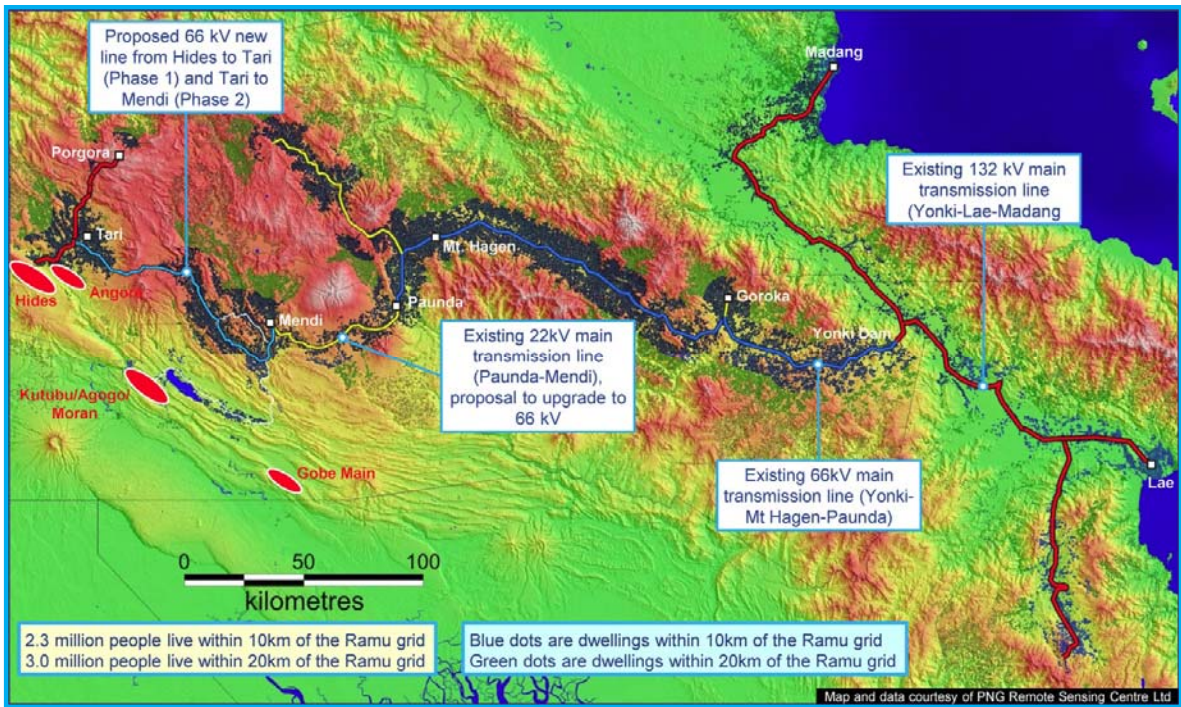
- » Provision of competitively priced, reliable power is a political and social priority, particularly since commencement of LNG exports from PNG LNG:
 - Electricity penetration among lowest in world (~6% of population have access to delivered power)
 - Electricity prices among highest in world
 - Industry held back by supply and black-outs, particularly in Lae region
 - Major constraint on economic growth and social development
- » Substantial gas resources available for power and industry development
- » OSH to play proactive role in coordinating industry and Government to deliver integrated power solution:
 - Drive economic growth and social development
 - Already impacting communities in Highlands



Delivery of power solutions cont'd

- » Power initiatives:
 - Power sale agreement between ExxonMobil and PNG Power for PNG LNG Project to supply up to 25MW electricity for local use in Port Moresby (executed April 2015)
 - Ramu Power Project – multi-phase power delivery project, to be delivered by OSH in partnership with PNG Government and PNG Power Ltd (PPL):
 - First phase completed April 2015 with commencement of supply of diesel to Tari and upgrade of existing generator enabling continuous 24-hour power generation
 - Future phases expected to provide further infrastructure, including new transmission lines and up to 100MW additional electricity generating capacity. Will enable delivery of power to ~3m people who live within 20km of the Ramu Grid, PNG's largest power grid
 - Supply of gas from PNG LNG to Highlands for power generation planned
 - OSH also reviewing development of other gas field to support Highlands power development and small-scale LNG for resource projects and remote communities
- » Power purchase agreements initialled with PPL for offtake of up to 30 MW of power from Biomass development in Markham Valley
- » Low capital costs, small but important contribution to profits
- » Massive impact on nation, social development and greater potential for PNG stakeholder involvement
- » Partnership with PNG Government and power agencies to bring together best of public and private enterprise skills and assets, for maximum benefit to domestic market

Ramu Power Project – potential reach



Biomass: large-scale impact with landowners

Plantations are growing, intercropping trials ongoing, substantial local impact



Biomass: potential major benefits for Morobe Region, PPL and PNG Emphasis on social, economic, environmental and employment impact

Parameter	Approx. benefit (first 30-40 MW)
Destination of fuel payments	Biomass - most fuel costs go into the PNG economy HFO/Diesel - most fuel costs go offshore
Construction phase benefits to PNG economy	~K 100+ million
Operating phase benefits to PNG economy	~K 67 million per year
Landowner and community benefits: Direct payments Including multiplier impacts Local employment boost	Including health, education, roads, power: ~K 6 million per year ~K 24 million per year ~850 FTE jobs
Power price cost savings for Customers (over 10 years) compared to diesel / PPL general supply tariff	~K 900 million
Operations phase employment impacts: Direct National (including multiplier impact)	~480 Direct FTE positions created in the Markham ~4,750 FTE positions created (mostly in Morobe and Lae)
CO ₂ mitigation - per year over project life (25 years)	~190,000 tonnes ~4,750,000 tonnes
Diesel/HFO consumption avoided over project life	~10+ million barrels
International Sustainability certification	Government and Stakeholder Reputation Benefits
Engagement of marginalised groups	JV has hired women, youths and landowners for employment and participation; positive media profile

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Facilitate delivery of key infrastructure projects

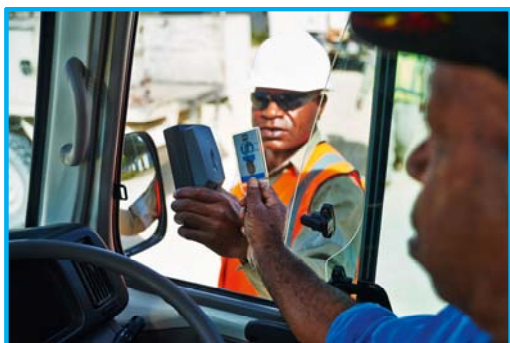
- » OSH manages >US\$200m of infrastructure projects on behalf of PNG Government, largely through Infrastructure Tax Credit Scheme (ITCS)
- » Government-nominated projects funded by State and project-managed by OSH, leveraging our core skills
- » Proven to be good way to ensure public assets are delivered in transparent and timely manner
- » In 2014, US\$42m spent on infrastructure projects via ITCS including:
 - Marea Haus – refurbishment of 12 storey building for Department of Prime Minister and National Executive Council (expected completion late 2015)
 - Lloyd Robson Oval – new 15,000 seat multi-purpose stadium (expected to be operational before 2016 Rugby League season)
 - 3 projects supporting delivery of education and judicial services in Southern Highlands Province
 - Roads in Southern Highlands Province
- » OSH committed to continuing this work
- » Implement transparent model to deliver public assets, based on Shared Responsibility Model (partnership between OSH, ExxonMobil, Government and project-impacted communities)



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Local content approach delivers important shared value outcomes



- » OSH committed to employing and developing local people and businesses
- » OSH employment strategy is to build capability through recruitment, development and retention of PNG citizen employees
- » OSH also focused on integrating PNG landowner companies (Lancos) into supply chain, improving compliance of Lancos with regulatory and OSH requirements
- » In 2014:
 - 83% of PNG workforce comprised PNG citizens
 - US\$69m spent with Lancos
- » Shared value created by OSH's sustainable development approach:
 - Skilled workforce
 - Reliable supply chain
 - Positive social and economic legacy for communities
 - Positive landowner and community relationships

Diversity & Inclusion Strategy focused on improving representation, development & retention

- » OSH committed to promoting diversity at all levels, reflected in OSH *Diversity Policy* and *Diversity and Inclusion Strategy*, endorsed by Board
- » Particularly focused on improving representation, development and retention of diverse employee groups from communities where OSH operates
- » Includes setting and reporting on measurable objectives for increasing diversity and actively engaging management in the delivery of diversity goals
- » OSH Diversity Council formed to monitor progress against diversity and inclusion targets

» **Board approved Diversity and Inclusion goals:**

1. Increase % of females in leadership roles by 2017
2. Increase % of PNG citizens in leadership roles by 2017
3. Increase % of female graduates and apprentices by 2017
4. Increase representation of females and PNG citizens in succession plans for leadership and management roles
5. Implement diversity and inclusiveness training as part of OSH leadership development programme

Diversity and Inclusion Goals	2012	2013	2014
% women in organisation	21%	22%	22%
% women in senior management	13%	14%	15%
% PNG nationals in senior management	22%	21%	16%
% women on OSH Board	0%	11%	11%
% PNG nationals on OSH Board	22%	22%	22%

Sustainable development is important pillar to generating social licence

» OSH sustainable development approach in PNG targeted towards:

- Local content
- Public health
- Food security and agriculture
- Women's empowerment
- Education
- Access to clean water and sanitation

» Collaborative approach to sustainable development and community engagement:

- 67 Community Affairs employees, supported by network of Village Liaison Officers (VLOs)

» Increased emphasis on monitoring and measurement to quantify social impact and ensure projects are appropriately targeted, planned and managed



Sustainable development is important pillar to generating social licence cont'd

» OSH involved in range of agricultural sustainability initiatives that promote food security and empower women:

- *Business for Millennium Development* – first phase of pilot piggery project successfully completed in 2014. Aimed at providing sustainable income-earning opportunities for people, particularly women, in rural areas
- Support establishment of sustainable agricultural enterprises, usually run by women, including skills development, materials and access to markets
- Targeted agricultural training to maintain traditional practices while diversifying food sources

» Supports efforts to eliminate violence against women through workforce and community education

» Seeks to increase education opportunities by providing teacher skills training, building the capacity of educational institutions and widening access to quality education

» Supports improved water quality and sanitation by involvement in Community Area Planning projects and ITCS to deliver required infrastructure (eg water tanks) and education to increase awareness of good hygiene practices

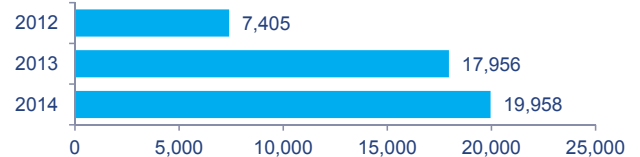


- » Non-profit organisation that builds PNG Government's capacity to deliver safe and effective healthcare in PNG
- » Major provider of healthcare across operating areas in PNG
- » Draws on Public-Private-Partnership (PPP) model, uses fundamental business principles to drive sustainable positive social change
- » OSHF works with national and provincial authorities to deliver high-impact public health interventions:
 - HIV management programmes
 - Malaria eradication and control
 - Child and maternal health initiatives
 - Medical services
- » Supported by external agencies including Global Fund, DFAT, Asian Development Bank

Rationale:

- » Social licence to operate
- » Leverage existing corporate systems
- » Going outside of the fence is 'smart business'
- » Good return on investment
- » Build 'social capital'

No. of HIV tests conducted by OSHF supported clinics



Positive (%) malaria microscopy test results in Kutubu area



OSHF cont'd

- » OSH reviewing expansion of Foundation, with long-term commitment seeking transformational change:
 - New Foundation to be announced later in 2015
- » Projects under review include:
 - Further health programmes addressing TB, HIV
 - 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



Strong environmental management



- » All operations certified to ISO14001:
 - Recent recertification audit of EMS
 - Demonstrate our processes to identify and manage environmental risks and impacts are robust and effectively implemented and monitored
 - Auditors impressed with OSH governance structure and management engagement on environmental issues
- » Actively participating in consultation on emerging policy in PNG around biodiversity (Protected Areas Policy) and climate (Climate Change Management Act)
- » Waste initiatives are focus of continuous performance improvement:
 - Composting unit diverts material from incineration, output used in rehabilitation
 - Centrifuge unit to recover crude from waste oil sludge
 - Bioremediation of hydrocarbon impacted soil and sand
 - Scrap steel recycling

Adapting to the new oil price environment

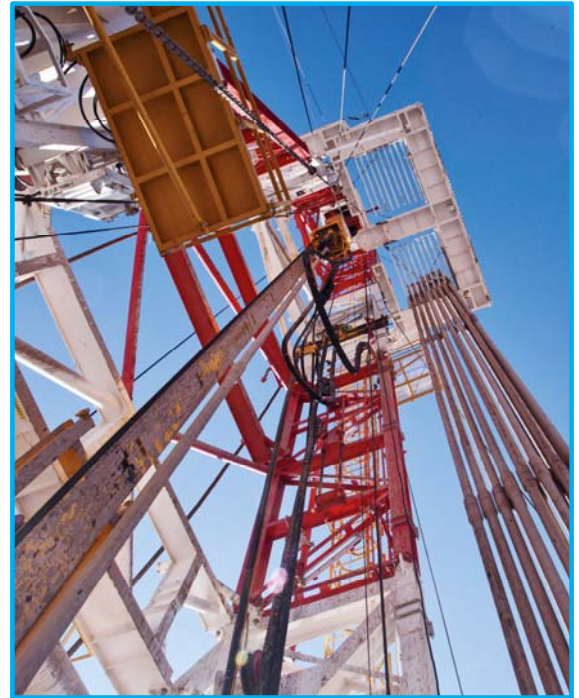
- » Size and speed of oil price fall was unexpected
- » Led to a reassessment of 2014 major Strategic Review recommendations. Key conclusions:
 - OSH is in strong position to manage lower oil price environment, with profitable production
 - Proposed LNG growth projects remain attractive based on current long-term oil price assumptions
 - Industry capital cost deflation now taking place
 - Presents opportunity to recalibrate cost structure
 - Overall, strategic direction remains unchanged
- » Looking to high-grade PNG portfolio to further support strategic initiatives
- » ‘Plan for the worst, hope for the best’

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

2015 capex and opex reduced, actively engaging with contractors to reduce costs further, by targeted 15-25%

Business Optimisation Programme initiated

- » Strategic, measured and reasoned approach across all aspects of OSH business to reduce operating costs, improve efficiency and build value, **without compromising safety or long-term sustainability**
- » Ensure OSH has right organisational structure, people, processes and resources in place to deliver priority projects defined by 2014 Strategic Review
- » Identify where processes can be improved and how to make best use of our resources, including people
- » Position OSH to take advantage of current business climate to recalibrate cost base, negotiate materially lower supplier costs and potentially acquire new assets at favourable prices
- » Coordinated by members of EGM team, with support from external consultants



Addressing emerging areas of stakeholder interest

Area of interest	OSH Response
Stranded assets	<ul style="list-style-type: none"> ▪ Working to analyse and develop clear position. However, portfolio does not contain material non-commercial assets
Updated emissions strategy	<ul style="list-style-type: none"> ▪ Current target/strategy expires 2016 – on target ▪ New Climate Change Strategy in development
Human rights	<ul style="list-style-type: none"> ▪ Review of risks and potential impacts undertaken in alignment with UN Guiding Principles for Business and Human Rights, IFC Performance Standards and Voluntary Principles for Security and Human Rights undertaken ▪ Action plan currently being operationalised with business units
Sustainable supply chain management	<ul style="list-style-type: none"> ▪ Ongoing programme of PNG landowner company development ▪ Evaluation of Tier 1 suppliers and opportunities underway ▪ Strategy to be in place by year end
Increased social responsibility disclosure	<ul style="list-style-type: none"> ▪ Range of indicators considered/desired by stakeholders to assess performance increasing annually ▪ Increased disclosure of management approach with 2014 microsite in areas of supply chain (management & performance), stakeholder engagement, human rights, HSES and workforce development ▪ Evaluating opportunities to increase further

Summary

- » OSH's present and future value tied to preserving a stable operating environment in PNG
- » Social responsibility and sustainable development remain embedded in our core values
- » OSH has a comprehensive series of social programmes to help government and communities address social and economic challenges
- » Continue to make a significant contribution to PNG society across power, infrastructure, health, agriculture and education
- » Continue to seek opportunities for performance improvement and to make valuable contribution to PNG
- » New microsite: <http://socialresponsibility.oilsearch.com>



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