

# Citi 7<sup>th</sup> Annual Australian & New Zealand Investment Conference, October 2015



## Oil Search



Oil Search Limited  
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[www.oilsearch.com](http://www.oilsearch.com)

## Overview



## Oil Search

- » Strong production from quality assets:
  - PNG LNG Project performing above expectations
  - Oil assets performing well
- » Solid balance sheet with liquidity of ~US\$1.6bn
- » LNG growth projects advancing:
  - PNG LNG production optimisation/debottlenecking plus potential T3, coordinated Highlands drilling campaign in 2016
  - Papua LNG Project expected to advance to FEED in 2016
  - Major near-field exploration programme planned for 2016+
- » Business Optimisation Programme aimed at streamlining organisation:
  - Focus on costs and prioritisation of capital
  - Significant reduction in opex and increase in efficiencies
- » WPL one-for-four takeover proposal rejected by OSH Board:
  - Opportunistic
  - Grossly undervalues existing assets/growth
  - Few synergies
  - Would change investment profile
  - OSH not financially stressed and able to fully fund growth projects



# Oil Search licence interests, PNG



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## PNG LNG Project – producing consistently above nameplate capacity



- » >150 cargoes loaded to date since Project start-up in 2014
- » Annualised production in 3Q15 of ~7.4 MTPA (1H15 of ~7.1 MTPA), compared to nameplate capacity of 6.9 MTPA:
  - OSH confident Project can sustainably achieve annualised production of at least 7.3 MTPA over balance of 2015 and into 2016
  - Supported by strong upstream deliverability (including OSH-operated gas supply) and LNG plant reliability
- » Project has established excellent reputation as a reliable gas supplier
- » Full contractual volumes being taken, with contract ramp-up underway to plateau of 6.6 MTPA in 2Q16
- » Good demand for spot volumes, >80% of spot cargoes have been sold to contract customers
- » Current focus on production optimisation / debottlenecking:
  - Already delivering substantial incremental value, with further upside potential
- » Final components of foundation development (Angore drilling, tie-in of Hides F1) expected to be completed in 2015

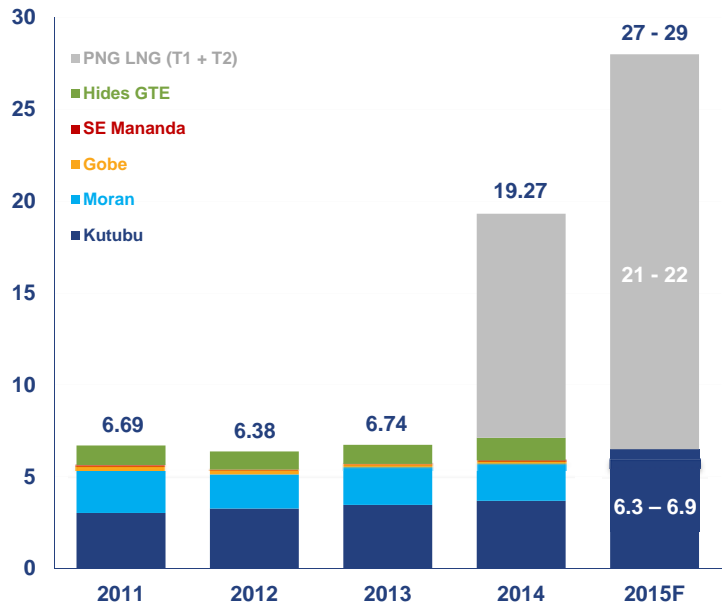
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# 2015 Production Outlook

- » 2015 production expected to be at upper end of 27 – 29 mmboe guidance range:
  - 6.3 – 6.9 mmboe from operated oil fields and Hides GTE\*
  - 21 – 22 mmboe from PNG LNG Project
- » 2H15 focus items:
  - Ongoing oil production optimisation initiatives, with focus on process safety, reliability and well integrity
  - Continued delivery of Kutubu, Gobe Main and SE Gobe (third-party) gas to PNG LNG Project, operation of liquids export system via Kumul Marine Terminal
  - Support operator in maximising PNG LNG production opportunities through optimisation / debottlenecking

**Net Production (mmboe)**



1 LNG sales products at outlet of plant, post fuel, flare and shrinkage  
 2 Oil forecast assumes successful development drilling in 2015  
 3 Gas:oil conversion rate used in 2014 & 2015: 5,100 scf = 1 barrel of oil equivalent (prior years 6,000 scf/boe)

\* Includes SE Gobe gas sales

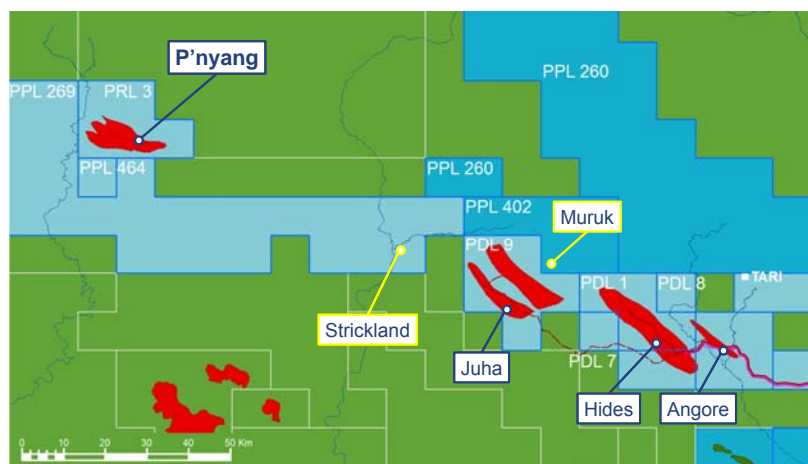
# Next phase of LNG development in PNG

- » OSH holds material positions in NW Hub (P'nyang field) and Gulf Hub (Elk-Antelope field), likely sources of gas for next phase of development
- » Both PNG LNG expansion and Papua LNG Project in lowest quartile for costs globally and remain economically attractive
- » Delivery of near-term trains is common objective for industry, Government and communities
- » OSH well positioned to play key role to ensure optimum development
- » Multiple exploration opportunities remain to supply further gas





# NW Hub: PNG LNG expansion and domestic power Oil Search



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

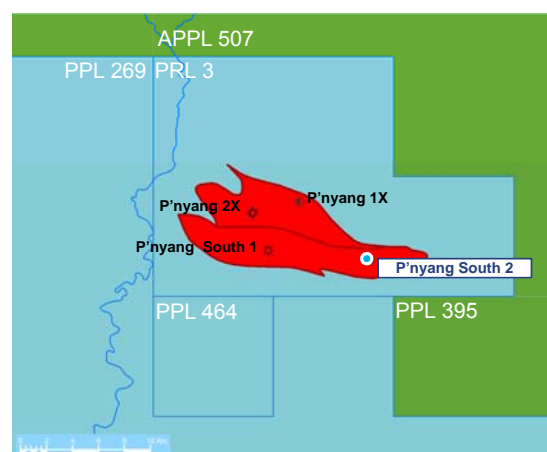
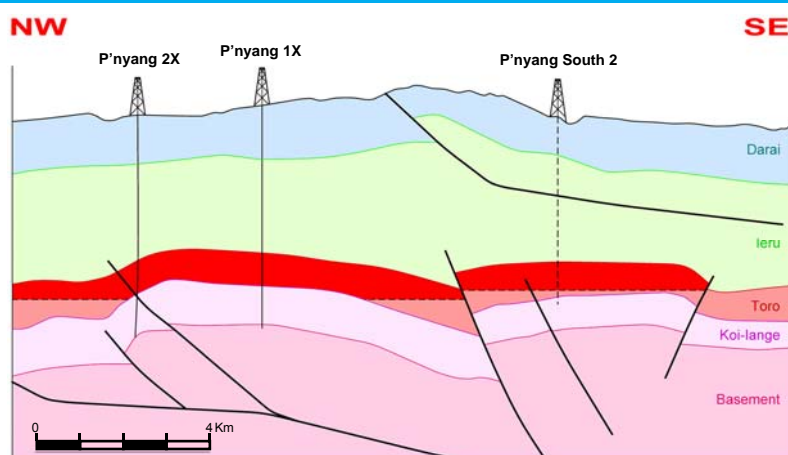
- » MoU signed in January 2015 by ExxonMobil (as operator of PNG LNG and PRL 3) and PNG Government sets schedule to develop P'nyang gas field, to underpin:
  - PNG LNG Project expansion (high value production optimisation/debottlenecking and potential third LNG train)
  - Delivery of domestic power to PNG
- » Delivery of up to 25MW of interruptible electricity from PNG LNG plant to PNG Power in Port Moresby commenced in July:
  - Satisfied key commitment of MoU
- » Landowner development forum planning progressing
- » PNG LNG expansion identified by ExxonMobil as "very well positioned to compete" globally\*
  - Supported by successful delivery and performance of foundation Project, competitive cost structure, stable and transparent fiscal terms

\* ExxonMobil 2Q 2015 earnings conference call

## One, potentially two, P'nyang wells planned to further constrain 1C and 2C resource



# Oil Search

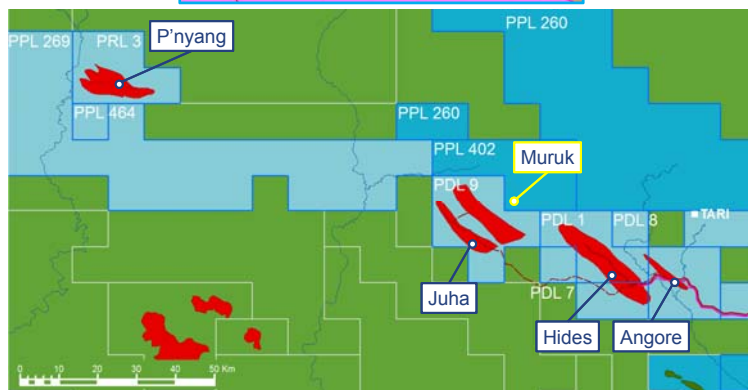
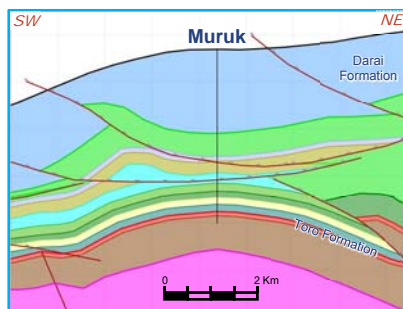


- » Preparatory work underway for P'nyang South 2 well:
  - Location in SE of structure agreed by PRL 3 JV, to be drilled 2Q/3Q 2016
- » Potential second well
- » Assuming success, OSH expects material increase in current 1C and 2C resources
- » Once PDL awarded, P'nyang to be integrated into PNG LNG Project



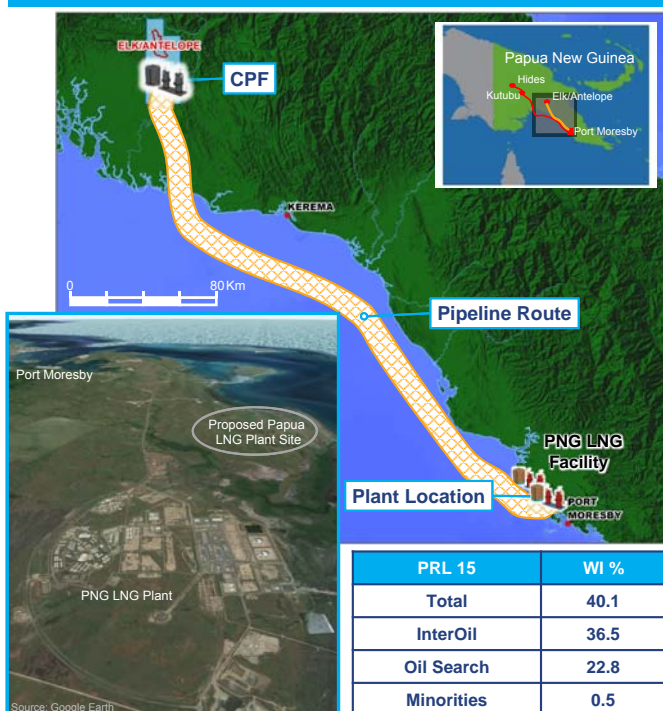
# Muruk 1 well to target multi-tcf exploration prospect

- » Muruk 1 – PPL 402 (OSH 50%). Operated by OSH in co-venture with ExxonMobil
- » Potential multi-tcf structure on-trend with Hides
- » Located north-east of Juha and Juha North pools. Potential new source of gas for PNG LNG expansion, if successful
- » Expected to spud in 1Q16
- » Part of coordinated 2016 Highlands drilling campaign to source gas for PNG LNG expansion



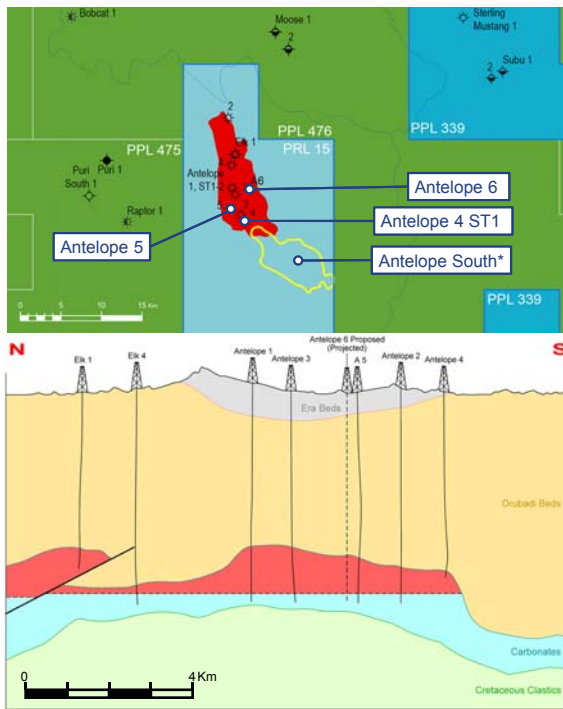
PPL 402	WI %
Oil Search	50.0
Esso PNG Wren Ltd (ExxonMobil affiliate)	50.0

# Gulf Hub: Papua LNG Project facilities site locations agreed, operator transition to Total SA completed



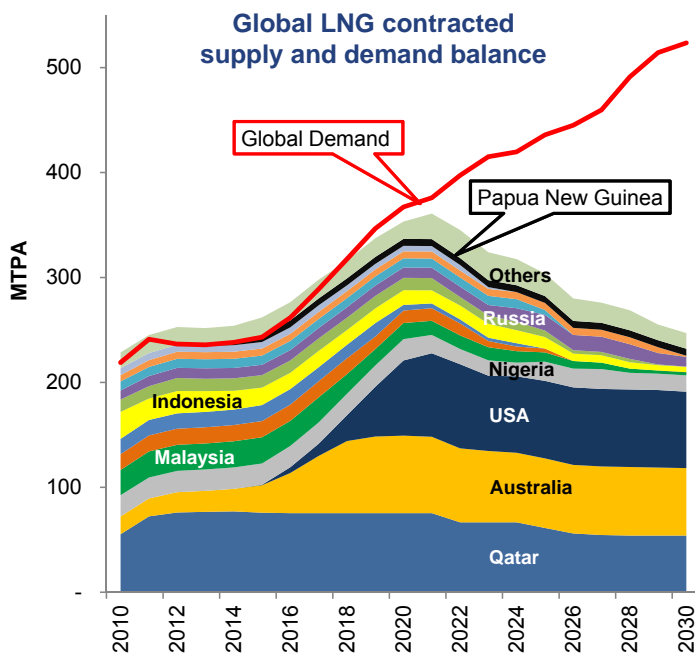
- » Potential second world-scale LNG development in PNG
- » Significant progress achieved:
  - Locations of key infrastructure sites agreed by PRL 15 JV and supported by Government
  - Commencement of financing – financial, tax and legal advisors appointed, JV discussions on financing structure continue
  - Transfer of operatorship to Total SA effective 1 August 2015. Total personnel progressively being mobilised to Port Moresby
  - OSH community affairs personnel seconded to Project to support Total in landowner engagement
- » Selection of final development concept after completion of appraisal programme and resource evaluation:
  - LNG plant location provides opportunity for capital savings
- » Entry to Basis of Design, including decision on one or two trains, in 1H16 followed by FEED in 2H16:
  - Potential for early works in 2017
- » Development can provide material benefits for Gulf communities

# Elk-Antelope appraisal programme underway, OSH certification targeted for 2Q16

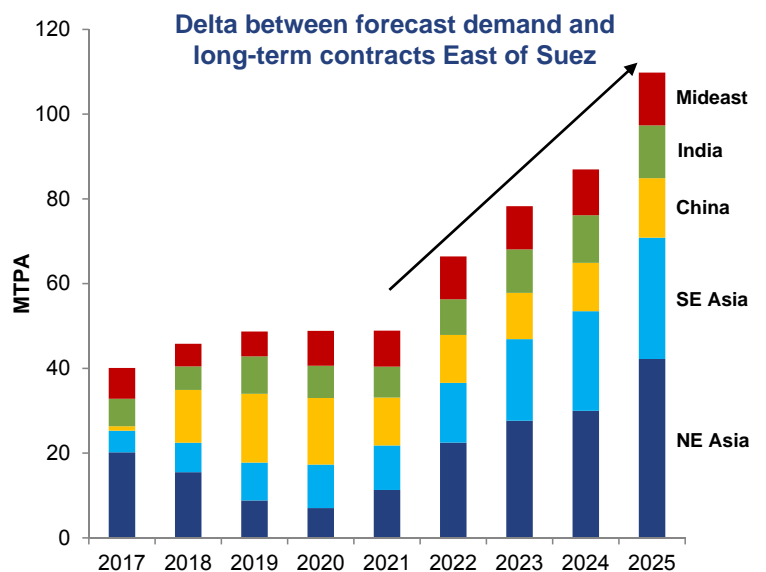


- » Results of appraisal programme to date at upper end of OSH's expectations:
  - Antelope 4 extended good quality reservoir to south
  - Antelope 5 testing confirmed substantial resource base, excellent reservoir quality and deliverability and pressure communication between A5 and A1
  - Antelope 4 ST1 sidetrack spudded in late August encountered reservoir 32 metres high to prognosis, preparing to drill ahead into reservoir
  - Antelope 6 site preparation on eastern flank advanced, expected to spud 4Q15
  - Interference testing involving Antelope 1, Antelope 4 ST1 and Antelope 5 planned post Antelope 4 ST1 completion
- » Elk-Antelope field has sufficient resources to underpin one 5 MTPA LNG train (basis for entry into PRL 15) with ~5 tcf 2P, or depending on outcome of appraisal, potentially two PNG LNG-sized trains requiring >7 tcf 2P
- » Resource base >7 tcf would deliver higher returning LNG project (PNG LNG "look-alike") and trigger certification payments (US\$0.775/mcf for volumes >7 tcf based on average of two certifiers – Gaffney Cline and NSAI)
  - OSH certification process due for completion mid 2Q16

# Window for uncontracted LNG demand expected to re-emerge early next decade



Source: Wood Mackenzie, Q3 2015

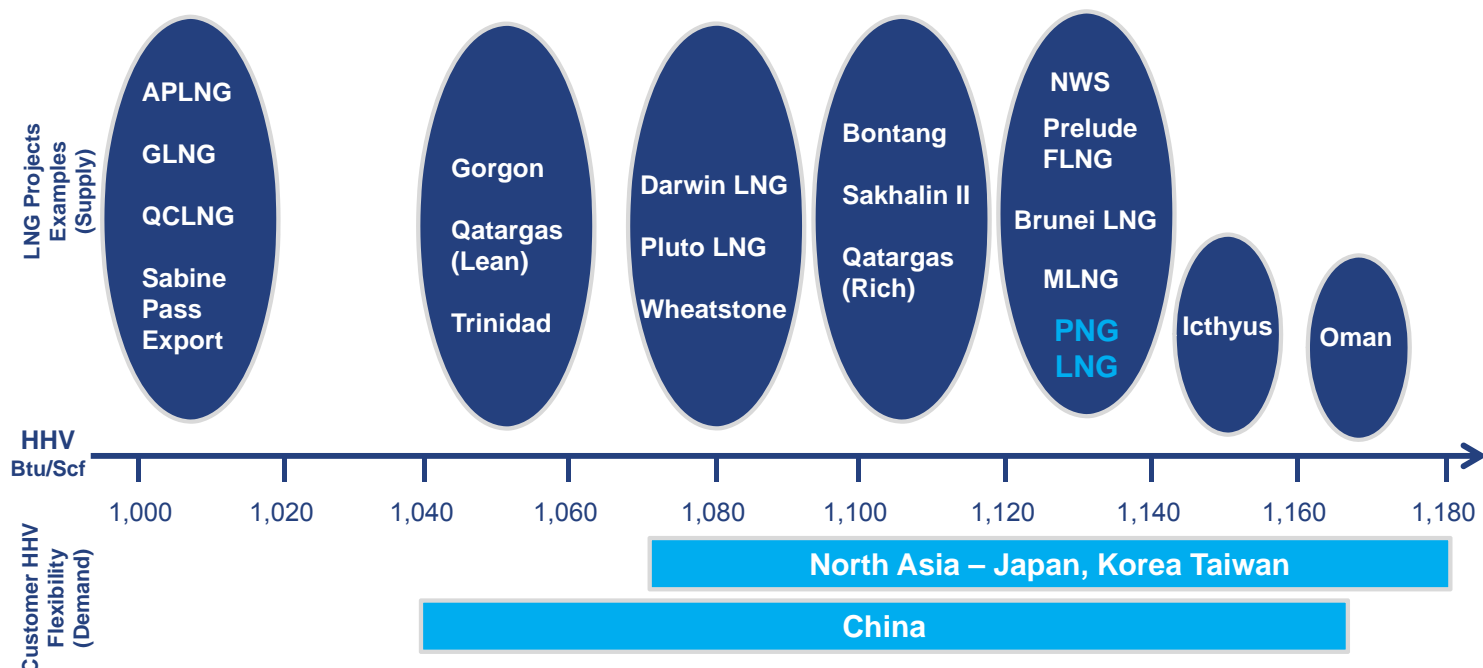


Source: Wood Mackenzie, Q2 2015

- » Window opening aligns with timeframes for potential PNG LNG T3 and Papua LNG
- » Both projects aimed at high quality Asian customers



# PNG gas quality well suited to major buyers



» Key high HHV countries in decline – Malaysia, Indonesia & Brunei

Source: Wood Mackenzie 2015



# LNG Projects with declining production

Project Name	Country	Plateau Production	Off Plateau
ADGAS	Abu Dhabi	7.8 MTPA	2020
Atlantic LNG (1 – 4)	Trinidad and Tobago	18 MTPA	2019
Bontang	Indonesia	12 MTPA	In decline
Brunei LNG	Brunei	7.5 MTPA	2023
EG LNG	Equatorial Guinea	4.3 MTPA	2026
NWS	Australia	18.2 MTPA	2023
OLNG	Oman	5.9 MTPA	2025
Peru LNG	Peru	4.8 MTPA	2024
Qalhat LNG	Oman	3.5 MTPA	2026
RasGas I	Qatar	7.6 MTPA	2026
Sakhalin 2	Russia	11.6 MTPA	2026

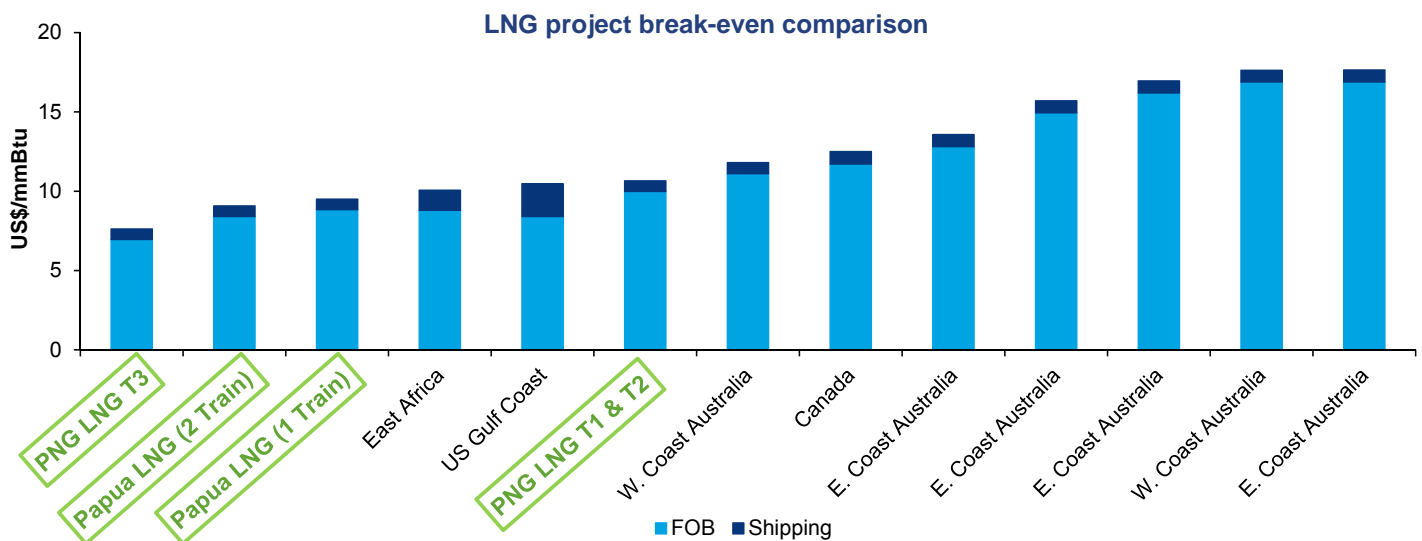
Source: Wood Mackenzie 2015

# Expiry of existing LNG Contracts



Source: Wood Mackenzie 2015

# LNG projects from PNG competitive versus Australian and global alternatives (WoodMac)



Source: Wood Mackenzie, full-life breakeven, 12% discount rate, Shipping costs are to Japan

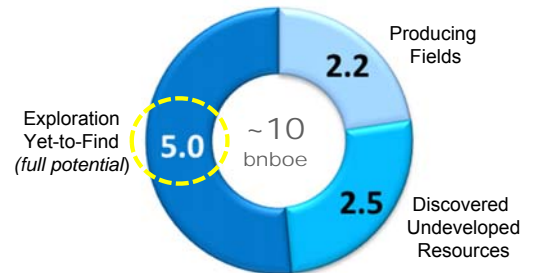
- » PNG LNG well placed compared to recently commissioned Australian projects
- » Production optimisation and debottlenecking at PNG LNG offers opportunity to further improve economics
- » Potential Train 3 at PNG LNG and Papua LNG 1 or 2 train options highly competitive with global LNG project alternatives



# Oil Search exploration: Revitalising acreage and drilling programmes

- » OSH estimates Yet-to-Find potential of >5 bnboe in PNG
- » Focus on building PNG acreage to support:
  - LNG expansion and potential additional trains
  - High-graded conventional oil
  - Potential new 'game changer' plays
- » Systematic appraisal and exploration planned, subject to oil price/available cash flow:
  - OSH's 2H15-16 programme targeting ~6 - 7 tcf<sup>1,2</sup> gas (mean prospective volumes\*)
    - ~4 - 5 tcf<sup>3</sup> in NW Foldbelt
    - ~2 tcf<sup>4</sup> in Gulf/Aure Foldbelt
    - Appraisal of existing discoveries and exploration in Forelands/Gulf
- » Programme focused on wells with clear commercialisation options
- » Review of costs and technology to drive costs down:
  - Fit for purpose rigs and well-defined scopes
  - Reduced 3rd party contractor costs and services

## Potential PNG resource base\*

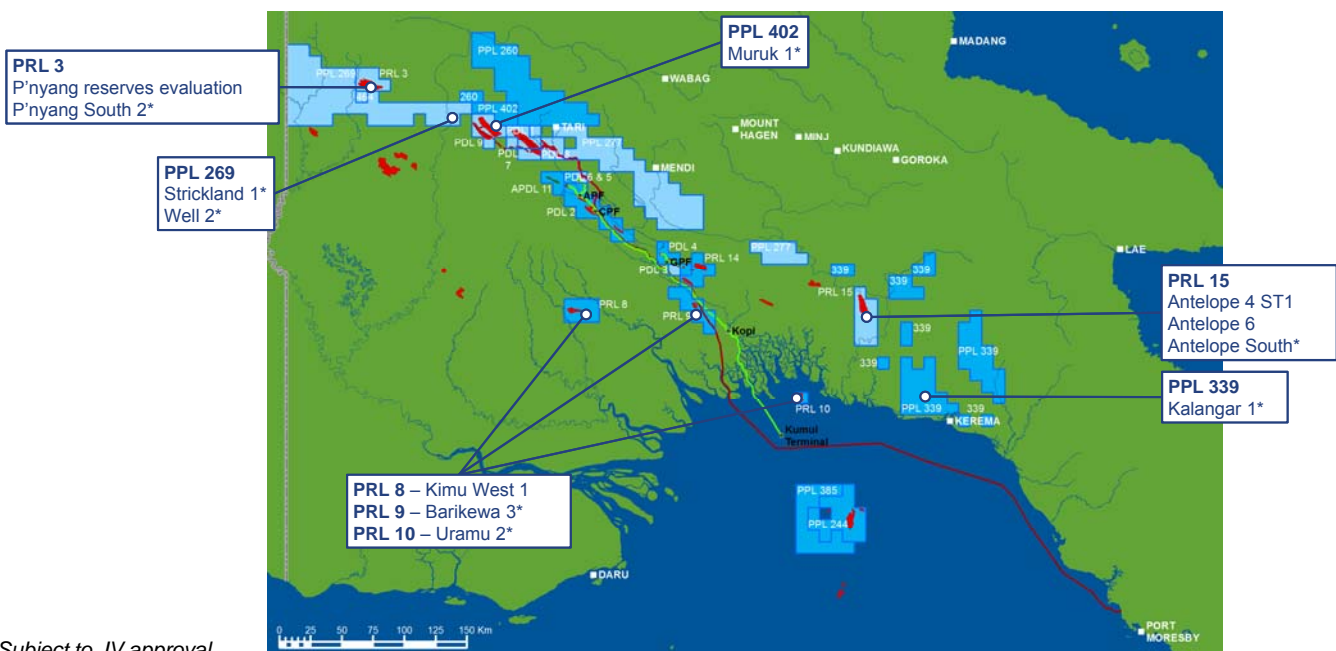


YTF = USGS P50 & IHS Estimates  
 YTF includes all prospective resource estimates in all PNG sedimentary basins

The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

\* Mean gross prospective volumes. OSH 2015 internal analysis.  
 1. P50/best estimate equivalent is ~4 - 4.5 tcf. All estimates are unrisks.  
 2. Excludes P'nyang and Elk-Antelope appraisal  
 3. P50/best estimate equivalent is ~3.2 - 3.7 tcf. All estimates are unrisks.  
 4. P50/best estimate equivalent is ~1 tcf. All estimates are unrisks.

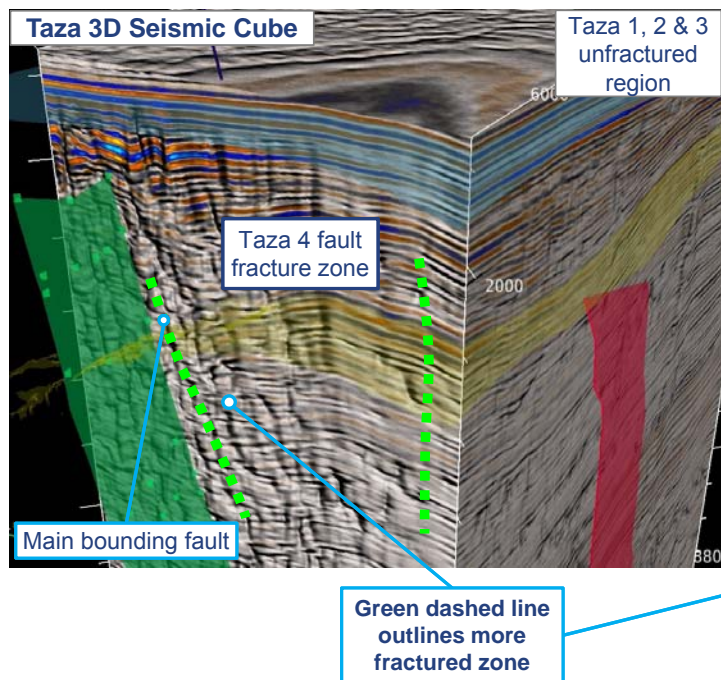
# Active PNG exploration/appraisal programme proposed



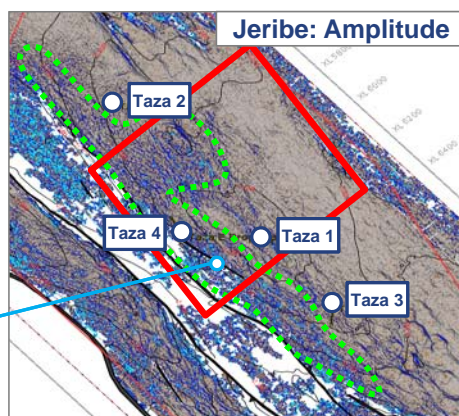
\* Subject to JV approval



# Measured appraisal of Taza in Kurdistan



- » Three wells and 680km<sup>2</sup> 3D seismic survey completed
- » Wells have highlighted importance of fracturing for well productivity
- » Seeking licence extension to allow detailed review of well results and seismic to be conducted, ahead of decision on forward programme



# Exploration and appraisal programme

	2015		2016				2017
	Q3	Q4	Q1	Q2	Q3	Q4	Q1
<b>PNG Highlands Activity</b>							
PRL 3 (OSH - 38.5%)							
PPL 269 (OSH - 10%)							
PPL 402 (OSH - 50%)							
<b>PNG Gulf Activity</b>							
PRL 15 (OSH - 22.8%)							
PRL 9 (OSH - 45.1%)							
PPL 339 (OSH - 70%)							
PRL 8 (OSH - 60.7%)							
PRL 10 (OSH - 100%)							
<b>International Activity</b>							
Taza PSC (OSH - 60% WI)							

Appraisal/development
Exploration

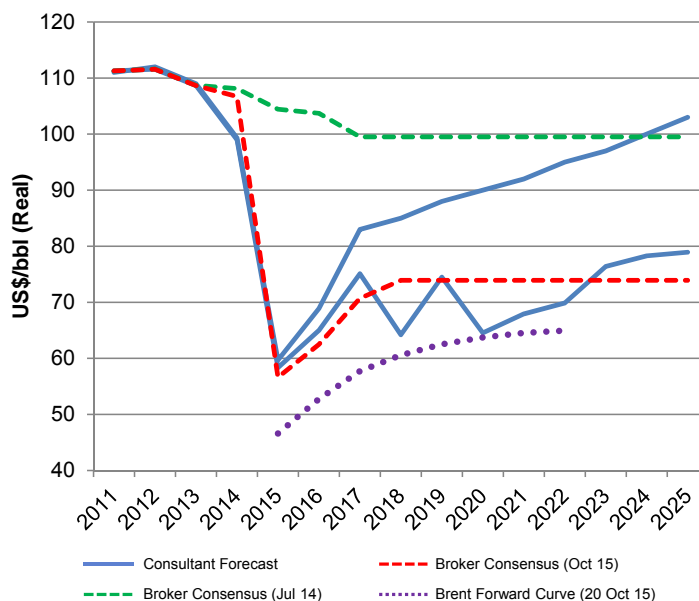
\* Subject to JV and/or government approval, timing dependent on rig availability  
Schedule subject to change



# Business environment outlook

- » Oil market appears oversupplied into 2016, inventories remain at record levels
- » Falling oil prices impacting LNG prices and markets
- » 'Lower for longer' pervasive in management thinking
- » Global industry reaction:
  - Reviewing project economics, marginal projects stalled
  - Reviewing investment spend, discretionary spend reduced
  - Contractors asked to share the pain
  - Equity funding hard to obtain, high level of uncertainty about when oil/gas pricing will settle
- » **OSH remains well positioned**
  - Strong production, with PNG LNG outperforming and further potential upside from our top quartile, high margin fields
  - Solid balance sheet and liquidity
  - Strong cash flow generation
  - Significantly reduced capital expenditure obligations
  - Two globally competitive LNG growth projects in lowest quartile for costs
  - Business Optimisation Programme initiatives launched

Brent Oil Price Forecasts to 2025



Source: FACTS Global Energy, Wood Mackenzie, Various Brokers, OSH analysis



# Business Optimisation – Key focus areas

- » Refocus organisation on core strategic priorities and value creation
- » Ensure we have the right people in the right places and appropriate cost structure in lower oil and gas price environment
- » Take advantage of current business climate to reset cost base and negotiate lower supplier costs
  - Unit rate reduction of 10 – 25% already achieved from major suppliers, further opportunities being pursued
- » Identify where processes can be improved/streamlined, operating costs reduced and efficiency improved, without compromising safety performance
  - Targeting US\$17 - 23m net reduction in annual operating costs from 2016 onwards\*. Equivalent to US\$2.50-3.50/boe on operated costs (US\$16/boe in 1H15) or ~US\$0.70-0.80/boe incl LNG
- » Improve production and operational efficiencies
  - Targeting to add 5% to current forecast operated production from 2016/17 onwards via improved planning and reduced unplanned downtime
- » Progress OSH's localisation and diversity targets, including commitment to staff skills development
- » Position OSH for growth, including review of potential asset acquisitions where they fit strategic objectives and can be acquired at the right price:
  - Capital management priorities reaffirmed. Capital being managed to ensure sufficient funding available for LNG growth
  - Focus on exploration in PNG to drive long-term growth
- » One-off P&L restructuring costs of ~US\$10m in 2015 (included in existing cost guidance)

\*Based on OSH-controllable costs only and excludes any cost reduction initiatives delivered by PNG LNG Project operator

**2015**

**2016**

**2017**

**PNG LNG Project/Expansion**

- » Continued operation above nameplate capacity of 6.9 MTPA
- » Award of PDL for P'nyang field and integration into PNG LNG Foundation Project

**Papua LNG Project**

- » Drilling of Antelope 4 ST1 and Antelope 6 appraisal wells

**Exploration and Appraisal**

- » Complete testing of Taza 3 ST1

**PNG LNG Project/Expansion**

- » Drill P'nyang South 2
- » Target FEED entry for T3

**Papua LNG Project**

- » Resource certification of Elk-Antelope field
- » Selection of final development concept
- » Enter Basis of Design
- » Target FEED entry

**Exploration and Appraisal**

- » Drill Muruk well in PPL 402 in NW Highlands
- » Spud Strickland 1 (PPL 269) and possible second PPL 269 well
- » Drill Antelope South (PRL 15), Barikewa (PRL 9) and Kalangar (PPL 339) (subject to 2016 budget)

**PNG LNG Project/Expansion**

- » Resource certification of P'nyang and Hides
- » Redetermination of PNG LNG equities
- » Target FID for expansion train by year end

**Papua LNG Project**

- » Ongoing FEED activities
- » Possible early works

**Exploration and Appraisal**

- » Targeting 6+ exploration wells
- » Potential FEED decisions on small scale LNG, domestic power gas developments

*\* Timing contingent on Government and Joint Venture approvals, rig availability and subject to change*

## OSH rejects Woodside's non-binding conditional indicative proposal

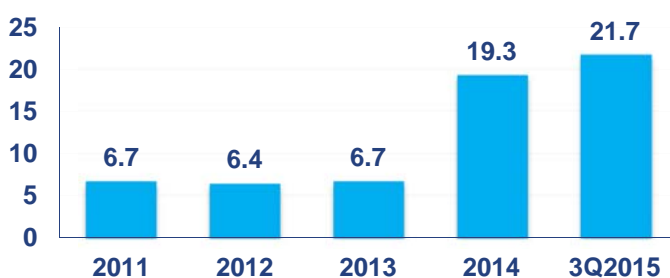
- » On 8 September 2015, OSH announced receipt of non-binding, conditional indicative, scrip only proposal from Woodside:
  - One WPL share for every four OSH shares
- » Proposal highly conditional:
  - Completion by WPL of satisfactory due diligence on OSH
  - Execution of mutually acceptable confidentiality agreement
  - Exclusivity period
  - OSH to obtain support from key stakeholders and shareholders
  - Likely to be supported by PNG Government
- » On 14 September, following detailed evaluation, OSH Board unanimously rejected WPL proposal:
  - Highly opportunistic
  - Grossly undervalues OSH
  - Dilutes OSH's growth profile, with attractive low-cost LNG growth opportunities:
    - Expansion of PNG LNG Project through debottlenecking and construction of third LNG train
    - Development of proposed Papua LNG Project
- » Overwhelming feedback from shareholder engagement that proposal had little merit
- » OSH Board remains committed to acting in best interests of shareholders. Board will assess and engage on any future proposals that reflect compelling value for OSH shareholders

# Summary

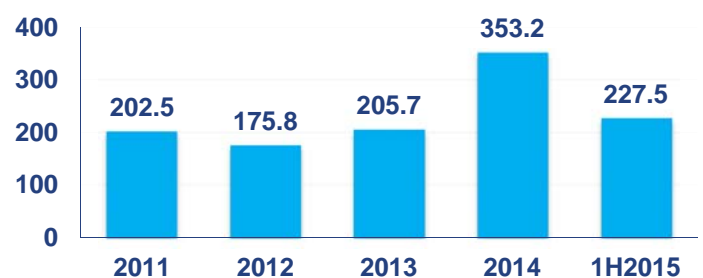
- » **Strong production, with excellent performance from PNG LNG Project and steady output from operated PNG fields:**
  - PNG LNG performing above nameplate capacity with further upside – potential to create material additional value
  - High margin barrels with strong cash flow
- » **Business Optimisation Programme initiatives launched. Focused on:**
  - Slimmer, fit for purpose organisation with recalibrated cost base
  - Enhanced production
  - Retain focus on attractive LNG growth projects with measured spend on other activities
  - Safety, nationalisation and PNG country stability initiatives remain a priority, including improving skills and focus
- » **Results already being delivered:**
  - Unit production costs reduced by 43% in 1H15, more to come
- » **Good progress on PNG LNG Project expansion and Papua LNG Project. Both globally competitive and remain commercially sound even in lower oil price environment**
- » **Revitalised exploration programme planned over next 18+ months, targeting material gas resources**
- » **Sound balance sheet, with liquidity being actively managed to fund growth**
- » **Woodside proposal unanimously rejected by OSH Board**

# Appendix 1: Key metrics

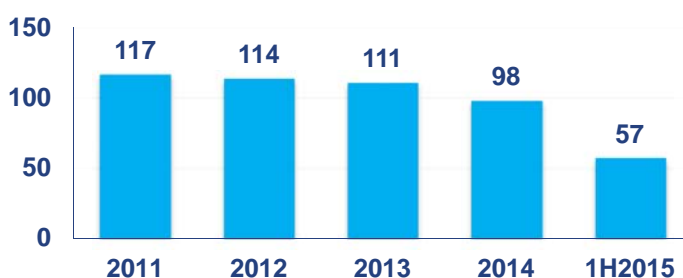
**Production (mmboe)**



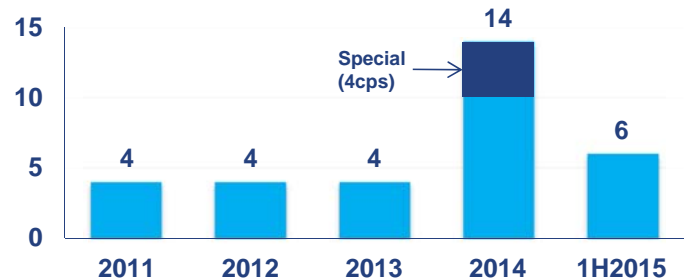
**Net Profit After Tax (US\$m)**



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



**DPS (US cents)**

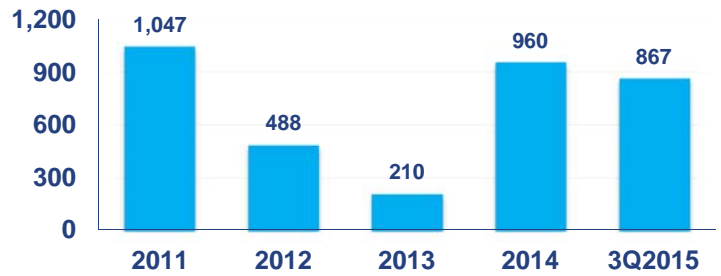




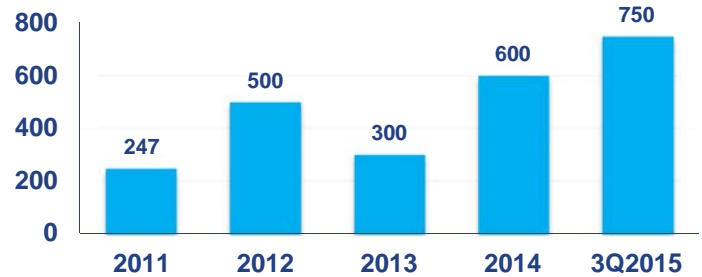
# Appendix 2: Treasury Update (as at 30 Sep 2015)

- » Strong liquidity position of US\$1.62 bn:
  - US\$867m of cash
  - US\$750m of undrawn revolving facilities
- » Total debt of US\$4.29bn, all related to OSH's share of debt drawn under PNG LNG Project finance facility:
  - OSH guarantee to LNG lenders terminated at Financial Completion, debt now non-recourse
  - First principal repayment in June (US\$45.7m, net to OSH). Interest and principal to be paid semi-annually over next 11 years (mortgage-style repayment profile)
- » 2015 interim unfranked dividend of 6 US cents per share (unfranked). DRP remains suspended

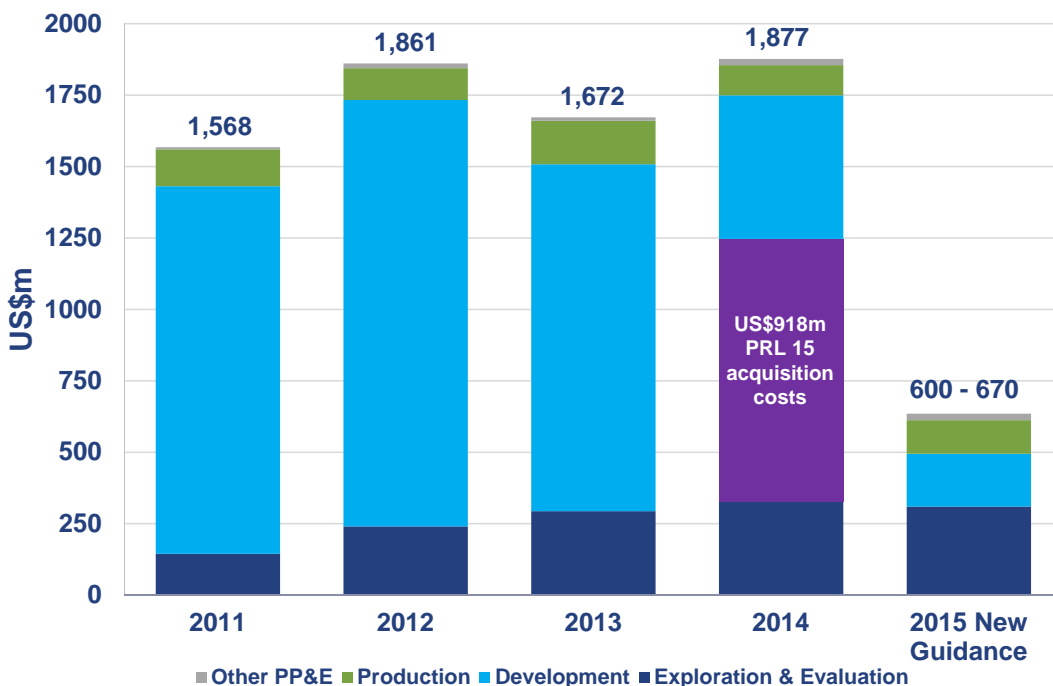
Cash (US\$m)



Corporate Facilities Available (US\$m)



# Appendix 3: 2015 Investment Outlook



### 2015 Capital Cost Guidance (US\$600 – 670m)

- » Exploration & Evaluation: US\$300 – 320m
- » Development: US\$170 – 200m
- » Production: US\$110 – 125m
- » Other PP&E: US\$20 – 25m

# Appendix 4: 2015 Guidance Summary

Production	2015 Guidance
Oil Search operated (PNG Oil and Gas)	6.3 – 6.9 mmboe
PNG LNG Project	
LNG	92 – 97 bcf
Liquids	3.0 – 3.2 mmbbl
Total PNG LNG Project <sup>1</sup>	21 – 22 mmboe
<b>Total Production<sup>1</sup></b>	<b>27 – 29 mmboe</b>

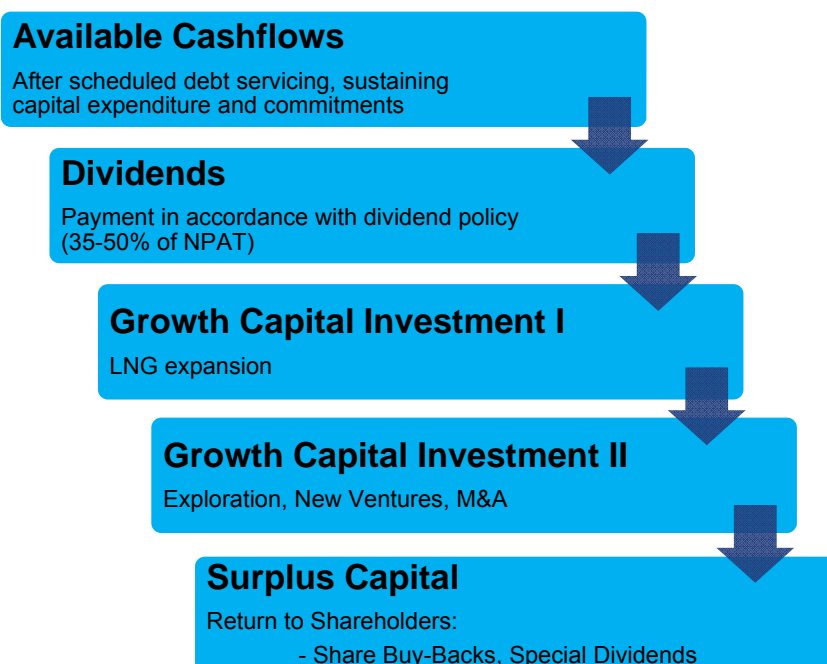
Operating Costs	
Production costs	US\$9 – 11 / boe
Other operating costs <sup>2</sup>	US\$145 – 165 million
Depreciation and amortisation	US\$13 – 14 / boe

» One-off costs of Business Optimisation Programme included within guidance. Positive earnings impacts to be realised in 2016

<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.

<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.

# Appendix 5: Cash Flow Priorities



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## **DISCLAIMER**

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