

UBS Australasian Conference

Initiating Change Today | November 2015



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What has changed?

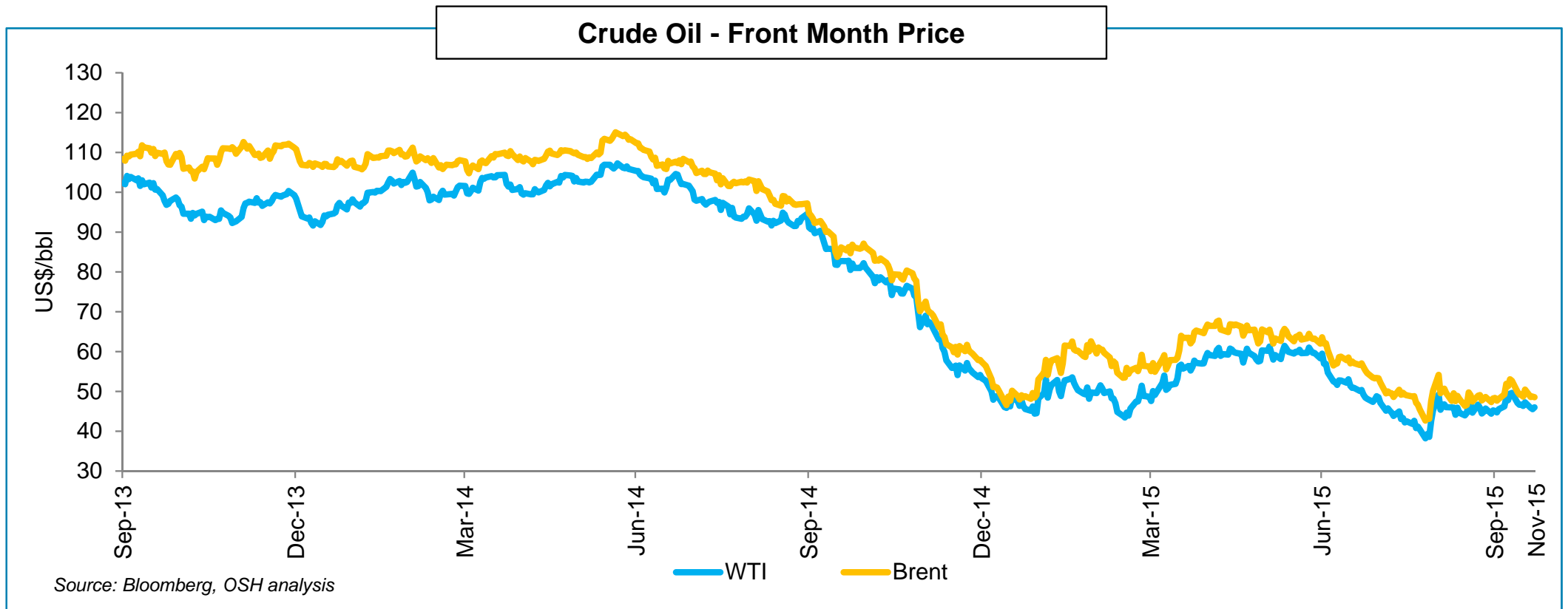
- » Oil and gas pricing radically changed in past 18 months, driven by:
 - Changed market dynamics
 - Technological changes
 - Weak economic performance

- » A resetting of the fundamentals or just another cycle?

- » Flight to quality

- » Blood on the walls

What has happened in the last 12 months?



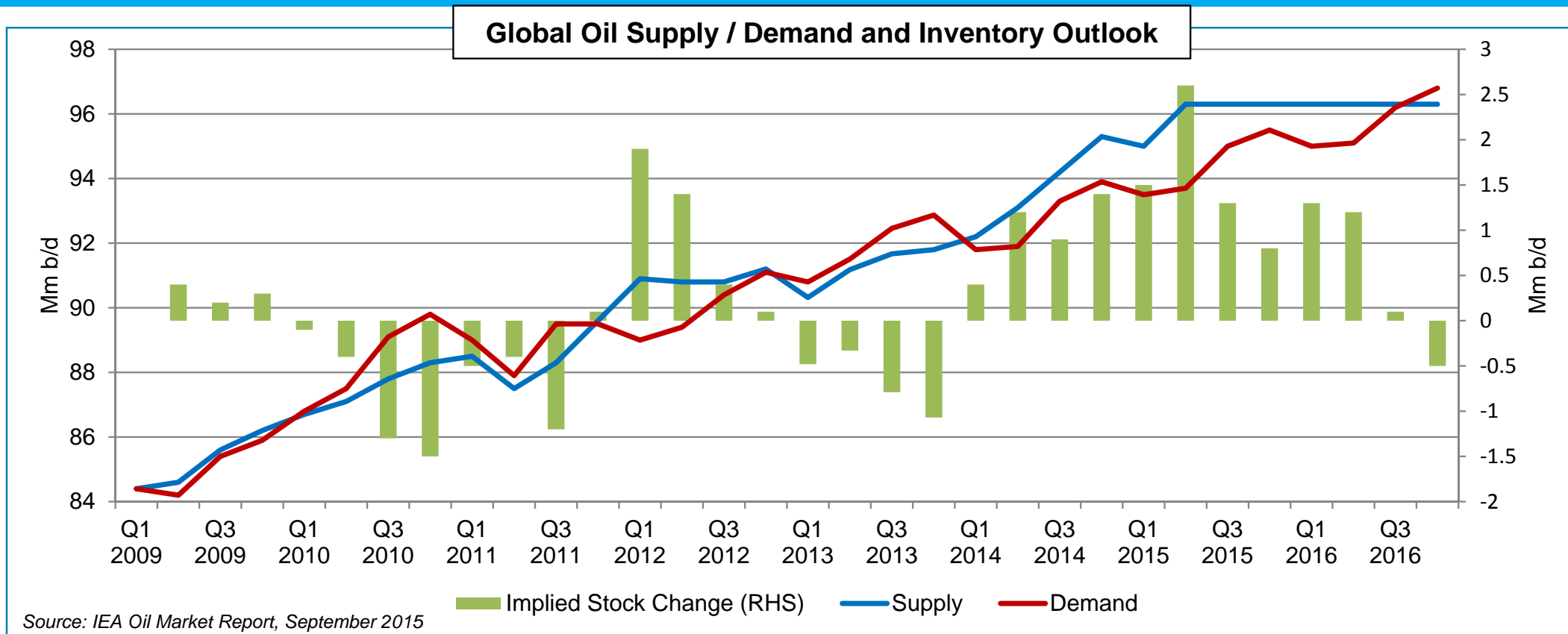
Large and rapid decline in oil prices since mid 2014, demand rebound helping

- » IEA predicting global demand growth of 1.6mm b/d in 2015, 5 year high
- » Strong refinery runs and margins globally in 1H 2015
- » Crude prices slipping back towards year lows driven by poor fundamentals, Iran and China concerns

Global oil supply/demand outlook



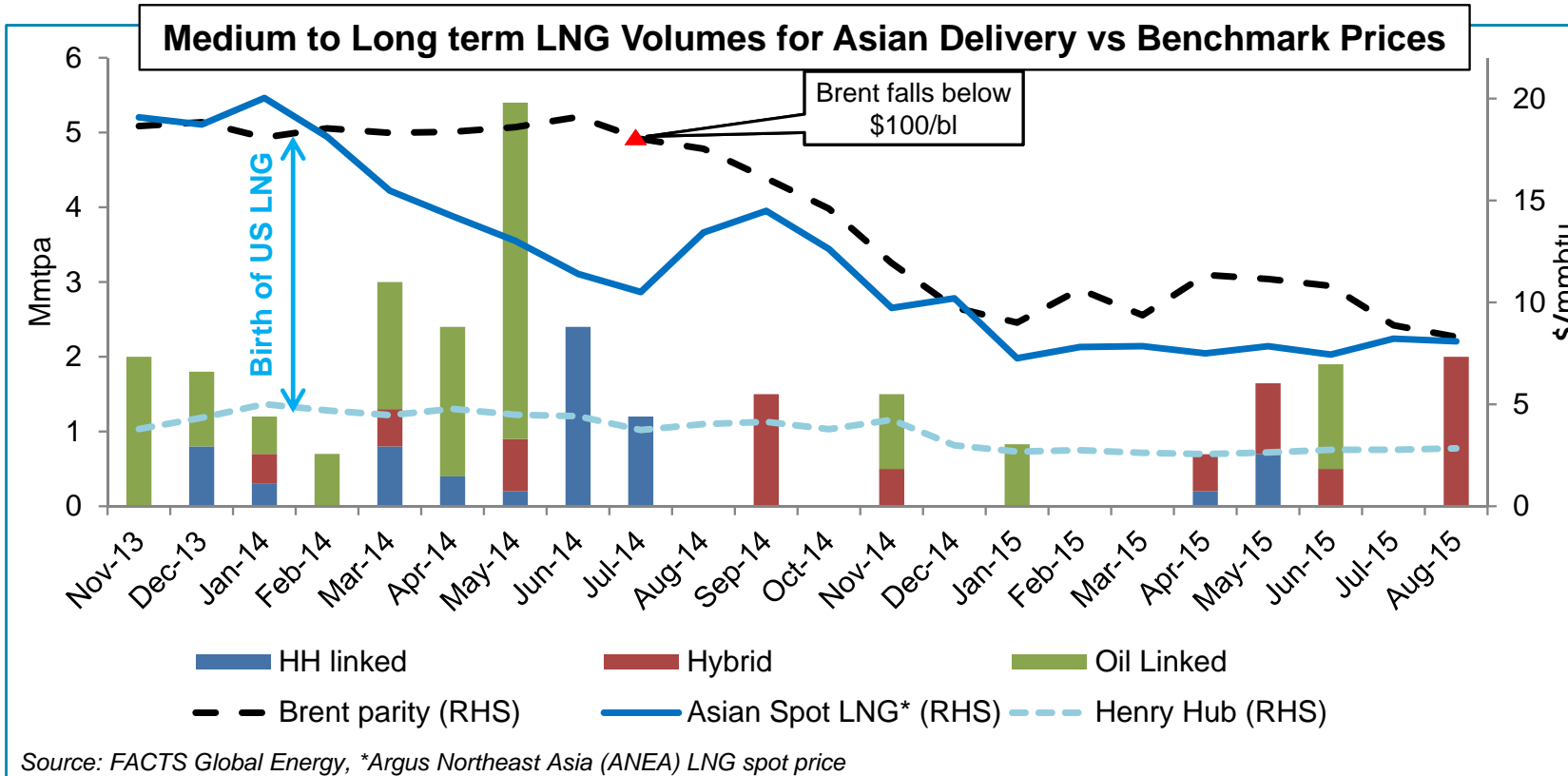
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Supply growth expected to slow, though inventories remain at record levels

- » Capex reduction and rig cuts impacting production
- » Supply growth slowing in USA and other non-Opec; global supply forecast to decline slightly through 2016
- » Market appears oversupplied into 2016, inventories will take months to come down

Falling oil prices are impacting LNG prices and markets



“Grassroots LNG projects will stall. Costs are simply too high...”

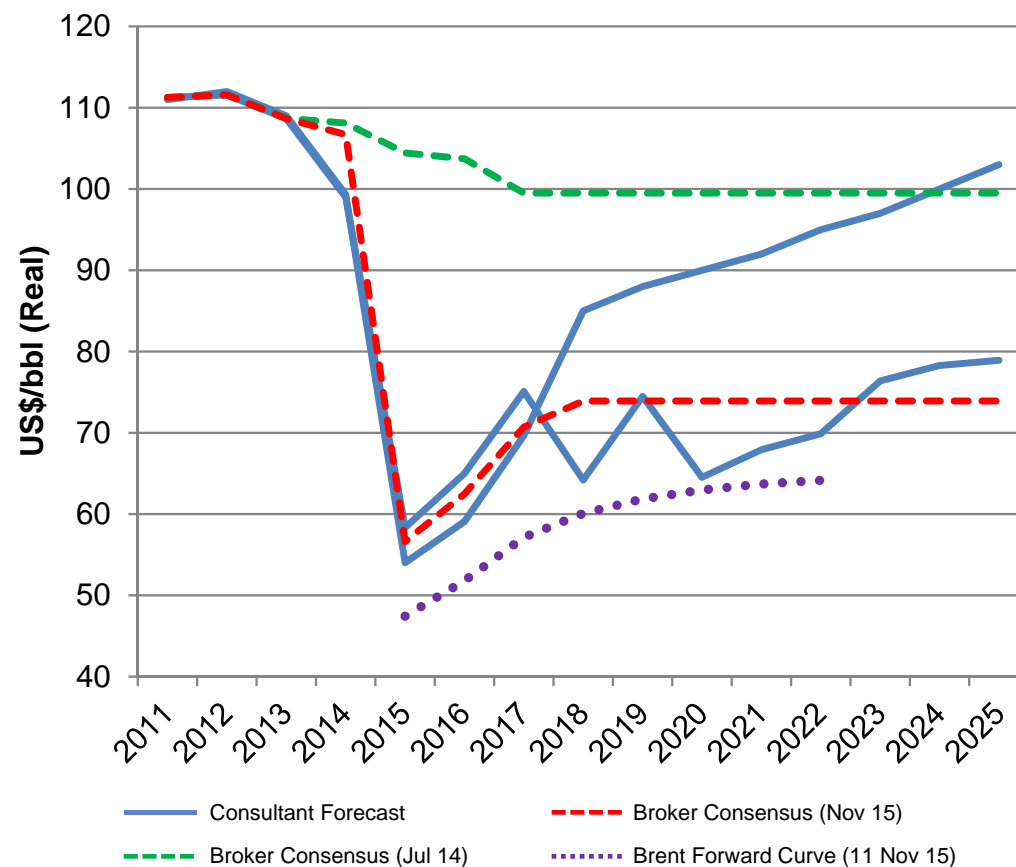
Dr. Fesharaki,
Feb 2015

- » Falling oil prices have already seen LNG spot, medium and long term contracts stall, with buyers expecting LNG prices to fall
- » In 2015, only six projects expected to be sanctioned compared to recent average of 30-50 p.a. (*WoodMackenzie, October 2015*)
- » Many proposed greenfield LNG projects are not economic at US\$50/bbl without reductions in capital costs
- » LNG from PNG may find reduced competition for customers when it begins marketing

Outlook – the experts all have their views

- » Significant divergence of opinion on the outlook – these are the experts
- » US drilling rates slowing but can return quickly – many uncompleted wells
- » Saudi producing block remain firm on market share (Saudi stocks building)
- » High cost projects adjusting but will continue
- » Other supplier overhang (Libya, Iran etc.)
- » Geopolitics impact relatively minor
- » ‘Lower for Longer’ pervasive in management thinking

Brent Oil Price Forecasts to 2025



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



LNG industry: Undergoing fundamental change **Oil Search**

» Markets and LNG pricing:

- Current oversupply through commissioning of major projects
- Gas prices globally have normalised, now trading in US\$7 - 8/mmBtu range
- More globally connected and significantly more LNG being traded
- Increased pricing and delivery flexibility with short–medium term commitments
- Current market not reflective of longer term demand/supply

» Project structures and outlook:

- North America leads flexibility but can they really penetrate Asia at these prices?
- Project delays or deferrals globally

» In Australia:

- Project structures and economics challenging
- Search for capital efficiency
- Impacts on local gas pricing

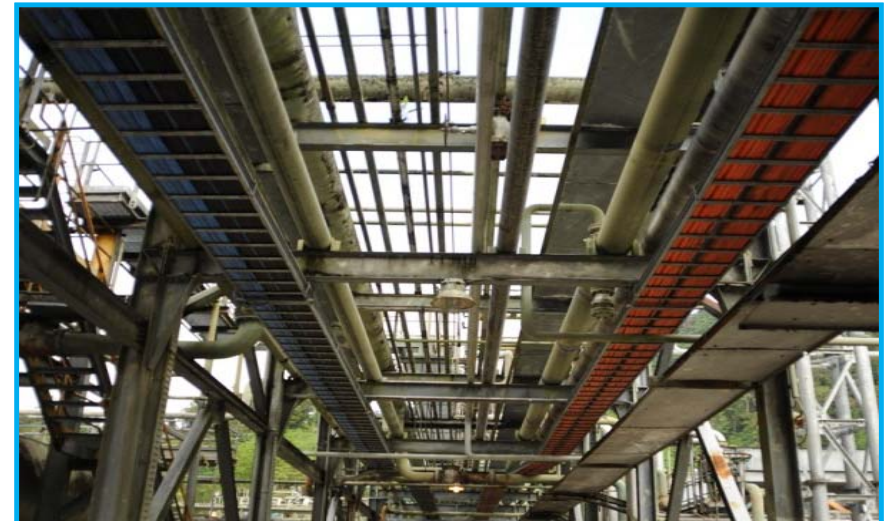
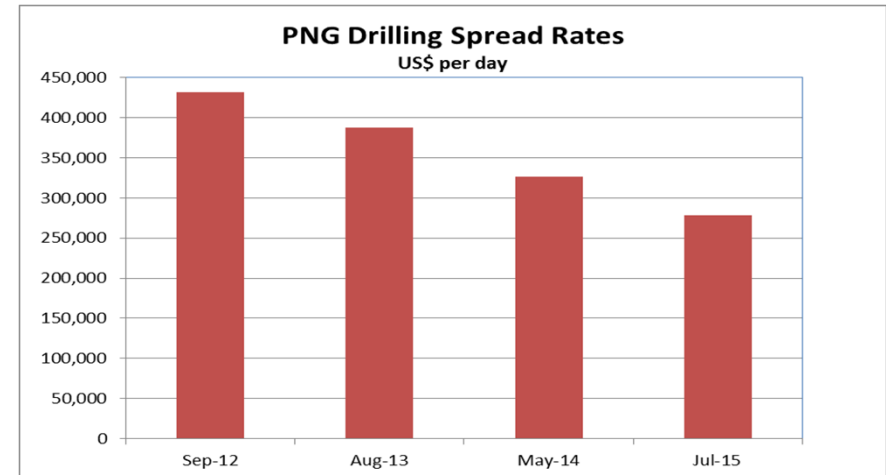


Initiating change today – industry reaction to changed price dynamics

- » Clear focus on capital efficiency and prioritisation:
 - Dividends
 - Debt management
 - Investment prioritisation
 - Cost reduction and efficiency
- » Significant downsizing led by contractors
- » Major capital projects stalled, especially in high cost conventional oil and LNG
- » Capital deflation likely to exceed 30%
- » Operating efficiencies yielding 20%+ cost reductions
- » Significant reduction in discretionary spending
- » Consolidation and acquisition – the buy:sell spread

OSH response: Performance and innovation – sustainable efficiencies and cost reduction

- » 2Q15: initiated business optimisation programme:
 - Company-wide review of strategic priorities in low oil price climate
 - Identified opportunities to improve processes, reduce costs and increase efficiencies without compromising safety performance
 - Focus on creating slimmer, fit-for-purpose organisation with recalibrated cost base, by taking advantage of business climate to reset internal costs and negotiate lower supplier costs
 - Focus on attractive LNG growth projects, with measured spend on other activities
 - Safety, citizen development and PNG country stability initiatives a priority
- » 4Q15: initiated performance and innovation programme, aimed at:
 - Developing disciplined and focused continuous improvement culture at OSH
 - Developing and embedding high performing capability throughout Company
 - Completing delivery of identified pipeline of improvement initiatives (including stretch targets)
 - Ensuring OSH identifies and develops further improvement initiatives
 - Ensuring OSH leverages best of external innovative thinking and industry/technological developments



OSH response: Performance and innovation – clear, measurable objectives and actions



Initiative	Objective	Actions
Organisation efficiency and effectiveness	Right sized Performance focus Optimal planning Clear priorities	Reduce Australia/MENA offices, reduce footprints in field operations, re-set organisation and streamline decision-making
Citizen Development Programme	Long-term capability of citizens Increased citizen senior management Clear KPIs	Accelerated development programme, focused leadership training succession planning
Production optimisation	Optimise production Stretch targets Enhance efficiency and facilities uptime Clear KPIs	Step change focus on work efficiency, shutdown and well intervention planning, rationalise facilities' projects
Cost reduction and cost effectiveness	3 rd party rates Services and facilities Clear KPIs	Optimise infrastructure and equipment utilisation and material consumption, reduce transportation costs
Spend management	Maximise efficiency and cost effectiveness of end-to-end supply chain Clear accountabilities and KPIs	Complete Company-wide review and gap analysis, improve contract management, simplify category spend strategies
Drilling performance	Spread-rate reduction Minimise mob/demob costs Fit-for-purpose civils Rig technology and innovation	Increased project management focus on civils and logistics support, rig drilling and services performance, improved inventory management

PNG LNG Project – producing consistently above nameplate capacity, strong platform for future growth



- » PNG LNG Project – a major success story:
 - Delivered ahead of expectations and within revised US\$19bn budget
 - At end 3Q 2015, >125 cargoes delivered and nearly 9 million tonnes produced since 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:
 - ExxonMobil announced increase in gross capacity from 6.9 MTPA to 7.3 MTPA , reflecting “focus on maximising the value of installed capacity and improving profitability”*
 - 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
- » Project has delivered major infrastructure, Government and landowner support, Tier 1 LNG customers, financier confidence

* ExxonMobil 3Q 2015 earnings conference call

LNG from PNG has competitive advantages



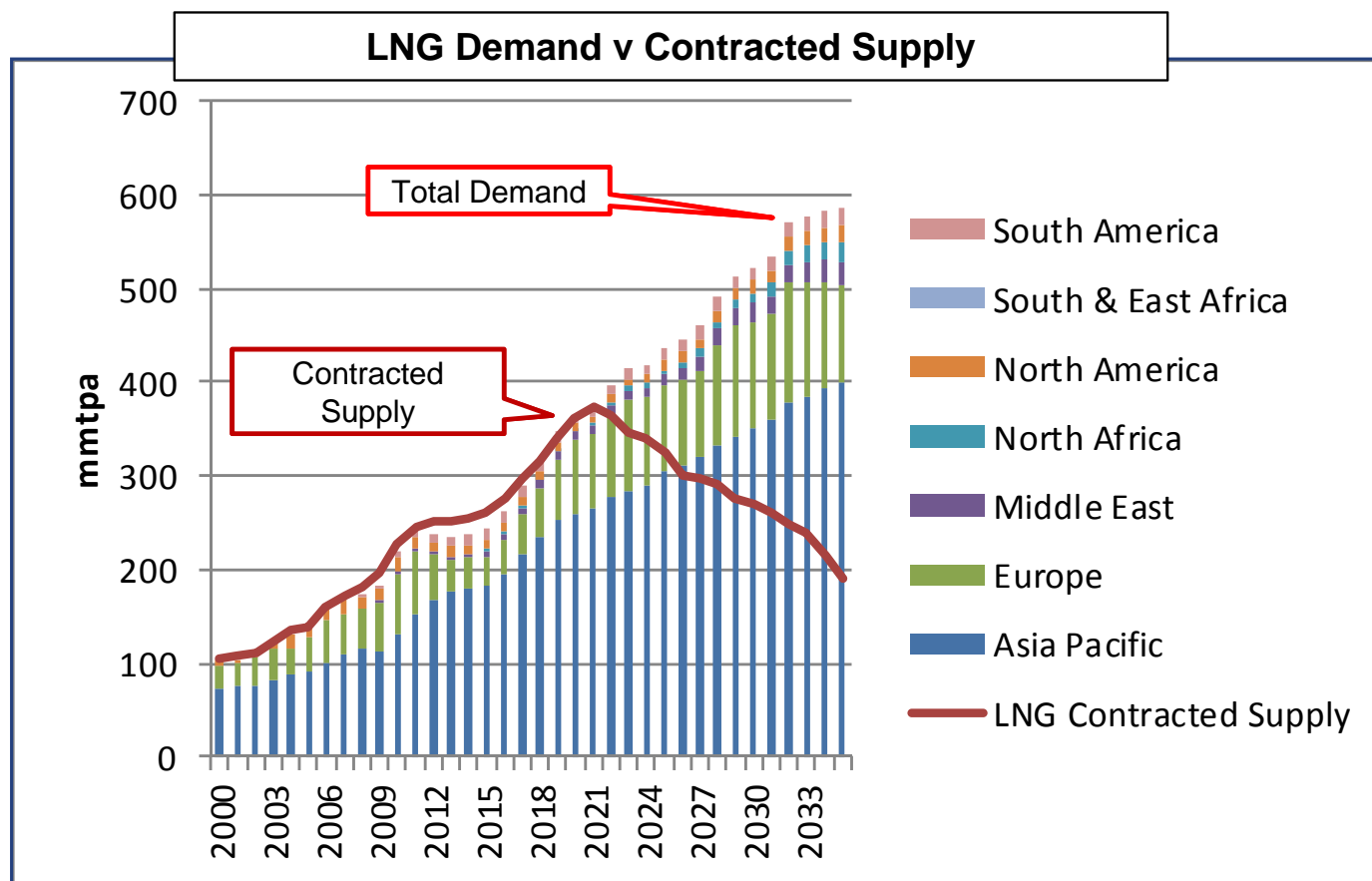
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- » Conventional LNG projects with no new technology utilised in development
- » Substantial reserves base with high heating value, suitable for Asian reticulation networks
- » High liquids, enhancing economics
- » Onshore location with existing infrastructure 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 86 years of in-country experience
- » Provide attractive returns and robust to product price movements

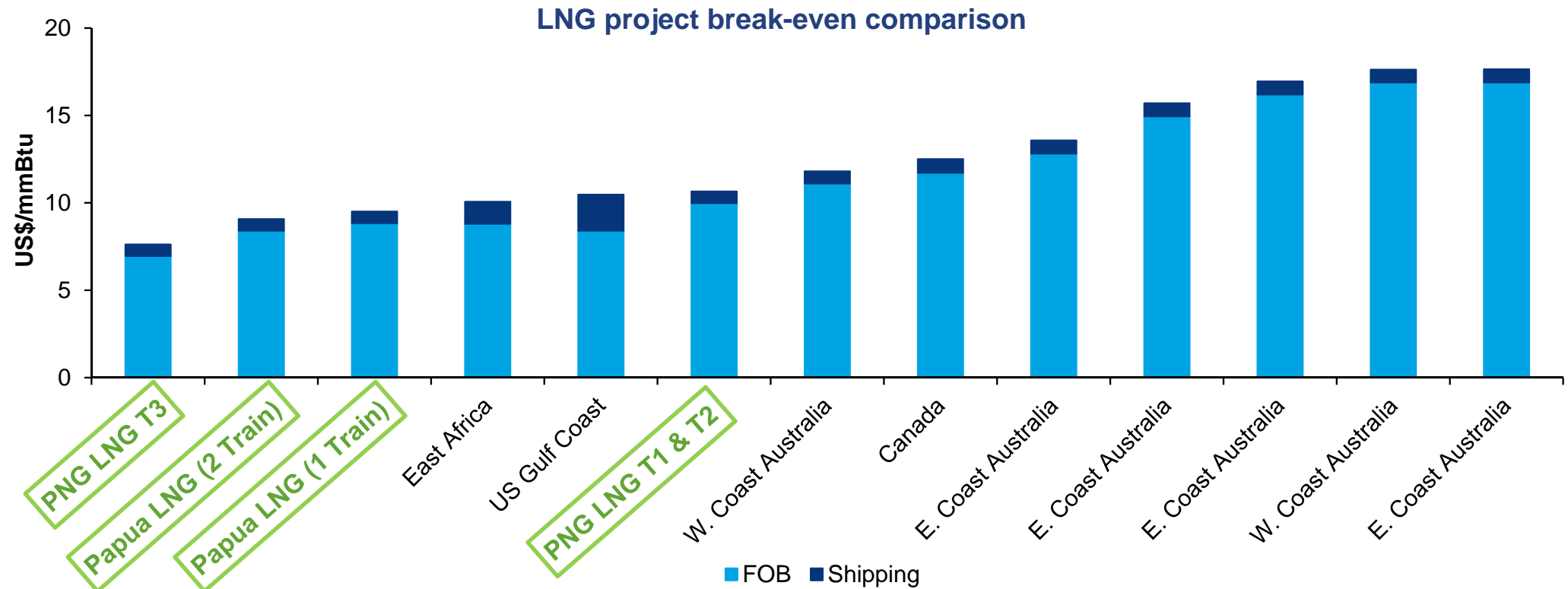


Medium to long-term LNG demand forecasts still robust

- » Global contractual supply expected to be >30 MTPA short of demand in 2022, >120 MTPA short by 2025, as demand increases, old contracts roll off:
 - Few LT contracts have been signed in past 2-3 years
- » >25 MTPA of net existing contracts expire in Japan, Korea and Taiwan between 2020 and 2025, leaving region >40 MTPA short
- » Window opening aligns with timeframes for potential PNG LNG T3 and Papua LNG developments
- » Both projects aimed at high quality Asian customers



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

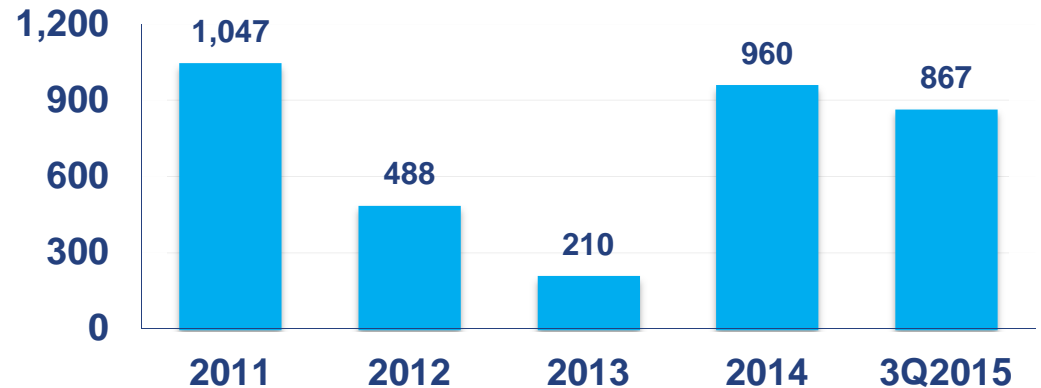
- » PNG LNG well placed compared to recently commissioned Australian projects
- » Production optimisation and debottlenecking at PNG LNG offers opportunity to further improve economics
- » Potential Train 3 at PNG LNG and Papua LNG 1 or 2 train options highly competitive with global LNG project alternatives



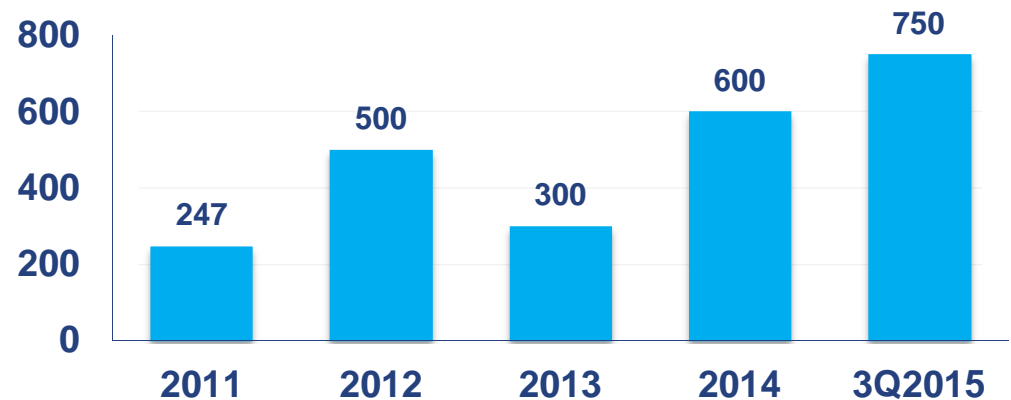
OSH in healthy financial position to support growth

- » Strong liquidity position of US\$1.62 bn*:
 - US\$867m of cash
 - US\$750m of undrawn revolving facilities
- » Total debt of US\$4.29bn: OSH's share of debt drawn under PNG LNG Project finance facility
 - Non-recourse debt with 11 year, semi-annual mortgage-style repayment profile
- » Capital spend being managed carefully:
 - Maintaining liquidity capacity for priority growth projects

Cash (US\$m)



Corporate Facilities Available (US\$m)



* As at 30 September 2015



Initiating change today – PNG context

- » PNG has unprecedented opportunity to benefit from PNG LNG expansion and Papuan LNG development:
 - Both world-class projects with potential to significantly impact economy over next 5-7 years
- » Landowner and community expectations have not and will not change with fall in oil and gas prices
- » Requirement to have transparent, efficient benefits distribution
- » Budget stresses and impacts of drought represent major challenges
- » Partnership between State and private sector never been more important:
 - Partnerships on infrastructure development – roads, schools, power
 - Partnerships on health programmes – TB, malaria, HIV, Tari Hospital
 - Capacity development – education (both ways), PNG leaderships, new Colombo Plan initiative
- » Contributing to long-term sustainability a key to success



Summary

- » PNG now has strong platform and investment environment which can create significant value, along with social development
- » PNG LNG Project performing above expectations:
 - Capacity of PNG LNG increased 6% to 7.3 MTPA with further upside – material additional value
- » Business improvement programme initiatives launched with results already being delivered:
 - Unit production costs reduced by 43% in 1H15, more to come
- » PNG LNG expansion and Papua LNG very well positioned to supply market in 2021/2022 timeframe:
 - Both globally competitive and commercially sound even in lower oil price environment
 - Potential for OSH to more than double production by 2021/22
- » Well defined lowest cost, top quartile return potential with PNG building reputation for delivery
- » Revitalised exploration programme planned over next 18+ months, targeting material gas resources
- » Sound balance sheet, with liquidity being actively managed to fund growth
- » Business model must include bringing the people of PNG along the development road

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