

# 2015 Full Year Results

February 2016



**Oil Search**



**Oil Search Limited**  
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ASX: OSH | POMSoX: OSH US | ADR: OISHY

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# 2015 Full Year Results Agenda

## 2015 Highlights

**Peter Botten**

## Financial Overview

**Stephen Gardiner**

## PNG Production

**Julian Fowles**

## Gas Development

**Ian Munro**

## Exploration/Appraisal

**Keiran Wulff**

## Outlook & Summary

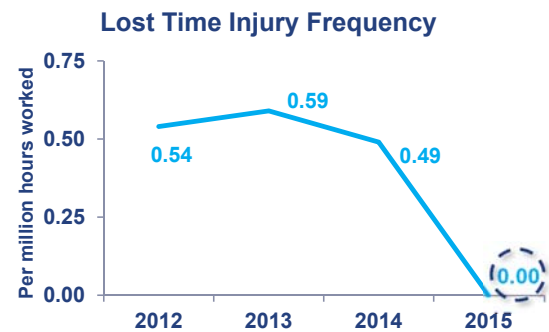
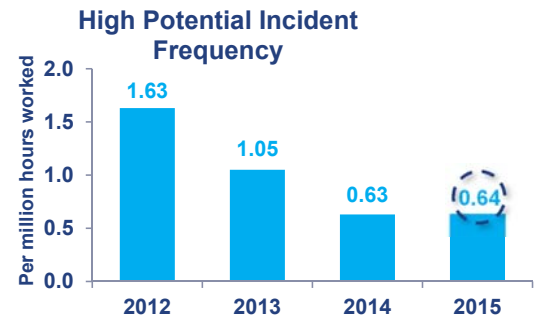
**Peter Botten**

# 2015 Highlights

- » Total production of 29.25 mmbbl – 52% higher than 2014 and all-time record
- » Underpinned by excellent production performance from PNG LNG Project and good contribution from operated PNG fields – top quartile production assets
- » Core profit of US\$359.9m, US\$39.4m loss after foreshadowed impairment of Taza
- » Final dividend for 2015 of four US cents, ten US cents total for year
- » Continued progress on gas commercialisation activities in PNG:
  - Both PNG LNG and Papua LNG JVs remain committed, projects offer attractive returns even on revised oil price expectations
- » Business recalibrated:
  - Cost base reduced
  - Resourcing and organisational structure changes
  - Improved productivity
- » Well placed for lower oil price environment:
  - Cash flow positive at <US\$20/bbl, with break-even cash flow AFTER interest, principal repayments and sustaining capex in low US\$30s/bbl
  - US\$1.66bn liquidity available to support growth programmes, should oil price fall below this level

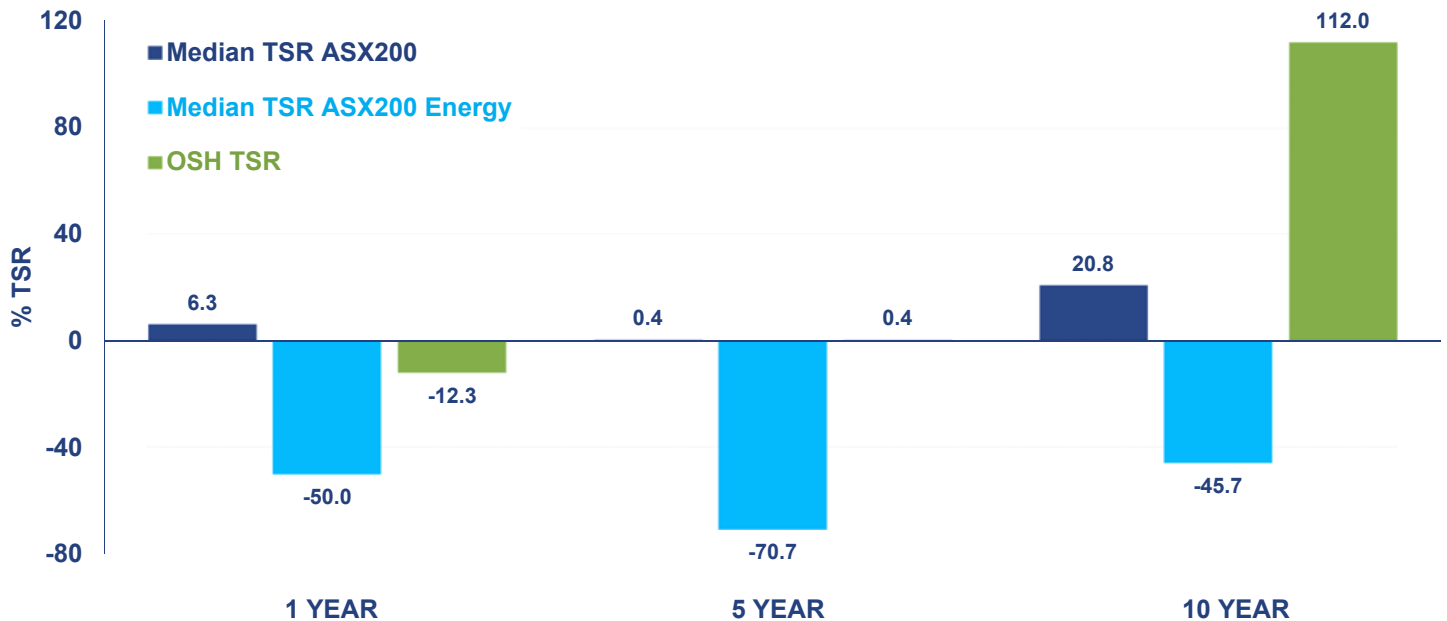


# Third consecutive year of improved safety performance



# Recent TSR performance reflects global oil price weakness

## Total Shareholder Returns to 31 December 2015



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# 2015 Financial Highlights



	2015	2014	
Sales volume (mmboe)	28.76	17.76	↑
Net (loss)/profit after tax (US\$m)	(39.4)	353.2	↓
Core profit <sup>1</sup> (US\$m)	359.9	482.8	↓
Operating cash flow (US\$m)	952.7	992.3	↓
Final dividend (US cents)	4.0	8.0	↓
Net debt (US\$m)	3,318.2	3,452.0	↓
Liquidity (US\$m)	1,658.5	1,560.2	↑

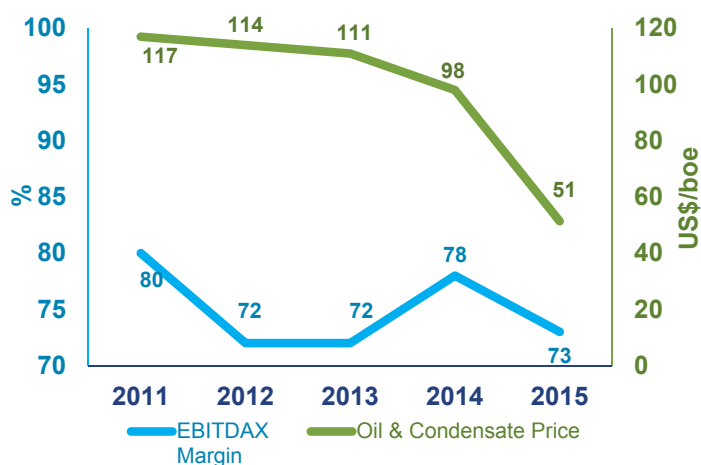
- » Strong sales volumes reflect the PNG LNG Project operating well above its nameplate capacity, at 7.4 MTPA
- » Core profit of \$359.9 million
- » Net loss after tax of \$39.4 million due to Taza impairment
- » Strong operating cash flow in a lower oil price environment
- » First principal repayments of US\$103 million under PNG LNG finance facility
- » Strong balance sheet and liquidity of \$1.7 billion
- » Final ordinary dividend of four US cents per share

1. Core profit (net profit after tax before significant items) is a non-IFRS measure that is presented to provide a more meaningful understanding of the performance of Oil Search's operations. The non-IFRS financial information is derived from the financial statements which have been subject to audit by the Group's auditor.

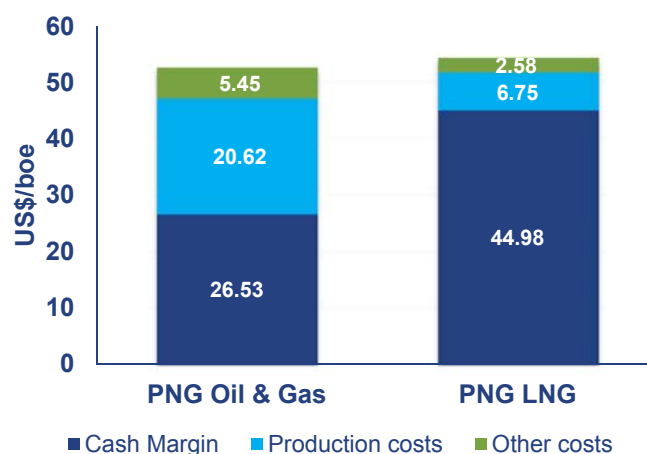


# Healthy cash operating margin of 73%

## EBITDAX Margin



## Cash Margin by Asset



- » Average realised oil and condensate price of US\$51.36/bbl, reflecting significant decline in global oil prices
- » EBITDAX margin down due to lower oil and condensate, LNG and gas prices, partially offset by full year contribution from higher margin PNG LNG

- » PNG Oil and Gas and PNG LNG cash margins remain healthy but impacted by downturn in oil prices
- » Other costs include shipping and inventory movements and, for Oil and Gas, gas purchases for Hides GTE project

# 2015 Financial Performance



US\$m	2015	2014
Revenue	1,585.7	1,610.4
Costs of production	(324.4)	(267.9)
Other costs	(110.1)	(85.5)
<b>EBITDAX<sup>1</sup></b>	<b>1,151.3</b>	<b>1,257.0</b>
Depreciation and amortisation	(407.8)	(252.7)
Exploration costs expensed	(50.9)	(109.1)
Impairment	(399.3)	(180.6)
Net finance costs	(185.1)	(129.6)
<b>Profit before tax</b>	<b>108.3</b>	<b>585.0</b>
Tax	(147.6)	(231.8)
<b>Net (loss)/profit after tax</b>	<b>(39.4)</b>	<b>353.2</b>
Impairment (net of tax)	399.3	129.6
<b>Core profit<sup>1</sup></b>	<b>359.9</b>	<b>482.8</b>

- » Revenue stable – 62% increase in sales volumes offset by lower realised prices
- » Higher costs of production and DD&A mainly due to full year of PNG LNG production - 17% reduction in unit production costs to US\$10.08/boe.
- » Higher other costs reflect selling and distribution costs from full year of LNG sales and one-off costs.
- » Exploration costs expensed include Hides F1 well exploration component, seismic, G&G and G&A
- » Impairment charge of \$399.3 million recognised on Taza PSC
- » Higher finance costs due to full period of interest expense on PNG LNG project debt
- » Effective tax rate on core profit of 29.1%

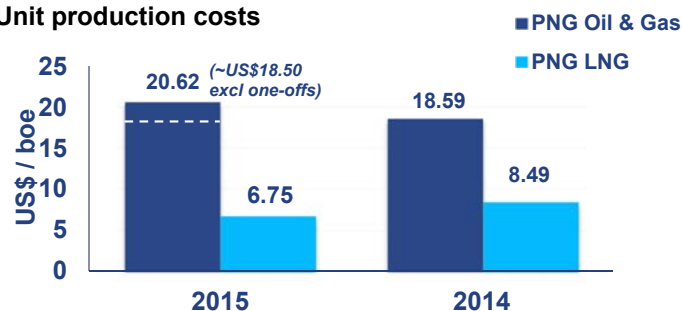
<sup>1</sup> EBITDAX (earnings before interest, tax, depreciation/amortisation, impairment and exploration) and Core profit (net profit after tax before significant items) are non-IFRS measures that are presented to provide a more meaningful understanding of the performance of Oil Search's operations. The non-IFRS financial information is derived from the financial statements which have been subject to review by the Group's auditor.

# Unit production costs reduced to US\$10.08/boe

US\$m	2015	2014
<i>Production costs:</i>		
- PNG LNG	149.9	103.6
- PNG Oil and Gas	144.9	131.8
	<b>294.8</b>	<b>235.4</b>
<b>US\$/boe</b>	<b>10.08</b>	<b>12.21</b>
Royalties and levies	12.4	19.7
Gas purchases	20.9	39.3
Inventory movements	(3.7)	(26.5)
<b>Total costs of production</b>	<b>324.4</b>	<b>267.9</b>

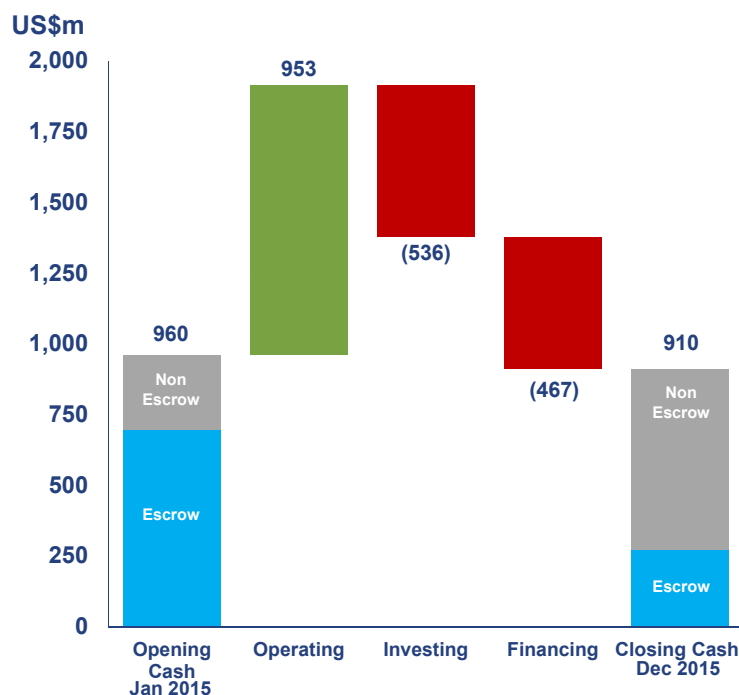
- » Lower PNG LNG Project unit production costs reflect full year of operations, impact of cost reduction programmes and LNG plant producing above nameplate capacity.
- » Higher PNG Oil and Gas production costs due to ~US\$15m one-off costs and higher well work-over costs (~US\$12m), partly offset by cost reduction initiatives
- » Large inventory adjustment in 2014 reflected build-up in first year of production

Unit production costs



# Cash Flows

- » Strong operating cash flows reflect full period of earnings from PNG LNG:
  - Operating cash flow of US\$32.57/boe
- » Investment spend driven by Taza drilling in Kurdistan, PRL 15 Antelope wells including related pre-FEED activities and remaining development costs for PNG LNG
- » Financing includes payment of 2014 final and special dividends and 2015 interim dividends totalling US\$274.1m
- » Net repayment of US\$150.0m under corporate revolving facilities and net repayment of US\$33.5m under PNG LNG Project finance facility

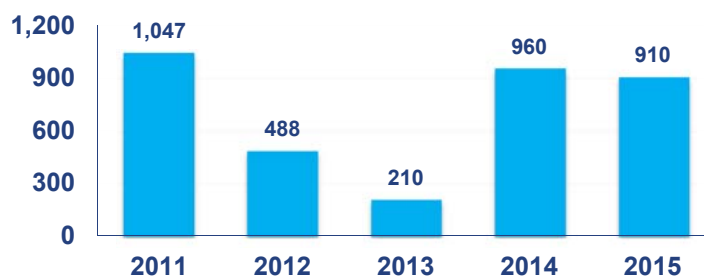




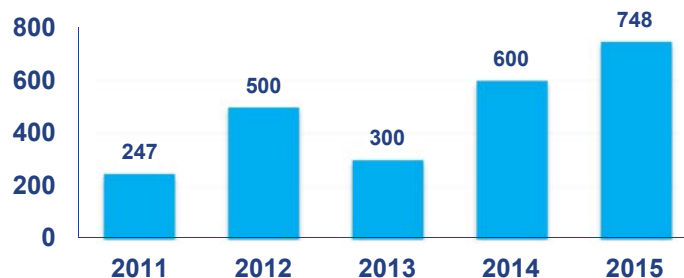
# Balance sheet solid, liquidity US\$1.7bn

- » Strong liquidity position at 31 December 2015 of US\$1.66 billion:
  - US\$910m of cash (incl. US\$271m of PNG LNG escrowed cash) and US\$748m available corporate revolving facilities
- » PNG LNG Financial Completion achieved in February 2015, resulting in US\$1.2 billion of cash distributions
- » 2015 final unfranked dividend of 4 US cents per share (unfranked). DRP remains suspended

Cash (US\$m)



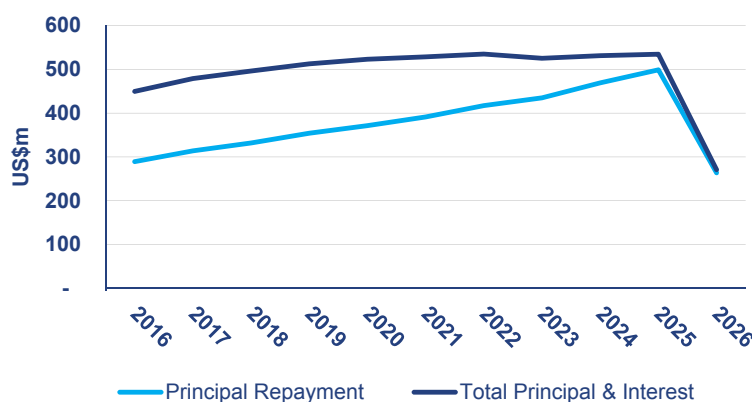
Corporate Facilities Available (US\$m)



# PNG LNG debt repayment profile

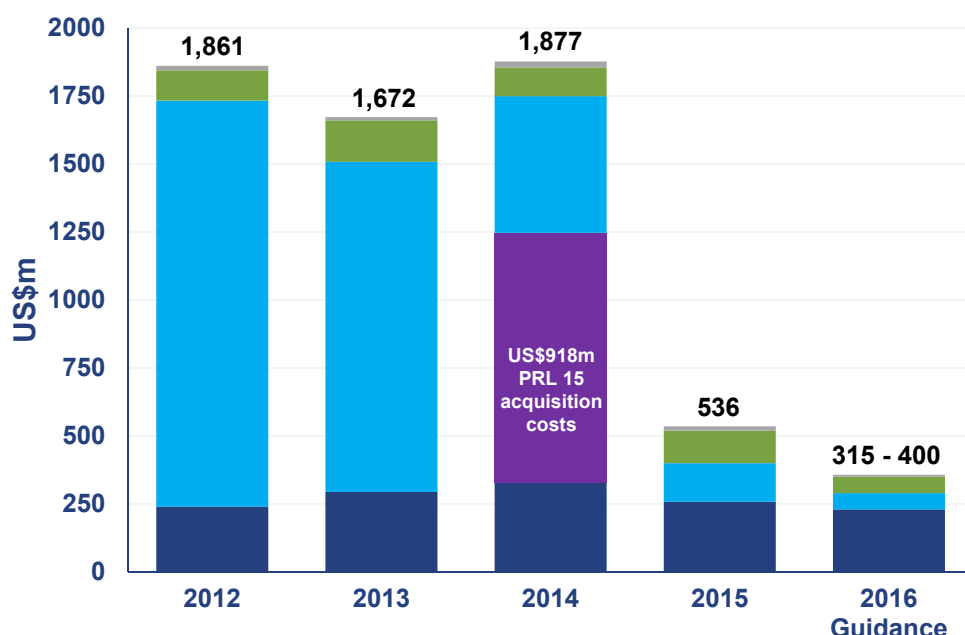
- » Total debt of US\$4.23bn, representing OSH share of debt drawn under PNG LNG Project finance facility:
  - OSH guarantee to LNG lenders terminated at Financial Completion, debt now non-recourse
  - Principal repayments in June and December 2015 (US\$103m, net to OSH)
- » Interest and principal to be paid semi-annually over next 11 years (mortgage-style repayment profile)
- » PNG LNG debt service costs for 2016 forecast to be equivalent to ~US\$16/boe against total production

Indicative Annual Repayment profile





# 2016 Investment Outlook



## 2016 Capital Cost Guidance (US\$315 – 400 million)

- » Exploration & Evaluation: US\$210 – 250 million (largely discretionary)
- » Development: US\$50 – 70 million
- » Production: US\$50 – 70 million
- » Other PP&E: US\$5 – 10 million

■ Other PP&E ■ Production ■ Development ■ Exploration & Evaluation

# 2016 Guidance Summary



Production	2016 Guidance <sup>1</sup>
Oil Search operated	5.7 – 6.2 mmmboe <sup>2,3</sup>
PNG LNG Project	
LNG	95 – 100 bcf
Liquids	3.3 – 3.5 mmmbbl
Total PNG LNG Project	22 – 23 mmmboe <sup>2</sup>
<b>Total Production</b>	<b>27.5 – 29.5 mmmboe</b>
Operating Costs	
Production costs	US\$8 – 10 / boe
Other operating costs <sup>4</sup>	US\$135 – 155 million
Depreciation and amortisation	US\$13.50 – 14.50 / boe



<sup>1</sup> Numbers may not add due to rounding.

<sup>2</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>3</sup> Includes 2.8 – 3.0 bcf (net) of SE Gobe gas sales (OSH – 22.34%) exported to the PNG LNG Project.

<sup>4</sup> Includes Hides GTE gas purchase costs, royalties and levies, selling and distribution costs, rig operating costs, corporate administration costs (including business development) and inventory movements.



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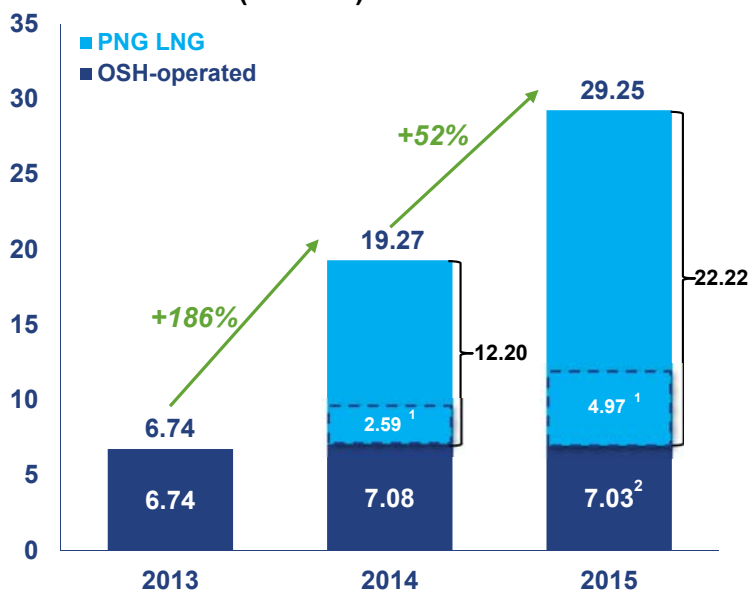
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## Highest full year production in OSH's history

» FY15 production of 29.25 mmboe, 52% higher than 2014 and all-time record for OSH, reflecting:

- Outstanding performance by PNG LNG Project:
  - Contributed 22.2 mmboe (96.6 bcf LNG plus 3.3 mmboe liquids), annualised production rate of ~7.4 MTPA
- Stable contribution from operated oil fields and Hides GTE of 7.0 mmboe:
  - Oil – 5.5 mmboe
  - Hides GTE – 1.15 mmboe
  - SE Gobe third party gas sales to PNG LNG – 1.9 bcf

Net Production (mmboe)



<sup>1</sup> Component of PNG LNG production supplied or handled by OSH. Includes gas from Kutubu and Gobe Main and all Project condensate transported through export system

<sup>2</sup> Includes SE Gobe gas sales

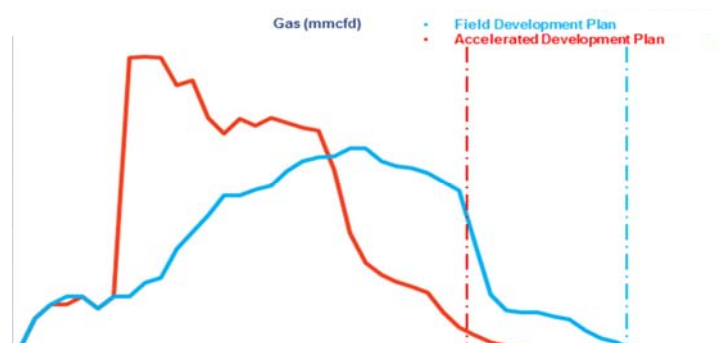
# PNG LNG Project – performing above expectations

- » Annualised production in 2015 of 7.4 MTPA, 7% above nameplate of 6.9 MTPA:
  - Further upside expected in 2016
- » 101 LNG cargoes sold :
  - Includes 23 spot cargoes, with > 70% sold to contract customers, remainder to top tier LNG buyers
  - Ramp-up of contract sales reached plateau of 6.6 MTPA in 4Q15
- » 31.5 cargoes of Kutubu Blend and 8 naphtha cargoes sold
- » Production optimisation activities progressing very well, with additional capacity being achieved from both upstream and downstream. Evaluation of potential debottlenecking opportunities ongoing
- » Two Angore development wells drilled and suspended for future tie-in
- » OSH contribution:
  - 118 mmscf/d of gas delivered from OSH-operated oil fields (Kutubu, Gobe Main, SE Gobe), ~12% of total Project gas feedstock
  - 10.6 mmbbl (~30,000 bbl/d) of Project condensate handled by OSH-operated liquids export system

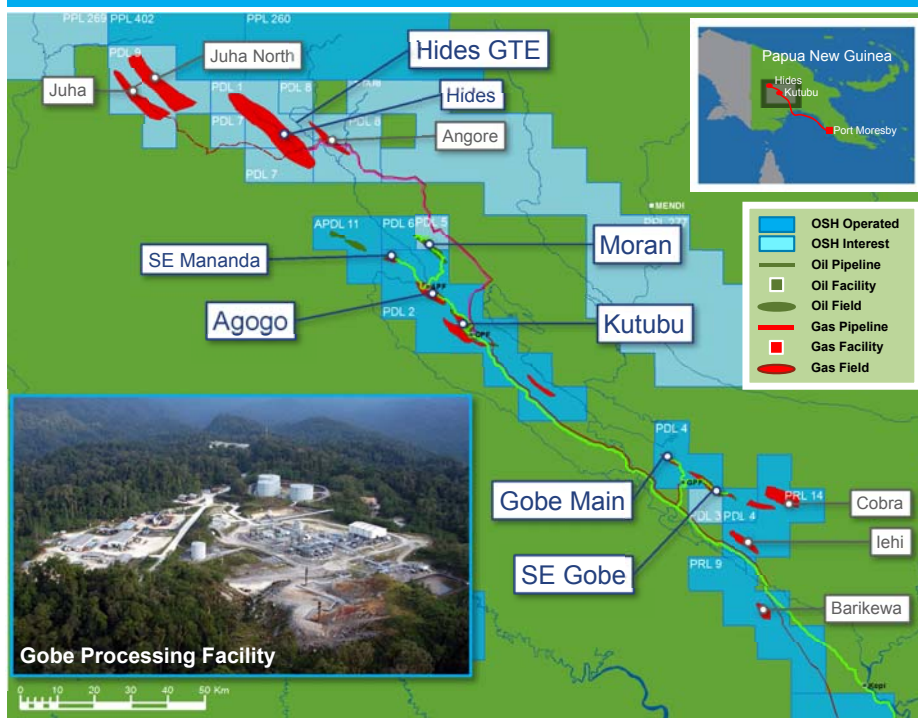


# Potential value upside from accelerating gas supply from OSH-operated AG fields to PNG LNG

- » Accelerated gas blowdown of OSH-operated Associated Gas (AG) fields to PNG LNG:
  - Significant value opportunity identified by 2015 Life of Asset Planning process
- » Material value upside for OSH's oil fields and for LNG production optimisation
- » Potential benefits:
  - Provision of low cost gas supply option to PNG LNG, optimising capital investment
  - Earlier end of AG field life, potentially reducing long-term field opex and operating ageing facilities
  - Build on OSH's existing operator capabilities
  - Material economic value
- » Project team formed, feasibility studies and possible FEED entry in 2016, subject to commercial and fiscal progress
- » Initial discussions with PNG LNG operator completed



# Stable contribution from operated oil fields



- » 2015 net operated production of 7.0 mmbbl (produced at gross average rate of ~35,165 boepd)
  - Similar to 2014 production of 7.1 mmbbl
  - Excellent outcome given maturity of fields
- » Gas supply from SE Gobe field to PNG LNG Project commenced in May. Gobe Processing Facility now handling >15,000 boepd (~2,000 bopd prior to Gobe Main and SEG gas export)
- » Kutubu and Moran fields remain key producers (>95% total oil produced in 2015)

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# Reserves and Resources at 31 December 2015

## Key changes:

- » **PNG production:**
  - Record year of production
  - 8.8 mmbbl oil and condensate and 99.4 bcf gas\*
- » **P'nyang (PRL 3):**
  - Further structural mapping and special core analysis resulted in ↑ 2C contingent resource of +326 bcf gas and +10.6 mmbbl condensate
- » **Taza PSC:**
  - Analysis of appraisal data from Taza 2 and 3 wells and interpretation of 3D seismic resulted in ↓ revision in 2C contingent resource of -31.2 mmbbl oil and -128.6 bcf gas
- » **Cobra (PRL 14):**
  - Revised mapping of structure resulted in ↓ 2C contingent resource of -128.1 bcf gas
- » **Elk-Antelope (PRL 15):**
  - No changes despite positive results, due to impending independent review

At end Dec 2015	Oil and condensate (mmbbl)	% Change	Gas (bscf)	% change
2P Reserves	87.2	↓ 9%	2,177.9	↓ 5%
2C Resources	57.1	↓ 27%	3,610.0	↑ 2%
<b>Total</b>	<b>144.3</b>	<b>↓ 17%</b>	<b>5,787.9</b>	<b>↓ 0.4%</b>

- » OSH preliminary interpretation of Elk-Antelope (PRL 15) appraisal results to date suggests gross 2C resource could increase >5.3 tcf
- » Based on 2015 production of 29.3 mmbbl, OSH has 1P reserves life of 11.6 years and 2P reserves life of 17.5 years
- » Substantial 2C gas which would be commercialised by PNG LNG expansion and Papua LNG development

\* Production volumes are based on Oil Search's entitlement of PDL 1 (16.67%) for Hides GTE Project

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## 2016 Focus Items

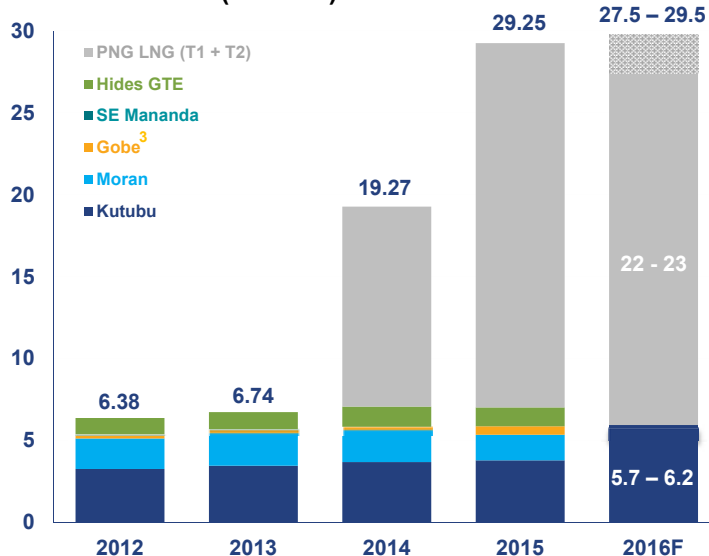
- » Add value to mature oil fields in low oil price environment:
  - Optimise operated production by reducing planned downtime, improving reliability of facilities
  - Ongoing focus on well integrity, process safety and optimising facilities uptime
  - 2016 oil field capital and operating budgets reduced in light of lower oil prices, re-focus on gas commercialisation activities
- » PNG LNG OSH deliverables:
  - Continued reliable supply of gas from Kutubu, Gobe Main and SE Gobe fields
  - Ensure high level of facilities availability from liquids export system via Kumul Marine Terminal
  - Support operator in analysing opportunities for further production optimisation and debottlenecking
  - Feasibility study on potential accelerated gas blow down of OSH-operated AG fields and possible FEED entry, subject to alignment with PNG LNG participants



## 2016 Production Outlook

- » OSH-operated production: 5.7 – 6.2 mmboe\*
- » PNG LNG: 22 – 23 mmboe
  - 95-100 bcf LNG
  - 3.3 – 3.5 mmbbl liquids
- » 2016 total production forecast: 27.5 – 29.5 mmboe

**Net Production (mmboe)<sup>1,2</sup>**



<sup>1</sup> LNG sales products at outlet of plant, post fuel, flare and shrinkage

<sup>2</sup> Gas:oil conversion rate used from 2014 onwards: 5,100 scf = 1 barrel of oil equivalent (prior years 6,000 scf/boe)

<sup>3</sup> Includes SE Gobe gas sales

\* Includes 2.8 – 3.0 bcf (net) of SE Gobe gas sales (OSH – 22.34%) exported to the PNG LNG Project

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## Gas growth driving value

- » Gas commercialisation activities in Highlands and Gulf Province made significant progress in 2015:
  - PNG LNG Project: production optimisation, debottlenecking studies, P'nyang MoU and power delivery
  - Papua LNG Project: positive appraisal, selection of project sites, discussions on financing commenced
  - Potentially ~10 tcf (gross) gas available, sufficient to underpin both world-class developments
- » PNG LNG expansion and Papuan LNG are high priority for JVs, Government and landowners while many LNG projects globally are deferred
  - Lowest project break-even costs in region (WoodMac)
  - Attractive returns even under revised oil price scenario
- » Unprecedented opportunity in current environment to pursue cooperation and integration of projects
- » Expected to double production again by early 2020s
  - OSH's gas exploration portfolio can support further development through additional LNG trains or extending plateau production





# PNG LNG expansion: P'nyang (PRL 3)

## » Potential PNG LNG Project expansion includes:

- High-value production optimisation/debottlenecking
- Potential third LNG train (~4 MTPA)
- Delivery of domestic power

## » Potential benefits of brownfield expansion:

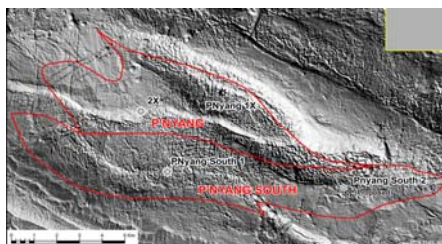
- Fiscal regime
- Relatively straightforward expansion of project finance facility
- Reduced capex due to use of existing infrastructure
- Integration of P'nyang into PNG LNG Project

## » Resource base for potential third train:

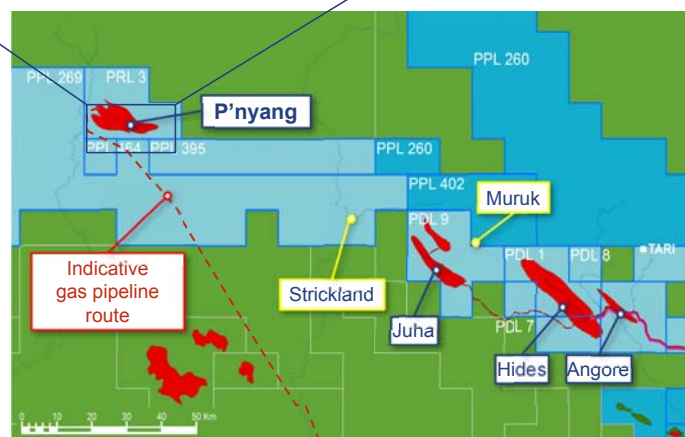
- OSH's P'nyang total gross 2C contingent resource estimate upgraded from 2.6 tcf to 3.5 tcf
- XOM/OSH recertification of Foundation Project fields in 2016

## » Preparatory work underway for P'nyang South 2 well due to spud 2H16, to move 2C resource to 1C

## » PNG Government to undertake Development Forums in 1H16 ahead of PDL award



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



# Muruk 1 (PPL 402): High potential exploration

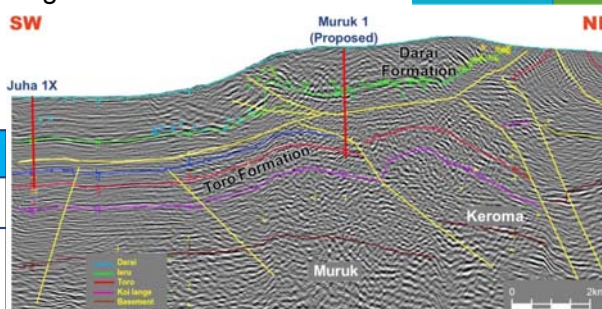
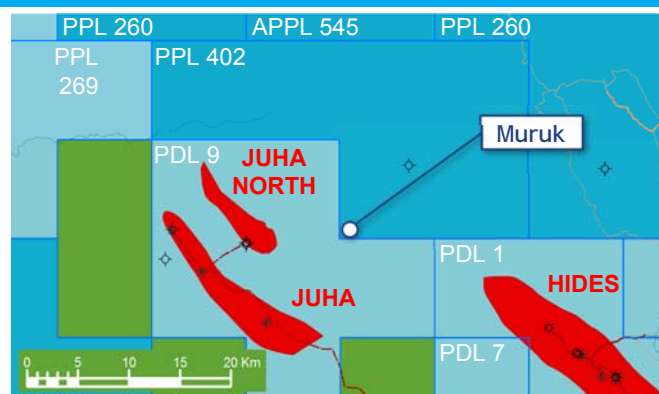
## » Muruk 1 expected to spud early 2Q16:

- Pad currently under preparation for drilling with OSH rig
- Operated by OSH in co-venture with ExxonMobil

## » Targeting multi-tcf prospect on-trend with Hides, located north-east of Juha and Juha North

- ~ 1 in 5 chance of success
- May de-risk adjacent structures

## » High-impact well and potential new source of gas for expansion or backfill near existing PNG LNG infrastructure



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

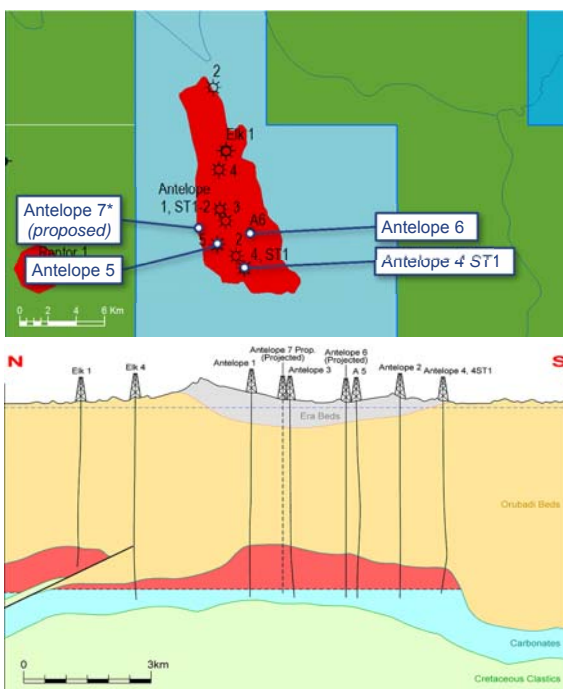
# Papua LNG (PRL 15): potential second LNG development in PNG



PRL 15	WI %
Total	40.1
InterOil	36.5
Oil Search	22.8
Minorities	0.5

- » Significant progress made in 2015:
  - Total SA assumed operatorship in 3Q 2015 and ramping up in-country presence
  - Locations of key infrastructure sites selected for development and decisions supported by PNG Government
  - Financing activities commenced with financial, legal and tax advisors appointed
- » Completion of appraisal programme and confirmation of resource size will enable selection of final development concept and number of LNG trains:
  - 1 x 5 MPTA or 2 smaller trains
- » LNG marketing, Gas Agreement negotiations commence in 2H 2016 ahead of FEED entry in 2017
- » OSH expects final investment decision in 2018 preceded by early works

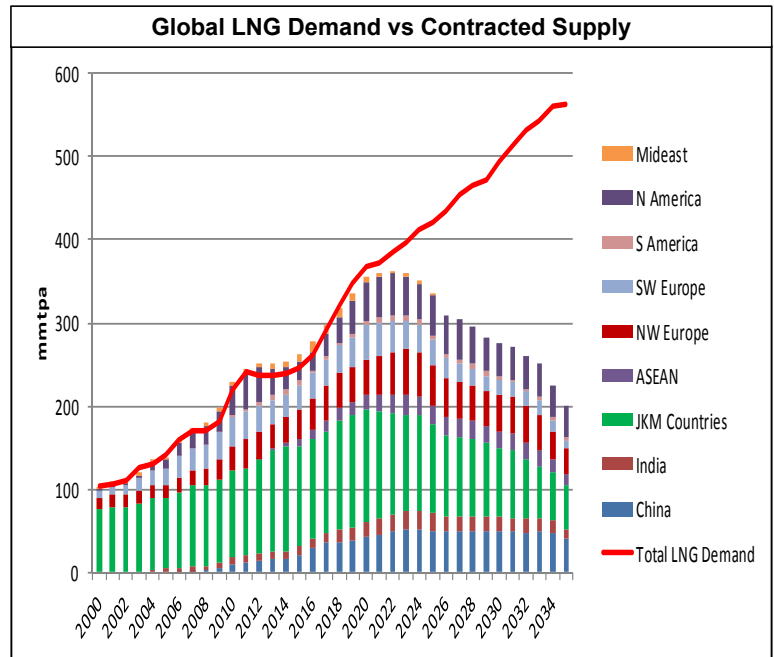
# Encouraging PRL15 appraisal results to date



- » Appraisal results to date are considered positive compared to OSH's current resource booking of 5.3 tcf :
  - Antelope 4 ST1 and 5 extended high quality carbonate reservoir to south and west
  - Antelope 5 initial testing confirmed substantial resource base, excellent reservoir quality and deliverability, rapid pressure communication between Antelope 5 and 1
- » Remaining appraisal will further define resource:
  - Antelope 6 appraising eastern extent of structure close to gas-water contact with lower quality reservoir expected
  - Antelope 5 and Antelope 1 interference testing completed early February
  - JV to decide in 1H 2016 on whether to drill additional appraisal well, Antelope 7, to assess potential upside to west
- » Certification by two independent world-class certifiers – Gaffney Cline and Netherland Sewell – will quantify updated resource base for stakeholders. OSH has commenced data transfer with results known around mid-year:
  - OSH to update Contingent Resources following completion of certification
- » Exploration prospects in PRL15 being matured by JV to drill-ready status

# LNG demand expected to exceed supply in early 2020s

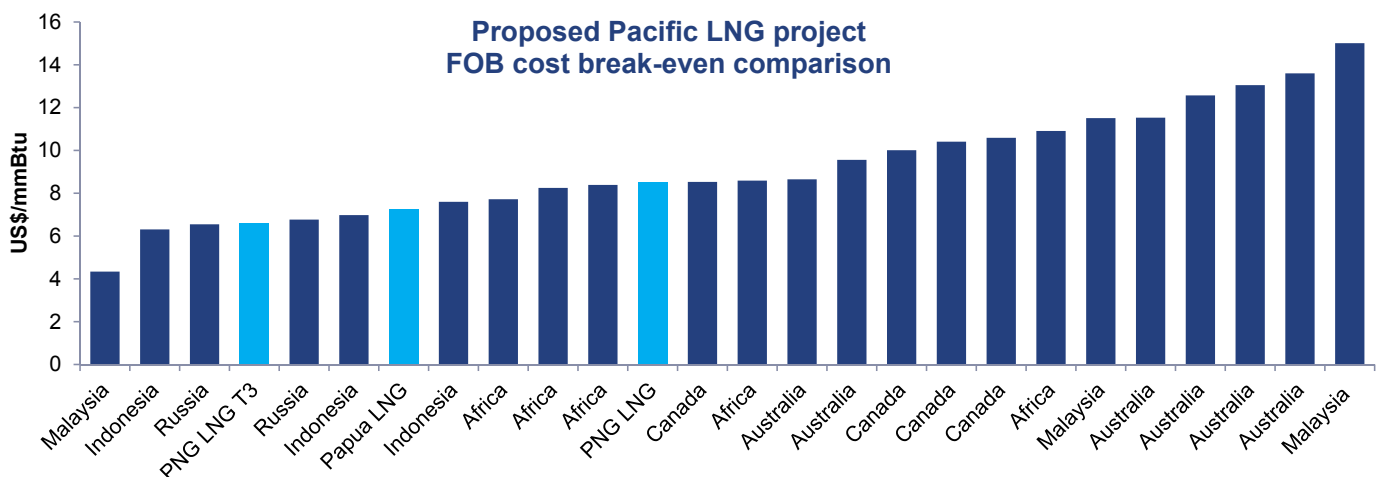
- » Global LNG market increasingly competitive – new projects in Australia, North America exports ramping-up
- » Market over supplied near term and will only come into balance around 2020
- » Demand expected to surpass contracted supply from early next decade, particularly from Asia Pac due to:
  - Expiry of existing long-term contracts (>25 MTPA from Japan, Korea, Taiwan between 2020-25)
  - Expected deferral/delay of sanctioning of potential projects due to challenging economics
- » Window opening aligns with timeframes for potential PNG LNG third train and Papua LNG, aimed at high quality Asian customers
- » Low cost, high heating value LNG from PNG well placed in this environment to move to FID



Source: Wood Mackenzie, LNG Tool, December 2015

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

- » PNG LNG well placed compared to recently commissioned Australian projects. Production optimisation adding material value, debottlenecking can further improve economics
- » OSH analysis demonstrates PNG LNG train 3 has robust economics
- » Papua LNG 1 or 2 train options highly competitive against global LNG project alternatives



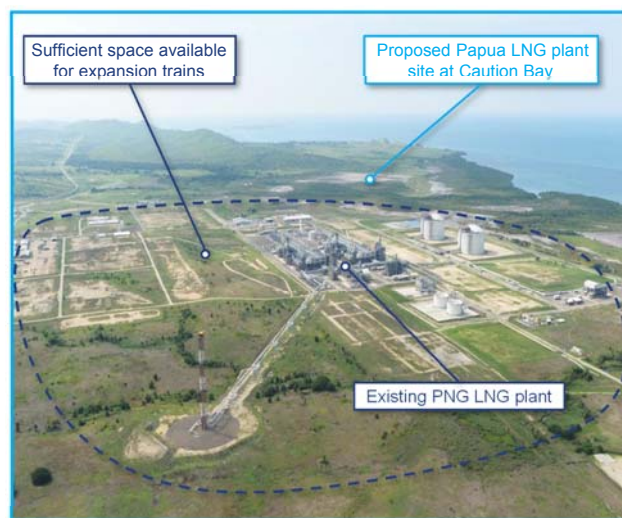
Source: Wood Mackenzie, LNG Tool, February 2016





# 2016 OSH value-adding focus areas

- » Low oil price provides impetus to maximise value of PNG LNG Project expansion and proposed Papua LNG Project through co-operation
- » Co-location of LNG plant sites allows opportunity to drive capital efficient expansion, operational synergies and schedule optimisation
- » 2016 will confirm the resource base available for additional LNG trains:
  - Muruk 1 exploration well and P'nyang South 2 appraisal well
  - Antelope 5 interference test, Antelope 6 appraisal well and possible Antelope 7
  - PNG LNG recertification and OSH certification of Elk-Antelope
  - Confirmation of development concepts
- » OSH's role:
  - Unique position with interest in PNG LNG and Elk-Antelope resources and in key NW Highlands and Gulf Province exploration licenses
  - Support operators, ExxonMobil and Total, to mature expansion and promote cooperative agenda between proposed projects
  - Leverage strong foundations – superior in-country operating experience, strong Government, community and landowner relationships



# 2015 Results Agenda

2015 Highlights

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Stephen Gardiner

PNG Production

Julian Fowles

Gas Development

Ian Munro

**Exploration/Appraisal**

**Keiran Wulff**

Outlook & Summary

Peter Botten

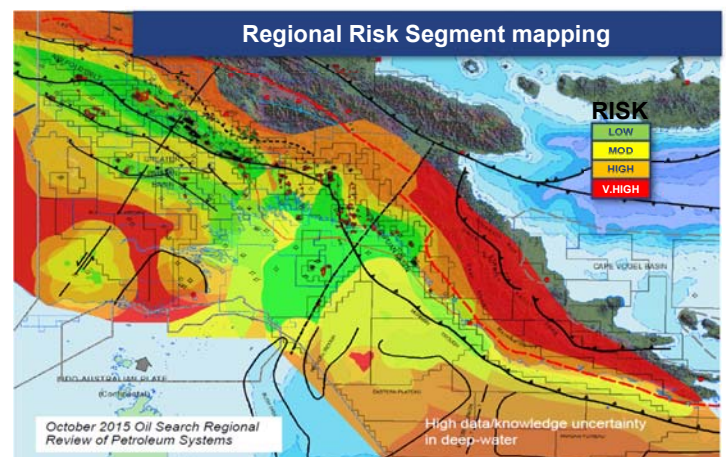
# Exploration Strategy

- » Exploration approach in light of low oil and gas prices is to reduce costs, focus on core areas and build long-term growth options. Generating opportunities:
  - Renegotiation of drilling, seismic contract rates
  - Fit-for-purpose approach
  - Stronger cooperation with operating partners
  - Increased exploration asset availability
- » International activities pared back to focus on PNG:
  - Optimise partnerships with Total and Exxon
  - Eight new licence applications submitted
- » Expansion opportunities prudently assessed against high-returning PNG growth assets



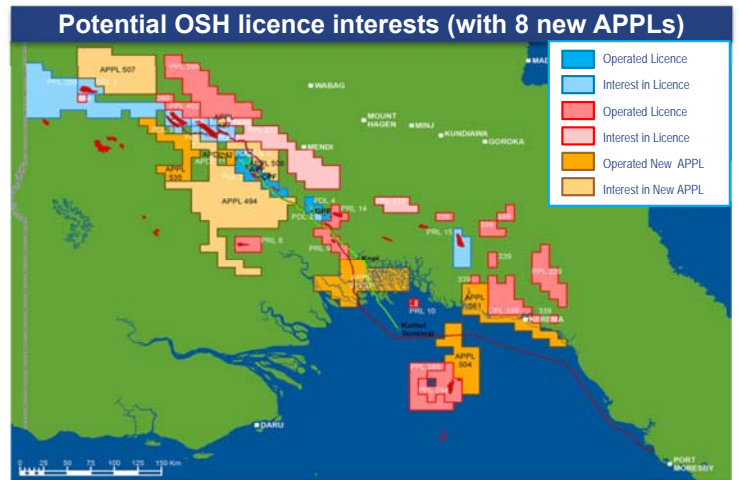
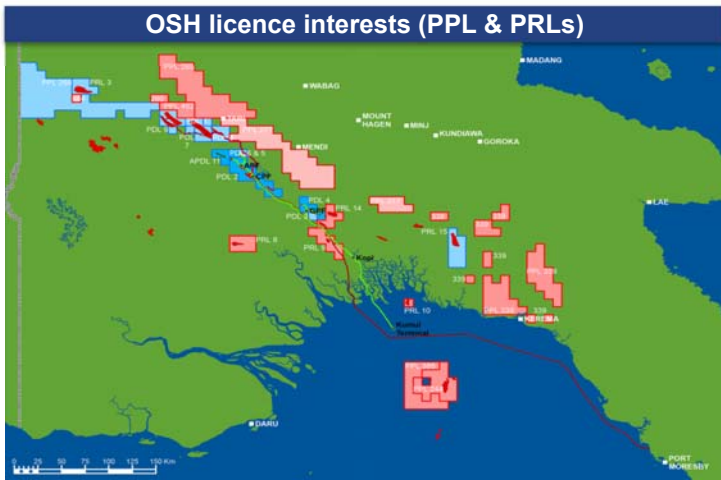
# Exploration Activity in 2015

- » Focus on building long-term growth portfolio, with major “whole of country” study conducted in 2015:
  - Core areas ranked
  - Review of cost and technology
  - PNG believed to have yet-to-find potential of >5 bnboe\*
- » Entered three new exploration licences:
  - PPL 269 (10%) and PPL 402 (50%, operator) – Highlands
  - PPL 339 (35%, operator) – Gulf Province
- » Eight new licence applications submitted
- » Acquired 194 kilometres of 2D seismic in PNG Highlands and Gulf Province:
  - Muruk (PPL 402) and Strickland (PPL 269) matured for drilling in 2Q 2016
- » OSH well positioned for further optimisation in PNG



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

# Replenishing PNG exploration portfolio



- » Low oil prices provide opportunity to build/optimize acreage
- » “Whole of country” review has defined areas of greatest potential:
  - To support long-term gas growth potential
  - “Conventional” potential for oil
  - Paradigm changing material opportunities

» Active applications for eight new areas

# 2016/17 PNG exploration/appraisal programme targeting ~5-6 tcf gas (unrisked) close to existing infrastructure



**NW Highlands –**  
Activities targeting ~3-4 tcf\* mean gross prospective resources



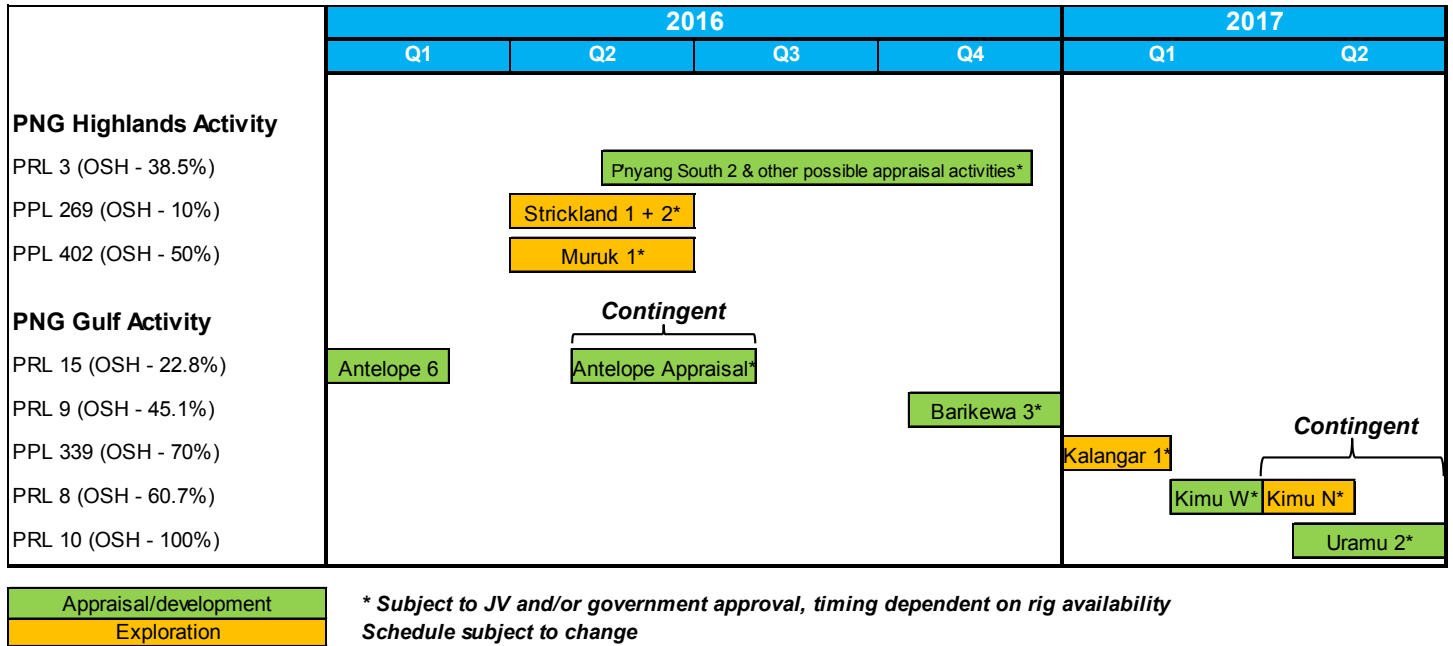
**Gulf / Forelands –**  
Exploration activities targeting ~1 tcf\*\* mean gross prospective resources  
Appraisal targeting ~1 tcf gross 2C resources

**Offshore Papuan Gulf –**  
Regional petroleum system analysis and mapping targeting new frontiers

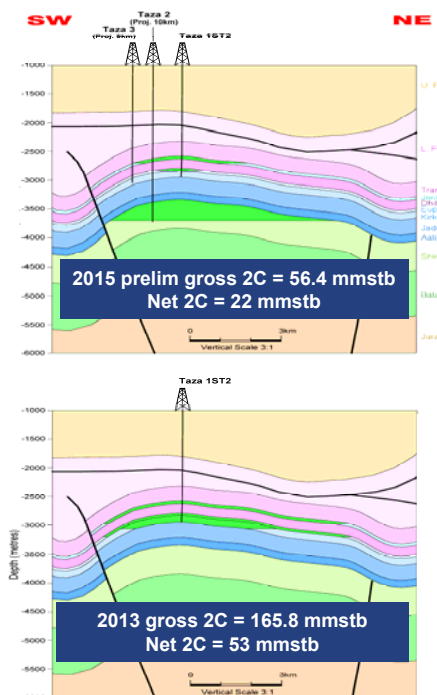
\* Mean gross prospective resources. OSH 2015 internal analysis. P50/best estimate equivalent is ~2.7 tcf. All estimates are unrisked

\*\* Mean gross prospective resources. OSH 2015 internal analysis. P50/best estimate equivalent is ~0.5 tcf. All estimates are unrisked

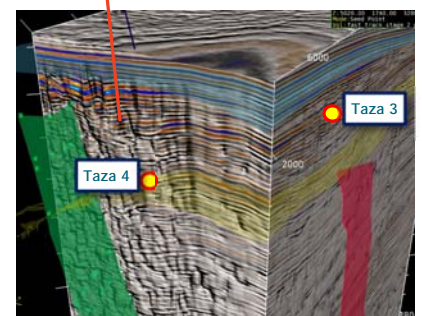
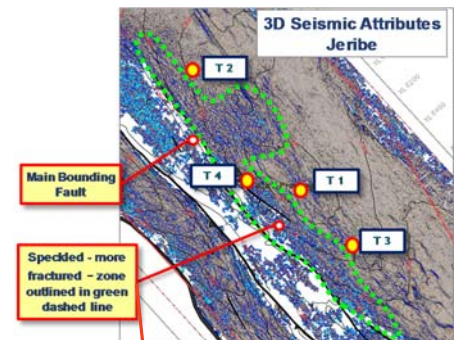
\* Subject to JV approval



## Taza impairment – Prudent approach to evaluation

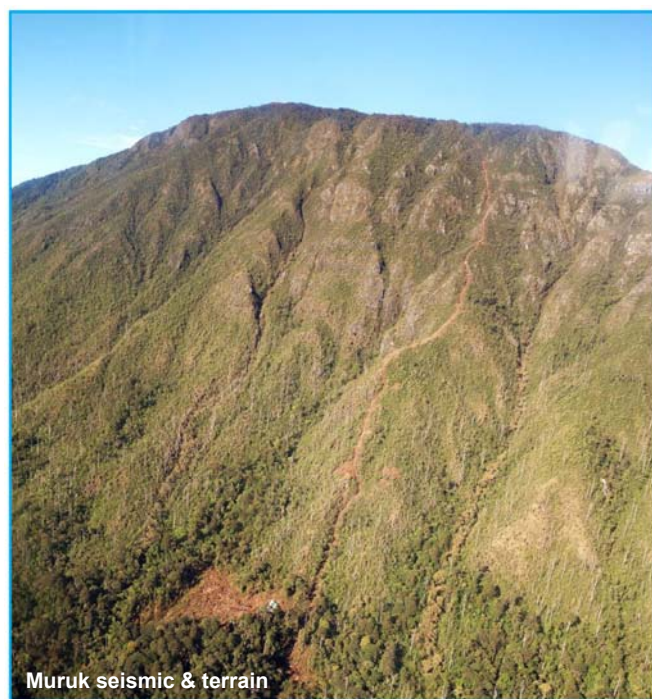


- » Taza 2 and 3 wells plus interpretation of 3D seismic completed in 2015
- » Results indicate:
  - Fractures largely absent in drilled locations
  - Commercial production from central area unlikely
  - Extensive fracturing delineated along western limb close to main fault
  - Overall resource potential reduced
- » Decision made to impair full book value (US\$399m):
  - Reduced resource volumes and resultant economics
  - Prudent approach taken
- » Forward plan:
  - Complete technical work
  - Prepare farm-out/divestment package



## 2016 Focus Items

- » OSH believes there is YTF potential of ~5 billion boe in PNG
- » Measured 2016 programme to support long-term gas reserves:
  - Drill Muruk 1 (PPL 402) and Strickland 1 (PPL 269) wells in Highlands
  - Drill Antelope 6 and possibly Antelope 7
  - Complete 72 kilometre 2D seismic survey around P'nyang South
  - Drill Barikewa 3 (PRL 9) appraisal well
- » Contingent/delayed activities:
  - Drill Kalangar 1 (PPL 339) (likely 1Q17)
  - Complete site survey at Uramu (PRL 10) in the Gulf for 2017 drilling
  - Complete seismic at Kimu (PRL 8) for 2017 drilling
  - Optionality to reduce programme further if oil prices fall further
- » Continue licence rebuilding programme:
  - Supporting long-term gas reserves
  - New conventional plays
  - Areas with potential for material new “game changers”
- » Consolidate international portfolio, focus on PNG



Muruk seismic & terrain

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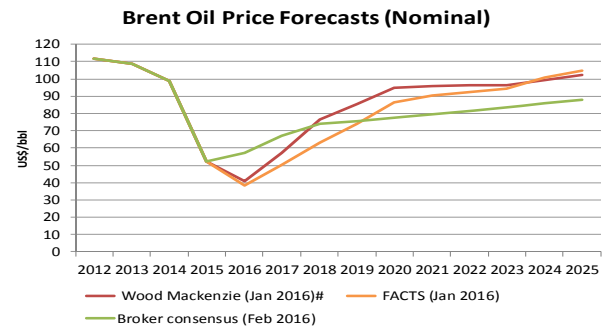
Keiran Wulff

**Outlook & Summary**

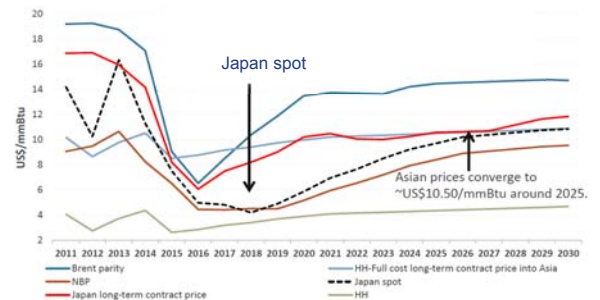
**Peter Botten**

# Operating environment remains volatile

- » Short-term, oil price may go lower:
  - Current production > demand by ~2 mmbopd
  - Inventories at highest level in years, with Iran to ramp-up
  - Weak demand in China, Japan, Europe
- » Global industry reaction:
  - ~US\$400bn in projects stalled. Five projects sanctioned in 2015 vs 50 in 2014
  - Exploration down 60-70% worldwide
  - Major contraction, ~35% oil and gas personnel redundant
  - Cost deflation a positive for projects that are economic
- » Expect impact on supply, inevitable that prices will eventually rise
- » LNG price outlook:
  - Lower oil price drives contracted gas price
  - New project commissioning resulting in high level of spot sales
  - Potential oversupply to early 2020's
  - Moving to world-traded commodity



# Woodmac has not yet adjusted their LT price forecast from 2018 onwards post the recent price falls  
FACTS real price range have been nominalised at 2.5%pa inflation



Note: The above prices are in 2016\$ real terms.

# PNG and OSH remain well positioned

- » PNG:
  - Production of oil, condensate and LNG highly competitive
  - PNG LNG recognised as world-class project
  - Performing well above nameplate capacity
  - Significant positive impact on perception of PNG, with strong customer, financing and investor confidence
  - Potential PNG LNG Project expansion and Papua LNG among most competitive globally, with aligned partners, supportive Government
- » Oil Search:
  - Strong production
  - 2015 business optimisation programme:
    - Slimmer, fit for purpose organisation with recalibrated cost base
    - Completing delivery of identified pipeline of improvement initiatives and developing further opportunities to deliver ~25% reduction in operated costs in 2016
  - Low cash flow break-even:
    - Total cash opex ~US\$13/boe (includes shipping, royalties, corporate costs etc)
    - Cash flow breakeven after opex, interest, principal repayments and sustaining capex in low US\$30/bbl
  - Solid balance sheet and liquidity, with significantly reduced capital expenditure obligations
  - Sufficient funding to pursue discretionary activities to progress LNG growth



# Helping preserve stable operating environment in PNG

- » PNG LNG expansion and Papua LNG development have potential to significantly benefit national economy
- » Operating and political stability essential for long-term sustainability
- » Landowner and community expectations have not changed with fall in oil and gas prices. Need to have transparent, efficient benefits distribution
- » Budget stresses and impacts of drought represent major challenges
- » OSH's unique role in PNG:
  - History deeply rooted in PNG, built on 87 years of operating in-country, strong and genuine relationships
  - Long-standing commitment to social responsibility and sustainable development – fundamental to maintaining stable operating environment, the right thing to do
- » OSH focus areas:
  - Provision of competitively priced, reliable power – Ramu Power Project
  - Partnerships on infrastructure development through Tax Credit Scheme projects (recently delivered Marea House and PNG National Football Stadium)
  - Partnerships on health programmes, women's empowerment and protection and education (Oil Search Foundation)
  - Capacity development – education (both ways), PNG leaderships, new Colombo Plan initiative
- » Partnership between State and private sector remains vitally important



# Summary

- » Strong production, with excellent performance from PNG LNG Project
- » Robust cash flows with low breakeven:
  - Implementation of Business Optimisation Programme initiatives has resulted in recalibrated cost base, improved organisational structure, strengthening of LNG growth and PNG exploration teams
  - Ongoing business improvements being delivered
  - Ensuring PNG stability and building capabilities of PNG staff remain a priority
- » Sound balance sheet, with sufficient liquidity to fund growth activities
- » Activities reprioritised onto projects that can deliver value in low oil price environment
- » Steady progress on potential PNG LNG Project expansion and Papua LNG Project. Both globally competitive and remain commercially sound
- » Monitoring potential to take advantage of low oil price to optimise portfolio and support strategic priorities



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