

## 2018 Annual Meeting: Chairman's Address

11 May 2018

Our Managing Director, Peter Botten, will run through the operating results for last year in more detail, but in summary:

*Slide 5 – 2017 Highlights*

### 2017 HIGHLIGHTS



- ❖ Net profit after tax of US\$302 million, more than three times 2016 NPAT
- ❖ Driven by record production and stronger oil and gas prices
- ❖ Broad alignment reached on downstream development concept for LNG expansion in PNG
- ❖ P'nyang recertification completed 1Q18:
  - Tripling of gross 1C resource to 3.51 tcf, 2C increased to 4.36 tcf supports expansion
- ❖ Encouraging exploration results at Muruk, with appraisal well scheduled to spud 4Q18
- ❖ Acquisition of world-class oil assets in Alaska North Slope with material upside

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Net profit in 2017 was more than three times higher than 2016 levels. This reflected not only the highest oil and gas production in Oil Search's history but also a recovery in global oil and gas prices. The average realised oil price was nearly US\$56 per barrel, 24% higher

than in 2016, and the average realised LNG price increased 17% to US\$7.67 per million Btu.

The PNG LNG Project continued to perform very well, with LNG production for the year of 8.3 million tonnes, which was 20% above nameplate capacity. We would like to thank the operator, ExxonMobil, for their continued excellent stewardship of this asset, from both a production and safety perspective, with zero Lost Time Incidents achieved again in 2017.

In terms of growing the business, a significant step towards confirming new LNG development and expansion was made when alignment was reached with our partners in PRL 15 – Total and ExxonMobil – on the preferred downstream development concept for LNG expansion. This is a key milestone towards achieving our growth aspirations, with the proposed expansion to add 8 million tonnes per annum of installed LNG capacity at the existing PNG LNG plant site. The three train design, of which two trains would be supported by gas from Elk-Antelope and one train by PNG LNG gas and P'nyang, is an excellent technical solution, is cost-effective and also simplifies commercial and financial structures.

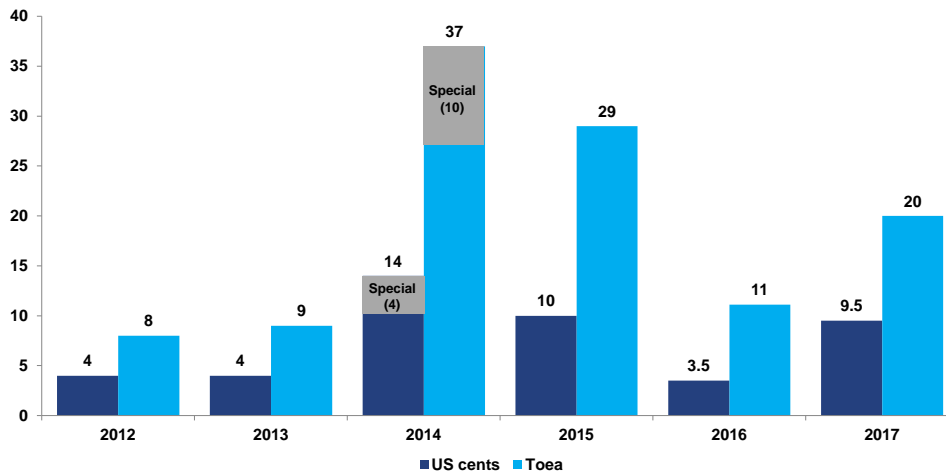
The successful completion of appraisal drilling at P'nyang South 2 in January 2018 was followed by a recertification of the P'nyang field. This has resulted in a tripling of the gross 1C resource to 3.5 tcf and an increase in the 2C resource to 4.4 tcf. Together with the Elk-Antelope fields, there is now approximately 11 tcf of 2C and more than 8 tcf of 1C discovered, undeveloped gas resource to support LNG expansion.

The Muruk gas discovery, which has upgraded the prospectivity along the Hides-P'nyang trend in the North-West Highlands, potentially provides another source of relatively low-cost gas to backfill the existing Project or to support further LNG development. Appraisal drilling is scheduled to take place on Muruk 2 later this year, which will help define resource volumes in the field.

Finally, late last year, the Company announced the proposed acquisition of oil assets in the Alaska North Slope for US\$400 million. The acquisition was completed in February this year and Oil Search assumed operatorship in March. While the purchase may have been a surprise to some shareholders, it met a number of our strategic objectives, including reweighting the portfolio towards oil and providing the Company with a platform for operatorship. In addition, the assets are high quality and do not dilute the value of our existing world class PNG interests. The acquisition does not signal any change in our long-standing commitment to PNG, where more than 90% of our assets are still located. We believe we have bought into Alaska at the right time in the appraisal process of the field, with further material upside resource potential identified. The acquisition also coincided with an upturn in oil prices, again underscoring the value upside we believe there is in these assets.

Slide 6 - Dividends to shareholders

FULL YEAR DIVIDEND OF 20 TOEA PER SHARE (US 9.5 CENTS PER SHARE) IN 2017



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The Company's total dividend for 2017 was 9.5 US cents per share, equivalent to 20 toea per share. This was nearly three times the prior year's 3.5 US cents per share payment, reflecting the Company's strong profit result in 2017 and a 48% dividend payout ratio, which was at the upper end of our 35% to 50% payout range.

As many of you may be aware, taxation amendments in the PNG 2017 Budget resulted in the 2017 interim dividend being subjected to a 15% withholding tax. However, I'm pleased to report that amendments in the PNG 2018 Budget confirmed that dividends paid by Oil Search from PNG LNG-sourced profits are exempt from dividend withholding tax, in accordance with the PNG LNG Gas Agreement. This means that the final dividend for

2017 and future dividends paid solely from PNG LNG-sourced profits are exempt from PNG dividend withholding tax.

*Slide 7 - Oil Search's commitment to PNG*

## OIL SEARCH'S CONTRIBUTIONS TO PNG IN 2017



❖ Socio-economic contributions in 2017:

- K672 million to suppliers
- K287 million to Community
- K183 million to PNG Government
- K74 million to employees
- K22 million to shareholders

❖ In addition:

- K1.1 million spent on drought assistance
- K393 million worth of infrastructure projects



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During 2017, Oil Search continued to make a significant contribution to the PNG economy, investing more than 1.2 billion Kina (US\$383.6 million) in the country. In addition to payments to the PNG Government through taxes, royalties and levies, the Company made broader socio-economic contributions by providing employment and development opportunities, procuring goods and services from local suppliers and creating a positive impact from our operations on communities through strategic community investment. The Company also provided more than one million Kina of drought relief assistance.

Oil Search continues to support the development of critical infrastructure in PNG and is currently project-managing a range of infrastructure projects on behalf of the Government. Through the Infrastructure Tax Credit Scheme, the Company delivered roads, police barracks, hospital and school re-developments and other infrastructure worth K393 million in 2017. This includes management of the construction of APEC Haus, which, I'm pleased to report, is close to completion. APEC Haus will provide a world class meeting venue for the country, not just for the APEC Leaders' meeting, but for many years to come, as a convention centre and museum.

*Slide 8 – Benefits of PNG LNG Project to the economy*

**BENEFITS OF PNG LNG PROJECT TO PNG ECONOMY**



- ❖ All payments due to Government from PNG LNG Project have been made since production start-up in 2014
- ❖ Payments of royalties and benefits to PNG LNG Project landowners:
  - Royalties held in escrow in Bank of PNG. Based on benefits sharing agreements previously executed between Government and Project area landowners
  - Distribution to LNG plant site began in 2017. However, significant payments outstanding, particularly to upstream landowners – matter of urgency for Government
  - OSH facilitating communication between Government and landowner groups to help address issue
- ❖ K14bn (US\$4.3bn) paid to local businesses and Government through employment taxes, MRDC and Kumul Petroleum disbursements, development levies, royalties and licence maintenance fees
- ❖ >80% of PNG LNG production workforce PNG citizens, >20% women

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Some questions have been raised recently about the benefits generated by the PNG LNG Project. In fact, Papua New Guinea has received multiple benefit streams from the Project

since it came on-stream. These total some 14 billion Kina (US\$4.3bn) contributed to the Government and local businesses through employment taxes, Project equity cash distributions to MRDC and Kumul Petroleum, development levies, royalties and licence maintenance fees. Of this, more than 3.5 billion Kina (US\$1.1bn) has been spent with landowner companies. In addition, some ten thousand Papua New Guineans were employed and trained during the construction period, many of whom continue to benefit from employment today, based on the skills they have learned. Nearly 2,600 employees and contractors are directly engaged in PNG LNG production operations and more than 80% of the PNG LNG production workforce is Papua New Guinean.

All payments due to the Government and other stakeholders in PNG have been paid by the PNG LNG co-venturers, in line with the Oil and Gas Act. While it was encouraging to see the Government commence distribution of Project benefits to LNG plant site landowners in 2017, we acknowledge that benefits flowing from the Project have not yet reached all Project landowners. Oil Search continues to support communications between the Government and local landowner groups to resolve this issue. Peter will provide an update of the current status of benefits distribution in his presentation.

*Slide 9 – Commitment to Transparency and Good Corporate Governance*

**COMMITMENT TO TRANSPARENCY  
AND GOOD CORPORATE  
GOVERNANCE**



- ❖ Good governance, accountability and revenue transparency critical to ensure that value unlocked from PNG's oil and gas resources results in economic growth, increased opportunities and better standard of living for PNG and its people
- ❖ OSH committed to transparency:
  - Extractive Industry Transparency Initiative (EITI) Supporting Company since 2013
  - Strong advocate for PNG Government's efforts to achieve EITI candidacy
  - Annually publish payments to government, landowners and PNG economy
  - First Voluntary Principles on Security and Human Rights report submitted to Voluntary Principles Initiative

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The payments Oil Search made to Government and other stakeholders in 2017, as just referred to, are fully outlined in this year's Transparency Report. Oil Search is a strong supporter of payments transparency, demonstrated by our voluntary annual disclosure of payments in the Oil Search Social Responsibility Report and in our dedicated Transparency Report. We have been a participating company in the Extractive Industry Transparency Initiative (EITI) since 2013 and a strong advocate for PNG's journey towards EITI compliance. ExxonMobil, the operator of the PNG LNG Project and our joint venture partner in LNG expansion and several exploration licences in PNG, is also an EITI participant.



Publishing a detailed breakdown of what payments have been made, and to whom, provides essential information to governments and citizens alike and is a means to combat corruption. Payments transparency also helps mitigate the risk of community unrest. Discontent within our communities has increased over the past few years due to growing frustrations about what is happening to government revenues from our industry, which have increased significantly since the PNG LNG Project commenced production. We continue to support and campaign for improved transparency around how these payments are received and spent.

Transparency on payments is just one example of Oil Search's commitment to adopting and implementing rigorous corporate governance practices across all our activities. We are also committed to reporting fully and openly on these practices, so all stakeholders can have trust and confidence in our approach. An area where we have recently enhanced our reporting to stakeholders is in the area of human rights. While respect for human rights and the desire to do no harm have been core objectives for Oil Search for many years, in 2017 we submitted our first Voluntary Principles on Security and Human Rights report under the Voluntary Principles Initiative.

Slide 10 – Climate Change

FIRST CLIMATE CHANGE RESILIENCE  
REPORT RELEASED MARCH 2018



KEY FINDINGS

- ❖ OSH's current and growth assets have long-term resilience and generate positive returns under a range of scenarios, including 2°C pathway
- ❖ Low risk of OSH's low-cost assets being stranded in a carbon-constrained world

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In addition, as foreshadowed in last year's Annual Meeting, during 2017, the Company significantly increased its level of disclosure around climate change risks and opportunities. At the end of 2017, the Board approved a new Climate Policy and earlier this year, we became one of the first companies in Australia to publish a Climate Change Resilience Report, disclosing how our assets will perform under a range of decarbonisation scenarios. I'm pleased to report that the analysis concluded that our PNG producing assets, the proposed LNG expansion in PNG and our potential oil development in the Alaska North Slope all have long-term resilience and are expected to generate positive returns to shareholders under a number of decarbonisation scenarios, including a 2°C pathway. Importantly, this also means that they are unlikely to become stranded in a carbon constrained world.

The Climate Change Resilience Report, as well as the Social Responsibility, Transparency and Voluntary Principles on Security and Human Rights reports are all available on the Oil Search website.

*Slide 11 – Board Changes*

BOARD CHANGES



**Ms Susan Cunningham**



**Dr Bakheet Al Katheeri**

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Since the last Annual Meeting, two directors have left the Oil Search Board; Keith Spence in October last year and Gereia Aopi in March this year. I would like to thank sincerely both Keith and Gereia for their dedicated service and considerable contribution to Board deliberations for the past five and 12 years, respectively. Gereia's connection with Oil Search will continue through his role as PNG Country Chair as well as Director of the Oil Search Foundation and Oil Search Power Holdings, where his strong relationships across

a wide range of PNG stakeholders will prove invaluable as we progress the next phase of LNG development to sanction.

I have already introduced Susan Cunningham and Dr Bakheet Al Katheeri, who were both appointed to the Oil Search Board in March this year following a comprehensive international search process. Together, they bring more than 55 years of global oil and gas experience, strengthening the Board's collective depth of industry knowledge, as well as international insight and diversity. I and my fellow Board members look forward to working with Susan and Bakheet as Oil Search prepares for LNG expansion in PNG as well as the appraisal and development of our Alaskan oil assets.

*Slide 12 – Highlands earthquake*

## HIGHLANDS EARTHQUAKE



- ❖ Magnitude 7.5 earthquake struck PNG Highlands on 26 February at 03:44 (PNG local time), with numerous aftershocks
- ❖ OSH-operated production in PNG Highlands and PNG LNG Project facilities shut in as precautionary measure and to assess damage
- ❖ No serious injuries to OSH staff or contractors. However communities significantly impacted – many deaths, destruction to homes, roads, bridges, loss of basic necessities
- ❖ Major relief efforts undertaken by OSH across all devastated communities in Hela, Southern Highlands and Western Province

As many of you are all too aware, on 26 February, a 7.5 magnitude earthquake struck the PNG Highlands. There have been numerous aftershocks since, although, thankfully, with reducing intensity and frequency. This event was caused by the convergence of tectonic plates beneath the earth's surface and resulted in enormous tragedy, including injuries, deaths and loss of livelihoods for many PNG communities living in the Hela and Southern Highlands provinces. While other parts of PNG regularly experience earthquakes, this was the first time in nearly 100 years that an earthquake of this magnitude had struck the Highlands.

Peter will talk about how Oil Search, together with the Oil Search Foundation, was at the forefront of relief efforts to assist our local communities in their hour of need. In addition to being the 'right thing to do', we were one of very few companies in PNG with the ability to provide rapid on-the-ground assistance, using our Moro Airfield as a logistical base for the delivery and distribution of aid.

Following a shut-in immediately following the earthquake, production from the Oil Search-operated fields has resumed while ExxonMobil expects the PNG LNG Project to be operating at full capacity later this month. The safe recovery and swift ramp-up of production, with no damage to the environment from uncontrolled losses of petroleum, is testament to the robust design and build of the facilities and associated infrastructure, which withstood the sizeable earthquake remarkably well, as well as to the enormous dedication and commitment from many Oil Search and PNG LNG Project employees, operating in very challenging circumstances.

## OUTLOOK FOR 2018



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While clearly the earthquake has impacted our operations, it has not diminished our enthusiasm to invest further in PNG through LNG expansion, exploration and continued commitment to sustainable development.

In 2018, Oil Search and its joint venture partners in PRL 15 and PRL 3 will continue to drive various LNG expansion workstreams, to enable a decision to be made on entering Front End Engineering and Design in the second half of the year. This will require considerable hard work by all parties and we look forward to engaging with Government in the coming weeks and months to ensure this transformational, nation-building development proceeds.

Oil Search is also drilling three appraisal wells in the North-West Highlands and Forelands regions and shooting the largest onshore seismic programme in the Company's history, aimed at underwriting further long term growth in PNG. Our PNG exploration activities will be complemented by activities in Alaska, focused on delineating the size of the Nanushuk oil field.

Our socio-economic programmes in PNG will continue, with a particular focus on supporting the Government's efforts to deliver on its PNG LNG Project commitments to landowner beneficiaries. Our earthquake relief efforts are also ongoing, with the emphasis moving onto helping local communities recover and preventing communicable diseases.

In 2018, PNG is hosting the APEC forum. This is a unique opportunity for PNG to showcase its people, culture and economy to the world and highlight PNG as an attractive place for foreign investment. We look forward to welcoming country leaders from APEC economies at APEC Haus in Port Moresby.

2018 will be a significant year for Oil Search. While oil prices have rallied in recent months, we will continue to focus on controlling costs and on prudent capital management in preparation for the expected concurrent development of LNG expansion in PNG and our Alaskan oil field.

The Company is well positioned from a governance, financial and operational perspective and enters 2018 with a refreshed board, a strong balance sheet, a resilient, high quality production base and very attractive growth opportunities. I would like to thank all our staff for their skilled, dedicated and passionate contributions to the Company, especially over the last few months. I would also like to thank our shareholders for their continued support. Thank you again for your attendance here today.

I will now hand over to Peter.

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