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# Business Update and Equity Raising

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7 April 2020

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## SYDNEY (ASX: OSH | ADR: OISHY | PNGX: OSH)

Oil Search has today announced an accelerated pro-rata non-renounceable entitlement offer, an institutional placement and an offer to eligible PNG shareholders, to raise a total of up to approximately US\$700 million (equivalent of up to approximately A\$1,160 million). The proceeds of the raise (the “Equity Raising”) will be used to strengthen Oil Search’s balance sheet and increase liquidity, so that Oil Search can withstand a prolonged period of low oil prices. Oil Search is well-positioned to deliver its world-class growth projects in Papua New Guinea and Alaska when market conditions improve.

The Equity Raising will be conducted at an offer price of A\$2.10 per share which represents a 23.1% discount to Oil Search’s last closing price and an 18.0% discount to the Theoretical Ex-Rights Price<sup>1</sup> (“TERP”).<sup>2</sup>

In response to market conditions, Oil Search has taken several decisive steps which include:

- The suspension or deferral of discretionary activities within its control, resulting in an approximate 40% reduction in 2020 forecast investment expenditure guidance, from US\$710-845 million to US\$440-530 million (as announced on 18 March 2020).
- Execution of preliminary cost reduction measures (including salary cuts, headcount reductions in Sydney and Anchorage and discretionary spending cuts) and the commencement of a systematic review of operating costs to be implemented by June 2020.
- Implementing business continuity plans and amending work practices in response to COVID-19, to reduce risk to employees, contractors and local communities while also ensuring safe and reliable operations.
- Extending the maturity of the US\$300 million loan facilities from 13 September 2020 to 30 June 2021, such that Oil Search now has no near-term debt maturities on its corporate facilities<sup>3</sup>.

Normal production levels have been maintained during the first quarter of 2020, with production of 7.3 mmbœ, comprising 6.3 mmbœ for PNG LNG, produced at an annualised rate of 8.7 MTPA, and 1.0 mmbœ for Oil Search-operated assets. Oil Search has reconfirmed its 2020 full year production guidance of 27.5 – 29.5 mmbœ, assuming no business interruption from COVID-19.

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<sup>1</sup> Theoretical ex-rights price (“TERP”) includes shares issued under the Placement, Institutional Entitlement Offer and Retail Entitlement Offer. TERP is a theoretical calculation only and the actual price at which Oil Search shares trade immediately following the ex-date for the Entitlement Offer may be different from TERP. TERP has been calculated as: (existing market capitalisation of Oil Search plus additional equity raised) / total shares on issue following the Equity Raising.

<sup>2</sup> At 3 April 2020, Oil Search’s last closing price was A\$2.73 per share and the TERP is A\$2.56 per share.

<sup>3</sup> Extension of maturity of US\$300 million loan facilities from 13 September 2020 to 30 June 2021 is subject to standard regulatory approvals (i.e. Bank of PNG) and the completion of the Equity Raising.



**Commenting on today's announcement, Oil Search Managing Director, Keiran Wulff said:**

*"In response to the recent rapid decline in oil prices, Oil Search has undertaken a number of decisive actions to preserve capital and strengthen the balance sheet, while also maintaining safe and reliable operations."*

*"At this difficult time, our highest priority is the health and safety of our personnel and the communities in which we operate. In February, we established a COVID-19 Taskforce which, in response to World Health Organisation recommendations, has taken steps to minimise the impact of the virus on our people and our business. We continue to be in regular dialogue with the PNG Government to minimise any disruption to our operations and ensure our customer obligations can be safely met."*

*"Our capital preservation measures, together with the Equity Raising are intended to ensure that Oil Search can withstand a prolonged period of lower oil prices. Oil Search believes it is well positioned to deliver on its world-class growth projects in PNG and Alaska when market conditions improve. The additional time will allow us to finalise the P'nyang Gas Agreement with the PNG Government and optimise the Alaskan development, with a focus on reducing the breakeven cost of the project and integrating the results of the recent Mitquq and Stirrup wells."*

## Overview of debt facilities

Following the Equity Raising, Oil Search is expected to have pro-forma gearing of 28% and available liquidity of approximately US\$1,835 million, comprising US\$1,079 million cash<sup>4</sup>, US\$760 million of undrawn debt facilities, less a US\$4 million bank guarantee. This amount is expected to provide sufficient liquidity to 31 December 2021 assuming the average Brent oil price remains at low US\$20 per barrel or higher from 1 April 2020 onwards.<sup>5</sup>

More than 85%<sup>6</sup> of Oil Search's drawn debt relates to the non-recourse PNG LNG project finance facility that has no financial covenants. A cash balance which is equal to six months of forecast principal and interest repayments is kept within the PNG LNG project accounts at all times. At present, this escrow cash account holds sufficient cash to meet almost all principal and interest repayments for the remainder of 2020.

Oil Search also has six corporate facilities with total capacity of US\$1,200 million and drawn debt of US\$440 million at 31 December 2019. Subject to the Equity Raising, these corporate facilities have no debt maturities in the next twelve months, following the extension of US\$300 million of loan facilities maturity from 13 September 2020 to 30 June 2021.<sup>7</sup>

Oil Search is currently compliant with all financial covenants in relation to its corporate facilities. The key financial covenant in a low oil price environment is maintaining greater than or equal to 3.0x EBITDAX / net interest expense, which is tested semi-annually on both a last twelve months' and a forward-looking basis<sup>8</sup>.

Oil Search expects to comply fully with this covenant (on a last twelve months basis) at 30 June 2020. However, if the spot Brent oil price averages below low US\$20s/bbl for the remainder of the year, there is a risk of non-compliance with this covenant at 31 December 2020<sup>9</sup>. EBITDAX in the first quarter of 2020 has benefited from

<sup>4</sup> Includes US\$232 million in PNG LNG escrowed accounts and US\$12 million in a debt service reserve account in relation to the US\$600 million Corporate syndicated revolving credit facility.

<sup>5</sup> Liquidity analysis assumes covenants are waived (if required). However, there is no guarantee that Oil Search will be successful in receiving covenant waivers from corporate facilities lenders.

<sup>6</sup> As at 31 December 2019.

<sup>7</sup> Extension of maturity of US\$300 million Revolving Credit Facility from 13 September 2020 to 30 June 2021 is subject to standard regulatory approvals (i.e. Bank of PNG) and completion of the equity raising.

<sup>8</sup> Forward looking  $\geq 3.0x$  EBITDAX / net interest expense covenant is tested semi-annually based upon the next two years assuming a Brent oil price which is in line with 90% of the forward curve. Oil Search is currently compliant with the forward-looking covenant. Oil Search has not provided an estimate of future compliance with this covenant given an inability to forecast the forward curve. It is important to note that breach of the forward-looking covenant results in a Review Event (rather than an Event of Default).

<sup>9</sup> Estimate provided based upon current management forecasts, prior to the completion of further cost reduction initiatives currently underway.



strong realised pricing given the approximately two-month lag between contracted LNG prices and benchmark Brent oil prices.

In relation to the 30 June 2021 covenant testing period, spot Brent oil prices would need to average below low US\$30s/bbl for the twelve month period ending 30 June 2021 for there to be a risk of non-compliance with the EBITDAX / net interest expense covenant (on a last twelve months basis).<sup>10</sup> Given the low oil price environment, Oil Search has had preliminary discussions with lenders who have indicated a willingness to consider covenant waivers, to the extent they may be required.<sup>11</sup>

### COVID-19 Taskforce

In response to World Health Organisation recommendations, Oil Search established a COVID-19 Taskforce in February 2020 to manage the impact of COVID-19 on Oil Search's activities. Business continuity protocols have been progressively implemented. Oil Search has modified work practices to reduce risk to employees and contractors, including deferring discretionary activities, reducing the number of personnel at facilities, increasing medical and field supplies and introducing infectious disease protocols.

ExxonMobil, as operator of the PNG LNG Project, has advised that it has also implemented similar measures consistent with recommendations from the Government of PNG, the global health authorities and ExxonMobil practices, to sustain continued safe operations from PNG LNG.

To date, normal production levels have been maintained, with no disruptions to lifting schedules experienced.

### Reconfirmation of 2020 full year production guidance

Oil Search's 2020 production guidance of 27.5 – 29.5 mmbœ remains unchanged, assuming no business interruption from COVID-19. 2020 first quarter production was 7.3 mmbœ, comprising 6.3 mmbœ from the PNG LNG Project (which represents an annualised rate of 8.7 MTPA) and 1.0 mmbœ from Oil Search-operated assets.

Oil Search has commenced a systematic review of sustainable cost reduction initiatives in relation to both Oil Search operated assets and corporate overheads. Oil Search is targeting at least a US\$1-2/boe reduction in production costs through the review, prior to implementation costs. Oil Search's prior production cost guidance of US\$11-12/boe will be updated in mid- 2020, following completion of the review.

### Mubadala participation

While not participating in the Equity Raising, Mubadala, Oil Search's largest shareholder, has confirmed that Oil Search remains an important investment for Mubadala.

### Terms of the Equity Raising

The Equity Raising is expected to raise up to approximately US\$700 million (equivalent of up to approximately A\$1,160 million) and will be conducted via:

- An underwritten institutional placement of approximately A\$760 million ("Placement");
- An accelerated non-renounceable entitlement offer of up to A\$400 million ("Entitlement Offer") at a ratio of 1 for 8, comprising:
  - An underwritten accelerated institutional component ("Institutional Entitlement Offer"); and

<sup>10</sup> Estimate provided based upon current management forecasts, prior to the completion of further cost reduction initiatives currently underway.

<sup>11</sup> There is no guarantee that Oil Search will be successful in receiving any covenant waivers that may be required for its corporate facilities from lenders.



- A non-underwritten retail component (“Retail Entitlement Offer”); and
- A non-underwritten PNG offer for eligible PNG shareholders on substantially the same terms as the Entitlement Offer (“PNG Retail Offer”), subject to obtaining PNG regulatory approvals.

The offer price for the Placement and the Entitlement Offer will be A\$2.10 per share (Offer Price), representing:

- An 18.0% discount to the theoretical ex-rights price (“TERP”) of A\$2.56; and
- A 23.1% discount to the closing price of A\$2.73 on 3 April 2020.

The Equity Raising will result in the issue of up to 552 million<sup>12</sup> new ordinary shares (“New Shares”), representing approximately 36.2% of Oil Search’s existing securities on issue. The New Shares issued under the Equity Raising will rank equally with existing Oil Search shares as at their date of issue.

The Oil Search Directors who are eligible shareholders have each confirmed their intention to participate in the Entitlement Offer by taking up their pro rata entitlement for New Shares.

The Entitlement Offer is non-renounceable and rights are not transferrable and will not be traded on the ASX or other exchange.

Eligible shareholders who do not take up their entitlement under the Entitlement Offer in full or in part, will not receive any value in respect of those entitlements not taken up.

## Placement

All shares offered under the Placement will be issued at the same price as New Shares issued under the Entitlement Offer (A\$2.10 per share). New Shares issued under the Placement do not have rights to participate in the Entitlement Offer.

## Institutional Entitlement Offer

Eligible institutional shareholders will be invited to participate in the Institutional Entitlement Offer.

Under the Institutional Entitlement Offer, eligible institutional shareholders can choose to take up all, part or none of their Entitlement. Entitlements not taken up under the Institutional Entitlement Offer will be offered to eligible institutional investors at the Offer Price.

## Retail Entitlement Offer

Eligible retail shareholders with a registered address in Australia or New Zealand on the Record Date of 7.00pm (Sydney time), 9 April 2020, have the opportunity to invest in New Shares at the Offer Price, on the terms and conditions outlined in the Retail Offer Booklet to be sent to eligible retail shareholders on or around 16 April 2020.

Please note that shareholders with a registered address outside Australia or New Zealand on the Record Date are ineligible to participate in the Retail Entitlement Offer. Further details as to eligibility will be set out in the Retail Offer Booklet.

Under the Retail Entitlement Offer, eligible retail shareholders that take up their full entitlement may also apply for additional New Shares in excess of their Entitlement.

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<sup>12</sup> Includes shares issued under the Placement and the Entitlement Offer. Excludes shares to be issued under the PNG Retail Offer.



## PNG Retail Offer

Eligible retail shareholders with a registered address in Papua New Guinea on the Record Date of 7.00pm (Sydney time), 9 April 2020, will have the opportunity to invest in New Shares on substantially the same terms as the Entitlement Offer. Further information regarding the PNG Retail Offer, including the terms and conditions of the offer and details as to eligibility, will be outlined in the PNG Prospectus to be sent to eligible retail shareholders in PNG in mid to late April 2020.

## Retail Investor Enquiries

For further information in regard to the Retail Entitlement Offer, please do not hesitate to contact the Oil Search Shareholder Information Line on 1300 128 731 (within Australia) or +61 3 9415 4233 (outside Australia) at any time from 8.30am to 5.00pm (AEST) Monday to Friday during the offer period.

## Equity Raising indicative timetable

The timetable below is indicative only and subject to change. Oil Search reserves the right to alter the dates at its full discretion and without prior notice, subject to the ASX Listing Rules and the Corporations Act 2001 (Cth).

The quotation of New Shares is subject to confirmation from the ASX and PNGX.

All times below are based on Sydney, Australia time.

Event	Date (2020)
Equity raising announcement and Placement and Institutional Entitlement Offer opens	7 April
Placement and Institutional Entitlement Offer closes	8 April
Trading in Oil Search Shares resumes on an ex-entitlement basis	8 April
Record date for determining entitlement for the Entitlement Offer	7.00pm (Sydney time), 9 April
Retail Entitlement Offer opens	16 April
Settlement of Placement and Institutional Entitlement Offer	17 April
Allotment and normal trading of New Shares issued under the Placement and Institutional Entitlement Offer	20 April
Retail Entitlement Offer closes	5.00pm (Sydney time), 27 April
Settlement of Retail Entitlement Offer	1 May
Allotment of New Shares issued under the Retail Entitlement Offer	4 May
Normal trading of New Shares issued under the Retail Entitlement Offer	5 May
Despatch of holding statements for Retail Entitlement Offer	5 May

## Further information and Webcast details

Oil Search will be holding a conference call at 10:30am (Sydney time) today, 7 April 2020.

The presentation will be webcast live at <https://webcast.openbriefing.com/5999/>.

The conference call will be available in archive form within four hours after completion.



For more information, please contact:

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*This ASX announcement was authorised for release by Oil Search's Board of Directors*

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**Forward-looking statements and forecasts**

This announcement contains certain "forward-looking statements" that are based on management's beliefs, assumptions and expectations and on information currently available to management. Forward-looking statements



can generally be identified by the use of forward-looking words such as, “expect”, “anticipate”, “likely”, “intend”, “should”, “could”, “may”, “predict”, “plan”, “propose”, “will”, “believe”, “forecast”, “estimate”, “target” “outlook”, “guidance” and other similar expressions within the meaning of securities laws of applicable jurisdictions. Such forward-looking statements include statements regarding the timetable, conduct and outcome of the Equity Raising and the use of proceeds thereof, statements about the plans, objectives and strategies of the management of Oil Search, statements about the oil and gas industry and the markets in which Oil Search operates and statements about the future performance of the Oil Search businesses. Indications of, and guidance or outlook on, future earnings or financial position or performance, future earnings and distributions are also forward-looking statements

**You are strongly cautioned not to place undue reliance on forward-looking statements, particularly in light of the current economic climate and the significant volatility, uncertainty and disruption caused by the outbreak of COVID-19.** Any such statements, opinions and estimates in this announcement speak only as of the date hereof and are based on assumptions and contingencies subject to change without notice, as are statements about market and industry trends, projections, guidance and estimates. Forward-looking statements are provided as a general guide only. The forward-looking statements contained in this announcement are not indications, guarantees or predictions of future performance and involve known and unknown risks and uncertainties and other factors, many of which are beyond the control of the Oil Search group, and may involve significant elements of subjective judgement and assumptions as to future events which may or may not be correct. Forward-looking statements may also assume the success of Oil Search's business strategies. The success of any of these strategies is subject to uncertainties and contingencies beyond Oil Search's control, and no assurance can be given that any of the strategies will be effective or that the anticipated benefits from the strategies will be realised in the period for which the forward looking statements may have been prepared or otherwise. Refer to the key risks in Appendix B of the Investor Presentation released on ASX on 7 April 2020 for a non-exhaustive summary of certain key business, offer and general risk factors that may affect the Oil Search group.

There can be no assurance that actual outcomes will not differ materially from these forward-looking statements. A number of important factors could cause actual results or performance to differ materially from the forward-looking statements, including (without limitation) the risks and uncertainties associated with the ongoing impacts of COVID-19, the PNG and global economic environment and capital market conditions and other risk factors set out in the Investor Presentation. Investors should consider the forward-looking statements contained in this announcement in light of those risks and disclosures. The forward-looking statements are based on information available to Oil Search as at the date of this announcement.

No representation, warranty or assurance (express or implied) is given or made in relation to any forward-looking statement by any person (including Oil Search or any of its advisers). In particular, no representation, warranty or assurance (express or implied) is given that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur. Actual operations, results, performance, production targets or achievement may vary materially from any projections and forward-looking statements and the assumptions on which those statements are based. Except as required by law or regulation (including the ASX Listing Rules and PNGX Listing Rules), Oil Search disclaims any obligation or undertaking to update forward-looking statements in this announcement to reflect any changes in expectations in relation to any forward-looking statement or change in events, circumstances or conditions on which any statement is based.

## Financial Data

This announcement contains pro forma financial information (in particular, a pro forma liquidity and gearing to reflect the impact of the Offer). The pro forma financial information has been prepared by Oil Search in accordance with the measurement and recognition requirements, but not the disclosure requirements of applicable accounting standards and other mandatory reporting requirements in Australia or Papua New Guinea (“PNG”). The pro forma financial information is for illustrative purposes only, is not represented as being indicative of Oil Search's views on its future financial condition and or performance and does not purport to be in compliance with Article 11 of Regulation S-X of the rules and regulations of the U.S. Securities and Exchange Commission.



This announcement contains certain financial measures that are (i) “non-IFRS financial information” under ASIC Regulatory Guide 230: “Disclosing non-IFRS financial information” and (ii) “non-GAAP financial measures” under Regulation G of the U.S. Securities Exchange Act of 1934, as amended. These measures include liquidity, gearing and EBITDAX / net interest expense coverage. The disclosure of such non-GAAP financial measures in the manner included in this announcement may not be permissible in a registration statement under the U.S. Securities Act.

Oil Search believes the non-IFRS financial information and non-GAAP financial measures provide useful information to users in measuring the financial performance and conditions of Oil Search. The non-IFRS financial information and non-GAAP financial measures do not have a standardised meaning prescribed by the Australian Accounting Standards (“AAS”) or the International Financial Reporting Standards (including the interpretations of the International Financial Reporting Interpretations Committee) (“IFRS”) and, therefore, may not be comparable to similarly titled measures presented by other entities, nor should it be construed as an alternative to other financial measures determined in accordance with AAS or IFRS. You are cautioned not to place undue reliance on any non-IFRS financial information or non-GAAP financial measures included in this announcement.