



# Oil Search Update

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Macquarie Australia Conference

**Oil Search Limited**

ARBN 055 079 868



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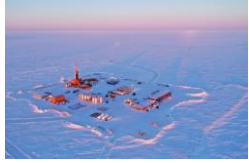
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# OIL SEARCH FOCUS AREAS IN 2020



**Ensuring the wellbeing of our people and the community**



**Safe and reliable PNG and Alaskan operations**



**Enhancing liquidity, disciplined capital management, reducing costs and suspending all discretionary activity**

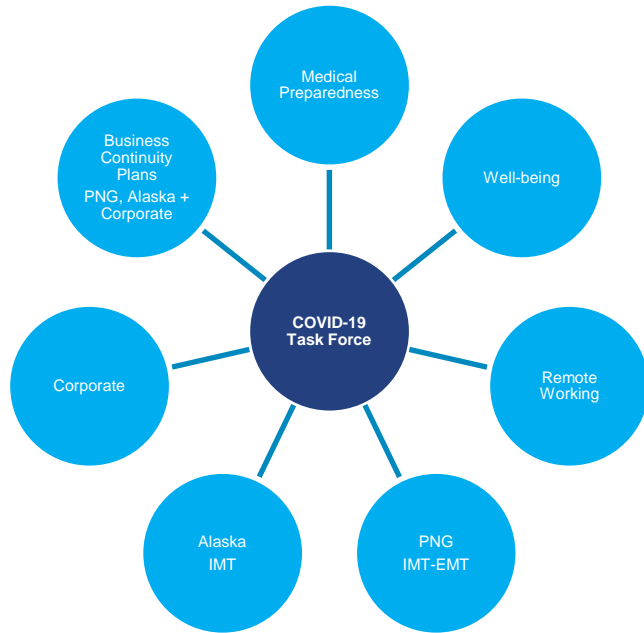


**Positioning Oil Search to deliver growth when market conditions allow**



**Strategic review considering new norms and discipline**

# COVID-19 TASK FORCE



IMT: Incident Management Team  
EMT: Emergency Management Team



## Papua New Guinea

- ◇ Experience in managing infectious diseases:
  - ◆ Integrated task force to develop plans
  - ◆ Major focus on staff and community well-being
- ◇ Demobilise non-essential staff and shut down discretionary activity:
  - ◆ Segregated field operational activities
  - ◆ Increased supplies to cater for disruption
  - ◆ Increase in country support levels
  - ◆ R & R roster, fatigue management
- ◇ Segregated areas to limit risk of incoming or outgoing cross infection

## Alaska

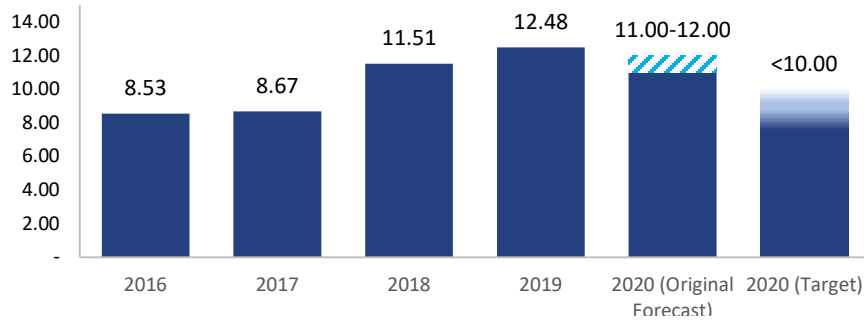
- ◇ Isolated North Slope activities from outside
- ◇ Supported local community with materials

## Corporate

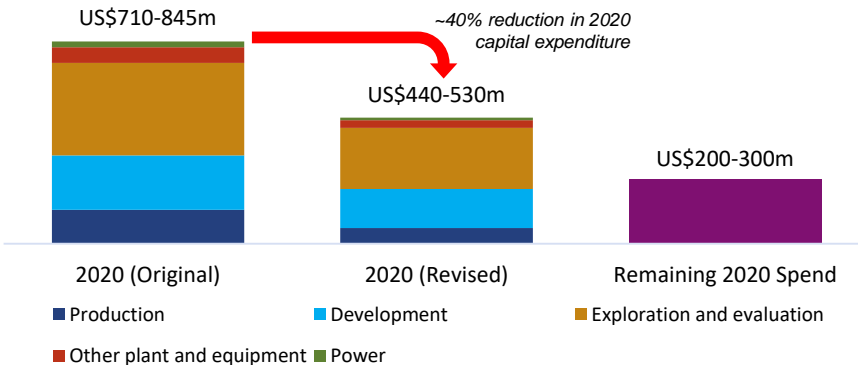
- ◇ Keep connected, offsite working initiatives

# PROACTIVE RESPONSE TO LOW OIL PRICES

Unit Production Costs (US\$/boe)



2020 Investment Expenditure Guidance (US\$m)



## Operating costs

- ◇ Reduced headcount in Sydney and Anchorage offices
- ◇ Salary cuts extended across the entire business
- ◇ Targeting additional ~20% cost reductions through optimising operating model and supply chain (reducing unit costs by US\$1-2/boe)

## Capital costs

- ◇ All discretionary PNG expenditure, not impacting safety or reliability, suspended or deferred
- ◇ Minor expenditure for LNG expansion in 2020
- ◇ Pikka activity focused on value engineering ahead of 2021 FID, with limited costs
- ◇ 2021 budgets and programs dependent on outlook

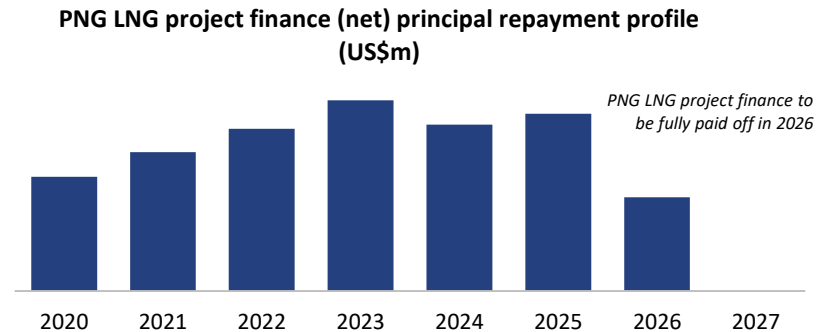
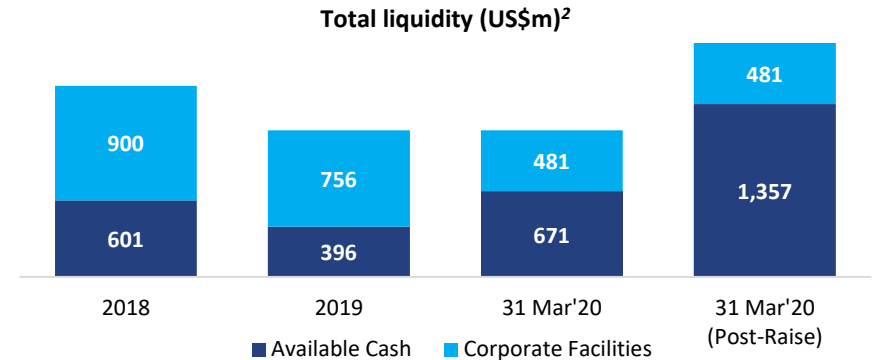
# ENSURING BALANCE SHEET STRENGTH

## Equity raise

- ◇ In early April, announced US\$700m (A\$1.16bn) capital raising:
  - ◆ Structured to provide certainty and ability to allocate shares to existing shareholders
  - ◆ Completed US\$650m placement and institutional component of the entitlement offer on 8 April
  - ◆ Retail entitlement completed successfully in early May, PNG component closes late May
- ◇ Proceeds enhance liquidity and strengthen balance sheet

## Liquidity position

- ◇ Pro-forma liquidity of US\$1.8 billion (at 31 March 2020)
- ◇ No near-term debt maturities<sup>1</sup>
- ◇ >80% of drawn debt attributed to PNG LNG project financing with no covenants:
  - ◆ Cash currently in escrowed accounts sufficient for almost all 2020 principal and interest payments

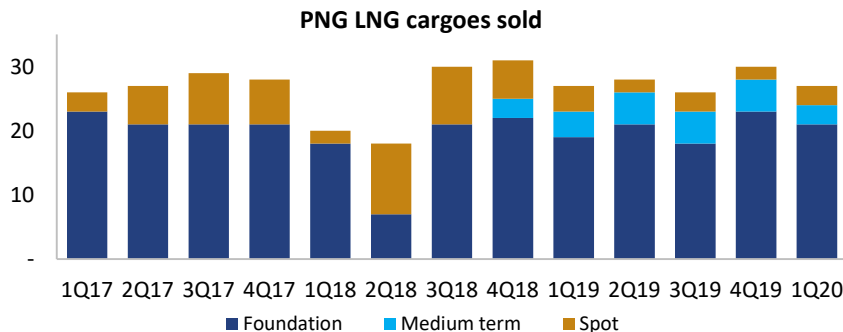


<sup>1</sup>Assumes US\$300 million loan facility extended to 30 June 2021 (awaiting regulatory approvals)

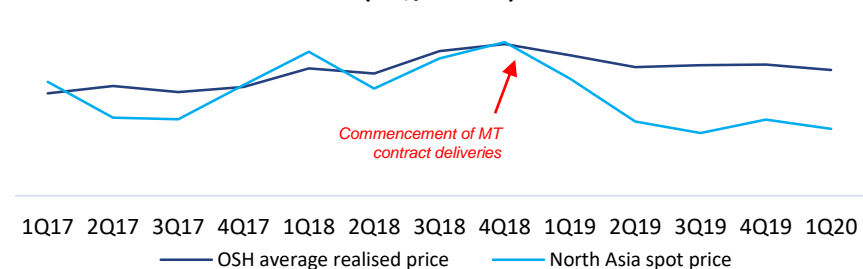
<sup>2</sup>Post-raise liquidity assumes the full US\$700 million is raised and held as cash, less US\$17 million in transaction costs

# STRONG PERFORMANCE FROM PNG LNG

- ◆ PNG LNG annualised 8.7 MTPA during 1Q20
- ◆ No material impact on production or disruptions to lifting schedule from COVID-19 to date
- ◆ <10% exposure to spot LNG market
- ◆ Turbine maintenance planned for second quarter and Angore development activities deferred
- ◆ ExxonMobil, operator of PNG LNG, has advised it is evaluating appropriate steps to reduce costs in the near term



**OSH realised LNG & gas price v North Asia LNG spot price (US\$/mmBtu)**



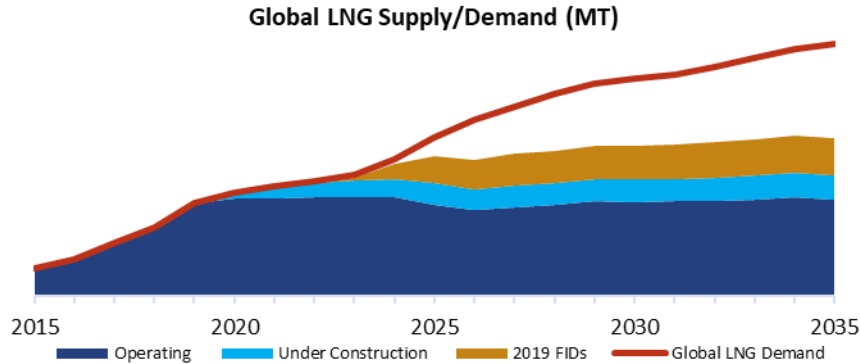
Source: IHS Markit, Oil Search data, May 2020



- 
- Operated oil production (kbbbl, qtr)**
- The bar chart displays quarterly oil production from 2013 to 2019. The y-axis represents production in thousands of barrels per quarter (kbbbl, qtr), ranging from 0 to 1,800. The x-axis shows the years from 2013 to 2019. The legend indicates four production areas: Kutubu (dark blue), Motan (light blue), Gobe Main (orange), and SE Gobe (red). Production was relatively stable until 2016, after which it declined significantly. A sharp drop is visible in 2017, followed by a recovery in 2018 and 2019. Annotations on the chart include 'PNG Earthquake' and 'Mooring buoy downtime'.
- | Year | Kutubu | Motan | Gobe Main | SE Gobe |
|------|--------|-------|-----------|---------|
| 2013 | ~1,200 | ~200  | ~100      | ~100    |
| 2014 | ~1,200 | ~200  | ~100      | ~100    |
| 2015 | ~1,200 | ~200  | ~100      | ~100    |
| 2016 | ~1,200 | ~200  | ~100      | ~100    |
| 2017 | ~600   | ~400  | ~100      | ~100    |
| 2018 | ~1,000 | ~400  | ~100      | ~100    |
| 2019 | ~1,000 | ~400  | ~100      | ~100    |



# LNG EXPANSION IN PNG



Source: IHS Markit, Oil Search data, May 2020



- ◇ PNG LNG, Papua LNG and P'nyang participants recognise the benefits for all parties of the integrated three-train LNG expansion in PNG:
  - ◆ P'nyang Gas Agreement final step required to enter FEED phase
- ◇ Formal discussions between ExxonMobil and PNG Government on the P'nyang Gas Agreement suspended in late January:
  - ◆ Informal exploratory discussions ongoing to identify pathways for alignment
- ◇ Slowing of global activity and downturn has highlighted importance of lowest cost projects:
  - ◆ PNG expansion remains globally competitive, with attractive breakeven cost compared to peers
  - ◆ Global slowdown has resulted in delays to competing global LNG projects, deferring market re-balance
- ◇ Positive initial discussions with key buyers in north Asian market, to resume when expansion becomes more certain

# SUCCESSFUL ALASKAN WINTER PROGRAM

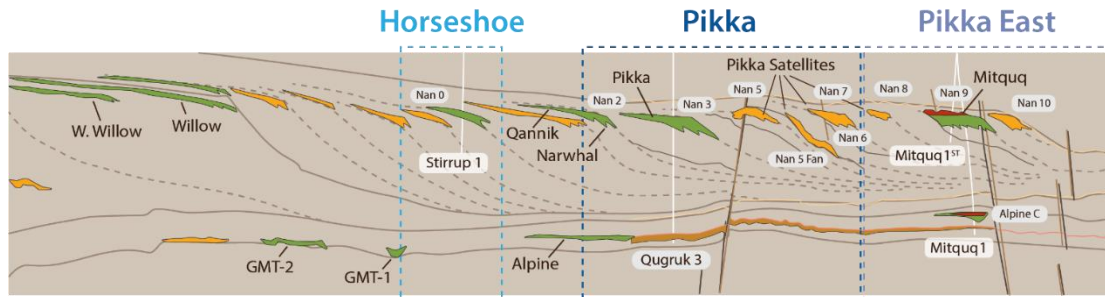
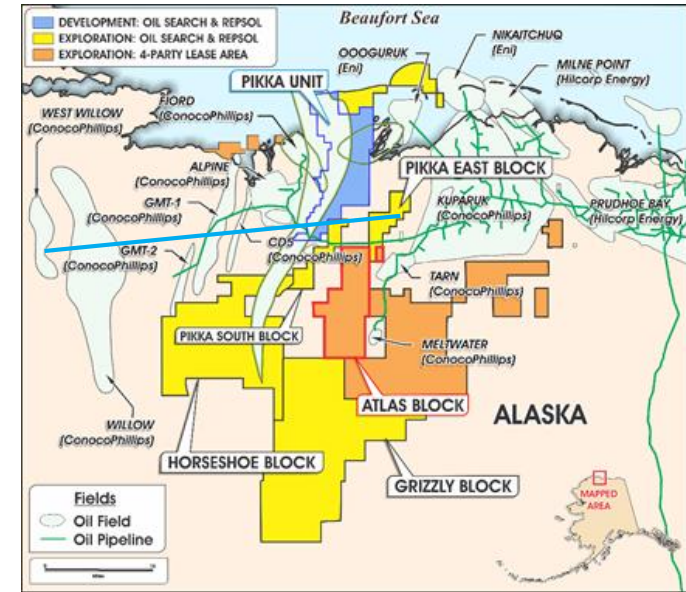


- ◇ Extensive program including road and well pad construction, drilling three exploration wells (all discoveries), with two tested
- ◇ Excellent safety and environmental performance
- ◇ All objectives delivered under budget despite added stress from the COVID-19 pandemic and extreme cold temperatures:
  - ◆ Mitquq discoveries have de-risked prospects between Pikka and Mitquq
  - ◆ Excellent Stirrup well test
  - ◆ Exploration prospect inventory has increased materially (# of prospects and associated volumes) while risks have decreased significantly. Well results now being integrated into development plans
- ◇ Constructed 109 kilometres (68 miles) of ice roads and 45 hectares (111 acres) of ice pads with zero damage to the pristine North Slope tundra and established year-round access to the Pikka field Pad B



# ALASKA'S POSITIVE 2019/20 DRILLING RESULTS

- ◇ Mitquq 1 ST1 flowed at 1,730 bopd, well above expectations:
  - ◆ Deeper Alpine C discovery provides upside
- ◇ Stirrup 1 tested 3,520 bopd from the Nanushuk:
  - ◆ One of the highest single-stage flow rates in a vertical well
- ◇ FID of Pikka Unit Development delayed to 2021, still targeting commencement of production in 2025:
  - ◆ Focus on reducing the breakeven of the Pikka Unit Development and integrating Mitquq and Stirrup results
- ◇ While formal partial divestment process suspended, discussions ongoing with several interested parties



# PROACTIVELY DEALING WITH MARKET CONCERNS



- ◇ **Liquidity:** Recent equity raise has provided sufficient liquidity for all currently planned activities to end 2021, assuming the average Brent oil price remains at around current levels\*
- ◇ **Corporate facility covenants:** Currently compliant with all covenants. If Brent oil price are below current levels for the rest of the year, risk of non compliance at 31 Dec 20. Positive discussions with lenders, who have all indicated a willingness to provide covenant waivers, if required
- ◇ **PNG licence status:** Under Oil & Gas Act, PRL 3 (P'nyang) licence remains on foot and valid and gas agreement discussions are underway. PRL 15 JV has the option to extend for an additional five year period or make an Application for Petroleum Development Licence (APDL), when current period expires in late 2021
- ◇ **Papua Gas Agreement:** Reviewed and validated by the Marape Government in September 2019, with ten legislative changes passed by Parliament in mid-October 2019
- ◇ **LNG offtake:** No material impact to PNG LNG shipping schedules to date, with 24 cargoes sold under contract in 1Q20. Long term demand for high calorific value gas remains positive as LT contracts from NWS and Brunei expire
- ◇ **Alaskan development:** Pikka Unit Development remains globally competitive, with activities to further reduce the breakeven cost underway. Will be a very low scope 1 and 2 emissions project, adjacent to infrastructure. Parties continue to express interest despite suspension of the formal partial divestment process
- ◇ **Mubadala position:** Largest shareholder in OSH was unable to participate in the equity raise, but has confirmed Oil Search remains an important investment. Ongoing strong long term relationship
- ◇ **Strategic review:** Remains on track for delivery in 3Q20

\* Assumes covenants are waived, if required. Risk of non-compliance at 31 Dec 2020 if oil price remains below current levels for rest of 2020

# SUMMARY

- ◇ Current share price represents a **historical attractive entry point for Oil Search** – enterprise value is in line with the construction cost of PNG LNG
- ◇ PNG LNG is a **world class, low cost LNG project**, with a strong reputation for reliable supply to Asian markets
- ◇ Equity raising provides **liquidity** and **balance sheet strength**, and we are well placed to withstand an extended low oil price environment and benefit from oil price recovery
- ◇ **Responded early** to the impact of COVID-19 with **procedures in place to minimise the virus impacts** on the Company's people and operations
- ◇ Hiatus allows time to **finalise P'nyang Gas Agreement** and **optimise design of Pikka Unit Development** in Alaska
- ◇ **Well positioned for growth** when the market recovers, with LNG expansion in PNG and Alaska Pikka Unit Development





