

A photograph of a lush green forest with a single white orchid flower in the foreground. The orchid has yellow and red markings on its petals. The background is a dense, misty forest with a waterfall visible in the distance.

Oil Search

A Ninety Year Journey in Papua New Guinea

Sydney Mining Club | 6 June 2019

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TALK OUTLINE

OIL SEARCH – A NINETY YEAR JOURNEY IN PAPUA NEW GUINEA



OIL SEARCH 90 YEARS ON

DRIVERS FOR GROWTH OVER THE LAST 25 YEARS

THE PNG OPERATING ENVIRONMENT

- ❖ Politics
- ❖ Business and social issues

THE FUTURE

- ❖ The art of the possible
- ❖ Experiences from the past, some prerequisites for the future



SUMMARY

- ❖ Oil Search is a long-standing and recently successful oil and gas producer and explorer
- ❖ Built value for shareholders by developing its core assets in Papua New Guinea
 - Production commenced in 1992 at Kutubu
 - Progressively built value through new oil developments, buying out “major’s” interests
 - Judicious acquisitions and value driven by operating, with control of investments
- ❖ Major turning point was development of PNG LNG
 - Complex US\$19bn project
 - Hugely successful development, proving world class projects can be delivered in PNG
- ❖ Moving towards development of Papua LNG and expansion of PNG LNG, with capacity to double production over next 4-5 years
- ❖ Common challenges for getting oil and gas safely and economically out of the ground and to markets
- ❖ Very different challenges for operating stability requiring different approach to social development and the role of the Company in nation building



OIL SEARCH OVERVIEW - 2019

- ❖ 90th Year Anniversary - established in January 1929
- ❖ Largest single investor in Papua New Guinea
- ❖ Operates all oil fields in Papua New Guinea
 - Provides ~20% gas to PNG LNG Project
 - Operates liquids export system
- ❖ Major interest in PNG LNG
- ❖ Significant equity in Papua LNG
- ❖ Strong resource and reserve base, underwriting future developments
- ❖ Operator of major oil development in Alaska, with resource upside
- ❖ Projects to deliver doubling of production by 2024/25
 - ~30mbbls 2019
 - ~70mbbls 2024/5

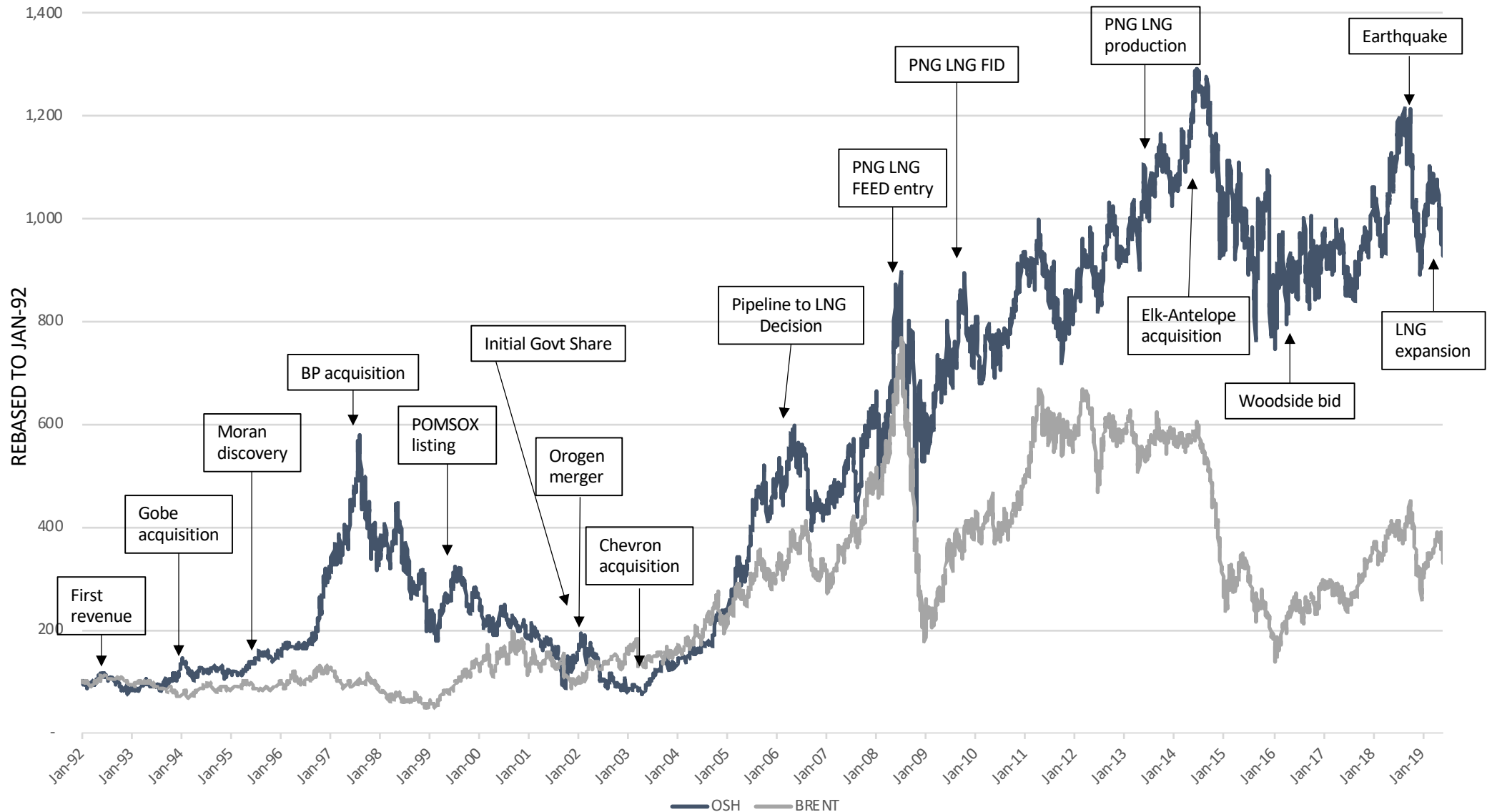


PNG OPERATIONS – KEY FIELDS



OIL SEARCH – THE LAST 26 YEARS

WHAT HAS DRIVEN VALUE GROWTH



PRIME MINISTERS OF PAPUA NEW GUINEA SINCE INDEPENDENCE IN 1975



- ◇ 8 Prime Ministers over the last 26 years
- ◇ But only 2 over the last 17 years

No.	Name	Term Commenced	Term Ended	Total Period	Elected vs Vote of No Confidence (VONC)
1	Hon. Sir Michael Somare	16 September 1975	11 March 1980	4 Years 6 Months	Elected
2	Hon. Sir Julius Chan	11 March 1980	2 August 1982	2 Years 5 Months	Via VONC
	Hon. Sir Michael Somare	2 August 1982	21 November 1985	3 Years 3 Months	Elected
3	Hon. Paias Wingti	21 November 1985	4 July 1988	2 Years 8 Months	Via VONC and then Elected
4	Hon. Sir Rabbie Namaliu	4 July 1988	17 July 1992	4 Years	Via VONC
	Hon. Paias Wingti	17 July 1992	30 August 1994	2 Years 1 Month	Elected
	Hon. Sir Julius Chan	30 August 1994	27 March 1997	2 Years 7 Months	Via VONC
	Hon. John Giheno	27 March 1997	2 June 1997	3 Months	Acting PM only
	Hon. Sir Julius Chan	2 June 1997	22 July 1997	1 Month	
5	Hon. William Skate	22 July 1997	14 July 1999	2 Years	Elected
6	Hon. Sir Mekere Morauta	14 July 1999	5 August 2002	3 Years 1 Month	Via VONC
	Hon. Sir Michael Somare	5 August 2002	1 August 2007	5 Years	Elected
	^^	1 August 2007	4 April 2011	3 Years 8 Months	Elected
	Hon. Sam Abal	4 April 2011	2 August 2011	4 Months	Acting PM only
7	Hon. Peter O'Neill	2 August 2011	1 August 2012	1 Year	2011-2012 PNG Constitutional Crisis /VONC
	^^	1 August 2012	1 August 2017	5 Years	Elected
	^^	1 August 2017	29 May 2019	1 Year 9 Months	Elected
8	Hon. James Marape	29 May 2019	-	>1 Month	Resignation under threat of VONC

RECENT POLITICAL MACHINATIONS

NOTHING NEW

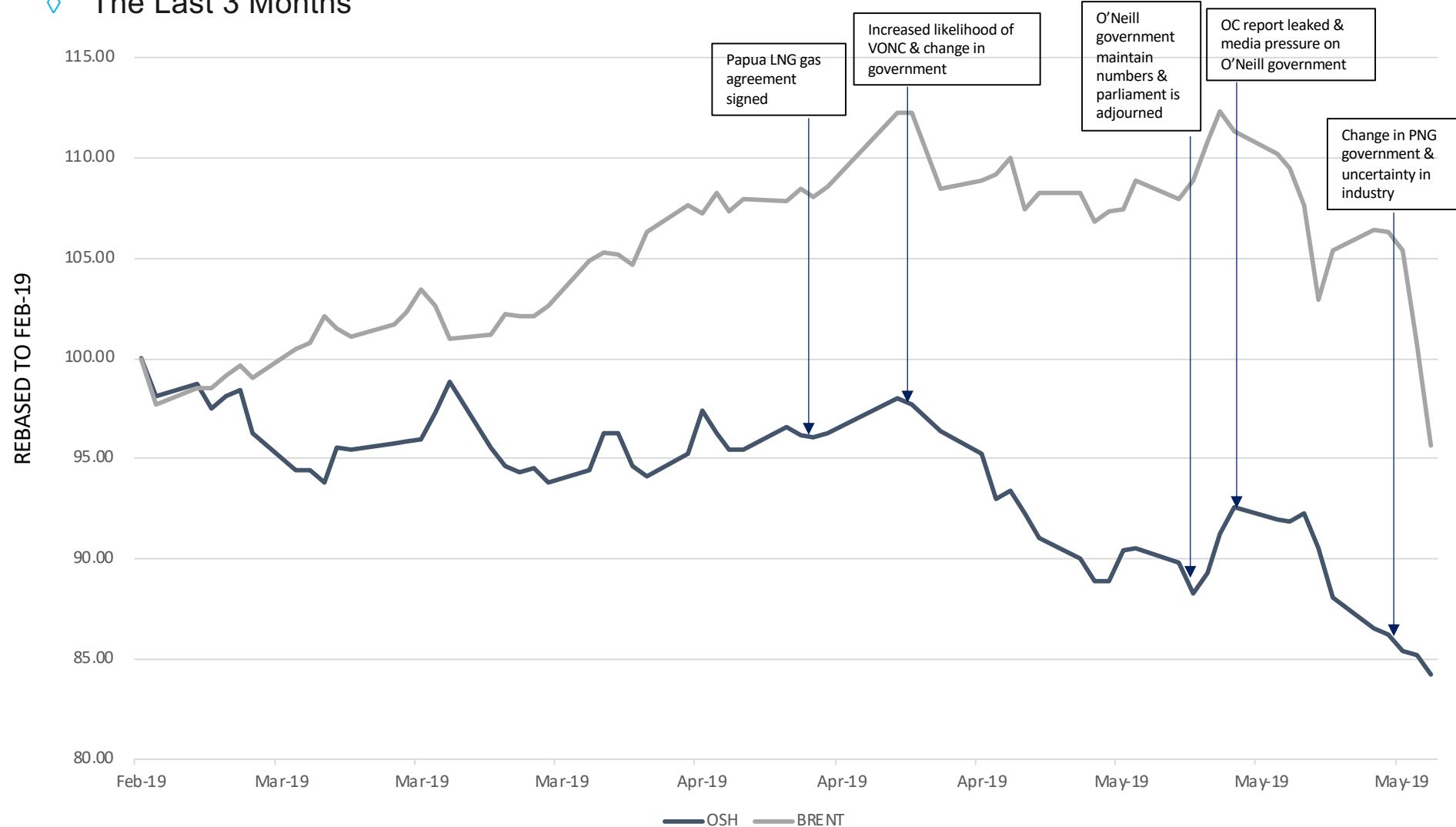


- ❖ New Government being formed under Prime Minister James Marape
- ❖ Full Cabinet to be announced over the next few days
- ❖ Major address to the Nation last night:
 - Focussed on economic and social development of the country, to drive service delivery
 - Underscored importance of resources sector:
 - Oil and Gas
 - Minerals
 - Forestry
 - Fishing
 - Will honour agreements in place but will take time to review future fiscal arrangements
 - Wishes to drive economic growth and encourage business

OIL SEARCH – A BELLWETHER FOR PNG INVESTOR CONFIDENCE



◇ The Last 3 Months



PAPUA NEW GUINEA

THE NEXT PHASE OF LNG DEVELOPMENT



- ❖ PNG on the threshold of major new investment with development of 3 new LNG trains ~ 8mtpa capacity
 - Papua LNG underwrites 2 trains
 - PNG LNG underwrites 1 train
- ❖ Cooperative development saving capital costs and reducing construction time
- ❖ Total operator of Papua LNG and will construct upstream facilities at Elk-Antelope field and pipeline to Port Moresby
- ❖ ExxonMobil will construct and operate 3 new trains in Port Moresby Plant Site
- ❖ Shared facilities between PNG LNG and Papua LNG
- ❖ Initial gas production for PNG LNG expansion train to come from Hides and Oil fields, possibly Barikewa, replaced by P'nyang 3-4 years after train start-up

HIGH VOLUME GROWTH OPTIONS

LNG EXPANSION AND DEVELOPMENT



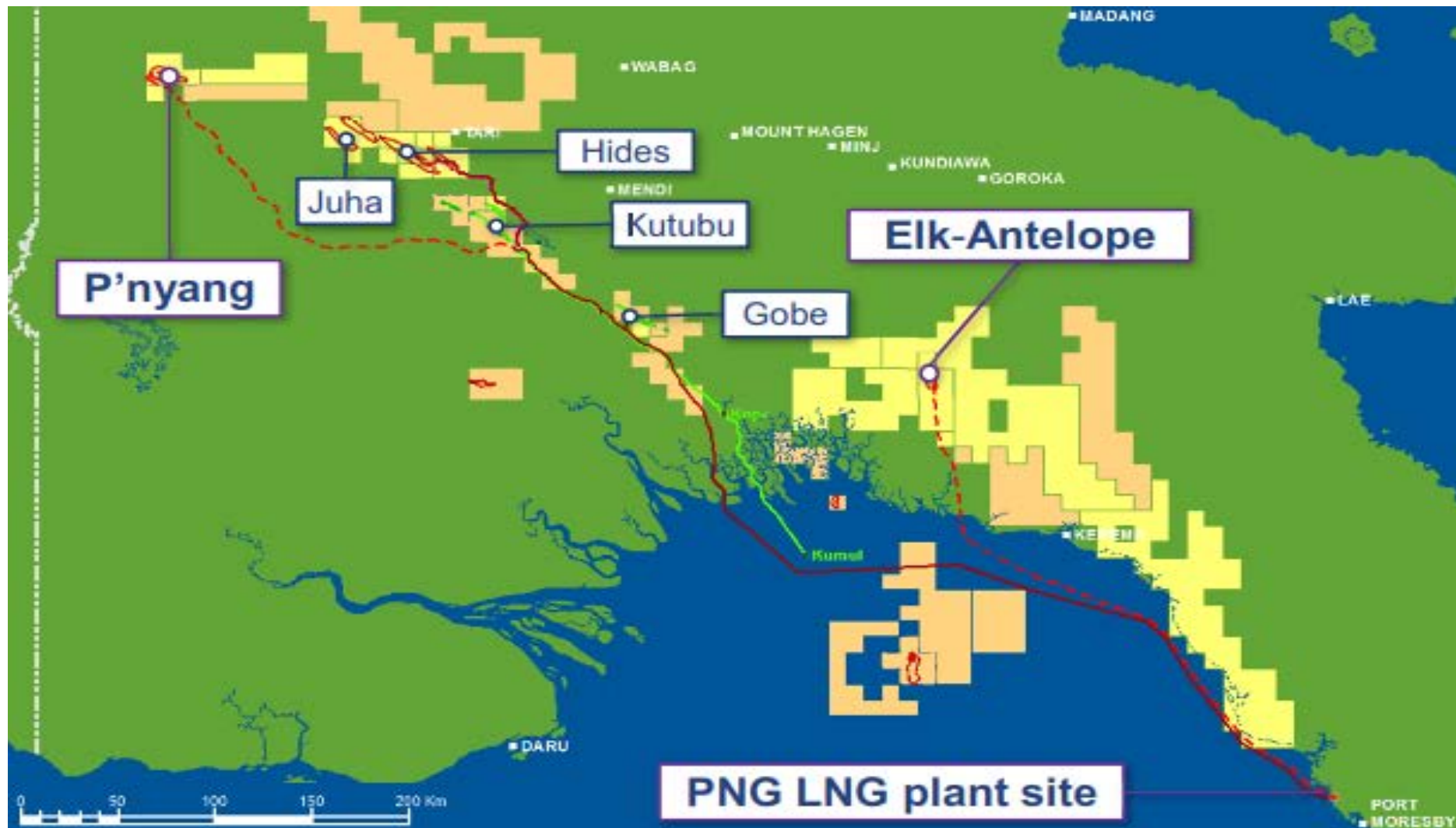
- ❖ All key commercial agreements complete
- ❖ Major pre-FEED engineering work complete
- ❖ Papua LNG Gas Agreement Signed
 - Appropriate concessions included addressing government sensitivities
- ❖ P'nyang Gas Agreement under negotiation
- ❖ Full FEED including early works triggered by Gas Agreement Signing
- ❖ Intense competition from new LNG Projects (US, Russia, Qatar, Australia etc) moving to FID over next 18 months
- ❖ Clarity required on final development terms



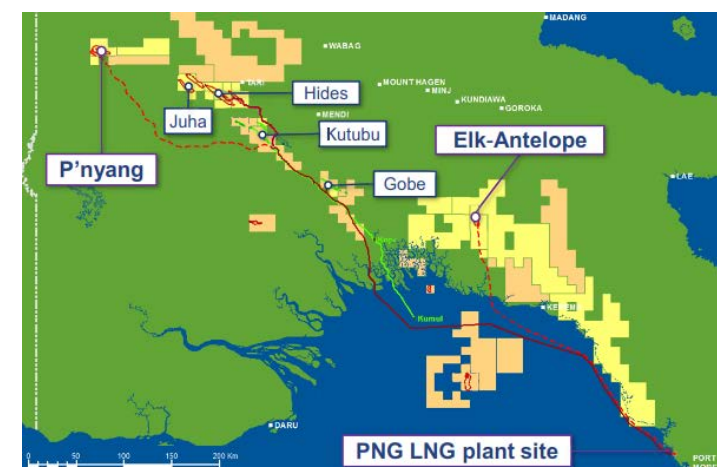
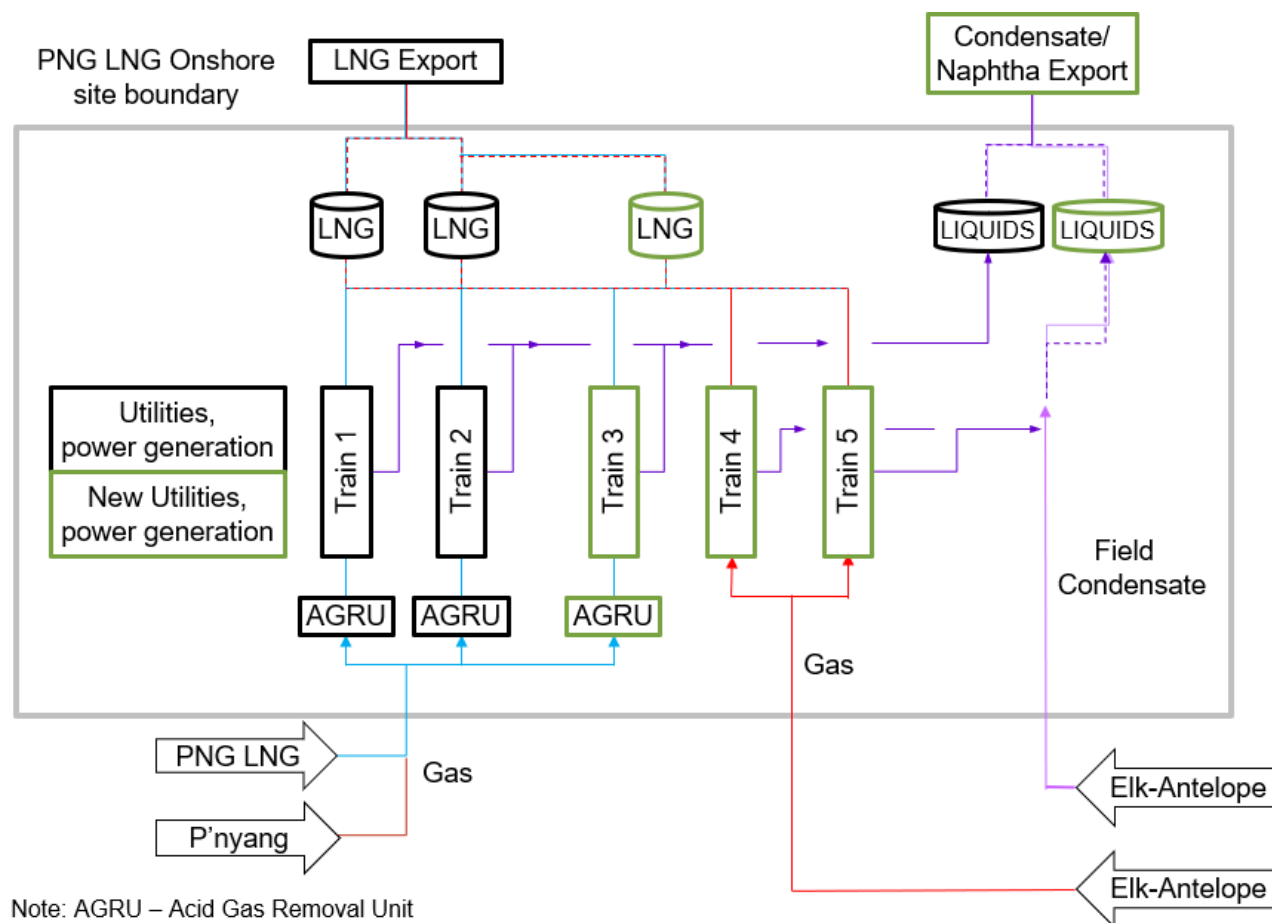
PNG LNG AND PAPUA LNG DEVELOPMENT



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PROPOSED CONFIGURATION AT PNG LNG PLANT SITE



Sources of gas for LNG expansion (tcf)	1C	2C
Elk-Antelope (OSH 2017)	5.2	6.7
P'nyang (NSAI 2018)	3.5	4.4
Total	>8	~11



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FIRST SHIPMENTS FROM NEW LNG CAPACITY TARGETED IN 2024

2019 - 2024

Gas Agreements	Commence FEED: Papua LNG Downstream (LNG trains) Supporting Projects	Licencing and Approvals	FIDs on: Papua LNG PNG LNG downstream AGX	Construction: - Complete infrastructure - Complete site clearing - Construction camps - Site civils - Plant and pipeline construction - Drilling new wells - Tie-ins and testing - Commissioning	First LNG shipments
PNG LNG Access Agreements		Early Works Tendering			
JV Operating & Integration Agreements		Early Works: - Clearing, early camps, roads			
Complete Pre-FEED		Complete FEED: - Final cost and schedule - Construction tendering		Ready for Start-up Introduction of hydrocarbons	
LNG Offtake negotiations		Project financing activities			
		LNG SPAs		P'nyang FID	

Final Investment Decision targeted for 2020, first gas in 2024

Will nearly double Papua New Guinea's LNG production by mid-2020s

The map displays the geographical distribution of oil and gas fields in Papua New Guinea. The NW Foldbelt is highlighted in purple, while other major fields like Muruk, Kimu, Barikewa, Gulf/Forelands, and Elk-Antelope are shown in yellow. A red dashed line traces a path through the central and eastern parts of the country. Major cities and towns are marked with black dots, including Madang, Wabag, Mendi, Lae, Port Moresby, and Daru. A scale bar at the bottom left indicates distances of 0, 100, 200, and 300 Km. The map also shows the surrounding blue waters and green landmasses.

- ❖ Multi Tcf gas discovery at Muruk
- ❖ Resource confirmation at Kimu and Barkewa
- ❖ Multi Tcf prospects identified in Gulf
- ❖ Major features in deepwater offshore
- ❖ Substantial resource potential identified
- ❖ Commercial pathway to be identified



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PAPUA NEW GUINEA

ECONOMIC, BUSINESS & SOCIAL ISSUES INTERTWINE

- ❖ Population growth is significant
 - ~2 million people at Independence in 1975
 - Now 8.5 million and set to double by 2040
- ❖ Growing youth bulge, with 60% of population under 25, 40% under 15
- ❖ Social and Business Imperatives intertwine
 - Operating stability and security
 - Education, training and employment
 - Health outcomes for communities and staff
 - Rapidly changing social structures
- ❖ Business has a choice
 - How do we preserve and build value for shareholders?
 - How do we sustainably contribute to social development?
 - ***We don't have a sustainable business in PNG unless we do.***





SOME OIL SEARCH EXAMPLES

COMPREHENSIVE STRATEGY OF ENGAGEMENT

COMMUNITY ENGAGEMENT

- ❖ Employment and training
- ❖ Business development opportunities
- ❖ Education support
- ❖ Health initiatives, staff and communities
- ❖ Sustainable economic development, agriculture
- ❖ Provision of core infrastructure, roads, schools, hospitals, churches
 - Direct funding or through tax credits

OIL SEARCH FOUNDATION

- ❖ Support for health services
 - Hela Provincial Health Authority
 - Southern Highlands and now Gulf PHAs
- ❖ Earthquake relief and reconstruction efforts
- ❖ Family and sexual violence activities
- ❖ Literacy and education
- ❖ Major initiative being developed for education and training for youth bulge



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2018 PNG EARTHQUAKE

MORAN ROAD LANDSLIDES & SPROULE ROCK





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2018 PNG EARTHQUAKE

MORAN 4, 6, 9



2018 PNG EARTHQUAKE

DEVASTATION IN PERSPECTIVE



- ❖ Mountain sides collapsed filling rivers
- ❖ Villages and homes slid off the edge of mountains
- ❖ Communities significantly impacted:
 - Many deaths
 - Destruction of homes
 - Destruction of social infrastructure including schools, roads, bridges
 - Loss of basic necessities
 - Food, water, shelter



2018 PNG EARTHQUAKE

COMMUNITY IMPACTS



- ❖ People were displaced with ~10,000 people in 10 care centres in SHP alone
- ❖ Survivors had to deal with trauma of deaths
- ❖ Survival was the first priority

2018 PNG EARTHQUAKE

OSH AT FOREFRONT OF RELIEF EFFORTS



❖ OSH relief efforts:

- ‘First Responder’ role (one of few organisations in PNG with ability to provide rapid on-the-ground assistance)
- OSH’s Moro logistical base – coordination point for delivery and distribution of aid
- Oil Search Foundation (OSF), in partnership with OSH and other companies that donated funds played a leading role in aid delivery to impacted communities

❖ UN estimate that OSH delivered almost 80% of total food supplies to impacted areas in first four weeks after earthquake



K16_M (US\$5_M)

COMMITTED IN CASH AND KIND
TO SUPPORT DISASTER RELIEF
EFFORTS IN HELA AND SOUTHERN
HIGHLANDS PROVINCES

>200 TONNES

FOOD AND SUPPLIES DELIVERED
INTO VILLAGES, REACHING
>200,000 PEOPLE

~2,400

MEDICAL TREATMENT CASES
UNDERTAKEN

~100

HEALTH CENTRE KITS
DELIVERED

2018 PNG EARTHQUAKE

OSH RELIEF EFFORTS – PARTNERSHIP AND IN-COUNTRY EXPERTISE IN ACTION





TAX CREDIT SCHEME PROJECTS

WHAT ARE THEY?

- ❖ The general tax credit scheme allows the development of projects:
 - Selected by local communities
 - Approved by National Planning, in line with national development priorities
 - Delivered by and paid by the oil joint venture operator in lieu of a tax payment
- ❖ The oil operator:
 - Makes no profit on the delivery of these projects, ie they are delivered at cost
 - Utilises land owner companies and local labour and material for the delivery of these projects, maximising funds going into the local community
- ❖ By law, the pool of funds available for tax credit projects is limited to 0.75% of tax payable
- ❖ Benefits of the tax credit scheme
 - Projects that the community want are delivered
 - High level of governance on expenditure
 - The oil operators capability and capability in remote locations leveraged to deliver projects
- ❖ *In essence, the tax credit scheme enables a partnership between the State and private sector in delivery of nation building infrastructure*

TAX CREDIT PROJECTS

OIL SEARCH'S CONTRIBUTION



- ❖ 284 Projects delivered to our communities valued at
 - General Tax Credit Scheme ~PGK 600 million
 - National Investment Tax Credit Scheme ~PGK 450million



Schools / Libraries

60 / 4 Projects



Hospitals & Medical Aid Posts

26 Projects



Housing

68 Projects



Police Stations

5 Projects



Road / Bridge Construction

87 Projects



Dormitories

11 Projects



Administration Buildings

15 Projects



Other (Training Centres, Utilities)

8 Projects

CASE STUDY OF REQUESTED SUPPORT



Hela Provincial Health Authority

- ❖ Support is needed in many ways.
- ❖ Since 2014 OSH and OSF invested ~K60m in Hela HPA
- ❖ Major Areas of Support
 - Refurbished infrastructure - power, water, new wards, toilets, sanitation
 - TB ward refurbishment and Children's Ward
 - Family Support Centre
 - Doctors and Nurses houses and facilities
 - Doctor and staff salary top-ups and incentives
 - New morgue
 - Establish medical records, staff
 - New x-ray machine
 - Literacy School

Further support 2019

- ❖ New Accident and Emergency wing
- ❖ Blood Bank
- ❖ More houses and incentive support
- ❖ Regional Health Centre Redevelopment



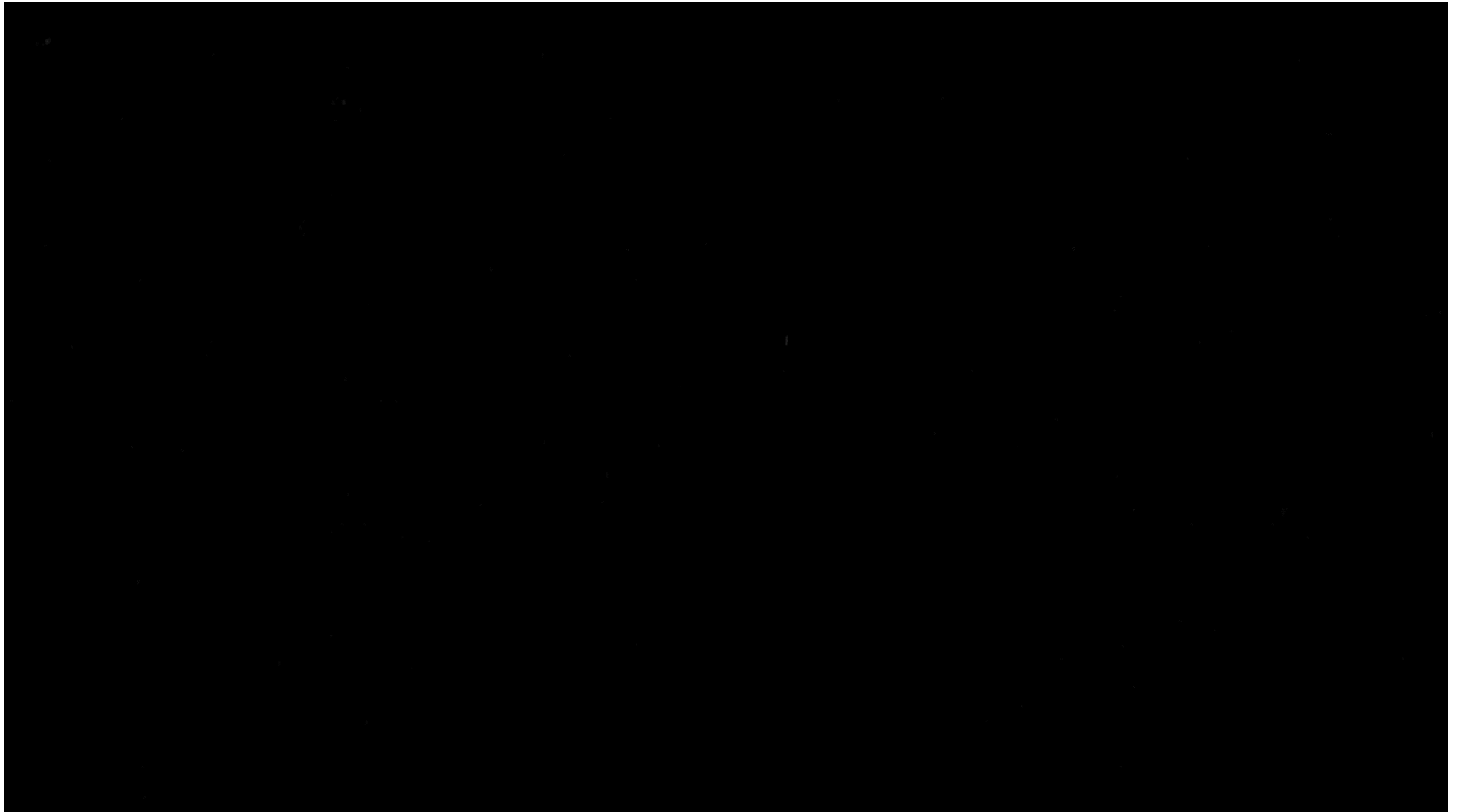
SUMMARY

- ❖ PNG is a dynamic, rapidly changing society, with all appropriate aspirations for social and economic development
- ❖ Oil Search remains intrinsically linked to this development
 - Has been successful building value
 - Continues to play a key role in social development of the country
- ❖ Political changes have been seen before (and will be seen again)
- ❖ Will continue to work constructively with new Government to partner in the development of Papua New Guinea
- ❖ It has been a wonderful, colourful ride over 90 years





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