



OIL SEARCH LIMITED

Incorporated in Papua New Guinea  
ARBN 055 079 868

## **CHAIRMAN'S ADDRESS OIL SEARCH LIMITED ANNUAL MEETING 23 APRIL 2010**

### **Introduction**

I am delighted to be talking to you today about Oil Search's performance in 2009, one of the most important years in the Company's eighty year life. It was the year when we finally reaped the benefits of many hours, days and years of hard work to commercialise our substantial gas resources in the PNG Highlands. The sanction of the PNG LNG Project in December 2009 was a momentous occasion, for both Oil Search and the Independent State of Papua New Guinea and marks the start of a major new phase of development for both.

2009 also saw other significant achievements for the Company. These included: -

- The recording of a solid earnings result, despite difficult market and economic conditions;
- The booking of 505 million barrels of oil equivalent (mboe) of reserves relating to the PNG LNG Project;
- The recording the Company's best ever safety performance; and
- The positioning Oil Search for further long term growth with a range of value adding opportunities and a healthy balance sheet to pursue them.



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### **2009 Financial and Operating Performance**

Oil Search's net profit after tax for 2009 was US\$133.7 million, or US\$99.6 million if significant items relating to various PNG LNG Project adjustments are excluded. This was lower than the 2009 record earnings, due mainly to a 35% fall in the oil price, caused by weak global economic conditions. The impact of lower oil prices was partly offset by a lower cost base: operating costs fell by 12%, reflecting a number of cost reduction initiatives undertaken by management in late 2008 and early 2009, and despite high inflation.

Oil and gas production was only 5% lower than in the previous year, a good outcome given the maturity of our PNG oil fields. This reflected a successful drilling, workover and facilities management programme, designed to slow the fields' natural decline.

The Company completed a successful, oversubscribed capital raising in October. Together with an underwritten Dividend Reinvestment Plan, Oil Search raised some US\$900 million during the year, adding to its already substantial cash position. The Company is now in an enviable financial position, with enough cash and borrowing capacity to fully fund its share of PNG LNG Project costs to first production, as well as to finance an exploration and appraisal programme targeted particularly at finding more gas in PNG.

One of the highlights of 2009 was the booking of reserves associated with the PNG LNG Project. Some 505 million barrels of oil equivalent were transferred from the contingent resource to the proven and probable reserves category, increasing the Company's 2P reserves seven-fold, to a total of 567 mmbobe at the end of 2009.



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### **World Class Safety performance**

Oil Search delivered further improvements in operational safety in 2009, the fifth successive year of improved safety performance. The Company now ranks amongst the world's leading companies in providing a safe working environment for its employees and contractors. I must congratulate management and staff for their strong commitment to preventing accidents and injuries in the workplace. Maintaining this record over the next few years will be challenging, due to the increased activity levels associated with Oil Search's contribution to the PNG LNG Project and our ongoing exploration programme. Oil Search has commenced a range of new training and communication programmes in a bid to ensure we maintain our world class safety standards.

### **Path to PNG LNG Project Sanction**

While Oil Search's Managing Director will talk in more detail about the PNG LNG Project, it is worthwhile reflecting on the journey to Project sanction. Gas was first discovered in PNG in the 1960s, but it wasn't until the 1990s that the potential value of developing these resources was recognised. Work began on the PNG LNG Project with ExxonMobil, Santos, Nippon Oil, the PNG Government and local landowners in early 2008 when the changing dynamics of the global Liquefied Natural Gas business clearly demonstrated that this was the optimum commercialisation route for this gas. Major milestones, including completion of technical design work, securing LNG markets and finalising financing arrangements, were progressively achieved, culminating in the Project sanction decision last December.



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We have found that having ExxonMobil, one of the world's largest and most respected companies, as Operator of this Project has been of prime importance, particularly in securing LNG markets and financing. Importantly, Oil Search's in-country knowledge and relationships have complemented ExxonMobil's technical, financial and commercial strength. Oil Search played a major role in helping facilitate the Umbrella Benefits Sharing Agreement negotiations at Kokopo last May and at the subsequent licence based, benefits sharing forums. The PNG Government has been very supportive of all aspects of the Project's progress to sanction. I would like to take this opportunity to acknowledge the Government's substantial efforts to ensure the Project was sanctioned on schedule. This ongoing support will be critical over the next four years to ensure the successful delivery of the Project.

### **Impact of PNG LNG Project on PNG and on Oil Search**

As one of only two LNG Projects to be approved globally in 2009, the PNG LNG Project has raised Papua New Guinea onto the international stage. The world will be watching closely how the Government, developers and landowners manage the construction of this major development and the inevitable strains on the country and its economy. Once in production, the focus will be on how Project income is managed. Substantial revenues will flow from the Project to the Government and landowners. If this income is spent wisely, the PNG LNG Project has the potential to transform the lives of every single PNG citizen, through the construction of new infrastructure and improved health and educational outcomes. We applaud both the Government's and landowner groups' commitment to put in place transparent and robust structures that will ensure the equitable distribution of Project benefits, not just for current, but also future generations. We believe the proposed formation of a Sovereign Wealth Fund, with appropriate governance, is a key part of providing



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sustainable benefits for the country's future. We are delighted the Government is moving along this path.

Oil Search too will face a very substantial increase in revenues when the Project comes on stream. The Oil Search Board anticipates that a large proportion of its earnings from the PNG LNG Project will, in the initial years at least, be reinvested into further value adding growth opportunities. We believe there are very good prospects for one or more LNG trains to be added to the initial PNG LNG Project, after its commissioning. A primary focus for Oil Search over the next two years is on proving up sufficient gas reserves to underwrite these additional trains. Peter Botten will talk more about Oil Search's strategy and programmes for further growth in his presentation.

### **Dividend Payments**

The Board approved the payment of dividends totalling four US cents per share for the 2009 financial year. This equated to 11.1 toea per share. The lower level of dividend payments, compared to previous years, reflected the fall in profitability in 2009 and the need to make equity contributions to the PNG LNG Project. Future dividends are expected to remain aligned with half and full year earnings. The underwritten dividend reinvestment scheme will continue, ensuring that cash is retained to fund the PNG LNG Project and other value adding activities.



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## **Conclusion**

Oil Search has entered 2010 in an extremely strong position. The development of the PNG LNG Project is now in full swing, we are in an excellent financial position and have a range of opportunities to further grow shareholder value. These will be aggressively pursued over the coming years.

I would like to thank again the PNG Government, led by Prime Minister Sir Michael Somare and supported by a wealth of key Government ministers and bureaucrats, for the role it has played in progressing the PNG LNG Project. I would also like to thank all Oil Search staff, led by Peter Botten, and my fellow Oil Search directors, for their significant and outstanding contributions in 2009. We look forward to successfully meeting the challenges of delivering a world class LNG Project here in PNG and delivering further growth for the Company.

Thank you.