

Company: Oil Search Limited
Title: 2018 First Half Results
Date: 21 August 2018
Time: 11AM AES

Start of Transcript

Peter Botten: Well, ladies and gentlemen, I think we're at our appointed hour and minute. Firstly, a safety briefing. We understand there are no alarms or test of alarms present for this morning's exercise so if you do hear the woop, woop, woop, the emergency exit is on the far left-hand side and we will be accompanied down to the mustering point which is outside the building, a few steps down unfortunately if it happens. I'm sure it won't but please in the event of an appropriate alarm, we will go down and exit from the left-hand side.

I should say thank you very much for being here. There seems to be a lot on this morning from political and corporate machinations so I appreciate sincerely the dedication to come along and hear an update of the Oil Search story. Today we are going to - obviously the disclaimer, we'll hear from myself probably too much, Stephen Gardiner, our CFO, who will walk through the numbers. Ian Munro will also talk about gas marketing, Julian will talk and can answer questions around some of the production and operations piece of our business. Today's format is to have about half an hour of formal presentations and then maybe half an hour or so around questions, so there's plenty of time to scrutinise the numbers, scrutinise the operations and have our people reply to those questions.

Obviously in my view, and I've been here 25 years, the first half of 2018 really can be characterised as being one of the most challenging in the Company's 89-year history. The impact of the 7.5 magnitude earthquake and numerous aftershocks resulted in production shut downs in our operated oil fields and PNG LNG and drove lower production revenues and profits. Now profit for the first half then totalled US\$79.2 million, down around 31% on the previous corresponding period. Total revenue declined by 18% to US\$557.8 million with lower sales volumes partly offset by higher realised oil and gas prices.

Through all of this we've seen some just outstanding work by our staff and those of our partners in addressing the impact of the earthquake on the people, our facilities and our communities in the Highlands. Our people have worked tirelessly in very difficult circumstances in relief and recovery efforts following the earthquake, providing first responder relief to hundreds of thousands of people in our local communities, being responsible for delivering almost 80% of all food aid delivered in the first month after the disaster, along with treating thousands of patients, delivering critically needed medical and aid relief whilst rebuilding our camps and restarting our facilities. It's pleasing to note now that all our oil facilities are back on line and production and will progressively return to normal production as remote fields are reconnected over the six or so months.

PNG LNG has also resumed production at and indeed above pre-earthquake levels, an outstanding achievement by ExxonMobil's operating staff. Record rates of production have been achieved from PNG LNG to an equivalent of over 9 million tonnes per annum since production start-up a few months ago. We anticipate therefore a very strong second half performance. I just want to make sure that we pay tribute to - I publicly want to pay tribute to our operations and to all our staff that were associated with the rehabilitation and relief efforts around the earthquake.

Around the progressively organised mayhem of the earthquake response, other parts of our business had been powering ahead. Strong demand for our LNG has seen recent signings of mid-term contracts with PetroChina and BP. Steady progress has also been made on new LNG development activities with alignment between PNG LNG and Papua LNG partners to develop three new trains totalling around 8 million tonnes capacity. This is underpinned by a strong resource base in the P'nyang and Elk-Antelope fields with an increase in 1C and 2C certified resources in the first half.

Engineering activities and discussions on commercial agreements, financing and marketing are also moving ahead. Engagement with the PNG Government on finalising the fiscal terms for the projects has also commenced with a target of concluding these agreements by the time the APEC leaders meet in Port Moresby in November and this in turn will lead to a decision on front-end engineering design.

There's a lot been going on in our organisation over the last six months or so, focussed around obviously the earthquake and earthquake response but also delivering on our core strategic imperatives - a lot going on but real progress is still being made. Obviously other highlights include the successful appraisal of the Kimu and Barikewa fields in the PNG forelands adding certifiable resources needed to facilitate development options. Considerable work has also taken place to look at the remaining potential of our oil fields in the lead up to LNG expansion and production in 2024.

Further high value barrels have been identified within our oil fields with the potential for a positive impact on cash flows over the next three to five years. Alaska is powering ahead with recent drilling in the Pikka Unit by ConocoPhillips highlighting resource upside in this field. We continue to build a world class multi-talented team in Alaska as we prepare for an active drilling and testing program later this year. We are also working cooperatively with our partners and continue to develop ways of optimising the value of our option to acquire the balance of Armstrong OILS' Equity.

From a safety perspective, obviously personal and process safety remains an absolute core value - very appropriate for us as a company and an operator. Frankly, it's a miracle combined with huge doses of luck that some of our several thousand people we had working in the Highlands at the time of the earthquake were not seriously injured during the initial quake and many after aftershocks. I am sure that the story would have been very different if the main quake had happened during the working day. I'm pleased to say that there were no major injuries to our staff and contractors during the earthquake.

Our safety performances measured by total recordable incident frequency rate did decline in the first half mainly due to a series of relatively minor incidents related to seismic operations in the Gulf. This is a very tough operating environment but this performance is not acceptable and a rigorous rectification program instituted in the second quarter has significantly reduced the incident rate over the last three months.

It's pleasing to note that there were no loss time incidents in the first half across our workforce and our contractor workforce. I think that's a significant achievement given the challenges of operating and the operating environment in which we were working. There were also no loss of hydrocarbon containment as a result of the earthquake and no material environmental incidents during this period which again attested a robustness of the design of our facilities and their ability to stand up under pressure.

With that in mind, I'll throw it over now to Stephen Gardiner our CFO to talk about our financial results in the first half.

Stephen Gardiner: Thank you, Peter, and good morning, ladies and gentlemen. I'll keep this relatively brief. It's only so many times you want to hear me say that the numbers are down because of the earthquake so let's move forward.

Thankfully though our production sales are obviously severely impacted by the earthquake, that was moderated by a continued recovery in oil and gas prices compared to the first half of 2017 with oil prices up 34% and gas and LNG prices up 18%, so quite a healthy lift that provided us a meaningful offset. Because of that, we generated some good operating cash flow during the period despite the earthquake - and I'll keep referring to that - with cash flow of about US\$215 million. It's a really good outcome in the context and that was obviously supported by a rapid return to full LNG production with record volumes achieved post the restart and we'll go into that a bit more detail.

Liquidity again impacted by the production disruption and also the cash settled acquisition of the Alaska North Slope assets earlier in the year for US\$415 million, but despite that our liquidity position still remains at a very comfortable level. Now let me provide a little bit more colour on each of those elements.

A waterfall chart that's not particularly pretty because of the large decline in revenue as I've already covered, but fortunately our non-cash charges also largely production based so they provide some offset to the revenue fall in terms of impact on profit. Our production cost did increase on the prior period, largely because our base operating costs are fixed and even with the facility shut-in we had little ability to actually reduce our base cost position.

We also had a number of one-off costs associated with the earthquake including the response activities Peter referred to - remediation work, we had high logistics costs as some of our supply routes were closed and we had to use more expensive mechanisms to move goods and services around. We also obviously contributed a material amount of money in community support, over US\$5 million. Those costs also include the purchase of an LNG cargo when the plant was shut-in to keep it cool. That rally facilitated the very fast ramp up once we recommenced production through that plant. In addition, ExxonMobil as operator of the PNG LNG project used the shut-in period to bring forward a major maintenance program that was scheduled for later in the year so that also brought costs into the first half.

In terms of offsetting costs, our oil property insurers have been very supportive. In the first half already, we have received about US\$40 million in insurance payments from those insurances - provisional payments - but only \$6 million of that has been released to the P&L as an offset to our repair costs in the period. We'll see additional recoveries and also additional releases against our operating costs in the second half as we commence some of the major repair work on the major infrastructure that was damaged by the earthquake. However, the PNG LNG project is yet to receive any insurance payments. We believe they are likely to receive some in the second half of the year. So all the costs they've incurred to date have been booked to OpEx and that's again as I said, impacted on the first half result.

Finally, our effective tax rate for the half was 34%, a little bit up on the prior period with various one-off adjustments that are fairly minor being magnified by a low overall pre-tax result.

Unit production costs, again sort of a fairly simple story here. We've seen costs are much higher than we've shown in previous years on a unit basis at about \$14 a barrel of oil equivalent, both impacted of course by the reduced production for the period and also the one-off earthquake related costs. With production now back to pre-earthquake levels, we'll see those unit costs are returned to normal in the second half.

All in all, despite the earthquake, we're still in a very solid financial position. We saw over \$200 million of operating cash flow as mentioned generated in the first half and that's really a credit also - as Peter has already mentioned - to our field operation teams for Oil Search and ExxonMobil that oversaw the production restoration activities and brought production back online so quickly. Our liquidity position remains robust but obviously it has been impacted by both the production impact on revenue generation and also the money paid for the acquisition of the Alaskan assets.

In the first half we did some further capital expenditure programs including spending about \$168 million on appraisal drilling, acquisition of seismic data, progression of the LNG expansion projects and the design of a new company-wide enterprise resource planning system which we hope to go live with towards the end of this year.

Obviously one of the key elements here is the robustness of the PNG LNG project itself, which was again highlighted during the period of the earthquake and post that. Despite the higher OpEx incurred by the project in the several weeks of lost production, our share of project cash flows was sufficient to fund not only scheduled interest and principle repayments totalling US\$251 million but also deliver a cash distribution to us of about \$65 million in June so an excellent result. On top of that, our committed bank loans totalling \$850 million remain undrawn at the end of the half year and we expect to see over the balance of this year a rebuilding of our cash balances despite having to fund an ongoing reasonably sizeable CapEx program of value adding activities.

So the key focus for me and for the management in general is really the stewardship of our balance sheet and really to make sure that we can deliver the financial flexibility to fund our growth projects both in Papua New Guinea and in Alaska. We regularly model and assess our medium-term liquidity position based on the latest CapEx assumptions that we have, oil price forecasts, access to additional corporate loans and other factors that drive that liquidity profile. We

remain very confident that we can fund our development projects through a combination of project specific project financing, cash, corporate funding loans and operating cash flow. On top of that we're also becoming more positive about the ability to gear up our projects with project finance debt. We're comfortable that we're more likely to be able to achieve a gearing approaching 70% for the PNG LNG expansion projects which is comparable to the gearing we achieved for PNG LNG Foundation project. That's due really to optimisation of our CapEx profiles for the two projects from the downstream integration and also the upstream phasing.

Also, we're seeing a more positive lender oil price decks coming out of the market in line with the recovery in oil prices and that will help in terms of assessing our ability to service the debt and therefore the amount of debt we can take into those projects. However, if oil prices do weaken and we don't realise the anticipated more than US\$1 billion per annum of operating cash flow from our existing business during the development phase of these projects, then we can curtail several hundred million dollars of discretionary exploration spend planned over the next several years.

Now turning to full-year guidance, guidance for operating costs is unchanged apart from a narrowing of the unit cost range. Likewise, our overall CapEx guidance is largely unchanged with some minor adjustments to exploration of production CapEx and that's really reflecting more certainty on some of the second half activities we're planning. Our production guidance has been upgraded though to 24 million to 26 million barrels of oil equivalent and let me explain why.

So the production guidance really reflects firstly, the excellent PNG LNG performance in start-up as Peter mentioned, this maintenance [undertaken] during the shut-in contributing to higher reliability and record production levels. So based on that and the continued ramp up of our oil production over the second half of the year, we expect it to be at the upper end of the guidance range driven by a very strong second half production outcome - that's really also helped again by no material downtime plan for the second half for maintenance.

In terms of the PNG LNG production performance recently, since the start up after the earthquake, the projects achieved 8.5 million tonnes per annum annualised in May and June of this year. Peter mentioned a record daily annualised rate of over 9 million tonnes on a few days so an excellent outcome. As Peter also mentioned all our production facilities are now back online with oil production continuing to ramp up as we bring on the remaining Moran and Agogo wells into production.

On that basis, I'll hand back to Peter.

Peter Botten: Thanks very much, Stephen, and I'll now move into some of the detail of some of our other operating activities and I'll start with the mid-term sales agreement signed with PetroChina and BP.

As we announced in the last few weeks, the signing of these transactions with PetroChina for a three-year term and a five-year term with BP has been very successful in underscoring the short and medium term contracting strategy for the project. It highlights that LNG is substantially sought after by the market and it locks in what we think to be very attractive prices over the period of time leading into the expansion project starting in 2023, 2024. The contracts now take us up to contracted volumes in the order of 7.5 million tonnes per annum and that obviously adds to the foundation customers with JERA, Osaka Gas, Sinopec and CPC. We obviously see reasonable volatility in the spot market and I'm sure Ian Munro can talk to that in a couple of slides that are coming up but certainly we believe there is a very strong - we remain very well positioned in the LNG market to continue to market LNG and market it well especially for expansion but these help in the short and medium term.

Obviously, discussions are seriously advancing now on the development of new LNG capacity within Papua New Guinea. That LNG capacity is obviously very much aligned to developing further resources in PNG LNG, at Hides in the oil fields and at P'nyang, but also combining and cooperating on train development in the Port Moresby plant site area and developing cooperatively some 8 million tonnes of capacity - two trains supported by Papua LNG and one by PNG

LNG largely around the P'nyang field. This represents an outstanding technical outcome and it simplifies a range of commercial and financial structures that we're delivering a highly cost competitive new development.

There is ongoing work to advance the concept definition in terms of engineering. Steve's already mentioned some of the project financing issues and the commercial agreements are also moving forward at a pace. With now the focus on negotiating the final fiscal terms for both projects with the State Negotiation Team and dialogue is right now underway and we hope to meet the PNG Prime Minister's expectation of concluding these negotiations and announcing those conclusions around the time of the APEC meeting in November, which will then lead to a potential FEED decision in the short period thereafter.

Some of the positives out of obviously the drilling results last year and into this year has been the recertification of the P'nyang field by NSAI and that has moved up the 1C resource from 3.5tcf - to 3.5tcf which is more than triple the number previously. Obviously, that helps support the financing and marketing activities for LNG's expansion from PNG LNG. P'nyang and Elk-Antelope fields now are fully appraised, we believe, and contain around 8tcf or just over 8tcf of 1C resource and 11tcf of 2C resource which is actually more than we had for the initial project back in 2009. A significant resource base, a competitive resource base to base our development optic for the next phase of LNG growth.

I'll now turn to Ian who will walk you through some of the trends in the global LNG market and LNG demand, so over to you Ian.

Ian Munro: Okay. Thank you, Peter. Good morning, ladies and gentlemen. So as Peter said I'll provide a brief update on what is a buoyant LNG market currently for both mid-term and longer-term sales and provide an update on Oil Search's progress on the sale of our equity volumes from expansion.

It's clearly a good time to be in the market for projects that can confidentially deliver LNG by the mid-2020s. The forecast supply shortfall is moving to as early 2021 which is now focusing LNG buyers and regulators on the need to commit to new projects by 2020 latest. Demand from Asia and, in particular, China's insatiable demand for gas has seen spot volumes commanding almost double the price from over 12 months ago. Additionally, Korea and Taiwan are prioritising gas over coal and nuclear and nuclear restarts are lagging in Japan.

Over the last six months in the market, we've seen a clear shift from [JKTC] buyers looking to contract term volumes from credible new projects. It is evident to all parties that when less 10 million tonnes has been sanctioned over the last 24 months then new supply is urgently required and it's important for buyers that they back those projects that can deliver. Expansion from PNG is considered to be such a project. The size of the prize for new demand by 2030 is somewhere between 135 million and 175 million tonnes a year and this doesn't include the additional 60 million tonnes of high value contracts that are maturing in the premium Japan and Korea markets by the mid-2020s. It is with this demand context that Oil Search has been active as a new seller in the Asian market.

I'm pleased to report that Oil Search has seen a very positive response from North-East Asian buyers. The Japan Representative Office is now up and running smoothly and we've already signed a number of confidentiality agreements with Tier 1 customers and are now discussing material term contracts for our expansion volumes. It does help the team clearly that the PNG LNG brand is first class in the market. The combination of proven reliability and high heating value gas deliver a very attractive product. Additionally, buyers are seeking both source and seller diversification in a market that up until now has been dominated by a dozen or so players into North East Asia.

Let me finish by emphasising the following. Oil Search can offer a value package to buyers that differentiates us from our co-venturers in Papua LNG. As of today, we're the only seller that is offering point-to-point sales from Papua New Guinea rather than from a portfolio with a wide range of LNG spec. Such certainty is highly valued by customers and even more so as the supply of rich LNG declines markedly during the 2020s. So, I look forward to providing further updates as the year progresses and back to you, Peter.

Peter Botten: Thanks, Ian. I'm sure you'd be open to questions later on.

I'll move to the oil fields and associated gas opportunities and one of the - the real progress being made over the last six months has been actually looking at our mature oil fields and looking at how we manage not just oil production in the short-term but also gas production in the medium and long-term, which will then extrapolate into how we manage these fields in terms of operating costs into the future.

Over the first half, substantial work has taken place by our sub-service production and development teams to identify the potential for further oil production over the next few years. This has highlighted the potential to extend the present into production out to 2023/2024 when a possible increase in gas production through the AGX project will take place to support PNG LNG's third train.

The work has highlighted opportunities in the Kutubu, Agogo and Moran fields which on a most likely basis could add over 30 million barrels net to Oil Search as well as augmenting cash flows and value over this period of time. Producing oil prior to accelerating gas production through the AGX program represents optimisation value for these important fields. Increasing gas production from the Kutubu fields will deliver low cost feed gas to a PNG LNG expansion train and delay capital expenditure on further field development so, where we see the AGX project as being critical in the medium and long-term for future optimisation of what we have in our oil fields and gas fields in the highlands.

So, there has been a substantial step forward in our understanding and identification of further value in these fields which cannot be ignored.

From the point of view of PNG exploration, it remains very much a very busy, busy schedule in terms of both exploration and appraisal activities in the highlands and forelands area. We've had two successful appraisal wells at Kimu and Barikewa and a valuation of these results is underway to determine the optimal route to commercialisation. We're nearing completion of a major piece of work which identifies the possible sequence of how further LNG expansion over and above the extra train at PNG LNG and two trains at Papua LNG, further LNG expansion and development can take place in PNG identifying potential gas resource locations, infrastructure and costs of delivery all of which will allow us to prioritise exploration and appraisal and development investment into the future. That major strategic piece of work is now due for completion sometime in the second half and will impact where we go and how we carry out our 2019 programs.

What you have seen though in the last six months is obviously preparations for the Muruk 2 appraisal well on the north-west foldbelt as an expansion and a substantial step up from the Muruk 1 discovery, an 11 kilometre step out and that's due to spud in the fourth quarter. We see expansion of our exploration portfolio in the onshore gulf with a farm-in to a range of new PPLs adjacent to the Elk-Antelope field as part of our overall synergy of what we want to see in our interests across the gulf expansion opportunities. And we also see obviously a really comprehensive seismic program going on on the onshore gulf which we're operating on behalf of ExxonMobil and Total, covering of 330 kilometres of data acquisition. And that will help define the attractive leads and prospects for further drilling in the area around Elk-Antelope. A busy exploration program for the whole year.

In Alaska our business there is moving ahead on all fronts and I'm very pleased with the progress made and the value and risk diversity that these assets bring to our portfolio. Critical to our success will be building and continue to build a world-class team to take us through development of these assets. And I'm pleased to say we are successfully tapping into the deepest technical and engineering pool of talent in the world in the US market and are building a team combining Oil Search's approach to communities, government and development with highly experienced north slope people who come with relevant operations, subsurface drilling and completion technology expertise. It is building as a very, very good team.

We presently have about 50 people working in Anchorage and expect this to grow to around 100 by the end of the year as our field operations commence.

We've been successful in aligning our joint venture parties in support the 2019 programs, forming appropriate contracting and partnering strategies and setting investment priorities.

We have also progressed and optimised the environmental impact submission reflecting community sensitivities and we remain on track for approvals of that sometime in the second half of 2019. We're very actively engaged with regional developers such as ConocoPhillips in discussing and defining how we can work together to optimally develop the commonly owned fields. These discussions to date have been very positive.

We're also commencing a process of how we can optimise and demonstrate value through the Armstrong option, aligning ourselves with Repsol and how equity adjustments and divestments can be achieved.

Our focus in Alaska is very much driven by four stages of potential growth and the first and most important, most immediate is the optimisation of the development of the Pikka Nanushuk development. We're presently integrating recent technical advances in drilling and completion techniques into our development plan and are on track for FEED entry in the second quarter of 2019, which will lead to FID sometime in mid-2020. The final scope of the development whether it be an 80,000 to 120,000 barrel a day type facility will be determined by the results of drilling in the 2019 season.

The second focus area in the Nanushuk expansion is the Nanushuk expansion in the Horseshoe area to the south where we see over 300 million barrels of potential resource. This will be subject to seismic reprocessing, reservoir modelling and data trades with ConocoPhillips later this year with drilling planned in 2020.

The third focus area is exploration and we've identified a number of material opportunities that are presently being prioritised as potential tie-in opportunities to the core development. And obviously, the last focus area is new business and building strategic relationships which we're obviously endeavouring to do in a reasonable timeframe.

We're acutely aware that we need to walk before we can run in Alaska and we need to get it right and not drop the ball but things are really going well there and we have a good team that will, I believe, deliver a safe and very productive program later in 2018 and into 2019.

Our focus as I say over the next 12 months is to successfully appraise the Pikka unit and further optimise the resource and deliverability of the reservoirs in this significant field before moving to a FEED decision in 2019.

Recent drilling by ConocoPhillips at the Putu well which you can see just below halfway down the overall field outline on this diagram, has highlighted reservoir continuity and the upside resource potential in this field. Our drilling program in the Pikka B and C which you can see is highlighted, is the target areas for our 2019 drilling is to deliberately design to significantly increase the 1C resources and move some of the 3C resources into the 2C resources. And we presently see significant upside potential from the 500 million barrels assumed in our acquisition case targeting an additional 250-million-barrel potential under this drilling program.

As previously discussed, we're integrating the lessons learnt by ConocoPhillips on drilling and completion technologies to optimise our pre-FEED and FEED studies. Drilling should commence at the end of the year and be completed by April 2019.

If I move now just highlighting some of the impacts of the earthquake on some of our other operations, obviously we've mentioned this earthquake has been a really one in 100-year event and there have been over 200 aftershocks after the main earthquake in late February. Our foundation and the company provided critical first responder role using our helicopters, using our supply chain, our acquisition of food, our delivery of food into the highlands and then out into the villages over that last mile was world-class and we were moving things, buying things, delivering things within 24-hours of buying them in Port Moresby delivering them out into the village, which under UN auspices is seen to be an

outstanding achievement. Obviously, our Moro airstrip was the only airstrip open during much of the first two months and really the only way of getting around the place was to come through Moro and utilise our network there.

There are massive - there has been massive impact to the communities in Hela, southern highlands and western province and there continues to be thousands of people that are dislocated without basic services. Schools are closed in certain areas and roads still remain blocks so there's a long-term program of us facilitating and working with the government and the relief efforts and other partners to help in the restoration process. And certainly working with our local communities on business opportunities, on using them for road construction, reconstruction of schools is a key part of our future direction and work with our communities.

Our foundation has been leading a range of health programs in the aftermath in terms of immunisation and addressing some of the communicable diseases that are prevalent in a post-disaster world. As I say there's still a lot to do on that but fundamentally our reputation and our ability to work with our communities has only been enhanced by what we did and how we responded to the earthquake in the immediate months after.

There's also been a significant move and significant attention on the finalisation of various agreements and landowner identification in key areas around the LNG project area with government making substantive progress on identifying and moving a number of licences to where we're now almost ready to distribute full benefits. There has been, as I say, strong progress on this and the payment structures for landowner benefits distribution and relevant corporations are now in place in many licences with dispute resolution in the few that remain making progress, with government really focusing on this and doing a very good job. We'll continue to support government processes to expedite the remaining resolutions that are needed so that these things can flow.

There are a number of other PNG initiatives that we're working on. We're about 85% complete on a new power station to supply power into Port Moresby and should be on stream towards the end of this year. We are finalising the fit-out of APEC Haus and are handing it over to government sometime next week as the main venue for the leaders meetings for November. We have a number of other projects and development of our Papua New Guinean workforce and promotion of both diversity in gender and in nationalities is a clear focus for the organisation as we move to the next phase of our growth.

We're supporting health programs in Hela and in southern highlands provinces. We're addressing some of the massive issue of gender-based violence that we see across PNG and the frightening examples that still unfortunately continue, by a range of projects directly as a company and through our foundation, as well as using rugby league to also promote women's empowerment, again something that's new in PNG. Women playing rugby league at a national and international level represents an opportunity to demonstrate their skills and to promote, as I say, women's empowerment.

Our climate change report which involved substantive modelling in accordance with TCFD guidelines has been well received by the investment community. More importantly though, it does demonstrate that our current and growth assets have a long-term resilience under many climate scenarios including a 2°C pathway. So, we have a series of robust projects that can be managed well into a very active climate change debate and address the core issue of climate change as a whole. So, I think we're well positioned in that respect to position ourselves not just with the investment community but to do our bit for climate change.

In summary then, we see a very strong recovery following the devastating earthquake in PNG in February. We see a very strong second half in terms of production and a positive production outlook for the second half of the year with profitability supported by higher oil and LNG prices.

We are making progress on the three-train development concept. It represents an excellent technical, commercial and financial outcome and we're targeting finalising our fiscal regime towards the end of the year leading to a FEED decision immediately following the close out of those terms. Engagement with the government is ongoing and meaningful.

Global energy demand represents a significant opportunity for PNG LNG and Papua LNG to fill an ever-growing gap between supply and demand. It is a competitive environment though and we recognise that we would need and want to be at the front of the queue rather than the back of the queue so, the focus not just on the project participants but also on government is to move these things forward quickly and in a timely way.

In Alaska we see a significant uplift potential in value since the initial investment driven by recent drilling results and hopefully underscored by our drilling program in 2018/2019 ahead of a FEED decision for the development of the Pikka unit in 2019. We obviously are building a very capable team there.

As Stephen has said, we've got a strong balance sheet despite the impact of the earthquake. We have good, excellent cash flow generation from our operations and we're really, really mindful of managing our balance sheet and investment priorities really well.

So, ladies and gentlemen, thank you very much for listening. Now I'll throw it open to questions.

James Byrne: (Citigroup, Analyst) Morning, Peter. James Byrne from Citigroup. Firstly, just wanted to understand a little bit more about the oil production adding opportunities in PNG. Can you describe some of the risks around your aspiration there both on the technical side, whether the JV partners are online? And the \$1 billion per annum of operating cash flow that you're talking about needing ahead of CapEx on the LNG growth, is that premised on successful delivery of the oil adding opportunities?

Peter Botten: No, it's not but I'll let Julian talk to the oil business and the risks associated with that.

Julian Fowles: Thanks, Peter. Morning, James. Yes, we have a number of opportunities we've been working on for several years in fact around and within our oil fields. The oil fields are still highly profitable and we believe that we can extend the oil production plateau across those fields including all of our major fields, the Kubutu fields as well as the Agogo and Moran fields by in some cases simple workovers of existing wells to complete in different zones, in some areas also doing side tracks of existing wells where we've identified opportunities if you like in different directions from the current well bore and then existing opportunities that we've recognised for a while which now the current oil price of course supports more, which we can get after - they're in very close proximity to existing wells and really close to our existing facilities.

These have the potential to add quite substantial volumes which are not currently booked in our portfolio. They exist within our current licences within the current fields and the joint venture partners, they're aware obviously of the opportunity set that we've got. We're working through the prioritisation of those and that will certainly depend obviously on how we manage capital which is obviously - my role is bringing forward the opportunities and discussing those in terms of what we can prioritise and actually afford to get after.

But the opportunity set is substantial, the profitability is also very high for those and yes, it'll be a question of how we allocate capital. So, I'll hand over to Steve for that.

Stephen Gardiner: Yes, as Peter mentioned, this cash flow generation from these opportunities is not included in that \$1 billion I spoke to. That \$1 billion is actually based on an oil price that's below where we are currently and probably also doesn't capture the upside we're now seeing from the PNG LNG project in terms of enhanced production following the work that's been done. So, I think \$1 billion assuming the oil price behaves itself is a very achievable annual cash flow opportunity for us to rely on.

James Byrne: (Citigroup, Analyst) Got it. Moving to Alaska, if there was a continuation of that reservoir across licences what are some of the commercial outcomes with those adjacent licences? Could there be unitisation for example?

Peter Botten: Unitisation is not typically done on the Alaska north slope but clearly cooperation is and we are having, I think, very productive discussions with ConocoPhillips around not just how we would look at developing the field but also the use of what may be common infrastructure and cooperation about how the fields will be potentially developed. And although there is some further work to go, to date the discussions with them and others has been really productive and I think we've got - are developing a very strong relationship with them and a real strong willingness to actually work together without - yes, a strong willingness to actually make sure that this makes sense.

James Byrne: (Citigroup, Analyst) Sure and then maybe just one final very quick question just on the LNG marketing efforts for LNG growth. How mature would you describe those discussions? Are we already talking about volume antenna, presumably not price?

Peter Botten: As we move forward for discussions clearly the CAs are the last to exchange information on the project. We also need to understand what the buyers' demands are in terms of timing, what new projects, receiving of facilities, et cetera. So yes, you're correct, there's strong appetite in the market for terms contracts which we're working very closely with Stephen which we're confident will lift the project financing seeing as we have stronger appetite for oil pricing certainly into North East Asia which is pleasing. But of course, pricing will come through time and the reason I say that is we need to be very confident on the fiscals of the project so we're going to need to see those gas agreements mature over the next couple of months before we feel comfortable to table any sort of price range to the customers.

Andrew Hodge: (Macquarie, Analyst) Thanks. Andrew Hodge from Macquarie. Peter, just three quick questions. First was I'd seen that Philippe had left from PNG last week and a new head of Total had taken over. I just wanted to check to see whether or not you think there's been - that's had any kind of influence in terms of timing on the project, just one of the comments you made about the prime minister's timeline.

Peter Botten: I've not met the new country manager for PNG for Total yet. I as in town, he was in town but we were both very busy last week in PNG not unsurprisingly. I understand he's got a very, very strong background in development and I can only see that as being a positive and a positive commitment by Total to the Papua LNG and everything they're doing and saying emphasises their commitment. The prime minister continues to say he wants a material announcement around the APEC conference and that's replicated in our discussions with the state negotiating team around the fiscals.

How fast or slow this goes is depending on - it's like all good commercial discussions and negotiations. It can go quickly or it can go slowly or it could go nowhere at all but I think the intent very firmly by all sides around this is to get this done and come out with a balanced developer/government/landowner and rest of the country fiscal regime which is fit for purpose and fair for all. And that attitude is actually very, very pervasive on all sides of this discussion. It's engaging, let's put it that way and we'll undoubtedly suck up substantive time in the second half. Certainly myself and our management team are very much involved in facilitating in the process and moving it forward.

Andrew Hodge: (Macquarie, Analyst) On the gas negotiating committee, Isaac the head of the committee had made a comment that could be potentially different gas contracts - sorry, fiscal terms for P'nyang as well as for Elk-Antelope. Do you think that's likely to happen or do you think there'll be sort of similar-ish ones.

Peter Botten: Well one thing I am absolutely not going to do is engage in negotiation and public negotiation around terms and conditions in a public sense. What goes on in the negotiation at the moment stays in the negotiation room at the moment. So, sorry.

Andrew Hodge: (Macquarie, Analyst) That's alright and then last question was just on Alaska. It's a double-barrel question. The 250-million-barrel potential upside, is that based on the results that have come in from Conoco from their drilling campaign this year or is that even more potential upside - I guess we could potentially see more than that just from your appraisal drilling?

Peter Botten: Well, certainly that number is a compilation of new information that we've received and new drilling information that we clearly have seen from drilling including Putu and we also have done a lot more work in terms of reservoir evaluation and continuity. So, I think we're very comfortable that there is upside and the upside will be addressed in the wells that we're drilling and clearly, we see the opportunity to move a lot of 3C into 1C and 2C via these wells and importantly, also the testing program that follows.

I think we're we've comfortable with what we see there and hopefully that comfort level and the results of the drilling program will represent value added to the option that we have to acquire the other 50% of the Armstrong equity. I'm absolutely certain though if we wanted to give the option back, young Bill Armstrong would take it off our hands very, very quickly.

Andrew Hodge: (Macquarie, Analyst) On that, the second part of the question was just the process with Repsol. Do you guys still - I think you'd mentioned previously about the percentage of ownership you wanted within the project. Is that still the same longer-term or how long do we expect the process to go before the option's executed?

Peter Botten: Well, as I think it says on one of the slides we're already preparing data rooms and other things. I think we've got an alignment about what our desired equity will be and certainly that's in the 30%-ish long-term. So we have the capability with Repsol and ourselves and the option to introduce other major parties that could bring value to the whole joint venture and that's clearly a focus for us over the next six, nine months.

No more questions? Anything from the phone? There is one. Thanks.

Unidentified Participant: (Westpac, Analyst) [Unclear] from Westpac. Just a question on the fiscal discussions which are happening with the government. Is the option which the government has to take any [unclear] in the Elk-Antelope project, is it still being discussed with the joint venture partners and has there been any discussion around how the government is looking to fund the equity stake if they do happen to take that?

Peter Botten: Well again, I think it's under the Oil and Gas Act in Papua New Guinea the government has an ability to back into a project at a certain period of time for 22.5% equity. I believe it's the government's intent to endeavour to do that and obviously a core part of that will be an appropriate financing structure to allow them to support that equity. So, I believe that that's ongoing and is part of a broader discussion not necessarily inside the state negotiating team but certainly outside.

Unidentified Participant: (Westpac, Analyst) Thank you.

Jonathan Prince: (Westpac PNG, Analyst) Jonathan Prince, Peter, from Westpac PNG. Could you make a brief comment on relations with landowners, specifically negotiations around the expansion and ongoing relations with PNG LNG.

Peter Botten: I think frankly the relationships - it's been a challenging time in the fallout from the earthquake. It's been a challenging time for a lot of people on the ground and that inevitably has caused some tensions in certain parts of the project and project area, not necessarily directed at the project but around the project area as a whole. I think government's actually done an outstanding job in the last six months in addressing remaining issues that are impediments to benefits flowing to project area landowners and I think there's been a responsible approach generally speaking by the landowners themselves to address and get these things done.

I know from our side from our oil projects we've had a lot of engagement with our landowners over the last few months so building on the platform of the relations that we had prior to the earthquake but also in a post-earthquake world. As one of the landowner leaders said to me, he said Peter, we remember the people who come and help us in our time of

need but we remember more the people who don't. So, in reality I think this has been a catalyst to start a very constructive discussion around addressing remaining project area benefits and how they can get out there.

I know in our own circumstance - I'll use one example - we have our refinery in the highlands was damaged by the earthquake and we're actively discussing with landowners how they may or may not participate in future activities and future refinery opportunities as well as a potential power project at Kutubu so that these groups can get a revenue stream outside a simple project development revenue stream and give them a broader base of economic involvement in the area.

It's a very, very busy time. Frankly, Sydney is a bit of an outlier for me and many of our team at the moment and there's lots going on in PNG to keep us busy but part of that is absolutely bringing those guys along and addressing some of the operating security issues that clearly have been in many ways exacerbated by the earthquake.

I think we've got - no, we have another hand.

Daniel Butcher: (CLSA, Analyst) Hi, thanks. Daniel Butcher from CLSA. I was just wondering, at the November acquisition on Alaska briefing you gave some helpful guidance on CapEx and obviously, here you've just slightly elaborated on your latest thoughts on what the possible resource size could be with appraisal drilling. Do you have any further thoughts on what the CapEx might be where it's moved from that initial estimate?

Peter Botten: I don't think it's moved materially from that initial estimate. Obviously, it depends a lot on the size and shape of the development itself, whether it be at the lower end of the production scale or at the upper end of the production scale. But broadly speaking our focus has been very strongly on ensuring that the drilling program and program of testing in the coming five, six months is going to give us the right information to optimise that development and our discussions with our neighbours and owners allow us to again optimise what's on the ground, optimise potential use of facilities that are already there and actually come out with a smart development. I think that's progressing so at this stage I wouldn't be moving that guidance too much but all I can say is there's a lot of work going on to develop a very accurate and optimal story about how that development can take place.

If you've seen ConocoPhillips' presentations recently they've got a massive development going on to the west of us and they see Alaska as being an absolute core opportunity to grow their business. I'm not putting words in their mouth. That's straight out of their analyst presentations that they gave in July and obviously for some of you who will be heading to Alaska sometime in October, you'll see some of that yourself.

Daniel Butcher: (CLSA, Analyst) Thanks.

Peter Botten: I think there's some calls on the phone? Over to you.

Operator: Thank you. If you wish to ask a question please press star one on your telephone and wait for your name to be announced.

Your first question comes from Adam Martin from Morgan Stanley. Please go ahead.

Adam Martin: (Morgan Stanley, Analyst) Good morning. Yes, just back on Alaska. Can you just provide a bit of detail on that 3C to 2C move, the 250, what you need to do in terms of drilling and mapping? Just give us some idea there, please.

Peter Botten: We presently see - we've taken a pretty conservative view around the existing - about the volume that we're accessing and seeing around existing holes. So, if you're able to drill those two holes inevitably you will move - and you see oil and communication which according to the seismic would indicate that we should be in the similar reservoir and according to drilling not just by Armstrong, also ConocoPhillips. We're after reservoir continuity and those

two wells will address that continuity question and if they are successful that will add material reserves into our 2C and 1C resource. Our present estimates are heavily weighted to the 3C where we are away from wells. However, around the wells we're taking a reasonably conservative area of influence and contribution. The two wells are designed to spread that information base and are situated to add that sort of level of resource potential.

Adam Martin: (Morgan Stanley, Analyst) Okay and just a follow up question on just some gap that you found recently so Kimu 2 and Barikewa. What's your initial thinking on commercialisation there? How are you still thinking about that?

Peter Botten: Well, there are a number of ways of commercialising that from gas feed into the existing facilities for LNG or various small-scale LNG or power or other things that might be dealt with as part of any other in-country gas development. As I say, I think we'll be rolling out later this year a broader strategy around how we see the evolution of gas. We have plenty of gas in Papua New Guinea. The trick now for us at least is to decide where that gas is, what's the cost of delivery of that gas into infrastructure and where it might go in terms of LNG expansion versus LNG backfill. We're close to concluding that analysis and therefore, from that analysis we'll prioritise where we go and spent our exploration and appraisal dollar.

Inevitably, I think the focus of exploration will progressively move from the highlands into the gulf both onshore and offshore but I think more details of that and the commercialisation opportunities we have for our gas, where we should go is subject to work that we can roll out to the investor community later this year.

Adam Martin: (Morgan Stanley, Analyst) Okay. Thanks, Peter. That's all from me.

Operator: Thank you. There are no further telephone questions at this time. I'll now hand back for closing remarks.

Peter Botten: Well, thank you very much, everybody. I understand it's a busy time of year and there's lots going on in the real world outside Oil Search so thank you for your attendance today and virtually and we look forward to providing updates in what is an extremely busy and dynamic environment certainly for the rest of the year. So, thank you very much.

End of Transcript