
Oil Search and Climate Change

Updated - 9 May 2017

What is Oil Search's view of the Paris Agreement?

Oil Search supports efforts – including those of the PNG Government – to move towards implementing an effective global climate agreement.

We advocate for the establishment and implementation of a clear, stable policy framework that supports a global warming trajectory of 2°C.

- This will help the industry make informed decisions, leading to an effective and meaningful contribution to addressing climate change.
- Market mechanisms, such as emissions trading schemes or other carbon-pricing mechanisms, are an efficient response and we support these and other measures that improve certainty.

What is Oil Search's position and outlook on climate change?

Oil Search believes that all energy sources have a role to play in meeting global energy demand and each has its challenges.

This includes meeting growing energy demands while ensuring supply is sustainable and affordable.

We acknowledge that investment today in gas, renewables and technologies that reduce greenhouse gases will greatly contribute to reducing the cost and impact of climate change for future generations.

The consensus of multiple scenarios is that oil and gas will continue to have a major role to play in the global energy mix and that natural gas will be pivotal in the transition to a low-emission energy system.

As such, we have a gas-dominant portfolio and growth strategy. Oil will continue to play an important part of Oil Search's portfolio in the medium term.

With some of the most competitive operating and planned LNG projects in the industry, we remain resilient to a low-price, carbon-constrained environment.

- Our proposed significant investment in the Papua LNG Project is consistent with our low-cost, gas-dominated strategy.
- We will support operator efforts to ensure the Project minimises emissions, is climate compatible, and contributes positively to PNG's climate change goals.

Oil Search has commenced evaluation of 1.5°/2°C scenarios on our business and is committed to reporting on the findings to our shareholders prior to the Annual Meeting next year.

We will monitor new technologies and, when feasible, seek to adopt and integrate low-emissions technologies into our investments, including non-operated projects.

Does Oil Search have a Climate Change Strategy?

Oil Search's Board approved its Climate Change Strategy in October 2016.

The strategy is outlined in detail on our [website](#).

Does Oil Search have a Climate Change Policy?

Climate change risks and implications are considered in a range of Company procedures and frameworks including the Social Responsibility Policy, Risk Management, Engineering Design Procedure, Engineering Risk Management and Environmental Management Procedures.

- Consistent with a continuous performance improvement approach, these are regularly reviewed and updated as required.
- Our project planning and design procedures mandate that energy efficiency and emissions reductions are considered at the outset and during the design phase of all new projects.

What new climate-related technologies is Oil Search pursuing?

The **Highlands Power Project**, an Oil Search public-private partnership agreement with PNG Power Limited (PPL), seeks to provide cost-effective on- and off-grid gas-powered electricity to households, schools and hospitals in the Hela and Southern Highlands Provinces.

Our **domestic LNG** initiative aims to develop and utilise discovered but undeveloped gas resources for multiple coastal industrial and consumer locations within PNG.

Since 2010, we have invested more than US\$30 million into the development of a biomass power plant in PNG. The **PNG Biomass Power Project** in Markham Valley will use wood chips from existing and new plantation trees that are grown and sustainably harvested in the Morobe Province to provide low-cost, reliable biomass power to the Lae Region and reduce the chances of coal usage for power generation.

The PNG Biomass Power Project is supported by a 25-year Power Purchase Agreement (PPA) that we signed with PPL in December 2015. Under the PPA, the project will generate up to 30 megawatts (MW) of renewable, biomass-fired, reliable baseload power for the Ramu grid, with deliveries commencing in 2019.

We continue to monitor new technologies and seek to adopt and integrate low-emissions technologies, where feasible, into new investments and non-operated projects.

Does Oil Search disclose climate related risks?

Oil Search's updated [website](#) and latest [2016 Social Responsibility Report](#), released on 7 April, discloses our climate related risks and opportunities.

Our most material climate change risks include:

- Changes in demand for our products.
- Emerging policy and regulations that create uncertainty, increase operating costs and raise expectations for our engagement on the topic.
- Reputational impacts, driven by stakeholder activism and changing societal expectations.

Has Oil Search undertaken Resilience Testing (also known as 2°C Scenario Analysis)?

We conduct exhaustive modelling of various long-term supply and demand scenarios for oil and LNG, based on input from a variety of authoritative sources. We encapsulate these scenarios in a range of commodity price outlooks, including material downside cases reflecting weaker sustained long term demand for our products. The economic viability of existing assets is then tested against the same downside economic cases.

Oil Search has commenced evaluation of 1.5°/2°C scenarios on our business and is committed to reporting the findings to our shareholders prior to the Annual Meeting next year.

What source does Oil Search rely on for its forecasts?

We rely on a variety of authoritative sources and encapsulate these scenarios in a range of commodity price outlooks, including material downside cases reflecting weaker sustained long term demand for our products. This includes the IEA's (International Energy Authority) *World Energy Outlook 2015* and various Wood Mackenzie reports. We also consider the scenario analysis undertaken by leading oil and gas peers, seeking to identify the consensus view between various sources.

Has Oil Search considered the recommendations of the Financial Standards Board Task Force on Climate Related Disclosures (TCFD)?

The draft TCFD Recommendations were released in December 2016, with consultation closing in February 2017. These draft recommendations will not be formally adopted until June 2017.

The draft TCFD Recommendations are an important development in ensuring adequate and consistent climate disclosures. Oil Search is committed to implementing all relevant aspects of the draft TCFD as it currently stands and preparations are well underway to take into account the recommendations once formally adopted in June 2017.

That said, Oil Search already discloses climate related information in regard to our position, outlook, governance, strategy, risk management, metrics and targets, reflecting the intent of the draft TCFD Recommendations. This information can be viewed [here](#).

What level of the organisation has oversight responsibility for climate-related risks and opportunities?

The Board has oversight responsibility for climate-related risks and opportunities within the business. In October 2016, the Board approved our Climate Change Strategy.

How is climate change reflected in the remuneration of senior executives?

Our senior management team is financially incentivised to manage longer-term risks that could impact on the value of the Company, including climate change risk, via the operation of the 'at risk' component of executive remuneration.

Executives participate in a long-term incentive (LTI) plan, with payments under the plan linked to the relative shareholder returns generated by the Company compared to a global peer group of oil and gas companies and to the 50 largest companies listed on the Australian Securities Exchange.

Failure to effectively address climate change risk would be expected to translate into relative underperformance in terms of creating long-term, sustainable shareholder value and hence impact on the realisation of LTI benefits.

How does Oil Search engage in public policy with respect to Climate Change?

As one of PNG's largest companies and a socially responsible operator, we seek to engage with the PNG Government, industry groups, landowners and other people with the ability to shape policies that impact our business and stakeholders.

- We do this with integrity and in an accurate, factual, transparent and meaningful way.

We actively engage with regulatory and other government agencies, including the PNG Climate Change Development Authority (CCDA), on proposed and existing legislation and commitments related to climate change.

- We belong to the CCDA industry stakeholder group.

We disclose our policy recommendations, submissions and proposals annually in our [Social Responsibility Report](#).

Our public policy engagement approach is clearly disclosed on our [website](#).

In addition, Oil Search is a member of APPEA, as this is a useful industry forum to share information and contribute knowledge and best practice.

However, while we monitor the Australian dialogue, we have no operations or exploration interests in Australia, therefore we do not actively engage or contribute to the Australian domestic energy or climate public policy debate.

How is Oil Search influencing the operators of its joint venture projects, such as the PNG LNG Project and Papua LNG Project, in relation to climate related impacts?

We work with all our partners and advocate for climate-compatible approaches to the project design, development and operation of non-operated assets. An example of this is improving overall efficiency through project integration.

For more information:

Visit: www.oilsearch.com/how-we-work/responsible-operator/climate-change

Email: socialresponsibility@oilsearch.com