Event Transcript

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Start of Transcript

Peter Botten: Ladies and gentlemen thank you very much for attending Oil Search's 2017 First Half Results Presentation. We appreciate your attendance in this room but also through the phones and the internet, and later on after our presentations we'll give you the opportunity to ask questions both from the floor here in the room and also from both the phones and the internet. So, plenty of time I hope for questions. If you do hear an emergency beacon of any description please move to the back outside and we'll be shown where to go by one of the hotel staff as a short safety moment.

We'll start with a disclaimer, so I'm sure you can read that at your leisure. Our agenda will basically follow the same as last year with me providing a summary of the 2017 half year highlights. Steve Gardiner, our CFO, will be doing a financial overview. Our EGM of PNG, Julian Fowles, will give PNG production and Ian Munro, our EGM of gas will be doing gas development, exploration and growth. EGM Keiran Wulff will be doing our exploration appraisal, and I'll wrap with some key issues and future direction.

Our half year in 2017 I think was a very strong one. We're making progress on a range of significant issues, all off the foundation of a very strong production base and a highly profitable barrel of oil equivalent that we produce. Clearly a significant increase in our first half profit recorded as US$129.1 million was a significant uplift, 405% increase on the previous corresponding period. Probably not a hard number to beat, but 400% is still a good beat. Driven by higher oil prices and gas prices a significant improvement in oil price of 28% and gas price of 26% helped to deliver this. But also strong production especially from PNG LNG was also a highlight. PNG LNG in more recent times in a post 30 June world is presently producing in the 8.6 million, 8.7 million tonnes range and there's further still to come. An absolutely outstanding achievement by ExxonMobil to continue to optimise this significant project.

In production terms for the first half it was pretty well flat with the previous corresponding period, about 14.8 billion barrels of oil equivalent, and that was despite major maintenance on some of our oil fields, the outstanding production I say from PNG LNG is clearly a highlight. It was also highlighting the discovery from Muruk, and certainly from an exploration appraisal perspective Muruk is a significant discovery. It is very encouraging for that trend between Hides and P'nyang and an active appraisal and exploration program is planned for second half 2017 through 2018 which hopefully will see further resources proven up.

It's also pleasing to note that the dialogue between PRL 15, P'nyang, PNG LNG parties, common parties, on expansion and development of Papua LNG is now taking place and is accelerating in terms of the pace of engagement. It's also I think very encouraging to see that the newly elected PNG Government has made the development of Papua LNG and the expansion PNG LNG a very, very high priority for them in the first hundred-day plan. It's a significant alignment and will allow us to seek appropriate resources and work with the government on these key national agenda items. That alignment with Government I think is very positive. They're also very focused on addressing remaining LNG benefits for landowners and removing any roadblocks that might be there presently.

So in summary a very strong production financial base with debt paid down, cash balances improving and right now a huge platform of US$1.8 billion of liquidity to drive our business further. I should also say we announced a US$0.04 per share dividend as well for people who like dividends, I'm sure we all do.

If I move to safety, of course core to our business values is the safety of our workforce and the integrity of our facilities and environment of our communities in the various businesses that we do in PNG through a range of comprehensive social programs addressing some of the key operating risks in the country. [Unclear] environment in PNG in the first half was challenging frankly with the destruction and security challenges related to campaigning and the voting in the country's general election. I'm pleased to say though that we had no security issues of any consequence in our areas and operations continued as usual.

We did have a series of planned major shutdowns in our oilfields to address a range of maintenance and facility integrity improvements, all relatively high-risk safety and environmental challenges for the organisation. As a result, a number of incidents from this work and seismic acquisition has resulted in a number of new safety initiatives that are designed to address an upward trend in our incident frequency rate in our operations. So with that in mind, leadership from the top and high level of focus on safety in the second half is absolutely a core priority for us as we go into towards the end of the year.

Process safety and environmental metrics showed marked improvement in the first half it's pleasing to say, and they're obviously very critical as the age of our facilities moves on and our intention will be to use those facilities as a core part of potentially some LNG expansion options. So it's important to do that maintenance and get that right.

With that in mind I'll now hand over to Steve who can walk you through the numbers.

Stephen Gardiner: Good morning ladies and gentlemen. As Peter said I'll dive right into the numbers. It's been, as Peter said, an excellent first half for the Company, our revenue was up 16% on the prior half, that's driven by an improvement in oil prices and LNG prices that more than offset a decline in sales volumes. Those sales volume numbers were down, as Peter mentioned, because of some major maintenance programs in the first half and also because the timing of some of our cargos, we built up our inventories over the period and we'll see those inventories sold and into the market in the second half and see an uplift in sales volumes then.

Our cost of production for the period were relatively stable once you normalise for those inventory adjustments. Our other costs were down on the prior first half, mainly because during that period we were spending a lot of money on the InterOil acquisition. Of course we managed to recover those costs through a payment from InterOil when our bid was usurped by Exxon.

Our non-cash charges were also down by 13% compared to the prior period, driven by the recertification of our PNG LNG gas fields, which has reduced our amortisation charge for the remaining life of those gas fields; it was down by 13%. Also good news on the tax front with our effective tax rate now at 32%. All of our production in PNG now is being tax at the 30% tax rate after a change in the old tax rate last year.

So, overall as I've highlighted our financial metrics strengthened due to higher oil prices, stable costs and also a very focused investment during the period. In the first half we were able to fund all of our necessary expenditures to support our operating assets and that includes debt servicing and also sustaining CapEx at a cash equivalent cost of less than - around US$29 per barrel of oil equivalent. That's obviously plenty of headroom compared to a realised oil price for the period of just over $53. We also generated operating cash flow of about $30 per barrel of oil equivalent during the same time.

Our operating cash flow is sufficient to fund not only all our CapEx in the period but our debt repayments that were scheduled, a final dividend from 2016 and to leave us with enough cash to put about $111 million in the bank at the end of the period, so an excellent generation of cash flow. Our share of PNG LNG cash distribution since the project started up in 2014 has now reached $1.56 billion. We received $174 million in the first half and that was about what we received for all of 2016 from the project. Again that just emphasises the leverage of the project to stronger oil prices, there's a really stable cost base and any increase in prices or production flows through to the bottom line in cash generation.

At the end of the half we finished with low again which is a good thing. Higher liquidity, as Peter mentioned, with around $974 million of cash in the bank and increased undrawn committed bank loans of US$850 million. Contributing to that was a very successful refinancing of our corporate facility that we completed in June of this year. We extended the term of that facility for five years, we increased the facility size by $100 million and we got more favourable terms from the market reflecting the very strong support globally for Oil Search from our banking group.

So not surprisingly operating margin improved in the period, it's up at 74% for the first half in line with the recovery in prices and our margin recovery also was helped by an increasing proportion of PNG LNG production. It's important to note that PNG LNG production yields both higher cash margins and higher profitability compared to our oil and gas business.

Our cost base remains very competitive globally and it really does allow us to ride through the volatility and commodity prices we've seen over the last few years. Our PNG LNG production costs on a [boe] basis were down 11% on the prior first half. This continuing trend in start-up and since 2015 in our first full year of production we've seen those unit operating costs fall a total of 17%. So that not only reflects the capture of ongoing cost savings by the project operator Exxon, but also the substantial increase in LNG production, which is able to be delivered above nameplate capacity at really no incremental cost.

For our operating assets we did see a rising unit cost, as we've mentioned there was some major work programs during the period, major facility shut-in and underlying all that is these are very mature fields with declining production, so if you're not spending the money you'll see an onward trend in production downwards.

Turning to the full year outlook now we've revised a number of the guidance's based on the first half performance and our expectations for the second half. Full year production guidance has been upgraded following the record monthly performance achieved by the PNG LNG plan over the last few months, and Julian will give you more details on that. Our production cost range on a unit basis has been lowered, even though we expect moderately higher costs in the second half due to the phasing of work programs. Also non-cash charges are reduced of course in-line with the first half result and the contribution of higher reserves from PNG LNG.

Our capital expenditure range has also been lowered, mainly across the exploration and evaluation spend, and that's driven by two reasons. The first is the optimisation of our drilling program where we've pushed some wells back now really to accommodate the delivery of a new rig in the country which will allow us to do much lower cost drilling over the much more fit for purpose rig for the wells we propose to drill. Also our original guidance for the Antelope and P'nyang development activities was based on operator budgets were developed well before the completion of the Exxon acquisition of InterOil, they were really standalone budgets.

Now that those operators are engaging with us and the government, I'm looking at the opportunity to expand the LNG business by focusing on the commercial arrangements initially, and then looking at integrated development opportunities we're seeing much lower spend initially and we'll see that spend catch up as we finalise the commercial arrangements and move into the more serious pre-FEED activities.

Again we'll hear more on those developments from both Ian and Keiran. At this point I'll hand over to Julian, thank you.

Julian Fowles: Thank you, Stephen and good morning everyone. I'll talk a little bit about our production of other operations. I'll start off looking at how we're doing in terms of production in the first half of the year through PNG LNG as well as our own operator production in oil and gas. Then I'll spend a little bit of time looking at what opportunities we have through 2017, the rest of this year and then as we go into 2018 and '19, further opportunities to really mitigate the decline we see in our oil production as well as looking potentially then at how we take that forward and what that can do for us, potentially with some growth opportunities there as well.

So the story here really from a production point of view in the first half of the year is we've seen an outstanding performance from PNG LNG. You can see it's the second largest half year that we've had, we've seen very successful maintenance and optimisation programs from PNG LNG in May. We did some work on the compressor systems that we have at the LNG plant and that has allowed us an additional 3%, 4%, maybe 5% throughput of LNG. So we've been looking at rates that have achieved on a monthly basis up to 8.6 million and 8.7 million tonnes per annum, which is really outstanding, 25% higher than the nameplate capacity that we have at 6.9 million tonnes per annum.

We've got more of this still to come. We see in October that we'll be doing a further program of optimisation and maintenance in the LNG plant and we think that that will achieve additional percentages of increased rates. We see longer term that we should be able to achieve rates that are in excess of 8.5 million tonnes per annum over the long term. So we think that this is a really positive outlook for PNG LNG and as Peter has emphasised, the operator there, ExxonMobil, has really been doing an outstanding job with this.

Following the resource upgrade in PNG LNG reserves that we saw at the end of 2016 with the work that was done on recertifying the resources, we've been able then to go back to the markets in order to market up to 1.3 million tonnes per annum of additional production to sell into the region in contracts that would be potentially up to five years term. So in the market at the moment ExxonMobil is in the market at the moment looking at this. We've had some great expressions of interest, and what we're looking to do through the second half of this year is to finalise some of the terms that we've got with interested buyers and then we'll probably look to finalise contracts themselves in the early part of 2018.

We've seen interest that have come from top tier buyers from some of our existing buyers already but also more broadly in the market from other buyers and traders too. So we think that that's a very positive story in terms of putting in additional volumes over those midterm contracts into the market that will take us through to around the 2022, 2023 mark.

If I look then at operated oilfields and activities that we have planned there, our primary goal in our operations is to ensure that we have reliable production and that that production is done safely. Peter's already emphasised our safety performance. We do that by undertaking planned series of maintenance programs in our oil and gas fields. In February this year we had a shutdown at Gobe which was for some planned maintenance there, there's around about seven to 10 days. Again in May we then shut down our main production facility again to undertake a significant series of programs. But really designed to look at the longer-term operations from our facilities. As Peter has emphasised these are reasonably old facilities, nothing wrong with old facilities, you can keep those things going for a very long time and our programs are designed to do that.

What we're looking at now following those programs is now really a series of programs with our wells, with our reservoirs and with the facilities that will continue to get the most out of those assets. We take a view that brings us from the reservoir all the way through to the export system and we have programs in place over the next 18 months or so that will be continuing to optimise our production base through those facilities. So a number of activities that we've highlighted there.

Key to that will actually be the Moran 4X work-over. Some of the decline that we've seen in our production from our operated oilfields this year has been because we've been unable to re-inject gas at the Moran field or some of the gas at the Moran field at Moran 4. So the work that we'll do later this year will reinstate that gas injection that supports the pressure in those fields, supporting the pressure then allows us to produce at higher rates and we get higher rates of oil. So I'm expecting to see the second half of this year some of our production come back up in the oil fields. We're already starting to see that through some of the optimisation work that we did through the shutdown that we held in May. We're already seeing rates there that are a few thousand barrels a day ahead of where we would expect to be.

So that's a good news story around our operated fields also. Together with that we see opportunities to mitigate longer term decline in our oil fields. So we have a number of opportunities that exist within or immediately adjacent to existing fields within our existing licences. A number of these opportunities are quite sizeable, we've got a couple highlighted there, there's one at Moran, there's also one at Goby. These have potential to add tens of millions of barrels of long term production on a daily basis, in a success case we could see up to 10,000 barrels a day of incremental production added through these drilling programs. So there's some work that we're doing there around these ones. We also have additional opportunities at Agogo. There's the Agogo [fall in] that we're looking to exploit more fully and as well as that there are further opportunities at the Kutubu fields as well.

So a number of opportunities there that we're pursuing. Of course these become more challenging in the oil price environment that we're looking at, but as Stephen has emphasised we're bring in new rates, it's more optimised towards the sorts of operations that we have and we expect to be able to drill more of these opportunities in the future because we can make a margin on them. Together with that we also see additional prospectivity in the interior fold belt that sits just outside the existing fields and of course we're pursuing that also to look at longer term productivity gains and longer-term mitigation of that decline.

If I look at our forecast, Stephen has touched on this already, what we're doing is we're lifting the lower end of our forecast seeing the excellent outperformance of PNG LNG and expected continued reliable performance in our oilfields. So we'll lift that lower end from 28.5 million up to 29 million barrels with the upper end at 30.5 million barrels equivalent. We do have a number of programs that will take place towards the end of this year, there's a further upgrade of that compression system that I mentioned at PNG LNG so that will hopefully add some incremental volumes as we've already seen from the May shutdown that we held as well. So I think that there's further yet to come and as I said for PNG LNG we see a long-term potential there which sits for us quite well above 8.5 million tonnes per annum.

So with that I'll leave it and hand it on to Ian.

Ian Munro: Thank you, Julian. Good morning ladies and gentlemen. The elements required to do with a high value LNG expansion in PNG are now in place. A combination of proven gas, aligned partners and low-cost brownfield development will ensure that LNG from PNG is competitively positioned to supply our advancing market early in the next decade. Additionally with the Muruk discovery increase in the existing and potential resource space there is longer term optionality to supply the 8 million tonnes of new capacity and look to further growth at the PNG LNG plant site.

On the market with the ever-expanding number of LNG buyers of which now there are 37 in North East Asia alone, allied to the widening supply demand gap in the Asian market from the early to mid-2020s, new supply from PNG is well placed to secure premium buyers. At Oil Search we're particularly bullish on the Asian demand outlook where over the last 12 months there has been 13% overall growth including 34% in China alone. It is evident that Government policy and the environmental concerns are providing increasing stimulus for LNG.

Importantly, discussions with major buyers, and I should emphasis this, and regulators, provide confidence to traditional LNG importing countries, recognise that project sanctions with supported product pricing are going to be required over the next 24 months given the construction lead time. Those companies involved in expansion from PNG have notable advantages over global competition. Whether we're marketing jointly or individually the owners are selling a premium quality product on the doorstep of buyers, and that's around 2 million tonnes Oil Search share. This can leverage the outstanding operating performance of ExxonMobil at the PNG LNG project. Being at the lower end of the development cost curve and offering greater schedule certainty from brownfield expansion are other parts of the compelling PNG value package for the market.

The resource base to supply the planned LNG expansion has been confirmed at, at least 10 tcf. This is more than sufficient to supply 8 million tonnes of new capacity and provide an attractive investment opportunity for all stakeholders. Near term upside is being tested at P'nyang later this year, and Muruk provides interesting optionality post start-up. In addition the recent PNG LNG recertification and the high production deliverability, as Julian has referred to, provide another option to front end part of the new capacity with very low-cost gas through existing facilities.

I also just commented openly over the last 12 months about the material value prize of cooperative expansion for all stakeholders and that includes the government of Papua New Guinea. Our views have been echoed by partners, and since ExxonMobil's entry to PRL 15 earlier this year, efforts have progressively ramped up on the all-important details of integration. The key issues have been identified and Oil Search is confident that we'll have an aligned position on integration, including marketing and financing approaches, during the fourth quarter to present to the new government. It is critical to get this upfront part of the project right as the expansion project will produce for over 30 years. The new Government, as Peter said, is naturally supportive in maintaining a project schedule and Oil Search will continue to do what we do best which is playing an active role in facilitating this outcome.

So in summary the partners in Elk-Antelope, P'nyang and PNG LNG are moving through the required technical studies and commercial discussions ahead of FEED. Notably we're already reducing costs as there is now no requirement to undertake standalone downstream studies and surveys. Formal gas agreement negotiations around year end will ensure full alignment with Government on the delivery of tangible in-country benefits, and this will be prior to FEED entry as early as possible in the first half of 2018. Going back to the start this schedule will see the expansions volumes delivered into the market to supply the growing Asian LNG demand from the early to mid-2020s.

So with that I'll hand over to Keiran who will take you through our encouraging exploration drilling results and our strategy to delivery further gas for expansion, thank you.

Keiran Wulff: Okay, good morning everyone, and thanks, Ian. Over the last couple of years we've had a major program of rebuilding our portfolio in PNG and the portfolio program rebuilt has been really focused on making sure we've got long term sustainability in PNG but also the flexibility to support the various expansion programs that Ian's talked about. The studies were based on - or the acquisitions were based on quite detailed studies that were conducted by both independent and internal teams that identified that PNG has over 40 tcf of gas remaining to be found. What we wanted to do was to identify the areas where we should focus on, and as a result of that we primarily focused on up on the North West Highlands areas, around Elk-Antelope and also now in the new offshore deepwater offshore area.

What the program's done it's provided us an ability to have a balanced portfolio that allows us to work out the areas prior to actually having to commit to well commitment. So what we'll be doing over the next couple of years is focusing on the Muruk to P'nyang trend while we undertake studies and seismic in the other areas.

In regard to Muruk, Muruk was a great result on many counts. Importantly it was a seismically defined prospect that had been identified from [seismic] back in 2014. But importantly what it did, it identified gas and discovered over 780 metres of gas column in both a hanging wall and a footwall structure. Now if you look at the picture on the slide on my left, over my left shoulder, you'll see it was quite a complex structure. What we did, we drilled three side tracks and we drilled over 8000 metres of section in that well. The important point there is that we not only now have hanging wall structures, which are the conventional exploration targets in PNG, but we now have footwall and very valid footwall structures to follow.

So what we see there is that Muruk is only located 21 kilometres away from [hards], and the seismic that we're identifying shows that it extends quite a ways to the North West. So the next wall that will be drilled will be Muruk 2 which will be drilled early in the next year. That may be up to about a 10 kilometre step out, so it's a very large structure. What we're also currently doing is we're in the process of doing the civil work on P'nyang and P'nyang South 2 will be drilled in the last quarter this year. Some of the work that we've done on P'nyang recently, both petrophysical and re-mapping the structure is identify that it could be quite larger than what we currently anticipate, and within a month after the completion of that [well] we'll be going through a certification process.

The map on my left shoulder just briefly I just want to highlight the number of prospects that Muruk has really opened up between Hides and P'nyang. We have five prospects now that have seismic on them or in the process of seismic being acquired over them, and all have between one to three plus tcf potential. So what we're looking at doing here is we're looking at focusing on this particular trend and understanding the resource potential here, not only for PNG LNG expansion but also for future LNG trains so that can be tied through P'nyang and down the corridor down that way.

We have recently finalised the seismic over Koki and Blucher, and the initial indications over Blucher are promising. We don't yet have the process results over Koki, but that processing will be finished in a month. These will all be candidates for late 2018 and 2019 drilling.

This slide here just shows you what we'll be working up over the next couple of years. We won't be drilling anything significant down in this area because we've got the opportunity to undertake quite detailed seismic acquisition programs. But the exciting point here is that this is in quite a contrast to the North West part of the fold belt where we have very expansive drilling obviously, the logistics are a lot more difficult. But here we've to the potential for acquiring 3D seismic, 2D seismic. What we're seeing is three or four different plays and in the deep water we're seeing large scale highs that have multi tcf that have the potential to be independent LNG projects in their own right.

So what you've got here is you've got an expansion capability in and around Antelope with a number of prospects and leads that will be looked at for drilling in 2019 plus. But as I said some very, very large looking structures in the deep water. The important point here is that we don't have to drill these things any time soon and we've got time to actually work these up. So the whole idea of the program we've developed over the last couple of years is to ensure that we've got flexibility to take the projects forward.

The last slide that I'll show you is really the three-year program. One of the challenges in PNG is always being able to have a predictable program and drive cost efficiencies. As Stephen quite rightly said we delayed some wells this year to actually maximise the synergies for bringing the fast-moving rig. The potential savings that we see compared to normal rigs that currently exist is in the order of 30% and 40%, so these are very, very significant potential savings that we're seeing out of the new technology rigs.

This slide here shows that quite clearly we're focused on the Muruk appraisal trend during 2018 and then we'll be moving to the new areas in 2019. So you'll see a lot more predictable drilling program over a period of time but for something that's very, very manageable. The last point there is that over the three-year program we'll be testing around about 19, 20 tcf of potential gas prospects through this program. So it's not an immaterial program, it's quite a significant program that has potential for expansion in its own right.

So with that I'll leave it over and I'll pass it back to Peter.

Peter Botten: Thanks, Keiran. I'm going to be discussing some of the issues and some of the conclusions, our way forward for how we see the priorities over the Company over the next 12 months or so. Obviously it has dominated our life in the last six months or so. The PNG election outcome does provide continuity for our business. As most of you are aware the last five months in PNG has been dominated by not just voting but also the campaigning in the country. Apart from some challenges to the electoral rolls and a few areas of fairly difficult violence, most commentators would say that the election went reasonably smoothly, I stress in a PNG context.

As is usual with the Government, the Government's been formed around a coalition of parties and independents under the leadership of the previous Prime Minister, the right honourable Peter O'Neill. Government was formed about two weeks ago and since that time we've been involved in a series of intense briefings with some of the new ministers of all sizes, shapes, from treasury through obviously oil and gas to state ministries and governors of provinces, as well as a broad range of parliamentarians on both sides, those in Government and in the opposition. Today Parliament opens in PNG, and later this week we anticipate that the Government will be announcing a hundred-day plan which will address some of the urgent financial development priorities in the country.

As most of you may know, the country does face a range of specifically fiscal challenges. And it's clear that the Government wishes to introduce a range of fiscal measures, spending priorities, prioritisation and control. It also is looking at potentially some structural adjustments with some help from other financing sources. But as I say, the Prime Minister said at a business breakfast last week, no new taxes.

There is a focus on import and development in the country. And obviously PNG LNG and Papua LNG represent two very significant impactful developments that can beneficially impact the country. We estimate that during the development phase of Papua LNG there could be in the order of US$4.5 billion to US$4.8 billion spent in the country each year, much of which would be spent in country which would address some of the currency availability issues, the job creation and the growth issues that the country is now facing. So overall then the focus on government inevitably will be to see further development in a responsible way. And I'll come back to that in a moment.

There is also a need, I think, to use this opportunity around the new government to highlight to them the need for leadership and the focus required to bring major projects to fruition, whether they be in the mining side or the petroleum side. So in discussions with government it's been very important to seek the resources within the government system, which will allow a major project or projects, mining and petroleum, to actually move forward in a similar way to PNG LNG.

So the formation of a team of both bureaucrats and Ministers to actually lead the development has been a very important issue in discussions with government. My personal view it's on the critical path to FID as all the government deliverables that are needed to actually move Papua LNG and its expansion forward. So getting them right and using this opportunity to get the focus on government on these issues is a critical element.

There's also a need to focus on the benefits distribution, benefits processes for PNG LNG. And I'll come onto it in a minute how much we as a project have paid to the State. But there clearly are barriers for some of those benefits actually reaching the people on the ground. And they must be fixed before we move forward with a new development. So getting again, using the opportunity to focus on these issues is a critical part of what's been going on since government formed over the last couple of weeks.

We've carried out a range of - we do carry out a range of projects in country to mitigate some of the operating risks in Papua New Guinea. I think we've been very successful with the lack of disruption to our business in PNG, a very dynamic environment. But we do have a comprehensive strategy of social programs, economic programs both directly from Oil Search and also the Foundation on health, community issues the delivery of power to places like Hides and in the communities around Hides. Critical national infrastructure whether it be roads, whether it be building refurbishments or whatever and leadership in education, women's empowerment etc. A very comprehensive series of programs which helps us by the credibility and the operating ability that's so essential for us to meet and deliver future value in the organisation.

We've also recent times carried out a very substantive audited review of where benefits and value has been delivered after both our oil business and also the LNG business and where the barriers are to finally deliver those benefits into the landowners who are the beneficiaries. And what's clear is that we need to communicate the benefits in a much more erudite way, much more active way as to how much has been paid by the projects. We are carrying out or at least instigating an independent study on the benefits of PNG LNG to the economy and the people. And that goes well and truly beyond the normal extractive interest of transparency indices which basically does give some of the information. We have broken it down into different entities, different landowner companies and what they should be paid or had been paid.

And we estimate over US$1.16 billion has been paid generated by PNG LNG in royalties in development levies and equity distributions, which have been provided to the State, Provincial Governments and sometimes to landowners. And that must get better. It's a critical part of our business. It just doesn’t get very shall we say transparency down here, but it's certainly a major issue for us in PNG. And clearly a significant amount of further work needs to be done to streamline those exercises to facilitate the next development. But I think we've made some real progress in recent times.

We also have an ongoing process to address climate change, risk and risk management of that. We are presently carrying out a range of scenario analysis, some risk analysis of the impact of climate change to our business following broadly the TCFD recommended disclosures. And we'll be looking at bolstering that later as part of our 2018 reporting season. We are also engaging with a number of stakeholders in the investment community about what the size and shape of climate disclosure should approach. So again something we are doing as an issue of risk management within our business.

We are also working very heavily on our human rights plan. We have clearly a range of operating challenges with Papua New Guinea and being part of the VPSHR reporting process is part of that. And we very recently joined the International Petroleum Body on IPIECA which is a peak industry body of environmental and social performance. Again just to make sure that we are not just doing stuff in rural terms on the ground but also being able to report it more broadly to the investment community.

So what are our focus items for 2017? The first are obviously continued optimisation of our various production businesses. And PNG LNG is one. Julian has mentioned there's further potential optimisation in there. We also want to focus and try and close out the additional volumes in PNG LNG and that certainly, we believe, is moving forward and moving forward positively for the participants.

We do have an ever-accelerating engagement between ExxonMobil and Total and progressing the next phase. There's a lot of work to do. But I do genuinely believe there's actually relatively little difference between the various parties on the key pieces that we are discussing at the moment. And I endorse Ian's view that we believe we can get that alignment this year and present that as a critical platform for the new government to deliver further development in PNG.

We have an active exploration program P'nyang South, Kimu 2 looking at further gas in both those fields. We've got preparations for Muruk 2; at Barikewa another gas field will be appraised. We've seismic acquisition in the Northwest Highlights further refining what Muruk can do, and in the onshore Gulf actually looking for Elk-Antelope lookalikes.

So the very strong focus at least for the people in PNG is alignment of in-country issues, government issues, the resourcing that's needed to get this project across the line. And frankly we've got that experience before and we know what works. So using this opportunity with the new government is absolutely essential in moving us forward in a timely way, meeting license commitments as we do but also ensuring we are addressing some of the sensitivities including landowner issues.

So in conclusion, look I believe the Company has actually never been in better shape since I've been here. And dare I say it I think it's almost 25 years now that I've been here, so unless I've forgotten something from the past, which could well be the case. We have a really, really strong platform in production. We've got a very strong business in PNG LNG, highly profitable business with further resource, reserve upsides to underwrite that growth. And we are obviously targeting that long-term growth through our oil fields as well. We think that optimising our oil fields both oil and gas production can extend the life further of those fields in the next phase of expansion and development.

We have over 10 tcf, more than we had for the grassroots project PNG LNG, discovered and ready to go in Elk-Antelope and P'nyang. And further upside certainly to drive an 8 million tonnes outlook. And we are very much now focused in discussion and coordinating how that might come together with, as I mentioned, a great pace of engagement now and an acceleration as the new government comes in and with their support.

Muruk gas discovery is a good one, and there is further upside there. We have a good exploration portfolio and a really, really good, I believe, in-country development program, community-based program which engenders substantial community support and gives us at least a good seat at the table for these sorts of discussions. And a very strong balance sheet with liquidity of over US$1.8 billion as it stands right now. So we are in pretty good shape, a lot of work to do, can't guarantee when timing of all these things happen but at the end of the day the fundamentals are there and we are working very hard to deliver.

So with that, thanks very much. And that concludes the formal part. And undoubtedly, we'll now have all the analysts wanting to have their banks named. Thanks very much. We'll turn to questions on the floor then. And we'll do the analysts round. Thanks.

James Redfern: (Merrill Lynch, Analyst) Peter, good morning, James Redfern from Merrill Lynch. Two questions, the first one is as part of the JV alignment discussion should we expect that Total will be invited to acquire [Korina] downstream component the expansion.

And then secondly both Exxon and Total have expressed strong interest in working with Qatar in terms of their 23 million tonne expansion between now and 2023/2024. How do you see that impacting on the PNG project as well? Thank you.

Peter Botten: Ian, I think I'm going to kick that to you and I'll add some flavour if I need to.

Ian Munro: Yes, okay certainly. Yes, thank you James. Starting with the marketing question first I think we would echo the views of other market commentators that Qatar if it does go ahead is a vote of confidence. There's well over 100 million tonnes of new demand over the next decade that needs to be supplied into Asia plus the existing contracts that are on decline.

So I think that would be a vote of confidence in the market. Clearly Exxon and Total would be involved in that expansion as Exxon are involved in Mozambique. But our discussions internally clearly indicate that Brownfield expansion from PNG LNG is the top of these company's portfolios. And we are not seeing any signs that they're not driving those projects - this project forward.

In terms of the question around the equity for Total there's a number of issues that have been raised and are being discussed around the integration principals, the commercial model, marketing is it joint marketing is it equity marketing and then the associated financing plus in Keiran's area the equity alignment, particularly in the Gulf and the offshore between the three companies.

But the particular point you raise that hasn’t surfaced as an issue. I think primarily because we are looking to offer a fair commercial package to Total and the PRL 15 partners. Because this benefits not just the upstream, of course the downstream owns through tariff revenue, through lower operating cost. And you have increased reliability from 16 million tonnes, which is very, very attractive to buyers.

Peter Botten: Another question?

Andrew Hodge: (Macquarie, Analyst) Thanks Peter. Andrew Hodge from Macquarie. The two questions I want to ask was first just about the CapEx for the second half this year, the cuts. Is there - just trying to read through what you're saying about timing around how the operator had looked at it beforehand now. Is it fair to say that there might be a slight delay or is it just reading into it that just Exxon have now come into it and now they're just rethinking about how they want to go ahead?

Peter Botten: I think firstly the size and shape of what they actually want to do in both the upstream and downstream is actually quite different with a cooperative agenda on the table. And I think one of those issues was the fact that we didn’t have cooperation. So we had two downstream activities on fee for instance, now we don't see that as being necessary. But, Steve, you might give some flavour of that and anybody else, Julian if you need to too.

Stephen Gardiner: It's worth remembering that the Exxon acquisition was only completed in late February of this year. The budgets we received from the operators for both PRL 15 and PRL 3 are prepared sometime in middle of last year. So there's a fair lag there and we therefore had fairly generous ranges on our exploration and evaluation spend coming into this period with there still being at that point in time some uncertainty around whether Exxon would complete the InterOil acquisition.

Those standalone budgets, as Peter said, were really very much standalone. They were each going off doing their own developments without any cooperation and opportunity to defer and also not incur very large duplicate expenditure. Now we've got the benefit of the completion of the acquisition we are seeing a very much more focused approach by both operators and far less spend as they focus much more on their commercial structures.

Andrew Hodge: (Macquarie, Analyst) And then the second question was just about the 1.3 contracting. It seems like it's shifted a little bit towards the end of the year. And given some of the recent medium-term contracts that have been signed with lower slopes is it getting challenging to get buyers to commit even with the high quality of PNG gas?

Peter Botten: Julian?

Julian Fowles: Yes. The key point here is that we have a very reliable project and we've got extremely good quality gas. And that LNG is a premium product in the market. We want to ensure that we get the best terms around any longer-term mid-term deal that we do. There's a lot of interest out there from the market. We went out to the market. We received multiple expressions of interest both solicited and unsolicited. So it's certainly a product that the market is looking to try and get access to given those qualities.

I don't think that there is any significant delay in trying to get after that. I just think we want to make sure we get the right terms and that we see the highest value that we can for shareholders through those deals. So we anticipate that the second half of this year we'll see certainly the terms get closed out and then we'll just be closing the contracts themselves in the early part of 2018.

Andrew Hodge: (Macquarie, Analyst) Okay, excellent.

Dale Koenders: (Citigroup, Analyst) Morning Peter, Dale Koenders from Citigroup. I had just a couple of questions about slide; I think it was 37, where you show the production growth for the LNG projects. You've highlighted there the resource for Elk-Antelope, P'nyang and Muruk for the two trains. I'm just wondering if there was any scenario where the resource certification for Antelope, which is imminent and further appraisal for Muruk and for P'nyang as well, could see enough resource for more than two trains. Or are we at a point where the JVs are relatively aligned with the concept that it's a two-train expansion from those fields?

Peter Botten: Well clearly there is resource upside as we've highlighted. And I think there is also upside in terms of the production base. So I think if you're building two lookalike trains from PNG LNG right now it's more than 8 million tonnes of train. So if you've got sustained production in that 8.5 type range and maybe a little bit more clearly we are going to look at optimising that and there is no doubt that the more gas we find the more analysis is going into what the sequencing of how the gas can be produced, and also the number of trains that could produce.

But at the end of the day I suppose we are weaving more into a dialogue around capacity rather than trains and the actual production base is changing. But certainly just using those two, as you quite rightly say, is probably not going to be very long. It's not a process that we are involved in that there'll be some further auditing of Elk-Antelope. I don't think our view has moved too much. But we'll see what that process comes up with. There's obviously upside in Muruk. And as you move through the next 12 months I'm sure there'll be further additions.

So, Ian do you want to add anything to that?

Ian Munro: No. I think probably - perhaps one thing Peter. I think clearly we see upside in the resource in Elk-Antelope, but that may require production history just like we've seen in PNG LNG. When you get good production data and you can undertake material balance you get a lot more confidence on the resource side. So I think as of today we are comfortable with our Elk-Antelope resource base. But we wouldn't be surprised to see that grow through production history.

Peter Botten: But there are some interesting dynamics around pipeline size around justification pipeline distribution. And there is a lot of really quite fertile discussions and analysis going on. There's a lot of good work being done by both Total and Exxon and dare I say it ourselves in terms of looking at optimisation. And now that work can be rolled into government because a number of the issues are quite sensitive in the timing of development for a number of the fields. So, again the next four or five months are going to be really quite critical in being able to bring government in with us and the communities, relevant communities. It's not a shortage of gas though.

Dale Koenders: (Citigroup, Analyst) But it sounds like its focus is bedding down those next two trains and then after that process looking at the exploration program.

Peter Botten: Dare I say it, I hate to go down a previous Woodside CEO's views of life and there's always one and there's always another and there's always another. I think we are very, very keen to understand the resource base and understand what the development optics are. And the positive is the more gas we find, it's not just about volume of gas it's also about the cost of getting the gas into the plant. And how we do that and there's complications of pipeline size, shape and delivery.

So it's, I know markets like one dimension I think we probably work in a few more. And there's also, as I've mentioned, the government dimension here too because there are expectations of development from different fields at different times. And we need to manage that expectation and have a commercial structure which allows us to manage it. But if you think there's going to be more trains than the next two absolutely endorse that view. I think that it's very likely but at the end of the day we'll just - one step at a time.

Dale Koenders: (Citigroup, Analyst) Second question, I don't want to underestimate the complexity of the project and the success that you've had in the first two trains, but just from a high level given the amount of work that still has to come am I right in reading off the chart as well that first production from the next couple of trains is probably more 2024 sort of timeframe now?

Peter Botten: No you're not right. And I will demonstrate. I'll take great pleasure in demonstrating it can be accelerated earlier than that.

Dale Koenders: (Citigroup, Analyst) Okay, look forward to that. Thank you.

Peter Botten: Me too. Are there any more questions from the floor or are we going to the telephones? How many more banks have we got to go? Any from the phones? Okay, great thanks.

Operator: Ladies and gentlemen, if you would like to ask a question please press star one and wait for your name to be announced. Our first question comes from Nik Burns from UBS. Please ask your question.

Nik Burns: (UBS, Analyst) Thanks Peter. Just a question, another one, on expansion just in terms of the commercial model previously you had mentioned that some form of unitisation between PRL 3 and 15 could be a way to go. Just wondering if that's still your base case thinking here and if so how should we think about Oil Search's equity in expansion?

Peter Botten: Ian, I'm going to kick that to you.

Ian Munro: Okay. Yes, thanks for the question Nik. Yes, unitisation remains very much an option the parties are looking at. I think what is important to emphasise cooperation in any form is going to deliver significant value. So when you go down the full unitisation route and optimise P'nyang and Elk-Antelope over the 30 plus year production life or you coordinate shared costs etc., and both of those models will give very similar financial outcomes, so either of those bookends are a good outcome for Oil Search and the other partners.

Peter Botten: Equity, likely equity.

Ian Munro: Likely equity, well clearly you can do the math from - if they're standalone projects. In terms of the unitised project I think we've highlighted in the presentation Nik theirs is optionality to front-end some molecules from the existing project together with Elk-Antelope. So there are various ways to slice and dice Oil Search's equity. We see round about 2 million tonnes would be our share whether that's jointly marketed or equity marketed. So I think if you look at 2 million tonnes on average of Oil Search volumes coming out of the expansion that would be about right.

Nik Burns: (UBS, Analyst) Right that's clear thanks for that Ian. And just my second question, on previous occasions you've outlined plans to evaluate acceleration of production from your [search out of] gas fields and bring forward oil production. There's no update here just wondering if you could provide a brief update. Thanks.

Peter Botten: I'll kick it over to Julian to answer.

Julian Fowles: Yes, thanks Nik. So, yes that - the project that we've looked at in terms of accelerating production from associated gas from our oil fields the view that we have of production with expanded production, where we are looking at potentially 8.5 million tonnes per annum, but also a much higher reserves base. So we are taking another look now at what the exact timing would be for when we need that and when we would need the additional volumes to come through.

Of course, there is some additional advantage there in bringing through volumes that are essentially already connected to the network. It allows us potentially to defer some of the other development projects that we have, for example, around Juha where we could defer some of that expenditure. So that work is still very much being followed up. But now in the light, of course, of the increased production rates and the increased resource base that we have.

Peter Botten: Yes. I should add I genuinely believe that the associated, well accelerated gas out of our oil fields will be a critical part of future expansion and optimising the next phase. So I think we are working through that right now, but I think it's going to be an important albeit it relatively small chip but an important chip on the table.

Nik Burns: (UBS, Analyst) That's great. Thank you.

Operator: Our next question comes from the line of John Hirjee from Deutsche Bank. Please ask your question.

John Hirjee: Good afternoon everyone. Peter, can I ask in terms of the marketing of the 1.3 million tonnes has there been any interest from any Australian customers for PNG LNG?

Peter Botten: I can neither confirm nor deny. No, I don't know honestly. Ian?

Ian Munro: There is a process, as you'd understand it's commercially confidential. I'd echo what Julian said we've had a lot of interest from both end users and more intermediary buyers. That's pretty much all we can say.

John Hirjee: (Deutsche Bank, Analyst) Okay. The only reason I ask is obviously Exxon would have a fair amount of conflicts of interest here given obviously the position in Gippsland Basin. And as you know, one of the East Coast based utilities is looking to set up an import terminal in Victoria. I'm just wondering how you think Exxon handles that. And in addition, as you know, with Qatar now increasing capacity quite significantly over the next four or five years how do you think Exxon will manage that conflict with their other operations?

Ian Munro: Yes, okay thanks for the question. Exxon clearly is recognised as a very, very good marketer. They achieved excellent results for the foundation project, the 6.6 million tonnes to underpin the final investment decision. We are more than confident that Exxon have the capability and the desire to market the 1.3 million tonnes. They're supported by the joint venture in that. Clearly there is a joint venture mandate. And Oil Search has its say as we go along on that.

But process is being well run. The initial offers are encouraging. And we feel confident we will place those volumes. Exxon has a large portfolio as do all of the super majors. But there's clear focus. If you've got gas to sell from an existing project you want to get that into a term contract if you can.

Peter Botten: I think, John, clearly the conflicts of interest issues are something that Exxon manages through its portfolio. Obviously they believe they have appropriate Chinese walls and processes that allow appropriate marketing from different projects as being appropriately managed. It's certainly something that we obviously review. And we make sure that priorities are there and clearly PNG Government also are focused on local development as well. But reality of life is that there is a large market potentially out there and the market can manage a range of projects as long as they're competitive in terms of cost and pricing.

John Hirjee: (Deutsche Bank, Analyst) Okay, thank you. And one last question if I may. Just given news overnight with Total making the acquisition, quite a sizeable acquisition and it seems to be that they were looking at an oil portfolio, or oil-bias portfolio I guess in the acquisition. Any comments, Peter, in terms of Total's move overnight?

Peter Botten: Look, I met with Patrick Pinay a couple of weeks ago in Paris and I'm very confident about his commitment to Papua NG and developing the value there. It's amazing how these big companies can rub their nose and scratch their tummy at the same time. I certainly don't read anything into their acquisition. And certainly I don't think its move their dial in terms of their interest in PNG.

John Hirjee: (Deutsche Bank, Analyst) Alright, thank you very much Peter.

Operator: Our next question comes from the line of Mark Wiseman from Goldman Sachs. Please ask your question.

Mark Wiseman: (Goldman Sachs, Analyst) Hi good morning, impressive numbers today. Just a question on the equity on the expansion project, you've put out the number as circa 2 million tonnes per annum. It's a little higher than what we'd modelled given your equity in Antelope and obviously a key value drive for the stock. I was just wondering if you could just give us some - maybe some guidance or insight into - with the commercial model not yet assessed and Muruk, either in or out of that process initially. Can you just talk maybe what the [unclear] are around that 2 million tonnes?

Ian Munro: Yes. It's Ian here. Happy to have a go. As I mentioned earlier there's a number of ways to slice and dice the production, and we'll look to bring the lower unit technical cost gas through first. So it's likely in our view that our associated gas fields, where obviously we have 29%, will play a part. They'll certainly help to commission the new trains, trains and de-risk that start up.

So clearly we have our equity interest in PNG and those volumes. Yes, we have a slightly lower interest in Elk-Antelope to balance that. And then, of course, longer term we have around about, after government backing, the same sort of 29% or so interest in P'nyang. So if you run the math through that, that will give us over a 15-year typical contract life that will give Oil Search around about 2 million tonnes per annum to place either if we are doing that alone or as part of our share of the joint venture volumes.

Mark Wiseman: (Goldman Sachs, Analyst) Okay, great thanks. And just on the greater than 8 million tonnes per annum, has that been agreed with Total and Exxon at this stage?

Ian Munro: I think as I mentioned its part of the ongoing discussion about what these plants and facilities can do. Equally there's obviously work going on to say how the plant can be improved and where the capacity of that plant might go. So the plant design is now 10 years old, so the outstanding performance from that indicates its even relatively small tweaks of compression can make a big difference, or a significant difference to a production. So I think there's, as I say, a moving dialogue away from train size to what the capacity might be as demonstrated by the continued upside that's been seen in production out of PNG LNG trains.

Mark Wiseman: (Goldman Sachs, Analyst) I guess that that's it, thank you.

Operator: Our next question comes from the line of Mark Samter from Credit Suisse. Please ask your question.

Mark Samter: (Credit Suisse, Analyst) Morning guys. A couple of questions if I can, first of all overnight Fortuna LNG I think it was just another [unclear], but there's always gossip of these things but you would certainly believe that that one and maybe the Coral one were done on nine to 10 [slopes]. Are we pretty safe to assume that under the current marketing going on you guys are swimming in pretty different paddling pools to these kind of projects that have to look at the [unclear] quality [unclear].

Peter Botten: I don't think you can quite compare the size and shape and quality of ours so I think we are in a different swimming pool frankly.

Ian Munro: Yes there's a clear recognition from the fundamental LNG importing countries and the regulators in Asia that new project supply is required both the new demand and also the expiring contracts. And there is a recognition from both buyers and sellers alike that the project - the market will need to move toward prices that lift projects.

Mark Samter: (Credit Suisse, Analyst) So we can feel comfortable that these things aren’t even partially polluting the more credible buyers that you're looking at?

Ian Munro: Sorry, could you repeat the question?

Mark Samter: (Credit Suisse, Analyst) We can sleep reasonably comfortably that these things aren’t really polluting the conversations with the more credible buyers.

Peter Botten: Of course you can sleep reasonably comfortably.

Mark Samter: (Credit Suisse, Analyst) Second question - this is a really pernickety question and I apologise if it's just maybe hard answering some fat fingers on a chart. But we look at the indicative PNG LNG base production the presentation last week at the [SIOP] conference had foundation project going down, to it looks like around about 4 million tonnes by 2040 and a kick down in late 2030s. I know Elk-Antelope as well has obviously a much more constructive view of 2040 in this presentation towards the back now. Has anything changed in the last week or it's just should we be thinking fat fingers on the charts or a more constructive view has been taken on later view of volumes?

Peter Botten: I think we continue to update these and I think there was an update from last week to this week. Again I don't think we are going to be short of gas for continuing to stoke that fire. I genuinely don't. I think we are already seeing substantial potential along that Muruk trend and we haven’t really touched the offshore or even the Elk-Antelope area in a serious way. So, look, I think it's a bit of fine tuning Mark rather than - but there has, I understand according to Ian, an update since last week.

Mark Samter: (Credit Suisse, Analyst) Okay, perfect good to hear.

Peter Botten: Amazing how things move.

Mark Samter: (Credit Suisse, Analyst) Cheers then.

Operator: There are no further questions from the phones.

Peter Botten: Okay, any from the internet? Okay, great well there don't appear to be, so thank you ladies and gentlemen for attending both physically and virtually. I appreciate that. I know Ann and ourselves are available. I'm sure we'll be meeting a number of you over the next week or so as well before disappearing to my cave in PNG. Okay, thanks very much everybody. Thank you.

End of Transcript