CLIMATE CHANGE RESILIENCE

Investor and Lender Briefing

18 April 2018

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AGENDA

❖ WELCOME
  ❖ Eileen Doyle – Health, Safety, Sustainability Board Committee Chair

❖ INTRODUCTION
  ❖ Peter Botten – Managing Director

❖ APPROACH
  ❖ Megan Christensen – GM Stakeholder Engagement & Social Responsibility

❖ FINANCIAL IMPLICATIONS
  ❖ Stephen Gardiner – Chief Financial Officer

❖ CONCLUDING REMARKS AND Q&A
  ❖ Peter Botten – Managing Director
WELCOME

◊ Board commitment to effective climate governance and integration into corporate strategy and decision-making process

◊ Strengthened climate governance arrangements:
  – HSS Charter
  – Climate Policy
  – STI component
  – Internal carbon price
  – Procedures

◊ Release of Climate Change Resilience Report
  – Demonstration of OSH commitment and overall resilience of OSH assets
CLIMATE TRANSPARENCY LEADERSHIP

◊ **Corporate Strategy**: to target top quartile returns through excellence in socially responsible oil and gas exploration and production

◊ **Climate Strategy**: integrates OSH’s corporate climate commitments into operations by embedding climate into decision-making, strategy and risk management

◊ Comprehensive work conducted by OSH, particularly climate scenario analysis has:
  – Reinforced OSH’s corporate strategy
  – Confirmed rigour of OSH’s economic analysis approach
  – Demonstrated resilience of OSH’s current and growth assets

### HOW OSH CLIMATE STRATEGY SUPPORTS CORPORATE OBJECTIVES

<table>
<thead>
<tr>
<th>REDUCE RISK</th>
<th>ENHANCE VALUE</th>
<th>RESPONSIBLE OPERATOR</th>
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<tbody>
<tr>
<td>Carbon Price</td>
<td>Scenario Analysis</td>
<td>Assist PNG goals</td>
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<tr>
<td>Climate risk embedded</td>
<td>Climate KPI’s and incentives</td>
<td>Reduce emission intensity</td>
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<tr>
<td>Physical risk</td>
<td>Power opportunities in PNG</td>
<td>Measure, monitor, set targets</td>
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<td>Influence partners</td>
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ROBUST APPROACH TO TCFD RESPONSE AND ANALYSIS

- Considered, and where appropriate, utilised TCFD guidance:
  - Scenario selection and development
  - Risk categorisation and assessment
  - Impact assessment
  - Metric selection
  - Disclosure approach

- Selected published scenarios:
  - Meet TCFD criteria
  - Robust data sets
  - Assumptions and limitations well known
  - Aids comparability

- Disclosed consistently with TCFD guidance
- Work continues to evolve
INTEGRATING CLIMATE SCENARIOS INTO OSH APPROACH

SCENARIO SIGNPOSTS

- Signposts for each selected scenario reflect underpinning assumptions for the scenario to materialise.
- Help inform OSH assessment of probability of each scenario occurring over time.

EXTERNAL INDICATORS

- OSH actively monitoring climate indicators developed from scenario analysis to understand planet’s climate change trajectory:
  - **Lag Indicators**: where the world is now
  - **Lead indicators**: signal where the world may be going
  - **Step change indicators**: where government climate policy may shift more quickly than anticipated
ECONOMIC MODELLING AND RESILIENCE TESTING

CLIMATE SCENARIO OBJECTIVE

◊ Test financial resilience of OSH assets to different climate change scenarios (including 2°C and 1.5°C pathways)

APPROACH

1. Scenarios Selected
   - Provides oil and gas demand projections

2. Develop scenario-based oil and gas price forecasts
   - WM used their commodity price models and global supply data

3. OSH Stress Test
   - Used WM’s price forecasts in OSH’s economic models (NPV impact)
   - Compared scenario price forecasts with OSH’s current mid & low prices
   - Considered robustness of OSH’s existing assets and expansion plans under the climate change scenarios.

4. Confirm OSH Resilience
SCENARIO INSIGHTS

- LNG demand grows under all three scenarios
- Under both the IEA scenarios, oil demand remains robust enough to encourage development of new supplies
- There is a large range and variability across the scenarios in terms of possible oil and gas prices

Source: Wood Mackenzie, 2017
NPV IMPACT AND RESILIENCE – OVERVIEW

CLIMATE SCENARIO ANALYSIS – OUTCOMES

- Indicated long-term resilience and value generation under a range of decarbonisation scenarios, including a 2°C outcome.
- Under a 2°C scenario, PNG LNG and LNG expansion project expected to have positive NPVs and economic lives consistent with OSH’s corporate economic assumptions (CEAs), whilst Nanushuk remains NPV positive.
- Low risk of OSH’s low-cost assets being stranded in a carbon-constrained world.
- Confirmed OSH’s current economic modelling approach and CEAs already capture price risks of a range of decarbonisation scenarios, including a 2°C pathway.
PNG LNG REMAINS NPV POSITIVE UNDER 2°C SCENARIO

PNG LNG NPV IMPACT (INCLUDING OSH PNG OIL ASSETS)

<table>
<thead>
<tr>
<th>Scenario</th>
<th>NPV Impact</th>
<th>Comments</th>
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<tbody>
<tr>
<td>IEA New Policies</td>
<td></td>
<td>• Economic life not negatively impacted compared to base case</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• NPV impacted by short-term price drop inherent in scenario</td>
</tr>
<tr>
<td>IEA 450 (2°C)</td>
<td></td>
<td>• Economic life comparable to low case</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• NPV impacted by short-term prices inherent in scenario</td>
</tr>
<tr>
<td>Greenpeace AER (1.5°C)</td>
<td></td>
<td>• While value would be eroded, Project would remain NPV-positive</td>
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HIGHLIGHT

✧ Even in a 2°C scenario, PNG LNG continues to have positive NPV and an economic life consistent with OSH’s CEAs

SHORT TERM PRICE IN SCENARIO NEGATIVELY IMPACTS NPV

✧ 30% of PNG LNG’s value is realised over the five-year period from 2018-2022.

✧ The climate scenarios show a short-term drop in prices to the US$30s and US$40s starting in 2018 - negatively impacting the NPV of PNG LNG.

✧ We have chosen to preserve the integrity of the scenario and report the impact using the embedded numbers for this period, not substituting for actuals.
LNG EXPANSION PROJECT REMAINS ONE OF THE MOST PRICE RESILIENT GLOBALLY

LNG EXPANSION PROJECT (INCLUDING ELK-ANTELOPE, P’NYANG, AND PNG LNG PROJECT GAS)

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<tr>
<td>IEA New Policies</td>
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<td>• NPV impacts are significantly more favourable than base economic assumptions</td>
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<tr>
<td></td>
<td></td>
<td>• Extends economic life of project by approximately two years</td>
</tr>
<tr>
<td>IEA 450 (2°C)</td>
<td></td>
<td>• NPV and asset economic life impact falls between base and low economic cases</td>
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HIGHLIGHT

◊ LNG expansion project sits at lowest quartile of cost curve compared to other proposed projects needed to meet additional LNG demand in a 2°C world, making it one of the most price-resilient potential LNG projects globally

Positive impact on project economics
Impact within OSH’s base and low case, NPV positive and above OSH’s base CEA
Returns are less than planned but asset is still economic and makes positive returns NPV positive and below OSH’s low CEA
Significant negative impact and project does not pay back investment. NPV negative. Project would not be economic if this scenario was to eventuate

Source: Wood Mackenzie

142mtpa of new supply required by 2035 under the IEA 450 scenario equates to a breakeven of $8.8/mmbtu
NANUSHUK REMAINS NPV POSITIVE UNDER 2°C SCENARIO

NANUSHUK PROJECT

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<td><img src="#" alt="Green Circle" /></td>
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</tr>
<tr>
<td>Greenpeace AER (1.5°C)</td>
<td><img src="#" alt="Light Green Circle" /></td>
<td>• Long-term oil price of US$5 significantly impacts the NPV of the project and project would not be sanctioned</td>
</tr>
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HIGHLIGHTS

- **IEA New Policies – Nanushuk oil assets perform better than OSH’s base CEA.**
- **IEA 450 scenario (2°C) – an additional 20 mbopd required to meet demand. OSH’s Nanushuk oil project able to meet this additional demand and remains NPV positive.**

CONSERVATIVE ACQUISITION CASE

- Based on a resource of 500 mmbbl, compared to existing joint venture partners’ estimates of at least 1.2 bnbbl.
- NPV analysis does not include anticipated design efficiencies, opportunities to realise synergies with existing infrastructure, or value of OSH’s option to increase its interest in the assets by mid-2019.
- Does include reduction in USA corporate tax rate that became law in December 2017.

Positive impact on project economics

- NPV positive and above OSH’s base CEA

Impact within OSH’s base and low case.

- NPV positive and within OSH’s base and low CEA

Returns are less than planned but asset is still economic and makes positive returns

- NPV positive and below OSH’s low CEA

Significant negative impact and project does not pay back investment.

- NPV negative. Project would not be economic if this scenario was to eventuate
SUMMARY

◊ Board and executive commitment to managing climate risk
◊ Strong governance structure around management of climate risk
◊ Proven record in transparency: TCFD alignment logical
◊ Climate risk integrated in strategy
◊ 2°C resilience demonstrated
◊ Climate risk management and evaluation is ongoing
QUESTION AND ANSWER
GLOSSARY

Key terms used in the presentation:

- **CEA**: Oil Search Corporate Economic Assumptions.
- **IEA**: The International Energy Agency.
- **LNG Expansion Project**: Oil Search’s LNG Expansion Project is a proposed 8 MTPA expansion at the PNG LNG Project site that includes Papua LNG (Elk-Antelope), P’nyang and foundation field gas.
- **TCFD**: Task Force on Climate-Related Financial Disclosures.

Published climate scenarios used in analysis:

- **IEA New Policies Scenario (NP)**: Reflects announced government policies, including 2015 Paris pledges.
- **IEA 450 Scenario (2°C)**: IEA’s 2-degree Celsius scenario.
- **Greenpeace Advanced Energy Revolution Scenario (1.5°C)**: Complete decarbonisation scenario.