Event Transcript

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Start of Transcript

Peter Botten: Good morning ladies and gentlemen, thank you very much for attending this conference call. In the room here I have Ann Diamant, our Investor Relations person. Our CFO, Stephen Gardiner, our EGM for exploration and new business, Keiran Wulff, and some others. We're ready obviously to walk you through what I consider to be one of the most exciting acquisitions we've done, and I've done and been involved in some 40 odd years in the business, and frankly without me being [unclear] our Board and management being convinced of the strength of this acquisition we wouldn't have done it. Because I do think this is an unusual and particularly attractive acquisition and balances Oil Search's production portfolio and makes it far stronger and more attractive for many years to come.

Today we announce that Oil Search has acquired interest in the world-class Tier 1 oil assets, with material growth potential in the Alaskan North Slope. A very, very well established prolific oil province with an attractive fiscal regime. The main asset is obviously the Nanushuk field that has been portrayed as the largest conventional oil field discovered in the US in over 30 years. Obviously we'll see with that but we've bought into this field at a good time in the commodity cycle, just off really what we believe to be the bottom. The Nanushuk field is very close to infrastructure, we're actually sandwiched between a 600 billion barrel field and a 2.8 billion barrel field, the Kuparuk field in Alaska. This is a relatively low risk opportunity with further appraisal upside and certainly significant for the exploration upside.

The investment fundamentals I think are compelling, and this acquisition follows eight months of comprehensive due diligence using our own resources along with independent local specialists, technical and engineering advisers with very strong local North Slope knowledge, to review and analyse the assets, the development potential and the programs that we're involved in. It was a very, very comprehensive due diligence for us to get comfortable to do this transaction. Investment fundamentals I believe are compelling. We've bought into these assets on what I believe to be a very conservative 500 million barrels resource, net to Oil Search around 125 million barrels or [unclear] $3 a barrel acquisition cost.

Our partner in the field as late as two weeks ago at their quarterly call were saying that their estimate of resources is around 1.1 billion barrels, and if you take that as being a base, about $1.30 a barrel, obviously a very world competitive number, obviously we've taken a substantially more conservative view about what we see. The acquisition represents around four years reserve cover replacement for our resources at present production levels.

The field itself is mature but does require further appraisal work, and over the next few years we hope to move to a development that could look at somewhere between 80 to 100 million barrels, sorry 80 to 120,000 barrel production some time in 2023. That represents a contribution to Oil Search's production base of somewhere between seven to 11 million barrels per year of extra production in that timeframe.

We have some very strong local partners, firstly Repsol has been there for quite a number of years and I should say in their acquisition paid substantially more than we're doing now. We have very strong support from a number of local service providers that have strong knowledge of the North Slope, including Halliburton and some other engineering specialists that are supporting our efforts to understand and potentially develop this field.

The assets themselves I believe are an ideal foil for the world class LNG assets that we have in PNG. They're both at the bottom end of the cost curve and at the higher end of potential returns. They're very different though in nature. They are strongly complimentary I believe in many ways. In Alaska for instance you can drill 12 to 15 wells for one well in PNG. We can discover oil reserves at a fraction of the cost in Alaska versus PNG, much cheaper, and bring to commercialisation much quicker and easier. The LNG and PNG is an outstanding opportunity and we have right now a clear path to commercialisation [above] LNG and expansion of PNG. But LNG is still complex and many factors need to be considered and as always market dependent. The reality in PNG is that while the future might be different, we still have somewhere between nine to 10 years between FIDs in PNG to grow our business there to a fantastic cash flow business.

But our oil assets acquired under this transaction brings commercialisation more into our control. It's much faster to market, provides potentially higher returns and earlier payback and is an ideal foil as I say to our PNG LNG business. It's a relatively small investment for Oil Search, smaller than other recently announced M&A's, but it also has significant reserves and resource potential. As I say the resource base of 125 million barrels can be readily and directly commercialised.

The acquisition or appraisal development expenditure can be well and truly managed to within our existing cash flow with no change to our dividend policy. Our cash flow and debt capacity to actually build and develop the Nanushuk field is substantial; a nominal development of around US$4 billion represents about $300 million of equity contribution by Oil Search over a three or so year period. Well manageable given our estimated earnings levels after PNG LNG and expansion opportunities are considered, and keeps our gearing level, estimated gearing level in the 40% to 45%, well below that it reached at the maximum drawdown for PNG LNG. We have also considerable ability to wind back our discretional spend if oil prices change for the worse.

There's absolutely no change to our commitment to develop LNG assets in Papua New Guinea, and good progress is being made and I've highlighted as well no change to our dividend policy. We do believe that this moves Oil Search into a different space in terms of long term growth potential. We have bought world class reserves with material upside at a very competitive acquisition cost. Tier 1 potential producing assets have been bought in the lowest quartile of cost curve and drive what we believe is superior returns.

The acquisition in [unclear] 2015 and '16 strategic objective to be involved in Tier 1 oil assets if we could find them at the right price, and we believe we've been able to do that through this acquisition. We think it's been an unusual acquisition, we didn't think we could see these assets at these prices but we think we have in a world class area. I should say we also have a free option to either increase our equity, or if results warrant [dispel] down to a strategic partner that can add that in. So we have some substantial flexibility in how we manage these assets going forward. We do see that the assets have very significant potential; we now have two world class areas with substantial production potential, excellent exploration upside and a balance of short term returning and long term serious cash flow between our oil assets and our LNG business. So outstanding long term potential with value upside.

I think I covered most of the points that I wanted to cover. We've given and distributed a substantial detailed presentation pack to the market this morning and that annunciates the investment highlights, it goes through the world class portfolio that we believe the Nanushuk and the associated areas represent. We spent some time in detail talking about the funding and liquidity position of the company, the key acquisition metrics, the indicative timetable to first oil, our view of medium term and long term outlooks, the proximity to existing infrastructure which will allow us to optimise the development economics and the comparison between PNG, LNG and Alaska and what it does to Oil Search.

I think we recognise that we've got a long-term history of building value through our acquisitions and the long-term value proposition of superior shareholder returns, and we believe this fits that category very well. In summary then a world class set of assets between PNG and Alaska. The acquisition is highly complementary to Oil Search's low cost Tier 1 LNG portfolio. Low operating costs acquired at a competitive price and a conservative resource estimate going in. We're certainly able to control the commercialisation pathway and to leverage our exploration and development capabilities, and as I say we've got a long history of value-accretive M&A with long-term strategic benefits.

Really no change to our ability to focus on delivering full value of our PNG portfolio to our shareholders. I do believe these are special efforts, they've come our way through contacts that we've had and originally through discussions with Repsol back in the beginning of the year and as I say in my view they are outstanding and can add substantial value and long term return potential to Oil Search.

With that in mind I'll kick it over to the ether - to people to ask questions.

Operator: Thank you ladies and gentlemen, we now being a question and answer session. If you wish to ask a question please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request please press the pound or hash key. The first question comes from the line of Dale Koenders from Citigroup, please ask your question.

Dale Koenders: (Citigroup, Analyst) Good morning, congratulations on what looks like a very exciting acquisition in a very large prolific oil basin. My question is just obviously this is a significant change in strategy of the corporation away from PNG and potentially away from a highlands environment. Just wondering how you think about the core competencies of the company relative to this asset, and if there's any areas where you think you might need to strengthen up those competencies and [highers] so that you're successful in Alaska.

Peter Botten: I think we've spent substantial amount of time looking at the requirements for Alaska and also engaging with a substantial number of local specialists. I think our view if you come to Papua New Guinea you probably should knock on our door first, we've always said that. Equally our alignment with Armstrong in Alaska has given us a substantial local well-connected partner, and that's always been our metric for new ventures. We've also spent a substantial amount of time in managing where we think the challenges are in terms of development on the North Slope. I hark back to 2002, 2003 when we took over from Chevron and we took over operatorship of the oil fields. Where a lot of people thought that we had no capability and didn't have an ability to do that and take over and successfully manage those oil fields.

We utilised partnerships with people like Halliburton to bring in local specialist knowledge about how to build things and do things. We will do the same, that's one of the reasons why we have an arrangement with Halliburton to provide us with support. We recognise that this asset will be driven out of the US and will have a significant number of US specialists working in these assets. We think that the risk of development and understanding of this is actually minimised by I think a proper risk analysis where we need to add capacity. Initially we have some time to add that and we will be very strongly following that with lessons learned from other investment that we've made around the world and lessons that I think we've had from our own development experience.

So obviously development, local knowledge, partnering is all part of a comprehensive risk program to manage our capabilities to deliver maximum value, and let me tell you we're onto it.

Dale Koenders: (Citigroup, Analyst) Okay, thank you very much, I look forward to hopefully getting invited to the site trip, thanks guys.

Operator: Your 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. I spent the last half an hour trying to educate myself on Alaskan oil, which I spent a lot of time before. Is it right that what you bought is what Repsol sold down part of a stake and then ceded operatorship to Armstrong? I guess if so, just to confirm it is, why do we think a couple of years ago Repsol did cede operatorship?

Peter Botten: I'll give Keiran Wulff an opportunity to answer that.

Keiran Wulff: Hi Mark. That's related to the original transaction that Armstrong and Repsol entered into in 2011. Repsol were obligated to - their acquisition price was some $300 million and they had a billion dollar carry of Armstrong's activities and they had to do it within a certain period of time. Armstrong and Repsol have a very strong relationship, and whilst Repsol spent a lot of that money and did a lot of activity it was recognised that the transaction may not have been able to be fully met within the timeframe that was originally considered. So that was a commercial agreement and a commercial arrangement between Armstrong and Repsol, and Repsol maintained a material interest of 49%, and as per their press releases they're still very committed. So that was just purely a transaction and a legal issue to resolve the original [farming] terms that were agreed back in 2011.

Mark Samter: (Credit Suisse, Analyst) Okay, I guess maybe a fairly obvious question from me, just on the funding side of things, you mentioned that there's established project finance capability in Canada, from Repsol Canada's a pretty secure place to do business in, I would have thought Repsol could raise corporate debt a lot cheaper than project finance. Just tying back in with...

Unidentified Company Representative: Sorry Mark…

Mark Samter: (Credit Suisse, Analyst) Sorry, you go.

Unidentified Company Representative: Actually it's in the US rather than Canada.

Mark Samter: (Credit Suisse, Analyst) Sorry, I need a geography lesson, sorry even better, same question just replace US as Canada. Same question though on project financing, I mean why would a…

Unidentified Company Representative: Mark, this is a joint venture partnership with ourselves, Armstrong and Repsol and clearly you look for a financing solution that gets everybody financed at the same time and on the best terms. So this sort of asset project is ideally suited to project financing and we suspect that Repsol would be supportive of that, if they're not we can project finance in partnership with Armstrong on a sole basis. But there's certainly a lot of flexibility to raise funding in the US, it's such a deep capital market as you know, and limited new major developments going ahead. Given that we've moved away from political risk constraints in PNG there should be massive appetite for any finance we do in the US.

Peter Botten: Or I might also comment how that would work as well with that PNG and how that…

Unidentified Company Representative: Yeah sure look and the other point is too that, well two things, one we're getting as we've now progressed discussions with Exxon and Total it's become very clear that they're both very committed to do joint project financing for the LNG expansion activities in PNG, and that's very encouraging from our point of view. So again we see a lot of the financing burden being pushed back on the projects themselves, which is a huge benefit for us. It certainly maximised the gearing, you always get much higher gearing out of these project financing structures because of the security arrangements, as you know. But that's also very encouraging.

The other elements in our favour is that as we start to look and finance these two new developments over the next several years we continue to pay down quite heavily that our project, [that's the] PNG LNG project, so our overall gearing levels, as Peter mentioned, don't rise too much above current levels and it's all very manageable and we go into this process with no corporate debt and as you're aware over a billion dollars of cash and lots of undrawn bank loans. So we're in a very healthy position to manage both driving these project finance and developments and having additional flexibility at the corporate level if we need it to raise some more debt.

Mark Samter: (Credit Suisse, Analyst) Okay, [unclear] bank appetite you're doing [this], I mean I know it's project debt but to an extent debt is debt is debt. You guys if it was all brought back on balance [unclear] I know you haven't got a credit rating, S&P obviously brings PNG project finance back on balance sheet for Santos. If all goes to plan [albeit] project finance, the business is going to have a lot of debt you think in both countries? Now I remember that it's America, not Canada, I need my six year old to give me some geography lessons.

Unidentified Company Representative: I don't think it's an awful lot of debt for the size of Oil Search and the cash flows we'll be throwing off. As I said our gearing's going to remain below, probably below the levels we were when we were at peak gearing for the first project for PNG LNG. So no, I think our balance sheet will remain quite healthy during this period.

Mark Samter: (Credit Suisse, Analyst) Capability-wise I know Dale touched on it, Dale must call in 45 minutes early. I think I was 37 minutes early for this call and still couldn't get the first question. Capability-wise you already talked about having to introduce your equity marketing, the LNG so some LNG marketing capabilities. You're now taking on operatorship in a new region managing these things you're comfortable with simultaneously?

Peter Botten: There is no doubt that we're going to focus pretty heavily in terms of with a small team to build our capabilities in Alaska. But I suppose the reality of life is that we see Oil Search growing and growing quite fast and not just in PNG but I think now outside in some absolute quality assets. I think we've got a track record in management to be able to manage these things, and clearly we've gone from three people to 400 and almost 1700, 1800 people with a very diverse capability. I think we're already very well advanced in building our marketing team, and obviously gas marketing is quite different to development expertise, and we have substantial development expertise already in the company. So look, I think these are all very readily manageable, otherwise we wouldn't have done it, our Board wouldn't have allowed us to do it.

We're very, very focused on ensuring that we've analysed the risks, analysed what we need and ensuring that the US teeth of the business is looked at very carefully and largely run if not just about all run from the US. So on that basis the expertise is readily available in the US, it's just a real question of building an empowered team over there, and with our partners we believe we can do it readily.

Mark Samter: (Credit Suisse, Analyst) One really quick question if I could sneak in maybe as well, just I spoke to someone to tell me at seven o'clock this morning that an Australian listed company was buying $10 F&D cost asset in Alaska and might have thought it was another Peter. Was it a reasonably competitive process and maybe what scared other people off that you guys think that willing to take the risk?

Peter Botten: I believe it was competitive. I know that a number of bids came in after hours and I suppose to be honest I think those bids were higher than ours, but the people we bought it off and the individual who we bought it off stuck with our original transaction. There are many differences between Oil Search and some of the other majors that were involved and were looking at this asset in a substantial way. I think frankly if we were to do the deal today versus setting a price for some months ago it would be a very challenging thing to have bought across the line because of other bids on the table and the slight change in oil price. So a lot of people were circling but our relationship with Armstrong I think provided us with a powerful platform to close.

Mark Samter: (Credit Suisse, Analyst) Perfect, good stuff, thank you. I'll get my Canadian visa ready for the site trip.

Peter Botten: That's okay.

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

Operator: Your next question comes from the line of Nik Burns from UBS, please ask your question.

Nik Burns: (UBS, Analyst) Thank you very much, just following on from the transaction process itself, just trying to understand why the vendors were looking to sell down at this particular juncture. It looks like there's some appraisal work coming up but just in terms of normally you'd like to carry these assets close to FID in order to realise maximum value, what was their thinking in reducing their equity stake at this point?

Keiran Wulff: Hi Nick, it's Kerryn. Quite simply Armstrong is a private oil company and they're not a super large company, they've got incredible competence and they're very good oil finders, but what was quite apparent to them was that the field needed a good and solid appraisal program leading to [feed], and also to [unclear] FID. So they'd found a significant resource and they were going to be faced with putting their hands in their pockets for some substantial capital to take it to the next stage. So you didn't only have building costs but you also had your potential FID costs. So what Armstrong felt was it was a good opportunity if they found the right company with the right culture, that they would like to do something now if they could find the opportunity. So that was why they transacted, was just simply because they were facing a bit more of a capital burden over the course of the next couple of years leading up to that time.

Also Peter said something important, when we originally set the price for this transaction oil prices were very different. It wasn't a clear direction as to which way they were going to go, so again being an independent company if they could settle on a price that they were satisfied with and exclude the requirement for them to have capital obligations, that's why they did the transaction or considered the transaction at that time.

Nik Burns: (UBS, Analyst) Okay that's clear, and your option to acquire a further interest for $450 million, looks like that will occur after the next round of appraisal drilling. Just trying to understand what are you looking for in the appraisal program to validate the resource and is it a high probability event here that you will move to the second tranche?

Peter Botten: I think certainly by the time we actually have to decide whether we take up the option or not, we will have substantial further information available to assess the resource space. As I say we've used a number of independent specialists to look at the resource and look at the assets, look at the production potential and we've also designed an appraisal program which will I think de-risk a number of the issues that will allow us a better resource understanding and a better and optimised development program.

I really, I think it's quite possible that we will use the option to introduce other parties but I think it's strategically quite important that if we want to exercise the option and the numbers are compelling, well then we'll look at it at that time. But I don't feel any particular view either way right now beyond the fact that we have flexibility and a zero cost option if you like to go higher or introduce somebody else. I do believe the opportunity to introduce other people to develop value for us is something we'll concentrate on in the short term.

Keiran Wulff: Just one thing too, technically the area is well covered by 3D seismic and the real significance of this field was highlighted by the drilling result this year that Armstrong drilled a well called Horseshoe, that was some 30 kilometres away from the nearest well control, and discovered oil in communication with the main part of the field. So in terms of appraisal we'll obviously do some in-field drilling between those two locations, but the very clear [unclear] system and frankly the reservoir is very continuous over the whole length of the structure.

Peter Botten: I should also say there's a very active program by other operators adjacent to us.

Keiran Wulff: That's right.

Peter Botten: So we will - and we'll be trading data with them and there is ongoing opportunities to share infrastructure and reduce the overall cost potential for any development. So there's a lot of activity up there this winter and we'll be in a situation to much better understand the assets this time next year.

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

Operator: Your next question comes from the line of James Redfern from Merrill Lynch, please ask your question.

James Redfern: (Merrill Lynch, Analyst) Good morning gentlemen and Ann. Just wanted to ask a few questions about the project itself, Nanushuk. The $4 billion CapEx spend gross, is that the first oil in 2023 or is that the [tail oil] development CapEx for the life of the project?

Unidentified Company Representative: That's the first oil in 2023, James, so that's the first phase development to produce out of Nanushuk for the 500 million barrels.

James Redfern: (Merrill Lynch, Analyst) Right okay, and then just in terms of - so that's based on a 500 million barrel resource size. If following the appraisal work in the next 12 or 18 months or so, you're more confidence of the resource size and that resource number moves closer to Repsol's exit of $1.1 billion, does that change the field development in terms of the 820,000 barrels a day production? Or will that extend the field life of the project? How do you see that evolving?

Keiran Wulff: It'll probably be a bit too early to say but it'll probably be a combination of both. So that's what the appraisal program will determine for us.

James Redfern: (Merrill Lynch, Analyst) Right okay, so there's no production constraints if you like in terms of infrastructure?

Keiran Wulff: No, effectively one of the attractions for us out there is that a lot of the facilities up there are sort of towards the end of their field lives or more mature, so there's a lot of [unclear] in the pipeline and there's a lot of infrastructure up there to potentially utilise and benefit from. So no, we don't see any restrictions in developing more and discovering more in the assets.

James Redfern: (Merrill Lynch, Analyst) Okay thank you, and just one last one please. The oil is quite heavy up there, it's about 30 degrees API, just wondering how we should think about that in terms of pricing, is it a discount to WTI or Brent or how shall we think about that?

Keiran Wulff: It's actually the 30 to 35 degree API is actually not a heavy oil, it's actually and it's a sweet crude and it certainly doesn't…

Unidentified Company Representative: Our understanding is that it's likely to sell at a premium to Brent in the market because of the quality of it, it's a high quality light sweet oil.

Unidentified Company Representative: [Unclear] crude is usually 15 or 16 degree API.

James Redfern: (Merrill Lynch, Analyst) Okay, so all right we won't call it heavy, but 30 degree API, you think that can trade along with Brent?

Unidentified Company Representative: Yeah, our guy says it's going to achieve a premium to Brent. That's what's happening at the moment.

James Redfern: (Merrill Lynch, Analyst) Okay great, thank you very much for that.

Operator: The next question comes from the line of Adam Martin from Morgan Stanley, please ask your question.

Adam Martin: (Morgan Stanley, Analyst) Morning, perhaps you could just talk a little bit about your experiences in the Middle East with going up here obviously a lot of capital's been written off in the Middle East, this could be a very well timed acquisition with what oil markets are doing, but perhaps you can say what's going to be different about this and how you thought about that with the Middle East experience.

Peter Botten: Well firstly we spent quite a bit of time looking at the Middle East and the lessons learned from that, and they were played very strongly into this. I suppose the big difference with this asset is that it's substantially more mature, it has a proven record and a lot more well information, a lot more information about where the resource size shape and dare I say it even productivity. So it's a far, far lower risk profile than an exploration [play] that was typically applied in Kurdistan. I might also say Kurdistan's fiscal regime was far, far worse and the oil price absolutely killed Kurdistan and in fact still is strangling it.

I think you combine that with the political issues, the much, much more challenging fiscal regime and the greater level of maturity, the greater access to infrastructure, the low level of political risk, the access to funding, but most importantly the quality of the assets make the comparison a little different and quite challenging to draw a line. So I can't stress enough how much risk management we've looked at this all the way round, both internally and independently. Clearly we didn't have to do this deal frankly, it's a great deal to do I think and I believe, it's a great set of assets. I think it's quite different to our experience in a much, much tougher operating environment that the assets in terms of [rocks] are far better in Alaska and I think the application to get more, the ability to get back to serious value out of these is far, far higher in a much, much better fiscal regime. It was that combination I suppose that drove us, together with I think compelling economics around the acquisition price.

Adam Martin: (Morgan Stanley, Analyst) Okay, thank you, and just one final question. Just going from the 500 million barrels to the 1.1 billion, could you just talk around a bit more around the appraisal process, is that a resource [unclear], just give us a bit more of an understand of what needs to go right to get to the 1.1.

Keiran Wulff: That's a good question. There are a number of combining factors. It's recovery factor, it's the continuity of the reservoir away from current well control. As I said the Horseshoe well drilled by Armstrong was 30 kilometres to the south and you've obviously, we've taken a relatively conservative view on the reservoir characteristics between those two locations, it's a long way apart. So the appraisal program will confirm that. We have quite good 3D seismic data, so a lot of this was done on [aptitude] analysis tied into the well control. But to answer your question it's a combination of things from reservoir continuity to petrophysics to ultimate recovery factors. The recovery factor will be dependent on the efficiency of the production and injection wells that will be drilled in the field.

So there's a number of things that we'll learn over the course of the next three years that we'll - or next two years ahead of FID that will assist us in determining the ultimate volume. But we've been very conservative in all of our assumptions.

Adam Martin: (Morgan Stanley, Analyst) Okay that's clear thanks, Keiran.

Operator: Your next question come from the line and Andrew Hodge from Macquarie, please ask your question.

Andrew Hodge: (Macquarie, Analyst) Thanks guys, just a couple of questions. The first is about development, I mean I think Keiran said TAPS is only running at 30% capacity, so obviously infrastructure is no issue. But just in terms of actual a combination of both funding and environmental issues, like I know today obviously BP has their own issue with North [unclear], do you see any concern about environmental impacts about trying to get the project online in the timing that you want? I guess further to the question about actually going over the project and what's the differentiator between saying you want to bring in another partner if you exercise the option versus just keeping it yourself?

Keiran Wulff: Sure, there's a number of questions there. What I'll deal with first is the environmental one. Repsol and Armstrong have already submitted an environmental impact assessment, or a statement for assessment by the authorities in Alaska, and that's currently being reviewed. It's a very thorough document, it's available on the web, and that actually goes through the development plan that Repsol and Armstrong have had for this field at that particular time. So we anticipate that that environmental impact review conducted by the state will probably be approved or endorsed or requested for some more information at some point in 2018. So in relation to the environmental approvals that's a big step in the process and that's already underway, it's being conducted by the current participants.

In relation to the actual environmental act, as Peter said in his introduction, this field is sandwiched between two existing major infrastructure projects. So there are a number of pipelines and roads that go very close to the existing facilities. It's not a - obviously it's a very - the environmental restrictions are very tight operating in Alaska and it's actually very impressive when you go up there to see the commitment that the industry has in terms of meeting all of that compliance and Oil Search obviously will do exactly the same and probably more so. So we're actually very comfortable where we are, there's proven operating fields immediately around and surrounding our area of operation and we're already going through the environmental approval process with the authorities.

Andrew Hodge: (Macquarie, Analyst) Okay, and the other part just in terms of I mean Conoco have obviously been excited about Willow as well. I just wanted to get a sense for like a steady API looking fairly [light]. What gives you more of the confidence that you can actually be able to try and achieve a premium to Brent?

Unidentified Company Representative: Just on the basis that that's what we understand they're selling it at at the moment, so it's just market indications at the moment. We'll see at the time but obviously it's encouraging that the current sales are trading at a premium.

Andrew Hodge: (Macquarie, Analyst) The last question was just again coming back to the first part was just in terms of funding and how you guys are thinking about it, just developing both projects simultaneously and obviously just in terms of pure manpower as well, do you think that you guys are going to need to scale up in terms of being able to trying to manage work on both projects at the same time?

Peter Botten: Well I certainly see that there will be a continued absolute focus on PNG LNG expansion Papua LNG, but I do think there'll be a branch of the organisation that does [sit over in the US] largely in the US and [able to work that]. I mean clearly we're not operator of Papua LNG and we only contribute to [part of] the operations in PNG LNG. So again having looked at this in some detail and done the risk analysis I believe this is absolutely within our capabilities to be able to manage and clearly a small part of the organisation will be focused on Alaska and that significant [unclear] will continue to operate the oil fields in PNG and optimise that. I have worked what I think to be a very substantial piece of work around all the issues that need to be dealt with in PNG and I've undoubtedly I will be spending pretty much all my time and continue to do that in Papua New Guinea, whereas Keiran and some engineering support may be spending some time in Alaska.

I think this is a natural evolution, the next evolution for Oil Search, I genuinely believe we've got a track record that can manage all of those issues. It's part of an evolution for any organisation but I think the positive for us, we believe we're going to end up with two complimentary Tier 1 assets with outstanding growth opportunity, and I think that's a pretty good place to be.

Keiran Wulff: It's also worth noting the approach we're taking too to operate [a ship] in Alaska is a very structured one. We've got some seven months to you prepare and transition to it, and that will only be preparing for the '18, '19 drilling program. But what we'll be doing is very similar to what we did when we took over operatorship from Chevron, to where we were some hundred people taking on responsibility for 2000 people. What we did at the time was run a series of workshops with Halliburton, looking at gap analysis, looking at where their capabilities can compliment ours. Those workshops are already planned with Halliburton to occur later this month, and that's a commitment for the arrangement comes from the very top of Halliburton as it does from the top of people with our company.

Peter Botten: Just to emphasis I think we're only one of two companies worldwide where Exxon cedes operatorship of significant parts of their operations to another company. That involves obviously contributing to PNG LNG and the liquid export, in the liquid exports the PNG LNG are actually the weakest link in the overall chain because we can't export crude. It's only a number of days before we have to shut down LNG production. So just highlighting that we've done that very successfully, we've passed all our operating requirements, safety issues, compliance and overall process and development issues audited by Exxon. We will be obviously applying and using that experience applying it to an Alaskan development and operation.

We do clearly need local specialist expertise but we have identified much of that and will be helped through the process with Halliburton and genuinely this will not be a distraction to our core business in PNG, but it is clearly a piece of business that we've spent a lot of time looking at and will manage it accordingly.

Andrew Hodge: (Macquarie, Analyst) Okay, last question [unclear] is just given that you said it yourself that there are other people there who are excited about it, and Conoco are obviously pushing to try and do first oil at Willow in '21. Do you see any risk about seeing an acceleration in costs there like the same with what we've seen with some of the US onshore stuff as ramping up of capital comes along? So that there's a risk that you could get a lift to that gross capital number?

Peter Botten: Look I think we've looked at that. I think the good thing about the US is there's a very large number of very experienced operators and service providers there. Certainly our analysis would indicate that the impact on inflation will not be material, but I do believe we've taken a pretty conservative view about the cost structures, the operating cost structures and others in our view and I think that can be managed. But clearly it is an exciting place to be and it will be a very active development process over the next five, seven years so we will have to manage that but I think our view has taken a pretty conservative view about what the cost structures might be.

Andrew Hodge: (Macquarie, Analyst) Thanks, Peter, I look forward to heading back to Alaska.

Peter Botten: Yeah, Canada here we come. Okay well look apologies, I'm sure there are many other questions but unfortunately we have a couple of other commitments, but very happy to obviously answer further questions through Ann and others. I must say I think as I say these assets are unusual and they are in my view an outstanding edition to Oil Search, and Oil Search is well and truly able to manage both the extra requirements in terms of operations but also more importantly its overall balance sheet and cash flows we believe having blowtorched this very, very hard, are able to provide an unprecedented platform for further growth. Not just through LNG now but also with oil. So with that in mind thanks very much for attending, we look forward to further discussions.

Operator: Thank you ladies and gentlemen, that does conclude our conference for today. Thank you for participating, you may all disconnect.

End of Transcript