Event Transcript

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Start of Transcript

Rick Lee: May I wish you a very warm welcome to Oil Search's Results Presentation for the 2014 Fiscal Year. Standing here 12 months ago it was not difficult to see that 2014 was going to be a very big year for the Company. We had set ambitious targets for safety, for production, for cost and for earnings. We had the PNG LNG Project in its final stages of construction and we're about to enter the commissioning phase. We just announced the acquisition of the Pac LNG Group of companies which allowed us to enter the Elk-Antelope Joint Venture as a joint venture partner. We flagged at this meeting a major strategy review reflecting the changing status and profile of the Company, the results of which were announced later in the year in October.

As Peter and his team will tell you shortly, these targets were largely met and exceeded. I can say emphatically as a Board we were very pleased and proud of the Company's performance during what was probably the biggest year of its history.

Then in the latter months of 2014 the oil market was turned on its head and we've been wrestling with the consequences pretty much ever since. You will hear how we're adjusting the Company strategy and its settings to the new normal. Some of that has been disclosed in the quarterlies and obviously some of it is yet to be worked through fully. So it’s still very much a work in progress. But we do feel that Oil Search remains very well placed as a company both to withstand the market pressures that are constant at the moment, to remain a company with significant growth options and to reward shareholders. So with no further ado, I'd like to hand over to Peter Botten and his team to present the results for 2014. Thank you.

Peter Botten: Thank you Chairman, and thank you ladies and gentlemen whether you're joining us in person or through the ether. There will be plenty of time for questions in the time following our management presentation. First of all of course a disclaimer statement - I'm sure you read these avidly - ours is no different from anybody else's. What we're going to do this morning is I'm going to talk about some of the highlights of the 2014 year. Steve Gardiner our CFO will talk about the financial overview, Paul Cholakos will then talk about PNG production - including PNG LNG. Ian Munro will talk about development of gas and exploration appraisal by Julian Fowles. I'll come up and do a summary and an outlook for 2015.

A course a key to all our business is the safety of our people. We have a large workforce in many different operating terrains in quite difficult operating country - from the highlands of Papua New Guinea through to Kurdistan and Tunisia. Our overall safety record in 2014 was improving, with our total recordable incident rate sitting at around 1.7 incidents per million person hours. That's better than the previous two years. Unfortunately during the year we did have a fatality in a contractor in our Tunisian seismic operations which did impact. We constantly refresh and try and improve our safety record as we continue to build our business in - as I say - very challenging environments in which to work. Safety remains core and number one focus in our business.

From a point of view of total shareholder return you can see both on a five and 10 year basis Oil Search has performed very well against its industry peers in the oil and gas space but also against the AFX200. Obviously in recent times our performance has been impacted by the lower oil price regime, something that we really have to manage and I will speak to at length later on as to how we're doing that. But TSR overall - certainly on the medium and long term - for Oil Search has been pretty and we believe with two potential LNG growth projects in our portfolio we believe we can continue to deliver superior TSR performance over the next five and seven years.

2014, as our Chairman said, was truly transformational for Oil Search. We did break a whole range of records in terms of revenues, in terms of production, and obviously that was all based on the successful delivery of PNG LNG. Exxon has done an outstanding job in commissioning that project. I must also say that the contribution of gas from our oilfields in 2013 also helped to expedite the development and commissioning process for that tremendous project. It does prove that major LNG projects - major projects - can be done very successfully in Papua New Guinea and we look forward to the next series of developments and managing them through the development phase over the next few years.

We also saw very significant progress in the next phase of LNG growth with the PNG LNG expansion and the bottlenecking being a feature. The work on the P'nyang oil field has led to the signing of an MoU with the government and the joint venture partners that sets out a road map for the development of the field to support the bottlenecking initially of PNG LNG and the potential construction of a third LNG train under the PNG LNG auspices. We also - as Chairman has said - purchased a significant interest in the Elk-Antelope fields, and that obviously provides a very strong resource base to support another LNG development. We're moving forward with appraisal of that resource and looking at how that resource can be tied into a plan in PNG.

We've highlighted as well the strategic review that was announced in October. It hasn't been reviewed in the light of lower oil prices and likely sustained lower oil prices for the next few years. We have taken a very measured view about what our business looks like under those circumstances, and in actual fact the range of analyses that we did originally as part of the strategic review encompass low oil prices in the analysis. That reassessment of the strategic review has highlighted the core business that we have in terms of both our oil developments - but also LNG - are still extremely attractive if this LNG and gas and oil prices continue at low levels. We have seen that there are strong fundamentals in our business for LNG growth and a stable remaining operating environment in PNG which we're working extremely hard at. I'll give you some flavour to the strategic review later in my presentation.

The financial highlights are strong. Production was obviously up significantly, 186% increase from the 6.7 million barrels of oil equivalent to 19.3 million barrels of oil equivalent from 2013 to 2014. That's an all-time record for the Company and it reflects obviously deliver of PNG LNG start-up plus some solid performance from our existing oilfields. The reported net profit after tax including impairments was up 72% to US$353 million and our core profit excluding impairments up 135% from US$205 million in 2013 to reach a record level of US$482.8 million. Obviously the highest profit in the Company's history.

Recognising our patient shareholders that have been in the Company for in some case many years, that successful delivery of the project leads us to provide a final unfranked dividend of US$0.08 per share, plus a special dividend of US$0.04 per share, taking our full 2014 full year dividend to US$0.14 per share, up 250% on 2013. That represents about a 44% dividend payout ratio. Well within the guidance that we were given by the Board back at the strategic review time, and very much in line with our ongoing policy of providing a dividend in that range.

We have a very strong balance sheet and strong liquidity position which helps us to deliver future projects, primarily in the LNG space. We're in an excellent position to support those high returning growth projects into the future and I'll come back to that a little later on. As I mentioned we are in great shape - good shape at least - to manage the low oil and gas price environment. We need to be prudent; we certainly don't need to panic. We need to be prudent to reduce discretional spend and focus on supporting the high returning LNG expansion and development projects that we have on our portfolio. We also need to continue to carry out PNG country initiatives which helps government deliver the benefits where they need to go, and also a range of social projects that are important to maintain operating stability in that country.

With production highly profitable - even at current oil prices - there is a really good opportunity to recalibrate our business, look at our fiscal discipline, improve efficiency, sharpen our focus on what we need to do with a lower amount of revenue and underscore what we believe to be continued attractive investment returns.

The 2015 work program has been re-prioritised. We have reduced our original budgets in terms of CapEx, in terms of exploration and non-discretionary gas expenditure. We will focus on gas, we will focus on the social programs in PNG and we'll reduce the 2015 OpEx. I'll give further details later. [We'll actively] engage and have already engaged our contractors to further reduce the costs by targeting somewhere between a 15% and 25% reduction in their costs. So we're looking for them to share the pain with us. We have substantial discretionary flexibility on spend and we will defer activities that are not required for safety or priority projects, including LNG.

We'll obviously continue to be opportunistic the market for distressed sellers or opportunities for expansion. We have the balance sheet and capacity to take advantage and reposition our portfolio if it suits our strategic requirements. As I say, the existing proportional dividend policy with between 35% to 50% of core NPAT to payout remains very much appropriate, despite the lower oil price environment that we think will continue for a while.

I will now throw it over to Stephen to provide further flavour on the financials and numbers around this 2014 result.

Stephen Gardiner: Good morning ladies and gentlemen and thank you Peter. Yes, my job is to provide a little more insight or detail into the financial performance and in doing that it's always a pleasure to stand in front of your first slide and see that it's full of green arrows and they're all pointing skywards. Clearly that's the result of the start-up of the PNG LNG Project. Not only the early start-up but also a ramp up to full production ahead of our expectations, so a terrific contribution to the bottom line and it flows through all the results I'll talk about today.

With LNG production commencing in late April it drove a 110% increase in revenue, 135% increase in core profit and included 51 delivered LNG cargoes and two million barrels of LNG liquids which contributed to the bottom line for the first time.

Our oil operations weren't slack either. They also chipped into that good result with a 3% increase in production driven by excellent contributions from some new production wells. The only negative on that horizon was really obviously the drop in the oil price in the latter part of the year. Our average realised oil price was US$97.79, a 12% decline on the 2013 number. The oil price fall and also the changed outlook for oil prices also was the main factor behind us booking asset impairments totalling US$130 million after tax. They were mainly related to exploration licences in Mena and Papua New Guinea.

But even with the impairment hit as Peter mentioned, the 2014 reported profit of US$353 million was 72% higher than the prior year. Operating cash flow also grew by 170% reflecting the strong cash generation from the LNG project. Despite the 60% reduction in PNG LNG construction spend during the year as the project construction tailed off, the total investment spend increased by US$200 million on the prior year due to the US$918 million we outlaid on the PRL15 acquisition.

Turning to cash operating margins, our cash earnings performance also was obviously boosted by the strong cash margin generated by the LNG project more than offsetting the weaker oil price impact on our oil and gas business. The PNG LNG cash margin of 84% includes shipping costs, with high proportion of LNG cargoes [delivered ex-ship] in 2014. Our average realised LNG and Hides GT gas price of US$13.94 per million Btu was assisted by roughly a three month lag in the pricing structure between spot oil prices and LNG contract prices as they are flowed through the delivery process.

Looking at some other areas of the P&L, costs in production were increased by 50% and non-cash charges increased four-fold, both due to the start-up of the LNG production in late April of last year. Exploration costs expense were flat year on year with two Usano wells written off during the second half of 2014. The impairment charge I've mentioned primarily relates to write-downs of exploration assets in Mena in particular totalling US$160 million, with impairment of producing assets totalling US$21 million. The large jump in financing costs reflects PNG LNG start-up, with us ceasing to capitalise those borrowing costs at that point in time when first LNG production commenced.

Our tax expense for the year of US$233 million equated to an effective tax rate of 40%, or 37% at the full profit level. The rate was a lot below the 50% statutory tax rate for operations due to taxation of PNG LNG income at 30% and also the conversion of two of our fields - Kutubu Complex and Gobe Main - to gas fields for tax purposes. They were also taxed at 30% over the second half of the year.

Total costs of production increased by US$89 million due to the expansion of PNG LNG operating costs, however unit costs are reduced from US$18.72 for boe in 2013 to US$12.21 in 2014 due to the impact of the lower unit costs for LNG compared to oil and gas. 2014 operating costs in a boe basis were at the low end of our guidance, again reflecting the faster than anticipated ramp up to operating capacity of both LNG trains.

Compared to 2013, PNG LNG gas costs increased slightly in absolute terms due to an increased spend on field and processing infrastructure but delivered a long-term, reliable, safe operations. However on a boe basis costs declined slightly due to higher oil production.

The negative [inventory] adjustment of US$26 million that you can see in the slide captures the production costs for LNG that were held in plant storage tanks and then four vessels on the water at the end of the year. Those shipping inventory costs will be released to the P&L when the LNG is actually delivered to the customers.

Now focusing on cash flows again the same theme, the LNG projects contributed to a material increase in our operating cash flow for the year which is up by US$600 million on the 2013 number, with an overall cash position increasing by US$750 million. Our financing and investing cash flows were dominated by the US$980 million we spend on acquiring the PRL15 licences. To fund this and associated CapEx programs - as you are aware - we went to the market and raised US$1.27 billion via a share placement to the PNG government and an associated share purchase plan for our retail investors.

A total of US$423 million of cash was injected into the PNG LNG project during the year. The surplus funds from the share issue enabled us to pay down our corporate debt by US$50 million, that was offset though by further drawings under the PNG LNG Project financing facility of US$283 million. Our share of cash in the escrowed LNG proceeds account and completion account at the end of the year totalled US$804 million.

Now as Peter mentioned, we're in a fantastic position to face the current challenges. We couldn't be at a better place to accommodate a low oil price environment given our current treasury position. Not only with the early start for the LNG Project, but through increased committed undrawn funding lines being put in place during the course of last year. So we added an additional US$250 million of low cost revolving credit lines and with US$600 million at capacity under our corporate facilities and cash now of US$960 million, our total liquidity in December was in excess of US$1.5 billion.

We have withdrawn down US$4.26 billion under the LNG Project financing facility to fund construction costs and the associated capitalised interest and borrowing costs. Like all the other elements of the project financial completion was achieved ahead of expectations in early February. That permitted the release of escrowed sales proceeds and completion balances north of the termination of our parent guarantee that has been in place during the construction phase.

A total of US$854 million was released into our bank account on Friday night, and I was pleased to see our treasury team turn up to work on Monday morning [laughter]. The Board has approved - as Peter said - a 2014 final ordinary dividend of US$0.08 per share and a special dividend of US$0.04 per share, bringing the total payout of core profit to 44%. In that light we've suspended our dividend reinvestment plan following achievement of financial completion and given the strong liquidity position we're in currently.

Peter's touched on the activities to reduce and realign our expenditures to the current external oil price environment. Although we're continuing to generate healthy cash operating margins, we've focused on a number of areas of discretionary spend that we can cut into fairly quickly. We've also focused on re-prioritising work programs, particularly in those areas where the investments can't be justified in the current environment. However as Peter mentioned, we're continuing to invest in our very value adding LNG growth projects in PNG as they promise very attractive returns even with current the oil price outlook.

So across the Board we've looked at reducing our spend on operator oil and gas assets both in our operating costs and CapEx areas by about 20%. We're still committing enough funds though to drive ongoing production optimisation and reliability, with the safety of our people and integrity of our assets remaining our top priority. The biggest reduction in planned spend in dollar terms though is in exploration with the deferral of some elements of the Taza Appraisal Program and deferral of spend on new exploration plays in PNG. Julian is going to provide some more detail on that.

In terms of cost control, we've focused initially on the obvious areas of cutting back discretionary projects that require external resourcing. Also targeting support and admin costs, introducing a freeze on new heads - particularly for our base business - and as Peter mentioned, we're not sharing that pain with our major suppliers and seeking material cuts from them to the contracts that are currently in place. Also as Peter mentioned, we're going to conduct a more fundamental review of our operations going forward to make sure that we've got the right resourcing in place with the line to the revised work programs we now see playing out under this new oil price environment. We'll obviously expect that review to provide further savings which aren't captured in these numbers.

Turning to the investment outlook for this year, our four year capital expenditure forecast is going to range somewhere around the US$600 million mark. That's certainly the lowest spend we've seen since FID for the LNG project in 2009. LNG construction spend does tail off this year following the completion of Antelope drilling and the construction of LNG office facilities in Port Moresby. Our exploration spend in 2015 we anticipate to be similar to the 2014 spend if you exclude the large outlay for the PRL15 licences. That includes ongoing drilling for the Antelope appraisal wells, site prep for further P'nyang drilling and ongoing appraisal drilling and testing in the Taza block in Kurdistan.

Production CapEx also is likely to be largely in line with the 2014 spend excluding a modest amount of PNG LNG production CapEx included in the budget. With an increase in well work over activity offsetting a reduced spend on production given the lower oil price.

So finally turning to our guidance for this year, our four year guidance incorporates obviously impact of first full year of production of PNG LNG. As previously advised our production outlook for the year is in the range of 26 million to 28 million barrels of oil equivalent. Our production costs are in the range of US$10 to US$12 per boe, that's lower than 2014 given the four year impact of inventory production at lower unit rates compare to oil and gas. Likewise non-cash charges on a boe basis will be slightly higher than the 2014 outcome as LNG depreciation rates are higher than our oil and gas depreciation charges.

Our other operating costs are expected to be higher in 2014 really due to the partial release of LNG costs sitting in the inventory that I referred to earlier, and also a full year of LNG shipping costs. That's going to be partially offset by lower gas purchase costs for our Hides gas to electricity contract and also lower royalty payments which are linked to the oil price.

So it's going to be a somewhat challenging year due to the oil price, but one that we're very well equipped to navigate. On that note I'll hand over to Paul, thank you.

Paul Cholakos: Thanks Stephen and good morning. As we've already reported our production operations - both operated and non-operated - have performed very well in 2014. Net production of 19.3 million boe was nearly triple 2013 levels. Obviously the early start-up of PNG LNG was key to this, but again I'd like to highlight the contribution from our own operated production areas. They performed particularly strongly in 2014. At 2014 operated production was in fact the highest since 2010, and that reflects the successful development drilling that we often speak about in these forums, and also improved facility performance throughout their alterations.

I think the start-up PNG LNG has been fairly well document. Both Stephen and Peter have both spoken to it, but I'll just again reiterate some of the highlights. Condensate production started in March, first LNG production and export of the new Kutubu blend started the following month. The first LNG shipment sailed in May and within three months of start-up both LNG trains were operating at capacity. By the end of 2014 sales had commenced under all the long-term contracts and both LNG trains were operating consistently above name plate capacity of 6.9 million tonnes per annum. Final development costs as we reported previously were within the revised budget of US$18.8 billion. As Stephen mentioned, the last of the operational completion tests were successfully completed earlier this year and consequently funds have been released from escrow.

Production from the Hides development wells has been very strong. We're in the process of bringing online the final two G wells on the Hides structure. Development drilling at Angore started late last year. The first of these wells is currently suspended and preparations are underway to spud the second well at Angore. We're also drilling ahead at the Hides deep well, having already penetrated the Toro reservoir. This well will be completed as a ninth producer, further enhancing production capacity at Hides. The well is also designed to test a deeper exploration target in the Koi-lange sands and it's currently drilling ahead to that target.

As I mentioned, production from our operated fields has been very strong in 2014 reflecting successful drilling over the prior years. 2014 was the sixth consecutive year when we've met or exceeded our production guidance. So we're very happy with that record. In 2014 our core high equity fields at Kutubu and Moran have made particularly strong contributions. We often talk about the success in identifying and delivering the near field development wells, and that's reflected in our production levels, and also in some reserve upgrades which I'll address shortly. In 2014 we drilled the third well - and in fact the third successful well - on the Agogo fallen structure. Agogo 7 is now online producing at around 1500 barrels a day.

Again I want to reiterate that our strong production performance in 2014 was delivered against a backdrop of start-up of gas deliveries from Kutubu and Gobe, start-up of condensate receipt and export. We were able to facilitate the early start-up of PNG LNG by delivering gas early and at higher than originally planned volumes. Through what was a very intense period for our operations through commissioning start-up and interface with PNG LNG our oil production was not impacted. Critically as Peter mentioned, our safety performance in PNG operations was also very strong in 2014. Of course none of this happens by chance. I often stand here and talk about the contribution from people across our business, and again I'd like to thank everyone both in the fields and the support offices for the contributions they've made to the successful 2014.

On our annual reserves and resources statement it's been a pleasing outcome this year reflecting again the continued success in extracting value from our oilfields and resource editions resulting from our strategic gas growth initiatives.

On the oil side, our oil additions have more than compensated for annual production and this has been underpinned by a significant uplift in 1P and 2P reserves at Kutubu and Moran following audit by Netherland Sewell & Associates. Net expected ultimate recoveries have increased by 13.3 million barrels 1P and 10.7 million barrels in 2P. Again, that reflects the ongoing success in development drilling in the key producing oil fields; a strong focus on maximising production from existing wells through comprehensive surveillance; from well intervention activities and field life extensions due to the PNG LNG project.

It is worth highlighting here that since 2011 we have added nearly 50 million barrels gross on a 1P to our EUR from our PNG producing oil fields. Again, the opportunity is there to create real value in these places.

Our net 2C contingent gas resources have increased by 54% following the booking of just over 1.2 tcf at Elk-Antelope reflecting our acquisition in PRL 15 early last year. But there is also an addition from the Flinders discovery drilled in the Gulf of Papua.

Overall our reserves statement confirms that we have got long-life assets and they are underpinned by quality reserves and resources.

The focus for this year consistent with recent years; it is on safe, reliable production. We have got quality assets. They remain profitable at current prices, but as both Peter and Stephen have alluded to we have revised our capital on operating budget and we continue to look at how we can operate more efficiently.

We will also look at how we optimise production again through drilling of work overs as we have done over recent years, but also through initiatives to drive improved reliability and process safety performance in our operating facilities.

At the Port of PNG, LNG will obviously continue. We have obligations to continue to supply gas from both Kutubu and Gobe and the safe and reliable export of condensate and Kutubu Blend by the Kumul Marine Terminal. Of course we will continue working with ExxonMobil in the PNG LNG joint venture to realise de-bottlenecking opportunities and as I mentioned earlier it is pleasing in that regard to note that capacity and production at PNG LNG has consistently been above nameplate capacity post-start up.

Finally, to our production outlook for the year - 2015 will be the first full year contribution from PNG LNG and that is reflected in these figures. Operator production is expected to sit between six and seven million boe. LNG gas and liquids production is - the guidance is between 20 and 21 million boe; so giving a full year guidance of between 26 and 28 million boe.

With that I will hand over to Ian to discuss gas developments.

Ian Munro: Thank you Paul for that good news story. Good morning ladies and gentlemen.

As you have heard this morning, Oil Search's development focus remains the delivery of high returning LNG projects in PNG. The success of the PNG LNG project and the cash flows it will generate, together with a disciplined approach to our investment that Stephen has highlighted, will ensure that funds are available to underpin the next phase of Oil Search's growth.

The discovered but undeveloped resource base in PNG, primarily P'nyang and Elk-Antelope fields, can supply at least two new LNG trains. With moderate drill bit success through 2015 we can possibly be involved in three trains.

Oils Search as you are aware is uniquely positioned in PNG. We hold a material interest in each of those resources that are expected to deliver new LNG to the market early in the next decade. The developments can meet the forecast mid-term supply shortage as less competitive LNG projects are either deferred or shelved indefinitely.

The P'nyang and Elk-Antelope developments have been rigorously stress tested in the current price environment and both expansion and Greenfield alternatives are economically attractive.

In addition to discovered resources, Oil Search also sees significant follow-on potential through exploration in both the Highlands and Gulf provinces and Julian will talk to that shortly. This gas can potentially provide further gas for expansion for volumes for high-value back-fill.

We are also in the fortunate position in PNG whereby land owners, government and co-venturers are all aligned on early developments. This will deliver both opportunities for the country; benefits that will include employment, domestic gas, domestic power both into POM and also into the Highlands.

2015 is a year that will define the resources that are available for expansion and will determine whether Oil Search is a participant in two or three near-term expansion trains. A key focus for the Company, together with our joint venture partners, is to bring this gas as quickly as possible to the market in the most cost-effective manner.

We and our joint venture partners are currently engaged in a multi-well drilling campaign and comprehensive resource evaluation studies. Resource definition will allow for concept selection and entry into the detailed engineering phase of the projects.

In the north-west hub, the P'nyang co-venturers in PRL 3 have committed to an appraisal well and this will be designed to move resources from the 2C into the 1C category. The encouraging results from the recently completed Hides field development wells, together with production history throughout 2015 will be evaluated to determine whether the resource size - determine the resource size and a potential re-certification.

In the Gulf hub, Antelope 4 and Antelope 5 are currently drilling. Provisionally they have encountered top reservoir. It is expected that a further appraisal well Antelope 6 will be started before mid-year to define the eastern flank of the field.

Resource certification will follow this drilling program and confirm either a one or two train development in the Gulf. Additionally the Antelope Deep or Antelope South prospect will target a sizeable accumulation just to the south of the main field.

A significant milestone occurred in January regarding expansion at PNG LNG. ExxonMobil, as operator of both PRL 3 and the PNG LNG project, entered into an MoU with the State of PNG. This was an extremely positive step and it will meet the requirements of multiple stakeholders. The MoU itself provides an agreed timetable and work programs for P'nyang and it will place the co-venturers in a position to consider a final investment decision on an expansion train. It will also provide much needed short-term power and longer term domestic gas into both Port Moresby and into the Highlands.

With this framework in place the PRL 3 owners submitted a development license early in February and we anticipate an offer of a PDL towards the end of the first quarter.

On the resource side, reservoir evaluation studies are ongoing and during 2015 Oil Search would expect to update and increase our resource estimate for the field based upon recently acquired seismic and core studies.

As I mentioned, the firm appraisal well that is a commitment to government, will target an increase in the 1C resource space.

Moving on to PRL 15 - in the Gulf hub, the recently announced result of the arbitration process denied Oil Search a pre-emptive right. A majority decision ruled that Total were a party to JOA but they have had no rights in the JOA or in the PRL 15 license. However we are working cooperatively to resolve this matter through open dialogue with our joint venture partners.

On the technical front we are close, as I mentioned, to obtaining reservoir information on Antelope 5 and Antelope 6. Provisional top reservoir picks by operator are between 30 and 50 metres high to Oil Search's mapping, but it is still early days and we need to confirm reservoir and reservoir quality through further drilling and logging.

Antelope 6 is likely to complete the appraisal program and will target an area to the east to firm up both structure and [facets] as we move away from existing [take] points. A joint venture concept select decision is targeted later in 2015, as is an Oil Search certification of the resources in Elk-Antelope.

There is a clear opportunity for the joint venture partners to learn from the lessons of PNG LNG and this could involve commitment to early and targeted pre-investment in enabling upstream infrastructure and critical path items. This will allow for both protection and potential acceleration of schedule to first LNG. Such investments can be confidently made with a well-defined resource base.

In summary, what is I think a particularly exciting time for the gas expansion side in Oil Search, key takeaways for what really is a core pillar of our business and one that is expected to materially contribute to the delivery of top quartile return for shareholders.

Oil Search LNG developments are robust and they are robust in a low oil price environment. They will also likely target a sweet spot in the market early in the next decade where there is going to be a forecast shortfall in LNG supply.

Our budget prioritisation process will focus on the delivery of these projects.

There is clearly sufficient undeveloped gas in the portfolio to deliver two new trains and we will know over the next few months whether a third train is likely.

Oil Search, through its multi-decade role in the country is well positioned to be a leader in this next phase of expansion. Our unique in-country operating experience, our relationships and our capabilities will clearly add value to the joint ventures.

Finally, taking a longer term outlook, there clearly is significant exploration upside, both in the Gulf and in the Highlands, to maintain these four or five trains at capacity for many, many years, or indeed to supply further trains.

Julian will now build upon this point in his exploration update. Thank you for your attention.

Julian Fowles: Thanks very much Ian and good morning ladies and gentlemen.

I will talk a little bit about our exploration program that we carried out in 2014 and talk a little bit about the results of that in the context of a strategic review. Then I will look forward to 2015 and the areas of focus that we will have for 2015. As Stephen has already alluded to, we have looked at the budget that we planned in 2015 and we have cut some of that back and we have deferred some of the activities we had previously planned.

I am going to focus in two areas. One will be in PNG obviously, and the second main slide I am going to show will be focusing in Kurdistan and looking at the appraisal program around Taza.

As Ian has already mentioned, the output of our strategic review really helped us to focus in two key areas, two gas hubs, so the north-west and Highlands gas hub focused on P'nyang potential development and then also at Gulf hub focused on our entry to Elk and Antelope. Our focus and exploration through 2015 and reflecting what we have done in 2014, really is looking at those two hubs and how we can best bring forward material gas opportunities to underpin the next phase of growth that we see.

Of course we have got a very big project online with PNG LNG and what that does for the explorers is it focuses them then on creating additional value around those hubs. You have then got the infrastructure in place and around that infrastructure you can then look at building additional value. So that is really what we are focusing on, those two key areas of focus.

So we recognise a significant amount of yet to find volumes still to be found in PNG; around about 50% we reckon of an estimated 10 billion barrels equivalent of total resource potential in PNG; so about 50% of that is yet to find. A lot of that sits in those two areas, as I said, in the north-west Highlands and in the Gulf.

To access that, Oil Search during 2014, we entered some new licenses. Obviously PRL 15 that Ian has touched on, but also PPL 464 which is just beside P'nyang; also PPL 402 which sits to the north of Juha and to the north-west of Hides and that is a key area for us, an area where we see a lot of gas potential. Then PPL 269 in the west; the Talisman operated license in the west of the Highlands.

We see a lot of running room in those licenses and we are currently undertaking, or will undertake through 2015, a significant program of seismic that will then enable us to mature drilling targets in those areas and in other areas to drill through 2016 and 2017.

We have already mentioned some of the wells that we are drilling, so of course the Hides F1 Deep well. That is getting reasonably close to the exploration part of that target at the Koi-Iange reservoir and if that one comes in as a success that could be a significant discovery in its own right. Of course that would lead to further appraisal and then take some time to assess the resource. But it is getting close to a pretty exciting time in that well.

At P'nyang we know that there is further evaluation that is required there and we are hoping to agree with the joint venture to drill a well probably spud towards the end of this year or early next year, in P'nyang, to really tie down the resource estimate at that area to enable us to understand how that can be brought in to the main project; whether it is an additional train and the way forward with that.

In the Talisman-led 269 joint venture, there is a plan there to drill a well, also in 2015 and that is based on some new seismic - 185 kilometres of new seismic that was acquired in that area. Again this is an area that we see with major potential; where you can see it sits in license terms, the area of focus for us really is sitting to the south of PRL 3 and stretches across to that main area towards Juha that we like so much.

In the Gulf hub, Ian has touched on the Antelope appraisal wells four and five; Antelope 6 well we hope will be a further appraisal well on the eastern flank of that field. But we see an additional prospect to the south of the main Antelope field that we are calling Antelope Deep and hopefully that is also a well that we will see through the joint venture and will spud this year. Again if that one is successful, it has the potential for a significant expansion of the project there.

I would like to talk a little bit about Kurdistan. We have obviously been in an appraisal phase through 2014 of the Taza discovery. As part of that appraisal we are drilling currently two wells - and I will touch on those in a second - but we have acquired a 630 square kilometre 3D seismic survey over Taza. This is probably I think the largest 3D survey to date in Kurdistan. It has been acquired using some new technology and the early outputs of that that we have seen - still going through processing - but the early outputs we have seen are certainly very promising for tying down some of the key structure; possibly also some variations in the rock types across the reservoir and then also what will be of key importance to us which is the location and distribution of fracture sets. We know in Kurdistan that these fracture sets are key for high production rates.

Drilling of course at Taza 2 and Taza 3; that was continued through 2014. We saw some delays in that towards the middle of the year - August and September - due to some of the terrorist activity that was taking place in Iraq and on the borders of Kurdistan. Thankfully that has dissipated somewhat. These guys have been pushed back a bit. But those wells have gone well. Taza 2 has intersected oil shores all the way down through the prospective intervals from the Jeribe down to the Shiranish and Taza 3 is currently at a point where we have drilled through those intervals at the Jeribe and the Dhiban and is currently drilling ahead.

Those two wells have more or less confirmed the structural configuration of the Taza structure as per our map, which is really quite promising because it is a very large area. The Taza structure overall could be as big as 250 square kilometres. To drill a well 10 kilometres north of an existing well and come in within 30 or 40 metres of prognosis is really pretty encouraging. Taza 3 to the south equally has come in within about 50 metres or so of the prognosis.

Testing is currently underway at Taza 2. We have tested the Shiranish, that flowed minor amounts of oil from the Shiranish and we have got further testing planned for Taza 2.

Taza 3 as I said is drilling through the interesting zone. It has seen some oil shores as we have gone and we will make a decision on testing that in the coming weeks.

Further to those well we plan to drill another well - Taza 4. Taza 4 will be drilled on the western flank of the field. It will be a more highly deviated well than we have done at Taza 3. Taza 1 and 2 were vertical; Taza 3 is about a 35 degree deviation to the south. Taza 4 is probably looking at twice that; maybe 60 degrees, 65 degrees deviation and the idea with those deviations is that it allows us to intersect or have a better chance of intersecting open sub-vertical fracture set that we know that exist in the area.

So that is going to be some key work through 2015.

Our budget for exploration new ventures work in 2015 is going to sit around the same level as we had in 2014 - the US$300 million to US$360 million mark. About 60% to 65% of that is focused in PNG. So you can see that is a major area of focus for us and the appraisal program is the other area that we are focusing on in Kurdistan.

As I said, there is a great deal of potential that we still see in PNG, so we will continue our baseline work to understand that potential and that will include looking at our new licenses and any potential licenses beyond that.

Those wells that we had planned to drill through 2016 and 2017 on the back of that seismic data, [those we'll] be targeting what we would call high impact prospects; so prospects that have a chance of making a significant impact to any of the LNG projects that we see going forward with significant volumes. That should be a pretty interesting program as we go through those next couple of years.

For our other international assets around Yemen and Tunisia; Tunisia is obviously just seeing some seismic acquired and we are working through that seismic to understand what to do next with that. If we see some good prospectivity obviously we would like to drill there. Whereas in Yemen, you have probably seen in the news Yemen is not in a particularly good state politically. Security there is difficult and we are still in the state of force majeure. So those plans for Yemen will certainly remain on hold for the time being.

New ventures overall will be a lower priority given the amount of work that we have currently got on our plate. I mean there is a phenomenal amount of work to do around P'nyang; there is a phenomenal amount of work still to do around Elk and Antelope of course, and that is going to draw the major focus for our exploration and appraisal teams.

So what we will be doing though is we will be looking for additional growth opportunities that can add material prospectivity to our portfolios; to the hopper if you like, for future drilling. We are not going to forget about the longer term future, so certainly recharging and reloading our hopper is key. Of course we will still continue to look at strategic oil assets in the international space. The important thing about those is that they will certainly be any new entries that we would consider will be very disciplined, but they will also be ranked very clearly against our PNG opportunities. They have to stack up against what we have got in PNG clearly and that is the major focus for us.

So that is pretty much it for what [I'm going] to say for exploration and for the new ventures work, and I will hand back to Peter to summarise where we are.

Peter Botten: Thanks Julian. Well I will now summarise where we are at.

Obviously the reassessment of our strategic review was an important part of our business in the last few months, in that we published what were predictable results; I think predictable results in October, during a time when the oil price was in a lift and heading south quite quickly.

The review of the strategic review outcomes though focused obviously on the robustness of our LNG business and our future LNG projects, along with what we should do with our cash flows; albeit lower cash flows, in terms of managing our investments and managing our business, but equally taking the opportunity to recalibrate and reset the organisation in what may be an extended period of relatively low oil prices.

We are as I say in a very strong position to manage our business through this environment. The proposed LNG projects, growth projects that we have on our books remain extremely attractive on current low price oil assumptions.

The lower oil price clearly will impact our cash flows, but with very careful management, Oil Search can fully fund its equity share of these two new gas development projects into the future.

We believe we are in a pretty unique situation in the oil and gas space in the Australian context at least where we have successfully delivered the LNG project which has come on and remains extremely high performing, but we also have two tangible projects sitting before us that have the capacity to more than double our production over the next five to seven years. That, we believe, makes us unique and those projects are attractive in terms of economics, even given this low oil price that exists right now.

We also see that those projects could be developed in a period of relatively lower capital cost with capital cost deflation very likely in the industry over the next few years. Certainly we are asking our contractors to share some of that pain.

Some of the initiatives that we are taking as an organisation are highlight on this slide. We are reducing our original 2015 OpEx with lower production costs, down about 20%. A head count freeze as Stephen mentioned, along with a review of how best to fully support our primary gas growth opportunities, as well as some exploration activities and active engagement with our contractors to drive down our cost base.

Overall the 2015 planned CapEx from October 2014 is down about 20%. Exploration and evaluation CapEx down about 25% and corporate CapEx down about 40%, all of which is designed to maintain top quartile performance to our shareholders and focus on what really brings value to us over the next few years - primarily in the gas and LNG space.

As well as that we are looking at and refocusing our business largely towards Papua New Guinea and our reality is that a significant part of our growth will come from that country over the next five or so years. With that in mind we have created two EGM positions - Executive General Manager's positions - one of which will run the PNG business unit, based in Port Moresby and be responsible for managing the operative, non-operative producing assets in PNG as well as obviously broadening our relationship base up in that country. That new EGM is Julian, who has given the last presentation.

We also have an EGM of technical services and Paul Cholakos has moved into that role. That role will be based in Sydney and will be responsible for developing and deploying excellence in some of our core technical functions, including HSES, business systems, drilling, et cetera; supporting the business unit in what they are doing. Keiran Wulff is a recent appointment to us. Keiran did work for us before and has substantial PNG experience, having lived in Port Moresby for 10 odd years, and he will be running our exploration and new business exercise.

We also have a range of new senior executives and they are being encouraged, if not told, to transition to Port Moresby so that they can reconnect and we can connect in a better way our Sydney and Brisbane offices with the coalface that is very much dominant in our business in PNG.

As well as that the Board has appointed an external consultant to look and help define the competencies required in future executives and to develop the leadership skills within the organisation as part of augmenting the succession planning process. We all look forward to working with that person to further develop the skills of our business and enhance the succession planning process for whenever I might move on.

There is a new operating model being defined, which is, I mentioned four key business units - one that runs PNG gas development which is run by Ian Munro, exploration and corporate, and all of that will make us we believe more effective, more efficient with better accountabilities and address some of the challenges we have into the future.

PNG remains obviously very much a focus and obviously with cash flows diminishing with a lower oil price the government of Papua New Guinea is also impacted by those changes in cash flow. The land owner community expectations though really have not changed. So if you talk to a Mr Hooley outside Hides his view of life is so what about the oil price, I still want my benefit.

So there has never been a more important item to partner with the state and with the private sector, working together with the state to ensure that the benefits are delivered properly, effectively and there are - it can see tangible improvements in the life of people in our project area and indeed across the whole country.

We certainly as Oil Search will play a role in facilitating and working with government in terms of capacity building, in terms of benefits distribution process and helping them deliver on a range of major projects in the country which we believe enhances the operating model that we have there and provides great social outcomes for the people of PNG. It's a great business model which helps us deliver operation stability and one that helps us in growing our business, certainly the expansion and development of our LNG business in country.

Some of the work that we are doing and working with government is provision of reliable competitively cost power. Certainly recent agreements signed for Port Moresby and imminently in the highlands will help deliver that power to a significant portion of the population. At the moment only about 6% of the population in PNG has connected power. It's a very, very low percentage of the 7.2 million people that live in that country.

We're also looking at further power options, small scale LNG and other small pieces of business in the larger organisations are very important in terms of managing our operating process and operating environment in the country. We're also partnering right now with government on developing a number of key infrastructure through tax credit projects, including roads, schools and various buildings around Port Moresby and partnering on health programs, working with the National Department of Health, global fund, DFAT, et cetera to deliver on some of the health programs that are essential around the country, especially away from Port Moresby.

All of that leads to operating and political stability which we think is essential in the long term and certainly high value pieces of business for us, albeit relatively small, but a very strong part of our overall sustainability program.

In summary then the PNG LNG project has delivered ahead of schedule and within its revised budget and it obviously has had a major impact on production, on cash flows, even in the lower oil price environment. We have updated our strategic review and we're in great shape to recalibrate the cost base of our business, refocus the business, on potentially high returning projects which we have on our books. A lot of work to do on those but the potential expansion for PNG LNG and the development of Elk/Antelope remains the focus. Both have robust project economics and remain very attractive in this environment.

We also obviously would continue to focus on PNG country stability initiative and that remains a priority. For all this we can fund those projects and we can continue to pay a dividend, a payout ratio of between 35% and 50%. That remains unchanged despite the change to environment. The CapEx and OpEx productions planned will focus on reducing a third discretional exploration and other discretionary items. We still have a significant program ongoing and can support that fully. We have an excellent balance sheet, a very strong reserve position and very good, ample liquidity to pursue growth. We're actually in pretty good shape despite the downturn in the oil and gas sector. Thank you.

I'll now throw it open to questions initially from the floor. I think Dale has got a question.

Dale Koenders: (Citigroup, Analyst) Morning and thanks Peter. Dale Koenders from Citigroup. Peter, I was just hoping you could provide a comment post sort of arbitration on Antelope. Previously at the strategy day you flagged the opportunity for US$3 billion of CapEx synergies and potential acceleration of the project at first production in 2019. Is it fair to assume that with targeted FID end of 2017 maybe that timing is aggressive but the CapEx is still achievable?

Peter Botten: Look, there's a lot of work to do on Elk/Antelope and clearly the outcome which didn't give us pre-emptive rights was a disappointment to us. At the end of the day thought we had a choice. There was a very complex legal outcome to this. We had a choice to embark on further legal dispute which, in our view, would have caused delay to the project moving forward and we, I think sensibly, took a view that there was a better commercial outcome if we didn't get pre-emptive rights, let's move on. I think that's also the same attitude from Total and InterOil.

There is no doubt that having this dispute out there has increased Total and InterOil's appetite to accelerate development. There have also been discussions between the Elk/Antelope joint venture and the PNG LNG joint venture to look at ways potentially of how these fields might look at synergies and how they may or may not come together. Overall thought the most important thing on Elk/Antelope at the moment is to understand the resource base which will lend size and shape of what we may build there. Once we understand that we can better define the development optic and how much that might cost.

But, again, just emphasising, with the low oil price environment whatever way possible to improve the development of both PNG LNG and also Elk/Antelope clearly needs to be focused by the two joint ventures. We certainly will play as much a role as possible to push for those synergies to be followed. But, we think we've taken a pragmatic view having not got pre-emptive rights to move forward and move forward rapidly.

Dale Koenders: (Citigroup, Analyst) Very good. Then just a secondly, can I just check something you said at the start about P'nyang underpinning debottlenecking. Is the thought still then for P'nyang to under expansion and debottlenecking at the moment? Is that how I'm thinking?

Peter Botten: That's absolutely the case. It helps us to spread our reserve requirements across a range of fields. We're obviously recalibrating with the results of drilling and production Hides and we're continuing to drill a number of other fields. But, having P'nyang in the mix and having a very committed ExxonMobil to develop P'nyang was part of the MoU that was signed in January, I think, this year. We think that only adds strength to the overall PNG LNG joint venture.

Dale Koenders: (Citigroup, Analyst) Excellent, thank you.

Kerry: (Macquarie, Analyst) It's [Kerry] here from Macquarie. Just a couple of follow on questions from Dale regarding debottlenecking. Just wondering how much has been spent this year on debottlenecking, just given it seems like an increase in flow and also just given the performance of the pipe to date.

Peter Botten: Paul, would you like to pick that up?

Paul Cholakos: Thanks. Look, initially debottlenecking will come from basically running the plant a little bit harder and squeezing more through it. Any significant spend would be tied in with plant shutdowns and there's not a plant shutdown planned for several years. So this is really just around the operator learning the facility and how much you can squeeze through the facility and the opportunities to optimise while it's still online. There hasn't been major spend.

Kerry: (Macquarie, Analyst) Okay. So a question again regarding the P'nyang resource. The MoU stipulated an FID on a new train by end of 2017. Just wondering how you tie that in with using that gas resource for debottlenecking, whether it's just an early opportunity and ahead of an expansion train or whether the government is on board with that.

Paul Cholakos: Well, I think obviously in present circumstances ways of increasing a revenue stream are supported by all partners including the state. Clearly the 1P resource at P'nyang can be used to continue LNG and back LNG expansion if that's the way we go. Obviously drilling on P'nyang which is hopefully planned for year end and through 2016 will also enhance the 1P resource. But really, I suppose, we're looking at this as a combination of resource and optimising where the resource can come from to underwrite, not just expansion - not just debottlenecking but also expansion. A lot of those questions to optimise where the resource comes from will be answered through the drilling program going on right now.

Kerry: (Macquarie, Analyst) Okay. Last question regarding Antelope appraisal. It seems like the Antelope 4 and 5 wells will give you sufficient confidence around the size of the resource to a large extent and that there would be this propensity to move into early design work ahead of getting any sort of independent resource certification. Is that the current thinking? You don't really need the Antelope 6 well to move forward with early design?

Paul Cholakos: Ian, would you like to comment on that?

Ian Munro: Yes, certainly. I think I mentioned during the presentation it's still early days, we're obviously encouraged by the well results coming in provisionally a little high to our prognosis. We do, as a joint venture, see the Antelope 6 well as being required to, as Peter said, to define the tank. I think it's important we don't look to charge ahead through a concept select decision until we've properly defined the resource. Antelope 6 will spud on the back of Antelope 4 and 5. So it's not too long before we'll get those well results.

The operator or the joint venture is looking at a number of concepts. Peter talked about combining synergies with PNG LNG, also a greenfield project. So I think we're well positioned when we actually get the well results to select whichever path is most efficient and drives the most value for the joint venture.

Peter Botten: Any other questions from the floor? I can hear you, I'm sure the microphone will turn on when you do. I'm going to pass that one to Ian.

Ian Munro: Thanks Peter. Yes, clearly there has been one or two issues on the rig out there. Clearly the joint venture is looking to help the operator where we actually can. Clearly Oil Search has a lot of drilling experience in PNG so we are helping the operator in that space. So it is very much a collaborative approach. We clearly won't drill ahead as a joint venture unless we think the rig is safe and can safely drill through the reservoir. The operator has been undertaking remedial work which seems to be heading in the right direction. So I think expectation through the joint venture and also through government channels is we'll be back to drilling very shortly on Antelope 4.

Male: Good morning Peter - afternoon Peter and the rest of the team. Look, just on the back of Mark's question and Kerry, I just want to understand do you need Antelope 6 for resource certification because PRL15 expires, I think, in early or late November. So is there some sort of hesitation to commit to Antelope 6 based on rig availability or what's going on with the drilling at the moment. Then secondly, talking about cost out in the business, one of the guys that's operating up in PNG's [unclear] [gold plate] a lot of the seismic acquisition up there, so just on 269 are you happy to be sort of driving some of that cost out in the Highland licences. Maybe if you could just provide whether some of that is coming from your contractors in helicopters or wherever the services might be coming from.

Peter Botten: I'll kick the first question to Ian who can answer the question on Antelope 6 and perhaps I can probably answer the second piece myself.

Ian Munro: It's a very timely question. I mean our technical team are over working with Total and InterOil yesterday and today on firming up the location for Antelope 6. Initial results from those technical meetings seem to the joint venture is fully aligned on wanting to see an Antelope 6 and wanting to see if go down within the next few months. So I think that alignment is good and we'll get straight after it. We have the rigs as a joint venture to spud back to back. Most probably the same with Antelope Deep or what I think will now be termed Antelope South, will also be spudded around mid-year.

Your question around the licence expiry - the retention licence is up for renewal in November this year. I think we're confident, given the commitment the joint venture has made to completing the appraisal program and pursuing concept select studies and development studies, that that will be a negotiation or discussion with government that will end up with the right outcome. But it's certainly not the licence expiry in November - we're not facing the same situation that we were with P'nyang going forward, we have another year term after that although we clearly don't think we'll need that timeline.

Male: So we could expect resource certification [unclear]?

Ian Munro: Much of it depends on how quickly we can get Antelope 6 down to log, possibly test and as a joint venture incorporate those results. I think what I mentioned earlier was towards the end of this year. Oil Search is actually contractually bound to the [pack sellers] to undertake a certification as well to determine whether there are any upside payments. So we see that occurring towards year end.

Peter Botten: Perhaps Julian, you might be able to talk about the seismic cost and how certain operators can adjust or not adjust their cost bases.

Julian Fowles: Yeah, sure. Look, our business based in PPL 269 is 10%. So it's a relatively minor part of our seismic spend overall and yet it's an important area for us because it will be acquiring 185 - or is it acquiring 185 kilometres of 2D in a very critical area we believe. But, with a 10% holding in that the overall cost to our search of course is relatively low. Having said that, we've got, of course, vast experience in that area, we've got quite a lot of seismic around P'nyang and to the east of P'nyang as well. So we've been working with the operator to certainly bring in some of the efficiency steps that we've been able to bring in through the years. It's a cooperative joint venture so we've had quite some success with that. It is an expensive area to acquire seismic full stop. I mean regardless of what operator is up there it's always going to be an expensive area to acquire seismic.

Male: Thank you. If I could just indulge in one more question just on the MoU with P'nyang. I've read that a couple of times and maybe I'm just not understanding it. Can you get molecules from anywhere else in the portfolio to supply that MoU, does it have to be coming from P'nyang?

Ian Munro: I can take that. The intention, as Peter said, is to include P'nyang in the overall foundation project resource base so that we have the flexibility to essentially use resources from that base, whether it's debottlenecking or whether it's actually expansion. So the focus clearly is on bringing P'nyang in and using those molecules to underpin those initial sales through debottlenecking and also domestic gas priorities while the operator and the joint venture takes a look at Hides development, joining results, which are encouraging and of course, the production history when we get through sort of 2015.

Male: There's nothing stopping from, you know, maybe 269 molecules getting into that MoU?

Ian Munro: Look, I think it would make sense for all parties if there are molecules that are found up in the Highlands the natural home for that gas will be to come through the P'nyang trunk line. I think when Julian and myself have talked earlier, you know, we see quite a pipeline of exploration prospects that can continue to provide high quality backfill for a number of years.

Male: Thanks Peter, Ian, Julian.

Peter Botten: If there are no more questions from the floor are there any questions on the phone lines?

Operator: Ladies and gentlemen, at this time if you'd like to ask a question please press star one and wait for your name to be announced. The first question comes from the line of Mark Samter from Credit Suisse, please go ahead.

Mark Samter: (Credit Suisse, Analyst) Yeah, morning guys. [Unclear] questions if we can. First of all the targeted FID dates for Elk/Antelope Train 3 both at the moment are targeting 2017, I guess there'll be some cynics that say a country with a reasonably finite labour pool you probably don't want to be FID in two projects simultaneously. I mean (a) do you agree with that question and (b) if so what do you think the optimal gap is and thirdly on that, which project goes first if one goes before the other?

Peter Botten: I think there's no doubt that we've already had discussions around how these things may work together. There is also no doubt, as you quite rightly point out, that there is a relatively limited support structure present in the PNG government for various bits and pieces. I suppose the positive out of that is that both ourselves and the PNG government are the only joint venture partners that will represent well, significant - almost 40% of the joint venture will be owned by the PNG. We will certainly be looking at ways to avoid the pitfalls of two projects moving forward exactly at the same time without combination and coordination. I suppose that's certainly part of our ongoing discussions with the state and our joint venture partners. Ian, I don't know whether you want to add anything to that?

Ian Munro: Well, perhaps briefly Peter, just to remind the audience that much of the infrastructure to accommodate an expansion train is actually in place. So the pipeline down to Port Moresby is in place, the trunk line and also the common facilities; the jetty, the storage tanks et cetera, PNG LNG. So we're not talking - even if the projects broadly go their separate ways and we're not certain where that will be yet - but we're not duplicating infrastructure. The PNG expansion is essentially an upstream development of P'nyang and it's a new train down at the site of the existing project.

Mark Samter: (Credit Suisse, Analyst) Just one follow up question as well if I can. It seems like Kurdistan reads like it's been slightly de-prioritised, is that a fair assumption? I guess also is it still core in the portfolio, I mean particularly if it's slips it might be heading into being developed in similar timelines to Elk/Antelope and Train 3 and would you want to take on three reasonable sized projects at the same time?

Peter Botten: I'll let Julian talk about the emphasis and importance of Kurdistan. But I should say, you know, we've always said that Kurdistan is about understanding what the resource size is first and making a decision once we understand that as to what we do with it. So, we're presently working flat out for the delivery of Taza 2, Taza 3. We've got Taza 4 to come. At the end of that I think we'll have a pretty good idea about the resource base and be able to make an informed decision about its future. But, Julian, you might talk about the emphasis.

Julian Fowles: Yeah, thanks Peter. Peter is dead right, the emphasis on Taza is certainly around the resource side and, of course, it's the resource side that will determine the size and shape and the timing of any development that goes forward there. In that context we would be looking in a case at a phase type of development.

But I think the important thing to remember there in terms of the level of importance for Oil Search - our focus really is on the PNG opportunities, the gas opportunities in PNG. However, Taza is also critically important for us because it also represents an operating environment, right, so Oil Search is the operator in Taza, we're the operator in Kurdistan in that block. That brings with it, of course, some specific skills and capabilities and a great training ground for our operatorship as well. So it is an important area for us and it's an area that we are, in parallel with PNG, focused on. The other thing to remember about it is Taza and Kurdistan is an oil play and it's an area where we can, if you like, offset a gas risk in PNG with an oil risk in the Middle East.

Mark Samter: (Credit Suisse, Analyst) Maybe just one last question if I can. Obviously focused on the moment of cutting costs and rationalise everything, but as we roll forward over the next couple of years even in a low oil price you guys do leverage pretty quickly and opportunities are going to open up from people who may not be in quite such fortunate positions. Are you proactive at this stage looking at what areas you think could become more interesting on an M&A perspective?

Peter Botten: Absolutely. I think this is an opportunity that we can't ignore, to recalibrate, refashion our portfolio based on a measured approach. So certainly usually the cycles in the oil and gas space allow people with good balance sheets and cash flows to recalibrate. I'm sure that's what ExxonMobil will be doing. Whether they're doing that in PNG or not I'm not sure. But at the end of the day we have that opportunity and we'll continue to look for areas where we believe there are strategic synergies to our core business.

Mark Samter: (Credit Suisse, Analyst) [Unclear] anything additional, would there be an oil leaning towards it, if you add more to the portfolio or indifferent and it's just about the quality of the asset?

Peter Botten: I think genuinely based on our acquisition, history of acquisitions, it's really very much around a predictable strategy and quality of assets. So certainly we do like to balance oil with LNG but at the end of the day our PNG portfolio is dominated by LNG and we think there's a lot of running room up there. So clearly focus on the asset and its synergies with our existing strategy of the core to where we're going.

Mark Samter: (Credit Suisse, Analyst) Okay, brilliant. Thanks guys.

Peter Botten: Any more questions from the telephones?

Operator: Yes, your next question comes from the line of John Hirjee of Deutsche Bank, please go ahead.

John Hirjee: (Deutsche Bank, Analyst) Thank you. Good afternoon everyone. A couple of questions if I may. Firstly, I'm hoping the Chairman is still in the room. In the context of the special dividend I'm just curious as to why a portion of it was declared special on the basis that you have a payout ratio policy, so if earnings drop so do your dividends. So I just wanted to understand the thinking behind declaring part of the final dividend as special.

Rick Lee: Thank you very much. Rick Lee here. The thinking was really reflecting what was a year of transition, that we had clearly limits on our dividend in the first half of the year prior to the full commissioning of the LNG project. We wanted to keep an eye on the ongoing capacity of the Company to pay out and we felt that, in looking at the use of funds in the next year of two, we could comfortably lift that dividend through the special to ensure that shareholders were rewarded for their patience in relation to PNG. It remained within the 35% to 50% band and we will be looking on a go forward basis at our 35% to 50% of core NPAT. So the special was more related to the fact that we were transitioning from effectively one regime to another and didn't want to get that locked into the ordinary dividend.

But, we will be looking at that every year as we've said and a lot will depend obviously on the performance of our existing assets, the growth potential and the demands that project development and growth has and how attractive they are. So it's very much something that remain on our agenda.

John Hirjee: (Deutsche Bank, Analyst) Thanks Rick. But, I guess a follow question to that would be that if you have LNG expansions, which the Company is currently talking about, that would imply that if those expansions are brought online that a special could be expected around that time as well? Is that a fair extrapolation?

Rick Lee: It's a little bit early on terms of LNG expansions to know what the CapEx requirements, what our equity contributions will be and what the financing capacity are. So I think we'll just have to take that one as we see it going forward. I mean it's pretty early days to start planning on what might happen at commissioning of future trains. But, I think we are pretty confident rolling forward, even in today's environment, that our dividend policy can be sustained and that our operations can generate the kind of free cash that can both manage our ongoing commitment to growth but also our ongoing committeemen to rewarding shareholders.

John Hirjee: (Deutsche Bank, Analyst) Okay, thank you. My next question relates to the reserves and resource bookings that you made for last year. I just wanted to find out in terms of PRL 15, there didn't appear to be any liquids booked at this point. If you can just clarify that and where the positional liquids are in PRL 15.

Peter Botten: I'm just going to kick that over to either Paul or Ian to answer that one.

John Hirjee: (Deutsche Bank, Analyst) Thank you.

Paul Cholakos: Sorry, I'm just trying to get the data in front of me. If you want to move on and we'll just take this on notice and we'll…

Peter Botten: We'll come back to that one. Anything else from you John?

John Hirjee: (Deutsche Bank, Analyst) No, thanks very much Peter.

Peter Botten: Any potential [unclear] in the overall review. Any other questions from the telephone?

Operator: Certainly. The next question is from the line of Nik Burns from UBS, please go ahead.

Nik Burns: (UBS, Analyst) Yes, hi. Just two questions from me. The first one relates to - just wanting an update on the timing for Hides reserves. You've finished drilling all the production wells, the PWD well is complete. I'm just wondering if there's an update due in the next quarter or are you holding off for the Hides Deep results. Just also while we're on that subject, I think a couple of years ago there was some talk about upside and the associated gas fields, I'm just wondering if that upside has already been captured in the PNG LNG reserves or is there some further upside to come through there?

Peter Botten: I'll let Ian answer that one.

Ian Munro: Okay. Look, on the Hides question, as I mentioned, the well results were good. We proved up a high quality reservoir in excellent pressure communication. The production history, to date, as Paul mentioned, we're operating above nameplate. I think it is prudent as a joint venture to allow ourselves sufficient time to get that production history as we move through 2015. So I think we'll reflect as a joint venture through 2015 and make a determination as we move into 2016 when, and if, to re-certify what really is an excellent field. It's the engine room for our LNG contracts.

Male: The gas resources in our oil fields.

Peter Botten: The question was around do we still see upside and have we booked reserves in the gas areas of our oilfields.

Paul Cholakos: We certainly do still see upside in the gas resource in the oilfield but in terms of booking that - any revision to our gas resources would be coordinated with a PNG LNG revision of resources. Back onto John's question, sorry John, I was just trying to get the data in front of me. The booking for Elk/Antelope is a raw gas figure so it's rich gas.

Nik Burns: (UBS, Analyst) Just on a second question from me if that's all right - once we get, I guess, a better understanding on the gas resources to underpin a third train the focus will move onto securing LNG buyers. There's been a lot of talk recently that there's a reluctance amongst LNG buyers to commit to long term off take agreements. Just wondering have you engaged with any LNG buyers to date, is that your experience and how do you plan to manage that? Are you willing to settle for maybe shorter term or shorter duration contracts in order to get Train 3 away?

Ian Munro: I think it's early days at the moment to see where the ramifications in the LNG market based on the dip in the oil price. I think what is clear if we stay in this oil price environment for the next two or three years is that there will be a deferral, a significant deferral or shelving of LNG projects, whether that's Australia, East Africa or US or Canada. So I think we are well placed to meet the demands, certainly in the Asian market. Of course, in terms of financing these type of projects Oil Search, and I imagine our joint venture partners, will look, as we always have done, to long term contracts that can underpin the significant investments that will be involved in two or possibly three LNG trains. So it's still early days and we will look to actively market within the joint ventures when we get greater certainty on the concepts.

Nik Burns: (UBS, Analyst) Great, thank you.

Peter Botten: I should also say that the challenges to do this are different between an expansion project and a greenfield project so your ability obviously and desire for both competitive financing and backing by contracts - it's slightly different if you're doing a third train for a PNG LNG versus a greenfield's development for Elk/Antelope. But as Ian says somewhat premature, the market clearly is in some form of flux as the oil price rolls through but I think the bottom line is if you look at the break even points of many projects around the world PNG LNG and Elk/Antelope will be and remain in the top quartile of those projects and be highly competitive for any LNG off take. We believe that to be the case but we're a little way away from serious marketing.

Nik Burns: (UBS, Analyst) Thanks.

Peter Botten: There must be another broker that hasn't asked a question. Another question from the telephone?

Operator: Certainly. The next question is from the line of Stuart Baker from Morgan Stanley, please go ahead.

Stuart Baker: (Morgan Stanley, Analyst) It seems the telephone lines down in Melbourne always seem to be the slowest on the planet. Anyway, thanks gentlemen. Most of my questions have been answered so pretty much a minor one to finish up. Just the Mananda development, the Mananda Project, I don't see any evidence of that moving forward. It's fair to say that that's just been parked and not going forward under the current oil price environment?

Peter Botten: I think that's a fair call. There is a - obviously marginal developments has a reasonable high CapEx and you really don't want to be hurrying those into development. There's still upside at Mananda and we'll take a measured approach on reviewing that upside. But at present clearly a better oil price regime and better capital regime is needed to optimise any potential development in that area.

Stuart Baker: (Morgan Stanley, Analyst) Okay, thanks very much.

Peter Botten: You should like in Gidgegannup and be worried about phone linking - if you know where Gidgegannup is. I just do. Anybody else, one more to come?

Operator: The last question is from the line of William Morgan from Intrinsic Investment Management. Please ask your question.

William Morgan: (Intrinsic Investment Management, Analyst) Peter, I appreciate you want to leave the arbitration decision alone and move on. However, one obviously couldn't fault the judgement of the Board, the judgement of your general council or the judgement of your advisors, on prosecuting this case. So giving the loss what does it mean for your choice of arbitration and structure of joint venture agreements going forward?

Peter Botten: Well I think first of all the judgement - I mean, you know, the arguments that we put forward we believe were very sound and certainly one of the three judges thought that was the case. Another two judges, for various reasons, didn't quite give us the pre-emptive rights but also highlighted the fact that Total had not completed the transfer properly and actually still didn't have interest in the licences. Our view is that you could continue to fight the battle or you can move on with what we think to be better outcomes. We don’t want to be sitting in the courts for 12 plus months delaying potential investment. We don’t think that's in the shareholders' bests interests, having got the initial result from the arbitration process. It's a reality but I think it's a sensible decision to move on.

Subsequent to that we've had a number of constructive discussions about how the joint venture can come together and how we can work together. Those discussions are ongoing. But, it's done in the framework of, I think, good cooperation and an understanding of our respective sensitivities. But I do believe it's in our best interest to get that right and get the development underway. We're still a number of months away from understanding the resource base but at the end of the day engaging in further legal issues would have been a protracted fight which I think would have affected eventually the project timetable.

William Morgan: (Intrinsic Investment Management, Analyst) Thank you.

Peter Botten: Another question on the phone?

Operator: The last question is from the line of Trent Hamilton from Hammo Capital, please go ahead.

Trent Hamilton: (Hammo Capital, Analyst) Thank you. Just a question on the special dividend, is that something that the Board will consider yearly going forward or half-yearly? Thank you.

Peter Botten: Well, look the Board considers dividends on a half-yearly basis and obviously, as our Chairman has said, we'll consider on each occasion the appropriate level of dividend, both core dividend and, if necessary, a special dividend. We have signalled that under reasonably, conceivable circumstances we'll continue to be able to support the payout ratio that we've highlighted between 35% and 50%. Obviously things can happen, positive and negative. But, at the end of the day, we believe our business is robust and can support continued dividend payments of that style and that sort over the next five to seven years as we move through development of two more LNG trains.

Trent Hamilton: (Hammo Capital, Analyst) Great, thank you.

Peter Botten: Okay, well ladies and gentlemen thank you very much for your time and attendance physically or virtually. Obviously we're available through the afternoon, in fact any day, to answer further questions. But thank you very much for your support and thank you very much for attending today.

End of Transcript