

# ABSOLUTE **TRANSPARENCY**

Transparency Report 2020

## Overview

# TRANSPARENCY REPORT

*Oil Search supports, advocates for and is committed to transparency in how the benefits from oil and gas activities are shared with governments and communities and believes it is an essential part of responsible resource development.*

We recognise that payments to governments are important for regulatory stability and socio-economic progress. By voluntarily disclosing our payments and contributions, we aim to build an understanding of the economic benefits generated by our activities, and how this supports economic and social development in the jurisdictions in which we operate.

Our commitment to transparency is underpinned by the principles of our Code of Conduct, our United Nations Global Compact (UNGC) membership and our support for Extractive Industries Transparency Initiative (EITI) implementation in Papua New Guinea (PNG). We have been an EITI Supporting Company since 2013 and are an active participant in PNG's EITI Multi-Stakeholder Group (MSG).

Our contributions support economic growth and stability in countries where we operate, and include employing and training local staff, using and helping to develop local suppliers, and paying taxes, levies and royalties. We are committed to sustainable development and playing an active role in improving the lives of citizens and communities through initiatives across health care, infrastructure and education. Our renewed Sustainability Model defines our ambitions to be a Net Zero energy company by 2050, including reducing our GHG intensity by more than 30% across operated assets by 2030. We have a plan that focuses on low cost, low greenhouse gas emission intensity growth projects that are aligned with the objectives of the Paris Agreement and contribute to the global energy transition; to undertake near term carbon abatement and emission reduction programs within our existing operated assets; and a comprehensive Energy Transition review in 2021.

The Oil Search 2020 Transparency Report brings together information on all our payments to governments, our socio-economic contributions to our people, suppliers, shareholders and local communities, as well as our approach to tax transparency. It covers countries where we had substantive activities during 2020. See the [2020 Basis of Preparation](#) for more information on the data presented.

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## 2020 SUSTAINABILITY REPORTS

*Sustainability  
Report*

*Climate Resilience  
Addendum*

*Transparency  
Report*

*Basis of  
Preparation*

*Voluntary Principles  
Report*

Enquiries and feedback on this reporting and performance are welcome.  
Please contact the Oil Search Sustainability team on:

[sustainability@oilsearch.com](mailto:sustainability@oilsearch.com)

## Message from Oil Search's Chief Financial Officer



*“Oil Search’s contributions enable governments to provide critical services and infrastructure, and to invest in the sustainable development and future prosperity of their countries and communities.”*

*At Oil Search, we have had a longstanding commitment to transparency as it is an essential part of good corporate governance. It strengthens stakeholder relationships by building trust and understanding, and holds us and other industry stakeholders to account.*

We have disclosed information on our payments to government for the last 11 years and have continually sought ways to improve our disclosures through consultation with governments and independent auditors. We publish data by country, including a detailed breakdown of our socio-economic contribution in PNG and North America. We have also disclosed information about our tax strategy, including the role of subsidiaries, transfer pricing and our use of tax concessions and credits.

In 2020, our tax, royalty and other payments to governments in PNG, North America and Australia totalled US\$114 million. Of this, 53% or US\$60 million, was paid in PNG. Our effective tax rate in 2020 on core profits before abnormal items was 30.3%, compared to 30.4% in 2019 and remains comparable to a corporate tax rate of 30%. Our 2020 final effective tax rate was adjusted to 12.3% as a result of the tax effect of one-off exceptional items related to impairments and provisions.

Oil Search’s contributions enable governments to provide critical services and infrastructure, and to invest in the sustainable development and future prosperity of their countries and communities.

In addition, our investment creates local employment, supplier and contractor opportunities, and returns for investors. In 2020, our socio-economic contribution in PNG and the USA was US\$895 million, with our USA contribution almost twice that of 2019 as we continue to invest in the region as our projects develop. This includes US\$25 million directed at community investment through contributions to the Oil Search Foundation and other initiatives within local communities.

We are continually seeking to improve our reporting and welcome feedback on this report [sustainability@oilsearch.com](mailto:sustainability@oilsearch.com).

**Peter Fredricson**  
Chief Financial Officer



## Total paid to governments

Payments to governments (US\$ Million)	2020
Papua New Guinea	60
United States of America	23
Australia	30
<b>Total payments to governments</b>	<b>113</b>

## Total socio-economic contribution

Socio-economic contribution in PNG and the USA (US\$ Million)	2020
Total paid to governments	84
Total paid to suppliers and contractors	672
Total community investment	25
Total paid to shareholders	1
Total paid to employees	113
<b>Total socio-economic contribution</b>	<b>895</b>

## Socio-economic Contribution

*The long-term nature of our operations enables Oil Search to generate value – both financial and social – in the communities in which we operate. By providing employment, supporting local businesses, investing in communities and making tax payments to governments, we aim to align with the interests of our host communities and their governments and have them share in our success.*

### Papua New Guinea

Since being established in 1929, Oil Search has grown into PNG's largest single investor in oil and one of their most significant in gas. We operate all PNG's producing oil fields and have interests in PNG LNG (operated by ExxonMobil PNG Limited) and several major undeveloped gas fields in PNG.

#### Payments to PNG Government

Extractive industries make a major contribution to the PNG economy. The PNG Government earns revenue through taxes, royalties and levies raised from resource development.

The three main types of taxes and fees levied by the PNG Government are mining and petroleum tax (corporate income tax), royalties and levies and other taxes, fees and charges.

The Internal Revenue Commission is the main body responsible for collecting taxes. From an oil and gas perspective, this process is governed by the Income Tax Act (1959). In recent years, payments to the PNG Government have decreased in alignment with revenue which has been driven primarily by falling oil prices and COVID-19 related cost increases.

Payments to PNG Government (US\$'000)	2020	2019	2018
Royalties	4,746	6,102	5,885
Development levies	269	695	2,222
Tax on director fees	590	791	636
Petroleum tax <sup>1</sup>	—	—	22,121
Additional profits tax <sup>2</sup>	—	16,800	NA
Salary and wages tax	29,258	27,132	27,911
Other government taxes	6,426	8,496	14,730
Payments to PNG Police <sup>3</sup>	1,517	1,163	1,357
Other government fees and charges	815	713	540
Pre-payment of tax under ITCS	7,004	4,864	39,311
Interest withholding tax <sup>4</sup>	1,751	859	NA
Goods and Services tax	8,077	1,058	NA
<b>Total paid to PNG government</b>	<b>60,453</b>	<b>68,672</b>	<b>114,714</b>

#### Socio-economic contribution to PNG

Oil Search pays millions of dollars each year in royalties, taxes, levies and other fees and charges to the PNG Government. While these payments make up a significant portion of our contribution to the economy, Oil Search also makes significant broader socio-economic contributions. These include providing employment, training, education and development opportunities for local citizens and contractors, procuring goods and services from local suppliers, and delivering a positive impact from our operations on communities through targeted community investment. In PNG, 77% of leadership roles at Oil Search are held by PNG citizens.

By playing a vital role in the economic and social development of PNG, our community investment programs help to maintain operating stability while supporting local communities. For more information on our socio-economic contribution to PNG, see our [2020 Sustainability Report](#).

1. Petroleum taxes and Additional Profits taxes were impacted by challenging trading conditions in 2020 related to challenging COVID-19 logistics and falls in averaged realised oil and gas prices.
2. Income tax and Additional Profits tax required to be reported separately from 2019.
3. Includes payments made to the Royal PNG Constabulary (RPNGC) in line with the Police Act 1998, the Public Services (Management) Act 2014 and the PNG National Government Public Service General Orders. Payment is in the form of per diem allowances, made with the full consent and approval of the RPNGC.
4. Interest Withholding Tax and Goods and Services tax reported separately from 2019 onwards. Included previously in Other Government taxes.

# Socio-economic Contribution

*Continued*

Socio-economic contribution in PNG (US\$ '000)	2020	2019	2018
Total paid to PNG Government	60,453	68,672	114,714
Total paid to suppliers and contractors	288,136	258,413	247,703
Total community investment	24,888	35,266	65,838
Total paid to shareholders	783	2,148	1,083
Total paid to PNG based employees <sup>1</sup>	81,154	36,844	21,473
<b>Total socio-economic contribution to PNG</b>	<b>455,414</b>	<b>401,342</b>	<b>450,810</b>

## Supporting the distribution of benefits

Distribution of revenues from the oil and gas industry in PNG is governed by the Oil and Gas Act. If this distribution does not meet community and national expectations, it can threaten the stability of our operating environment.

For this reason, we continued to actively support and encourage the PNG Government to meet its distribution obligations during 2020.

The Landowner Benefits Identification (LOBID) process is a highly complex verification exercise conducted by the PNG Government that is integral to understanding and determining the allocation and value of benefits to be distributed from the PNG LNG Project. Following completion of the LOBID process across most licence areas in 2018, the PNG LNG Project partners worked closely with the PNG Government in 2019 to focus on completing LOBID for two outstanding areas — Petroleum Development Licence (PDL) 1 and PDL 7.

Ministerial determinations for both licences were gazetted in March 2019 and good progress has been made with a focus on election of Directors and Chairpersons who will represent the identified landowner groups in assisting with the distribution process.

LOBID for the outstanding licence areas is expected to be finalised in the near term.

## Beneficial ownership

Extractive companies play a critical role in commercialising a country's natural resources into revenue streams that contribute to national development.

In December 2016, the PNG EITI published a [roadmap](#) highlighting the need to include beneficial ownership disclosure in PNG's national priorities. The roadmap includes activities aimed at disclosing the real owners of landowner companies who represent certain geographic areas within an extractive project. It also includes plans to embed disclosure requirements in existing legislation and licence application processes. Mitigating the risks of financial misconduct and improving PNG's investment climate are among the identified objectives.

Oil Search Limited is a public listed company in PNG and, consequently, exempt from beneficial ownership reporting. However, we support this initiative as it makes a positive contribution to transparency and accountability in a manner that is consistent with EITI objectives. We believe the disclosure of beneficial ownership is an important element in making sure assets and income are fully disclosed to relevant regulatory bodies, including revenue authorities, to promote compliance with taxation laws.

## Alaska, United States of America

In Alaska, Oil Search is the second largest holder of oil and gas leases. The Company is in the process of constructing a three-drill-site greenfield oil development - the Pikka Unit project. This is one of the largest conventional, onshore oil fields discovered in the USA in the last few decades.

## Payments to governments in the USA

As Oil Search's Alaskan operations are currently in the exploration and early development phase, the most significant taxes paid by Oil Search relate to US Federal employment taxes and Alaskan Property Taxes and access fees. Production Tax and Royalties will become more significant once operations shift to production.

1. Payments to employees include citizens and non-citizens from 2020.

# Socio-economic contribution

## Continued

Payments to governments in the USA (US\$'000)	2020	2019	2018
State of Alaska	1,047	521	323
State of California	1	1	—
State of Colorado	—	0.02	0.46
City of Nuiqsut	3	11	5
North Slope Borough	355	445	4
Native Village of Nuiqsut	4	—	4
Municipality of Anchorage	—	4	—
Kenai Peninsula Borough	10	10	—
Government landowners	10,751	6,825	3,896
Payroll Tax	11,161	7,438	2,273
<b>Total paid to governments in the USA<sup>1</sup></b>	<b>23,332</b>	<b>15,255</b>	<b>6,505</b>

### Socio-economic contribution in the USA

Our socio-economic contribution in Alaska and the USA, including our support for local businesses and community investment, reflects the exploration and early development phase of Oil Search's operations. Locally specific programs are in development and reporting metrics have been established that align with Oil Search's sustainable development and transparency principles. In 2020, payments to suppliers and contractors have increased significantly with the increase in activity on the North Slope such as winter drilling and civil projects, and the addition of a boat ramp and parking area to the planned project infrastructure to give community members closer access to the year-round gravel road network.

Socio-economic contribution in the USA (US\$'000)	2020	2019	2018
Total paid to Governments in the USA	23,332	15,255	6,505
Total paid to suppliers and contractors	384,167	182,934	49,029
Total community investment	182	277	97
Total paid to US based employees	31,806	28,517	13,626
<b>Total socio-economic contribution in the USA</b>	<b>439,487</b>	<b>226,983</b>	<b>69,257</b>

### Other countries

#### Australia

Oil Search has no extractive-based operations in Australia. Our presence is in the form of a Corporate office.

The Australian Government has been a supporter of the EITI since 2006. The Australian Taxation Office (ATO) is a non-corporate Commonwealth entity that governs and administers the Australian Tax Law and has an added focus on tax governance and transparency. The ATO also administers the Tax Transparency Code. The Oil Search Group prepares and files country-by-country tax reporting information in accordance with Organisation for Economic Co-operation and Development (OECD) Action Item 13, as enacted in Australia and PNG.

#### Japan

Oil Search has no extractive-based operations in Japan. Our presence is in the form of a small representative and administrative office which opened in 2019 with 3 staff.

#### Kurdistan Region of Iraq

We relinquished our interest in the Taza licence in 2016 and are continuing to work with the Kurdistan Regional Government to finalise a termination agreement.

Payments to other country governments (US\$'000)	Year	Australia	Kurdistan
Total paid to governments	2020	30,455	—
	2019	30,357	—
	2018	32,046	2

1. A minor restatement has been made to the overall 2018 Payments to Government USA figure to reflect refinements to the reporting approach made in 2019.

# Tax strategy

*As a responsible operator, the Oil Search Group<sup>1</sup> complies with the tax laws that govern its operations and commercial dealings and seeks to comply with statutory obligations and disclosure requirements.*

## Tax governance

Oil Search's internal tax compliance procedures support our business in implementing our tax management approach and meeting our tax obligations. The Board Audit and Financial Risk Committee (AFRC) is responsible for overseeing tax management and has endorsed the tax strategy. The Group's Chief Financial Officer holds direct responsibility for tax management and communicates with and advises the AFRC on tax affairs and risks with support from our corporate tax team. The Group Head of Tax is responsible for implementing our approach to tax.

Our tax risk management approach includes the following core principles:

- Align tax strategy with Oil Search's core values, including building mutually beneficial relationships based on openness and trust.
- Comply on a full and timely basis with statutory obligations and disclosure requirements.
- Comply with both the letter and the intent of the tax laws that govern our commercial dealings.
- Align Group structure and related party dealings with genuine commercial substance, risk allocations and value creation within Oil Search's supply chains.
- Foster high-quality engagement with regulators and other stakeholders.
- Support timely decision-making and dispute resolution.

## Effective tax rate and income tax

Oil Search's effective tax rate is disclosed in our Annual Report along with our income tax expense for the year. Our Annual Report is prepared in accordance with International Financial Accounting Standards and is independently audited.

Our effective tax rate in 2020 was 30.3% on core profit compared to 30.4% in 2019. Our income tax benefit for the year ended 31 December 2020 was US\$44.9 million tax benefit which resulted in an effective tax rate of 12.3%. This exceptional effective tax rate arose as a result of one-off abnormal items related to impairments and provisions which reduced the income tax benefit on core profits from US\$110.8 million to US\$44.9 million income tax benefit after exceptional items.

The balances of deferred tax assets and deferred tax liabilities at 31 December 2020 were US\$1,071 million and US\$1,399 million respectively.

## Addressing other taxation elements

### Subsidiaries

The Oil Search Group structure includes seven subsidiaries incorporated in the British Virgin Islands, six of which were incorporated to hold exploration interests in the Middle East and North Africa. This structure provides stability and flexibility in relation to potential future divestment or equity-raising in relation to each jurisdiction and has minimal effect on our tax obligations in all relevant jurisdictions. Any income from these activities is subject to tax in accordance with the tax laws of the jurisdiction where the exploration licences are located. The Group currently has minimal exploration activities in the Middle East and North Africa and the existence of these subsidiaries therefore has a negligible effect on our overall tax position.

The seventh subsidiary is an in-house finance company in the British Virgin Islands with no material profits.

The Oil Search Group also maintains a dormant exploration subsidiary in the Cayman Islands.

### Uncertainty in tax laws

The amount of tax we pay in each jurisdiction is determined by its laws, as enacted by the relevant governments. We are obliged to report on and pay tax in accordance with these laws.

Where there is a degree of uncertainty in relation to the application of a tax law, Oil Search applies a 'more likely than not' principle to determine the intended operation of the tax law and its application to the Oil Search Group. In doing so, we consider technical legal interpretive issues, established administrative guidance and precedents, all relevant facts, reasonable and generally accepted valuations methodologies and independent advice (where relevant).

### Tax concessions

The Oil Search Group does not receive any unique tax concessions. All tax liabilities are calculated in accordance with relevant legislative requirements. Some jurisdictions include provisions such as accelerated depreciation for capital equipment used in oil and gas production and/or fiscal stability. These provisions may be generalised or may relate to specific projects. They are common in jurisdictions that seek to attract investment in large-scale, long-life oil and gas projects and each government determines its preferred tax settings based on its policy objectives.

1. The Oil Search Group operates in PNG and North America, with corporate and administrative offices in Australia, Asia, Abu Dhabi and Japan.

# Tax strategy

## *Continued*

### Tax credits

Oil Search contributes to the socio-economic development of PNG by supporting critical infrastructure development through the PNG Government's Infrastructure Tax Credit Scheme (ITCS). ITCS payments are voluntary pre-payments of income tax that contribute to the delivery of infrastructure projects selected by the PNG Government. The PNG Government pays no interest and the tax credits remain outstanding until we offset them against future income tax liabilities. Limits apply to the value of tax credits that can be claimed as a tax offset in an income year and unused tax credits can expire after 20 years.

### Transfer pricing

Pricing of international related party dealings is determined through the application of the principles of the Organisation for Economic Co-operation and Development (OECD), as enacted, in each of Oil Search's operating and/or investment jurisdictions. Our transfer pricing approach and outcomes are documented and disclosed to regulators in accordance with country-by-country tax reporting rules enacted in PNG and Australia.

### Engagement and disclosure

We maintain a transparent and constructive dialogue with governments and tax authorities regarding our tax approach in jurisdictions where Oil Search operates. As part of our commitment to sustainability, we strive to maintain positive relationships and seek to identify and, where possible, resolve any uncertainty. This supports our efforts to enhance tax system effectiveness, such as through direct engagement on tax reform and the commitments associated with being an EITI Supporting Company.

We voluntarily publish information on our payments to governments on a country-by-country basis in our [Sustainability and Transparency Reports](#), and [Data Centre](#) on the Oil Search website. Being open about these payments is in the best interests of our shareholders, employees, host communities and other stakeholders. Transparency allows for an informed debate on the integrity of tax regimes and highlights the benefits of contributions we make to our host countries.

We are a member of the PNG Chamber of Mining and Petroleum sub-committee that engages with the Internal Revenue Commission, International Monetary Fund and Department of Treasury on tax reform matters.

### Extractive Industry Transparency Initiative

PNG has been an EITI member since 2014 and Oil Search has been an EITI Supporting Company since 2013. We have actively encouraged and demonstrated transparency in support of PNG's journey towards EITI compliance by participating in PNG's EITI MSG, publicly disclosing payments we make and working with the PNG Government, civil society and peers to advocate formal adoption and implementation of the EITI in PNG.

Although the United States of America is no longer an EITI implementing country, it remains a supporter of the EITI internationally. Supporting governments are committed to promoting good governance in the extractives sector, which aligns with our intention to transparently report payments made to the US Government as part of our organisational commitment to the EITI.



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## Independent Assurance Practitioner's Assurance Review Report to the Management of Oil Search Limited

We have reviewed the selected financial information included in the 2020 Transparency Report and Sustainability Report of Oil Search Limited ('OSL') in the table below "hereafter referred to as Financial Information" for the period 1 January 2020 to 31 December 2020.

### Management's Responsibility for the Financial Information

Management is responsible for the preparation of the Financial Information and has determined that OSL's Sustainability Reporting Basis of Preparation is appropriate to meet the needs of the Management. Management's responsibility also includes such internal control as management determines necessary to enable the preparation of the Financial Information that is free from material misstatement whether due to fraud or error.

Financial Information	Reporting Criteria
Total socio-economic contribution to PNG and Alaska:	OSL's 2020 Sustainability Reporting Basis of Preparation
<ul style="list-style-type: none"><li>Total paid to Government of PNG and Alaska (US\$'000)</li><li>Total paid to suppliers and contractors (US\$'000)</li><li>Total community investment (US\$'000)</li><li>Total paid to PNG and Alaska-based employees (US\$'000)</li></ul>	

### Assurance Practitioner's Responsibility

Our responsibility is to express a conclusion on the Financial Information based on our review. We have conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2405 *Review of Historical Information Other than a Financial Report*. ASRE 2405 requires us to conclude whether anything has come to our attention that causes us to believe that the Financial Information is not prepared, in all material respects, in accordance with OSL's Social Responsibility Reporting Basis of Preparation. This Standard also requires us to comply with relevant ethical requirements.

A review in accordance with ASRE 2405 is a limited assurance engagement. The assurance practitioner performs procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Australian Auditing Standards. Accordingly, we do not express an audit opinion on the Financial Information.

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# Independent auditor's report

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**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the Financial Information of Oil Search Limited for the period ended 31 December 2020 is not prepared, in all material respects, in accordance with OSL's Sustainability Reporting Basis of Preparation.

**Basis of Accounting and Restriction on Distribution and Use**

Without modifying our conclusion, we draw attention to OSL's Sustainability Reporting Basis of Preparation in the Transparency Report for the period ended 31 December 2020, which describes the basis of preparation. The Financial Information for the period ended 31 December 2020 has been prepared for use by the Directors of OSL for the purpose of enabling OSL to include the review report in their Transparency Report and Sustainability Report. As a result, the Financial Information for the period 1 January 2020 to 31 December 2020 may not be suitable for another purpose. Our report is intended solely for the directors and management and should not be distributed to or used by parties other than directors and Management.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU

*Chi Mun Woo*

Chi Mun Woo  
Partner  
Sydney, 15 April 2021

