Event Transcript

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Start of Transcript

Operator: Thank you for standing by, and welcome to the Oil Search FY20 Full Year Results Conference Call. All participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. If you wish to ask a question, you will need to press the star key followed by the number 1 on your telephone keypad. I would now like to hand the conference over to Mr Keiran Wulff, Managing Director. Please go ahead.

Keiran Wulff: Thank you very much. Good morning and welcome to Oil Search's 2020 annual results presentation. I'm Keiran Wulff, Oil Search's Managing Director. Thank you for attending whether it be here in Sydney or over the internet. Before I begin, respect for communities and culture holds an important place in Oil Search's DNA, and I'd like to thank by acknowledging the traditional custodians of all the lands in the regions we operate and work. We acknowledge their ongoing connections to land, sea and community, and we're very fully respectful of their culture.

In terms of the people in the audience here, I'll quickly go through the evacuation diagram. The door to my right, to your left, is the exit point. You will see the - muster go down the stairs - to the front of the building. The muster point is on the street in front of this building. There are no emergencies or alarms planned for today, so if there is an alarm it will be a real exercise, but I'm sure we'll be fine.

You may have seen from this morning's announcements we've a lot to discuss. Our results are a clear demonstration that our efforts over the last 12 months have been focused on making our Company more resilient whilst preparing the Company also to deliver on our material growth projects.

In addition to the recent announcements on the progress of Papua LNG and PNG, which shows an increase in alignment between the key stakeholders and the joint ventures, led by Total and government, to progressing this important project, we also had a number of other important announcements this week - our Company's commitment to a net zero target by 2050. As a Company, we want to be part of the energy solution focusing on Paris-aligned projects and longer-term genuine and material carbon abatement programs. It fits in well with our strategy we announced in November of Focus, Deliver and Evolve. I will talk more about that later, and I suggest you question Beth who is on our panel, who is in charge of that area.

Yesterday we also announced the formal approval by Oil Search and our partner Repsol to enter FEED on phase 1 of the Pikka oil field development which represents a key milestone for our joint venture as we progress this project targeting FID in late FY21 and our first oil in 2025.

In addition, late last week we successfully completed a hedging program for 9 million barrels of oil equivalent at a floor of $55 a barrel oil equivalent. These puts protect the downside risk whilst also ensuring access to the upside pricing. We are simply one of the most leveraged companies to oil price both up and down, and we wanted to make sure that we made the Company more resilient. Our program today is an indication of the conservative approach to managing our downside risk whilst ensuring the capture the upside in pricing and is part of a wider capital management strategy that Steve will go through.

In addition to the operation and financial matters that will be covered today, we have also announced the appointment of two new Board members - Musje Werror, a PNG citizen and Managing Director and CEO of Ok Tedi; Musje will join the

Board as of today filling a vacant spot - and Mike Utsler, who many of you may know, will join the Board following the AGM subject to the shareholders approving a temporary increase in Board numbers from 9 to 10 at the end of April. Both Musje and Mike's biographies are given in the release we made this morning and have been chosen due to their highly complementary experience aligned with the strategy set for the Company going forward.

In addition to our new Board members, Oil Search is also in the final stages of its CFO search, a very difficult one to replace Stephen, who will retire in May. We have undertaken a very thorough Australian and international search with Russell Reynolds to ensure we secure someone with strong capital market experience with a history of successful experience as a major public company CFO. We'll be able to announce that formally some time soon.

There is a lot to cover, so we'll get into the presentation. Today I'm joined by Rick Lee, our Chairman, Steve Gardiner, CFO, who will do a lot of the talking with me, as well as Beth White, EVP Sustainability and Technology, Bruce Dingeman, who joins us from Alaska, and Diego Fettweis, who is EVP Commercial. All are here to answer your questions.

I'll just quickly draw your attention to our usual disclaimer. During today's presentation we will make forward-looking statements that refer to our estimates, plans and expectations. Actual results and outcomes could differ materially due to factors we note on this slide and in our ASX and POM exchange filings.

In terms of the overview, a lot has been said about the challenge faced by all of us in 2020, and Oil Search was far from immune. The combination of COVID, oil price downturn, demand uncertainty, rapidly changing societal expectations driving financing and investor sentiment were frankly catalysts for Oil Search examining every part of our business.

We have been very systematic and transparent to ensure change was sustainable, whether it be stabilising the business in the early period with our rapid COVID response in the field to protect people and operations, strengthening our liquidity, right-sizing the organisation for future, and the strategic review which was conducted with the use of a lot of external people to ensure that we challenged ourselves at every area. We're also ensuring operational discipline across the Company and reducing our cost of supply across our new and existing operations sustainably.

We're also looking at ensuring we are very clear about our ongoing priorities and strategy which has ensured that the Company is optimally placed to deliver our projects responsibly and position our Company to be able to maximise value for shareholder when conditions will inevitably turn around, which we're beginning to see now.

Leverage works in both directions, but we're not blind to downside risk as evidenced by our prudent hedging program today. Despite these uncertainties, frankly our staff across every part of our business were magnificent this year, and I'd like to thank them personally for their commitment to the Company.

What did we achieve? Despite a very strong operational performance in 2020, it was a tough year for our shareholders with a core NPAT of $22 million and a materially lower share price than what we entered the year in. But we did recover materially by the end of the year with an increasing oil price. Whilst it has been tough and our core profits modest, today we are announcing a $0.005 per share dividend, which is aligned with our dividend policy. Whilst modest, it reflects an increase in confidence in our business and the demand outlook going forward. As I said earlier, we also took the opportunity to conduct a hedging program with 9 million barrels with put options and a floor of $55 a barrel. Stephen will go into this in more detail.

In November, we announced an increase in commitment to sustainability across every part of our business, and today we're taking material steps to build on being industry-leading in terms of our commitment to community, to an equivalent focus on carbon abatement, climate and the environment. Today, we are announcing that we're building on our 30% operated emission intensity reduction targets by 2030 to target net zero by 2050. This fits in well with our announced strategy of Focus, Deliver and Evolve. It does not remove our focus on delivering the value within our Paris-aligned growth projects, and I'll cover that in more detail later.

Consistent with our commitment sustainability, we're focusing on ensuring that these growth projects meet the Paris Agreement. LNG will still constitute circa 70% of the Company's production and our Pikka development in Alaska is nearly 75% lower emission intensity than other comparable operations in the region.

Very pleasingly, despite the challenges of COVID in operating in some of the most challenging environments on the planet, we received the best ever Company-wide safety performance with our TRIR being 0.94 and in PNG 0.78, simply an outstanding performance in difficult circumstances.

A big part of making our Company more resilient has been our focus on costs and reducing them sustainably. Last year we were able to reduce our production costs by around $60 million, which equates to about $2.50 a barrel. I'd also like to call out Exxon's performance as operator of PNG LNG in 2020, which was exemplary. PNG operated with incredible reliability above 99% and achieved its highest annual production of 8.8 million tonnes per annum. Combined with the strong performance from our operated oil fields, we were able to achieve a 29 million barrels of oil equivalent production last year, and that was despite Hides gas field being shut down for the majority of the year due to force majeure due to the shutting of the Porgera gold mine. In Alaska, our business unit there also performed very strongly with two new discoveries and an independently certified increase in our 2C resource space up to 968 million barrels, which I'm sure will go further once we appraise.

Our Stirrup discovery was recently rated one of the top 10 global discoveries in 2020. Importantly, the team also completed and reviewed the development plan for Pikka with the aim to reduce breakeven, lower capital costs and increase IRRs without compromising full value. That's no easy feat, but along with our partner, Repsol, who now we are totally aligned with on the phased development plan that will see the first phase costing less than $3 billion, our maximum exposure at any particular period of time being our interest in about $2.4 billion, which is the maximum exposure, there is a serious extended drilling program that will be funded out of the ongoing cash flow generated by early oil. The phased facility is now looking at 80,000 barrels a day with first oil targeting 2025. Again, more of that shortly.

Before I hand over to Stephen, I'll quickly talk about our growth projects at Papua. One of the most fundamental outcomes of the strategic review last year was that we simply do not need to explore for more resources in the near-to-medium term. We have an enormous amount of 2C resources which we'll be focusing on commercialising. At Papua LNG, the government and the Papua LNG partners have agreed to delink the LNG expansion in PNG and focus on the two-train Papua LNG project initially. The recent signing of the Fiscal Stability Agreement and the licence extension now allows the joint venture to confidently test the market and review the basis of design ahead of making a FEED decision in 2022 with first gas targeting the 2027 demand window.

The recent announcement of FEED of our Pikka project also kicks off finalising engineering, costing, financing and divestment program. More of it later. We are on track for an FID decision at the end of the year, subject to market conditions. Phase 1 alone will commercialise over 200 million barrels of oil net in Pikka, so combined our two growth programs are looking at de-risking over 500 million barrels net with clear milestones going forward.

With that, I'll hand over to Stephen to go through the financial performance.

Stephen Gardiner: Thanks very much, Keiran. Good morning, everybody. You'll hear this theme a lot, but clearly the unprecedented fall in oil and gas prices last year commencing very early in the year required an equally decisive and dramatic response, and I'm pleased to say that's what Oil Search delivered. We focused on making our operating assets more sustainable at lower oil prices with production costs reduced by almost $60 million. That's inclusive of one-off restructuring costs and ongoing COVID mitigation related expenses.

Our planned capital expenditure also were reduced to committed and essential-only work programs, resulting in a total spend down by about half on the prior year. These initiatives delivered a 20% reduction in the unit production costs and a free cash flow breakeven for last year of under $20 per barrel of oil equivalent. Our other priority was rebuilding liquidity with $700 million raised in April that was strongly supported by and only allocated to our existing shareholders. That together with the expenditure reduction initiatives, excellent production performance, as Keiran mentioned, ongoing strong support from our group of bank lenders, allowed us to finish the year with a liquidity position of $1.4 billion. That's inclusive a reduction in our gearing by 6 percentage points to just under 30%, and also a reduction in our net debt of 20%.

Diving a little deeper into the year-on-year underlying earnings decline, the revenue drop in the chart, the biggest bar there, is explained by the collapse in commodity prices with average realised oil prices and gas prices down by 41% and 32%, respectively, on the prior year. The production costs savings in the chart reflect headcount and discretionary work program reductions, other cost reduction initiatives, and also deferral of major PNG LNG maintenance work due to COVID-imposed constraints on mobilising specialised labour.

Decline in other production costs was due to suspension of the gas purchases for the Hides gas-to-electricity project from late April, as mentioned by Keiran and the impact of low oil and gas prices on royalty and levy payments to the government and also favourable inventory adjustments. Our exploration costs expenses increased due to the unsuccessful Gobe Footwall well. However, we note that 60% of the cost of that well was incurred in 2019. We also spent some money on seismic acquisition primarily in Alaska.

Finally, costs reduced quite materially due to both record low US short-term interest rates and also lower average debt outstanding during the course of last year. Our lower taxation expense reflects the fall in pre-tax profits. In addition to that, we had the impact of $374 million of non-cash asset impairments announced at the half year, and derecognition of certain deferred tax assets in the balance sheet which resulted in an effective tax rate of just over 12% compared to about 30% in the prior year.

Turning to free cash flow and our production guidance in particular, we met our lowered production guidance achieving a result of $9.97 per barrel of oil equivalent. That's down 20% on the prior year, and that's despite about $0.70 per boe incurred on one-off and COVID-related costs last year. Our unit costs were also impacted by the suspension of the Hides gas production following the shut-in of the Porgera Mine in April. That shut-in cost us over 700,000 barrels of oil equivalent compared to the prior year. Fortunately, as Keiran mentioned, that was more than offset by record and much higher value PNG LNG production and significantly increased oil production due to excellent operational performance, including plant uptime.

Our cost reduction initiatives and production performance delivered over $400 million in operating cash flow despite the collapse in hydrocarbon prices. As already mentioned by Keiran, last year really put the spotlight on our high leverage to the oil price, and also as mentioned by Keiran, fortunately the leverage works in both directions. For every $5 increase in the oil price, our 2021 operating cash flow improves by $90 million, so massive upside to this current recovery.

Despite the recent and to be honest unexpectedly rapid recovery in oil prices, the lessons from last year are well engrained. Our 2021 capital management priorities will be built on the discipline imposed last year and focus on a number of different areas. Our 2021 CapEx program is concentrated on recommencing the Angore field development activities, progressing the major growth projects, secured and covered including Pikka following yesterday's FEED entry announcement, Papua LNG pre-FEED activities and potentially FID for the PNG biomass project later in the year.

We also continue to work on a more robust and flexible balance sheet that can cope with commodity price volatility during the next growth phase. We've commenced engagement with our relationship banks on extending and possibly upsizing our main corporate facility. At the moment we've received very encouraging expressions of support, which we're delighted about - no doubt helped by the stronger oil price but also our strong longstanding relationships with these banks, also progressed in the asset-based financing for Pikka.

As Keiran has mentioned also, we've taken advantage of the oil price rally to put a floor in place of $55 for about 50% of our production from May to the end of the year. It's worth noting the pricing risk out to May is already materially reduced due to the approximate two-month lag in oil prices flowing through to contract LNG prices. We will be assessing longer-term hedging strategies as we approach FID decisions on the major projects later in the year. Another key element in capital management is the planned Alaskan equity selldown. It's very important not only in delivering sales proceeds but also in reducing our Pikka forward CapEx bill by almost 30% once achieved.

Looking at the balance sheet now, PNG LNG project has again demonstrated its resilience to volatile oil and gas prices. In 2020, the project generated sufficient cash after operating interest and capital costs to repay $332 million of debt and also release a cash distribution to us of about $160 million, both of those amounts net to Oil Search.

As highlighted previously, most of the drawn debt that we have on our balance sheet is from the non-recourse PNG LNG project finance facility with repayment phased over the next five or so years. Once that facility is repaid, we'll benefit from several hundred million dollars of extra cash generation from the project currently dedicated to debt servicing. We're also looking to refinance our main corporate facility so that it expires after the PNG LNG project debt is repaid, so our corporate banks have a direct line of sight to the project's unsecured cash flow and assets at that time.

Finally turning to full-year guidance, there is no change to our full-year guidance that was issued in late January. The increase in unit production costs that we've guided the market on is driven solely by the lower production outlook with those costs excluding major maintenance work aiming to be flat year-on-year in absolute terms despite ongoing COVID-related costs. A lower production outlook is due to scheduled major servicing on the PNG LNG trains, including work from 2020 plus a maintenance shutdown at our operator facilities that occurs around every four years or so.

We've already covered the development and exploration investment spend. Notably, there's minimal spend on actual exploration with no exploration drilling as we focus on appraising and commercialising the very large discovered resource we already hold. Production spend includes ongoing earthquake recovery work including the rebuild at our refinery that was completely damaged by the earthquake. Any insurance recoveries related to this work will be booked as other income when received and are not included in this capital expenditure guidance.

The work program also includes compressor change out, core tubing well work, long leads on potential 2022 infill wells and PNG LNG sustaining CapEx. Importantly, about 25% of the planned investment spend this year is still discretionary and subject to FID, including the biomass project. With that, I'll hand back to Keiran. Thank you.

Keiran Wulff: Thanks, Stephen. A lot has been talked about these already so I'll go through these quite quickly so that we'll be able to open up the floor for Q&A. I've talked about our strong safety performance across the business, the best ever since we took over operatorship in 2003 from Chevron. Record PNG LNG annual production at 8.8 million tonnes was a great performance, and importantly it's all about focusing the business on appraisal and production rather than exploration, so we're very focused on commercialising PNG going forward.

In regard to PNG LNG, again the nameplate capacity, just to remind you, was 6.9 million tonnes. Last year, we were over 20% above the nameplate capacity. We will be having a lower production in 2021, as Stephen highlighted, because we'll be undertaking quite a major maintenance program due to commence next month, that was scheduled for last year, which was delayed due to COVID reasons.

Last year despite the low prices, which is important and a testament to this project, we still were able to pay back over $320 million of debt associated with this project back in 2022. Importantly and in addition to ensuring resilience and reliance of our PNG LNG, we also got an advance product - approvals with the PNG Government in relation to condensate injection approvals to ensure that even in the worst-case scenario we're always able to maintain gas production to support the PNG LNG project long term. This shows everyone's commitment to being very solution-orientated in dealing with the COVID environment in a worst-case scenario.

We put this slide together because there's a lot been said about the quality of PNG LNG. It is truly a world-class project in its ability to maintain production plateaus going forward. This slide shows the contracted volumes and performance to date. Clearly, Exxon's operating performance has genuinely been world-class. In 2009, when the original foundation fields, Hides, Angore, Juha and Associated Gas in Kutubu, Agogo and Moran were unitised, we had not discovered Muruk, and P'nyang with its considerable resources was not considered due to the need for further appraisal and confirmation.

Exxon is a very good and measured operator that LNG joint venture is now developing in Angore as the next field and will be preparing the associated gas fields as the following tie-in after Angore. Whilst Juha is still scheduled to follow, we have also other options post circa 2027 with Muruk, P'nyang or other near-field opportunities at Hides. We have a lot more optionality than we had in 2009. Work to optimally sequence the field developments for value and cost of supply is advancing, and as confirmed by other partners in the development, there are multiple options to support PNG's LNG production for many years.

We've talked about Papua LNG achieving quite a significant milestone in aligning the key stakeholders going forward, and that really does allow us to start talking about marketing Papua into the region and also looking at finalising our basis of design ahead of a FEED decision in 2022. P'nyang will be developed independently, and the discussions will be ongoing between Exxon and the government over the course of the year.

Asia-Pacific demand outlook is very favourable for PNG LNG. Papua continues to be well placed in the market relative to other projects. Key advantages include proximity to market, low cost of supply, high heating value and aligned with Paris targets. Relative to other regional LNG projects, we are lower cost compared to other areas, and we can utilise existing facilities for export. Combined with the material operating cost savings, its close proximity to market, Papua is an ideal and regionally significant LNG resource.

Turning to Alaska, I want to give some time for the audience to be able to question Bruce on Alaska because it's an important project, last year was a year of achievement. We systematically built a road into our core area of our facilities, which is shown on the picture on the left-hand slide. That's the Miluveach Bridge that goes over one of the rivers that we have to transgress. Importantly, the development and the civils work was on schedule, below budget, and now allows us accessibility to our locations 365 days a year. The important point about that is it now allows the project to be modularised and phased rather than relying on sealift and weather windows.

Pikka was redesigned, so that instead of looking at a $6 billion development, we're now looking at a sub $3 billion development fully costed, which includes facilities and oil drilling. We've been able to lower our breakeven cost below $40 a barrel. A lot of people talk about the breakeven cost, but we're very transparent with these breakeven costs. They're fully loaded, financing with a 10% return on capital. These are genuine fully loaded breakeven costs of sub $40 a barrel. With that, it's truly in the lowest quartile in regard to major development projects globally.

The growth opportunities in this area are enormous. As I said earlier, we've upgraded the resources independently certified by Ryder Scott to 968 million barrels of 2C resource. We were able to also have two new discoveries, one at Mitquq which is only six miles away from the proposed central processing facility and Stirrup in the south. These wells demonstrate the major upside in resource potential that exists in this field and the easy tie-in potential into existing facilities once we get that going. The important point here is that the breakeven costs of all future developments will continue to go down. We'll provide more information on that as it becomes available.

In regard to the Pikka development and FEED entry, this map here on the slide shows you that we're 100% located for the Pikka field on state land. We're not on NPRA land, so we're not exposed to decisions that are currently being made by the federal government, and we've received all of our approvals for the FEED development from the Corps of Engineers and key authorities. This project also has a very small footprint and is sandwiched between existing facilities - Conaco at Kuparuk and also the Alpine field out to the west. We're not in remote areas. We can tie into existing pipelines with ullage, and building a road into the core area of the project allows us to be able to access the core area of the field, so this is almost like an offshore development where we'll be drilling 50 wells from a small pad rather than a whole series of wells spotted over the area. We're targeting FID late fourth quarter with first oil in phase 1 of 80,000 barrels a day by 2025. Subsequent phases will be supported by phase 1 cash flow.

Importantly, this is an incredibly pleasing year around our operational readiness. We genuinely have a world-class team in Alaska that has a proven experience in the region. We targeted professionals with clear knowledge and were able to extract an amazing team as demonstrated by their performance to date. Most of the staff came from existing operators and held leadership positions or companies on the slope. Our style and approach has led Oil Search to being an employer of choice in Alaska. We treat every member as a key member of our team.

We have also spent a lot of time getting to genuinely listen and know the community, and as a result our land usage agreement with the local community is a landmark agreement to ensure the community gets sustainable benefits and opportunities long term. This is a continuation of our DNA that has been well developed by Oil Search and enforced in the Company by Pete Botten, my predecessor. Our focus is absolutely on ensuring the regional community is better off as a result of our project long term.

Where are we? We have an absolute passion to share society's ambition to be a net zero energy company by 2050. Aligned with Oil Search's ambition to be the preferred energy company for all stakeholders, we've set this aim in addition to the commitment we made back in November when we talked about a 30% reduction in our operated emissions by 2030. We are setting very transparent carbon abatement targets and driving sustainability into every part of our business. Like our commitment to community, sustainability is now a core part of our DNA.

We are undertaking a specific review to develop the strategic direction critical for Oil Search to achieve the shared goal of net zero emissions by 2050, which will be consistent with our strategy of Focus, Deliver and Evolve. This very much fits into the Evolve section looking at post-2025 activities.

In regard to our commitment to carbon abatement, importantly for Oil Search it's about being able to have things that are very clear, very predictable and very visible which are clearly aligned with our key stakeholders. Our biomass project in the Markham Valley is one such project which demonstrates our commitment to genuinely making a difference. This project has the potential to provide 30 megawatts of power over its project life that offsets over 40 million barrels of high sulphur fuel oil which is currently being used. We've already planted 4 million trees in the area since 2010, and we will plant ultimately over 20 million trees in the 16,000-hectare area. It will abate over 3.3 million tonnes of CO_2 and provide over 400 jobs during operations and over 3500 jobs indirectly associated with industries to support it. It's an important demonstration of our commitment to net zero ambition and provides also longer-term optionality with respect to other potential for expansion both domestically and export.

In closing, 2020 was a tough year for all of us but I think also demonstrating a focus on capital discipline and performance. Importantly, we are setting the Company up for an exciting future in regard to our operating performance and reliability, our capital management, delivering our world-class growth projects and having a major commitment to sustainability across the entire business. We're trying to be very transparent with our targets and align our staff and our shareholders and all of our key stakeholders to the ambitions and directions of our Company going forward.

To maximise the time, I'll finish here. I want to thank everyone, but I'll now open the floor for Q&A. We'll start with James.

James Byrne: (Citigroup, Analyst) Hi, Keiran. James Byrne from Citigroup. I wanted to unpack a little more around the backfill for PNG LNG. I love the fact that you have the optionality there to push Juha to the right, for example, if you think the cost of supply is going to be more competitive elsewhere. But if I think practically about what needs to mature in those prospects like Muruk and P'nyang, I'd like to understand that a bit more particularly in the context of the timeline of having to get those delivered to come in behind Angore.

For example, Muruk, I'm worried that maybe you need to spend more time and capital to properly characterise that reservoir, or for P'nyang you've got the hurdles of fiscal terms and what happens with royalties for the landowners. If you could help us understand that sequencing and what is needed to mature, that would be really helpful for us.

Keiran Wulff: I might refer that question to Diego, who looks after that area, and I can finish off with any additional information.

Diego Fettweis: James, good question. The first clarification I want to be making here is in terms of the timeline. I think it's really important to understand how the plateau is maintained within PNG LNG. As you know, the existing field right now exporting gas to the LNG plant will maintain in plateau about till 2024 at which time we'll have Angore coming online and extending plateau by another three years. Then it is anticipated in 2027 that we'll have the Agogo production facility, the APF, start exporting gas. At the moment, oil is being produced out of APF and gas is being reinjected. We expect that by 2027 the APF will then come online as far as gas is concerned and a combination of increased gas export from the CPF and the APF will lead to another extension of three years of plateau subject to the optimised concept being selected.

That leads us into 2030, so there is quite a fair bit of time to mature the ideal options beyond the APF, whether it's Muruk, Juha or P'nyang. Of course, on P'nyang there will first be some important discussions that need to take place. That will be very much the focus of the joint venture. As you pointed out, for Muruk there will be some further project that will need to be happening before a decision is made on the optimum sequencing. But again, we feel we have the time required in order to be able to optimise that gas sequencing beyond APF.

James Byrne: (Citigroup, Analyst) If I then think about that plateau extension, how much PNG LNG is delivering above nameplate and the roll off some of these midterm contracts that you have in the book at the moment, are you looking to maybe sign more LNG offtake in the middle of the 2020s and maybe capture some of the tightness that's perceived to exist in the market around that time?

Diego Fettweis: All options on the table at the moment we are considering and a mix of midterm as well as potentially increasing the spot sales depending on how the market is going to be evolving about that time. These are discussions that will be taking place within the joint venture in due course. We still have a few years before having to make a decision on that, as you know, the midterm expiring in 2023.

James Byrne: (Citigroup, Analyst) The last one from me is on Pikka. I wanted to understand what progress has been made on the debt funding side, and maybe a little bit of commentary on the appetite from lenders to support that project where I think some of us in the public market are maybe a little bit concerned.

Keiran Wulff: Stephen, a good question for you.

Stephen Gardiner: Indeed. Thanks, James. We've been having very extensive engagement with prospective bank lenders almost over 12 months now. The project itself has an excellent ESG story, as I think you've already heard. That's really important. We've been really working with our banks to understand all the very positive activities. We're undertaking to make this a world-class project when it comes to meeting sustainability objectives, and the banks already acknowledge our performance in PNG in that space around the community. They're also seeing the work we're doing around - as you've heard areas around making highly carbon efficient et cetera. All those things resonate very well.

We acknowledge there are certain banks, and certainly banks in the US and many European banks, that have absolute policies. No matter how good our project is, they have a policy that they can't support and the work we've done with our advisor to date and our direct engagement with banks. We're very comfortable there's a large enough pool of banks still there to meet our funding requirements. What has really helped of course is the downsizing of the project itself in terms of less than $3 billion of capital spend. Only $2.4 billion needs to be funded out to first production or when they start generating cashflows. Funding requirement is a little over US$0.5 billion and we're very comfortable that there's a large [inaudible] project and very keen to support Oil Search.

Keiran Wulff: It also helps with the return in oil prices moving in a favourable direction as well.

Operator: If you wish to ask your question via the phones, please press star 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star 2. If you are on a speakerphone, please pick up the handset to ask your question. Your first question comes from James Redfern with Bank of America. Please go ahead.

James Redfern: (Bank of America, Analyst) Hi, Keiran and Stephen. Two questions, please. The first one is around the formal sale process for 15% of the Pikka unit. I'm wondering when that will kick off and when you expect a transaction to take place. I have one more, thank you.

Keiran Wulff: The transaction or the process will start in March. We wanted the conditions in America to settle down a little bit post the election and the Biden Administration coming into office. We're starting off with a series of soft soundings in March with a view which will be very targeted with a broader program commencing in April. The idea is for us to have indicative proposals around July/August with a view for closing off at the end of the year. It's a phased approach with a series of soft soundings in March with companies that have approached us and others we think would be interested, and then looking to see where that takes us into a more comprehensive program in April. We now have full alignment with Repsol through this process as well, which is very important.

James Redfern: (Bank of America, Analyst) Thanks. Second question is going back to the potential third train expansion at PNG LNG and P'nyang. Do you think first gas in 2030 is a realistic assumption? How should we be thinking about it in your mind?

Keiran Wulff: Do you mean the third train for PNG LNG or do you mean for Papua?

James Redfern: (Bank of America, Analyst) First gas with Papua LNG is 2027, I understand, but the potential third train at PNG LNG, a little bit more uncertain. How should we think about that project progressing in first gas from the potential third train at PNG LNG?

Keiran Wulff: I'll start and then I'll let Diego finish. The reality is, the discussions around the joint venture are, is there a third train or is P'nyang to be used as backfill for maintaining production plateau for PNG LNG for an indefinite period going forward? Those discussions are still occurring and looking at market conditions and pricing. One of the big changes is that we're definitely moving to a four-train program in Papua New Guinea. The fifth train is questionable, as I said, so I might hand it over to Diego to give a bit more flavour.

Diego Fettweis: There's not much more than I can add on this. The most important thing is to ensure that we recommence the discussion on the P'nyang gas agreement and [inaudible] RFSU for P'nyang.

James Redfern: (Bank of America, Analyst) Sorry to labour the point, but do you think maybe we should be removing the third train expansion and just work on the basis of the existing two trains at PNG LNG and then a two-train expansion or I guess project with 4Papua LNG?

Keiran Wulff: In our reference case that we talked about in our November strategy, we talked about a four-train scenario in Papua New Guinea and with the optionality for a third train or an extended plateau. Oil Search is our business case and the way we're going forward is looking at PNG LNG continuing to be optimised long term with Papua's two trains. That's how we're planning. If the third train comes into consideration subject to the terms of the gas agreement and external market conditions, then they will consider it at the time. But consistent with what we said back in November, we're looking at a four-train scenario in PNG at the moment for planning purposes, which is important for our capital management program as well.

James Redfern: (Bank of America, Analyst) Thanks, Keiran.

Operator: Your next question comes from Mark Wiseman with Macquarie. Please go ahead. Mark, your line is live. You might have yourself on mute. We'll move to the next questioner. The next questioner is Tom Allen with UBS. Please go ahead.

Tom Allen: (UBS, Analyst) Good morning, Keiran, Stephen and broader team. Congratulations on the milestones you've announced over the last week or so. I apologise if I missed a response to this question in the room. It's a little hard to hear on the line. I'm hoping you can share some details on your expected timing of the key agreements that need to be renegotiated between Papua LNG joint venture and PNG LNG and the PNG Government in the context of progressing Papua without the train 3 expansion.

Diego Fettweis: Good question. With regard to the agreements between the Papua joint venture and the PNG joint venture, we will be targeting most of those agreements being executed round about FEED and that would be around the access agreement and some operating coordination agreements. I'm not quite sure what the reference was to further agreements with the government. As you know, we've executed fiscal stability agreements recently.

Keiran Wulff: And our licence extension and category of terms.

Diego Fettweis: And of course our licence extension offer.

Keiran Wulff: Essentially, Tom, what we're looking at is finalising intra joint venture and inter joint venture agreements leading to a FEED decision in 2022.

Tom Allen: (UBS, Analyst) Okay, perfect, thanks. While I have you there, Diego, following on from an earlier question on the backfill opportunities for PNG LNG, can you talk indicatively to the volume upside that you might be able to extract from potentially producing the gas caps in Kutubu or Moran and infill drilling at Hides? Just recognising that the timeframe is a little unclear.

Diego Fettweis: Those volumes are included as part of our reserve and resource reporting, so they are already part of the PNG LNG project. As you know, the APF and the CPF fields are utilising PNG LNG project, and they would enable us to provide the plateau extension, as I mentioned earlier, for round about three years. That gives an indication of the volumes.

Keiran Wulff: Tom, effectively, rather than re-injecting we're blowing down the gas caps and we'll be producing the associate gas rather than re-injecting them. Around the middle of the decade, you're talking about a conversion from these being oil fields into gas fields.

Tom Allen: (UBS, Analyst) That's clear. Thank you for that. If I can sneak one more, I'd ask for a brief update on how you're seeing current Biden Administration policies possibly affecting the business case in Alaska.

Keiran Wulff: It's a good question and one that I've been asked many times. Our focus in Alaska has been very much on state land. The federal approvals that we required for the project, which was the EIS, there was a four-year EIS that was very detailed, went through the Corps of Engineers. We got our approval or record of decision on that quite a while ago. Importantly, we have our approvals from the federal authorities for that project to progress into FEED. We also have a real alignment with the interest of the state for this project to go ahead. We're not as affected as other parties who have interests or developments in NPRA. We're certainly not focused or have any intention of going into ANWR. We have so much oil that's been discovered in and around the Pikka field that our focus is 100% on state land.

Tom Allen: (UBS, Analyst) Any changes to corporate tax a possible impact.

Keiran Wulff: Sure. Corporate tax, again we've done quite a lot of analysis. The result and the implications of the discussions around corporate tax only increase our breakeven costs in the order of about $0.50 a barrel. You have to remember that we made the acquisition on the original tax levels, which we understand that if there is an amendment it won't go back to those original levels. Whilst it's not a great result for corporate activity or focusing on activities in the US, it's something that we're quite comfortable with. The robustness of the project and the low breakeven costs make this a very economically viable project.

Tom Allen: (UBS, Analyst) Perfect. That's all from me. Thanks, guys.

Operator: Your next question comes from Mark Samter with MST Marquee. Please go ahead.

Mark Samter: (MST Marquee, Analyst) Morning. A couple of questions, probably at least one of them slightly repetitive to stuff I've asked before. The first question, you talked about Alaska and you're very happy with the progress you've made there. You called it a top quartile project. Can you help us understand what you think the limiting factors have been for people entering into it before and even the challenges you face now? Some of this is retrospective, but you bought it for about $2 a barrel. You wouldn’t get many top quartile oil assets globally being sold even preproduction pre-FID for $2 a barrel. What do you think it is about Alaska that maybe has presented greater challenges to selling stakes than might have otherwise been in other jurisdictions?

Keiran Wulff: It's a good question. If Alaska was in any other jurisdiction other than in the Artic, it would be one of the hottest projects on the planet frankly simply because of its proximity to infrastructure, the upside in resource and the fact that it's in a very strong regulated environment and very strong environmental controls. Clearly, the fact that it's in the Artic, as Stephen and other parties have identified, provides some challenges around financing, especially through European and some North American banks. It also means that some companies will have - regardless of the quality of their project, it will be a project that's outside of the bounds of where they're looking at expanding into.

Having said all of that, we do have a number of companies who have maintained interest because it is a conventional project. It has a low-cost series of additional growth options. There's a balance. What we're seeing is it's almost a binary. You're either interested in the Artic or you're not, and those that are, you're now into seriously looking at the quality of this project going forward. There are a few challenges. It's really about its proximity or its location, Mark.

Mark Samter: (MST Marquee, Analyst) A follow-on question to that, and I think this is a reiteration of a question I asked before, given some of those challenges and that the flipside is that PNG LNG would be able to be one of the more marketable assets in the world to sell a stake in, is there any world where you think you'd bundle a bit of PNG LNG with an Alaska selldown?

Keiran Wulff: It's a good question again. It's asked a number of times. For us, it's about shareholder value and what's in the best interests of the shareholders. We recognise the importance of a successful selldown of 15% interest in Pikka, and we're of the view that 36% is an optimal long-term equity ownership position. Clearly, a selldown for FID prior would provide funding support. However, this is a high-quality asset with a lot of growth, and for any sale it has to make sense on a value perspective. PNG LNG and our assets in PNG are likewise world-class, and importantly there is a lot of interest in those projects, but we don't have to sell them at any price. What we're doing at the moment is building greater capital markets or capital management optionality into our options going forward.

It's not an absolutely not, but it's certainly not our planning case to sell PNG LNG to fund Alaska. We're looking at a number of other options but with the primary option focused on a divestment of 15%. We're getting increasingly comfortable that we have an ability to divest 15% at an optimum time. We have alignment with Repsol, but we are building other optionality going forward. We're definitely not planning to divest PNG LNG but for us it's all about shareholder value.

Mark Samter: (MST Marquee, Analyst) Thanks, Keiran.

Operator: Your next question comes from Gordon Ramsay with RBC Capital Markets. Please go ahead.

Gordon Ramsay: (RBC Capital Markets, Analyst) Thank you very much and congratulations on the Pikka. If you look at the project, your goal is to target FID in late 2021, what are the critical path items that you have to go through to get there?

Keiran Wulff: Obviously, finalising our financing, which Stephen has gone through, we're getting encouraged by the comments coming back from our lead advisor in that regard. Financing is obviously one. Market conditions and outlook for oil price is another. FEED for us is about a net $40 million investment. FID is something completely different. We're also in control on the timing of FID and we're very focused on a late 2021 decision, but it all depends on our ability to finance, which will be predicated on market conditions at the time. We're very confident on pricing and the basis of design. We're already getting numbers that look like they'll be less than what we actually have budgeted, which is important, but we'll provide more information as we get more confidence in that going forward. We don't think it's going to be about the cost of the project. It will be about financing and the external market conditions.

Gordon Ramsay: (RBC Capital Markets, Analyst) On the selldown, Keiran, you said you're working well with Repsol. Is it a joint selldown process or mutually exclusive? How does that work in practice?

Keiran Wulff: It's again a good question. We've been through this process once before. We have an agreement with Repsol that it's a coordinated divestment, so we have the option to market around 30% interest in this project, which will be attractive to some of the larger companies. We also have an ability to independently market and divest our own equity. In other words, we can look at two lenses of new potential customers - the larger areas that will be looking at material interest, and some of the smaller ones which may be looking at 15% interest. But the strong preference is that we'll be marketing it together. We've set up joint teams. We have a joint bank. We have joint advisors. So, it's very much a joint process at the moment.

Gordon Ramsay: (RBC Capital Markets, Analyst) Thank you very much.

Operator: Your next question comes from Mark Wiseman with Macquarie. Please go ahead.

Mark Wiseman: (Macquarie, Analyst) Hopefully you can hear me this time. Thanks for the update, Keiran and Steve. I wanted to ask, on the FEED costs you've mentioned that $110 million to $150 million of exploration and evaluation CapEx, of which Pikka FEED is within that. Are you able to clarify roughly how much of that is for FEED? I presume that's only your 51% portion.

Keiran Wulff: As I said, FEED for us is about a commitment of about $40 million, but I'll let Steve go through the detail.

Stephen Gardiner: Yes, that's basically the answer. It's about $40 million, that amount. We've included in our guidance for you some development spend as we issue an FID decision later in the year. There's also some further spend on early works potentially and long lead items that are included as well. But the FEED component is the $40 million and contained within the exploration guidance.

Mark Wiseman: (Macquarie, Analyst) Thank you. If I could ask around the other approvals, you've covered off on the state land issue and the Corps of Engineers approvals that you've had. I'm wondering, are there any other approvals that you may need from local groups when you start drilling and fracking and injecting? Is there anything else that we should be watching in terms of approvals?

Keiran Wulff: That's a good question. I'll hand it over to Bruce who is sitting in Alaska. Bruce, do you want to cover that question?

Bruce Dingeman: Thanks, Mark. All the major permits, both federal and state, are in place. There are some miscellaneous ones, for example, our disposal wells and some of those that will be sought in due course as part of normal project progression.

Keiran Wulff: But just to be clear, Mark, we have very strong alignment with community through our land usage agreement which dealt with a lot of these issues upfront. We've been working very hard to ensure that the community is fully aligned with the project from the outset. The team up in Alaska are doing a great job there at the moment.

Mark Wiseman: (Macquarie, Analyst) Thanks very much.

Operator: We have reached our time for questions. I'll now hand back to Mr Wulff for closing remarks.

Keiran Wulff: Everyone, thank you very much. It's been a very interesting year, and I can't believe that 12 months has passed so quickly for all of us. I'd like to wish you all health and that 2021 is a lot better for both you and your families. Let's hope the vaccine rollout is resolved and done well and we move back to normality quickly.

I might say at Oil Search we're not planning for that. We're planning on ensuring that Oil Search is still positioned to manage through an extended period of downtime. We might be conservative, but we're certainly making sure the Company is resilient to shocks. As Stephen said, we learnt a few lessons last year, that despite some improvement in the oil price it doesn't mean that things are over so quickly.

We think the Company is incredibly well positioned for the future. We're incredibly focused. We have a great and committed workforce, and both of our projects are genuinely in the lower cost quartile, which is important about ensuring the Company is aligned with the Paris Agreement. We're excited about the future. We're excited about our commitment to sustainability. We're excited about being a model for energy companies going forward. It's clear that last year we were very disciplined. We set out a very transparent strategy in November last year, and I hope that the demonstration of the announcements we made today are a clear demonstration of our commitment to meeting those expectations.

With that, I'd like to thank you all for your support, and I look forward to catching up with a number of you on one-on-ones going forward through the rest of the week. Thanks very much, everyone.

End of Transcript