



OIL SEARCH LIMITED



PNG to Australia Pipeline Project

Alignment Matters

December 2005





A Long Time Coming

PNG Project has taken a step change towards commerciality over the past 12 months

- Alignment of key stakeholders for risk mitigation and growth
- FEED entry a pivotal point
- Front End Engineering and Design almost complete
- Now secured over 200PJ/a of conditional gas sales agreements
- Major customers in NT, Gladstone, Southern Queensland, NSW and SA
- APC (AGL/Petronas) entered FEED for Australian pipeline





A Generational Change

Gas Supply fundamentals for East Coast Australia are changing

- The Cooper Transition
 - Maturity brings higher expense
 - A struggle to remain competitively priced
- A healthy and growing CSM supply
 - Significant growth in past 5 years
- A major supply source from PNG, with new pipeline network

A struggle for the next 30 year supply picture





The Impact of Change

- A change in the “power base”
- Gas pricing will remain highly competitive
- Ensures gas market growth and a larger pie for us all
- Delivers gas from NT to Sydney
 - Facilitates regional growth especially in North Queensland
 - Facilitates major resource projects





Lesson from the Past

PNG Project has had a number of iterations

First Iteration

- **Townsville supply from Pandora**
 - Too small a market
 - Too little reserves

Second Iteration

- **Townsville and Gladstone markets**
 - Required : Kutubu and Hides reserves
 - Required : Joint Venture alignment
- **Competing interests**
 - Non alignment - Delay



Lesson from the Past

Third Iteration

- **Queensland Markets**
 - A pragmatic joint venture solution
 - Strong alignment with governments
 - Too much, too soon

Fourth Iteration

- **Upstream integration and recalibration**
 - A few days in the sun
 - Time run out
- **The true birth of Queensland CSM**



Lesson from the Past

Fifth Iteration

- Lessons learnt from the past
 - Revised development plan
 - Flexible for smaller market thresholds
 - Maximum liquids value
- The importance of stakeholder alignment
 - Who can drive success ?



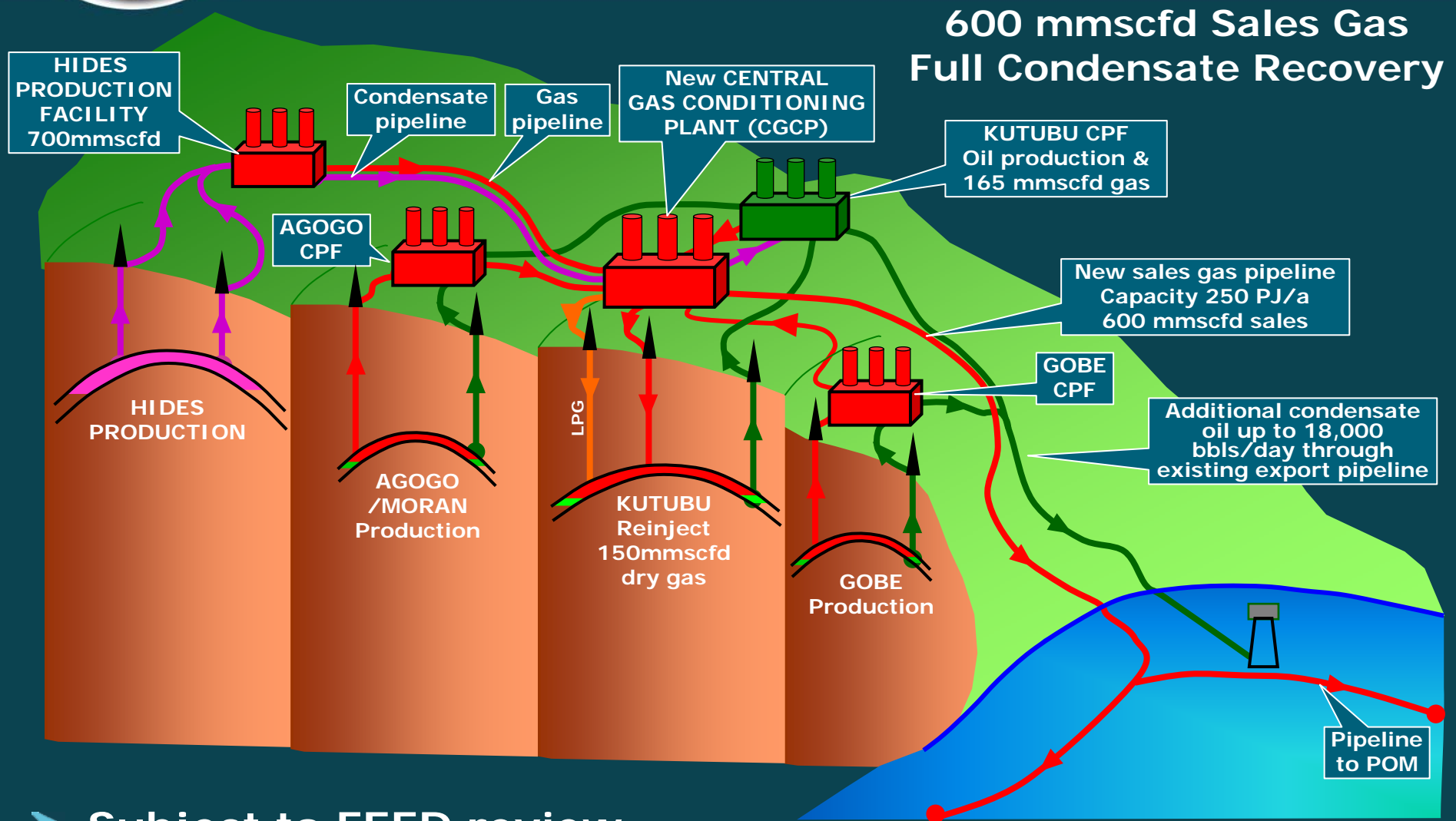
Upstream Participants

- Joint venture between
 - ExxonMobil 39.43%
 - Oil Search 54.15%
 - MRDC/State 3.02%
 - Merlin (JPP) 3.39%
- Gas Sales with condensate export
- Conversion of Kutubu oil fields to gas production
- Development of Hides Gas Field
- Facilitates integration
- Gas pipeline from Highlands to PNG border





PNG Gas Project Configuration



➤ Subject to FEED review



Infrastructure Overview

- Final pipeline configuration and route being determined by customer demand
- Abundant competitively priced gas to NT, Queensland and southern markets
- Interconnected pipeline system promoting competition and enhanced security of supply





PNG Pipeline Project

The Importance of Alignment :

➤ Hugely complex project

- Integration of upstream field groups and value sharing
- New gas supply entering a highly competitive market
- Over 30 stakeholders
 - Upstream
 - Customers / Aggregators
 - Governments
 - Landowners

➤ Complex energy and infrastructure environment on East Coast

➤ Targeted alignment essential in project success





Targeted Alignment – The Key to Project Success

- Deliberate strategy to achieve key stakeholder alignment
 - Project FEED decision
 - Joint Venture alignment to commit US\$90m for detailed engineering work
- Key message to customers of project intent





Targeted Alignment – The Key to Project Success

The importance of an integrated approach:

➤ The Australian Energy company model

- Reserve ownership
- Infrastructure access / ownership
- Markets and aggregation
- Downstream developments





Targeted Alignment – The Key to Project Success

Market/Customer and downstream alignment

➤ The importance of AGL

- Largest East Coast energy retailer
- Major gas customer
- Pipeline and infrastructure
- Downstream development potential

➤ A key motivated partner

- Oil Search sale of 10% project interest
- Major gas buyer (up to 95PJ/yr)
- Pipeline joint venture
- Downstream development potential
- Impact of demerger





Targeted Alignment – The Key to Project Success

➤ Santos ?

- Important energy participant in Australia
- Customer/infrastructure owner
- Negotiations continuing

Powerful upstream/downstream alignment for next generation of supply





Targeted Alignment – The Key to Project Success

➤ Government in Papua New Guinea

- Strongly motivated to deliver
- Committed to in-country development after core Pipeline Project delivered
- Of critical importance to country development

➤ Governments in Australia

- Strongly supportive
- Important for long term competitive energy supply
- Positioned to leverage lowest gas prices in the developed world
- Long term environmental impacts
- Aid and support impacts





Targeted Alignment – The Key to Project Success

➤ Landowners in PNG

- Excellent production reliability in oil projects, based on project ownership and business development partnerships
- Meaningful project ownership
- Benefits distribution being matured

➤ Lessons for Australia?





Targeted Alignment – The Key to Project Success

➤ Financing

- Material interest from banks to support quality project
- PNG Government / Oil Search working closely to co-ordinate financing





OSH Funding Requirements

- Seeking debt finance - 70:30 debt: equity
- For equity component, Company balance sheet very robust
 - Zero gearing and strong cash reserves
 - US\$100 m committed revolver currently undrawn and does not expire until December 2007
 - AGL sale proceeds
- Oil revenues very strong and fully unhedged
- Coordinated approach on financing from all stakeholders, including PNG Government





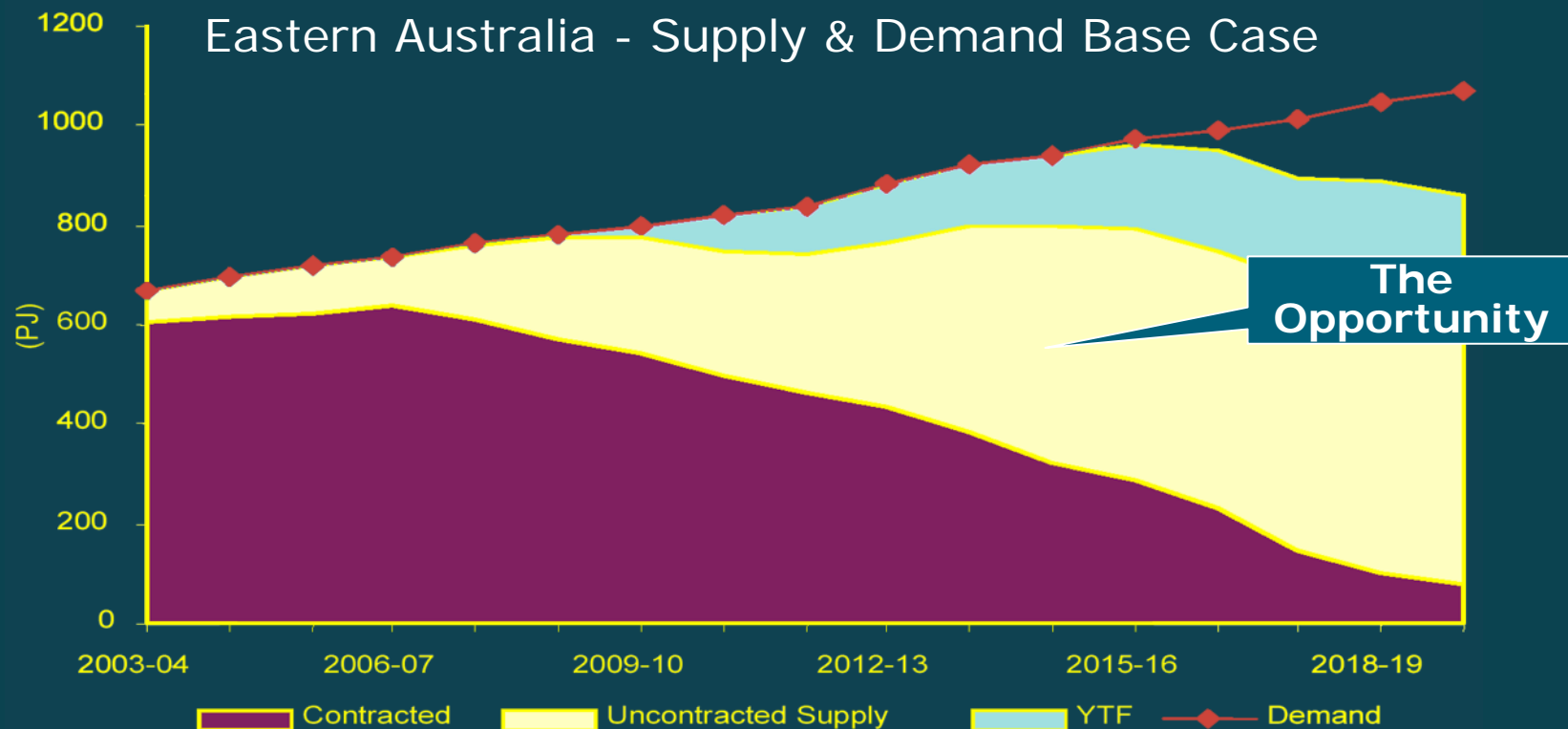
Sources of Project Debt Finance

- Commercial banks to provide primary funding commitment,
 - Right sector, geographical growth area, banks asset hungry and opportunity poor in resources
 - OSH's existing corporate oil facility supported by 14 global banks. Strong interest to grow PNG assets.
 - Reviewing opportunity to maximise leverage by merging oil & gas financing, should enhance pricing by removing need to capitalise interest, & provide completion support
- PRI cover to come from private sector & ECAs
 - Expect banks to provide uninsured tranche
 - Initial testing indicates more than sufficient cover available
- Road testing of Preliminary Information Memorandum very well received



Clear need for gas in Eastern Australia

- Wood Mackenzie analysis suggests even with PNG, Coal Bed Methane & Yet-to-Find (YTF) gas there is a clear need for new sources of gas supply to meet demand





So What is Different Now?

The Easy Stuff

- Simple design configuration optimises oil facilities whilst accelerating liquids production
- Capital efficient design
- Established market threshold with upside volumes. Focus on moving conditional to firm agreements
- Economics impacted by higher oil prices and exchange rates balanced by capital costs and expansion



A Long Time Coming

- Focus on all aspects of Project Delivery
- FEED activities proceeding well
- Design criteria fit for purpose, maximising value of liquids
- Underwriting customer base to be converted to firm agreements
- Further marketing activity a focus
- Pipeline FEED underway
- Regulatory issues being actively addressed





Alignment Matters

Learning Lessons from the Past

- Project being driven by motivated stakeholders
 - Upstream alignment
 - Key stakeholders with upstream, customers and downstream integration
 - Important corporate drivers to succeed
 - Clear Government and landowner motivation to succeed
 - Strong support from financial institutions
- Project now well positioned to deliver

A Project for Several Generations



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