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Start of Transcript

Peter Botten: Well ladies and gentlemen, I think we'll get this underway; we are pretty much on time. There are no evacuations or there's no drills planned for the period of our presentation this morning. So in the event that you do hear the whoop, whoop, whoop of a fire alarm you should exit the back of the auditorium here. We'll escort you down and we will relocate ourselves in front of Governor Phillip Tower. So welcome this morning. It's a pleasure to be here. It really is a pleasure to be here and present the 2017 full-year results. So clearly we believe this represents a very strong set of operational and financial results. We'll go through this morning on our growth projects and progress on expansion [develop] of LNG. We'll also touch on obviously good reserve outcomes. Across this space, a great platform for the Company as it enters what is particularly a dynamic and very exciting year for us all. In my 25 years of being in Oil Search this is actually the most exciting and most dynamic year that I've been here. There is a lot going on and progress is being made and I think we're very keen to let you in on the story.

[Inaudible] the normal disclaimer and also a slightly changed agenda in this time around. What you're going to see is a little bit more of me, a little bit of Stephen Gardiner, and then have substantial open time for questions of our various EGMs, from Julian, Ian, Beth and Keiran, who will answer your questions after the formal presentation. A slightly different way. Of course there'll be questions and ability to question from the ether, from the broader input from people on the phones and various other media that can ask the question at the end of our formal presentations.

If I turn now to the 2017 financial highlights, obviously the number one issue is that net profit for us was just over US$302 million, 236% higher than 2016. Obviously that profit has been built on record production for the Company, in its long history, of just over 30 million barrels of oil equivalent. It's also obviously benefitted from higher gas and oil prices. Oil price was up 24% year-on-year, gas price 21%, which drove an operating cash flow which was up 52% to US$844 million. We had continued very tight cost control. We had also a very strong operating margin, one of the best in class, of 73%. We also saw net debt decline, from US$3.1 billion down to $2.6 billion, with the material repayment of our loan. Our liquidity at year end was still around about $2 billion. So a very significant, strong financial performance in 2017, as I say built off strong production, tight cost control and obviously an uptick in oil price. With all of that we have declared a final dividend for 2017 of US$0.055 per share, taking our full dividend to US$0.095 per share. That represents a 48% pay-out ratio, right at the top of the band in our guidance around dividends.

[Over to] operational highlights, as I say we did produce a record amount of oil and gas in 2017, 30.3 million barrels of oil equivalent.

A slight decline in our oil business as predicted, especially as we didn't carry out much work on our oil business in '17. But, in reality, a very strong performance out of PNG LNG and that continues to surprise to the upside. We also saw some very encouraging results in terms of exploration, with exploration at Muruk highlighting a potential new gas trend between Hides and P'nyang. A further well is obviously scheduled to start sometime in the second quarter of 2018. Very pleasingly we now see broad alignment between key parties - ourselves, Exxon, Total - on the development concept for the next phase of LNG expansion and LNG development. This follows a very substantial amount of commercial engineering reviews carried out by the joint-venture partners. We now have reached a view on the size and shape of the next LNG expansion which I believe is very positive, it's a smart capital-effective way to move the projects forward. Now it'll be subject to respective joint venture approval and then subsequent discussions with government.

In terms of reserves, we've also taken a pretty conservative approach on our reserves, 2P and 2C reserves, which we see up by 1.5% and gas by 3.4% even after allowing for record production; I'll speak about that later. We also will see the results of P'nyang South 2. Obviously integrating the Alaskan results into our reserve base, which we'll do during 2018, will also have a positive impact on our overall reserve status. On 14 February we closed out our Alaskan transaction and we will assume operatorship in Alaska sometime in March, and I'll talk about that a little bit later on.

Core to our business obviously is keeping our people safe. Whether they be contractors, whether they be staff members, and our communities in actual fact. [Importantly], we did see a slight increase in the total recordable incident frequency rate and lost time injury frequency rate during 2017. Focusing back on doing things well, planning and making sure we have the skills, appropriate skills, across our various operations clearly continues to be a focus for us all. As we go through what we see to be higher-risk operations in drilling and seismic, clearly a refocusing and a continued emphasis on planning, on safety checks and procedures, abiding by procedures is clearly a key part of our business.

We did see, in 2017, a significant improvement in our process safety performance. The development of comprehensive maintenance programs and management programs of our ageing oil assets is certainly a key part of our ongoing programs in our operations. We also saw a material focus on testing the robustness of our assets by completing a - running these projects through various climate-change scenarios. The first climate-change resilience report has been prepared and will be published some time in March with our annual report. So, again, across the space, some material progress on that front. Certainly we're very comfortable that our assets are robust in pretty well most realistic - or all realistic climate-change scenarios.

I'll now throw this across to Steve and Steve can run you through the numbers.

Stephen Gardiner: Excuse me, I've got a bit of a croaky voice. Good morning, ladies and gentlemen, great to be here again. Peter has covered the financial highlights, so I'll dig a little deeper into the numbers; firstly, by showing you the right chart. Okay, this chart gives a nice summary of the drivers for our improvement in our financial results in 2017, obviously highlight the 236% increase in our net profit. Our revenue was up quite substantially by 17%, and that's despite slightly lower sales volumes due to the timing of cargo listings. As Peter's mentioned, that's all about price and the price recovery we saw over the course of 2017. Our production costs were stable year-on-year; I'll provide some more details in a minute. Our other operating costs were slightly higher despite some lower inventory draws. That was really due to higher royalty and levy payments, which again are driven by higher oil and gas prices; higher LNG shippings costs because we ship more; and a provision for obsolete oil operations inventory as we reviewed our stock that's been around for a long time.

Also, our non-cash charges were down significantly on the prior year, despite an increase in LNG production. That was due to a lower LNG amortisation rate for 2017 after we booked additional 2P reserves at the end of 2016. Our effective tax rate also dropped quite significantly, down from just over 50% in 2016, down to 31.5% last year. 2016 was impacted by a one-off adjustment to our deferred tax balances following the PNG Government's realignment of the tax rate on all projects to align with the corporate tax rate of 30%. That produced a one-off impact on our tax bookings. We got the benefit of that though in 2017, with that lower tax rate of 30% on our oil projects flowing through to the effective tax rate. The other category in the chart is really the - reflects the InterOil break fee that we received last year, net of deal costs in 2016 as a one-off item.

Turning to costs, as I mentioned our overall cost performance last year was quite pleasing. PNG inflation is always an issue, and with a weaker currency there there's been some upward pressure on local costs in particular. Despite that, our unit costs were steady at $8.67 per barrel of oil equivalent, and that certainly remains very competitive regionally. Our unit costs were helped by our higher LNG production, both in absolute terms and relative to oil production. So the PNG LNG project delivering further savings across maintenance, manpower and logistics. For our own operated oil and gas assets our unit costs were impacted by lower production from very mature oil fields, with that decline rate not being mitigated due to lower oil prices and our inability to spend money to find ways to maintain production from those field in a low oil-price environment. We also had some higher scheduled maintenance spend last year, particularly around our processing facilities, and at the commencement, towards the end of the year, of a well workover campaign. Those well workover activities were prompted by a more positive oil-price outlook. So we believe now that with that outlook we'll be able to deliver an acceptable payback on investment in those workovers over the next few years, which hasn't been the case for the last few years.

Turning to the balance sheet, something that's very pleasing for me, our financial position did strengthen over the course of 2017. We're in an excellent position now, as Peter mentioned, for the major growth projects that we're looking to fund over the next several years. Last year we funded all of our outlays necessary to support our core operations, at a cash-cost equivalent of just under $30 per barrel of oil. That gave us obviously plenty of headroom, given that we had a realised oil price of just over $55. Every barrel of oil equivalent we generated last year produced cash of about $28, so a very strong result.

We were, therefore, able to fund all our CapEx last year, our debt repayments, dividend payments from operating cash flow. At the end of the year we were able to inject $150 million into our kitty, which is putting us in a very strong position for this year. Because of that we finished the year with lower gearing and higher liquidity, with just on $1 billion of cash in the bank at the end of the year and undrawn committed bank lines of around $850 million. That follows a successful refinancing of our corporate facility, including an upsizing of the facility during the year. Last year we also repaid $314 million of PNG LNG non-recourse debt and our net debt reduced by $466 million. So even after the payment last week of $400 million to the Alaskan assets, our liquidity at the moment is still just over $1.6 billion.

Turning to this year and guidance for this year, a key element of the guidance I think is really our CapEx forecast which is materially up on 2017. It's ranging around the $525 million mark, but there will be a fair degree of volatility around that over the course of the year depending on the pace of the projects that we're moving forward. That's driven by a much larger spend on our growth projects this year than last year, including on both pre-FEED and FEEDfor LNG expansion. We're doing more appraisal drilling this year with the Muruk 2 well, Barikewa and Kimu, plus the residual costs from drilling the P'nyang 2 well that has already been completed. Our seismic spend this year also will be higher, with major programs covering about 475 square kilometres across both the onshore Gulf and the Foreland's area in PNG.

Our appraisal spend also includes some money in Alaska to get ready for the drilling season in 2019 on the North Slope. Our development spend covers construction activities, with the tie in of the [Angoree Field] into the PNG LNG gas processing infrastructure, and FEED commencement for the LNG expansion projects. CapEx guidance also includes investment in the Port Moresby power station that we're working on in partnership with Kumul, and a company-wide ERP system. Also we're spending some money setting up our own offices in Alaska in Anchorage. Our production guidance for the year is unchanged from the December-quarter report. We're forecasting a similar result to 2017, with another increased contribution from PNG LNG offsetting lower production in the oil fields. As I mentioned, we're hoping to offset some of that natural decline this year though, with the well workovers which will hopefully have an impact in the second half of the year. On operating costs, on a unit-cost basis our production costs may be marginally higher than last year, again reflecting that well workover spend. Finally, our non-cash charges will be in line with 2017, with a unit rate of around $12 per barrel of oil equivalent.

So with that, I'll hand it back to Peter, thank you.

Peter Botten: Thanks, Stephen. I'll now move on to some of the other key operational aspects of our business, and start of course with our strengths of reserves. Over the last four years we've added around 313%, in boe terms, our production base. So our 2P and 2C reserves are really pretty strong to continue to go into a series of expansion and development projects. Our 1P reserve life right now sits at about 15 years, and our 2P at about 17. But our 2P and 2C resources are 45 years. So we have substantial long-term resources base that we can apply to growth, especially in terms of LNG expansion and LNG development. We also believe that there's further upside in that, especially following the results of P'nyang South 2 and obviously integration of Alaskan resources and reserves into our numbers in 2018 and into '19. If I move now to LNG, it's really pleasing to note that following really very comprehensive engineering studies on the downstream and upstream development options for LNG in PNG, there is broad alignment now between the key parties on the preferred development concept for both expansion of PNG LNG and development of Papua LNG. Around that comes an eight million tonne of new capacity and agreement to build that with likely three new trains, two supported by PNG LNG and one supported by - sorry, Papua LNG and one supported by PNG LNG and P'nyang. All of that will be presented to PNG Government and our joint venture partners in the coming weeks to seek their endorsement and engage with all parties on the next phase of how we see these projects coming together. The concept is, as I say, a very smart one; we believe it facilitates bringing together an optionality of each other's capacities and infrastructure. It also allows a smart way of both marketing gas and financing.

We expect the negotiations to, as I say, start shortly on the cost-sharing arrangements around this now we have a broadly-agreed concept, and the conditions governing integration and the PNG gas agreements are part of our focus in the coming months. We certainly continue to expect a decision on feed in the second half of 2018 with really the core focus being on how long it takes us to get through the government process.

In terms of P'nyang South, it certainly was a good well result. It was a very good extension to the south of the resource base and it confirmed the field does extend to the southeast. We're presently recertifying the reserve and resource base and that's expected to be completed sometime in the second quarter of 2018. We certainly expect both an increase in 1C and 2C certified resources attached to this deal, and that again will help to support financing and marketing activities for LNG expansion.

If we focus then on what's happening in 2018, we've obviously completed a number of things, including P'nyang South appraisal well. Those are positive results. We have broadly completed the core integration studies and commencement of commercial negotiations and discussions around how we move forward. We've also commenced the recertification of P'nyang resource and we've already started the structure and process of what can be financed or what should be financed as part of this next phase of expansion and we’ve [inaudible] into the LNG marketing activities.

The next step for us is to present the optimal program to our respective joint venture partners and there are three joint venture groups that will be walked through this in the coming couple of weeks. Then engage and rapidly engage with government on the various gas agreements and various approvals that are needed to move the whole series of projects forward. We then will complete pre-feed and then obviously work to sign binding downstream integration agreements leading to a gas agreement, or gas agreements being approved by government and then feed entry. A lot of work to do and it is building substantial momentum now we have the core directional approval and the core engineering work has been largely achieved.

From our perspective and certainly following on from the announcement by Total and Kumul last week around their agreements to market and help each other market their LNG from any expansion, the reality of where we sit is that the equity marketing for future LNG from expansion and development of new trains will be done on an equity basis and we believe therefore it's necessarily for Oil Search to build its capability and I'm pleased to say that we've just recently picked up or employed a number of very experienced high calibre personnel with collectively over 70 years of experience based in Japan. That we believe will be a core for us to move forward with our overall marketing efforts for both expansion and development of Papua LNG.

We all know that PNG is ideally located to access the LNG markets in northeast and southeast Asia and we certainly will be continuing to target those markets for our own LNG supplies. We see right now about 37 buyers in the Northeast Asian market and 80% of the supplied volumes are controlled by only 11 sellers. So there is room for further sellers into this market. LNG buyers certainly continue to seek diversity of supply both regionally and new sellers, and we believe we can compete very effectively in that space. We obviously will leverage, as we all will, the outstanding performance by PNG LNG and certainly that continues to be a stellar performer.

From the point of view of LNG marketing and the update against our 1.3 million tonnes, the current market conditions have been really very favourable for us to market this extra 1.3 out of PNG LNG. There has been very strong interest from the market and with numerous top-tier buyers, including end users as well as LNG traders, and right now we've shortlisted a small number of parties and we're right now in detailed negotiations for supply agreements for that 1.3 million tonnes with contract terms up to five years. Clearly, the pricing we believe has been achieved in an attractive market scenario and certainly we believe we have in the expressions of interest and now in the formal negotiations a significant - a good and risk-mitigating LNG contract base with which to sign up this extra volume.

In terms of the LNG market, clearly the market itself has grown enormously over the last couple of years. To a degree, and surprising to the upside I think in terms of offtaking, in a range of customers in China, in various parts of Southeast Asia, and demand has grown 11% in 2017 across the globe and is expected to grow with compounding at about 6% per year for the next five years. The supply-demand scenario, obviously with new projects coming on the supply is still weighted towards the supply side rather than the buy side, but in reality there's substantial further recontracting and new growth, especially in Southeast and Northeast Asia where we will be targeting our own gas volumes.

The interesting thing is the LNG capacity, although it exceeds supply now, only 7.2 million tonnes of new LNG capacity was sanctioned in 2016 and '17, which inevitably means that with the growth in the supply - in the growth in the market but the supply side will become tight and we believe we're marketing at a perfect time for PNG LNG expansion and Papua LNG development to secure these markets, and we're very well placed obviously both geographically and in the time of our potential build to supply these. We remain very much at the bottom end of the cost curve and certainly the broad development scenarios and the detailed engineering work that has been carried out has highlighted the cost competitive nature of both Papua LNG development and PNG LNG expansion to play into this in a highly effective and very competitive way.

In terms of exploration, clearly there are a range of prospects that we're actually addressing in 2018 and beyond, but across all of this is a view, and a strategic review of how we go and where we explore and how that all fits into commercialisation processes. We clearly have a lot of gas to discover. Our view is that there's around seven billion barrels of oil equivalent still to find in PNG, whether it be in the highlands, whether it be onshore gulf, offshore gulf or now the deep water. There's a lot of gas, about 92% we estimate is gas of that total volume. So, we will be spending some time in 2018 in understanding what the next phase of LNG growth is beyond these next three trains. So, understanding where we should therefore look and where we should spend our money in terms of exploration becomes a critical part of our ongoing business in Papua New Guinea.

Of course, Muruk 2 is part of that. It's a pretty substantial step-up and certainly it's designed to prove up a significant resource if it is successful. It is expected to spud sometime in the second quarter of 2018. It's 11 kilometres away from Moorook 1. We're also doing some appraisal work with a total resource based potential of around a tcf between Kimu and Barikewa and their second and third quarter appraisal wells that we need to do and are keen to do to see the resource potential in some of our other discovered resources.

Of course, as Steve said, there's a major seismic acquisition program underway, primarily in the gulf, a little bit in the highlands, around proving up the next series of prospects to drillable status for 2019 and beyond.

On 14 February we did complete what we believe to be an outstanding transaction in picking up a world-class oil asset in Alaska. We have acquired those assets for US$400 million and we have a further option which provides us with a significant further value opportunity. That option can be used to introduce other parties, align parties which could potentially optimise our future development and we clearly see that that option is worth a substantial amount of money as we move this project forward.

We've had a range of unsolicited expressions of interest received from various large organisations, large companies for participation in this, the Alaskan assets. We're moving forward with this in discussions with those parties in the short term. We're not necessarily in a hurry though to land that plane; we really do need to understand the resource base further and there is, as I mentioned, substantial further upside in the assets that we have purchased.

We will assume operatorship in March this year and we're fully - well, gearing up now to have a small but very focused team in Anchorage in Alaska. It's great to see that you're actually dipping your toe into a pool of - the largest pool in the world of high-quality technical and commercial expertise. It's also interesting to note that there is substantial interest from those parties or from people to come and join us in terms of being involved in the US's largest conventional development for quite a long time. So we are actually receiving and we believe we'll have a world-class team over there to appraise and potentially develop this field into the future.

In terms of exploration, there's a whole range of further upside in this business over there. The acquisition was based on 500 million barrels though our joint venture partners suggest it's much more than a billion.

ConocoPhillips right now is drilling two wells that are germane to our future appraisal process. They're adjacent to and they confirm the extension of the Nanushuk field into their acreage and we will be trading at least one of those wells in the second quarter and that will be an important data point for us in both understanding the technical extension of our fields but also the importance of establishing connectivity between ConocoPhillips's areas and our own.

Our focus right now though is to delineate the 2C resource in the Nanushuk and that will involve an appraisal program starting at the end of the year through into 2019, with an objective to take this FEED in 2019. It certainly also has a range of expiration upsides and as we become more familiar with the assets and work with our partners, we see a substantial amount of unrisked prospective resource, over a billion barrels in the areas that we picked up. This is a classic area of picking up a second life in the Alaskan North Slope in terms of further new play types and it really is quite an exciting place to be right now.

In other focus areas, we'll continue to strongly work with - closely with the government to facilitate the ongoing payments of LNG benefits to landowners throughout the project area. There's been quite a bit of progress on this over the last six months or so and benefits have been paid to various areas, including the plant site and then areas around Hides, but there's still more to go. This is the - this certainly is a matter of urgency for the PNG government. They're giving it a lot of attention and working very hard to facilitate the payments and refresh where necessary the land ownership structures which will allow the payments to actually take place. We're certainly working very closely with government and landowners' groups to help address the issue and facilitate where we can. I mentioned earlier on the climate policy in the company was approved and the first Climate Change Resilience Report will be released in March 2018. We are part of the world. We're obviously deeply concerned about climate change and how we play into the climate change process.

We do see from that modelling work, including under the 2°C scenario that our asses, all our assets, are actually very robust and continue to provide very positive returns to our shareholders in a whole range of scenarios, with one exception, which I think was the Greenpeace exception, which actually had us go out of business, because they were going to stop hydrocarbon production. The First Voluntary Principles on Security and Human Rights report has been - just been submitted and it will be on the website, I believe, tomorrow. So, again, we're working very closely with various people, various entities and stakeholders to ensure that what we do in-country is one that fits international expectations and international processes.

Of course, 2018 is an extremely big year in Papua New Guinea with APEC coming to town in - throughout the year, a number of big events. We continue to work with government on key infrastructure. We also are working with them on various aspects of power. Of course, our comprehensive social programs are either done directly by Oil Search or through the Oil Search Foundation.

So, lastly, our key priorities for 2018 built on what I think to be an unprecedentedly strong platform of production and financial strength. It's really very much focused on the critical milestones for PNG. I think LNG expansion in Papua and LNG development. Obviously, the first thing to do is to bring all of the various joint venture approvals together and endorse what we think to be a very sensible way forward in terms of the eight million tonnes and the three train program. That will lead in the very short term to start negotiations on the various gas agreements that are needed with the PNG government and that's an essential part for us getting comfortable as a group and series of groups for a fee decision later this year. We're also marketing - already starting our marketing programs for Oil Search in both Papua NG and for any potential future LNG expansion from PNG LNG. We're also actively working to pull together discussions on financing and how the project financing structure can be worked, given the present configuration of our new expansion and new build.

A key part of PNG LNG expansion will be progress on the associated gas work, which will see gas production in our oilfields increase to support an expansion train from PNG LNG. That really has a significant impact on our oil business and how we run our oilfields. That process is, again, a focus for us for the rest of the year. We will see binding medium-term agreements for the sale of 1.3 million tons, I think, on attractive terms, given present market for PNG LNG and we'll see also significant expiration on appraisal work in PNG focused primarily on gas to define some of our future are resource options and priorities for investment in further LNG expansion and optimisation. Of course, we will continue to work with government and all stakeholders in PNG to ensure ongoing, stable environment. That you can't ever, ever be complacent about that. We work it extremely hard and we'll continue to do so.

Obviously, understanding where we go with Alaska and the Alaskan upside of the Nanushuk field is a key part of the second half of the year after establishing a quality team to drive our business in Alaska. Clearly, engagement with key stakeholders, both our joint venture partners and companies in the area to optimise the development and get maximum leverage from our Alaskan option remains a key focus for us. So, ladies and gentlemen, that's the end of our formal part of the presentation. Myself and EGMs from gas, gas development, exploration, new business, operations and of course our numbers person are available here to take questions from you, both from the audience that are here and also from the telephone and/or other mechanisms of how you answer - how you want to ask questions. So I'm - the roving mics are out and about.

Andrew Hodge: (Macquarie, Analyst) Thank you. Andrew Hodge from Macquarie. First question I just wanted to ask was just three train, slightly different to what previously has been talked about. I just wanted to get a sense for how you're thinking about the three train and, I guess, also the thought that just in terms of with, I guess, the announcement last week as well, how you guys think about financing now, because it seems like project financing might be a bit harder.

Peter Botten: Well, actually, quite the opposite. I will answer the first one. Why would it be harder? You've got two trains supported by Papua LNG, which is very straightforward and very straightforward cash flows from that. You're not necessarily mixing gas, so you've got one train which is a standalone PNG LNG and two trains standalone Papua LNG. But that's - I could ask our good finance man to talk about that and then I'll come back to the train.

Stephen Gardiner: Thanks, Peter. Andrew, yes, the reality is now that we've manage to align the assets with the resource and - it's much easier to finance. You're not looking to carve out security across two projects where they're sharing infrastructure, which is always going to be a challenge in terms of the trains themselves. We also have the benefit now of leveraging the existing PNG LNG financing for expanding - for financing of the PNG LNG train. That financing is partway repaid now. It has got plenty of capacity to upsize that if necessary and increase the term of it. So it's actually a simple financing solution, both from a lender point of view and certainly in terms of dealing with the interrelationships between the two projects.

Peter Botten: I'll ask Beth to - or Ian to talk about the trains, so over to you, Beth.

Beth White: Thanks for the question. We think that the three train solution is quite smart. It provides the most cost-effective means of achieving roughly eight million tons of capacity. It's a good fit to the resource space and there has been very, very high quality and substantial study work done around this and other options as well and this particular option, we feel, takes advantage of advances in technology and is a very, very good fit to the upstream resource space that we've got.

Andrew Hodge: (Macquarie, Analyst) Can you talk about timing of train, whether or not there's any kind of delay to P'nyang, Muruk gets included, and I guess the capital intensity of doing three versus one big, one small, which was the previous one for eight?

Beth White: Look, some of the particulars of the sequencing of the field are the subject of ongoing joint venture discussions, so I won't go into too much detail. What I would say is that we think that the three trains can be achieved without overheating or placing too much capital intensity on the construction phase. We'd be looking at sequencing some of the spend and smoothing investment, so…

Dale Koenders: (Citigroup, Analyst) Dale Koenders from Citigroup. Firstly, can I just confirm it's three equally sized trains that get you to the eight?

Peter Botten: Yes.

Dale Koenders: (Citigroup, Analyst) Okay. Then how do you think about the broader concept of - it sounds like definition of you bring your own equity molecules to the LNG project and it sounds like potentially some sort of tolling fee paid for the shared infrastructure. If that is correct, how does that define, I guess? Does it simplify the outlook for further expansion longer term and make exploration country more appealing, because you've got a more certain development concept?

Peter Botten: Yes. All of the above. I mean, there is no doubt that keeping it simple is one of the great advantages of the concept that's presently on the table. I think there was a - quite a lot of work that was put together in terms of optimising the train size and as - you know, what we have here is a series of trains all built in pretty much the same spec - well, exactly the same spec, which gives us a process of spare parts and operating cost synergies. We also have - it's liked by the market, because instead of having one big train, you've got a number of trains that, if something goes wrong, you're still [inaudible] in production, so that helps marketing. It definitely makes it simpler from molecules in sharing or non-sharing of molecules. But it also allows us to optimise the scope of sharing of infrastructure at the plant site.

That's where the focus will be on in the next couple of months, on working a commercial agreement which allows us to share that in an appropriate commercial way. I should say - and I think Patrick Pouyanné was saying last week that there were strong alignment and good commonality between the various key players and I think he said the fight was behind us. So I'm just trying to work out how we might say that in French, but I probably shouldn't attempt my French in doing that. But I - look, there is strong alignment around this and, sure, there's a process to go through and most importantly, an engagement with government on this, but we're very optimistic that this is a very sensible, smart outcome, which optimises a range of issues, including resource and financing and marketing.

Dale Koenders: (Citigroup, Analyst) Then finally, does this then confirm, I guess, more guide towards your equity interest in those projects that are probably 17.7% in the two trains and 29% interest in the third train?

Peter Botten: Broadly speaking, I think you can…

Dale Koenders: (Citigroup, Analyst) Yes.

Peter Botten: …assume that for your modelling, yes.

Dale Koenders: (Citigroup, Analyst) Thanks.

John Hirjee: (Deutsche Bank, Analyst) Thank you. John Hirjee from Deutsche Bank. Peter, in terms of marketing LNG, you're going to now embark on that in terms of equity marketing. You've obviously secured a team to do that in Japan. Could you just elaborate a little bit about what your particular strategy will be in terms of marketing the LNG?

Peter Botten: Well, I'm going to kick that to Ian Munro, who's the main [we deliver].

Ian Munro: Thanks, Peter. Yes, John. As Peter mentioned in the presentation, the market, I think, is hungry for another seller. There are a number of parties – small number of parties that really dominate the market, particularly into North East Asia. We've already had a number of unsolicited bids from buyers who want to talk to also just a new entrant into the market. Notwithstanding some companies' views that LNG is a commodity, we see it to place term contracts into established markets will required deep and lasting relationships which is why our first hires were to bring an established team who have those relationships. But not just into Japan, these individuals we're bringing in also have deep relationships into China, and particularly into South Korea.

One of the legacies of Oil Search is we build strong relationships in PNG and we're going to carry that forward into equity marketing. We think it's a good time to be in the market, and particularly selling a premium product.

John Hirjee: (Deutsche Bank, Analyst) Could I also ask about the fiscal terms? PNG LNG obviously had a fiscal stability agreement which I presume the third train would encompass that. What about the terms for Papua and LNG? Have you sort of had broad discussions with the government on that yet?

Peter Botten: Certainly the discussions with the government have been around what future expansions and developments might look like. I believe there is a paper going to cabinet, and in my view likely to be announced fairly soon by government around various tweaks in terms of domestic market, pipeline access, et cetera. There's a very strong focus in government around what the domestic market could look like and providing access of gas to the domestic market to develop local industries, power, et cetera, along with the use of infrastructure, key infrastructure into the future.

So, we think the focus of government is firmly in that respect and also local content in any future build. So, I don't anticipate there will be any fundamental change to the core terms, but I do think especially given recent experience in Australia, there will be a focus very firmly on domestic, how gas might be used domestically, and how that might come to develop further industries in the country.

John Hirjee: (Deutsche Bank, Analyst) So, do you think there will be a domestic market obligation in terms of quantifying the reserves that need to be earmarked for the domestic market.

Peter Botten: Look, I think there is a very pragmatic approach taken by government recognising the size and shape of what the domestic market looks like, and even with [inaudible] in the world, what it could look like in five or 10 years. I think as a pragmatic approach by government, but there isn't I think a very real need for some gas to be put aside, and when commercially appropriate to be sold domestically to develop local industries in PNG. I think that's a very healthy and very normal aspiration for government, and we would support it.

I think there will likely be some form of volume reservation, but I equally know that government's view is probably that it doesn't want to lock up reserves that just aren't ever going to be used in the domestic market. So, I think there's a good pragmatism and I think government will approach this as they do in many things in a very responsible way.

Any more questions locally? I'm sure there are quite a number on phones. We've got at least another six or seven brokers that need to probably ask a few questions.

Operator: Thank you. For the phone parties to register a question, please press star one on your phone. The first question from the phones come from Mark Samter from Credit Suisse. Please go ahead.

Mark Samter: (Credit Suisse, Analyst) Morning guys. A couple of questions if I can. The first one is it's probably quite an interesting dichotomy for the market to look at Woodside raising equity when gearing and they kind of seem to blink when gearing gets to 25%. Your guys gearing is sitting at 35%, it's now I suspect, I personally certainly do, I think the market probably believes that your gross projects are more realistic to come to fruition on nearer term. Can you just give thought, I mean what do you guys watch for when you start to be concerned about the balance sheet? Is it gearing? It is other metrics? What level are you comfortable to take things up to?

Peter Botten: I'll get Steve to at least talk to that up front.

Stephen Gardiner: Sure, thanks Mark. Look we are sensitive to gearing, but we're sensitive and focussing on the capacity of each of our major projects to support and generator cashflow to support the debt that's dedicated to them. So, for us looking at the capacity of the expansion project to support, the debt that that would be contributed to them, and service that over a reasonable timeframe is what we really focus on.

We're pretty comfortable. We've done a lot of modelling based on sort of fairly conservative oil price consumptions over the next several years and are very comfortable that we will maybe see a modest rise in our gearing with these growth projects before us. But certainly, won't get up to levels that we've uncomfortable with. The reality is that we'll see our debt levels paid down so quickly once we're producing from five LNG trains. We go from a reasonable gearing to no net debt within a matter of a few years.

So, it's really getting that balance right. Importantly though, all our modelling indicates that we won't need to do any equity raising. We can fund these growth projects out of our existing cashflows cash and potentially some more corporate debt as we generate stronger operating cashflow from the current project.

Peter Botten: Can I say that we're obviously mindful of recent history around this. It would be silly to say that we haven't seen what's happened to various companies in history. But I want to stress that we're not stupid, and we have a range of levers to pull and push to manage our balance sheet, and cashflows, and our investment expenditure quite well. Certainly, much of our exploration spend remains discretionary, and can be attenuated relatively easily.

Equally we have options to sell down various pieces of our assets, and work out options, for instance in Alaska, to be able to manage our exposure and risk in any potential development there.

Firstly as I say, we're not stupid, we've seen what's happened to people in the past. At the moment we're very comfortable with the way things are travelling based on our own modelling, and the timing. Obviously, as Beth alluded to, the timing of upstream development, we believe, will be over a longer duration than previous LNG. That will also have an impact on where the cashflow, and how our cashflow can be managed. Again, we think that's a pretty smart way of managing our balance sheet through that.

I agree with you Mark, I think we have tangible short-term gas growth projects that are there, and they sit in the top quartile in terms of returns and lowest quartile in terms of costs. So, that's really been emphasised by our recent work. I think we're sitting in a pretty strong position, an exciting position, to deliver on quality high returning growth.

Mark Samter: (Credit Suisse, Analyst) Thanks, then sorry I'm doing lots of comparing against Woodside, but I think we've all probably heard from Woodside over the last week that they're saying that they're happy to go to FID on Scarborough, if we believe it, at 50% of the volumes contracted and probably on quite short terms contracts. Are you guys in a similar position? Or would you look for more contract cover before FID?

Peter Botten: Look, I think it's like that we'll be looking for greater levels of contract cover and we've very confident that actually we can achieve that. But I wouldn't want to comment on necessarily where Woodside is going in their own. Obviously, they're a different company to us. But certainly, from a PNG perspective, I think we'd be looking for a higher level of comfort around that. But again, each part of that project will probably look at it slightly differently.

Operator: Thank you. The next question comes from Nik Burns from UBS. Please go ahead.

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Nik Burns: (UBS, Analyst) Thanks Peter, and everyone. Just a question relating to the alignment between Papua LNG and PNG LNG. Just wondering what level of integration, we should expect here? Should we be thinking about expansion here as two separate projects now? In that context, could they move ahead in their own timeline?

Peter Botten: Beth I'll get you to answer that. At least initially.

Beth White: Nik, thanks for your question. Clearly, we're still looking at very close coordination and alignment between Papua LNG, and PNG LNG through the integration of LNG expansion. Peter has noted during the presentation, we've got dedicated trains to Antelope, and we've got potentially a dedicated train to PNG LNG gas fields and the P'nyang fields. I suppose the concept is that we remain a very heavily and closely coordinated development. But of course, there would be flexibility built into that to allow projects to progress somewhat independently.

Peter Botten: I think that obviously the intent is to more forward in lockstep, and that frankly is the very likely outcome. But clearly there's a lot of work to do to get to that position.

Nik Burns: (UBS, Analyst) Sure, just thinking about previously you've showed an aggregated 1C and 2C resource position for P'nyang and Elk-Antelope showing that you've got sufficient gas for eight million tonnes. But you're now talking about separate molecules going into the trains. You've given out performance of trains one and two. They've clearly done very very well. But just thinking from a PNG LNG, and Papua and P'nyang perspective, do you have enough confidence there that there's sufficient 1C resource that's been proved up by recent drilling to underpin a train from PNG LNG? Or does Muruk appraisal this year suddenly become very important for that.

Beth White: Thanks for that follow up question. As discussed during the course of the presentation we're very happy with the result that we've achieved with the P'nyang South East 2 Well. We do expect significant increase in certified 2C and 1C resource, and we remain very comfortable with our resource space.

Peter Botten: That certification should be available sometime in second quarter this year.

Beth White: That's right.

Peter Botten: So, I suppose re-emphasising it, I think we're very comfortable that the resource base is available both from Papua LNG, and for PNG LNG, and P'nyang to underwrite what we've outlined today.

Nik Burns: (UBS, Analyst): Got it. That's clear. Thank you.

Operator: Thank you. The next question comes from Baden Moore from Goldman Sachs. Please go ahead.

Baden Moore: (Goldman Sachs, Analyst) Morning guys. I just had another flow on question on your project financing. Can you talk about, a lot of the businesses are taking additional funding capacity as they go through these development projects? Can you talk about how much funding capacity you'd need in addition to what your CapEx would be? Am I right in understanding that you see maybe your stakes in Alaska as filling some of that additional funding capacity or head room if you like on your needs?

Stephen Gardiner: Well, I guess the first point to note is that we're rapidly deleveraging the PNG LNG project with the debt repayment profile, so that's being paid down over time, and it coincides nicely with the drawdown for debts and new projects. Our expectation is the new projects will be largely project finance. As I said, you achieve fairly high gearing levels on that basis because of the security structure.

We would see our total debt levels rising a little bit from where they are currently, but not rising dramatically, and certainly easily supported within the balance sheet. I'm not sure what you mean by using Alaska. We may generate a bit of money from the trading the option, and that would help. But overall, it's really sort of focussing on the development of costs for Alaska that we're building into our profiles.

Baden Moore: (Goldman Sachs, Analyst) Okay, thanks.

Operator: Thank you. Once again for the phone parties to register a question please press star one on your phone. The next question comes from James Redfern from Merrill Lynch. Please go ahead.

James Redfern: (Merrill Lynch) Good afternoon everybody. I just want to ask about the cost estimates for the three additional trains in PNG. Woodside recently estimated $950 per tonne of the capacity for the second train of Pluto that they're proposing, is that in line with cost estimates for the three smaller trains in PNG? I've got one other question after that, thanks.

Peter Botten: Well, I think, at this stage, we're not going to confirm what the final cost estimates might be, and clearly they're subject to further engineering FEED activities. But we do believe, based on the work to date, that they're very competitive and gives us a very competitive outcome in terms of downstream build. But at this stage I'm not at liberty to talk about the final costs.

James Redfern: (Merrill Lynch) Okay, great. Then just as a follow-on for the PNG trains, how would you think about unit production costs for two smaller trains versus a 5 million, 5.5 million tonne train that was proposed two months ago? Would you suspect that two smaller trains would have higher unit costs given economies of scale?

Peter Botten: We would - we spent some time - or the engineers' studies spent some time looking at that. I believe the two trains, given the changes of technology, are extremely competitive. We feel very comfortable that this does not increase a cost base, in terms of either development or necessarily the long-term operating capabilities of the trains. So I think that's pretty clear in the analysis done to date. But it, again, will be subject to further work at FEED.

James Redfern: (Merrill Lynch) Thanks, very good. Just one more quick one, please. Just on Alaska, can you remind me when you're proposing resource certification for your Nanushuk prospect in Alaska, and just what the delta is between the 500 million barrel resource that you acquired the asset on the basis of, compared to Repsol's 1.2 billion barrels? What's the difference between the two estimates and when will you be recertifying your resource there? Thanks.

Keiran Wulff: Yes, hi, James, it's Keiran. In relation to the first question about when we'll be certifying the resource, we'll probably get the Putu well results sometime in April, May once the well's completed and they've provided data. We're also undertaking some additional modelling at the moment. So, realistically, certification will probably occur in third quarter in time for release some time later this year. In relation to the second part of your question about the reserve differential between ourselves and Repsol and Armstrong, primarily we had an acquisition case that was built in conservative parameters everywhere we looked, whether it be recovery factors, the amount of oil that we attributed to the different [fascias]. So we've had a number of workshops over the last couple of months, certainly in the last month, with Repsol where we've shared our information. We're getting a lot more confident and comfortable with the work that Repsol have done over the course of the last number of years, reminding you that they've spent over $1 billion on this asset to get there.

So we're feeling very comfortable that our acquisition case was very conservative based on where we think the resource base is likely to go. Given the fact that Phillips themselves are drilling two wells on the Nanushuk - which will be extensions both of the Pikka Unit with the Putu well, and the Stony Hill well in the Horseshoe area - they obviously see a substantial upside there as well.

James Redfern: (Merrill Lynch) Okay, that's all from me, thank you very much.

Operator: Thank you. At this time we're showing no further questions from the phones.

Peter Botten: Well, ladies and gentlemen, thanks very much for your time today. As I say, it's an exciting and really dynamic time. I've just ticked over by 25^{th} year in the Company, which is just amazing to me, but let me tell you, I've never seen it more exciting and more dynamic and with such great prospects off a great platform. So we are moving forward at a pace, and the intimidation factor and the amount of work to do in this year and next is well and truly there, but equally I think we've got it covered. So thank you very much for being here today and look forward to further updates through the year. Thank you.

End of Transcript