Company: Oil Search
Title: FY 2018 Results
Date: 19 February 2019
Time: 11:00 am

Start of Transcript

Peter Botten: Good morning, ladies and gentlemen. Good morning for you present in Sydney, at the Museum of Sydney. Also, good morning to everybody on the various media, that are linking into this webcast. Firstly, a safety briefing. There are no test alarms or alarm exercises planned for today at this venue, so in the event you do hear the whoop-whoop-whoop, you will be asked, and escorted through a back exit, at the back of this hall, and down into a muster position in the adjacent square. We will help you get there on the way. So in the event of having that whoop-whoop, please don't panic and we'll evacuate in an orderly way.

Presenters today will be myself talking about the summary, some of the production issues, and Alaska. Steve Gardiner, our Chief Financial Officer, will be talking about the numbers. Beth White, our EGM Gas Project Delivery person will be talking about our LNG, and Ian Munro will be talking about exploration and gas marketing. Welcome, as I say to the 2018 Results Presentation for Oil Search.

2018 frankly was one of the most challenging years in our long history. We're in actually our 91st year, facing at the AGM our 90th anniversary since incorporation. Results are obviously dominated by the impact on production of the February earthquake in PNG Highlands, which shut down all LNG production for a number of weeks whilst wreaking obvious devastation to our communities and infrastructure in the area. Considerable work was required by our own people and those of ExxonMobil to bring production back on stream as quickly as we did, all the time addressing the needs of our local communities in helping them recover from the earthquake and its many after-shocks.

There was a strong recovery of production in the second half of the year, with PNG LNG Project performing outstandingly well, indeed delivering a record average production rate in the order of 8.8 million tonnes per annum annualised. A great result, given the circumstances. The Company overall delivered a net profit after tax of $341 million, a 13% increase on the prior year, despite 17% lower production for the year. The Company maintained very tight discipline in capital management and ended up with a strong balance sheet in equity and liquidity of around $1.5 billion.

We declared a final dividend of US[$0.085 per share, taking the full dividend to US$0.105 per share towards the upper end of our pay-out guidance range of around 47%.

A pleasing element to the 2018 results was the strong growth in reserves and resources, with 2P and 2C in those categories more than doubling to 253 million barrels, and gas up 6% to 6.7 tcf. Obviously, this reflects the booking of initial resources in the Nanushuk field in Alaska, but also the successful appraisal of P'nyang, Kimu and Barikewa during the year. A significant portion of the resource increase will likely be converted to reserves, as upgrades at P'nyang and in the Pikka field in Alaska move to commercialisation over the next two years.

Good progress was also made on LNG development for Papua LNG and PNG LNG expansion. And you know, frankly its hard yards - it was hard yards in addressing, not just the commercial issues, but also the fiscal issues in bringing coordinated cooperative development together for the downstream investments. It was hard work, and I am pleased to say we are making tangible progress in delivery of all the key issues right now. An important agreement detailing fiscal terms applicable to Papua LNG were signed with the State at APEC last November. This is now being translated into a fully-fledged Gas Agreement which is on track for signing towards the end of this quarter. A similar agreement is being matured for the P'nyang PNG LNG expansion, and that again is making material progress as we speak. Substantial progress was also made on a range of commercial agreements required for these projects, and again everything appears to be coming together reasonably well, albeit as I say, hard work.

It is pleasing to see a continued record of appraisal success in our various drilling campaigns and, as I mentioned, that can certainly underwrite near and medium-term growth, both with P'nyang and the Pikka. Wells such as Muruk 2 look encouraging though early days, whilst drilling in the Pikka wells has been very positive to date. A focus has returned to optimise our oil production with higher oil prices, material high value barrels have been identified and these will be targeted over the next couple of years.

Of course, the safety of our people and contractors is paramount to everything we do as a Company. It truly is a miracle that none of our personnel or contractors, spread across 24 work sites in the Highlands, was seriously hurt during the earthquake and its many aftershocks. Lessons learnt from the impact of the earthquake are now being built into our reconstruction efforts, though it's pleasing to note that the facilities worked as they should during the event, and there was no loss of containment. Damage was far greater in our camp infrastructure and certainly in the local communities.

During the year our corporate TRIR reduced from 1.6 per million work hours, whilst again performance on LTI and process safety events also improved. This is not where though we strive to be, and further efforts and initiatives to drive IFO have been initiated across our business. It's pleasing to note that our PNG operations went one year without an incident; however, in some of the higher risk elements, in terms of seismic, we have had a number of incidents which we are working on.

Obviously, we have a series of initiatives to improve safety and environmental performance, which is a continuous improvement process. And along with our social programs we obviously endeavour to support operating [stability 07:19] right across our facilities, a key part of our corporate future success.

With that in mind, I'll throw it open to Steve Gardiner to walk you through the numbers.

Stephen Gardiner: Good morning, ladies and gentlemen, and I'm delighted to be here again. Financially we had quite a solid year as well, despite the impact of the earthquake, on both - all of our production, sales and operating costs metrics. The chart that was in front of you - it's now back in front of you - sets out the key drivers of the 13% increase year-on-year in net profit. As Peter mentioned, revenue was up 6%, despite a 17% drop in production, reflecting higher realised oil and LNG prices during 2018.

Our production costs were 10% higher in absolute terms, again due to the earthquake repair and restart costs, and also the operators used the downtime in the plant to accelerate maintenance programs when those plants were shut in. We did recover some of those repair costs from our insurers, about half of it, $34 million offset during the year against repair costs. It wasn't higher than that because a lot of the initial work that was undertaken related to self-insured assets, such as our camps, roads and gathering lines. We do expect additional recoveries to be booked in 2019, as work continues on some of the much larger, more material damaged infrastructure.

We did incur a higher exploration expense during the period than the prior year due to the acquisition of seismic data in both PNG and also Alaska for the first time. And also increased [GNG and G&A] costs associated with a much larger portfolio of exploration licenses across both locations. Our effective tax rate was up slightly on the prior year at just under 33%.

Turning to production costs; our unit production costs averaged $11.51 per barrel of oil equivalent, one-third higher than the prior year obviously due to the impact of both lower production and off a largely fixed cost base, and the previously noted earthquake repair costs. However, if we normalised for both those impacts then our unit production costs would have been in line with 2017, just around the $8.70 mark. Our unit costs for operator oil and gas assets, however, were more impacted than the PNG LGN number primarily due to the slower ramp-up in production.

Turning to cash flow and our liquidity. Despite the earthquake impact, over $850 million operating cash flow was generated in the year, demonstrating again the robustness of our operating upstream assets, already mentioned by Peter, the great work that was done also to bring those assets on-stream as quickly as possible, and on a reliable basis. Our liquidity position at the end of the year stood at $1.5 billion; it was rebuilt over the second half, with the first half again impacted by the earthquake, and the $416 million we spent on the Alaskan acquisition.

Aside from the Alaskan acquisition, we invested $395 million across appraisal drilling, acquisition of seismic data, progression of the LNG expansion activities, construction of a power station in Port Moresby, and the design and initial implementation of a Company-wide enterprise resource planning system. Again, despite the earthquake, our share of PNG LNG project cash flow was sufficient to fund our scheduled principal repayments during the year of $332 million and still deliver cash distributions from the project to us of $469 million. Now it's worth noting that since the project started, we've now received $2.25 billion from PNG LNG in cash.

Our committed lines at the end of year stood at $900 million, all undrawn, and were topped-up at the end of the year by a refinancing of our bilateral lines, which we increased to $300 million and extended the term of those lines out to five years.

So we've got a big funding program ahead of us of course, and that's a key area of focus for myself. We continue to monitor very closely our funding capacity and also our ability to ride through a range of different oil price scenarios and capital expenditure profiles. However, based on that sensitivity analysis, we remain very comfortable still with our liquidity position, and certainly our balance sheet flexibility as well. That flexibility is bolstered by about $1 billion per annum of operating cash flow, assuming the oil prices perform as we expect.

While [unclear] certainty on our CapEx costs, after FEEDs completed for the major development projects, our share of development costs for the major projects, including capitalised interest costs, during the construction phase will be in the order of $4.5 billion. Now assuming we achieve gearing of 60% to 70%, which I think is very realistic at the project level, we need to contribute about $1.5 billion of our own equity money during the development phase. I will source that money from our current liquidity position of free cash flow, after investing in a largely discretionary exploration program over the next five years which we think can be wound back as necessary. Given those parameters, our financial ratios will remain comfortably within our lender covenant limits.

Beyond that, looking to the medium term, with five LNG trains and Alaskan production, our free cash flow is enormous, well over $2 billion per annum which will result in a rapid deleveraging of our balance sheet, supported along the way by a full repayment of the PNG LNG project foundation borrowing by mid-2026. So all very positive, but let me re-emphasise that we're not complacent when we come to managing our balance sheet, and we continually monitor our financial outlook, and we'll take steps as necessary to maintain that financial flexibility.

Finally turning to the guidance for this year; our production guidance is unchanged from the ranges that were released to the market in our fourth quarter report in January. Our unit cost of production is guided in the range of $9 to $10 per barrel of oil equivalent; that's well down on 2018 but still higher than the prior year. This is still be impacted by ongoing earthquake-related repair costs which are not fully funded by insurance recoveries as I noted. And also, a number of well workover opportunities that we're progressing this year.

Our CapEx guidance ranges from the mid-$550 million to the mid-$560 million. It's really focused on securing our platform for growth. In the exploration and evaluation space, we've got pre-FEED spend on LNG expansion and on the Pikka development, we've got continuation of appraisal drilling that's currently under way, and further seismic acquisition in both PNG and Alaska. Also, we're considering an exploration well later in the year on the Gobe footwall.

The development, we're budgeting to commence FEED activities of course this year for LNG expansion projects, and also the Pikka development in Alaska. We have ongoing work also on PNG LNG's Angore field. For production, we're drilling development wells this year for the first time in two years, in the Moran and [Jusano] fields, to accelerate product and also add incremental reserves. Finally, in corporate assets, we're looking at a potential upgrade of our Company rigs, and a continued investment in our ERC roll-out across the Company.

So on that note, I'll hand it back to Peter.

Peter Botten: Thanks Stephen, I'll just touch on some of the highlights of 2018 production. I think most of this has already been said before, but in reality, 2018 production was 17% lower than 2017, reflecting the impact of the earthquake. PNG LNG returned very strongly in the second half and contributed 22.1 million barrels of oil equivalent to our overall production base. Our Oil Search operated production contributed 3.1 million barrels of oil equivalent, with all facilities now back on line, though there's further work to do in the Moran area to bring Moran field back on full production, and that's anticipated through this first and second half of 2019, along with a series of new wells in - and workovers on Moran and Jusano.

As I mentioned earlier on, a pleasing note for our own Company performance has been the increase in reserves and resources. Our present 2018 production levels sees 1P Reserve life at 17 years on a 2P basis of 20 years. But most importantly, our 2C Resources built by resources in the Nanushuk, P'nyang, Kimu, and Barikewa, a number of those fields in imminent production, and with the possibility of converting to reserves in the short-medium term gives us a tremendous base on which to build the future of the organisation. So a strong resources and reserve position ongoing.

In the PNG Oil fields, we see for the first time in a number of years an attractive series of wells and workovers, primarily in Moran and Jusano, and we're preparing right now to work over and drill some new Moran wells, along with some Jusano activity as well. The first of these low opportunities - so will hopefully extend the plateau of production until 2023/2024, when gas production to support PNG LNG expansion is likely to take place. In aggregate, the new oil facility - oil opportunity set we see could add around 30 million barrels of high value barrels to our oil reserves. So there is certainly life left in the Kutubu and associated fields, and we're working hard to capture that value over the next two to three years.

If you look at the production outlook, Stephen has already mentioned that we see an unchanged guidance between 28 million and 31.5 million boe for 2019. We see that PNG LNG production rates sustainably can be anywhere between 8.5 and 9 million tonnes, and very achievable before normal levels of downtime are taken into consideration. We assume a slightly lower number than that on the back of various planned maintenance where production would be at reduced rates through the year. Although the production of oil is impacted by natural - continued natural field decline, the earthquake recovery, along with our oil optimisation activities in the drilling of new wells is likely to push that number higher, and attenuate and in fact even add to our production base in the short-medium term [or our oil fields.

And with that, I'm going to ask Beth to walk you through gas development and PNG exploration.

Beth White: Thank you, Peter, and good morning, ladies and gentlemen. 2018 was a significant year in progressing our integrated LNG projects. Good progress was made on downstream pre-FEED studies which will see three 2.7 MTPA trains added to the PNG LNG plant site. Two of these trains are to be dedicated to Papua LNG, with the third train supplied by PNG LNG fields including, initially, the associated gas fields, and then the P'nyang field. Downstream pre-FEED technical work, led by ExxonMobil, is progressing well and remains on schedule for completion towards the end of the first quarter of 2019. Total, as operator of Papua LNG, has largely completed upstream pre-FEED studies.

In addition, upstream work supporting the PNG LNG P'nyang trains has also progressed well through the year. Oil Search, as operator of the Associated Gas Expansion, or AGX project, which is designed to provide front-end gas to this expansion train, is targeting completion of the development concepts in the second quarter. ExxonMobil-led project definition studies on the P'nyang fields and PRL 3 are also progressing. During the year the P'nyang field was re-certified by independent experts, Netherland, Sewell and Associates, incorporating the results of the P'nyang South to side track 1 appraisal well, as well as additional core and seismic data. This re-certification resulted in a more than tripling of the certified 1C gross contingent gas resource to approximately 3.5 trillion cubic feet. And certified 2C contingent gas resources also increased to approximately 4.4 TCF which is in line with Oil Search estimates.

The new facilities underpinning LNG expansion will sit comfortably within the existing site boundaries for PNG LNG with materials cost synergies achieved through the sharing of existing facilities, such as tanks and the jetty, in addition to establish logistics and infrastructure support. The proposed integrated three train expansion avoids unnecessary and costly duplication of infrastructure. While some of the processes will be the same the existing PNG LNG trains, advances in technology made for the design of the original trains over 10 years ago are being leveraged to optimise the expansion design. Expansion at the existing site offers the competitive advantage with key infrastructure already in place, likely reducing schedule risk as well as increasing cost savings.

A Memorandum of Understanding between the Papua LNG Joint Venture participants and the Government of PNG were signed in November 2018. The MOU provided the framework for key terms and conditions to be included within a fully-termed Gas Agreement. Since signing the MOU at the end of last year, the parties have been working hard on the detailed mechanics and documentation to support the agreed MOU principles. As part of negotiations, we have sought to address the concerns of Government and appropriately allocate project benefits and returns amongst stakeholders. And while discussions have been robust, we are comfortable that we will end up with an equitable balance. We are targeting having the Papua LNG Gas Agreement ready to be signed by the end of March, with execution of an agreement an important milestone for the project. A Gas Agreement for the P'nyang field in PRL3 is expected to be finalised shortly thereafter.

The conclusion of both Papua LNG and P'nyang Gas Agreements, together with commercial agreements, including those related to PNG LNG site and facility access, will enable aligned FEED entry decisions to be made on the proposed three train LNG expansion. The current timeline places the development on track to deliver first LNG into markets in 2024, when significant additional supply is expected to be required to meet both new demand growth and demand created by expiring contracts.

And with that I would like to pass over to Ian Munro, to speak more specifically to LNG markets and exploration.

Ian Munro: Thank you Beth, good morning, ladies and gentlemen. I'll now provide a brief update on the LNG market outlook and Oil Search's progress towards the sale of equity volumes from expansion. North-East Asia will continue to deliver substantial growth for LNG from the early 2020s and demand forecasts are consistently being revised upwards. Government policy in the key importing countries is prioritising gas over goal and nuclear fuels. There is indeed open acknowledgement from LNG buyers and regulators on the need to commit to new volumes by 2020 latest. JKTC buyers are actively negotiating today for term contracts from credible new projects. It remains a good time to be in the market for projects such as expansion from PNG that can deliver to this timeframe.

Oil Search is targeting to place 1.8 million tonnes of LNG from expansion into an uncommitted volume of around 90 million tonnes by 2025. Much of this volume is from expiring LNG contracts in the premium markets of Japan, Korea and Taiwan. There is naturally competition for such sales, but LNG sourced from PNG is well regarded by the market. Oil Search has seen a very positive response from North-East Asian buyers in particular; we've signed a number of Confidentiality Agreements with quality customers and are discussing material term contracts for expansion volumes.

It certainly helps that the PNG LNG brand is first class in the market, a combination of proven reliability, high-heating value gas, and predictable brownfield expansion. Additionally, buyers are seeking both source and seller diversification in a market that up until now has been dominated by a dozen or so key players. Oil Search can offer a value package to buyers that is a differentiator. We're offering point-to-point sales rather than from a portfolio with a wide range of LNG spec. That certainty in delivery flexibility is highly valued by customers, even more so as the supply of rich LNG declines markedly during the 2020s.

Moving on to exploration and an acreage position in PNG that we believe has the potential to supply future LNG trains and provide high value backfill. 2018 was a positive year for exploration and appraisal activities in country. Successful wells on Kimu and Barikewa have proved additional resources, and importantly in proximity to infrastructure that we expect to be commercial. The completion of the farm-in the prospective licenses adjacent to Elk-Antelope, and the acquisition of our largest seismic program in 10 years in that area, has the potential to ensure large structures for drilling. We see similar multi TCF structures in the deep water.

Finally, we have had very encouraging results on Muruk appraisal operations. The 10 kilometre step-out well appears to have encountered gas in the objective Toro reservoir; a well test is likely and, if successful, may well define commercial volumes and importantly provide field phasing optionality for the three PNG LNG owned trains. More to come on this through the year no doubt.

I'll now hand back to Peter to talk about exploration appraisal activities in somewhat cooler climes.

Peter Botten: And talking about cooler climes, this photo was taken I think on about 9 January, it was minus 51 degrees, so by far and away the closest place the PNG flag has ever been raised.

I've now got to talk about Alaska and then do some wrap-ups and summarise where we're at as a Company. Oil Search obviously completed the Alaskan acquisition in February 2018, and assumed operatorship in March, and since that time we've built a highly experienced team in Anchorage. And if you look at the total experience that we have there, with people sourced from ConocoPhillips, BP, Exxon, all with extensive operating in North Slope experience, we have around over 300 years of combined North Slope experience in our staff there. Right now, we have about 110 people working for us in Alaska, and frankly it's been a very smooth and efficient start-up, as witnessed by the drilling program which is underway on the North Slope right now.

We've chosen some very good rigs, we've built ice roads and actually got out onto the slope and commenced drilling as one of the earliest partners out there, and the drilling has gone extremely well since. We have commenced drilling the Pikka B well, and we did that in late December, and the Pikka C in January this year. We've received already the final environment impact statement and the issuance for that for a Pikka unit development, and we received that in November, and discussions are ongoing and have been very constructive with the State, our Joint Venture partners, ConocoPhillips the adjacent major operator to our main region, and our local Indigenous populations and corporations that are so critical for our success. The relationships are being built and we've had very constructive discussions with all those parties and have been welcomed with open arms on the slope. We've also seen very constructive engagement with several parties to look at, and capture value, from the Armstrong $450 million option to purchase the remaining 50% of their core assets, and those discussions are ongoing.

Right now, we're presently drilling a two-well appraisal program, Pikka B and Pikka C, and you can see Pikka C in the north, Pikka B to the south of that. Pikka B is designed to add 1C resources around a potential development, DS3, with flow tests planned for later in the drilling program to establish reservoir quality and deliverability. The Pikka B has gone very well and has intersected the thickest Nanushuk reservoir seen on the field to date. And that has all been cored with over 237 metres of core being cut in that well.

The Pikka C well is slightly behind Pikka B but has penetrated the Nanushuk 3 reservoir facies; it's shown a good quality reservoir development and that well is now being changed from a vertical hole into a horizontal hole which will allow us to do flow testing in the core reservoir area. It will all - both those wells will allow us to get formation data, core reservoir pressure and fluid samples to allow us to fine-tune the development model and the deliverability of the reservoirs to be further studied by the testing. Positive results could add up to 250 million barrels to our current 500 million barrels 2C gross resource. And we will be carrying out a certification of that resource sometime during this year when the results of these wells have been fully assimilated into our development plan.

If we look at seismic, look no surprises, it's wonderful to see decent seismic - when you come from Papua New Guinea you can actually see the reservoirs, you can understand them. On the left-hand side is the Pikka B well, vertical well and side track which again will be tested. And on the right-hand side the vertical well and horizontal well going along the reservoir section. And if you look at the bottom-left-hand corner you can also see a picture of oil bleeding from the cores that have been cut - a very positive appraisal program to date.

Obviously the Pikka unit now we are looking very closely at the development timeline for this initial development of the Pikka. The two-rig appraisal program will provide us the information required to further fine-tune the development plan and update the reservoir models in, and obviously give us greater certainty of the resource base. The stakeholder engagement and implementation plan are at an advanced stage and we're working very closely with the local corporations to develop that plan further as part of our overall development and utilise some of our experiences from Papua New Guinea into Alaska to work with the communities on some of their social issues. We see early works starting sometime in April 2019 and we're on track for that, and a FEED commitment, subject to final appraisal results and the Record of Decision coming from Government by mid-2019. And that will see us into FEED, the contracting strategy's being worked now and permitting and approvals are being advanced.

If we look at the development, initial development will see 15 producers/injector pairs which will produce, we hope, in the order of 120,000 barrels a day. And the development will see around a 60-kilometre pipeline network being built, 42 kilometres of roads, and we see the development phase into 2020 and with a final investment decision, and first production sometime in 2023. And we're very much on track for that.

Everything we’ve seen about Alaska has been encouraging and exciting. There is substantial remaining potential in a series of different play types across our areas, and in recent times, we've acquired some more acreage which covers some of these new plays. It really does come down to prioritising where we drill, and that is driven by how we can commercialise and do that in a timely way.

Right now, we're aiming to drill up to three wells in 2019/2020, probably some further appraisal wells in Pikka, but also looking at how we look at and appraise the Horseshoe area to the south. We're also reviewing the Alpine reservoir targets in the Pikka Unit to determine some appraisal strategies and right now we're integrating the significant number of good quality seismic data into a reprocessed set that allows continuity across the whole area. This is a pretty exciting place and plenty of barrels still to be found; although our focus clearly is on delivering high-value out of Papua New Guinea, Alaska does look good for us and we're very pleased with the acquisition.

If I turn now to the outlook for 2019, obviously our strategic objectives are very much focused on delivering the high-value prospects for LNG into FEED. We need to enter aligned FEED for Papua LNG and PNG LNG/P'nyang and including P'nyang expansion and including FEED for the Oil Search Operated Accelerated Gas project that will provide gas potentially for early parts of our PNG LNG expansion. We're very focused on that and I'm pleased to say we're making progress with that. And obviously the signing of Gas Agreements is the trigger for progressing that further.

We also see entering into FEED on the Pikka Unit development in Alaska as being a fundamental for end of the first half this year. Implementation our optimisation of oil in our remaining fields in Kutubu, Moran, et cetera, is also important as an objective to mitigate oil production and in fact increase production out of our remaining oil fields - they are attractive investment opportunities at this oil price and we've taken our time to really mature those prospects to where we're now very comfortable in drilling them.

We also continue to work on the exploration and appraisal activities in PNG to support LNG expansion and that will focus on obviously understanding Muruk 2 and understanding the gas resources in that area and its associated adjacent prospects, but also very heavily focusing on the Gulf with a lot of seismic being shot to identify and rank various prospects that are much more like Elk-Antelope. And that area is being heavily worked as we speak, through a major seismic program, and we would expect drilling if not this year, next year.

We also are focusing on the Alaskan option. We have a significant interest in looking at that option but we're also very mindful of introducing a quality partner and demonstrating value to the market through the exercise of that option and the possible sell-down, and we're at an advanced stage in those processes and discussions now. Of course, the importance of operating stability in Papua New Guinea is clearly critical to our long-term success and we'll continue to build sustainable social contributions in Papua New Guinea, and now Alaska, working with the Government and communities in those areas. And of course, environmental sustainability is critical again to our social license to operate.

Obviously, the earthquake highlighted the importance of some of our social programs, particularly in the Highlands of Papua New Guinea and through Oil Search and our foundation, we'll continue to provide earthquake relief in terms of infrastructure rebuilds and in terms of public health. There is still substantial damage to the community and community infrastructure that was caused by the earthquake just on 12 months ago and we'll continue to play a part in rebuilding, with Government, some of that infrastructure.

We're also focusing on some new partnerships around women's empowerment, but also engaging the youth of the Highlands area; something over 50% of the total population in the highlands is now under 20 years of age, and we now need to turn our minds to how we engage with them. I think what worked in terms of programs 15 years ago no longer work; engagement with the youth in these areas remains a critical part of our future long-term success.

We also have a power project just about to come on-stream in Port Moresby with the lowest priced power for Port Moresby. We're going to be very - continuing to support the Government on benefits distribution I'm pleased to say, with very strong focus by Government and Ministers concerned, there has been very strong progress in recent months with benefits in the Highlands expected to flow imminently. The identification and finalisation of land ownership in that area has been a highlight for the first quarter and certainly congratulations to the Government for pursuing this.

Our business is, we were one of the first companies to actually look at the climate change resilience of our various assets, and I'm pleased to say that under pretty well all reasonable scenarios, our assets in PNG and Alaska actually demonstrate the resilience in a medium- and long-term basis, and we'll continue to work with various sources on the human rights plans and VPSHR update reports sometime in the first - end of the first quarter in 2019 - we'll update that.

If I look then at the summary, we have a strong production outlook; in 2019 production should be at or above, well above the 2018 earthquake levels, and certainly we could, and are, targeting production at the top end of the range that we guide to, though early days obviously. Progress has been made on PNG LNG expansion and Papua LNG development, and we're on target to sign PRL15 Gas Agreement by the end of 1Q 2019. Certainly, Patrick Pouyanne from Total has indicated that we are on target for that, and Total remain very committed to progress Papua LNG to FEED and then financial close, final investment decision and then onto FEED for production.

The Gas Agreement for PNG LNG expansion for P'nyang is due to be signed shortly after the one for Papua LNG and that will obviously allow contractor bidding and aligned FEED entry for the projects and the three-train, 8-million-tonne project can proceed. As Beth said, we're targeting first gas sometime in 2024, and as Ian said, market appetite remains very strong for PNG LNG and Papua LNG gas.

We see right now very positive results from our initial work and appraisal in Alaska and there is certainly the potential for resource additions from that drilling campaign and we're moving to FEED on the Pikka development. As I've mentioned, we're in advanced discussions on how to demonstrate value on the Armstrong Oil Option and an equity investment that might flow from that. Optimisation of our oil business is underway with infield drilling opportunities starting up. We have significant resource upgrade potential, not just from, as we've seen from P'nyang, Kimu, and Barikewa, but obviously positive results from Muruk 2, Pikka B and Pikka C.

We'll continue to focus on the sustainable development and social development of the country with improved benefits distribution, the development of social infrastructure and sustainable business opportunities, especially focusing of the youth in Papua New Guinea, and obviously we've demonstrated I think already, the sustainability and robustness of our assets against in a carbon-constrained world, in a world where we're all concerned about climate change.

And with that in mind, I'll finish, and initially throw it open to questions from the room, but also then I'm sure there'll be questions from the ether and from people connected through various forms. So thank you.

Questions from the room?

James Byrne: (Citigroup, Analyst) Morning, James Byrne from City Group. Peter, I wanted to understand how acute you thought the risk was for schedule here for LNG expansion - I guess in recent weeks we've seen Golden Pass take FID, also Total last week, Patrick Pouyanne was talking about Arctic 2 being the top of his pecking order. Qatar it looks like will have a US flag for two of the trains, and Mozambique's three-quarters contracted a couple of FIDs there. I'm just wondering is the pecking order here for your JV partners perhaps out of favour for PNG at the moment?

Peter Botten: Well, if you've read Patrick's statement last week, albeit it's somewhat shall we say Franglais, but I think you can hear his absolute commitment to where Papua LNG sits in that pecking order. And certainly, he highlights the importance of that to Total. But, Ian, perhaps I can throw it open to you to talk about some of those projects and where they fit in with respect to the market?

Ian Munro: Yes, certainly, thanks, Peter. And, James, we think at Oil Search competition is positive, it's a sign of a strong and growing market and a very deep marketplace; we're more than comfortable to pit our product against competing projects. I think you're aware we have a number of factors we think that put us in good stead in the marketplace. It is a premium product, we have a strong team out there, and as Peter said we certainly have supportive partners. We just think that the market is deep enough for a project, particularly one that delivers rich LNG at a time where many of the sanctioned projects that are actually coming on are not providing the quality that gas utilities in particular would look to prioritise.

Peter Botten: I should also say that certainly I've seen both Exxon and Total over quite a number of years, Total over lesser than Exxon, but I've actually never seen them so committed to get a project moving. And there have been a range of hurdles to get through, some difficult but appropriate negotiations with Government to discuss fiscal regimes, but I can tell you the harmonisation, as Patrick highlighted last week, the coordination between Total and Exxon about this development and the commitment to a constructive cooperative development, I've never seen stronger. And I've seen times when that's not been the case, but I don't see that now.

James Byrne: (Citigroup, Analyst) Great. The second question, and I apologise if this is at all a bit of a sensitive subject within the PNG LNG Joint Venture, but do you anticipate a re-determination process for your equity interest, considering how reserve have moved around in the licenses since first gas?

Peter Botten: I would anticipate that there will be some form of re-determination based on a look at, or a re-look at reserve distribution around the fields.

James Byrne: (Citigroup, Analyst) Materiality, do you think it's positive for you?

Peter Botten: Well, we are quietly confident that it will be positive for us, but there clearly will be some further analysis and discussion and we receive production information daily. Ian, would you like some comment on that?

Ian Munro: No, I think that summarises it, Peter. There is a well-defined process in the Joint Venture that we'll go through and take some time, and as Peter said, look we are quietly confident. And I think if you sort of look to NSAI and where they have updated reserves of the projects, now that would seem to indicate - but yes, it should be an interesting time for the Joint Venture.

James Byrne: (Citigroup, Analyst) All right, thanks very much.

Andrew Hodge: (Macquarie, Analyst) Andrew Hodge from Macquarie. Just had the first couple of questions are probably for Stephen. The first is just on the guidance for 2019, [you will] have higher production for 2019 versus 2017, but the guidance for cost is higher, and you mentioned before there's some additional earthquake numbers in there. If we're going to strip that out what would the number be on a more sustainable basis?

Stephen Gardiner: It'd be certainly closer to the number in 2017, but having [technical difficulty] the activity to accelerate production in the oilfields before we blow the remainder [technical difficulty], and there's a reprise there in being able to extract that oil quickly and also add additional [technical difficulty] spending some money on that - some of that will be [technical difficulty].

Andrew Hodge: (Macquarie, Analyst) Second question is just on guidance for PNG LNG, I think Andrew stood here in Sydney about two months ago now and said that PNG LNG would do 8.5 million tonnes in 2019, and I guess you guys' guidance is 8.1 to 8.7, I just wanted to get an idea, is it just you guys hadn't decided the maintenance cycle yet, or what - was Andrew just getting excited?

Peter Botten: Well, look I think we've been reasonably conservative about our approach to PNG LNG. I think PNG LNG, and good on Exxon for doing it, has outperformed the expectations of everyone in terms of production base and I think we've seen record production on a daily basis, well and truly over 9 million tonnes. I think the amount of maintenance this year will attenuate that a little bit, but I do think we've taken a reasonably conservative view about what the production base will be, obviously subject to no further earthquakes.

Andrew Hodge: (Macquarie, Analyst) Of course. And last question just on that conservative part, when I look at the resources you have guys have booked for Alaska, if I kind of run the 35% that you guys have, that looks like you're kind of implying a number closer to 360-something million barrels, which is lower than the 500 million barrels 2C. Is that just being conservative with the data you guys have at the moment?

Peter Botten: Look, I think we've deliberately - well firstly, we've only got 25% rather than 35%...

Andrew Hodge: (Macquarie, Analyst) Yes, sorry.

[Over speaking]

Peter Botten: I think our target to equity might be in the 30% to 35%, so that might be why there's a bit of a bust in your numbers. But at the end of the day, I think we've been reasonably conservative about how we're approaching the resources at Pikka, and we'll continue to be, I think, on the conservative side until we can absolutely book it and equally have an audit process which allows us to move forward.

Andrew Hodge: (Macquarie, Analyst) Thank you.

James Gurry: (Deutsche Bank, Analyst) James Gurry at Deutsche Bank. Can I just ask, in Alaska, for the environmental approval, is your Record of Decision, are you expecting that by the end of this quarter? And I was just going to ask that, with your negotiations in taking up the option and then potentially selling down, are you still thinking that 30%, 35% eventual stake with operatorship?

Peter Botten: Firstly, I think we're very much on track with the Record, unfortunately with government shutdown in the US - that has probably delayed us a little while. But with government opened up, we're still very much on track to get that Notice of Record if not in the first quarter, we think it probably will - it's not in our control obviously - but certainly in the first half. And active engagement with the authorities has been very positive over that. With respect to the option, I think clearly - we said our desired equity level is in that 30% to 35% range - we're working very closely with our joint venture partner, Repsol, and to highlight how the option and the joint venture can optimise their various equity holdings, and we've had very strong interest from various parties to join us in Alaska. And I think that process is going very well at the moment, but it's never over until it's over.

James Gurry: (Deutsche Bank, Analyst) You're targeting like a concurrent process?

Peter Botten: Yes, certainly I think between us all in the joint venture, we see a coordinated process of introducing a third party into the joint venture, where possible to do that in a very coordinated and amicable way, and I think we're making progress on that.

Dan Butcher: (CLSA, Analyst) Thanks, Dan Butcher from CLSA. I'm just wondering whether you could maybe remind me, Peter, just on the timing for actually releasing results from Pikka C, proof of concept well - you've got I think about seven weeks to get off the ice, after doing the lateral fracking, cleaning up, flowing, analysing - when will you be able to give the market on the results?

Peter Botten: Probably in about seven weeks. Look, I mean the drilling's gone very well, but clearly the most important thing we can do is to get the test away and do as much as we can in terms of testing and completion activities, and to a degree that's actually driven by the amount of time we have on the ice. I can you tell you it's very cold there now - yesterday was minus 52 - but at the end of the day we still have got to be off the ice I think at the end of the third week in April, generally. If it's warmer than that, sometimes you have to get off a bit earlier, but the how much testing we'll get in will be determined by how long we spend on the ice and I assume that sort of certainly by the end of April/beginning of May, we'll have analysed the test results and provided that information to the market.

James Gurry: (Deutsche Bank, Analyst) Sure. And maybe just to PNG on gas, could you maybe just outline, is there any out - still outstanding hurdles and issues are between Total and Exxon in terms of them agreeing downstream, what's going to happen and the timeline for that.

Peter Botten: Look, I think we're very close on pretty well everything. And I think that's very positive; I think we're even very close on the farm-in agreement with our friends in Adelaide too. So I think actually overall the process is going pretty well. We have had some, I think, very constructive but robust discussions with the State and I think we're on track to deliver the Gas Agreement at the end of the first quarter, which is quite rapidly followed by hopefully P'nyang as well, built on the same basis. Bu,t Ian or Beth, do you want to comment on any of those issues?

Ian Munro: I'll just start off. Yes, I think the big issues are behind us in terms of access to PNG LNG site; there's a number of agreements we need to paper up, typical governance agreements, shareholders agreements, joint operating agreements, lifting and balancing. But companies have done these in many places and many jurisdictions. So I think, yeah, as Peter said, we're on good track for FEED entry and the agreements that we'll need to execute.

Beth White: Peter's already discussed the Gas Agreements, so I won't elaborate [technical difficulty] technical side as well in [technical difficulty] brought alignment between Total and Exxon on [technical difficulty].

[Over speaking]

Tim Gerrard: (Janus Henderson, Analyst) Peter, Tim, can you hear me - Tim Gerrard from Janus Henderson. Just with regard to Alaska, a couple of questions on Pikka and your joint venture possible candidates. I think you started off earlier on by saying it's down to sort of several; I wonder of your potential candidates, you know there's already kind of short list? That's the first question.

And the second question is with regard to the production acreage in Pikka versus say Horseshoe and exploration, do you think you'll kind of keep them differentiated or a likely partner will come into the whole parcel?

Peter Botten: Firstly, I suppose if I'm down to several, I would say that's a pretty good short list. And I think there are a number of parties that have put their hand up and a number of parties that have been through the data and I think we're reasonably close on where we might go with that. It's not done - it's never done until it's done - and coordination around the partnership is an important part of that and we're working our way through that, but I think we're sitting reasonably comfortably as we sit right now. We'll progress it as a matter of urgency over the coming weeks. I think it's pretty clear though that the optimal value is delivered out of these assets by coordinating appraisal opportunities both with Pikka and Horseshoe and beyond.

And although there is substantial exploration opportunities, but it's very much going to be prioritised by how you commercialise this in a sensible way, getting the oil into infrastructure and building central processing facilities in key areas where you have a resource. It makes a massive amount of sense to coordinate the ownership structure across a range of these licenses, as many as you can reasonably do in a certain area, so that it makes the commercial issues seamless into the future between the Joint Venture. And that's certainly - our goal is to try and do that and deliver that - we'll see how we go over the next month or so.

Saul Kavonic: (Credit Suisse, Analyst) Hi Peter, Saul Kavonic from Credit Suisse. It's actually a question I think more Ian to rehash a bit of an old topic. Is there any update you might be able to give us on price re-openings for the base contracts PNG LNG timeframe, when you envisage they'll be resolved by, and is there any indication the other JV parties might be willing to settle for a lower price than you are hoping for?

Ian Munro: Saul, you'll know it's fairly typical in long-term contracts to contain price review clauses; our contracts are no different. They are - they're long-term contracts of 20 years. Each is very different, but importantly they all support a project that is project financed, and project financed in a developing country. So while we're working through these issues in the Joint Venture and very closely with Government, I think we would expect pragmatic solutions and strong support from - by a Government, certainly during the pay-back period.

Saul Kavonic: (Credit Suisse, Analyst) Thank you, that's all from me.

Peter Botten: I think we've exhausted the room, so to speak; perhaps there are some questions from the other communication sources, so I'll throw it open to them.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two, and if you're on a speaker phone, please pick up the handset to ask your question. Your first question comes from Baden Moore from Goldman Sachs; please go ahead.

Baden Moore: (Goldman Sachs, Analyst) Good morning, Peter. Just a quick one, the guidance you've given to first production on the projects stands at approximately $4.5 billion, I was just wondering if you can - it seems to me that you're taking on a bit more in Alaska as you're progressing through; I was just wondering how comfortable you are -

should we be expecting some gradual upward revisions to that number as you progress? Is that how we should be thinking about it at this stage?

Peter Botten: [technical difficulty] is I think fairly conservative. You know we haven't entered the FEED yet for Alaska. We're - under the construction profile we're proposing is the development plan that was outlined in the presentation today and we're very comfortable that the equity contribution that we have to make is appropriate for that.

Baden Moore: (Goldman Sachs, Analyst) You've just dropped out a bit, but - and then just one final question, are we still targeting FID on PNG LNG in 2019/2020, and should we expect maybe a split in terms of FID decisions between train three and the PLNG project?

Peter Botten: Beth, do you want to answer that, or I can do it if you want me to? Giving FID in 2020 - when we go into FEED, we can give you a better idea of when that will take place, but anything to add, Beth?

Beth White: No, I guess to say anything more specific than that is going to be based largely on contracting strategy, et cetera which is still currently under discussion within the Joint Venture, so.

Baden Moore: (Goldman Sachs, Analyst) Thanks guys.

Peter Botten: Well, thanks very much, for that. Ladies and gentlemen, thank you. As I say from my side, I've been with Oil Search now almost 26 years - well over 26 years, the opportunity set that we have is unprecedented both in PNG and in Alaska. There's still a lot of work to do in 2019 - it's an absolutely pivotal year for us to deliver our - on-the-next phase of our growth and commence to demonstrate that in value. Okay, thanks very much.

End of Transcript