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Start of Transcript

Keiran Wulff: Okay, well, good morning, everyone, and welcome to Oil Search's 2020 interim results presentation. As per usual, we'll start this morning with our disclaimer important notice, and I recommend each of you take the time to read that at your leisure. Steve Gardiner and I will go through the presentation today, and I'll start off with the first half overview, and Steve will come through with the finances, and then I'll finish off with a detailed summary on our projects.

Firstly, 2020, it's a very difficult period for oil companies, as companies across the globe have managed their ways through the challenges associated with the confluence of COVID and its impact on global economy, the lack of mobility of personnel and equipment, as well as the financial, personal and mental stresses that it creates for many of our staff. Combined with the precipitous decline in oil prices and the structural changes that are occurring in our sector related to climate change, well, it's been an interesting six months, to say the least, especially for a new CEO. But importantly, it's also been one of opportunity for us, and with the support of staff, we're coming through this challenge a winner, more focussed, disciplined and better positioned to advance our growth projects with lower breakevens going forward.

Leading into this downturn, we were very focussed on fully advancing our world-class growth projects in P&G and Alaska, which would have had a material impact on the size and shape of the Company. As a result, we entered this rapid downturn probably less well prepared than others with stronger balance sheets but less transformational growth. Whilst we've been one of the companies that have most exposed to the downturn in oil price, we'll also be one of those companies most impacted by the upturn when it inevitably occurs. With a $30 billion drop in capital investments across the industry, a cut in production lowering inventory levels, we're now seeing prices recover from lows of around $11 a barrel in March to over $44 a barrel today.

Whilst we are confident that prices will return to high levels to support investments, we're not relying on it. We're really driving performance and decreasing our breakeven costs across the business. To protect our growth and enhance our resilience to lower oil prices, we've been really focussed on sustainably driving efficiency, lower operating costs, prioritising our activities and enhancing our liquidity and driving our capital discipline. We have been incredibly systemic in looking at every single part of our business to drive down these costs and also looking at innovative ways to ensure that the Company is well positioned to support its investments in our world-class growth projects going forward.

In relation to the operational performance and results, we'll go through those in detail in the upcoming slides, but I just want to talk about the key actions that we undertook to really position the Company in the strongest position as possible. Oil Search took decisive action very early to stabilise the Company. We recognised that COVID was going to be a challenge to all companies going forward, and with our experience in infectious diseases in Papua New Guinea, we identified much earlier than most the importance of getting ready.

We also reduced our capital expenditure very quickly by 40% to non-discretionary activity and reviewed our priorities for 2021. It was clear to us that we needed to bolster our balance sheet with a $700 million capital raising, which was well supported by the market. An important point about that capital raising was just how focussed we were on ensuring that every single share went to our existing shareholders. We recognised the pain and the challenges that our existing shareholders had gone through. We wanted to make sure that we minimised the dilution but also gave them the benefit of the inevitable rise that would occur post the equity raise.

We have sustainably cut costs in every part of our business, and we're continuing to do that, and that's one of the pleasing things. We've done that without compromising our performance or quality to safety. Sadly, we had a 34% reduction in our staff numbers, but that was done with a great degree of sensitivity, and we made sure that the staff who left us were well supported through post-employment training programs, supporting their continuing health and medical benefits, but also through some education processes.

We've also had a very highly successful program in Alaska, which I'll talk about in detail, and most excitingly, we've also had some very exciting advances in redefining our development projects in Alaska, resulting in major reductions in breakeven and upfront CapEx. Fundamentally, we've worked to ensure that there's a resilience within the Company to a prolonged period of low oil prices, but we've also positioned the Company to be able to progress our growth despite the lower oil prices.

One of the pleasing aspects, COVID has been an incredibly challenging period for oil companies around the globe, but when you operate in some of the most challenging environments on the planet, in the jungles of Papua New Guinea and on the frozen tundra on the North Slope, these take on a new dimension, very different to most. What we've most been pleased about is that we've absolutely focussed on our performance in the safety and the wellbeing of our people, and as of the middle of the year, our recordable incident rate, our TRIR, was our lowest that we've had since we've actually taken over operatorship from Chevron, back in the early 2000s. We're seeing about 1.3. As of yesterday, we're just above 1, so we're really driving that performance very, very hard.

The other pleasing area of our safety performance, we've had no - zero - tier 1 or tier 2 safety incidences, and that's something, again, that's very proud, and we remain focussed on continuing that trend.

I talked briefly about COVID before, and I can't go through this without talking about just how well prepared we are. One of the most common questions I get from our shareholders are maintaining our production and the reliability of our operations in PNG. Well, Oil Search has operated in PNG for a long time, and we're very experienced in regard to managing infectious diseases. As early as January and February this year, we began a task force looking about how - a multifunctional task force about how we maintain operational excellence in our field and protect our people in the event of a cascading series of levels or serious threats to our business.

And as a result of that, we focussed on three key areas. We focussed on quarantining our zones of operation to make sure that we develop cocoons around those areas to protect our staff and local communities, to make sure there was no cross-contamination between both. We also brought in a number of additional people in country to make sure that if the country was locked down, we were able to manage fatigue and the like, to make sure people were able to have a rest. Now that it appears that COVID's with us for a little bit longer, we will also be looking about extending our support to our rotators' families to make sure that they're also supported during these periods, with their partners away for extended periods.

What we've also looked at is working very closely with the PNG government in its efforts to combat COVID. Clearly, the health services in Papua New Guinea are challenged to manage a major outbreak, but the PNG government has actually managed it very well by shutting their boundaries very early and the industry is in close support with the PNG government and the controller to make sure that every step is made to manage COVID in the area. But we have really set the Company up to be able to manage an extended period of COVID and an escalation of COVID to ensure safe operations.

One of the - that the outstanding performances is really Exxon continued to operate the PNG LNG production project incredibly well. This year, we - or for the first half, we averaged just over $8.7 million tonnes per annum equivalent in regard to the production. There was a delay in some turbine maintenance, which will be deferred until next year, but the important point is that PNG LNG continues to outperform expectations, and Exxon have continued to do a fantastic job. Our unit production cost, all in, exclusive of fuel and flare, are about $6.60 per barrel of oil equivalent, and it remains to be one of the most robust and competitive LNG projects on the planet. Exxon have managed the COVID very well.

They have a lot smaller - relatively smaller - footprint than we do, and we are in close cooperation with Exxon in terms of ensuring that production out of PNG continues. But PNG LNG continues to be an incredibly strong performer in our portfolio.

In regard to our grand old oil assets, this is probably one of the most pleasing areas, and a real focus for us, to ensure that we not only drive our costs low but we actually maximise production, and our production this year for the first half of this year is higher than at any point leading up to the PNG earthquake, back in 2018. We were looking at being substantially above budget in regard to our operator production, but Hides Gas to Electricity was - operations at that plant were suspended due to the force majeure event that was imposed on us by the closure of the Porgera gold mine, so that was a loss of 3300 barrels of oil equivalent.

We have assumed that there will be no assumption in our forecast going forward or return to operations for the gas to electricity project in 2020, and that contract actually expires in late 2021, and we're already in discussions with government about how to manage the progression of that project going forward. But our operations in PNG have really done incredibly well in terms of being well above budget, aside from the force majeure event at Hides Gas to Electricity. It's really a result of a between of years of focussing on increasing core capabilities, driving efficiencies, and we've had a very successful increase in our facility's uptime.

I'm going to hand it over to Steve Gardiner, who will go through the first half year financials, and I'll finish off later.

Steve Gardiner: Thank you. Thank you, Keiran, and good morning, everybody. I'll take you on a quick tour of the financials for the first half, and as Keiran said, it's been a very interesting time. Summary for the half year has a lot of ups and downs. Keiran's already highlighted the very solid production performance for the first half, which was very pleasing. As mentioned, though, we have been impacted of course by the loss of production with the shut in of our Hides Gas to Electricity facility. Our sales volumes were not quite as high as our production increase. That really was due to a timing issue with an increased number of cargos in transit for the PLNG LNG project at the end of June. There's a higher storage of LNG, as well, so that will correct in the second half.

Realised LNG and gas prices are only down 15% on the prior first half due to the three-month lag in oil prices as they flow through to our LNG term contract cargo pricing, so on that basis, they materially outperformed our realised price, which is down 45% on the prior year. In the second half, we'll see a rehearsal of that position, with the softer oil prices in the second quarter then flowing through into our LNG prices in the second half, and with Brent, as Keiran's already mentioned, now trading at about 25% higher than the first half average that we achieved.

Revenue held up then very well due to the higher-priced LNG, representing almost 80% of our total sales volumes, plus obviously as Keiran's mentioned, the recovery in our oil production. Our unit production costs were down 20% on the prior period, and I'll cover that in a lot more detail shortly. Unfortunately, we had a statutory loss of US$266 million due primarily to a $260 million post-tax impairment of non-core expiration assets and de-recognition of some deferred tax assets.

We had no impairment of any producing assets apart from the Hides Gas to Electricity asset, which was a modest $10 million impairment, despite our revised oil price outlook, and as Keiran mentioned, that really reflects the quality of our producing assets. The Board's decided not to declare an interim dividend for the first half in the context of the challenges we've been through. We'll consider our final dividend once the full year results are known.

Just looking at a bit more detail with our core profit for the half, comparing it to the prior first half of 2019. The waterfall graph shows the material decline in core profit was really driven by obviously the fall in oil prices. As Keiran has mentioned, we've highly leveraged movements in oil prices on the downside, but the good news, we're equally leveraged to recovery in our earnings as oil prices recover. Our production costs in absolute terms were down 17% in the prior first half, due to the suspension of well work overactivity, which wasn't going to give us value in the near term given the lower oil prices and the initial savings from major cost-out initiatives.

Exploration cost expense was US$70 million higher than the prior period, due primarily to the unsuccessful Gobe Footwall well and fairly large acquisition campaigns for seismic in both - on both the Alaskan North Slope and in PNG. We saw a US$12 million reduction in our finance charges due to lower base interest rates. Finally, our effective tax rate, excluding the one-off adjustments that came out of the impairment process were in line with the PNG corporate tax rate of 30%.

As Keiran's also noted, ensuring that our producing assets are as cost competitive as possible has been a real priority since Keiran took over activity and we responded to the collapse in oil prices. For our operated assets, the first focus areas were curtailing discretionary spend on work programs that didn't contribute to safe and reliable operations, and then rolling out a more efficient organisational structure, with employee and contractor headcount reduced by over 30% across the Group.

The PNG LNG project has also been very focussed on driving cost efficiencies with, as Keiran mentioned, the performance in the first half also helped by the deferral of some major maintenance work at the LNG plant site, which is likely now to occur in 2021. Equally important in driving down unit costs was the second-best half year production performance ever, with due credit to both our and Exxon's operations team in delivering that result. The challenge they faced in maintaining reliable operations, given the major COVID-related logistics and risk management challenges are really impressive in terms of the results that they've managed to deliver.

When taking into account one-off restructuring and COVID mitigation costs that impacted on the first half, we saw a 36% reduction in our unit costs for our operated assets and a 12% reduction for the PNG LNG project, a very noteworthy outcome, and we'll see more to come as highlighted with a reduction in our guidance range for the full year for our unit costs. On that basis, in the second half, we'll see a full year benefit of the measures already undertaken to lower our cost base, plus the initial capture of other cost savings that we're now focussed on, particularly in the areas of supply chain management and third-party spend.

Turning to liquidity, which obviously has been a key focus of mine over the last six months. At the end of June, we had liquidity of US$1.67 billion, inclusive of $830 million of cash. That was of course bolstered by the US$700 million equity raise but also US$320 million was contributed from operating cash flow and the curtailment of discretionary and uncommitted CapEx. During the period, we also funded a 2019 final dividend of $69 million, and we made net borrowing repayments of US$216 million. So the steps taken immediately in response to the collapse in the oil price, including the capital raise, the reduction in planned capital spend and cost-cutting measures have delivered also to the financial resilience now to cope with any prolonged period of weak oil prices, plus giving us the flexibility to focus on our expansion projects.

Turning to net debt, we finished the half year with net debt of US$2.33 billion. That's our lowest level since 2012, when the PNG LNG project was under construction. Likewise, our gearing at 30 June was 29%, again, the lowest since 2011, so we're in a very healthy position compared to where we have been over the last several years. US$136 million of PNG LNG non-recourse project debt was repaid in June, bringing the outstanding balance of that debt down to $2.8 billion, and this facility will be fully repaid by mid-2026. About half the proceeds from the equity raise were dedicated to repay drawings under our revolving credit facilities, and also to improve our midterm liquidity position and in a recognition of the delay in the planned selldown of equity in Alaska. Due both to market conditions and also the focus on further improving the economics of the Pikka development, we arranged with our bank providers to extend US$300 million of bank credit lines that were due to expire in the third quarter of this year to be pushed out to mid-2021 to give us further flexibility.

Finally, on the debt front, we have just issued our semi-annual covenant compliance reporting to our banks, and at 30 June, we had significant headroom across all our financial tests. Also, I'd like to note that we have seen very positive support from our bank group, as we've worked through some of the implications over the last several months from the oil price collapse. Whoops.

Finally, turning to full year guidance, as we've already mentioned, our unit cost guidance has been lowered by $0.50 to US$9.50 to $10.50, reflecting the expectation of further cost savings in the second half, despite the on-going suspension of production from the Hides Gas to Electricity gas supply contract. Our production guidance is unchanged notwithstanding those Hides GT losses, again, with on-going strong performance from PNG LNG and our oilfields. Our CapEx guidance is also unchanged over the second half forecast spend to be at least 50% below the amount that we spent in the first six months.

Our second half programs are very much focussed on risk reduction and facilities reliability projects in PNG and on-going Pikka early works and enduring optimisation in Alaska. And on that, I will hand back to Keiran. Thank you.

Keiran Wulff: Okay, thanks very much, Steve. I'll just spend a little bit of time talking about the status of our growth projects, and I'll start off by talking about the impact that COVID has had on our PNG LNG expansion. There's been more than 92 major projects globally that have had their FIDs delayed as a result of COVID, and the graph on the right is one of our latest estimates incorporating market data to show you the impact COVID has had on demand for LNG globally.

Effectively, what you're seeing there is a about a two-year slip in terms of deferral and demand due to COVID-19. Now, that actually is not a bad thing for Oil Search in the sense that everyone was aware the PNG LNG discussions with Exxon were suspended at the end of January this year. Oil Search continued to have very informal and exploratory discussions with the government, just to understand exactly what were the key issues and identify areas of commonality. Those discussions were conducted in a very positive light by all parties, and they were concluded around April/May.

COVID's made it very difficult for any communications to continue during that interim period, but Exxon-Mobil has since resumed discussions with the PNG government, and it's important here that all parties, the PNG government and the project proponents, recognise the importance of these LNG expansions to the nation's economy. The key issues relate to demand timing and fiscal certainty, and the important point about PNG LNG is that going forward, it's quite clear that most projects that are lowest cost and also really looking at brownfields expansions will be those that are favoured, and PNG LNG expansion has certainly got elements of both of those areas. So on the basis of where the discussions are, there will certainly be a delay, a couple of years' delay, in terms of projects of this scale globally, but we remain very, very confident that PNG LNG expansion will occur, with the support of the parties.

Alaska has been a very interesting one. We've got a fantastic asset in Alaska and quite understandable, the market is trying to understand how to value the Alaskan asset, what are the breakeven prices and how Oil Search will fund it. We're aware of all of those issues. The important point about this project is its scale. The results of the 2019/2020 drilling program with Mitquq and Stirrup further highlighted the optionality and the scale of this potential opportunity. You'd be aware that last year, we had an independent assessment done by Ryder Scott of the resource estimate within the core area of Pikka, and it was some 730 million barrels of 2C resources.

We're very confident that the scale of that asset will just increase. What we've done in Alaska is we've incorporated all the data and the delay in making an FID commitment has allowed us the opportunity to look at ways of optimising that asset, and it's quite clear to us that the way [Ingelsource] are quite clear to the joint venture, which we've now got strong support, is that we're looking at a phased project there. And that phased project is still targeting an FID by the end of '21, and with a first oil in 2025. The point about that is that the phased development, this is - it's a lot larger than the original early production system. It's a full process, separate processing facility, and that the revenue and the funds generated by that phase will actually support the continued expansion of the Alaskan development.

The other important development in Alaska is that our CapEx is coming down dramatically. We'll release more details at our strategic review results later in the fourth quarter of this year, but the important point here is that we're getting the breakevens for this project down from the $40 into the $30, and this will be a significant achievement and something that we're very excited about. The impact of the Mitquq and Stirrup discoveries are shown on this cross-section, which really just shows - for those geologists amongst you, it's a prograding delta. What you see is the areas in yellow and green at the top are each of the reservoir objectives, and you'll see Pikka in the central area, which is as I said, the core areas has around about 730 million barrels.

Mitquq was a discovery, and we've [flowed] from a single-zone 1770 barrels of oil a day, and that was at the far eastern side of that complex. We have also at the same time as drilling Mitquq, we've finalised the reprocessing of all of the 3D data between Pikka and Mitquq, and we've identified a whole series of analogues that exist between Pikka and Mitquq. The important point about those analogues is that they lie directly underneath the proposed facilities that are going to be constructed for Pikka. Hence, will make the development a lot more effective. We also had a very good result in the south, at Horseshoe Stirrup, which was a brand-new discovery in a different area and it flowed over 3500 barrels a day from a single zone.

That area will require additional appraisal down the track, but importantly, it highlights that there's a potential scale of a new development in that area. Our initial focus, though, will be commercialising the resources that we have identified between Pikka and Mitquq in a phased expensive.

In terms of strategy and outlook, everyone would be aware that we announced that we were going to undertake a strategic review in the first quarter in 2000 [sic - 2020]. Well, that really went out the window when we had to deal with stabilising the Company, focussing on managing COVID and the decline in oil price. We've subsequently restarted that project, and we'll be providing an update to the market at an investor day most likely in mid-November, to be announced.

But the chevrons on this slide really show what we set out to do in first quarter '20, what we had to do and what we did in terms of all the things that Steve and I have just talked about from our organisational redesign, our cost reduction programs, our strengthening our balance sheet and the like. But what we're now doing is we're very, very focussed on meeting shareholder expectations around capital discipline, making the Company prepared to be able to deliver its growth projects in a measured way, as you have just heard. In all likelihood, there will be a couple of year delay in committing to projects in PNG. We'll be looking at a phased development in Alaska.

So there will be a lot more manageable process for proceeding with our growth projects in Oil Search going forward. We've also very much simplified the business, and we've been very systemic about how we've done that. We've looked at what really makes a difference, where can we actually contribute, and we've decided to really reduce our footprint and focus on our capital on those areas that we have an ability to commercialise in the near term. As you're aware, we announced a material impairment of our exploration assets in PNG this year, and it wasn't that we didn't see the potential in those assets. It was simply that the likelihood of being able to commercialise those assets in any meaningful timeframe was unlikely, and that we had higher-quality assets or higher-quality opportunities to commercialise in and around the existing facilities. We really are focussed on maximising the use of our assets and really reducing our operating cost sustainably for the long term.

One of the other developments that we've done, and quite clearly, is we're an outstanding company with respect to our commitment to social licence to operate in the community. We want to expand that to be excellence in the way that we look at sustainability and governance, and to that end, we've created a new role of EVP, Sustainability and Technology, and this area is a focus of the business that's going to ensure that Oil Search is not only a very capable and low-cost operator and deliverer of its assets, but we do it in an incredibly sustainable and environmental excellence way.

We've also committed to a process that's very transparent, and we'll be developing a number of initiatives that we'll be enunciating to the market at our strategic day, but just to give you an indication of some of the things we are looking at - our PNG biomass project, subject to FID. We've already planted over 4 million trees with that project, and it has the potential to generate over 4 million tonnes of CO_2 offsets. Our Alaska Pikka development will not only comply with Alaska's strict environmental standards, but we're also looking at all technological opportunities to minimise our footprint, reduce our greenhouse gas emissions, to ensure that's one of the lowest [scope one 28:51] new projects that gets developed.

We also have - as everyone's aware, have a very, very strong commitment to social impact and development through direct and social investment, and also building local capacity. What we're also looking at doing, though, is looking at evolving with Papua New Guinea and making sure that the opportunities that we develop and the support that we create is not totally reliant on Oil Search, that we build local capability and put true sustainability into our Oil Search initiatives in PNG. So the strategic review will be - around our commitment to sustainability will be very serious, very transparent, and we'll set it with a whole series of metrics that we'll be very happy to measure on.

Everyone was aware that we went through a major reorganization, and they are always tough. When you take 34% of the organisation out, you're dealing with a lot of people's lives, but we did it incredibly sensitively. What we also did when we did that was to make sure that the organisation going forward was exactly matched and streamlined to deliver our business results, so that people were in the right roles, and that included our executive management.

So we made a number of changes, and over the course of the next few months, it's unfortunate the COVID situation doesn’t allow you to meet our managers and get to know them. But the intention is for each and every one of you to have time with our leaders to understand their abilities, their commitments, but also their understanding of the business as a whole. But we've communicated probably better in the last six months. COVID's made us communicate better, not only as a team but also with the staff more broadly, and you'll see that Beth has been taking up the role - very important role, which has been strongly supported and directed by the Board around our sustainability and technology, and you'll also see that we recently announced the appointment of Ayten Saridas as our Chief Financial Officer Designate.

That transition from Ayten to Stephen will occur over a period of time to make sure that there's a strong transition, because Stephen is literally an oracle of Oil Search and all things Papua New Guinea in this Company, and we need to make sure that that knowledge is transferred. One of the things that I'm really pleased about is the elevation of a number of citizens to senior executive roles, with Leon Buskens taking the responsibility for PNG Country Manager, and Wayne Kasou working with me directly.

So, finally, without repeating myself, we've really relooked at restructuring our Company dramatically, to make sure that we're not only resilient, safe, capable, disciplined, but we're also prepared to deliver our projects when we're able to, at lower oil price and lower breakevens certainly than what's currently in the market and what I read this morning. We've made decisive steps to enhance resilience to a prolonged lower oil price, and it's a culture that's been driven into the organisation. We're not compromising safety, and we're certainly not compromising people's welfare.

These reviews have been undertaken through systemic processes to make sure that any cost reductions we do are sustainable, and in the strategic review, you'll hear about our Pathfinder office, and our Pathfinder office is a corporate initiative that actually focusses on ensuring that parts of the business are focussed on capital efficiency and measurement and making sure that we're taking advantage of all of the opportunities that we have.

We've also, as I said, refocussed on core operations and developing a high-performance culture, our strict financial discipline that Stephen's talked about, our focus on free cash flow, profit generation and capital prioritisation. Very, very pleasingly, we've had incredible success in terms of our Alaska, not only with increasing our resource base but also aligning the way forward with our key partners, and what you'll see there is quite a paradigm change in the way that we're looking at developing that through a phased project that not only decreases the CapEx but also decreases the breakeven cost or increasing our rate of return on those projects.

We've strengthened our balance sheet materially and we're still looking at making sure that we have the discipline to meet our liquidity needs going forward, and we've got great relationships with the banks. At the moment, our strategic review is very advanced. We've just had a number of reviews with the Board, looking at both our past performance, our full potential, external factors that impact our ability to deliver our value, and we're looking at it very much through a risk lens, and that project is very much on track to be completed by the fourth quarter 2020.

So with that, it's been an incredible first half of the year. It feels like five years rather than six months, but there you go. Oil Search is incredibly well placed to manage a prolonged period, and very happy to take questions from the audience.

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. If you're on a speakerphone, please pick up the handset to ask your question. Your first question comes from James Byrne from Citi. Please go ahead.

James Byrne: (Citi, Analyst) Good morning, everyone, and Ayten, if you're on the line, welcome back to the oil patch. Glad to have you back. So the first question I have is around Pathfinder. Now, you've provided some helpful details here on what this internal team is planning to do, but I'm hoping you could provide us with an idea of what the quantitative KPIs are for that group. Because I look at the business, and you've got already world-class cost base in PNG LNG. You've got oilfields that are in declines, so the unit OpEx there is naturally going to work against you, so I'm just wondering, how much of an opportunity do you have here through Pathfinder to improve your free cash flow relative to what is already being delivered by the Group? Because it feels like there are more things you can't control relative to what you can control.

Keiran Wulff: Look, James, it's a good question, but one of the things that we're not taking for granted is having other people define our ability to take costs or otherwise out of the business. What we've identified is that there are many areas that we can take costs out of the business, and we've identified some additional areas around third-party spend and strategic relationships, supply chain. We're also looking at the process in terms of capital efficiency that will be managed out of the Pathfinder offers.

A big factor, another area we'll be looking at technological application to - it won't be only just costs. It'll also be looking at ensuring that production opportunities are ranked not only in our operated areas - not only in our PNG but also in Alaska. So it's quite a broad-ranging asset that actually ensures that the Company is focussed on achieving the KPIs that it communicates to the market.

I will say this one thing. When you go through this certain fairly transformational changes that we're doing here, and we're doing it with the support of external challenge, is that most of these projects often fade away - you go back to past behaviours after a period of time and you don't actually embed the performance or the discipline, and that's something that we're not going to do going forward. So 80% of transformations actually are failures, and the key success of those that are success are those that have a dedicated central office that continues to keep the business very focussed on optimising its capital allocation.

So it's got a broader mandate than just cost. It's all about production and technological application and making our KPIs across the board measured, so you'll hear about it very much, a lot more so at the strategic review.

James Byrne: (Citi, Analyst) Got it. Okay. I might switch then to Alaska. Just I don't want to steal your thunder from what these optimisation studies are going to conclude and hopefully be communicated at that investor briefing, but just help me with the scope here. It sounds like you're still going to be dedicated to building your own processing facilities, but you're intending for the Pikka unit just to have one well pad. My recollection is you had A through to D, so four well pads in what you previously communicated as the scope.

So then does that mean that you're sacrificing the plateau production rates for a higher IRR, with potential bolt-ons there to that processing plant if and when the balance sheet and the returns are there to be able to develop the rest of the reserves there and of course the satellites?

Keiran Wulff: No, it's quite the contrary, James. You're quite right, we are going to focus initially on one central well pad. It's actually only three well pads, not four, and the central well pad, which is NDB, which we've actually already built a road to. The important point about it is what we've looked at, and we've now got a lot more data from information that we've collated both internally and externally, is that it's quite clear that we can achieve a lot higher recovery from the central well pad than we originally planned, through high-grading our wells. We're seeing some positive results in some of the testing that has occurred in adjacent areas that we have traded data for.

We've also - the result of Mitquq for example, as I showed on that cross-section, is only seven miles away from the existing facilities. So we've got an ability to not only maintain the plateau, but also to extend it. Our base case is that we are going to build our own facility, and you always need to go into any project looking about controlling your own destiny, because the scale of the opportunity here is certainly significant. It's certainly way beyond it was when we originally bought the asset back in late 2017.

So we'll go through that in a bit more detail and explain it, James, but the answer is no to what you're describing. It actually provides us greater flexibility. Our performance of what we're seeing out at the wells is better than what we were potentially modelling, so we're really looking at minimising our CapEx, getting the project going and getting breakeven costs as low as possible, and that's key. Once we get infrastructure on the slope, being able to tie anything else is exceedingly - well, it's not exceedingly. Nothing's exceedingly easy, but the reality is that you've got a lot more flexibility to bring in other things, and we won't see a decrease in final resources, and we've got a very clear plan on full potential, which we'll be able to communicate on the strategy day. It's one of the most exciting developments.

James Byrne: (Citi, Analyst) One question, then, are you able to update us on the timing, your expected timing for completion of arbitration for LNG [pass-throughs]?

Keiran Wulff: No, I can't. No, that's quite clear that those things are subject to confidentiality, so no, I can't answer that question.

James Byrne: (Citi, Analyst) Okay, no problem. Thank you.

Operator: Thank you. Your next question comes from Gordon Ramsay from RBC. Please go ahead.

Gordon Ramsay: (RBC, Analyst) Thank you very much, just following up on Alaska. Well done, Keiran, bringing costs down. One of the things I'm aware that you're investigating is getting the Alaskan industrial development and export authority to finance road and bridge construction. Could you just give us a feel for how that's progressing, please?

Keiran Wulff: Sure. It's an opportunity, but it's certainly not something that we're banking on, so we've divided the breakeven costs - getting our breakeven costs down to those that we can control, which are our technical costs, and then those that are other, which are commercial levers that we would like to progress. The process that we're talking with the AIDEA MOU that was talked about was the infrastructure on the North Slope is important not just for Oil Search but for North Slope Borough, a number of communities up in that region. And so the opportunity existed to further decrease our capital requirement by making it an open access road.

And discussions, frankly, have been very open and transparent, but we're not reliant on that. We'd just like to create the opportunity to ensure that infrastructure that we build is open to the community more broadly, obviously on a safety issue. So no, we haven't advanced that much more than what we talked, but there are other options for enabling the open access in the community to support ownership of those roads. So we're trying to be very creative and provide opportunities for the communities up there, but we're also trying to make sure that at the same time, we get our projects done with a great degree of certainty. But more will be discussed about that at the strategy day.

Gordon Ramsay: (RBC, Analyst) Thank you. Just one more from me, just on the planned equity selldown. You're still looking at around that 15% number before FID?

Keiran Wulff: Yes, we are. In fact, we are committed to that, and so we think that the 6% of the scale of the resource we've got is exactly right, and it also provides us with greater ability to advance the developments with a lot more capital discipline. I might say that we will be relaunching the divestment after the strategic review results, and we are very aligned with our joint venture partner in relation to this going forward. So they're two important developments, but yes, we are committed to that.

Gordon Ramsay: (RBC, Analyst) Thank you.

Operator: Thank you. Your next question comes from Daniel Butcher from CLSA. Please go ahead.

Daniel Butcher: (CLSA, Analyst) Hi, Keiran, just had a few questions, if I could, again, on Alaska. Didn't see anything from Conoco about the results of their water drive - water flood test well, and I just wondered whether you could comment on that and how you expect that might affect recovery rates. Secondly, just in terms of analogues you mentioned between Mitquq and Pikka, could you maybe give us some idea about the drilling program timing for that and whether that will be brought into the resource base. Thanks.

Keiran Wulff: Sure. Well, Dan, the first question's quite easy to answer. We're under strict confidentiality, and all I can say is that - and I can't even talk about that, but what I can do is, Conoco have actually been quite open and transparent with their earnings calls recently, and I know that Matt Fox referred to some of those results in his presentation back in July. So I refer you to that. In relation to drilling wells between Mitquq and Pikka, we don't need to drill any wells certainly within the next couple of years. We don't intend to drill any more wells in the 2021 drilling season. We're going to be focussed on looking at the FID decision around the Pikka development.

We will look at - Mitquq needs another appraisal well. It probably doesn't need an appraisal well in and around its area. It's probably with a well and a side track and 3D data, we've got a fairly good understanding of that, but we certainly need to drill a well further to the south. So that would probably be the first well, and I imagine, that would likely be drilled in and around the '21, '22 period. The important point to remember here is that we now have a road all the way through to NDB, so we don't need to rely after end of 2021 on winter access.

So the majority of the drilling will occur at the development pad, and then during the winter we may move the well or the rig to drill some appraisal wells either at Mitquq, or we may drill a well to test Nan 4 and Nan 5 between Pikka and Mitquq, but that's the timing. There hasn't been anything decided specifically yet, but we don't need to, and we don't intend to do any near-term drilling.

Daniel Butcher: (CLSA, Analyst) Okay, thanks. And second one, if I could just quickly, in terms of the $0.50 a barrel production cost reduction, how much of that came from Exxon cutting its plans since you last updated us, and perhaps is there much more cost cuts to come there, and what would you think is a sustainable level in 2021?

Keiran Wulff: That's a good question. The majority of our cost reduction program, it hasn't really been seen in our first year result. We obviously had some - we didn't decrease our staff levels until July. There were some one-off costs. Exxon really didn't get into some of their cost-reduction exercises, and we're now seeing in the last couple of months the results of their own cost reduction exercises coming through.

We see - and that's why even through at this point in time we're actually comfortable to lower our guidance to $9.50 to $10.50, based on the confidence that we have in further reducing costs. We have a dedicated cost reduction and optimisation team working on PNG, our own operated assets, and I know that Exxon in their words, is leaving no stone unturned.

So we're pretty confident that the results that we're going to be doing are sustainable and on-going, so again, we've really - the first half results haven't fully included any of the cost savings initiatives that we've undertaken.

Daniel Butcher: (CLSA, Analyst) Okay. Thanks a lot.

Operator: Thank you. Once again, if you wish to ask a question, please press star, one on your telephone and wait for your name to be announced. Your next question comes from Saul Kavonic from Credit Suisse. Please go ahead.

Saul Kavonic: (Credit Suisse, Analyst) Thanks, gents. A couple questions, if I may. Just is it possible, Keiran, to get any update on the status of the PNG LNG reserves redetermination process and is there anything we can see on the horizon in terms of outcome for that?

Keiran Wulff: Again, Saul, that's a pretty easy answer. The answer is no, that's a very confidential process that's underway, and I'm just not at liberty to refer to anything about that at the moment.

Saul Kavonic: (Credit Suisse, Analyst) All right, fair enough. Can I also ask, when you talk about the delay in the window for PNG expansion in the market, which from your chart now looks closer to 2029 when that opening is, could you provide some colour, at what point in time would Papua and P'nyang actually be considered as backfill to PNG LNG rather than an expansion, if we were only looking at the start up towards the end of this decade.

Keiran Wulff: Look, that's your interpretation about 2029. When we actually look at it, we see the window opening very much around 2027 and beyond. Again, we're - clearly, the process is to look to see how we actually optimise those projects. At the moment, the discussions are still very much on three trains around PNG LNG and two trains at Papua LNG. The projects are quite separate, and there's never been any consideration for Papua LNG to be backfill into the PNG LNG project. So, look, the reality is that we're a lot more comfortable with where the discussions are at than where we were in February, when they had the suspension of operations. We're also very comfortable with the fact that a lot of projects have been delayed, and that the PNG LNG projects are well placed to look at that 2027-plus window. So I think it'll become pretty clear going forward given the fact that Exxon's now in discussions with the government on the way forward. I'm sure over the course of the coming months, we'll hear from that.

Saul Kavonic: (Credit Suisse, Analyst) Right, and one last one, just coming back to Alaska, could you help just explain what's on its face it appears you've moved from the early phase Alaska, going through shared infrastructure, to new build infrastructure, in order to reduce early CapEx. On its face, you'd almost think moving away from shared infrastructure to a new build would increase early CapEx. Could you just provide some context around how moving away from shared information to a new build reduces early CapEx?

Keiran Wulff: It's all about scale, Saul. We were always going to be building a major project, and the original scale of the project, which we inherited, was a 130,000 barrel a day facility, and the early production system was looking at the order of 30,000 barrels a day early production, going through Kuparuk. So the issue for that is it really didn't have the scale nor the longevity that what we're proposing does now. So rather than a 130,000 barrel a day facility, we're looking at somewhat a little bit smaller than that, but at materially lower CapEx. So what we're doing is we're reducing the upfront CapEx for the project in the same timeframe, and we don't need the early production system that we thought we did previously or that we thought it was worthwhile.

So really, what you're looking at, you're not comparing the early production system with the phased development. The phased development that we're talking about is a lot larger scale and allows a continuation of expansion, whereas the EPS was a standalone and you still had to do a brand-new development.

Saul Kavonic: (Credit Suisse, Analyst) All right. Thanks. That's all for me.

Operator: Thank you. Once again, if you wish to ask a question, please press star-one on your telephone and wait for your name to be announced. I will now give you a few moments to register your questions. There are no further questions at this time. I will now hand back to Mr Wulff for closing remarks.

Keiran Wulff: Okay, look. Firstly, I'd just like to thank everyone for participating this morning, and it's going to be an interesting next three weeks. We're very much looking forward to getting back to you with face to face, but that may be a little bit a ways away. But all I can do is thank you very much for your on-going interest and support and wish you all safety and health and look forward to seeing you all again soon. Thank you very much.

End of Transcript