

# 2017 Annual Meeting: Chairman's Address

19 May 2017

## All-time high oil and gas production



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In 2016, we celebrated another year of record oil and gas production, with output reaching an all-time high of 30.2 million barrels of oil equivalent. Since 2013, our production has increased some four-and-a-half times, reflecting the transformational impact of the PNG LNG Project. The Project continues to perform above expectations, achieving an annualised production rate of 7.9 million tonnes per annum in 2016 and a rate of 8.3 million tonnes per annum in the first quarter of 2017, more than 20% above its nameplate capacity. Excellent upstream delivery and high facilities uptime and reliability have supported these strong throughput levels. This is a great achievement by the operator, ExxonMobil PNG Limited, particularly given 2016's production was achieved with zero Lost Time Incidents, continuing the Project's excellent safety record.

Independent recertification of resources in the PNG LNG Project fields in 2016 resulted in a 50% increase in Oil Search's proven PNG LNG gas reserves, confirming that there is more than sufficient gas to support these higher production rates. ExxonMobil has recently entered the market to contract up to an additional 1.3 MTPA on behalf of the Project, above the existing 6.6 MTPA of foundation contracts. While still early days, strong interest has been seen from potential buyers.

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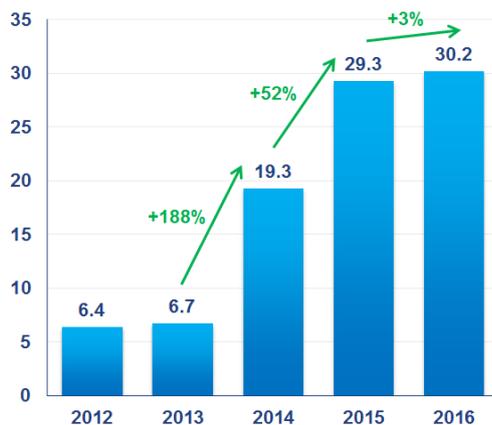
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Our operated fields in PNG also performed above expectations, contributing 6.8 mmboe to production during the year. In 2016, Oil Search supplied 13% of PNG LNG’s gas and handled all of the Project condensate, which, when combined with oil from our PNG oil fields, totalled more than 65,000 barrels of liquids per day.

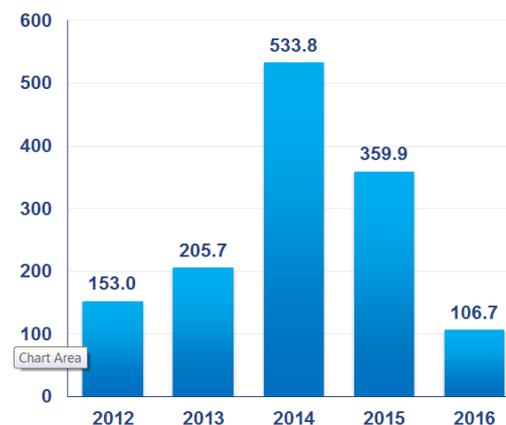
## Record production offset by continued oil price weakness



**Production (mmboe)**



**Core NPAT (US\$m)**



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Unfortunately, record production was offset by lower global oil and gas prices, which remained under pressure through much of the year. The Company’s average realised oil and condensate price for the full year fell 12% on the previous year, to US\$45 per barrel, and the LNG and gas price was 33% lower, at US\$6.36 per mmBtu. Against this challenging backdrop, the Company’s core profit of US\$107 million was a good result. No impairment charges were recorded, reflecting the robust economics of Oil Search’s producing assets, even in a low oil price environment.

## Continued focus on driving cost efficiencies has yielded results



Unit Production Cost (US\$/boe)



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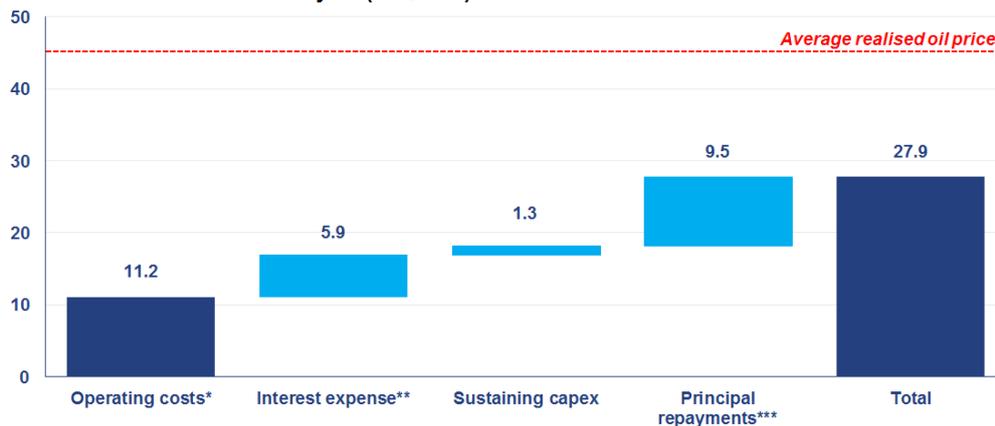
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The Company implemented a range of targeted cost reduction programmes during the year. Unit production costs declined 16% in 2016, to a very competitive US\$8.50 per barrel of oil equivalent. This represented the third consecutive year of material cost reductions by the Company, with 2016 unit production costs down some 30% compared to 2014 levels.

## Highly competitive cash-flow break-even



2016 Cash flow break-even analysis (US\$/boe)



\* Excludes inventory movements, donations, IOC acquisition costs, power expense, business development costs, other expenses and rig operating costs

\*\* Includes interest from finance leases

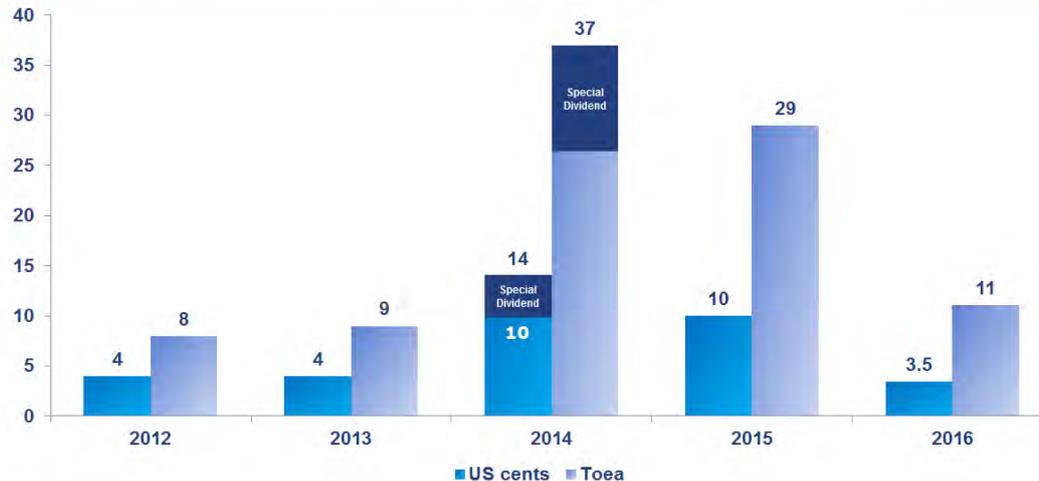
\*\*\* Includes payments for finance leases

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As a result, Oil Search remained cash flow positive throughout the year. The Company's break-even oil price after all operating costs, sustaining capital requirements, interest and principal repayments was just under US\$28 per barrel, which is materially lower than many of our peers.

## Full year dividend of 3.5 US cents per share (11 toea per share) in 2016



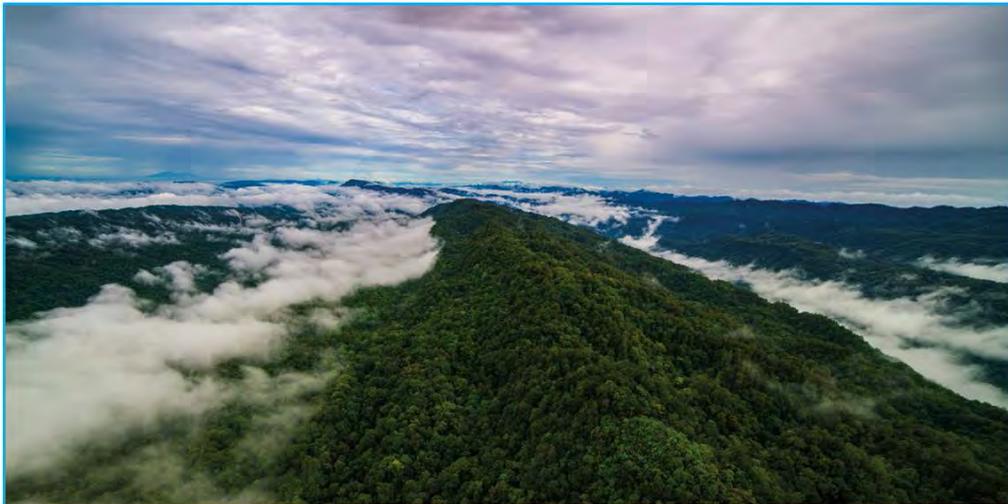
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Dividend payments in 2016 totalled 3.5 US cents per share in 2016, equivalent to 11 toea per share. While these payments represented 50% of our core profit, at the top end of our 35% to 50% payout ratio range, they were lower than last year's 10 US cent per share payment, due to the fall in oil prices and the consequent fall in Company profits.

The Board continues to believe that paying out a percentage of our core profit, rather than a fixed dividend, is the correct policy, given our reliance on the oil price, over which we have no control. This approach provides a good balance between providing cash returns to shareholders while retaining the flexibility to reinvest in our attractive value creating growth projects.

## Key focus is commercialisation of PNG's undeveloped gas



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During the year, a focused refresh of Oil Search's strategy was carried out, taking into account both internal and external developments in 2015 and 2016. The review confirmed our commitment to the strategic objectives identified by the 2014 Strategic Review and highlighted Oil Search's potential to continue to deliver top quartile returns to shareholders for the next five to seven years, underpinned by the commercialisation of the existing undeveloped resource base in the P'nyang and Elk-Antelope gas fields.

We remain strongly of the view that, particularly in today's lower oil and gas price environment, future LNG developments in PNG must be undertaken in a cooperative manner, utilising existing LNG infrastructure as much as possible, to maximise capital efficiency and returns for all stakeholders. We are pleased that our key partners, ExxonMobil and Total, have also indicated they are supportive of this approach.

In 2016, a significant step was made towards cooperative LNG development. In May, Oil Search announced an agreed offer to acquire InterOil Corporation, whose major asset was an interest in PRL 15, containing the world class Elk-Antelope gas fields. In July, InterOil announced that it had received a superior proposal from Exxon Mobil Corporation. Your Board considered carefully whether to submit a revised offer, but decided it was not in the best interests of shareholders. We believe the likelihood of a cooperative, integrated development is enhanced by ExxonMobil having an equity interest in Elk-Antelope, as well as in the PNG LNG Project and the P'nyang field. In the first quarter of 2017, ExxonMobil completed its acquisition of InterOil and joint venture discussions have now commenced on how to optimally develop the Elk-Antelope fields. Our Managing Director, Peter Botten, will talk more about this in his presentation later.

## Social responsibility and the power of partnership



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A core pillar of our operating model is our approach to social responsibility. We believe this is about getting the fundamentals right, responding to emerging societal issues and trends, being transparent and engaging with stakeholders. Most importantly, we have an ongoing commitment to PNG and improving the lives of our fellow Papua New Guineans. The Company has a comprehensive strategy of partner and community engagement, which is designed to contribute to social and economic development in PNG and help maintain a stable operating and investment environment. This is essential for delivering economic benefits not only to Oil Search but also to our partners, including landowners and the PNG Government.

I would like to take a few moments now to specifically address two items of ordinary business that have been proposed by shareholders.

I would like to state up front that we are a company which values transparency. This is why our website and our most recent Social Responsibility Report provide shareholders with a comprehensive insight into our position, outlook, risks and strategy. We fully respect and support the rights of shareholders to take an active interest in the Company and are always happy to engage on issues of interest or concern.

## Ordinary Resolution 7 – Strategic Resilience for 2035 and Beyond



- » Climate Change Strategy – approved October 2016
- » Supports efforts to implement an effective global climate agreement, market mechanisms and other measures to improve business certainty
- » Committed to implementing all relevant aspects of the draft TCFD, once formally adopted in June 2017
- » Commenced evaluation of 1.5°/2°C scenarios on our business - will report back to shareholders before next year's Annual Meeting
- » Comprehensive information available on website and in recent Social Responsibility Report
- » Reporting requirements in Resolution 7 already adequately addressed in current and planned approach and public disclosures, including planned Climate Strategy work
- » **No benefit to shareholders in approving Resolution 7**



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The first shareholder resolution relates to our recognition of risks and opportunities associated with climate change.

In October 2016, the Board approved a new Climate Change Strategy which makes clear our position in regard to climate change. The strategy states that Oil Search supports efforts – including from the PNG Government – to move towards implementing an effective global climate agreement, market mechanisms and other measures which improve business certainty and support a trajectory of 2°C. During the year, we increased significantly our level of disclosure around climate change risks and opportunities and will continue to make further improvements.

We are committed to implementing all the relevant aspects of the recommendations of the Task Force on Climate Related Financial Disclosures, as they currently stand, once they are formally adopted in June 2017. We have commenced evaluation of 1.5° and 2°C scenarios on our business and we will be reporting the outcome to you, our shareholders, before next year's Annual Meeting. We have a question and answer document specifically related to climate change available on our website, if anyone would like to find out more.

In summary, the Oil Search Board believes that the reporting requirements set out in Resolution 7 are already adequately addressed in our current and planned approach and are documented in our comprehensive public disclosures. Consequently, we see no benefit to shareholders in approving Resolution 7

## Ordinary Resolution 8 – Human Rights Compliance and Reporting

- » Signatory to the UN Global Compact
- » Participant in Voluntary Principles on Security and Human Rights (VPSHR):
  - Multi-year human rights plan adopted, implementation significantly advanced
  - VPSHR Verification and Reporting Framework – first report due 2018
- » Also take into account UN Guiding Principles for Business and Human Rights
- » Human Rights Risk Review conducted in 2014, disclosure on material human rights risks and progress against Human Rights Plan since 2014
- » Reporting requirements in Resolution 8 already adequately addressed in reporting of human rights plan progress and commitment to further public disclosures as a participant in VPSHR
- » **No benefit to shareholders in approving Resolution 8**



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The second item relates to Human Rights Compliance and Reporting.

Oil Search has operated in PNG for almost 90 years and our continued success is underpinned by strong, mutually respectful relationships with host communities and our commitment to sustainable development. As Chairman, I'm very proud of what Oil Search has achieved here, in partnership with the PNG government and local communities.

To ensure we remain accountable with appropriate external oversight, we have been an active signatory to the UN Global Compact for a number of years and in December 2016 became a corporate participant in the Voluntary Principles on Security and Human Rights (or VPSHR). The PNG LNG Project operator, ExxonMobil, is also a long-standing corporate participant in the VPSHR. In considering human rights, our approach also takes into account the UN Guiding Principles for Business and Human Rights.

In 2014, Oil Search conducted a Human Rights Risk Review, to develop our understanding of potential human rights risks and impacts and evaluate current practices. We disclosed all material human rights risks in our public reporting in 2014 and have reported our progress against our Human Rights Plan since then.

I am pleased to report that implementation of our multi-year human rights plan is significantly advanced. Major accomplishments include Board and executive management training on human rights, recognition of human rights impacts in incident reporting and management system and commitment to the VPSHR.

We have also opted in to the VPSHR Verification and Reporting Framework and, as such, have committed to annual reporting against our multi-year VPSHR Plan. Our first report is due in the first quarter of 2018.

In summary, given the meaningful steps we have taken to implement an ongoing comprehensive Human Rights Strategy and make appropriate corresponding disclosures, we see no benefit to shareholders in approving Resolution 8.

## Unprecedented platform for growth



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Oil Search enters 2017 in a strong operational and financial position, with an unprecedented opportunity to continue to deliver substantial value for all stakeholders.

While OPEC's decision in late 2016 to cut production has led to an oil price recovery, with prices appearing to have stabilised in the US\$50 to US\$55 per barrel range, the Board and management still believe it is sensible to follow a "plan for the worst, hope for the best" approach, which has served us well in recent years. We will continue to focus on controlling our costs and maintaining our strong financial position. With total liquidity of nearly US\$1.8 billion at the end of March 2017 and strong cash flows from operations, Oil Search has ample capacity to fund all committed expenditures, including expenditures on our world class LNG growth opportunities in PNG, scheduled debt repayments and dividends, even if oil and gas prices remain constrained in the short-term.

PNG National and Local Government elections are taking place in June/July this year. We, like others, are eager to see the outcome. Stable government policies and a consistent taxation regime are essential to encourage ongoing investment into the country. We are looking forward to working with the new Government when it is formed in August, with discussions regarding LNG expansion, which will have a major impact on the country's economy, expected to be a key item on the Government's agenda.

In closing, in 2016 Oil Search performed well in what was, and continues to be, a difficult market environment. I'd like to thank Peter and his team sincerely for all their efforts in

what was a very busy but a constructive year, with steady progress made on our growth opportunities.

The Company remains extremely well positioned to deliver LNG into a regional market where we see growing long-term demand. We have a top tier and low cost asset portfolio, a high quality reserves and resources base, exciting exploration upside, good cash flow and a strong balance sheet, together with genuine and deep partnerships and a track record of reliability and flexibility. These characteristics provide strong foundations that will enable Oil Search to meet the challenges and make the most of opportunities that lie ahead.

I will now hand over to Peter.

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