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# P'nyang Update

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3 February 2020

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## **SYDNEY (ASX: OSH | ADR: OISHY | PNGX: OSH)**

It is with disappointment that Oil Search notes the media release made by the Prime Minister of Papua New Guinea on 31 January 2020 (attached), which states that negotiations on the P'nyang Gas Agreement have stopped at this stage, to allow the Government to concentrate on developments already in the pipeline.

Oil Search respects the PNG Government's right to set fiscal terms for resources developments in PNG, to ensure the State, resource owners and the people of Papua New Guinea receive an appropriate share of value from these projects. Oil Search is very committed to getting the correct balance, ensuring appropriate benefits are distributed to the right stakeholders. This ensures the long term operating stability for any development, as well as being the right thing to do. The resource size, cost of development and the challenges of operating in Papua New Guinea are very different to other countries, making broad comparisons with State take under other fiscal regimes in our region misleading.

A series of negotiations regarding the terms of the P'nyang Gas Agreement have taken place over the last seven months, leading to the Prime Minister's statement last Friday night. It is unfortunate that, at this time, the stakeholders in P'nyang cannot agree on the appropriate balance of value and benefits for a Gas Agreement to be concluded. Under the terms proposed by the State, the joint venture partners were unable to obtain a return on their investment that made the project investable and bankable. For Oil Search, the project returns under the State's proposed terms were approximately the same as our cost of capital, on an unrisks basis.

While Oil Search will continue a dialogue with the State on the P'nyang field and will seek to achieve the appropriate balance of risk and reward for all stakeholders in any future development, it is our intention to now focus on the development of the Papua LNG Project, under the terms agreed in April 2019 and endorsed by the present Government in September 2019, as well as on the exploration and development of our Alaskan assets.

We will seek to advance the Papua LNG Project in a timely way, recognising that several engineering and commercial modifications will need to be made now that the P'nyang development is delayed. Joint Venture meetings are planned in the short term to discuss the forward programme and we will update the market following these discussions.

**PETER BOTTEN, AC, CBE**

Managing Director

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**Webcast details**

Oil Search will be holding a conference call for analysts and fund managers at 11.30 am AEDT today, 3 February 2020. Details will be provided approximately an hour prior to the call.

The presentation will be webcast live over Oil Search's website. To listen to the webcast, please log on to [www.oilsearch.com](http://www.oilsearch.com). If you experience any technical difficulties, please call: +61 2 8280 6000.

The conference call will be available in archive form on the website 2 – 3 hours after completion.

*This ASX announcement was authorised for release by Oil Search Managing Director, Peter Botten.*



## **PRIME MINISTER**

### **Media release**

#### **STATEMENT ON THE P'NYANG GAS AGREEMENT NEGOTIATIONS**

31<sup>st</sup> January 2020

I am very disappointed to announce that, because of Exxon Mobil's unwillingness to agree to reasonable terms in line with other international gas projects, the State's Negotiating Team (SNT) has been unable to agree with Exxon Mobil on a Gas Agreement to underpin the development of the P'nyang gas field.

In good faith, PNG has extended the negotiation deadline to reach a mutually beneficial deal a number of times. At the same time the SNT has indicated a willingness to make significant concessions if Exxon Mobil was prepared to do the same, however, Exxon Mobil's final offer was delivered yesterday, only one day before the final deadline and this contained no such concessions.

After several months of dedication and good faith engagement by the SNT, Exxon Mobil's offer had barely changed from its opening offer presented last November and is not substantially different from the Papua LNG Gas Agreement.

That is unacceptable.

The gas belongs to PNG's people. We are willing to allow international oil companies to develop the field and achieve decent returns by exporting most of the gas, but PNG must also benefit. It is hugely disappointing that our negotiation partners will not agree to such terms.

Our position has not, and will not, change. Naturally, every new project must build on previous projects with improved terms for PNG, particularly when the initial terms provided by PNG were so generous. That is a normal progression in nations as successive projects are approved and developed. We insist that this also occurs in PNG.

The "State take" proposed by project partners was significantly less than our APAC neighbours such as Malaysia, where Exxon Mobil has a huge operation, or indeed by our immediate neighbours Indonesia and Brunei. It is at the lower end of the estimated State take for nations around the world published by several authorities on the matter, such as Wood Mackenzie, Daniel Johnson and Co and the Boston Consulting Group. It is simply not reasonable for PNG to accept this.

PNG is a developing nation where less than one in five people have access to electricity. We need funds and resources to address this and other fundamental development issues. The terms we proposed to Exxon Mobil were fair, ensuring PNG benefits from the project while the international oil companies made decent returns. Our proposals were rejected as these companies tried to extract even more profit for themselves.

In reality the only progress made by Exxon Mobil over the last three months was on fundamental issues underpinning such agreements that would usually not be contentious, such as: agreeing to put milestones in place to ensure P'nyang is actually developed and not "warehoused" by Exxon Mobil and its partners; that the Development License will be considered by the Minister through the

normal regulatory process; and that any agreement would use PNG's template agreement as a basis for negotiation for development of PNG's own gas, not one imposed by Exxon Mobil. All of these things reflect standard international practice.

Further, despite the SNT making it clear they were willing to negotiate fiscal issues, Exxon Mobil has not been willing to make any significant fiscal concessions beyond the initial terms they proposed in November, despite these terms being well below international standards for these developments.

In summary, Exxon Mobil proposed a deal that was 'out-of-the-money' for PNG.

We know the world is watching. PNG continues to welcome international investment and is keen to work with global partners as we develop our nation and seek economic growth that will fairly share the rewards from exporting our resources to allow us to improve our people's quality of life. We don't believe the last offer made by Exxon Mobil would have done that, so we have stopped negotiations at this stage to allow us to concentrate on developments already in the pipeline.

HON JAMES MARAPE, MP

Prime Minister