

CLIMATE CHANGE RESILIENCE

Investor and Lender Briefing

18 April 2018

OIL SEARCH LIMITED | ARBN 055 079 868 | ASX: OSH | POMSoX: OSH | US ADR: OISHY
www.oilsearch.com



Oil Search

DISCLAIMER

Forward Looking Statements

The information contained in this report is based on assumptions and contingencies which are subject to change without notice and involve known and unknown risks, uncertainties and other factors which are beyond the control of Oil Search Limited. Oil Search Limited assumes no obligation to update this information, which is provided as a general guide only and should not be relied upon as an indication or guarantee of future performance.

While every effort is made to provide accurate and complete information, Oil Search Limited does not warrant that the information in this report is free from errors or omissions or is suitable for its intended use. Subject to any terms implied by law which cannot be excluded, Oil Search Limited accepts no responsibility for any loss, damage, cost or expense (whether direct or indirect) incurred by you as a result of any error, omission or misrepresentation in information in this report. All information in this report is subject to change without notice.

This report also contains forward-looking statements including with respect to climate change scenario analysis, carbon pricing, demand for oil and gas and the possible effect and impact of climate change on the value of Oil Search's portfolio and Oil Search's plans, strategies and objectives all of which are subject to particular risks associated with the oil and gas industry. Oil Search Limited believes there are reasonable grounds for the expectations on which the statements are based. However, actual outcomes could differ materially due to a range of factors including oil and gas prices, demand for oil, currency fluctuations, drilling results, field performance, the timing of well work-overs and field development, reserves depletion, progress on gas commercialisation and fiscal and other government issues and approvals. In respect of the forward-looking statements in relation to scenario analysis, while the use of scenarios may assist in the understanding and description of possible future events or circumstances, scenarios may have their own inherent disadvantages, limitations or deficiencies. Oil Search is not able to predict which if any of the scenarios referred to in this report may eventuate and does not regard any particular scenario as a preferred outcome for Oil Search.

AGENDA

❖ WELCOME

- ❖ Eileen Doyle – Health, Safety, Sustainability Board Committee Chair



❖ INTRODUCTION

- ❖ Peter Botten – Managing Director



❖ APPROACH

- ❖ Megan Christensen – GM Stakeholder Engagement & Social Responsibility



❖ FINANCIAL IMPLICATIONS

- ❖ Stephen Gardiner – Chief Financial Officer



❖ CONCLUDING REMARKS AND Q&A

- ❖ Peter Botten – Managing Director

WELCOME

- ◆ Board commitment to effective climate governance and integration into corporate strategy and decision-making process
- ◆ Strengthened climate governance arrangements:
 - HSS Charter
 - Climate Policy
 - STI component
 - Internal carbon price
 - Procedures
- ◆ Release of Climate Change Resilience Report
 - Demonstration of OSH commitment and overall resilience of OSH assets

CLIMATE TRANSPARENCY LEADERSHIP

- ◆ **Corporate Strategy:** to target top quartile returns through excellence in socially responsible oil and gas exploration and production
- ◆ **Climate Strategy:** integrates OSH's corporate climate commitments in to operations by embedding climate into decision-making, strategy and risk management
- ◆ Comprehensive work conducted by OSH, particularly climate scenario analysis has:
 - Reinforced OSH's corporate strategy
 - Confirmed rigour of OSH's economic analysis approach
 - Demonstrated resilience of OSH's current and growth assets

- ◆ Proven record in transparency: TCFD alignment logical
- ◆ Climate risk integrated in strategy
- ◆ 2°C resilience demonstrated

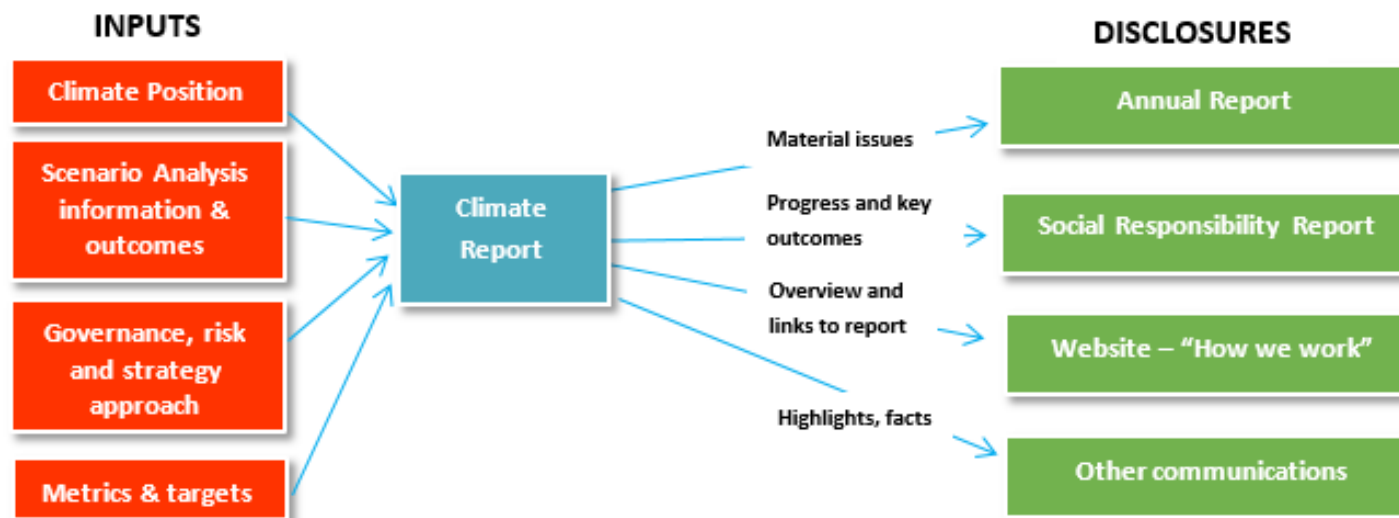
HOW OSH CLIMATE STRATEGY SUPPORTS CORPORATE OBJECTIVES

REDUCE RISK	ENHANCE VALUE	RESPONSIBLE OPERATOR
Carbon Price	Scenario Analysis	Assist PNG goals
Climate risk embedded	Climate KPI's and incentives	Reduce emission intensity
Physical risk	Power opportunities in PNG	Measure, monitor, set targets
		Influence partners

ROBUST APPROACH TO TCFD RESPONSE AND ANALYSIS

- ◆ Considered, and where appropriate, utilised TCFD guidance:
 - Scenario selection and development
 - Risk categorisation and assessment
 - Impact assessment
 - Metric selection
 - Disclosure approach

- ◆ Selected published scenarios:
 - Meet TCFD criteria
 - Robust data sets
 - Assumptions and limitations well known
 - Aids comparability
- ◆ Disclosed consistently with TCFD guidance
- ◆ Work continues to evolve



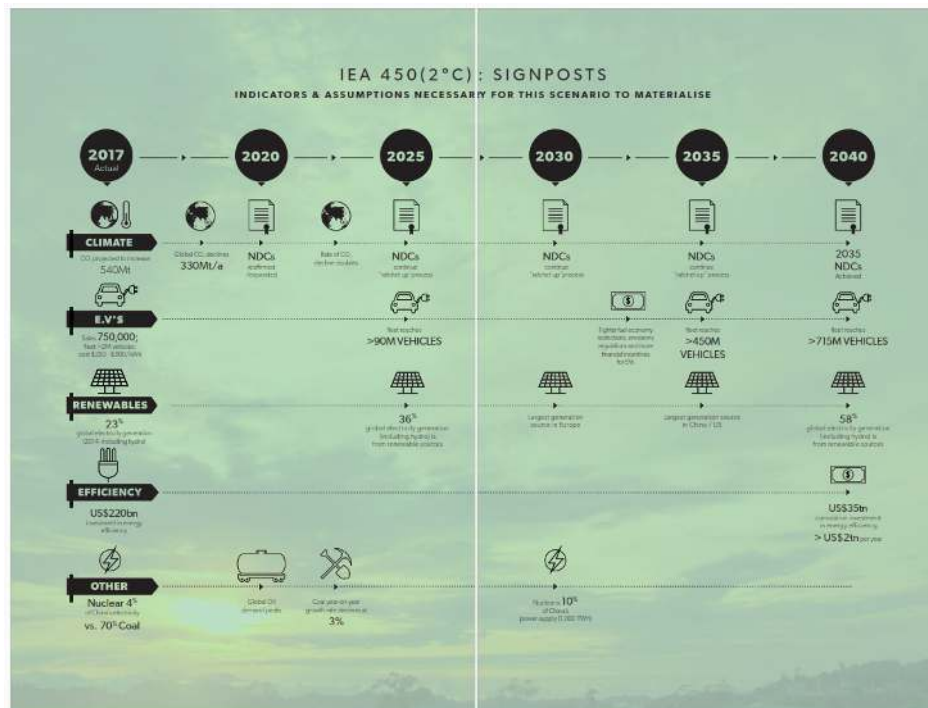


Oil Search

INTEGRATING CLIMATE SCENARIOS INTO OSH APPROACH

SCENARIO SIGNPOSTS

- ❖ Signposts for each selected scenario reflect underpinning assumptions for the scenario to materialise.
- ❖ Help inform OSH assessment of probability of each scenario occurring over time.



EXTERNAL INDICATORS

- ❖ OSH actively monitoring climate indicators developed from scenario analysis to understand planet's climate change trajectory:
 - **Lag Indicators:** where the world is now
 - **Lead indicators:** signal where the world may be going
 - **Step change indicators:** where government climate policy may shift more quickly than anticipated



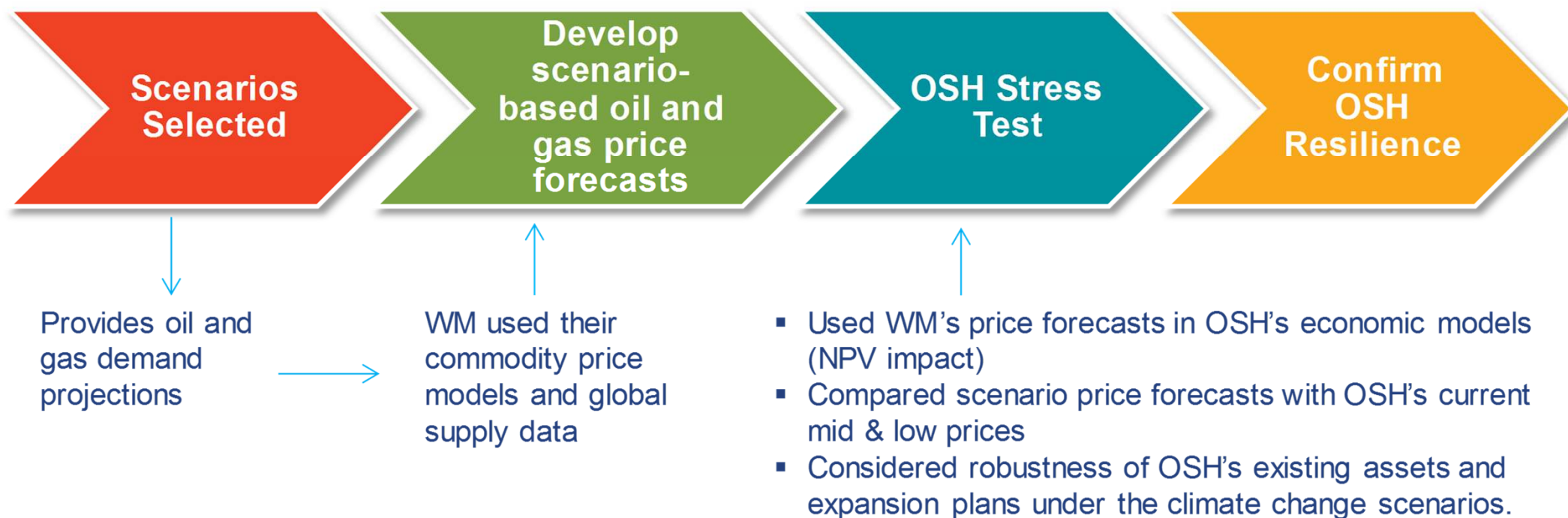
Oil Search

ECONOMIC MODELLING AND RESILIENCE TESTING

CLIMATE SCENARIO OBJECTIVE

- ◆ Test financial resilience of OSH assets to different climate change scenarios (including 2°C and 1.5°C pathways)

APPROACH





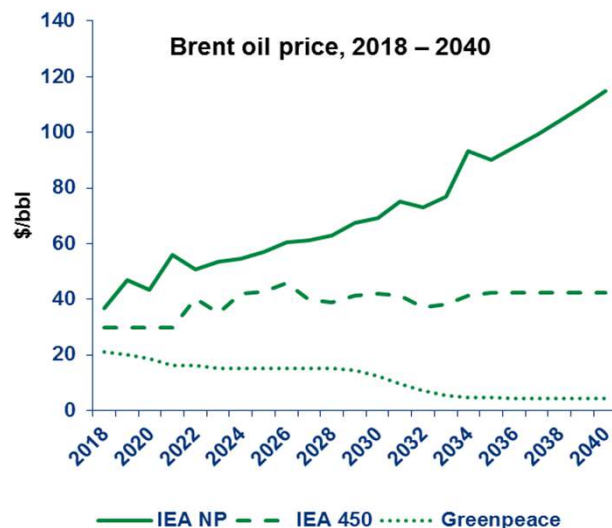
Oil Search

ECONOMIC MODELLING AND RESILIENCE TESTING

SCENARIO INSIGHTS

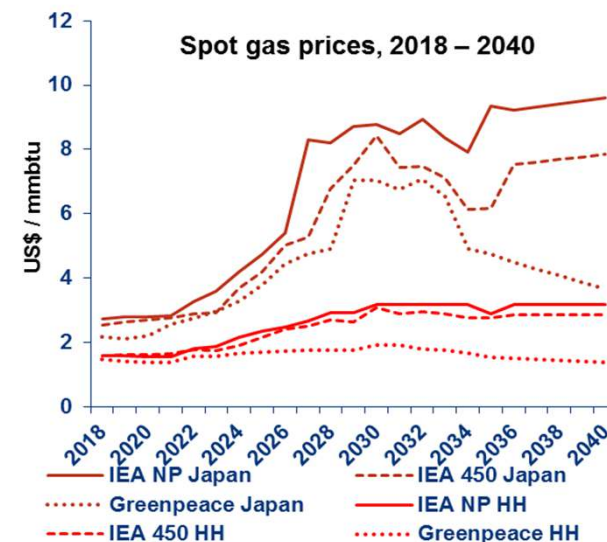
- ◆ LNG demand grows under all three scenarios
- ◆ Under both the IEA scenarios, oil demand remains robust enough to encourage development of new supplies
- ◆ There is a large range and variability across the scenarios in terms of possible oil and gas prices

BRENT OIL PRICE UNDER SELECTED CLIMATE SCENARIOS



Source: Wood Mackenzie, 2017

SPOT GAS PRICE UNDER SELECTED CLIMATE SCENARIOS



NPV IMPACT AND RESILIENCE – OVERVIEW






CLIMATE SCENARIO ANALYSIS – OUTCOMES

- ◆ Indicated long-term resilience and value generation under a range of decarbonisation scenarios, including a 2°C outcome.
- ◆ Under a 2°C scenario, PNG LNG and LNG expansion project expected to have positive NPVs and economic lives consistent with OSH's corporate economic assumptions (CEAs), whilst Nanushuk remains NPV positive.
- ◆ Low risk of OSH's low-cost assets being stranded in a carbon-constrained world.
- ◆ Confirmed OSH's current economic modelling approach and CEAs already capture price risks of a range of decarbonisation scenarios, including a 2°C pathway.



PNG LNG REMAINS NPV POSITIVE UNDER 2°C SCENARIO

PNG LNG NPV IMPACT (INCLUDING OSH PNG OIL ASSETS)

Scenario	NPV Impact	Comments
IEA New Policies		<ul style="list-style-type: none"> Economic life not negatively impacted compared to base case NPV impacted by short-term price drop inherent in scenario
IEA 450 (2°C)		<ul style="list-style-type: none"> Economic life comparable to low case NPV impacted by short-term prices inherent in scenario
Greenpeace AER (1.5°C)		<ul style="list-style-type: none"> While value would be eroded, Project would remain NPV-positive



Positive impact on project economics
NPV positive and above OSH's base CEA



Impact within OSH's base and low case.
NPV positive and within OSH's base and low CEA



Returns are less than planned but asset is still economic and makes positive returns
NPV positive and below OSH's low CEA



Significant negative impact and project does not pay back investment.
NPV negative. Project would not be economic if this scenario was to eventuate

HIGHLIGHT

- Even in a 2°C scenario, PNG LNG continues to have positive NPV and an economic life consistent with OSH's CEAs

SHORT TERM PRICE IN SCENARIO NEGATIVELY IMPACTS NPV

- 30% of PNG LNG's value is realised over the five-year period from 2018-2022.
- The climate scenarios show a short-term drop in prices to the US\$30s and US\$40s starting in 2018 - negatively impacting the NPV of PNG LNG.
- We have chosen to preserve the integrity of the scenario and report the impact using the embedded numbers for this period, not substituting for actuals.

LNG EXPANSION PROJECT REMAINS ONE OF THE MOST PRICE RESILIENT GLOBALLY



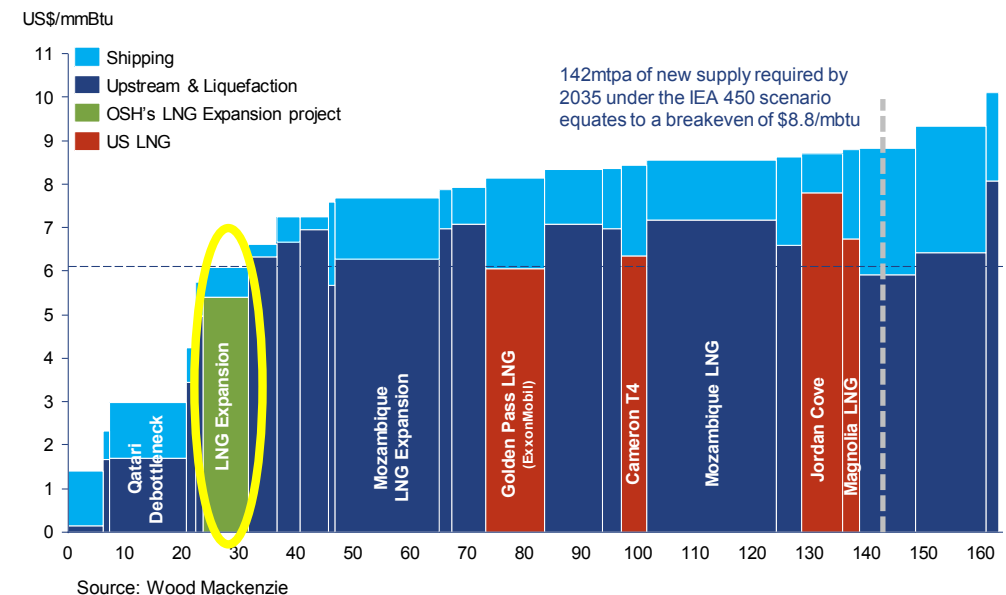
LNG EXPANSION PROJECT (INCLUDING ELK-ANTELOPE, P'NYANG, AND PNG LNG PROJECT GAS)

Scenario	NPV Impact	Comments
IEA New Policies		<ul style="list-style-type: none"> NPV impacts are significantly more favourable than base economic assumptions Extends economic life of project by approximately two years
IEA 450 (2°C)		<ul style="list-style-type: none"> NPV and asset economic life impact falls between base and low economic cases
Greenpeace AER (1.5°C)		<ul style="list-style-type: none"> While value would be eroded, Project would remain NPV-positive

Positive impact on project economics <i>NPV positive and above OSH's base CEA</i>	Impact within OSH's base and low case. <i>NPV positive and within OSH's base and low CEA</i>	Returns are less than planned but asset is still economic and makes positive returns <i>NPV positive and below OSH's low CEA</i>	Significant negative impact and project does not pay back investment. <i>NPV negative. Project would not be economic if this scenario was to eventuate</i>

HIGHLIGHT




- ◆ *LNG expansion project sits at lowest quartile of cost curve compared to other proposed projects needed to meet additional LNG demand in a 2°C world, making it one of the most price-resilient potential LNG projects globally*





NANUSHUK REMAINS NPV POSITIVE UNDER 2°C SCENARIO

NANUSHUK PROJECT

Scenario	NPV Impact	Comments
IEA New Policies		<ul style="list-style-type: none"> NPV impacts are more favourable than base case
IEA 450 (2°C)		<ul style="list-style-type: none"> Value is eroded but the project would remain NPV-positive
Greenpeace AER (1.5°C)		<ul style="list-style-type: none"> Long-term oil price of US\$5 significantly impacts the NPV of the project and project would not be sanctioned



Positive impact on project economics
NPV positive and above OSH's base CEA



Impact within OSH's base and low case.
NPV positive and within OSH's base and low CEA



Returns are less than planned but asset is still economic and makes positive returns
NPV positive and below OSH's low CEA



Significant negative impact and project does not pay back investment.
NPV negative. Project would not be economic if this scenario was to eventuate

HIGHLIGHTS

- ◆ *IEA New Policies – Nanushuk oil assets perform better than OSH's base CEA.*
- ◆ *IEA 450 scenario (2°C) – an additional 20 mbopd required to meet demand. OSH's Nanushuk oil project able to meet this additional demand and remains NPV positive.*

CONSERVATIVE ACQUISITION CASE

- ◆ Based on a resource of 500 mmbbl, compared to existing joint venture partners' estimates of at least 1.2 bnbl.
- ◆ NPV analysis does not include anticipated design efficiencies, opportunities to realise synergies with existing infrastructure, or value of OSH's option to increase its interest in the assets by mid-2019.
- ◆ Does include reduction in USA corporate tax rate that became law in December 2017.

SUMMARY

- ◆ **Board and executive commitment to managing climate risk**
- ◆ **Strong governance structure around management of climate risk**
- ◆ **Proven record in transparency: TCFD alignment logical**
- ◆ **Climate risk integrated in strategy**
- ◆ **2°C resilience demonstrated**
- ◆ **Climate risk management and evaluation is ongoing**

QUESTION AND ANSWER

2018 Climate Report & Scenario Analysis

OIL SEARCH LIMITED | ARBN 055 079 868 | ASX: OSH | POMSoX: OSH | US ADR: OISHY
www.oilsearch.com



GLOSSARY

Key terms used in the presentation:

- ◆ **CEA:** Oil Search Corporate Economic Assumptions.
- ◆ **IEA:** The International Energy Agency.
- ◆ **LNG Expansion Project:** Oil Search's LNG Expansion Project is a proposed 8 MTPA expansion at the PNG LNG Project site that includes Papua LNG (Elk-Antelope), P'nyang and foundation field gas.
- ◆ **TCFD:** Task Force on Climate-Related Financial Disclosures.

Published climate scenarios used in analysis:

- ◆ **IEA New Policies Scenario (NP):** Reflects announced government policies, including 2015 Paris pledges.
 - ◆ Source: https://www.iea.org/bookshop/720-World_Energy_Outlook_2016
- ◆ **IEA 450 Scenario (2°C):** IEA's 2-degree Celsius scenario.
 - ◆ Source: https://www.iea.org/bookshop/720-World_Energy_Outlook_2016
- ◆ **Greenpeace Advanced Energy Revolution Scenario (1.5°C):** Complete decarbonisation scenario.
 - ◆ Source: <http://www.greenpeace.org/international/Global/international/publications/climate/2015/Energy-Revolution-2015-Full.pdf>