



Oil Search

Capital and operating expenditure reductions and balance sheet update

18 March 2020

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

In light of the recent material decline in oil prices and global circumstances, Oil Search has undertaken a comprehensive review of its planned activities in 2020. The objective of the review has been to minimise forward expenditure and maximise liquidity, while protecting the Company's base value and preserving the option to deliver our world class growth projects when market conditions improve.

Apart from work programmes required to ensure ongoing reliable and safe operations, all discretionary activities within the Company's control that have not yet commenced are being suspended or deferred. Where possible, some projects that have commenced have also been suspended safely. This action will result in a material reduction in investment expenditure in 2020, from US\$710 – 845 million as previously disclosed, to US\$440 – 530 million. Forecast capital expenditure going forward from April has been reduced from US\$400 – 500 million to between US\$200 million and US\$300 million.

Oil Search has also commenced a systematic review of all operating and corporate overhead costs, aimed at delivering a sustainable, material reduction in these costs without compromising the ongoing and safe production of oil, condensate and gas in PNG. Deferrals of non-essential capital projects will flow through to material reductions in direct support and operating costs. Analysis and implementation of the flow-on impact on operating costs is currently underway and revised guidance on operating costs will be provided once the associated restructuring costs have been fully quantified.

In addition to managing for the low oil price environment, Oil Search has prepared comprehensive business continuity plans and is well advanced in its preparations to adjust its work practices and exposures, to reduce the risk of disruption to reliable and safe operations from COVID-19.

Dr Keiran Wulff, Oil Search's Managing Director said:

"The recent dramatic fall in oil prices to below US\$40/bbl, due to the impact of COVID-19 on oil demand, combined with concerns about a material increase in oil production following the recent failed OPEC+ meeting on further production cuts, has led to a major drop in oil and gas company share prices. It is unclear how long these events and the consequent oil price and share market volatility will last.

While Oil Search is fortunate to have world class assets, these unprecedented times require us to take immediate and decisive steps to position us for a potentially extended period of lower oil prices and business uncertainty.

We have consequently implemented a halt in all discretionary spend, which will reduce capital expenditure significantly in 2020. While it is premature to forecast budgets for 2021, if lower oil prices persist, Oil Search will focus on protecting the value of our core assets and limiting any other activities. We are also well advanced in preparations to rapidly reduce our operating and corporate costs, for immediate implementation.

Since early in the year, the Company has been evaluating the potential impact of COVID-19 across our business. We have established a multi-location, cross-functional COVID-19 Task Force which has prepared business continuity and emergency response plans to manage the impact of COVID-19 on our workforce, operations and workplace environments. This has included identifying business critical personnel and projects and having layered plans for implementation.

We have recently been made aware of an individual in PNG who has developed flu-like symptoms after returning from field break. This individual works for a landowner company that currently supplies services to one of our camps. In accordance with World Health Organisation advice and the Company's protocols, the individual and his close contacts have been isolated and the relevant authorities notified. The individuals will remain in quarantine until they are fully recovered and cleared to return to work. The plans that the Company has made to minimise the impacts of Coronavirus on the Company's activities are now being implemented. The health and safety of our employees and contractor community remains our highest priority.

The early systematic preparation for managing the impact of COVID-19 on our business and the measures we are now implementing to minimise capital spend, operating costs and corporate expenses, will assist the Company with the financial flexibility to ride through a potentially extended period of global disruption and enhance Oil Search's resilience in a lower oil price environment.

We are confident that these measures, combined with our balance sheet structure and liquidity, will position the Company for success despite the challenges currently facing the global energy industry."

2020 REVISED GUIDANCE ¹

Year to December 2020	PRIOR GUIDANCE	REVISED GUIDANCE
Investment expenditure (US\$m)		
Production expenditure (PNG)	120 - 140	55 - 65
Development		
PNG	70 - 90	25 - 35
Alaska	120 - 140	110 - 130
Total development expenditure	190 - 230	135 - 165
Exploration and evaluation		
PNG	120 - 130	70 - 80
Alaska	220 - 240	150 - 170
Total exploration and evaluation expenditure	340 - 370	220 - 250
Other plant and equipment (US\$m)	55 - 65	25 - 35
Power (US\$m)	5 - 40	5 - 15
Total (US\$m)	710 – 845	440 – 530

1. Numbers may not add due to rounding.

PNG production activities

All Oil Search operated-production activities that are not required to ensure facilities reliability or personal and process safety have been suspended. The deferral of activities, which includes suspending the IDT 26 well (subject to regulatory approval), a coil tubing programme, a well work-over and the rebuilding of the refinery at Kutubu (damaged by the 2018 earthquake), is not expected to impact Oil Search-operated production materially in 2020. The production guidance range, of 27.5 mmbœ – 29.5 mmbœ, remains unchanged.

ExxonMobil, operator of the PNG LNG Project, has advised Oil Search that it is also taking steps to reduce discretionary spend.

Development activities

Early development activities in Alaska, including laying gravel roads, will be completed to comply with permitting obligations. However, all further work on the proposed Early Production System for the Pikka Unit Development, including ordering long lead items, will be placed on hold.

Dialogue is ongoing with the PNG Government on the P'nyang Gas Agreement, which is required for the Papua LNG, PNG LNG and P'nyang joint ventures to progress into FEED for the proposed three-train integrated LNG expansion in PNG. At present, we have assumed that activities on LNG expansion are minimal. If agreement on P'nyang terms is reached and the joint ventures move into the FEED phase in 2020, it is anticipated that spend on the projects would be modest over the balance of the year.

ExxonMobil, as operator of the PNG LNG Project, has advised that development activities on the Angore field in PNG will be suspended.

Exploration and evaluation

Much of the planned exploration activity in PNG, including the Gobe Footwall well and seismic acquisition in the PNG Highlands, has already taken place or is underway. However, all further activities, including other seismic acquisition programmes, have been deferred.

In Alaska, operations on Mitquq and Stirrup, the two wells drilled in the 2019/20 winter season, will be completed. Testing of the wells, which both discovered oil, is currently underway, with results anticipated to be available in late March/early April. No further exploration activities are now planned to take place in 2020.

Limited engineering work on the Pikka Unit full field development will continue, so that the project is ready to move promptly towards FID when market conditions improve.

Other expenditure on seismic acquisition and G&G and G&A costs will be minimised as much as possible.

FINANCIAL PROFILE

US\$ MILLION ¹	31 DEC 2019
Cash and short-term deposits ²	396.2
Debt (PNG LNG financing)	(2,939.4)
Corporate facilities	(440.0)
Net debt³	(2,983.2)
Total liquidity⁴	1,151.9

- Numbers may not add due to rounding.
- As at 31 December 2019, US\$232.1 million was escrowed in PNG LNG Project accounts.
- Excludes lease liabilities presented as 'Borrowings' in the Statement of Financial Position.
- As at 31 December 2019, US\$755.7 million of corporate facilities were undrawn.

At 31 December 2019, 87% of Oil Search's drawn debt (US\$2.94 billion) related to the PNG LNG project finance facility. This debt is secured against the PNG LNG Project assets, with no recourse to the PNG LNG Project sponsors. A cash balance equal to six months of forecast interest and principal payments is kept within PNG LNG Project accounts at all times. Once all cash obligations, including operating costs and debt and principal payments, have been met, distributions are made to the Project sponsors, provided historic and projected Debt Service Cover Ratios are met. There are no financial covenants at either the project level or at the sponsor level that must be satisfied.

In addition to the PNG LNG project finance debt, at the end of 2019, US\$440 million had been drawn down from the Company's US\$1.2 billion of corporate facilities, with US\$4 million utilised as letters of credit and US\$756 million available to be drawn.

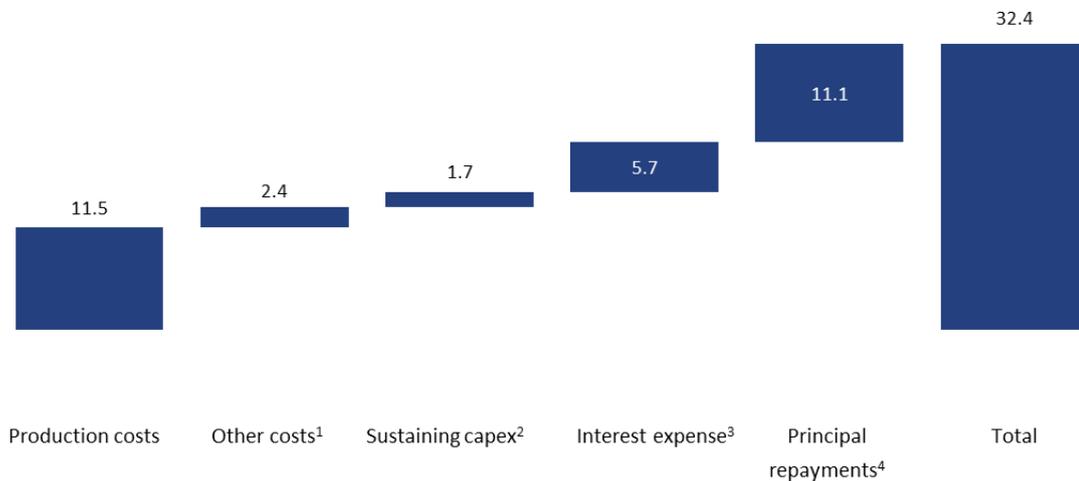
Facility	Amount (US\$m)	Term
Five-year non-amortising syndicated facility	600	June 2022
Bilateral revolving credit facility	300	December 2023
Bilateral facilities	300	September 2020
Total	1,200	

The US\$300 million facilities that were arranged with two banks to provide additional financial flexibility at the time of the exercise of the US\$450 million Armstrong Energy/GMT option, are due to expire in September 2020. Oil Search plans to refinance these facilities well in advance of the expiry date.

There are a limited number of financial covenants that apply to the corporate facilities, the most significant of which in the current environment is an EBITDAX/interest cover test of more than three times, calculated each six months over the prior twelve-month period.

The Company's cash flow break-even for 2020 (comprising operating and core corporate costs, sustaining capex, cash interest expense and scheduled PNG LNG debt repayments) is currently in the range of US\$32-33 per barrel of oil equivalent (boe). The cost reduction initiatives planned are expected to lower the break-even, excluding the impact of one-off restructuring costs.

Cash flow break-even in 2020 (US\$/boe)



1. Other costs include shipping & distribution, corporate costs and royalties. Excludes inventory movements, donations, power project expenses and business development costs.
2. Sustaining capex comprises critical expenditure only for the producing assets. All expansion and discretionary expenditure has been excluded.
3. Interest expense on PNG LNG and corporate facilities (at current LIBOR rates).
4. Principal repayments relate to PNG LNG project financing facility.

ALASKAN ASSET SALE

Oil Search has decided to suspend the formal process to sell up a 15% interest in its Alaskan assets. However, discussions are continuing with several parties who, due to the quality of the Alaskan assets, continue to express strong interest in a purchase. The Company's liquidity assumptions do not include any proceeds from a sale.

BUSINESS CONTINUITY

In light of the rapid escalation of instances of COVID-19 across the globe, over the past month Oil Search has been taking steps to protect the health of its employees and contractors and to ensure that adequate resourcing is maintained to deliver safe and reliable work activities across its core production and support locations.

A dedicated cross functional Task Force has been charged with proactively preparing the Company to manage the impact of Coronavirus on our business, in line with the recommendations from the World Health Organisation. Comprehensive plans have been prepared to minimise, to the extent possible, the impacts of the virus on the Company's activities and working environment and to deliver business continuity.

The measures include the implementation of rotational working arrangements at office locations in cities where the virus is present, revised field rotations for expatriate staff, the establishment of quarantine zones in the field and a material reduction in the number of field based employees and contractors by standing down non-essential staff and reducing discretionary work activities in remote locations.

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Contingency plans are being developed for activities that support production and liquids export, supported by detailed risk assessments and mitigation actions. Measures will be escalated as required, depending on the spread of the virus across our diverse work locations.

The health and safety of our employees and contractor community is our highest priority and these actions will reduce the exposure to COVID-19 across our work locations, while also safeguarding our critical business operations and resulting cash flow, to the maximum extent possible.

KEIRAN WULFF

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This ASX announcement was authorised for release by Oil Search Managing Director, Keiran Wulff.