

SECOND QUARTER REPORT FOR PERIOD ENDED 30 JUNE 2021

27 July 2021

ASX: OSH | PNGX: OSH | ADR: OISHY

FY 2021 production and capex guidance maintained

- On track to deliver full year 2021 production and capex guidance
- Successful completion of PNG LNG major maintenance works, ahead of schedule

Q2 2021 operating revenue up 21.5% from Q1 2021

- Second quarter operating revenue of US\$366.2 million, up 21.5% from Q1 2021
- Oil production from operated fields was up 4.6% from Q1 2021, driven by performance of Moran
- Delivered a solid quarter of non-operated production, PNG LNG production averaged 8.0 MTPA (gross)
- Total production of 6.6 mmbob, down 4.1% from Q1 2021, impacted by planned maintenance works

Papua LNG and Pikka oil development progressing as planned

- Papua LNG technical, commercial and financing work underway in Q2 2021
- Pikka project FEED continues, FID subject to appropriate risk allocation and funding

Extensive uptake of the COVID-19 vaccine among PNG workforce

- No COVID-19 cases to date in Oil Search PNG field operations
- Oil Search continues to assist PNG Government COVID-19 response through dedicated PNG industry task force with supply chain and logistics as requested

Strong operating cashflows enabled continued debt repayments

- US\$1.2 billion total liquidity (US\$504 million cash, US\$697 million undrawn credit facilities)
- Net debt reduced 5.3% compared to March 2021

Acting Chief Executive Officer Peter Fredricson said: "Oil Search delivered strong production in the latest quarter, supported by the safe completion of the major planned maintenance campaign at PNG LNG by the operator, ExxonMobil. Operated production from our Moran and Agogo fields continues to perform strongly, and operated gas production was able to offset some reduced production from the Hides Gas Conditioning Plant during upstream maintenance activities.

"The macro environment helped drive an increase in revenue despite the planned rate reduction at PNG LNG during the quarter. Sales volumes were broadly similar to the first quarter due to careful inventory management and flexibility from using the spot market.

"While the COVID-19 outbreak continues to impact Papua New Guinea, strict operating procedures and logistical measures have ensured continued safe and reliable production with no impacts to Oil Search or ExxonMobil operated production facilities. Pleasingly, there has been strong uptake of the COVID-19 vaccine in the Port Moresby office, which has allowed nearly all staff to return to work there.

“In Alaska, the Pikka Phase 1 project is tracking in line with original expectations from a technical and permitting perspective. It is in everyone’s interest - Oil Search, shareholders, JV partners – that we commit to FID on this high quality asset only when appropriate funding and ownership levels (across upstream and infrastructure) are in place.

“During the second quarter Papua LNG has progressed financing, technical and commercial work on the expansion scope in preparation for a further ramp up in project activity in 2H 2021. Key deliverables from this preliminary work will allow the project to progress towards its objective of entering FEED in 2022.

“Strong operating cashflows enabled repayment of US\$191.2 million of PNG LNG debt and US\$100.0 million net repayment of bi-lateral and syndicated corporate facilities during the quarter. Considerable progress was made on several funding opportunities which are expected to strengthen Oil Search’s balance sheet ahead of the upcoming investment programs for Pikka and Papua LNG.”

The Company’s first half results will be issued to the market on 24 August 2021.

For more information regarding this report, please contact:

Investor Relations

Peter Laliberte

VP – Investor Relations

+61 429 414 053

peter.laliberte@oilsearch.com

Media

Ian Pemberton

+61 402 256 576

ian.pemberton@plcorporate.com.au

This ASX announcement was authorised for release by the Oil Search Board of Directors

DISCLAIMER

This report contains forward-looking statements. By their nature, forward-looking statements and statements of current intentions involve risk and uncertainty because they relate to events and depend on circumstances that will or may occur in the future and are outside the control of Oil Search. Actual outcomes may differ materially from those expressed in such statements, due to a variety of factors.

Subject to any terms implied by applicable law, which cannot be excluded, or the ASX Listing Rules, Oil Search disclaims any obligation or undertaking to publicly update any forward-looking statement or future financial prospects resulting from future events or new information.

Comparative performance

Production^{1,2}

('000 boe unless noted)	QUARTER END			YTD (6mths)	
	JUN 2021	MAR 2021	JUN 2020	JUN 2021	JUN 2020
PNG LNG Project ³	5,801	6,110	6,396	11,911	12,750
PNG oil production ('000 bbls)	725	693	735	1,417	1,380
Other production ⁴	63	66	155	129	528
Total Production	6,589	6,869	7,286	13,457	14,658
Total Sales	6,699	6,689	6,786	13,388	13,659

Sales¹

(US\$ million unless noted)	QUARTER END			YTD (6mths)	
	JUN 2021	MAR 2021	JUN 2020	JUN 2021	JUN 2020
LNG and gas sales	254.8	214.4	229.6	469.1	523.2
Oil and condensate sales	102.9	78.0	28.4	180.9	86.0
Other revenue ⁵	8.5	9.1	8.2	17.6	16.5
Total Operating Revenue	366.2	301.5	266.2	667.7	625.6
Average realised oil and condensate price ⁶ (US\$/bbl)	71.55	57.38	23.05	64.66	35.91
Average realised LNG and gas price (US\$/mmBtu)	8.61	7.10	7.34	7.85	8.22

Financial Data¹

(US\$ million unless noted)	QUARTER END			YTD (6mths)	
	JUN 2021	MAR 2021	JUN 2020	JUN 2021	JUN 2020
Cash	503.6	675.9	831.4	503.6	831.4
Debt ^{7,8}					
PNG LNG financing	2,425.8	2,617.0	2,803.5	2,425.8	2,803.5
Corporate facilities	200.0	300.0	360.0	200.0	360.0
Net debt	2,122.2	2,241.1	2,332.1	2,122.2	2,332.1

- Numbers may not add due to rounding.
- Gas and LNG volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale. Minor variations to the conversion factors may occur over time.
- Production and sales net of fuel, flare, shrinkage and SE Gobe wet gas.
- SE Gobe gas sold to PNG LNG, Hides GTE gas and liquids.
- Other revenue consists of infrastructure tariffs, rig lease income, shipping revenue, marketing fees, and electricity and naphtha sales.
- Average realised price for Kutubu Blend including PNG LNG condensate.
- Excludes lease liabilities recorded as borrowings.
- As at 30 June 2021, the Company's corporate facilities totaled US\$900 million, of which US\$200 million had been drawn down and US\$3.0 million had been utilised for letters of credit.

COVID-19 update

Over 80% of the Port Moresby staff have received COVID-19 vaccinations. In response to protecting PNG from the fast spreading Delta variant, the PNG National Control Centre (NCC) released new COVID-19 measures requiring all travellers arriving in PNG to be fully vaccinated and to enter 21 days of quarantine.

As a company essential to the PNG economy, Oil Search, through the PNG Chamber of Mines and Petroleum, requested approval from the NCC for exemptions to the new control measures to allow staff to travel safely, including a seven day quarantine in Oil Search facilities and the ability to travel to PNG with a single dose of the AstraZeneca vaccine, with the second dose given in PNG.

The NCC is receptive to allowing these exemptions due to the strict controls and risk mitigations being enforced by industry participants, which have been audited by independent experts.

To date, Oil Search has conducted more than 28,000 COVID-19 tests at its PNG medical clinics and quarantine facilities, has distributed some 450,000 items of personal protective equipment to health workers, and administered more than 500 doses of the AstraZeneca vaccine. More than 600 Oil Search staff and contractors in PNG have now received at least their first COVID-19 vaccination.

In Alaska, limited field activity is currently underway with robust COVID-19 protocols in place including screening and testing aligned with national, state and local government guidance.

Revised Guidance for Full Year 2021¹

(US\$ million unless noted)	Previous	Revised
Production²		
Oil Search operated (ex-Hides GTE) (mmboe)	2 – 3	2 – 3
Hides GTE (mmboe)	0 – 1	0 – 1
PNG LNG Project³		
LNG (bcf)	107 – 110	107 – 110
Power (bcf)	1 – 2	1 – 2
Liquids (mmbbl)	2 – 3	2 – 3
Total PNG LNG Project (mmboe)	23 – 25	23 – 25
Total production (mmboe)	25.5 – 28.5	25.5 – 28.5
Operating Costs		
Unit production costs (US\$/boe)	10.50 – 11.50	10.50 – 11.50
Other operating costs ⁴	145 – 165	155 – 175
Depreciation and amortisation (US\$/boe)	12.50 – 13.50	12.50 – 13.50
Investment Expenditure		
Production Expenditure (PNG)	40 – 60	40 – 60
Development Expenditure	85 – 115	85 – 115
Exploration and Evaluation Expenditure ⁵	100 – 135	100 – 135
Biomass	10 – 15	10 – 15
Other Plant and Equipment	15 – 25	15 – 25
Total Investment Expenditure	250 – 350	250 – 350

- Numbers may not add due to rounding.
- Gas volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale.
- Includes SE Gobe gas sales exported to the PNG LNG Project (OSH – 22.34%).
- Includes gas purchase costs, royalties and levies, selling and distribution costs, rig operating costs, power expense, corporate administration costs (including business development), expenditure related to inventory movements, put option costs and other expenses.
- Exploration and Evaluation Expenditure includes FEED costs in relation to Pikka Development Unit, and pre-FEED costs for LNG expansion projects in PNG.

Production guidance for 2021 is unchanged. The planned maintenance program for PNG LNG train one (deferred from 2020) and train two were completed ahead of schedule. A major maintenance shutdown in Oil Search operated facilities was deferred from 2021 to 2022 due to COVID-19 restrictions impacting resourcing. Hides GTE continues to be offline due to the ongoing shut-in of the Porgera gold mine.

Other Operating Costs guidance has been revised for the expected increase in royalties, levies, and fuel costs resulting from higher realised prices, and lower inventory driven by higher sales volumes.

Investment Expenditure guidance for 2021 remains unchanged.

Papua New Guinea

Production^{1,2}

	QUARTER END			YTD (6mths)	
	JUN 2021	MAR 2021	JUN 2020	JUN 2021	JUN 2020
PNG LNG Project Production³					
LNG (mmscf)	25,964	27,292	28,427	53,257	56,709
Gas to power (mmscf)	126	123	130	249	222
Domestic gas (mmscf)	173	171	173	344	295
Condensate ('000 bbls)	583	623	686	1,206	1,379
Naphtha ('000 bbls)	68	78	77	147	150
Total PNG LNG Project ('000 boe)	5,801	6,110	6,396	11,911	12,750
Oil Search Operated Production					
Oil Production ('000 bbls)					
Kutubu	332	327	440	659	871
Moran	387	360	286	748	488
Gobe Main	2	2	3	5	6
SE Gobe	3	3	7	6	15
Total oil production ('000 bbls)	725	693	735	1,417	1,380
Hides GTE⁴					
Sales gas (mmscf)	-	-	369	-	1,804
Liquids ('000 bbls)	-	-	6	-	31
SE Gobe gas to PNG LNG (mmscf) ⁵	320	336	391	656	731
Total operated production ('000 boe)	788	758	890	1,546	1,908
Total production ('000 boe)	6,589	6,869	7,286	13,457	14,658

1. Numbers may not add due to rounding.

2. Gas and LNG volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale. Minor variations to the conversion factors may occur over time.

3. Production net of fuel, flare, shrinkage and SE Gobe wet gas.

4. Hides GTE production is reported on a 100% basis for gas and associated liquids purchased by the Hides (GTE) Project Participant (Oil Search 100%) for processing and sale to the Porgera power station. Sales gas volumes are inclusive of approximately 2% unrecovered process gas.

5. SE Gobe wet gas reported at inlet to plant, inclusive of fuel, flare and naphtha.

Total second quarter production from the PNG LNG Project, net to Oil Search, was 5.8 mmboe (excluding third party purchases), representing an annualised LNG production rate of 8.0 MTPA (gross), down from 8.5 MTPA (gross) in the first quarter. As expected, production was impacted by planned maintenance work at the PNG LNG plant and the Hides Gas Conditioning Plant.

The PNG LNG Project supplied 597 mmscf of gas (excluding third party purchases), corresponding to a net contribution from Oil Search of 173 mmscf, to the NiuPower-operated Port Moresby power station, 1% higher than the first quarter 2021.

Net production from our operated PNG assets was 0.79 mmboe, 4% higher than the first quarter due to strong performance from the Moran and Agogo fields.

Sales^{1,2}

	QUARTER END			YTD (6mths)	
	JUN 2021	MAR 2021	JUN 2020	JUN 2021	JUN 2020
PNG LNG Project Sales					
LNG (billion btu)	29,377	30,000	30,648	59,377	61,265
Domestic gas (billion btu)	198	196	252	393	403
Condensate ('000 bbls)	638	669	600	1,306	1,204
Naphtha ('000 bbls)	94	63	93	157	157
Total PNG LNG Project Sales ('000 boe)	5,898	5,998	6,083	11,896	12,117
Oil Sales ('000 bbls)	801	691	622	1,492	1,167
Hides GTE					
Gas (billion btu)	-	-	397	-	1,941
Liquids ('000 bbls) ³	-	-	10	-	32
Total oil and GTE sales ('000 boe)	801	691	703	1,492	1,543
Total sales ('000 boe)	6,699	6,689	6,786	13,388	13,659

1. Numbers may not add due to rounding.
2. Gas and LNG volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale. Minor variations to the conversion factors may occur over time.
3. Relates to refined products delivered under the Hides GTE Gas Sales Agreement or sold in the domestic market and condensate.

Twenty-six LNG cargoes were delivered to customers during the second quarter (same as the first quarter) comprising 25 cargoes sold under contract (including six under mid-term sale and purchase agreements) and one on the spot market. Three DES cargoes were on the water at the end of the period (one partially loaded), compared to two at the end of the first quarter. Three naphtha cargoes were delivered during the quarter, one more than the prior quarter. Four Kutubu Blend cargoes were sold during the quarter, the same as in the prior period.

Pricing

The average oil and condensate price realised during the second quarter was US\$71.55 per barrel, up 24.7% on the prior quarter. The average realised LNG and gas price increased 21.3% to US\$8.61 per mmBtu in the second quarter, due to continued recovery in oil prices, and higher spot prices due to colder than expected temperatures in Europe and continued drawdowns of LNG storage levels. Further increases in contracted realised prices are again expected in the next quarter given the lagged effect of price setting.

LNG Expansion

During the second quarter, the Papua LNG Expansion Project progressed financing, technical and commercial work in preparation for a further ramp up in project activity in the second half of 2021. Key deliverables from this preliminary work will allow the project to progress towards its objective of entering FEED in 2022.

North America

Pikka project

FEED work on our Pikka project in Alaska is on schedule. The FEED engineering scope on all major components, including the processing facility and seawater treatment plant, is nearing completion and the project team is preparing for internal assurance reviews. An independent third party review of the project concluded that the front end loading of the project was “excellent” and that the project is progressing towards readiness for construction. Tenders for fabrication, materials, pipeline and construction contracts are underway and early indications are consistent with estimates at the start of FEED. The procurement strategy for the project has been developed to minimise project cost overrun risk and to result in a competitive project while maximising local content and strengthening community involvement.

Oil Search is pursuing a number of funding options for the Pikka project including the sell down of its equity interest to 36%, the sale of mid-stream infrastructure and other appropriate debt capital markets funding options for a project of this type. FID timing is dependent on completing FEED work, achieving a desired ownership structure, securing appropriate project funding, and the receipt of partner approvals.

Financial Performance

Revenue

Total second quarter revenue from LNG, gas, oil and condensate sales was \$357.7 million, up 22.3% on the prior quarter. The increase in revenue was primarily driven by an increase in average realised LNG, gas, oil and condensate prices. Other revenue, comprising infrastructure tariffs, shipping revenue, electricity and naphtha sales was US\$8.5 million, down 6.9% from the prior quarter.

Liquidity

At 30 June 2021, Oil Search held liquidity of US\$1.2 billion, comprising US\$504 million in cash and US\$697 million in undrawn credit facilities. During the quarter, \$191.2 million and \$100.0 million net repayments were made on the PNG LNG debt and bi-lateral/syndicated facilities respectively. In April 2021, the US\$300 million short-term bi-lateral facilities were fully repaid and terminated prior to their 30 June 2021 maturity date.

Capital expenditure

Exploration and Evaluation Expenditure for the second quarter was US\$26.9 million. This primarily related to activities for the Pikka project (US\$21.7 million), and pre-FEED activities for LNG expansion in PNG (US\$5.2 million). Of the total exploration expenditure, US\$5.1 million related to seismic, administration, and geological and geophysical costs, which were expensed during the quarter.

Development Expenditure for the second quarter totalled US\$3.6 million, which consisted of US\$2.8 million of spend on PNG LNG and US\$0.8 million spend on Pikka project development costs.

Production Expenditure for the second quarter of US\$5.7 million was primarily related to expenditure associated with continued remediation activities on the Ridge Water Treatment Plant and Kutubu Refinery, which were damaged during the 2018 earthquake.

Expenditure on Property, Plant and Equipment was US\$2.0 million for the quarter, mainly related to ongoing implementation and optimisation of the Company’s enterprise resource planning system.

Expenditure to progress the Biomass project was US\$3.3 million for the quarter.

Summary of Investment Expenditure¹

(US\$ million unless noted)	QUARTER END			YEAR TO DATE	
	JUN 2021	MAR 2021	JUN 2020	JUN 2021	JUN 2020
Investment Expenditure					
Exploration and Evaluation					
PNG	5.2	4.2	17.8	9.4	46.5
USA	21.7	20.0	21.3	41.7	110.8
Total Exploration and Evaluation Expenditure	26.9	24.2	39.1	51.1	157.3
Development					
PNG LNG	2.8	4.7	11.1	7.5	27.4
Pikka	0.8	(4.6) ²	20.9	(3.8) ²	89.8
Total Development Expenditure	3.6	0.1	32.0	3.7	117.2
Production	5.7	6.4	14.8	12.1	26.4
Property Plant and Equipment	2.0	1.5	4.8	3.5	14.1
Biomass	3.3	1.4	1.9	4.7	3.7
Total Investment Expenditure	41.5	33.7	92.6	75.1	318.7
Exploration and Evaluation Expensed^{3,4}					
PNG	1.8	0.7	13.0	2.5	33.4
USA	3.3	4.0	2.9	7.3	33.8
Total current year expenditures expensed	5.1	4.7	16.0	9.8	67.2
Prior year expenditures expensed ⁵	-	-	-	-	27.2
Total Exploration and Evaluation Expensed	5.1	4.7	16.0	9.8	94.4

1. Numbers may not add due to rounding.

2. Represents prior period capital accrual reversals

3. Exploration costs expensed includes unsuccessful wells, exploration seismic and certain costs related to administration costs and geological and geophysical activities. Costs related to permit acquisitions, the drilling of wells that have resulted in a successful discovery of potentially economically recoverable hydrocarbons and appraisal and evaluation of discovered resources are capitalised.

4. Numbers do not include expensed business development costs of US\$0.7 million in the second quarter of 2021 (US\$0.2 million in the first quarter of 2021).

5. Prior year expenditures expensed relate to Gobe Footwall drilling costs.

Gas/LNG Glossary and Conversion Factors Used^{1,2}

mmscf	Million (10 ⁶) standard cubic feet
mmBtu	Million (10 ⁶) British thermal units
bcf	Billion (10 ⁹) standard cubic feet
Billion Btu	Billion (10 ⁹) British thermal units
bopd	Barrels of oil per day
MTPA (LNG)	Million tonnes per annum
boe	Barrel of oil equivalent
1 mmscf LNG	Approximately 1.10 - 1.14 billion btu
1 boe	Approximately 5,100 standard cubic feet
1 tonne LNG	Approximately 52 mmBtu

1. Minor variations in conversion factors may occur over time, due to changes in gas composition.
2. Conversion factors used for forecasting purposes only.