



OIL SEARCH LIMITED

(Incorporated in Papua New Guinea)

ARBN – 055 079 868

REPORT TO THE AUSTRALIAN SECURITIES EXCHANGE Activities for the Quarter ended 31 December 2012 29 January 2013

HIGHLIGHTS

- At the end of 2012, the PNG LNG Project was approximately 70 % complete and on track for first LNG sales in 2014. The estimated Project cost has increased to \$19 billion while the Plant capacity has risen to 6.9 mmtpa.
- The PRL 3 JV has commenced development studies to assess potential design concepts for the P'nyang gas field, which may include a third PNG LNG train.
- Production in the fourth quarter was 1.79 mmboe, taking production for the 2012 full year to 6.38 mmboe, within the Company's guidance range.
- Operating revenue for the quarter was US\$218.2 million while revenue for the 2012 full year was US\$724.6 million.
- A farm-down of Oil Search's Gulf of Papua acreage to TOTAL S.A. was executed and documentation submitted for PNG Government approval.
- High potential oil drilling is underway. The Taza 1 well in Kurdistan, which proved oil in the first reservoir objective, the Jeribe Formation, is drilling ahead to the next objective, the Euphrates, and the Semda 1 well in Tunisia has recently spudded.
- The sale of the Company's 40 % interest in Block 3 in Yemen to TOTAL S.A. was completed.
- The refinancing of Oil Search's corporate debt facility was finalised.

Commenting on the 2012 fourth quarter, Managing Director, Peter Botten, said:

"Oil Search finished the 2012 calendar year on a high note, with a strong fourth quarter production performance from our core PNG oil fields and good progress made on the PNG LNG Project and other growth opportunities, including gas expansion and material oil exploration.

For the PNG LNG Project, a number of major pieces of project infrastructure are now at, or nearing, completion, with the remainder of works progressing generally in line with schedule. Importantly, runway pavement at the Komo airfield is progressing well and first cargo flights, which will bring in key items of equipment for the construction of the Hides Gas Conditioning Plant (HGCP), are planned to commence in early 2013. Oil Search's Associated Gas and PL 2 Life Extension Projects are also advancing and remain on track to supply commissioning gas to

the LNG Plant in 2013. The Operator, Esso Highlands Limited, has reconfirmed the Project remains on schedule for first LNG sales in 2014.

Following a cost and schedule review by the Operator in November, the capital cost estimate for the Project has increased from US\$15.7 billion to US\$19 billion. While this is disappointing, the economic impact is largely offset by a 5% increase in LNG plant capacity and considerably higher oil prices than when the Project was initially sanctioned. Project economics remain sound.

Oil Search continues to develop its options for LNG growth. During the quarter, design studies for the P'nyang gas resource in PRL 3 continued, with a range of options under consideration, including the potential for a third PNG LNG train. Our Gulf of Papua gas strategy also continues to move forward. As highlighted in the third quarter report, the farm-in, subject to Government approvals, by TOTAL S.A. into our Gulf of Papua licences early in the fourth quarter satisfies one of the Company's core strategic objectives, which is to bring an experienced LNG operator into the licences, to share risks during the exploration phase. Assessment of the new 3D seismic data in the Gulf licences has been encouraging and planning for the offshore drilling programme, commencing in the first/second quarter of 2013, is well advanced.

In our Middle East and North Africa (MENA) operations, the Taza well in Kurdistan has proved oil in the first reservoir objective, the Jeribe Formation, and has commenced drilling towards the second objective, the Euphrates Formation. With the potential to contain material volumes of oil, these early oil indications from Taza are promising. The Semda well in Tunisia, which has recently commenced drilling, is also a high potential opportunity."

Commenting on production and revenue performance in the fourth quarter:

"In the fourth quarter, we experienced a return to normal operating conditions for our PNG producing oil fields following the unplanned shut-in during the third quarter. Total oil and gas production for the quarter was 1.79 mmbbl, which brought total production for the full year to 6.38 mmbbl, consistent with our guidance range.

1.66 million barrels of oil was sold during the quarter, at an average oil price of US\$111.09 per barrel. The crude oil inventory position increased by 81,000 barrels compared to the 2011 year end position. Total operating revenue for the quarter was US\$218.2 million, taking 2012 full year revenue to US\$724.6 million, just slightly lower than the 2011 full year revenue of US\$732.9 million."

On the 2012 full year results, Mr Botten said:

"The Company's financial results for the year to 31 December 2012 will be released to the market on 26 February 2013.

Normalised cash operating costs for 2012 are expected to be towards the upper end of the previously advised guidance range of US\$23–25/bbl. Costs in the second half have been higher than in the first half, due to an increased level of work-over activity, completion of some key work programmes, one-off costs associated with the oil sheen investigation and severe weather damage repairs, primarily to roads in the Project area. Additional cash costs related to the revised PDL 1 Hides GTE contract terms are expected to total approximately US\$37 million for the full year. Non-cash charges, comprising depreciation, amortisation and site restoration, are expected to be within the previous US\$7–9/bbl guidance range.

As highlighted on page 11, US\$144.0 million of 2012 exploration and evaluation expenditure is expected to be expensed, primarily related to the Trapia well, the IDT-25 Koi-lange test in PNG and PNG seismic costs. US\$14.5 million of the exploration costs expensed relates to exploration activities in the Middle East, which are non-deductible for tax purposes.

The Company expects to report an after tax profit of US\$29.3 million (US\$32.4 million pre-tax) for the sale of Block 3 in Yemen and an after tax profit of US\$12.7 million (US\$12.7 million pre-tax) associated with the farm-down of a number of licences, including the Gulf farm-down to TOTAL S.A., in PNG. This will be partially offset by an impairment charge of approximately US\$20.0 million after tax (US\$23.8 million pre-tax) related to the expiry of the PRL 1 Pandora licence, which reaches the end of its 15 year licence term in February 2013.

Including the impact of the Company's disposals and impairment, the effective tax rate is expected to be around the statutory tax rate for oil in PNG of 50%. All the above guidance is subject to the finalisation of the financial statements, Board review and the year end audit currently underway."

2012 FOURTH QUARTER PERFORMANCE SUMMARY

See notes 1, 2, 3	Quarter End			Full Year	
	Dec 2012	Sep 2012	Dec 2011	Dec 2012	Dec 2011
PRODUCTION DATA					
Crude oil production ('000 bbls)					
- Kutubu	957	650	791	3,267	3,028
- Moran	541	360	548	1,865	2,296
- SE Mananda	-	3	13	22	57
- Gobe Main	9	11	9	39	41
- SE Gobe	37	49	41	198	208
- Total oil production	1,545	1,072	1,402	5,390	5,631
Gas production (mmscf)	1,311	1,375	1,273	5,267	5,562
Hides condensate ('000 bbls)	28	30	27	112	130
Barrels of oil equivalent ('000 boe)	1,791	1,331	1,641	6,380	6,688
SALES DATA					
Internal oil usage ('000 bbls) ⁴	25	13	20	73	78
Oil sales volume ('000 bbls)	1,657	685	1,587	5,205	5,636
Gas-equivalent sales (mmscf) ⁵	1,271	1,400	1,323	5,372	5,742
Hides other condensate ('000 bbls) ⁶	5	8	8	27	34
Crude inventory ('000 bbls) ⁷	279	424	198	279	198
Barrels of oil equivalent sold ('000 boe)	1,874	926	1,816	6,127	6,627
FINANCIAL DATA					
Oil sales (US\$m)	184.1	78.6	180.2	593.2	654.3
Gas and refined product sales (US\$m)	24.7	22.9	13.4	95.6	49.0
Other field revenue (US\$m) ⁸	9.4	6.3	7.9	35.8	29.6
Total operating revenue (US\$m)	218.2	107.8	201.5	724.6	732.9
Average realised oil price (US\$ per bbl)	111.09	114.67	113.54	113.97	116.09
Cash (US\$m) ⁹	480.2	573.2	1,037.7	480.2	1,037.7
Debt (US\$m)					
- PNG LNG financing	2,866.0	2,629.0	1,747.6	2,866.0	1,747.6
- Revolving oil facility ¹⁰	Nil	Nil	Nil	Nil	Nil
Net cash/(debt) (US\$m)	(2,385.9)	(2,055.7)	(709.9)	(2,385.9)	(709.9)

1 2012 figures are unaudited.

2 Prior period comparatives updated for subsequent changes.

3 Numbers may not add due to rounding.

4 Oil used within Oil Search's operations and not available for sale.

5 Gas-equivalent sales include some Hides condensate sold under the same commercial arrangement.

6 Hides other condensate includes various other refined products (naphtha and diesel).

7 Includes minor field quality adjustments.

8 Other field revenue consists largely of rig lease income and infrastructure tariffs.

9 Excludes share of cash balances of joint venture interests.

10 At the end of December 2012, the Company had an undrawn revolving oil facility of US\$500 million.

PNG LNG PROJECT ACTIVITIES

In early November, the Operator of the PNG LNG Project, Esso Highlands Limited, a subsidiary of Exxon Mobil Corporation, completed a cost and schedule review and advised the Co-Venturers that:

- The estimated Project cost has increased from US\$15.7 billion to US\$19.0 billion. As advised by the Operator, this is primarily due to foreign exchange impacts, delays from work stoppages due to community disruptions and land access, logistics and weather challenges.
- Project capacity has increased by 5% from 6.6 mmtpa to 6.9 mmtpa.
- Project construction is approximately 70% complete and on schedule for start-up and delivery of first LNG cargo in 2014.

At the end of the fourth quarter, the status of the various Project components was as follows:

- Construction has advanced on all fronts, with the labour force completing over 105 million cumulative work hours.
- All major process equipment for the LNG plant is in place, with installation of piping being progressed and the jetty, LNG tanks and flare system nearing completion.
- The offshore pipelay has been completed with preparation underway for final pressure testing.
- The onshore pipeline construction is progressing towards Hides, with over 200 kilometres of the 292 kilometre right of way cleared and the pipeline welded out.
- All earthworks and foundations at the HGCP have been completed, with construction activity now focused on structural steel, piping and cabling installation.
- Drilling of the first wells of the Hides drilling programme are underway. A second drill rig is currently being assembled on site and will begin drilling in 2013.
- At the Komo airfield, runway paving is well progressed, with site utility buildings and facilities nearing completion, ahead of first cargo flights in early 2013.
- Movement of materials via the Highlands Highway to Hides has exceeded plan during the fourth quarter.
- Oil Search has made good progress on the construction activities for the Associated Gas and PL 2 Life Extension Projects. Construction works at the Kutubu and Gobe Central Processing Facilities are well advanced and equipment commissioning has commenced. The Company expects to supply commissioning gas to the LNG Project on schedule in 2013.



LNG plant site,
December 2012



Hides Gas Conditioning Plant,
December 2012



Komo Airfield
January 2013



Hides drilling, Rig 702,
December 2012

GAS GROWTH AND EXPLORATION ACTIVITY

Gas Growth

During the quarter, Oil Search continued to assess and advance new exploration opportunities in PNG.

Development studies were initiated to assess design concepts for the P'nyang resource, including utilising the gas as a potential foundation resource for PNG LNG Project expansion. Planning work for environmental studies and engagement with various stakeholders and interested parties were also undertaken. The PRL 3 JV approved the acquisition of a new seismic programme, which is scheduled to commence in the first half of 2013. This information is expected to assist with development planning and resource assessment.

Seismic acquisition and assessment work continued across a number of licences containing exploration opportunities which could provide additional gas resources in close proximity to the PNG LNG Project facilities. Following receipt of a licence extension and requested variations, Oil Search and Esso PNG Exploration Limited (an ExxonMobil subsidiary) completed their 50/50 acquisition of PPL 277 from New Guinea Energy.

In the Gulf of Papua, the transactions associated with the TOTAL S.A. farm-in (offshore PPLs 234 and 244 and PRL 10, and onshore PPLs 338 and 339) were submitted to the Minister of Petroleum and Energy for approval. Well design for the upcoming offshore programme was completed, seabed and shallow hazard surveys carried out and long lead items related to the drilling were purchased. The two firm plus two well options drilling programme is planned to commence late in the first quarter/early second quarter of 2013, once the Stena Clyde semi-submersible rig arrives on-site. The first well to be drilled will be the Flinders prospect in PPL 244, which has mean, unrisked, prospective resources of approximately 1.5 tcf.

Processing of the 1,050 square kilometres of 2012 3D seismic data was completed during the quarter. The assessment is encouraging, with a number of play types and potentially drillable targets clearly identified, including turbidite channel and fan features analogous to those in nearby licences. The final processing of an experimental controlled source electromagnetic (CSEM) survey, which was undertaken over part of the 3D seismic area earlier in the year, was also completed, providing further independent support for the prospects identified by seismic.

In October 2012, a new offshore prospecting licence (PPL 385 – Oil Search 100%) was issued to Oil Search. The licence is contiguous with the western boundary of PPL 244 and was part of the recent 2012 3D seismic and CSEM programme. Oil Search has opened a data room and has commenced a farm-out process, offering 50% of Oil Search's interest in PPL 385 and the right to acquire an interest in PPL 276 (Oil Search has the right to acquire up to 80%). Several

parties have accessed the data room, with bids due in early 2013. The objective is to seek to take up an option slot in the upcoming offshore programme with a drill target on one of these licences.

In the onshore licences (PPLs 338 and 339), planning progressed for a small seismic programme in PPL 338 (scheduled for early 2013) and for a gravity gradiometry survey to be undertaken in PPLs 338 and 339 in early 2013.

PNG Oil Exploration

During the quarter, work continued on the construction of the Mananda 6 well pad in PPL 219 (Oil Search – 71.25%, operator) located in the PNG Highlands. Drilling of the Mananda 6 well is scheduled to commence in the first half of 2013, to appraise the Mananda 5 discovery made in 2010.

MENA Exploration

In December, the Taza 1 well in the Taza Production Sharing Contract (PSC) located in the Kurdistan Region of Iraq (Oil Search – 60%, operator) proved oil in the first reservoir objective, the Jeribe Formation. Production testing was carried out over two intervals and although flow rates were low, the production of hydrocarbons to surface was encouraging given the challenging hole conditions through this interval. The low flow rates may reflect damage to the formation caused during drilling. The Company is now drilling ahead towards the second primary objective, the Euphrates Formation, and expects to reach the target depth in late January. Further high pressure hydrocarbon influxes have been encountered while drilling towards the Euphrates Formation, which is encouraging. Drilling in this section has proved to be challenging, as in other wells in the area, due to a combination of high pressure and loss zones, generally associated with significant hydrocarbon influxes, which has led to slow drilling progress.

In Tunisia, preparations continued for drilling a commitment well on the Semda prospect in the Tajerouine PSC (Oil Search – 100%). During the quarter, well site construction was completed and the well has recently spudded. The Semda 1 well has oil and gas targets in a very under-explored area of Tunisia, close to a number of existing discoveries. The well marks Oil Search's first drilling in the country.

In December, the sale of Oil Search's 40% interest in Block 3 (Gardan) in Yemen to TOTAL S.A. was completed following receipt of joint venture and government approvals. The Company's remaining asset in Yemen, Block 7 (Al Barqa) (Oil Search – 34%, operator), remains in a state of force majeure. Subject to a return to a stable and safe operating environment, the Company plans to acquire a 2D seismic programme over prospective parts of Block 7 in 2013.

DRILLING CALENDAR

Subject to Joint Venture approvals, the 2013 exploration, appraisal and development programme is as follows:

Well	Well type	Licence	OSH interest	Timing
PNG				
Hides drilling programme	Development/ Appraisal	PNG LNG Project	29.0%	Ongoing
Agogo ADT A	Appraisal	PDL 2	60.0%	Drilling ahead
Moran MA	Development	Moran Unit	49.5%	Drilling ahead
Gulf of Papua programme	Exploration	Various	Various	1Q/2Q 2013
Mananda 6	Appraisal/ Exploration	PPL 219	71.25%	2Q 2013
Kurdistan Region of Iraq				
Taza 1	Exploration	Taza PSC	60.0% (75% paying interest)	Drilling ahead
Tunisia				
Semda 1	Exploration	Tajerouine	100.0%	Drilling ahead

Note: Wells and timing subject to change

PRODUCTION PERFORMANCE

Total production in the fourth quarter of 2012 was 1.79 mmboe net to Oil Search, produced at an average rate of 19,467 barrels of oil equivalent per day (bopd). This represented a 34.6% increase on the third quarter, with operations back to normal following the previous quarter's shut-in for an inspection of the Kumul Marine Terminal (KMT) loading facilities after observation of a minor oil sheen on the water.

The strong fourth quarter performance took total production for the 2012 full year to 6.38 mmboe. While 4.6% lower than the 2011 full year, the result was within the Company's guidance range of 6.2 – 6.7 mmboe and was achieved despite a scheduled two week shutdown of the Kutubu Central Processing Facility and Agogo Production Facility in February for PNG LNG Project related work and the one-off impact on production from the KMT shut-in.

Kutubu (PDL 2 – 60.0 %, operator)

Fourth quarter production net to Oil Search was 0.96 million barrels (mmbbl), 47.3% higher than the third quarter. Gross production rates averaged 17,328 bopd during the period compared to 11,767 bopd in the previous quarter, reflecting a full quarter of production following the shut-in during the third quarter.

All reservoirs in the Kutubu field recorded strong production in the fourth quarter. Following the workover of the IDT 4 ST1 well in the previous quarter, good oil flow rates were achieved with low gas-oil ratios from the targeted intervals. Workovers at IWT 1 and IHT 3 were also undertaken during the quarter, with full commissioning expected in early 2013.

Production at Kutubu was further supported by the reinstatement of the IDD 3 well in the Hedinia Digimu reservoir. In addition, the UDT 13 gas injection well at Usano was converted to production for a short time, achieving flow rates of around 1,500 bopd. The well has now been returned to gas injection, though similar periods of swing production will be considered in the future.

During the quarter, the Agogo field continued to perform well, supported by strong production from existing wells and production from recently completed workovers of the ADT 1 and ADT 3B wells.

The ADT 4 well, targeting the Toro reservoir in the north-west part of the field, was spudded in the fourth quarter. The well is currently being completed for production.

Moran Unit (49.5%, based on PDL 2 – 60.0%, PDL 5 – 40.7% and PDL 6 – 71.1%, operator)

Oil Search's share of fourth quarter production at Moran was 0.54 mmbbl, 50.3% higher than in the previous quarter. Gross production rates averaged 11,879 bopd compared to 7,901 bopd in the third quarter, reflective of a full quarter of production.

The Toro C interval at the Moran 15 ST1 well, commissioned in the third quarter, achieved sustained production rates of approximately 1,700 bopd. This was due primarily to successful swing well management, combined with strong gas injection rates across the field.

The Moran 13 ST1 well, targeting the Toro and Digimu reservoirs in the north-west segment, was spudded during the quarter. Drilling has confirmed good indications of hydrocarbons.

Gobe (PDL 3 - 36.4% and PDL 4 - 10%, operator)

Oil Search's share of production from the Gobe fields in the fourth quarter was 0.046 mmbbl, 22.0% lower than the third quarter.

At Gobe Main, the gross average production rate was 962 bopd, 16.0% lower than the third quarter due to a planned shutdown in October, for both routine maintenance and to allow further modifications to the facilities in preparation for gas delivery to the PNG LNG Project in 2014.

At SE Gobe, gross production rates averaged 1,592 bopd, 23.3% lower than the previous quarter, again largely due to the planned shutdown. The Gobe 7X well was shut in during the quarter for repairs to the flowline, which is expected to be completed early in the first quarter of 2013. A sand cleanout intervention in the SEG 12 well was successful, leading to improved production rates from that well.

SE Mananda (PDL 2 – 72.3%, operator)

There was no production at SE Mananda during the quarter, due to repairs undertaken on the main production flowline following damage from severe weather conditions. Repairs have now been completed and production recommenced early in January 2013.

Hides Gas to Electricity Project (PDL 1 - 100%)

Fourth quarter gas production for the Hides Gas to Electricity (GTE) Project was 1.3 billion cubic feet (bcf), produced at an average daily rate of 14 million cubic feet (mmscf) per day. This was similar to third quarter production of 15 mmscf per day. In addition, 28,000 barrels of condensate were produced for use within the Hides facility and for local sales. [pea](#)

FINANCIAL PERFORMANCE

Sales Revenue

Oil production available for sale (production less internal usage) during the quarter was 1.52 mmbbl. Oil sales for the period were 1.66 mmbbl, with 0.14 mmbbl drawn down from the crude inventory during the quarter.

The average oil price realised in the fourth quarter was US\$111.09 per barrel, 3.1% lower than the third quarter price of US\$114.67 per barrel. The Company did not undertake any hedging transactions during the period and remained unhedged.

Sales revenue from oil, gas and refined products for the quarter was US\$208.8 million, while other field revenue, largely comprising rig lease income and infrastructure tariffs, was US\$9.4 million.

Capital Management

As at 31 December 2012, Oil Search held cash of US\$480.2 million (excluding joint venture balances), compared to US\$573.2 million at the end of September 2012. US\$2,866.0 million had been drawn down under the PNG LNG Project finance facility (US\$2,629.0 million at the end of September).

During the quarter, the Company finalised the refinancing of its corporate facility, securing a US\$500 million five year, non-amortising credit facility with 15 international and domestic banks. The facility will provide Oil Search with funding flexibility until the commencement of cash flows from the PNG LNG Project, as well as capacity to support current and future growth opportunities. At year end, the facility remained undrawn.

Capital Expenditure

Exploration and evaluation expenditure during the quarter was US\$45.4 million, spent primarily on drilling the Taza 1 well in Kurdistan, on the remaining costs of the Trapia well in PNG and the acquisition and processing of geophysical data in PNG. Expenditure was also incurred on site preparation for the Semda well in Tunisia and long lead items for Mananda 6 and the offshore drilling programme in the Gulf of Papua.

Oil Search's share of PNG LNG Project development and financing costs was US\$351.4 million in the fourth quarter, funded 70% by drawdowns of funds from the PNG LNG Project finance facility and the remaining 30% funded by cash reserves. Expenditure on producing assets and other capital costs totalled US\$59.3 million, mainly spent on the ADT A and Moran development wells.

During the quarter, US\$18.5 million of exploration and evaluation costs was expensed, of which US\$8.8 million related to the Trapia well. Other expensed costs included seismic, geological, geophysical and general and administration expenses.

SUMMARY OF EXPENDITURE AND EXPLORATION AND EVALUATION EXPENSED

See notes 1, 2, 3	Quarter End			Year to Date	
(US\$m)	Dec 2012	Sept 2012	Dec 2011	Dec 2012	Dec 2011
INVESTMENT EXPENDITURE					
Exploration & Evaluation					
PNG – Oil and Gas	20.1	55.2	32.6	185.5	89.4
MENA	25.4	14.2	2.7	55.0	55.1
Total Exploration & Evaluation	45.4	69.4	35.3	240.6	144.6
Development ⁴	351.4	362.2	382.2	1,492.5	1,286.5
Production	49.4	22.8	30.5	111.5	129.4
Other Property Plant & Equipment	9.9	4.4	3.4	16.5	7.2
TOTAL	456.1	458.8	451.4	1,861.2	1,567.7
EXPLORATION & EVALUATION AND BUSINESS DEVELOPMENT EXPENDITURE EXPENSED⁵					
Exploration and Evaluation					
From current year expenditure:					
PNG – Oil and Gas	15.5	64.3	10.1	117.4	47.5
MENA	2.9	4.8	2.5	14.5	9.0
Total	18.5	69.1	12.6	131.9	56.5
Prior year expenditures expensed	-	-	-	12.1	4.1
TOTAL	18.5	69.1	12.6	144.0	60.6

1 2012 figures are unaudited.

2 Prior period comparatives updated for subsequent changes.

3 Numbers may not add up due to rounding.

4 Includes capitalised interest and finance fees

5 Exploration expensed includes costs of unsuccessful wells, seismic, general administration costs, and geological and geophysical costs of new venture activity. Costs relating to permit acquisition costs, expenditure associated with the drilling of wells that result in a successful discovery of potentially economically recoverable hydrocarbons and expenditures on exploration and appraisal wells pending economic evaluation of recoverable reserves are capitalised.

Performance for the 2012 Full Year

Oil Search generated oil and gas related sales revenue of US\$688.9 million in 2012, 2.1% lower than in 2011, reflecting lower oil liftings and a slightly reduced average realised oil price, offset by higher revenue from the Hides GTE contract. Total operating revenue in 2012 was US\$724.6 million compared to US\$732.9 million in the previous year.

Exploration and evaluation expenditure for the 2012 full year was US\$240.6 million (US\$144.6 million in 2011). This was spent primarily on the P'nyang South 1 and P'nyang South ST1 wells, the Trapia well, onshore and offshore PNG seismic and the Taza 1 well in Kurdistan. US\$111.5 million was spent on producing assets, including the ADT A and Agogo 6 appraisal well, the PL 2 Life Extension Project, the Central Processing Facility and Kutubu well workovers.

US\$144.0 million of exploration and evaluation expenditure is expected to be expensed in 2012, of which US\$70.0 million is attributable to the Trapia well in PNG. In addition, the Company will write off US\$23.8 million, before tax, related to the PRL 1 retention licence. Under the PNG Oil and Gas Act, Oil Search's 24.09% interest in PRL 1 (Pandora Gas Field) is required to be relinquished, as the licence reaches its 15 year maximum term in February

2013. As a consequence of the relinquishment, Oil Search will record a pre-tax impairment of US\$23.8 million to the carrying value of its exploration assets associated with this licence. Oil Search understands that the PNG Government intends to re-issue a permit covering the Pandora field during 2013. Oil Search intends to submit a bid should this area be re-tendered.

This impairment will be more than offset by a US\$45.1 million pre-tax profit which is expected to be booked from the sale of Block 3 in Yemen and the farm-down of Gulf and other licence interests.

A review of the carrying value of all other assets is currently taking place as part of the finalisation of the financial statements and is subject to Board review and the year end audit currently in progress.

CORPORATE ACTIVITY

Refinancing of Corporate Facility Completed

As highlighted previously, early in the fourth quarter, Oil Search finalised a US\$500 million five year, non-amortising corporate revolving credit facility, successfully replacing the former US\$435 million facility which was due to expire in September 2013 and had amortised down to US\$203 million.

Completion of Sale of Interest in Block 3, Yemen

Late in the quarter, the Company completed the sale of its 40% interest in Block 3 (Gardan) in Yemen to TOTAL S.A. of France. At a consideration of US\$44 million and based on current book value, the Company expects to record an after tax profit of US\$29.3 million from the sale, which will be included in the 2012 full year results.

For further information or questions regarding this report, please contact:

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