ASX Announcement

Activities for the Quarter ended 31 December 2014

(ASX: OSH | ADR: OISHY | POMSoX: OSH)

29 January 2015

Highlights

	4Q 2014	3Q 2014	% change	FY 2014	FY 2013	% change
Total production (mmboe)	**7.24**	6.67	*+8%*	**19.27**	6.74	*+186%*
Total sales (mmboe)	**6.87**	6.16	*+12%*	**17.76**	6.73	*+164%*
Total revenue (US$m)	**562.1**	538.2	*+4%*	**1,610.4**	766.3	*+110%*

- **Production in the fourth quarter of 2014 was 7.24 million barrels of oil equivalent (mmboe), 8% higher than in the third quarter of 2014 and more than four times production achieved in the corresponding period of 2013. This brought 2014 full year production to 19.27 mmboe, the highest annual production achieved in the Company's history, reflecting the transformational impact of the PNG LNG Project on Oil Search's production profile. This was within the 18 – 20 mmboe guidance range and nearly three times 2013 full year production.**
- **Production net to Oil Search in the quarter from the PNG LNG Project was 5.49 mmboe (23.8 bcf LNG and 0.82 mmbbl liquids), while the base PNG oil and gas business contributed 1.75 mmboe.**
- **Total revenue for this period was US$562.1 million, 4% higher than in the third quarter and 168% higher than the previous corresponding period. The average realised LNG and gas price was US$14.33/mmBtu, up 7% from the third quarter, while the average realised oil and condensate price declined 27%, to US$73.64/barrel, reflecting the global downturn in oil prices. Total revenue for the 2014 full year was US$1,610.4 million, more than double the revenue in 2013, again a record for the Company.**
- **In light of the material decline in the oil price in recent months, the Company is reviewing the outcomes of the recent Strategic Review, in order to prioritise investment and drive cost and capital efficiency throughout the business. No changes to the core strategic direction are anticipated, with the Company focusing on the delivery of PNG LNG expansion and development of the Elk/Antelope fields. Capital and operating expenditures, outside these priorities, are being assessed and final guidance on these metrics will be provided at the 2014 full year results announcement in February.**
- **With the majority of the Company's production profitable even at current oil prices and a strong balance sheet and liquidity position, with which to pursue growth opportunities, Oil Search is very well placed to manage the current low oil price environment.**
- **In the PNG Highlands, the first of two planned PNG LNG Project development wells on the Angore gas field was spudded. The Hides F1 (Hides Deep) well also commenced drilling and**

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successfully intersected the producing Toro reservoir, with the well now drilling ahead towards the deeper Koi lange exploration target.

- **As recently announced, the PRL 3 Joint Venture is in the process of finalising a petroleum development licence application for the P'nyang gas field, with the gas to be used to support power generation and potential PNG LNG Project expansion. Preparations are underway to commence further appraisal drilling on the field.**
- **Drilling continued during the quarter on the Antelope 4 appraisal well in PRL 15. Antelope 5, the second appraisal well on the Elk/Antelope field, was spudded in December.**
- **The PRL 15 arbitration hearing was conducted in late November, with proceedings formally closed in December 2014. The outcome of the arbitration hearing is anticipated to be announced in the first quarter of 2015.**
- **In Kurdistan, the Taza 2 appraisal well re-commenced operations in October. At the end of the quarter, the well had been drilled and cased to total depth with preparations underway to perform flow tests on a number of zones. The Taza 3 appraisal well spudded in October and is drilling ahead.**
- **At the end of December 2014, Oil Search had cash of US$960.2 million and debt of US$4,412.2 million, comprising US$4,262.2 million drawn down from the PNG LNG Project finance facility and US$150.0 million from the Company's corporate facilities. The Company had total liquidity of US$1,560.2 million.**

COMMENTING ON KEY ACTIVITIES IN THE FOURTH QUARTER OF 2014, OIL SEARCH MANAGING DIRECTOR, PETER BOTTEN, SAID:

Strategic Review and response to recent oil price decline

"In October 2014, Oil Search announced the outcomes of a major Strategic Review. Since the Review was finalised, the oil price has seen an almost unprecedented rapid decline, falling by 40% in the fourth quarter alone, and is now trading at less than half the level when the Strategic Review began. During the Review, the Company stress-tested its comprehensive cash flow analyses for lower oil prices. However, the material and rapid downturn in oil price has prompted the Review outcomes to be re-examined. At this stage, we do not anticipate any changes to the core strategic direction of the Company. In particular, Oil Search remains fully focused on the next phase of LNG development in PNG, underpinned by gas from the North-West Highlands and Gulf hubs, as these LNG trains offer attractive economic returns, even if a weak oil and LNG pricing environment persists. In light of reduced cash flows, resulting from lower oil and gas price realisations, we intend to reduce 2015 capital expenditures. A significant portion of these expenditures are discretionary. We are also carrying out a comprehensive review of operating costs and investment priorities, in order to match expenditures with likely future revenue streams and return expectations. This represents an opportunity to recalibrate the cost structure of our business in operations, construction and exploration. We expect the review and Board endorsement of revised 2015 planned activities and expenditures to be completed shortly, with the outcome announced when our 2014 full year results are released in February.

The Company remains resilient and well positioned to weather the lower oil price environment, with the majority of our production portfolio profitable at current oil prices. Oil Search is also in the fortunate position of having completed almost all construction expenditure on the PNG LNG Project and is now enjoying a material and long-term production uplift from the Project. The Company ended 2014 in a strong financial position, with US$1.6 billion in liquidity, which provides ample balance sheet flexibility to pursue the growth opportunities identified in the Strategic Review. In addition, with financial completion of the PNG LNG Project expected early in 2015, Oil Search will soon have full access to Project cash flows which have been accumulating since sales commenced in the first half of 2014."

PNG LNG Project

"The PNG LNG Project recorded its first full quarter of production, contributing 5.49 mmboe net to Oil Search during the fourth quarter of 2014, bringing 2014 full year production from the Project to 12.20 mmboe.

Production and sales from the Project during 2014 have been pleasing and have exceeded initial expectations. This reflects the Project coming onstream earlier than expected, a relatively trouble free commissioning and ramp-up process and an excellent operating performance, both upstream and downstream. Since the Project commenced liquids production in April and LNG production in May, 55 LNG cargoes have been lifted and 51 sold, while 23.5 equivalent cargoes of Kutubu Blend, comprising production from the PNG oil fields and condensate from the PNG LNG Project, have been sold. The operator anticipates that more than 90 LNG cargoes will be loaded in 2015.

All four long-term LNG contracts have now commenced and the 120-day Lenders' Operational Completion Test for the LNG plant facilities was successfully completed in January 2015, with production significantly above the target rate and no project downtime. Joint venture parent guarantees will be released and loan repayments and co-venture distributions will commence once the outstanding lender requirements to achieve Project completion are satisfied.

During the quarter, drilling commenced on the first of two planned PNG LNG Project development wells on the Angore field. In addition, the Hides F1 (Hides Deep) development/exploration well was spudded and successfully intersected the Toro reservoir. This section has been logged and cased as a future development well, contributing gas to the PNG LNG Project. Hides F1 is now drilling ahead towards the Koi-Iange Formation, a deeper exploration objective which lies beneath the producing Toro reservoir. This potential reservoir is believed to have significant gas resource potential in a similar structural setting to the Toro."

Power and LNG expansion Memorandum of Understanding (MoU)

"In January 2015, ExxonMobil PNG Limited, as operator of the PNG LNG Project and the PRL 3 Joint Venture, and the PNG Government signed an MoU for the potential expansion of the PNG LNG Project and the provision of electricity and gas for power generation. Under the MoU, additional long-term gas reserves to support power generation and Project expansion will be provided from the P'nyang gas field. As indicated in Oil Search's Strategic Review, the Company believes both debottlenecking of the existing trains and a potential third PNG LNG Project train are very attractive growth opportunities, which offer substantial incremental value. Oil Search and its Joint Venture partners have been working closely with the PNG Government and key government agencies for some time to facilitate the development of power options in several parts of PNG. We believe the delivery of reliable, competitively priced power is a political and social priority and that key industry players must play a major role in ensuring this is achieved across the country. This MoU is the first step in realising this aim."

PRL 3 gas development activities

"Evaluation of the P'nyang gas field in PRL 3 and work towards submitting a development application for the field continued during the quarter. The MoU signed in January between ExxonMobil PNG Limited and the

PNG Government was an important milestone for the PRL 3 Joint Venture. As well as ensuring the supply of domestic gas for power generation, the MoU has set out a timeline to reach a final investment decision on an LNG expansion train supported by P'nyang. Oil Search and its co-venture partners are seeking to sanction the expansion train in the earliest reasonable timeframe, subject to the successful completion of appraisal, marketing, financing and development engineering activities on the P'nyang field. The PRL 3 Joint Venture is in the process of finalising a petroleum development licence application for P'nyang which, under the MoU timeline, is expected to be offered in early 2015. Importantly, there is now a firm roadmap for the development of this resource, which is a key growth asset in Oil Search's portfolio. Preliminary interpretation of recently acquired seismic data has been positive for the P'nyang resource and near-term appraisal drilling will help quantify the 1C contingent resource in the field."

PRL 15 gas development activities

"In the Gulf Province, drilling continued on the Antelope 4 well to appraise the southern extent of the field. The second appraisal well, Antelope 5, was spudded on the western flank in late December. Subject to Joint Venture approval, a third appraisal well, Antelope 6, is expected to spud during the first half of 2015, to test the eastern flank of the field. These wells will help delineate the size and structural extent of the Elk/Antelope gas field, including whether the resource can underpin one or two LNG trains. The PRL 15 operator has advised that an extended flow test of Antelope 5 is planned once drilling has been completed.

The PRL 15 arbitration hearing was conducted in late November, with proceedings formally closed in December 2014. The outcome of the arbitration hearing is anticipated to be announced in the first quarter of 2015."

Taza oil field, Kurdistan

"The Taza 2 appraisal well re-commenced operations in October, following the delivery of necessary supplies to the well site. During the quarter, the open hole section, across the Jeribe Formation through to total depth in the Shiranish Formation, was enlarged in preparation for testing in the first quarter of 2015. Taza 3, the second appraisal well, was spudded in October and is drilling ahead in the south-eastern part of the field. Acquisition of 630 square kilometres of 3D seismic over the Taza block was successfully completed in December and processing is now underway."

2014 fourth quarter production and revenue performance

"Total production in the fourth quarter of 2014 was 7.24 mmboe, 8% higher than the previous quarter. This was driven by a 14% increase in production from the PNG LNG Project, reflecting the first full quarter of production, partly offset by a 5% decline in our base PNG oil and gas business, due to some minor plant and well downtime during the quarter. Importantly, the reliability of Oil Search's liquids export system has improved substantially following upgrades undertaken to handle condensate production from the PNG LNG Project. Total production for the 2014 full year was 19.27 mmboe, within our 2014 full year production guidance range of 18-20 mmboe.

Total operating revenue for the quarter was US$562.1 million, 4% higher than in the third quarter of 2014. Higher LNG revenues were offset by a fall in oil and condensate revenues due to the steep downturn in global oil prices. The average realised LNG and gas price increased 7% in the fourth quarter, to US$14.33/mmBtu, while the average realised oil and condensate price fell 27%, to US$73.64/barrel.

During the period, US$214.1 million was spent on exploration, development and production activities, more than half of which was related to exploration and evaluation activities (primarily the PRL 15 Antelope 4 and 5 wells, Usano 5 and the Taza 2 and 3 wells). Development spend on the PNG LNG Project fell sharply, from US$120.3 million in the third quarter to US$59.3 million, as development activities wind down. Total liquidity rose from US$1,294.5 million at the end of September to US$1,560.2 million at the end of December, comprising US$960.2 million in cash (of which US$803.8 million was escrowed in PNG LNG Project accounts) and US$600 million in undrawn committed funding lines."

2014 full year results

"The Company's financial results for the year to 31 December 2014 will be released to the market on 24 February 2015.

Production costs and depreciation and amortisation charges for 2014 are expected to be towards the lower end of the previously advised US$12-15/boe and US$13-15/boe guidance ranges, respectively. Other operating costs (including Hides GTE gas purchase costs, royalties and levies, selling and distribution costs, rig operating costs, inventory movements and corporate costs) are expected to total approximately US$126 million, slightly below the previous guidance of US$130-150 million.

As noted on page 14, US$109.2 million of exploration and evaluation expenditure is expected to be expensed. US$88.2 million of this amount relates to PNG activities while the balance, US$21.0 million, relates to exploration activities in the Middle East, which are non-deductible for tax purposes. The effective tax rate for the full year is expected to be in the range of 35–39%, excluding adjustments in respect of any impairment that may be recognised.

Given the material and rapid downturn in oil prices in recent months, the Company is carrying out a comprehensive review of impairment across all its assets. This review is ongoing, however we currently anticipate that pre-tax impairment charges in the range of US$150 – 200 million will be recognised for the 2014 year, primarily relating to reductions in the carrying values of some exploration licences in PNG and certain Middle East/North African assets.

All the above guidance is subject to the finalisation of the financial statements, Board review and the year end audit currently underway."

Guidance for 2015

"Oil Search's 2015 full year production is anticipated to be in the range of 26 – 28 mmboe, with forecast contributions as follows:

2015 Production[1]

Oil Search operated (PNG oil and gas)	6 – 7 mmboe[2,3]
PNG LNG Project	
LNG	88 - 91 bcf
Liquids	2.8 – 3.0 mmbbl
Total PNG LNG Project	20 – 21 mmboe[2]
Total production	**26 – 28 mmboe**

1. Numbers may not add due to rounding.
2. 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.
3. Includes South East Gobe gas sales.

Operating and capital cost guidance for 2015 will be provided to the market on 24 February, in the 2014 full year results release."

2014 FOURTH QUARTER PERFORMANCE SUMMARY[1]

Production

	Quarter End			Full Year	
	Dec 2014	**Sep 2014**	**Dec 2013**	**Dec 2014**	**Dec 2013**
Production data					
PNG LNG Project[2]					
LNG (mmscf)	23,802	20,901	-	52,199	-
Liquids ('000 bbls)[3]	823	737	-	1,961	-
PNG crude oil production ('000 bbls)					
Kutubu	923	955	962	3,692	3,473
Moran	478	515	503	1,989	2,041
SE Mananda	-	-	4	5	18
Gobe Main	8	9	6	32	36
SE Gobe	30	35	24	127	132
Total oil production ('000 bbls)	1,438	1,514	1,500	5,845	5,700
Hides GTE Refinery Products[4]					
Sales gas (mmscf)	1,418	1,473	1,420	5,675	5,513
Liquids ('000 bbls)	30	32	31	121	119
Total barrels of oil equivalent ('000 boe)[5]	7,236	6,670	1,767	19,274	6,737

1. Numbers may not add due to rounding.
2. Production net of fuel, flare and shrinkage.
3. PNG LNG liquids comprise condensate and naphtha.
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. Gas and LNG volumes for 2014 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. The change to a specific boe conversion factor more closely reflects the energy content of the Company's gas reserve portfolio compared to the previous conversion factor of 6,000 scf per boe. Note that prior year figures have not been restated. Minor variations to the conversion factors may occur over time.

Sales[1]

	Quarter End			Full Year	
	Dec 2014	Sep 2014	Dec 2013	Dec 2014	Dec 2013
Sales data					
PNG LNG Project					
LNG (Billion Btu)	25,492	21,456	-	51,922	-
Condensate ('000 bbls)	725	656	-	1,770	-
Naphtha ('000 bbls)	28	25	-	53	-
PNG oil ('000 bbls)	1,407	1,447	1,571	5,759	5,726
Hides GTE					
Gas (Billion Btu)[2]	1,520	1,580	1,522	6,090	5,910
Condensate and refined products ('000 bbls)[3]	26	28	27	106	110
Total barrels of oil equivalent ('000 boe)[4]	6,869	6,157	1,827	17,762	6,726
Financial data (US$ million)					
LNG and gas sales	387.2	308.3	19.3	808.6	76.9
Oil and condensate sales	157.2	212.0	178.0	737.1	634.5
Other revenue[5]	17.8	17.9	12.7	64.7	54.8
Total operating revenue	562.1	538.2	210.0	1,610.4	766.3
Average realised oil and condensate price (US$ per bbl)[6]	73.64	100.67	113.33	97.79	110.57
Average realised LNG and gas price (US$ per mmBtu)	14.33	13.38	12.65	13.94	13.01
Cash (US$m)	960.2	594.5	209.7	960.2	209.7
Debt (US$m)					
PNG LNG financing	4,262.2	4,140.2	3,824.4	4,262.2	3,824.4
Corporate revolving facilities[7]	150.0	50.0	200.0	150.0	200.0
Net debt (US$m)	3,452.0	3,595.7	3,814.8	3,452.0	3,814.8

1. Numbers may not add due to rounding.
2. Relates to gas delivered under the Hides GTE Gas Sales Agreement.
3. Relates to refined products delivered under the Hides GTE Gas Sales Agreement or sold in the domestic market and condensate.
4. Gas and LNG volumes for 2014 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. The change to a specific boe conversion factor more closely reflects the energy content of the Company's gas reserve portfolio compared to the previous conversion factor of 6,000 scf per boe. Note that prior year figures have not been restated. Minor variations to the conversion factors may occur over time.
5. Other revenue consists largely of rig lease income, infrastructure tariffs and refinery and naphtha sales.
6. Average realised price for Kutubu Blend including PNG LNG condensate.
7. At the end of December 2014, the Company had drawn down US$150 million under the US$250 million bilateral revolving facilities and nil under the US$500 million revolving corporate facility.

PRODUCTION PERFORMANCE

Total fourth quarter production net to Oil Search was 7.24 mmboe, comprising the following:

- PNG oil field and gas production from the Hides GTE Project of 1.75 mmboe, produced at an average rate of 18,975 barrels of oil equivalent per day (boepd). This was 5% lower than in the previous quarter, reflecting some plant and well downtime during the quarter.
- PNG LNG liquids production of 0.8 mmbbl, comprising condensate produced during gas processing at the HGCP and naphtha at the LNG plant.
- LNG produced at the PNG LNG plant, net of fuel, flare and shrinkage, of 23,802 mmscf.

PNG LNG Project (29.0%)

During the fourth quarter, production from the PNG LNG Project was 5.49 mmboe net to Oil Search, comprising 23.8 bcf of gas and 0.8 mmbbl of liquids. This represented a 13.5% increase compared to 4.84 mmboe in the third quarter (20.9 bcf gas and 0.7 mmbbl liquids), reflecting the first full quarter of production from both trains.

During the quarter, 25 LNG cargoes were lifted and 25 sold to Asian buyers, taking the total to 55 LNG cargoes lifted and 51 sold in 2014. Nine equivalent cargoes (eight full and two half cargoes) of Kutubu Blend were sold, resulting in a total of 23.5 equivalent cargoes sold in 2014. Two naphtha cargoes were sold in the second half of the year.

Drilling commenced on the first of the two PNG LNG Project Angore development wells in October using Nabors Rig 702. The Hides F1 development/exploration well was also spudded in October using Nabors Rig 703.

Kutubu (PDL 2 – 60.0%, operator)

Fourth quarter oil production net to Oil Search was 0.92 million barrels (mmbbl), 3% lower than in the third quarter. Gross production rates averaged 16,699 bopd during the period, down from 17,291 bopd in the previous quarter due to some minor unplanned downtime, though production from all reservoirs remained strong.

At Agogo, the Agogo 7 development well, recently drilled in the forelimb of the Agogo field, was fully commissioned during the quarter and is now producing at a rate of approximately 1,500 bopd.

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 Moran 2014 fourth quarter oil production was 0.48 mmbbl, 7% lower than in the third quarter. The field produced at a gross average rate of 10,487 bopd, down slightly from the last quarter of 11,308 bopd. This was primarily due to an unscheduled plant shutdown in November and repairs to the flowline in December.

At the end of the quarter, Rig 104 was being prepared for mobilisation to the Moran field to drill the Moran 16 development well. This well will target the Toro and Digimu oil reservoirs in a down-dip location in the central part of the field.

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

Oil Search's share of oil production from the Gobe fields in the fourth quarter of 2014 was 0.04 mmbbl, down 13% from third quarter production levels. This reflected a scheduled shutdown at the Gobe Production Facility (GPF) for routine maintenance and servicing in November.

The gross average production rate for Gobe Main was 10% lower than in the third quarter, at 854 bopd while the gross average production rate at SE Gobe was 15% lower than in the previous quarter, at 1,269 bopd.

SE Mananda (PDL 2 – 72.3%, operator)

The SE Mananda field remained shut-in during the fourth quarter due to operational issues at this remote location.

Hides Gas to Electricity Project – 100%, operator (PDL 1 – 16.7%)

Gas purchased for the Hides Gas to Electricity Project in the fourth quarter was 1.42 bcf, produced at an average daily rate of 15 mmcf per day. This was slightly lower than third quarter production of 16 mmcf per day. 30,000 barrels of condensate were produced for use within the Hides facility or transported by truck to the Central Processing Facility at Kutubu.

EXPLORATION AND APPRAISAL ACTIVITY

Gas Development

During the quarter, work continued on aggregating gas in PNG to support at least two additional LNG trains underpinned by existing undeveloped resources and a possible third train with modest exploration and appraisal success. Gas for these developments is expected to come from two key resource hubs in which Oil Search holds strong positions – the North-Western Highlands hub, which includes the P'nyang gas field and the Gulf hub, dominated by the Elk/Antelope gas fields.

An MoU was signed between ExxonMobil PNG Limited and the PNG Government in January 2015 regarding the potential expansion of the PNG LNG Project using gas from the P'nyang field in PRL 3 (Oil Search – 38.51%). The PRL 3 Joint Venture is currently finalising a petroleum development licence application for P'nyang, which is expected to be offered in early 2015. Preliminary interpretation of recently acquired seismic data has indicated potential for resource upside at P'nyang and preparations will commence this year for appraisal drilling, to help quantify resource volumes. The PRL 3 owners have committed to the sanction of a third LNG train in the earliest reasonable timeframe, subject to the successful completion of activities including appraisal, marketing, financing and development engineering on P'nyang.

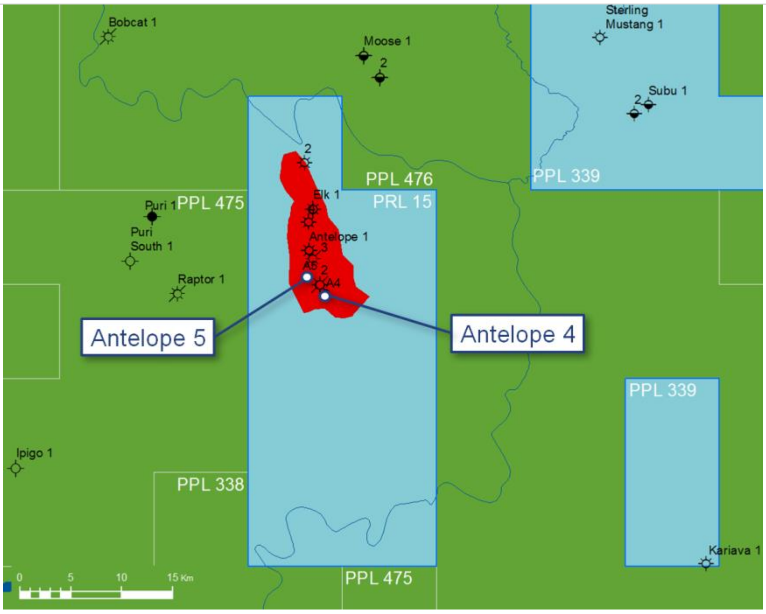
Drilling commenced on the Hides F1 (Hides Deep) well in October 2014. As well as being a Toro producer, Hides F1 will explore the deeper Koi-Iange reservoir. Meanwhile, work continued on delineating the Hides gas reserves and distribution using data obtained from wells drilled on the field to date.

Acquisition of approximately 100 kilometres of additional 2D seismic around the Juha and Hides fields in the PNG Highlands recommenced during the quarter and is ongoing. This data, along with 78 kilometres of data acquired earlier in 2014, will be used to assess gas exploration targets for potential drilling in 2015/2016.

In the Gulf Province, drilling continued during the quarter on the Antelope 4 appraisal well (Oil Search – 22.835%), located one kilometre south of Antelope 2. Antelope 5 (Oil Search – 22.835%), located 1.8 kilometres south west of Antelope 3, was spudded in December and will appraise the western extent of the field (see map below). Planning work also took place on a third appraisal well, Antelope 6, to further delineate the field, and Antelope Deep, an exploration prospect in the south of the licence. Both Antelope 6 and Antelope Deep are being matured for potential drilling in 2015, subject to approval by the PRL 15 Joint Venture.

A short seismic acquisition programme was undertaken in the onshore Gulf area at the end of the quarter using results from the airborne gravity-gradiometry survey conducted in the first half of 2014. This will assess the presence of carbonate targets in the coastal area along trend from the Elk/Antelope field in PRL 15.

The PRL 15 arbitration hearing was conducted in late November 2014, with proceedings formally closed in December. The outcome of the arbitration hearing is anticipated to be announced in the first quarter of 2015.



Antelope 4 and Antelope 5 appraisal wells , PRL 15

Oil Exploration and Appraisal

In the Kurdistan Region of Iraq, the Taza 2 appraisal well, located in the Taza PSC (Oil Search – 60%, operator), 10 kilometres north-west of the Taza 1 discovery well, re-commenced operations in October, following the establishment of an alternate supply chain route to the field. During the quarter, the open hole section, from 3,316 metres through to the total depth of 4,200 metres, spanning the Jeribe Formation through to the Shiranish Formation, was enlarged and a 5-inch liner run in preparation for testing in the first quarter of 2015.

Taza 3 (Oil Search – 60%, operator), the second appraisal well on the PSC, located approximately six kilometres south-east of Taza 1, spudded in October using the Sakson 605 rig. The well has been designed as a deviated well to help better define the structural configuration, fluid contacts, reservoir quality and distribution and nature of fracturing of the carbonate reservoirs in the southern part of the field. At the end of December 2014, the well was at a depth of 2,601 metres and drilling ahead.

A 630 square kilometre 3D seismic survey covering most of the Taza block, which commenced in May 2014, was completed in December. Initial data processing suggests that good quality data has been acquired which will be instrumental in understanding the structural detail and distribution of small-scale faults and fractures in the PSC.

In PNG, the Usano 5 well (previously known as UDTN) commenced drilling in October, with the objective of testing a separate fault compartment to the east of the existing Usano field. The well reached total depth in December. While the well proved the presence of the structure, it penetrated the reservoir down-dip from the likely crest, encountering water.

In Tunisia, a 399 kilometre 2D seismic survey over the Tajerouine PSC (Oil Search – 100%, operator) was completed in November. In early October, a tragic incident occurred on a shot-hole drilling crew which resulted in the death of an employee of our seismic contractor. The contractor and Oil Search have conducted a full investigation into the incident, with lessons learned incorporated in future surveys.

Block 7 in Yemen (Oil Search – 34%, operator), remains in a state of force majeure. Feasibility work has been undertaken to assess a possible flow test on one of the wells on the Al Meashar discovery. Timing of any such operation is dependent upon an improvement in the security situation in-country.

DRILLING CALENDAR

Subject to Joint Venture approvals, the 2015 exploration, appraisal and development programme is as follows:

Well	Well type	Licence	OSH interest	Latitude / Longitude	Rig name	Timing
PNG						
Hides F1 (Hides Deep)	Development/Exploration	PDL 1	16.7%	N/A	Rig 703	Ongoing
Antelope 4	Appraisal	PRL 15	22.8%	N/A	Western Drilling Rig 1	Ongoing
Antelope 5	Appraisal	PRL 15	22.8%	N/A	Rig 103	Ongoing
Antelope 6	Appraisal	PRL 15	22.8%	N/A	TBA	2Q 2015
Moran 16 (Moran B)	Development	Moran Unit (PDL 2/ PDL 5/ PDL 6)	49.5%	6° 14' 36.137" S 143° 7' 37.034" E	Rig 104	1Q 2015
Kurdistan Region of Iraq						
Taza 2	Appraisal	Taza PSC	60.0% (75% paying interest)	35° 4' 36.547" N 44° 45' 9.646" E	Sakson Rig PR 3	Ongoing
Taza 3	Appraisal	Taza PSC	60.0% (75% paying interest)	35° 0' 27.174" N 44° 49' 51.183" E	Sakson Rig SK605	Ongoing

Note: Wells, location and timing subject to change. PNG locations reported in AGD66 datum, Kurdistan locations reported in WGS84 datum.

FINANCIAL PERFORMANCE

Sales revenue

During the quarter, 27,012 billion Btu of LNG and gas were sold, 17% higher than in the previous quarter. This was driven by higher production and liftings, with 25 LNG cargoes sold during the quarter, compared to 21 cargoes in the third quarter. Oil, condensate and naphtha sales volumes for the period totalled 2.19 mmbbl, 1% higher than in the third quarter but 5% lower than the 2.29 mmbbl produced, due to the timing and size of shipments.

The average oil and condensate price realised during the quarter was US$73.64 per barrel, 27% lower than in the third quarter, reflecting the global downturn in spot oil prices. Meanwhile, the average price realised for LNG and gas sales increased 7% to US$14.33 per mmBtu, reflecting the commencement of long-term LNG contracts from the PNG LNG Project and the approximately three month lag between the spot oil price and LNG contract prices. The Company did not undertake any hedging transactions during the period and remains unhedged.

Total sales revenue from LNG, gas, oil and condensate for the quarter was US$544.4 million, while other revenue, comprising rig lease income, infrastructure tariffs and refinery and naphtha sales, was US$17.8 million.

Capital management

As at 31 December 2014, Oil Search had cash of US$960.2 million, including US$803.8 million in PNG LNG escrow accounts, compared to US$594.5 million at the end of September 2014, of which US$459.1 million was in escrow accounts. At year end, the Company had drawn down US$4,262.2 million under the PNG LNG Project finance facility (US$4,140.2 million at the end of September 2014) and US$150.0 million from the Company's US$250 million bilateral revolving credit facilities (US$50.0 million at the end of September 2014). The US$500 million revolving corporate facility remained undrawn. At the end of December 2014, the Company had total liquidity of US$1,560.2 million (US$1,294.5 million at the end of September 2014).

An interim dividend of 2 US cents per share was paid on 7 October 2014, which was fully funded by an underwritten dividend reinvestment plan.

Capital expenditure

During the quarter, exploration and evaluation expenditure totalled US$117.9 million, which included US$26.0 million spent on the Taza 2 and 3 wells in Kurdistan, US$16.6 million on PRL 15 and US$34.7 million on the Usano 5 (UDT-N) well in PNG. US$84.3 million of exploration costs were expensed, primarily related to the Usano 4 (UFL A) and Usano 5 wells in PNG and seismic, geological, geophysical and general and administration expenses in PNG and MENA.

Oil Search's share of PNG LNG Project development and financing costs in the fourth quarter was US$59.3 million, funded 70% by drawdowns from the PNG LNG Project finance facility and 30% from cash and operating cash flows. Expenditure on producing assets totalled US$31.5 million, primarily related to sustaining capital expenditure and well workovers.

Performance for the 2014 Full Year

Oil Search generated total LNG, gas, oil and condensate sales revenue of US$1,545.7 million for the 2014 full year, more than double that in 2013. This reflected the commencement of PNG LNG Project condensate sales in April and LNG sales in June, partly offset by a lower average realised oil and condensate price, of US$97.79 per barrel compared to US$110.57 per barrel in 2013. In 2014, the average realised price for LNG and gas was US$13.94 per mmBtu. Total operating revenue in 2014 was US$1,610.4 million, more than double the total revenue in the previous year.

Exploration and evaluation expenditure for the 2014 full year was US$1,242.8 million (US$293.8 million in 2013). This primarily reflected the acquisition in March of a 22.8% interest in PRL 15 for US$918.3 million, including associated acquisition costs, appraisal drilling and seismic on PRL 15 of US$26.9 million, US$67.6 million spent on the Usano 4 and Usano 5 near field exploration wells and US$87.2 million spent on the Taza 2 and Taza 3 appraisal wells in Kurdistan. US$110.3 million was spent on producing assets.

US$109.2 million of exploration and evaluation expenditure is expected to be expensed in 2014, of which US$67.6 million is attributable to the Usano 4 and Usano 5 wells.

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.

Summary of investment expenditure and exploration and evaluation expensed[1]

(US$ million)	Quarter End			Full Year	
	Dec 2014	Sep 2014	Dec 2013	Dec 2014	Dec 2013
Investment Expenditure					
Exploration & Evaluation					
PNG	61.7	40.9	33.3	1,077.2	206.8
MENA	56.2	45.8	16.3	165.6	87.1
Total exploration & evaluation	117.9	86.6	49.6	1,242.8	293.8
Development[2]	59.3	120.3	307.4	502.6	1,214.0
Production	31.5	18.5	35.6	110.3	152.6
PP&E	5.4	5.1	4.7	13.4	11.9
Total	**214.1**	**230.5**	**397.3**	**1,869.1**	**1,672.4**
Exploration & evaluation expenditure expensed[3,4]					
PNG	74.0	4.2	12.8	88.2	67.4
MENA	10.3	5.3	3.5	21.0	36.3
Total current year expenditures expensed	84.3	9.5	16.4	109.2	103.7
Prior year expenditures expensed	-	-	-	-	3.7
Total	**84.3**	**9.5**	**16.4**	**109.2**	**107.4**

1. Numbers may not add up due to rounding.
2. Includes capitalised interest and finance fees.

3. Exploration expensed includes costs of unsuccessful wells except where costs continue to be capitalised, certain administration costs and geological and geophysical costs. Costs relating to permit acquisitions, 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.
4. Numbers do not include expensed business development costs of US$5.6 million in the fourth quarter of 2014 (US$2.7 million in the third quarter of 2014).

Gas/LNG Glossary and Conversion Factors Used

Mmscf	Million (10^6) standard cubic feet
mmBtu	Million (10^6) British thermal units
Billion Btu	Billion (10^9) British thermal units
MTPA (LNG)	Million tonnes per annum
Boe	Barrel of oil equivalent
1 mmscf LNG	Approximately 1.13 billion Btu
1 boe	Approximately 5,100 standard cubic feet
1 tonne LNG	Approximately 52 mmBtu

Note: Minor variations in conversion factors may occur over time, due to changes in gas composition.

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DISCLAIMER

This report contains some forward-looking statements which are subject to particular risks associated with the oil and gas industry. Actual outcomes could differ materially due to a range of operational, cost and revenue factors and uncertainties including the timing of commissioning, completion of construction and commencement of production from the PNG LNG Project, oil and gas prices, changes in market demand for oil and gas, currency fluctuations, drilling results, field performance, the timing of well work-overs and field development, reserves depletion and fiscal and other government issues and approvals.