

2016 Annual Meeting: Chairman's Address

13 May 2016

**Oil Search delivers record production:
29.3 mmboe in 2015**



Ladies and Gentlemen, as you know 2015 was one of the most challenging in Oil Search's history, with the average global oil price falling nearly 50% from 2015 levels. However, it was also one of the most successful for the Company, with production reaching an all-time high of 29.3 mmboe, more than 50% higher than in 2014, and some four times more than 2013 production. The increase was driven by a full year of uninterrupted LNG production. During 2015 Oil Search was firmly established as a significant LNG exporter and the Company has forged strong foundations for its continued success.

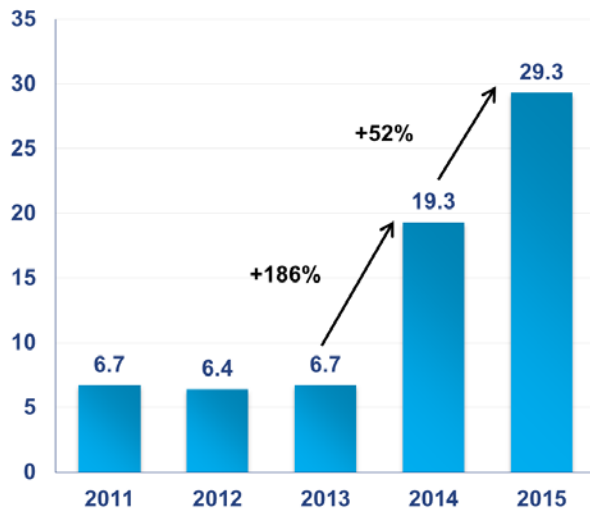
Ever since the commencement of production and exports from the PNG LNG Project in May 2014, the Project has performed above expectations. In recent months, the Project has been consistently producing at around 8 MTPA, well above its nameplate capacity of 6.9 MTPA. This is a great achievement by the operator, ExxonMobil PNG Limited.

Our operated fields are also performing well. In 2015, we supplied 12% of PNG LNG's gas and handled and exported all the Project condensate, which together with oil from our PNG oil fields totalled nearly 60,000 barrels per day.

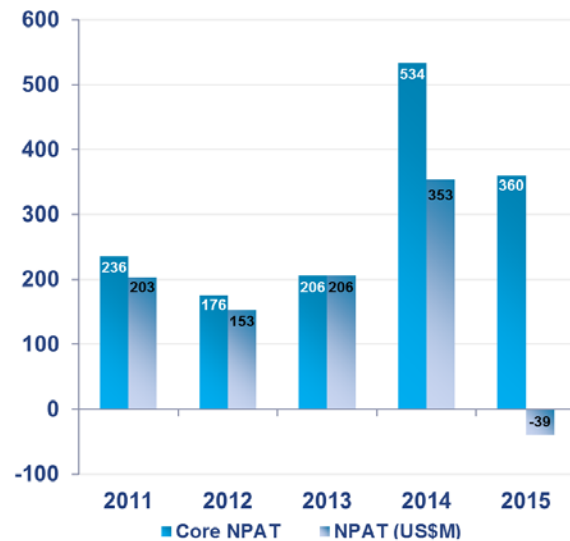
Most importantly, in 2015 we recorded our third consecutive year of improved safety performance, with the important milestone of zero lost time injuries being recorded for the first time.

...record production offset by oil price weakness  **Oil Search**

Production (mmboe)

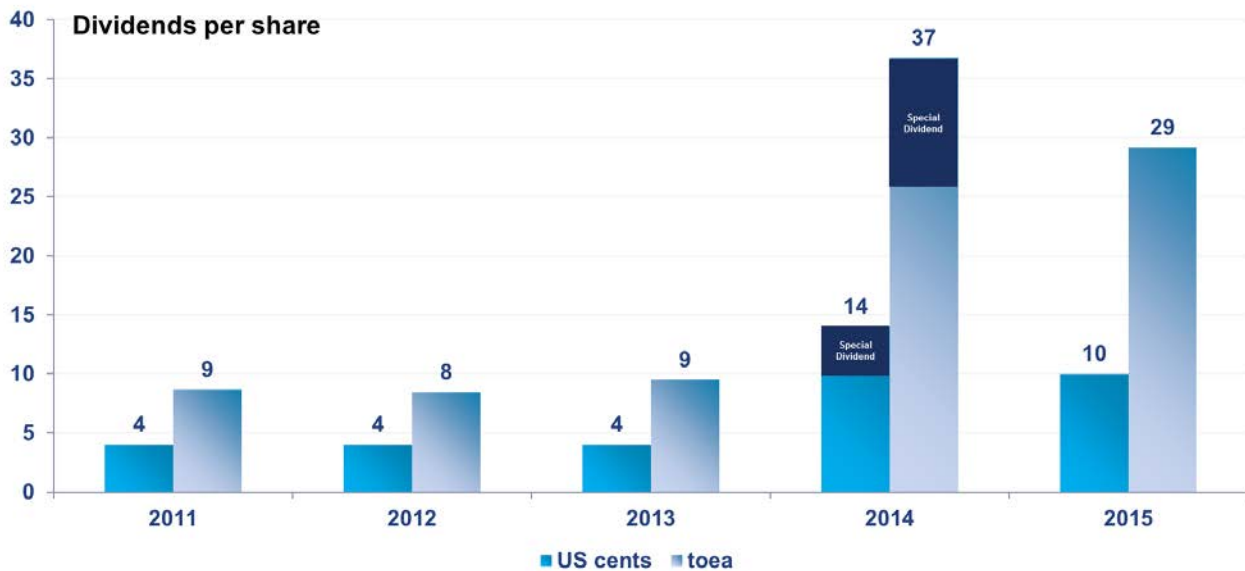


Core and underlying NPAT (US\$m)



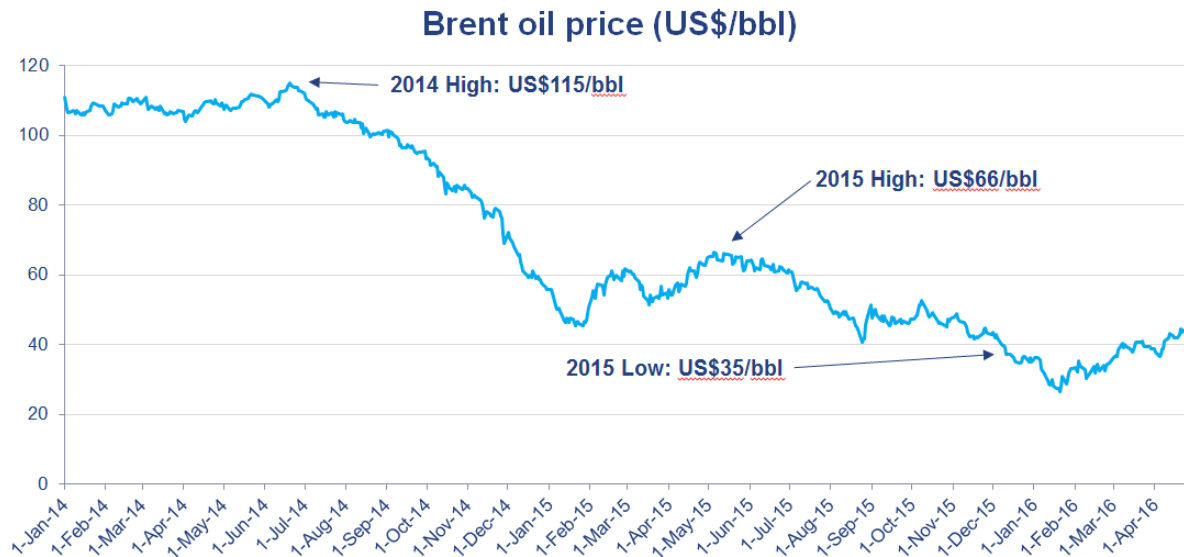
While we, like all oil and gas companies globally, were impacted by lower oil and gas prices, the Company delivered a core profit before impairments of US\$360 million, a good result given the difficult pricing environment. Following a detailed review of our assets, we are comfortable that the carrying value of all our PNG assets is appropriate, despite the lower oil price outlook. We did, however, take to account a non-cash impairment of US\$399 million relating to our investment in the Taza PSC in the Kurdistan Region of Iraq, following disappointing drilling results during the year.

42% dividend ratio, 10 US cents per share (29 toea per share) in 2015



In line with our policy to pay out between 35 and 50% of core profit to shareholders, OSH paid dividends of 10 US cents per share in 2015, equivalent to 29 toea. This equated to 42% of the 2015 core profit of US\$360 million. The Board continues to believe that paying dividends that are a proportion of our profits is the correct policy, given our reliance on the oil price, movements of which are outside our control. This approach provides a good balance between providing cash returns to shareholders while retaining the flexibility to reinvest in our value creating growth projects.

Oil prices remain volatile...



Oil prices remain very volatile. As can be seen in this chart of the Brent oil price, the oil price has rallied strongly from the low point of US\$26 per barrel in January 2016, to US\$46 per barrel currently. However, it is still trading some 53% below the average oil price in 2014 and 11% lower than in 2015.

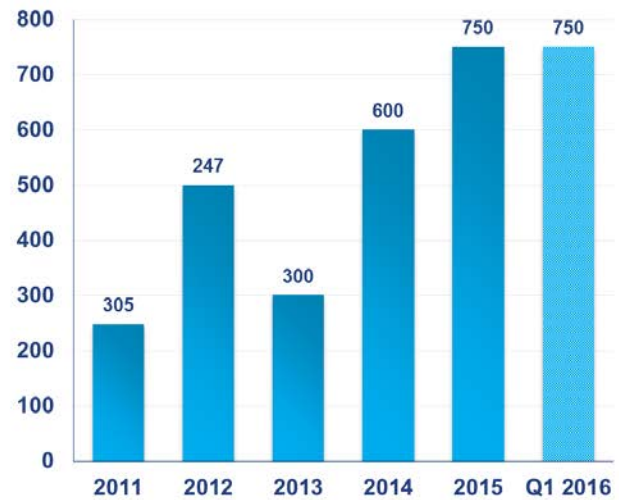
These moves have not only affected the price we receive for our oil production but also our gas and LNG sales prices, which are closely linked to the oil price. Due to an approximate three month lag between the spot oil price and LNG contract prices, our LNG revenues remained relatively buoyant in the first quarter of 2016, but are likely to fall in the second quarter of 2016 as low first quarter oil prices flow through to LNG pricing. We are, of course, very pleased to see the recent oil price recovery but still believe it is appropriate to plan on the basis that the price will remain under pressure for at least another 6 to 12 months.

...but Oil Search well positioned with strong balance sheet and liquidity

Cash (US\$m)



Corporate Facilities Available (US\$m)



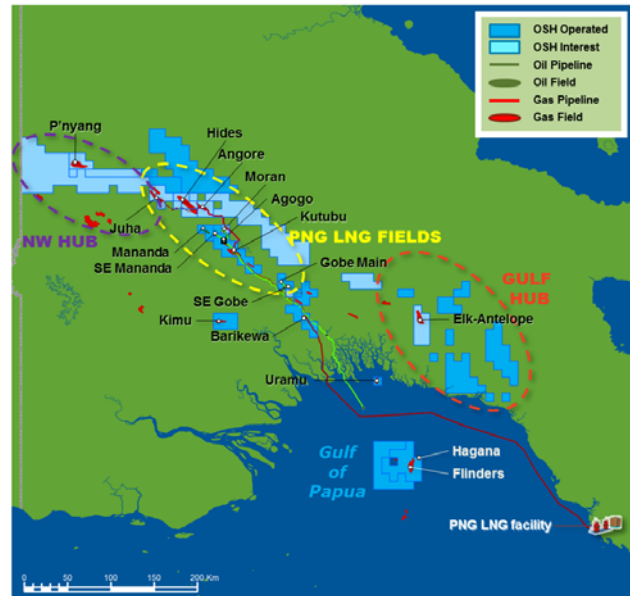
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Fortunately Oil Search is in a strong financial position. Our capital expenditure obligations have fallen substantially since the completion of construction of the PNG LNG Project, which now only requires minor sustaining capital. During 2015, the Company implemented a number of organisational changes, to improve productivity and increase our cost competitiveness. We expect to see the full effect of these cost reduction initiatives to start flowing through in 2016.

With low cash operating costs, the PNG LNG Project and our operated oil and gas business in PNG are generating positive cash flows, even in this low oil price environment. As a result, our cash balance as at the end of March remained steady at US\$914 million and we have US\$748 million of additional funding available through our corporate credit facilities, giving us adequate liquidity to fund our key growth opportunities.

Key focus for OSH is commercialising PNG's undeveloped gas

- » PNG LNG Project has delivered strong platform for growth
- » PNG can deliver at least two more LNG trains
- » Potential PNG LNG expansion and Elk/Antelope development are attractive
- » Multiple exploration opportunities remain to find more gas for development
- » Full alignment with community and Government to deliver additional trains



Over the past year, significant progress was made on our two major growth projects, both of which remain commercially attractive. These comprise an expansion of the PNG LNG Project, including the potential addition of a third train underpinned by the P'nyang gas field, and the development of a new, world scale LNG project, Papua LNG, underpinned by the Elk/Antelope resource in PRL 15.

The medium to long term outlook for LNG demand, particularly in the Asia-Pacific region, remains strong. We are confident that our projects will prove attractive to potential customers, particularly as many other proposed LNG projects, which look challenged in the lower oil price environment, are delayed. A key focus for all stakeholders, including the Joint Venture Partners, Government and communities, is to ensure that these projects progress in a coordinated manner. This will help us take advantage of any potential synergies and avoid the pitfalls experienced by the Australian LNG industry over the past few years. Our Managing Director, Peter Botten, will talk more about this in his presentation later

Helping preserve stable operating environment in PNG

Sisibia Villagers with Drought relief supplies



Hela Provincial Hospital



Erave-Samberigi Road



National Football Stadium

While the fall in global oil prices has resulted in weaker revenues than expected, we have not reduced our social programmes in PNG. As a PNG company, we believe we have an obligation to improve the lives of Papua New Guineans. We are continuing to invest in infrastructure, including roads and hospitals, and domestic power opportunities, in partnership with government. Delivering these projects helps create a stable operating and investment environment, which is essential for our continued growth.

The Oil Search Board has recently committed a grant of US\$56.2 million, or K177 million, to the Oil Search Foundation over five years from 2016 to 2020. The grant will fund the Foundation's core operational costs and signature programmes within the areas of Health, Leadership and Education, and Women's Protection and Empowerment.

With almost all of Oil Search's assets and future growth located in PNG, helping to preserve a stable operating environment is critical to our value. This is why, despite oil price pressures, we have not, and will not, compromise on our commitment to social responsibility programmes.

OSH rejects Woodside’s non-binding conditional indicative proposal



In September 2015, we announced that we had received a non-binding, conditional indicative proposal from Woodside. In our view the Proposal was opportunistic and significantly undervalued the Company. We also sought the views of many of our shareholders, with the overwhelming feedback being that the Proposal held little attraction. Consequently, the Board unanimously decided to reject the Woodside Proposal.

While we rejected this particular proposal, I can assure you that the Board is committed to maximising the value of the Company for shareholders. If any proposal is submitted in future, it will be assessed objectively and on its merits.

Computershare Alliance with Bank of South Pacific



Computershare

I'd like to share with you a new initiative that we have recently undertaken, to improve our service to shareholders in PNG, many of whom are located in geographically dispersed, and sometimes remote, areas and who speak many different languages. We have entered into a shareholding services arrangement with Computershare and the Bank of South Pacific, under which the Bank of South Pacific will offer shareholder services in all of their 43 branches throughout PNG, with shareholders being able to enter any branch to make enquiries. These enquiries will then be directed to the BSP head office in Port Moresby. We believe these new arrangements will significantly enhance the service to our shareholders and we look forward to it commencing formally from the beginning of June 2016.

LNG tanker filling up at the PNG LNG plant



In closing, we remain confident that, even if oil prices remain at current levels, we can still deliver superior returns to our shareholders, as we have in the past. With solid progress being made on PNG LNG capacity increases and on both the potential expansion of the PNG LNG Project and the development of the Elk/Antelope resource, Oil Search could be involved in the construction of two and potentially three additional, high returning LNG trains in PNG by 2018/2019. With the potential to nearly double our production by early in the next decade, this all adds up to a very exciting future.

I will now hand over to Peter to discuss the Company's operations in more detail."

RICHARD LEE

Chairman

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