ASX Announcement

Activities for the Quarter ended 30 June 2016

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

21 July 2016

Highlights

	Quarter End			Half Year		
	Jun 2016	**Mar 2016**	**% change**	**Jan-Jun 2016**	**Jan-Jun 2015**	**% change**
Total production (mmboe)	**7.17**	7.72	***-7%***	**14.89**	14.32	***+4%***
Total sales (mmboe)	**7.20**	7.97	***-10%***	**15.17**	14.45	***+5%***
Total revenue (US$m)	**267.7**	313.1	***-15%***	**580.8**	863.8	***-33%***

- **Total production in the second quarter of 2016 was 7.17 million barrels of oil equivalent (mmboe). This was 7% lower than in the first quarter, with production impacted by routine maintenance and a brief unplanned shut-down of the PNG LNG plant, the first time the plant has been shut down since production commenced in 2014. Despite this, the annualised production rate of approximately 7.4 MTPA was still well above nameplate capacity. Production from the Oil Search-operated PNG oil and gas fields held up well, contributing 1.74 mmboe net to Oil Search compared to 1.78 mmboe in the previous quarter.**

- **Total production for the first half of 2016 was 14.9 mmboe, 4% higher than in the first half of 2015 and only marginally lower than the all-time record production achieved in the second half of 2015. Based on this strong performance, the Company has upgraded its 2016 production guidance range, from 27.5 – 29.5 mmboe to 28 – 30 mmboe.**

- **Total revenue for the quarter was US$267.7 million, 15% lower than in the first quarter of 2016, taking total revenue for the first half of 2016 to US$580.8 million. While the average realised oil and condensate price in the second quarter increased 40%, to US$48.67 per barrel, the average realised LNG and gas price declined 24%, to US$5.23 per mmBtu, reflecting the approximate three month lag between oil and LNG pricing.**

- **Despite the significant decline in realised LNG prices, the Company continued to generate positive operating cash flows during the quarter, assisted by the successful implementation of a range of major cost reduction initiatives.**

- **In May, Oil Search announced an agreed takeover offer for InterOil Corporation. A back-to-back Memorandum of Understanding (MOU) with Total SA (Total) was also signed, whereby Oil Search would sell down part of the InterOil licence interests acquired to Total. The MOU included a commitment by Oil Search and Total to pursue cooperation/integration opportunities with the PNG LNG Project. Subsequent to the end of the quarter, InterOil notified Oil Search that the InterOil Board intended to change its recommendation in respect of the Oil Search proposal and instead enter into an Arrangement Agreement with ExxonMobil. Oil Search has today advised that it does not intend to revise its bid for InterOil.**

- **In May, the PRL 15 Joint Venture agreed to drill the Antelope 7 appraisal well, to provide key information on potential resource upside on the western flank of the field. The well is expected to commence drilling in late September 2016, following the completion of well pad construction.**
- **Independent gas certifications of the Elk-Antelope fields, as required under the sales and purchase agreement between Oil Search and sellers of the PAC LNG Group of companies (PAC sellers), were completed shortly after the end of the quarter. The average 1C (low estimate contingent) and 2C (best estimate contingent) of the two certifiers is 5.17 tcf and 6.43 tcf of raw gas respectively. As the average certified 2C resource is less than 7.0 tcf, Oil Search is not required to make an additional payment to the PAC sellers. The certification supports Oil Search's view that, together with the P'nyang gas field, there is sufficient undeveloped gas resource to underpin at least two additional LNG trains in PNG.**
- **At the end of June 2016, the Company had cash of US$780 million and debt of US$4,084 million. Including US$748 million of undrawn corporate credit facilities, total liquidity was US$1.53 billion.**

COMMENTING ON THE SECOND QUARTER OF 2016, OIL SEARCH MANAGING DIRECTOR, PETER BOTTEN, SAID:

"A focus for the quarter was the announcement on 20 May that the respective Boards of InterOil and Oil Search had agreed terms for the takeover of InterOil by Oil Search, subject to InterOil shareholder approval. This transaction was designed to be a catalyst for potential cooperation between the Papua LNG and PNG LNG projects and to optimise the value of our interests in both projects, during the next phase of LNG expansion and development. At the same time, the Company announced that it had reached agreement with Total, through an MOU, to on-sell certain assets acquired from InterOil to Total. This agreement also included commitments to maximise the value of the Papua LNG Project through cost minimisation, schedule acceleration, optimal resource utilisation and through cooperation and/or integration with the PNG LNG Project.

On 18 July, Oil Search was notified that the InterOil Board intended to change its recommendation in respect of the Oil Search proposal and instead enter into an Arrangement Agreement with ExxonMobil Corporation (ExxonMobil). Following a detailed review of the ExxonMobil proposal, including an analysis of the recent Elk-Antelope resource certification, the value and opportunities offered by cooperation between Papua LNG and PNG LNG and the substantially higher likelihood of realising this value by having ExxonMobil as a Papua LNG Joint Venture partner, the Oil Search Board has decided it is not in the best interests of shareholders to revise its offer for InterOil.

The bid by ExxonMobil clearly underscores the merits of our offer for InterOil and highlights both the quality of our LNG assets in PNG and the potential value that would be created by cooperation between PNG's two world class LNG projects. Total and Oil Search have already signalled their desire to explore how Papua LNG and PNG LNG can work together to maximise value for all stakeholders. Opportunities to add value include possible project acceleration, capital and operating cost savings, resource optimisation and various other operating, financing and marketing synergies. Considerable work remains to be done by all stakeholders, to agree the principles and programmes that are required to realise the potential value of these opportunities, but the entry of ExxonMobil into the Papua LNG Project would be a material step forward. For Oil Search shareholders, the takeover of InterOil by ExxonMobil would deliver a major component of our original objectives in the acquisition of InterOil and our agreement with Total, without shareholder dilution and any acquisition risk.

The potential for further LNG expansion and development has been enhanced by the recent resource certification on the Elk-Antelope fields. This has confirmed that the Elk-Antelope fields in PRL 15, together with P'nyang in PRL 3, contain approximately 10 tcf of undeveloped 2C gas resource, sufficient to underpin at least two additional 4 MTPA LNG trains in PNG, with the option of a third expansion train, subject to proving up additional resources from planned drilling at Elk-Antelope (Antelope 7), P'nyang and Muruk over the next 12 months.

While disappointed that our proposed takeover of InterOil will now not proceed, we will receive a US$60 million break fee (of which Total is entitled to 20%) if InterOil terminates our Arrangement Agreement, which more than covers our costs. In addition, as the MOU with Total was conditional on the InterOil takeover, Oil Search and Total SA have mutually agreed that they will terminate the MOU if InterOil terminates the Arrangement Agreement. Our key objective remains to work with all stakeholders to move into the development phase, with a concept that captures the potential material cost and schedule benefits available.

The Company is in good shape. Our production base is performing well, with costs under tight control. Our balance sheet remains strong and more than capable of supporting measured exploration and appraisal activities, along with progressive development of our LNG business, subject, of course, to realising reasonable oil and gas prices."

Operational Performance

"The Company's second quarter production of 7.17 mmboe was 7% lower than the record level achieved in the first quarter, primarily due to reduced PNG LNG Project production. However, the Company still achieved a near-record level of production for the first half, of 14.9 mmboe. Total operating revenue for the quarter of US$267.7 million was impacted by 10% lower hydrocarbon sales volumes and a 24% fall in the average realised LNG and gas price, due to an approximately three month lag between oil and LNG prices. Total sales revenue for the first half of 2016 was US$580.8 million."

Cash flow positive through low point in LNG contract price cycle

"Despite the sharp fall in realised LNG prices, to what we believe is likely to be the low point in the LNG contract pricing cycle, and lower sales volumes, Oil Search continued to generate positive cash flows during the quarter. During the period, the Company paid US$145 million in scheduled semi-annual principal and US$83 million in interest under the PNG LNG Project finance facility, as well as US$39.1 million on capital expenditures. Despite funding these disbursements, net debt declined slightly, from US$3,315 million to US$3,304 million, highlighting the strong cash flows generated from operations.

Our cash flow break-even in 2016 is expected to be less than US$20 per barrel of oil equivalent (boe), including cash operating costs and interest payments. Based on forecast future cash flows, which assume an ongoing gradual recovery in the oil price and present levels of available liquidity (cash and undrawn debt facilities), Oil Search expects to be able to fund all proposed capital expenditure programmes, including the equity share of our LNG expansion projects, all the way through to production."

PNG LNG Project

"The PNG LNG Project produced at an annualised rate of approximately 7.4 MTPA during the quarter. In addition to routine maintenance in April, an unplanned shutdown relating to the electrical generation control system occurred at the LNG plant in May. The Operator brought the plant back online quickly and safely, in accordance with standard start-up procedures. The Project achieved an annualised production rate of 7.7 MTPA in the first half of the year.

During the quarter, the Project celebrated two significant milestones, with the 200th cargo loaded in early June and the second custom-built LNG vessel, 'Kumul', commencing service. 25 LNG cargoes were sold, comprising 21 under long-term contracts and four on the spot market, with two cargoes on the water at the end of the quarter. Eight cargoes of Kutubu Blend and two naphtha cargoes were also sold in the quarter.

An independent re-certification of gas reserves in the Hides, Angore and Associated Gas fields commenced during the quarter. The recertification, which is expected to be completed in the fourth quarter of 2016, will provide greater certainty on the 1C gas volumes available within the existing PNG LNG Project fields, to support the proven additional capacity of the LNG trains. Progress also continued to be made on the Associated Gas Acceleration Study, with work being funded by the PNG LNG Project co-venturers.

Preparations to drill the P'nyang South 2 well, located in the south-east of the P'nyang field in PRL 3 (Oil Search - 38.51%), continued during the quarter. The well, which will be drilled by Oil Search on behalf of the operator, ExxonMobil, is expected to spud towards the end of 2016, subject to material progress on the PDL award being made, and will be aimed at reclassifying some of the field's 2C gas resource into 1C, to better define the resource for development. High-level discussions between the PNG Government, the PRL 3 joint venture partners and other key stakeholders continued, focused on establishing a common understanding on the future development of the field and finalising outstanding issues. Preparations to hold Landowner development forums remain ongoing."

Papua LNG (Elk-Antelope)

"In May, the PRL 15 Joint Venture agreed to drill the Antelope 7 appraisal well, to provide further data on the western flank of the field. At present, this area is poorly defined by existing seismic and we believe there is the potential for an additional 1 - 2 tcf of gas in the western margin, should reefal facies and structure be present. The well is expected to commence drilling in late September, following the completion of well pad construction.

In mid-March, the independent gas certification of the Elk-Antelope fields commenced, as required under the sales and purchase agreement between Oil Search and the sellers of the PAC LNG Group of companies (PAC). The certifications, which were conducted by Gaffney Cline & Associates (GCA) and Netherland, Sewell & Associates, Inc. (NSAI), were completed in July and represent the first independent assessment of resource size following the extensive appraisal activity undertaken on the field over the past 18 months. The data set used by GCA and NSAI included the results from both the recent successful Antelope 5 test and from the Antelope 6 appraisal well, which provided excellent structural control and reservoir definition on the eastern flank of the Antelope field, but excludes potential upside from Antelope 7.

The average 2C resource from the two certifiers is 6.43 tcf of raw gas, which is largely consistent with the 6.5 tcf of raw gas calculated by Oil Search as part of its recent reassessment of the fields. As the average certified 2C resource is less than 7.0 tcf, Oil Search is not required to make an additional payment to the PAC sellers.

As already highlighted, this certification confirms Oil Search's view that there is sufficient existing undeveloped gas resource in the P'nyang and Elk-Antelope fields to underpin a two train, 8 MTPA capacity LNG development, with importantly, a 1C resource of approximately 6 tcf available to support financing and marketing.

Oil Search intends to revise its current 2C resource booking for the Elk-Antelope fields."

Factors affecting the 2016 first half and full year results

"The 2016 first half results are scheduled to be released to the market on Tuesday 23 August. Production costs are expected to be towards the lower end of the range of US$8 - 10 per boe, compared to US$10.08 per boe in 2015, reflecting the successful implementation of the major cost reduction initiatives defined in the second half of 2015. Other operating costs, including expenses related to the InterOil bid (excluding offsetting break fees and recoveries from Total SA, which will be booked in the second half), are expected to be between US$83 million and US$88 million. Depreciation and amortisation is expected to be in the range of US$13.50 – 14.50 per boe.

As shown on page 14, US$18.9 million of exploration and evaluation expenditure related to seismic, geological, geophysical and general and administration expenses, mainly in PNG, is expected to be expensed.

Net finance costs will be in the order of US$95 - 97 million, consisting primarily of PNG LNG Project borrowing costs. The effective tax rate in the first half is expected to be in the range of 45 - 50% due to one-off non-deductable costs, including InterOil acquisition-related expenses, business development costs and adjustments to restoration provisions. The tax rate for the full year is expected to move towards the statutory tax rate for gas of 30%.

All the above guidance is subject to the finalisation of the financial statements, Board review and the half year review by the Company's auditors.

2016 full year production guidance has been upgraded, from 27.5 – 27.5 mmboe to 28.0 – 30.0 mmboe. This is due to a better than expected performance from the Oil Search-operated oil and gas fields, underpinned by successful well intervention work at Moran and Kutubu, a reduction in unplanned downtime and a focus on plant reliability and performance. The range of PNG LNG Project production outcomes has been tightened to reflect the unplanned plant shutdown that occurred in May.

Operating cost guidance for the 2016 full year remains unchanged. However, the outlook for development expenditures has been amended to reflect cost savings on remaining PNG LNG development activities and delays in entering FEED for the Oil Search-operated power generation projects in PNG. The range for exploration and evaluation expenditures has been lowered due to the timing of appraisal wells and pre-FEED activities."

2016 Guidance[1]

Year to December	Updated Guidance	Previous Guidance
Production		
Oil Search operated (PNG oil and gas)[2, 3] (mmboe)	6.3 – 6.7	5.7 – 6.2
PNG LNG Project		
LNG (bcf)	95 - 98	95 - 100
Liquids (mmbbl)	Unchanged	3.3 – 3.5
Total PNG LNG Project (mmboe)	Unchanged	22 – 23[2]
Total production (mmboe)	**28.0 – 30.0**	**27.5 – 29.5**
Operating costs		
Production costs (US$/boe)	Unchanged	8 – 10
Other operating costs (US$ million)[4]	Unchanged	135 – 155
Depreciation and amortisation (US$/boe)	Unchanged	13.50 – 14.50
Capital costs		
Production (US$ million)[5]	50 – 60	50 – 70
Development (US$ million)[6]	20 – 30	50 – 70
Exploration and evaluation (US$ million)[7]	190 – 210	210 – 250
Other property, plant and equipment (US$ million)	10 – 15	5 – 10
Total (US$ million)	**270 - 315**	**315 – 400**

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 2.8 – 3.0 bcf (net) of SE Gobe gas sales exported to the PNG LNG Project (OSH – 22.34%).
4. Includes Hides GTE gas purchase costs, royalties and levies, selling and distribution costs, rig operating costs, corporate administration costs (including business development), expenditure related to power activities, inventory movements and other expenses.
5. Includes Oil Search-operated fields and PNG LNG Project expenditures.
6. Comprises PNG LNG Project and power development costs.
7. Includes pre-FEED expenditures on P'nyang (PRL 3) and Elk-Antelope (PRL 15).

2016 SECOND QUARTER PERFORMANCE SUMMARY[1, 6]

Production

	Quarter End			Half Year		Full Year
	Jun 2016	**Mar 2016**	**Jun 2015**	**Jan-Jun 2016**	**Jan-Jun 2015**	**Dec 2015**
Production data						
PNG LNG Project[2]						
LNG (mmscf)	23,583	25,819	24,668	49,402	47,727	96,646
Condensate ('000 bbls)	749	817	785	1,565	1,494	3,066
Naphtha ('000 bbls)	56	65	49	121	91	208
PNG crude oil production ('000 bbls)						
Kutubu	834	849	944	1,682	1,867	3,797
Moran	475	475	380	950	787	1,560
SE Mananda	-	-	-	-	-	-
Gobe Main	6	6	8	11	15	30
SE Gobe	18	22	34	39	60	117
Total oil production ('000 bbls)	1,332	1,351	1,367	2,683	2,729	5,505
SE Gobe gas to PNG LNG (mmscf)[3]	587	688	305	1,275	305	1,886
Hides GTE Refinery Products[4]						
Sales gas (mmscf)	1,354	1,340	1,448	2,695	2,711	5,312
Liquids ('000 bbls)	27	28	31	55	57	112
Total barrels of oil equivalent ('000 boe)[5]	7,169	7,721	7,412	14,889	14,321	29,251

1. Numbers may not add due to rounding.
2. Production net of fuel, flare, shrinkage and SE Gobe wet gas.
3. SE Gobe wet gas reported at inlet to plant, inclusive of fuel, flare 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 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.
6. Adjustments are taken in the period in which they occur.

Sales[1]

	Quarter End			Half Year		Full Year
	Jun 2016	Mar 2016	Jun 2015	Jan-Jun 2016	Jan-Jun 2015	Dec 2015
Sales data						
PNG LNG Project						
LNG (Billion Btu)	27,290	31,245	28,433	58,536	55,827	109,570
Condensate ('000 bbls)	804	818	776	1,622	1,459	3,038
Naphtha ('000 bbls)	62	88	58	150	119	237
PNG oil ('000 bbls)	1,287	1,339	1,323	2,626	2,585	5,298
Hides GTE						
Gas (Billion Btu)[2]	1,485	1,438	1,553	2,923	2,908	5,700
Condensate and refined products ('000 bbls)[3]	22	29	27	51	51	106
Total barrels of oil equivalent ('000 boe)[4]	7,200	7,970	7,412	15,168	14,451	28,758
Financial data (US$ million)						
LNG and gas sales	150.6	223.7	242.9	374.3	598.6	1,088.3
Oil and condensate sales	102.1	75.2	129.8	177.3	229.5	429.5
Other revenue[5]	14.9	14.2	18.8	29.1	35.6	67.9
Total operating revenue	267.7	313.1	391.5	580.8	863.8	1,585.7
Average realised oil and condensate price (US$ per bbl)[6]	48.67	34.76	61.69	41.61	56.64	51.36
Average realised LNG and gas price (US$ per mmBtu)	5.23	6.84	8.10	6.09	10.19	9.44
Cash (US$m)	779.7	914.0	843.0	779.7	843.0	910.5
Debt (US$m)						
PNG LNG financing	4,084.1	4,228.6	4,285.9	4,084.1	4,285.9	4,228.6
Corporate revolving facilities[7]	-	-	-	-	-	-
Net debt (US$m)	3,304.4	3,314.6	3,443.0	3,304.4	3,443.0	3,318.2

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 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.
5. Other revenue consists largely of rig lease income, infrastructure tariffs and electricity, refinery and naphtha sales.
6. Average realised price for Kutubu Blend including PNG LNG condensate.
7. At the end of June 2016, the Company's US$500 million corporate revolving facility was undrawn. US$2 million of the US$250 million of bilateral revolving facilities had been utilised.

PRODUCTION PERFORMANCE

Total second quarter production net to Oil Search was 7.17 million barrels of oil equivalent (mmboe), comprising the following:

- LNG produced at the PNG LNG plant, net of fuel, flare and shrinkage, of 23,583 mmscf.
- PNG LNG liquids production of 0.81 mmbbl, comprising condensate produced during gas processing at the Hides Gas Conditioning Plant (HGCP) and naphtha at the LNG plant.
- PNG oil fields production and gas and liquids production from the Hides GTE Project of 1.74 mmboe, produced at an average rate (gross) of 36,196 barrels of oil equivalent per day. This included 587 mmscf of gas exported to the PNG LNG Project from the SE Gobe field.

PNG LNG Project (29.0%)

Second quarter production from the PNG LNG Project net to Oil Search was 5.43 mmboe, comprising 23.6 bcf of LNG and 0.81 mmbbl of liquids. LNG production was 8.7% lower than in the previous quarter, due to scheduled maintenance activities in April and an unplanned shut-down in May.

During the quarter, an average of 128 mmscf/day of gas was supplied to the PNG LNG Project by Oil Search from the Associated Gas (Kutubu and Gobe Main) and SE Gobe fields, representing approximately 13% of the total gas delivered to the LNG plant.

Kutubu (PDL 2 – 60.0%, operator)

Second quarter oil production net to Oil Search from the Kutubu complex was 0.83 million barrels (mmbbl), 1.8% lower than in the first quarter of 2016. Gross production rates averaged 15,256 bopd during the period, compared to 15,529 bopd in the first quarter.

At Kutubu, better than expected production from the Hedinia Digimu field, primarily driven by sustained gas injection to optimise reservoir voidage, largely offset the impact of flowline repairs during the quarter.

Towards the end of the quarter, a successful zone change at the Agogo 7 well in the forelimb reservoir boosted production rates to more than 5,000 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 second quarter oil production was 0.47 mmbbl, similar to production in the first quarter. The field produced at a gross average rate of 10,541 bopd.

The strong and sustained production performance at Moran is the result of contributions from wells drilled last year, combined with the reinstatement of production from the Moran 1x ST4 B Block well which occurred six months ahead of schedule. Production rates in the J Block wells are currently being impacted by the absence of gas injection at the Moran 4x well, which has been shut-in since the first quarter for integrity reasons. Planning is underway to drill a workover well, which is targeted to spud in early 2017, in order to reinstate injection.

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

Oil Search's share of oil production from the Gobe fields in the second quarter of 2016 was 0.02 mmbbl, down 14% from production levels in the previous quarter. The gross average production rate for Gobe Main was 4% higher than in the first quarter, at 642 bopd, while the gross average production rate at SE Gobe was 14% lower than in the previous quarter, at 874 bopd.

While production at Gobe Main was steady through the quarter, SE Gobe production was impacted by the shut-in of two wells for diagnostic and intervention work. Gobe Main delivered 3.6 bcf of gas to the PNG LNG project and SE Gobe sales were 2.6 bcf.

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

Gas purchased for the Hides Gas-to-Electricity (GTE) Project in the second quarter of 2016 was 1.4 bcf, produced at an average daily rate of 14.9 mmscf per day. This was similar to the previous quarter's production of 14.7 mmscf per day. 27,110 barrels of condensate were produced for use within the Hides GTE facility or transported by truck to the Hides Gas Conditioning Plant following a new commercial agreement with the PNG LNG operator.

EXPLORATION AND APPRAISAL ACTIVITY

Gas

North-West Highlands

In the North-West Highlands, Oil Search and ExxonMobil continued preparations to drill the P'nyang South 2 well. The well, located in the south-east of the P'nyang field in PRL 3 (Oil Search – 38.51%) is aimed at the reclassification of 2C resource to 1C resource, to support potential PNG LNG expansion. The well is targeted to spud towards the end of 2016.

A 72 kilometre seismic survey over the Greater P'nyang area, including PRL 3 and adjacent licences PPL 464 and PPL 395, was completed early in the quarter. Data processing is underway with final processed products expected in the third quarter of 2016.

Site preparation at the Muruk 1 well pad, located in PPL 402 (Oil Search – 50% and Operator), is complete. Rig mobilisation has progressed with the rig now onsite and approximately 60% rigged-up. As previously reported, due to the commencement of the wet weather period, the Muruk 1 well spud date has been deferred until the commencement of the dry season in the fourth quarter of 2016.

Strickland 2 in PPL 269 (OSH 10%) in the NW Foldbelt spudded in May. The targeted Darai Limestone four-way dip closure was found to be water bearing and was consequently plugged and abandoned. The rig was then skidded to the Strickland 1 location and the well, which will test the Early Cretaceous Toro Sandstone reservoir as a gas target, spudded in June.

Gulf and Forelands

In the Gulf Province in PRL 15 (Oil Search – 22.835%), the Antelope 6 gas appraisal well, located two kilometres east-southeast of Antelope 3, was plugged and abandoned, as planned. Evaluation of the data acquired from the well, including drill stem and injectivity testing, remains ongoing.

In the Gulf and Forelands regions, a new access road to the Barikewa 3 well site in PRL 9 (Oil Search – 45.1%, operator) was completed, with the well, expected to be the first in the Company's "Smaller Rig" campaign, targeted to spud in mid-2017. In PRL 10 (Oil Search – 100%, operator), a shallow-water well site survey was completed in preparation to drill the Uramu 2 well in the late 2017 weather window. In PRL 8 (Oil Search – 60.7%, operator), a 53 kilometre 2D seismic programme over Kimu and potential nearfield exploration prospects was successfully completed. This road-supported seismic survey utilised the existing network of roads, reducing the need for aviation support and programme cost.

In PPL 339 (Oil Search – 70%), preparations continued for drilling the Kalangar 1 well during the dry weather window in early 2017. Well pad scouting was completed at the end of the quarter. The Kalangar prospect, which is on-trend with the Antelope field, has the potential to open up an important and new prospective trend in the Gulf Province.

Oil

Middle East/North Africa

In the Kurdistan Region of Iraq, further processing of the 3D seismic data acquired over the Taza PSC (Oil Search – 60%, operator) was completed during the quarter and interpretation is ongoing.

Oil Search continues to work with Petsec and the Yemeni government to complete the transaction that will see Oil Search fully exit Yemen (Oil Search – 34%, operator). The Block remains in a state of force majeure due to the security situation in-country.

Drilling calendar

Subject to joint venture and government approvals, the 2016-2017 exploration and appraisal programme is as follows:

Well	Well type	Licence	OSH interest	Timing
FIRM				
Strickland 1	Exploration	PPL 269	10.0%	3Q 2016
Antelope 7	Appraisal	PRL 15	22.8%	3Q 2016
Muruk 1	Exploration	PPL 402	50.0%	4Q 2016
P'nyang South 2	Appraisal	PRL 3	38.5%	4Q 2016
Kalangar 1	Exploration	PPL 339	70.0%	1Q 2017
CONTINGENT				
Barikewa 3	Appraisal	PRL 9	45.1%	1H 2017
Kimu West	Appraisal	PRL 8	60.7%	2H 2017
Uramu 2	Appraisal	PRL 10	100%	2H 2017

Note: Wells, location and timing subject to change.

CORPORATE ACTIVITY

InterOil bid and MOU with Total SA

In May, Oil Search announced a proposal to acquire 100% of InterOil Corporation in a transaction that was unanimously approved by the Boards of Oil Search and InterOil.

The terms of the transaction comprised the issue of 8.05 Oil Search shares for each InterOil share (implying a value of US$40.25 per InterOil share based on Oil Search's 10-day VWAP up to, and including, the date of the announcement on 20 May 2016) plus a contingent value right (CVR). The CVR payment was linked to the volume of 2C hydrocarbon gas resource certified to be contained in the Elk-Antelope fields, with certification expected to take place in the first half of 2017. The CVR was valued at US$6.05 per InterOil Share for each incremental tcfe above 6.2 tcfe and provided InterOil shareholders with an uncapped additional payment, depending on the size of the certified 2C resources in the Elk-Antelope fields.

The Oil Search offer also provided InterOil shareholders with a cash alternative for the share component, up to a total of US$770 million, with any cash not taken up by InterOil shareholders to be applied to an Oil Search share buyback following completion of the InterOil transaction, in order to reduce dilution for Oil Search shareholders.

Oil Search also announced the execution of an MOU with Total SA, whereby Oil Search would sell down 60% of the interest acquired from InterOil in PRL 15 and 62% of InterOil's exploration assets to Total, subject to closing the InterOil acquisition. The agreements would have resulted in Oil Search and Total increasing their stakes in the PRL 15 to 29.0% and 48.1% respectively, after government back-in. The MOU also set out the principles whereby Oil Search and Total would seek to maximise the value for all stakeholders by pursuing cooperation and/or integration opportunities with the PNG LNG Project.

On 30 June, InterOil released its Management Information Circular to shareholders. Shortly after, it announced that a competing, unsolicited, conditional non-binding proposal had been received.

On 18 July, Oil Search was notified by InterOil that it had received a 'Superior Proposal' from Exxon Mobil Corporation and consequently InterOil intended to make a change in its recommendation and enter into an Arrangement Agreement with ExxonMobil. On 21 July, Oil Search announced that it did not intend to revise its bid.

(See ASX Announcements dated 20 May 2016 for further details on the proposed InterOil and Total SA transactions and 18 and 21 July regarding Oil Search's response to InterOil's change in recommendation).

FINANCIAL PERFORMANCE

Sales revenue

During the quarter, 27,290 billion Btu of LNG was sold, 13% lower than sales volumes in the first quarter of 2016. 25 LNG cargoes were sold during the period, compared to 28 cargoes in the first quarter, of which 21 were sold under long-term contract and four on the spot market, with two cargoes on the water at the end of the quarter. Oil, condensate and naphtha sales volumes for the period totalled 2.17 mmbbl, a 4% decrease compared to liquid sales in the previous quarter. Eight cargoes of Kutubu Blend and two naphtha cargoes were sold in the quarter.

The average oil and condensate price realised during the quarter was US$48.67 per barrel, 40% higher than in the first quarter, reflecting a tightening in global oil supply, with the Brent oil price reaching a high of US$51.33 per barrel in June. The average price realised for LNG and gas sales declined 24%, to US$5.23 per mmBtu. This reflected weak spot oil prices in the first quarter of 2016, which impacted 2016 second quarter LNG contract prices due to an approximately three month lag in contract pricing terms. 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$252.7 million, 15% lower than in the first quarter of 2016, reflecting lower sales volumes combined with lower realised LNG prices. Other revenue, comprising rig lease income, infrastructure tariffs, electricity, refinery and naphtha sales, was US$14.9 million.

Capital management

As at 30 June 2016, Oil Search had cash of US$779.7 million, compared to US$914.0 million at the end of March 2016. The Company's share of debt drawn down under the PNG LNG project finance facility was US$4,084.1 million, reduced from US$4,228.6 at the end of the first quarter of 2016 due to a scheduled repayment of principal in June.

The Company had total corporate facilities of US$750 million, comprising two US$125 million bilateral revolving credit facilities (expiring in December 2018) and a US$500 million non-amortising revolving credit facility (expiring in October 2017), with only US$2 million utilised at the end of the period. At the end of June 2016, the Company held total liquidity of US$1.53 billion.

Capital expenditure

During the quarter, US$39.1 million was spent on investment activities. Exploration and evaluation expenditure totalled US$35.6 million, with US$34.3 million on activities in PNG, including PRL 15 (US$9.8 million), preparations to drill the Muruk well in PPL 402 (US$10.8 million) and P'nyang South 2 in PRL 3 (US$2.8 million) and costs related to Strickland 1 and 2 in PPL 269 (US$4.2 million). US$2.8 million of exploration costs were expensed, primarily related to seismic, geological, geophysical and general and administration expenses in PNG.

Oil Search wrote back US$5.2 million of PNG LNG Project development costs in the second quarter of 2016, reflecting a release of accruals mainly relating to development drilling. Expenditure on producing assets was US$7.8 million.

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

(US$ million)	Quarter End			Half Year		Full Year
	Jun 2016	Mar 2016	Jun 2015	Jan-Jun 2016	Jan-Jun 2015	Dec 2015
Investment Expenditure						
Exploration & Evaluation						
PNG	34.3	55.2	37.4	89.5	78.4	156.7
MENA	1.3	2.7	35.9	4.0	86.7	118.9
Total exploration & evaluation	35.6	57.9	73.4	93.5	165.1	275.6
Development	(5.2)	11.2	34.8	6.0	76.0	135.2
Production	7.8	7.6	25.8	15.4	55.9	111.8
PP&E	1.0	1.0	2.7	2.0	4.6	16.5
Total	**39.1**	**77.7**	**136.7**	**116.9**	**301.5**	**539.2**
Exploration & evaluation expenditure expensed[2,3]						
PNG	(1.5)	13.4	10.6	12.0	24.8	35.2
MENA	1.3	2.7	1.9	4.0	3.5	13.8
Total current year expenditures expensed	(0.2)	16.2	12.5	16.0	28.3	48.9
Prior year expenditures expensed	3.0	-	-	3.0	6.2	2.0
Total	**2.8**	**16.2**	**12.5**	**18.9**	**34.5**	**50.9**

1. Numbers may not add due to rounding.
2. 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.
3. Numbers do not include expensed business development costs of US$1.6 million in the second quarter of 2016 (US$1.9 million in the first quarter of 2016).

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	Approximately 1.10 – 1.14 billion Btu*
1 tonne LNG	Approximately 52 mmBtu*
1 boe	Approximately 5,100 standard cubic feet

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

*** Conversion factors used for forecasting purposes only.**

PETER BOTTEN, CBE

Managing Director

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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 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.