# ASX Announcement

## 2016 First Half Results

**23 August 2016**

## Highlights

| Six months to 30 June | 2016 | 2015 | % change |
|---|---|---|---|
| Total production (mmboe) | **14.89** | 14.32 | +4% |
| Total sales (mmboe) | **15.17** | 14.45 | +5% |
| Average realised oil and condensate price (US$ per barrel) | **41.61** | 56.64 | -27% |
| Average realised gas and LNG price (US$ per mmBtu) | **6.09** | 10.19 | -40% |
| Total revenue (US$m) | **580.8** | 863.8 | -33% |
| Net profit after tax (US$m) | **25.6** | 227.5 | -89% |
| Operating cash flow (US$m) | **239.2** | 516.8 | -54% |
| Interim dividend (US cents/share) | **1.0** | 6.0 | -83% |

- **Total production in the first half of 2016 was 14.9 million barrels of oil equivalent (mmboe), the second highest half-year in the Company's history. The PNG LNG Project produced at an annualised rate of 7.7 MTPA during the half, significantly above the nameplate capacity of 6.9 MTPA, while the Oil Search-operated PNG oil and gas fields contributed 3.52 mmboe net to Oil Search, compared to 3.38 mmboe in the previous corresponding period.**

- **While sales volumes rose 5% to 15.2 mmboe, a record for Oil Search, total revenue fell 33% to US$580.8 million, driven by materially lower realised commodity prices. Average realised oil and condensate prices fell 27% while LNG and gas prices were 40% lower than in the previous corresponding period. As a result, despite an 8% reduction in unit production costs to a very competitive US$8.21 per boe, reflecting the successful implementation of a range of major cost reduction initiatives, net profit after tax for the first half of 2016 fell to US$25.6 million.**

- **The Company continued to generate positive operating cash flows during the half. Net operating cash flow was US$239.2 million, while the EBITDAX margin remained strong, at 65%.**

- **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.**

- **A 2016 interim unfranked dividend of one US cent per share was announced, compared to six US cents per share in the first half of 2015. The payout ratio of 60% is above our stated policy to pay out 35 – 50% of core profit by way of dividends due to rounding.**

- **In May, Oil Search announced an agreed takeover offer for InterOil Corporation (InterOil). 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. In July, InterOil notified Oil Search that it intended to change its recommendation in respect of the Oil Search proposal and enter into an Arrangement Agreement with Exxon Mobil Corporation (ExxonMobil). Oil Search decided not to submit a revised bid for InterOil, in light of the terms offered and our view that the entry of ExxonMobil into the PRL 15 joint venture will increase the likelihood of downstream integration of the Papua LNG Project and potential PNG LNG Project expansion. Consequently, the bid for InterOil and the associated Total MOU were terminated. In July, Oil Search received a break fee from ExxonMobil, which more than covers the costs associated with the Oil Search offer for InterOil.**

- **The certification of the Elk-Antelope fields was completed by two world-class certifiers in July. We believe that the resource volume within these fields, together with that identified in the P'nyang field, is sufficient to underpin at least two new LNG trains.**
- **A Strategy Refresh has recently commenced. This study is focused on reviewing the potential options and the value that can be delivered by cooperation between the PNG LNG and Papua LNG projects, following confirmation of the InterOil-ExxonMobil transaction, and determining the key activities required to underpin the next phase of LNG growth in PNG.**

## Commenting on the 2016 first half results, Oil Search Managing Director, Peter Botten, said:

### Excellent performance from operations

"The PNG LNG Project continued to perform well during the first half, producing LNG at an annualised rate of approximately 7.7 MTPA, 12% above the nameplate capacity of 6.9 MTPA. This was achieved despite a planned production rate reduction for routine compressor maintenance in April and an unplanned shut-down relating to the electrical generation control system in May, the first time the Project had been completely shut-in since production started in mid-2014. Pleasingly, the operator brought the plant back online quickly and safely, with production reaching a new monthly high of 8.2 MTPA in June.

During the first half of 2016, 53 LNG cargoes were sold, comprising 45 sold under long-term contracts and eight sold on the spot market. Six of the eight spot cargoes were sold to customers in Japan, reflecting the desirability of PNG LNG's high heating value gas to Japanese consumers. 16 cargoes of Kutubu Blend and five naphtha cargoes were also sold during the half. As at the end of June, 205 LNG cargoes had been delivered from the Project since commencing sales, with very high levels of reliability achieved.

Despite the maturity of our oil fields, total operated production was 4% higher than in the first half of 2015. This very pleasing performance reflected the ramp up of third party gas exports from SE Gobe to the PNG LNG Project, successful reservoir management initiatives, particularly at Kutubu and Moran, facilities optimisation and other productivity and efficiency initiatives implemented in late 2015 and early 2016, which continue to reap rewards."

### Unit production costs reduced to US$8.21/boe

"The cost reduction and performance improvement initiatives implemented during the second half of 2015 and the first half of 2016, have been successful in driving costs down and delivering greater efficiencies across the business. Unit rate savings of 15-30% have been achieved through the renegotiation of major supply and services contracts. These initiatives, together with a restructuring of our support services locations and optimisation of our work force to align with prioritised work programmes, which were completed in the first half of 2016, are expected to deliver sustainable savings into the future. During the first half of 2016, overall unit production costs fell 8% to a very competitive US$8.21 per boe, with an 11% reduction achieved for the Company's operated assets. The Company is continuing to manage costs closely, to ensure its competitiveness in a lower oil price environment."

## Profitability impacted by lower commodity prices

"Despite the success of the cost reduction programme, profitability was impacted by the continued slump in global oil and gas prices. The average realised oil and condensate price fell 27% while the average realised LNG and gas price was 40% lower than in the first half of 2015. LNG prices hit a low point in the second quarter of 2016, due to the approximate three month lag between oil and LNG pricing. In addition, the effective tax rate was materially higher, up from 28% in the first half of 2015 to 47%, due to a number of one-off non-deductible costs, including those related to the InterOil bid. Subject to realised oil prices, the tax rate is expected to be below 40% for the 2016 full year.

Shortly after the end of the half year, we received US$60 million from ExxonMobil, representing the agreed break fee following a change in support by the InterOil Board from our bid to ExxonMobil's competing bid. While part of the costs of the proposed transaction were expensed in the first half, the break fee, net of US$12 million to be paid to Total under the terms of the MOU, and the balance of the costs will be recognised in the second half of 2016."

## Increasingly likelihood of downstream integration of LNG expansion opportunities in PNG

"A major focus for Oil Search during the first half of 2016 was our bid for InterOil, which, at the time, was unanimously approved by both boards, and the MOU we signed with Total for the on-sale of part of the InterOil interests. One of the key drivers for entering into these transactions was the belief that restructuring the PRL 15 joint venture would provide a pathway to achieving downstream integration between the proposed Papua LNG development and the potential expansion of the PNG LNG Project. Our MOU with Total set out the principles by which Oil Search and Total would seek to maximise the value for all stakeholders by pursuing these opportunities with the PNG LNG Project and highlighted that equity would be available for buyers and potential new participants, such as ExxonMobil, the PNG LNG Project operator.

In July, Oil Search was notified by InterOil that it had received a superior proposal from ExxonMobil. After careful consideration, we decided not to submit a revised offer for InterOil. The consideration offered by ExxonMobil underscores the potential value that would be created by cooperation between PNG's two world class LNG projects, which we believe is materially enhanced by ExxonMobil's entry into the Papua LNG joint venture. Statements subsequently made by ExxonMobil and Total confirm that both majors are willing to pursue opportunities to develop the projects in a cooperative and coordinated manner. Based on our evaluation, superior value accretion for Oil Search shareholders can be achieved by realising the benefits of project integration through our existing interests in PNG LNG and Papua LNG, without dilution and acquisition risk, rather than by bidding a higher value for InterOil.

Oil Search believes that there is sufficient gas resource in existing discovered gas fields to underpin the proven extra capacity of the two existing PNG LNG trains, as well as at least two, and possibly three, additional LNG trains if planned appraisal and exploration drilling are successful. This confidence is based on our view that there is upside potential in the PNG LNG Foundation fields, which will be verified by the recertification process of the Hides, Angore and Associated Gas fields presently underway, as well as approximately 10 tcf of combined proven and probable contingent (2C) undeveloped gas resource in the Elk-Antelope and P'nyang fields. The total 2C resource in Elk-Antelope and P'nyang exceeds the 2C resource that underpinned the original PNG LNG Project development when that project was sanctioned in 2009.

Importantly, proven contingent 1C resources within Elk-Antelope and P'nyang are presently estimated to be more than 6 tcf, sufficient to underpin LNG marketing and project financing for two extra trains.

There is gas upside potential from the Antelope 7 appraisal well, due to spud in early October, the Muruk exploration well, which is scheduled to commence drilling in the fourth quarter of 2016, and in and around P'nyang, with P'nyang South 2 now scheduled to be drilled in 2017 following Muruk. If these wells are successful, there could be sufficient gas to underpin a possible third expansion train.

There are a number of commercial models that could be used to deliver project integration. Studying the various options and their relative values is a core component of Oil Search's Strategy Refresh, a strategic review which has recently commenced in light of changes in the global oil and LNG markets as well as the bid for InterOil by ExxonMobil and its implications. The conclusions of the Strategy Refresh, expected to be completed in the fourth quarter of 2016, will form the basis for Oil Search to commence a constructive dialogue with our partners on the way forward.

A cooperative development will drive capital and operating efficiency and potentially accelerate the development timetable, generating superior returns for Oil Search shareholders, as well as for many other stakeholders, including the PNG Government and local landowners. Assuming ExxonMobil is successful in acquiring InterOil, we look forward to commencing discussions regarding a cooperative development agenda with both Total and ExxonMobil later this year."

## Interim dividend payment largely consistent with pay-out ratio guidance range

"The Board has approved the payment of an interim unfranked dividend of one US cent per share, compared to the 2015 interim dividend of six US cents per share. This represents a dividend payout ratio of 60%, higher than the Board's dividend policy of distributing between 35% and 50% of core profit, due to rounding.

Oil Search shares will trade ex-dividend from 6 September 2016. The record date for the interim dividend payment is 7 September 2016 and the payment date is 27 September 2016.

**See Appendix 3A.1 – Notification of Dividend/Distribution for more information on the dividend payment.**

## Safety improvement plan introduced

"During the first half of 2016, Oil Search recorded a Total Recordable Incident Rate (TRIR) of 2.32 per million hours worked. This compares to our 2015 TRIR of 1.91 per million hours worked.

Analysis of the incidents experienced during the first half of 2016 has revealed that they were largely limited to a small number of "hot spot" areas. A safety improvement plan, aimed at delivering a substantial improvement in performance during the second half of 2016 and beyond, has been developed and implementation is underway. The plan, which is already realising results, with the TRIR to the end of July falling to 2.04, includes developing an increased focus on situational awareness and will address particularly the safety challenges in our civil construction and marine terminal operations."

## Maintaining operating stability in PNG

**"**After the end of the reporting period, a number of landowners groups in the Hides area commenced a peaceful protest, seeking a dialogue with Government regarding progressing land title and benefits distribution issues.

As a precautionary measure to ensure the safety of those gathered near one of the producing wellpads, the operator curtailed production from the two Hides wells on that pad, which had a temporary minor impact on daily production. Following constructive dialogue between the landowner leaders and government representatives, an agreement was signed which allowed some benefits to be paid and a way forward agreed to address remaining benefits and land ownership issues. The wells have now been fully restored and our production for the full year remains within the recently upgraded guidance range of 28 – 30 mmboe.

We believe that our sustainable development programmes, delivered both directly by Oil Search and through the Oil Search Foundation, are key to helping maintain a stable operating environment, while improving development outcomes for the people of PNG. Oil Search has formed strong relationships with government, communities and a range of other public and private organisations in PNG through these programmes, which are essential for successful oil and gas operations.

In 2015, a new five-year strategy was developed for the Oil Search Foundation, which has been operating as a not-for-profit organisation, supported by Oil Search and other donor agencies, since 2011. Its mandate was expanded, with two new development streams - Leadership and Education and Women's Protection and Empowerment – added to run alongside the Foundation's health programmes. Recently, we announced that the Oil Search Board has approved a grant to the Foundation of US$56 million (K185 million) over five years, starting in 2016. Our continued financial commitment highlights both the importance of the Foundation's work to local communities in PNG and our view that conducting business in a socially responsible manner is a strategic and moral imperative."

## Looking forward to the second half of 2016 and beyond, Mr Botten said:

"As already highlighted, we have recently commenced a Strategy Refresh. The key focus of this study will be to further analyse the options for cooperation between the PNG LNG and Papua LNG projects and to determine which is the most value accretive for all stakeholders. In addition, the review will evaluate what activities are required to best deliver gas to drive long term growth in PNG. The results of this study will help inform our discussions with partners commencing later this year. In addition, a number of key exploration and appraisal wells will be drilled in the second half of 2016 and into 2017, which will have a significant influence on determining whether we are in a two or three train expansion environment.

Over the past year, we have been systematically replenishing our exploration portfolio in PNG and have identified a number of highly prospective areas with material upside potential. In recent months, we have been offered and accepted one new Petroleum Prospecting Licence (PPLs) and have 14 other PPL applications at various stages of the regulator's review process, many of which are in partnership with our strategic partners. Subject to an ongoing recovery in oil prices, we are planning to commence a more aggressive exploration programme in late 2017, designed to drive long term growth in PNG.

While oil prices appear to have bottomed, we are maintaining our focus on careful capital management and driving out costs, to ensure our current commitments and LNG growth opportunities can be funded without having to access additional equity capital. Oil Search is fortunate to be financially well placed, having production assets that generate solid cash flows at these oil and gas price levels and a strong balance sheet and liquidity."

### Guidance for the 2016 full year

"As indicated in our second quarter results, 2016 full year production guidance has been upgraded to 28 – 30 mmboe, while capital costs are expected to be in the range of US$270 - 315 million, US$45 - 85 million lower than prior guidance. This reflects lower spend on PNG power projects, due to delays in moving into Front End Engineering and Design, as well as lower than expected capital expenditure on the PNG LNG Project. Exploration expenditure for the 2016 full year is expected to be between US$190 million and US$210 million. Activities will continue to be focused on the high returning opportunities available to us in

PNG. Guidance for other operating costs remains unchanged at US$135 – 155 million (excluding costs associated with the InterOil bid, which will be more than covered by the net break fee of US$48 million, after a payment to Total). Guidance is subject to no major operational interruptions being experienced over the balance of the year.”

## Full Year Guidance[1]:

| Year to December | FY 2016 Guidance |
|---|---|
| **Production** | |
| Oil Search operated (PNG oil and gas)[2,3] | 6.3 – 6.7 mmboe |
| PNG LNG Project | |
| LNG | 95 – 98 bcf |
| Liquids | 3.3 – 3.5 mmbbl |
| Total PNG LNG Project | 22 – 23 mmboe[3] |
| **Total production** | **28 – 30 mmboe** |
| **Operating costs** | |
| Production costs | US$8 – 10/boe |
| Other operating costs[4] | US$135 – 155 million |
| Depreciation and amortisation | US$13.5 – 14.5/boe |
| **Capital costs** | |
| Production[5] | US$50 – 60 million |
| Development[6] | US$20 – 30 million |
| Exploration and evaluation[7] | US$190 – 210 million |
| Other property, plant and equipment | US$10 – 15 million |
| **Total** | **US$270 – 315 million** |

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. Excludes expenses related to the InterOil bid.
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).

## FINANCIAL PERFORMANCE SUMMARY[1]

| Six months to 30 June | 2016 | 2015 | % change |
|---|---|---|---|
| **Sales data** | | | |
| PNG LNG Project | | | |
| LNG (Billion Btu) | 58,536 | 55,827 | 5% |
| Condensate (‘000 bbls) | 1,622 | 1,459 | 11% |
| Naphtha (‘000 bbls) | 150 | 119 | 26% |
| PNG oil (‘000 bbls) | 2,626 | 2,585 | 2% |
| Hides GTE | | | |
| Gas (Billion Btu) | 2,923 | 2,908 | 1% |
| Condensate & refined products (‘000 bbls) | 51 | 51 | - |
| Total barrels of oil equivalent sold (‘000 boe) [2] | 15,168 | 14,451 | 5% |
| Average realised oil and condensate price (US$/bbl) [3] | 41.61 | 56.64 | -27% |
| Average realised LNG and gas price (US$/mmBtu) | 6.09 | 10.19 | -40% |
| **Financial data (US$ million)** | | | |
| Revenue from operations | 580.8 | 863.8 | -33% |
| Production costs | (122.2) | (127.5) | -4% |
| Other operating costs | (83.3) | (87.8) | -5% |
| Loss on disposal of non-current asset | - | (5.6) | N.M |
| Other income | 2.1 | 1.3 | 62% |
| EBITDAX[4] | 377.4 | 644.1 | -41% |
| Depreciation and amortisation | (214.2) | (200.1) | 7% |
| Exploration costs expensed | (18.9) | (34.5) | -45% |
| EBIT[4] | 144.3 | 409.5 | -65% |
| Net finance costs | (96.3) | (92.0) | 5% |
| Profit before tax | 48.0 | 317.5 | -85% |
| Taxation expense | (22.4) | (90.0) | -75% |
| **Net profit after tax** | **25.6** | **227.5** | **-89%** |
| **Per share data (US cents)** | | | |
| Basic EPS before significant items | 1.68 | 14.94 | -89% |
| Diluted EPS before significant items | 1.67 | 14.90 | -89% |
| Net operating cash flow per share | 15.71 | 33.94 | -54% |
| Interim dividend | 1.0 | 6.0 | -83% |

1. Numbers and percentage moves may not add due to rounding.
2. Gas and LNG volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search’s reserves portfolio, using the actual calorific value of each gas volume at its point of sale. Minor variations to the conversion factors may occur over time.
3. Average realised price for Kutubu Blend, including PNG LNG condensate.
4. EBITDAX (earnings before interest, tax, depreciation/amortisation, impairment and exploration) and EBIT (earnings before interest and tax) are non-IFRS measures that are presented to provide a more meaningful understanding of Oil Search’s financial performance. The non-IFRS financial information is unaudited but is derived from the financial statements which have been subject to review by the Group’s auditor.

## Financial position (US$ million)[1]

| As at | 30 June 2016 | 31 Dec 2015 | 30 Jun 2015 |
|---|---|---|---|
| Cash and short-term deposits[2] | 779.7 | 910.5 | 843.0 |
| Debt (PNG LNG financing)[3] | (4,084.1) | (4,228.6) | (4,285.9) |
| **Net debt** | **(3,304.4)** | **(3,318.2)** | **(3,443.0)** |
| **Total liquidity[4]** | **1,527.7** | **1,658.5** | **1,593.0** |

1. Numbers may not add due to rounding.
2. As at 30 June 2016, US$262.1 million was escrowed in PNG LNG Project accounts (31 December 2015: US$270.8 million. 30 June 2015: US$182.0 million).
3. Excludes finance leases presented as 'Borrowings' in the Statement of Financial Position.
4. As at 30 June 2016, the Company's US$500 million corporate revolving facility was undrawn. US$2 million of the US$250 million bilateral revolving facilities had been utilised.

**A full analysis of the financial results can be found in the Results and Review of Operations commencing on page 4 of the Directors' Report for the half-year ended 30 June 2016.**

## FIRST HALF 2016 PRODUCTION SUMMARY[1]

| Six months to 30 June | 2016 | | 2015 | | *% change* | |
|---|---|---|---|---|---|---|
| | **Gross daily production** | **Net to OSH** | **Gross daily production** | **Net to OSH** | ***Gross daily production*** | ***Net to OSH*** |
| **Gas production** | **mmscf/d** | **mmscf** | **mmscf/d** | **mmscf** | | |
| PNG LNG gas[2] | 935.888 | 49,402 | 909.151 | 47,727 | *3* | *4* |
| Hides GTE[3] | 14.805 | 2,695 | 14.977 | 2,711 | *-1* | *-1* |
| SE Gobe gas to PNG LNG[4, 5] | 30.549 | 1,275 | 6.603 | 305 | *363* | *318* |
| **Total gas** | **981.242** | **53,372** | **930.731** | **50,743** | ***5.4*** | ***5.2*** |
| | | | | | | |
| **Oil and condensate production** | **bopd** | **mmbbl** | **bopd** | **mmbbl** | | |
| Kutubu | 15,392 | 1.682 | 17,194 | 1.869 | *-10* | *-10* |
| Moran | 10,543 | 0.950 | 8,779 | 0.787 | *20* | *21* |
| Gobe Main | 630 | 0.011 | 847 | 0.015 | *-26* | *-25* |
| SE Gobe[5] | 944 | 0.039 | 1,291 | 0.060 | *-27* | *-34* |
| **Total PNG oil** | **27,509** | **2.683** | **28,111** | **2.730** | ***-2*** | ***-2*** |
| Hides GTE liquids[3] | 303 | 0.055 | 316 | 0.057 | *-4* | *-4* |
| PNG LNG liquids | 31,942 | 1.686 | 30,182 | 1.584 | *6* | *6* |
| **Total oil and condensate** | **59,754** | **4.424** | **58,609** | **4.372** | ***2*** | ***1*** |
| | | | | | | |
| | **boepd** | **mmboe** | **boepd** | **mmboe** | | |
| **Total production[6]** | **252,155** | **14.889** | **241,105** | **14.322** | ***5*** | ***4*** |

1. Numbers may not add due to rounding. Where required, adjustments are taken in the affected production period.
2. Production net of fuel, flare and shrinkage and SE Gobe wet gas.
3. 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.
4. SE Gobe wet gas reported at inlet to plant, inclusive of fuel, flare and naphtha.
5. Oil Search interest in SE Gobe changed from 25.55% to 22.34% on 1 February 2016.
6. 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.

## Gas/LNG Glossary and Conversion Factors Used[1,2]

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

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


## PETER BOTTEN, CBE

**Managing Director**

**23 August 2016**


## For more information regarding this report, please contact:


**Investors and Media**

Ann Diamant

Group Manager, Investor Relations

Tel: +612 8207 8440

Mob: +61 407 483 128


## Presentation and Webcast

Oil Search will be holding a presentation for analysts and fund managers at 11.00 am AEDT today, 23 August 2016. The presentation will be webcast live over Oil Search's website. To listen to the webcast, please log on to www.oilsearch.com. If you experience any technical difficulties, please call: +61 2 8280 6000.

The webcast will be available in archive form on the Oil Search website 2 – 3 hours after the completion of the presentation.

## 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 workovers and field development, reserves depletion and fiscal and other government issues and approvals.

# Appendix 4D

**This information should be read in conjunction with the consolidated Financial Report for the half-year ended 30 June 2016.**

**Results for announcement to the market**

| | % Change[(1)] | Half-year ended 30 June 2016 US$'000 | Half-year ended 30 June 2016 A$'000 [(2)] | Half-year ended 30 June 2015 US$'000 | Half-year ended 30 June 2015 A$'000 [(2)] |
|---|---|---|---|---|---|
| Revenue from ordinary activities | *down* 32.8% | **580,778** | **791,682** | 863,757 | 1,103,138 |
| Profit from ordinary activities after tax attributable to members | *down* 88.8% | **25,550** | **34,828** | 227,507 | 290,558 |
| Net profit for the half-year attributable to members | *down* 88.8% | **25,550** | **34,828** | 227,507 | 290,558 |

The financial information above has been prepared in accordance with International Financial Reporting Standards.

**Dividends**

| | Half-year ended 30 June 2016 US cents | Half-year ended 30 June 2016 A cents | Half-year ended 30 June 2015 US cents | Half-year ended 30 June 2015 A cents |
|---|---|---|---|---|
| Interim dividend paid per security [(3)] | **1.00** | **TBA** [(4)] | 6.00 | 8.63 |

**Net tangible assets**

| | 30 June 2016 US$ | 30 June 2016 A$[(5)] | 30 June 2015 US$ | 30 June 2015 A$[(5)] |
|---|---|---|---|---|
| Net tangible asset backing per ordinary security | **2.38** | **3.20** | 2.60 | 3.39 |

**Details of entities over which control was gained or lost**

There were no acquisitions or disposals of controlled entities during the half-year ended 30 June 2016.

(1) % change calculations are based on the US$ figures.
(2) Amounts have been converted from US$ to A$ at the average exchange rate for the half-year of 0.7336 (2015: 0.7830).
(3) No franking credits available on dividends, as Oil Search Limited is incorporated in Papua New Guinea. No component of the dividends represents conduit foreign income.
(4) The Australian dollar amount will be fixed at the rate of exchange applicable on the day of the record date for determining entitlements to the final dividend, being 7 September 2016.
(5) Amounts have been converted from US$ to A$ at the 30 June 2016 exchange rate of 0.7426 (30 June 2015: 0.7680).

# Consolidated Financial Report for the half-year ended 30 June 2016

## Contents

# Directors' report

The directors submit their report for the financial half-year ended 30 June 2016.

## DIRECTORS

The names, details and shareholdings of the directors of the company in office during or since the end of the financial year are:

### Mr RJ Lee, AM, BEng (Chem) (Hons), MA (Oxon), FAICD, (Chairman) Non-Executive, 66 years

Mr Lee joined the Board on 9 May 2012 and was appointed Chairman on 28 February 2013. Mr Lee has extensive resource banking and international commercial experience. His previous senior executive roles include 16 years with CSR Limited and 9 years in the position of Chief Executive Officer of NM Rothschild Australia Limited. Mr Lee is a Director of Newcrest Mining Limited and a former Chairman of the Australian Institute of Company Directors. He was appointed a Member of the Order of Australia in the 2015 Queen's Birthday Honours List for services to business, commerce, sport and charity. *Ordinary shares, fully paid: 96,829*

### Mr PR Botten, CBE, BSc, ARSM, (Managing Director), Executive, 61 years

Mr Botten was appointed Managing Director on 28 October 1994, having previously filled both exploration and general manager roles in the company since joining in 1992. He has extensive worldwide experience in the oil and gas business, previously holding various senior technical and managerial positions in a number of listed and government owned organisations. Mr Botten is a former President of the Papua New Guinea Chamber of Mines and Petroleum and is on the Executive Committee of the Australia PNG Business Council. He is also Chairman of Business for Development, the Tari Regional Hospital Board and the National Football Stadium Trust in Port Moresby. He was awarded Commander of the Order of the British Empire (CBE) in the 2008 Queen's Birthday Honours List for services to commerce and the mining and petroleum industry in Papua New Guinea. *Ordinary shares, fully paid: 2,550,034; Performance Rights: 785,500; Restricted shares: 454,918*

### Mr G Aopi, CBE, BEc, BAC, MBA, Executive, 62 years

Mr Aopi joined the Board as an Executive Director on 18 May 2006 and presently holds the position of Executive General Manager Stakeholder Engagement. Mr Aopi has substantial public service and business experience in Papua New Guinea, having had a long and distinguished career in government, filling a number of important positions, including Secretary for Finance and Planning and Managing Director of Telikom PNG Ltd. Mr Aopi is a Director of Steamships Trading, Bank of South Pacific, Marsh Limited and a number of other private sector and charitable organisations in Papua New Guinea. He was previously the Chairman of Telikom PNG Ltd and Independent Public Business Corporation (IPBC). *Ordinary shares, fully paid: 474,317; Performance Rights: 164,000; Restricted shares: 77,359*

### Sir KG Constantinou, OBE, Non-Executive, 59 years

Sir Kostas joined the Board on 16 April 2002. He is a prominent business figure in Papua New Guinea, holding a number of high level public sector and private sector appointments. Sir Kostas is Chairman of various companies, including Airways Hotel and Apartments Limited, Lamana Hotel Limited, Lamana Development Limited, Alotau International Hotel and Bank of South Pacific. He is a Director of Heritage Park Hotel in Honiara, Gazelle International Hotel in Kokopo, Grand Pacific Hotel in Fiji, Taumeasina Island Resort in Samoa, Good Taste Company in New Zealand and Loloata Island Resort Limited in Papua New Guinea. Sir Kostas is also Vice Chairman of the Employers Federation of Papua New Guinea and Honorary Consul for Greece in Papua New Guinea and a Member of the APEC Business Advisory Council for Papua New Guinea (ABAC). He was awarded Knights Bachelor in the 2015 Queen's Birthday Honours List for services to sport, tourism, banking and to the community in Papua New Guinea. *Ordinary shares, fully paid: nil*

### Dr EJ Doyle, BMath (Hons), MMath, PhD, FAICD, Non-Executive, 61 years

Dr Doyle joined the Board on 18 February 2016. Dr Doyle's career spans the building materials, water and industrials sectors, including senior operational roles at BHP Limited and CSR Limited and culminating in her appointment as CEO of CSR's Panel's Division. She is a director of GPT Group Limited, Boral Limited, Hunter Research Foundation and Knights Rugby League Pty Ltd. Dr Doyle is a member of the NSW Council of the Australian Institute of Company Directors. She has previously served on a number of other boards, including Deputy Chairman of CSIRO and Chairman of Port Waratah Coal Services. *Ordinary shares, fully paid: 30,800*

### Dr AJ Kantsler, BSc (Hons), PhD, GAICD, FTSE, Non-Executive, 65 years

Dr Kantsler joined the Board on 19 July 2010. Dr Kantsler worked with Woodside Petroleum for 15 years, where he was Executive Vice President Exploration and New Ventures from 1995 to 2009 and Executive Vice President Health, Safety and Security. Before joining Woodside Petroleum, Dr Kantsler had extensive experience with the Shell Group of Companies working in various exploration roles in Australia and internationally. Dr Kantsler has been a director of Forte Consolidated Limited and Savcor Group Limited. He was also Councillor and Director of the Australian Petroleum Production and Exploration Association (APPEA) for 15 years, where, as well as being Chairman of several of APPEA's committees, he was Chairman from 2000 to 2002. Dr Kantsler was also a founding member of the Australian Government's Council for Australian Arab Relations. He is Managing Director of Transform Exploration Pty Ltd, President of the Chamber of Commerce and Industry, WA and a Director of the Australian Chamber of Commerce and Industry. *Ordinary shares, fully paid: 45,736*

### Mr B Philemon, Non-Executive, 71 years

Mr Philemon joined the Board on 5 November 2012. Mr Philemon is acknowledged as one of Papua New Guinea's most influential leaders, with distinguished careers in both business and public service. Mr Philemon's career highlights include serving as Chairman of Air Nuigini and holding a number of ministerial posts in PNG Government, including Minister of Foreign Affairs and Minister for Finance and Treasury. Mr Philemon served as the member for Lae Open in Government from 1992 until the 2012 elections. Mr Philemon is a director of Highlands Pacific Limited and the Bank of Papua New Guinea. *Ordinary shares, fully paid: 7,241*

# Directors' report *(continued)*

### Mr KW Spence, BSc (Geophysics) (Hons), Non-Executive, 62 years

Mr Spence joined the Board on 9 May 2012. Mr Spence brings over thirty years of oil and gas experience to the Board, having served in senior executive positions with Woodside Petroleum Limited, including Chief Operating Officer and Acting Chief Executive. Mr Spence was with Shell for 18 years prior to Woodside. Mr Spence is Chairman of Geodynamics Limited and Base Resources Limited. He chairs a number of other bodies, including the National Offshore Petroleum Safety and Environmental Management Authority Board. Mr Spence is a director of Independence Group NL and Murray and Roberts Holdings Limited. *Ordinary shares, fully paid: 25,000*

### Dr ZE Switkowski, AO, BSc (Hons), PhD, FAA, FAICD, FTSE, Non-Executive, 68 years

Dr Switkowski joined the Board on 22 November 2010. Dr Switkowski's career highlights include serving as Chief Executive Officer and Managing Director of Telstra, Chief Executive Officer of Optus and Chairman and Managing Director of Kodak (Australasia). Dr Switkowski currently serves as a Director of Tabcorp Limited and Healthscope Limited. He is Chairman of Suncorp Group and NBN Co. He is also Chancellor of the Royal Melbourne Institute of Technology (RMIT University). Dr Switkowski is a former Chairman of the Australian Nuclear Science and Technology Organisation and Opera Australia. He holds a PhD in nuclear physics from the University of Melbourne. Dr Switkowski was awarded Officer in the General Division (AO) in the 2014 Queen's Birthday Honours List for distinguished service to the community, in particular to tertiary education, scientific organisations and the telecommunications sector, to business and, to the arts. *Ordinary shares, fully paid: 201,829*

## GROUP SECRETARY

### Mr SW Gardiner, BEc (Hons), CPA, *58 years*

Mr Gardiner joined Oil Search Limited in 2004, after a twenty year career in corporate finance at two of Australia's largest multinational construction materials companies and a major Australian telecoms company. Mr Gardiner's roles at Oil Search have covered senior corporate finance and corporate services responsibilities. In November 2012 Mr Gardiner was appointed to the position of Chief Financial Officer of Oil Search. Mr Gardiner is also the Group Secretary of Oil Search, a role he has held since May 2009. *Ordinary shares, fully paid: 387,167; Performance Rights: 169,697; Restricted shares: 83,092*

## RESULTS AND REVIEW OF OPERATIONS

| For the half year ended 30 June | 2016 | 2015 | % change |
|---|---|---|---|
| **Production and Sales Data** | | | |
| Production (mmboe[1]) | 14.89 | 14.32 | +4 |
| Sales (mmboe) | 15.17 | 14.45 | +5 |
| Average realised oil and condensate price (US$/bbl[2]) | 41.61 | 56.64 | -27 |
| Average realised LNG and gas price (US$/mmBtu[3]) | 6.09 | 10.19 | -40 |
| | | | |
| **Financial Data ($US million)** | | | |
| Revenue | 580.8 | 863.8 | -33 |
| Production costs | (122.2) | (127.5) | -4 |
| Other operating costs | (83.3) | (87.8) | -5 |
| Profit/(loss) on disposal of non-current assets | - | (5.6) | N.M[4] |
| Other income | 2.1 | 1.3 | +62 |
| **EBITDAX[5]** | **377.4** | **644.1** | **-41** |
| Depreciation | (214.2) | (200.1) | +7 |
| Exploration costs expensed | (18.9) | (34.5) | -45 |
| Net finance costs | (96.3) | (92.0) | +5 |
| **Profit before tax** | **48.0** | **317.5** | **-85** |
| Taxation | (22.4) | (90.0) | -75 |
| **Net profit after tax** | **25.6** | **227.5** | **-89** |
| **Net debt** | **3,304.4** | **3,443.0** | **-4** |

Note: Numbers may not add due to rounding.

#### *Production and Revenue*

Total production in the first half of 2016 was 14.89 mmboe, or 4% higher than in the corresponding period in 2015 (14.32 mmboe).

Total revenue of US$580.8 million was 33% lower than the prior period. LNG and gas delivered volumes for the first half of 2016 were 58,536 billion Btu, 5% higher than in the prior period, and included the delivery of 53 cargoes of LNG (2015: 52 cargoes). The significant decrease in sales revenue during the first half of 2016 was due to lower average realised LNG and gas prices, partially offset by higher sales volumes.

Oil and condensate delivered volumes for the first half of 2016 totalled 4.45 million barrels (mmbbl), 3% higher than the 4.33 mmbbl for the corresponding period in 2015, due to higher sales volumes for PNG LNG condensate and PNG oil.

1 mmboe = million barrels of oil equivalent. 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. Note that prior year figures have not been restated.
2 bbl = barrel of oil.
3 mmBtu = million ($10^6$) British thermal units.
4 N.M = not meaningful.
5 EBITDAX (earnings before interest, tax, depreciation, impairment and exploration) is a non-IFRS measure that is presented to provide a more meaningful understanding of Oil Search's financial performance. This non-IFRS financial information is derived from the financial statements, which have been subject to review by the Group's auditor.

## Directors' report *(continued)*

### *Production and Revenue (continued)*

Other revenue, which consists mainly of rig revenue, electricity, refinery and naphtha sales and infrastructure tariffs, decreased to US$29.1 million in the first half of 2016 from US$35.6 million over the corresponding period in 2015. This was predominantly due to lower rig income and lower average realised prices for naphtha and refinery sales, partially offset by higher infrastructure tariffs and electricity sales from the PNG LNG Project.

The average oil and condensate price realised during the half-year was US$41.61 per barrel, 27% lower than in the prior period, reflecting the lower spot oil prices during the first half of 2016 in comparison to the corresponding period in 2015. The average price realised for LNG and gas sales declined 40% to US$6.09 per mmBtu, with the larger decrease compared to oil prices due to the lag between LNG contract pricing terms and spot oil prices, which increased during the latter part of the first half of 2016 due to a tightening in global oil supply. The company did not establish any oil hedges during the period and remains unhedged to oil price movements.

### *Production and other operating costs*

Production costs decreased from US$127.5 million in the first half of 2015 to US$122.2 million in the first half of 2016 reflecting the successful implementation of the major cost reduction initiatives defined in the second half of 2015. Production costs on a per barrel of oil equivalent (boe) basis declined from US$8.90 per boe in the first half of 2015 to US$8.21 per boe.

| | **Production costs** | |
|---|---|---|
| **US$ million** | **2016** | **2015** |
| PNG LNG | 72.1 | 73.6 |
| PNG oil and gas | 50.1 | 53.9 |
| | **122.2** | **127.5** |

PNG LNG production unit costs on a per boe basis were US$6.34, 6% lower than the prior period, which reflected the PNG LNG Project producing well above nameplate capacity. PNG oil and gas unit production costs per boe for the first half of 2016 were US$14.25, 11% lower than in the prior period primarily due to cost reduction initiatives.

Other operating costs decreased from US$87.8 million in the first half of 2015 to US$83.3 million in the first half of 2016 primarily due to lower selling and distribution, corporate, and gas purchase costs and a decrease in royalties and levies mainly due to lower realised prices, partially offset by costs related to PNG power projects, transaction costs related to the proposed InterOil acquisition and inventory movements.

### *Depreciation*

Depreciation expense increased from US$200.1 million in the first half of 2015 to $214.2 million in the first half of 2016.

Depreciation related to the producing assets increased by US$13.2 million to US$203.6 million in the first half of 2016 due to higher overall production from the PNG LNG Project and operated oil and gas assets, and slightly higher depreciation rates in the first half of 2016. On a cost per boe produced basis, the average depreciation rate for the producing assets in the first half of 2016 was US$13.68 per boe, compared to the first half of 2015 rate of US$13.31 per boe.

Depreciation on other plant and equipment increased by US$0.9 million to US$10.6 million in the first half year of 2016, mainly driven by the introduction of a new LNG tanker in May 2016 and a full half year of service for the existing LNG tanker, both of which are accounted for as finance leases.

### *Exploration costs expensed*

In line with Oil Search's successful efforts accounting policy, all costs associated with unsuccessful drilling, seismic work and other support costs related to exploration activity were expensed during the half-year and resulted in a pre-tax charge of US$18.9 million. This included US$3.4 million attributable to the Strickland 2 well.

The remaining exploration costs expensed consisted of seismic, geological, geophysical and general and administration expenses.

### *Net finance costs*

Net finance costs of US$96.3 million in the first half of 2016 were US$4.3 million higher than the prior year, primarily due to a slight increase in interest expense for the PNG LNG Project financing and the new finance lease for the PNG LNG marine vessel.

### *Taxation*

Tax expense on statutory profit in the first half of 2016 was US$22.4 million, compared to US$90.0 million in the corresponding period in 2015. This resulted in an effective tax rate of 46.8%, significantly higher than in the prior period, primarily due to one-off non-deductible costs, including InterOil acquisition-related expenses, business development costs and adjustments to restoration provisions.

## Summary of Financial Position

### *Net debt*

As at 30 June 2016, Oil Search had net debt (total borrowings less cash) of US$3,304.4 million, which was US$13.8 million lower than the net debt position of US$3,318.2 million as at 31 December 2015. A reconciliation of the movement in net debt during the year is as follows:

| | US$ million |
|---|---|
| **Net debt at 31 December 2015** | **3,318.2** |
| Net repayment – PNG LNG Project finance facility | (144.5) |
| Decrease in cash balances | 130.8 |
| **Net movement in 2016** | **(13.8)** |
| **Net debt at 30 June 2016** | **3,304.4** |

Note: Numbers may not add due to rounding.

At 30 June 2016, the Group had US$4,084.1 million drawn under the PNG LNG Project finance facility.

Oil Search remained in a strong liquidity position at 30 June 2016, with cash of US$779.7 million, including $262.1 million in PNG LNG escrow accounts, and US$748 million available under the Group's corporate revolving facilities.

### *Investment expenditure*

Total investment expenditure for the first half of 2016 was US$116.9 million. The categories of investment expenditure for the period were:

| US$ million | 30 June 2016 |
|---|---|
| Exploration and evaluation [(1)] | 93.5 |
| Development - PNG LNG Project | 6.0 |
| Producing assets | 15.4 |
| Other plant and equipment [(2)] | 2.0 |
| **Total capital expenditure** | **116.9** |

[(1)] Includes US$18.9 million (2015: US$50.9 million) of exploration costs expensed during the year.
[(2)] Excludes finance leased assets that are recognised as Other plant and equipment.

Exploration and evaluation expenditure for first half of 2016 was US$93.5 million. This expenditure primarily comprised appraisal drilling and evaluation of the PRL 15 Antelope wells and related pre-FEED activities, site preparation work and rig mobilisation for the Muruk well in PPL 402 and the Strickland 1 and 2 exploration wells in PPL 269. The Strickland 2 exploration well target was found to be water bearing and the well costs were expensed in the period.

Oil Search's share of PNG LNG Project development costs were US$6.0 million during the first half of 2016.

Expenditure on producing assets totalled US$15.4 million for the first half of 2016, mainly related to sustaining capital.

## Operating cash flows

| Year to 30 June (US$ million) | 2016 | 2015 | % change |
|---|---|---|---|
| Net receipts | 348.0 | 638.5 | -45 |
| Net interest paid | (91.7) | (79.3) | 16 |
| Tax paid | (17.1) | (42.4) | -60 |
| **Operating cash flow** | **239.2** | **516.8** | **-54** |
| Net investing cash flow | (160.2) | (318.0) | -50 |
| Net financing cash flow | (209.8) | (316.0) | -34 |
| **Net cash outflow** | **(130.8)** | **(117.2)** | **12** |

Operating cash flow decreased due to lower average realised hydrocarbon prices in the first half of 2016, partially offset by higher sales volumes.

During the first half of 2016, Oil Search's net investing cash flow included expenditures of:

- US$97.4 million on exploration and evaluation;
- US$29.5 million on PNG LNG Project development activities;
- US$27.2 million on production activities; and
- US$1.5 million on other plant and equipment.

The Group distributed US$60.9 million to shareholders by way of the 2015 final dividend during the period. During the first half 2016 borrowings of $144.5 million were repaid under the PNG LNG Project finance facility.

# Directors' report *(continued)*

## SUBSEQUENT EVENTS

***InterOil bid and MOU with Total SA***

In May 2016, Oil Search Limited announced a proposal to acquire 100% of InterOil Corporation ("InterOil") in a transaction that was unanimously approved by the Boards of Oil Search and InterOil. 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.

On 18 July 2016, 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 2016, Oil Search announced that it did not intend to revise its bid. Oil Search has received a US$60 million break fee (of which Total SA is entitled to 20%). Costs related to this transaction have been recognised as 'Other expenses' in the statement of comprehensive income for the half-year ended 30 June 2016.

***Dividends***

On 22 August 2016, the directors approved the payment of an interim unfranked dividend of US 1 cent per ordinary share (2015: US 6 cents interim dividend) to ordinary shareholders in respect of the half-year ended 30 June 2016. The due date for payment is 27 September 2016 to all holders of ordinary shares on the Register of Members on 7 September 2016. The Company's dividend reinvestment plan will remain suspended for the interim dividend. Dividends paid and declared during the year are recorded in note 9 to the financial statements.

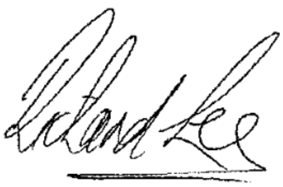
## ROUNDING

The majority of amounts included in this report are rounded to the nearest US$1,000 (where rounding is applicable).

## AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Deloitte Touche Tohmatsu's Independence Declaration, which forms part of this report, is attached on page 8.

Signed in accordance with a resolution of the directors.



**RJ LEE**

**Chairman**

**PR BOTTEN**

**Managing Director**

Sydney, 22 August 2016

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

The Board Directors
Oil Search Limited
Ground Floor, Credit House
Cuthbertson Street, Port Moresby
Papua New Guinea

22 August 2016

Dear Directors,

**Oil Search Limited**

I am pleased to provide the following declaration of independence to the directors of Oil Search Limited.

As lead audit partner for the review of the financial statements of Oil Search Limited for the period ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Code of Ethics for Professional Accountants, issued by the International Ethics Standards Board for Accountants (IESBA) in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Matthew Donaldson
Partner
Chartered Accountants

## Condensed consolidated statement of comprehensive income for the half-year ended 30 June 2016

| | Note | Half-year ended 30 June 2016 $'000 | Half-year ended 30 June 2015 $'000 |
|---|---|---|---|
| Revenue | 3 | **580,778** | 863,757 |
| Cost of sales | 4 | **(382,635)** | (381,385) |
| **Gross profit** | | **198,143** | 482,372 |
| Other income | | **2,134** | 1,286 |
| Other expenses | 5 | **(56,032)** | (74,146) |
| **Profit from operating activities** | | **144,245** | 409,512 |
| Net finance costs | 6 | **(96,260)** | (92,041) |
| **Profit before income tax** | | **47,985** | 317,471 |
| Income tax expense | 7 | **(22,435)** | (89,964) |
| **Net profit after tax** | | **25,550** | 227,507 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified to profit or loss:* | | | |
| Foreign currency translation differences for foreign operations | | **2,010** | (1,399) |
| **Total comprehensive income for the period** | | **27,560** | 226,108 |
| | | **cents** | cents |
| Basic earnings per share | 8 | **1.68** | 14.94 |
| Diluted earnings per share | 8 | **1.67** | 14.90 |

The condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

## Condensed consolidated statement of financial position

| | Note | 30 June 2016 $'000 | 31 December 2015 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | **779,726** | 910,479 |
| Receivables | | **88,795** | 81,074 |
| Inventories | | **110,617** | 136,786 |
| Prepayments | | **9,037** | 13,576 |
| **Total current assets** | | **988,175** | 1,141,915 |
| | | | |
| **Non-current assets** | | | |
| Other assets | | **1,823** | 4,931 |
| Other financial assets | | **110,292** | 104,125 |
| Exploration and evaluation assets | 10 | **1,495,721** | 1,420,651 |
| Oil and gas assets | 11 | **6,925,588** | 7,023,774 |
| Other plant and equipment | 11 | **183,100** | 128,507 |
| Deferred tax assets | | **558,764** | 518,931 |
| **Total non-current assets** | | **9,275,288** | 9,200,919 |
| **Total assets** | | **10,263,463** | 10,342,834 |
| | | | |
| **Current liabilities** | | | |
| Payables | | **124,002** | 214,583 |
| Provisions | | **7,591** | 15,989 |
| Borrowings | | **299,898** | 290,372 |
| Current tax payable | | **61,590** | 55,655 |
| **Total current liabilities** | | **493,081** | 576,599 |
| | | | |
| **Non-current liabilities** | | | |
| Payables | | **17,834** | 18,670 |
| Provisions | | **485,356** | 394,764 |
| Borrowings | | **3,920,481** | 4,012,278 |
| Deferred tax liabilities | | **670,081** | 631,162 |
| **Total non-current liabilities** | | **5,093,752** | 5,056,874 |
| **Total liabilities** | | **5,586,833** | 5,633,473 |
| **Net assets** | | **4,676,630** | 4,709,361 |
| | | | |
| **Shareholders' equity** | | | |
| Share capital | 12 | **3,147,340** | 3,147,340 |
| Reserves | | **(10,444)** | (12,974) |
| Retained earnings | | **1,539,734** | 1,574,995 |
| **Total shareholders' equity** | | **4,676,630** | 4,709,361 |

The condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

## Condensed consolidated statement of cash flows for the half-year ended 30 June 2016

| | Half-year ended 30 June 2016 $'000 | Half-year ended 30 June 2015 $'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Receipts from customers and third parties | **550,196** | 882,950 |
| Payments to suppliers and employees | **(186,479)** | (197,614) |
| Interest received | **3,145** | 1,594 |
| Borrowing costs paid | **(94,884)** | (80,880) |
| Income tax paid | **(17,074)** | (42,386) |
| Payments for exploration and evaluation - seismic, G&A, G&G | **(13,925)** | (34,523) |
| Payments for site restoration | **(1,765)** | (12,333) |
| **Net cash from operating activities** | **239,214** | 516,808 |
| | | |
| **Cash flows from investing activities** | | |
| Payments for other plant and equipment | **(1,470)** | (4,801) |
| Payments for exploration and evaluation expenditure | **(97,417)** | (154,934) |
| Payments for development asset expenditure | **(29,511)** | (80,301) |
| Payments for producing asset expenditure | **(27,236)** | (72,203) |
| Loan to third party in respect of exploration and evaluation | **(4,565)** | (5,809) |
| **Net cash used in investing activities** | **(160,199)** | (318,048) |
| | | |
| **Cash flows from financing activities** | | |
| Dividend payments | **(60,908)** | (182,723) |
| Purchase of treasury shares | **(4,721)** | (8,436) |
| Contributions received for employee shares schemes | **1,051** | 1,887 |
| Proceeds from borrowings | **-** | 149,481 |
| Repayment of borrowings | **(144,543)** | (275,749) |
| Finance lease payments | **(647)** | (430) |
| **Net cash used in financing activities** | **(209,768)** | (315,970) |
| | | |
| Net decrease in cash and cash equivalents | **(130,753)** | (117,210) |
| Cash and cash equivalents at the beginning of the period | **910,479** | 960,166 |
| **Cash and cash equivalents at the end of the period** | **779,726** | 842,956 |

The condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

## Condensed consolidated statement of changes in equity for the half-year ended 30 June 2016

| Consolidated | Share capital $'000 | Foreign currency translation reserve $'000 | Reserve for treasury shares $'000 | Employee equity compensation reserve $'000 | Retained earnings $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2016** | **3,147,340** | **(18,741)** | **(5,391)** | **11,158** | **1,574,995** | **4,709,361** |
| Dividends provided for or paid | - | - | - | - | (60,908) | (60,908) |
| **Total comprehensive income for the period** | | | | | | |
| Net profit after tax for the period | - | - | - | - | 25,550 | 25,550 |
| *Other comprehensive income:* | | | | | | |
| Exchange differences on translation of foreign operations | - | 2,010 | - | - | - | 2,010 |
| Total comprehensive income for the period | - | 2,010 | - | - | 25,550 | 27,560 |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| Transfer of vested shares | - | - | 11,395 | (11,395) | - | - |
| Employee share-based remuneration | - | - | - | 5,241 | - | 5,241 |
| Purchase of treasury shares | - | - | (4,721) | - | - | (4,721) |
| Trust distribution | - | - | - | - | 97 | 97 |
| Total transactions with owners | - | - | 6,674 | (6,154) | 97 | 617 |
| **Balance at 30 June 2016** | **3,147,340** | **(16,731)** | **1,283** | **5,004** | **1,539,734** | **4,676,630** |
| **Balance at 1 January 2015** | **3,147,340** | **(14,523)** | **(8,099)** | **12,236** | **1,888,522** | **5,025,476** |
| Dividends provided for or paid | - | - | - | - | (182,723) | (182,723) |
| **Total comprehensive income for the period** | | | | | | |
| Net profit after tax for the period | - | - | - | - | 227,507 | 227,507 |
| *Other comprehensive income:* | | | | | | |
| Exchange differences on translation of foreign operations | - | (1,399) | - | - | - | (1,399) |
| Total comprehensive income for the period | - | (1,399) | - | - | 227,507 | 226,108 |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| Transfer of vested shares | - | - | 11,277 | (11,277) | - | - |
| Employee share-based remuneration | - | - | - | 4,986 | - | 4,986 |
| Purchase of treasury shares | - | - | (8,436) | - | - | (8,436) |
| Trust distribution | - | - | - | - | 27 | 27 |
| Total transactions with owners | - | - | 2,841 | (6,291) | 27 | (3,423) |
| **Balance at 30 June 2015** | **3,147,340** | **(15,922)** | **(5,258)** | **5,945** | **1,933,333** | **5,065,438** |

The condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

## 1 Significant accounting policies

Oil Search Limited (the 'Company' or 'Oil Search') is incorporated in Papua New Guinea (PNG). The condensed consolidated interim financial report for the half-year ended 30 June 2016 comprises Oil Search Limited and its controlled entities (together, 'the Group').

The condensed consolidated interim financial report was authorised for issue by the Board of Directors on 22 August 2016.

### *(a) Basis of preparation*

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2016 has been prepared in accordance with Accounting Standard IAS 34 Interim Financial Reporting.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 31 December 2015 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the ASX and POMSoX Listing Rules.

The majority of amounts included in this report are rounded to the nearest US$1,000 (where rounding is applicable).

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

## 2 Segment reporting

### (a) Information about reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources. During the period, the Group revised its reportable segments to align with the Group's organisational structure, to reflect the interdependencies between the PNG LNG Project and the producing oil fields as well as to recognise the reduced materiality of activity in the Middle East and North Africa region. The comparative balances have been restated to reflect the current period presentation. The new reportable segments are:

***PNG Business Unit ("PNG BU")***
Development and production including sale of liquefied natural gas, crude oil, natural gas, condensate, naphtha and other refined products from the Group's interest in its operated assets for PNG crude oil and Hides gas-to-electricity operations and from the Group's interest in the PNG LNG Project.

***Exploration***
Exploration and evaluation of crude oil and gas through the Group's licence interests in Papua New Guinea, Republic of Yemen, Republic of Iraq and Tunisian Republic.

***Other***
This segment includes the Group's ownership of drilling rigs, activity related to the Group's contribution to power solutions in PNG and corporate overheads. Net finance costs (excluding the PNG LNG project financing) and income taxes are managed at a Group level.

### (b) Segment information provided to the executive management team

The Group's executive management team evaluates the financial performance of the Group and its segments principally with reference to earnings before interest and tax, and capital expenditure on exploration and evaluation assets, oil and gas assets, and property, plant and equipment.

| | PNG BU | | Exploration | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|
| **$'000** | **30 June 2016** | **30 June 2015** | **30 June 2016** | **30 June 2015** | **30 June 2016** | **30 June 2015** | **30 June 2016** | **30 June 2015** |
| **External revenues** | **567,301** | 845,581 | **-** | **-** | **13,477** | 18,176 | **580,778** | 863,757 |
| Costs of production | **(145,630)** | (156,411) | - | - | **-** | - | **(145,630)** | (156,411) |
| Selling and distribution costs | **(22,063)** | (26,861) | - | - | **(805)** | (516) | **(22,868)** | (27,377) |
| Rig operating costs | **-** | - | - | - | **(4,101)** | (1,430) | **(4,101)** | (1,430) |
| Corporate | **-** | - | - | - | **(23,432)** | (29,781) | **(23,432)** | (29,781) |
| Foreign currency (losses)/gains | **-** | - | - | - | **1,260** | (68) | **1,260** | (68) |
| Other income | **2,134** | 873 | - | - | **-** | 413 | **2,134** | 1,286 |
| Other expenses | **-** | - | **-** | **-** | **(10,787)** | (237) | **(10,787)** | (237) |
| Profit/(loss) on sale of non-current asset | **-** | - | **-** | - | **16** | (5,641) | **16** | (5,641) |
| **EBITDAX** | **401,742** | 663,182 | **-** | **-** | **(24,372)** | (19,084) | **377,370** | 644,098 |
| Depreciation | **(206,114)** | (192,112) | **-** | - | **(8,083)** | (7,981) | **(214,197)** | (200,093) |
| Exploration costs expensed | **-** | - | **(18,928)** | (34,493) | **-** | - | **(18,928)** | (34,493) |
| **EBIT** | **195,628** | 471,070 | **(18,928)** | (34,493) | **(32,455)** | (27,065) | **144,245** | 409,512 |
| Net finance costs | **(87,972)** | (79,847) | | | | | **(96,260)** | (92,041) |
| **Profit before income tax** | | | | | | | **47,985** | 317,471 |
| Income tax expense | | | | | | | **(22,435)** | (89,964) |
| **Net profit after tax** | | | | | | | **25,550** | 227,507 |
| **Capital expenditure** | | | | | | | | |
| Exploration and evaluation assets | **-** | - | **(93,523)** | (165,151) | **-** | - | **(93,523)** | (165,151) |
| Oil and gas assets - development and production | **(21,353)** | (131,849) | **-** | - | **-** | - | **(21,353)** | (131,849) |
| Other plant and equipment | **-** | - | **-** | - | **(1,998)** | (4,609) | **(1,998)** | (4,609) |
| | **(21,353)** | (131,849) | **(93,523)** | (165,151) | **(1,998)** | (4,609) | **(116,874)** | (301,609) |

The difference between capital expenditure disclosed above for the period ended 30 June 2016 and the additions in note 11 relate to finance leased assets recognised during the period that are not included as capital expenditure for management reporting purposes.

***Geographical segments***

The Group operates primarily in Papua New Guinea, but also has activities in the Republic of Yemen, the Republic of Iraq, the Tunisian Republic and Australia.

Production from the designated segments is sold on commodity markets and may be sold to other geographical segments.

In presenting information on the basis of geographical segments, segment revenue and segment assets are based on the location of operating activity.

| | Revenue | | Non-current assets[1] | |
|---|---|---|---|---|
| **$'000** | **Half-year ended 30 June 2016** | **Half-year ended 30 June 2015** | **30 June 2016** | **31 December 2015** |
| PNG | **580,778** | 863,757 | **8,592,519** | 8,560,564 |
| Australia | **-** | - | **14,677** | 17,262 |
| MENA | **-** | - | **109,328** | 104,162 |
| Total | **580,778** | 863,757 | **8,716,524** | 8,681,988 |

[1] Non-current assets exclude deferred tax of US$558.8 million (2015: US$518.9 million).

| | Half-year ended 30 June 2016 $'000 | Half-year ended 30 June 2015 $'000 |
|---|---|---|
| **3 Revenue** | | |
| Liquefied natural gas sales | **358,365** | 573,601 |
| Oil and condensate sales | **177,334** | 229,550 |
| Gas sales | **15,938** | 25,017 |
| Other revenue | **29,141** | 35,589 |
| **Total revenue** | **580,778** | 863,757 |
| **4 Cost of sales** | | |
| *Costs of production:* | | |
| Production costs | **(122,236)** | (127,498) |
| Royalties and levies | **(1,971)** | (7,591) |
| Gas purchases | **(6,486)** | (11,283) |
| Inventory movements | **(14,937)** | (10,039) |
| | **(145,630)** | (156,411) |
| Selling and distribution costs | **(22,868)** | (27,377) |
| Rig operating costs | **(4,101)** | (1,430) |
| *Depreciation:* | | |
| Oil and gas assets | **(203,637)** | (190,435) |
| Marine assets | **(2,477)** | (1,677) |
| Rig assets | **(3,922)** | (4,055) |
| **Total cost of sales** | **(382,635)** | (381,385) |
| **5 Other expenses** | | |
| Corporate | **(23,432)** | (29,781) |
| Exploration costs expensed | **(18,928)** | (34,493) |
| Power costs expensed | **(5,119)** | - |
| Depreciation | **(4,161)** | (3,926) |
| Profit/(loss) on disposal of non-current assets | **16** | (5,641) |
| Foreign currency gain/(loss) | **1,260** | (68) |
| Other | **(5,668)** | (237) |
| **Total other expenses** | **(56,032)** | (74,146) |
| **6 Net finance costs** | | |
| Interest income | **4,986** | 2,992 |
| Borrowing costs | **(96,059)** | (89,794) |
| Unwinding of discount on site restoration | **(5,187)** | (5,239) |
| **Net finance costs** | **(96,260)** | (92,041) |

| | Half-year ended 30 June 2016 $'000 | Half-year ended 30 June 2015 $'000 |
|---|---|---|

## 7 Income tax

| | Half-year ended 30 June 2016 $'000 | Half-year ended 30 June 2015 $'000 |
|---|---|---|
| The major components of tax expenses are: | | |
| Current tax expense | **(3,836)** | (6,768) |
| Adjustments for current tax of prior periods | **1,610** | (226) |
| Deferred tax expense | **(20,209)** | (82,970) |
| **Income tax expense** | **(22,435)** | (89,964) |
| | | |
| **Reconciliation of income tax expense to prima facie tax payable:** | | |
| Profit before tax | **47,985** | 317,471 |
| | | |
| Tax at PNG rate for gas fields and non-oil (30%) | **(14,396)** | (95,241) |
| Remeasurement of deferred tax balances | **(4,462)** | 4,880 |
| Effect of differing tax rates across tax regimes | **(4,260)** | (3,440) |
| | **(23,118)** | (93,801) |
| **Tax effect of items not tax deductible or assessable:** | | |
| Under/(over) provisions in prior periods | **1,610** | (226) |
| Other non-temporary differences | **-** | (250) |
| Non-deductible expenditure | **(7,805)** | 284 |
| Non-assessable income | **973** | 4,017 |
| Previously unrecognised tax losses | **5,899** | - |
| Exempt dividends | **6** | 12 |
| **Income tax expense** | **(22,435)** | (89,964) |
| | | |
| **Deferred tax expense recognised in net profit for each type of temporary difference:** | | |
| Exploration and development | **(52,075)** | (75,485) |
| Other assets | **1,254** | 1,655 |
| Provisions and accruals | **25,086** | (19,992) |
| Other items | **(1,614)** | 590 |
| Tax losses | **7,140** | 10,262 |
| **Deferred tax expense** | **(20,209)** | (82,970) |

## 8 Earnings per share

| | Half-year ended 30 June 2016 cents | Half-year ended 30 June 2015 cents |
|---|---|---|
| Basic earnings per share | **1.68** | 14.94 |
| Diluted earnings per share | **1.67** | 14.90 |

| | No. | No. |
|---|---|---|
| Weighted average number of ordinary shares used for the purposes of calculating diluted earnings per share reconciles to the number used to calculate basic earnings per share as follows: | | |
| Basic earnings per share | **1,522,692,587** | 1,522,692,587 |
| Employee share rights | **1,125,916** | 726,244 |
| Employee performance rights | **1,995,022** | 3,431,693 |
| Diluted earnings per share | **1,525,813,525** | 1,526,850,524 |

| | Half-year ended 30 June 2016 $'000 | Half-year ended 30 June 2015 $'000 |
|---|---|---|

## 9 Dividends paid or proposed

| | | |
|---|---|---|
| Unfranked [1] dividends in respect of the half-year, proposed subsequent to the period end: | | |
| Ordinary dividend [2] | **15,227** | 91,362 |
| | **15,227** | 91,362 |
| Unfranked [1] dividends paid during the period in respect of the previous half-year: | | |
| Ordinary dividend | **60,908** | 121,815 |
| Special dividend | **-** | 60,908 |
| | **60,908** | 182,723 |

[1] As Oil Search Limited is a Papua New Guinea incorporated company, there are no franking credits available on dividends.
[2] On 22 August 2016, the Directors declared an interim unfranked dividend of US 1 cent per ordinary share (2015: US 6 cents interim dividend), to be paid to the holders of ordinary shares on 27 September 2016. The proposed interim dividend for 2016 is payable to all holders of ordinary shares on the Register of Members on 7 September 2016 (record date). The estimated dividends to be paid are US$15,226,926 and have not been included as a liability in these financial statements.

| | 30 June 2016 $'000 | 31 December 2015 $'000 |
|---|---|---|

## 10 Exploration and evaluation assets

### (a) Exploration and evaluation assets

| | | |
|---|---|---|
| At cost | **2,142,185** | 2,067,115 |
| Accumulated impairment | **(646,464)** | (646,464) |
| | **1,495,721** | 1,420,651 |
| Balance at start of period | **1,420,651** | 1,576,668 |
| Additions | **93,523** | 275,699 |
| Exploration costs expensed | **(18,928)** | (50,889) |
| Changes in restoration obligations | **337** | 19,474 |
| Net exchange differences | **138** | (1,030) |
| Impairment [1] | **-** | (399,271) |
| Balance at end of period | **1,495,721** | 1,420,651 |

[1] At 31 December 2015, an impairment loss of US$399.3 million was recognised in respect of the Taza PSC.

## 11 Property, plant and equipment

| | Oil and gas | | | Other plant and equipment | | | |
|---|---|---|---|---|---|---|---|
| | Development | Producing | Total | Marine | Rigs | Corporate | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2016** | | | | | | | |
| At cost | 459 | 8,985,767 | 8,986,226 | 138,020 | 84,479 | 127,626 | 350,125 |
| Accumulated depreciation and impairment | - | (2,060,638) | (2,060,638) | (6,457) | (61,757) | (98,811) | (167,025) |
| | **459** | **6,925,129** | **6,925,588** | **131,563** | **22,722** | **28,815** | **183,100** |
| Balance at 1 January 2016 | 446 | 7,023,328 | 7,023,774 | 71,121 | 26,644 | 30,742 | 128,507 |
| Additions | 5,967 | 15,386 | 21,353 | 62,919 | - | 1,998 | 64,917 |
| Transfers | (5,954) | 5,954 | - | - | - | - | - |
| Disposals | - | - | - | - | - | (10) | (10) |
| Changes in restoration obligations | - | 84,098 | 84,098 | - | - | - | - |
| Net exchange differences | - | - | - | - | - | 246 | 246 |
| Depreciation | - | (203,637) | (203,637) | (2,477) | (3,922) | (4,161) | (10,560) |
| **Balance at 30 June 2016** | **459** | **6,925,129** | **6,925,588** | **131,563** | **22,722** | **28,815** | **183,100** |
| **2015** | | | | | | | |
| At cost | 446 | 8,880,329 | 8,880,775 | 75,101 | 84,479 | 125,392 | 284,972 |
| Accumulated depreciation and impairment | - | (1,857,001) | (1,857,001) | (3,980) | (57,835) | (94,650) | (156,465) |
| | **446** | **7,023,328** | **7,023,774** | **71,121** | **26,644** | **30,742** | **128,507** |
| Balance at 1 January 2015 | 143,320 | 7,038,824 | 7,182,144 | 8,653 | 34,765 | 29,648 | 73,066 |
| Additions | 135,211 | 111,830 | 247,041 | 66,098 | - | 16,438 | 82,536 |
| Transfers | (278,085) | 278,085 | - | - | - | - | - |
| Disposals | - | - | - | - | - | (5,528) | (5,528) |
| Changes in restoration obligations | - | (17,056) | (17,056) | - | - | (183) | (183) |
| Net exchange differences | - | - | - | - | - | (1,986) | (1,986) |
| Depreciation | - | (388,355) | (388,355) | (3,630) | (8,121) | (7,647) | (19,398) |
| **Balance at 31 December 2015** | **446** | **7,023,328** | **7,023,774** | **71,121** | **26,644** | **30,742** | **128,507** |

| | 30 June 2016 $'000 | 31 December 2015 $'000 |
|---|---|---|
| **12 Share capital and reserves** | | |
| Issued 1,522,692,587 (2015: 1,522,692,587) | | |
| Ordinary shares, fully paid (no par value) | **3,147,340** | 3,147,340 |

## 13 Subsequent events

***InterOil bid and MOU with Total SA***

In May 2016, Oil Search Limited announced a proposal to acquire 100% of InterOil Corporation ("InterOil") in a transaction that was unanimously approved by the Boards of Oil Search and InterOil. 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.

On 18 July 2016, 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 2016, Oil Search announced that it did not intend to revise its bid. Oil Search has received a US$60 million break fee (of which Total SA is entitled to 20%). Costs related to this transaction have been recognised as 'Other expenses' in the statement of comprehensive income for the half-year ended 30 June 2016.

***Dividends***

On 22 August 2016, the directors approved the payment of an interim unfranked dividend of US 1 cent per ordinary share (2015: US 6 cents interim dividend) to ordinary shareholders in respect of the half-year ended 30 June 2016. The due date for payment is 27 September 2016 to all holders of ordinary shares on the Register of Members on 7 September 2016. The Company's dividend reinvestment plan will remain suspended for the interim dividend. Dividends paid and declared during the half-year are recorded in note 9 to the financial statements.

Oil Search

## Directors' Declaration

In accordance with a resolution of the Directors of Oil Search Limited, the Directors declare that:

(a) the attached financial statements and notes thereto of the consolidated entity:

(i) give a true and fair view of the consolidated entity's financial position as at 30 June 2016, and its performance for the half-year ended on that date; and

(ii) comply with International Financial Reporting Standards; and

(iii) the attached financial statements and notes thereto comply with the reporting requirements of the Australian Securities Exchange Listing Rules; and

(b) in the opinion of the Directors, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due or payable.

This declaration has been made after receiving unqualified declarations from the Managing Director and the Chief Financial Officer, that are consistent with requirements under section 295A of the Australian Corporations Act 2001, for the half-year ended 30 June 2016.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

**RJ LEE**

**Chairman**

**PR BOTTEN**

**Managing Director**

Sydney, 22 August 2016

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Deloitte Tower, Level 12
Douglas Street
Port Moresby
PO Box 1275 Port Moresby
National Capital District
Papua New Guinea
Tel: +675 308 7000
Fax: +675 308 7001
www.deloitte.com.pg

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia
DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

# Independent Auditor's Review Report to the members of Oil Search Limited

We have reviewed the accompanying half-year financial report of Oil Search Limited, which comprises the condensed consolidated statement of financial position as at 30 June 2016, and the condensed consolidated statement of comprehensive income, condensed consolidated statement of cash flows, condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 9 to 19.

*Director's Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with International Financial Reporting Standards (including the interpretations of the IFRS Interpretations Committee) and the *Papua New Guinea Companies Act 1997*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with International Standard on Review Engagements ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Papua New Guinea Companies Act 1997* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and its performance for the half-year ended on that date; and complying with International Accounting Standard IAS 34 *Interim Financial Reporting* and the *Papua New Guinea Companies Act 1997*. As the auditor of Oil Search Limited, ISRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Oil Search Limited is not in accordance with the *Papua New Guinea Companies Act 1997*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the half-year ended on that date; and

Deloitte.

(b) complying with International Accounting Standard IAS 34 Interim Financial Reporting and the *Papua New Guinea Companies Act 1997*.

*Other Information*

We have no interest in the company or any relationship other than that of the auditor of the company.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Matthew Donaldson
Partner
Chartered Accountants
Registered Company Auditor in Australia

Sydney, 22 August 2016

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

David Murray
Partner
Chartered Accountants
Registered under the Accountants Act, 1996

Port Moresby, 22 August 2016