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Oil Search

Oil Search Limited
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www.oilsearch.com

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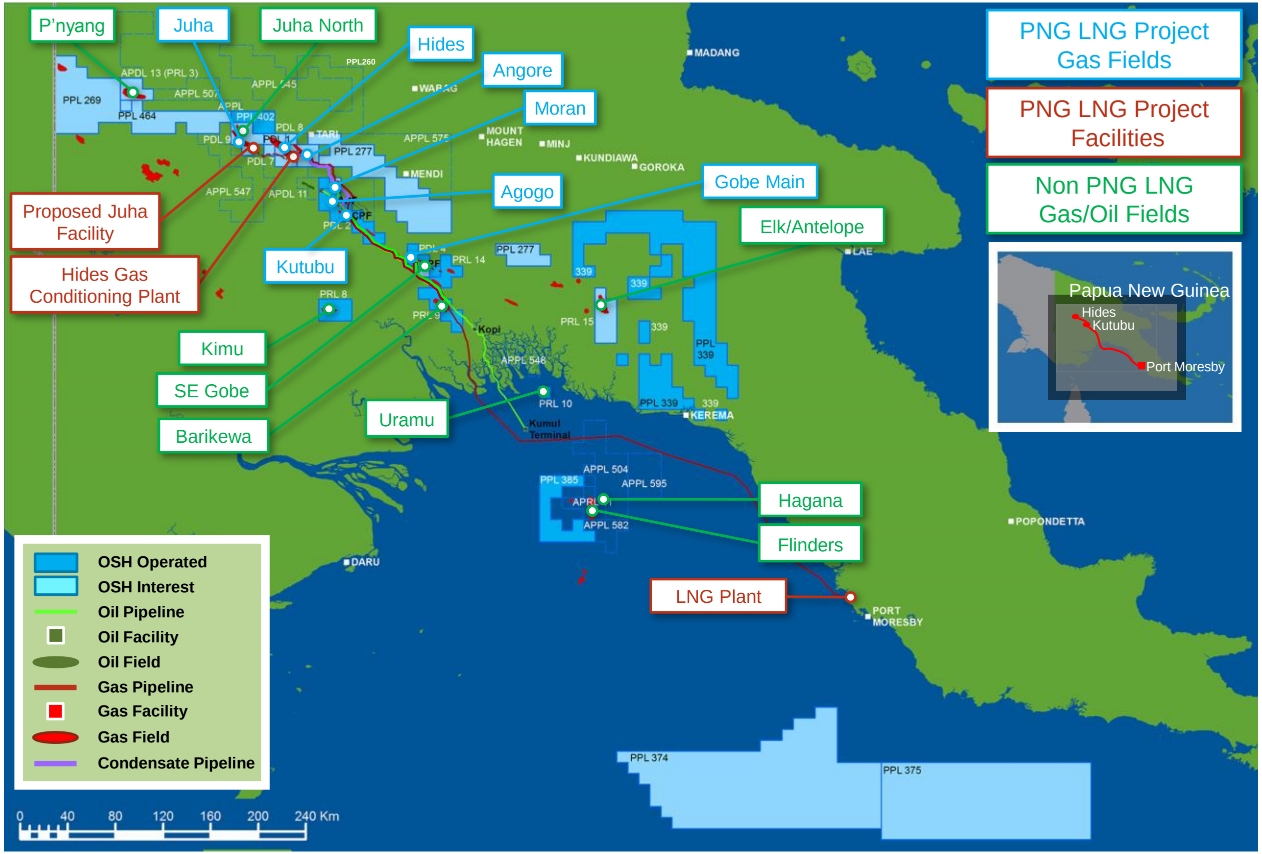
Oil Search overview

- Established in Papua New Guinea (PNG) in 1929
- 29% interest in world-class PNG LNG Project, operated by ExxonMobil, and ~60% interest in all PNG's producing oil fields, operated by Oil Search (OSH)
- Pursuing major LNG growth opportunities – potential PNG LNG expansion and Papua LNG Project. Both among most competitive proposed LNG projects globally
- Opportunity for project cooperation/ integration increased by ExxonMobil acquisition of InterOil (IOC)
- Material gas exploration upside in PNG
- Market capitalisation ~A$10bn (~US$7.5bn)
- Listed on ASX (Share Code: OSH) and POMSOX, plus US ADR programme (Share Code: OISHY)



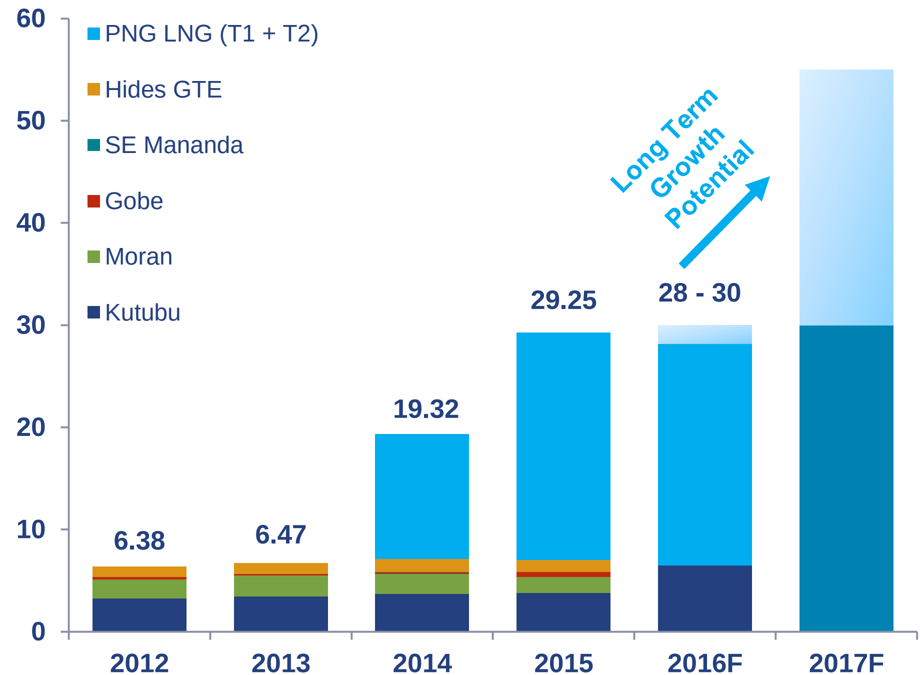
Licence blocks PPL 374 & PPL 375 subject to regulatory approvals

Well positioned for future growth

Oil Search

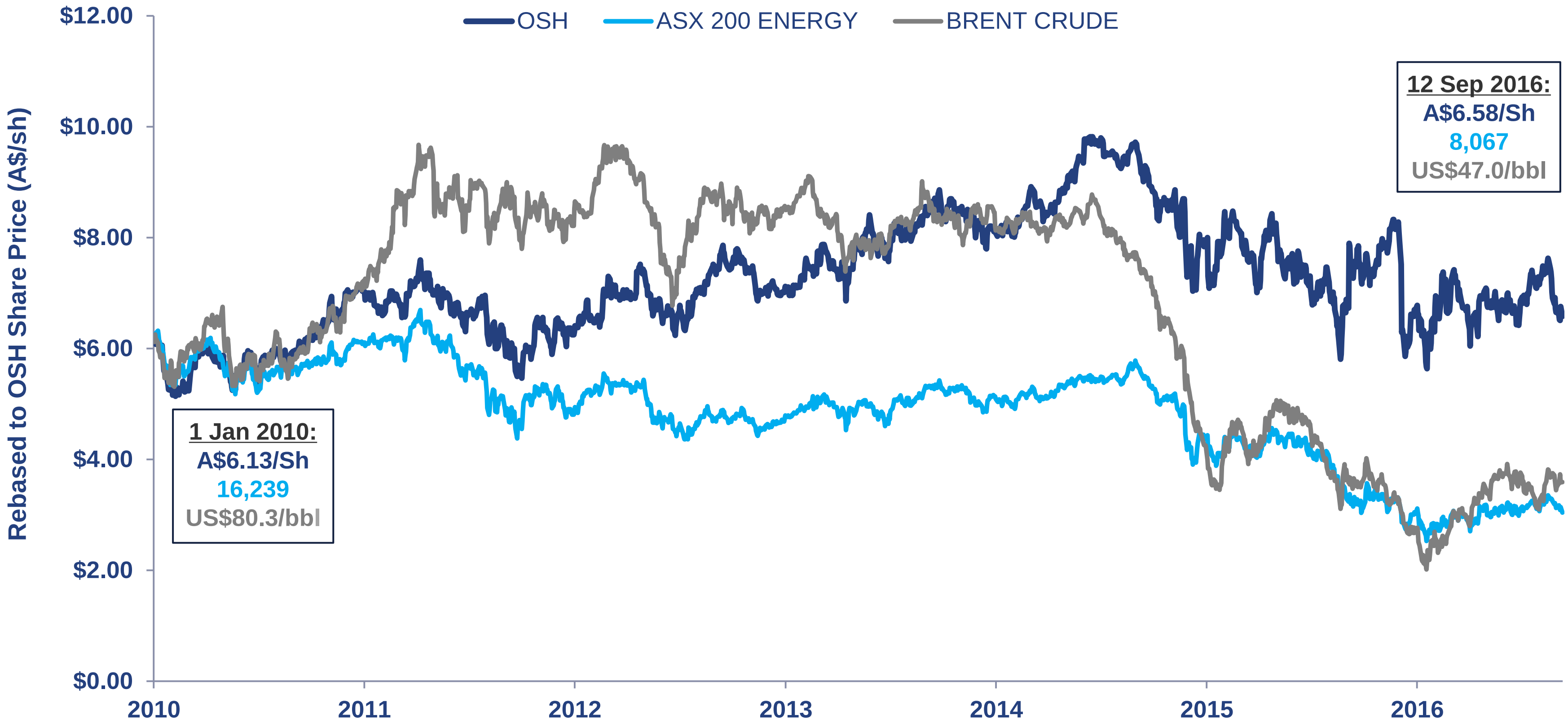
- Strong production base from high quality, low cost assets with low sustaining capital requirements:
  - 2016 production guidance: 28 – 30 mmboe
- Generating positive cash flows:
  - Forecast 2016 cash flow breakeven (opex plus interest) of ~US$17/bbl and ~US$28/bbl after principal repayments and sustaining capex
- Solid balance sheet with liquidity of >US$1.5bn
- Making progress on two high-potential LNG growth opportunities, assessed to have lowest quartile breakeven costs in region:
  - Expansion of PNG LNG through proven additional capacity of existing trains and potential third train development
  - Papua LNG Project, underpinned by Elk-Antelope field
  - Project cooperation/integration likely, making next phase of LNG from PNG even more competitive

OSH Net Production (mmboe)[1,2]



1. LNG sales products at outlet of plant, post fuel, flare and shrinkage
2. Gas:oil conversion rate from 2014 onwards: 5,100 scf = 1 barrel of oil equivalent (prior 6,000 scf/boe)

Core strategies have delivered long term share price stability in volatile market



Source: Bloomberg as at 12 September 2016

Robust balance sheet to fund development activities in capital efficient manner

» 1H16 production costs of US$8.21/boe:
  – PNG LNG – US$6.34/boe (US$6.73/boe in 1H15)
  – Operated oil and gas: US$14.25/boe (US$15.96/boe in 1H15)

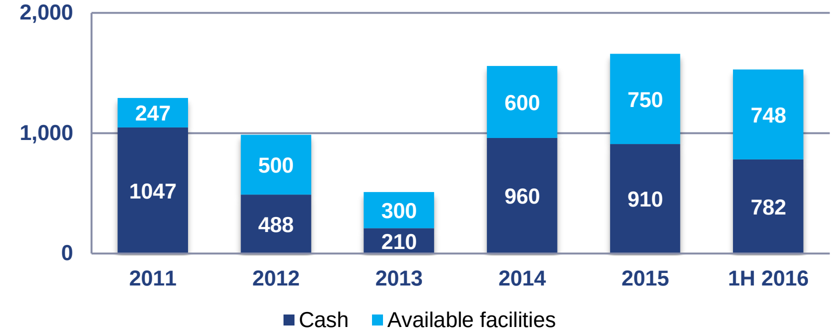
» Cash operating costs, including core corporate costs, of US$10.45/boe for consolidated operations

» Operating cash flow breakeven (opex plus interest) in 1H16 <US$17/boe and <US$28/boe after sustaining capex and principal repayments

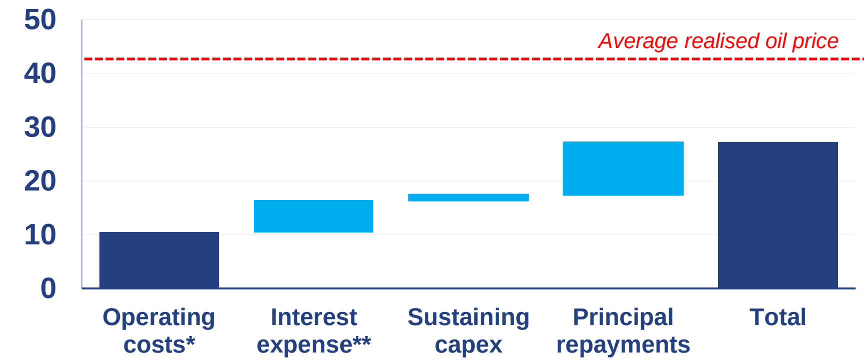
» Liquidity of US$1.53bn:
  – Cash of US$780m
  – Undrawn facilities of US$748m

» Debt of US$4.08 billion (OSH share of PNG LNG debt):
  – Principal repayments paid semi-annually in June and December over next 10.5 years (mortgage-style profile)

Liquidity (US$m)



Cash flow break-even analysis (US$/boe)



* Excludes Hides GTE gas purchase costs, inventory movements, donations, IOC acquisition costs, power expense and rig operating costs
** Includes interest from finance leases

PNG LNG Project continues to produce above nameplate

- Annualised production in 1H16 of ~7.7 MTPA, compared to nameplate capacity of 6.9 MTPA:
  - Results achieved despite scheduled rate reduction for maintenance in April and unplanned shutdown in May
- 53 LNG cargoes delivered in 1H16, comprising 45 sold under long term contract, with contract offtake at plateau levels, and 8 spot
- Consistent demand for spot volumes, particularly from Japan, reflecting:
  - High heating value gas – well suited to Asian reticulation network
  - Geographical proximity
  - Reliability
- Strong upstream contribution from OSH:
  - 24.1 bcf from Associated Gas fields
  - 5.6 bcf delivered from SE Gobe as third party sales
- 1H16 opex and capex both below operator budget
- Excellent safety performance

Bid for InterOil (IOC) and MoU with Total

» In May, OSH announced agreed bid for IOC and MOU with TOT
» In July, IOC board changed recommendation to pursue transaction with ExxonMobil
» OSH decided it was not in best interests of shareholders to revise offer. Basis for decision:
  – Opportunity for cooperation and/or integration maximised by ExxonMobil having material equity interest in Elk-Antelope
  – Value accretion for shareholders maximised by realising benefits of cooperation and/or integration through existing 29% interest in PNG LNG and 23% interest in Papua LNG, without dilution and acquisition risk
  – Achieves OSH's key pre-bid objectives
  – ExxonMobil bid underscores OSH's view on PRL 15 resource quality and value
» US$60m break fee received, shared 80:20 between OSH and Total. More than covers costs associated with offer
» OSH and TOT mutually agreed to terminate MoU (including termination of exclusivity provisions)
» OSH bid provided catalyst for potential LNG project consolidation in PNG

Delivering OSH's gas strategy: two new LNG trains in PNG with further expansion upside

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- Monetising discovered resources:
  - Antelope certification plus P'nyang resource has confirmed combined gas resource of >6 tcf of proven contingent (1C) and ~10 tcf of proven and probable contingent (2C) resource
  - PNG LNG 1P/2P recertification underway
- Maximising cooperation/integration:
  - Key driver for InterOil bid and MOU with Total in 1H16
  - ExxonMobil bid for IOC substantially increases likelihood of integration and optimising benefits
- Driving lowest quartile costs:
  - PNG projects in lowest quartile for costs globally
  - Coordinated development further enhances economics
  - OSH well positioned to play key role to ensure optimum development
- Long term sustainable growth:
  - Multiple exploration opportunities being prioritised to supply further gas for LNG

Resource certainty: ~10 tcf in P'nyang and Elk-Antelope underpins at least two trains

- Foundation PNG LNG fields recertification:
  - Potential to sustain PNG LNG increased capacity
- ~ 10 tcf of 2C resource in Elk-Antelope & P'nyang:
  - Certification completed in July estimated average of 6.43 tcf 2C resource at Elk-Antelope, similar to OSH internal estimate of ~6.5 tcf
  - P'nyang 2C resource upgraded to 3.5 tcf
  - Combined P'nyang and Antelope resource can underwrite two x 4 MTPA train integrated development
- >6 tcf of 1C resource in Elk-Antelope and P'nyang:
  - Elk-Antelope: 1C – 5.2 tcf (average certification)
  - P'nyang: 1C - 1.1 tcf
  - Sufficient to underpin project financing and LNG marketing
- Near-term gas upside for third expansion train:
  - Antelope 7 (early 4Q16 spud), potential additional 1-2 tcf
  - Muruk (4Q16 spud)
  - P'nyang drilling (2017) and other exploration prospects

2016 Antelope Certification Results Summary

		Recoverable Raw Gas (tcf)		
	Year	Low (1C)	Most Likely (2C)	High (3C)
Gaffney, Cline & Associates	2011	4.3	6.6	10.3
	2013	4.9	7.0	9.7
	2016	5.53	6.80	7.57
NSAI NETHERLAND, SEWELL & ASSOCIATES, INC. WORLDWIDE PETROLEUM CONSULTANTS	2016	4.80	6.06	8.11
Average	2016	5.17	6.43	7.84

Potential capex savings of US$2-3 bn and opex savings of US$125m pa (OSH estimate) through infrastructure sharing

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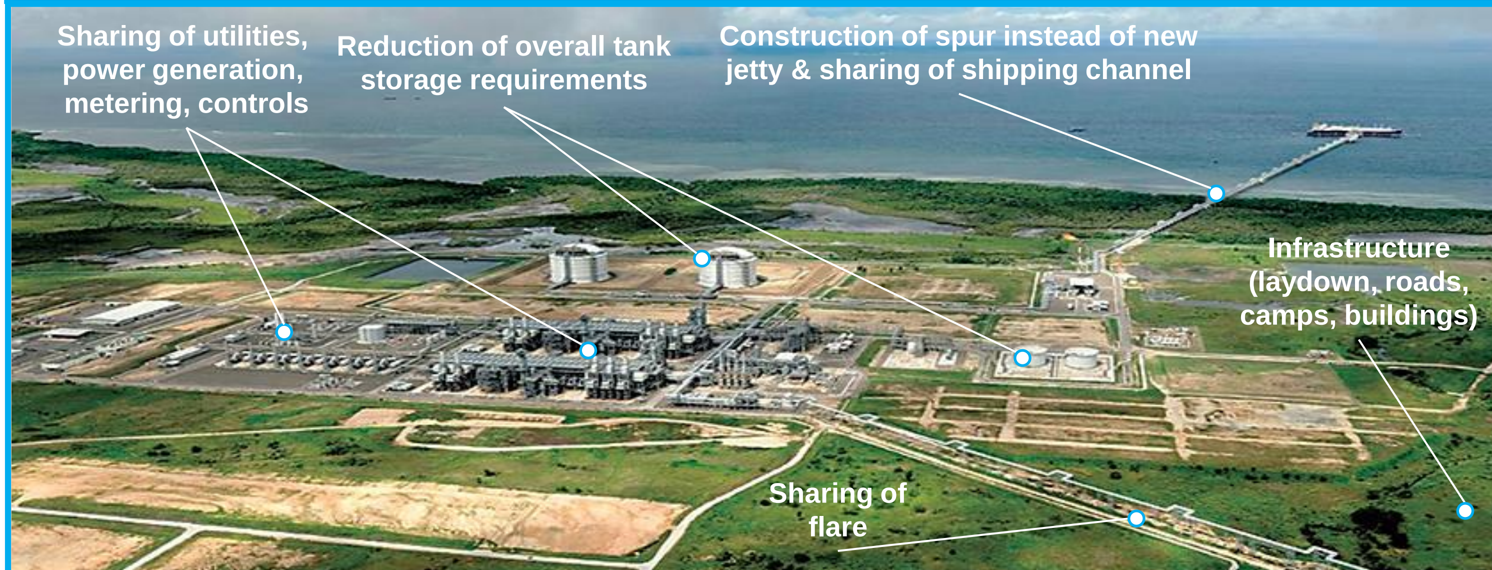

- Potential additional savings in:
  - PMT/Owner's costs
  - Site preparation
  - Surveys
  - Upstream synergies
  - Schedule acceleration
- ExxonMobil and Total have expressed desire to explore downstream integration between projects
- PNG Government a major beneficiary of cost-effective and timely development, given joint equity interests

"ExxonMobil will work with co-venturers and the government to evaluate processing of gas from the Elk-Antelope field by expanding the PNG LNG Project. This would take advantage of synergies offered by expansion of an existing project to realize time and cost reductions that would benefit the PNG Treasury, the government's holding in Oil Search, other shareholders and landowners."

Source: ExxonMobil news release of intention to acquire InterOil, 21 July 2016

"Total, as operator of PRL15, is committed to cooperate with the PNG LNG Project in order to maximize the value of the Elk and Antelope fields for the benefit of the country of Papua New Guinea and the shareholders of PRL 15."

Source: Total SA media statement regarding InterOil assets, 20 July 2016

Image from ExxonMobil http://corporate.exxonmobil.com/en/company/multimedia/the-lamp/reputation-for-excellence

Commercial models to deliver project integration

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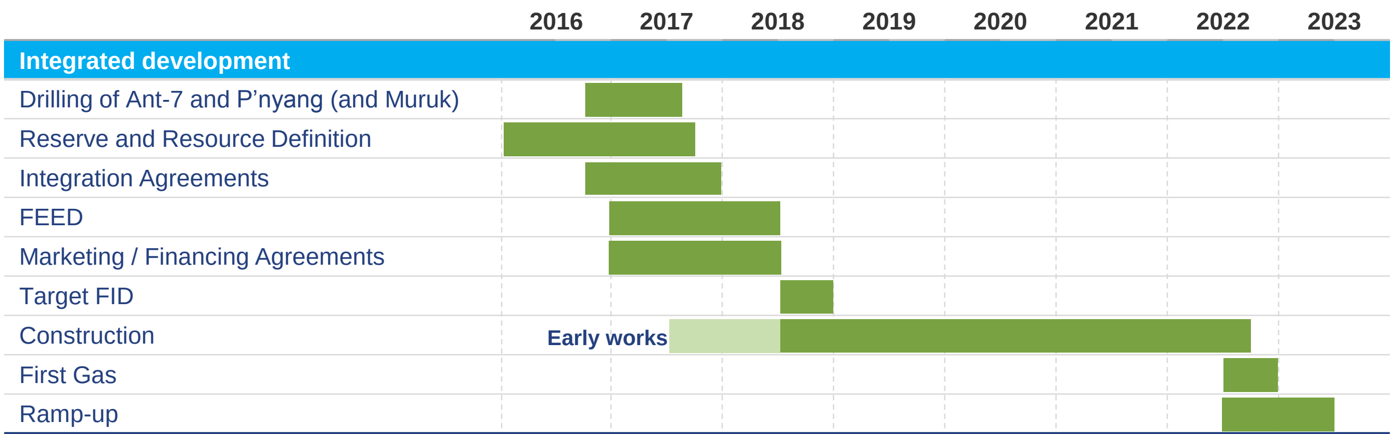
- OSH expects project integration could involve:
  - Two new ~4 MTPA trains constructed together at existing PNG LNG site, operated by ExxonMobil, operational 2022/23
  - Trains underpinned by ~10 tcf of 2C resource from P'nyang and Elk-Antelope, with resource upside for possible further train from planned drilling
  - Operations optimised across four+ trains for next 40 years
  - Land available for additional expansion
- Various commercial models can be applied to ensure fair sharing of significantly increased value between P'nyang, Elk-Antelope and PNG LNG owners. Examples are:
  - Full unitisation of upstream fields/new downstream infrastructure, with tariff paid to existing facility owners
  - Separate upstream projects/new downstream infrastructure, with tariff paid to existing facility owners
  - Separate upstream projects with existing facility owners investing in new downstream infrastructure and receiving material tariff
  - OSH assessing optimal development options in its Strategy Refresh
- Project financing and LNG marketing will be important considerations for commercial structure selected
- Numerous multi-train global analogues of successful LNG integration, involving both ExxonMobil and Total
- Integrated development offers material capex/opex savings and schedule acceleration which will benefit all stakeholders

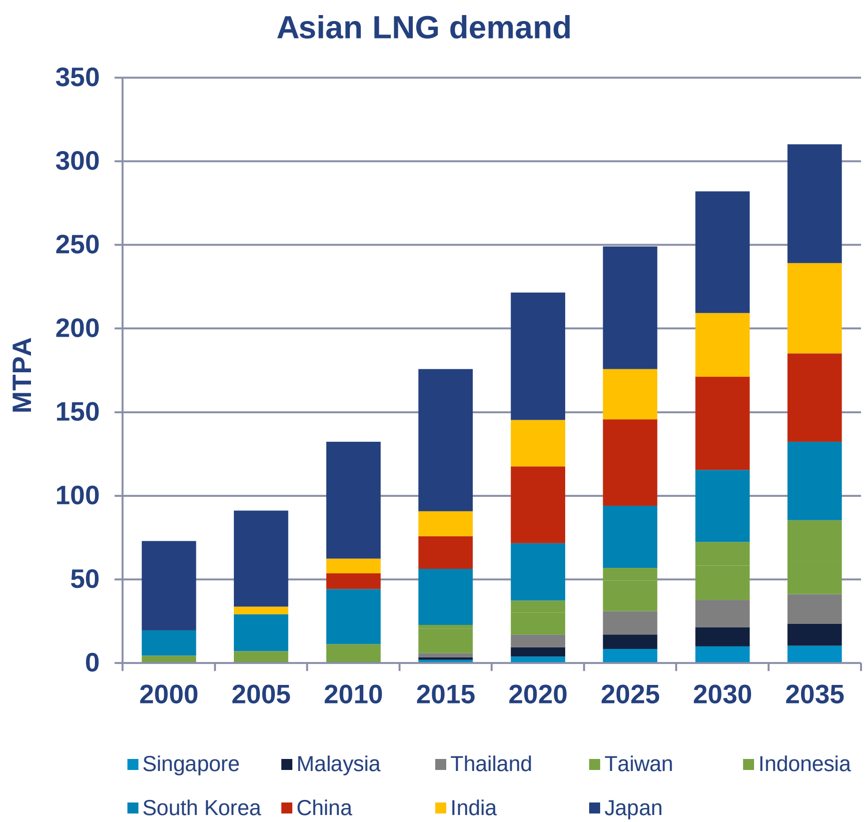
Indicative timetable for integrated development



Note: Indicative only, subject to change dependent on development concept selected, JV and Government approvals

- » Proven resource base may allow for material early works to protect schedule
- » Replicated downstream train design should shorten FEED and construction periods
- » Integrated development could potentially accelerate first gas from Papua LNG by ~1 year

Material LNG demand growth in quality Asian markets



Source: Wood Mackenzie July 2016

- » Global LNG demand growth forecast to continue to grow:
  - ExxonMobil believes LNG market will double by 2040
- » Regional market in Asia anticipated to grow by >100 MTPA by 2030, with current oversupply tightening by 2022/23
- » In addition, >80 MTPA of existing NE Asia LNG contracts expire next decade
- » LNG supply from PNG:
  - Close proximity to Asian markets
  - PNG LNG Project has proven PNG as reliable supplier
  - Higher heating value LNG anticipated to continue to command price premium
  - New trains in PNG globally very competitive with other potential new supply:
  - Gas resources in NW Highlands and Gulf support two new trains, with line of sight to additional expansion
  - ExxonMobil takeover of IOC increases likelihood of cooperation/integration and enhances PNG’s competitiveness

Exploration/appraisal strategy to target major gas opportunities

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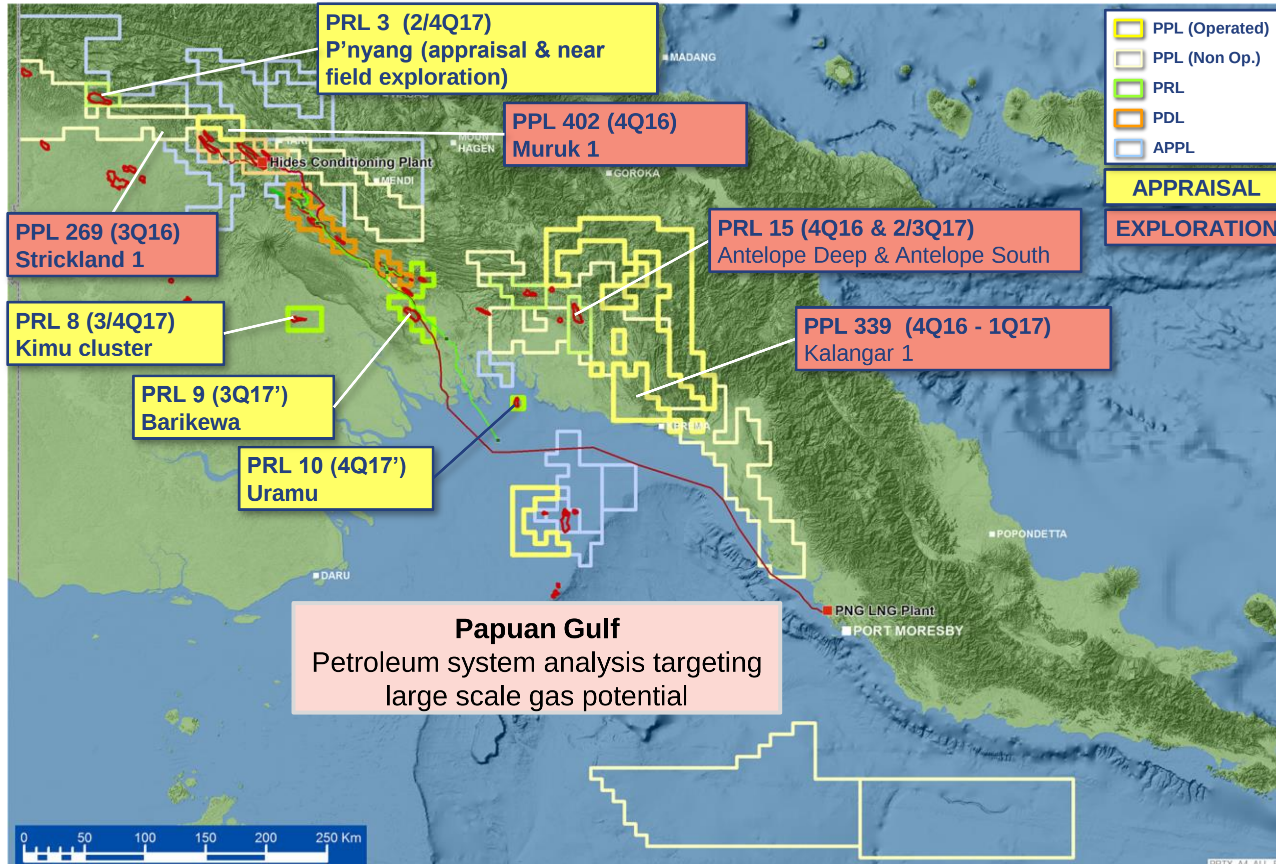
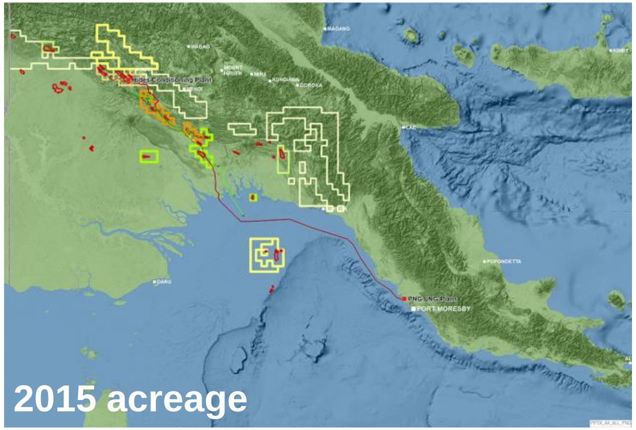
- » 2015/16 study identified high yet-to-find potential:
  - – Yet-to-find estimated at 5-7 billion boe, of which >90% gas
- » Balanced programme to support gas growth:
  - – Near-field, exploration (Muruk, Antelope Deep & Antelope South)
  - – Appraise existing gas discoveries
  - – High potential, multi-tcf frontier areas eg deepwater offshore
- » 2016/17 activities targeting ~6.4* tcf gas (unrisked):
  - – Gulf gas appraisal: 2-3 tcf* mean gross prospective resources
  - – Foreland gas appraisal: up to 1.3 tcf gross 2C
  - – NW Highlands: 2-3 tcf* mean gross prospective resources

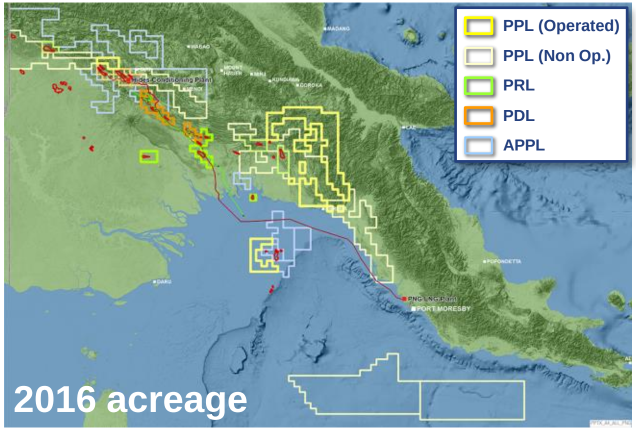


** Mean gross prospective resources plus 2C. Prospective resource P50/best estimate is ~3.1 tcf plus 1.3 tcf gross 2C. Numbers are based on OSH 2016 internal analysis. All estimates are unrisked. Licence blocks PPL 374 & PPL 375 subject to regulatory approvals*

Systematically enhancing portfolio in PNG to support gas growth

- » OSH's exploration portfolio study has led to:
  - 15 new licence applications
  - Identification of new focus area
  - Four potential farm-ins
  - OSH farming out areas with high risk exposure
  - Upgrading resource potential in Kimu, Uramu and Barikewa
- » Programme focused on:
  - Supporting long term growth for LNG expansion
  - Delivering secure and predictable programme
  - Diversifying risk
  - Testing new frontiers with material reserves potential
- » OSH targeting to drill 4-6 wells/year, subject to oil prices





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Strategy refresh

- OSH undertook major review of corporate strategy in 2014 which identified that top quartile returns for shareholders could be delivered by competitive LNG expansion in PNG
- Undertaking focused refresh of strategy:
  - Backdrop of global macro-economic factors – low commodity prices, near term increase in LNG supply and deferral of LNG project FIDs – and PNG specific factors
- Acquisition of InterOil by ExxonMobil will have fundamental influence on LNG expansion in PNG:
  - Likely to result in material added value through integration of downstream elements of PNG LNG and Papua LNG plus additional upstream synergies
  - Reviewing key aspects and options for cooperation, including value/timing, in preparation for discussions with partners and other key stakeholders
- 2H16 timely opportunity to identify key drivers and activities up to FID of next LNG trains and identification of resources for additional expansion
- Refresh expected to be completed in 4Q16

Committed to helping preserve stable PNG operating environment

- Long-standing commitment to social responsibility and sustainable development:
  - Fundamental to maintaining stable operating environment
  - Helps forge strong relationships with Government, communities, other partners
  - The right thing to do
- Sustainable development efforts spearheaded by Oil Search Foundation:
  - Operating since 2011 - Oil Search Health Foundation
  - Relaunched in 2015 to include Leadership and Education, and Women's Protection and Empowerment development streams as well as health
  - OSH recently committed US$56 million over five years (2016 – 2020) to fund Foundation's core operational costs and signature programme
- Other areas of focus delivered directly by OSH:
  - Provision of competitively priced, reliable power
  - Partnerships on infrastructure development through Tax Credit Scheme projects (Manasupe (Marea) House and PNG National Football Stadium)
  - Public-Private Partnership agreement with Government for Hela Regional Hospital (in conjunction with OSH Foundation)
  - Capacity development – education, PNG leadership, new Colombo Plan initiative
- Government strongly supportive of public:private partnership approach used by OSH

Summary

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- Downstream integration of Papua LNG and PNG LNG projects de-risked by ExxonMobil's bid for InterOil:
  - Total and ExxonMobil have expressed willingness to work together to develop optimal outcomes for LNG development
  - Benefits of achieving successful integration expected to be substantial
  - Sufficient resource within Elk-Antelope and P'nyang to support two additional LNG trains
  - Strategy Refresh to review key integration options
- Drilling programme commencing in October with Antelope 7, testing 1-2 tcf of upside in Elk-Antelope, followed by Muruk in 4Q16 and P'nyang drilling in 2017:
  - Together with replenished exploration portfolio, provides line of sight to potential third additional LNG train
- Liquidity position remains robust, with US$1.53 billion of cash and undrawn facilities. Combined with very competitive breakeven cash flows, OSH has strong capacity to fund its growth
- Well placed for future oil price recovery:
  - Strong cash flows from quality assets, with recalibrated cost structure
- OSH's interests in PNG LNG, Papua LNG and exploration portfolio create unprecedented platform for long-term growth, with OSH positioned to deliver shareholders top quartile long-term value growth
- In-country initiatives remain high priority

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