ASX Announcement

Activities for the Quarter ended 31 December 2016

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

24 January 2017

Highlights

	4Q 2016	3Q 2016	% change	FY 2016	FY 2015	% change
Total production (mmboe)	**7.72**	7.63	*1%*	30.24	29.25	*+3%*
Total sales (mmboe)	**7.93**	7.49	*6%*	30.59	28.76	*+6%*
Total revenue (US$m)	**345.6**	309.5	*12%*	1,235.9	1,585.7	*-22%*

- **Production in the fourth quarter of 2016 was 7.72 million barrels of oil equivalent (mmboe). The strong performance during the quarter took 2016 full year production to 30.24 mmboe, 3% higher than production in 2015 and marginally above the top of the 2016 guidance range, as well as being an all-time record for the Company.**
- **Fourth quarter production net to Oil Search from the PNG LNG Project was 6.11 mmboe (26.6 bcf LNG and 0.90 mmbbl liquids), while the operated PNG oil and gas business contributed 1.62 mmboe. The PNG LNG plant continued to operate well above its nameplate capacity, reaching its highest average annualised production rate since production commenced, of approximately 8.3 MTPA, during the quarter.**
- **Product sales in the fourth quarter were 6% higher than in the third quarter, reflecting increased production and timing of liftings. Total sales for the 2016 full year, at 30.59 mmboe, were 6% higher than in 2015 and the highest in Oil Search's history.**
- **Total revenue for the quarter was US$345.6 million, 12% above the third quarter, due to higher liftings combined with the increase in global oil and gas prices. The average realised LNG and gas price was US$7.09/mmBtu, up 10% from the third quarter, while the average realised oil and condensate price increased 5%, to US$49.68/barrel. Total revenue for the 2016 full year was US$1.24 billion.**
- **During the quarter, Oil Search continued discussions with key stakeholders, including ExxonMobil, Total and the PNG Government, on how to deliver cost-effective, coordinated LNG expansion synergies within PNG. Oil Search expects formal talks to take place in early 2017, contingent on the successful completion of ExxonMobil's revised offer to purchase InterOil Corporation and its entry into the PRL 15 Joint Venture.**
- **During the quarter, the Oil Search-operated Muruk 1 exploration well in PPL 402 discovered gas in the primary target, the Early Cretaceous Toro Formation. A sidetrack, Muruk 1 ST1, is currently being drilled, to better define the structure and investigate the downdip extent of hydrocarbons. Located only 21 kilometres northwest of the nearest Hides well, Muruk is an exciting new discovery and, assuming appraisal success, is well placed to be tied into PNG LNG**

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Project infrastructure to support potential LNG expansion. The well results have also reduced some of the risks of a number of prospects in this region.**

- **Netherland Sewell and Associates, Inc (NSAI) is close to finalising its review of the Hides, Angore, Juha and Associated Gas fields. Preliminary indications are that NSAI's estimate of technically recoverable raw gas resources within these fields will increase significantly from its 2009 PNG LNG Project resource certification. Work is underway to assess the impact this would have on Oil Search's share of PNG LNG Project reserves, which, together with a revision to the Company's estimate of resources in the Elk-Antelope fields post drilling, will be reported in the Reserves and Resources Statement, due to be released in February 2017.**
- **In December, the PRL 15 Joint Venture (Elk-Antelope fields) received the formal grant of a five-year extension to the Petroleum Retention Licence. The licence conditions provide the PNG Government and the Joint Venture with a clear pathway and timeframe for development of the fields.**
- **During the quarter, the PRL 3 Joint Venture commenced preparatory work for the construction of the P'nyang South 2 well pad, which is targeted to be drilled in the second half of 2017.**
- **The 2016 Strategy Refresh was successfully concluded during the quarter, with a number of key findings to be implemented in 2017.**
- **At the end of December 2016, Oil Search held cash of US$863 million and had available facilities of US$750 million, taking total liquidity to US$1.61 billion. The Company's total debt was US$3.94 billion, all of which related to the PNG LNG Project finance facility (US$4.08 billion at the end of September 2016).**

COMMENTING ON THE FOURTH QUARTER AND THE 2016 FULL YEAR, OIL SEARCH MANAGING DIRECTOR, PETER BOTTEN, SAID:

"Production in the fourth quarter of 2016 was 7.72 mmboe, one of the highest quarterly outputs ever achieved by the Company. This very pleasing result was driven primarily by the PNG LNG Project, which produced at an annualised rate of approximately 8.3 MTPA during the quarter, up from 8.1 MTPA in the third quarter and 20% higher than the nameplate capacity of 6.9 MTPA. The strong performance in the fourth quarter took Oil Search's total 2016 full year production to 30.24 mmboe, which was an all-time record for the Company and slightly above the top end of our 28 – 30 mmboe guidance range.

The high performance and reliability seen to date from all components of the PNG LNG Project infrastructure are enabling the co-venturers to derive significant additional value from the existing installed capacity and the annualised production rates currently being achieved auger well for 2017.

Our operated production also performed above expectations during 2016, reflecting continued success in actively managing these mature fields. While natural decline is expected in 2017, operated production is now anticipated to be well above the forecasts made 12 months ago.

A key highlight for the quarter was the discovery of gas by the Muruk 1 exploration well in PPL 402, operated by Oil Search in co-venture with ExxonMobil and, following its recent farm-in, Santos. The entire Toro sand interval, which was the primary objective, was gas saturated. As a result of the encouraging Toro penetration, the Joint Venture agreed to drill a sidetrack, Muruk 1 ST1, to better define the structure and investigate the downdip extent of hydrocarbons. Subject to the results of Muruk 1 ST1, which is currently at a depth of 2,856 metres and preparing to drill ahead in an 8-½" directional hole, consideration will be given to drilling an additional sidetrack while the rig is on-site, to further appraise the extent of the discovery. Given that Muruk is only 21 kilometres northwest of the nearest Hides well, it is a prime candidate to be tied into

PNG LNG Project infrastructure, to support potential LNG expansion, if appraisal activities are successful. The Muruk well result has also high-graded the structural trend immediately adjacent to the Muruk structure, highlighting the potential for further upside in the area.

Netherland Sewell and Associates, Inc (NSAI) is now close to completing a review of the Hides, Angore, Juha and Associated Gas fields. Preliminary indications show a material increase in NSAI's estimate of technically recoverable raw gas resources within these fields, when compared to their PNG LNG Project gas resources certification in 2009. Work is underway to assess how this would impact reserves (sales gas), which allows for production, shrinkage, fuel/flare and economic limit/turndown. Updated reserves will be reported in our Reserves and Resources Statement which will be released together with the 2016 full year results in February 2017. The Statement will also include our revised estimate of resources within the Elk-Antelope fields following recent drilling.

A likely upgrade in PNG LNG Project reserves, together with resources in Elk-Antelope, P'nyang and the new Muruk discovery, support Oil Search's view that there is more than sufficient discovered gas resource in PNG to supply not only the proven expanded capacity of PNG LNG Trains 1 and 2, as well as at least two, and possibly three, expansion trains. During the quarter, Oil Search continued discussions with key stakeholders, including ExxonMobil, Total and the PNG Government, on how to deliver the most cost-effective LNG expansion within PNG. We expect this to be achieved, in part, by eliminating the duplication of infrastructure, which would deliver maximum value to all participants. A key element to facilitating a cooperative and coordinated development agenda is the entry of ExxonMobil into the PRL 15 Joint Venture, through its proposed takeover of InterOil Corporation. During the quarter, ExxonMobil's bid for InterOil was stalled by an adverse ruling from the Court of Appeal of Yukon. In December, ExxonMobil announced it had made a revised offer to purchase InterOil, with InterOil shareholders scheduled to vote on the new bid on 14 February 2017. Contingent on the successful completion of this offer, Oil Search anticipates that formal talks regarding cooperation and integration of the next phase of LNG development will commence, on an accelerated basis, in early 2017.

In December, Oil Search concluded a focused refresh of the Company's strategy. This work was set against a backdrop of global macro-economic factors including continued low commodity prices, the changing LNG contracting environment, the possible LNG supply overhang and factors specific to PNG. The review explored the potential options, commercial structures and value that can be delivered by cooperation between the P'nyang and Elk-Antelope joint ventures and the PNG LNG Project, as well as a pathway to growth beyond a two-train LNG expansion, through targeted PNG onshore and offshore exploration activity and business development opportunities. A range of the key recommendations resulting from the review will be implemented through 2017 and beyond."

PRL 3 (P'nyang Field) well pad preparation underway

"During the quarter, the P'nyang Joint Venture approved the construction of the P'nyang South 2 well pad. Preparatory works have commenced, with the well scheduled to be drilled in the second half of 2017. Oil Search will oversee the construction of the well pad on behalf of the venture, with main civil construction expected to commence in April 2017. The primary objective of the P'nyang South 2 well is to increase 1C resource volumes, with recertification of the field planned after drilling.

The Joint Venture continues to work closely with the Department of Petroleum and Energy and other Government agencies to progress the offer of a Petroleum Development Licence and negotiate the terms of a Gas Agreement."

PRL 15 (Elk-Antelope) licence extension granted

"In December, the PRL 15 Joint Venture received the formal grant of a five-year extension of the Petroleum Retention Licence, with terms consistent with the extension application. The licence conditions provide the PNG Government and the PRL 15 Joint Venture with a clear pathway and timeframe to development of the Elk-Antelope fields.

In November, the Antelope 7 appraisal well was spudded, with the objective of providing additional definition of the western flank of the field, currently poorly defined by existing seismic data. The well reached a depth of 2,127 metres before encountering drilling difficulties in the Orubadi Formation. To date, no carbonate reservoir has been encountered in this well, which is in line with Oil Search's pre-drill expectations. A sidetrack is currently being drilled, so that this area of the field and deeper potential reservoir objectives can be fully appraised."

Exit from Taza PSC, Kurdistan

"During the quarter, Oil Search relinquished its interest in the Taza PSC in the Kurdistan Region of Iraq (KRI). In line with our strategy to focus on projects that can generate the best returns to shareholders, the Company elected not to make any further investments at Taza, given the remaining uncertainties on the resource and our assessment that the discovery is not commercial at current oil prices. All operational sites have been remediated and will be returned to the landowners and the Oil Search office in Kurdistan has been closed. The relinquishment will result in the debooking of approximately 20 mmbbl of 2C oil and 6 bcf of 2C gas resources in the 2016 Reserves and Resources statement. In Yemen, completion of the sale of our interest in Block 7 to Petsec Energy Limited is targeted for early 2017. This will signal the Company's exit from the Middle East region at the present time, following a refocus onto the high returning investment opportunities available to us in PNG."

Power activities in PNG

"The development of Oil Search's PNG power business continued during the quarter, with the establishment of a subsidiary, Oil Search Power Holdings Ltd, with a dedicated management team and industry specific management systems. This new entity will be responsible for managing all of Oil Search's power projects in PNG.

The Markham Valley Biomass Project, which entered FEED in the third quarter of 2016, made good progress during the quarter, including the award of an Early Contractor Involvement contract for the preparation of an EPC package for the biomass power station. Work in conjunction with PNG Power Limited (PPL) also progressed. With the support of Oil Search, PPL completed a hook-up trial in Tari which allowed collection of data related to the cost of household connections. The trial demonstrated increased service levels and improved marketing and customer installation times.

A Study Agreement was executed with Kumul Petroleum Holdings Limited in December, in which Kumul will collaborate with Oil Search across a range of potential PNG power projects, including domestic LNG. The domestic LNG concept involves accessing LNG from existing and potential expansion plants or gas for LNG from local sources, for sale to domestic and regional markets."

2016 fourth quarter and annual production and revenue performance

"Production net to Oil Search in the fourth quarter of 2016 was 7.72 mmboe, compared to 7.63 mmboe in the third quarter. During the period, the PNG LNG plant reached record levels of production and reliability, reflecting excellent gas deliverability from the upstream facilities combined with a high level of uptime from the LNG trains. The Oil Search-operated Associated Gas fields continued their strong contribution to the PNG LNG Project, delivering an average of 143 mmscf/day of gas to the LNG feedstock, taking the average contribution for the year to 138 mmscf/day.

28 LNG cargoes were sold during the period, 24 under long term contract and four on the spot market, with two cargoes on the water at year end. Eight cargoes of Kutubu Blend and three naphtha cargoes were also sold in the quarter. For the 2016 full year, 108 LNG cargoes were sold, comprising 89 under long-term contract and 19 on the spot market, with two cargoes on the water at the end of the year. 32 cargoes of Kutubu Blend and 10 naphtha cargoes were also sold in 2016, with 11 mmbbl of PNG LNG Project condensate transported through the Oil Search operated liquids export system.

Total operating revenue for the quarter was US$345.6 million, 12% higher than in the third quarter of 2016, in part driven by a 10% increase in the average LNG and gas price realised and a 5% increase in the average realised oil and condensate price. Total operating revenue for the 2016 full year was US$1,235.9 million, compared to US$1,585.7 million in 2015.

As noted on page 14, total investment expenditure during the quarter was US$44.1 million, including US$23.9 million spent on exploration and evaluation. For the year, US$217.6 million was spent on exploration, development and production investment activities, of which 65%, or US$142.3 million, was on exploration and evaluation activities in PNG (primarily appraisal activity on PRL 15, including the Antelope 6 and Antelope 7 wells, the drilling of the Strickland 1 and 2 wells in PPL 269 and the Muruk 1 well in PPL 402). Total exploration expenditure, at US$151.8 million, was below the updated guidance range of US$165 – 180 million, primarily due to the recognition of proceeds relating to the PPL 402 farm-out to Santos. Development spend for the year of US$24.4 million, related to the PNG LNG and Biomass Power projects, was marginally below guidance (US$25 – 30 million) due to a short delay in FEED entry for the Biomass project, while spend on property, plant and equipment was lower than expected, due to reduced expenditure on other power-related projects.

Total liquidity at the end of 2016 was US$1.61 billion, comprising US$863 million in cash and US$750 million in available committed funding lines."

Guidance for 2016 full year results

"The Company's financial results for the year to 31 December 2016 will be released to the market on 21 February 2017.

Production costs and depreciation and amortisation charges for 2016 are expected to be towards the lower end of the previously advised guidance ranges of US$8 - 10/boe and US$13.50 - 14.50/boe, respectively. Other operating costs (including Hides GTE gas purchase costs, royalties and levies, selling and distribution costs, rig operating costs, inventory movements, InterOil acquisition-related costs of US$29.3 million, corporate, power and other costs) are expected to be slightly above the US$135 - 155 million guidance range, mainly due to inventory movements as a result of high sales volumes delivered in the period. Net financing charges, consisting primarily of PNG LNG Project borrowing costs, are expected to be between US$194 - 198 million. Oil Search's share of the break-fee relating to the InterOil transaction (US$48 million) will be recognised as other income.

As noted on page 14, US$53.2 million of exploration and evaluation expenditure will be expensed. US$43.7 million of this amount is related to PNG activities and US$9.5 million to exploration activities in the Middle East, which are non-deductible for tax purposes.

The effective tax rate for the 2016 full year is expected to be in the range of 50 - 55%. This is substantially higher than the effective tax rate on core profit in the 2015 full year, due to a one-off, non-cash restatement of deferred tax balances as a consequence of a reduction in oil field tax rates from 50% to 30%, following taxation amendments enacted by the PNG Government in December 2016. However, these legislative changes will reduce future income tax liabilities for certain oil fields. Overall, the effective tax rate is expected to normalise towards the statutory tax rate for gas fields, and now also for oil fields, of 30% in subsequent periods.

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

Production guidance for 2017

"Oil Search's 2017 full year production is anticipated to be in the range of 28.5 – 30.5 mmboe, with forecast contributions as follows:

2017 Production Guidance[1]

Oil Search-operated PNG oil and gas (mmboe)[2,3]	5.5 - 6.5
PNG LNG Project:	
LNG (bcf)	101 –104
Power (mmscf)	600 – 650
Liquids (mmbbl)	3.0 - 3.5
Total PNG LNG Project (mmboe) [2]	23.0 - 24.0
Total production (mmboe)	**28.5 – 30.5**

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 SE Gobe gas sales.

Operating and capital cost guidance for 2017 will be provided to the market on 21 February 2017, in the 2016 full year results release."

2016 FOURTH QUARTER PERFORMANCE SUMMARY[1]

Production

	Quarter End			Full Year	
	Dec 2016	Sep 2016	Dec 2015	Dec 2016	Dec 2015
Production data					
PNG LNG Project[2]					
LNG (mmscf)	26,560	25,864	24,805	101,827	96,646
Condensate ('000 bbls)	827	805	798	3,193	3,066
Naphtha ('000 bbls)	71	66	63	258	208
PNG crude oil production ('000 bbls)					
Kutubu	782	807	956	3,279	3,797
Moran	329	365	405	1,643	1,560
SE Mananda	-	-	-		-
Gobe Main	6	7	7	24	30
SE Gobe	17	18	23	76	117
Total oil production ('000 bbls)	1,133	1,197	1,391	5,022	5,505
SE Gobe gas to PNG LNG (mmscf)[3]	863	921	699	3,060	1,886
Hides GTE Refinery Products[4]					
Sales gas (mmscf)	1,448	1,430	1,193	5,573	5,312
Liquids ('000 bbls)	29	29	25	113	112
Total barrels of oil equivalent ('000 boe)[5]	7,722	7,628	7,512	30,245	29,251

1. Numbers may not add due to rounding.
2. Production net of fuel, flare, shrinkage and SE Gobe wet gas.
3. SE Gobe wet gas reported at inlet to plant, inclusive of fuel, flare and naphtha.
4. Hides GTE production is reported on a 100% basis for gas and associated liquids purchased by the Hides (GTE) Project Participant (Oil Search 100%) for processing and sale to the Porgera power station. Sales gas volumes are inclusive of approximately 2% unrecovered process gas.
5. Gas and LNG volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale. Minor variations to the conversion factors may occur over time.

Sales[1]

	Quarter End			Full Year	
	Dec 2016	Sep 2016	Dec 2015	Dec 2016	Dec 2015
Sales data					
PNG LNG Project					
LNG (billion Btu)	30,929	29,110	26,554	118,574	109,570
Condensate ('000 bbls)	910	839	812	3,371	3,038
Naphtha ('000 bbls)	92	59	61	302	237
PNG oil ('000 bbls)	1,243	1,227	1,329	5,097	5,298
Hides GTE					
Gas (billion Btu)[2]	1,554	1,534	1,270	6,012	5,700
Condensate and refined products ('000 bbls)[3]	28	28	28	106	106
Total barrels of oil equivalent ('000 boe)[4]	7,932	7,493	7,084	30,593	28,758
Financial data (US$ million)					
LNG and gas sales	221.2	197.3	234.0	792.9	1,088.3
Oil and condensate sales	107.6	98.2	92.3	383.1	429.5
Other revenue[5]	16.8	14.0	16.6	59.9	67.9
Total operating revenue	345.6	309.5	342.9	1,235.9	1,585.7
Average realised oil and condensate price (US$ per bbl)[6]	49.68	47.24	42.90	45.04	51.36
Average realised LNG and gas price (US$ per mmBtu)	7.09	6.44	8.41	6.63	9.44
Cash (US$m)	862.7	938.9	910.5	862.7	910.5
Debt (US$m)					
PNG LNG financing	3,939.4	4,084.1	4,228.6	3,939.4	4,228.6
Corporate revolving facilities[7]	-	-	-	-	-
Net debt (US$m)	3,076.6	3,145.2	3,318.2	3,076.6	3,318.2

1. Numbers may not add due to rounding.
2. Relates to gas delivered under the Hides GTE Gas Sales Agreement.
3. Relates to refined products delivered under the Hides GTE Gas Sales Agreement or sold in the domestic market and condensate.
4. Gas and LNG volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale. Minor variations to the conversion factors may occur over time.
5. Other revenue consists largely of rig lease income, infrastructure tariffs and electricity, refinery and naphtha sales.
6. Average realised price for Kutubu Blend including PNG LNG condensate.
7. At the end of December 2016, the Company's corporate facilities were undrawn for debt.

PRODUCTION PERFORMANCE

Total fourth quarter production net to Oil Search was 7.72 million barrels of oil equivalent (mmboe), comprising the following:

- LNG produced at the PNG LNG plant, net of fuel, flare, shrinkage and SE Gobe wet gas, of 26,560 mmscf.
- PNG LNG liquids production of 0.90 mmbbl, comprising condensate produced during gas processing at the Hides Gas Conditioning Plant (HGCP) and naphtha at the LNG plant.
- PNG oil fields production and gas and liquids production from the Hides GTE Project of 1.62 mmboe, produced at an average rate (gross) of 34,640 barrels of oil equivalent per day. This included 3,865 mmscf of gas (gross) exported to the PNG LNG Project from the SE Gobe field.

During the period, 28 LNG cargoes were sold, comprising 24 under long-term contract and four on the spot market, with two cargoes on the water at the end of the quarter. Eight cargoes of Kutubu Blend and three naphtha cargoes were also sold in the quarter.

PNG LNG Project (29.0%)

Fourth quarter production from the PNG LNG Project, net to Oil Search, was 6.11 mmboe, comprising 26.6 bcf of LNG and 0.90 mmbbl of liquids. LNG production was 2.7% higher than in the previous quarter.

During the quarter, an average of 143 mmscf/day of gas was supplied to the PNG LNG Project by Oil Search from the Associated Gas (Kutubu and Gobe Main) and SE Gobe fields, representing approximately 13% of the total gas delivered to the LNG plant.

Kutubu (PDL 2 – 60.0%, operator)

Fourth quarter oil production, net to Oil Search, from the Kutubu complex was 0.78 million barrels (mmbbl), 3% lower than in the third quarter of 2016. Gross production rates averaged 14,153 bopd during the period, compared to 14,601 bopd in the third quarter.

Oil production at Agogo was reduced early in the quarter due to a scheduled shutdown at the APF and an unscheduled outage for repairs to the HP compression system. However, the impact was offset by a successful zone change in the ADD 2 well later in the quarter.

Moran Unit (49.5%, based on PDL 2 – 60.0%, PDL 5 – 40.7% and PDL 6 – 71.1%, operator)

Oil Search's share of Moran fourth quarter oil production was 0.33 mmbbl, 10% lower than production in the third quarter. The field produced at a gross average rate of 7,220 bopd.

Moran production was affected by a continuation of cold weather conditions, which resulted in flow restrictions in the field gathering lines, together with a scheduled plant shutdown and an unscheduled outage for repairs to the HP compression system. However, by the end of the quarter the flow restrictions had been resolved and production rates re-established, further boosted by a successful zone change at the Moran 1 ST4 well.

Production from the J Block wells is currently being impacted by the absence of gas injection at the Moran 4X well, which has been shut-in since the first quarter of 2016 for integrity reasons. Planning is underway to complete a well workover in the first half of 2017, in order to reinstate injection.

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

Oil Search's share of oil production from the Gobe fields in the fourth quarter of 2016 was 0.02 mmbbl, which was 11% lower than the previous quarter. The gross average production rate for Gobe Main was 15% lower than in the third quarter, at 612 bopd, while the gross average production rate at SE Gobe was 9% lower than in the previous quarter, at 819 bopd.

Gobe Main and SE Gobe delivered 3.1 bcf and 3.9 bcf of gas, respectively, to the PNG LNG Project during the quarter.

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

Gas produced for the Hides Gas-to-Electricity (GTE) Project in the fourth quarter of 2016 was 1.4 bcf, produced at an average daily rate of 15.7 mmscf/d, compared to the previous quarter's production rate of 15.5 mmscf/d. 29,163 barrels of condensate were also produced, for use within the Hides GTE facility, or transported by truck to the Hides Gas Conditioning Plant or the Central Processing Facility for export.

EXPLORATION AND APPRAISAL ACTIVITY

Gas

Highlands

The PRL 3 Joint Venture approved the construction of the well pad of the P'nyang South 2 well, with preparatory work underway and pad construction expected to commence in April 2017. Rig 103 is presently being moved from Strickland to Kiunga, to minimise mobilisation costs in preparation for the P'nyang South 2 drilling programme. The well is expected to commence drilling in the second half of 2017, after the wet season. Located in the south-east of the P'nyang field in PRL 3 (Oil Search 38.51%), the well is aimed at supporting certification of an increase in the 1C resource, to back potential LNG expansion.

The Muruk 1 exploration well in PPL 402 (OSH 50%, reducing to 37.5% post the Santos farm-in, outlined below) spudded in November 2016 and was drilled through the primary reservoir objective (Early Cretaceous sandstones of the Toro Formation) to a depth of 3,130 metres. Logs were run and samples recovered which confirmed the discovery of a new gas field northwest of the PNG LNG Hides gas field. The well did not encounter a hydrocarbon-water contact. A sidetrack, Muruk 1 ST1, is currently being drilled, to better define the structure and to investigate the downdip extent of hydrocarbons within the Toro Formation.

In line with the Company's strategy to manage exploration risk and expenditure, Oil Search, together with ExxonMobil, signed an agreement to sell a 20% interest in PPL 402 to Barracuda Limited (a subsidiary of Santos). This transaction is consistent with the Company's strategic approach of working with selected partners to balance risk while holding appropriate participation levels in opportunities that have the potential to add material gas resources to the Company's portfolio. The completion of the Sale and Purchase Agreement and Barracuda's acquisition of the licence interest is subject to conditions precedent, including regulatory approvals.

The Strickland 1 ST4 exploration well in PPL 269 (OSH 10%) was drilled to a total depth of 3,926 metres during the quarter. The well encountered a thrust repeat above the primary reservoir objective (the Early Cretaceous sandstone of the Toro Formation) and consequently the Joint Venture decided to plug and abandon the well. The rig was released in late December 2016.

Forelands/Gulf

Onshore in PRL 15 in the Gulf Province (Oil Search – 22.835%), the Antelope 7 appraisal well was spudded in November. The well, which is located west-south-west of Antelope 5, is designed to test for reservoir presence and provide better definition of the western flank of the field. The well reached a depth of 2,127 metres before drilling problems were encountered in the Orubadi Formation. To date, no carbonate reservoir has been encountered, in line with Oil Search's pre-drill expectations. A sidetrack, which is presently at a depth of 1,707 metres, is being drilled in order to complete the appraisal objectives. Contingent on the Antelope 7 results and the integrity of the well bore, the well may be deepened to test the Antelope Deep carbonate exploration target.

New licences in PNG

Towards the end of the quarter, Oil Search was granted a 50% interest in PPL 487 and was offered 100% and 50% interests in APPL 504 and APPL 507, respectively, by the PNG Minister for Petroleum and Energy. In addition, progress was made on a range of other licence applications, in a clear demonstration of the Department of Petroleum and Energy's intent to expedite the granting of new exploration licences and encourage exploration investment in PNG.

Oil

Middle East/North Africa

In the Kurdistan Region of Iraq, the Taza PSC was relinquished and Oil Search is working through the formal relinquishment process with the Ministry of Natural Resources (MNR). All operational sites have been remediated and will be returned to the landowners through the MNR and Oil Search's Kurdistan office has been closed. In Yemen, completion of the sale of the local Oil Search entity, which holds 34% in Block 7, to a subsidiary of Petsec Energy Limited, remains targeted for early 2017.

DRILLING CALENDAR

Subject to joint venture and government approvals, the 2017/2018 exploration and appraisal programme is as follows:

Well	Well type	Licence	OSH interest	Timing
FIRM				
Antelope 7 ST1	Appraisal	PRL 15	22.8%	Drilling ahead
Muruk 1 ST1	Appraisal	PPL 402	37.5%*	Drilling ahead
P'nyang South 2	Appraisal	PRL 3	38.5%	2H 2017
Kalangar 1	Exploration	PPL 339	70.0%	2H 2017
CONTINGENT				
Antelope Deep	Exploration	PRL 15	22.8%	1H 2017
Kimu West	Appraisal	PRL 8	60.7%	2H 2017
Kimu North	Exploration	PRL 8	60.7%	1H 2018
Uramu 2	Appraisal	PRL 10	100.0%	1H 2018
PRL15 well 2	Exploration	PRL15	22.8%	2H 2018
Muruk 2	Appraisal	PDL 9	24.4%	2H 2018
** post farm-down to Barracuda Limited, which is subject to regulatory approvals*				

Note: Wells, location and timing subject to change.

FINANCIAL PERFORMANCE

Sales revenue

During the quarter, 30,929 billion Btu of LNG were sold, 6% higher than sales in the third quarter of 2016. 28 LNG cargoes were sold during the period, compared to 27 cargoes in the third quarter, with two cargoes on the water at the end of the year. Oil, condensate and naphtha sales volumes for the period totalled 2.27 mmbbl, 6% higher than liquid sales in the previous quarter.

The average oil and condensate price realised during the quarter was US$49.68 per barrel, 5% higher than in the third quarter, reflecting the global upturn in oil prices. The average price realised for LNG and gas sales increased 10% to US$7.09 per mmBtu, with the larger increase reflecting the approximately three month lag between the spot oil price and LNG contract prices. The Company did not undertake any hedging transactions during the period and remains unhedged.

Total sales revenue from LNG, gas, oil and condensate for the quarter was US$328.8 million, while other revenue, comprising rig lease income, infrastructure tariffs, electricity, refinery and naphtha sales, was US$16.8 million.

Capital management

As at 31 December 2016, Oil Search had cash of US$862.7 million and had drawn down US$3,939.4 million under the PNG LNG Project finance facility (US$4,084.1 million at the end of September 2016). With total liquidity of US$1.61 billion, the Company is able to fund all committed expenditures, including capital costs, scheduled debt repayments and dividends, through operating cash flows and existing cash, even if oil prices remain low for an extended period of time.

Oil Search's US$500 million corporate facility expires at the end of October 2017. It is the Company's intention to commence a refinancing of this facility in early 2017.

Capital expenditure

During the quarter, exploration and evaluation expenditure totalled US$23.9 million, comprising PRL 15 appraisal activities including the Antelope 7 well (US$10.7 million), the Strickland 1 well ($5.2 million), and PRL 3 appraisal costs (US$2.5 million). US$32.8 million of exploration costs were expensed, primarily related the unsuccessful Strickland 1 and Strickland 2 wells and seismic, geological, geophysical and general and administration expenses in PNG and MENA.

Development expenditure for the fourth quarter totalled US$6.2 million, which included US$2.2 million for the PNG LNG Project and US$4.0 million for the PNG Biomass power project. Expenditure on producing assets was US$13.7 million.

Performance for the 2016 Full Year

Oil Search generated total revenue of US$1,235.9 million for the 2016 full year. Compared to 2015, a 6% increase in sales volumes was offset by lower realised prices. The average realised price for LNG and gas in 2016 was US$6.63 per mmBtu, compared to US$9.44 per mmBtu in 2015, while the average realised oil and condensate price was also down, from US$51.36 per barrel to US$45.04 per barrel.

Exploration and evaluation expenditure for the 2016 full year was US$151.8 million (US$275.6 million in 2015). Key areas of spend in PNG in 2016 included US$60.6 million on PRL 15, US$27.8 million on PPL 402 (Muruk 1) and US$16.5 million on PPL 269 (Strickland 1 and 2), while US$9.5 million was spent in MENA, primarily on the Taza PSC in Kurdistan.

Development expenditure of US$24.4 million comprised the PNG LNG Project Angore drilling programme (US$9.6 million) and FEED activities for the PNG Biomass power project (US$14.8 million). In addition, US$38.3 million was spent on production activities and US$3.2 million on corporate property, plant and equipment.

US$53.2 million of exploration and evaluation expenditure will be expensed in 2016, primarily related to the unsuccessful Strickland 1 and Strickland 2 wells (US$19.3 million) and seismic, geological, geophysical and general and administration expenses in PNG and MENA.

A review of the carrying value of all assets is currently taking place as part of the finalisation of the financial statements and is subject to Board review and the year end audit currently in progress.

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

(US$ million)	Quarter End			Full Year	
	Dec 2016	Sep 2016	Dec 2015	Dec 2016	Dec 2015
Investment Expenditure					
Exploration & Evaluation					
PNG	19.2	33.7	54.8	142.3	156.7
MENA	4.7	0.8	12.9	9.5	118.9
Total exploration & evaluation	23.9	34.5	67.7	151.8	275.6
Development					
PNG LNG Project	2.2	1.4	36.8	9.6	135.2
Biomass	4.0	10.8	-	14.8	-
Total Development	6.2	12.2	36.8	24.4	135.2
Production	13.7	9.1	34.3	38.3	111.8
PP&E	0.3	0.3	5.4	3.2	16.5
Total	**44.1**	**56.2**	**144.2**	**217.6**	**539.2**
Exploration & Evaluation expenditure expensed[2,3]					
PNG	28.1	1.5	6.5	41.6	35.2
MENA	4.7	0.8	8.6	9.5	13.8
Total current year expenditures expensed	32.8	2.3	15.1	51.1	48.9
Prior year expenditures expensed	-	(0.8)	-	2.1	2.0
Total	**32.8**	**1.4**	**15.1**	**53.2**	**50.9**

1. Numbers may not add up due to rounding.
2. Exploration expensed includes costs of unsuccessful wells except where costs continue to be capitalised, certain administration costs and geological and geophysical costs. Costs relating to permit acquisitions, expenditure associated with the drilling of wells that result in a successful discovery of potentially economically recoverable hydrocarbons and expenditures on exploration and appraisal wells pending economic evaluation of recoverable reserves are capitalised.
3. Numbers do not include expensed business development costs of US$1.4 million in the fourth quarter of 2016 (US$1.9 million in the third quarter of 2016).

Gas/LNG Glossary and Conversion Factors Used

Mmscf	Million (10^6) standard cubic feet
mmBtu	Million (10^6) British thermal units
Billion Btu	Billion (10^9) British thermal units
MTPA (LNG)	Million tonnes per annum
Boe	Barrel of oil equivalent
1 mmscf LNG	Approximately 1.143 billion Btu
1 boe	Approximately 5,100 standard cubic feet
1 tonne LNG	Approximately 52 mmBtu

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

PETER BOTTEN, CBE

Managing Director

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DISCLAIMER

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