# THIRD QUARTER REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2017

17 October 2017

**ASX: OSH | ADR: OISHY | POMSOX: OSH**

## TOTAL PRODUCTION OF 7.9 MMBOE, THE HIGHEST QUARTERLY PRODUCTION IN OIL SEARCH'S HISTORY

| THREE MONTHS ENDED | SEP 2017 | JUN 2017 | % CHANGE |
|---|---|---|---|
| Total production (mmboe) | **7.91** | 7.24 | **+9%** |
| Total sales (mmboe) | **8.19** | 6.96 | **+18%** |
| Total revenue (US$m) | **380.8** | 332.5 | **+15%** |

## HIGHLIGHTS

- **2017 Third Quarter Production reaches All-Time High**

  Total production in the third quarter of 2017 was 7.91 million barrels of oil equivalent (mmboe), 9% higher than in the second quarter. The Company is presently on track to deliver 2017 production at the upper end of the 29.0 – 30.5 mmboe guidance range.

- **PNG LNG Production at Record Levels**

  Record production was underpinned by an excellent performance from the PNG LNG Project, which contributed 6.39 mmboe net to Oil Search and produced at an annualised rate of approximately 8.6 MTPA, the highest quarterly rate achieved since the Project came onstream in 2014. The Oil Search-operated PNG oil and gas fields also performed well, contributing 1.52 mmboe net to Oil Search, compared to 1.34 mmboe in the previous quarter, with high facilities uptime achieved over the quarter.

- **Higher Oil and Gas Sales Volumes Drive Revenue**

  Total revenue for the quarter was US$380.8 million, 15% higher than in the previous quarter, reflecting an 18% increase in total sales volumes and a 3% lift in liquids prices, slightly offset by a 6% reduction in the LNG and gas price. The average realised oil and condensate price was US$52.75 per barrel while the average gas and LNG price was US$7.48/mmBtu.

- **Cash Balance Increases to US$1.1 billion**

  The Company's cash balance increased by US$145.4 million during the quarter, to US$1.12 billion. Including US$850 million of undrawn corporate credit facilities, Oil Search had total liquidity of US$1.97 billion at the end of the quarter.

- **Continued Progress of Activities on LNG Expansion**

  Work on LNG expansion took place over a wide number of fronts during the quarter. Engineering studies on the various integrated development options for the Elk-Antelope fields in PRL 15 and P'nyang in PRL 3 and discussions on commercial structures all made good progress. The joint venture partners are working towards being in a position to present an aligned view on the development to the PNG Government around year end.

- **P'nyang South 2 Appraisal Well to Spud Shortly**

  Site preparation for the P'nyang South 2 well was completed during the quarter and the rig mobilised to site, with drilling expected to commence shortly. While the key aim of the well is to migrate 2C gas resource volumes to the

1C category, the well will also appraise material potential resource upside in the field. Analysis of seismic data acquired over prospects adjacent to P'nyang is currently underway.

- **Muruk Appraisal Programme Underway**

  Site preparation for the Muruk 2 appraisal well commenced during the quarter. Subject to weather, Muruk 2 is expected to spud towards the end of the first quarter of 2018 and will help constrain the potential volumes in the field. Planning is underway for a 100 kilometre seismic acquisition programme, to commence in the fourth quarter of 2017, which will help further delineate Muruk and the adjacent Karoma prospect.

- **100 Day Economic Stimulus Plan Released by the New PNG Government**

  Entering Front End Engineering and Design (FEED) in 2018 for PNG LNG Project expansion and commencing early works for Papua LNG have been identified as major objectives for the new PNG Government in its 100 Day Economic Stimulus Plan. In line with the Government's priority to resolve PNG LNG landowner benefits distribution issues, first PNG LNG landowner royalty payments were paid in September.

## COMMENTING ON THE THIRD QUARTER OF 2017, OIL SEARCH MANAGING DIRECTOR, PETER BOTTEN, SAID:

"Oil Search delivered an all-time record quarterly production of 7.91 mmboe in the third quarter, taking production for the nine months to 30 September 2017 to 22.72 mmboe. This excellent result was driven by higher production from both the PNG LNG Project and our operated fields.

Since the PNG LNG Project compressor upgrades took place in May, production from the Project has increased substantially, with the plant averaging 8.6 MTPA during the third quarter, the highest quarterly production rate since the Project came onstream in 2014. The plant is now operating at approximately 25% above nameplate capacity, which has been achieved for little additional cost, delivering significant value to all Project stakeholders. The second phase of compressor upgrades are scheduled for the fourth quarter of 2017, which Oil Search expects to result in further production optimisation, allowing the Project to maintain production at or above current levels, factoring in normal levels of downtime.

Oil Search's operated production increased 13% during the quarter, reflecting a return to normal operations following the major maintenance that took place in the second quarter of 2017. Despite the PNG scheduled maintenance activities in October, referred to above, and subject to facilities uptime and plant performance, the Company is on track to achieve 2017 production towards the upper end of our guidance range.

The Company benefited from higher oil and gas sales volumes, which increased by 18% on the previous quarter, contributing to a 15% increase in revenue to US$380.8 million. The average realised price for oil and condensate was 3% higher at US$52.75/bbl, while the average gas and LNG price was 6% lower at US$7.48/mmBtu, with the divergent movements reflecting the lag in LNG prices to oil prices.

A range of proposals, both solicited and unsolicited, for the additional 1.3 MTPA of LNG currently being marketed by the PNG LNG Project, are under evaluation."

### LNG expansion/growth

"During the quarter, work progressed on the next phase of LNG expansion in PNG. Engineering studies are being carried out to evaluate a narrow range of potential development options for the Elk-Antelope and P'nyang gas resources. The key focus of these studies is on the configuration and capacity of LNG trains to be built, field phasing and the optimisation of the train configuration in terms of operating performance, capital expenditure and operating costs. Other areas of discussion which are taking place between ExxonMobil, Total and Oil Search include determining the optimal commercial model for asset ownership and financing, the approach to marketing the LNG and alignment on future exploration acreage and activities.

The joint venture partners are aiming to present an aligned view on the development plan to the new Government in the fourth quarter of 2017, which will enable fiscal terms to be established prior to FEED entry, which is planned for as early as possible in 2018."

## Active oil and gas exploration and appraisal programme planned

"An extensive exploration, appraisal and development programme, comprising a range of oil and gas wells and seismic acquisition, is planned over the next few years. This programme has multiple objectives, including mitigating oil production decline from our mature oil fields, appraising existing discovered gas fields, to create optionality for LNG expansion and other commercialisation options, as well as exploring both known and frontier hydrocarbon provinces in PNG for reserve growth.

The P'nyang South 2 well is due to spud shortly. While the primary aim of the well is to support certification of an increase in the 1C resource, following remapping of reprocessed seismic data, Oil Search believes that there is the potential for a significant increase in 2C resources, which will be tested by the well. P'nyang South 2 will take approximately three months to drill, with recertification of the resource by an independent expert expected to commence in the first quarter of 2018.

Site preparations for an appraisal well on the Muruk gas discovery are now underway, with the well expected to commence drilling towards the end of the first quarter of 2018. While Oil Search believes there is already sufficient gas in P'nyang and Elk-Antelope to underpin an 8 MTPA expansion, given its proximity to Hides infrastructure, Muruk represents a potential low cost development. The fairway between P'nyang, Muruk and Hides has proven gas reservoir quality and gas charge and Oil Search believes that, given exploration and appraisal success in this region, there may be potential for further discoveries and development that could underpin additional LNG capacity.

Appraisal of the Kimu and Barikewa discoveries, which is expected to commence in early 2018, will test the upside resource base of these fields and will help in the selection and optimisation of the most appropriate gas commercialisation pathway.

Several development and appraisal targets and near field exploration prospects have been identified in and around our producing oil fields. These targets have the potential to add material oil resources and are commercially very attractive given the proximity to infrastructure."

## PNG Government priorities highlighted in 100 Day Economic Stimulus Plan

"Following the conclusion of the PNG elections in late August, the new PNG Government released its "25 Point 100 Day Economic Stimulus Plan", focused on ensuring sound macroeconomic and fiscal management, restoring confidence and generating investment. The Government has highlighted its intent to drive major new resource projects, with entry into FEED for PNG LNG expansion in 2018 and commencing early works for Papua LNG being two key aims. The resolution of PNG LNG landowner benefits issues has also been identified as a key priority. The first landowner royalty payments were paid in September, with final landowner identification for other areas now underway. In addition, two power projects in which Oil Search is involved, a 58MW gas power plant in Port Moresby and the 30MW Biomass Project, are priorities for the Government.

In late September, the PNG Government sold its shares in Oil Search. Due to low commodity prices, the PNG Government has experienced a significant reduction in cash receipts and the State has many important funding priorities, including education, health and infrastructure construction. Exiting its Oil Search shares has allowed the State to partially recover refinancing costs on the loan it took out in 2014 to fund the purchase of the shares, which will assist this year's budget, as well as avoid future loan refinancing costs that would have arose in 2018.

The Government's shares were sold by way of a block trade, at a modest 1.6% discount to the share price. We understand that there was strong demand for the shares, which were distributed broadly into the market to domestic and global institutional investors, demonstrating strong support for Oil Search.

The sale does not diminish the excellent relationship between the State and Oil Search. We remain strongly committed to PNG and expect our activities in PNG in partnership with the State, in the areas of health, education, infrastructure development and power, to name just a few, will continue."

## GUIDANCE FOR THE 2017 FULL YEAR

"Production guidance for the 2017 full year remains unchanged. However, the production cost guidance range has been narrowed following the confirmation of workover activity on the Company's operated oil fields in the fourth quarter. Capital cost guidance has been reduced, reflecting the re-phasing of drilling and gas expansion activities. It should be noted that exploration and evaluation costs in 2018 are expected to be materially higher than in 2017, due to an increase in appraisal drilling and the expected entry into FEED for LNG expansion."

| 2017 FULL YEAR | UPDATED GUIDANCE[1] | PREVIOUS GUIDANCE[1] |
|---|---|---|
| **Production** | | |
| Oil Search operated (PNG oil and gas)[2,3] (mmboe) | 5.5 – 6.2 | 5.5 – 6.2 |
| PNG LNG Project | | |
| LNG (bcf) | 102 – 105 | 102 – 105 |
| Power (bcf) | 0.62 – 0.65 | 0.62 – 0.65 |
| Liquids (mmbbl) | 3.3 – 3.6 | 3.3 – 3.6 |
| Total PNG LNG Project[2] (mmboe) | 23.5 – 24.3 | 23.5 – 24.3 |
| **Total production (mmboe)** | **29.0 – 30.5** | **29.0 – 30.5** |
| **Operating costs** | | |
| Production costs (US$ per boe) | 8.50 – 9.50 | 8.00 – 9.50 |
| Other operating costs[4] (US$m) | 125 – 135 | 135 – 145 |
| Depreciation and amortisation (US$ per boe) | 11.50 – 12.50 | 11.50 – 12.50 |
| **Capital costs** | | |
| Production (US$m) | 40 – 50 | 40 – 50 |
| Development – oil and gas (US$m) | 30 – 35 | 35 – 45 |
| Exploration and evaluation (US$m) | 190 – 210 | 240 – 260 |
| Other plant and equipment[5] (US$m) | 35 – 45 | 35 – 45 |
| **Total (US$m)** | **295 – 340** | **350 – 400** |

1. Numbers may not add due to rounding.
2. Gas volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale.
3. Includes 3.0 – 3.3 bcf (net) of SE Gobe gas sales exported to the PNG LNG Project (OSH – 22.34%).
4. Includes Hides GTE gas purchase costs, royalties and levies, selling and distribution costs, rig operating costs, corporate administration costs (including business development), expenditure related to power activities, inventory movements and other expenses.
5. Excludes finance leased assets.

## PRODUCTION SUMMARY[1]

| | QUARTER END | | | YEAR TO DATE | | FULL YEAR |
|---|---|---|---|---|---|---|
| | SEP 2017 | JUN 2017 | SEP 2016 | SEP 2017 | SEP 2016 | DEC 2016 |
| PNG LNG Project[2] | | | | | | |
| LNG (mmscf) | **27,813** | 25,581 | 25,864 | 79,693 | 75,266 | 101,827 |
| Gas to power (mmscf)[3] | **174** | 162 | - | 494 | - | - |
| Condensate ('000 bbls) | **820** | 772 | 805 | 2,399 | 2,366 | 3,193 |
| Naphtha ('000 bbls) | **81** | 75 | 66 | 234 | 187 | 258 |
| PNG crude oil production ('000 bbls) | | | | | | |
| Kutubu | **679** | 589 | 807 | 1,981 | 2,497 | 3,279 |
| Moran | **333** | 249 | 365 | 910 | 1,314 | 1,643 |
| Gobe Main | **6** | 5 | 7 | 15 | 18 | 24 |
| SE Gobe | **16** | 15 | 18 | 45 | 59 | 76 |
| Total oil production ('000 bbls) | **1,033** | 858 | 1,197 | 2,951 | 3,889 | 5,022 |
| SE Gobe gas to PNG LNG (mmscf)[4] | **887** | 875 | 921 | 2,439 | 2,196 | 3,060 |
| Hides GTE Refinery Products[5] | | | | | | |
| Sales gas (mmscf) | **1,452** | 1,459 | 1,430 | 4,341 | 4,125 | 5,573 |
| Liquids ('000 bbls) | **30** | 28 | 29 | 86 | 84 | 113 |
| Total barrels of oil equivalent ('000 boe)[6] | **7,910** | 7,239 | 7,628 | 22,722 | 22,523 | 30,245 |

1. Numbers may not add due to rounding.
2. Production net of fuel, flare, shrinkage and SE Gobe wet gas.
3. Gas to power had previously been accounted for as losses within the PNG LNG Plant.
4. SE Gobe wet gas reported at inlet to plant, inclusive of fuel, flare and naphtha.
5. 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.
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.

## SALES SUMMARY[1]

| | QUARTER END | | | YEAR TO DATE | | FULL YEAR |
|---|---|---|---|---|---|---|
| | SEP 2017 | JUN 2017 | SEP 2016 | SEP 2017 | SEP 2016 | DEC 2016 |
| **Sales data** | | | | | | |
| PNG LNG PROJECT | | | | | | |
| LNG (Billion Btu) | **32,851** | 30,025 | 29,110 | 91,898 | 87,645 | 118,574 |
| Condensate ('000 bbls) | **951** | 638 | 839 | 2,385 | 2,461 | 3,371 |
| Naphtha ('000 bbls) | **89** | 57 | 59 | 239 | 209 | 302 |
| PNG oil ('000 bbls) | **1,134** | 733 | 1,227 | 2,844 | 3,854 | 5,097 |
| HIDES GTE | | | | | | |
| Gas (Billion Btu)[2] | **1,557** | 1,566 | 1,534 | 4,658 | 4,457 | 6,012 |
| Condensate & refined products ('000 bbls)[3] | **30** | 30 | 28 | 88 | 79 | 106 |
| Total barrels of oil equivalent sold ('000 boe)[4] | **8,191** | 6,960 | 7,493 | 22,370 | 22,661 | 30,593 |
| **Financial data (US$ million)** | | | | | | |
| LNG and gas sales | **257.4** | 250.6 | 197.3 | 734.0 | 571.6 | 792.9 |
| Oil and condensate sales | **110.8** | 70.3 | 98.2 | 279.4 | 275.5 | 383.1 |
| Other revenue[5] | **12.6** | 11.6 | 14.0 | 43.5 | 43.1 | 59.9 |
| Total operating revenue | **380.8** | 332.5 | 309.5 | 1,057.0 | 890.3 | 1,235.9 |
| Average realised oil and condensate price (US$ per bbl)[6] | **52.75** | 50.99 | 47.24 | 53.11 | 43.45 | 45.04 |
| Average realised LNG and gas price (US$ per mmBtu) | **7.48** | 7.93 | 6.44 | 7.60 | 6.21 | 6.36 |
| Cash (US$m) | **1,119.2** | 973.8 | 938.9 | 1,119.2 | 938.9 | 862.7 |
| Debt (US$m)[7] | | | | | | |
| PNG LNG financing | **3,786.0** | 3,786.0 | 4,084.1 | 3,786.0 | 4,084.1 | 3,939.4 |
| Corporate revolving facilities[8] | **-** | - | - | - | - | - |
| Net debt (US$m) | **2,666.9** | 2,812.2 | 3,145.2 | 2,666.9 | 3,145.2 | 3,076.6 |

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 sales 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 and asset specific heating values. 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. Excludes finance leases recorded as borrowings.
8. At the end of September 2017, the Company's corporate revolving facilities were undrawn.

## PRODUCTION PERFORMANCE

2017 third quarter production net to Oil Search was 7.91 million barrels of oil equivalent (mmboe), comprising the following:

- LNG produced at the PNG LNG plant, net of SE Gobe sales, fuel, flare and shrinkage, of 27,813 mmscf.
- Gas produced for domestic market power generation of 174 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 PNG LNG plant.
- PNG oil field production and gas and liquids production from the Hides GTE Project of 1.52 mmboe. These fields produced at an average rate of 32,848 barrels of oil equivalent per day (gross), including 3,972 mmscf of gas (gross) exported to the PNG LNG Project from the SE Gobe field.

### PNG LNG Project (29.0%)

Third quarter production from the PNG LNG Project, net to Oil Search, was 6.39 mmboe, comprising 27.813 bcf of LNG, 0.174 bcf of gas for power generation and 0.9 mmbbl of liquids.

During the quarter, an average of 156 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.

The development of the Angore field, comprising the tie-in of the Angore A1 and A2 wells to the existing PNG LNG Project processing facilities, continued during the quarter.

### Kutubu (PDL 2 – 60.0%, operator)

Third quarter oil production net to Oil Search from the Kutubu complex was 0.68 mmbbl, 15% higher than in the second quarter of 2017, reflecting a return to normal operations following scheduled maintenance of the Central Processing Facility in the prior quarter. Gross production rates averaged 12,282 bopd during the period, compared to 10,774 bopd in the previous quarter.

Kutubu oil production was impacted during the quarter by repairs to two wells, a short weather-related production curtailment and by higher than expected gas-to-oil ratios from the Usano East reservoir. Work to mitigate the gas-to-oil ratio issue is underway, with further opportunities under development or to be evaluated in the fourth quarter. Production rates from the Agogo field were significantly above expectation, primarily due to the good performance of the Forelimb segment of the field.

### 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 third quarter oil production was 0.33 mmbbl, 34% higher than in the previous quarter, reflecting a return to normal operations following scheduled maintenance of the Agogo Processing Facility in the prior quarter. The field produced at a gross average rate of 7,314 bopd, up from the previous quarter of 5,519 bopd. Several successful zone changes were completed, mitigating the short weather-related curtailment noted above. A workover of the Moran 4 well is planned for the fourth quarter of 2017, in order to reinstate gas injection at the well to support a number of key production wells in the J-Block region of the field.

A new road-supported, highly mobile land rig, with a small footprint, commenced mobilisation into PNG during the quarter. This rig will be used to undertake workover activity in the Moran field, followed by a number of production-adding opportunities at both Moran and Kutubu.

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

Oil Search's share of oil production from the Gobe fields in the third quarter of 2017 was 0.02 mmbbl, up 5% on the previous quarter.

The gross average production rate for Gobe Main was 8% higher than in the second quarter, at 608 bopd, while the gross average production rate at SE Gobe was 4% higher than in the previous quarter, at 760 bopd. Both fields are benefiting from stable and reliable facility performance.

During the quarter, Oil Search's share of SE Gobe gas exported to the PNG LNG Project was 887 mmscf.

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

Gas production for the Hides Gas-to-Electricity Project in the third quarter of 2017 was 1,452 mmscf, produced at an average rate of 15.8 mmscf per day. 29,885 barrels of condensate were produced for use within the Hides facility or transported by truck to the Hides Gas Conditioning Plant for export.

# EXPLORATION AND APPRAISAL ACTIVITY

## Gas

**Highlands**

Construction of the P'nyang South 2 well pad in PRL 3 (Oil Search – 38.51%) was completed in early September and the rig then mobilised to the site. The well is expected to commence drilling shortly. Located in the south-east of the P'nyang field, the objective of P'nyang South 2 is to migrate 2C (proven and probable) gas resource volumes to the 1C (proven) category to support financing and marketing activities for LNG expansion. The well will also appraise significant 2C resource upside potential which has been identified by the remapping of reprocessed seismic data over P'nyang. Recertification of the field is planned after drilling. Analysis of seismic data acquired in the second quarter over prospects in the P'nyang area is ongoing.

During the quarter, the Muruk 2 location was agreed by the PDL 9 Joint Venture, approximately 11 kilometres north-west of the Muruk 1 discovery well. Site preparation and an Environmental Impact Assessment for the Muruk 2 appraisal well are underway, with the well expected to spud late in the first quarter of 2018. Muruk 2 has two key objectives: to appraise how far the structure extends to the north-west and to determine the gas-water contact, both of which will provide valuable information to help narrow the pre-drill volumetric gas resource estimate of 1-3 tcf. A 2D seismic acquisition programme covering approximately 100 kilometres is expected to commence in the fourth quarter of 2017, to help further delineate Muruk and the adjacent Karoma prospect in PPL402.

The Muruk gas discovery has materially upgraded a number of prospects along the Hides-P'nyang trend, which Oil Search estimates have the potential to hold greater than 10 tcf of unrisked gas[1]. Through two phases of 2D seismic acquisition – the first being the programme over Koki and Blucher to the north-west near P'nyang which was completed in the second quarter and the second comprising the programme over Karoma to the south-east near Muruk commencing in the fourth quarter – Oil Search and its partners are working to mature prospects into drilling targets for 2018/2019 as they seek to aggregate resource in this new play fairway.

[1] Mean gross prospective resources. Summed prospective resource P50/best estimate is approximately 4.9 tcf. Numbers are based on Oil Search's 2016 internal analysis. All estimates are unrisked.

### Forelands/Gulf

In the onshore Papuan Gulf Basin, preparations took place for a seismic acquisition programme over PPLs 475, 476, 477 and PRL 39 (Oil Search – 30%), which is expected to commence shortly. Oil Search will operate the programme on behalf of ExxonMobil. These licences are located adjacent to the world-class Elk-Antelope gas fields and contain the Triceratops, Bobcat and Raptor gas discoveries. The drafting of binding agreements with ExxonMobil affiliates for Oil Search's entry into the Gulf licences, which was announced in late May, is progressing well, with the resulting agreements expected to be executed in the fourth quarter of 2017.

In PRL 15 (Oil Search – 22.835%), the Joint Venture is preparing to acquire approximately 100 kilometres of 2D seismic data in 2018.

Well pad construction for the Barikewa 3 appraisal well continued during the quarter and construction of the Kimu 2 appraisal well pad is due to commence shortly. Appraisal drilling of the first well is expected to spud in the first quarter of 2018 during the drier weather window. The wells will test the upside resource base of these fields and assist in selecting the optimal commercialisation options, which could include the delivery of third party gas for LNG expansion or small scale LNG, which represents a potential competitive source of fuel for domestic and regional markets that are currently dependent on diesel and/or heavy fuel oil.

### Offshore Gulf of Papua

During the quarter, Oil Search remained focused on optimising offshore Gulf datasets and remapping prospectivity. The significant uplift to data quality achieved by reprocessing parts of the existing shallow water 3D datasets has revealed new opportunities and encouraged the Company to reprocess more of the available 3D data.

In the deep water Gulf, interpretation of 2D data continued, enhancing the Company's understanding of the petroleum systems in the region. Identified prospects are being risked, ranked and prioritised. A 3D seismic acquisition programme is planned by the operator for the first half of 2018, to further constrain prospectivity.

## Oil

### Middle East/North Africa

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

Work with the Kurdistan Regional Government on a relinquishment agreement for the Taza PSC in Kurdistan took place during the quarter.

## DRILLING CALENDAR

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

| WELL | WELL TYPE | LICENCE | OSH INTEREST | TIMING |
|---|---|---|---|---|
| **PNG** | | | | |
| P'nyang South 2 | Appraisal | PRL 3 | 38.5% | 4Q 2017 |
| Muruk 2 | Appraisal | PDL 9 | 24.4% | 1Q 2018 |
| Kimu 2 | Appraisal | PRL 8 | 60.7% | 1Q 2018 |
| Barikewa 3 | Appraisal | PRL 9 | 45.1% | 2Q 2018 |

Note: Wells, location and timing subject to change.

## FINANCIAL PERFORMANCE

### Sales revenue

During the quarter, 32,851 billion Btu of LNG was sold, 9% higher than sales volumes in the second quarter of 2017. 29 LNG cargoes were sold during the period, compared to 27 cargoes in the previous quarter, of which 21 were sold under long-term contract and eight on the spot market, with three cargoes on the water at the end of the quarter. Oil, condensate and naphtha sales volumes for the period totaled 2.20 mmbbl, 52% higher than liquid sales in the previous quarter, reflecting a return to normal operations following scheduled major maintenance activities that took place at both the PNG LNG plant and Oil Search-operated oil fields during the second quarter. Eight cargoes of Kutubu Blend and three naphtha cargoes were sold during the period.

The average oil and condensate price realised during the quarter was US$52.75 per barrel, 3% higher than in the second quarter, reflecting a continuing recovery in global oil prices. The average price realised for LNG and gas sales decreased 6% to US$7.48/mmBtu, reflecting the approximate 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$368.2 million, while other revenue, comprising rig lease income, infrastructure tariffs, electricity, refinery and naphtha sales, was US$12.6 million.

### Capital management

At 30 September 2017, Oil Search had cash of US$1.12 billion and US$3.79 billion of debt outstanding under the PNG LNG project finance facility. Including US$850 million of undrawn corporate credit facilities, the Company had total liquidity of US$1.97 billion, which, together with operating cash flows, is sufficient to fund all committed and planned disbursements, including capital costs, scheduled debt repayments and future dividends.

### Capital expenditure

During the quarter, exploration and evaluation expenditure totaled US$32.8 million, covering mainly PRL 3 (US$14.1 million), PRL 15 (US$7.2 million) and PPL 402 (US$3.1 million) activity. US$7.1 million of exploration costs were expensed, primarily related to seismic as well as geological, geophysical and general and administration expenses in PNG.

Development expenditure for the third quarter totaled US$11.4 million, which included US$9.0 million for the PNG LNG Project and US$2.4 million for the PNG Biomass power project. Expenditure on producing assets was US$8.5 million.

## SUMMARY OF INVESTMENT EXPENDITURE AND EXPLORATION AND EVALUATION EXPENSED[1]

| | QUARTER END | | | YEAR TO DATE | | FULL YEAR |
|---|---|---|---|---|---|---|
| | SEP 2017 | JUN 2017 | SEP 2016 | SEP 2017 | SEP 2016 | DEC 2016 |
| **Investment Expenditure** | | | | | | |
| Exploration & Evaluation | | | | | | |
| PNG | **32.1** | 43.7 | 33.7 | 119.0 | 123.2 | 142.3 |
| MENA | **0.8** | 1.2 | 0.8 | 2.4 | 4.8 | 9.5 |
| Total Exploration & Evaluation | **32.8** | 44.9 | 34.5 | 121.5 | 128.0 | 151.8 |
| Development | | | | | | |
| PNG LNG | **9.0** | 6.4 | 1.4 | 19.6 | 7.4 | 9.6 |
| Biomass | **2.4** | 1.7 | 10.8 | 6.5 | 10.8 | 14.8 |
| Total Development | **11.4** | 8.1 | 12.2 | 26.1 | 18.1 | 24.4 |
| Production | **8.5** | 11.8 | 9.1 | 31.2 | 24.5 | 38.3 |
| PP&E | **2.5** | 1.9 | 0.3 | 4.9 | 2.2 | 3.2 |
| **Total** | **55.3** | **66.7** | **56.2** | **183.7** | **172.9** | **217.6** |
| **Exploration & Evaluation Expenditure Expensed[2,3]** | | | | | | |
| PNG | **6.4** | 17.6 | 1.5 | 29.7 | 13.4 | 41.6 |
| MENA | **0.7** | 1.2 | 0.8 | 2.4 | 4.8 | 9.5 |
| Total current year expenditures expensed | **7.1** | 18.8 | 2.3 | 32.1 | 18.2 | 51.1 |
| Prior year expenditures expensed | **-** | - | (0.8) | - | 2.1 | 2.1 |
| **Total** | **7.1** | **18.8** | **1.4** | **32.1** | **20.4** | **53.2** |

1. Numbers may not add up due to rounding.
2. Exploration costs expensed includes unsuccessful wells, exploration seismic and certain costs related to administration costs and geological and geophysical activities. Costs related to permit acquisitions, the drilling of wells that have resulted in a successful discovery of potentially economically recoverable hydrocarbons and appraisal and evaluation of discovered resources are capitalised.
3. Numbers do not include expensed business development costs of US$0.1 million in the third quarter of 2017 (US$2.9 million in the second quarter of 2017, US$2.1 million in the first quarter of 2017).

## 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

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

**Investors and Media:**

**Ann Diamant**

**General Manager, Investor Relations and Communications**

Tel: +612 8207 8440

Mob: +61 407 483 128

**Investors:**

**Stephanie Chu**

**Senior Investor Relations Advisor**

Tel: +612 8207 8542

Mob: +61 481 038 179

## 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.