FOURTH QUARTER REPORT FOR THE PERIOD ENDED 31 DECEMBER 2017

23 JANUARY 2018

ASX: OSH | ADR: OISHY | POMSOX: OSH

FOURTH QUARTER PRODUCTION OF 7.6 MMBOE TAKES 2017 FULL YEAR PRODUCTION TO A RECORD 30.3 MMBOE

HIGHLIGHTS	4Q 2017	3Q 2017	% CHANGE	FY 2017	FY 2016	% CHANGE
Total production (mmboe)	**7.59**	7.91	***-4%***	30.31	30.25	-
Total sales (mmboe)	**7.67**	8.19	***-6%***	30.04	30.59	*-2%*
Total revenue (US$m)	**389.0**	380.8	***+2%***	1,446.0	1,235.9	*+17%*

HIGHLIGHTS

- **Strong fourth quarter production takes 2017 full year production to 30.31 mmboe, the highest in the Company's history**

  Total production in the fourth quarter of 2017 was 7.59 million barrels of oil equivalent (mmboe). This took 2017 full year production to 30.31 mmboe, a record for Oil Search and at the upper end of the 2017 guidance range.

- **PNG LNG Project delivers another solid quarterly performance**

  Fourth quarter PNG LNG production net to Oil Search was 6.08 mmboe. The Project operated at an annualised rate of approximately 8.3 MTPA, despite a short rate reduction in October related to the second phase of LNG plant compressor upgrades. The Oil Search-operated PNG oil and gas fields also performed well, contributing 1.51 mmboe net to Oil Search.

- **Higher realised oil and gas prices drive revenue**

  Total revenue for the quarter was US$389.0 million, 2% higher than in the previous quarter, reflecting a strong improvement in hydrocarbon prices, partially offset by lower product sales. The average realised oil and condensate price was US$63.05 per barrel while the average realised gas and LNG price was US$7.86/mmBtu. Revenues for the full year totaled US$1.446 billion, up 17% on 2016.

- **Net debt reduced by nearly US$0.5 billion over 2017, to US$2.61 billion**

  Over 2017, Oil Search's cash balance increased from US$863 million to just over US$1 billion. Over the same period, the Company repaid US$314 million of PNG LNG project finance debt, with net debt at the end of 2017 of US$2.61 billion, compared to US$3.08 billion at the beginning of the year. Including US$850 million of undrawn corporate credit facilities, Oil Search had total liquidity of nearly US$1.9 billion at the end of 2017.

- **Progress on LNG expansion development options**

  The results of engineering studies on the various integrated downstream development options for processing gas from the Elk-Antelope fields in PRL 15 and P'nyang in PRL 3 were provided to the joint venture participants in December. Discussions between Oil Search, Total and ExxonMobil progressed on core project financing and marketing arrangements, with key project definition expected in early 2018, prior to presenting a preferred development option to the PNG Government.

- **P'nyang South 2 ST1 well encounters gas, confirming extension of field to the south-east**

  P'nyang South 2 ST1 encountered good-quality, gas-bearing Toro and Digimu sands, confirming the presence of gas in the south-eastern part of the field. Recertification of the field's gas resources will be completed in the second quarter of 2018 and is expected to result in the addition of 1C contingent resources that can be used to underpin marketing and financing discussions for LNG expansion.

- **Preparations to appraise Muruk gas discovery underway**

  Site preparation for the Muruk 2 appraisal well continued during the quarter and, subject to weather conditions, drilling is expected to commence in the second quarter of 2018. Muruk 2 will help define the potential volumes in the field.

- **Announcement of acquisition of world class, Tier 1 oil assets in Alaska**

  In November, Oil Search announced the proposed acquisition of a 25.5% interest in the Pikka Unit and adjacent acreage and 37.5% in the Horseshoe Block, on the Alaska North Slope, for US$400 million, with the option to double its interests by mid-2019 for an additional US$450 million. The acquisition was made on the basis that the Pikka Unit contains a discovered resource of 500 million barrels, compared to an estimate of 1.2 billion barrels by the existing JV partners. Oil Search will take over operatorship in the first quarter of 2018 and plans to undertake an active appraisal campaign ahead of a planned FID in late 2019. The acquisition, which is expected to be completed within the next month, represents an entry into Tier 1 assets that have potential to generate material growth with high returns and complements the Company's existing high-quality gas assets in PNG.

COMMENTING ON THE FOURTH QUARTER AND THE 2017 FULL YEAR, OIL SEARCH MANAGING DIRECTOR, PETER BOTTEN, SAID:

"Oil Search finished 2017 strongly, with fourth quarter production of 7.59 mmboe taking full year production to 30.31 mmboe, which was at the upper end of our guidance range and an all-time record for the Company.

In October, the second phase of scheduled compressor upgrades at the PNG LNG Project plant site took place. Production rates picked up following this work, with the plant averaging 8.6 MTPA in December. The upgrades to the compressors undertaken during 2017 should enable production to be maintained sustainably at or above 8.5 MTPA, before factoring in normal levels of downtime. Our operated oil and gas fields in PNG also performed well during the quarter, with production of 1.51 mmboe, net to Oil Search, largely unchanged from the third quarter.

Our realised oil and condensate price in the fourth quarter was US$63.05 per barrel, up 20% on the third quarter, reflecting the strength in global oil prices. This, together with a 5% increase in our realised LNG and gas price, helped lift fourth quarter revenue to US$389 million, driving total revenue for the year to US$1.45 billion, 17% higher than in 2017.

In December, ExxonMobil, on behalf of the PNG LNG Project participants, completed its evaluation of proposals received for the additional 1.3 MTPA of LNG being marketed. Offers were received from a number of top-tier LNG buyers, including end users and traders, with strong interest in securing contracts for periods of up to five years. Oil Search expects the joint venture to sign binding contracts during the first half of 2018.

In the first half of 2018, modifications to the Hides Gas Conditioning Plant are planned to further optimise production rates upstream. Oil Search expects to see production benefits from this in the second half of the year. Work on tying in the Angore A1 and A2 wells to existing Project processing facilities remains ongoing, with the wells expected to come online in 2019."

LNG expansion

"Discussions on LNG expansion between Oil Search, ExxonMobil and Total SA accelerated during the quarter. Results of engineering studies on potential downstream development options for processing Elk-Antelope and P'nyang gas, were provided to the joint venture participants in late December. These studies are primarily focused on the evaluation and comparison of the downstream configuration and capacity for potential PNG LNG expansion and the development of Papua LNG. The joint venture will use these findings to determine its preferred development option, which it intends to present to the PNG Government in early 2018. This will lead to the negotiation of a final gas agreement, prior to FEED entry in the second half of 2018, with FID targeted for 2019.

LNG expansion will be underpinned by the more than 10 tcf of discovered undeveloped gas resource in the Elk-Antelope and P'nyang fields and potentially gas from the foundation project fields, which provides an option to front-end part of the new capacity with low cost gas. The joint venture remains aligned on pursuing an integrated development that will benefit all stakeholders through material construction and operational synergies."

P'nyang South 2 results prove south-east extension

"During the quarter, the P'nyang South 2 ST1 well encountered gas in good quality Toro and Digimu sands, confirming the extension of the field to the south-east. The well is expected to meet its primary objective of migrating 2C contingent gas resource to the 1C contingent category, to support further development planning of the P'nyang field for potential LNG expansion. In addition, while further evaluation is ongoing, Oil Search believes an uplift in the 2C gas resource estimate for the field is also possible. Recertification of the field's resources has commenced and is expected to be completed in the second quarter of 2018."

Proposed acquisition of world class oil assets with material growth potential in Alaska North Slope

"In November 2017, Oil Search agreed to acquire a number of oil assets in the Alaska North Slope from privately-owned companies Armstrong Energy LLC and GMT Exploration Company LLC for US$400 million, subject to standard regulatory approvals, which are expected to be received shortly. The assets include a 25.5% interest in the Pikka Unit and adjacent exploration acreage and a 37.5% interest in the Horseshoe Block, which contain the discovered Nanushuk and satellite oil fields.

We undertook significant due diligence prior to the acquisition, working in cooperation with Armstrong, and used conservative resource and development assumptions in our assessment of the opportunity. For example, for acquisition purposes, we estimate that these fields contain 500 million barrels of oil, while our partners, Armstrong and Repsol, expect that ultimate recoverable reserves could be more than 1.2 billion barrels.

The acquisition provides Oil Search with world class oil assets, immediately adjacent to existing infrastructure, in an established, stable, prolific oil producing province with an attractive fiscal regime. We believe the entry price, at just over US$3 per barrel based on our resource numbers and approximately US$1.30 per barrel if the upside is proven, is highly competitive and the purchase has been made at the right time in the oil price cycle. Since the transaction price was agreed, the oil price has rallied substantially and value accretive US tax reforms have been passed, resulting in a decrease in the federal tax rate from 35% to 21%, increasing the value of the assets. The assets will complement the Company's existing world class, high returning PNG gas portfolio and there is significant upside potential in the leases.

The option to acquire Armstrong's remaining interests in the Pikka Unit and Horseshoe Block, at a fixed price of US$450 million, provides us with an excellent mechanism to increase our interest and then on-sell to a strategic partner, if there is potential to add further value.

ConocoPhillips, which operates the adjacent leases to the Pikka Unit, has announced it will be drilling two wells (Putu 1 and Stony Hill 1) during the 2018 drilling season, to test the extension of the Nanushuk reservoir into its acreage. The Putu 1 well is only two miles (3.2 kilometres) from the proposed Pikka 2 well location and, based on an earlier data trading agreement, the Putu results will be traded with the Pikka Unit JV. Consequently, the Pikka Unit JV has decided not to drill the planned Pikka well in 2018 and concentrate on developing a comprehensive appraisal programme for next year.

Oil Search will assume operatorship in early 2018 and will incorporate the results of the ConocoPhillips wells into an appraisal plan, with Front End Engineering and Design (FEED) expected to begin in early 2019 and a Final Investment Decision (FID) in late 2019. Planning has already begun for the drilling of a number of wells in the first quarter of 2019 (subject to stakeholder and government approvals), to further appraise the Pikka and Horseshoe resource and explore for additional resources."

GUIDANCE FOR THE 2017 FULL YEAR

"The Company's financial results for the year to 31 December 2017 will be released to the market on 20 February 2018.

Production costs for 2017 are expected to be at the lower end of the previously advised guidance range of US$8.50 – 9.50 /boe while depreciation and amortisation charges are expected to be towards the midpoint of the US$11.50 – 12.50/boe guidance range. Other operating costs (including Hides GTE gas purchase costs, royalties and levies, selling and distribution costs, rig operating costs, inventory movements, corporate and business development, power and other costs) are expected to be slightly above the US$125 – 135 million guidance range, mainly due to higher than expected sales from hydrocarbon inventories on hand and a provision for redundant warehouse stock. Net financing charges, consisting primarily of PNG LNG Project borrowing costs, are expected to be between US$193 – 197 million.

US$35.9 million of exploration and evaluation expenditure will be expensed for the full year, mainly related to Antelope Deep, seismic acquisition in Alaska and PNG as well as geological, geophysical and general and administration activities.

The effective tax rate for the 2017 full year is expected to be in the range of 31 – 34%. This is substantially lower than the effective tax rate for 2016 due to PNG legislative changes in late 2016, which included the reduction of the tax on oil projects from 45-50% to 30%, with effect from 1 January 2017. This resulted in a one-off reduction in deferred tax asset balances at the end of 2016. However, the lower oil field tax rate, together with lower non-deductible costs compared to the prior year, has benefited the effective tax rate in 2017.

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

PRODUCTION GUIDANCE FOR 2018

"Oil Search's 2018 full year production is anticipated to be in the range of 28.5 – 30.5 mmboe, with forecast contributions as follows:

2018 Production Guidance[1]	
Oil Search-operated PNG oil and gas (mmboe)[2,3]	4.5 - 5.5
PNG LNG Project:	
LNG (bcf)	105 –109
Power (bcf)	0.6 – 0.7
Liquids (mmbbl)	3.3 - 3.5
Total PNG LNG Project (mmboe)[2]	24.0 - 25.0
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.

Lower operated production is expected to be offset by higher production from the PNG LNG Project, which continues to perform very well, contributing higher margin barrels of oil equivalent to the Company's production base.

Operating and capital cost guidance for 2018 will be provided to the market on 20 February 2018, in the 2017 full year results release."

PRODUCTION SUMMARY[1]

	QUARTER END			FULL YEAR	
	DEC 2017	SEP 2017	DEC 2016	DEC 2017	DEC 2016
PNG LNG Project[2]					
LNG (mmscf)	26,572	27,813	26,560	106,266	101,827
Gas to power (mmscf)[3]	171	174	-	665	-
Condensate ('000 bbls)	759	820	827	3,157	3,193
Naphtha ('000 bbls)	78	81	71	312	258
PNG crude oil production ('000 bbls)					
Kutubu	649	679	782	2,630	3,279
Moran	357	333	329	1,267	1,643
Gobe Main	4	6	6	20	24
SE Gobe	11	16	17	56	76
Total oil production ('000 bbls)	1,022	1,033	1,133	3,973	5,022
SE Gobe gas to PNG LNG (mmscf)[4]	826	887	863	3,265	3,060
Hides GTE Refinery Products[5]					
Sales gas (mmscf)	1,502	1,452	1,448	5,843	5,573
Liquids ('000 bbls)	32	30	29	118	113
Total barrels of oil equivalent ('000 boe)[6]	7,592	7,910	7,722	30,314	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			FULL YEAR	
	DEC 2017	**SEP 2017**	**DEC 2016**	**DEC 2017**	**DEC 2016**
Sales data					
PNG LNG PROJECT					
LNG (Billion Btu)	**31,341**	32,851	30,929	123,239	118,574
Condensate ('000 bbls)	**759**	951	910	3,145	3,371
Naphtha ('000 bbls)	**96**	89	92	335	302
PNG oil ('000 bbls)	**1,065**	1,134	1,243	3,909	5,097
HIDES GTE					
Gas (Billion Btu)[2]	**1,608**	1,557	1,554	6,266	6,012
Condensate & refined products ('000 bbls)[3]	**26**	30	28	115	106
Total barrels of oil equivalent sold ('000 boe)[4]	**7,674**	8,191	7,932	30,044	30,593
Financial data (US$ million)					
LNG and gas sales	**259.1**	257.4	221.2	993.1	792.9
Oil and condensate sales	**115.5**	110.8	107.6	395.0	383.1
Other revenue[5]	**14.5**	12.6	16.8	58.0	59.9
Total operating revenue	**389.0**	380.8	345.6	1,446.0	1,235.9
Average realised oil and condensate price (US$ per bbl)[6]	**63.05**	52.75	49.68	55.68	45.04
Average realised LNG and gas price (US$ per mmBtu)	**7.86**	7.48	7.09	7.67	6.36
Cash (US$m)	**1,015.2**	1,119.2	862.7	1,015.2	862.7
Debt (US$m)[7]					
PNG LNG financing	**3,625.5**	3,786.0	3,939.4	3,625.5	3,939.4
Corporate revolving facilities[8]	**-**	-	-	-	-
Net debt (US$m)	**2,610.2**	2,666.9	3,076.6	2,610.2	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. As at 31 December 2017, the Company's corporate revolving facilities were undrawn.

PRODUCTION PERFORMANCE

2017 fourth quarter production net to Oil Search was 7.59 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 26,572 mmscf.
- Gas produced for domestic market power generation of 171 mmscf.
- PNG LNG liquids production of 0.84 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 1.51 mmboe. These fields produced at an average rate of 32,052 barrels of oil equivalent per day (gross), including 3,696 mmscf of gas (gross) exported to the PNG LNG Project from the SE Gobe field.

PNG LNG Project (29.0%)

Fourth quarter production from the PNG LNG Project, net to Oil Search, was 6.08 mmboe, comprising 26.572 bcf of LNG, 0.171 bcf of gas for power generation and 0.84 mmbbl of liquids.

During the quarter, an average of 152 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 14% 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)

Fourth quarter oil production net to Oil Search from the Kutubu complex was 0.65 mmbbl, 4% lower than in the third quarter of 2017. Gross production rates averaged 11,752 bopd during the period, compared to 12,282 bopd in the previous quarter.

Oil production was affected by a number of facility reliability issues and increasing gas-to-oil ratios from the Usano East reservoir. This was offset by continued strong production from the Hedinia 10 ST3 well following its conversion to production earlier in the year and the successful re-perforation of Toro intervals in the IDT 23 ST2 well. Production rates from the Agogo field were above expectation, primarily due to the good performance of the Digimu and Forelimb segments 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 fourth quarter oil production was 0.36 mmbbl, 7% higher than in the previous quarter, reflecting a good performance from the Moran wells and APF processing facilities. The field produced at a gross average rate of 7,844 bopd, up from the previous quarter of 7,314 bopd. A workover of the Moran 4 well commenced in December to reinstate gas injection at the well which provides reservoir pressure support to a number of key production wells in the J-Block region of the field. Shortly after the end of the quarter, workover operations were shut-in due to landowner issues. Once these issues are resolved, activities will recommence to complete the Moran 4 workover, prior to undertaking the Moran 9 ST4 production well workover.

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 2017 was 0.02 mmbbl, down 26% on the previous quarter.

The gross average production rate for Gobe Main was 21% lower than in the third quarter, at 478 bopd, while the gross average production rate at SE Gobe was 28% lower than in the previous quarter, at 549 bopd. Production from both fields was constrained by produced water handling capabilities at the GPF which are now being addressed.

During the quarter, Oil Search's share of SE Gobe gas exported to the PNG LNG Project was 826 mmscf.

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

Gas production for the Hides Gas-to-Electricity Project in the fourth quarter of 2017 was 1,502 mmscf, produced at an average rate of 16.3 mmscf per day. 32,227 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

The P'nyang South 2 well, located in PRL 3 (Oil Search – 38.51%) in the North-West Highlands, commenced drilling on 22 October. After encountering downhole difficulties, a sidetrack, P'nyang South 2 ST1, was kicked off, reaching a total depth of 2,725 metres in January 2018. The well encountered good-quality, gas-bearing Toro and Digimu sands, while the Emuk Formation was largely water-bearing. The well result, which is currently being evaluated by the PRL 3 joint venture, has confirmed the extension of the P'nyang field to the south-east and is expected to result in an increase in 1C contingent resource. A recertification of the field's gas volumes by an independent expert has commenced and is expected to be completed in the second quarter of 2018. While evaluation is still ongoing, Oil Search also believes there will be an increase in 2C resources, which will be confirmed by the certification process underway. The joint venture continues to work with the Department of Petroleum to progress the offer of a Petroleum Development Licence over the field, currently subject to an application (APDL 13).

Site preparation for the Muruk 2 appraisal well continued during the quarter, with drilling expected to commence in the second quarter of 2018. Located approximately 11 kilometres north-west of the discovery well, Muruk 2 has two objectives: to appraise how far the structure extends to the north-west and to determine the gas-water contact, both of which will help narrow the pre-drill volumetric gas resource estimate of 1-3 tcf in the field. A 2D seismic acquisition programme covering approximately 100 kilometres over the Karoma prospect, adjacent to Muruk, is planned for the first half of 2018. This will supplement seismic data acquired over Koki and Blucher, to the north-west near P'nyang, earlier in the year. With exploration and appraisal success, this proven fairway, which Oil Search believes has the potential to hold, in aggregate, more than 10 tcf of unrisked gas[1], could potentially provide longer term and low cost optionality for gas field development sequencing.

Forelands/Gulf

In the onshore Papuan Gulf Basin, preparations continued for a 200 kilometre seismic acquisition programme over PPLs 475, 476, 477 and PRL 39 (Oil Search – 30%), which Oil Search will operate on behalf of ExxonMobil. The programme

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

will commence shortly and is expected to continue through 2018. The licences are located adjacent to the Elk-Antelope gas fields and contain the Triceratops, Bobcat and Raptor gas discoveries. They also contain a number of attractive leads and prospects that will be further delineated by seismic. The drafting of binding agreements with ExxonMobil affiliates for Oil Search's entry into the Gulf licences, which were announced in late May 2017, continued, with the agreements expected to be executed in the first quarter of 2018.

In PRL 15 (Oil Search – 22.835%), the Joint Venture is finalising arrangements to acquire approximately 100 kilometres of 2D seismic data in 2018. Subject to joint venture agreement, this data acquisition will be operated by Oil Search and acquired in conjunction with the programme in the surrounding PPLs 475, 476, 477 and PRL 39. This is expected to generate material synergies and cost savings for all joint venture participants.

Construction of the Barikewa 3 appraisal well pad was completed during the quarter and construction of the Kimu 2 appraisal well pad has commenced. Kimu 2 is expected to spud late in the first quarter of 2018 with Barikewa 3 to follow in the second/third quarter. The wells will test the upside resource base of these fields and assist in selecting the optimal commercialisation pathway. This may 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 continued to optimise offshore Gulf datasets and remap prospectivity. This activity has resulted in the identification of a number of new prospects that will be further evaluated ahead of considering potential drilling candidates. In addition, discussions commenced with potential farm-in parties which have expressed interest in participating in these licences.

In the deep water Gulf, interpretation of 2D data continued, with identified prospects being risked, ranked and prioritised. A 3D seismic acquisition programme to further constrain prospectivity is being considered by the joint venture for 2018.

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 have ceased 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.

CORPORATE ACTIVITY

PNG Highlands

In October, Oil Search (PNG) Limited entered into arrangements to farm-down a 12.5% interest in each of PPLs 395, 464, 487 and 507 to Barracuda Limited, a subsidiary of Santos Limited (Santos). Subsidiaries of Exxon Mobil Corporation (ExxonMobil), the other participants in these licences, have also entered into arrangements to farm-down a 7.5% interest in these licences to Santos. Santos' acquisition of these licence interests is subject to conditions precedent and regulatory approvals. In addition, Oil Search, ExxonMobil and Barracuda Limited were granted exploration licence PPL 545 in November.

The licences are located in the North-West Highlands of Papua New Guinea, adjacent to the Muruk gas discovery in PPL 402 and along the Hides-P'nyang trend.

PPL 395 is operated by Oil Search PNG (Limited), while PPLs 464, 487 and 507 are operated by Esso PNG Swift Limited, Esso PNG Papuan Gulf Limited and Esso PNG Finch Limited, respectively, all subsidiaries of ExxonMobil.

Santos' entry brings joint venture alignment to the area along the prospective Hides-P'nyang trend and builds on the existing relationship within the PNG LNG Project. The farm-down is consistent with Oil Search's strategy to own an appropriate equity interest in exploration licences, which balances risk with potential reward, and to align with strategic partners in areas with the potential for significant gas resources and a clear path to commercialisation.

This farm-down, combined with the recent licence awards and new licence applications, reflects the conclusion of a two year programme to optimise the Company's position along the North-West Highlands trend, to support long-term gas growth and expansion of LNG.

Alaska

In November, Oil Search signed an agreement to acquire a 25.5% interest in the Pikka Unit and adjacent exploration acreage and a 37.5% interest in the Horseshoe Block in the Alaska North Slope for US$400 million cash. The acquisition was negotiated on the basis of a discovered resource of approximately 500 million barrels, with the potential to grow materially through exploration and appraisal activity. Oil Search also negotiated an option to double its equity in these assets for US$450 million any time before 30 June 2019, providing the flexibility to increase ownership, subject to appraisal results, and sell down to a strategic partner to create further value. The Company is expected to assume operatorship in early 2018. The acquisition is subject to standard US regulatory approvals, including approval by the Committee on Foreign Investment in the US. Oil Search expects the transaction to close in the first quarter of 2018.

For further detail on the acquisition and development plan, please refer to the ASX announcement and presentation released on 1 November 2017 and presentation released on 14 December 2017.

DRILLING CALENDAR

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

WELL	WELL TYPE	LICENCE	OSH INTEREST	TIMING
PNG				
Kimu 2	Appraisal	PRL 8	60.7%	1/2Q 2018
Muruk 2	Appraisal	PDL 9	24.4%	2Q 2018
Barikewa 3	Appraisal	PRL 9	45.1%	2/3Q 2018

Note: Wells, location and timing subject to change.

FINANCIAL PERFORMANCE

Sales revenue

During the quarter, 31,341 billion Btu of LNG was sold, 5% lower than sales volumes in the third quarter of 2017, reflecting lower production due to compressor upgrades conducted at the PNG LNG plant site in October. A total of 28 LNG cargoes were sold during the period, comprising 21 sold under long-term contract and seven on the spot market, compared to 29 cargoes sold in the previous quarter. Two cargoes were on the water at the end of the period. Oil, condensate and naphtha sales volumes for the period totaled 1.95 mmbbl, 12% lower than liquid sales in the previous quarter, mainly due to the previously mentioned PNG LNG compressor upgrades. Seven cargoes of Kutubu Blend and three naphtha cargoes were sold during the period.

110 LNG cargoes were sold in the 2017 full year, of which 23 were sold on the spot market. Since the Project commenced production in mid-2014, 370 LNG cargoes have been sold.

The average oil and condensate price realised during the quarter was US$63.05 per barrel, 20% higher than in the third quarter, reflecting a continued recovery in global oil prices. The average price realised for LNG and gas sales increased 5% to US$7.86/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$374.6 million, while other revenue, comprising rig lease income, infrastructure tariffs, electricity, refinery and naphtha sales, was US$14.5 million.

Capital management

At 31 December 2017, Oil Search had cash of US$1.02 billion and US$3.63 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$1.87 billion, which, together with operating cash flows, is expected to be sufficient to fund all committed and planned disbursements, including capital investments, scheduled debt repayments and future dividends.

Capital expenditure

During the quarter, exploration and evaluation expenditure totaled US$48.0 million, mainly related to activities in PRL 3 (US$20.0 million) and PRL 15 (US$11.6 million) in PNG. US$3.9 million of exploration costs were expensed, mainly comprising seismic acquisition costs in Alaska and geological, geophysical and general and administration expenses in PNG which were partly offset by proceeds from the Santos farm-in to PPL 395 during the quarter. Development expenditure for the fourth quarter totaled US$13.9 million, which included US$10.5 million spent on the PNG LNG Project and US$3.3 million on the PNG Biomass power project. Expenditure on producing assets was US$9.4 million, while expenditure on property, plant and equipment was US$22.6 million, mainly covering early implementation costs for the Company’s new Enterprise Resource Planning system.

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

	QUARTER END			FULL YEAR	
	DEC 2017	SEP 2017	DEC 2016	DEC 2017	DEC 2016
Investment Expenditure					
Exploration & Evaluation					
PNG	**39.7**	32.1	19.2	158.8	142.3
USA	**7.9**	-	-	7.9	-
MENA	**0.4**	0.8	4.7	2.9	9.5
Total Exploration & Evaluation	**48.0**	32.8	23.9	169.5	151.8
Development					
PNG LNG	**10.5**	9.0	2.2	30.1	9.6
Biomass	**3.3**	2.4	4.0	9.8	14.8
Total Development	**13.9**	11.4	6.2	39.9	24.4
Production	**9.4**	8.5	13.7	40.7	38.3
PP&E	**22.6**	2.5	0.3	27.6	3.2
Total	**93.9**	**55.3**	**44.1**	**277.6**	**217.6**
Exploration & Evaluation Expenditure Expensed[2,3]					
PNG	**(2.7)**	6.4	28.1	27.0	41.6
USA	**6.2**	-	-	6.2	-
MENA	**0.3**	0.7	4.7	2.7	9.5
Total current year expenditures expensed	**3.9**	7.1	32.8	35.9	51.1
Prior year expenditures expensed	**-**	-	-	-	2.1
Total	**3.9**	**7.1**	**32.8**	**35.9**	**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. In the fourth quarter of 2017, there was a credit to business development costs of US$1.9 million as transaction costs incurred on acquisition of licences in the USA were capitalised. Business development costs expensed were $2.1 million in the first quarter of 2017, US$2.9 million in the second quarter and US$ 0.1 million in the third quarter.

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 January 2018

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.