

COMPANY UPDATE

October 2017

OIL SEARCH LIMITED | ARBN 055 079 868 | ASX: OSH | POMSoX: OSH | US ADR: OISHY

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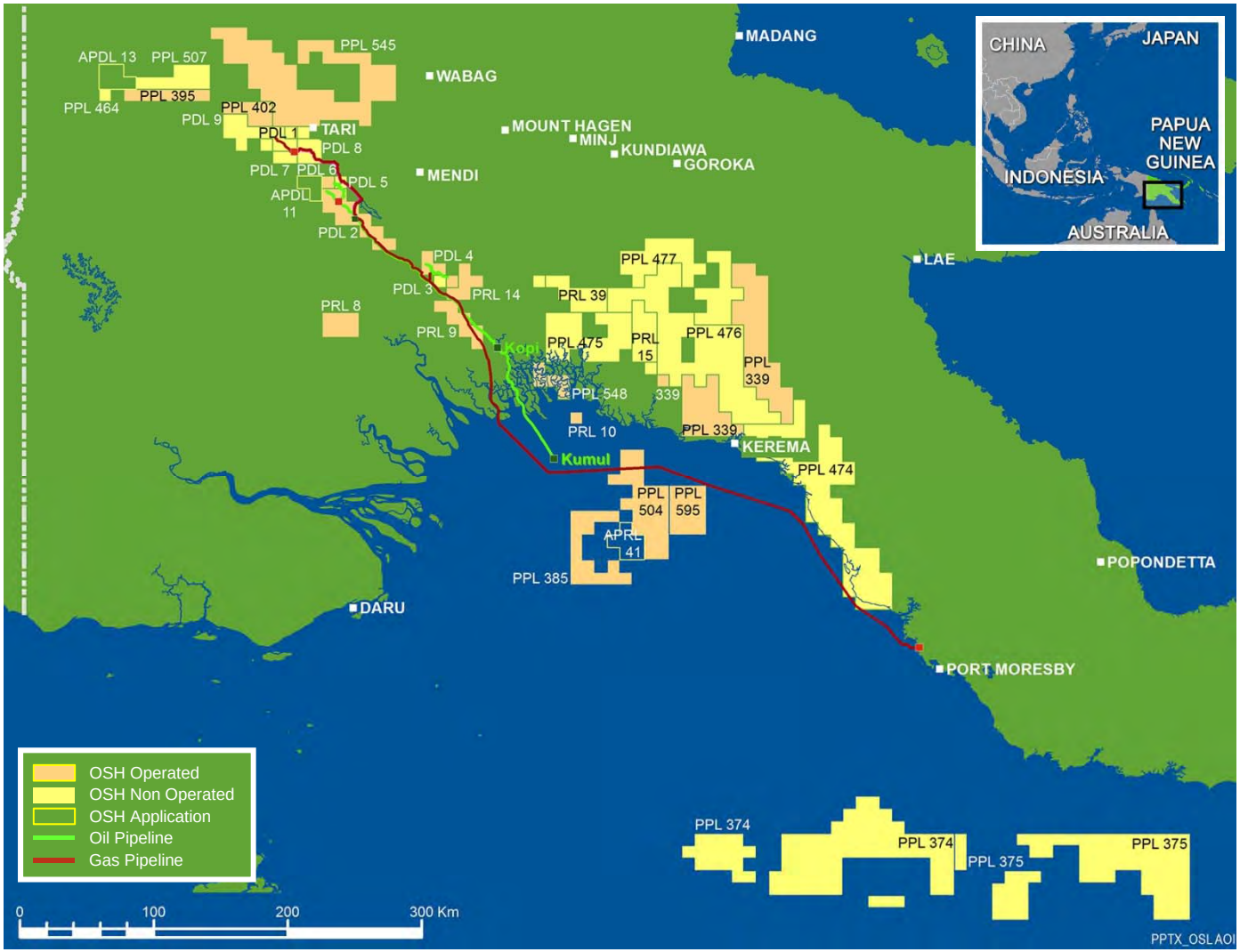
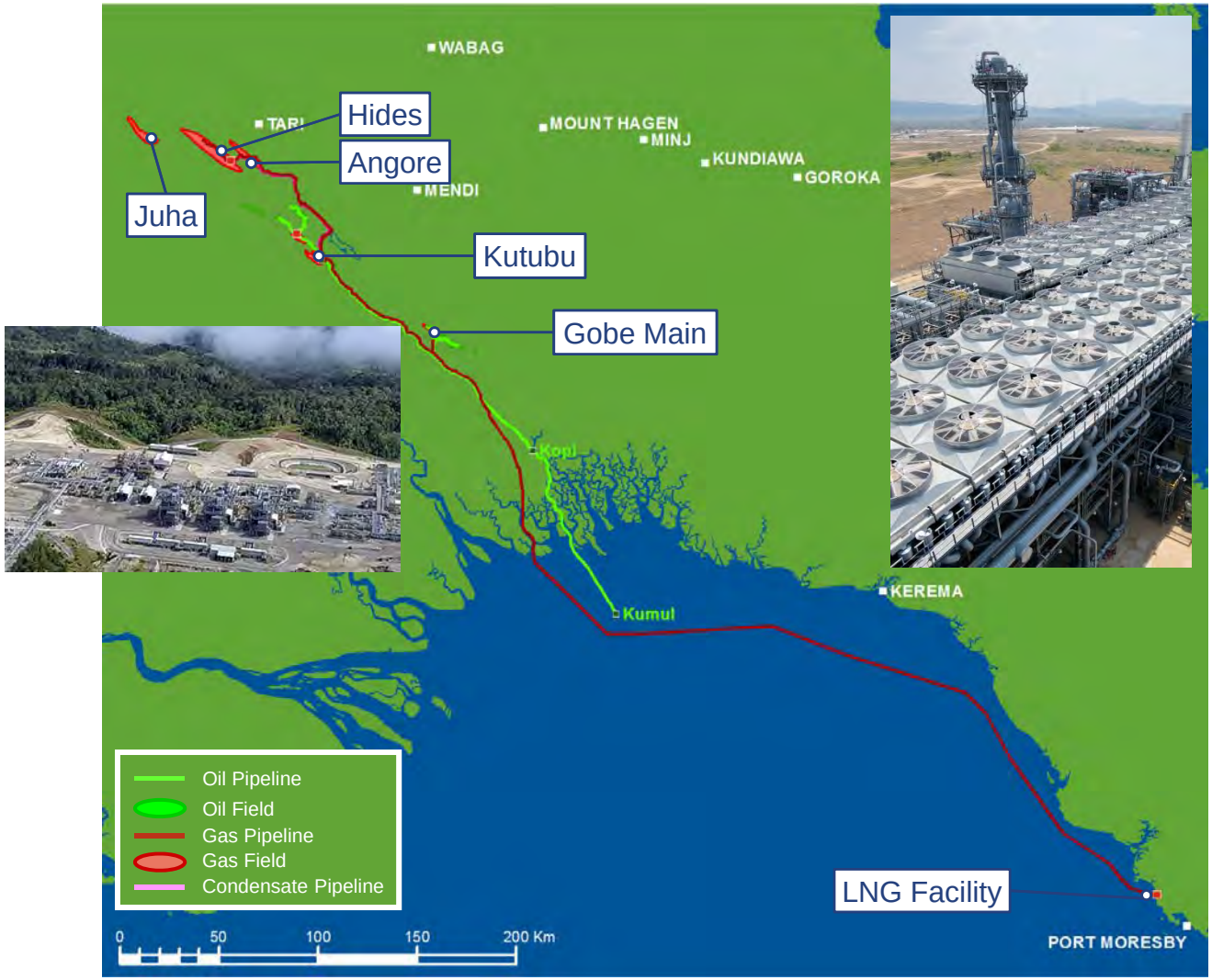
Oil Search

OIL SEARCH LICENCE INTERESTS



- Established in PNG in 1929
- 29% interest in PNG LNG Project, operated by ExxonMobil, ~60% interest in PNG's producing oil fields, operated by Oil Search
- Pursuing major LNG growth opportunities in partnership with ExxonMobil and Total:
  - >10 tcf 2C undeveloped gas resource available to support expansion
- Material gas exploration upside in PNG
- Market capitalisation ~A$11bn (~US$8bn)
- Listed on ASX (Share Code: OSH) and POMSOX, plus US ADR programme (Share Code: OISHY)

PNG LNG PROJECT PERFORMING WELL ABOVE EXPECTATIONS



- Outstanding performance by PNG LNG since it came onstream in mid-2014:
  - Record annualised production rate achieved in 3Q17 of 8.6 MTPA (~25% above nameplate), following compressor upgrades in May
  - Sales supported by 50% and 12% increase in 1P and 2P gas reserves, respectively, following recertification by Netherland Sewell in early 2017
- Further work on compressors planned for 4Q17 should enable current higher levels of production to be maintained / exceeded
- Modifications to Hides Gas Conditioning Plant (HGCP) and work on tie-in of two Angore wells planned in 1H18, new wells expected onstream in mid '19. HGCP optimisation benefits expected from 2H18 onwards

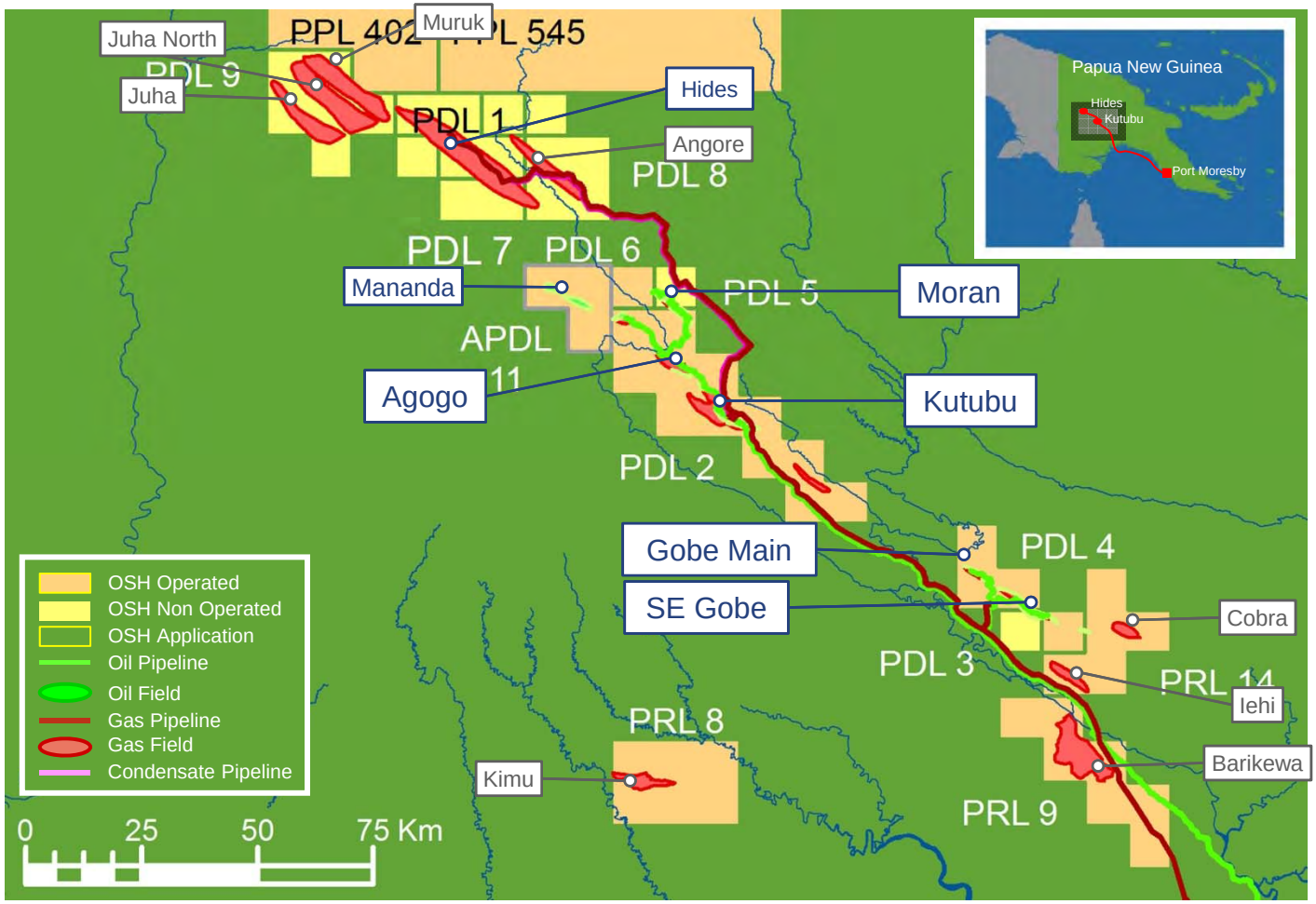
MARKETING OF UP TO 1.3 MTPA – PROPOSALS UNDER EVALUATION

- 6.6 MTPA sold under 20 year take-or-pay contracts with JERA, Osaka Gas, Sinopec and CPC, with balance of production currently sold on spot market
- Additional 1.3 MTPA of short-medium term duration LNG volumes being marketed by ExxonMobil on behalf of PNG LNG Project participants
- Strong interest from market:
  - Expressions of interest from top-tier buyers, including end users and LNG traders
  - Proposals currently being evaluated
- Contracts likely to be 2-5 years in maturity

EXISTING MARKETS FOR CONTRACTED LNG VOLUMES



OPPORTUNITIES BEING MATURED TO MITIGATE OIL FIELD DECLINE



- Production from mature oil fields being actively managed
- In-field development and appraisal targets and near field exploration prospects, being matured for drilling in 2018/19
- Potential to add material oil resource, mitigate long-term oil decline
- Commercially very attractive given proximity to infrastructure

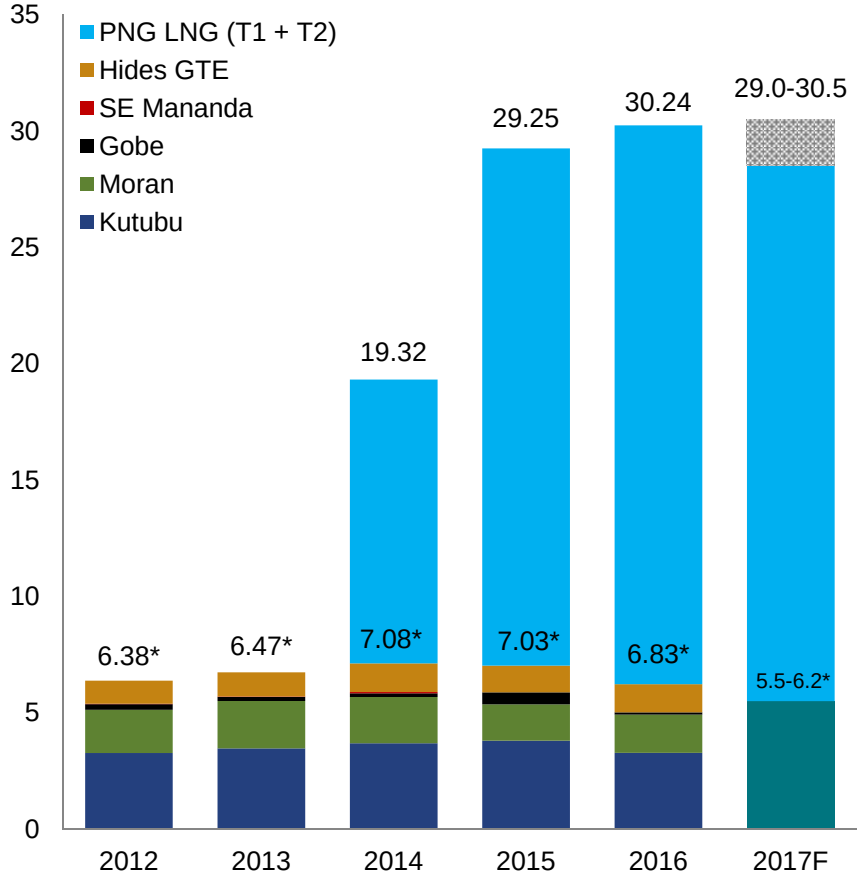
ON TRACK TO DELIVER 2017 PRODUCTION AT UPPER END OF GUIDANCE RANGE

- **2017 FY production forecast of 29.0 – 30.5 mmboe:**

Production	2017 Guidance[1]
Oil Search operated fields	5.5 – 6.2 mmboe[2,3]
PNG LNG Project	23.5 – 24.3 mmboe[2]
Total Production	29.0 – 30.5 mmboe

- Production for nine months to 30 September 2017 of 22.7 mmboe
- Lower oil production offset by higher contribution from PNG LNG Project

OIL SEARCH NET PRODUCTION (MMBOE)[1,2]



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

* Oil Search operated production, including SE Gobe gas sales to PNG LNG Project

- Notes:

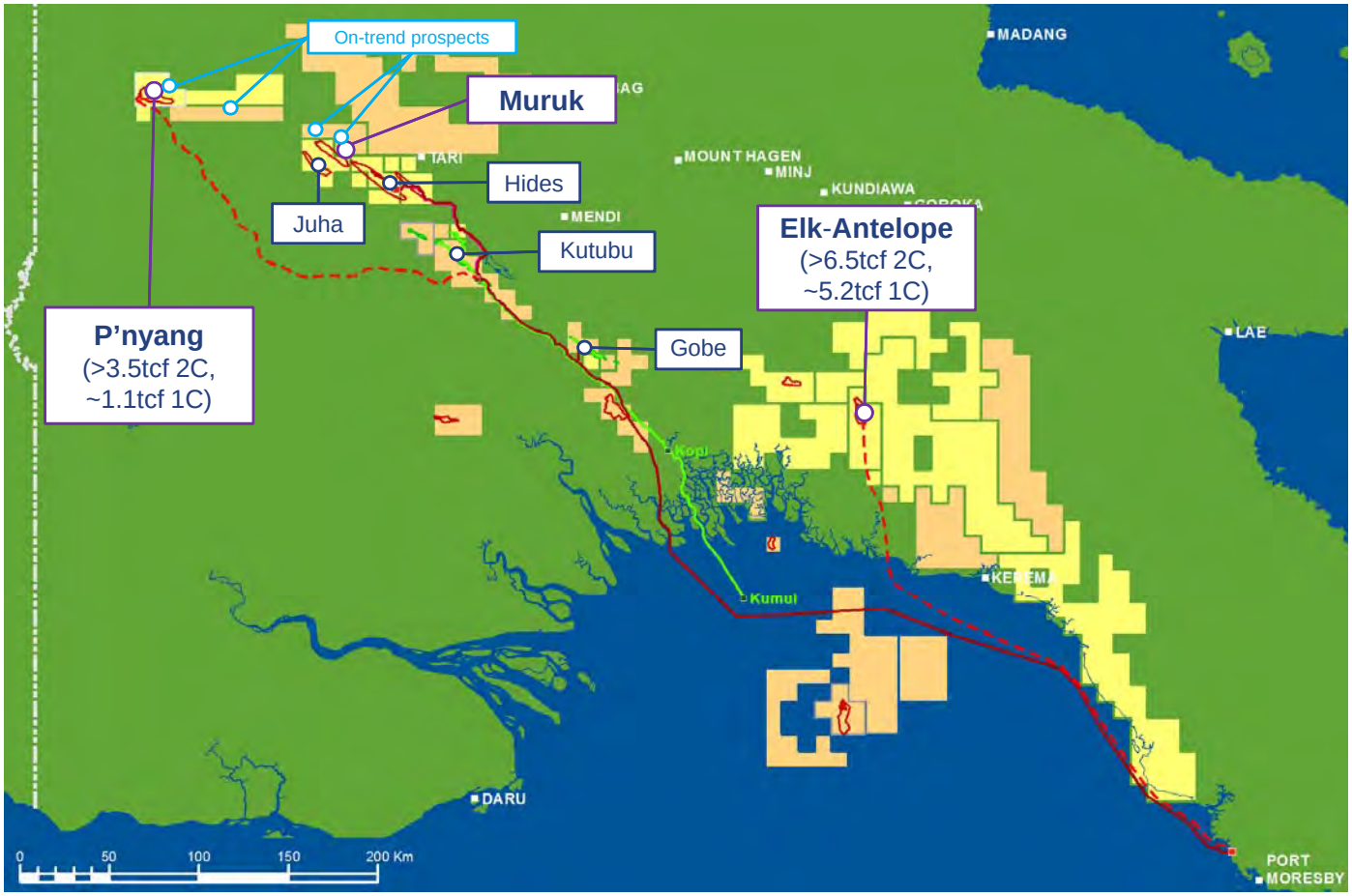
[1] Numbers may not add due to rounding.

[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%).`

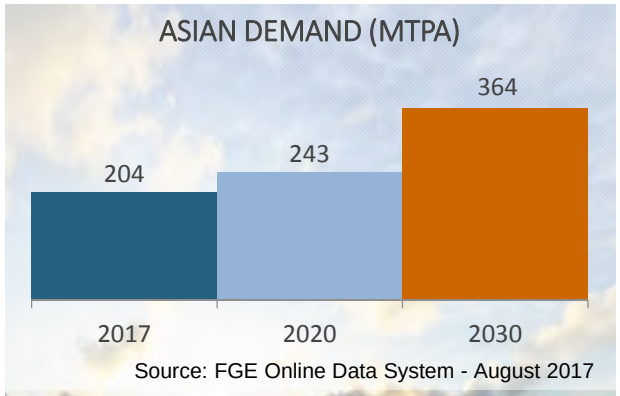
ROBUST PLATFORM FOR LNG EXPANSION

PROVEN SOURCES OF GAS FOR EXPANSION THROUGH PNG LNG PLANT SITE

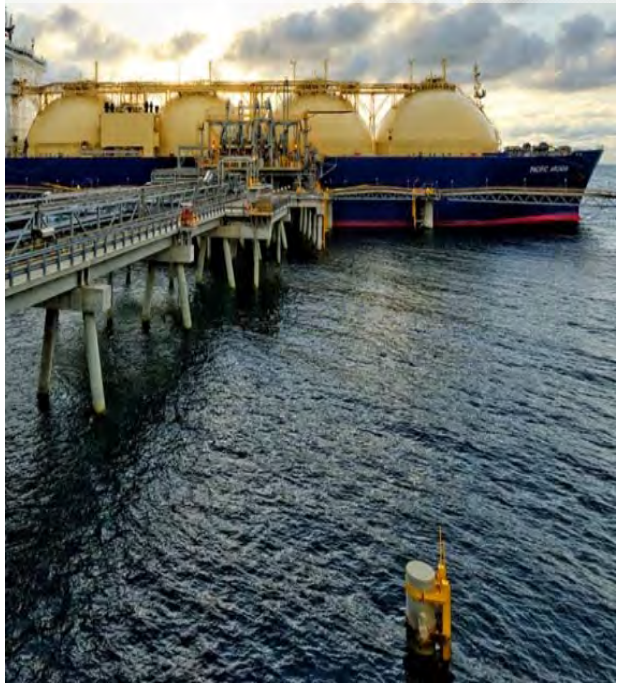


- >10 tcf undeveloped gas from Elk-Antelope and P'nyang plus potential additional low cost gas from Foundation Project fields
- Full stakeholder alignment on processing gas at PNG LNG plant site, to deliver lowest cost, earliest expansion
- >8 MTPA new train capacity for 15-20 years at plateau
- Longer term production optionality from Muruk, Hides-P'nyang trend and onshore Papuan Gulf Basin – potential third expansion train?
- Strong North-Asian LNG market for start-up timing of high quality, reliable LNG expansion volumes from PNG. OSH equity share ~2 MTPA

STRONG LONG-TERM GLOBAL LNG MARKET FUNDAMENTALS



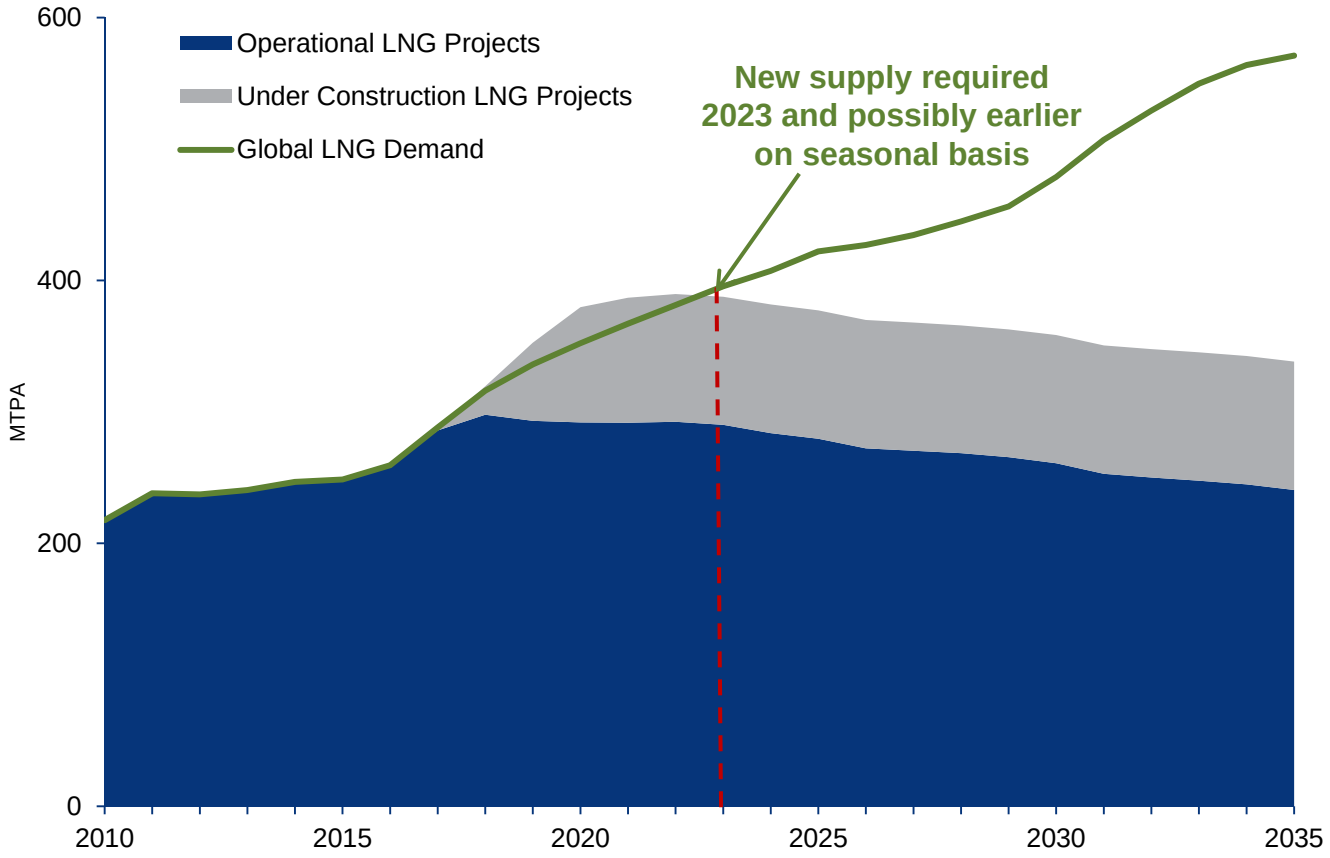
Source: FGE Online Data System - August 2017



- LNG importing countries/LNG buyers expected to grow to >100 by 2020:
  - Traditional exporters as buyers for domestic requirements eg Indonesia
  - New buyers emerging: Thailand, Singapore, Bangladesh, Vietnam, Pakistan, Philippines, Egypt, Jordan etc
- Strong demand growth in Asian markets (1H16-1H17):
  - China (+37%), South Korea (+14%), Taiwan (+12%), Japan (+9%)
- Global demand expected to reach >460 MTPA by 2030, with Asian demand comprising more than two thirds
- Key North Asian markets such as Korea and Taiwan prioritising LNG over coal and nuclear. China environmental policies encouraging fuel switching
- >70 MTPA of Japanese, Korean and Chinese contracts expected to expire between 2017-2025, much sourced from projects in decline. New supply sources required, with buyers seeking supply source diversification
- LNG usage expanding (eg merchant shipping)
- FSRUs supporting demand growth, enabling faster delivery to markets

MARKET FOR GLOBAL LNG SUPPLY FROM 2023, POSSIBLY EARLIER

GLOBAL LNG SUPPLY DEMAND BALANCE



Source: WoodMac – June 2017

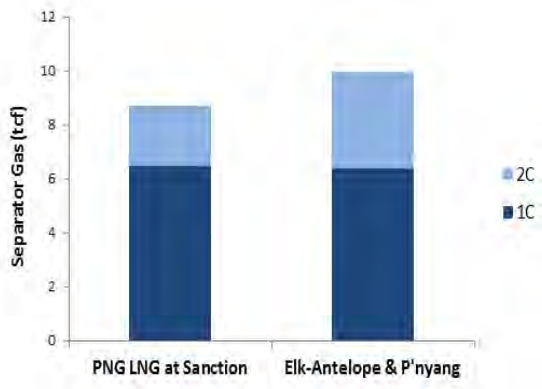
- Entering into period when LNG capacity exceeds demand
- However, only 7.2 MTPA of new LNG capacity sanctioned in 2016 and 2017 to date:
  - Potential for supply shortfall in late 2020s
- LNG expansion from PNG ideally placed to secure premium Asian buyers
- Geographical proximity and competitive cost brownfield expansion
- High heating value gas,
- PNG represents geographical supply diversification
- >10 tcf undeveloped resources with overlapping ownership interests
- PNG LNG, Elk-Antelope and P'nyang co-operation will deliver low cost brownfield development with schedule certainty for buyers

SUBSTANTIAL RESOURCE BASE TO UNDERPIN >8 MTPA NEW CAPACITY AT PNG LNG PLANT SITE

- Final appraisal well, Antelope 7/7ST1, completed in February. No change to OSH resource estimate of 6.5 tcf in Elk-Antelope fields
- OSH-operated P'nyang South 2 well to spud shortly:
  - Objective to move 2C resource into 1C category
  - Also likelihood of increasing existing 2C resource >3.5 tcf
  - Resource certification to follow well completion
- PNG LNG foundation fields' excellent performance and recent recertification plus accelerated gas production from oil fields provide potential lowest cost gas to front-end part of expansion capacity
- Muruk result confirms high quality reservoir, increasing longer term optionality for field sequencing. Reduces risks on leads and prospects along Hides-P'nyang trend

Resource (tcf)	1C	2C
Elk-Antelope	5.2	6.5
P'nyang	1.1	3.5
Muruk	TBC	TBC
	>6.3	>10.0

Sufficient resources to underpin >8 MTPA capacity



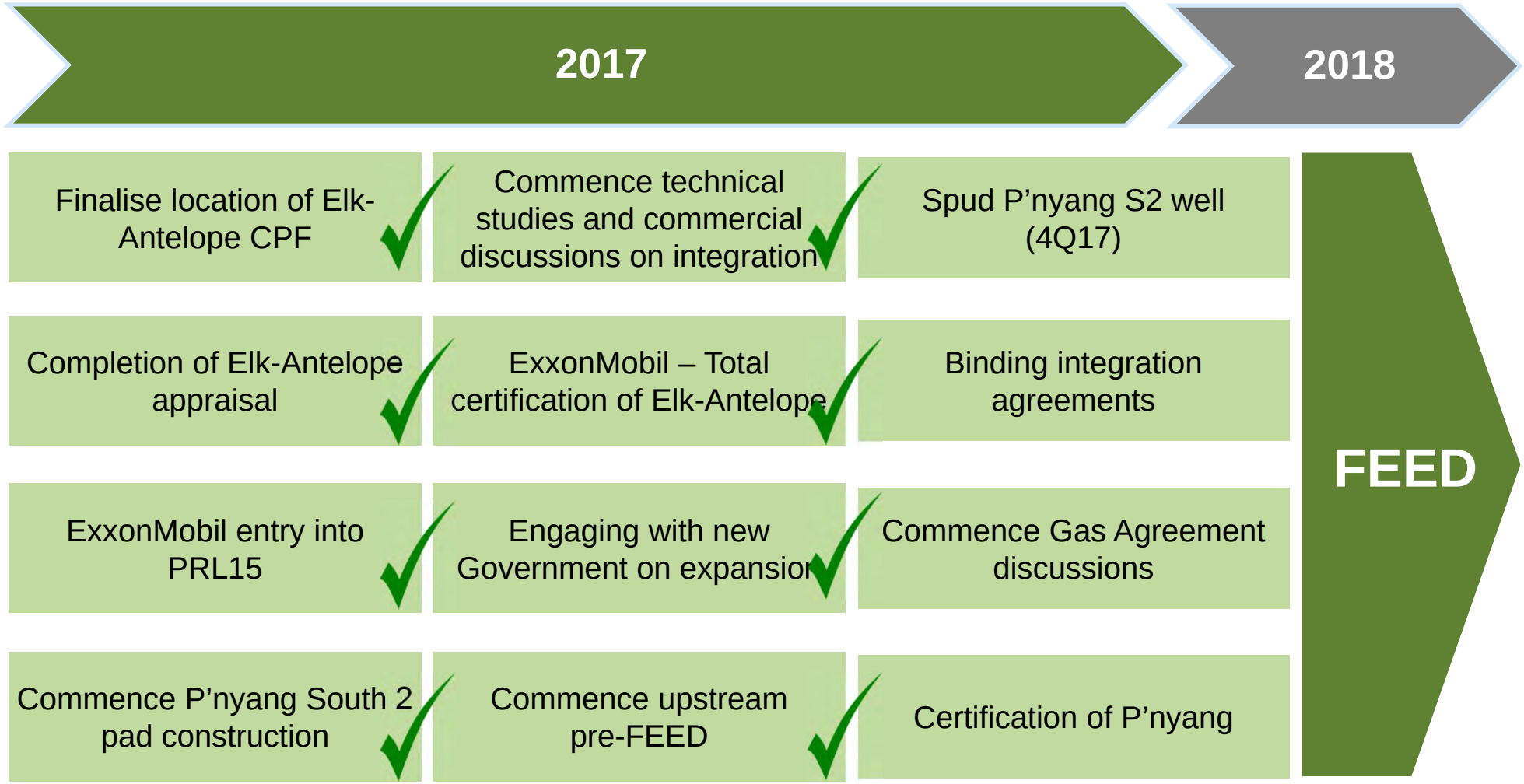
US$2-3BN COST AND >US$125M ANNUAL OPEX SAVINGS FROM COOPERATIVE LNG EXPANSION

- Discussions on LNG expansion progressing between ExxonMobil, Total and OSH. Confirmed intent to pursue integrated development
- Targeting alignment on commercial model in 4Q17 with new Government, followed by Gas Agreement negotiations
- OSH playing proactive role with partners and Government to facilitate FEED entry as early as possible in 2018

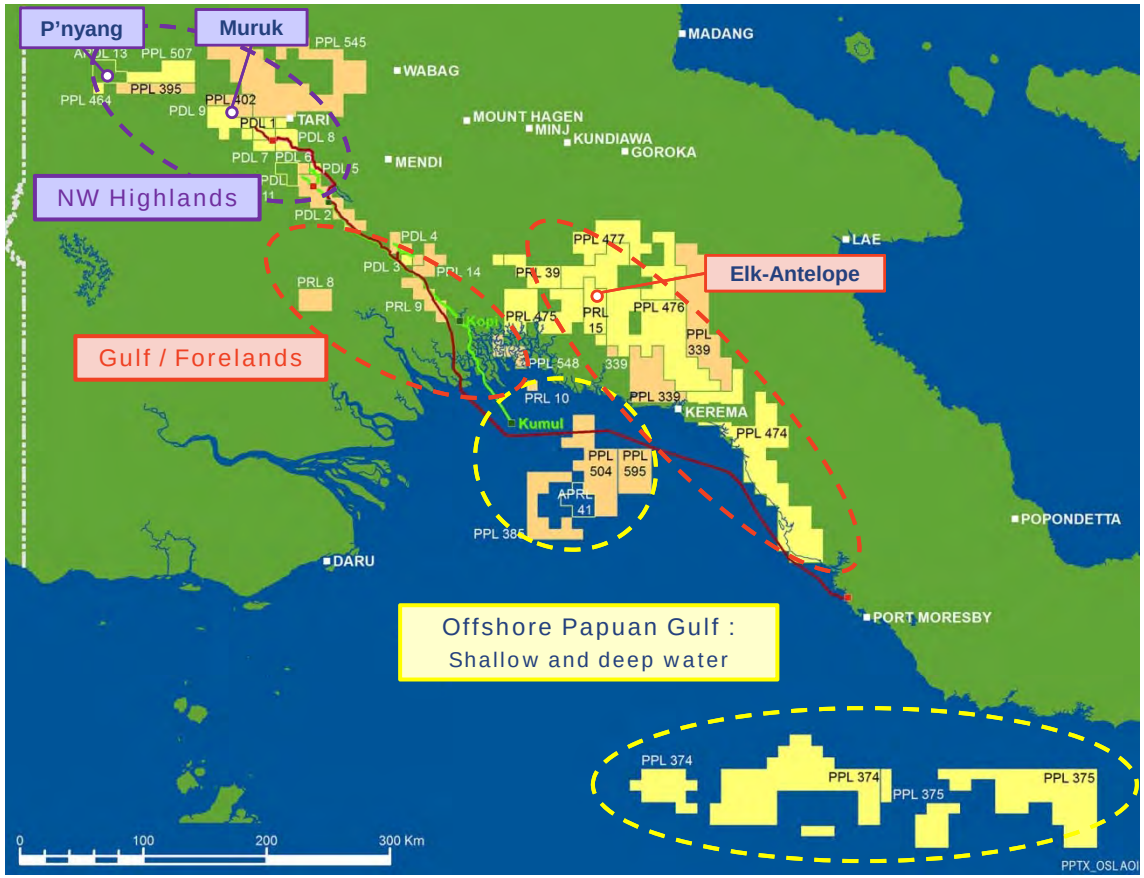
- Key issues being discussed:
  - Integration principles – including capacity and cost sharing
  - LNG marketing (equity or joint) and commercial model for financing
  - Exploration alignment onshore Gulf and offshore



MATERIAL PROGRESS ON KEY LNG EXPANSION WORK STREAMS



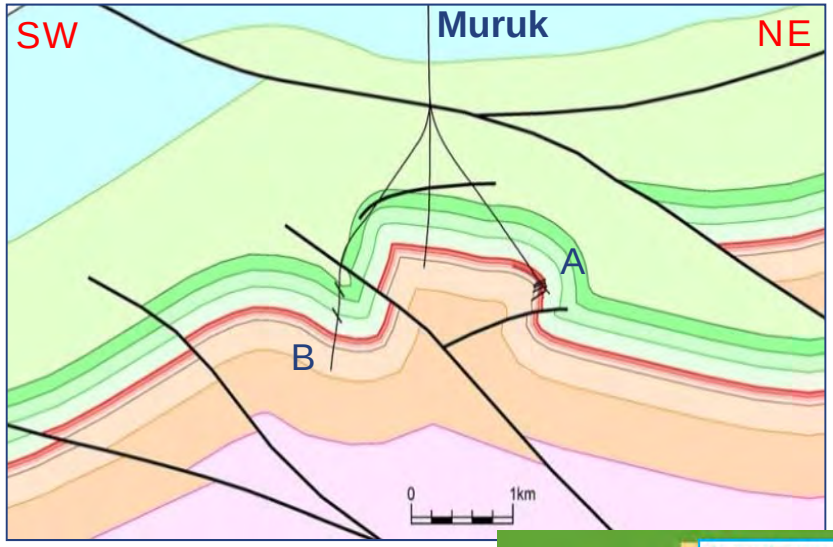
WORLD CLASS ACREAGE, WITH MULTIPLE MATERIAL PLAYS TO SUPPORT LNG GROWTH

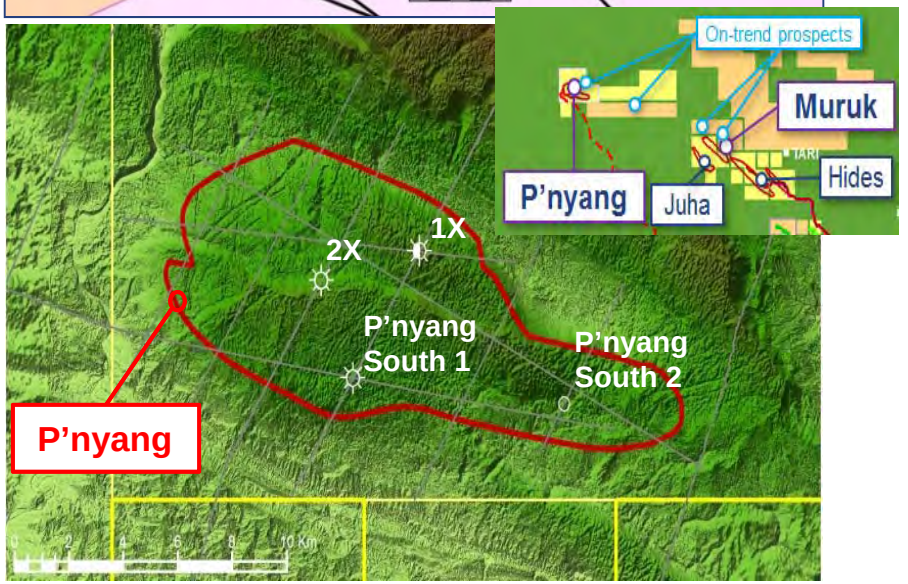


- Focused licence acquisition programme:
  - 16+ licences and manageable programme
  - Trend capture and high-graded drilling
- Expanded PNG acreage focused on four potential LNG-scale hubs:
  - NW Highlands
  - Gulf/Forelands
  - Shallow Offshore Gulf
  - Deepwater Gulf
- Successful partnering:
  - Appropriate equity levels to manage capital
  - Operatorship of key licences
  - Strategically aligned JVs
- Opportunity, not commitment, driven
- PNG's yet-to-find potential estimated at 40 tcf gas, >550 mmbbl oil, with giant fields predicted

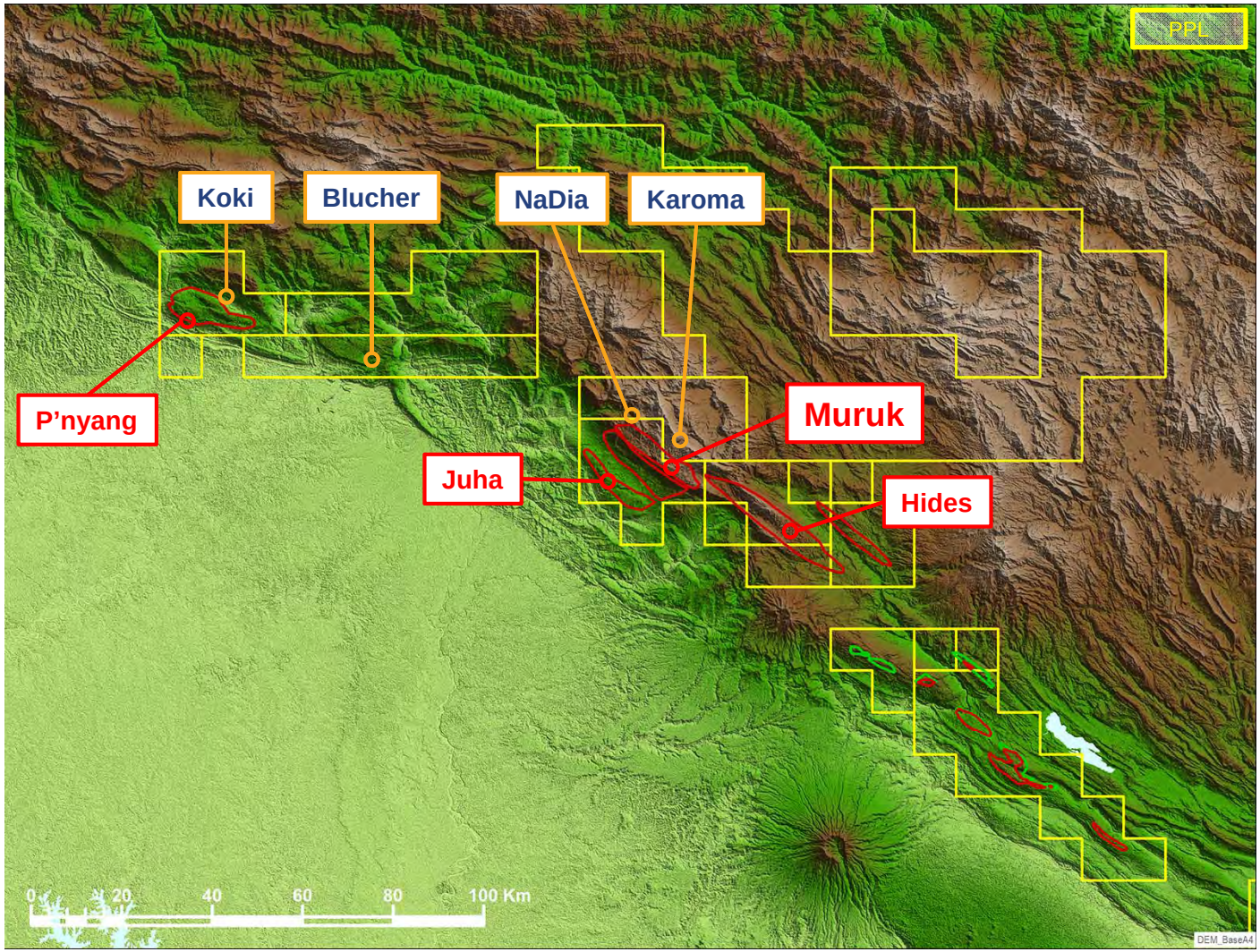
MATERIAL GAS DISCOVERY AT MURUK, BETWEEN HIDES AND P'NYANG

- Muruk 1 and sidetracks have discovered two new hydrocarbon pools (Muruk A & B) with 1 – 3 tcf potential:
  - ~ 780 metres highest to lowest known gas
  - Two separate compartments (hanging wall and footwall)
  - Located ~21 km from closest producing PNG LNG infrastructure
  - Development of Muruk would aid Juha tie-in
- Muruk 2 location agreed by PDL 9 joint venture (11 km NW step out). Site preparation and EIA underway, planned to spud late 1Q18 with two objectives to help constrain volume:
  - Appraise how far structure extends to NW
  - Determine gas-water contact
- P'nyang South 2 well to spud shortly:
  - Migrate 2C to 1C
  - Internal remapping supports potential upside to current 3.5 tcf 2C resource
  - Resource certification to take place after drilling





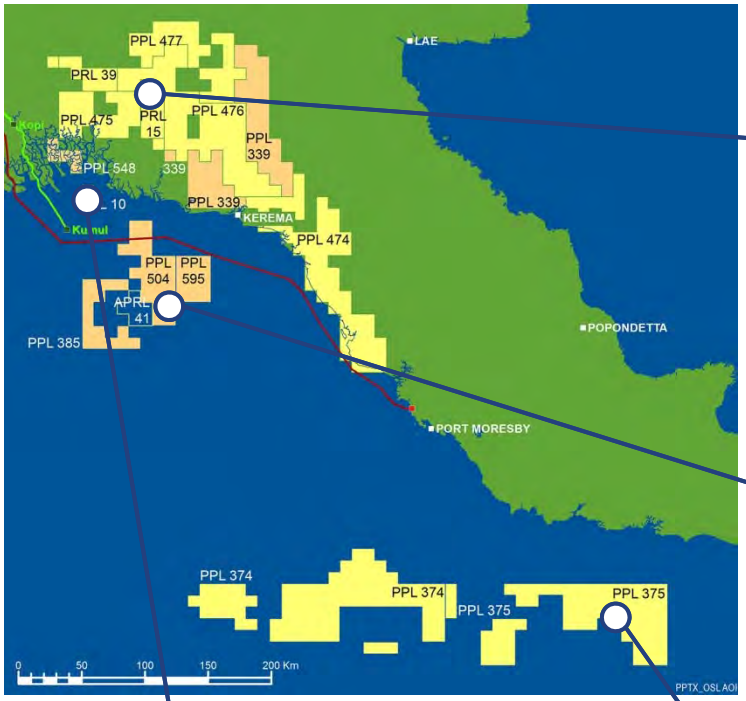
MURUK DISCOVERY MATERIALLY UPGRADES HIDES – P'NYANG TREND

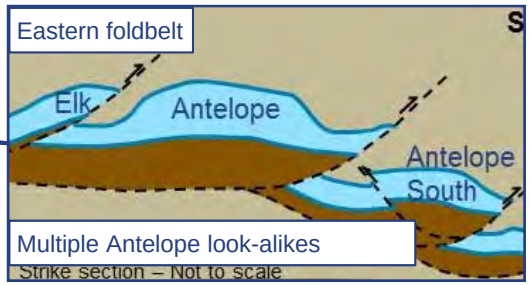


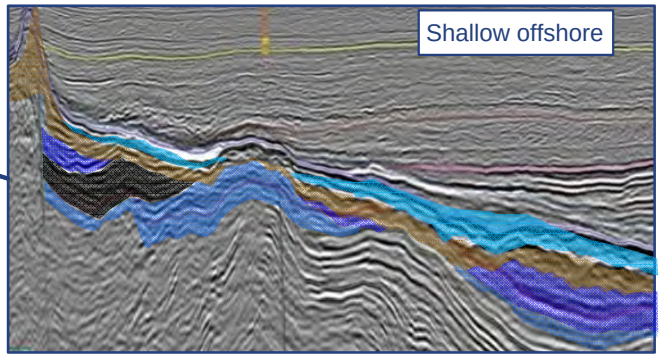
- Four additional multi-tcf prospects being matured, each 1- 3+ tcf mean unrisked
- 10 tcf+ unrisked potential along proven trend*
- Seismic programme over Koki and Blucher completed – analysis ongoing
- Seismic over Karoma planned for 4Q17
- 2018-19 multi-well programme, subject to seismic

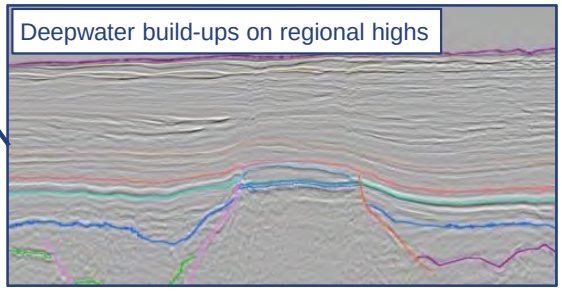
* Mean gross prospective resources. Summed prospective resource P50/best estimate is ~4.9 tcf. Numbers are based on OSH 2016 internal analysis. All estimates are unrisked.

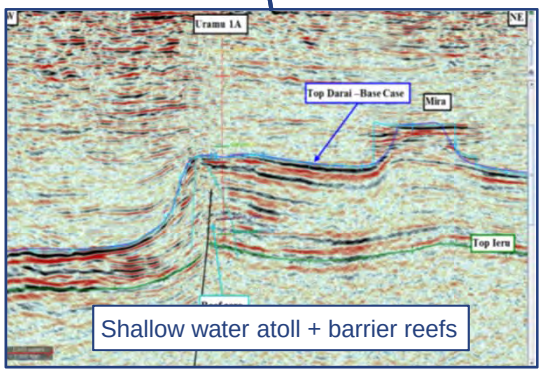
DIVERSITY OF HIGH POTENTIAL PLAYS IN EASTERN FOLDBELT AND OFFSHORE







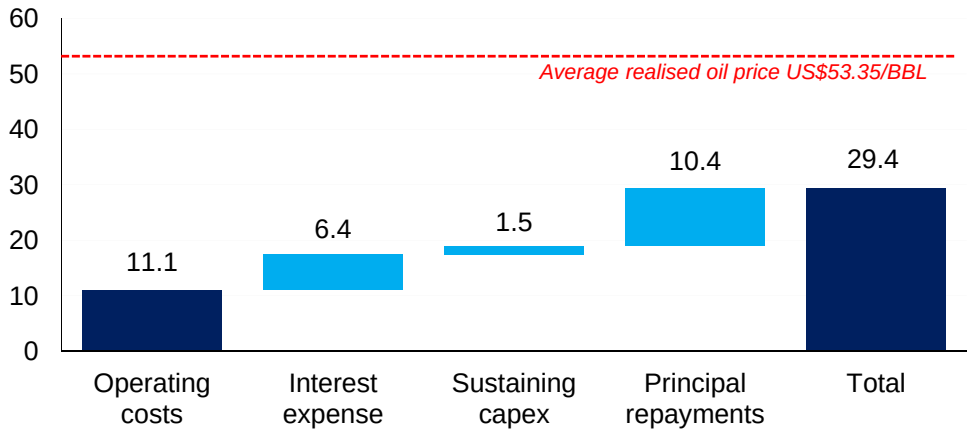




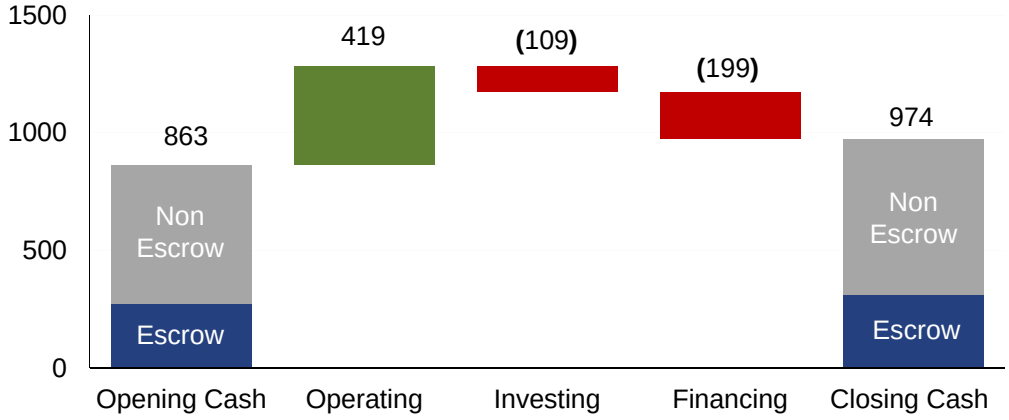
- Eastern Fold Belt opens up potential for multiple Antelope look-alikes and diversity of plays:
  - Major 200 km+ seismic programme (2017-18) and studies to prioritise targets
  - Drilling 2019+
- Variety of plays offshore:
  - High quality 2D (>20,000 kms) and 3D seismic
  - Clearly imaged mega structures
  - Gas indicators on seismic

ROBUST FINANCIAL METRICS, WITH SIGNIFICANT FUNDING FLEXIBILITY

1H17 CASH FLOW BREAK-EVEN ANALYSIS (US$/BOE)

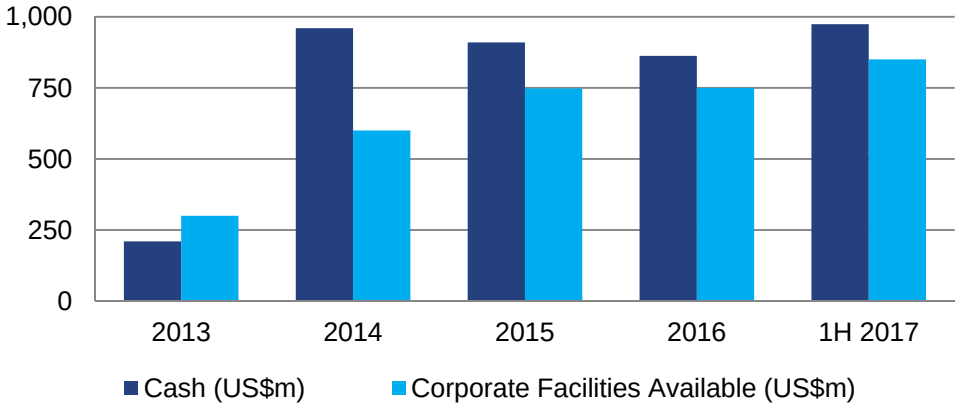


1H17 CASH FLOW WATERFALL (US$M)



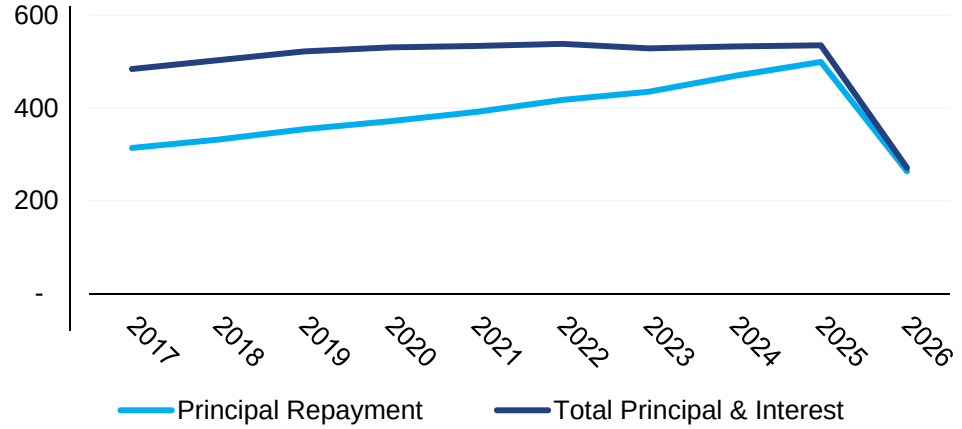
◈**Operating cash flow of US$29.57/boe**

LIQUIDITY (US$M)



◈**Flexible balance sheet with US$1.97bn of liquidity (3Q17)**

INDICATIVE PNG LNG REPAYMENT PROFILE (NET, US$M)



PNG GOVERNMENT UPDATE

- In August, Hon. Peter O'Neill returned as Prime Minister, leading coalition government
- Government's 100 Day Economic Stimulus Plan focused on "ensuring sound macroeconomic and fiscal management, restoring confidence and generating investment". Priorities include:
  - Fiscal discipline and boosting foreign exchange
  - Simplification of tax system (no new taxes)
  - FEED for PNG LNG expansion in 2018 and early works for Papua LNG
  - Resolution of PNG LNG landowner benefits distribution issues
  - In-country economic development, Port Moresby gas-fired power station, Biomass generation near Lae
- Opportunity to prioritise projects and ensure coordinated Government approach
- In late September, PNG Government sold its OSH shares. Block trade, well bid, with shares widely distributed to domestic and global institutional investors:
  - With reduced revenues due to lower commodity prices, Government spend to be focused on priority areas of health, education, infrastructure development
  - Government recovered pre-paid financing costs on UBS/JP Morgan loan
  - Sale does not diminish excellent relationship between Government and OSH



Hon Peter O'Neill
Image courtesy Media Unit, Department of Prime Minister and National Executive Council

SOCIAL RESPONSIBILITY AND MAINTAINING A STABLE OPERATING ENVIRONMENT

- Long-standing commitment to operating responsibly and to sustainable development in PNG, both directly and through Oil Search Foundation, with focus on health, community, power, infrastructure, leadership and education, women's empowerment etc
- Focus on demonstrating value and benefits delivered already by PNG LNG Project to PNG and landowners:
  - ~K3bn (~US$1.16bn) generated by PNG LNG Project to date for State, Provincial Governments and landowners through equity distributions, development levies and royalties. ~K2.5bn (~US$0.95bn) has flowed to relevant recipients
  - First landowner royalty payments paid in September, in line with Government's 100 Day Plan
- Material issues risk management:
  - Climate change risk management
  - Implementation of Human Rights Plan and VPSHR Report in early 2018



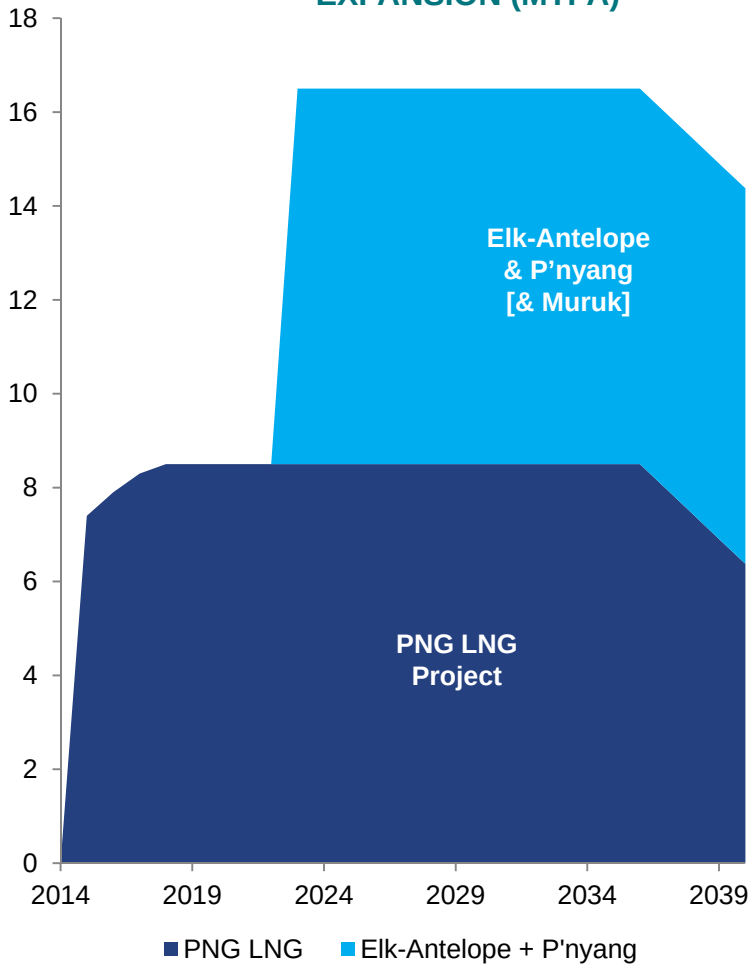





CONCLUSION

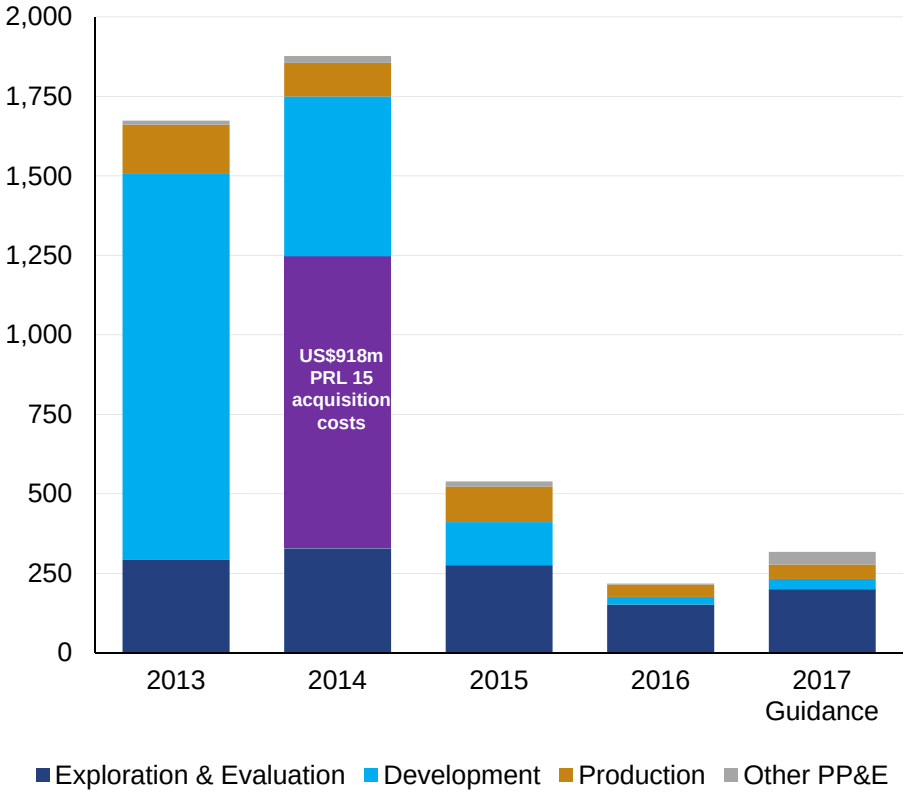
- Excellent performance from operations:
  - PNG LNG operating ~25% above nameplate
  - Additional capacity supported by significant 1P and 2P reserve upgrade in Foundation fields
  - Targeting longer term growth from mature operated PNG oil fields through near field exploration
- >10 tcf 2C of discovered undeveloped gas in Elk-Antelope and P'nyang:
  - Can support additional 8+ MTPA expansion capacity
  - Discussions on coordinated LNG expansion underway
- Muruk gas discovery – potentially significant new gas field, significantly increases prospectivity of Hides-P'nyang trend, increases gas optionality
- Continue to build and high-grade exploration portfolio, with material exploration potential to drive further growth
- Comprehensive in-country community-based programmes underwriting stable operations
- Flexible balance sheet, strong operating cash flows and sufficient liquidity to fund growth activities

INDICATIVE LNG PRODUCTION PROFILE WITH EXPANSION (MTPA)



2017 FULL YEAR GUIDANCE

2017 CAPITAL COST GUIDANCE (US$295 – 340M)



Exploration & Evaluation: US$190 – 210m
Development: US$30 – 35m
Production: US$40 – 50m
Other PP&E: US$35 – 45m

Production	2017 Guidance[1]
Oil Search operated	5.5 – 6.2 mmboe[2,3]
PNG LNG Project:	
LNG	102 – 105 bcf
Power	0.62 – 0.65 bcf
Liquids	3.3 – 3.6 mmbbl
Total PNG LNG Project	23.5 – 24.3 mmboe[2]
Total Production	29.0 – 30.5 mmboe
Operating Costs	
Production costs	US$8.50 – 9.50 / boe
Other operating costs[4]	US$125 – 135 million
Depreciation and amortisation	US$11.50 – 12.50 / boe

[1] Numbers may not add due to rounding.
[2] Gas volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale.
[3] Includes 2.8 – 3.0 bcf (net) of SE Gobe gas sales exported to the PNG LNG Project (OSH – 22.34%).
[4] Includes Hides GTE gas purchase costs, royalties and levies, selling and distribution costs, rig operating costs, power expense and corporate administration costs (including business development) and other expenses

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