ASX Announcement

Activities for the Quarter ended 30 June 2017

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

18 July 2017

Highlights

	Quarter End			Half Year		
	Jun 2017	**Mar 2017**	*% change*	**1H 2017**	**1H 2016**	*% change*
Total production (mmboe)	**7.24**	7.57	*-4%*	**14.81**	14.89	*-1%*
Total sales (mmboe)	**6.96**	7.22	*-4%*	**14.18**	15.17	*-6%*
Total revenue (US$m)	**332.5**	343.7	*-3%*	**676.2**	580.8	*+16%*

- **Strong Production Performance despite Planned Maintenance**

  Total production in the second quarter of 2017 was 7.24 million barrels of oil equivalent (mmboe), 4% lower than in the previous quarter. This was due to planned maintenance activities at Oil Search's operated facilities, as well as at the PNG LNG plant. Total production for the first half of 2017 was 14.81 mmboe, similar to 2016 first half production, and the Company remains on track to deliver 2017 production within the 28.5 – 30.5 mmboe guidance range.

- **PNG LNG reaches Record Monthly Average of 8.65 MTPA following Compressor Upgrade**

  Production net to Oil Search from the PNG LNG Project was 5.90 mmboe. The Project operated at an annualised rate of approximately 8.1 MTPA during the period, 3% lower than the level achieved in the first quarter, due to scheduled maintenance in May, but averaged 8.65 MTPA in June, the highest monthly rate achieved since start-up.

- **Strong Customer Interest in New LNG Offtake Agreements**

  ExxonMobil continued marketing up to 1.3 MTPA from the PNG LNG Project, with high levels of interest received from potential customers.

- **First Half Sales Revenue 16% Higher than in 2016**

  Total hydrocarbon sales were 4% lower than in the first quarter, due to the maintenance shut downs and timing of liftings, with three LNG cargoes on the water at the end of the quarter. The average realised LNG and gas price was US$7.93/mmBtu, 7% higher than the first quarter average, while the average realised oil and condensate price decreased by 8%, to US$50.99/barrel. Total revenue for the period was US$332.5 million, taking total revenue for the half year to US$676.2 million, 16% higher than in the first half of 2016.

Oil Search Limited
Incorporated in
Papua New Guinea
ARBN 055 079 868

Head office
Port Moresby
Papua New Guinea

Sydney office
1 Bligh Street
Sydney NSW 2000
Australia

Mailing address
GPO Box 2442
Sydney NSW 2001
Australia

Tel: +61 2 8207 8400
Fax: +61 2 8207 8500
www.oilsearch.com

- **Encouraging Results at Muruk**

  The drilling programme at Muruk 1 in PPL 402 concluded during the quarter. A third sidetrack, Muruk 1ST3, was drilled to the south-west of the discovery well and proved the presence of a second gas-bearing fault block. Production testing confirmed a good quality reservoir with high deliverability, consistent with Toro reservoirs in the Central Fold Belt. Given these encouraging results, a comprehensive appraisal programme is planned over the field. Seismic acquisition over Muruk and adjacent exploration targets is planned for the fourth quarter, while well site preparations for a Muruk appraisal well are targeted to commence in late 2017, for drilling in 2018, subject to Joint Venture approval.

- **Excellent Further Exploration Potential between Hides and P'nyang**

  The Muruk gas discovery has de-risked several leads and prospects on-trend between Hides and P'nyang. Seismic acquisition, operated by Oil Search, took place along this trend during the quarter, with further seismic planned to be acquired, commencing in the fourth quarter after the rainy season.

- **Preparations Underway for P'nyang Appraisal**

  Site preparation for the P'nyang South 2 appraisal well progressed, with the well expected to commence drilling in the fourth quarter of 2017. Recent work by Oil Search has indicated potential 2C resource upside in P'nyang, as well as the presence of a number of interesting prospects adjacent to the field.

- **Farm-in to Prospective Onshore Gulf Licences**

  As part of the recent proposed farm-in arrangements with ExxonMobil affiliates to a range of licences in the onshore Papuan Gulf Basin, Oil Search will commence a seismic acquisition programme over the acreage, on behalf of the joint ventures, in the third quarter of 2017.

- **Developing Dialogue on Next Phase of LNG Expansion/Growth**

  Discussions regarding possible upstream and downstream cooperation and development options continued over the quarter, with various development concepts being reviewed.

- **Increased Balance Sheet Flexibility:**

  In June, Oil Search secured a new five year, non-amortising, revolving credit facility of US$600 million, to replace its US$500 million corporate facility. Due to strong interest from the bank market and the attractive terms offered, the facility size was increased. Together with the two existing bilateral facilities totalling US$250 million, the Company has total available facilities of US$850 million, all of which remain undrawn.

- **Strong Liquidity Position:**

  At the end of June 2017, the Company held cash of US$974 million and available credit facilities of US$850 million, taking total liquidity to US$1.82 billion. The Company's gross debt was US$3.79 billion, all of which relates to the PNG LNG project finance facility.

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

“2017 second quarter production of 7.24 mmboe was a solid result for the Company, given that scheduled maintenance at the Company’s operated Central Processing Facility (CPF) and Agogo Processing Facility (APF) and at the PNG LNG Project plant site took place in May.

A number of activities which will help ensure ongoing safe and reliable operations at the CPF and APF were completed successfully during the 17 day shutdown. The PNG LNG plant maintenance was also completed smoothly and efficiently, with annualised production for the quarter averaging 8.1 MTPA. Production rates picked up substantially towards the end of the period following the compressor upgrades completed during the maintenance programme, with the plant averaging 8.65 MTPA in June, the highest monthly rate recorded by the Project.

Strong interest has been shown from potential customers for the additional LNG volumes currently being marketed by ExxonMobil on behalf of the PNG LNG Project. Should contracts be secured for the full 1.3 MTPA being offered, this would take total contracted volumes to 7.9 MTPA.

Engagement between ExxonMobil, operator of both the PNG LNG Project and P’nyang, and Total, operator of Elk-Antelope, took place during the quarter, focused on progressing the next phase of LNG development in PNG. Various development concepts for the Elk-Antelope and P’nyang gas fields are being discussed. Oil Search believes the most likely development concept is based on the construction of two LNG expansion trains located at the PNG LNG Project plant site, thereby utilising existing downstream infrastructure, utilising the existing resources in the Elk-Antelope and the P’nyang gas fields. With PNG National and Local Government elections currently in full swing, the joint venture partners are working towards being in a position to present an aligned view on the development to the new PNG Government once it is formed, which we expect will be in the late third quarter/early fourth quarter. We believe that LNG expansion will be a key focus for the new Government, which will be seeking to see a development move forward in a timely manner.”

Encouraging exploration/appraisal results, with activity set to accelerate

“Drilling of the third sidetrack on the Muruk gas discovery, Muruk 1ST3, was completed in June and the well was subsequently tested. While limited by surface and downhole tubing constraints, the results were encouraging and indicated that Muruk has excellent reservoir and deliverability characteristics. Following the test, permanent downhole pressure gauges were placed in the wellbore for future pressure monitoring and the rig is being kept on location in preparation for further drilling. The Muruk structure has been found to extend into PDL 9, so the PPL 402 and PDL 9 joint venture partners are now working together to develop a comprehensive appraisal programme to commence in late 2017/early 2018, comprising both further seismic acquisition and additional drilling.

During the quarter, the PRL 3 Joint Venture approved the drilling of the P’nyang South 2 well, which is expected to spud in the fourth quarter of 2017. Site preparations are now well advanced, with Oil Search overseeing both the construction of the well pad and drilling operations on behalf of the PRL 3 Joint Venture. The primary objective of the P’nyang South 2 well is to migrate 2C (proven and probable contingent resource) volumes to the 1C (proven contingent) category, with recertification of the field planned after drilling. However, recent work by Oil Search has also highlighted the potential for upside in 2C resources. A seismic programme over prospects in the P’ynang area is nearing completion, which will assist in maturing potential targets for drilling.

Well pad construction for the Barikewa and Kimu appraisal wells will commence shortly, with the first well expected to spud in late 2017. A new, highly mobile, land rig, with a small footprint, will be used for this programme. These wells are focused on testing the upside resource base of these fields. If successful, both fields are ideal candidates for commercialisation through small scale LNG projects supplying gas to domestic and/or regional markets.

During the quarter, we entered into provisional arrangements with ExxonMobil affiliates to farm in to five licences in the onshore Papuan Gulf Basin. The licences, PPLs 474, 475, 476 and 477 and PRL 39, are located in the same highly prospective geological province as the world-class Elk-Antelope fields. Through the rest of 2017 and into 2018, Oil Search will operate a seismic programme across these blocks on behalf of the joint ventures, focused on high grading leads and prospects for future drilling."

Rig negotiations

"To support and optimise the cost of our ongoing exploration activities in PNG, we have entered into formal and exclusive negotiations with High Arctic Energy Services to potentially exchange an equal share of the rigs that High Arctic has historically managed for Oil Search in PNG, under long-term agreements (Rigs 102, 103, and 104), for an equal share of High Arctic's owned rigs (Rigs 101, 115 and 116). Under this arrangement, the rigs will be jointly owned by High Arctic and Oil Search, with High Arctic managing the joint company.

It is estimated that potential savings in rig rates could be as much as 25% in the first twelve months, should this transaction go ahead.

The transaction, which is subject to a number of conditions precedent and respective company board approvals, is expected to be finalised by the end of 2017. In the interim, the current contracts for the operation of rigs 102, 103 and 104 by High Arctic are expected to be extended for one year at reduced rig rates."

Factors affecting the 2017 first half and full year results

"The 2017 first half results are scheduled to be released to the market on Tuesday 22 August. Production costs are expected to be in the lower half of the full year guidance range of US$8 - 10 per boe, comparable with production costs in the first half of 2016, with second half costs expected to be higher due to timing of major work programmes. Other operating costs are anticipated to be between US$53 million and US$57 million. Depreciation and amortisation is expected to be towards the lower end of the US$12 – 13 per boe guidance range.

As shown on page 12, US$24.9 million of exploration and evaluation expenditure, primarily related to the Antelope Deep well in PRL 15 and seismic, geological, geophysical and general and administration expenses in PNG, is expected to be expensed.

Net finance costs will be in the order of US$97 to US$100 million, consisting primarily of PNG LNG Project borrowing costs. The effective tax rate in the first half is expected to be slightly above the statutory rate of 30% due to one-off non-deductible costs, including business development costs.

All the above guidance is subject to the finalisation of the financial statements, Board review and the half year review by the Company's auditors.

All 2017 full year guidance is unchanged, with production expected to be 28.5 – 30.5 mmboe, production costs US$8 – 10 per boe, other operating costs of US$135 – 145 million and total capital expenditure of US$380 – 480 million.”

2017 SECOND QUARTER PERFORMANCE SUMMARY

Production[1]

	Quarter End			Half Year		Full Year
	Jun 2017	Mar 2017	Jun 2016	Jan-Jun 2017	Jan-Jun 2016	Dec 2016
Production data						
PNG LNG Project[2]						
LNG (mmscf)	25,581	26,299	23,583	51,880	49,402	101,827
Gas to power (mmscf)[3]	162	158	-	320	-	-
Condensate (‘000 bbls)	772	807	746	1,579	1,562	3,193
Naphtha (‘000 bbls)	75	77	56	153	121	258
PNG crude oil production (‘000 bbls)						
Kutubu	589	714	839	1,302	1,690	3,279
Moran	249	328	474	577	949	1,643
Gobe Main	5	5	6	10	12	24
SE Gobe	15	15	19	30	41	76
Total oil production (‘000 bbls)	858	1,061	1,338	1,918	2,692	5,022
SE Gobe gas to PNG LNG (mmscf)[4]	875	677	588	1,552	1,275	3,060
Hides GTE Refinery Products[5]						
Sales gas (mmscf)	1,459	1,430	1,354	2,889	2,695	5,573
Liquids (‘000 bbls)	28	27	27	56	55	113
Total barrels of oil equivalent (‘000 boe)[6]	7,239	7,574	7,173	14,812	14,895	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[1]

	Quarter End			Half Year		Full Year
	Jun 2017	Mar 2017	Jun 2016	Jan-Jun 2017	Jan-Jun 2016	Dec 2016
Sales data						
PNG LNG Project						
LNG (Billion Btu)	30,025	29,022	27,290	59,047	58,536	118,574
Condensate ('000 bbls)	638	796	804	1,434	1,622	3,371
Naphtha ('000 bbls)	57	93	62	150	150	302
PNG oil ('000 bbls)	733	977	1,287	1,710	2,626	5,097
Hides GTE						
Gas (Billion Btu)[2]	1,566	1,536	1,485	3,102	2,923	6,012
Condensate and refined products ('000 bbls)[3]	30	29	22	59	51	106
Total barrels of oil equivalent ('000 boe)[4]	6,960	7,219	7,200	14,179	15,168	30,593
Financial data (US$ million)						
LNG and gas sales	250.6	226.0	150.6	476.6	374.3	792.9
Oil and condensate sales	70.3	98.3	102.1	168.6	177.3	383.1
Other revenue[5]	11.6	19.3	14.9	30.9	29.1	59.9
Total operating revenue	332.5	343.7	267.7	676.2	580.8	1,235.9
Average realised oil and condensate price (US$ per bbl)[6]	50.99	55.17	48.67	53.35	41.61	45.04
Average realised LNG and gas price (US$ per mmBtu)	7.93	7.40	5.23	7.67	6.09	6.36
Cash (US$m)	973.8	1,017.3	779.7	973.8	779.7	862.7
Debt (US$m) [7]						
PNG LNG financing	3,786.0	3,939.4	4,084.1	3,786.0	4,084.1	3,939.4
Corporate revolving facilities[8]	-	-	-	-	-	-
Net debt (US$m)	2,812.2	2,922.1	3,304.4	2,812.2	3,304.4	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 volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale. Minor variations to the conversion factors may occur over time.
5. Other revenue consists largely of rig lease income, infrastructure tariffs and electricity, refinery and naphtha sales.
6. Average realised price for Kutubu Blend including PNG LNG condensate.
7. Excludes finance leases recorded as borrowings.
8. At the end of June 2017, the Company's corporate revolving facilities were undrawn.

PRODUCTION PERFORMANCE

2017 second quarter production net to Oil Search was 7.24 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 25,581 mmscf.
- Gas produced for domestic market power generation of 162 mmscf.
- PNG LNG liquids production of 0.847 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 1.3 mmboe. These fields produced at an average rate of 29,639 barrels of oil equivalent per day (gross), including 3,916 mmscf of gas (gross) exported to the PNG LNG Project from the SE Gobe field.

PNG LNG Project (29.0%)

Second quarter production from the PNG LNG Project, net to Oil Search, was 5.895 mmboe, comprising 25.581 bcf of LNG, 0.162 bcf of gas for power generation and 0.847 mmbbl of liquids.

During the quarter, an average of 141 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 Hides F1 well tie-in activities were completed and the well came online during the quarter. Good progress was also made to tie in the Angore A1 and A2 wells to the existing PNG LNG Project processing facilities, which is scheduled to be completed by mid-2019.

Kutubu (PDL 2 – 60.0%, operator)

Second quarter oil production net to Oil Search from the Kutubu complex was 0.589 mmbbl, 17% lower than in the first quarter of 2017. Gross production rates averaged 10,774 bopd during the period, compared to 13,203 bopd in the previous quarter.

Kutubu oil production was impacted by a 17 day scheduled maintenance outage at the Central Processing Facility (CPF) in May and higher than expected gas-to-oil ratios from the Usano East reservoir. Options to mitigate the latter are being evaluated. Production rates from the Agogo field were significantly above expectation, primarily due to the performance of the Forelimb portion of the Agogo reservoirs.

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 second quarter oil production was 0.249 mmbbl, 24% lower than the previous quarter. The field produced at a gross average rate of 5,519 bopd, down from the previous quarter of 7,366 bopd, with production impacted by the scheduled outage at the CPF and the Agogo Production Facility, as well as reduced gas injection capability from the Moran 4X well. A workover of this well is planned in the second half of 2017.

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

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

The gross average production rate for Gobe Main was 15% higher than in the first quarter, at 570 bopd, while the gross average production rate at SE Gobe was 2% higher than in the previous quarter, at 735 bopd. The increase reflected a full period of production, with Gobe Main and SE Gobe offline for 10 days for maintenance in the first quarter.

During the quarter, Oil Search's share of SE Gobe gas exported to the PNG LNG Project was 875 mmscf.

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

Gas production for the Hides Gas-to-Electricity Project in the second quarter of 2017 was 1,459 mmscf, produced at an average rate of 16.0 mmscf per day. 28,422 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

In PRL 3 (Oil Search – 38.51%), construction of the P'nyang South 2 well pad made good progress. Well pad completion is targeted for August, with the well expected to spud in the fourth quarter of 2017. Oil Search is managing the construction of the well pad and will drill the well on behalf of the PRL 3 Joint Venture. Located in the south-east of the P'nyang field, the P'nyang South 2 well is targeting an increase in the field's proven contingent (1C) resource to support financing and marketing activities for LNG expansion. A seismic programme is also nearing completion in the PRL 3 licence area, with the objective of further constraining the P'nyang field and defining a potential fault block north of the currently proven field area.

During the quarter, the Muruk 1ST3 well in PPL 402 (Oil Search – 37.5%) was drilled to a total depth of 4,251 metres. The well drilled to a location approximately one kilometre south-west of the original wellbore and proved the presence of a gas-bearing Toro reservoir in a separate, deeper, fault block. Reservoir pressure data indicates that this gas is not in communication with the gas seen in the earlier Muruk wellbores. A production test of the Toro Formation was conducted to assess reservoir productivity, gather representative fluid samples and investigate reservoir continuity. Although limited by downhole and tubing constraints, good productivity was proven with an equipment-constrained flow rate of 16 mmscf/d on a 32/64" choke achieved. Following the test, permanent down-hole pressure gauges were placed in the wellbore for future pressure monitoring. Rig 104 is being kept at the Muruk 1 location, with well site preparations for an appraisal well targeted to commence in late 2017, for drilling in 2018, subject to Joint Venture approval.

The farm-in by Santos for a 20% interest in PPL 402 was approved during the quarter, with 12.5% being contributed by Oil Search, reducing the Company's interest to 37.5%, in line with corporate targets.

The acquisition of 64 kilometres of 2D seismic over PPL 395 was completed during the quarter. This data will be used to evaluate potential exploration targets for drilling in 2018/19.

Forelands/Gulf

In PRL 15 (Oil Search 22.835%), the deepening of Antelope 7 to test the Antelope Deep exploration objective was completed. Preliminary interpretation of the log data suggests that the penetrated carbonate has limited reservoir potential and is unlikely to be hydrocarbon bearing. The well was plugged and abandoned and the rig released.

In May, Oil Search announced that it had entered into arrangements regarding the acquisition from ExxonMobil affiliates of a 30% interest in each of PPLs 474, 475, 476, 477 and PRL 39, located in the Eastern Foldbelt in the onshore Papuan Gulf Basin. The licences are adjacent to the Elk-Antelope fields and contain the Triceratops, Bobcat and Raptor discoveries. As part of the proposed farm-in arrangements, Oil Search will undertake a seismic acquisition programme over the licences on behalf of the operator, commencing in the third quarter of 2017. Oil Search's acquisition of the licence interests is subject to due diligence, execution of binding agreements, conditions precedent and regulatory approvals.

Offshore Gulf of Papua

During the quarter, the Company remained focused on optimising datasets and remapping prospectivity. The reprocessing of the existing shallow water 3D datasets was completed, with a significant uplift to data quality. The Company is currently working with the new data to refresh its assessment of the acreage's prospectivity. In the deep water Gulf, interpretation of 2D data progressed well, with the focus now on ranking and prioritising further data acquisition. Reprocessing of existing 3D data in the offshore Gulf of Papua is complete and has significantly improved imaging, while preparations to acquire new 3D data to mature key leads is underway.

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 as follows:

Well	Well type	Licence	OSH interest	Timing
FIRM				
PNG				
P'nyang South 2	Appraisal	PRL 3	38.5%	4Q 2017
Kimu 2	Appraisal	PRL 8	60.7%	4Q 2017
Barikewa 3	Appraisal	PRL 9	45.1%	1Q 2018
CONTINGENT				
PNG				
Muruk 2	Appraisal	PDL 9	24.4%	1H 2018
Antelope South 1	Exploration	PRL 15	22.8%	1H 2018
Uramu 2	Appraisal	PRL 10	100%	2H 2018
Karoma 1	Exploration	PPL 402	37.5%	2H 2018
Kalangar 1	Exploration	PPL 339	35.0%	2H 2018

Note: Wells, location and timing subject to change.

FINANCIAL PERFORMANCE

Sales revenue

During the quarter, 30,025 billion Btu of LNG was sold, 3% higher than sales volumes in the first quarter of 2017. 27 LNG cargoes were sold during the period, compared to 26 cargoes in the first quarter, of which 21 were sold under long-term contract and six 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 totalled 1.46 mmbbl, 23% lower than liquid sales in the previous quarter, largely due to scheduled maintenance activities at the oil fields. Six cargoes of Kutubu Blend and two naphtha cargoes were sold during the period.

The average oil and condensate price realised during the quarter was US$50.99 per barrel, 8% lower than in the first quarter, reflecting an easing in global oil prices. The average price realised for LNG and gas sales increased 7% to US$7.93 per 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$320.9 million, while other revenue, comprising rig lease income, infrastructure tariffs, electricity, refinery and naphtha sales, was US$11.6 million.

Capital management

At 30 June 2017, Oil Search had cash of US$973.8 million and US$3.79 billion of debt outstanding under the PNG LNG project finance facility (compared to US$3.94 billion at the end of March 2017, following a scheduled principal repayment of US$153.3 million in June). With total liquidity of US$1.82 billion, the Company is able to fund all committed expenditures, including capital costs, scheduled debt repayments and dividends, through operating cash flows and existing cash, even if oil prices remain low for an extended period of time.

In June, Oil Search announced that it had secured a new five year, non-amortising, revolving credit facility of US$600 million, to replace its US$500 million corporate facility. Due to strong interest from the bank market and the attractive terms offered, the Company decided to increase the facility size by US$100 million. The 14 member bank group includes all four major Australian domestic banks, one Papua New Guinean bank and nine international banks and, together with the two existing bilateral facilities totalling US$250 million, takes the Company's total available facilities to US$850 million, all of which remain undrawn.

Capital expenditure

During the quarter, exploration and evaluation expenditure totalled US$44.9 million, including expenditure on Muruk 1 drilling (US$9.5 million), preparation for the P'nyang South 2 well (US$11.7 million), Antelope Deep (US$10.1 million) and pre-FEED on P'nyang and Elk-Antelope (US$5.6 million). US$18.8 million of exploration costs were expensed, primarily related to the Antelope Deep well and seismic, geological, geophysical and general and administration expenses in PNG.

Development expenditure for the first quarter totalled US$8.1 million, which included US$6.4 million for the PNG LNG Project and US$1.7 million for the PNG Biomass power project. Expenditure on producing assets was US$11.8 million.

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

(US$ million)	Quarter End			Half year		Full Year
	Jun 2017	Mar 2017	Jun 2016	Jan-Jun 2017	Jan-Jun 2016	Dec 2016
Investment Expenditure						
Exploration & Evaluation						
PNG	43.7	43.3	34.3	87.0	89.5	142.3
MENA	1.2	0.5	1.3	1.7	4.0	9.5
Total exploration & evaluation	44.9	43.8	35.6	88.7	93.5	151.8
Development						
PNG LNG	6.4	4.1	(5.2)	10.5	6.0	9.6
Biomass	1.7	2.4	-	4.1	-	14.8
Total Development	8.1	6.5	(5.2)	14.6	6.0	24.4
Production	11.8	10.9	7.8	22.7	15.4	38.3
PP&E	1.9	0.2	1.0	2.1	2.0	3.2
Total	**66.7**	**61.4**	**39.1**	**28.1**	**116.9**	**217.6**
Exploration & evaluation expenditure expensed[2,3]						
PNG	17.6	5.6	(1.5)	23.2	12.0	41.6
MENA	1.2	0.5	1.3	1.7	4.0	9.5
Total current year expenditures expensed	18.8	6.1	(0.2)	24.9	16.0	51.1
Prior year expenditures expensed	-	-	3.0	-	3.0	2.1
Total	**18.8**	**6.1**	**2.8**	**24.9**	**18.9**	**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 of US$2.9 million in the second quarter of 2017 (US$2.1 million in the first quarter of 2017, US$5.0 million for the first half of 2017).

Gas/LNG Glossary and Conversion Factors Used

mmscf	Million (10^6) standard cubic feet
mmBtu	Million (10^6) British thermal units
Billion Btu	Billion (10^9) British thermal units
MTPA (LNG)	Million tonnes per annum
Boe	Barrel of oil equivalent
1 mmscf	Approximately 1.10 – 1.14 billion Btu*
1 tonne LNG	52 mmBtu*
1 boe	5,100 standard cubic feet

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

*** Conversion factors used for forecasting purposes only.**

PETER BOTTEN, CBE

Managing Director

18 July 2017

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 work-overs and field development, reserves depletion and fiscal and other government issues and approvals.