SECOND QUARTER REPORT FOR THE PERIOD ENDED 30 JUNE 2018

17 JULY 2018

ASX: OSH | ADR: OISHY | POMSOX: OSH

PRODUCTION RECOMMENCES FOLLOWING PNG HIGHLANDS EARTHQUAKE

	QUARTER END			HALF YEAR		
	2Q 2018	1Q 2018	% CHANGE	1H 2018	1H 2017	% CHANGE
Total production (mmboe)	**5.40**	4.84	*+12%*	10.24	14.81	*-31%*
Total sales (mmboe)	**4.65**	5.12	*-9%*	9.77	14.18	*-31%*
Total revenue (US$m)	**262.8**	295.0	*-11%*	557.8	676.2	*-18%*

- **Total production in the second quarter of 2018 was 5.40 million barrels of oil equivalent (mmboe), 12% higher than in the first quarter, reflecting the recommencement of production following the February PNG Highlands earthquake.**
- **Since coming back fully online in late April, the PNG LNG Project has performed strongly, achieving an annualised production rate of 8.5 MTPA over May and June, compared to 8.3 MTPA for the 2017 full year. Production rates have benefited from planned modifications to the Hides Gas Conditioning Plant and maintenance of the LNG trains in Port Moresby, undertaken while PNG LNG operations were shut down following the earthquake, as well as high levels of reliability.**
- **While the Kutubu and Gobe fields came back on-stream during the quarter, the Agogo Production Facility, Agogo and Moran fields, which were closest to the earthquake's epicentre, remained offline. The fields are expected back onstream shortly, with a progressive ramp-up over the second half of 2018. Based on current estimates, production for the 2018 full year is trending towards the upper end of the 23 – 26 mmboe production guidance range.**
- **Total revenue for the quarter declined 11% to US$262.8 million. Total product sales were 9% lower than in the first quarter, due to the rebuilding of inventory and the timing of LNG shipments, with three LNG cargoes on the water at the end of the quarter. While the average realised oil and condensate price was 3% higher than in the first quarter, the second quarter LNG and gas price was 4% lower, due to a higher proportion of LNG cargoes sold on the spot market following the earthquake.**
- **During the quarter, activities on LNG expansion intensified. A series of discussions on all aspects of the expansion took place between the PNG LNG Project, Papua LNG (PRL 15) and P'nyang (PRL 3) joint ventures. In addition, the PNG Government established a State Negotiation Team (SNT), dedicated to negotiating gas agreements with PRL 15 and PRL 3, respectively. Formal engagement between the SNT and the joint ventures commenced during the quarter.**
- **As announced in April, an independent recertification of gas resources in the P'nyang field resulted in the tripling of gross certified 1C resource to 3.51 trillion cubic feet (tcf) and an increase in 2C gross resources to 4.36 tcf.**

- **In the Forelands region onshore PNG, the Kimu 2 appraisal well successfully intersected gas, with evaluation of the well data now underway. The Barikewa 3 appraisal well spudded in late June and has recently reached total depth. Results from the Kimu and Barikewa appraisal wells will help to determine the optimal commercialisation pathway for these gas fields.**
- **In July, Oil Search executed a farm-in to four highly prospective exploration licences located adjacent to the Elk-Antelope fields in the onshore Papuan Gulf Basin. The Company is currently acquiring a seismic survey over these licences, as well as over PRL 15, to help define a number of attractive leads and prospects.**
- **In Alaska, Oil Search continued to build a world-class team with significant North Slope experience and capability ahead of the planned 2018/19 appraisal programme. Constructive engagement took place with key stakeholders, focused on reaching maximum alignment, building mutually beneficial partnerships and identifying opportunities for cooperation.**

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

Production recommences following Highlands earthquake in February 2018

"Total production net to Oil Search in the second quarter was 5.4 million barrels of oil equivalent (mmboe), 12% higher than in the previous quarter. PNG LNG production increased 23% to 4.9 mmboe, which was partly offset by lower production from Oil Search's operated oil and gas fields, with the Agogo Production Facility (APF) remaining shut-in due to damage sustained during February's devastating earthquake. Total hydrocarbon sales declined 9%, due to the rebuilding of inventory, which had been run down following the earthquake, and the timing of shipments, with three LNG cargoes on the water at the end of the quarter.

Gas production from the Hides Gas Conditioning Plant (HGCP) and LNG production from the PNG LNG plant site recommenced in mid-April, ahead of the operator's previously estimated eight-week timeframe. By late April, both LNG trains were back online and LNG exports had resumed. During May and June, the PNG LNG Project operated at above pre-earthquake levels, achieving an annualised production rate of 8.5 MTPA, and reached its highest-ever daily annualised rate, of over 9 MTPA, in May. These production improvements reflect planned modifications to the HGCP and maintenance work on the LNG trains, which were brought forward and undertaken while PNG LNG operations were shut down, combined with high operating reliability of all Project infrastructure.

Oil Search's Central Processing Facility (CPF) resumed operations in late March, with the Kutubu complex oil fields producing at an initial rate of approximately 4,000 barrels of oil per day (bopd) and ramping up to more than 7,000 bopd by the end of June. The Oil Search-operated condensate handling facilities at the CPF and the liquids export pipeline, which are integral to the operation of the PNG LNG Project, only required minor repairs and were operational ahead of gas production from the HGCP in April.

In late April, Oil Search's Gobe Processing Facility came back online following a two week planned shutdown for maintenance. The Hides Gas-to-Electricity (GTE) facilities resumed operations in May, after the completion of repairs to the Porgera Joint Venture electricity generation facility.

Given their proximity to the earthquake's epicentre, the APF and the Moran and Agogo fields sustained the most damage from the earthquake and the fields remain offline. Repair work at the APF is nearing completion and the facility is expected to restart operations shortly, with a progressive ramp up in production anticipated over the rest of the year. Oil production is expected to be back at pre-earthquake levels by the first quarter of 2019."

Earthquake recovery efforts ongoing

"During the initial earthquake response phase, Oil Search played a critical 'first responder' role, delivering almost 80% of total food supplies to impacted areas in the first four weeks after the earthquake. The initial relief operations have now transitioned to recovery activities, focused on helping communities return to their villages and rebuild their homes and lives post the earthquake. The Oil Search Foundation is playing a key role in the recovery phase through a range of initiatives, including the implementation of a major immunisation programme to combat communicable diseases, the rehabilitation of health facilities and addressing urgent water, sanitation and hygiene needs. The Emergency Controller's Office has recently estimated that full recovery will take more than two years of concerted and coordinated work by Government agencies and donor and humanitarian partners. Oil Search remains committed to helping the many impacted communities, particularly in the Hela, Southern Highlands and Western Provinces."

Earthquake insurance

"In May, the Company's insurance loss adjustor undertook a second visit to Oil Search's impacted locations, accompanied by geotechnical and structural engineers and two lead insurers. There has been no change to the estimate of US$150 – 250 million (gross) insurance recoveries for earthquake-related damage to Oil Search-operated assets. More than US$50 million in progress payments have been received from the Oil Search insurance programme's insurers, with further payments to flow as repair costs are incurred. These proceeds are to be distributed across the JV partners covered by the Oil Search insurance programme, with Oil Search entitled to approximately 90% of the payments. To date, approximately US$6 million of the progress payments has been released to Oil Search's Income Statement.

As previously advised, supporting infrastructure for the Oil Search-operated assets, such as gathering lines, roads and certain camp facilities, are self-insured and the associated repair and restoration costs are being funded by the relevant joint ventures. Oil Search's share of costs in 2018, net of insurance recoveries, is reflected in the revised 2018 production cost guidance provided in the 2018 First Quarter Report."

Discussions intensifying on further LNG developments

"During the quarter, discussions continued between the PNG LNG Foundation Project and the P'nyang (PRL 3) and Papua LNG (PRL 15) joint ventures on further LNG developments. Formal negotiations are ongoing between Papua LNG and PNG LNG on the terms for access to the PNG LNG plant site. In addition, the parties are continuing to meet regularly to mature the technical definition for the developments and to advance project financing and the remaining agreements required to enable integration of the projects. The parties are targeting a coordinated FEED entry decision later this year.

The PNG Government has established a State Negotiation Team (SNT), responsible for negotiating gas agreements with the Papua LNG and P'nyang joint ventures, respectively. The SNT comprises the Chief Secretary as Chairman, the Managing Director of Kumul Petroleum Holdings as Deputy Chairman, as well as the Secretaries for the Department of Treasury and Department of Petroleum, the State Solicitor, the Managing Director of Mineral Resources Development Company and the Director of the Gas Project Coordination Office. On announcing the formation of the SNT, PNG Prime Minister, Peter O'Neill, highlighted the Government's commitment to conclude negotiations with the joint venture parties and ensure the gas projects are developed to 'bring benefit to the developers, financiers, landowners and the country'. Initial meetings between the SNT and the joint venture parties have been held, with dialogue expected to step up in the coming months."

LNG marketing update

"During the quarter, ExxonMobil, on behalf of the PNG LNG Project participants, continued to negotiate terms with a number of shortlisted parties for potential LNG supply agreements, with contract terms up to five years for up to 1.3

MTPA in aggregate. These supply agreements, which will add to the existing 6.6 MTPA already under long-term contract with JERA, Osaka Gas, Sinopec and CPC, are expected to be finalised in the near term.

In addition, Oil Search commenced market engagement with potential LNG buyers for offtake from its equity share of LNG from the proposed Papua LNG Project. PNG is well placed, both geographically and in terms of timing, to capture offtake agreements for supply into Asia commencing in the first half of the next decade, where significant additional supply is required to meet both new demand growth, as well as contestable demand from expiring contracts. Many buyers are seeking geographic and seller diversification, which are strong drivers in support of new LNG sellers such as Oil Search."

Expanding exploration portfolio in the onshore Gulf Basin, PNG

"In July 2018, Oil Search executed a farm-in to PPLs 474, 475 and 476 and PRL 39, located adjacent to the Elk-Antelope fields in PRL 15 in the Eastern Foldbelt, onshore Papuan Gulf Basin. Oil Search has acquired a 25% interest in each of the licences from ExxonMobil, similar to its equity interest in PRL 15. The farm-in to these licences materially enhances Oil Search's exploration portfolio and is a step towards achieving greater equity alignment in this highly prospective area. Oil Search is currently acquiring seismic over these licences, as well as over PRL 15, on behalf of ExxonMobil and Total, with the programme expected to be completed in the third quarter. The data acquired will help the joint ventures to better define a number of attractive leads and prospects which are located in close proximity to planned Papua LNG infrastructure."

Exploration and appraisal activity in the Forelands

"Significant activity took place in the Forelands region during the quarter. In May, the Kimu 2 appraisal well in PRL 8, operated by Oil Search, reached total depth after intersecting gas in the target reservoir. The well has similar reservoir properties to that of Kimu 1 and the two wells are interpreted to be in pressure communication. Evaluation of the well results, including core, logs and well test data, is underway.

The Barikewa 3 appraisal well in PRL 9, also operated by Oil Search, spudded in late June. The well has recently reached total depth and wireline logging operations are now underway. Both Kimu 2 and Barikewa 3 will help delineate the resource base of these discovered gas fields and assist in determining the optimal route for commercialisation."

Operating environment in PNG

"During the quarter, the PNG Government accelerated work on landowner benefits sharing identification following the removal of a number of court injunctions which had been impeding the process. Identification of landowners on the pipeline segment was completed, while good progress was made at Juha and PDL 1, with a team of Department of Petroleum officials currently in the field.

Unfortunately, due to political and inter-tribal tensions, there were a number of incidents of vandalism in the Highlands region during the quarter, including at the PNG LNG Project's Angore field location, where work is underway to tie the field into the PNG LNG processing facilities. While project workers remained safe, during the incident at Angore, earth-moving equipment and one of the Angore wellpads were vandalised. The operator, ExxonMobil, has demobilised some of the Angore construction workforce and has temporarily suspended construction at some Angore work sites. As the Angore field is not yet tied in, there has been no impact on production and the Hides Gas Conditioning Plant is continuing to operate normally. The joint venture partners continue to encourage all parties to work together, to ensure issues are worked through in a peaceful and constructive manner."

Building capability in Alaska

"Following assumption of operatorship in March, in the second quarter we continued to focus on building a world-class, Anchorage-based team with extensive Alaska North Slope experience and capability. Key subsurface, drilling, operations, development and commercial positions have been filled by highly qualified candidates, with combined North

Slope experience of more than 240 years. We expect the Anchorage office to grow to approximately 100 people by the end of 2018.

The Company also gained access to the results of ConocoPhillips' recently drilled Putu 2 well, located immediately south of the Pikka Unit, through a data trade agreement. As announced by ConocoPhillips, the well successfully encountered oil, validating the potential of the Nanushuk fairway. Analysis of the well data has indicated slightly better reservoir properties compared to Oil Search's expectations. This, combined with recent subsurface work, has highlighted potential resource upside within the Pikka Unit from Oil Search's current estimates of 500 mmbbl (gross) of 2C contingent oil resources. The 2018/19 appraisal programme, which will commence in the fourth quarter of 2018, is designed to confirm the resource size and reservoir performance, ahead of a Front End Engineering and Design decision on the Nanushuk development in the second half of 2019. The drilling programme is expected to comprise two to three appraisal wells on the Pikka Unit. Two rigs have been contracted and the well locations have been identified and surveyed. A comprehensive appraisal programme on the highly prospective Horseshoe lease, to which we have not yet ascribed any resource, is planned to take place in the 2019/20 drilling season.

Discussions also took place with our joint venture partner regarding maximising the value of Oil Search's Option to increase its interests in the key Alaskan leases. Oil Search anticipates this will involve exercising the Option and then on-selling some or all of the additional interest to introduce a strategic third party into the joint venture.

During the quarter, Oil Search continued to engage and work extensively with other key stakeholders on the North Slope, including the federal and state governments, other operators, communities and locally-based companies. Our focus remains on maximising cooperation and alignment between all parties, to ensure mutually beneficial and respectful partnerships for the coming exploration, appraisal and development programme."

Factors affecting the 2018 first half and full year results

"The 2018 first half results are scheduled to be released to the market on Tuesday 21 August. Due to the earthquake and its impact on production, production costs on a unit basis in the first half are expected to be above the full year guidance range of US$10.50 – 13.50 per boe, with higher second half production expected to bring unit costs down to within the range. Other operating costs are anticipated to be between US$53 million and US$57 million. First half depreciation and amortisation is expected to be towards the upper end of the US$12 – 13 per boe full year guidance range.

As shown on page 12, US$12.3 million of exploration and evaluation expenditure, primarily related to PPL 402 and PRL 15 exploration seismic, Alaska exploration activity and other geological, geophysical and general and administration expenses in PNG, is expected to be expensed in the first half.

Net finance costs will be in the order of US$98 to US$101 million, consisting primarily of PNG LNG Project borrowing costs. The effective tax rate is expected to be in the range of 33-36%, higher than the statutory rate of 30% due to some one-off adjustments.

All the above guidance is subject to the finalisation of the financial statements, Board review and the half year review by the Company's auditor. 2018 full year guidance is unchanged, with production expected to be 23.0 – 26.0 mmboe, production costs US$10.50 – 13.50 per boe, other operating costs US$140 – 150 million, depreciation and amortisation US$12 – 13 per boe and total capital expenditure US$425 – 520 million (excluding the cost of the Alaskan acquisition)."

PRODUCTION SUMMARY[1]

	QUARTER END			HALF YEAR		FULL YEAR
	JUN 2018	MAR 2018	JUN 2017	JAN-JUN 2018	JAN-JUN 2017	DEC 2017
PNG LNG Project[2]						
LNG (mmscf)	**21,382**	17,560	25,581	**38,942**	51,880	106,266
Gas to power (mmscf)[3]	**173**	160	162	**333**	320	665
Condensate ('000 bbls)	**617**	474	772	**1,091**	1,579	3,157
Naphtha ('000 bbls)	**63**	50	75	**113**	153	312
PNG crude oil production ('000 bbls)						
Kutubu	**356**	393	589	**749**	1,302	2,630
Moran	**0**	137	249	**137**	577	1,267
Gobe Main	**4**	3	5	**7**	10	20
SE Gobe	**6**	8	15	**14**	30	56
Total oil production ('000 bbls)	**366**	540	858	**906**	1,918	3,973
SE Gobe gas to PNG LNG (mmscf)[4]	**192**	520	875	**712**	1,552	3,265
Hides GTE Refinery Products[5]						
Sales gas (mmscf)	**412**	919	1,459	**1,331**	2,889	5,843
Liquids ('000 bbls)	**8**	20	28	**28**	56	118
Total barrels of oil equivalent ('000 boe)[6]	**5,399**	**4,840**	**7,239**	**10,239**	**14,812**	**30,314**

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.

Oil Search

SALES SUMMARY[1]

	QUARTER END			HALF YEAR		FULL YEAR
	JUN 2018	MAR 2018	JUN 2017	JAN-JUN 2018	JAN-JUN 2017	DEC 2017
Sales data						
PNG LNG PROJECT						
LNG (Billion Btu)	**20,313**	22,406	30,025	**42,720**	59,047	123,239
Condensate (‘000 bbls)	**593**	455	638	**1,048**	1,434	3,145
Naphtha (‘000 bbls)	**80**	60	57	**140**	150	335
PNG oil (‘000 bbls)	**350**	516	733	**865**	1,710	3,909
HIDES GTE						
Gas (Billion Btu)[2]	**442**	983	1,566	**1,426**	3,102	6,266
Condensate & refined products (‘000 bbls)[3]	**7**	20	30	**27**	59	115
Total barrels of oil equivalent sold (‘000 boe)[4]	**4,647**	5,119	6,960	**9,766**	14,179	30,044
Financial data (US$ million)						
LNG and gas sales	**183.4**	215.0	250.6	**398.3**	476.6	993.1
Oil and condensate sales	**68.9**	68.9	70.3	**137.8**	168.6	395.0
Other revenue[5]	**10.5**	11.1	11.6	**21.6**	30.9	58.0
Total operating revenue	**262.8**	295.0	332.5	**557.8**	676.2	1,446.0
Average realised oil and condensate price (US$ per bbl)[6]	**72.55**	70.38	50.99	**71.45**	53.35	55.68
Average realised LNG and gas price (US$ per mmBtu)	**8.83**	9.19	7.93	**9.02**	7.67	7.67
Cash (US$m)	**412.1**	697.3	973.8	**412.1**	973.8	1,015.2
Debt (US$m)[7]						
PNG LNG financing	**3,459.7**	3,625.5	3,786.0	**3,459.7**	3,786.0	3,625.5
Corporate revolving facilities[8]	**-**	-	-	**-**	-	-
Net debt (US$m)	**3,047.6**	2,928.2	2,812.2	**3,047.6**	2,812.2	2,610.2

1. Numbers may not add due to rounding.
2. Relates to gas delivered under the Hides GTE Gas Sales Agreement.
3. Relates to refined products delivered under the Hides GTE Gas Sales Agreement or sold in the domestic market and condensate.
4. Gas and LNG 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 30 June 2018, the Company’s corporate revolving facilities were undrawn.

❖ PRODUCTION PERFORMANCE

2018 second quarter production net to Oil Search was 5.40 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 21,382 mmscf.
- ❖ Gas produced for domestic market power generation of 173 mmscf.
- ❖ PNG LNG liquids production of 0.68 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 (excluding associated gas) and gas and liquids production from the Hides GTE Project of 0.49 mmboe. These fields produced at an average rate of 10,064 barrels of oil equivalent per day (gross), including 860 mmscf of gas (gross) exported to the PNG LNG Project from the SE Gobe field.

PNG LNG Project (29.0%)

Following a shut-down of operations in late February 2018 due to the earthquake, PNG LNG production recommenced in April. Second quarter production from the PNG LNG Project, net to Oil Search, was 4.90 mmboe, comprising 21.382 bcf of LNG, 0.173 bcf of gas for power generation and 0.68 mmbbl of liquids.

During the quarter, an average of 111 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.

Work to tie-in the Angore A1 and A2 wells to the existing PNG LNG Project processing facilities resumed after a break following the earthquake, with a target completion date of the second half of 2019. Activities at some Angore tie-in worksites are currently suspended, due to the recent community disturbance.

Kutubu (PDL 2 – 60.0%, operator)

Second quarter oil production net to Oil Search from the Kutubu complex was 0.36 mmbbl, 10% lower than in the first quarter of 2018. Gross production rates averaged 6,508 bopd during the period, compared to 7,280 bopd in the previous quarter.

Oil production from the Kutubu field recommenced in late March, although a number of wells remain off-line due to flow line damage caused by the earthquake. The Agogo field was off-line throughout the quarter, with an expected return to partial production in late July.

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

Due to earthquake damage, there was no production from the Moran field during the quarter, with an expected return to partial production in the third quarter.

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 2018 was 0.01 mmbbl, 2% lower than in the previous quarter. The Gobe fields returned to production in late April after a number of earthquake related repairs were completed and a planned shutdown executed. Oil production from Gobe Main benefited from initial flush production from some wells, offset by a process of liquid unloading from others.

SE Gobe has yet to return to full oil production rates due to flow line damage caused by the earthquake, while gas production rates from SE Gobe have been impacted by the G7X well failing to return to production. Options to reinstate this well are under investigation.

The gross average oil production rate for Gobe Main was 47% higher than the first quarter rate at 426 bopd, while the gross average oil production rate at SE Gobe was 19% lower than in the previous quarter, at 301 bopd.

During the quarter, Oil Search's share of SE Gobe gas exported to the PNG LNG Project was 192 mmscf.

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

Gas production for the Hides Gas-to-Electricity Project in the second quarter of 2018 was 412 mmscf, produced at an average rate of 4.53 mmscf per day. 8,157 barrels of condensate were produced for use within the Hides facility or transported by truck to the Hides Gas Conditioning Plant for export.

Hides GTE production remained shut in from the time of the earthquake until late May while integrity checks were undertaken at the Hides plant and repairs made to the Porgera JV electricity generation facility.

EXPLORATION AND APPRAISAL ACTIVITY

Highlands

As announced to the market in April 2018, an independent recertification of the P'nyang field in PRL 3 (Oil Search – 38.5%) was completed, incorporating the results of the successful P'nyang South 2 ST1 well, additional seismic and core data. This resulted in material increases in gross 1C and 2C certified gas resources, to 3.51 tcf and 4.36 tcf, respectively.

Construction of the Muruk 2 appraisal well pad, which was halted following the Highlands earthquake, recommenced during the quarter. Rig mobilisation from the Muruk 1 site to Muruk 2 will occur once the pad is completed. The well remains on track to spud in the fourth quarter of 2018. Located 11 kilometres north-west of the discovery well, Muruk 2 should assist in narrowing the joint venture's gas resource estimates for the field. The 2D seismic programme, which was also halted following the earthquake, is expected to recommence in the fourth quarter. The programme will comprise the acquisition of approximately 80 kilometres of seismic over Muruk and an adjacent prospect.

Forelands/Gulf

In the Forelands region of PNG, the Kimu 2 appraisal well in PRL 8 (Oil Search – 60.7%, operator) reached total depth in late May after successfully intersecting gas in the target Alene sandstone reservoir. Cores and logs were acquired and a Drill Stem Test was conducted over the Alene interval, which flowed at a continuous rate of 34.5 mmscf/day over a 72-hour period through a one-inch choke. Following the completion of the test, the well was plugged and abandoned, as planned. Analysis of the well data is underway.

In late June, drilling commenced on the Barikewa 3 appraisal well in PRL 9 (Oil Search – 45.1%, operator). The well has reached total depth of 1,943 metres and wireline logging operations are underway. The objective of both Kimu 2 and Barikewa 3 is to define the resource volumes in the fields in order to determine the optimal pathway for commercialisation.

In July 2018, Oil Search executed a farm-in to PPLs 474, 475 and 476 and PRL 39, located adjacent to the Elk-Antelope fields in PRL 15 (Oil Search – 22.835%) in the onshore Papuan Gulf Basin. Oil Search will acquire a 25% interest in each of the licences from ExxonMobil. The terms of the agreement are confidential.

During the quarter, Oil Search continued to acquire 2D seismic in and around the Elk-Antelope fields, including over the ExxonMobil-operated PPLs 475, 476 and PRL 39 licences and Total-operated PRL 15 licence. At the end of the quarter, the programme was more than 70% complete and is expected to conclude towards the end of the third quarter. The seismic information will help mature identified leads and prospects for potential future drilling.

Offshore Gulf of Papua

During the quarter, reprocessing of the offshore shallow water 3D seismic and acquisition of a large gravity gradiometry and magnetics survey continued, with data delivery expected in the second half of the year. In the deepwater Gulf, evaluation of recently acquired 2D seismic continued, with consideration being made for acquisition of 3D seismic in the coming year.

Alaska

During the quarter, the Company continued to prepare for the 2018/19 appraisal programme, commencing in the fourth quarter. Key positions were recruited, building the North Slope experience and capability of the Anchorage office. The appraisal programme was matured, with the proposed location of well sites identified and surveyed. Engagement also progressed with all stakeholders on the North Slope with the intent to maximise cooperation and alignment between all parties.

Middle East

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

DRILLING CALENDAR

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

WELL	WELL TYPE	LICENCE	OSH INTEREST	EXPECTED SPUD DATE
PNG				
Barikewa 3	Appraisal	PRL 9	45.1%	Logging underway
Muruk 2	Appraisal	PDL 9	24.4%	4Q 2018
ALASKA				
Two+ wells	Appraisal	Pikka Unit	25.5%	4Q 2018 / 1Q 2019

Note: Wells, location and timing subject to change.

FINANCIAL PERFORMANCE

Sales revenue

During the quarter, 20,313 billion Btu of LNG was sold, 9% lower than sales volumes in the first quarter of 2018 due to the build-up of inventory following the earthquake and timing of shipments, with three LNG cargoes on the water at the end of the quarter. Eighteen LNG cargoes were sold during the period, compared to 20 cargoes in the first quarter, of which 11 were spot sales. Oil, condensate and naphtha sales volumes for the period totaled 1.03 mmbbl, 2% lower than liquid sales in the previous quarter. Four 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$72.55 per barrel, 3% higher than in the first quarter of 2018, reflecting strength in global oil prices. The average price realised for LNG and gas sales was US$8.83 per mmBtu, 4% lower than in the first quarter due to a higher proportion of cargoes sold on the spot market following the earthquake. 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 declined 11% to US$252.3 million, primarily reflecting the reduced number of delivered LNG cargoes. Other revenue, comprising rig lease income, infrastructure tariffs, electricity, refinery and naphtha sales, was US$10.5 million.

Capital management

At 30 June 2018, Oil Search had liquidity of US$1.26 billion, comprising US$412.1 million in cash (US$697.3 million at the end of the first quarter) and US$850 million in undrawn corporate credit facilities (unchanged). The lower cash balance reflected lower operating cash flows due to the earthquake as well as a scheduled debt principal repayment of US$165.7 million in June. Despite the impact of the earthquake and the principal repayment, a US$65 million cash distribution was received in June from the PNG LNG Project, highlighting the strength of cash flows from the Project. Oil Search had US$3.46 billion of debt outstanding under the PNG LNG project finance facility, compared to US$3.63 billion at the end of March 2018.

Based on the Company's oil price outlook, which assumes more conservative prices than current levels, Oil Search expects that it will have sufficient financial capacity, including existing liquidity and ongoing cash flow from Oil Search's operations and PNG LNG, to fund its major growth projects – Papua LNG and PNG LNG expansion in PNG and the Nanushuk development in Alaska – as well as scheduled debt repayments and future dividends over the 2018 – 2023 period.

Capital expenditure

During the quarter, exploration and evaluation expenditure totaled US$58.1 million, including expenditure on drilling Kimu 2 and Barikewa 3 (US$23.1 million), preparations to drill Muruk 2 (US$3.6 million) and PRL 15 pre-FEED activities (US$13.7 million). US$6.4 million of exploration costs were expensed, mainly reflecting seismic acquisition costs as well as seismic, geological, geophysical and general and administration expenses in PNG.

Development expenditure for the second quarter totaled US$15.4 million, which included US$12.0 million spent on the PNG LNG Project and US$3.4 million on the PNG Biomass power project. Expenditure on producing assets was US$1.8 million, while expenditure on property, plant and equipment was US$8.2 million.

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

	QUARTER END			HALF YEAR		FULL YEAR
	JUN 2018	MAR 2018	JUN 2017	JAN-JUN 2018	JAN-JUN 2017	DEC 2017
Investment Expenditure						
Exploration & Evaluation						
PNG	**49.1**	39.2	43.7	**88.2**	87.0	158.8
USA	**8.8**	417.2	-	**425.9**	-	7.9
MENA	**0.2**	0.8	1.2	**1.0**	1.7	2.9
Total Exploration & Evaluation	**58.1**	457.2	44.9	**515.1**	88.7	169.5
Development						
PNG LNG	**12.0**	5.2	6.4	**17.2**	10.5	30.1
Biomass	**3.4**	2.3	1.7	**5.8**	4.1	9.8
Total Development	**15.4**	7.5	8.1	**23.0**	14.6	39.9
Production	**1.8**	5.0	11.8	**6.8**	22.7	40.7
PP&E	**8.2**	8.2	1.9	**16.3**	2.1	27.6
Total	**83.4**	477.9	66.7	**561.2**	128.1	277.6
Exploration & Evaluation Expenditure Expensed[2,3]						
PNG	**4.4**	4.8	17.6	**9.2**	23.2	27.0
USA	**1.9**	0.1	-	**2.0**	-	6.2
MENA	**0.2**	1.0	1.2	**1.1**	1.7	2.7
Total current year expenditures expensed	**6.4**	5.9	18.8	**12.3**	24.9	35.9
Prior year expenditures expensed	**-**	-	-	**-**	-	-
Total	**6.4**	5.9	18.8	**12.3**	24.9	35.9

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 first half of 2018, US $0.4 million of business development costs was expensed.

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.

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DISCLAIMER

This report contains some forward-looking statements which are subject to particular risks associated with the oil and gas industry. Actual outcomes could differ materially due to a range of operational, cost and revenue factors and uncertainties including 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.