FOURTH QUARTER REPORT FOR THE PERIOD ENDED 31 DECEMBER 2018

22 JANUARY 2019

Oil Search

ASX: OSH | ADR: OISHY | POMSOX: OSH

STRONG FINISH TO 2018

	4Q 2018	3Q 2018	% CHANGE	FY 2018	FY 2017	% CHANGE
Total production (mmboe)	**7.44**	7.53	***-1%***	**25.21**	30.31	***-17%***
Total sales (mmboe)	**7.82**	7.44	***+5%***	**25.02**	30.04	***-17%***
Total revenue (US$m)	**503.1**	474.9	***+6%***	**1,535.8**	1,446.0	***+6%***

HIGHLIGHTS

- **Total production in the fourth quarter of 2018 was 7.4 mmboe, reflecting higher oil field production and a continued strong performance by the PNG LNG Project. This took 2018 full year production to 25.2 mmboe, in line with the Company's 2018 guidance range. While the first half was impacted materially by the February 2018 PNG Highlands earthquake, production recovered strongly in the second half, with the PNG LNG Project producing at an annualised rate of 8.8 MTPA, its highest-ever half-year rate.**
- **Total revenue for the quarter was US$503.1 million, 6% higher than in the previous quarter. This reflected a 5% increase in hydrocarbon sales and stronger realised LNG and gas prices (up 5%), partly offset by lower realised oil and condensate prices (down 15%). Despite the earthquake, revenues for the full year were 6% higher than in 2017, at US$1.54 billion.**
- **In November 2018, a Memorandum of Understanding (MoU) was signed between the PRL 15 joint venture and the PNG Government, detailing the key terms and conditions to apply to the Papua LNG Gas Agreement. The Government and the PRL 15 and PRL 3 joint ventures are targeting to finalise both the Papua LNG and the P'nyang Gas Agreements before the end of March 2019, which will enable an integrated Front-End Engineering and Design (FEED) entry decision to be taken for the proposed three-train LNG expansion.**
- **In the PNG Highlands, the Muruk 2 appraisal well commenced drilling in early November and is expected to reach the target reservoir shortly. Muruk 2 aims to delineate the resource volumes in the Muruk field which, due to its proximity to existing infrastructure at Hides, could provide a valuable source of gas for further LNG development.**
- **During the quarter, Oil Search completed two 2D seismic programmes in the onshore Papuan Gulf Basin and Forelands regions of PNG, covering approximately 380 kilometres. This represents one of the largest acquisitions of onshore seismic in the Company's history. Data from these surveys will help mature identified leads and prospects for potential future drilling.**
- **Shortly after the end of the quarter, the Pikka B well in Alaska confirmed oil in the target Nanushuk sands. Coring and logging is now underway, prior to sidetracking the well. Preparations for drilling the Pikka C well are complete, with the well expected to spud shortly. The Final Environmental Impact Statement (FEIS) was issued in November and the Company is awaiting the 'Record of Decision,' which, combined with the results of the Pikka B and C wells, will enable the Joint Venture to move into FEED.**

- **The Company added to its Alaska North Slope exploration portfolio by acquiring more than 20,000 acres of lease interests in areas around and adjacent to the Pikka Unit. In addition, preparations to exercise the Company's fixed price option with Armstrong and undertake a partial divestment progressed well during the quarter, with discussions underway with interested parties.**
- **Oil Search ended the year with total liquidity of US$1.5 billion, comprising US$600.6 million in cash and US$900 million in undrawn credit facilities, following a successful refinancing of, and increase in, committed bilateral bank lines. During 2018, the Company repaid US$332 million of PNG LNG project finance debt, with net debt at the end of 2018 of US$2.7 billion. This was only slightly higher than at the beginning of the year (US$2.6 billion) despite the shut-in of production in the first half following the Highlands earthquake and the completion of the Alaska North Slope acquisition early in the year, reflecting the strength of the Company's operating cash flows.**

COMMENTING ON THE FOURTH QUARTER AND THE 2018 FULL YEAR, OIL SEARCH MANAGING DIRECTOR, PETER BOTTEN, SAID:

"Despite the first half of 2018 being one of the most challenging in Oil Search's history due to the devastating PNG Highlands earthquake in February, the Company has recovered well. We delivered total production for the year of 25.2 mmboe and sales revenue of US$1.54 billion, 6% higher than in 2017, and finished 2018 in a strong financial position with liquidity of US$1.5 billion.

Total oil and gas production for the fourth quarter was 7.4 mmboe, which was similar to levels achieved prior to the earthquake. Oil Search's operated production increased 16% on the previous quarter, to 1.0 mmboe, reflecting a full quarter of contribution from the Moran and Agogo fields, which resumed production in the third quarter. Earthquake remediation work, particularly at remote sites, continued and is now nearing completion.

The PNG LNG Project produced at an average annualised rate of 8.8 MTPA during the second half of 2018, the highest half-yearly rate ever achieved. Fourth quarter production averaged 8.7 MTPA, marginally lower than the record levels achieved in the third quarter, due to two minor unplanned outages at the LNG plant. Both issues were resolved swiftly, and on both occasions the plant was brought back online without incident.

Total revenue for the quarter rose 6% to US$503.1 million, benefitting from a 5% lift in sales volumes and a 5% increase in the average realised LNG and gas price to US$10.96/mmBtu. This was partly offset by a 15% drop in the average realised oil and condensate price to US$64.45 per barrel, reflecting the sharp decline in global oil prices over the fourth quarter."

Memorandum of Understanding signed between Papua LNG and PNG Government

"In November, during the APEC Summit in Port Moresby, the PRL 15 joint venture participants entered into a Memorandum of Understanding (MoU) with the Independent State of Papua New Guinea for the development of the Papua LNG Project.

The MoU provides the framework for key terms and conditions to be included within the Papua LNG Project Gas Agreement, including the tax rates and Domestic Market Obligation that will apply. Since the MoU was signed, good progress has been made on finalising the more detailed Gas Agreement, based on the structure established in the MoU. Well-defined plans are in place to complete and sign the full Gas Agreement, with all parties aiming for this to occur no later than 31 March 2019, in line with the MoU timeline.

While the key focus during the quarter was on the Papua LNG Agreement, the P'nyang (PRL 3) Gas Agreement is also targeted to be finalised before the end of March, which will enable an integrated FEED entry decision to be made on the proposed three-train expansion at the PNG LNG plant site shortly afterwards.

During the quarter, the commercial arrangements that support the integration of the Papua LNG Project with the PNG LNG Project, including those related to site and facility access, were broadly agreed between the PNG LNG Project and Papua LNG (PRL 15) joint venture. In addition, pre-FEED downstream studies continued, including engineering work on the design and process and layout optimisation of the three-train development concept, from the gas inlet to the LNG loading arm. The PNG LNG, Papua LNG and P'nyang participants continue to meet regularly to discuss contracting strategies and are making good progress on project financing and the remaining agreements required to enable integration of the projects."

LNG marketing continues

"During the quarter, ExxonMobil, on behalf of the PNG LNG Project participants, continued discussions with several short-listed parties regarding the final mid-term tranche of 0.45 MTPA that is being marketed from the PNG LNG Project. These negotiations are expected to be completed in the first quarter of 2019 and will increase the total sales under contract from PNG LNG to 7.9 MTPA.

The Oil Search equity marketing team continued its engagement with potential buyers for offtake from our 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 2024, when 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."

Oil field optimisation activities to commence in 2019

"During the quarter, preparations took place for a multi-year, active in-field work-over and drilling campaign in our operated oil fields, aimed at maximising near-term oil output. Work in the fourth quarter was focused on identifying the most value accretive opportunities, prioritising activities and undertaking technical and commercial studies.

The programme has commenced with a workover of the IDT 21 well at Kutubu, which will be followed by workovers of M 4 and M 9 at Moran. The Moran X appraisal/development well, which is targeting oil toward the south-east of the field, is expected to commence drilling in June, with a Usano development well, UDT S, scheduled to start drilling late in the fourth quarter of 2019.

All these activities are relatively low cost but, together with the other opportunities identified, have the potential to add some 30 million barrels net to Oil Search, as well as slow the production decline rate from our mature oil fields."

PNG exploration and appraisal activity underway

"In the Highlands, the Muruk 2 well commenced drilling in November and is currently at a depth of 3,510 metres and preparing to drill into the target Toro reservoir. Located 11 kilometres north-west of the Muruk 1 discovery well, Muruk 2 will assist in constraining the potential resource volumes in the Muruk field, which, due to its location, could be a valuable source of gas either to support new LNG trains or for back-fill for the PNG LNG Project. To further mature the lead and prospect inventory in this area, the acquisition of a second phase of seismic, covering approximately 100 kilometres over Muruk and an adjacent prospect, is being planned for late 2019/early 2020.

During the quarter, the Company completed two seismic acquisition programmes, covering approximately 380 kilometres, in the onshore Papuan Gulf Basin and Forelands region of PNG. This was one of the largest onshore seismic programmes in the Company's history and, despite extremely challenging conditions, was completed on behalf of two of the world's largest oil and gas companies at a very competitive cost with zero lost time incidents. Preliminary interpretation of the data from these surveys has been encouraging, highlighting the strong prospectivity of these areas, and is being used to mature several identified leads and prospects for potential future drilling."

Alaska

"Excellent progress was made on the 2018/19 appraisal drilling programme in the fourth quarter. Detailed upfront planning and extensive preparation enabled the Company to take advantage of favourable weather conditions and spud the Pikka B well ahead of schedule in late December. On 10 January, the well reached the target Nanushuk reservoir. Preliminary inspection of cores indicates an oil saturated, good quality sand, which is very encouraging. Coring and logging currently underway is expected to be completed shortly, before sidetracking the well.

We expect the Pikka C well to commence drilling in the next few days, with the construction of the ice road, well pad and rig mobilisation already complete. If successful, the Pikka B and C wells could confirm up to 250 million barrels of additional 2C resource and will help define the optimal well design for our multi-year drilling programme for the Pikka Unit development.

A significant milestone for the project permitting process was achieved in November, when the US Army Corp of Engineers (USACE) issued its Final Environmental Impact Statement for the project. We expect to receive the USACE's 'Record of Decision' towards the end of the first quarter of 2019, which will allow the Pikka Unit Joint Venture to move into FEED, targeted for mid-2019, with a final investment decision expected to take place in 2020.

As previously announced, Oil Search recently acquired lease interests covering more than 17,000 acres east of the Pikka Unit and 3,575 acres immediately adjacent to the northern boundary of the Pikka Unit. These leases add to the Company's exploration prospect inventory and, if future drilling is successful, any discoveries could be developed utilising infrastructure planned for the Pikka Unit development, positioning Oil Search well for long term growth.

We now have more than 100 employees in the Anchorage team and responsibility for North Slope exploration activities has recently been transferred from Sydney to Anchorage. The nine-person Anchorage-based exploration team is staffed with employees who have transitioned from the head office in Sydney and highly-qualified external candidates with extensive knowledge of Alaskan North Slope exploration."

❖ GUIDANCE FOR THE 2018 FULL YEAR

"The Company's financial results for the year to 31 December 2018 will be released to the market on 19 February 2019.

Production costs and depreciation and amortisation charges for 2018 are expected to be at the lower end of the previously advised guidance ranges of US$11.50 – 12.50 /boe and US$12.00 – 13.00/boe, respectively. Production costs for the year will include approximately US$65 million spent on earthquake recovery and repairs activities, with just over half that amount offset by insurance recoveries that have been released to date to the income statement. 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, earthquake donations of US$5.1 million and other costs) are also expected to be at the bottom of the US$140 – 150 million guidance range.

Net financing charges, consisting primarily of PNG LNG Project borrowing costs, are expected to be between US$209 and US$213 million.

US$66.4 million of exploration and evaluation expenditure will be expensed for the full year, mainly related to seismic acquisition in PNG as well as geological, geophysical and general and administration activities.

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

PRODUCTION GUIDANCE FOR 2019

"Oil Search's 2019 full year production is anticipated to be in the range of 28.0 – 31.5 mmboe, with forecast contributions as follows:

2019 PRODUCTION GUIDANCE[1]	
Oil Search-operated PNG oil and gas (mmboe)[2,3]	4.0 – 5.5
PNG LNG Project:	
LNG (bcf)	106 – 113
Power (bcf)	0.7 – 1.4
Liquids (mmbbl)	3.1 – 3.6
Total PNG LNG Project (mmboe)[2]	24 – 26
Total production (mmboe)	**28.0 – 31.5**

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.

Operating and capital cost guidance for 2019 will be provided to the market on 19 February 2019 in the 2018 full year results release."

PRODUCTION SUMMARY[1]

	QUARTER END			FULL YEAR	
	DEC 2018	SEP 2018	DEC 2017	DEC 2018	DEC 2017
PNG LNG Project[2]					
LNG (mmscf)	**28,479**	29,404	26,572	**96,826**	106,266
Gas to power (mmscf)[3]	**171**	170	171	**674**	665
Condensate ('000 bbls)	**771**	816	759	**2,678**	3,157
Naphtha ('000 bbls)	**80**	83	78	**276**	312
Total PNG LNG Project (mmboe)	**6.469**	**6.697**	**6.081**	**22.071**	**24.437**
PNG crude oil production ('000 bbls)					
Kutubu	**469**	415	649	**1,633**	2,630
Moran	**116**	58	357	**310**	1,267
Gobe Main	**4**	4	4	**15**	20
SE Gobe	**11**	11	11	**35**	56
Total oil production ('000 bbls)	**598**	489	1,022	**1,993**	3,973
SE Gobe gas to PNG LNG (mmscf)[4]	**375**	313	826	**1,400**	3,265
Hides GTE Refinery Products[5]					
Sales gas (mmscf)	**1,369**	1,300	1,502	**4,000**	5,843
Liquids ('000 bbls)	**28**	27	32	**83**	118
Total oil, condensate and naphtha (mmbbl)	**1.477**	**1.414**	**1.891**	**5.030**	**7.561**
Total LNG and gas (mmscf)	**30,395**	**31,186**	**29,071**	**102,899**	**116,038**
Total barrels of oil equivalent ('000 boe)[6]	**7,437**	**7,529**	**7,592**	**25,206**	**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.

SALES SUMMARY[1]

	QUARTER END			FULL YEAR	
	DEC 2018	SEP 2018	DEC 2017	DEC 2018	DEC 2017
Sales data					
PNG LNG PROJECT					
LNG (Billion Btu)	**34,785**	33,504	31,341	**111,008**	123,239
Condensate ('000 bbls)	**801**	786	759	**2,635**	3,145
Naphtha ('000 bbls)	**93**	61	96	**295**	335
PNG oil ('000 bbls)	**575**	483	1,065	**1,923**	3,909
HIDES GTE					
Gas (Billion Btu)[2]	**1,468**	1,393	1,608	**4,286**	6,266
Condensate & refined products ('000 bbls)[3]	**31**	23	26	**82**	115
Total barrels of oil equivalent sold ('000 boe)[4]	**7,818**	7,440	7,674	**25,022**	30,044
Financial data (US$ million)					
LNG and gas sales	**396.9**	364.8	259.1	**1,160.1**	993.1
Oil and condensate sales	**90.1**	98.1	115.5	**326.0**	395.0
Other revenue[5]	**16.1**	12.0	14.5	**49.7**	58.0
Total operating revenue	**503.1**	474.9	389.0	**1,535.8**	1,446.0
Average realised oil and condensate price (US$ per bbl)[6]	**64.45**	76.17	63.05	**70.65**	55.68
Average realised LNG and gas price (US$ per mmBtu)	**10.96**	10.45	7.86	**10.06**	7.67
Cash (US$m)	**600.6**	728.1	1,015.2	**600.6**	1,015.2
Debt (US$m)[7]					
PNG LNG financing	**3,293.6**	3,459.7	3,625.5	**3,293.6**	3,625.5
Corporate revolving facilities	**-**	140.0	-	**-**	-
Net debt (US$m)	**2,693.0**	2,871.6	2,610.2	**2,693.0**	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.

❖ FOURTH QUARTER PRODUCTION PERFORMANCE[1]

	QUARTER END		QUARTER END			
	DEC 2018		SEP 2018		% CHANGE	
	Gross daily production	Net to OSH	Gross daily production	Net to OSH	Gross daily production	Net to OSH
Gas production	**mmscf/d**	**mmscf**	**mmscf/d**	**mmscf**		
PNG LNG Project						
LNG[2]	1,067	28,479	1,102	29,404	-3%	-3%
Gas to power	6	171	6	170	-	-
SE Gobe gas to PNG LNG[3,]	18	375	15	313	+20%	+20%
Hides GTE gas[4]	15	1,369	14	1,300	+5%	+5%
Total gas	**1,107**	**30,395**	**1,138**	**31,186**	**-3%**	**-3%**
Oil and liquids production	**bopd**	**mmbbl**	**bopd**	**mmbbl**		
Kutubu	8,482	0.469	7,521	0.415	+13%	+13%
Moran	2,538	0.116	1,270	0.058	+100%	+100%
Gobe Main	409	0.004	469	0.004	-13%	-13%
SE Gobe[3]	514	0.011	536	0.011	-4%	-4%
Total PNG oil	**11,943**	**0.598**	**9,796**	**0.489**	**+22%**	**+22%**
Hides GTE liquids[3]	305	0.028	298	0.027	+2%	+2%
PNG LNG liquids	31,890	0.851	33,670	0.898	-5%	-5%
Total liquids	**44,138**	**1.477**	**43,763**	**1.414**	**+1%**	**+4%**
	boepd	**mmboe**	**boepd**	**mmboe**		
Total production[5]	**261,168**	**7.437**	**266,839**	**7.529**	**-2%**	**-1%**

1. Numbers may not add due to rounding. Where required, adjustments are taken in the affected production period.
2. Production net of fuel, flare and shrinkage and SE Gobe wet gas.
3. SE Gobe wet gas reported at inlet to plant, inclusive of fuel, flare and naphtha.
4. 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.
5. 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.

2018 fourth quarter production net to Oil Search was 7.437 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 28,479 mmscf.
- Gas produced for domestic market power generation of 171 mmscf.
- PNG LNG liquids production of 0.85 mmbbl, comprising condensate produced during gas processing at the Hides Gas Conditioning Plant (HGCP) and naphtha at the PNG LNG plant.
- Oil Search-operated production of 0.97 mmboe, comprising 0.60 mmbbl of PNG oil field production, 0.30 mmboe of gas and liquids production from the Hides GTE Project and 0.07 mmboe of gas exported to the PNG LNG Project from the SE Gobe field. The operated fields produced at an average rate of 18,744 barrels of oil equivalent per day (gross), including 1,679 mmscf (gross) of SE Gobe gas exports.

Total fourth quarter production from the PNG LNG Project, net to Oil Search, was 6.5 mmboe. During the quarter, an average of 137 mmscf/day of gas was supplied to the Project by Oil Search from the Associated Gas (Kutubu and Gobe Main) and SE Gobe fields, representing approximately 12% of the total gas delivered to the LNG plant.

At Angore, fieldwork remained suspended due to community unrest stemming from political and inter-tribal tensions. While work inside the Hides Gas Conditioning Plant related to the Angore tie-in continues, all other work near Angore remains on hold. There has been no impact on PNG LNG production from these community-related issues.

Production rates from the Kutubu complex increased by 13% over the quarter, as flow lines damaged during the earthquake were repaired and more wells were brought online. This was supported by excellent reliability at the Central Processing Facility. Production from Moran doubled during the quarter, as earthquake remediation work, particularly in remote areas, continued and wells were progressively brought back onstream. However, the Agogo field produced at approximately 50% of its capability during the quarter, primarily due to earthquake-related damage to compression and CO_2 processing at the Agogo Processing Facility. The high-pressure compression systems remained offline during the quarter, limiting the amount of oil and gas that could be processed from the Agogo and Moran fields. Remedial work is ongoing and the Company expects these compression systems to be fully operational by the end of January 2019.

Both Gobe Main and SE Gobe were off-line for four days during the quarter, due to scheduled maintenance on the compression systems at the Gobe Production Station. Gobe Main was off-line for a further four days to repair a damaged flow line. During the quarter, Oil Search's share of SE Gobe gas exported to the PNG LNG Project was 375 mmscf. Work continued to evaluate options to reinstate the G 7X well, which was impacted by the earthquake.

Gas production from the Hides Gas-to-Electricity Project was 5% higher than in the third quarter, despite two short shutdowns during the period due to vandalism to power transmission lines to the Porgera JV mine.

❖ EXPLORATION AND APPRAISAL ACTIVITY

Gas

Highlands

The Muruk 2 appraisal well in PDL 9 (Oil Search – 24.4%) spudded on 10 November 2018 and is currently at a depth of 3,510 metres and setting a 7" liner prior to drilling into the Toro reservoir. Muruk 2 is located 11 kilometres north-west of the Muruk 1 discovery well and aims to delineate potential resource volumes in the Muruk field. To further mature this prospect, the second phase of a 2D seismic acquisition programme, covering approximately 100 kilometres over Muruk and adjacent acreage, is planned for late 2019/early 2020.

Forelands / Gulf

Oil Search completed the acquisition of 330 kilometres of seismic over PRL 15, PPL 475, PPL 476 and PRL 39 in the onshore Papuan Gulf Basin during the quarter, on behalf of operators Total and ExxonMobil. The Company then commenced a second phase, 250 kilometre programme, which is expected to complete by mid-2019. Data acquired from these surveys will help to mature leads and prospects located near planned Papua LNG infrastructure for potential appraisal drilling in 2020 onwards.

In the Forelands, the Company completed a 50 kilometre seismic programme which will assess the potential of the Gobe Footwall exploration prospect in PDL 4 and help further constrain the Iehi gas discovery in PRL 14.

Oil

Alaska

The Pikka B appraisal well commenced drilling on 31 December 2018 and in early January encountered hydrocarbons in the target Nanushuk formation. The forward plan is to sidetrack the well following the completion of coring and logging. The Pikka C appraisal well is expected to spud shortly. The objective of the wells is to confirm the presence, volume, thickness and quality of the Nanushuk reservoir at the Pikka B and C locations as well as assist in the selection of the optimal well design for the Pikka Unit development.

❖ DRILLING CALENDAR[1]

Subject to joint venture and government approvals, the 2019 exploration and appraisal programme is as follows:

WELL	WELL TYPE	LICENCE	OSH INTEREST	TIMING
PNG				
Muruk 2	Appraisal	PDL 9	24.4%	Drilling
Moran MX	Appraisal	Moran Unit	49.5%	2Q19
Gobe Footwall[2]	Exploration	PDL 4	TBA	3Q19
UDT S / H	Appraisal	PDL 2	60.0%	4Q19/1Q20
ALASKA				
Pikka B	Appraisal	Pikka Unit	25.5%	Drilling
Pikka C	Appraisal	Pikka Unit	25.5%	1Q19
Horseshoe-2	Exploration/Appraisal	Horseshoe	37.5%	4Q19/1Q20

1. Well locations and timing subject to change.
2. Subject to technical and commercial confirmation.

FINANCIAL PERFORMANCE

Sales revenues

During the quarter, 34,785 billion Btu of LNG from the PNG LNG Project was sold, 4% higher than sales volumes in the third quarter of 2018. A total of 31 LNG cargoes were delivered, comprising 25 cargoes sold under contract (including three under recently signed mid-term Sale and Purchase agreements), and six on the spot market, compared to 30 cargoes sold in the previous quarter. One cargo was on the water at the end of the period, compared to three at the end of the third quarter. Oil, condensate and naphtha sales volumes for the period totaled 1.50 mmbbl, 13% higher than liquid sales in the previous quarter. Seven 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$64.45 per barrel, 15% lower than in the third quarter, reflecting a weaker quarter for global oil prices. The average price realised for LNG and gas sales increased 5% to US$10.96/mmBtu, reflecting the approximate three-month lag between the spot oil price and LNG contract prices, as well as the continued strength in north Asian LNG demand, which supported the spot LNG price. 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 rose 5% to US$487.0 million, while other revenue, comprising rig lease income, infrastructure tariffs, electricity, refinery and naphtha sales, increased from US$12.0 million to US$16.1 million reflecting higher naphtha sales volumes and one-off shipping income.

Capital management

As at 31 December 2018, Oil Search had liquidity of US$1.5 billion, comprising US$600.6 million in cash (US$728.1 million at the end of the third quarter) and US$900 million in undrawn corporate credit facilities. During the quarter, the Company repaid US$140 million drawn under its revolving credit facilities and made a scheduled PNG Project finance principal repayment of US$166 million. Oil Search ended the period with US$3.29 billion of debt outstanding, all of which related to the PNG LNG project finance facility, compared to a total of US$3.60 billion at the end of September 2018.

In December, the Company entered into three new US$100 million bilateral revolving credit facilities, totaling US$300 million, with the Commonwealth Bank of Australia, Mizuho Bank Limited and Sumitomo Mitsui Banking Corporation Sydney Branch. The new facilities replaced two US$125 million bilateral facilities that were due to expire in December 2018. Committed revolving credit facilities now total US$900 million, with the Company's US$600 million syndicated facility expiring in June 2022 and the new US$300 million bilateral facilities expiring in December 2023.

Based on the Company's oil price outlook, Oil Search continues to expect 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 Pikka Unit development in Alaska – as well as scheduled debt repayments and future dividends over the 2019 – 2023 period.

Capital expenditure

During the quarter, Oil Search spent US$92.6 million on exploration and evaluation expenditure activities. This related to the Muruk 2 appraisal well (US$12.2 million), the acquisition of seismic in the onshore Papuan Gulf and Forelands (US$14.1 million) and pre-FEED activities for LNG expansion (US$8.9 million) as well as 3D seismic and lease purchases in Alaska (US$22.4 million).

US$30.0 million of exploration costs were expensed, mainly comprising seismic acquisition costs and geological, geophysical and general and administration expenses in PNG.

Development expenditure for the fourth quarter totaled US$12.9 million, which included US$10.6 million spent on the PNG LNG Project. Expenditure on producing assets was US$10.5 million, while expenditure on property, plant and equipment was US$22.0 million, mainly related to the Company's new Enterprise Resource Planning system.

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

	QUARTER END			FULL YEAR	
	DEC 2018	SEP 2018	DEC 2017	DEC 2018	DEC 2017
Investment Expenditure					
Exploration & Evaluation					
PNG	**45.9**	96.8	39.7	231.0	158.8
USA	**47.4**	10.3	7.9	483.5[4]	7.9
MENA	**(0.7)**	-	0.4	0.3	2.9
Total Exploration & Evaluation	**92.6**	107.1	48.0	714.8	169.5
Development					
PNG LNG	**10.6**	9.0	10.5	36.8	30.1
Biomass	**2.3**	2.6	3.3	10.7	9.8
Total Development	**12.9**	11.6	13.9	47.5	39.9
Production	**10.5**	4.4	9.4	21.7	40.7
PP&E	**22.0**	13.1	22.6	51.4	27.6
Total	**138.0**	**136.3**	**93.9**	**835.4**	**277.6**
Exploration & Evaluation Expenditure Expensed[2,3]					
PNG	**20.1**	23.4	(2.7)	51.8	27.0
USA	**10.7**	1.6	6.2	14.3	6.2
MENA	**(0.8)**	-	0.3	0.3	2.7
Total current year expenditures expensed	**30.0**	25.0	3.9	66.4	35.9
Prior year expenditures expensed	**-**	-	-	-	-
Total	**30.0**	**25.0**	**3.9**	**66.4**	**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 of US$0.9 million in the fourth quarter of 2018 (US$0.6 million in the third quarter).
4. Includes Alaska acquisition costs of US$415 million.

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.