



OIL SEARCH LIMITED

(Incorporated in Papua New Guinea)

ARBN – 055 079 868

12 May 2009

Mr Vincent Ivosa
Market Controller
PORT MORESBY STOCK EXCHANGE
Level 4
Defens Haus
Cnr Champion Pde/Hunter Street
Port Moresby
PAPUA NEW GUINEA

Dear Mr Ivosa

Re: Oil Search Limited

PNG LNG Funding Plans. 12 May 2009

The attached announcement, released to the Australian Securities Exchange today, is for release to the market.

Upon release of the information, please advise the undersigned on facsimile number 02 8207 8500 or on telephone number 02 8207 8400.

Yours sincerely

PETER BOTTEN, CBE
Managing Director

AUSTRALIAN REGISTERED OFFICE

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PNG LNG FINANCING PLAN AND CAPITAL MANAGEMENT PROGRAMME 12 May 2009

In response to inaccurate market speculation with respect to Oil Search's capital management and LNG financing plans, the Company would like to re-confirm its funding plan for the PNG LNG Project.

Oil Search's funding requirement for PNG LNG is expected to be approximately US\$4.8 billion. This is based on its share of the estimated capital costs, of between US\$10 - 11 billion real, or US\$11 - 12.5 billion nominal (which includes FEED expenditure), plus a further US\$4 billion nominal of financing costs, early operating costs and pre-funding of a debt service reserve account. (The final Project capital costs are expected to be known late in the third quarter of 2009, when construction bids are received and contracts awarded).

As previously advised, the PNG LNG Project participants plan to jointly raise 70% of the funds - approximately US\$11.5 billion - in project debt (Oil Search's share - US\$3.4 billion). The balance of the funds will come from equity, of which Oil Search's share is approximately US\$1.4 billion. This includes US\$0.1 billion that has been spent to date on FEED.

Santos has advised the market that it intends to raise cash to cover its PNG LNG Project capital requirements, which include its equity contribution and completion obligations, plus other potential major capital projects and acquisitions. This was considered a necessary step to protect Santos' credit rating, as reported to the market by Santos.

Negotiations with potential lenders to PNG LNG are at an advanced stage and, contrary to market speculation, there has been no indication from any of the lenders that cash is required to cover completion guarantees. Furthermore this would not be expected under a traditional project financing model, which is the basis for the Project's negotiations with lenders.

Oil Search is unrated and does not have any requirement or desire to dilute its shareholders by raising cash to effectively cover proposed debt. In fact, it would be illogical for Oil Search to do this. If the Company

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raised cash to cover debt, it would simply not borrow the money in the first place and save itself the substantial financing costs.

With respect to the equity funding, Oil Search expects future equity requirements at year end to be approximately US\$1.2 billion, depending on final capital costs, and FEED and early works expenditures in 2009. As previously advised, Oil Search has over US\$460 million in cash and an undrawn facility of US\$406 million at 30 April 2009. It is in a strong position to meet its equity requirements from existing funds and future cash flows.

In light of recent oil price falls, Oil Search has reviewed and commenced implementing prudent capital management strategies. The Company has taken steps to reduce discretionary expenditure and minimise cash outflows, with initiatives such as an underwritten dividend reinvestment plan, to prioritise cash resources for the PNG LNG Project. As stated previously, in the event of sustained low oil prices or other factors such as a significant cost overrun, the Company has many other levers, including hedging and asset sales etc, for raising additional cash to meet Project equity requirements. Any capital management initiatives undertaken by the Company will be selected to ensure maximisation of shareholder value.

Peter Botten, CBE
Managing Director
OIL SEARCH LIMITED

For further information, please contact:
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