



OIL SEARCH LIMITED

(Incorporated in Papua New Guinea)

ARBN – 055 079 868

27 January 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

Quarterly report to 31 December 2008. 27 January 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

Level 27 Angel Place, 123 Pitt Street, Sydney NSW 2000 Australia.

GPO Box 2442, Sydney NSW 2001 Australia.

Telephone: (61) 2 8207 8400 Facsimile: (61) 2 8207 8500



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ACTIVITIES FOR THE QUARTER ENDED 31 DECEMBER 2008 27 January 2009

HIGHLIGHTS

- Oil Search's operating revenue for the 2008 full year was US\$811.6 million, a record for the Company and 13% higher than in 2007. The key driver behind this result was the strong oil price - despite a sharp decline in the fourth quarter, the average price realised for the year was US\$100.11 per barrel, compared to US\$77.78 per barrel in 2007.
- Oil and gas production net to Oil Search for the fourth quarter of 2008 was 2.15 mmboe, 2% higher than in the third quarter, due to increased production from the Kutubu field. Total production for the 2008 full year was 8.58 mmboe, which was within the Company's forecast range.
- Fourth quarter oil sales were 2.17 million barrels, compared to oil production of 1.89 million barrels, bringing sales and production available for sale for the year broadly into balance.
- The average realised oil price achieved in the fourth quarter was US\$58.15 per barrel, 53% lower than in the third quarter reflecting the global oil price collapse. Sales revenue was US\$130.6 million, compared to US\$193.6 million in the third quarter of 2008.
- During the quarter, the PNG LNG Project participants engaged Bechtel of the US and Chiyoda of Japan to undertake a competitive bid process for the Engineering, Procurement and Construction (EPC) of the LNG Plant and associated facilities. In December, the PNG LNG Preliminary Information Memorandum was completed and a roadshow to export credit agencies took place. Feedback from the roadshow was positive and confirmed that, despite the economic slowdown, significant funds remain available for well structured and high quality projects such as the PNG LNG Project. The Project remains on track for a Final Investment Decision to be made in late 2009.
- In November, the PNG Government announced that it had issued exchangeable bonds over the PNG Government's entire 17.6% shareholding in Oil Search to International Petroleum Investment Company (IPIC), an investment company wholly owned by the Abu Dhabi Government. The principal amount of the bonds is A\$1.68 billion, which will be used to fund the PNG Government's equity share of capital costs for the PNG LNG Project. This is seen as a major positive by the Project, in that it removes a significant uncertainty in the financing process and allows the PNG Government flexibility in managing its participation with respect to landowner involvement.
- Oil Search finalised a US\$435 million five year revolving credit facility with a syndicate of 16 banks in October. The conclusion of this financing,

the terms obtained and the strength of the banking syndicate, which included all four major Australian as well as international banks, was a strong endorsement for the Company and for PNG, particularly given the difficult financial environment in which it was completed.

- In November, Oil Search signed an MOU with the PNG Government, ITOCHU Corporation and Mitsubishi Gas Chemical Company Inc to update a study on the feasibility of a petrochemical project (methanol/DME) in PNG. Work continued during the quarter on a range of other gas commercialisation studies.
- At the end of December, the Company had a cash position, excluding joint venture balances, of US\$517.2 million, compared to US\$326.5 million at the end of 2007, and no debt, placing the Company in a very strong financial position. US\$57.8 million was spent on exploration activities (including PNG LNG FEED) and US\$60.6 million on development work during the fourth quarter.

Commenting on the fourth quarter, Managing Director, Peter Botten, said:

“Conditions in the second half of 2008 were some of the most challenging ever experienced by those in the energy sector. Oil prices plummeted, from an all time high of US\$147 per barrel in mid 2008 to around US\$40 per barrel at the end of the year and the banking crisis caused widespread concerns about corporate liquidity. Oil Search is in a good position to weather this storm, having a strong cash position, a recently completed debt facility and steady production from relatively low cost oil fields in PNG.

Given this backdrop, Oil Search’s performance for the 2008 full year was pleasing, with operating revenues reaching a new high for the Company of US\$812 million, 13% higher than in 2007. Production rose 2% in the fourth quarter, reflecting the success of the on-going in-field development drilling programme at Kutubu. This took production for the year to 8.58 million barrels of oil equivalent, compared to 9.78 million barrels of oil equivalent in 2007, with the decrease primarily due to the sale of the Company’s Middle East assets, completed in May, and natural decline in the PNG oil fields. Despite an average oil price in the fourth quarter of US\$58.15 per barrel, 53% below third quarter levels, the Company’s average realised oil price for the year was just over US\$100 per barrel, 29% higher than in 2007. This more than offset the impact of lower production. Oil Search also benefited from a full year of revenue from one of its two new drilling rigs operating in PNG, with the second rig commencing operations shortly before year end.”

Progress on the PNG LNG Project

“Front End Engineering and Design (FEED) work on the PNG LNG Project continued to move ahead during the quarter, with technical activities approximately 50% complete by year end. In October, a competitive bid process commenced for the Engineering, Procurement and Construction (EPC) contract for the LNG Plant and associated facilities. The two participants in the downstream EPC competition process are Bechtel of Houston, US and Chiyoda of Yokohama, Japan. The Project expects this EPC contract to be formally awarded by late 2009 and the successful bidders to commence construction in 2010. Also during the quarter, bids were sought and received for a range of ‘Early Works’

activities (including the construction of and repairs to sections of roads to the Hides field, building of camps etc). These bids are currently under review.

On the marketing front, ongoing negotiations on key terms for Heads of Agreements (HOAs) were held with a number of selected LNG customers during the quarter. Demand for PNG LNG remains positive, even under prevailing economic conditions, and the Project remains confident that it will sign HOAs with customers early in 2009."

Debt and Equity Financing, introduction of potential new shareholder

"In December, the PNG LNG Project Preliminary Information Memorandum was finalised and the PNG LNG Project Finance Committee, which is coordinated by ExxonMobil, completed a second successful roadshow. This was primarily focused on the export credit agencies (ECAs), where much of the funding for the project is expected to be sourced. The feedback from the roadshow was positive, particularly in light of the difficult financial markets, and reinforces our view that money remains available for well structured and high quality projects such as the PNG LNG Project. Expressions of interest from the ECAs to provide project financing for the Project are targeted to be in place by August and other sources of finance, including the commercial bank market and bond market, will be progressively developed during the year. The financing remains on schedule to meet the targeted Final Investment Decision date of late 2009.

Prior to the roadshow commencing, both Oil Search and the PNG Government took major steps forward in securing funding for our respective equity component of the PNG LNG Project development costs. Firstly, in October, Oil Search signed documentation with a banking syndicate comprising 16 banks for a US\$435 million five year revolving credit facility, secured against cash flows from the Company's PNG oil assets. The pricing and other key terms obtained represented an improvement on the Company's previous facility, with almost half of the facility amount provided without recourse to political risk insurance, an excellent outcome given the difficult financial environment. This transaction highlights the attractiveness of PNG as a place to invest and demonstrates our good banking relationships, which have been built up over the last 15 years. Together with our already strong balance sheet, Oil Search is now in an excellent position to fund its equity share of PNG LNG Project capital costs.

Secondly, in November, the PNG Government and International Petroleum Investment Company (IPIC), an investment company wholly owned by the Abu Dhabi Government, announced that they had entered into an agreement whereby IPIC will acquire exchangeable bonds over the PNG Government's 17.6% shareholding in Oil Search, for a principal amount of A\$1.68 billion (equivalent to A\$8.55 per share). The money raised will be placed in escrow and used by the Government to finance its full equity component of the PNG LNG Project development cost.

The Company expects that its very close relationship with the PNG Government will continue, as the parties together develop a strategy for further gas commercialisation in PNG. At the same time, this transaction introduces a very strong potential shareholder. IPIC has indicated that it is supportive of Oil Search's strategy for gas growth in PNG and its goal to be a leader in the development of PNG's oil and gas sector, particularly the commercialisation of second phase gas. Having IPIC as a stable, financially capable and strategic

shareholder will enable Oil Search to continue to implement its strategy of creating long term value growth for all shareholders."

Expansion beyond the PNG LNG Project

"In November, Oil Search signed an MOU with the PNG Government, ITOCHU Corporation and Mitsubishi Gas Chemical Company Inc to update a study on the feasibility of a petrochemical project (methanol/DME) in PNG. This was one of the core initiatives of the Domestic Gas Memorandum of Understanding signed with the PNG Government in July 2008. The study will examine all aspects of the development of a petrochemical industry in PNG. Further work continues to take place on the wide range of commercialisation options that exist for gas in PNG, including further LNG trains, petrochemicals and other gas-based domestic and export industries."

Recent transactions in PNG highlight latent value

"In November, AGL announced that it had reached agreement to sell its interests in PDL 2, PL 2 and PDL 4 in PNG and its associated interest in the PNG LNG Project for a total consideration of US\$800 million. While we regarded the price as attractive, Oil Search decided not to exercise its pre-emptive rights to match the offer made to AGL. However, Merlin Petroleum Company, an affiliate of Nippon Oil Exploration Limited (NOEX), exercised its pre-emptive rights and consequently acquired AGL's interests in production licences PDL 2 and PDL 4. Both Merlin Petroleum and Petroleum Resources (Kutubu) exercised their pre-emptive rights in respect of PL 2, the Kutubu pipeline licence, and acquired 6.0% and 5.9% respectively of the 11.9% AGL interest in this licence.

We believe this is a good outcome for the PNG LNG Project as NOEX, through Merlin Petroleum, is an existing partner in PNG LNG. As a result, the stability and strong alignment of the PNG LNG joint venture structure has been maintained. Given the current financial environment and the substantial fall in oil prices, the price paid for this small, non-strategic stake in the PNG LNG Project and the PNG oil assets endorses our view of the considerable value of this high quality asset base. Based on the purchase price and a estimated split of value of approximately 40% for the oil assets and 60% for the gas, the see-through value to Oil Search for these assets only (excluding our other extensive gas interests outside the PNG LNG Project, exploration acreage and cash) is approximately A\$8.00 per share. This is similar to the IPIC transaction exchangeable bond price of \$8.55 per share and it is notable that both transactions were completed during a time of unprecedented financial uncertainty.

In addition to this transaction, shortly after the end of the year Oil Search completed a farm-down of interests in four PNG exploration licences to NOEX, demonstrating NOEX's commitment to PNG and particularly its confidence about the potential for an expanding gas industry in PNG, beyond the PNG LNG Project."

2008 full year results and outlook for 2009

"The Company's financial results for the year to December 2008 will be released to the market on 24 February 2009. Second half operating costs are expected to be approximately 10% higher than the first half, primarily due to an increased

level of well workover activity in the latter part of the year. The full year amortisation rate (including depreciation and site restoration) is expected to average around US\$15.20 per barrel of oil equivalent, while the effective tax rate for the full year is likely to be around 50% on core profit, excluding significant items. Total exploration expensed for 2008 is expected to be approximately US\$91 million, as highlighted on page 7. All the above guidance is subject to the audit process, currently underway.

Looking forward to 2009, cash flow will undoubtedly be impacted by the current lower oil prices and the Company is in the process of reviewing budgets for 2009 and opportunities for reducing discretionary spending. The Company has a clear prioritisation strategy for cash flows, with funding of our share of PNG LNG Project expenses taking precedence over other areas. The Oil Search Board is expected to approve the 2009 work programmes in February at which time our outlook for the year, including production and expenditure forecasts, will be released to the market. At this stage, the Company believes that production for 2009 will be similar to 2008, despite a full year's impact of the sale of the Middle East assets.

Notwithstanding lower oil prices, Oil Search remains financially sound and has a strong cash position supported by the recently completed five year credit facility. With the PNG LNG Project arguably the most robust greenfields new LNG development anywhere in the world, stable production and a low cost base, we continue to believe Oil Search is in an excellent position to withstand the current economic slowdown."

PETER BOTTEN, CBE
Managing Director
27 January 2009

2008 FOURTH QUARTER PERFORMANCE SUMMARY

Note: 2008 figures are unaudited

	Quarter End			Full Year	
	Dec 2008	Sept 2008	Dec 2007 ³	Dec 2008	Dec 2007 ³
PRODUCTION DATA					
Crude oil production ('000 bbls)	1,893	1,867	2,212	7,576	8,874
Gas equivalent sales (mmscf)	1,330	1,273	1,386	5,236	4,797
Hides liquids ('000 bbls)	34	31	32	130	109
Barrels of oil equivalent ('000 boe)	2,148	2,110	2,474	8,579	9,783
SALES					
Internal Oil Usage ('000 bbls) ¹	23	21	25	88	89
Sales Volume ('000 bbls)	2,171	1,539	2,370	7,460	8,707
FINANCIAL DATA					
Sales Revenue from operations(US\$m)	130.6	193.6	229.4	765.0	690.2
Other field revenue	2.7	7.5	6.1	24.6	24.6
Rig Income	4.6	5.8	3.2	22.0	4.0
Total operating revenue	137.9	206.9	238.7	811.6	718.8
Realised oil price – PNG (US\$ per bbl)	58.15	122.98	95.73	100.21	78.45
Realised oil price – MENA (US\$ per bbl)	-	-	85.99	96.26	68.91
Average realised oil price (US\$ per bbl)	58.15	122.98	95.18	100.11	77.78
Cash (US\$m) ²	517.2	550.2	326.5	517.2	326.5
Debt (US\$m)	Nil	Nil	Nil	Nil	Nil
Net cash (US\$m)	517.2	550.2	326.5	517.2	326.5

- 1 Oil used within Oil Search's operations and not available for sale
- 2 Excludes share of cash balances of joint venture interests
- 3 Prior period comparatives updated for subsequent changes

2008 fourth quarter production was 2.15 million barrels of oil equivalent net to Oil Search, produced at an average rate of 23,347 barrels of oil equivalent per day. Natural decline from the mature Moran and Gobe fields was offset by production from three new development wells in the Kutubu field. There was no production contribution from the Middle East/North Africa during the period following the asset sale, effective 1 May 2008.

Oil available for sale for the quarter (production less internal usage) was 1.87 million barrels, while oil sales for the period were 2.17 million barrels, bringing production and sales for the full year broadly into balance. The average oil price realised was US\$58.15 per barrel. The Company did not undertake any hedging transactions during the period and remains unhedged.

Sales revenue from operations was US\$130.6 million, while other revenue was US\$7.3 million, comprising mainly rig lease income and refined product sales.

Exploration and evaluation expenditure during the quarter was US\$57.8 million. This included US\$33 million relating to PNG LNG FEED activities with the balance comprising primarily costs associated with the Cobra well in PNG, preparatory costs for the forthcoming Wasuma (PNG) and Caliph (Libya) wells and the Shakal

well in Kurdistan. Development expenditure totalled US\$60.6 million, spent mainly on developments wells at Kutubu and Moran.

At the end of the year, Oil Search had cash of US\$517.2 million (excluding joint venture balances), compared to US\$550.2 million at the end of September. The decrease reflected a PNG tax instalment of US\$50.6 million paid during the quarter and the payment of the 2008 interim dividend in October, which totalled US\$44.8 million. Oil Search remained debt free during the quarter.

Note: 2008 figures are unaudited

	Quarter End			Full Year	
	Dec 2008	Sept 2008	Dec 2007	Dec 2008	Dec 2007 ⁴
CAPITAL EXPENDITURE SUMMARY (US\$ million)					
Exploration & Evaluation ¹					
PNG					
Capitalised ²	44.4	44.0	13.7	126.9	74.3
Expensed ³	6.4	5.4	45.3	63.9	98.1
Total PNG	50.8	49.4	59.0	190.8	172.4
MENA					
Capitalised ²	4.1	1.5	(3.9)	39.4	(15.2)
Expensed ³	2.9	5.7	18.1	27.1	65.2
Total MENA	7.0	7.2	14.2	66.5	50.0
Total Exploration & Evaluation	57.8	56.6	73.2	257.3	222.4
Development & Production	60.6	39.6	17.9	162.2	94.8
Other Property Plant & Equipment	21.9	2.3	18.8	33.5	67.7
TOTAL CAPITAL EXPENDITURE	140.3	98.5	109.9	453.0	384.9

1 Includes expenditure on gas commercialisation including the PNG LNG Project.

2 Capitalised exploration is net of previously capitalised well costs reclassified to expense and represents permit acquisition costs, expenditure associated with the drilling of wells that result in a successful discovery of potentially economically recoverable hydrocarbons and expenditures on exploration and appraisal wells pending economic evaluation of recoverable reserves.

3 Exploration expensed includes costs of unsuccessful wells except where costs continue to be capitalised, as per 3 above, general administration costs, geological and geophysical costs and new venture activity.

4 Prior period comparatives updated for subsequent changes.

PERFORMANCE FOR THE FULL YEAR 2008

Oil Search generated sales revenue in 2008 of US\$765.0 million, which was 11% higher than in 2007 and a record for the Company. Total operating revenue was US\$811.6 million compared to US\$718.8 million in the previous year.

Total production in 2008 was 8.58 million barrels of oil equivalent (mmboe). This was 12% below 2007 levels due to natural decline in the PNG oil fields and the sale of the Middle East / North Africa producing assets effective from 1 May 2008.

The average realised oil price was US\$100.11 per barrel for the year, 29% higher than in 2007.

Exploration and evaluation expenditure for the 2008 full year was US\$257.3 million (US\$222.4 million in 2007), of which US\$81.2 million was spent on gas commercialisation activities, primarily PNG LNG Project pre-FEED and FEED costs. A total of US\$91.0 million of exploration and evaluation costs was expensed (subject to audit review). The annual asset impairment review process is currently underway and will be completed in February, with a particular focus on the impact of the current lower oil price on asset values.

During the year, US\$195.7 million (US\$162.5 million in 2007) was spent on development, production and other capital items, including rigs.

PRODUCTION

	Quarter End			Full Year	
	Dec 2008	Sep 2008	Dec 2007	Dec 2008	Dec 2007 ¹
Oil Production ('000 bbls)					
- Kutubu - PDL 2	971	844	749	3,258	3,056
- Moran - PDL 2	388	426	539	1,698	2,033
- Moran - PDL 5	329	361	457	1,439	1,722
- NW Moran – PDL 6 ²	11	12	15	47	56
- SE Mananda	74	88	149	378	694
- Gobe Main	16	20	21	72	91
- SE Gobe	104	116	147	489	611
Total PNG ('000 bbls)	1,893	1,867	2,077	7,381	8,263
- Nabrajah, Yemen ³	-	-	118	148	519
- Area A, Egypt ³	-	-	12	15	87
- East Ras Qattara, Egypt	-	-	5	32	5
Total oil ('000 bbls)	1,893	1,867	2,212	7,576	8,874
Hides gas equivalent sales (mmscf)	1,330	1,273	1,386	5,236	4,797
- Hides liquids ('000 bbls)	34	31	32	130	109
Total Production ('000 boe)	2,148	2,110	2,474	8,579	9,783

- 1 Prior period comparatives updated for subsequent changes
- 2 NW Moran production restated to reflect Greater Moran unitisation
- 3 Production is estimated on a net entitlement basis

Kutubu (PDL 2 – 60.0%, operator)

The Kutubu field performed well during the fourth quarter, with net Oil Search production 15% higher than in the third quarter at 0.97 million barrels. Gross production rates averaged 17,577 bopd during the period, up from 15,280 bopd in the previous quarter.

Excellent underlying base production throughout the quarter was enhanced by the new Usano wells, which delivered significant incremental production. The UDT 8 and UDT 9 wells are now both producing at sustained rates of over 2,000 bopd. The third well in the programme, UDT 10, was completed during the quarter and came on stream at the end of October. Current production rates are also approximately 2,000 bopd. The fourth well in the Usano campaign, UDT 11, spudded during the quarter. This well is targeting the Toro reservoir in the Usano East Block. At year end, the 9-5/8" casing was being run in the well. A fifth Usano well, UDT 12, is planned for 2009.

In December, a new development well, IDD 5, was spudded using the new Rig 104. The well is targeting undrained oil in the Digimu reservoir of the Hedinia Digimu structure in the Kutubu Field. At the end of December, the well was drilling ahead in the Darai Limestone. An additional Kutubu well, IDT F is planned to follow IDD 5 in early 2009.

A six-well work-over programme for 2008 continued during the quarter. The second workover in the programme, IHT 2, was completed and is currently cleaning up. A third workover on ADD 2 was also completed during the quarter, with first oil expected in January 2009. At year end, the Hydraulic Workover Unit (HWU) had commenced operations on the fourth workover in the campaign, ADD 3.

Following workovers on two Moran wells, the HWU will return to the Kutubu area in mid 2009 for further workover operations.

Moran Unit (PDL 2 - 60%, PDL 5 – 40.7% and PDL 6 – 72.5%, operator)

Oil Search's share of 2008 fourth quarter production from Moran was 0.73 million barrels, which was 9% lower than in the third quarter of 2008. The field produced at a gross average rate of 15,975 bopd compared to 17,518 bopd in the third quarter.

Moran production was impacted by a number of downtime events during the quarter, including a flowline inspection, minor problems at the APF and a short plant shutdown. At the end of the quarter, Moran production rates were back up to approximately 17,500 bopd.

In July, the Moran 14 well, which is targeting undrained oil in the north west part of the field, was spudded with Rig 226. During drilling of the top hole Darai Limestone section, the drill string became irretrievably stuck and the well was re-spudded as Moran 14A. The well subsequently encountered a thicker than expected volcanic section and the 9-5/8" casing became stuck in the top volcanics. A decision was made to temporarily cease operations on the well and to recommence in early 2009 using Rig 103, which is better equipped for the specific issues related to drilling through the thick section of volcanics. Operations are currently expected to recommence in the first quarter of 2009.

In addition to Moran 14A, two further wells and two workovers are planned for Moran in 2009.

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

Oil Search's share of 2008 fourth quarter production from the Gobe fields was 0.12 million barrels, down 12% on third quarter levels. The gross average production rate for Gobe Main was 22% lower than the third quarter at 1,705 bopd, while the average daily production for SE Gobe was 4,409 bopd, down 11% on the previous quarter.

Gobe Main field production rates were impacted by a shut-in of the G6X ST2 well ahead of wireline work and GM1 ST1 was also shut-in briefly due to water handling constraints.

Lower production from the SE Gobe field reflected a brief field shut-down in October and a shut-in of the SEG 12 well due to tubing restrictions. SEG 12 was successfully returned to pre-shut-in rates in December.

SE Mananda (PDL 2 – 72.3%, operator)

Oil Search's share of fourth quarter production from the SE Mananda field was 0.074 million barrels, 15% below third quarter production levels. Gross average daily production rates from the field were 1,121 bopd, compared to 1,325 bopd in the third quarter.

Reduced production rates during the quarter were the result of a shut-in of the SEM 1X well and downtime at the APF in November and December.

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

2008 fourth quarter production of sales gas for the Hides Gas to Electricity Project was 1.33 billion cubic feet, produced at an average daily production rate of 14.4 million cubic feet per day compared to 14.0 million cubic feet per day in the third quarter. 34,000 barrels of condensate was produced for use within the Hides facility and for local sales.

GAS COMMERCIALISATION

PNG LNG Project

FEED activities for the PNG LNG Project continued during the fourth quarter, as follows:

- **Technical.** During the quarter, a competitive bid process for the EPC contract for the LNG Plant and associated facilities commenced, with Bechtel and Chiyoda engaged. Bids were received for portions of the proposed early works programme, which includes the construction of new roads and repairs to existing roads in the Hides area and building of camps. In addition, the offshore pipeline survey was competed and requests for proposals for line pipe supply were issued. As at the end of 2008, FEED work was approximately 50% complete.
- **Marketing.** The negotiation of key terms for Heads of Agreements (HOAs) took place with a number of selected customers in the Asia Pacific region during the quarter.
- **Financing.** The PNG LNG Joint Finance Committee completed and released the Preliminary Information Memorandum and a roadshow with lead ECAs took place in December.
- **Subsurface.** The development of a detailed technical procedure for reserves estimates, to be used for equity determination and redetermination, was completed and significant progress was made in the technical review of reserves estimates for the initial determination, which will be completed prior to FID.
- **Environmental:** The Project's Environmental Impact Statement was finalised and was submitted to Government in late January. In addition, an environmental awareness roadshow to government agencies, NGOs and 33 villages took place during the quarter.
- **Benefits Sharing Agreement.** During the period, awareness sessions were conducted in a number of villages and a preliminary proposal for the agreement was reviewed in conjunction with the PNG Government.

Other Gas Initiatives

Work continued during the quarter on interfacing with the PNG Government on the Domestic Gas MOU, which was signed in July 2008 and is designed to facilitate the planning of gas growth beyond the PNG LNG Project and on coordinating the development of "next wave" gas projects.

In November, Oil Search signed a Memorandum of Understanding with the PNG Government, ITOCHU Corporation, and Mitsubishi Gas Chemical Company (MGC). Under the MOU, Oil Search, ITOCHU and MGC will work together and coordinate with the PNG Government to investigate the development of a petrochemical industry in PNG. The MOU was the first to be signed relating to one of the core initiatives in the Domestic Gas MOU.

Negotiations also took place during the quarter on a number of agreements associated with the realignment of Oil Search's PNG gas portfolio. Shortly after the end of the quarter, Oil Search announced the following transactions:

- A farm-down to NOEX of interests of between 10% and 20% in four exploration licences (PPLs 219, 234, 239 and 244).
- The acquisition from Gedd (PNG) Ltd of Gedd's 10% interest in PRL 10 (containing the Uramu gas field) and in PPL 240 (the licence that surrounds the Kimu gas field).

EXPLORATION ACTIVITY

PNG

Processing of regional seismic data acquired in PDL 2, PPL 219 and PPL 233 was completed during the quarter and interpretation commenced. The integration of this data with existing information will be utilised to high grade candidates for 2010 drilling. Planning continued for the Fold Belt seismic acquisition programme, scheduled to commence in the first quarter of 2009. In addition, plans for offshore seismic acquisition were finalised. It is expected that the offshore seismic acquisition programme will take place in the first/second quarter of 2009.

Yemen

During the quarter, processing of the 3D seismic data acquired last quarter over an area to the east of OMV's Habban Basement discovery in the S2 Block was completed. Interpretation of this data is currently underway and will be used to define drilling targets for wells in Block 3 (OSH 60% Operator) and in Block 7 (OSH 40% Operator).

Planning and tendering for drilling services for the upcoming drilling campaign were initiated and a rig contract has been issued for a multi well campaign in both blocks starting in mid-2009.

Iraq

Interpretation of the 242 kilometres of 2D data over the Bina Bawi block (OSH 6%) continued during the quarter. This data will be used to evaluate the potential size of the Bina Bawi gas discovery and the value in drilling further wells to appraise the field.

During the quarter, the Shakal 1 exploration well was spudded and drilled to a depth of 698 metres. Delays were experienced due to faulty drilling equipment and major repairs were undertaken during December. The Operator, Prime Resources from the US, has indicated that the well is expected to recommence drilling early in the first quarter of 2009 and will take approximately 40 days to complete from restart. The Kurdistan Regional Government has requested tight hole (confidential) status for all activities within the Shakal EPSA. In the event of any material developments, Oil Search will provide further information to the market, in line with ASX reporting requirements.

Libya

Preparations continued for the drilling of the Caliph-1 exploration well in the Libyan Area 18 EPSA. The Songa Saturn drillship arrived in Libya in September and is currently completing drilling operations outside the Area 18 EPSA before mobilising to the Caliph 1 location. The well is now expected to commence drilling in the second quarter of 2009.

The Caliph prospect is considered to be a high reward, high risk feature with potential reserves in excess of 1 billion barrels of oil equivalent and will be drilled by the operator, Petrobras. Oil Search holds a 30% interest in the licence.

Tunisia

Work continued on the Tajerouine exploration permit (OSH 100% Operator) and the adjacent Le Kef exploration permit (OSH 25%, Primoil Operator) during the quarter. All existing data has now been received and interpretation is underway. Reprocessing of approximately 700 kilometres of existing 2D data is being undertaken and the results will be available in the first quarter of 2009. Oil Search is seeking to define and high-grade several leads and prospects which have been identified. Planning of additional seismic acquisition in both Le Kef and Tajerouine is underway and is due to commence in the third quarter of 2009.

The work programme commitments include 400 kilometres of seismic acquisition in Tajerouine and 165 kilometres in Le Kef to be acquired in 2009, with one well in each permit currently scheduled for 2010.

DRILLING CALENDAR FOR 2009

Subject to the finalisation of budgets and Joint Venture approvals, the indicative 2009 exploration and development programme is as follows:

Well	Well type	Licence	OSH interest	Timing
PNG				
Moran 14A	Development	Moran Unit	49.5%	Suspended, awaiting re-entry 1Q 09
UDT 11	Development	PDL 2	60.0%	Drilling ahead
IDD 5	Development	PDL 2	60.0%	Drilling ahead
Moran MD	Development	Moran Unit	49.5%	2Q 09
IDT F	Development	PDL 2	60.0%	2Q 09
Moran MB	Development	Moran Unit	49.5%	2/3Q 09
Wasuma	Exploration	PPL 219	91.25%	4Q 09

Iraq				
Shakal 1	Exploration	Shakal PSC	15.0%	Drilling ahead
Bina Bawi-3	Exploration	Bina Bawi EPSA	6.0%	3/4Q 09

Libya				
Caliph-1	Exploration	Area 18	30.0%	2Q 09

Yemen				
Well 1	Exploration	Block 3	60.0%	2/3Q 09
Well 1	Exploration	Block 7	34.0%	4Q 09

Note: Wells and timing subject to change

For further information or questions regarding this report, please contact:

Stephen Gardiner
Acting Chief Financial Officer : +61 (0)2 8238 8147

or

Ms Ann Diamant
Investor Relations Manager : +61 (0)2 8207 8440
+61 (0)407 483 128