



OIL SEARCH LIMITED

(Incorporated in Papua New Guinea)

ARBN – 055 079 868

29 January 2008

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 2007. 29 January 2008

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
Managing Director

AUSTRALIAN REGISTERED OFFICE

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OIL SEARCH LIMITED

(Incorporated in Papua New Guinea)

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REPORT TO THE AUSTRALIAN STOCK EXCHANGE Activities for the Quarter Ended 31 December 2007 29 January 2008

HIGHLIGHTS

- Following a strong fourth quarter, sales revenue for the 2007 full year reached a record level of US\$690.2 million, compared to US\$628.9 million in 2006. Key drivers were continued strong production from the PNG oil fields and high oil prices, with Oil Search realising an average price for the year of US\$77.78 per barrel, 16% higher than in 2006.
- Oil and gas production net to Oil Search for the fourth quarter was 2.47 mmbœ, 3% lower than in the third quarter of 2007, due to natural field decline in PNG and a lower contribution from Egypt. Total production for the 2007 full year was 9.78 mmbœ, which was in line with Company forecasts.
- Fourth quarter oil sales were 2.37 million barrels, compared to oil production of 2.21 million barrels, bringing sales and production for the year broadly into balance.
- The average realised oil price achieved for PNG crude in the fourth quarter was US\$95.73 per barrel, 25% higher than in the third quarter. In December, two of the three cargoes lifted were sold at prices in excess of US\$100 per barrel, a record for the Company. Sales revenue for the fourth quarter of 2007 was US\$229.8 million, 33% higher than in the third quarter.
- Advances were made during the quarter on a range of pre-FEED activities for the world-scale PNG LNG development operated by ExxonMobil. Much of this work is now nearing completion, in preparation for a FEED decision to be made during the first quarter of 2008.
- Production commenced in December 2007 from the Shahd and Ghard fields in the East Ras Qattara block in Egypt. The two wells are producing at a combined rate of 1,200 bopd, with oil being trucked to nearby processing facilities. Oil Search has a 49.5% interest in the East Ras Qattara Block. This represents Oil Search's second producing area in Egypt.

- **As at the end of 2007, Oil Search had a cash position, net of debt, of US\$326.5 million, compared to US\$467.9 million at the beginning of the year. Over the year some US\$213 million was spent on exploration and appraisal activities, US\$20 million net on gas commercialisation and US\$155 million on development and rig purchases.**

Commenting on the results, Managing Director, Peter Botten, said:

“The operating performance of the PNG oil fields remained strong during the fourth quarter of 2007, with the continued increase in oil prices a highlight. In December, Tapis breached the US\$100 per barrel mark for the first time and the Company realised an average oil price over the quarter of US\$95.18 per barrel. This, combined with a solid production performance, took sales revenue for the 2007 full year to an all time high of US\$690 million. Production for the year ended within our forecast range, at 9.78 million barrels of oil equivalent (mboe), only 4% below 2006 levels despite the maturity of many of our fields and a limited amount of development drilling occurring over the year.

Momentum on the PNG LNG Project pre-FEED activities continued to build through the quarter, with progress being made on all fronts. By the end of 2007, resolution of technical, commercial and Government issues had all advanced, and work is now underway to finalise the key agreements that need to be in place prior to a decision to enter FEED. The FEED decision is expected to be put to the co-venturers late in the first quarter of 2008.

Pre-FEED technical studies have determined that the optimal LNG plant size is a 6.3 mtpa two train plant to be located near Port Moresby. Both the Phillips Cascade and Air Products ACPI technology are likely to be considered further during FEED. A review and update of expected capital costs is currently underway following a bottom-up rebuild by the operator, ExxonMobil, in preparation for FEED entry.

During the quarter, the key terms of a comprehensive Coordinated Development and Operating Agreement (CDOA), which specifies the rights and obligations of all the co-venturers, were materially progressed. The CDOA covers all commercial aspects of the project including gas supply arrangements, unitisation principles and voting requirements. In January, the PNG LNG co-venturers signed a Marketing Representation Agreement, which will allow the finalisation of a comprehensive Marketing Plan for LNG from the Project before FEED entry. Marketing activities for the PNG LNG Project, with ExxonMobil jointly marketing on behalf of the Project participants, are expected to commence once the FEED decision has been made.

Discussion also continued regarding licence renewals. The PNG Government passed legislation that will allow the extension of Petroleum Retention Licences (PRLs) for shorter terms than those that previously applied. It is anticipated that PRLs covering the southern part of the Hides gas field and the Angore field, which form part of the PNG LNG Project and expire in March, will be renewed under the new provisions.

During the quarter, exploration activity slowed, with work taking place on eight wells, of which three, including the high potential NW Paua 1 and Salma-1 wells, are drilling ahead. In the Middle East, the drilling results were generally disappointing with three dry holes, two in Egypt and one in Block 49 in Yemen (where Oil Search was fully carried following a farm down). The Korobosea well in PNG was also dry while the

results from the Arakubi 1A well in PNG were mixed. The primary Toro objective was found to be water-bearing, but pressure readings suggest that it is in contact with production elsewhere, probably in the Usano field. It is likely that the Arakubi well will be used as a future water injector to enhance production. In addition, logs indicate that sands in the deeper Digimu, Hedinia and Iagifu reservoirs may be hydrocarbon bearing. Arakubi 1A has been suspended pending a full analysis of the results.

Work on the major corporate Strategic Review continued during the quarter. The review is designed to build on the successful 2002 work and set new objectives and programmes to deliver maximum shareholder value during a period of major gas commercialisation through to 2012/13. It is anticipated that further information and the primary results of this work will be provided to the market towards the end of the first quarter of 2008.

The Company's financial results for the year to December 2007 will be released to the market on 19 February 2008. As indicated previously, second half operating costs are expected to be slightly higher than those recorded in the first half, due to increased activity levels and the impact of the strong Australian dollar. The full year amortisation rate (including depreciation and site restoration) is expected to average around US\$14.50 per barrel of oil equivalent, while the effective tax rate for the full year is likely to be between 60 – 65%. Exploration expensed in the second half of 2007 will continue the trend seen in the first half, reflecting the considerably higher exploration expenditure incurred over the year (see page 5 and 6 for details).

The Oil Search Board has recently approved the 2008 preliminary work programmes. Planned activities include a series of development wells in PNG primarily on the Kutubu and Moran fields, some of which were deferred from 2007. This activity is expected to help mitigate natural field decline and as a result, total production in 2008 is expected to be similar to 2007 levels. Exploration activity will continue but at a lower level than in 2007, with expenditure expected to fall from US\$213 million in 2007 to between US\$130 - 140 million, of which approximately US\$70m will be in PNG and the balance in Middle East/North Africa. “

PETER BOTTEN
Managing Director
29 January 2008

2007 FOURTH QUARTER PERFORMANCE SUMMARY

Note: 2007 figures are unaudited

Period to:	Quarter			Full Year	
	Dec 2007	Sept 2007	Dec 2006	Dec 2007	Dec 2006
PRODUCTION DATA					
Crude oil production ('000 bbls)	2,211	2,315	2,418	8,874	9,219
Gas equivalent sales (mmscf)	1,386	1,312	1,200	4,797	5,128
Hides liquids ('000 bbls)	32	29	29	109	122
Barrels of oil equivalent ('000 boe)	2,474	2,563	2,646	9,783	10,195
SALES DATA					
Internal Oil Usage ('000 bbls) ¹	25	19	21	89	171
Sales Volume ('000 bbls)	2,370	2,239	2,755	8,707	9,169
FINANCIAL DATA					
Sales revenue from operations (US\$m)	229.8	172.7	171.3	690.2	628.9
Other field revenue	10.1	6.1	3.6	28.6	15.7
Total operating revenue	239.9	178.8	174.9	718.8	644.6
Realised oil price – PNG (US\$ per bbl)	95.73	76.43	61.33	78.45	67.45
Realised oil price – MENA (US\$ per bbl)	85.99	66.89	56.33	68.91	63.64
Average realised oil price (US\$ per bbl)	95.18	75.61	61.13	77.78	67.22
Cash (US\$m) ²	326.5	405.4	467.9	326.5	467.9
Debt (US\$m)	Nil	Nil	Nil	Nil	Nil
Net cash (US\$m)	326.5	405.4	467.9	326.5	467.9

1 Oil used within Oil Search's operations and not available for sale

2 Excludes share of cash balances of joint venture interests

Oil Search's production in the fourth quarter of 2007 was 2.47 million barrels of oil equivalent, produced at an average rate of 26,890 barrels of oil equivalent per day. This was 3% lower than in the third quarter due to natural decline of the PNG oil fields and lower production from Egypt.

Oil production was 2.21 million barrels, while oil sales for the quarter were 2.37 million barrels, leaving Oil Search with a small oil inventory at year end. Six PNG oil cargoes were lifted during the period and the average oil price realised for the quarter, including Yemen and Egypt oil sales, was US\$95.18 per barrel. The Company did not undertake any hedging transactions during the period and remains unhedged. Sales revenue from operations was US\$229.8 million, 33% higher than in the third quarter of 2007.

Exploration and evaluation expenditure during the period was US\$73.2 million, spent mainly on the Arakubi, Korobosea and NW Paua wells and drill site preparation in PNG and drilling activity in East Ras Qattara and Area A in Egypt. This figure also included Oil Search's share of costs for the PNG LNG Project of US\$7.7 million. Development and production expenditure totalled US\$17.9 million, primarily comprising expenditures on Kutubu in PNG, Area A in Egypt and Nabrajah in Yemen while US\$18.8 million was spent on rigs and associated plant and equipment.

Note: 2007 figures are unaudited

Period to:	Quarter			Full Year	
	Dec 2007	Sept 2007	Dec 2006	Dec 2007	Dec 2006
CAPITAL EXPENDITURE SUMMARY (US\$ million)					
Exploration & Evaluation ¹					
PNG					
Capitalised ²	13.7	31.3	20.0	75.1	60.5
Expensed ³	45.3	15.8	10.4	98.6	26.0
Total PNG	59.0	47.1	30.5	173.7	86.5
MENA					
Capitalised ²	(3.9)	(4.4)	6.2	(6.4)	14.1
Expensed ³	18.1	18.4	7.4	65.0	20.3
Total MENA	14.2	14.0	13.6	58.6	34.4
Total Exploration & Evaluation	73.2	60.1	44.0	232.4	120.9
Development & Production	17.9	20.0	33.9	87.1	143.7
Other Property Plant & Equipment	18.8	24.6	4.2	67.5	15.5
TOTAL CAPITAL EXPENDITURE	109.9	105.7	82.1	387.0	280.1

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 noted in 1 above, general administration costs, geological and geophysical costs and new venture activity.

During the quarter, US\$63.4 million of exploration costs were expensed compared to US\$34.2 million in the previous quarter. Costs expensed included drilling and site preparation costs for the Korobosea well in PNG and drilling costs associated with the Raheek well in ERQ. In addition, previously capitalised costs associated with the Arakubi 1 well drilled in 2006 were expensed following the result of Arakubi 1A, and capitalised costs associated with earlier drilling in Block 49 in Yemen were expensed following the result at West Ghobata-1.

At the end of December 2007, Oil Search had a cash balance of US\$326.5 million, US\$78.9 million lower than at the end of September. This reflected a US\$68.4 million tax payment relating to prior years, cash outflows from the active exploration programme and timing of cash receipts for the December cargoes.

Oil Search had no debt outstanding and is not impacted by sub-prime mortgage related issues.

PERFORMANCE FOR THE FULL YEAR 2007

Oil Search generated sales revenue in 2007 of US\$690.2 million, which was 10% higher than in 2006 and a record for the Company. Total operating revenue was US\$718.8 million compared to US\$644.6 million in the previous year.

Total production in 2007 was 9.78 million barrels of oil equivalent (mmboe). This was 4% below 2006 levels, due to natural decline in the PNG oil fields and the limited amount of development drilling that took place due to rig availability, but in line with Company forecasts. During 2007, production commenced from two licences in Egypt (Area A and East Ras Qattara), albeit with a small contribution net to Oil Search.

The average realised oil price was US\$77.78 per barrel for the year, 16% higher than in 2006.

Exploration and evaluation expenditure for the 2007 full year was US\$232.4 million (US\$120.9 million in 2006), of which US\$19.8 million (net of reimbursement) was spent on gas commercialisation activities. A total of US\$163.6 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.

During the year, US\$154.6 million (US\$159.2 million in 2006) was spent on development, production and other capital items.

PRODUCTION

Note: 2007 figures are unaudited

Period to:	Quarter			Full Year	
	Dec 2007	Sep 2007	Dec 2006	Dec 2007	Dec 2006
Oil Production ('000 bbls)					
- Kutubu - PDL 2	749	799	804	3,056	3,496
- Moran - PDL 2	539	524	573	2,033	1,940
- Moran - PDL 5	457	443	485	1,722	1,623
- NW Moran - PPL 219 ¹	15	14	16	56	136
- SE Mananda	149	162	226	694	560
- Gobe Main	21	25	24	90	137
- SE Gobe	147	156	178	611	748
Total PNG ('000 bbls)	2,077	2,124	2,305	8,263	8,640
- Nabrajah, Yemen ²	118	120	112	520	579
- Area A, Egypt	12	72	-	87	-
- East Ras Qattara, Egypt	5	-	-	5	-
Total oil ('000 bbls)	2,211	2,315	2,417	8,874	9,219
Hides gas equivalent sales (mmscf)	1,386	1,312	1,200	4,797	5,128
- Hides liquids ('000 bbls)	32	29	29	109	122
Total Production (boe)	2,474	2,563	2,646	9,783	10,195

1 NW Moran production restated to reflect Greater Moran unitisation

2 Nabrajah production is estimated on a net entitlement basis. Previous quarters restated based on finalised actual entitlements.

PNG

Kutubu (PDL 2 – 60.0%, operator)

The Kutubu gross production rate in the fourth quarter of 2007 averaged 13,554 bopd. This was 6% below the third quarter and 7% lower than in the previous corresponding period, representing only modest decline on a year on year basis, despite the deferment of development drilling and the limited workover activity that took place during the year. Oil Search's share of Kutubu production for the quarter was 0.75 million barrels.

Following coiled tubing work on IDT 19ST1 mid-year, the well was successfully converted into a water injector, making it only the second water injector servicing the Kutubu/Agogo/Moran/SE Mananda complex. This is expected to lead to incremental oil production in 2008.

Rig 103, Oil Search's new-build drilling rig, arrived on-site during the fourth quarter and a Usano field well, UDT 8, was spudded in late December and is currently drilling ahead. A campaign of further development/infill wells focused mainly on the Usano region of Kutubu will continue throughout 2008.

A workover programme for 2008 is currently being planned and is expected to commence in the second/third quarter of 2008.

Moran and NW Moran (PDL 2 - 60%, PDL 5 – 40.7% and PPL 219 – 72.5%, operator)

In the fourth quarter of 2007, Oil Search's share of production from Moran and NW Moran was 1.01 million barrels, with the fields producing at a total average production rate of 22,179 bopd. This was 3% higher than in the third quarter of 2007.

The gross average production rate from Moran over the quarter was 18,843 bopd, similar to third quarter levels. This reflected the ongoing success of the M6 acid treatment and the Moran well management programme, with zone changes taking place at Moran 1X (from the Toro B block to the A block Digimu reservoir) and Moran 9 (from the high GOR Digimu to the Toro reservoir). Production from the NW Moran 1 EPT (Extended Production Test) averaged 3,253 bopd during the quarter, which was 21% higher than in the third quarter following a successful zone change to the Toro reservoir.

As highlighted last quarter, the offer of a Production Development Licence (PDL) over NW Moran was postponed due to delays in holding the necessary landowner forums. The licence award is now expected to occur in the second quarter of 2008. In the interim, the EPT consent has been extended by a further four months to end April 2008. Once the PDL has been approved, the NW Moran well and the NW extension of the Moran field will be integrated formally into the Moran unit.

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

Oil Search's share of 2007 fourth quarter production from the Gobe fields was 0.168 million barrels, which was approximately 7% lower than in the third quarter. The gross average production rates for Gobe Main and SE Gobe were 2,313 bopd (15% lower than in the previous quarter) and 6,254 bopd (down 6%) respectively.

The lower production rates were a consequence of natural field declines in key production wells together with regulatory requirements to shut wells in for downhole surveys.

Production from SEG 12 and SEG 11 continued to benefit from the SEG 13ST1 water injection project and further optimisation of the field's water re-injection capabilities will be a focus for 2008. Completion of the lagifu A reservoir in Gobe Main wells continued to contribute low GOR oil to production, and work programmes are in place to continue this campaign in the first half of 2008.

The Gobe gas compressor upgrade, which commenced in the third quarter of 2007, has now been successfully completed, leading to an increase in gas handling capacity of about 8 mmscf/d with an associated production benefit of around 100 bopd.

At the end of the quarter, Rig 101 was mobilised to Gobe Main to undertake a workover on the GM 7 well. Unfortunately the workover was unsuccessful and the well has been suspended.

SE Mananda (PDL 2 – 72.3%, operator)

During the fourth quarter of 2007, Oil Search's share of production from the SE Mananda field was 0.15 million barrels. Gross daily production from the field declined by 8%, from 2,441 bopd in the third quarter to 2,247 bopd. Production rates were impacted by hydrates in SEM 1X but overall up-time has improved over the levels achieved in the first half of 2007.

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

2007 fourth quarter production of sales gas for the Hides Gas to Electricity Project quarter was 1.386 billion cubic feet, produced at an average daily production rate of 15.1 million cubic feet per day. This was 5% higher than in the third quarter, with incident-free operations during the period. 32,000 barrels of condensate was produced for use within the Hides facility and for local sales over the period.

YEMEN

Nabrajah Field (Block 43 – 28.33%)

Gross production from the Nabrajah field during the fourth quarter of 2007 was 0.58 million barrels, produced at an average rate of 6,335 bopd. Oil Search's net entitlement share (defined as cost oil plus profit oil) was 0.12 million barrels, similar to the third quarter contribution.

Debottlenecking of the Qishn CPF and the Basement CPF continued during the quarter. The Qishn CPF upgrade is now planned to be completed during February 2008 and the Basement CPF upgrade by late in the second quarter of 2008.

Nabrajah-16 was spudded in early October as an appraisal of the Nabrajah-15 central fault block. It was sidetracked due to structural complexity, and subsequently encountered Qishn oil pay at above initial reservoir pressures in an unswept compartment. The well was completed as Nabrajah-16ST3 and was brought into production in January 2008 at a rate of 1,300 bopd.

Interpretation of the 3D seismic survey continues to focus on establishing the viability of exploration and development targets within and close to the Nabrajah field. Recent work has delineated the Nabrajah-17 location on the north-eastern flank of the field and has highlighted a number of infill well locations in the northern fault block. Nabrajah-17 will be drilled following the completion of Dahgah-1, an exploration well which is currently underway. Future work is planned to assess the follow-up potential of the Nabrajah-16ST3 success.

EGYPT

Area A Fields (Area A - 70%, operator)

During the fourth quarter of 2007, gross production from Area A averaged 2,816 bopd, 30% lower than in the previous quarter. This reflected a decline in production

from a number of key producing wells. Oil Search's net share of production was 0.12 million barrels (post the Petrogas farm-in).

The Yusr-51ST and Shukheir-22 development wells were completed and brought on-stream at approximately 350 and 300 bopd respectively in October. The workover and recompletion programme that commenced in late June continued during the quarter, with eleven wells having now been worked over. Notably, a Yusr-12 recompletion added 272 incremental bopd in mid-December. This programme is planned to continue through 2008, to maximise production from the existing wells.

In November, Oil Search agreed to sell a 30% interest in Area A to Petrogas E & P LLC, a privately owned Omani company. The consideration for the sale, which was recently completed, was:

- A cash payment together with reimbursement of 30% of past costs
- A carry of Oil Search's 70% share of costs for the next three exploration wells and a further two wells (which may be either appraisal, development or exploration wells), with a financial cap
- A carry of Oil Search's 70% share (subject to an agreed financial cap) for the well completion expenditure for each successful well drilled in the programme above.

Shahd and Ghard Fields (East Ras Qattara Block – 49.5%)

In December, production commenced from the Shahd and Ghard fields in the East Ras Qattara Block (ERQ). Simple modular facilities are being used to separate gas and produce oil to storage tanks where it is measured and then trucked 85 kilometres to the east to the Qarun receiving facilities (owned by the Norpetco Joint Venture).

The Shahd-1 well came onstream at an initial production rate of 980 bopd. The well is currently producing from the Lower Bahariya with an Electrical Submersible Pump (ESP), with a zone change to the Upper Bahariya reservoir planned in the future to observe reservoir performance for field development planning. Ghard-1 was brought online at a natural flow rate of approximately 1,080 bopd produced from the Lower Bahariya reservoir.

Gross ERQ production trucked to Qarun for December was 16,810 barrels, of which Oil Search's net entitlement share was approximately 4,535 barrels. Average ERQ production from both wells is currently being restricted to approximately 1,200 bopd.

GAS COMMERCIALISATION

During the fourth quarter, work continued with increasing momentum on a range of critical fronts for the PNG LNG Project:

- **Technical.** Pre-FEED technical studies were close to conclusion by the end of the quarter. It has been determined that the optimal LNG plant size/configuration is a 6.3 mmtpa two train plant, to be located near Port Moresby. Both the Phillips Cascade and Air Products ACPI LNG technology are likely to be considered further during FEED
- **Commercial.** During the quarter, the key terms of a comprehensive Coordinated Development and Operating Agreement (CDOA), which outlines the rights and obligations of all Joint Venture partners, were materially progressed. Finalisation of remaining outstanding issues and documentation of this agreement are currently underway. The CDOA covers all commercial aspects of the project including gas supply arrangements, unitisation principles and voting requirements.
- **Marketing.** Shortly after the year end, a Marketing Representation Agreement (MRA) was signed by the Joint Venture partners. This agreement facilitates preparation of a comprehensive marketing plan for the Project, which has chosen to jointly market LNG.
- **Fiscal Terms.** Discussions continued with the PNG Government and a draft PNG LNG Gas Agreement was submitted to the PNG Government shortly before year end. Work is currently underway to finalise the terms of the Gas Agreement prior to FEED entry.
- **Financing Plan.** A financial advisor was appointed to scope funding alternatives during the fourth quarter of 2007. Their report was presented in December and indicated considerable market depth and capacity to provide the funding required to support the Project.
- **Benefits Sharing.** Discussions were held with both Government and landowners on the development of the framework for preparing a Benefits Sharing Agreement. This agreement will outline the approach for benefits sharing between relevant stakeholders including royalties, landowner equity payments and local business development.

Discussions continued during the quarter regarding licence renewals necessary for the Project to proceed and in particular the extension of two Petroleum Retention Licences, PRL 11 and PRL 12, applied for in September. These licences cover the southern portion of the Hides field and the Angore field. The PNG Government recently passed legislation that will allow the extension of PRLs for shorter terms than those that previously applied. It is anticipated that PRL 11 and 12 will be renewed under the new provisions.

Other complementary gas activities continued as Oil Search looks to grow its portfolio of contractable gas for sustainable markets.

EXPLORATION ACTIVITY

PNG

During the fourth quarter, the Arakubi 1AST well in PDL 2 was completed. Although the well penetrated the Toro reservoir above the known oil-water contact for the Usano area, the well was dry. However, pressure information indicated that it is in communication with producing wells elsewhere. There is therefore probable that the well can be used as a future water injector and consequently it was suspended. Deeper sands were also penetrated and some thin intervals had indications of hydrocarbons, which are under review.

The Korobosea well in PPL 240 spudded in October. The well was drilled with the newly refurbished Rig 101, operated by High Arctic Drilling Services, which performed well with drilling completed in less than a month. All the planned reservoirs were penetrated close to depth prognosis but unfortunately no indications of hydrocarbons were observed. The results from Korobosea, which was along trend from the Kimu gas discovery, are currently being evaluated. After Korobosea 1, Rig 101 was moved to the Gobe area where a workover was conducted, prior to moving on to the Cobra well pad. The Cobra well, which recently commenced drilling in PPL 190, will test a sub-thrust or footwall play.

The Parker Rig 226 was moved from Arakubi to the NW Paua well pad during the quarter and the NW Paua 1 well spudded on 10 December. This well, being drilled by Oil Search on behalf of the PPL 233 Joint Venture and Operator ExxonMobil, is an important test of the structure immediately to the northeast of the Moran field and has potential oil volumes of some 100 million barrels recoverable in the Toro and Digimu reservoirs. The well, however, will test some of the most complex geology to be drilled in PNG.

A seismic programme began during the quarter over leads in PPL 239 in the northwest part of the foreland near the Juha field. This data will be used to mature targets for drilling in 2009. The seismic crew continues to perform with a world-class safety record. Planning for offshore seismic programmes was conducted during the quarter - acquisition will occur as soon as a number of licence matters are resolved with the PNG Government.

A number of opportunities for entry into other areas in PNG were evaluated during the quarter, and a focus on revitalising the prospect inventory will continue during 2008.

Yemen

During the quarter, the West Ghobata-1 well was drilled in Block 49, the fourth exploration well in the block and the first to be operated by farminee Virgin Resources. The TD wireline logging programme indicated the presence of moveable hydrocarbons in the Madbi and Sabatayn formations. Subsequent testing recovered CO₂ from the Madbi Formation and oil from the Sabatayn Formation but at sub-commercial rates. The well was consequently plugged and abandoned. The fifth exploration well in the Block 49 programme, Dhulai'h 1, was spudded in December

and was plugged and abandoned as a dry hole in January. Oil Search was fully carried by Virgin Resources for the drilling of both these wells. A 9-month extension to the block has been granted, which will provide the joint venture adequate time to review the results from the five well drilling programme.

Over the quarter, preparations took place for the drilling of the next Block 43 exploration well, Dahgah-1, which spudded in January 2008 and is currently drilling ahead. Dahgah-1 is testing a structure approximately five kilometres to the east and on-trend with the Nabrajah Field.

The Block 3 3D seismic survey commenced during the fourth quarter and activities are expected to continue through the first quarter of 2008. The survey covers an area immediately to the east of OMV's Habban Basement discovery in the S2 Block.

A 12 month extension to Block 15, offshore Yemen, was granted. This will enable the joint venture to review the drilling results from the Riyan-1 and Suad-1 wells, which took place in 2007.

Egypt

The fourth well in the expanded East Ras Qattara (ERQ) exploration programme, Raheek-1, located 5.5 kilometres to the south of the Rana discovery, reached TD in November. Oil shows were found in the Upper Bahariya formation, which was of poor reservoir quality. The Lower Bahariya and Kharita formations were water bearing and the well was subsequently plugged and abandoned.

The next well in the drilling campaign, Salma-1, commenced drilling in December 2008. The Salma prospect is a high risk/high reward stratigraphic trap located some 12 kilometres southeast of Rana-1. The well is targeting the Bahariya, Kharita and, for the first time in the ERQ drilling programme, the Alam el Boueib formation, which is a prolific reservoir elsewhere in the Western Desert of Egypt. The planned total depth of the well is 3,681 metres.

As highlighted previously, the Field Development Plan for the Ghard discovery was approved by the Ministry of Oil and Gas and the Extended Production Tests (EPT) of the Shahd and Ghard fields started just before the end of the fourth quarter of 2007.

Preparations are underway to acquire additional 3D seismic to evaluate the resource potential in the northern half of the ERQ exploration licence. This survey is scheduled to commence in the second quarter of 2008.

In Area A, the third exploration well drilled by Oil Search, West Zeit-X1, was drilled during the quarter. The Nubia Sandstone objective was evaluated by logs and was found water bearing. The well was subsequently plugged and abandoned.

The fourth exploration well, South Gharib-X1, was spudded late in the quarter and is currently drilling ahead. The target is an elevated fault block with Nubia Sandstone reservoir and the well should reach TD by the end of January.

Iraq

During the quarter, the joint venture continued to review the results from the Bina Bawi-1 and 2 wells. The forward programme is to acquire seismic data over the Bina Bawi structure, to evaluate options to re-enter Bina Bawi-1 and to conduct further appraisal.

The Kurdistan Regional Government has requested tight hole (confidential) status for all activities within the Bina Bawi EPSA. In the event of any material developments, Oil Search will provide further information to the market, in line with ASX reporting requirements.

Libya

Processing of the 2D and 3D seismic surveys acquired in the second quarter of 2007 over offshore Area 18 was completed during the quarter. Preparations continued for drilling an exploration well in the third quarter of 2008 with the Songa Saturn drillship. Oil Search holds a 30% interest in the Area 18 EPSA.

Tunisia

The Production Sharing Contract (PSC) for the Tajerouine Block (OSH 100%), located onshore in the Tunisian Fold Belt, was signed in December 2007. Also during the quarter, Oil Search was awarded its second exploration block in Tunisia, the Le Kef permit. Le Kef is located north of the Tajerouine Block in the Tunisian Fold Belt, and covers an area of 2,836 km². The four year contract to explore for oil and gas includes the commitment to acquire 165 kilometres of 2D seismic and to drill one exploration well. The Le Kef permit, in which Oil Search holds a 50% interest, was signed in mid January 2008.

Proposed Drilling Calendar for 2008

The indicative 2008 exploration and development programme (firm wells only) is as follows:

Well	Well type	Licence	OSH interest	Timing
PNG				
NW Paua	Oil exploration	PPL 233	52.5%	Drilling ahead
UDT 8	Development	PDL 2	60.0%	Drilling ahead
Cobra 1	Oil exploration	PPL190	62.56%	Drilling ahead
UDT B	Development	PDL 2	60.0%	1/2Q08
Moran MZ	Development	Moran Unit	49.4%	1/2Q08
UDT J	Development	PDL 2	60.0%	2Q08
UDT C	Development	PDL 2	60.0%	2/3Q08
Moran M10ST2	Development	Moran Unit	49.4%	3Q08
Moran MR	Development	Moran Unit	49.4%	3Q08
Wasuma	Oil exploration	PPL 219	91.3%	4Q08

Yemen				
Dahgah 1	Oil exploration	Block 43	28.3%	Drilling ahead
Nabrajah 17	Development	Block 43	28.3%	1Q 2008

Egypt				
Salma-1	Oil exploration	East Ras Qattara	49.5%	Drilling ahead
South Gharib-X1	Oil exploration	Area A	70.0%	Drilling ahead
ERQ – ongoing exploration programme	Oil exploration	East Ras Qattara	49.5%	2008
Area A exploration well	Oil exploration	Area A	70.0%	2Q08

Iraq (tight hole status)				
Bina Bawi-1 – re-entry	Oil exploration	Bina Bawi EPSA	10.0% (indirect)	3Q/4Q08

Libya				
Caliph-1	Oil exploration	Area 18	30%	3Q08

Note: Wells and timing subject to change

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