



OIL SEARCH LIMITED

(Incorporated in Papua New Guinea)

ARBN – 055 079 868

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

22 February 2011

(ASX: OSH; ADR: OISHY)

HIGHLIGHTS

- Oil Search's 2010 net profit after tax (NPAT) including significant items was US\$185.6 million, a 39% increase when compared with the 2009 NPAT of US\$133.7 million. The profit increase was due to a 23% rise in the average realised oil price and a one-off restatement of deferred tax, which more than offset 7% lower oil sales volumes. NPAT excluding significant items rose from US\$99.6 million to US\$144.1 million.
- In March 2010, full execution of the PNG LNG Project commenced. This followed the completion of the Sale and Purchase Agreements, resulting in the PNG LNG Project capacity being fully contracted, and the finalisation of financing. Work on the Project during 2010 focused on the construction of infrastructure and camp facilities, site preparation, equipment mobilisation and pipeline clearing.
- 2010 total oil and gas production was 7.7 mmboe, 6% lower than in 2009 but above market guidance. Lower production reflected natural decline from the mature PNG oil fields, offset by production from recent successful development drilling, the optimisation of existing wells and facilities and a significant reduction in unplanned plant and well downtime.
- At the end of December 2010, Oil Search had cash reserves of US\$1,263.6 million (including its share of joint venture balances), compared with US\$1,288.1 million at the beginning of the year. Over the year, the Company drew down US\$929.7 million from the PNG LNG financing facility, ending the year with a net cash position of US\$333.9 million. The Company also has an undrawn corporate debt facility of US\$304.5 million, taking total liquidity to US\$1,568.1 million. Oil Search remains well positioned to support the PNG LNG Project development, as well as fund other growth initiatives.
- During 2010, US\$176 million was spent on exploration and new venture evaluation activities, US\$1.14 billion on the PNG LNG Project and US\$48.4 million was spent on other capital items.
- The Board has approved the payment of a two US cents per share final dividend for the 2010 financial year, payable on 8 April 2011. Together with the interim dividend of two US cents per share, paid to shareholders in October 2010, the total dividend for the year is four US cents per share, the same as in 2009. The dividend payment will be funded by a fully underwritten dividend reinvestment plan.

Commenting on the 2010 results, Mr. Peter Botten, Oil Search's Managing Director, said the following:

2010 Full year results

"Oil Search's 2010 full year net profit including significant items was US\$185.6 million, 39% higher than in 2009. The profit increase was driven by higher realised oil prices, reflecting both an increase in global oil prices and a move to dated Brent as our primary marker crude, and a US\$49.6 million once-off restatement of deferred tax balances relating to the PNG LNG Project. This more than offset the 7% decline in oil sales and impairment charges of US\$8.1 million after tax.

Excluding significant items, net profit after tax rose 45% from US\$99.6 million to US\$144.1 million.

Total production for 2010 was 6% lower than in 2009. Efforts to optimise individual well performances combined with strong contributions from recent development wells helped to mitigate natural field decline. In addition, unplanned plant and well downtime was significantly reduced following a renewed focus on improving maintenance processes.

Operating costs rose 9% over 2009 levels, due to the inflationary impact the PNG LNG Project has had on items such as labour and contractor costs as well as the impact of higher oil prices on fuel costs and royalties. In addition, the strengthening of the A\$ relative to the US\$ during the year put pressure on the Company's A\$ denominated expenditures. These impacts were partly offset by the opportunity to share some field infrastructure operating costs with the PNG LNG Project.

Oil Search spent US\$1.14 billion on the PNG LNG Project in 2010, which was in line with the February 2010 guidance of US\$1 – 1.3 billion. The Company also spent US\$176.0 million on exploration and new venture activities, mainly on the Wasuma, Korka and Mananda 5 exploration wells. In line with the successful efforts accounting policy, all costs associated with unsuccessful drilling, seismic work and other evaluation activities were expensed, resulting in a pre-tax charge of US\$131.2 million (US\$75.7 million in 2009).

Oil Search has conducted a review of its deferred tax balances in light of the start of full execution of the PNG LNG Project and the finalisation of its long term business plan following the 2010 strategic review. The Kutubu, Moran and Gobe Main fields will all contribute to the PNG LNG Project at some stage in the future and when gas production commences from each field, the fields will move from the current tax rate of 50% applicable to oil operations into the gas tax regime of 30%. This has resulted in a net credit to income tax of US\$49.6 million, reducing the effective tax rate from 44% in 2009 to 33% for the 2010 financial year. As this is a non-cash accounting adjustment, it will not impact actual tax paid in the near term and the effective tax rate is expected to revert back to around the 50% oil field tax rate in 2011.

The Board has approved the payment of a final dividend of two US cents per share, the same as the 2009 final dividend. The shares will trade ex-dividend as from 10 March 2011, the record date of the dividend is 16 March 2011 and payments will be made to shareholders on 8 April 2011. A fully underwritten dividend reinvestment plan will fund this payment."

Commencement of full PNG LNG Project execution

"The PNG LNG Project commenced full execution in March 2010 after a number of milestones had been reached. These included the finalisation of financing arrangements with lenders and the signing of the final sale and purchase agreement. Project activities ramped up significantly during the year. By the end of 2010, some 5,000 people were engaged on the Project, of which approximately 80% are PNG nationals.

Project activities in 2010 were focused on the following areas:

- Mobilisation of people and equipment to PNG by the Operator, Esso Highlands Limited (a subsidiary of Exxon Mobil Corporation) and the major engineering, procurement and construction contractors.
- Procurement of long lead equipment and materials.
- Construction of training facilities in Port Moresby and in the Highlands
- Continued early construction activities both in the PNG Highlands (including earthworks, resettlement activities, road and bridge upgrades) and at the PNG plant site near Port Moresby (accommodation camp, road bypass).
- The delivery of line pipe to Kopi wharf on the south coast.
- Commencement of Associated Gas (AG) construction in the oil fields and the PL 2 Life Extension Project.

By the end of the year, the first in a four year construction timetable, the main camp facilities were operational and contractors were mobilising ready to progressively commence the main construction activities during 2011. In addition, clearing of the onshore pipeline route had commenced south of Kopi, in preparation for pipeline laying.

As anticipated, there were some challenges over the year. These included initial infrastructure capacity constraints, since largely resolved, and ensuring the effective and efficient mobilisation of Project labour into PNG. In addition, with a policy of maximising employment and service contracts for PNG nationals, coordinating the efficient use of landowner companies to deliver maximum local content has been challenging, for both the PNG Government and the Project. While the Project has full support from the local community, Project activities have had some local disruptions, most recently at the Hides-4 site, primarily due to landowner concerns about business development opportunities and seed capital, provided by the PNG Government for new business start ups. The Project Operator is proactively addressing stakeholder concerns and seeking opportunities for win:win outcomes. Oil Search believes that the recent appointment of Deputy Prime Minister and Minister for Works, Hon. Samuel Abal, who is Chairman of the National Planning Committee, to be the Government's focal point for settling all outstanding issues relating to the PNG LNG Gas Project is a major step forward to resolving landowner related issues and indicative of the importance the Government places on the Project.

The Project Operator has recently reiterated that first LNG sales remain on target to commence in 2014."

LNG expansion – reaffirmed as a key focus area

"The Strategic Review undertaken during 2010 reaffirmed Oil Search's view that significant value can be generated for shareholders by expanding the Company's LNG business. During 2010, Oil Search commenced the implementation of a two pronged strategy, which includes promoting a resource maturation programme to underpin the potential expansion of the PNG LNG Project as well as pursuing Gulf of Papua opportunities. Work continued in conjunction with our joint venture partners on designing an integrated exploration and appraisal programme in the Highlands region, focused on proving up sufficient reserves to underpin a third LNG train. A number of

licence acquisitions and farm-ins into acreage offshore in the Gulf region, where Oil Search believes the highest potential for large gas accumulations outside the Highlands lies, were completed during the year.”

Safety record

“Oil Search’s Total Recordable Injury Frequency Rate in 2010 was 1.96 per million hours worked, compared with 1.16 per million hours worked in 2009. The increase in injuries relative to 2009 was disappointing and Oil Search is working closely with its contractors and staff to reinforce safety messages and its commitment to delivering a safe working environment. While our 2010 safety performance remains strong relative to the historical results of our Australian peers, we continue to strive for improved outcomes.”

Shareholder returns

“Oil Search delivered an annualised Total Shareholder Return (TSR) in 2010 of 15.5%, while over a five year period the Company has generated an annualised return of 15.2%, making Oil Search the sixth ranked TSR performer out of the ASX 100 over this period (based on the ASX 100 composition at 01/01/2006).”

Reserves stable, resources increase

“As at 31 December 2010, Oil Search had 1P reserves of 337 million barrels of oil equivalent (mmboe) and 2P reserves of 559 mmboe. Of these reserves, 301mmboe of 1P and 505 mmboe of 2P were associated with the Company’s share of the PNG LNG Project.

No external audit was completed in 2010 as oil field performance has generally been consistent with predictions and no changes have been made to the PNG LNG Project gas reserve estimates. As a result, 1P and 2P reserves reported for 2010 are based on 2009 reserves adjusted for 2010 production of 7.7 mmboe.

At the end of December 2010, the Company also had 318 mmboe of contingent resources, comprising gas and associated liquids. This was 37 mmboe higher than at the end of 2009, with the increase due to the discovery of oil at Mananda 5 in PPL 219 in PNG and Al Meashar-1 in Block 7 in Yemen and the acquisitions of an additional 6.4% in PRL 1 (containing the Pandora field) and 2.5% in PRL 9 (Barikewa field).

The Company’s total 2010 year end 2P reserves plus 2C resources were 877 mmboe, up from 838 mmboe in 2009.”

Successful oil exploration

“During 2010, two oil discoveries were made. Early in the year, the Al Meashar-1 well discovered oil in Block 7 in Yemen. While an appraisal well on the discovery drilled towards the end of the year confirmed the existence of hydrocarbons in the fractured basement, it failed to produce oil at commercial rates. The well has been completed as a potential future producer while further 2D seismic is acquired over the prospect and studies are undertaken to identify a productive fracture system.

In PNG, the Mananda 5 well in PPL 219, located approximately 18 kilometres north west of the SE Mananda oil field, discovered oil and gas in the primary Toro objective.

Preparations are currently underway to flow test both the Toro and Digimu sandstone intervals, to evaluate the potential commerciality of the discovery.”

Strategic Review outcomes

“Oil Search has recently concluded a major Strategic Review. This Review has highlighted that the Company is capable of delivering top quartile returns for the next five years based on its existing asset base and the skills that exist in the management team and workforce.

The key principles that will guide the Company's activities over the next five years are as follows:

- Total Shareholder Return will remain Oil Search's key performance measure.
- The Company will remain an oil and gas growth company, balancing dividend payouts with reinvestment for growth.
- While the execution of its PNG gas growth strategy development will result in a gas dominant product portfolio, Oil Search will strive to maintain a meaningful position in oil.
- The strategic plan will see an increasing focus on PNG, which will require continued proactive management of the PNG in-country environment
- International growth opportunities will continue to be actively evaluated, with execution driven by the ability to create value and to achieve top quartile TSR growth rates.
- A new sustainability department will be established to coordinate and proactively manage the Company's sustainability issues.
- Oil Search's operatorship capability and capacity will be maintained, enabling Oil Search to manage PNG in-country risks while also preserving its core corporate capacity and capability to extract value from current operations and future international growth opportunities.

Specific strategies that will be pursued to achieve superior value growth performance include:

- Optimising the value of the oil and gas operations through the pursuit of near field production opportunities, rigorous cost control and new developments while building long term operating capacity.
- Maximising the value from the PNG LNG Project (T1/2), including active management of in-country benefits distribution.
- Development of LNG expansion opportunities by promoting an early decision on a third train (T3) based on existing PNG LNG Project fields and nearby structures and accumulating gas resources outside existing PNG LNG Project fields, to support a standalone LNG project.
- Ensuring Oil Search's sustainability, with an enhanced focus on managing operating risks, promoting transparency and improved external reporting
- Actively evaluating international growth opportunities, recognising any transaction must compete for funds with PNG expansion opportunities.
- Optimising the Company's financial and capital structure given the long term capital requirements.
- Aligning the organisation to deliver this strategic plan.”

On the outlook for 2011, Mr Botten said:

PNG LNG Project

“During 2011, the following key activities are expected to take place on the PNG LNG Project:

- LNG Plant – procurement, earthworks, foundations and commencement of structural steelwork, commencement of pipe racks and jetty works and tank foundations.
- Offshore Pipeline – continued procurement and mobilisation of line pipe, preparations for and the commencement of, offshore pipe lay.
- Onshore Pipeline – continued procurement, coating and mobilisation of line pipe, route clearance and commencement of pipe lay.
- Associated Gas and PL 2 Life Extension – Mobilisation of equipment, completion of control room construction, commencement of construction activities at Kutubu CPF and Gobe GPF. Mobilisation of barge for offshore work, preparatory platform work, deck modifications and crane installation.
- Hides Gas Conditioning Plant and Komo Airfield – continued earthworks, foundations and commencement of construction activity.”

Production outlook

“As highlighted in the fourth quarter report, we anticipate that 2011 full year production will be in the range 6.2 – 6.7 mmboe, compared with 2010 production of 7.66 mmboe. The decline reflects a planned shut-in of facilities in the second and fourth quarters to enable work related to the PNG LNG Project to take place, with underlying field decline being largely offset by work programme activities through 2011. As previously indicated, based on the Company’s currently planned development activities, we expect Oil Search’s oil and gas production from now through to first LNG in 2014 to remain relatively flat, despite the maturity of the oil fields.

Development activities planned for 2011 include:

- Drilling of a gas injector well at the Usano field and two development wells, one each at the Kutubu and the Moran fields.
- Testing of the deeper intervals in the ADT 2 ST3 well, which discovered oil in the Agogo forelimb in late 2009/early 2010.
- A workover campaign in Kutubu and Gobe.”

Exploration outlook

“The focus of Oil Search’s exploration activities over the next few years will be to prove up sufficient gas resources in PNG to underpin the development of at least one further LNG train. Subject to the positive conclusion of technical evaluation, the Huria exploration well is expected to commence drilling in late 2011, while the appraisal of the Hides field is targeted to commence at the same time. Planning is underway to drill the P’nyang well in early 2012 and a multi-well offshore PNG programme.

The key aim in the Middle East and North Africa (MENA) is to establish whether material hydrocarbons exist in any of the Company’s remaining licences interests in the region and to maximise the value of the portfolio of assets.”

Summary

“With the PNG LNG Project now in the second year of a four year construction programme, we are confident that the Project Operator, ExxonMobil, will continue to execute the Project effectively and efficiently, with continued support from Oil Search on in-country issues. Following the conclusion of the 2010 Strategic Review, Oil Search's focus in 2011 will be on commencing the implementation of the work programmes required to deliver the value-creating initiatives identified in the Review. With a healthy balance sheet, an excellent asset base and a committed management team and staff, we are well placed to pursue and deliver further significant value growth to shareholders.”

PETER BOTTEN, CBE
Managing Director
22 February 2011

FINANCIAL PERFORMANCE

Year to 31 December	2008	2009	2010	% change 2010/2009
SALES DATA				
Total oil and gas production (mmboe)	8.58	8.12	7.66	-6
Total saleable oil production (mmbbl)	7.38	7.07	6.63	-6
Total oil liftings (mmbbl)	7.46	6.95	6.45	-7
Gas equivalent sales (mmscf)	5,415	5,652	5,631	-
Realised oil price (US\$/bbl)	100.10	65.40	80.19	+23
FINANCIAL DATA (US\$ million)				
Revenue from operations	814.3	512.2	583.6	+14
Operating costs	(116.3)	(102.8)	(111.8)	+9
Other income/ (expense)	0.0	0.0	0.0	-
EBITDAX	698.1	409.4	471.7	+15
Site Restoration	(9.9)	(8.6)	(7.1)	-17
Amortisation/Depreciation	(117.3)	(96.9)	(42.7)	-56
Exploration costs expensed	(91.2)	(75.7)	(131.2)	+73
EBIT	479.7	228.2	290.7	+27
Net financing (costs)/income	6.1	(3.3)	(0.1)	-75
Profit on sale of investments/ adjustments	126.1	14.9	3.2	-79
Impairment	(91.5)	-	(15.8)	-
Profit before Tax	520.3	239.8	277.2	+16
Taxation Expense	(206.9)	(106.2)	(91.6)	-14
Profit after tax after significant items	313.4	133.7	185.6	+39
Profit after tax before significant items	240.0	99.6	144.1	+45
PER SHARE DATA				
Basic EPS before significant items (US cents)	21.4	8.6	11.0	+28
Basic EPS after significant items (US cents)	28.0	11.5	14.2	+23
Diluted EPS before significant items (US cents)	21.3	8.5	11.0	+29
Diluted EPS after significant items (US cents)	27.8	11.5	14.1	+23
CFPS (US cents)	45.3	24.5	30.5	+24
Interim dividend (US cents)	4.0	2.0	2.0	Unch
Final dividend (US cents)	4.0	2.0	2.0	Unch
Total dividend for the year (US cents)	8.0	4.0	4.0	Unch

Notes:

- In accordance with IFRS 8 "Accounting Policies Changes in Accounting Estimates and Errors", prior year comparatives have been restated where applicable.
- Numbers and percentage moves may not add due to rounding.

FACTORS AFFECTING THE RESULT

Oil and gas production and sales

Total oil and gas production in 2010 net to Oil Search was 7.7 mmboe, 6% below 2009 levels, with natural decline in the mature PNG oil field mitigated by contributions from recent development drilling, well optimisation and reduced facilities and well downtime.

Oil sales were 6.5 million barrels, 7% lower than in 2009, in line with lower production levels. Gas sales from the Hides field for electricity generation were the same as in 2009 at 5.6 billion cubic feet.

Realised oil prices

The average realised oil price for the year was US\$80.19 per barrel, 23% higher than the average realised price of US\$65.40 per barrel in 2009. Oil Search did not undertake any hedging activities during 2010.

Operating revenues

Revenue from operations at US\$583.6 million was 14% higher than in 2009, with the impact of lower volumes being more than offset by higher oil prices. Revenue was comprised as follows:

Revenue (US\$ million)	2009	2010	% change
Sale of oil	454.7	517.3	+14
Sale of gas and refined products	27.7	39.7	+43
Other field revenue*	29.8	26.5	-11
Total	512.2	583.6	+14

* Primarily tariff and rig income

Cash costs

Total cash operating costs were US\$111.8 million, 9% higher than in 2009 due to higher labour, fuel and contractor costs and increased royalty payments. In addition, corporate costs increased due to the impact of a stronger Australian dollar and the payment of a one-off LNG bonus.

PNG field operating costs (including Hides) were US\$81.3 million, compared with US\$79.6 million in 2009. PNG net oilfield costs, excluding tariffs, averaged US\$10.70 per barrel compared with US\$9.92 per barrel in 2009, with the increase reflecting the spread of costs over a lower production base.

Operating costs (US\$ million)	2009	2010	% change
Field costs	79.6	81.3	+2
Other opex	14.8	16.0	+8
Net corporate costs	10.7	16.6	+55
FX (gains)	(2.5)	(2.1)	-15
Operating Costs	102.8	111.8	+9

Non-cash costs

Non-cash charges, including depreciation, amortisation and site restoration, fell by 53%, from US\$105.4 million in 2009 to US\$49.9 million in 2010. The decrease was primarily due to a significantly lower amortisation charge, reflecting capitalised oil field costs being amortised over a larger reserves base following the booking of reserves relating to the PNG LNG Project.

Non-cash costs (US\$ million)	2009	2010	% change
Amortisation	86.4	32.4	-63
Depreciation	10.4	10.4	Unch
Site Restoration	8.6	7.1	-17
Total	105.4	49.9	-53

Exploration expense

During 2010, Oil Search spent US\$176.0 million on exploration, evaluation and new venture activities. In line with the successful efforts accounting policy, all costs associated with unsuccessful drilling, seismic work, new venture activities and other support costs related to exploration activity were expensed. This resulted in a pre-tax charge of US\$131.2 million. US\$42.5 million and US\$34.8 million of the exploration expense related to the unsuccessful Wasuma and Korka PNG wells, respectively. As at 31 December 2010, exploration costs capitalised pending well completion or appraisal totalled US\$104.9 million.

Interest income / expense

Interest income of US\$6.9 million for 2010 was 24% higher than 2009 income of US\$5.5 million, reflecting higher cash balances through the period, which were invested in short term US dollar deposits and investments. Financing costs for 2010 were US\$7.7 million compared with US\$8.9 million in 2009. These costs included commitment fees and the amortisation of the establishment costs for the Company's corporate borrowing facility and a non-cash time-value charge of US\$3.7 million for future site restoration commitments (US\$4.2 million in 2009).

Taxation expense

Tax expense of US\$91.6 million was 14% lower than in 2009 despite higher pre-tax profit due to a once-off restatement of oil field deferred tax balances resulting from the PNG LNG Project. This resulted in an effective tax rate of 33% compared with 44% in 2009.

Impairment review

Following the Company's annual impairment review, which compares the asset carrying value to the estimated net present value of future cash flows from each asset, US\$15.8 million of losses were expensed in 2010, US\$13.1 million of which related to the Cobra well in PNG.

Operating cash flows

Year to 31 December (US\$ million)	2009	2010	% change
Net Receipts	361.5	519.4	+44
Net Interest income	2.0	3.3	+66
Tax Paid	(79.4)	(124.4)	+57
Operating cashflows	284.1	398.3	+40
Net Investing cashflows	(382.2)	(1,358.1)	+255
Net Financing cashflows	851.2	935.3	+10
Net Cash Flow	753.2	(24.5)	-103
OCFPS (US cents)	24.5	30.5	+24

Note: 2009 figures include US\$900 million in net proceeds from share issues, including the DRP underwriting.

Net operating cash flow rose from US\$284.1 million in 2009 to US\$398.3 million in 2010, primarily due to higher receipts from customers during the period as well as higher realised oil prices.

During 2010, Oil Search's net investing cash flow included:

- US\$908.7 million expended and US\$199.9 million of interest capitalised in relation to the PNG LNG Project (nil in 2009).
- Expenditure of US\$193.8 million on exploration and evaluation (US\$324.2 million in 2009).
- US\$48.7 million on production activities (US\$138.8 million in 2009).
- US\$7.0 million on property, plant and equipment (US\$6.7 million in 2009).

The Company distributed US\$33.8 million to shareholders by way of the 2009 final and 2010 interim dividends. This distribution was funded by a fully underwritten dividend reinvestment plan.

Balance sheet

As at 31 December (US\$ million)	2006	2007	2008	2009	2010
Cash and STDs	477.9	343.6	534.9	1,288.1	1,263.6
Term Debt	Nil	Nil	Nil	Nil	929.7
Net cash / (debt)	477.9	343.6	534.9	1,288.1	333.9

At the end of 2010, Oil Search had debt of US\$929.7 million and US\$1,263.6 million in cash, including joint venture balances. In addition, Oil Search had an undrawn corporate debt facility of US\$304.5 million, taking total liquidity to US\$638.4 million.

DIVIDENDS

The Board of Directors announced a final dividend for 2010 of two US cents per share, taking the total dividend for the 2010 financial year to four US cents per share. This is the same as in 2009. The Record Date for the final 2010 dividend payment is 16 March 2011 and the Payment Date is 8 April 2011. The shares will trade ex dividend from 10 March 2011.

The Company's Dividend Reinvestment Plan will operate for the final dividend and it is intended that any shortfall be underwritten.

2010 PRODUCTION SUMMARY

Year to 31 December	2009		2010		% Change	
Oil production	Gross daily production (bopd)	Net to OSH (mmbbls)	Gross daily production (bopd)	Net to OSH (mmbbls)	Gross daily production	Net to OSH
Kutubu	17,691	3.877	16,364	3.587	-8	-7
Moran	14,032	2.536	14,570	2.633	+4	+4
Gobe Main	1,665	0.061	1,608	0.059	-3	-3
SE Gobe	4,229	0.394	2,729	0.255	-35	-35
SE Mananda	753	0.199	378	0.100	-50	-50
Total PNG Oil	38,371	7.068	35,649	6.633	-7	-6
Hides Liquids	370	0.135	366	0.134	-1	-1
Total Oil & Condensate	38,741	7.203	36,015	6.768	-7	-6
Gas production	m mscf / d	m mscf	m mscf / d	m mscf		
Hides Gas Production	15.11	5,515	14.65	5,348	-3	-3
Total Oil and Gas Production	boepd	mmboe	boepd	mmboe		
Total production	41,258	8.122	38,457	7.657	-7	-6

Notes:

- Prior period comparatives updated for subsequent changes.
- Numbers may not add due to rounding.

2010 ANNUAL RESERVES STATEMENT

Proven Reserves					
Licence / Field	End 2009 Reserves	Production	Discoveries / Extensions / Revisions	Acquisition / Divestments	End 2010 Reserves
PDL 2 - Kutubu	16.3	3.6	-	-	12.7
PDL 2 – SE Mananda	0.3	0.1	-	-	0.2
PDL 2/5/6 – Moran Unit	14.0	2.6	-	-	11.4
PDL 4 – Gobe Unit	0.2	0.1	-	-	0.2
PDL 3/4 - SE Gobe	0.7	0.3	-	-	0.5
PDL 1 - Hides	12.4	1.0	-	-	11.3
PNG LNG Project	300.6	-	-	-	300.6
Total	344.5	7.7	-	-	336.8
Proven & Probable Reserves					
Licence / Field	End 2009 Reserves	Production	Discoveries / Extensions / Revisions	Acquisition / Divestments	End 2010 Reserves
PDL 2 - Kutubu	23.0	3.6	-	-	19.4
PDL 2 – SE Mananda	0.7	0.1	-	-	0.6
PDL 2/5/6 – Moran Unit	24.1	2.6	-	-	21.5
PDL 4 – Gobe Unit	0.3	0.1	-	-	0.3
PDL 3/4 - SE Gobe	1.1	0.3	-	-	0.8
PDL 1 - Hides	12.4	1.0	-	-	11.3
PNG LNG Project	505.4	-	-	-	505.4
Total	566.9	7.7	-	-	559.3

2010 RESERVES AND RESOURCES SUMMARY

Reserves & Resources							
Licence / Field	Oil Search Interest	Liquids (mmbbl)	Gas (bscf)	Oil Equivalent (mmboe)	Liquids (mmbbl)	Gas (bscf)	Oil Equivalent (mmboe)
Reserves		Proven (1P)			Proven & Probable (2P)		
PDL 2 - Kutubu	60.0%	12.7	-	12.7	19.4	-	19.4
PDL 2 – SE Mananda	72.3%	0.2	-	0.2	0.6	-	0.6
PDL 2/5/6 – Moran Unit	49.5%	11.4	-	11.4	21.5	-	21.5
PDL 4 – Gobe Unit	10.0%	0.2	-	0.2	0.3	-	0.3
PDL 3/4 - SE Gobe	25.6%	0.5	-	0.5	0.8	-	0.8
PDL 1 - Hides	100.0%	1.4	59.6	11.3	1.4	59.6	11.3
Oil Fields and Hides GTE Reserves		26.3	59.6	36.2	43.9	59.6	53.9
PNG LNG Project Reserves	29.0%	38.4	1,572.8	300.6	65.5	2,639.3	505.4
Subtotal Reserves		64.7	1,632.4	336.8	109.4	2,699.0	559.3
Contingent Resources		1C			2C		
Other Gas		-	-	-	28.6	1,734.6	317.7
Subtotal Resources		-	-	-	28.6	1,734.6	317.7
Total Reserves and Resources		64.7	1,632.4	336.8	138.0	4,433.6	877.0

Notes:

- Numbers may not add due to rounding.
- Proven Reserves (1P) are as certified by independent auditors Netherland, Sewell Associates, Inc. (NSA) in 2009, adjusted for 2010 production. Proven and Probable Reserves (2P) and Contingent Resources (2C) are based on independent audit and internal assessments.
- Liquids include crude oil, separator and plant condensates.
- Full wellstream (raw) gas reduced for field separator condensates are quoted for Hides GTE and Other Gas resources.
- For PNG LNG Project, shrinkage has been applied to raw gas for the plant liquids recovery, fuel and flare.
- Oil equivalent barrels incorporate oil, condensate and gas (converted at 6mcf/bbl).
- NSA did not audit SE Mananda in 2009. Estimate of reserves is based on NSA's end 2007 certification adjusted for 2008-2010 production.
- Hides reserves associated with the GTE Project only.
- PNG LNG Project reserves comprise the Kutubu, Moran, Gobe, SE Hedinia, Hides, Angore and Juha fields. Field condensate from Kutubu, Moran and Gobe are based on licence interests.
- Other Gas Resources comprises the Company's other fields including SE Gobe, Juha North, P'nyang, Kimu, Pandora, Uramu, Barikewa, Iehi and Cobra fields.
- The Company's share in PRL 1 (Pandora) includes a 6.4% interest purchased from Twinza. The Company's share in PRL 9 (Barikewa) includes a 2.5% interest earned from a farmin with Santos. Both are subject to approvals and registration.

The information in this reserves statement has been compiled by Jon Rowse, Oil Search's General Manager – Subsurface, who is a full-time employee of the Company. Dr. Rowse has over 22 years of relevant experience, is qualified in accordance with ASX Listing Rule 5.11, and has consented to publish this report.

For more information regarding this report, please contact:

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Oil Search will be holding a presentation for analysts and fund managers at 11.00 am AEDT today, 22 February 2011. The presentation will be webcast live over Oil Search's website. To listen to the webcast, please log on to www.oilsearch.com. If you experience any technical difficulties, please call:

+61 2 9016 3366

The webcast will be available in archive form on the Oil Search website 2 - 3 hours after the completion of the presentation.

www.oilsearch.com

OIL SEARCH LIMITED
and its subsidiaries
ABN 055 079 868

Preliminary final report 2010

APPENDIX 4E

This preliminary final report is provided to the ASX under ASX Listing Rule 4.3A

This information should be read in conjunction with the
Financial Report for the year ended 31 December 2010

Results for announcement to the market

			Year ended 31 December			
			2010		2009	
			US\$'000	A\$'000 ⁽¹⁾	US\$'000	A\$'000 ⁽¹⁾
	<i>% Change</i> ⁽²⁾					
Revenue from operations	<i>up</i>	13.9%	583,560	635,202	512,154	647,068
EBITDAX ⁽³⁾	<i>up</i>	15.2%	471,712	513,456	409,387	517,229
Net profit after tax, excluding significant items	<i>up</i>	44.7%	144,114	156,867	99,622	125,865
Net profit after tax attributable to members	<i>up</i>	38.8%	185,602	202,027	133,680	168,895
Net operating cash flow	<i>up</i>	40.2%	398,328	433,578	284,099	358,937
			Year ended 31 December			
			2010		2009	
			US cents	A cents	US cents	A cents
Final dividend per security ⁽⁴⁾			2.00	TBA ⁽⁵⁾	2.00	2.18
Interim dividend paid per security ⁽⁴⁾			2.00	2.14	2.00	2.30
Basic earnings per share (excluding significant items)	<i>up</i>	28.3%	11.03	12.01 ⁽¹⁾	8.60	10.87 ⁽¹⁾
Net operating cash flow per share	<i>up</i>	24.4%	30.48	33.18 ⁽¹⁾	24.51	30.97 ⁽¹⁾

(1) Amounts shown have been converted from US\$ to A\$ at the average exchange rate of 0.9187 (2009: 0.7915).

(2) % change calculations are based on the US\$ figures.

(3) Earnings before interest, borrowing costs, tax, depreciation and amortisation, profit on sale of other non-current assets, impairment, state back-in LNG surplus and exploration costs expensed.

(4) No franking credits available on dividends, as Oil Search Limited is incorporated in Papua New Guinea.

(5) The Australian dollar amount will be fixed at the rate of exchange applicable on the day of the record date for determining entitlements to the final ordinary dividend, being 16 March 2011.

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Financial Report
for the year ended 31 December 2010

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Financial Report
for the year ended 31 December 2010

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Directors' Report 31 December 2010

The directors submit their report for the financial year ended 31 December 2010.

DIRECTORS

The names, details and shareholdings of the directors of the company in office during or since the end of the financial year are:

Mr BF Horwood, B.Comm., F.A.I.C.D., F.C.P.A. (Chairman), Non-Executive, 69 years

Mr Horwood was appointed a director on 28 May 2004 and Chairman of Oil Search on 1 June 2004. Prior to joining Oil Search, Mr Horwood had 35 years experience with the Rio Tinto Group, having held executive positions in Australia, the United Kingdom and Papua New Guinea. Most recently, Mr Horwood was Managing Director, Rio Tinto-Australia. Mr Horwood was previously the Chairman of Energy Resources of Australia Limited and Coal and Allied Industries Limited. He has been a member of the Business Council of Australia and a director of the Minerals Council of Australia.

Ordinary shares, fully paid: 12,500; Options: nil

Mr PR Botten, CBE, B.Sc. ARSM, (Managing Director), Executive, 56 years

Mr Botten was appointed Managing Director on 28 October 1994, having previously filled both exploration and general manager roles in the company since joining in 1992. He has extensive worldwide experience in the oil and gas business, previously holding various senior technical and managerial positions in a number of listed and government owned organisations. Mr Botten is immediate past President of the Papua New Guinea Chamber of Mines and Petroleum and is on the Executive Committee of the Australia PNG Business Council. He is also a Director of Business for Millennium Development. He was awarded Commander of the Order of the British Empire (CBE) in the 2008 Queen's Birthday Honours List for services to commerce and the mining and petroleum industry in Papua New Guinea.

Ordinary shares, fully paid: 1,728,726; Options: nil; Performance Rights: 870,900; Restricted shares: 298,254

Mr EF Ainsworth, AM, B.Comm., F.A.I.C.D., F.C.P.A., Non-Executive, 65 years (Resigned 20 September 2010)

Mr Ainsworth joined the Board on 10 October 2002 and resigned on 20 September 2010. Mr Ainsworth has extensive energy and resources industry experience. He spent 26 years with CSR Limited ("CSR"), mainly in CSR's resources businesses, including seven years in CSR's Oil and Gas Division, and five years as Managing Director of Delhi Petroleum Pty Ltd ("Delhi"). When CSR sold Delhi he became Managing Director and CEO of Sagasco Holdings Limited, then the fourth largest oil and gas company listed on the ASX. Mr Ainsworth is Chairman of Horizon Oil Ltd and a non-executive Director of Envestra Ltd (both ASX listed companies) and, from 1 January 2006, Chairman of the unlisted Tarac Australia Ltd. He was formerly Chairman of SA Generation Corporation (the South Australian Government owned coal mining and electricity generating Corporation).

Ordinary shares, fully paid: nil; Options: nil

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Directors' Report 31 December 2010

Mr G Aopi, CBE, Executive, 56 years

Mr Aopi was appointed an Executive Director on 18 May 2006 and presently fills the position of General Manager PNG (Papua New Guinea), a post he took up in August 1998. Mr. Aopi has substantial public service and business experience in Papua New Guinea, having had a long and distinguished career in government, filling a number of important positions, including Secretary for Finance and Planning and Managing Director of Telikom PNG Ltd. He is Chairman of Independent Public Business Corporation (IPBC) and Telikom PNG Ltd. Mr Aopi is a Director of Steamships Trading, Bank of South Pacific and a number of other private sector and charitable organisations in Papua New Guinea.

Ordinary shares, fully paid: 168,188; Options: nil; Performance Rights: 219,172; Restricted shares: 159,972

Mr KG Constantinou, OBE, Non-Executive, 53 years

Mr Constantinou joined the Board on 16 April 2002. Mr Constantinou is a prominent business figure in Papua New Guinea, holding a number of high level public sector and private sector appointments. He is a director of various companies, including Airways Hotel & Apartments Limited, Lamana Hotel Limited, Heritage Park Hotel and Gazelle International Hotel. He is also Deputy President of the Employers Federation of Papua New Guinea, a director of Airlines PNG and Bank South Pacific, Chairman of the National Physical Planning Board, Honorary Consul for Greece in Papua New Guinea and Trade Commissioner of Solomon Islands to Papua New Guinea.

Ordinary shares, fully paid: nil; Options: nil

Mr R Igara, CMG, B.Econ., Grad.Dip. (Intl. Law), MBA, M.A.I.C.D., PNGID, Non-Executive, 58 years

Mr Igara joined the Board on 16 April 2002. At that time he was one of Papua New Guinea's most highly placed civil servants and he has extensive experience in the public sector, in international relations and multilateral development and financial matters. He served as a diplomat in Suva and Canberra and as the Secretary to the Department of Trade & Industry. He was formerly Chief Secretary to Government in PNG Acting Secretary for Treasury and Chairman of Mineral Resources Development Company Limited. Mr Igara was an independent director of Orogen Minerals and a member of the Board of the Bank of PNG. He has also held Chairmanships of other Boards of statutory bodies, including the PNG Investment Promotion Authority. He was the founding Chief Executive Officer of PNG Sustainable Development Program Ltd from 2002 to 2008, a company which has a 52% interest in Ok Tedi Mining Ltd, and since March 2008 to June 2009 the Executive Director (Strategic Investments Group) within PNGSDP Ltd. He currently manages his family business and undertakes public policy and management advisory services. He also serves on the boards of several community and not-for-profit organisations in PNG and the Pacific.

Ordinary shares, fully paid: 10,000; Options: nil

Mr MDE Kriewaldt, B.A., LLB. (Hons), F.A.I.C.D., Non-Executive, 61 years

Mr Kriewaldt joined the Board on 16 April 2002. Mr Kriewaldt is a director of Campbell Brothers Limited, Macarthur Coal Limited, BrisConnections, ImpediMed Limited and Golding Contractors Pty Ltd. He is Chairman of Opera Queensland and immediate past President of the Queensland division of the Institute of Company Directors. He has previously served as a director of GWA International Limited, Peptech Limited, Suncorp Metway Limited and Orogen Minerals Limited and as Chairman of Suncorp Insurance and Finance, Infratil Australia Limited, Hooker Corporation Limited and Airtrain Citylink Ltd.

Ordinary shares, fully paid: 14,590; Options: nil

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Dr AJ Kantsler, B.Sc (Hons), Ph.D, G.A.I.C.D., FTSE, Non-Executive, 60 years

Dr Kantsler was appointed to the Board on 19 July 2010. Until his retirement in mid 2010, Dr Kantsler worked with Woodside Petroleum for 15 years, where he was most recently the Executive Vice President Health, Safety and Security. Prior to this, Dr Kantsler was Woodside Petroleum's Executive Vice-President Exploration & New Ventures from 1996 to 2009. Before joining Woodside Petroleum, Dr Kantsler had extensive experience with the Shell Group of companies working in various exploration roles in Australia and internationally, also over a period of 15 years. Dr Kantsler has been a Councillor and Director of the Australian Petroleum Production and Exploration Association (APPEA) for 15 years where, as well as being chairman of several APPEA committees, he was Chairman from 2000 - 2002. In 2005, Dr Kantsler was awarded the APPEA Reg Sprigg Medal for his outstanding contribution to the oil and gas industry in Australia. Dr Kantsler was also a founding member of the Australian Government's Council for Australian Arab Relations (CAAR) where he served for two terms.

Ordinary shares, fully paid: nil; Options: nil

Mr JL Stitt, M.A. (Hons), F.A.I.C.D., Non-Executive, 67 years

Mr Stitt joined the Board on 2 April 1998. He has extensive experience in the international oil and gas business, having worked for 33 years with the Royal Dutch/Shell Group of companies including inter alia being responsible for Shell's world wide procurement, Director of Finance for Shell Australia, and President and CEO of Shell Japan. Mr Stitt is a former director of Woodside Petroleum Limited, Mitsubishi Chemicals K.K. and Showa Shell Sekiyu K.K.

Ordinary shares, fully paid: 42,190; Options: nil

Dr ZE Switkowski, B.Sc (Hons), PhD, F.A.I.C.D., FTSE, Non-Executive, 62 years

Dr Switkowski was appointed to the Board on 22 November 2010. Dr Switkowski's career highlights include serving as Chief Executive Officer and Managing Director of Telstra, Chief Executive Officer of Optus and Chairman of Kodak (Australia). Dr Switkowski currently serves as a Director of Suncorp Metway, Tabcorp Holdings and Lynas Corporation Ltd and is Chairman of Opera Australia. He is the immediate past Chairman of the Australian Nuclear Science and Technology Organization. In January 2011, Dr Switkowski assumed the position of Chancellor of Royal Melbourne Institute of Technology (RMIT University). Dr Switkowski holds an honours degree in science and a PhD in nuclear physics from the University of Melbourne and is a Fellow of the Australian Institute of Company Directors.

Ordinary shares, fully paid: 100,000; Options: nil

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Mr TN Warren, B.Sc. (Hons), Non-Executive, 61 years, (Resigned 31 May 2010)

Mr Warren joined the Board in May 2006 and resigned on 31 May 2010. Mr. Warren had a long and distinguished career with the Shell Group of companies, spanning many different areas of its business. He retired as Chairman of the Shell companies in Australia and the Pacific Islands on 1 May 2006, after more than 35 years with the Group. Prior to 2002, Mr Warren served as Business Director for Asia Pacific and Australasia (2001-2002), Director of Exploration and Production Research and Technical Services (1995-2001), General Manager Western Division of the Shell Petroleum Development Company in Nigeria (1993-1995), and General Manager Operations for the Shell Petroleum Development Company in Nigeria (1992-1993). Mr Warren also held various other senior positions within the Group and was a member of Shell's Global Executive Committee for the Exploration and Production Business (1995-2002). Mr Warren was previously a director of Woodside Energy Ltd and was a member of the Business Council of Australia (2002-2006). He was a Director of the Save The Children International Alliance and Chairman of Energy Alliance Australia Ltd.

Ordinary shares, fully paid: nil; Options: nil

GROUP SECRETARY

Mr SW Gardiner, B.Ec. (Hons), ASA, 52 years

Mr Gardiner joined Oil Search Limited in 2003, after a twenty year career in finance at two of Australia's largest multinational construction materials companies (CSR Limited and Pioneer International Limited) and at Hutchison Telecomms. Mr Gardiner's roles at Oil Search have covered senior corporate finance responsibilities, including twelve months as Acting Chief Financial Officer. In October 2010, Mr Gardiner was appointed to the role of General Manager Corporate Services. He is also the Group Secretary, a role he has held since May 2009.

Ordinary shares, fully paid: 120,472; Options: nil; Performance Rights: 135,853; restricted shares: nil

RESULTS AND REVIEW OF OPERATIONS

Financial

The consolidated entity delivered a net profit of US\$185.6 million (2009: US\$133.7 million) for the year, after providing for income tax of US\$91.6 million (2009: US\$106.2 million). Excluding significant items, the net profit increased by 44.7% on the prior year to US\$144.1 million.

Operations

2010 revenue from operations was US\$583.6 million (2009: US\$512.2 million), with crude oil sales contributing US\$517.3 million (2009: US\$454.7 million). The 13.8% crude revenue increase on the prior year was driven by a 22.6% increase in realised oil prices from US\$65.40/bbl in 2009 to US\$80.19/bbl in 2010, and a 7.2% decrease in oil sales volumes to 6,452,000 barrels. The Company did not enter into any hedges during the period and remained unhedged to oil price movements.

Net cash from operating activities increased to US\$398.3 million in 2010, compared to US\$284.1 million in 2009.

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Directors' Report 31 December 2010

Amortisation and depreciation charges decreased by US\$55.5 million, from US\$105.4 million to US\$49.9 million, due to the recognition of gas reserves and changes to the oil capital cost profile, due to lower sales volumes, a more favourable mix of production towards fields with lower amortisation rates and lower drilling rig depreciation due to reduced rig utilisation during the period.

Exploration, development and production costs expensed during 2010 totalled US\$131.2 million, compared to US\$75.7 million, due to the unsuccessful drilling at Korka and Wasuma, and a high level of seismic expenditure during the year. Exploration and evaluation expenditure during the year, was US\$176.0 million (2009: US\$438.9 million), development expenditure was \$1,139.1 million (2009: nil) and production expenditure was US\$41.9 million (2009: US\$142.3 million).

Total oil and gas production, net to the Company, was 7.66 million barrels of oil equivalent (mmboe) in 2010 compared with 8.12 mmboe in 2009, with the 6.0% year-on-year reduction reflecting underlying field decline rates, partially offset by contributions from development drilling and well workover campaigns.

Following the decision to proceed with the development of the PNG LNG Project in December 2009, the focus in early 2010 was on satisfying all outstanding requirements for Financial Close. In early March 2010, a sale and purchase agreement was signed with CPC Corporation of Taiwan, resulting in the initial capacity of the Project being fully contracted. Financial Close took place on 12 March 2010 with the Project then moving into full execution mode.

In March 2010 the PNG LNG shipping arrangements were announced. These comprise the lease of two existing 177,000 m³ LNG tankers from Mitsui O.S.K. Lines (MOL) and a Heads of Agreement with MOL for the future lease of two new LNG tankers to be built in China.

Key activities throughout 2010 included:

- The commencement of mobilisation of both people and equipment to PNG by the major engineering, procurement and construction contractors.
- Continued early construction activities both in the PNG Highlands (including earthworks, resettlement activities, road and bridge upgrades) and at the PNG plant site near Port Moresby (including accommodation camp and road bypass).
- The official opening in November 2010 of the Port Moresby Construction Training Centre, where Papua New Guineans will be trained for jobs in construction and transport services.
- The ordering of long lead equipment and materials.

The Company's financial position at 31 December 2010 has cash and cash equivalent holdings of US\$1,263.6 million (2009: US\$1,288.1 million), including US\$4.8 million (2009: \$33.2 million) held in joint venture accounts, and debt of US\$929.7 million at the end of December (2009: nil).

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DIVIDENDS

Subsequent to balance date, the directors approved the payment of a final unfranked dividend of US 2 cents per ordinary share (2009: US 2 cents final dividend), to ordinary shareholders in respect of the financial year ended 31 December 2010. The due date for payment is 8 April 2011 to all holders of ordinary shares on the Register of Members on 16 March 2011. The Company's dividend reinvestment plan will remain in operation for the final dividend. Dividends paid and declared during the year are recorded in note 8 to the financial statements.

PRINCIPAL ACTIVITIES

The principal activity of the Oil Search Group is the exploration for oil and gas fields and the development and production of such fields. This is carried out as both the operator of producing and exploration joint ventures and as a non-operator participant in exploration and production joint ventures.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the year, there were no significant changes in the nature of the activities or the state of affairs of the Group other than that referred to in the financial statements and notes thereto.

COMMITTEES OF THE BOARD

During the year ended 31 December 2010 the Company had an Audit Committee, a Remuneration and Nominations Committee, and a Finance and Risk Committee. Members comprising the committees of the Board during the year were:

Audit: Mr MDE Kriewaldt (Chairman), Mr EF Ainsworth¹, Mr R Igara, Dr AJ Kantsler³ and Mr JL Stitt. Mr BF Horwood is an ex officio attendee;

Remuneration and Nominations: Mr BF Horwood (Chairman), Mr KG Constantinou, Mr R Igara, Mr JL Stitt, Dr ZE Switkowski⁴ and Mr TN Warren²;

Finance and Risk: Mr EF Ainsworth¹ (Chairman), Mr G Aopi, Mr KG Constantinou, Dr AJ Kantsler³, Mr MDE Kriewaldt, Dr ZE Switkowski⁴ and Mr TN Warren². Mr BF Horwood⁵ is an ex officio attendee.

(1) Mr EF Ainsworth was a Member of the Audit Committee and Chairman of the Finance and Risk Committee until his resignation from the Board effective 20 September 2010.

(2) Mr TN Warren resigned from the Board effective 31 May 2010.

(3) Dr AJ Kantsler was appointed to the Board effective 19 July 2010. Dr Kantsler became a Member of the Audit Committee and Finance and Risk Committee from the date of his appointment. He will become Chairman of the Finance and Risk Committee from 16 February 2011.

(4) Dr ZE Switkowski was appointed to the Board effective 22 November 2010. Dr Switkowski became a Member of the Finance and Risk Committee and Remuneration and Nominations Committee from the date of his appointment.

(5) Mr BF Horwood was acting Chairman of the Finance and Risk Committee for the period 20 September 2010 to 16 February 2011.

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Directors' Report 31 December 2010

ATTENDANCES AT DIRECTORS' AND COMMITTEE MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director, were as follows:

Directors	Directors' Meetings	Meetings of committees		
		Audit ⁽¹⁾	Remuneration and Nominations	Finance and Risk ⁽¹⁾
Number of meetings held	8	4	4	4
Number of meetings attended				
BF Horwood	8	3 ⁽²⁾	4	4 ⁽²⁾
PR Botten ⁽¹⁾	8	2	4	3
EF Ainsworth	6	3	NM	3
G Aopi	8	NM	NM	4
KG Constantinou	8	NM	4	4
R Igara	8	3	4	NM
MDE Kriewaldt	8	4	NM	4
JL Stitt	8	4	4	NM
AJ Kantsler	4	2	NM	2
ZE Switkowski	1	NM	1	-
TN Warren ⁽³⁾	-	NM	-	-

NM: Not a member of committee.

(1) The Managing Director and Chief Financial Officer attend meetings at the request of the Committee.

(2) Mr Horwood is ex-officio attendee at the Audit Committee and Finance and Risk Committee.

(3) Due to illness Mr Warren took leave of absence from the Board with effect from 1 January 2010 and resigned on 31 May 2010.

Note: Other members of the Board have attended various Committee meetings during the year. These attendances are not included in the above table.

ENVIRONMENTAL DISCLOSURE

The economic entity complies with all environmental laws and regulations and operates at the highest industry standard for environmental compliance. The economic entity has provided for costs associated with the restoration of sites that will be incurred at the conclusion of the economic life of the producing assets in which it holds a participating interest.

CORPORATE INFORMATION

Oil Search Limited is a company limited by shares and is incorporated and domiciled in Papua New Guinea. The economic entity had 1,050 employees as at 31 December 2010 (2009: 976). Oil Search Limited is listed on the Australian Securities Exchange and PNG Stock Exchange.

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Directors' Report 31 December 2010

SHARE BASED PAYMENT TRANSACTIONS

There were no share options (2009: 1,340,800) granted under the Employee Share Option Plan during the year, however, 1,554,200 share appreciation rights (2009: nil) were granted under the new Employee Share Appreciation Rights Plan. There were 1,997,400 performance rights (2009:1,774,985) granted under the Performance Rights Plan, and 751,857 restricted shares (2009: 1,397,350) granted under the Restricted Share Plan during the year.

As at 31 December 2010, there are 3,032,304 options (2009: 4,481,325), 1,542,800 share appreciation rights (2009: nil), 6,183,991 performance rights (2009: 6,511,498), and 1,915,386 restricted shares (2009: 3,626,401) granted over ordinary shares exercisable at various dates in the future, subject to meeting applicable performance hurdles, and at varying exercise prices (refer to note 25 for further details).

DIRECTORS' AND OTHER OFFICERS' REMUNERATION

The Remuneration Committee of the Board is responsible for reviewing compensation for the directors and staff and recommending compensation levels to the Board. The Committee assesses the appropriateness of the nature and amount of emoluments on a periodic basis with reference to relevant employment market conditions, with the overall benefit of maximising shareholder value by the retention of high quality personnel. To achieve this objective the Board links a component of executive director and other staff emoluments to the company's financial and operational performance.

Details of the amount, in US dollars, of each element of the emoluments for the financial year for directors and executives of the company are disclosed in note 26 to the financial statements.

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Directors' Report 31 December 2010

REMUNERATION REPORT

1. REMUNERATION REPORT

This report has been prepared in accordance with section 300A of the Australian Corporations Act 2001 and summarises the arrangements in place for the remuneration of directors, key management personnel and other employees of Oil Search for the period from 1 January 2010 to 31 December 2010. Although it is not a requirement for PNG companies Oil Search has voluntarily complied with section 300A of the Corporations Act 2001 to ensure it meets current best practice remuneration reporting for ASX listed companies.

2. REMUNERATION POLICY

Oil Search has a Remuneration Policy based upon "Reward for Performance", where each individual employee's remuneration is differentiated based on various measures of corporate, team, and individual performance.

The objectives of the Oil Search remuneration policy are to:

- Attract and retain the talent necessary to create value for shareholders;
- Reward key management personnel and other employees fairly and responsibly, having regard to the performance of Oil Search, the competitive environment and the individual performance of each employee; and
- Comply with all relevant legal and regulatory provisions.

Remuneration for non-executive directors is established using advice from external independent consultants and takes into account:

- The level of fees paid to non-executive directors of other ASX listed corporations of a similar size and complexity to Oil Search;
- The growing international scale of Oil Search activities;
- Responsibilities of non-executive directors; and
- Work requirements of Board members.

3. SHARE TRADING POLICY

Oil Search has a share trading policy in place for all employees, including key management personnel and directors, which is available on the Oil Search website in the Corporate Governance Section. Under this policy there are three groups of employees:

- **Restricted Employees** – Executive General Managers and their direct reports, General Managers and their direct reports and other employees notified by the Company Secretary that they are a restricted employee;

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- **Prescribed Employees** – particular employees, contractors or a member of a class of employees or contractors that are notified by the Company Secretary that they are prescribed employees due to the nature of work they are undertaking; and
- **All Other Employees** – any employee or contractor who is not classified as a Restricted or Prescribed Employee.

Under the Oil Search Share Trading Policy, non-executive directors are classified as restricted employees.

There are two specific periods defined in the share trading policy:

- **Closed Period** – the period from 1 January to 12 noon on the day after the release of the full year results and the period from 1 July to 12 noon the day after the release of the half year results.
- **Trading Window** – the period of four weeks commencing at 12 noon on the day after:
 - o The release of the half year results;
 - o The release of the full year results; and
 - o The Oil Search Annual Meeting.

The Board may also approve trading windows at other times of the year.

The following table details the times at which employees can trade in Oil Search shares:

Table 1 – Trading permitted under the Oil Search Share Trading Policy

	Closed Period	Trading Window	All Other Times
Restricted Employees	Not permitted to trade	May trade after first notifying Company Secretary	Not permitted to trade
Prescribed Employees	Not permitted to trade	Not permitted to trade	Not permitted to trade
All Other Employees	Not permitted to trade	May trade	May trade

Regardless of the trading times specified in the above table, employees are not permitted to trade at any time if they are in receipt of inside information. Employees are also prohibited from hedging or acquiring options over unvested securities, granted under employee share plans, at any time. Regular audits of share trading are conducted by the Company Secretary to ensure compliance.

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4. ROLE OF THE REMUNERATION AND NOMINATIONS COMMITTEE

The Remuneration and Nominations Committee (the Committee) of the Board provides advice and recommendations to the Board regarding remuneration matters. The Committee's responsibilities for remuneration include:

- Review of the ongoing appropriateness, coherence, and competitiveness of remuneration policies and practices, and recommendation of changes to the Board as appropriate;
- Oversight of the implementation of remuneration policies;
- Recommendation to the Board on the specific remuneration of executive directors, key management personnel and any other direct reports to the Managing Director;
- Recommendation to the Board of budgets for annual remuneration awards to all other employees;
- Recommendation to the Board on performance measures underpinning all Incentive Plans;
- Proposal to the Board of outcomes for any performance measures underlying Incentive Plans;
- Proposal to the Board on the appointment of new non-executive directors;
- Approval of terms and conditions and contracts for any new key management personnel and other direct reports of the Managing Director.

The Committee must comprise at least four non-executive directors and the members of the Committee during the year were:

- Mr TN Warren (Chair) – independent non-executive (*until 31 May 2010*)
- Mr BF Horwood (Acting Chair) – independent non-executive (*from 1 June 2010*)
- Mr KG Constantinou OBE – independent non-executive
- Mr R Igara CMG – independent non-executive
- Mr JL Stitt – independent non-executive
- Dr ZE Switkowski – independent non-executive (*from 22 November 2010*)

Apart from Mr Warren and Mr Switkowski, all members of the committee were in place for the full year. The Chairman of the Board, Mr B Horwood, is normally an ex-officio member of the Committee and usually attends all meetings however he became the Acting Chair following Mr Warren's resignation from the Board. At the Committee's invitation, the Managing Director, Executive General Manager Human Resources, and Rewards Manager attend meetings in an advisory capacity and co-ordinate the work of independent external advisors as requested. All executives are excluded from any discussions impacting their own remuneration.

Under its Charter, the Committee must meet at least four times a year. The Committee met four times during the year and the Committee Members' attendance records are disclosed in the Directors' Report. A copy of the charter of the Remuneration & Nominations Committee is available on Oil Search's website in the Corporate Governance Section.

To ensure it remains up to date with market practice, the Committee engages independent external advisors. The table below summarises work undertaken by external consultants at the Committee's request in 2010 and also notes additional work undertaken by the same consultants on behalf of management. Where a consultant was engaged by the Committee or the Board their findings were reported directly to the Committee or the Board.

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Table 2 – External Consultants Engaged by the Committee in 2010

Consultant	Committee and Board Engagements	Management Engagements
Aon Hewitt	- Review of Key Management Personnel Remuneration - Review of market practice for executive remuneration	General remuneration data
Ernst & Young	- Total Shareholder Return (TSR) reporting - Equity grant fair value calculations - Review of LTI allocation methodology	- Advice on legislative tax changes - Management of employee relocations - Individual tax advice to expatriate employees
Freehills	- Review of employee share plan rules - Review of Oil Search Share Trading Policy	
Heidrick and Struggles	Recruitment of a non-executive director	
Park Brown International	Recruitment of a non-executive director	

5. REMUNERATION STRUCTURE

Oil Search's remuneration structure for employees comprises four elements:

- Total Fixed Remuneration (TFR);
- Short-Term Incentive (STI);
- Long-Term Incentive (LTI); and
- Occasional Retention Awards of Restricted Shares for key/critical staff.

The mix of remuneration elements for individual employees is dependent on their level and role within Oil Search, with the proportion of "at risk" remuneration (STI and LTI elements) increasing with greater seniority.

Total Fixed Remuneration (TFR)

The ranges of TFR payable for all Company positions in the organisation, including those for key management personnel are 80% – 120% of competitive benchmarks. An independent external remuneration consultant engaged by the Committee provides competitive benchmarks for key management personnel. For other roles in the organisation, remuneration information is derived from annual job matching surveys conducted by independent third parties.

An annual TFR review budget, agreed by the Board each year, is used to adjust TFRs paid to individuals to ensure that their fixed remuneration remains competitive for their specific skills, competence, and value to the Company.

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Short-Term Incentive (STI)

Each employee has the opportunity to earn an annual STI which is based on a percentage of his or her TFR. The STI percentage increases with seniority to ensure a higher proportion of remuneration is “at risk” for our senior employees. The actual STI earned by an employee will be based on a mix of achievement against specific company performance hurdles and his or her individual performance. Senior Executive STI is received 50% cash and 50% shares - see Section on “Retention Awards of Restricted Shares”.

At the start of each year, the Board determines the hurdles and target levels of performance required to earn an annual STI. The hurdles are derived presently from:

- Corporate performance against operational metrics which include: safety; production; costs; increases in hydrocarbon reserves; and
- Transformational metrics which include: Acquisition of new hydrocarbon resources and achievement of tangible value adding milestones towards commercialisation of significant gas volumes.

The size of any STI is thus directly related to corporate performance through a range of key measures that affect Shareholder Value.

At the end of the year, the Board approves an overall STI pool based on the level of achievement against the hurdles that were determined at the start of the year. The STI pool is then distributed to employees, taking into account:

- The contribution of the employee's division to the achievement of the organisational objectives; and
- The individual performance of the employee.

Employees have the ability to earn between 0% and 200% of their STI opportunity. However the target levels of performance set by the Board are challenging and payment of 100% of STI opportunity to an employee requires exceptional corporate and individual performance. Over the four years the STI program has been in operation, the overall level of STI paid to employees has been:

Table 3 – STI Awards to Employees

STI Potential Range	2007 Actual	2008 Actual	2009 Actual	2010 Actual
0% to 200% of STI Opportunity	65.6%	85.9%	84.6%	61.4%

Long-Term Incentive (LTI)

Provided that they have demonstrated an acceptable level of personal performance, each employee also has the opportunity to participate in a LTI program. For the majority of employees this has been via a grant of a specific number of Share Options, which were awarded on an annual basis from 2004 to 2009. In May 2009 the Australian Government released their annual budget which included changes (effective from 1 July 2009) to the way employee share plans would be taxed. These changes would have resulted in the existing LTI program operating differently across countries in which Oil Search operates and accordingly, a review was undertaken.

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As a result of the review, the existing Employee Share Option Plan (ESOP), Performance Rights Plan (PRP) and Restricted Share Plan (RSP) were combined under the Oil Search Long Term Incentive Plan (LTIP). The Oil Search LTIP allows the Board the flexibility to grant employees:

- Performance Rights;
- Share Appreciation Rights;
- Share Options; and
- Restricted Shares.

Under the LTIP, allocations of Performance Rights and Share Options operate in the same manner as existing allocations, except for the automatic exercise on vesting of grants under the LTIP. This removes the existing two year period employees have to exercise vested options and rights. There will be no changes to the way Restricted Shares operate under the LTIP as compared to the RSP.

For 2010, grants of Share Options were replaced with Share Appreciation Rights.

Share Appreciation Rights

Share Appreciation Rights (SAR) operate in much the same way as Share Options, with an employee only receiving a benefit if the Oil Search share price increases over the vesting period. However instead of an employee exercising a Share Option equal to the market value at the time they were granted, upon vesting the gain in share price is converted back to a number of shares, which are then granted to the employee.

As an example, the 2010 grant of SAR was 1,900 per participant and the Vesting Price (equivalent to the Exercise price of a Share Option) was \$5.63. If for example the Oil Search share price increased to \$7.63 at vesting, the employee would be granted 498 shares based on the following formula:

$$\frac{\text{Number of Rights X (Price on Vesting - Vesting Price)}}{\text{Price on Vesting}} \downarrow$$
$$\frac{1,900 \times (\$7.63 - \$5.63)}{\$7.63} = \frac{\$3,800}{\$7.63} = 498 \text{ shares}$$

As can be seen from the above calculation, the benefit of 498 shares is equivalent in value to the \$3,800 in benefit the employee would receive by exercising 1,900 Share Options at \$5.63, given a market price of \$7.63.

SAR are automatically exercised on vesting, which is dependent on the Oil Search share price increasing over the 3 year vesting period. Accordingly, if the share price does not increase, then the SAR will automatically lapse on the vesting date. As a result, the employee only benefits from a grant of SAR if the Oil Search share price increases over the three year vesting period, so this form of LTI is directly related to increasing Shareholder Value.

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Employee Share Option Plan

Awards under the previous Employee Share Option Plan (ESOP) were structured as options to acquire ordinary shares in the Company after a 3 year vesting period, at a price equal to the market value of the shares on the date the option was granted.

The Board determined the appropriate size of each award under the ESOP and all eligible employees received the same number of options. The initial awards under the ESOP were made following the 2004 Annual General Meeting, with the final allocation in 2009. The employee benefits from an ESOP grant only if the value of Oil Search shares increases over the five year life of the option, so this form of LTI is directly related to Shareholder Value. The ESOP encourages employees to associate themselves with increasing Shareholder Value.

Details of awards under the ESOP until 2009 and grants of Share Appreciation Rights in 2010 are presented in the table below:

Table 4 – Details of Awards Under the Employee Share Option Plan (ESOP) and Share Appreciation Rights

GRANT YEAR	2005	2006	2007	2008	2009	2010
Award Type	Options	Options	Options	Options	Options	Rights
Grant Date	28 Oct 05	28 Jul 06	7 May 07	4 Aug 08	1 Jun 09	1 Jun 10
Vesting Date	13 May 08	28 Jul 09	7 May 10	5 May 11 ⁽¹⁾	13 May 12 ⁽²⁾	17 May 13⁽³⁾
Options/Rights per employee	2,185	2,168	2,170	2,170	1,600	1,900
Total Award	1,488,753	1,638,840	1,811,950	1,788,080	1,340,800	1,554,200
Exercise/Vesting Price	\$2.29	\$4.15	\$3.57	\$4.88	\$5.22	\$5.63

(1) Although the grant of awards under the ESOP in 2008 was delayed due to organisational restructuring following the sale of assets in the Middle East, the Board approved the retention of the previously planned vesting date.

(2) The impact of tax changes on employee share plans in Australia was not clarified until late May 2009 and while the grant was delayed until 1 June 2009, the Board approved the retention of the previously planned vesting date.

(3) Although the grant of Share Appreciation Rights was delayed due to the finalisation of the LTIP, the Board approved the retention of the previously planned vesting date.

Performance Rights

For key management personnel, and other key/critical managers and staff approved by the Board, the LTI program takes the form of a grant of Performance Rights (PR). Until 2009, PR were granted under the Performance Rights Plan (PRP), however following the review of LTIs, they are now granted under the LTIP. The only difference in operation of Performance Rights issued under the LTIP is that they are automatically exercised on vesting, removing the 2 year exercise period following vesting of previous grants.

Awards of PR under the PRP or LTIP are rights to acquire ordinary shares in the Company for nil consideration, conditional on pre-determined corporate performance hurdles being met within defined time restrictions.

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Vesting of the awards depends on Oil Search's Total Shareholder Return (TSR) performance over a three-year period relative to peer groups of companies. For awards prior to 2007, a single peer group of the first 150 companies included in the ASX 200 Index was used. From 2007 onwards, Oil Search's performance has been measured against two peer groups, with an equal weighting ascribed to each of:

- The first 150 companies included in the ASX 200 Index; and
- A selected group of similar sized international oil and gas exploration and production companies.⁽¹⁾

(1) The current list of companies includes Anadarko Petroleum Corporation, AGL Energy, AWE, Cairn Energy, Canadian Natural Resources, Chesapeake Energy Corporation, Dana Petroleum, Lundin Petroleum, Murphy Oil Corporation, Newfield Exploration, Nexen, Origin Energy, Premier Oil, Roc Oil, Santos, and Tullow Oil.

To determine the level of vesting of the awards, Oil Search's TSR over the three year performance period is ranked against the TSR of each company in the peer groups over the same period.

For each peer group, if Oil Search's TSR performance is:

- below median, that is the 50th percentile, no Performance Rights will vest;
- at the median, 25% of the Performance Rights granted will vest;
- greater than the median and less than the 75th percentile, the number of Performance Rights that will vest increases on a straight line basis from 25% to 50% of the total number of Performance Rights granted;
- at or above the 75th percentile, 50% of the Performance Rights granted will vest.

For example, if Oil Search's TSR performance is at or above the 75th percentile TSR performance of both peer groups, 100% of the Performance Rights granted will vest.

As is the case with the ESOP and grants of SAR, awards under the PRP are aligned with growth in Shareholder Value, measured in terms of Total Shareholder Return relative to other peer companies. The first awards under the PRP were granted in 2004 and vested in June 2007. The table below details the vesting of Performance Rights issued under the PRP from 2005 to 2009 and the LTIP in 2010:

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Table 5 – Details of Awards of Performance Rights

GRANT YEAR	2005	2006	2007	2008⁽²⁾	2009	2010
Measurement Period	1 Jan 05 to 31 Dec 07	1 Jan 06 to 31 Dec 08	1 Jan 07 to 31 Dec 09	1 Jan 08 to 31 Dec 10	1 Jan 09 to 31 Dec 11	1 Jan 10 to 31 Dec 12
Total Rights Granted	4,076,954	2,736,955	2,783,746	2,437,300	1,774,895	1,997,400
Oil Search TSR (3 year) ⁽¹⁾	186%	39%	91%	53%		
Percentile Rank (ASX 150)	85.3%	91.3%	96.0%	96.5%		
Vesting	100%	100%	50%	50%	May 2012	May 2013
Percentile Rank (Int'l Group)			87.5%	94.1%		
Vesting			50%	50%	May 2012	May 2013
Total Vesting	100%	100%	100%	100%	May 2012	May 2013

- (1) As per the PRP Rules, the TSR has been calculated by an independent external consultant and is based on share price *increases* and dividends paid on the shares over the measurement period. In calculating the TSR it is assumed dividends are reinvested to purchase additional shares of the Company at the closing price applicable on the ex-dividend date.
- (2) While the 2008 Performance Rights will not vest until 5 May 2011, Oil Search relative TSR for the period 1 January 2008 to 31 December 2010 is available.

Long Term Incentive Plan Rules

Under the ESOP or PRP the following rules apply to all grants:

- if a participant ceases employment, the participant will be entitled to exercise vested Performance Rights or Share Options within 90 days after employment ceases, or such longer period as the Board may determine (except in the case of a participant's death when personal representatives of the participant may exercise vested Performance Rights up to 12 months from the date of death).
- If a participant dies or ceases employment, all unvested Performance Rights or Share Options lapse unless the Board determines otherwise.
- Any vested Performance Rights or Share Options that remain unexercised lapse on the fifth anniversary of the date of grant.

Any vested Share Options granted under the ESOP or vested Performance Rights granted under the PRP that remain unexercised lapse on the fifth anniversary of their grant date. Under the LTIP, all grants are automatically exercised on vesting, so there will never be any vested grants that have not been exercised.

In line with the existing ESOP and PRP, if a participant dies or ceases employment, all unvested Performance Rights, Share Appreciation Rights or Share Options lapse unless the Board determines otherwise.

All of the plan rules for the PRP, ESOP and LTIP allow the Company to use newly issued or existing shares (for example, through purchase on market) to satisfy awards.

All grants of PR, Share Options or SAR do not attract any right to dividends or voting.

Retention Awards of Restricted Shares

In order to assist the Company in retaining key executives and other employees, the Company may issue them with Restricted Shares. Until 30 May 2010, grants were made under the Restricted Shares Plan (RSP), with all grants from 1 June being made under the LTIP. Restricted Shares issued under the RSP or LTIP only vest after the employee has completed a specified period of future service with the Company.

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Awards are structured as grants of restricted shares for nil consideration. Restricted Shares are held on behalf of participants in trust, subject to disposal restrictions and forfeiture conditions, until released under the terms of the Plan.

The number of Restricted Shares to be granted to the participant is the number of ordinary shares that can be acquired on market with reference to a specific percentage of the participant's total fixed remuneration (TFR) determined at the time of the grant.

Awards by way of retention under the Restricted Share Plan will only be made where the Board determines that a significant retention risk exists.

Shares were granted under the Restricted Shares Plan as retention awards in May 2007 and December 2007 and these vested in May 2010 and December 2010 respectively. There have since been additional grants of Restricted Shares to the Executive General Manager Human Resources in 2008 and the Chief Financial Officer in 2009, as part of their recruitment arrangements.

The vesting of Restricted Shares is subject to continued employment only and as such no additional performance conditions apply. Unless the Board otherwise determines, unvested Restricted Shares will be forfeited when a participant ceases employment before the vesting date.

Restricted Shares are held in trust prior to them vesting and will be released from the trust upon vesting. Whilst the Restricted Shares are held in trust, the Restricted Shares will be subject to disposal restrictions and forfeiture conditions. Restricted Shares held in trust (whether vested or not) will be forfeited by participants who are considered by the Board to have acted fraudulently or dishonestly. Once a participant's Restricted Shares have vested, disposal restrictions and forfeiture conditions will cease and the Restricted Shares will be released from the trust.

The RSP and LTIP rules allow the Company to use newly issued or existing shares (for example through purchase on market) to satisfy awards under the Plan.

The 50% deferred portion of an executive's STI has been awarded as shares under the RSP (See section 6 below). Any future awards will be made under the LTIP.

Restricted Shares do not attract any right to voting and Restricted Shares issued by way of retention do not attract any right to dividends. Any dividends payable on Restricted Shares issued in 2008 and 2009 as the deferred component of an executive's STI award are retained in trust and paid to the executive once the shares have vested. Following the review of Long Term Incentives, any dividends payable on Restricted Shares issued in 2010 as the deferred component of an executive's STI award are paid to the executive.

PNG Retention Program

The PNG LNG Project will significantly change the employment landscape in Papua New Guinea, with the project operator and its contractors looking to hire employees who have similar, if not identical skills to our local workforce. Given the scarcity of experienced local employees in the oil and gas industry in PNG, the retention of our key PNG Citizen employees will be a major factor in ensuring the ongoing viability of our oil operations business.

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In order to minimise the risk of losing key/critical employees, a number of initiatives were implemented during 2009. One of the initiatives was the creation of a retention program specifically designed for our PNG Citizen employees. The PNG Retention Program was implemented in June 2009 to coincide with the commencement of early works activities of the PNG LNG Project.

All permanent employees were eligible to participate in the PNG Retention Program, with any benefit earned under the program being realised in June 2013. The level of participation for employees was dependent on:

- The criticality of the employee's role;
- The employee's performance and potential; and
- The employee's engagement, values and attitude.

For those employees participating at the highest level, their notice period they are required to give to Oil Search on resignation was significantly increased for the duration of the program.

A review of the PNG Retention Program was conducted in the first half of 2010, with adjustments made in July 2010. For those employees that had joined Oil Search since the first grant under the Program, their benefit will be realised in July 2014. For existing participants, any increase in benefit will be realised in June 2013, in line with their original award.

The retention of our PNG Citizen employees will continue to be reviewed on a regular basis during the PNG LNG Project.

PNG LNG Project Bonus

The achievement of a final investment decision on the PNG LNG Project was a result of significant and sustained effort over the past few years. In recognition of the achievement and the significant value of the PNG LNG Project for Oil Search, the Board approved a one off bonus for all employees in 2009. The bonus is equivalent to 50% of an employee's STI opportunity (70% for the Managing Director) and was only payable after financial close of the PNG LNG Project had been achieved.

The PNG LNG Project Bonus was paid to employees in March 2010, following financial close of the PNG LNG Project, as announced on 15 March 2010.

6. REMUNERATION OF KEY MANAGEMENT PERSONNEL

For this group, and other senior executives, remuneration is benchmarked against that of similar roles in a primary reference group of some 40 ASX companies of similar size to Oil Search in terms of Enterprise Value, Total Assets, Gross Revenue, and Net Profit after Tax. A smaller and secondary reference group of international energy and mining companies is used to assess whether any particular positions should be treated exceptionally.

Total Fixed Remuneration

TFR, which includes Company superannuation contributions and other remunerative benefits, is targeted within the range of the median and the 62.5 percentile of the reference group, depending on the international marketability and mobility of the executive concerned. Executives may choose to salary package items such as motor vehicles or superannuation contributions. However any costs arising from Fringe Benefits Tax (FBT) or any other tax are borne by the executive.

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At Risk Remuneration & Relationship to Company Performance

As noted above in section 5, Oil Search executives are eligible to receive an STI and participate in an LTI program which is considered “at risk” remuneration, since any payment is dependent on performance. As explained in section 5 above, the Board’s objective is that the size of these incentives should be related to how successful Oil Search is in creating Shareholder Value, whilst also being competitively positioned against benchmarks based on the reference groups of companies mentioned above.

Accordingly, the size of the STI is directly related to corporate performance against a range of key measures that impact shareholder value, namely operational metrics on safety, production, costs, increases in hydrocarbon reserves under development, and transformational metrics on acquisition of new hydrocarbon resources and achievement of tangible value adding milestones towards commercialisation of significant gas volumes.

Similarly, the proportion of Performance Rights grants which vest are directly related to Oil Search’s Total Shareholder Return relative to peer groups of companies.

Short Term Incentive

The STI is an incentive opportunity of between 0%-160% of a senior executive’s TFR (0%-200% for the Managing Director), where 80% (100% for the Managing Director) would be awarded for achieving exceptional corporate and individual performance. It is awarded in March each year for performance in the previous calendar year. Performance significantly beyond expectations could be rewarded by STI’s up to a maximum of 160% of TFR (200% of TFR for the Managing Director) but such awards would be unusual. Awards since the commencement of the scheme for performance year 2007 have averaged 58.3% of TFR for executives and 74.0% for the Managing Director.

In line with our Remuneration Structure, at the end of the year the Board approves an overall STI pool for executives based on the level of achievement against the hurdles that were determined at the start of the year. This pool is distributed to individual senior executives based on their individual performance.

For all senior executives, 50% of their STI award is paid in cash and the other 50% is converted to shares under the Restricted Share Plan (RSP) that was approved at the 2007 Annual General Meeting. The shares held under the RSP are held in Trust on behalf of the employee and vest on 31 December of the following year, providing the executive remains employed with Oil Search. Any dividends payable on Restricted Shares issued in 2008 and 2009 as the deferred component of an executive’s STI award are retained in trust and paid to the executive once the shares have vested. Following the review of Long Term Incentives any dividends payable on Restricted Shares issued in 2010 as the deferred component of an executive’s STI award are paid to the executive.

Since the introduction of this scheme for performance in calendar year 2007, the Senior Executive STI has resulted in the following outcomes:

Table 6 – Senior Executive STI

	STI Range	2007 Actual	2008 Actual	2009 Actual	2010 Actual
Managing Director	0 – 200% of TFR	50.0%	100.0%	84.6%	61.4%
Senior Executives	0 – 160% of TFR	44.0%	68.7%	71.4%	49.1%

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Long Term Incentive (LTI) – Performance Rights

Presently, the number of Performance Rights granted for the Managing Director and other senior executives is based on the following formula:

$$\frac{X\% \text{ of TFR}}{\text{Audited Fair Value of one Performance Right}}$$

where X is 55% for the Managing Director and 35% for other senior executives, and “Audited Fair Value of one Performance Right” is the audited fair value at grant of one Performance Right, based on the 20 day Volume Weighted Average Price of Oil Search shares for the 20 trading days following the release of annual results in the year of award. The “Fair Value” is determined by an independent third party, presently Ernst & Young.

The grants and vesting level of performance rights over the past five years for current key management personnel is as follows:

Table 7 – Allocation of Performance Rights to Key Management Personnel

	2006		2007		2008		2009		2010	
	No.	Vest	No.	Vest	No.	Vest ⁽¹⁾	No.	Vest	No.	Vest
Directors										
P Botten	361,000	100%	398,091	100%	338,600	100%	258,900	2012	273,400	2013
G Aopi	57,528 ⁽²⁾	100%	70,072	100%	48,900	100%	46,000	2012	54,200	2013
Executives										
P Bainbridge	128,205	100%	109,258	100%	93,000	100%	66,800	2012	70,700	2013
P Caldwell	83,846	100%	58,000	100%	61,100	100%	61,800	2012	65,300	2013
P Crute					65,900	100%	47,400	2012	52,700	2013
N Hartley	106,838	100%	90,012	100%	76,600	100%	54,900	2012	59,300	2013
A Miller	135,256	100%	113,956	100%	96,900	100%	69,600	2012	73,500	2013
R Robinson	65,000	100%	39,422	100%	32,400	100%	29,700	2012	55,800	2013
Z Todorcevski ⁽³⁾			66,485	100%	66,485	100%	146,285	2012	84,400	2013
Officers of the Company										
S Gardiner	24,462	100%	29,753	100%	38,700	100%	35,000	2012	32,400	2013
Former Executives										
R Marcellus ⁽⁴⁾	-	-	91,831 ⁽⁵⁾	100%	78,200	70% ⁽⁶⁾	56,100	32% ⁽⁶⁾	-	-

- (1) The vesting date of the 2008 Performance Rights is 5 May 2011. Oil Search's TSR for the period 1 January 2008 to 31 December 2010 will result in 100% vesting.
- (2) Due to the timing of the appointment of G Aopi as an Executive Director in 2006, the allocation of 57,528 Performance Rights was made on a cash equivalent basis.
- (3) Z Todorcevski was granted allocations of Performance Rights in the 2007 and 2008 allocations as part of his recruitment arrangements.
- (4) Due to his role becoming redundant R Marcellus departed Oil Search on 5 July 2010.
- (5) Due to the timing of the commencement of employment of R Marcellus in 2007, the allocation of 91,831 Performance Rights was made on a cash equivalent basis.
- (6) As part of his termination package, the Board approved the early vesting of the 2008 and 2009 allocations for R Marcellus based on:
 - a. The length of his tenure during the vesting period; and
 - b. The most recent measure of Oil Search relative TSR, as calculated by an independent third party.

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Corporate Financial Performance

Table 8 illustrates Oil Search's financial performance over the past five years, which may be compared with the levels of STI and LTI awards granted to key management personnel and detailed above.

Table 8 – Oil Search's Five Year Performance

Year Ended 31 December	2006	2007	2008	2009	2010
Net profit after tax (US\$m)	412.0	137.2	313.4	133.7	185.6
Diluted earnings per share (US cents)	36.6	12.2	27.8	11.5	14.1
Dividends per share (US cents)	8.0	8.0	8.0	4.0	4.0
Shares closing price (A\$) ⁽¹⁾	\$3.35	\$4.85	\$4.65	\$6.12	\$7.04
Oil Search Three Year TSR ⁽²⁾	254%	186%	39%	91%	53%

(1) The closing price of Oil Search shares is taken on the last day of the financial year.

(2) The TSR has been calculated by an independent external consultant and is based on share price increases and dividends paid on the shares over the three year period up to and including 31 December of the year they are reported against.

849,764 Restricted Shares were granted to the Managing Director and key management personnel in 2007 that vested in 2010. The objective of these grants was to encourage the retention of their services during a very heated and competitive employment market in the industry.

As part of his recruitment arrangements, on 1 January 2009 Z Todorcesvki was granted 124,986 restricted shares that vested on 1 January 2010 and 99,728 restricted shares that will vest on 1 January 2011. On 1 May 2008 as part of his recruitment arrangements, P Crute was granted 131,356 restricted shares that vested on 1 January 2010 and 33,898 restricted shares that will vest on 1 January 2011.

At the 2010 Annual Meeting, shareholders approved a grant of 100,000 restricted shares by way of a retention award to G Aopi. The restricted shares were granted on 27 April 2010 and will vest on 27 April 2014.

7. REMUNERATION DETAILS FOR KEY MANAGEMENT PERSONNEL

The key management personnel (excluding Non-Executive Directors who are covered in section 10) for the purposes of this report are the following employees:

Mr Peter Botten CBE – Managing Director

Incumbent for the full year

As the Managing Director, Peter has the overall responsibility for effectively managing Oil Search and achieving the corporate objectives. He is also responsible for ensuring that strategies agreed with the Board are implemented.

Mr Gereia Aopi CBE – Executive General Manager Government Affairs and Sustainability and Executive Director

Incumbent for the full year

Gerea is responsible for Government and Public Affairs in PNG. He is also charged with strategy development and enactment of our Community Affairs and social programs within the Company. Gereia also plays an important role in the interface between the Company and major shareholders in PNG.

Effective 1 January 2011, Gereia will adopt the additional responsibility of leading the company's broad Sustainability strategies within PNG.

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Mr Philip Bainbridge – Executive General Manager Gas Commercialisation and PNG Growth

Incumbent for the full year

Philip is responsible for managing Oil Search's organic growth via Gas Business Development and Exploration within PNG and optimising our exploration assets in MENA. Philip was appointed to this role on 1 June 2010, prior to which he was the Executive General Manager PNG LNG.

Mr Philip Caldwell – Executive General Manager PNG LNG Delivery

Incumbent for the full year

Philip is the person responsible for managing Oil Search's participation in the PNG LNG Project and works closely with the other Joint Venture partners to ensure the success of the project. Philip was appointed to this role on 1 June 2010, prior to which he was the Executive General Manager Oil Operations.

Mr Paul Crute – Executive General Manager Human Resources

Incumbent for the full year

Paul is responsible for establishing and aligning people management strategies, processes and systems to ensure that Oil Search attracts, develops, retains and rewards the right people with the right skills at the right time in order to achieve the strategic objectives of the organisation.

Mr Nigel Hartley – Executive General Manager Sustainability

Incumbent for the full year

Nigel is responsible for developing and implementing the Corporate Sustainability function. Prior to this, Nigel was the executive responsible for arranging the significant financing required for Oil Search to participate in the PNG LNG project.

Mr Robert Marcellus – Executive General Manager Gas New Business

Departed 5 July 2010

Prior to his departure, Robert had the responsibility for commercialising Oil Search's gas reserves.

Mr Austin Miller – Executive General Manager Commercial, International New Ventures, Mergers and Acquisitions

Incumbent for the full year

Austin's role is to lead the commercial aspects of Oil Search's business including initiating corporate and asset related mergers and acquisitions and any new ventures outside of PNG.

Mr Richard Robinson – Executive General Manager PNG Operations

Incumbent from 1 June 2010

Richard is responsible for Oil Search's operations in PNG including HSES, oil and gas production, drilling, subsurface and logistics. Richard was appointed to this role on 1 June 2010.

Mr Zlatko Todorovski – Chief Financial Officer

Incumbent for the full year

Zlatko's role is to manage corporate finance, treasury and audit functions for the company. He is also responsible for planning, performance and cash flow management ensuring appropriate processes and reporting to management and the Board.

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Mr Stephen Gardiner – GM Corporate Services/Group Secretary

Incumbent for the full year

In his role, Stephen is responsible for the Information and Communications Technology and Procurement functions of Oil Search as well as all Group Secretarial matters.

The remuneration philosophy outlined above is applied consistently to the Company's key management personnel. The following table shows the remuneration breakdown for current key management personnel:

Table 9 – Current Key Management Personnel Remuneration Mix

Directors	TFR	STI	LTI	"AT RISK"
Managing Director	39%	39%	22%	61%
EGM Government Affairs and Sustainability	47%	37%	16%	53%
Executives				
EGM Gas Commercialisation and PNG Growth	47%	37%	16%	53%
EGM PNG LNG Delivery	47%	37%	16%	53%
EGM Human Resources	47%	37%	16%	53%
EGM Sustainability	47%	37%	16%	53%
EGM Commercial, International New Ventures, Mergers and Acquisitions	47%	37%	16%	53%
EGM PNG Operations	47%	37%	16%	53%
CFO	47%	37%	16%	53%
Officers of the Company				
GM Corporate Services/Group Secretary	65%	19%	16%	35%
Former Executives				
EGM Gas New Business	47%	37%	16%	53%

The remuneration mix outlined above is determined by the application of the Oil Search Remuneration Strategy, assuming STI awards at 100% of opportunity. Percentages shown in the later section on Executive Remuneration reflect actual incentives paid as a percentage of TFR, which includes movements in leave balances, non monetary benefits and share based payments calculated in accordance with AASB 2.

The following table is in US Dollars and for all remuneration reporting where stated in US Dollars, the following exchange rates have been used:

EXCHANGE RATE	2009	2010
AUD/USD	0.7915	0.9187
PGK/USD	0.3806	0.3833

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Table 10 – Key Management Personnel Remuneration (US\$)

	Year	Short Term			Post Employment	Long Term	Equity ⁽⁶⁾		Other ⁽⁷⁾	Total
		Salaries, fees and Allowances ⁽¹⁾	Non-Monetary Benefits ⁽²⁾	Short Term Incentive ⁽³⁾	Company Contribution to Super ⁽⁴⁾	Long Service Leave Accrual ⁽⁵⁾	Performance Rights	Restricted Shares	Sign on/ Termination Benefits	
Directors										
P Botten	2010	1,573,700	-	2,012,863	37,605	50,544	1,138,738	697,931	-	5,511,381
	2009	1,337,166	-	1,106,194	79,150	55,996	985,754	719,357	-	4,283,617
G Aopi	2010	391,906	53,327	406,598	57,487	98,371	189,290	229,060	-	1,426,039
	2009	562,806 ⁽⁸⁾	32,351	396,486	48,660	4,377	134,239	78,458	-	1,257,377
Executives										
P Bainbridge	2010	611,913	-	555,592	44,532	-	303,627	220,095	-	1,735,759
	2009	497,166	-	403,462	38,841	-	279,459	374,670	-	1,593,238
P Caldwell	2010	819,860	-	513,037	45,935	53,078	225,919	222,070	-	1,879,899
	2009	663,516	-	345,474	-	58,006	184,598	105,312	-	1,356,906
P Crute	2010	427,059	5,925	404,962	22,179	-	199,647	190,370	-	1,250,142
	2009	340,012	5,367	265,077	41,683	-	118,024	401,996	71,235	1,243,394
N Hartley	2010	460,426	13,115	465,679	42,181	8,610	250,597	175,902	-	1,416,510
	2009	352,349	8,669	338,274	55,405	12,591	230,611	207,598	-	1,205,497
A Miller	2010	655,649	-	577,802	13,625	10,682	316,278	225,711	-	1,799,747
	2009	528,761	-	384,517	30,094	11,173	291,929	394,639	-	1,641,113
R Robinson*	2010	292,123	-	243,683	8,089	4,821	80,941	53,454	-	683,111
	2009									
Z Todorcevski*	2010	765,386	3,823	515,807	13,625	-	447,521	269,822	-	2,015,984
	2009	373,992	7,397	254,352	6,630	-	374,425	607,264	36,952	1,661,012
Officers of the Company										
S Gardiner	2010	389,285	-	131,057	13,625	6,285	135,293	37,555	-	713,100
	2009	323,275	-	139,601	11,163	8,086	101,054	34,034	-	617,213
Former Executives										
R Marcellus*	2010	816,844 ⁽⁹⁾	-	314,832	83,954	-125,867	110,345	288,371	524,596	2,013,075
	2009	420,438	-	285,556	11,163	9,483	139,944	168,510	-	1,035,094

* The following movements occurred in the key management personnel during 2009 and 2010:

R Robinson became EGM PNG Operations on 1 June 2010;

Z Todorcevski joined Oil Search on 1 June 2009;

R Marcellus departed Oil Search on 5 July 2010 due to his role becoming redundant.

(1) Includes salaries, allowances, expatriate allowances and movements in annual leave accruals.

(2) Includes the grossed up FBT value of all benefits provided to an employee in the year that the FBT is payable.

(3) STI is based on the year that the performance period relates to, regardless of when paid and includes 50% deferred into Oil Search Shares under the Restricted Share Plan for all key management personnel except S Gardiner. It also includes the special one off PNG LNG Project Bonus paid in 2010.

(4) Superannuation is the contributions made to an approved superannuation fund.

(5) Long service leave accrual is based on the relevant legislation.

(6) Equity is the expensed value of all Performance Rights or Restricted Shares.

(7) Payments for P Crute and Z Todorcevski are in relation to their sign on arrangements and for R Marcellus is in relation to his termination payment as a result of his redundancy.

(8) Includes the cash equivalent payment of an allocation of 57,528 Performance Rights in 2006.

(9) Includes the cash equivalent payment of an allocation of 91,831 Performance Rights in 2007.

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Details of the vesting profile of the Short Term Incentives awarded as remuneration to each Director of Oil Search, each of the five highest remunerated executives and the key management personnel are detailed in Table 11. Percentages of STI are based on assuming STI awards at 100% of opportunity.

Table 11 – Analysis of STI Included in Remuneration

Directors	Included in Remuneration US\$	% Vested in Year	% Forfeited in Year
Managing Director	\$950,478	61.4%	38.6%
EGM Government Affairs and Sustainability	\$236,914	61.4%	38.6%
Executives			
EGM Gas Commercialisation and PNG Growth	\$309,117	61.4%	38.6%
EGM PNG LNG Delivery	\$285,199	61.4%	38.6%
EGM Human Resources	\$230,145	61.4%	38.6%
EGM Sustainability	\$259,027	61.4%	38.6%
EGM Commercial, Interantioanl New Ventures, Mergers and Acquisitions	\$321,301	61.4%	38.6%
EGM PNG Operations	\$243,683	61.4%	38.6%
CFO	\$368,683	61.4%	38.6%
Officers of the Company			
GM Corporate Services/Group Secretary	\$74,459	61.4%	38.6%
Former Executives			
EGM Gas New Business	\$107,677	25.0%	75.0%

8. KEY TERMS OF EMPLOYMENT CONTRACTS FOR KEY MANAGEMENT PERSONNEL

Table 12 identifies the contractual provisions for current key management personnel. All employees at Oil Search have no contractual entitlement to future increases in remuneration or entitlement to receive any incentives, whether Short Term or Long Term.

Remuneration for all employees is reviewed via an annual process across the organisation. Remuneration for the Managing Director and the key management personnel is reviewed by the Remuneration and Nominations Committee, which then recommends to the Board:

- Budgets for TFR increases for the coming year;
- STI payments for the previous year;
- STI targets for the coming year; and
- LTI participation in the coming year.

For all other employees, the Managing Director approves recommendations from senior managers across the organisation, within budgets approved by the Board.

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Table 12 – Contractual Provisions for Specified Executives

Name and Job Title	Employing Company	Contract Duration	Notice Period Company	Notice period Employee	Termination Provision
Directors					
P Botten Managing Director	POSL	Ongoing	6 months	6 months	18 months TFR
G Aopi EGM Government Affairs and Sustainability	OSPNG	Ongoing	1 month	1 month	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR
Executives					
P Bainbridge EGM Gas Commercialisation and PNG Growth	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR
P Caldwell EGM PNG LNG Delivery	OSPNG	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR
P Crute EGM Human Resources	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR
N Hartley EGM Sustainability	POSL	Ongoing	6 months	6 months	6 months + 1 month per year of service (a maximum of 12 months in total) of TFR
A Miller EGM Commercial, Interantioanl New Ventures, Mergers and Acquisitions	POSL	Ongoing	6 months	6 months	1 month per year of service (to a maximum of 12 months) of TFR
R Robinson EGM PNG Operations	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR
Z Todorcevski CFO	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR
Officers of the Company					
S Gardiner GM Corporate Services/Group Secretary	POSL	Ongoing	3 months	3 months	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR
Former Executives					
R Marcellus EGM Gas New Business	POSL	Ongoing	6 months	6 months	1 month per year of service (to a maximum of 12 months) of TFR

9. EQUITY INSTRUMENTS

All Rights in the following tables refer to Performance Rights issued in accordance with the Performance Rights Plan or Long Term Incentive Plan. The structure of the Rights is detailed in section 5 on Remuneration Structure.

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Rights Over Equity Instruments Granted as Remuneration

Details of Rights over ordinary shares in the Company that were granted as remuneration to each key manager during the reporting period and details of Rights that vested during the reporting period are as follows:

Table 13 – Details of Rights Granted

	Number of Rights Granted During 2010	Grant Date	Fair value per Right (A\$)	Exercise Price per Right (A\$)	Expiry Date	Number of Rights Vested During 2010
Directors						
P Botten	273,400	1 Jun 10	\$3.54	\$0.00	17 May 13	398,091
G Aopi	54,200	1 Jun 10	\$3.54	\$0.00	17 May 13	70,072
Executives						
P Bainbridge	70,700	1 Jun 10	\$3.54	\$0.00	17 May 13	109,258
P Caldwell	65,300	1 Jun 10	\$3.54	\$0.00	17 May 13	58,000
P Crute	52,700	1 Jun 10	\$3.54	\$0.00	17 May 13	-
N Hartley	59,300	1 Jun 10	\$3.54	\$0.00	17 May 13	90,012
A Miller	73,500	1 Jun 10	\$3.54	\$0.00	17 May 13	113,956
R Robinson	55,800	1 Jun 10	\$3.54	\$0.00	17 May 13	39,422
Z Todorcevski	84,400	1 Jun 10	\$3.54	\$0.00	17 May 13	66,485
Officers of the Company						
S Gardiner	32,400	1 Jun 10	\$3.54	\$0.00	17 May 13	29,753
Former Executives						
R Marcellus ⁽¹⁾	Nil	-	-	-	-	164,184

(1) The rights vesting in 2010 include a cash equivalent for the 2007 grant and the early vesting of the 2008 and 2009 allocations as approved by the Board.

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	Number of Rights Granted During 2009	Grant Date	Fair value per Right (A\$)	Exercise Price per Right (A\$)	Expiry Date	Number of Rights Vested During 2009
Directors						
P Botten	258,900	1 Jun 09	\$4.70	\$0.00	1 Jun 14	361,000
G Aopi	46,000	1 Jun 09	\$4.70	\$0.00	1 Jun 14	57,528 ⁽²⁾
Executives						
P Bainbridge	66,800	1 Jun 09	\$4.70	\$0.00	1 Jun 14	128,205
P Caldwell	61,800	1 Jun 09	\$4.70	\$0.00	1 Jun 14	83,846
P Crute	47,400	1 Jun 09	\$4.70	\$0.00	1 Jun 14	-
N Hartley	54,900	1 Jun 09	\$4.70	\$0.00	1 Jun 14	106,838
A Miller	69,600	1 Jun 09	\$4.70	\$0.00	1 Jun 14	135,526
R Robinson	29,700	1 Jun 09	\$4.70	\$0.00	1 Jun 14	65,000
Z Todorcevski ⁽¹⁾	66,485	1 Jun 09	\$4.43	\$0.00	25 Jul 12	-
	66,485	1 Jun 09	\$4.19	\$0.00	4 Aug 13	-
	146,285	1 Jun 09	\$4.70	\$0.00	1 Jun 14	-
Officers of the Company						
S Gardiner	35,000	1 Jun 09	\$4.70	\$0.00	1 Jun 14	24,462
Former Executives						
R Marcellus	56,100	1 Jun 09	\$4.70	\$0.00	1 Jun 14	-

(1) Z Todorcevski was granted allocations of Performance Rights in the 2007 and 2008 allocations as part of his recruitment arrangements.

(2) Due to the timing of the appointment of G Aopi as an Executive Director in 2006, the allocation of 57,528 Performance Rights was made on a cash equivalent basis.

No Rights have been granted since the end of the financial year. All Rights were provided at no cost to the recipients.

All Rights expire on the earlier of their expiry date or termination of the individual's employment. They are exercisable on the vesting dates detailed in the tables above and the ability to exercise performance rights is conditional on Oil Search achieving certain performance hurdles. Details of the performance criteria are included in the section on Long Term Incentives above. For Rights granted in the current year the earliest exercise date is 17 May 2013.

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There was an allocation of deferred STI under the Restricted Shares Plan outlined above for certain key management personnel in 2010. The number of Restricted Shares granted during the reporting period is as follows:

Table 14 – Details of Deferred STI and Restricted Shares

	Number Granted During 2010	Grant Date	Fair Value (A\$)	Exercise Price (A\$)	Vesting Date
Directors					
P Botten ⁽¹⁾	132,381	3 Mar 10	\$5.28	\$0.00	1 Jan 12
G Aopi ⁽²⁾	33,240	3 Mar 10	\$5.28	\$0.00	1 Jan 12
	100,000	27 Apr 10	\$5.79	\$0.00	27 Apr 14
Executives					
P Bainbridge	48,283	3 Mar 10	\$5.28	\$0.00	1 Jan 12
P Caldwell	41,344	3 Mar 10	\$5.28	\$0.00	1 Jan 12
P Crute	31,722	3 Mar 10	\$5.28	\$0.00	1 Jan 12
N Hartley	40,482	3 Mar 10	\$5.28	\$0.00	1 Jan 12
A Miller	46,016	3 Mar 10	\$5.28	\$0.00	1 Jan 12
R Robinson	Nil	-	-	-	-
Z Todorcevski	30,439	3 Mar 10	\$5.28	\$0.00	1 Jan 12
Officers of the Company					
S Gardiner	Nil	-	-	-	-
Former Executives					
R Marcellus	34,173	3 Mar 10	\$5.28	\$0.00	5 Jul 10 ⁽³⁾

(1) The allocation for P Botten was formally approved at the Annual Meeting on 23 April 2010.

(2) The allocation for G Aopi was formally approved at the Annual Meeting on 23 April 2010.

(3) The 2010 allocation vested on 5 July 2010 as part of the termination arrangements for R Marcellus.

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	Number Granted During 2009	Grant Date	Fair Value (A\$)	Exercise Price (A\$)	Vesting Date
Directors					
P Botten ⁽¹⁾	165,873	3 Mar 09	\$4.88	\$0.00	1 Jan 11
G Aopi ⁽²⁾	26,732	3 Mar 09	\$4.88	\$0.00	1 Jan 11
Executives					
P Bainbridge	46,232	3 Mar 09	\$4.88	\$0.00	1 Jan 11
P Caldwell	29,150	3 Mar 09	\$4.88	\$0.00	1 Jan 11
P Crute	25,343	3 Mar 09	\$4.88	\$0.00	1 Jan 11
N Hartley	35,364	3 Mar 09	\$4.88	\$0.00	1 Jan 11
A Miller	50,548	3 Mar 09	\$4.88	\$0.00	1 Jan 11
R Robinson	Nil	-	-	-	-
Z Todorcevski ⁽³⁾	124,986	1 Jan 09	\$4.40	\$0.00	1 Jan 10
	99,728	1 Jan 09	\$4.40	\$0.00	1 Jan 11
Officers of the Company					
S Gardiner	Nil	-	-	-	-
Former Executives					
R Marcellus	33,040	3 Mar 09	\$4.88	\$0.00	5 Jul 10 ⁽⁴⁾

(1) The allocation for P Botten was formally approved at the Annual Meeting on 12 May 2009.

(2) The allocation for G Aopi was formally approved at the Annual Meeting on 12 May 2009.

(3) The allocation to Z Todorcevski was made as part of his recruitment arrangements.

(4) The 2009 allocation vested on 5 July 2010 as part of the termination arrangements for R Marcellus.

Modification of Terms of Equity Settled Share based Payment Transactions

No terms related to equity-settled share based payment transactions (including Performance Rights and Restricted Shares granted as compensation to key management personnel) have been altered or modified by the issuing entity during the reporting period or the prior period.

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Exercise of Rights Granted as Remuneration

During the reporting period, the following shares were issued on the exercise of Rights previously granted as remuneration:

Table 15 – Details of the Exercise of Rights

<i>Exercised in 2010</i>	Number of Shares	Amount Paid per Share (A\$)
Directors		
P Botten	398,091	\$0.00
G Aopi	-	-
Executives		
P Bainbridge	109,258	\$0.00
P Caldwell	58,000	\$0.00
P Crute	-	-
N Hartley	90,012	\$0.00
A Miller	113,956	\$0.00
R Robinson	39,422	\$0.00
Z Todorcevski	66,485	\$0.00
Officers of the Company		
S Gardiner	-	-
Former Executives		
R Marcellus ⁽¹⁾	164,184	\$0.00

The rights vesting in 2010 include a cash equivalent for the 2007 grant and the early vesting of the 2008 and 2009 allocations as approved by the Board.

<i>Exercised in 2009</i>	Number of Shares	Amount Paid per Share (A\$)
Directors		
P Botten	361,000	\$0.00
G Aopi ⁽¹⁾	57,528	\$0.00
Executives		
P Bainbridge	128,205	\$0.00
P Caldwell	83,846	\$0.00
P Crute	-	-
N Hartley	106,838	\$0.00
A Miller	135,256	\$0.00
R Robinson	62,026	\$0.00
Z Todorcevski	-	-
Officers of the Company		
S Gardiner	81,462	\$0.00
Former Executives		
R Marcellus	-	-

(1) Due to the timing of appointment of G Aopi as an Executive Director in 2006, the allocation of 57,528 Performance Rights was made on a cash equivalent basis.

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Analysis of Rights and Restricted Shares Over Equity Instruments Granted as Remuneration

Details of vesting profiles of the Rights granted as remuneration to Executive Directors and key management personnel, which includes the required five named executives of the Company are:

Table 16 – Details of Vesting Profile of Rights

	Rights Granted		% Vested in Year	% Forfeited in Year	Financial Year of Vesting
	Number	Date			
Directors					
P Botten	398,091	7 May 07	100%	0%	2010
	200,285	13 Dec 07	100%	0%	2010
	87,760	7 Mar 08	100%	0%	2010
	338,600	4 Aug 08			2011
	165,873	3 Mar 09			2011
	258,900	1 Jun 09			2012
	132,381	3 Mar 10			2012
	273,400	1 Jun 10			2013
G Aopi	70,072	7 May 07	100%	0%	2010
	58,651	13 Dec 07	100%	0%	2010
	17,537	7 Mar 08	100%	0%	2010
	48,900	4 Aug 08			2011
	26,732	3 Mar 09			2011
	46,000	1 Jun 09			2012
	33,240	3 Mar 10			2012
	100,000	27 Apr 10			2014
	54,200	1 Jun 10			2013
Executives					
P Bainbridge	109,258	7 May 07	100%	0%	2010
	172,881	13 Dec 07	100%	0%	2010
	33,331	7 Mar 08	100%	0%	2010
	93,000	4 Aug 08			2011
	46,232	3 Mar 09			2011
	66,800	1 Jun 09			2012
	48,283	3 Mar 10			2012
	70,700	1 Jun 10			2013
P Caldwell	58,000	7 May 07	100%	0%	2010
	60,966	13 Dec 07	100%	0%	2010
	61,100	4 Aug 08			2011
	29,150	3 Mar 09			2011
	61,800	1 Jun 09			2012
	41,344	3 Mar 10			2012
	65,300	1 Jun 10			2013
P Crute	131,356	1 May 08	100%	0%	2010
	33,898	1 May 08			2011
	65,900	4 Aug 08			2011
	25,343	3 Mar 09			2011
	47,400	1 Jun 09			2012
	31,722	3 Mar 10			2012
	52,700	1 Jun 10			2013

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Table 16 – Details of Vesting Profile of Rights (continued)

	Rights Granted		% Vested in Year	% Forfeited in Year	Financial Year of Vesting
	Number	Date			
N Hartley	90,012	7 May 07	100%	0%	2010
	71,164	13 Dec 07	100%	0%	2010
	27,441	7 Mar 08	100%	0%	2010
	76,600	4 Aug 08			2011
	35,364	3 Mar 09			2011
	54,900	1 Jun 09			2012
	40,482	3 Mar 10			2012
	59,300	1 Jun 10			2013
A Miller	113,956	7 May 07	100%	0%	2010
	180,188	13 Dec 07	100%	0%	2010
	34,740	7 Mar 08	100%	0%	2010
	96,900	4 Aug 08			2011
	50,548	3 Mar 09			2011
	69,600	1 Jun 09			2012
	46,016	3 Mar 10			2012
	73,500	1 Jun 10			2013
R Robinson	39,422	7 May 07	100%	0%	2010
	54,371	13 Dec 07	100%	0%	2010
	32,400	4 Aug 08			2011
	29,700	1 Jun 09			2012
	55,800	1 Jun 10			2013
		0 Jan 00			
Z Todorcevski	124,986	1 Jan 09	100%	0%	2010
	66,485	1 Jan 09	100%	0%	2010
	99,728	1 Jan 09			2011
	66,485	1 Jan 09			2011
	146,285	1 Jun 09			2012
	30,439	3 Mar 10			2012
	84,400	1 Jun 10			2013
Officers of the Company					
S Gardiner	29,753	7 May 07	100%	0%	2010
	38,200	13 Dec 07	100%	0%	2010
	38,700	4 Aug 08			2011
	35,000	1 Jun 09			2012
	32,400	1 Jun 10			2013
Former Executives					
R Marcellus ⁽¹⁾	91,831 ⁽²⁾	7 May 07	100%	0%	2010
	67,429	13 Dec 07	100%	0%	2010
	28,018	7 Mar 08	100%	0%	2010
	78,200	4 Aug 08	70%	30%	2010
	33,040	3 Mar 09	100%	0%	2010
	56,100	1 Jun 09	32%	68%	2010
	34,173	3 Mar 10	100%	0%	2010

(1) As part of his redundancy the Board approved full vesting of all restricted shares and partial vesting of Performance Rights based on tenure and the most recent measure of company performance.

(2) Due to the timing of the commencement of employment of R Marcellus, the allocation of 91,831 Performance Rights was made on a cash equivalent basis.

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Analysis of Movements in Rights

The movement during the reporting period, by value of options, rights or restricted shares over ordinary shares in Oil Search held by each key management, including the five named Company Executives, is detailed below:

Table 17 – Movement by Value of Rights

	Granted in Year US\$ ⁽¹⁾	Value of Rights Exercised in Year US\$ ⁽²⁾			Value of Rights Lapsed in Year US\$ ⁽³⁾		
		Number of Rights	Value per Right	Total Value	Number of Rights	Value per Right	Total Value
Directors							
P Botten	1,527,648	398,091	\$4.87	1,938,349	-	-	-
G Aopi	868,519	-	-	-	-	-	-
Executives							
P Bainbridge	462,808	109,258	\$4.98	544,034	-	-	-
P Caldwell	411,778	58,000	\$5.14	298,394	-	-	-
P Crute	324,392	-	-	-	-	-	-
N Hartley	388,107	90,012	\$5.46	491,203	-	-	-
A Miller	460,980	113,956	\$4.98	567,427	-	-	-
R Robinson	181,473	39,422	\$5.14	202,815	-	-	-
Z Todorcevski	421,298	66,485	\$5.09	338,382	-	-	-
Officers of the Company							
S Gardiner	105,371	-	-	-	-	-	-
Former Executives							
R Marcellus ⁽⁴⁾	164,822	164,184	\$5.10	837,268	61,947	\$4.21	260,743

- (1) The value of the rights is the fair value at the time of grant for performance rights and the share price on the date of grant for restricted shares.
- (2) The value for Rights exercised is based on the market price of Oil Search shares on the close of trade on the date of exercise
- (3) The value for Rights lapsed is the fair value at the time of grant for performance rights and the value on the date of grant for restricted shares.
- (4) The rights vesting in 2010 include a cash equivalent for the 2007 grant and the early vesting of the 2008 and 2009 allocations as approved by the Board.

2011 Performance Payment Potential

The table below provides the minimum and maximum performance payment potential for current key management personnel for the 2011 financial year. Incentive amounts are based on the TFR approved by the Board as part of the 2011 remuneration review process and the executive remuneration philosophy outlined above.

As detailed earlier in this report any STI award at the maximum level of 200% of opportunity would be unusual and awards since the commencement of the scheme have averaged 72.9% of opportunity (58.3% of TFR) for executives and 74.0% of opportunity for the Managing Director. The maximum payment potential in table 18 is based on 200% of STI opportunity.

Figures have been converted to US\$ using the 2010 exchange rate.

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Table 18 – 2011 Performance Payment Potential

	Short Term Incentive Paid as Cash ⁽¹⁾		Short Term Incentive Deferred as Shares ⁽²⁾		Long Term Incentive Performance Rights ⁽³⁾	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Directors						
P Botten	\$0	\$1,703,270	\$0	\$1,703,270	\$0	\$1,532,943
G Aopi	\$0	\$424,807	\$0	\$424,807	\$0	\$318,605
Executives						
P Bainbridge	\$0	\$518,882	\$0	\$518,882	\$0	\$389,161
P Caldwell	\$0	\$488,013	\$0	\$488,013	\$0	\$366,010
P Crute	\$0	\$389,529	\$0	\$389,529	\$0	\$292,147
N Hartley	\$0	\$421,867	\$0	\$421,867	\$0	\$316,400
A Miller	\$0	\$523,292	\$0	\$523,292	\$0	\$392,469
R Robinson	\$0	\$413,048	\$0	\$413,048	\$0	\$309,786
Z Todorcevski	\$0	\$630,596	\$0	\$630,596	\$0	\$472,947
Officers of the Company						
S Gardiner	\$0	\$254,664			\$0	\$169,776

(1) The STI Paid as Cash would be paid in 2012 based on performance for the 2011 year.

(2) The STI deferred as shares represents 50% of any STI payment deferred into Restricted Shares under the LTIP for all key management personnel except S Gardiner. These shares would vest in 2013.

(3) The maximum value for LTI is based on the methodology detailed in the section on Long Term Incentives (LTI) – Performance Rights. The percentage of TFR has then been adjusted to an estimated share price based on the historical ratio of fair value to share price at the time of grant.

10. NON-EXECUTIVE DIRECTOR REMUNERATION

Remuneration Policy

Remuneration for Non-Executive Directors is determined by reference to advice from external consultants and subject to the aggregate limit of A\$1,950,000 in any calendar year set by shareholders at the 2009 Annual General Meeting. This advice takes into consideration the level of fees paid to directors of other Australian corporations of similar size and complexity to Oil Search, the growing scale of its international activities and the responsibilities and work requirements of Board members.

Remuneration Payable

Fees payable to Non-Executive Directors are reviewed annually and are fixed by the Board as discussed above. Table 19 below sets out the fee structure applied from 1 May 2008. The fees are based on an independent report from Egan & Associates conducted in early 2008 and have not changed since then.

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Table 19 – Annual Board and Committee Fees Payable to Non-Executive Directors in Australian Dollars

POSITION	ANNUAL FEE FROM 1 MAY 2008
Chairman of the Board ⁽¹⁾	\$390,000
Non-Executive Directors other than the Chairman	\$130,000
Chairman Audit Committee (additional fee)	\$30,000
Chairman Finance and Risk Management Committee (additional fee)	\$21,000
Chairman Remuneration and Nominations Committee (additional fee)	\$25,500
Member Audit Committee (additional fee)	\$20,000
Member Finance and Risk Management Committee (additional fee)	\$14,000
Member Remuneration and Nominations Committee (additional fee)	\$17,000

(1) The fees paid to the Chairman of the Board are inclusive of any Committee Fees.

From 1 May 2008, each non-executive director also receives a travel allowance of \$20,000 per annum to compensate for the extraordinary time spent travelling between Papua New Guinea and Australia to attend Board and Committee Meetings.

Board fees are paid to non-executive directors only.

In addition to Board and Committee fees, non-executive directors are entitled to be reimbursed for all reasonable travel, accommodation and other expenses incurred in attending meetings of the Board, Committees or shareholders or while engaged on Oil Search business.

The total remuneration which was paid to each non-executive director in 2009 is set out in Table 20.

There are no provisions in any of the non-executive directors' appointment arrangements for compensation payable on early termination of their directorship.

There is no separate retirement benefits plan or provision for superannuation for Oil Search's non-executive directors.

Equity Participation for Non-Executive Directors

There is no share plan for Oil Search non-executive directors.

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Details of Directors' Remuneration

The details of the remuneration received by Oil Search directors in 2010 are set out in Table 20 below.

The Managing Director, Mr Botten, and the Executive General Manager Government and Public Affairs, Mr Aopi, are the only executive directors on the Board.

Table 20 – Remuneration (US\$) of Directors of Oil Search Limited

		Short Term			Post Employment Company	Long Term	Equity		Other Sign on/ Termination Benefits	Total
		Salaries, fees and Allowances	Non-Monetary Benefits	Short Term Incentive	Contribution to Super	Long Service Leave Accrual	Performance Rights	Restricted Shares		
Executive Directors										
P Botten	2010	1,573,700	-	2,012,863	37,605	50,544	1,138,738	697,931	-	5,511,381
	2009	1,337,166	-	1,106,194	79,150	55,996	985,754	719,357	-	4,283,617
G Aopi	2010	391,906	53,327	406,598	57,487	98,371	189,290	229,060	-	1,426,039
	2009	562,806 ⁽¹⁾	32,351	396,486	48,660	4,377	134,239	78,458	-	1,257,377
Non-Executive Directors										
BF Horwood	2010	376,667	-	-	-	-	-	-	-	376,667
	2009	324,515	-	-	-	-	-	-	-	324,515
F Ainsworth*	2010	131,604	-	-	-	-	-	-	-	131,604
	2009	151,177	-	-	-	-	-	-	-	151,177
KG Constantinou	2010	166,285	-	-	-	-	-	-	-	166,285
	2009	143,262	-	-	-	-	-	-	-	143,262
R Igara	2010	171,797	-	-	-	-	-	-	-	171,797
	2009	148,011	-	-	-	-	-	-	-	148,011
A Kantsler*	2010	76,252	-	-	-	-	-	-	-	76,252
	2009	-	-	-	-	-	-	-	-	-
MDE Kriewaldt	2010	178,228	-	-	-	-	-	-	-	178,228
	2009	153,551	-	-	-	-	-	-	-	153,551
JL Stitt	2010	171,797	-	-	-	-	-	-	-	171,797
	2009	148,011	-	-	-	-	-	-	-	148,011
ZE Switkowski*	2010	18,074	-	-	-	-	-	-	-	18,074
	2009	-	-	-	-	-	-	-	-	-
TN Warren*	2010	-	-	-	-	-	-	-	-	-
	2009	149,989	-	-	-	-	-	-	-	149,989

* The following movements occurred in the non-executive directors during 2010:
F Ainsworth resigned from the Oil Search Board on 20 September 2010;
A Kantsler joined the Oil Search Board on 19 July 2010;
ZE Switkowski joined the Oil Search Board on 22 November 2010.
TN Warren resigned from the Oil Search Board on 31 May 2010 following a leave of absence

(1) Includes the cash equivalent payment of an allocation of 57,528 Performance Rights in 2006.

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INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS, EMPLOYEES AND AUDITORS

During the financial year, the Company paid premiums to insure all directors, officers and employees of the Company against claims brought against the individual while performing services for the Company and against expenses relating thereto. The amount of the insurance premium paid during the year has not been disclosed as it would breach the confidentiality clause in the insurance policy.

The Company has agreed to indemnify the directors, officers and employees of the Company against any liability to another person other than the Company or a related body corporate for an act or omission that may arise from their positions as directors, officers and employees of the Company and its controlled entities, to the extent permitted by the PNG Companies Act 1997.

No indemnity has been granted to an auditor of the Company in their capacity as auditor of the Company.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

During the year the auditor, Deloitte Touche Tohmatsu provided non-audit accounting services for the economic entity. This is outlined in note 27.

Deloitte Touche Tohmatsu's Independence Declaration which forms part of this report is attached on page 41.

LIKELY FUTURE DEVELOPMENTS

Oil and gas production from each of the PNG fields in which the Company holds is expected to continue in 2011.

The 2011 work programme includes ongoing development wells in the Kutubu and Moran fields and a number of workovers. Exploration activity will increase in both PNG and the Middle East/North Africa in 2011.

The construction phase for the PNG LNG Project will continue in 2011 with major work programmes planned for the LNG plant, field and pipeline development and supporting infrastructure.

Underlying field production performance is expected to remain strong, however, output will be impacted by a planned shut-in of facilities in the second and fourth quarters of 2011, to enable Associated Gas work related to the PNG LNG Project to occur.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

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ROUNDING

The majority of amounts included in this report are rounded to the nearest US\$1,000 (where rounding is applicable).

Signed in accordance with a resolution of the Directors.

B. F. Horwood
.....

BF HORWOOD

Chairman

PR Botten
.....

PR BOTTEN

Managing Director

Sydney, 21 February 2011

The Directors
Oil Search Limited
Level 27, Angel Place
123 Pitt Street
Sydney NSW 2000

21 February 2011

Dear Directors,

Oil Search Limited

I am pleased to provide the following declaration of independence to the directors of Oil Search Limited.

As lead audit partner for the audit of the financial statements of Oil Search Limited for the year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Australian *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



John A Leotta
Partner
Chartered Accountants

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**Statements of comprehensive income
for the year ended 31 December 2010**

		Consolidated		Parent	
		2010	2009	2010	2009
	Note	US\$'000	US\$'000	US\$'000	US\$'000
Revenue from operations	2	583,560	512,154	-	945
Operating expenses		(87,464)	(86,444)	(1,503)	(1,904)
Amortisation - site restoration		(7,130)	(8,556)	-	-
Amortisation - oil and gas assets		(32,390)	(86,418)	-	(124)
Depreciation - operating assets		(5,134)	(5,727)	-	-
Royalties, development, and mining levies		(9,826)	(8,050)	-	-
Costs of sales		(141,944)	(195,195)	(1,503)	(2,028)
Gross profit from operating activities		441,616	316,959	(1,503)	(1,083)
Other expenses	3	(19,778)	(12,988)	(3,467)	(3,168)
Profit/(loss) from operating activities		421,838	303,971	(4,970)	(4,251)
Exploration, development and production costs expensed		(131,188)	(75,729)	(10,531)	(4,870)
Impairment expense	4	(15,808)	-	-	-
Contractual adjustments to profit on sale of joint venture interests	4	-	(500)	-	-
State Back-In LNG surplus	4	-	15,414	-	-
Profit on sale of other non-current assets		3,158	-	-	6,149
Interest income	5	6,856	5,543	4,950	2,115
Borrowing costs	5	(7,682)	(8,869)	(1,177)	(865)
Profit/(loss) from continuing operations before income tax		277,174	239,830	(11,728)	(1,722)
Income tax (expense)/benefit	6	(91,572)	(106,150)	1,952	(6,540)
Net profit/(loss) after tax		185,602	133,680	(9,776)	(8,262)
Other comprehensive income					
Foreign currency translation differences for foreign operations		(795)	6,414	-	-
Total comprehensive income for the year		184,807	140,094	(9,776)	(8,262)
		US cents	US cents		
Basic earnings per share	7	14.20	11.53		
Diluted earnings per share	7	14.13	11.46		

The statements of comprehensive income should be read in conjunction with the accompanying notes.

OIL SEARCH LIMITED
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Statements of financial position
as at 31 December 2010

		Consolidated		Parent	
		2010	2009	2010	2009
	Note	US\$'000	US\$'000	US\$'000	US\$'000
Current assets					
Cash and cash equivalents	22(a)	1,263,589	1,288,077	972,745	1,031,238
Receivables	9	87,912	108,783	210,992	146,399
Inventories	10	60,190	59,518	-	-
Current tax asset		-	-	4,229	2,117
Other assets	11	4,405	4,424	136	124
Total current assets		1,416,096	1,460,802	1,188,102	1,179,878
Non-current assets					
Receivables	9	3,326	416	-	-
Other non-current assets	11	916	1,206	-	-
Exploration and evaluation assets	12	281,840	808,318	27,510	63,202
Oil and gas assets	13	2,311,194	638,026	2	-
Other property, plant and equipment	14	72,108	76,220	11	247
Investments	15	29	-	326,507	326,507
Deferred tax assets	16	203,192	92,402	6,982	1,576
Total non-current assets		2,872,605	1,616,588	361,012	391,532
Total assets		4,288,701	3,077,390	1,549,114	1,571,410
Current liabilities					
Payables	17	219,676	204,119	1,529	20,912
Provisions	18	5,540	4,791	80	80
Current tax payable		69,660	49,231	-	-
Total current liabilities		294,876	258,141	1,609	20,992
Non-current liabilities					
Provisions	18	111,408	129,324	-	-
Loans and borrowings	19	929,720	-	-	-
Deferred tax liabilities	20	154,230	96,744	388	1,175
Total non-current liabilities		1,195,358	226,068	388	1,175
Total liabilities		1,490,234	484,209	1,997	22,167
Net assets		2,798,467	2,593,181	1,547,117	1,549,243
Shareholders' equity					
Share capital	21	1,610,667	1,550,213	1,610,667	1,550,213
Reserves	21	16,818	5,447	9,882	10,475
Retained earnings		1,170,982	1,037,521	(73,432)	(11,445)
Total shareholders' equity		2,798,467	2,593,181	1,547,117	1,549,243

The statements of financial position should be read in conjunction with the accompanying notes.

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Statements of cash flows
for the year ended 31 December 2010

		Consolidated		Parent	
		2010	2009	2010	2009
	Note	US\$'000	US\$'000	US\$'000	US\$'000
Cash flows from operating activities					
Receipts from customers		624,048	472,029	-	1,134
Payments to suppliers and employees		(104,600)	(110,501)	(6,124)	(13,402)
Interest received		6,021	6,205	4,130	2,200
Borrowing costs paid		(2,694)	(4,205)	(1,177)	(861)
Income tax (paid)/refund		(124,447)	(79,429)	(6,353)	1,469
Net cash from/(used in) operating activities	22(b)	398,328	284,099	(9,524)	(9,460)
Cash flows from investing activities					
Payments for property, plant and equipment		(6,984)	(6,656)	(10)	-
Payments for exploration and evaluation expenditure		(193,780)	(324,216)	(36,620)	(100,901)
Payments for development asset expenditure		(908,739)	-	(2)	-
Interest paid and capitalised into developing assets		(199,908)	-	-	-
Payments for producing asset expenditure		(48,650)	(138,821)	-	(632)
Proceeds from State Back-In LNG		-	87,542	-	-
Net cash outflow on investment		(29)	-	-	-
Net cash used in investing activities		(1,358,090)	(382,151)	(36,632)	(101,533)
Cash flows from financing activities					
Proceeds from underwriter of dividend reinvestment plan (DRP)		33,921	50,081	33,921	50,081
Dividend payments (net of DRP) ⁽¹⁾	8	(33,797)	(49,875)	(33,921)	(50,081)
Net proceeds from issue of share capital		-	850,195	-	850,195
Cash received from option/right share issues		4,049	-	4,049	-
Costs relating to dividend reinvestment plan		(52)	-	(52)	-
Purchase of treasury shares		(59)	(1,761)	-	-
Proceeds from borrowings		929,720	-	-	-
Loans (to)/from related entity		1,492	2,561	(16,334)	53,373
Net cash from financing activities		935,274	851,201	(12,337)	903,568
Net (decrease)/increase in cash and cash equivalents		(24,488)	753,149	(58,493)	792,575
Cash and cash equivalents at the beginning of the year		1,288,077	534,928	1,031,238	238,663
Cash and cash equivalents at the end of the year	22(a)	1,263,589	1,288,077	972,745	1,031,238

⁽¹⁾ Total dividend payments including cash and dividend reinvestment was \$52.1 million. Total dividend payments net of dividends reinvested under the dividend reinvestment plan was \$33.9 million.

The statements of cash flows should be read in conjunction with the accompanying notes.

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**Statements of changes in equity
for the year ended 31 December 2010**

Consolidated	Share capital	Foreign currency translation reserve	Reserve for treasury shares	Employee equity compensation reserve	Retained earnings	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 January 2009	620,491	(3,677)	(7,666)	12,857	971,222	1,593,227
Dividends provided for or paid	-	-	-	-	(67,359)	(67,359)
Total comprehensive income for the year						
Net profit after tax for the year	-	-	-	-	133,680	133,680
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	6,414	-	-	-	6,414
Total comprehensive income for the year	-	6,414	-	-	133,680	140,094
Transactions with owners, recorded directly in equity						
Issue of shares through dividend reinvestment plan	67,565	-	-	-	-	67,565
Issue of shares through institutional placement ⁽¹⁾	811,563	-	-	-	-	811,563
Issue of shares through share purchase plan	35,959	-	-	-	-	35,959
Costs associated with share issues	(967)	-	-	-	-	(967)
Transfer of vested shares	5,812	-	-	(5,812)	-	-
Issue of shares on exercise of options and rights	9,706	-	-	-	-	9,706
Settlement of equity based employee share payments	84	-	-	-	-	84
Employee share-based remuneration expense	-	-	-	12,351	-	12,351
Issue of treasury shares	-	-	(6,066)	-	-	(6,066)
Purchase of treasury shares	-	-	(1,761)	-	-	(1,761)
Net exchange differences	-	-	(1,328)	135	-	(1,193)
Trust distribution	-	-	-	-	(22)	(22)
Total transactions with owners	929,722	-	(9,155)	6,674	(22)	927,219
Balance at 31 December 2009	1,550,213	2,737	(16,821)	19,531	1,037,521	2,593,181
Balance at 1 January 2010	1,550,213	2,737	(16,821)	19,531	1,037,521	2,593,181
Dividends provided for or paid	-	-	-	-	(52,087)	(52,087)
Total comprehensive income for the year						
Net profit after tax for the year	-	-	-	-	185,602	185,602
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	(795)	-	-	-	(795)
Total comprehensive income for the year	-	(795)	-	-	185,602	184,807
Transactions with owners, recorded directly in equity						
Issue of shares through dividend reinvestment plan	52,211	-	-	-	-	52,211
Costs associated with share issues	(52)	-	-	-	-	(52)
Transfer of vested shares	13,421	-	-	(13,421)	-	-
Release of treasury shares on vesting	(11,491)	-	11,491	-	-	-
Issue of shares on exercise of options and rights	6,365	-	-	-	-	6,365
Employee share-based remuneration expense	-	-	-	14,932	-	14,932
Issue of treasury shares	-	-	(2,316)	-	-	(2,316)
Purchase of treasury shares	-	-	(59)	-	-	(59)
Net exchange differences	-	-	1,327	212	-	1,539
Trust distribution	-	-	-	-	(54)	(54)
Total transactions with owners	60,454	-	10,443	1,723	(54)	72,566
Balance at 31 December 2010	1,610,667	1,942	(6,378)	21,254	1,170,982	2,798,467

(1) Net of underwriting fee.

The statements of changes in equity should be read in conjunction with the accompanying notes.

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**Statements of changes in equity
for the year ended 31 December 2010**

Parent	Share capital	Foreign currency translation reserve	Amalgamation reserve	Reserve for treasury shares	Employee equity compensation reserve	Retained earnings	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 January 2009	620,491	-	(2,990)	-	12,857	64,382	694,740
Dividends provided for or paid	-	-	-	-	-	(67,359)	(67,359)
Total comprehensive income for the year							
Net loss after tax for the year	-	-	-	-	-	(8,262)	(8,262)
Total comprehensive income for the year	-	-	-	-	-	(8,262)	(8,262)
Transactions with owners, recorded directly in equity							
Issue of shares through dividend reinvestment plan	67,565	-	-	-	-	-	67,565
Issue of shares through institutional placement ⁽¹⁾	811,563	-	-	-	-	-	811,563
Issue of shares through share purchase plan	35,959	-	-	-	-	-	35,959
Costs associated with share issues	(967)	-	-	-	-	-	(967)
Transfer of vested shares	5,812	-	-	-	(5,812)	-	-
Issue of shares on exercise of options and rights	9,706	-	-	-	-	-	9,706
Settlement of equity based employee share payments	84	-	-	-	-	-	84
Employee share-based remuneration	-	-	-	-	12,351	-	12,351
Issue of treasury shares	-	-	-	-	(6,066)	-	(6,066)
Net exchange differences	-	-	-	-	135	-	135
Dividends received on shares held in trust ⁽²⁾	-	-	-	-	-	(206)	(206)
Total transactions with owners	929,722	-	-	-	608	(206)	930,124
Balance at 31 December 2009	1,550,213	-	(2,990)	-	13,465	(11,445)	1,549,243
Balance at 1 January 2010	1,550,213	-	(2,990)	-	13,465	(11,445)	1,549,243
Dividends provided for or paid	-	-	-	-	-	(52,087)	(52,087)
Total comprehensive income for the year							
Net loss after tax for the year	-	-	-	-	-	(9,776)	(9,776)
Total comprehensive income for the year	-	-	-	-	-	(9,776)	(9,776)
Transactions with owners, recorded directly in equity							
Issue of shares through dividend reinvestment plan	52,211	-	-	-	-	-	52,211
Costs associated with share issues	(52)	-	-	-	-	-	(52)
Transfer of vested shares	13,421	-	-	-	(13,421)	-	-
Release of treasury shares on vesting	(11,491)	-	-	-	-	-	(11,491)
Issue of shares on exercise of options and rights	6,365	-	-	-	-	-	6,365
Employee share-based remuneration	-	-	-	-	14,932	-	14,932
Issue of treasury shares	-	-	-	-	(2,316)	-	(2,316)
Settlement of equity based employee share payments	-	-	-	-	-	-	-
Net exchange differences	-	-	-	-	212	-	212
Dividends received on shares held in trust ⁽²⁾	-	-	-	-	-	(124)	(124)
Total transactions with owners	60,454	-	-	-	(593)	(124)	59,737
Balance at 31 December 2010	1,610,667	-	(2,990)	-	12,872	(73,432)	1,547,117

(1) Net of underwriting fee.

(2) Dividends received on shares held in Retention Share Plan Trust are eliminated on a Group basis.

The statements of changes in equity should be read in conjunction with the accompanying notes

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2010

1 Summary of significant accounting policies

Oil Search Limited, the parent entity, is incorporated in Papua New Guinea (PNG). The consolidated financial report for the year ended 31 December 2010 comprises the parent and its controlled entities (consolidated entity).

The financial statements were authorised for issue by the directors on 22 February 2011.

(a) Basis of preparation

The financial statements have been prepared in accordance with the historical cost convention together with the PNG Companies Act 1997, International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Interpretations Committee.

All amounts in these statements are expressed in US dollars, as this is the functional and presentational currency of the consolidated entity.

(i) Issued standards adopted during year

- Amended IFRS 2 "Group Cash-settled Share-based Payment Transactions";
- Revised IFRS 3 "Business Combinations";
- Various Standards "Improvements to IFRS's 2008" - dealt with on a standard-by-standard basis;
- Various Standards "Improvements to IFRS's 2009" - dealt with on a standard-by-standard basis;
- Amended IAS 39 "Eligible Hedged Items - Amendments to IAS 39 Financial Instruments: Recognition and Measurement"; and
- Interpretation 17 "Distributions of Non-Cash Assets to owners".
- Interpretation 18 "Transfers of Assets from Customers".

(ii) Issued standards not early adopted

At 31 December 2010, certain new accounting standards and interpretations have been published that will become mandatory in future reporting periods. Oil Search has not elected to early-adopt these new or amended accounting standards and interpretations. The expected impact of these changed accounting requirements should not materially alter Oil Search's financial results at the date of this report. The consolidated entity will adopt the following standards during the applicable mandatory annual reporting periods:

- Amended IFRS 7 "Financial Instruments: Disclosures", applicable for annual reporting periods beginning on or after 1 July 2011;
- IFRS 9 "Financial Instruments", applicable for annual reporting periods beginning on or after 1 January 2013 (this standard will eventually replace IAS 39 "Financial Instruments: Recognition and Measurement");
- IFRS 9 "Financial Instruments - Amendments to other IFRSs", applicable for annual reporting periods beginning on or after 1 January 2013 (to be adopted upon application of IFRS 9);
- Amended IAS 24 "Related Party Disclosures", applicable for annual reporting periods beginning on or after 1 January 2011;
- Amended IAS 27 "Consolidated and Separate Financial Statements", applicable for annual reporting periods beginning on or after 1 July 2010;
- Amended IAS 32 "Classification of Rights Issues", applicable for annual reporting periods beginning on or after 1 February 2010;
- Various Standards "Improvements to IFRS's 2010" - dealt with on a standard-by-standard basis, applicable for annual reporting periods beginning on or after 1 July 2010;
- Interpretation 19 "Extinguishing Liabilities with Equity Instruments", applicable for annual reporting periods beginning on or after 1 July 2010.

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2010

1 Summary of significant accounting policies (continued)

(b) Principles of consolidation

The consolidated financial statements comprise the financial statements of Oil Search Limited (the parent company) and its controlled subsidiaries, after elimination of all inter-company transactions. Subsidiaries are consolidated from the date the parent obtains control and until such time as control ceases.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

(c) Currency translation

Translation of transactions denominated in currencies other than US dollars

Transactions in currencies other than US dollars (US\$) of entities within the economic entity are converted to US\$ at the rate of exchange ruling at the date of the transaction.

Amounts payable to and by the entities within the economic entity that are outstanding at the balance date and are denominated in currencies other than US\$ have been converted to US\$ using rates of exchange ruling at the end of the financial year.

All resulting exchange differences arising on settlement or retranslation are brought to account in determining the profit or loss for the financial year.

Translation of financial reports of overseas operations

All operations outside Australia have a functional currency of US\$. Exchange gains and losses arising on translation of non US\$ functional currency financial statements are brought to account directly in equity.

(d) Income recognition

Oil, gas and other liquid sales

The economic entity's revenue, which is mainly derived from the sale of crude oil, is brought to account after each shipment is loaded. Gas sales are recognised on production following delivery into the pipeline.

Dividend income

Dividend income is taken to profit after dividends have been declared.

(e) Capitalisation of borrowing costs

Interest and other finance charges on borrowings for major capital projects are capitalised until the commencement of production and then amortised over either the estimated economic life of the project or a fixed term from the completion date. Where only part of a project is commissioned, interest capitalisation occurs on a pro-rata basis. All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

(f) Leases

Operating lease payments, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased items, are included in the determination of the operating profit on a straight line basis over the lease term.

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2010

1 Summary of significant accounting policies (continued)

(g) Share-based remuneration

The Group currently operates equity-settled, share-based compensation plans of share options, share appreciation rights, performance rights and restricted shares. In accordance with IFRS 2, the fair value of the employee services received in exchange for the grant of the options and rights is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to their grant date fair value, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options, rights and restricted shares that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital when options are exercised.

The reserve for the Company's own shares ("treasury shares") represents the cost of shares held by the trustee of an equity compensation plan that the Group is required to include in the consolidated financial statements. This reserve will be reversed with any surplus or deficit on sale shown as an adjustment to retained earnings when the underlying shares are exercised under share rights. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(h) Income tax

The current tax payable or receivable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The economic entity's liability or asset for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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Notes to the Financial Statements
for the year ended 31 December 2010

1 Summary of significant accounting policies (continued)

(h) Income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Tax benefits transferred between group companies are transferred under normal commercial arrangements, with consideration paid equal to the tax benefit of the transfer.

(i) Inventories

Inventories are valued at the lower of cost or net realisable value. Cost is determined as follows:

- materials, which include drilling and maintenance stocks, are valued at the cost of acquisition; and
- petroleum products, comprising extracted crude oil and condensate stored in tanks and pipeline systems, are valued using the full absorption cost method.

Inventories are accounted for on a FIFO basis.

(j) Exploration and evaluation assets

Exploration and evaluation expenditures are accounted for under the successful efforts method. Exploration licence acquisition costs are initially capitalised. For exploration wells, costs directly associated with the drilling of wells are initially capitalised pending evaluation of whether potentially economic reserves of hydrocarbons have been discovered.

Costs are expensed where the well does not result in the successful discovery of potentially economically recoverable hydrocarbons, unless the well is to be used in the recovery of economically recoverable hydrocarbons.

All other exploration and evaluation expenditures including directly attributable general administration costs, geological and geophysical costs and new venture activity expenditures are charged as expenses in the income statement as incurred, except where:

- The expenditure relates to an exploration discovery that:
 - at balance date, an assessment of the existence or otherwise of economically recoverable reserves is not yet complete; or where
 - a decision on additional major capital expenditure is pending; or
 - additional exploration wells or appraisal work is underway or planned.
- The expenditure relates to a discovery well and it is expected that the expenditure will be recouped by future exploitation or sale.

When an oil or gas field has been approved for development, the accumulated exploration and evaluation costs are transferred to Oil and Gas Assets - Assets in Development.

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2010

1 Summary of significant accounting policies (continued)

(k) Oil and gas assets

Assets in development

The costs of oil and gas assets in development are separately accounted for and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment and any associated land and buildings. When the committed development expenditure programs are completed and production commences, these costs are subject to amortisation. Once the required statutory documentation for a production licence is lodged the accumulated costs are transferred to oil and gas assets - producing assets.

Producing assets

The costs of oil and gas assets in production are separately accounted for and include past exploration and evaluation costs, past development costs and the ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings. These costs are subject to amortisation. Where asset costs incurred in relation to a producing field are under evaluation and appraisal, those costs will be continually reviewed for recoupment of those costs by future exploitation. When a determination has been made that those expenditures will not be recouped and/or no further appraisal will be undertaken, they will be written off.

In 2010, past expenditure and accumulated amortisation relating to oil operations now included within the LNG Project were transferred from producing assets to assets in development with amortisation suspended. Upon completion of the LNG Project, all LNG assets in development will be transferred to producing assets and amortised.

Amortisation of oil and gas assets

Costs in relation to producing assets are amortised on a production output basis. In relation to the Kutubu, Gobe, Greater Moran and SE Mananda oil fields, exploration and development costs, along with any future expenditure necessary to develop the assumed reserves, are amortised over the remaining estimated economic life of the fields. Producing assets under evaluation and appraisal are not subject to amortisation until such time as the evaluation and appraisal stage is complete.

Costs in relation to the Hides gas to electricity project are amortised in order to expense accumulated exploration and development costs over the one year remaining under the sales contract with the Porgera Joint Venture for supply of gas to the Porgera Gold Mine.

Restoration costs

Site restoration costs are capitalised within the cost of the associated assets and the provision is stated in the balance sheet at total estimated present value. These costs are estimated and based on judgements and assumptions regarding removal dates, environmental legislation and technologies. Over time, the liability is increased for the change in the present value based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The costs of restoration are brought to account in the profit and loss through depreciation of the associated assets over the economic life of the projects with which these costs are associated. The unwinding of the discount is recorded as an accretion charge within finance costs.

(l) Other property, plant and equipment

Plant and equipment are carried at cost less accumulated depreciation and impairment. Any gain or loss on the disposal of assets is determined as the difference between the carrying value of the asset at the time of disposal and the proceeds from disposal, and is included in the results of the economic entity in the year of disposal.

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2010

1 Summary of significant accounting policies (continued)

(l) Other property, plant and equipment (continued)

Depreciation

Depreciation on corporate plant and equipment is calculated on a straight-line basis so as to generally write off the cost of each fixed asset over its estimated useful life on the following basis:

Motor vehicles	20.0%
Office furniture	13.0%
Office equipment	20.0%
Buildings	3.0%
Computer equipment	33.3%
Rigs	Drilling days based on a 5 year drilling life

Depreciation is applied to joint venture plant and equipment so as to expense the cost over the estimated economic life of the reserves with which it is associated.

(m) Impairment of assets

The carrying amounts of all assets, other than inventory, certain financial assets and deferred tax assets, are reviewed at each balance sheet date to determine whether there is an indication of impairment. Where such an indication exists, an estimate of the recoverable amount is made. For any asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit (CGU) to which the asset belongs.

An impairment loss is recognised in the profit and loss statement when the carrying amount of an asset or its cash generating unit (CGU) exceeds its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

(n) Jointly controlled operations

Exploration, development and production activities of the economic entity are carried on through joint ventures with other parties and the economic entity's interest in each joint venture is brought to account by including in the respective classifications, where material, the share of individual assets and liabilities.

The Group's investment in Papua New Guinea Liquefied Natural Gas Global Company LDC is treated as a joint venture established for financing purposes and is equity accounted (refer to note 19 for further details).

(o) Employee benefits

Provision is made for long service leave and annual leave estimated to be payable to employees on the basis of statutory and contractual requirements. Vested benefits are classified as current liabilities.

The contributions made to defined contribution superannuation funds by entities within the economic entity are charged against profits when due. In Australia, contributions of up to 9% of employees' salaries and wages are legally required to be made.

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2010

1 Summary of significant accounting policies (continued)

(p) Financial instruments

Trade receivables

Trade receivables are stated at amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade payables

Trade payables and other accounts payable are recognised when the economic entity becomes obliged to make future payments resulting from the purchase of goods and services. Trade payables are stated at amortised cost.

Loans and borrowings

Interest-bearing loans are initially recorded at fair value net of transaction costs. Finance charges are accounted for on an accrual basis at the effective interest rate.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash at bank and on hand and short-term interest-bearing investments readily convertible into cash which are subject to an insignificant risk of charges in value, net of outstanding bank overdrafts.

Investments

Investments are initially measured at fair value. Investments classified as available-for-sale are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period.

Hedging contracts

Hedging contracts are periodically entered into to limit the financial exposure of the economic entity in relation to oil price, interest rate and foreign exchange movements. Such derivatives are initially recorded at fair value and remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows relating to foreign currency risk of firm commitments and highly probable forecast transactions are recognised directly in equity. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the profit or loss for the period.

(q) Critical accounting estimates and assumptions

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from those judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2010

1 Summary of significant accounting policies (continued)

(q) Critical accounting estimates and assumptions (continued)

Impairment of assets

The Group assesses whether oil and gas assets are impaired on a semi-annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the assets belong. For oil and gas properties, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs. The carrying value of oil and gas properties, exploration and evaluation and other plant and equipment are discussed in notes 12 to 14.

Restoration obligations

The Group estimates the future removal and restoration costs of oil and gas production facilities, wells, pipelines and related assets at the time of installation of the assets. In most instances the removal of these assets will occur many years in the future. The estimate of future removal costs therefore requires management to make judgements regarding the removal date, environmental legislation, the extent of restoration activities required and future removal technologies. For more detail regarding the policy in respect of provision for restoration refer to note 1(k). The carrying amount of the provision for restoration is disclosed in note 18.

Reserve estimates

The estimated reserves are management assessments and take into consideration reviews by an independent third party, Netherland Sewell and Associates under the reserve audit program requiring an external audit of each material producing field every three years, as well as other assumptions, interpretations and assessments. These include assumptions regarding commodity prices, exchange rates, discount rates, future production and transportation costs, and interpretations of geological and geophysical models to make assessments of the quality of reservoirs and their anticipated recoveries.

Changes in reported reserves can impact asset carrying values, the provision for restoration and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserves are integral to the amount of depreciation, depletion and amortisation charged to the income statement and the calculation of inventory. Reserves estimation conforms with guidelines prepared by the Society of Petroleum Engineers.

Exploration and evaluation

The Group's policy for exploration and evaluation expenditure is discussed in note 1(j). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, particularly in relation to the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off to the profit and loss statement.

The carrying amount of exploration and evaluation assets is disclosed in note 12.

(r) Rounding

The majority of amounts included in this report are rounded to the nearest US\$1,000.

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Notes to the Financial Statements
for the year ended 31 December 2010

	Consolidated		Parent	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
2 Revenue from operations				
Oil sales (gross)	517,345	454,678	-	945
Gas and refined product sales	39,704	27,721	-	-
Other field revenue	26,511	29,755	-	-
Total revenue	583,560	512,154	-	945
3 Other expenses				
Salaries and short-term employee benefits	(44,642)	(34,074)	-	-
Post-employment benefits	(2,156)	(2,141)	-	-
Employee share-based remuneration	(14,932)	(12,351)	-	-
Premises and equipment - operating leases	(4,216)	(3,623)	-	-
Other expenses	(19,970)	(19,984)	(3,404)	(3,602)
Corporate cost recoveries	69,281	61,445	-	-
Net corporate expenses	(16,635)	(10,728)	(3,404)	(3,602)
Depreciation	(5,220)	(4,715)	(47)	-
Foreign currency gains/(losses)	2,077	2,455	(16)	434
Total other expenses	(19,778)	(12,988)	(3,467)	(3,168)
4 Significant items				
Excess of proceeds over written down book value in relation to State Back-In LNG	-	15,414	-	-
Applicable income tax benefit	-	6,378	-	-
	-	21,792	-	-
Restatement of deferred tax, following LNG Project development approval	49,574	-	-	-
Reinstatement of tax benefits, following LNG Project development approval	-	12,766	-	-
Contractual adjustment to profit on sale of JV interest	-	(500)	-	-
Impairment expense	(15,808)	-	-	-
Applicable income tax benefit	7,722	-	-	-
Net impairment losses	(8,086)	-	-	-
Total significant items	41,488	34,058	-	-

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2010

	Consolidated		Parent	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
5 Net financing costs				
Interest received or receivable from others	6,856	5,543	4,950	2,115
Interest paid or payable to:				
others	-	(12)	-	-
subsidiaries	-	-	(1,177)	(859)
	-	(12)	(1,177)	(859)
Finance costs	(3,945)	(4,638)	-	(2)
	(3,945)	(4,650)	(1,177)	(861)
Unwinding of discount on site restoration	(3,737)	(4,219)	-	(4)
Total borrowing costs expensed	(7,682)	(8,869)	(1,177)	(865)
Net finance (costs)/income	(826)	(3,326)	3,773	1,250
6 Income tax				
The major components of tax expenses are:				
Current tax expense	161,552	109,413	-	-
Adjustments for current tax of prior periods	(7,198)	(14,949)	(558)	3,716
Deferred tax expense/(income)	(62,782)	11,686	(1,394)	2,824
Income tax expense/(benefit)	91,572	106,150	(1,952)	6,540
Reconciliation between tax expense and the pre-tax profit multiplied by the applicable tax rate is set out below:				
Pre-tax profit/(loss)	277,174	239,830	(11,728)	(1,722)
Tax at PNG rate for petroleum (50%)	138,587	119,917	(5,864)	(861)
Restatement of deferred tax for gas and non-oil (30%)	(49,574)	-	-	-
Effect of differing tax rates across tax regimes	(2,420)	(9,979)	2,346	460
	86,593	109,938	(3,518)	(401)
Tax effect of items not tax deductible or assessable:				
(Over)/under provisions in prior periods	(7,198)	(14,949)	(558)	3,716
Non-deductible expenditure	10,494	32,700	2,124	3,225
Non-assessable income	(890)	(6,378)	-	-
Write-back of deferred tax liabilities	-	(12,766)	-	-
Other	2,573	(2,395)	-	-
Income tax expense/(benefit)	91,572	106,150	(1,952)	6,540

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2010

	Consolidated		Parent	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
6 Income tax (continued)				
The amount of the deferred tax (income)/expense recognised in the net profit in respect of each type of temporary difference:				
Exploration and development	(84,644)	23,019	(176)	1,251
Other assets	(506)	(501)	(14)	1,844
Provisions	18,412	(12,603)	250	91
Other items	(306)	(745)	(135)	(760)
Tax losses	4,262	2,516	(1,319)	398
	(62,782)	11,686	(1,394)	2,824

	Consolidated	
	2010	2009
	US cents	US cents
7 Earnings per share		
Basic earnings per share (excluding significant items)	11.03	8.60
Basic earnings per share (including significant items)	14.20	11.53
Diluted earnings per share (excluding significant items)	10.97	8.54
Diluted earnings per share (including significant items)	14.13	11.46

	No.	No.
Weighted average number of ordinary shares used for the purposes of calculating diluted earnings per share reconciles to the number used to calculate basic earnings per share as follows:		
Basic earnings per share	1,306,642,961	1,159,038,387
Employee share options	753,693	947,483
Employee performance rights	6,500,551	6,738,826
Diluted earnings per share	1,313,897,204	1,166,724,697

Basic earnings per share (excluding significant items) have been calculated on a net profit after tax of US\$144.114 million (2009: US\$99.622 million).

Basic earnings per share (including significant items) have been calculated on a net profit after tax of US\$185.602 million (2009: US\$133.680 million).

Diluted earnings per share (including significant items) have been calculated on a net profit after tax of US\$185.602 million (2009: US\$133.680 million). There are 3,032,304 options (2009: 3,190,125), and 6,183,991 rights (2009: 6,511,498) which are dilutive potential ordinary shares and are therefore included in the weighted average number of shares for the calculation of diluted earnings per share.

The average market value of the company's shares for the purpose of calculating the dilutive effect of share options and rights was based on quoted market prices for the period 1 January 2010 to 31 December 2010.

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2010

	Consolidated		Parent	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
8 Dividends paid or proposed				
Unfranked ⁽¹⁾ dividends in respect of the year, proposed subsequent to the year end:				
Ordinary dividends ⁽²⁾	26,258	25,991	26,258	25,991
Unfranked ⁽¹⁾ dividends paid during the year:				
Ordinary – previous year final	25,964	44,682	25,964	44,682
Ordinary – current year interim ⁽³⁾	26,123	22,677	26,123	22,677
	52,087	67,359	52,087	67,359

(1) As Oil Search Limited is a Papua New Guinea incorporated company, there are no franking credits available on dividends.

(2) On 21 February 2011, the Directors declared a final unfranked dividend in respect of the current year, of US 2 cents per ordinary share (2009: US 2 cents final dividend), to be paid to the holders of ordinary shares on 8 April 2011. The proposed final dividend for 2010 are payable to all holders of ordinary shares on the Register of Members on 16 March 2011 (record date). The estimated dividends to be paid are US\$26,257,766 and have not been included as a liability in these financial statements.

(3) On 24 August 2010, the Directors declared an interim unfranked dividend in respect of the current half-year, of US 2 cents per ordinary share (2009: US 2 cents interim dividend), paid to the holders of ordinary shares on 11 October 2010.

A Dividend Reinvestment Plan is currently in operation. It provides shareholders with the option of reinvesting all or part of their dividends in additional Oil Search shares. It is intended that the reinvestment shortfall on the 2010 final dividend will be fully underwritten.

9 Receivables

Current

Trade debtors ⁽¹⁾	40,859	81,347	-	-
Other debtors ⁽¹⁾	47,053	27,436	1,388	788
Amounts due from subsidiary entities	-	-	209,604	145,611
	87,912	108,783	210,992	146,399

Non-current

Amounts due by:

other entities	3,326	416	-	-
	3,326	416	-	-

(1) During the year no receivables have been determined to be impaired and no related impairment loss has been charged to the profit and loss statement.

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Notes to the Financial Statements
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	Consolidated		Parent	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
10 Inventories				
Current				
At cost				
Materials and supplies	52,107	53,316	-	-
Petroleum products	8,083	6,202	-	-
	60,190	59,518	-	-
11 Other assets				
Current				
Prepayments	4,405	4,424	136	124
Non current				
Prepayments	916	1,206	-	-
12 Exploration and evaluation assets (non-current)				
At cost	312,239	823,818	27,510	63,202
Less impairment	(30,399)	(15,500)	-	-
	281,840	808,318	27,510	63,202
Balance at start of year	808,318	516,256	63,202	95,208
Transfer to another subsidiary	-	-	(44,080)	(149,857)
Transferred to assets in development	(559,377)	-	-	-
Transferred to producing assets	(70)	-	-	(70)
Additions	175,980	438,922	18,919	122,791
Exploration costs expensed during the year	(128,106)	(75,729)	(10,531)	(4,870)
Impairment losses	(14,899)	-	-	-
Disposals	-	(70,985)	-	-
Net exchange differences	(6)	(146)	-	-
Balance at end of year	281,840	808,318	27,510	63,202

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	Consolidated		Parent	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
13 Oil and gas assets (non-current)				
Assets in development				
At cost	2,063,629	-	-	-
Accumulated amortisation	-	-	-	-
	2,063,629	-	-	-
Balance at start of year	-	-	-	-
Transferred from exploration and evaluation assets	559,377	-	-	-
Transferred from producing assets	367,060	-	-	-
Additions	944,683	-	-	-
Borrowing costs capitalised (LNG project)	194,375	-	-	-
Development costs expensed during the period	(1,866)	-	-	-
Balance at end of year	2,063,629	-	-	-
Producing assets				
At cost	1,366,642	1,716,818	2	6,371
Accumulated amortisation and impairment	(1,119,077)	(1,078,792)	-	(6,371)
	247,565	638,026	2	-
Balance at start of year	638,026	588,133	-	1,672
Transfer to another subsidiary	-	-	-	(1,889)
Transferred from exploration	70	-	-	70
Transferred to development	(367,060)	-	-	-
Additions	41,850	142,325	2	178
Producing costs expensed during the period	(1,216)	-	-	-
Disposals	(1,885)	-	-	-
Changes in restoration obligations	(23,820)	3,062	-	101
Amortisation of site restoration	(7,200)	(8,556)	-	-
Amortisation	(31,200)	(86,938)	-	(132)
Balance at end of year	247,565	638,026	2	-
Total oil and gas assets	2,311,194	638,026	2	-

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	Consolidated		Parent	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
14 Other property, plant and equipment (non-current)				
At cost	155,313	149,071	58	247
Accumulated depreciation and impairment	(83,205)	(72,851)	(47)	-
	72,108	76,220	11	247
Rigs				
Balance at start of year	67,442	71,632	-	-
Reclassification to other plant and equipment	-	(316)	-	-
Additions	1,938	1,853	-	-
Disposals	(820)	-	-	-
Depreciation	(5,134)	(5,727)	-	-
Balance at end of year	63,426	67,442	-	-
Other property, plant and equipment				
Balance at start of year	8,778	8,374	247	247
Reclassification from rigs	-	316	-	-
Transfer to another subsidiary	-	-	(199)	-
Additions	4,612	3,232	10	-
Disposals	(21)	-	-	-
Depreciation	(5,220)	(4,715)	(47)	-
Net exchange differences	533	1,571	-	-
Balance at end of year	8,682	8,778	11	247
15 Non-current investments				
Shares not quoted on securities exchange ⁽¹⁾	962	962	-	-
Accumulated impairment losses	(962)	(962)	-	-
	-	-	-	-
Shares in subsidiaries (at cost)	-	-	326,507	326,507
Investment in joint venture ⁽²⁾	29	-	-	-
	29	-	326,507	326,507

(1) Shares in Misima Mines Limited 3,772,843 (2009: 3,772,843) ordinary shares at acquisition cost.

(2) Papua New Guinea Liquefied Natural Gas Global Company LDC, a limited duration company incorporated under the laws of the Commonwealth of the Bahamas ("the Borrower") was organised to conduct certain activities of the LNG project outside of PNG, including the borrowing and on-lending to the participants of senior debt, and the purchase and re-sale of Project LNG and Project Liquids. The Borrower is owned by each participant in a percentage equal to its Project interest (the Oil Search Limited Group interest at 31 December 2010 is 29.0% (refer to note 19 for further details).

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	Consolidated		Parent	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
16 Deferred tax assets				
Temporary differences				
Exploration and development	145,283	-	4,780	-
Other assets	638	1,512	70	-
Provisions	39,792	69,135	24	24
Other	-	921	-	-
Tax losses recognised	17,479	20,834	2,108	1,552
	203,192	92,402	6,982	1,576
17 Payables				
Current				
Trade creditors and accruals	219,676	204,119	1,469	18,869
Other payables	-	-	60	2,043
	219,676	204,119	1,529	20,912
18 Provisions				
Current				
Employee entitlements	5,460	4,711	-	-
Directors retirement allowances	80	80	80	80
	5,540	4,791	80	80
Non-current				
Employee entitlements	9,340	7,172	-	-
Site restoration ⁽¹⁾	101,318	121,402	-	-
Other	750	750	-	-
	111,408	129,324	-	-
Movement in site restoration provision				
Balance at start of year	121,402	114,121	-	288
Revision of provision	(23,821)	3,062	-	-
Unwinding of discount	3,737	4,219	-	4
Transfer to another subsidiary	-	-	-	(292)
Balance at end of year	101,318	121,402	-	-

- (1) These provisions are in relation to the estimated costs associated with the restoration of sites that will be incurred at the conclusion of the economic life of the producing assets in which the economic entity holds a participating interest.

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	Consolidated		Parent	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000

19 Loans and borrowings

Non-current

Secured loan from joint venture ⁽¹⁾

929,720	-	-	-
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- (1) Papua New Guinea Liquefied Natural Gas Global Company LDC, a limited duration company incorporated under the laws of the Commonwealth of the Bahamas (the "Borrower") was organised to conduct certain activities of the LNG Project outside of PNG, including the borrowing and on-lending to the participants of senior debt, and the purchase and re-sale of LNG project liquids and LNG. The Borrower is owned by each participant in a percentage equal to its project interest (the Oil Search Limited Group interest at 31 December 2010 is 29.0%).

The terms of the borrowings are reflected in the on-loan agreements between the Borrower and the Oil Search participants in the LNG Project, being Oil Search (Tumbudu) Limited and Oil Search (LNG) Limited (the "OSL Participants").

After its initial limited term of 30 years, shareholders may pass a resolution to alter the constitution to provide for duration in excess of 30 years.

Terms and debt repayment schedule

The PNG LNG Project ("LNG Project") achieved financial investment decision on 8 December 2009 and financial close on 12 March 2010. The maximum committed debt facility available to the LNG Project at the date of signing was US\$14 billion under nine loan facility agreements.

As at 31 December 2010, the weighted average rate of the drawn loan was 3.32%, consisting of both fixed or floating rate portions. The source of funding was from:

- Export Credit Agencies (ECA)
- ExxonMobil Finance Company Limited
- Australian and international commercial banks.

The loan facility is made up of the following:

- Direct loan facilities - direct loans from each respective ECA.
- Covered loan facilities - facilities comprising loans from several commercial bank lenders that benefit from a guarantee by the relevant ECA.
- Uncovered bank loan facility - a syndicated loan facility comprising several commercial bank lenders which is not guaranteed by or affiliated with any ECA.
- Funding from ExxonMobil Finance Company Limited spread pro rata across all other borrowings and assumes the same pricing as other lenders.

Each ECA facility is either tied (to the source of the purchase of goods and services by the LNG Project) or untied (not tied to any particular developments or procurement of goods).

Each participant to the LNG Project severally provides participant equity funding pro rata with each disbursement of ECA/bank loans so that participant equity funding is provided for at least 30% of project capital costs at such time.

At financial close, Oil Search established an escrow account, secured to the lenders, whereby 60% of future base equity commitments were deposited. Oil Search will maintain the escrow account balance at 60% of future equity costs, or 6 months' interest, whichever is greater.

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Notes to the Financial Statements
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19 Loans and borrowings (continued)

Terms and debt repayment schedule (continued)

Drawdowns under the ECA/bank loans may be made once a month and will end on the completion date of the LNG Project or June 2016, whichever is earlier. Interest and finance fees are capitalised during this period.

Interest and principal on the ECA/bank loans are payable on specified semi-annual dates, and will commence, in the case of interest, on the first payment date falling at least six months after financial close, and in the case of principal, on the earlier of six months after the completion date or June, 2016.

Post completion, principal is repayable over 11.5 years based on a customised repayment profile.

Following completion, the LNG sales proceeds are receipted into a sales escrow account from which a portion of agreed expenditure obligations are firstly made, and subject to meeting certain debt service cover ratio tests, are distributed to the project participants.

The Borrower grants to the security trustee:

- a first-ranking security interest in all of the Borrower's assets (Oil Search's share US\$738.2 million at 31 December 2010), with a few limited exceptions;
- a fixed and floating charge in existing and future funds in the offshore accounts;
- a deed of charge (and assignment) in the sales contracts, LNG charter party agreements, rights under insurance policies, LNG supply and sales commitment agreements, on-loan agreements and the sales, shipping and finance administration agreements, collectively known as "Borrower Material Agreements"; and
- a mortgage of contractual rights over Borrower Material Agreements.

The loan facility is subject to various covenants and a negative pledge restricting future secured borrowings, subject to a number of permitted lien exceptions. Neither the covenants nor the negative pledge have been breached at any time during the reporting period.

Oil Search Limited, as completion guarantor, has guaranteed payment by the Borrower of the OSL Participants' share (29.0%) of the senior debt obligations up until practical completion is achieved. Oil Search Limited, as completion guarantor, is subject to certain covenants and undertakings. Neither the covenants nor the undertakings have been breached at any time during the reporting period or have unduly restricted Oil Search's planned activities.

Oil Search has also granted security over:

- the shares in each of the project participants; and
- the participants' project interests and gas field licences.

20 Deferred tax liabilities

Temporary differences

Exploration and development	145,226	86,708	-	1,037
Prepayments and receivables	1,157	206	388	138
Other assets	7,847	9,830	-	-
	154,230	96,744	388	1,175

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	Consolidated		Parent	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
21 Share capital and reserves				
Issued 1,312,888,303 (2009: 1,299,562,220)				
Ordinary shares, fully paid (no par value)	1,610,667	1,550,213	1,610,667	1,550,213
	2010	2009	2010	2009
	Shares	Shares	US\$'000	US\$'000
Movements in issued and fully paid shares				
Balance at the beginning of the period	1,299,562,220	1,119,841,193	1,550,213	620,491
Transfer of vested shares from employee equity compensation reserve	-	-	13,421	5,812
Release of treasury shares on vesting	-	-	(11,491)	-
Settlement of equity based share based payments	-	-	-	84
Ordinary shares issued on exercise of options and rights, and grant of restricted shares	3,900,448	4,611,679	6,365	9,706
DRP underwriting agreement ⁽¹⁾				
Ordinary shares issued at US\$3.62 (2008 final dividend)	-	9,485,203	-	34,347
Ordinary shares issued at US\$5.56 (2009 interim dividend)	-	2,828,355	-	15,735
Ordinary shares issued at US\$5.44 (2009 final dividend)	3,125,015	-	17,001	-
Ordinary shares issued at US\$5.72 (2010 interim dividend)	2,956,028	-	16,920	-
DRP ⁽²⁾				
Ordinary shares issued at US\$3.55 (2008 final dividend)	-	2,945,598	-	10,457
Ordinary shares issued at US\$5.45 (2009 interim dividend)	-	1,289,341	-	7,026
Ordinary shares issued at US\$5.33 (2009 final dividend)	1,691,539	-	9,016	-
Ordinary shares issued at US\$5.61 (2010 interim dividend)	1,653,053	-	9,274	-
Institutional placement				
Ordinary shares issued at US\$5.47	-	151,686,182	-	811,563
Share purchase plan				
Ordinary shares issued at US\$5.23	-	6,874,669	-	35,959
Share issue costs	-	-	(52)	(967)
	1,312,888,303	1,299,562,220	1,610,667	1,550,213

(1) The DRP was fully underwritten for the 2008 final dividend and all dividends since then.

(2) The price for shares issued under the DRP was calculated in accordance with the DRP Rules and is the arithmetic average of the daily volume weighted average sales price of all Oil Search shares sold on the Australian Securities Exchange (excluding off-market trades) during the trading days immediately after the Record Date for the dividend less a discount of 2.00%.

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Notes to the Financial Statements
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21 Share capital and reserves (continued)

Employee Share Option Plan, Share Appreciation Rights Plan, Performance Rights Plan, and Restricted Share Plan

At balance date, there are 3,032,304 options (2009: 4,481,325), 1,542,800 share appreciation rights (2009: nil), 6,183,991 performance rights (2009: 6,511,498), and 1,915,386 restricted shares (2009: 3,626,401) granted over ordinary shares exercisable at various dates in the future, subject to meeting applicable performance hurdles, and at varying exercise prices (refer to note 25 for further details).

During the year, a total of 1,313,171 share options (2009: 1,016,826) and 1,926,853 performance rights (2009: 1,794,821) were exercised and 135,850 options (2009: 392,416), 11,400 appreciation rights (2009: nil) and 398,054 (2009: 396,822) were forfeited. Restricted shares totalling 1,707,447 were exercised and 72,256 restricted shares were forfeited during the year.

There were no share options (2009: 1,340,800) granted under the Employee Share Option Plan during the year, however, 1,554,200 share appreciation rights (2009: nil) were granted under the new Employee Share Appreciation Rights Plan. There were 1,997,400 performance rights (2009: 1,774,985) granted under the Performance Rights Plan, and 751,857 restricted shares (2009: 1,397,350) granted under the Restricted Share Plan during the year.

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	Consolidated		Parent	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
21 Share capital and reserves (continued)				
a) Reserves at the end of the financial year				
Foreign currency translation reserve	1,942	2,737	-	-
Amalgamation reserve	-	-	(2,990)	(2,990)
Reserve for treasury shares	(6,378)	(16,821)	-	-
Employee equity compensation reserve	21,254	19,531	12,872	13,465
Balance at end of year	16,818	5,447	9,882	10,475

b) Movements in reserves

Foreign currency translation reserve

Balance at start of year	2,737	(3,677)	-	-
Translation of financial statements of foreign subsidiaries	(795)	6,414	-	-
Balance at end of year	1,942	2,737	-	-

The foreign currency translation reserve is used to record foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Amalgamation reserve

Balance at start of year	-	-	(2,990)	(2,990)
Balance at end of year	-	-	(2,990)	(2,990)

The amalgamation reserve was used to record the retained earnings of entities amalgamated into the parent entity in 2006.

Reserve for treasury shares

Balance at start of year	(16,821)	(7,666)	-	-
Purchase of shares during financial year	(59)	(1,761)	-	-
Issue of shares during financial year	(2,316)	(6,066)	-	-
Release of treasury shares on vesting	11,491	-	-	-
Transfer of exchange differences to FCTR	1,327	-	-	-
Net exchange differences	-	(1,328)	-	-
Balance at end of year	(6,378)	(16,821)	-	-

The reserve for treasury shares is used to record the cost of purchasing Oil Search Limited shares by the Restricted Share Plan Trust.

Employee equity compensation reserve

Balance at start of year	19,531	12,857	13,465	12,857
Expense recognised in subsidiaries during financial year	14,932	12,351	14,932	12,351
Transfer of vested shares to share capital	(13,421)	(5,812)	(13,421)	(5,812)
Issue of treasury shares	-	-	(2,316)	(6,066)
Net exchange differences	212	135	212	135
Balance at end of year	21,254	19,531	12,872	13,465

The employee equity compensation reserve is used to record the share based remuneration obligations to employees in relation to Oil Search Limited ordinary shares as held by the Employee Options and Rights Share Plans and Share Appreciation Rights Share Plans, which have not vested as at the end of the year.

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	Consolidated		Parent	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
22 Statement of cash flows				
(a) For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and at bank, deposits at call, and bank overdraft				
Cash at bank and on hand ⁽¹⁾	170,024	151,694	62,942	105,471
Share of cash in joint ventures	4,828	33,182	3	534
Interest-bearing short-term deposits ^{(2) (3)}	1,088,737	1,103,201	909,800	925,233
	1,263,589	1,288,077	972,745	1,031,238

(1) Includes US\$22.5 million (2009: US\$22.5 million) in a debt service reserve account held with Australia & New Zealand Banking Group Limited, as required by the US\$435 million revolving facility agreement.

(2) Includes US\$7.6 million (2009: US\$16.4 million) held as security for letters of credit on issue.

(3) Includes US\$720.8 million (2009: nil) held in escrow to meet future LNG Project base equity commitments (refer to note 19 for further details).

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	Consolidated		Parent	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
22 Statement of cash flows (continued)				
(b) Reconciliation of cash flows from operating activities				
Net profit/(loss) after tax	185,602	133,680	(9,776)	(8,262)
Add/(deduct):				
Exploration costs expensed	131,188	75,729	10,531	4,870
Impairment expense	15,808	-	-	-
Contractual adjustments to profit on sale of joint venture interests	-	500	-	-
State Back-In LNG surplus	-	(15,414)	-	-
Profit on sale of non-current assets	(3,158)	-	-	(6,149)
Amortisation - site restoration	7,130	8,556	-	-
Unwinding of site restoration discount	3,737	4,219	-	4
Amortisation - oil and gas assets	32,390	86,418	-	124
Cost of share options	14,932	12,351	-	-
Depreciation	10,354	10,442	47	-
Exchange losses - unrealised	744	6,549	212	-
Movement in tax provisions	(32,875)	26,721	(8,305)	8,009
Net (decrease)/increase in provisions	2,917	(313)	-	-
Settlement of equity based employee share payments	-	84	-	84
Decrease/(increase) in inventories	(1,631)	(6,436)	-	105
Decrease/(increase) in other current assets	(839)	(324)	(12)	15
(Decrease)/increase in payables	13,151	(46,298)	(1,400)	(16,466)
Decrease/(increase) in receivables	18,878	(12,365)	(821)	8,051
Other	-	-	-	155
	212,726	150,419	252	(1,198)
Net cash from operating activities	398,328	284,099	(9,524)	(9,460)

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	Note	Consolidated		Parent	
		2010	2009	2010	2009
		US\$'000	US\$'000	US\$'000	US\$'000
23 Interests in jointly controlled operations					
(a) Net assets employed in joint ventures					
Current assets					
Cash	22(a)	4,828	33,182	3	534
Receivables		25,996	10,343	-	180
Inventories		47,625	47,678	-	-
Non-current assets					
Exploration and evaluation assets		281,840	808,318	27,510	63,202
Oil and gas assets		2,311,194	638,026	2	-
Current liabilities		(200,787)	(169,160)	(66)	(3,050)
		2,470,696	1,368,387	27,449	60,866

(b) Share of contingent liabilities and expenditure commitments of jointly controlled operations

	Consolidated	
	2010	2009
	US\$'000	US\$'000
Contingent liabilities	-	-
Capital expenditure commitments	2,099,198	1,401,800
Other expenditure commitments	322,343	-

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(c) Interests in jointly controlled operations

The principal activities of the following jointly controlled operations in which the economic entity holds an interest are the exploration for and the production of crude oil and natural gas.

Contingent liabilities and commitments for expenditure in respect of these jointly controlled operations are disclosed in notes 30 and 31, respectively.

(i) Production joint ventures		Country	% Interest	
			2010	2009
PDL 1 ⁽¹⁾	Hides gas to electricity project	PNG	100.00	100.00
PDL 2 ^(2, 3)	Kutubu & Moran oil fields	PNG	60.05	60.05
PDL 2 ^(2, 3)	South East Mananda oil fields	PNG	72.27	72.27
PDL 3	Gobe oil field	PNG	36.36	36.36
PDL 4 ⁽²⁾	Gobe oil field	PNG	10.00	10.00
PDL 5 ⁽³⁾	Moran oil field	PNG	40.69	40.69
PDL 6 ^(2, 3)	Moran oil field	PNG	71.07	71.07
PL 1 ⁽²⁾	Hides gas pipeline	PNG	100.00	100.00
PL 2 ⁽²⁾	Kutubu oil pipeline	PNG	60.05	60.05
PL 3 ⁽²⁾	Gobe oil pipeline	PNG	17.78	17.78

(1) Economic entity is operator of the gas to electricity project.

(2) Joint venture operated by the economic entity.

(3) Whilst not the operator of PDL 5, the economic entity operates the Greater Moran Unit, incorporating PDL 2, 5 and 6, under a separate commercial arrangement.

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23 Interests in jointly controlled operations (continued)

(ii) Exploration joint ventures		Country	% Interest	
			2010	2009
PPL 190 ⁽¹⁾		PNG	62.56	62.56
PPL 219 ⁽¹⁾		PNG	71.25	71.25 ⁽²⁾
PPL 233		PNG	52.50	52.50
PPL 234 ⁽¹⁾		PNG	80.00	80.00 ⁽²⁾
PPL 239		PNG	20.00 ⁽²⁾	80.00 ⁽²⁾
PPL 240 ⁽¹⁾		PNG	100.00	100.00 ⁽²⁾
PPL 244 ⁽¹⁾		PNG	80.00 ⁽²⁾	30.00 ⁽²⁾
PPL 260 ⁽¹⁾		PNG	50.00 ⁽²⁾	50.00 ⁽²⁾
PPL 276		PNG	30.00 ⁽²⁾	-
PPL 338		PNG	30.00 ⁽²⁾	-
PPL 339		PNG	30.00 ⁽²⁾	-
PPL 312		PNG	30.00 ⁽²⁾	-
ELA 1720, 1721, 1722, 1723, 1724, 1725, 1726		PNG	100.00	100.00
K42 ⁽¹⁾		Iraq	75.00	-
Shakal		Iraq	15.00	15.00
Area 18		Libya	30.00 ⁽³⁾	30.00 ⁽³⁾
Le Kef		Tunisia	25.00 ⁽⁴⁾	25.00 ⁽⁴⁾
Tajerouine ⁽¹⁾		Tunisia	100.00	100.00
Block 3 ⁽¹⁾		Yemen	40.00	60.00
Block 7 ⁽¹⁾		Yemen	34.00	34.00
(iii) Gas licence joint ventures				
PDL 1	Hides gas field	PNG	16.66	16.66
PDL 7	South Hides gas field	PNG	40.69	40.69
PDL 8	Angore gas field	PNG	40.69	40.69
PDL 9	Juha gas field	PNG	24.42	24.42
PRL 1	Pandora gas field	PNG	24.09	17.73
PRL 2	Juha gas field	PNG	31.51	31.51
PRL 3	P'nyang gas field	PNG	38.51	38.51
PRL 8 ⁽¹⁾	Kimu gas field	PNG	60.71	60.71
PRL 9	Barikewa gas field	PNG	45.11	42.55
PRL 10 ⁽¹⁾	Uramu gas field	PNG	59.55	59.55 ⁽²⁾
PRL 11	Angore gas field	PNG	52.50	52.50
PNG LNG	PNG LNG project	PNG	29.00	29.00
PL 4	PNG LNG project	PNG	29.00	29.00
PL 5	PNG LNG project	PNG	29.00	29.00
PL 6	PNG LNG project	PNG	29.00	29.00
PL 7	PNG LNG project	PNG	29.00	29.00
PL 8	PNG LNG project	PNG	29.00	29.00

(1) Joint venture operated by the economic entity.

(2) Awaiting government department approval.

(3) Notice of withdrawal submitted.

(4) Prior period comparative changed to reflect revenue interest.

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24 Segment reporting

Information about reportable segments

The Group's segments are arranged primarily by location of operation (e.g. PNG and MENA) followed by the commodity (e.g. oil, gas or LNG).

Each managed segment has a management team that is accountable to the Managing Director.

The Group's Executive Management team evaluates the financial performance of the Group and its segments principally with reference to earnings before interest and tax, and capital expenditure on exploration and evaluation assets, oil and gas assets, and property, plant and equipment.

US\$'000	PNG				MENA		Corporate		Total	
	Oil and gas		LNG		Oil and gas		31 December		31 December	
	31 December		31 December		31 December		2010	2009	2010	2009
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
External revenues	583,560	512,154	-	-	-	-	-	-	583,560	512,154
Amortisation - site restoration	(7,130)	(8,556)	-	-	-	-	-	-	(7,130)	(8,556)
Amortisation - oil and gas assets	(32,390)	(86,418)	-	-	-	-	-	-	(32,390)	(86,418)
Depreciation - operating assets	(5,134)	(5,727)	-	-	(27)	(194)	(5,193)	(4,521)	(10,354)	(10,442)
Foreign currency gains/(losses)	2,051	9,284	-	-	(3)	-	29	(6,829)	2,077	2,455
Exploration, development and production costs expensed	(113,301)	(18,658)	-	-	(17,887)	(57,071)	-	-	(131,188)	(75,729)
Employee share based remuneration	-	-	-	-	-	-	(14,932)	(12,351)	(14,932)	(12,351)
Operating costs	(99,660)	(94,552)	-	-	(224)	(489)	891	2,170	(98,993)	(92,871)
EBIT	327,996	307,527	-	-	(18,141)	(57,754)	(19,205)	(21,531)	290,650	228,242
Loss on sale of joint venture interests									-	(500)
Profit on sale of other non-current assets									3,158	-
State Back-In LNG surplus									-	15,414
Unwinding of discount on site restoration									(3,737)	(4,219)
Impairment expense									(15,808)	-
Interest income									6,856	5,543
Interest expense									(3,945)	(4,650)
Reportable segment profit before income tax									277,174	239,830
Income tax expense									(91,572)	(106,150)
Net profit after tax									185,602	133,680

Capital expenditure

Exploration and evaluation assets	(140,415)	(42,720)	-	(312,426)	(35,565)	(83,776)	-	-	(175,980)	(438,922)
Oil and gas assets - development and production	(41,850)	(142,325)	(1,139,058)	-	-	-	-	-	(1,180,908)	(142,325)
Property, plant and equipment	(1,938)	(1,853)	-	-	(83)	-	(4,529)	(3,232)	(6,550)	(5,085)
Total capital expenditure	(184,203)	(186,898)	(1,139,058)	(312,426)	(35,648)	(83,776)	(4,529)	(3,232)	(1,363,438)	(586,332)

Geographical segments

The Oil Search Group operates primarily in Papua New Guinea but also has activities in Yemen, Libya, Iraq, Tunisia and Australia.

Production from the designated segments is sold on commodity markets and may be sold to other geographical segments.

In presenting information on the basis of geographical segments, segment revenue and segment assets are based on the location of operating activity.

US\$'000	Revenues		Non-current assets	
	2010	2009	2010	2009
PNG	583,560	512,154	2,778,024	1,542,403
Australia	-	-	16,712	16,965
MENA	-	-	77,869	57,220
Total	583,560	512,154	2,872,605	1,616,588

Major customers

There are two customers with revenues exceeding 10% of the Group's total oil and gas sales revenue.

Revenue from one customer represents approximately \$358.4 million or 66% of the Group's total oil and gas sales revenues (2009: \$368.3 million, 77%) and 61% of the Group's total revenue of \$583.6 million (2009: 72% of \$512.2 million).

Revenue from one other customer represents approximately \$92.5 million or 17% of the Group's total oil and gas sales revenues (2009: \$30.9 million, 6.5%) and 16% of the Group's total revenue of \$583.6 million (2009: 6% of \$512.2 million).

Revenue from each of the other customers is less than 10% of total revenue for the Group.

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	Consolidated		Parent	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
25 Employee entitlements and superannuation commitments				
The aggregate employee entitlement liability is comprised of:				
Annual leave entitlements	5,460	4,711	-	-
Directors' retirement allowances	80	80	80	80
Long service leave entitlements	9,340	7,172	-	-
	14,880	11,963	80	80
Balance at start of year	11,963	12,276	-	-
Additional provision	10,114	7,308	-	-
Reversal of provision	-	-	-	-
Provision utilised	(7,197)	(7,621)	-	-
Balance at end of year	14,880	11,963	-	-

The provisions represent amounts due to employees in respect of entitlements to annual leave and long service leave accrued under statutory obligations applicable in Australia, PNG, and Middle East and North Africa. These amounts are payable in the normal course of business either when leave is taken or on termination of employment.

Employee Share Option Plan and Share Appreciation Rights Plan

The Employee Share Option Plan was established in 2004 where selected employees of the economic entity are granted options over ordinary shares of Oil Search Limited. The options are granted for nil consideration and are granted in accordance with guidelines approved by shareholders at the Annual Meeting in 2004. The options cannot be transferred and are not quoted on the Australian Securities Exchange. If an employee ceases to be employed by the Group they forfeit any options and rights that have not vested, subject to Board discretion.

Commencing with the 2010 grant, options will no longer be awarded and all grants are for share appreciation rights (SAR's). SAR's are similar to traditional employee share options, except that they are net settled. Net-settled refers to the fact that the employee does not have the option to take delivery of the full underlying number of shares, but merely receives the net gain on the option on maturity. The gain is calculated as the difference between the exercise price, being the share price at the time the SAR's were issued, and the Oil Search Limited share price at maturity. The option is assumed to be exercised on maturity if it is in the money, and the net gain is settled by delivering shares in Oil Search Limited to the value of the gain.

There are currently 869 (2009: 824) employees participating in the Employee Share Option Plan and Share Appreciation Rights plan.

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25 Employee entitlements and superannuation commitments (continued)

Employee Share Option Plan and Share Appreciation Rights Plan (continued)

	June 2010 grant⁽¹⁾	June 2009 grant	August 2008 grant⁽²⁾	May 2007 grant	July 2006 grant	October 2005 grant⁽³⁾
Grant date	1 June 2010	1 June 2009	4 Aug 2008	7 May 2007	28 July 2006	28 Oct 2005
Share price at grant date	A\$5.61	A\$5.73	A\$5.65	A\$3.66	A\$4.13	A\$3.30
Exercise date	17 May 2013	13 May 2012	5 May 2011	7 May 2010	28 July 2009	13 May 2008
Exercise price	A\$5.63	A\$5.22	A\$4.88	A\$3.57	A\$4.15	A\$2.29
Number of options						
Balance at 1 January 2010	-	1,291,200	1,551,550	1,347,570	227,640	63,365
Granted during period	1,554,200	-	-	-	-	-
Forfeited during period	(11,400)	(81,600)	(49,910)	(4,340)	-	-
Exercised during period ⁽⁴⁾	-	-	-	(1,126,230)	(123,576)	(63,365)
Balance at 31 December 2010	1,542,800	1,209,600	1,501,640	217,000	104,064	-
Exercisable at 31 December 2010	-	-	-	217,000	104,064	-
Average share price at date of exercise				A\$5.97	A\$5.97	A\$5.97
Balance at 1 January 2009	-	-	1,757,700	1,436,540	1,168,552	110,175
Granted during period	-	1,340,800	-	-	-	-
Forfeited during period	-	(49,600)	(206,150)	(88,970)	(47,696)	-
Exercised during period ^(4,5)	-	-	-	-	(893,216)	(46,810)
Balance at 31 December 2009	-	1,291,200	1,551,550	1,347,570	227,640	63,365
Exercisable at 31 December 2009	-	-	-	-	227,640	63,365
Average share price at date of exercise					A\$6.02	A\$5.57

(1) Fair value of options granted on 1 June 2010 is A\$1.52.

(2) Whilst not formally granted until 4 August 2008, the 2008 options were awarded on 5 May 2008, when the share price was A\$4.88.

(3) Whilst not formally granted until 28 October 2005, the 2005 options were awarded on 13 May 2005, when the share price was A\$2.29.

(4) Settled by cashing out and cancelling the options or by issuing new shares.

(5) Settled by cashing out and cancelling the options or by purchasing shares on market.

Options and SAR's were priced using a binomial option pricing model using the following inputs:

	June 2010 grant	June 2009 grant	August 2008 grant	May 2007 grant	July 2006 grant	October 2005 grant
Volatility	35%	40%	38%	32%	35%	40%
Dividend yield	0.90%	2.00%	1.50%	2.90%	1.80%	1.73%
Risk-free interest rate	4.64%	4.55%	5.96%	5.93%	5.90%	5.27%

An expense of US\$2,615,054 (2009: US\$2,098,765) has been recognised in the profit and loss statement in respect of these options and SAR's. All options expire two years after their vesting date or on termination of employment. SAR's are exercised on maturity if they are in the money.

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25 Employee entitlements and superannuation commitments (continued)

Performance Rights Plan

An employee Performance Rights Plan was established in 2004 where selected employees of the economic entity are granted rights over ordinary shares of Oil Search Limited. Vesting of the awards depends on Oil Search's Total Shareholder Return (TSR) performance over a three-year period relative to peer groups of companies. For awards prior to 2007, a single peer group of the first 150 companies included in the ASX 200 Index was used. From 2007 onwards, Oil Search's performance has been measured against two peer groups, with an equal weighting ascribed to each of:

- The first 150 companies included in the ASX 200 Index; and
- A selected group of similar sized international oil and gas exploration and production companies.

To determine the level of vesting of the awards, Oil Search's TSR over the three year performance period is ranked against the TSR of each company in the peer groups over the same period.

For each peer group, if Oil Search's TSR performance is:

- below median, that is the 50th percentile, no performance rights will vest;
- at the median, 25% of the performance rights granted will vest;
- greater than the median and less than the 75th percentile, the number of performance rights that will vest increases on a straight line basis from 25% to 50% of the total number of performance rights granted;
- at or above the 75th percentile, 50% of the performance rights granted will vest.

The rights are granted for nil consideration and are granted in accordance with guidelines approved by shareholders at the Annual Meeting in 2004. The rights cannot be transferred and are not quoted on the Australian Securities Exchange. There are currently 155 (2009: 148) employees participating in the Performance Rights Plan.

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25 Employee entitlements and superannuation commitments (continued)

Performance Rights Plan (continued)

	June 2010 grant⁽¹⁾	June 2009 grant⁽²⁾	August 2008 grant⁽³⁾	May 2007 grant⁽⁴⁾	July 2006 grant^(5,6)	October 2005 grant⁽⁷⁾
Grant date	1 June 2010	1 June 2009	4 Aug 2008	7 May 2007	28 July 2006	28 Oct 2005
Share price at grant date	A\$5.61	A\$5.73	A\$5.65	A\$3.66	A\$4.13	A\$3.30
Exercise date	17 May 2013	13 May 2012	5 May 2011	7 May 2010	28 July 2009	13 May 2008
Exercise price	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil
Number of rights						
Balance at 1 January 2010	-	1,737,785	2,392,285	2,113,722	234,127	33,579
Granted during period	1,997,400	-	-	-	-	-
Forfeited during period	(169,200)	(64,792)	(134,755)	(29,307)	-	-
Exercised during period ^(8,9)	-	(17,808)	(54,545)	(1,699,893)	(121,028)	(33,579)
Balance at 31 December 2010	1,828,200	1,655,185	2,202,985	384,522	113,099	-
Exercisable at 31 December 2010	-	-	-	384,522	113,099	-
Average share price at date of exercise		A\$5.49	A\$5.49	A\$5.97	A\$5.97	A\$5.97
Balance at 1 January 2009	-	-	2,411,600	2,282,415	1,953,147	65,952
Granted during period	-	1,774,985	66,485	66,485	-	-
Forfeited during period	-	(37,200)	(85,800)	(235,178)	(38,644)	-
Exercised during period ^(9,10)	-	-	-	-	(1,680,376)	(32,373)
Balance at 31 December 2009	-	1,737,785	2,392,285	2,113,722	234,127	33,579
Exercisable at 31 December 2009	-	-	-	-	234,127	33,579
Average share price at date of exercise					A\$6.02	A\$5.57

(1) Performance period 1 January 2010 - 31 December 2012. Fair value of shares granted on 1 June 2010 is A\$3.54.

(2) Performance period 1 January 2009 - 31 December 2011.

(3) Performance period 1 January 2008 - 31 December 2010.

(4) Performance period 1 January 2007 - 31 December 2009. All rights vested on 7 May 2010.

(5) Performance period 1 January 2006 - 31 December 2008. All rights vested on 28 July 2009.

(6) Board discretion exercised in granting rights to new executive in 2009 for prior grant periods.

(7) Performance period 1 January 2005 - 31 December 2007. All rights vested on 13 May 2008.

(8) Settled by cashing out or cancelling the rights or by issuing new shares.

(9) Board discretion exercised in relation to death, resignation or termination of employment.

(10) Settled by cashing out and cancelling the rights or by purchasing shares on market.

Performance rights were priced using a Monte-Carlo simulation model using the following inputs:

	June 2010 grant	June 2009 grant	August 2008 grant	May 2007 grant	July 2006 grant	October 2005 grant
Volatility	35%	40%	38%	32%	35%	40%
Dividend yield	0.90%	2.00%	1.50%	2.90%	1.80%	1.73%
Risk-free interest rate	4.64%	4.16%	6.00%	5.98%	5.93%	5.25%

An expense of US\$7,011,533 (2009: US\$5,770,782) has been recognised in the profit and loss statement in respect of these rights. All rights that have vested expire two years after their exercise date or on termination of employment.

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25 Employee entitlements and superannuation commitments (continued)

Restricted Share Plan

An employee Restricted Share Plan was established in 2007 where selected employees of the economic entity are granted restricted shares of Oil Search Limited.

Restricted shares are granted under the plan in two situations. First as a way of retaining key management and other employees. Second, by way of mandatory deferral of a portion of a selected participant's short-term incentive award. Awards under the Restricted Share Plan are structured as grants of restricted shares for nil consideration. Restricted shares will be held on behalf of participants in trust, subject to the disposal restrictions and forfeiture conditions, until release under the terms of the plan and in accordance with guidelines approved by shareholders at the Annual Meeting in 2007. There are currently 573 (2009: 621) employees participating in the Restricted Share Plan.

Executives	April 2010 grant	March 2010 grant	March 2009 grant	January 2009 grant	January 2009 grant	May 2008 grant	May 2008 grant	March 2008 grant	December 2007 grant
Grant date	27 April 2010	3 March 2010	3 March 2009	1 January 2009	1 January 2009	1 May 2008	1 May 2008	7 March 2008	13 December 2007
Share price at grant date	A\$5.79	A\$5.28	A\$4.80	A\$4.65	A\$4.65	A\$4.95	A\$4.95	A\$4.16	A\$4.55
Exercise date	27 April 2014	1 January 2012	1 January 2011	1 January 2011	1 January 2010	1 January 2011	1 January 2010	1 January 2010	13 December 2010
Exercise price	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil
Number of shares									
Balance at 1 January 2010	-	-	412,282	99,728	124,986	33,898	131,356	236,750	1,147,142
Granted during period	100,000	468,080	-	-	-	-	-	-	-
Forfeited during period	-	-	-	-	-	-	-	-	-
Exercised during period	-	(34,173)	(33,040)	-	(124,986)	-	(131,356)	(236,750)	(1,147,142)
Balance at 31 December 2010	100,000	433,907	379,242	99,728	-	33,898	-	-	-
Exercisable at 31 December 2010	-	-	-	-	-	-	-	-	-
Balance at 1 January 2009	-	-	-	-	-	33,898	131,356	260,898	1,203,675
Granted during period	-	-	412,282	99,728	124,986	-	-	-	-
Forfeited during period	-	-	-	-	-	-	-	(24,148)	(56,533)
Balance at 31 December 2009	-	-	412,282	99,728	124,986	33,898	131,356	236,750	1,147,142

Oil Search (PNG) Limited	July 2010 grant	July 2010 grant	March 2009 grant
Grant date	26 July 2010	26 July 2010	15 June 2009
Share price at grant date	A\$5.80	A\$5.80	A\$5.85
Exercise date	15 July 2014	17 June 2013	17 June 2013
Exercise price	A\$ nil	A\$ nil	A\$ nil

Number of shares			
Balance at 1 January 2010	-	-	757,090
Granted during period	57,625	126,152	-
Forfeited during period	-	-	(72,256)
Balance at 31 December 2010	57,625	126,152	684,834
Exercisable at 31 December 2010	-	-	-
Balance at 1 January 2009	-	-	-
Granted during period	-	-	760,354
Forfeited during period	-	-	(3,264)
Balance at 31 December 2009	-	-	757,090

Restricted shares were priced at the closing share price at the grant date.

An expense of US\$5,305,896 (2009: US\$4,481,155) has been recognised in the financial statements in respect of these restricted shares.

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	2010	2009
	US\$	US\$
26 Key management personnel remuneration		
(a) Directors' remuneration		
Remuneration paid or payable, or otherwise made available, in respect of the financial year, to all Directors of Oil Search Limited, directly or indirectly, by the entity or any related party:		
Short-term benefits	5,729,098	4,653,519
Long-term benefits	148,915	60,373
Post-employment benefits	95,092	127,810
Share-based payments	2,255,019	1,917,808
	8,228,124	6,759,510

The number of Directors of Oil Search Limited whose remuneration falls within the following bands:

	No.	No.
US\$0 – US\$9,999	1	-
US\$10,000 – US\$19,999	1	-
US\$70,000 – US\$79,999	1	-
US\$130,000 – US\$139,999	1	-
US\$140,000 – US\$149,999	-	4
US\$150,000 – US\$159,999	-	2
US\$160,000 – US\$169,999	1	-
US\$170,000 – US\$179,999	3	-
US\$320,000 – US\$329,999	-	1
US\$370,000 – US\$379,999	1	-
US\$1,250,000 – US\$1,259,999	-	1
US\$1,420,000 – US\$1,429,999	1	-
US\$4,280,000 – US\$4,289,999	-	1
US\$5,510,000 – US\$5,519,999	1	-

The insurance premium paid during the year to insure the Directors against claims made against them while performing services for the Company has not been disclosed as it would breach the confidentiality clause in the insurance policy.

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	2010	2009
	US\$	US\$
26 Key management personnel remuneration (continued)		
(b) Executives' remuneration (excluding directors)		
Amounts received or due and receivable by executive officers of the economic entity whose remuneration is US\$100,000 or more, from entities in the economic entity and related entities:		
Short-term benefits	9,508,455	6,425,630
Long-term benefits ⁽¹⁾	(42,391)	89,450
Post-employment benefits	287,745	235,926
Share-based payments	3,753,518	4,052,664
	13,507,327	10,803,670

(1) This is a negative balance as a result of a large long service leave entitlement paid out to a departing executive which was previously accrued.

The number of executive officers whose remuneration falls within the following bands:

	2010	2009
	No.	No.
US\$440,000 – US\$449,999	-	1
US\$610,000 – US\$619,999	-	1
US\$680,000 – US\$689,999	1	-
US\$710,000 – US\$719,999	1	-
US\$1,030,000 – US\$1,039,999	-	1
US\$1,090,000 – US\$1,099,999	-	-
US\$1,200,000 – US\$1,209,999	-	1
US\$1,240,000 – US\$1,249,999	-	1
US\$1,250,000 – US\$1,259,999	1	-
US\$1,350,000 – US\$1,359,999	-	1
US\$1,410,000 – US\$1,419,999	1	-
US\$1,590,000 – US\$1,599,999	-	1
US\$1,660,000 – US\$1,669,999	-	1
US\$1,690,000 – US\$1,699,999	-	1
US\$1,730,000 – US\$1,739,999	1	-
US\$1,790,000 – US\$1,799,999	1	-
US\$1,870,000 – US\$1,879,999	1	-
US\$2,010,000 – US\$2,019,999	2	-

	Consolidated		Parent	
	2010	2009	2010	2009
	US\$	US\$	US\$	US\$
27 Auditors' remuneration				
Amounts paid or due and payable in respect of:				
Auditing the economic entity's financial report	326,494	225,635	103,006	90,254
Other services	16,684	23,884	-	-
	343,178	249,519	103,006	90,254

The audit fees are in Australian dollars and are translated at 0.9187 (2009: 0.7915).

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28 Related party transactions

(a) Key management personnel

The Directors and key management personnel of Oil Search Limited during the year to 31 December 2010, and their interests in the shares of Oil Search Limited at that date were:

Directors	No. of ordinary shares		No. of performance rights⁽¹⁾		No. of restricted shares⁽¹⁾	
	2010	2009	2010	2009	2010	2009
BF Horwood	12,500	12,500	-	-	-	-
PR Botten	1,728,726	1,403,590	870,900	995,591	298,254	453,918
G Aopi	168,188	124,066	219,172	164,972	159,972	102,920
F Ainsworth	-	-	-	-	-	-
KG Constantinou	-	-	-	-	-	-
R Igara	10,000	10,000	-	-	-	-
A J Kantsler	-	-	-	-	-	-
MD Kriewaldt	14,590	14,590	-	-	-	-
JL Stitt	42,190	42,190	-	-	-	-
Z Switkowski	100,000	-	-	-	-	-
TN Warren	-	-	-	-	-	-
Executives						
P Bainbridge	443,675	128,205	230,500	269,058	94,515	252,444
P Caldwell	209,206	173,846	188,200	180,900	70,494	90,116
P Crute	132,320	-	166,000	113,300	90,963	190,597
S Gardiner	120,472	81,672	135,853	103,453	-	38,200
N Hartley	82,455	56,838	190,800	221,512	75,846	133,969
R Marcellus ⁽²⁾	2	-	72,353	134,300	134,642	128,487
A Miller	717,497	388,613	240,000	280,456	96,564	265,476
R Robinson	184,124	184,124	117,900	101,522	-	54,371
M Sullivan ⁽²⁾	-	94,017	-	-	-	-
Z Todorcevski	124,986	-	363,655	279,255	130,167	224,714

(1) Refer to note 25.

(2) Number of ordinary shares held by the Executive at date of ceasing employment with the Group.

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28 Related party transactions (continued)

(a) Key management personnel (continued)

Some Directors and key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

One of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

Consolidated	Transactions value year	
	ended 31 December	
	2010	2009
	US\$'000	US\$'000
Airways Hotel and Apartments Limited ¹	55	40

All services acquired were based upon normal commercial terms and conditions.

- (1) The Group acquired hotel, conference facility and accommodation services in PNG from Airways Hotel and Apartments Limited, a company of which Mr KG Constantinou is a Director.

(b) Other transactions

- (1) Interests in subsidiaries are disclosed in note 31.
- (2) Loans receivable from subsidiaries are disclosed in note 9. Interest revenue and expenses brought to account by the company in respect of these loans during the financial year is disclosed in note 5.
- (3) Interest held in joint ventures are set out in note 23.
- (4) Assets have been transferred between Group companies during the period at book value to prepare the Group structure for the LNG project.
- (5) Other than transactions between entities within the economic entity, which were made under normal commercial terms and conditions, there were no other related party transactions during the year to 31 December 2010.
- (6) Loans from joint venture entity are disclosed in note 19.

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2010

	Consolidated		Parent	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
29 Leases				
Operating leases not capitalised in the accounts				
Rental of premises and motor vehicles				
Payable within 12 months	5,861	4,790	-	-
Payable 1 to 2 years	5,598	4,981	-	-
Payable 2 to 5 years	5,416	11,398	-	-

30 Contingent liabilities

(a) Guarantees

As part of the terms and conditions of a Loan Agreement between Oil Search (PNG) Limited (“OSP”) as borrower and the Commonwealth Bank of Australia lending syndicate for the provision of a US\$435 million term revolving facility, OSP provided a charge over its credit account in Melbourne with Australia & New Zealand Banking Group Limited.

Oil Search Limited, as Completion Guarantor, has guaranteed payment by the Borrower of its share in the LNG Project (29.0%) of the senior debt obligations (refer note 19).

(b) Contingent claims

Various claims for damages, occurring through the ordinary course of business, existed at balance sheet date. Legal advice indicates it is unlikely that any significant liabilities will arise from these outstanding claims.

The ultimate parent company will provide necessary financial support to ensure any subsidiary companies with a net current asset deficiency, will pay their debts as and when they fall due.

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2010

	Ownership interest % 2010	Ownership interest % 2009	Country of Incorporation
31 Group entities			
Parent entity			
Oil Search Limited			PNG
Consolidated entities			
Oil Search (Middle Eastern) Limited	100	100	British Virgin Is.
Oil Search (Iraq) Limited	100	100	British Virgin Is.
Oil Search (Libya) Limited	100	100	British Virgin Is.
Oil Search (Tunisia) Limited	100	100	British Virgin Is.
Oil Search (ROY) Limited	100	100	British Virgin Is.
Oil Search (Gas Holdings) Limited	100	100	PNG
Oil Search (Tumbudu) Limited	100	100	PNG
Oil Search (PNG) Limited	100	100	PNG
Oil Search (Drilling) Limited	100	100	PNG
Oil Search (Exploration) Inc.	100	100	Cayman Is.
Oil Search (LNG) Limited	100	100	PNG
New Guinea Investments Limited ⁽¹⁾	100	100	PNG
New Guinea (Petroleum) Limited ⁽¹⁾	100	100	PNG
New Guinea (LNG Interests) Limited ⁽¹⁾	100	100	PNG
Papuan Oil Search Limited	100	100	Australia
Oil Search Limited Retention Share Plan Trust	100	100	Australia

(1) Name has changed since previous financial year.

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2010

32 Financial instruments

(a) Terms, conditions and accounting policies

The economic entity's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at balance date, are as follows:

Recognised financial instruments	Balance sheet notes	Accounting policies	Terms and conditions
(i) Financial assets			
Receivables - trade	9	Trade receivables are carried at amortised costs less any allowance for doubtful debts. An allowance for doubtful debts is recognised when collection of the full nominal amount is no longer probable.	Credit sales are on 30 day terms.
Receivables - Related parties/entities	9	Amounts (other than trade debts) receivable from related parties/entities are carried at amortised cost less any allowance for doubtful debts.	Receivables from related parties/entities are payable at call. Refer to note 28(b).
Short-term deposits	22(a)	Short-term deposits are stated at amortised cost. Interest is recognised in the profit and loss account at the effective interest rate.	Short-term deposits have maturity dates of six months or less.
(ii) Financial liabilities			
Trade creditors and accruals	17	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the economic entity.	Trade liabilities are normally settled on 30 day terms.
Accounts payable - Related parties/entities	17	Loans from related parties are carried at amortised cost. Interest is taken up as an expense on an accrual basis.	Amounts owing to related parties/entities are payable at call.

OIL SEARCH LIMITED
and its subsidiaries

Notes to the Financial Statements
for the year ended 31 December 2010

32 Financial instruments (continued)

(a) Terms, conditions and accounting policies (continued)

Recognised financial instruments	Balance sheet notes	Accounting policies	Terms and conditions
(ii) Financial liabilities (continued)			
Secured loans	-	Secured loans are carried at amortised cost net of transaction costs. Interest on borrowings for major projects is capitalised until the commencement of production and then amortised over: - the estimated life of the project (oil facility); or - a fixed term from the Completion date (LNG Project). All other interest on borrowings is expensed at the effective interest rate.	Secured loans are repayable in quarterly instalments from proceeds earned from the producing oil fields (oil facility) or semi-annually from LNG proceeds (LNG Project). Interest is either fixed or floating (LIBOR plus a margin). Details of the security over the secured loans are set out in notes 19 and 30(a).
(iii) Equity			
Ordinary shares	21	Ordinary share capital is recognised at the historical US\$ equivalent of capital raised, net of capital raising costs.	Under the PNG Companies' Act, the concept of Authorised Capital no longer exists and there is no limit on the number of shares the company may issue. Details of shares issued and the terms and conditions of options and rights outstanding over ordinary shares are disclosed in notes 21 and 25.
Hedges		From time to time the economic entity enters into hedging arrangements in circumstances where it is necessary to ensure adequate cash flow to meet financial commitments. As per IAS 39: Financial Instruments Recognition and Measurement the company recognises the fair value of outstanding effective hedges in the Balance Sheet. Hedging settlements are included in the profit and loss at the same time as the underlying physical exposure is recognised in the profit and loss.	There are no outstanding forward sales contracts at balance date (2009: nil). As at 31 December 2010, there are no outstanding barrels hedged (2009: nil).

OIL SEARCH LIMITED
and its subsidiaries

Notes to the Financial Statements
for the year ended 31 December 2010

32 Financial instruments (continued)

(b) Financial risk management

Financial risk exposures arise in the course of the day-to-day operating activities of the Group, primarily due to the impact of oil price movements on revenue items and exchange rate and interest rate impacts on expenditure and balance sheet items. The management of borrowings and surplus cash also create liquidity and credit risk exposures. Monetary assets and liabilities denominated in currencies other than the Group's functional currency, US dollars (US\$), may also give rise to translation exposures.

The Group's overall approach is to enter into hedges using derivative financial instruments only in circumstances where it is necessary to ensure adequate cash flow to meet future financial commitments. Financial risk management is undertaken by Group Treasury and risks are managed within the parameters of the Board approved Financial Risk Management policy.

(i) Market risk

Foreign exchange risk

The Group has revenue flows and major capital obligations predominantly denominated in US\$ and the functional currency for the preparation of consolidated accounts is US\$.

The Group's residual currency risk exposure originates from two different sources:

- Administrative and business development expenditures incurred at the corporate level in Australian dollars (A\$); and
- Operating and capital expenditures incurred by the Group in its role of Operator in Papua New Guinea Kina (PGK) and A\$.

In addition to these operational foreign exchange exposures, the Group may also be exposed to one-off transactional flows which occur on an ad hoc basis: i.e. capital equipment purchases in currencies other than US\$. The Group is not exposed to material translation exposures as the majority of its assets and liabilities are denominated in US\$.

Foreign exchange risk management

The Group manages its exposure to foreign exchange rate volatility by matching the currency of its cost structure to its US\$ revenue stream. Transaction exposures are netted off across the Group to reduce volatility and avoid incurring the dealing spread on transactions, providing a natural hedge. The residual operating cost exposures, primarily in A\$, are recurring in nature and therefore no long-term hedging is undertaken to minimise the profit and loss impact of these exposures.

The Operator cash flows are managed independently to the Group's corporate exposures, reflecting the interests of joint venture partners in the Operator cash flows. A\$ and PGK are bought on the spot market in excess of immediate requirements. Where these currencies are purchased in advance of requirements, A\$ and PGK cash balances do not exceed three months requirements.

As at 31 December 2010, there were no foreign exchange deals outstanding (2009: nil).

OIL SEARCH LIMITED
and its subsidiaries

Notes to the Financial Statements
for the year ended 31 December 2010

32 Financial instruments (continued)
(b) Financial risk management (continued)
(i) Market risk (continued)

Foreign exchange risk management (continued)

No currency sensitivity analysis is provided as there were no derivative financial instruments in place to hedge residual foreign exchange exposure and any non-derivative financial instruments are directly denominated in the functional currency of the entity in which it is taken out.

(ii) Interest rate risk

The Group is exposed to interest rate exposure directly through borrowings and investments in each of the currencies of its operations. Surplus cash is invested in short term (floating) instruments due to uncertainty of timing of major cash outflows. Whilst some of the invested cash is in PGK and A\$, the primary exposure is to US interest rates.

Interest rate risk management

Interest rate risk is managed on a Group basis at the corporate level. Limits on the proportion of fixed interest rate exposure are applied and interest rates may be fixed for a maximum term of four years or the remaining life of term debt facilities, whichever is the longer.

As at 31 December 2010, there was no interest rate hedging in place (2009: nil). Surplus cash was invested in short-term instruments with an average maturity of 1 to 6 months.

Interest rate sensitivity

The sensitivity analysis below has been determined based on exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the year.

At the reporting date, if interest rates had been 25 basis points higher or lower and all other variables were held constant, the consolidated entity's:

- net profit after tax would increase/decrease by \$1.9 million (2009: \$0.8 million).

At the reporting date, if interest rates had been 25 basis points higher or lower and all other variables were held constant, the parent company's:

- net profit after tax would increase/decrease by \$1.3 million (2009: \$0.5 million).

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2010

32 Financial instruments (continued)
(b) Financial risk management (continued)
(ii) Interest rate risk (continued)
Consolidated

	Fixed interest rate maturing in:					Total carrying amount as per the balance sheet US\$'000	Weighted average effective interest rate %
	Floating Interest Rate US\$'000	1 year or less US\$'000	1-5 years US\$'000	More than 5 years US\$'000	Non interest bearing US\$'000		
Financial Instruments							
2010							
Financial assets							
Cash and cash equivalents	174,852	1,088,737	-	-	-	1,263,589	0.5%
Receivables – trade	-	-	-	-	40,859	40,859	
Other debtors	-	-	-	-	47,053	47,053	
Non-current receivables	-	-	-	-	3,326	3,326	
Total financial assets	174,852	1,088,737	-	-	91,238	1,354,827	
Financial liabilities							
Trade creditors and accruals	-	-	-	-	219,676	219,676	
Other payables	-	-	-	-	-	-	
Loans and borrowings	846,510	-	-	83,210	-	929,720	3.3
Total financial liabilities	846,510	-	-	83,210	219,676	1,149,396	
2009							
Financial assets							
Cash and cash equivalents	184,876	1,103,201	-	-	-	1,288,077	0.7%
Receivables – trade	-	-	-	-	81,347	81,347	
Other debtors	-	-	-	-	27,436	27,436	
Non-current receivables	-	-	-	-	416	416	
Total financial assets	184,876	1,103,201	-	-	109,199	1,397,276	
Financial liabilities							
Trade creditors and accruals	-	-	-	-	204,119	204,119	
Other payables	-	-	-	-	-	-	
Loans and borrowings	-	-	-	-	-	-	
Total financial liabilities	-	-	-	-	204,119	204,119	

There exists no unrecognised financial instruments at balance date.

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2010

32 Financial instruments (continued)
(b) Financial risk management (continued)
(ii) Interest rate risk (continued)
Parent

Financial Instruments	Fixed interest rate maturing in:					Total carrying amount as per the balance sheet US\$'000	Weighted average effective interest rate %
	Floating Interest Rate US\$'000	1 year or less US\$'000	1-5 years US\$'000	More than 5 years US\$'000	Non interest bearing US\$'000		
2010							
Financial assets							
Cash and cash equivalents	62,945	909,800	-	-	-	972,745	0.5%
Receivables – trade	-	-	-	-	-	-	
Other debtors	-	-	-	-	1,388	1,388	
Total financial assets	62,945	909,800	-	-	1,388	974,133	
Financial liabilities							
Trade creditors and accruals	-	-	-	-	1,469	1,469	
Other payables	-	-	-	-	60	60	
Total financial liabilities	-	-	-	-	1,529	1,529	
2009							
Financial assets							
Cash and cash equivalents	106,005	925,233	-	-	-	1,031,238	0.7%
Receivables – trade	-	-	-	-	-	-	
Other debtors	-	-	-	-	788	788	
Total financial assets	106,005	925,233	-	-	788	1,032,026	
Financial liabilities							
Trade creditors and accruals	-	-	-	-	18,869	18,869	
Other payables	-	-	-	-	2,043	2,043	
Total financial liabilities	-	-	-	-	20,912	20,912	

There exists no unrecognised financial instruments at balance date.

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2010

32 Financial instruments (continued)
(b) Financial risk management (continued)
(iii) Commodity price risk

The Group has exposure to commodity price risk associated with the production and sale of crude.

Commodity risk management

The Group does not seek to limit its exposure to the fluctuations in oil prices; rather the central aim of oil price risk management is to ensure the Group's financial position remains sound and that the Group is able to meet its financial obligations in the event of low oil prices. Hedge cover targets are determined through detailed modelling of the Group's position under various oil price scenarios. The policy ensures that maturities of the hedges are spread over time and there is no fixed minimum hedge cover level. This allows the Group not to be forced to price a significant proportion of its exposure in an unfavourable oil price environment.

Under the PNG LNG Project financing there are restrictions relating to hedging instruments that may be undertaken. Permitted hedging instruments as defined in the financing agreements must be non-recourse to the participants project interest and the project property.

As at 31 December 2010, there was no oil price hedging in place (2009: nil).

No commodity price sensitivity analysis is required as there was no hedging in place.

(iv) Credit risk

The Group has exposure to credit risk if counterparties are not able to meet their financial obligations to the Group. The exposure arises as a result of the following activities:

- Financial transactions involving money market, surplus cash investments and derivative instruments.
- Direct sales of crude.
- Other receivables.
- Granting financial guarantees on the PNG LNG Project.

Credit risk management

Global credit limits have been established across all categories of financial transactions. The limits are based on the credit ratings provided by Standard and Poor's, and Moody's.

The Group markets Kutubu crude on behalf of the Joint Lifting Consortium, primarily selling crude to investment grade counterparties, provided the counterparties enter into Buyer Consent Deeds as required under the terms of the Group's debt facility. Sales to all other buyers are secured by letters of credit issued by single "A" rated banks and confirmed by the ANZ Banking Corporation.

At 31 December 2010 there was no significant concentration of credit risk exposure to any counterparty (2009: nil).

The extent of the Group's credit risk exposure is identified in the following table.

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2010

32 Financial instruments (continued)
(b) Financial risk management (continued)
(iv) Credit risk (continued)

		Consolidated		Parent	
		2010	2009	2010	2009
	Note	US\$'000	US\$'000	US\$'000	US\$'000
Current					
Cash at bank and on hand	22(a)	170,024	151,694	62,942	105,471
Share of cash in joint ventures	22(a)	4,828	33,182	3	534
Interest-bearing short-term deposits	22(a)	1,088,737	1,103,201	909,800	925,233
Receivables	9	87,912	108,783	210,992	146,399
		1,351,501	1,396,860	1,183,737	1,177,637
Non-current					
Receivables	9	3,326	416	-	-
Loans and borrowings	19	929,720	-	-	-
		933,046	416	-	-

(v) Liquidity risk

The Group has exposure to liquidity risk if it is unable to settle transactions in the normal course of business and if new funding and refinancing cannot be obtained as required and on reasonable terms.

Liquidity risk management

The Group manages liquidity risk by ensuring that there are sufficient funds available to meet its financial obligations on a day-to-day basis and to meet unexpected liquidity needs in the normal course of business. The Group's liquidity policy is to maintain surplus immediate cash liquidity together with committed undrawn lines of credit for business opportunities and unanticipated cash outflows.

The Group also seeks to ensure maturities of committed debt facilities are reasonably well spread over time to minimise the Group's exposure to risk on the cost or availability of funds should the refinancing requirement coincide with unexpected short-term disruption or adverse fund-raising conditions in the capital markets. In order to avoid an exposure to any particular source of external funding the Group acknowledges the benefits of diversification of funding sources and where possible, aims to source its funds from a range of lenders, markets and funding instruments.

Oil Search (PNG) Limited ("OSP") signed a five year financing facility effective 23 October 2008 for US\$435 million, decreasing by US\$14.5 million at the end of each quarter. A facility limit of US\$304.5 million was available at 31 December 2010. There was a nil drawn balance as at 31 December 2010 (2009: nil). As part of the terms and conditions of this facility, OSP has provided a charge over its credit account in Melbourne with Australia & New Zealand Banking Group Limited.

Each participant to the PNG LNG Project severally provides participant equity funding pro rata with each disbursement of ECA/Bank loans so that participant equity funding is provided for at least 30% of project capital costs at such time. 60% of OSL's future base equity commitments are held in escrow. Oil Search plans to meet its remaining share of base equity out of existing cash, corporate debt, cash flows or if necessary additional funding. In the event of material cost overruns, delays or protracted low oil prices, further capital management, equity raisings, oil price hedging or further sale of assets may be considered.

As at 31 December 2010, the Group has surplus cash of US\$1,259 million, of which US\$1,089 million was invested in short-term instruments (2009: US\$1,255 million).

OIL SEARCH LIMITED
and its subsidiaries

Notes to the Financial Statements
for the year ended 31 December 2010

32 Financial instruments (continued)
(b) Financial risk management (continued)
(vi) Capital risk

Capital management

The consolidated entity manages its capital to ensure that entities in the consolidated group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balances.

This involves the use of corporate forecasting models which facilitate analysis of the Group's financial position including cash flow forecasts to determine the future capital management requirements. Capital management is undertaken to ensure a secure, cost-effective and flexible supply of funds is available to meet the Group's operating and capital expenditure requirements.

Fair values

The aggregate fair values of financial assets and financial liabilities, both recognised and unrecognised at balance date, are as follows:

	Aggregate fair value			
	Consolidated		Parent	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
Financial assets				
Cash	1,263,589	1,288,077	972,745	1,031,238
Receivables – trade	40,859	81,347	-	-
Other debtors	47,053	27,436	1,388	788
Investments	29	-	-	-
Non current receivables	3,326	416	-	-
Total financial assets	1,354,856	1,397,276	974,133	1,032,026
Financial liabilities				
Trade creditors and accruals	219,676	204,119	1,469	18,869
Other payables	-	-	60	2,043
Loans and borrowings	929,720	-	-	-
Total financial liabilities	1,149,396	204,119	1,529	20,912

All financial assets and financial liabilities are initially recognised at the fair value of consideration paid or received, net of transaction costs as appropriate, and subsequently carried at fair value or amortised cost.

The financial assets and liabilities are presented by class in the table above at their carrying values, which generally approximate to the fair values.

**OIL SEARCH LIMITED
and its subsidiaries**

Directors' Declaration 31 December 2010

In accordance with a resolution of the directors of Oil Search Limited, the Directors declare that:

(a) the attached financial statements and notes thereto of the Company and of the consolidated entity:

(i) give a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2010 and their performance for the year ended on that date; and

(ii) comply with International Financial Reporting Standards; and

(iii) the attached financial statements and notes thereto comply with the reporting requirements of the Australian Securities Exchange Listing Rules; and

(b) in the opinion of the Directors, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due or payable.

Signed in accordance with a resolution of the directors.

On behalf of the Board of Directors

B. F. Horwood

.....
BF HORWOOD
Chairman

PR Botten

.....
PR BOTTEN
Managing Director

Sydney, 21 February 2011

Independent Auditor's Report to the members of Oil Search Limited

Report on the Financial Report

We have audited the accompanying financial report of Oil Search Limited (the company), which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 42 to 94.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with International Financial Reporting Standards (including the interpretations of the International Financial Reporting Interpretations Committee) and the *PNG Companies Act 1997* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with International Standards of Auditing. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial report of Oil Search Limited is in accordance with the *PNG Companies Act 1997*, including:

- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2010 and of their performance for the year ended on that date; and
- (ii) complying with International Financial Reporting Standards (including the interpretations of the International Financial Reporting Interpretations Committee); and
- (iii) proper accounting records, in all material respects, have been kept.

Other Information

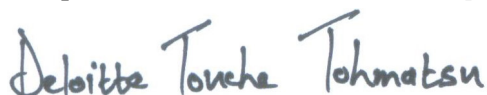
We have no interest in the company or any relationship other than that of the auditor of the company.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 38 of the directors' report for the year ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report and have voluntarily complied with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with International Standards on Auditing.

Auditor's Opinion

In our opinion the Remuneration Report of Oil Search Limited for the year ended 31 December 2010, complies with section 300A of the *Corporations Act 2001*.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU



Suzaan Theron

Partner

Chartered Accountants

Registered under the Accountants Act, 1996

Port Moresby, 21 February 2011

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU



John A Leotta

Partner

Chartered Accountants

Registered Company Auditor in Australia

Sydney, 21 February 2011



OIL SEARCH LIMITED

Incorporated in Papua New Guinea
ARBN 055 079 868

OIL SEARCH LIMITED
2010 Final Dividend

Oil Search Limited will pay a 2010 final dividend of US\$0.02 (two US cents) per ordinary share on Friday, 8 April 2011.

The record date is Wednesday, 16 March 2011 and the ordinary shares will trade "ex" dividend from Thursday, 10 March 2011.

The dividend will be paid in PNG Kina for those shareholders domiciled in Papua New Guinea, in GB Pounds for those shareholders that have lodged direct credit details requesting a GB Pounds credit and in Australian dollars for all other shareholders. The exchange rates used for converting the US dollar dividend into the payment currencies will be the reference rates on the record date.

The dividend will be unfranked and no withholding tax will be deducted.

Yours faithfully
OIL SEARCH LIMITED

STEPHEN GARDINER
Group Secretary

Tuesday, 22 February 2011