

Helping to create a sustainable future in PNG



OIL SEARCH LIMITED

A BRIEF PROFILE OF OIL SEARCH

Oil Search has been exploring for oil and gas in Papua New Guinea (PNG) for over 80 years. It is one of the leading players in the PNG oil and gas industry and operates all of PNG's currently producing oil and gas fields.

The Company is poised to enter a major new growth phase, driven by its 29% interest in the PNG LNG Project, a world scale liquefied natural gas project operated by Esso Highlands Limited, a wholly owned subsidiary of Exxon Mobil Corporation. This Project, which is scheduled to commence LNG shipments in 2014, will transform Oil Search into a significant LNG exporting company.

In addition to its producing oil and gas and LNG development interests in PNG, Oil Search also has exploration activities in PNG, Yemen, Iraq and Tunisia. The Company has approximately 1,000 full-time staff and employs over 1,000 contractors located in PNG, Australia and the Middle East / North Africa.

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*Oil Search — a partner
in PNG for over 80 years*



THE FUTURE OF
PAPUA NEW GUINEA



Above: Alfred Dafora,
Light Helicopter
Loadmaster

Main: Suayo
Diawa, Machinist,
in the Industrial
Park maintenance
workshop at Kutubu

THE SIGNIFICANCE OF THE PNG LNG PROJECT

The PNG LNG Project, the largest development ever undertaken in PNG, has the potential to improve the quality of life for all citizens in the country. Over its 30 year life, the Project is expected to commercialise over nine trillion cubic feet of gas and 200 million barrels of associated liquids, located in the Southern Highlands region of PNG. Some US\$4 billion has been invested to date of the Project's estimated US\$15 billion initial phase development cost.

The effects of this major investment are already being felt in the PNG economy – the latest PNG budget predicts that real GDP growth in 2011 will be over 8%, reflecting the impacts of the investment ramp-up. An independent research group, ACIL Tasman, has predicted that when the Project is in production, PNG's gross domestic product will more than double, while the country will also benefit from new labour and business development opportunities.

The PNG LNG Project will also have a significant impact on Oil Search, more than quadrupling its production to over 60,000 barrels of oil equivalent per day in the first full year of production.

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*PNG LNG – potential to
improve life for PNG citizens*



THE FUTURE OF
PAPUA NEW GUINEA



Above: Student at the Port Moresby Technical College
Main: Peter Agua, from Skills Tech Australia, PNG LNG Project training supervisor at the Port Moresby Technical College

RESPONSIBLE DEVELOPMENT

Oil Search believes that to achieve its business objectives, it must conduct its operations in a sustainable manner. The Company's approach to sustainability is focused on ensuring that people within Oil Search's operational areas have sustainable livelihoods, both now and well into the future.

Operating in one of the most pristine and biologically diverse regions on earth, Oil Search also considers the protection and conservation of the local environment to be a priority.

While core sustainability concepts have always been embedded into its policies and systems, in 2010 Oil Search formed a Sustainability Group. This group will ensure that the Company continues to adopt proactive socio-economic and environmental initiatives to maximise sustainable benefits for all stakeholders. This remains a core strategy in ensuring stable operating environments in PNG and other countries in which Oil Search operates.



*Responsibility — developing our
resources in a sustainable manner*



THE FUTURE OF PAPUA NEW GUINEA



Above: James Pambori, Senior Community Affairs Officer, Hides

Main: Oil Search facilitates the construction of fish ponds and the rearing of freshwater fish in the PNG Highlands



Left: Central Processing Facility (CPF), Kutubu

WORKING WITH THE COMMUNITY

Much of Oil Search's success in operating in PNG can be attributed to the Company's commitment to engage with local communities. Oil Search requires local community support to ensure successful project delivery and incident free operations, while local communities welcome Oil Search's support for economic and social development.

The Company contributes significantly to sustainable livelihoods and social service provision in Oil Search's local communities. All Oil Search's activities are planned and implemented in a culturally sensitive manner and field-based Community Affairs teams monitor and address concerns on an ongoing basis.

As well as managing and providing assistance to many community-based development projects, Oil Search operates a range of community health programmes, in particular in the areas of malaria, HIV/AIDS and maternal and child health. The Company is establishing a Health Foundation, which will oversee an expansion of its world recognised health programmes into areas adjacent to its operations and in selected areas across PNG.



*Communities — leaving
a long term positive legacy*



THE FUTURE OF
PAPUA NEW GUINEA



Above: Mary Michael, CDI Public Health Officer, Hides
Main: Classrooms at Ai'io Primary School were constructed by Oil Search and the Company also supplies teaching materials

OIL SEARCH'S STRATEGIC DIRECTION

In 2010, Oil Search conducted a major strategic review, designed to identify and evaluate the Company's growth options over the next five to ten years. The review has provided a template to manage the significant changes to the Company, and to PNG, brought about by the development of the PNG LNG Project.

Following the review, Oil Search believes it can achieve superior value growth relative to its peers for at least the next five years, by utilising the asset base and skills that are already present within the Company. The delivery of the PNG LNG Project, on time and on budget, and establishing further gas reserves that can underwrite additional LNG trains in PNG, will drive performance. The PNG oil fields will remain the backbone of Oil Search, providing much of the cash flow to fund the Company's growth ambitions prior to first LNG shipments.

Implementation of the many initiatives developed by the strategic review will commence during 2011 and will continue into 2012 and beyond.

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*Strategic review — a blueprint
for future growth*

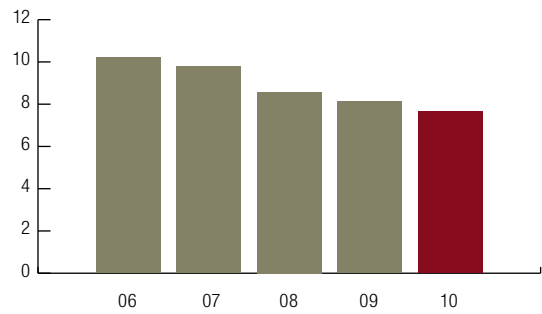


THE FUTURE OF
PAPUA NEW GUINEA



Above: Joshua
Kaiwari, Apprentice
Process Technician
Main: Roge Kila,
Kutubu Production
Coordinator, at the
CPF, Kutubu

2010 HIGHLIGHTS

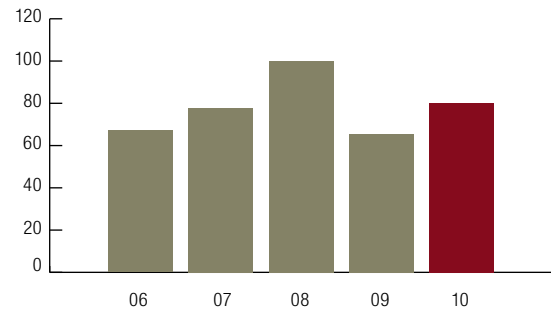


PRODUCTION (MMBOE)

Production in 2010 was 7.7 million barrels of oil equivalent (mmboe), 6% lower than in 2009. Production from new development wells, improved facilities uptime and active well management helped to offset the natural decline from the PNG oil fields.

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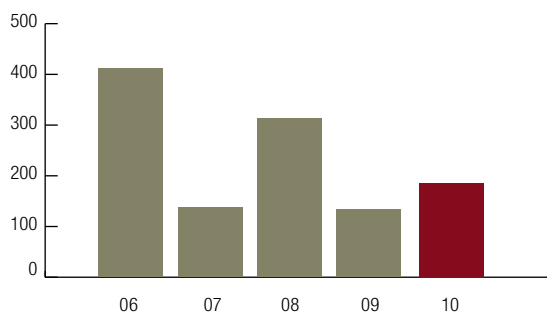
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REALISED OIL PRICE (US\$/BBL)

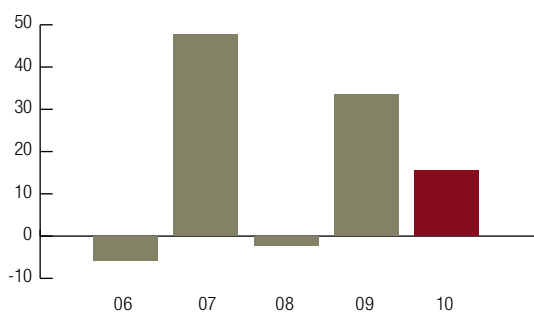
The average oil price realised in 2010 was US\$80.19 per barrel, 23% higher than in 2009. The rise reflected both an increase in global oil prices and a move to Dated Brent as the Company's primary marker crude.

*In 2010, Oil Search
generated a total return to
shareholders of 15.5%,
driven by a strong rebound
in profitability and progress
on the PNG LNG Project*



NET PROFIT AFTER TAX (US\$ MILLION)

2010 reported net profit after tax increased 39% to US\$185.6 million due to higher oil prices and a one-off restatement of deferred tax, which more than offset 7% lower oil sales volumes. Net profit before significant items rose 45% to US\$144.1 million.



TOTAL SHAREHOLDER RETURNS (TSR*) (%)

Oil Search delivered a TSR in 2010 of 15.5%. For the five years to December 2010, the Company generated an annualised return of 15.2%, making it the sixth ranked TSR performer out of the ASX 100# over this period.

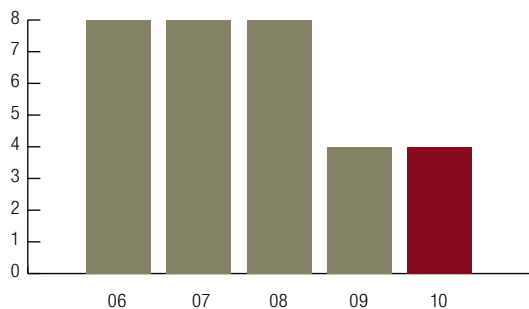
*TSR comprises share price appreciation plus dividends.

#Based on the ASX 100 composition at 01/01/2006.

THE FUTURE OF PAPUA NEW GUINEA

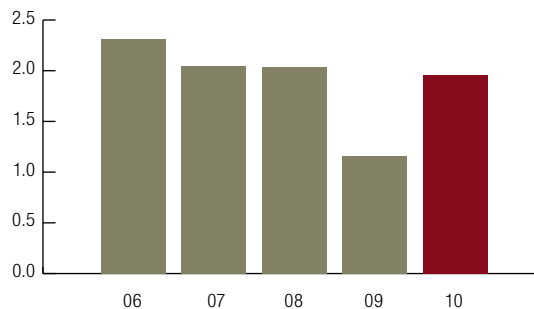


Above: Danny Kelema, Plant Operator



DIVIDEND PAYMENTS (US CENTS PER SHARE)

Oil Search paid a total dividend for the 2010 year of four US cents per share, the same as in 2009. This is in line with the Company's intention to align dividends with underlying earnings. The payment was funded by a fully underwritten dividend reinvestment plan.



TOTAL RECORDABLE INCIDENTS PER MILLION HOURS WORKED

Oil Search's Total Recordable Incident Frequency Rate in 2010 was 1.96 per million hours worked, compared with 1.16 per million hours worked in 2009. While this compares favourably to the Company's Australian peers, the increase relative to 2009 was disappointing and Oil Search is striving for improved outcomes.



Left: Samson Ipape, a third year Process Technician Apprentice, completing a hazard ID card at the CPF, Kutubu

REPORT FROM THE CHAIRMAN

Oil Search is a company in transition, moving from an oil to a gas driven business. With strong operating controls and a sound balance sheet, the Company is well placed for this transformation.

2010 PERFORMANCE AND DIVIDEND PAYMENTS

Oil Search posted a net profit after tax of US\$185.6 million in 2010, 39% higher than in 2009. The result was achieved despite a small decline in oil and gas production and was driven by higher oil prices and a one-off restatement of deferred tax balances. Given the deferred tax credit was a non-cash accounting adjustment, the Board approved the payment of a final dividend payment for 2010 of two US cents per share, taking total dividend payments for the 2010 year to four US cents, the same as in 2009. This is in line with the Board's intention to align dividend payments with underlying earnings.

PNG LNG PROJECT

Full execution of the PNG LNG Project commenced in March 2010, following the completion of all sale and purchase agreements and the finalisation of Project financing. The focus of activities over the year was on construction of infrastructure and camp facilities, site preparation, equipment mobilisation and pipeline clearing. Like every major project, PNG LNG has faced some challenges, primarily due to landowner concerns about business development and seed capital. However, I am pleased to report that the Operator, with support from Oil Search, is proactively addressing stakeholder concerns. The Project remains on track to commence first LNG shipments in 2014.

SAFETY PERFORMANCE

Oil Search's Total Recordable Incident Frequency Rate in 2010 was 1.96 per million hours worked, compared with 1.16 per million hours worked in 2009. While still strong relative to our global energy peers, the increase in injuries compared with 2009 was disappointing. Oil Search is working closely with its contractors and staff to reinforce safety messages and its commitment to delivering a safe working environment.

2010 STRATEGIC REVIEW

During 2010, the Board played an active role, together with management, in a major strategic review. This review examined all aspects of Oil Search's existing business, the challenges, opportunities and the growth options for Oil Search over the next 5-10 years.

The review highlighted that investing in PNG has driven a 30 fold increase in market capitalisation since first oil production from Kutubu in 1992 and a four fold increase since January 2005. The Board is confident that, by utilising the Company's core skills of proactively managing oil and gas operations in the PNG environment, Oil Search can continue to generate top quartile returns by ongoing investment in PNG. While the execution of the Company's PNG gas growth strategy will result in a more gas-dominant portfolio, Oil Search intends to maintain a meaningful position in oil and expects future growth to be driven by both gas and oil.

BOARD CHANGES

The year saw several changes to membership of the Company's Board of Directors. Fraser Ainsworth resigned after serving for eight years, during which he contributed significantly. Tim Warren retired due to ill health and, sadly, subsequently passed away. Tim brought substantial oil and gas industry experience, which was invaluable as the Company considered its options for growth, and we extend our condolences to his family. The Board recruited two new directors during the year to fill these vacancies, Agu Kanstler and Ziggy Switkowski. Both Agu, who brings substantial oil and gas exploration experience, and Ziggy, with a background as the Chief Executive Officer of a major Australian company and with broad board experience, are expected to add significant value to Oil Search.

In closing, on behalf of the Board, I would like to acknowledge the great efforts of Oil Search's management and staff during 2010 and thank them for their commitment to the Company and all stakeholders.

Based on the strong profit performance in 2010, the Board approved dividend payments of four US cents per share in 2010



Above: Brian Horwood,
Chairman
Main: Ridge Camp,
Kutubu

REPORT FROM THE MANAGING DIRECTOR

Oil Search is undergoing very significant changes brought about by the development of the PNG LNG Project. The Company had two key focus areas in 2010. The first was on securing financial close and the required debt to fund PNG LNG and to progressively ramp up Project construction. The second focus area was to carry out a major strategic review to highlight the value potential of Oil Search's assets and to define how this value may be captured in a sustainable and responsible way.

PNG LNG PROJECT

Full execution of the PNG LNG Project commenced in March 2010, following the finalisation of offtake agreements, shipping and financing arrangements. Securing the project financing package and high quality customers to underwrite the Project's full capacity was a major achievement and a vote of confidence by the market in PNG LNG.

Activities ramped-up steadily over the year, mainly focused on clearing work, creating appropriate road access and building other required infrastructure. By the end of the year, key logistical routes were open, the main site camps were operational and contractors were mobilising to progressively commence the major construction activities that will start in 2011. While still early days, with the Project only one year into a four year construction timetable, the Operator has advised that the budget and schedule both remain unchanged, with an estimated cost of US\$15 billion and first LNG shipments in 2014.

One of the Project's aims is to support local employment opportunities, both during the construction phase and when the Project is in operation. The Port Moresby Construction Training Facility, which will train up to 1,000 PNG workers per year for the Project's construction phase and the Production Operations Training Centre, for training of PNG nationals for ongoing plant operation and maintenance roles, both opened during the year.

The Highlands training facility at Juni is scheduled to open in 2011. Having a high quality local workforce, combined with the ability to recruit skilled workers from the global workforce pool, places PNG LNG in a strong position.

As well as direct employment, the PNG LNG Project co-venturers recognise that local landowner involvement, through employment and business development opportunities, is mutually beneficial for the Project and the country. During 2010, the Operator, the PNG Government and Oil Search spent considerable time advancing the capabilities of landowner companies and awarding contracts. By the end of 2010, more than 1.5 billion Kina (approximately US\$570 million) of local contracts had been awarded and more than 4,500 PNG nationals (approximately 80% of the total workforce) were employed on Project activities. Of this, some 4,000 PNG nationals were employed through 14 landowner companies, working in Project activities such as construction labour, catering, camp management, security and transport.

The Project experienced a number of disruptions during the year, primarily related to concerns about business development and the provision of seed capital from the Government. However, with an open dialogue between all key stakeholders, these issues are being progressively resolved.

2010 STRATEGIC REVIEW

During 2010, Oil Search undertook a comprehensive, bottom-up strategic review, similar to the review that took place in 2002/03. The 2002/03 review resulted in the Company increasing its PNG asset base and taking over the operatorship of the PNG oil fields – these actions were instrumental in driving Oil Search's strong share price performance over the past seven years.

The PNG LNG Project placed some US\$570 million worth of local contracts during 2010



Above and main:
Peter Botten,
Managing Director

The 2010 review has highlighted a potentially exciting future for Oil Search, with the Company's existing assets and primary skills having the capability to deliver top quartile returns for at least the next five years. Based on the review, maximum value can be achieved by Oil Search remaining a focused oil and gas growth company, from assets primarily located in PNG. The key value drivers for the Company will be the successful delivery of the PNG LNG Project, building resources to facilitate LNG train expansion and enhanced oil and gas operating synergies.

Eight major strategies have been defined, which if successfully pursued, should deliver superior growth performance. These strategies are:

1. 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.
2. Maximising the value from the PNG LNG Project, including active management of in-country issues such as benefits distribution.
3. Promoting an early decision on a third LNG train based on existing PNG LNG Project fields and nearby structures.
4. Accumulating gas resources outside existing PNG LNG Project fields, to support a standalone LNG project.
5. Ensuring Oil Search's sustainability, with an enhanced focus on managing operating risks, promoting transparency and improving external reporting.
6. Actively evaluating international growth opportunities, recognising that any transaction must compete for funds with PNG expansion opportunities.
7. Optimising the Company's financial and capital structure through to, and beyond, first LNG.
8. Aligning the Company to deliver this strategic plan.

A comprehensive plan comprising some 40 major work streams has been developed, which describes in detail what has to be done and in what timeframe. A new group has been formed internally which will monitor the delivery of these initiatives.

FOCUS AREAS FOR 2011 AND BEYOND

The 2010 Strategic Review has provided a template for Oil Search's activities in 2011 and beyond. Key focus areas and activities include the following:

PNG LNG Project delivery

Construction will accelerate during 2011 at the Hides Gas Processing Plant and Komo Airfield in the PNG Highlands and at the LNG Facility in Port Moresby, while the laying of both the onshore and offshore pipelines will start. Oil Search will also commence construction of the facilities required to deliver gas from the oil fields in 2011. This is one of the most difficult parts of the Project, given that major construction will take place within an operating oil facility.

The Company's main focus will be on ensuring this is achieved safely with minimal disruption to the oil operations. In addition, the Company will continue to work on major oil facilities life extension, including replacement of the oil loading buoy, during the year.

Oil Search anticipates that, together with the PNG LNG Operator, it will remain proactively involved in community and government engagement, particularly in the build up to the PNG National Election, scheduled for mid 2012.

Gas resource expansion

A major focus for Oil Search in 2011 is the identification of further gas resources that can underwrite the timely development of additional LNG trains. The Company has a two-pronged strategy:

- Expansion of the PNG LNG Project, utilising gas reserves located in the Foldbelt/Highlands areas.
- The establishment of Gulf Area LNG, focused on the Gulf of Papua, where Oil Search has secured an extensive acreage position.

Subject to PNG LNG Project and joint venture approvals and the successful completion of technical work, Oil Search expects to see an integrated exploration and appraisal programme commence in the Highlands area in late 2011. This programme will comprise the acceleration of appraisal drilling on the Hides field (which is part of the PNG LNG Project development plan), with drilling targeted to start before the end of the year, along with exploration work at Huria and preparations for an appraisal well on the existing P'nyang gas field. Based on a risk analysis of these wells, Oil Search believes that sufficient resources to underwrite an expansion of the PNG LNG Project will be proved up by this programme.

Oil Search is pursuing a two-pronged LNG growth strategy, in the Highlands and in the PNG Gulf region



Above: Welding contractor, Usano
Main: The Hides mountain, Southern Highlands Province



Left: Line pipe for the PNG LNG onshore pipeline stored at the Kopi Shore Base

Following a range of farm-ins and acquisitions during 2010, Oil Search now has an extensive spread of interests in the Gulf of Papua and the adjacent onshore area, which the Company believes has the potential for significant gas accumulations. Seismic acquisition in the Gulf of Papua is underway and it is hoped that it will define a range of prospects for drilling in late 2011 and into 2012. When the seismic and prospect evaluation is complete in mid/late 2011, Oil Search intends to seek a partner to share the evaluation risks and form a long term relationship that can be the basis of a new LNG focused growth stream for the Company.

Optimising oil production

A pleasing aspect of the 2010 results was the continued strong production performance of the PNG oil fields. A number of programmes to extend the life of the facilities, improve safety management and renew key parts of the export system are now taking place. These programmes, together with the PNG LNG Project work, will impact production in 2011, with production for the year expected to be in the range 6.2 – 6.7 mmbbl. Assuming planned development drilling and well workover programmes are successful, production should remain at around this level until first LNG shipments. The oil fields are expected to remain key assets to Oil Search for the long term, providing strong cash flows to underpin LNG expansion.

Potential development of Mananda 5

In late 2010, oil and gas was discovered at Mananda 5, located 18 kilometres north of the SE Mananda field in PNG. A number of oil bearing zones were found and these intervals are being progressively tested. Initial testing results have been positive and work has already commenced on reviewing potential development options for this new oil field.

International Activities

During 2011, Oil Search expects to continue to assess its remaining international acreage portfolio in the Middle East and North Africa. This evaluation will focus both on the prospectivity and the materiality of each asset and how to maximise its value to Oil Search. In certain circumstances, the assets may be more attractive in the hands of others and consequently some disposals may occur during the year. The Company expects to continue to actively review international opportunities, while remaining mindful that any acquisition will need to compete for capital with expansion opportunities in PNG.

Safety

While safety performance in 2010 was better than Oil Search's Australian peers, the results were disappointing, with more people hurt in the Company's operations in 2010 than in 2009. The overall trend of safety performance, as indicated by a range of lead and lag indicators, is one of continued improvement. However, the Company is committed to doing better in safety and environmental performance. Oil Search will hold a number of Safety Forums in 2011, focusing on ways to improve performance and address the challenges of increased activity levels.



Oil Search has formed a new Sustainability Group and is establishing the Oil Search Health Foundation

Oil Search continues to strive for incident free operations so that everyone who comes to work goes home uninjured.

Sustainability

The PNG LNG Project is having a major impact on PNG. On the positive side, the Project is creating significant employment and business opportunities. However, these are balanced by the negatives of inflation, bottlenecks in key areas such as ports and airports and increased levels of traffic, while landowner expectations for contracts, employment and receipt of seed capital can be difficult to satisfy.

In order to manage the obvious stresses that come with such a major development as the PNG LNG Project and expected growth into the future, Oil Search has set up a new Sustainability Group. This group will focus on further developing the Company's community and government affairs strategies and implementing initiatives to ensure benefits are paid to the right people, that transparency of dealings is improved and that sound structures are put in place so that the Project benefits are appropriately distributed to both the Project area communities and also across the country. Managing these important elements in a more active way is essential to providing a platform for long term growth in PNG and Oil Search's ability to deliver the value inherent in its assets.

The Company also wants to continue to increase its contribution to PNG communities and is establishing the Oil Search Health Foundation. The Foundation will oversee an expansion of Oil Search's existing health programmes into areas near Oil Search's operating activities and in selected areas across the country. Programmes will include HIV/AIDS management, malaria and tuberculosis control, maternal health, children's health and nutrition. These programmes have been recognised as world class in their delivery and impact. Oil Search has been awarded Primary Recipient status by the Global Fund to fight AIDS, Tuberculosis and Malaria (Global Fund), one of the largest donor groups in the world. Global Fund will provide Oil Search with funds to carry out both its own programmes and also to administer a number of other groups, churches

and NGOs that are receiving money from Global Fund, to ensure programmes are delivered efficiently and money is spent well. With few companies around the world in this position, the support from Global Fund and other major donor organisations such as AusAid and the Asian Development Bank (ADB) is a major endorsement of the value of Oil Search's programmes, which can make a real difference to communities in which the Company works.

This year, Oil Search has published a Sustainability Report for the first time. This report provides a comprehensive outline of the Company's approach to sustainability and its extensive programmes and ongoing efforts to mitigate the environmental, social and economic risks to which the Company is exposed.

Oil Search Management Team and Employees

There have been a number of changes of responsibilities in the Oil Search management team over the last few months. These have aligned the organisation to deliver the work initiatives outlined in the Strategic Review and to further develop the talent existing in the organisation. This, together with succession planning, will continue to be a focus through 2011.

Oil Search is fortunate in having an outstanding and committed workforce through all parts of its business. I would like to thank all Oil Search staff for their contribution and dedication during 2010 and I look forward to a challenging and exciting year ahead.



Above: Jerry Stevens, Board Operator

Previous page: 2010 IFO award presented to Coral Seas Mining Services at recent Oil Search safety forum



Left: Village access to waterway off Lake Kutubu

2010 FINANCIAL PERFORMANCE

During 2010, Oil Search's oil business continued to deliver strong operating and financial results, underpinning investment in the PNG LNG Project and other growth opportunities.

HIGHLIGHTS

Oil Search delivered strong operating and financial results in 2010. Net profit of US\$185.6 million for the year was 39% higher than in 2009, with increased realised oil prices and prudent cost management successful in offsetting the impact of lower production volumes, localised cost pressures in PNG and adverse currency movements. Oil Search remained unhedged in 2010 and benefited from increasing commodity prices, while operating margins remained strong. Operating cashflow for 2010 was US\$398.3 million, 40% higher than in 2009.

The Company's total liquidity position at the end of 2010 was US\$1.568 billion, including an undrawn revolving facility of US\$304.5 million. This strong balance sheet means Oil Search can fully fund its PNG LNG Project equity commitments while it also provides the Company with the financial flexibility to pursue further LNG expansion activities.

Total dividends declared and paid in 2010 were four US cents per share and were funded by a fully underwritten Dividend Reinvestment Plan that was well supported by shareholders. The Board has indicated an intention that future dividend payments will remain aligned with underlying earnings.

Revenues

Revenue from operations in 2010 was US\$583.6 million, 14% higher than in 2009. The increase was driven primarily by higher realised oil prices, which rose 23% from US\$65.40 per barrel in 2009 to US\$80.19 per barrel. This reflected both improved global oil prices and a change by Oil Search in the benchmark pricing for all its PNG crude sales. The move in marker crude, from Tapis to Dated Brent, delivered substantial value to the Company. Higher realised oil prices more than offset a 6% fall in production, which was primarily due to natural decline in the PNG oil fields.

Costs

During 2010, Oil Search continued to focus on active cost management. As a result, PNG field operating costs (including Hides) rose only 2%, from US\$79.6 million to US\$81.3 million. Total cash costs, including corporate costs, increased 9% to US\$111.8 million, due to localised inflationary effects in PNG and the adverse impact of a strengthening Kina and Australian dollar against the US dollar.

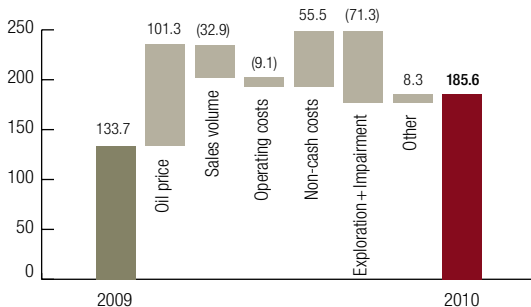
Non-cash costs

Non-cash charges, including depreciation, amortisation and site restoration, decreased from US\$105.4 million in 2009 to US\$49.9 million in 2010. This reduction reflected the impact of the PNG LNG Project sanction decision, which allowed the existing asset base to be apportioned across both oil and gas reserves for the first time.

Exploration and evaluation expense

During 2010, Oil Search spent US\$176 million on exploration, evaluation and new venture activities. Of this, US\$131.2 million, primarily relating to unsuccessful drilling at Korka and Wasuma and seismic work, was expensed. This was substantially more than in 2009 due to higher activity levels during the year.

Following an impairment review, impairment charges of US\$15.8 million were also taken in 2010. These impairment charges were recognised as significant items.



REPORTED PROFIT – KEY DRIVERS (US\$ MILLION)

2010 full year net profit was 39% higher than in 2009, primarily due to higher oil prices

Taxation expense

The 2010 effective tax rate on profit was 33%, compared with the 2009 rate of 44%. The reduction in the effective tax rate was largely due to a once-off restatement of deferred tax balances following the sanction of the PNG LNG Project. The PNG LNG Project will result in the extension of a number of oil field lives and the conversion of these fields from predominantly oil to predominantly gas production at different points in the future. At the time each field starts to sell gas, it will move from the current tax rate of 50% applicable to oil operations into the gas tax regime of 30%. A review of deferred tax balances in light of this resulted in a net credit to deferred income tax of US\$49.6 million. This is a non-cash accounting adjustment and will not impact actual tax paid in the near term.

Cash flows

Operating cash flow increased from US\$284 million to US\$398 million, primarily due to the impact of higher realised oil prices, partially offset by lower production volumes.

In 2010, Oil Search's net investing cashflow included the following items:

- US\$42 million on oil operations activities.
- US\$1.14 billion on the PNG LNG Project, including capitalised finance costs.
- US\$176 million on exploration and evaluation.

During 2009, the Company introduced a fully underwritten dividend reinvestment plan which was maintained in 2010. As a result, no net cash distributions were made to shareholders.

Liquidity

At the end of 2010, Oil Search had net cash of US\$333.9 million, comprising US\$1,263.6 billion in cash and US\$929.7 million in debt.

In October 2008, Oil Search established a US\$435 million five year revolving credit facility. The facility remains in place and is undrawn with a balance at 31 December 2010 of US\$304.5 million.

The Company's liquidity objective is to ensure sufficient funding for its equity share of PNG LNG Project expenditures while also retaining the capacity to pursue investment in growth options.



Above: Arnold Abaik, CPF Plant Supervisor

FINANCIAL PERFORMANCE

YEAR TO 31 DECEMBER		2006	2007	2008	2009	2010	% CHANGE 09/10
Oil and gas production	(mmbobe)	10.20	9.78	8.60	8.12	7.66	-6
Oil Liftings	(mmbbl)	9.18	8.71	7.46	6.95	6.45	-7
Realised oil price	(US\$/barrel)	67.22	77.78	100.10	65.40	80.19	+23
Revenue from operations	(US\$ million)	644.5	718.8	814.3	512.2	583.6	+14
Operating costs, other income/expense		(99.8)	(120.5)	(116.3)	(102.8)	(111.8)	+9
EBITDAX		544.7	598.2	698.1	409.4	471.7	+15
EBIT		395.0	299.0	479.6	228.2	290.7	+27
Profit after tax including significant items		412.0	137.9	313.4	133.7	185.6	+39
Profit after tax excluding significant items		207.5	141.4	240.0	99.6	144.1	+45
Diluted earnings per share including significant items	(US cents)	36.6	12.2	27.8	11.5	14.1	+23
Basic earnings per share excluding significant items		18.5	12.6	21.4	8.6	11.0	+28
Dividends per share		8.0	8.0	8.0	4.0	4.0	unch
Operating cash flow	(US\$ million)	399.0	326.8	507.4	284.1	398.3	+40
Net cash/(debt)		477.9	343.6	534.9	1288.1	333.9	-74

NOTES:

- (1) In accordance with IFRS 8 "Accounting Policies Changes in Accounting Estimates and Errors", prior year comparatives have been restated where applicable.
- (2) Totals may not add due to rounding.

PNG LNG PROJECT

Full execution of the PNG LNG
Project commenced in March 2010.
Construction is now advancing on
all fronts, with first LNG deliveries
targeted for 2014.

2010 PROJECT ACTIVITIES

In December 2009, the PNG LNG Project co-venturers, led by Operator Esso Highlands Limited, a subsidiary of Exxon Mobil Corporation, sanctioned the development of PNG LNG. Three months later, in March 2010, ExxonMobil announced on behalf of the Project that full execution was proceeding. This followed the completion of all sale and purchase agreements, with the initial PNG LNG Project capacity fully contracted, signing of the shipping arrangements and the finalisation of financing.

The key milestones achieved and issues addressed in 2010 included the following:

Ramp-Up Of Construction

Construction activities, which commenced in 2009 with Project Early Works, ramped up significantly during 2010. Key activities included:

- Mobilisation into full execution mode of the major engineering, procurement and construction contractors.
- The ordering of long lead equipment and materials.
- The construction of training facilities in Port Moresby and in the PNG Highlands, with the Port Moresby construction training centre completed late in the year.
- The opening up of supply routes to the PNG Highlands, including road and bridge upgrades on the Highlands Highway.
- Clearing work at more than ten sites, from the PNG Highlands to Port Moresby.
- Construction of an accommodation camp and road bypass at the LNG plant site near Port Moresby.

During the last quarter of 2010, the LNG plant site subcontractor camp was completed, earthworks started at the Hides plant site and the Komo Airfield, first deliveries of pipe were made to Kopi Shore Base and stringing of line pipe commenced. Rig construction activities also started.

Project Financing

In December 2009, a US\$14 billion debt facility, comprising commitments from a mixture of international export credit agencies, commercial banks and ExxonMobil, was secured and financial close achieved in March 2010. Draw downs commenced shortly thereafter.

As at the end of 2010, Oil Search had drawn down US\$930 million from the debt facility including a one-off reimbursement of eligible Project costs of approximately US\$300 million already incurred prior to financial close.

The PNG LNG Project is being project financed on a 70%:30% debt:equity basis. Equity contributions are being made by each of the participants individually. As at 31 December 2010, Oil Search's remaining equity contribution was expected to be approximately US\$1.2 billion, which will be funded from existing cash, oil cash flows between 2011 and 2014 and corporate borrowing, if required.

LNG Shipping Arrangements

In March 2010, the PNG LNG shipping arrangements were announced. These comprise the lease of two existing 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.

Local Content

The PNG LNG Project has a policy to maximise the number of local employment opportunities. Thousands of new jobs were created during 2010, both directly by the Project and indirectly. By the end of the year, more than 4,500 PNG nationals were employed on Project activities representing 80% of the Project's workforce.

Considerable effort has gone into assisting PNG companies, to enable them to participate in business opportunities with the principal contractors. By the end of 2010, over 1,000 local businesses had registered on the supplier database and an Enterprise Centre, where PNG nationals can receive advice on a range of business matters, including corporate structuring, was fully operational. Training of PNG nationals, in construction skills, operations and maintenance, commenced during the year following the completion of construction of a major training facility in Port Moresby, with 30 trainees per week graduating from their training programme. Over 1.5 billion Kina (approximately US\$570 million) of local content was placed during 2010 through employment and Project contracts.

The Operator has advised that construction of the PNG LNG Project is progressing on schedule and on budget

PNG LNG PROJECT OVERVIEW

The PNG LNG Project is a 6.6 million tonne per annum (MTPA) integrated LNG project operated by Esso Highlands Limited, a subsidiary of Exxon Mobil Corporation. The gas will be sourced from the Hides, Angore and Juha gas fields and from associated gas in the Kutubu, Agogo, Moran and Gobe Main oil fields. All of the contributing fields are located in the Southern Highlands and Western provinces of PNG. Over nine tcf of gas and 200 million barrels of associated liquids are expected to be produced over the Project life.

The gas will be conditioned in the PNG Highlands and then transported by gas pipeline to an LNG plant located approximately 20 kilometres northwest of Port Moresby. The gas will then be liquefied at the LNG plant prior to loading onto ocean going tankers to be shipped to international gas markets.

The initial phase of development between 2010 and 2014 is being undertaken in discrete packages which comprise the following:

- The construction of the Hides Gas Conditioning Plant, which will collect and separate gas and associated liquids from the Hides, Angore and Juha fields.
- The drilling of eight new and two re-completed wells at Hides and two new wells at Angore.
- The construction of a new airstrip at Komo near Hides.
- The construction of pipelines linking the various fields to the LNG Plant in Port Moresby.
- Modifications to the associated gas fields to provide pipeline specification gas, metering and tie-ins to the onshore gas pipeline and handling of the Project condensates.
- The installation of a new commissioning gas skid at Kutubu for the initial filling of the LNG gas pipeline and commissioning of the LNG plant.

- Upgrades to the Oil Search liquids export system, to extend life and increase reliability.
- The construction of a two train LNG plant and associated facilities near Port Moresby. The 700 hectare LNG plant site is relatively flat, has a protected harbour and close proximity to the deep water required for LNG tankers. Two LNG storage tanks will be constructed and the marine facilities will allow access for LNG tankers with capacities ranging from 125,000 m³ to 220,000 m³.
- The Project expects to lease four LNG ships from Mitsui O.S.K. Lines, Ltd. for the portion of LNG sales which are being sold on a delivered basis

The total cost for this initial phase is estimated at US\$15 billion, excluding shipping costs. With a four year construction period, LNG deliveries are scheduled to commence in 2014. The Project will have an expected operational life of 30 years.

The PNG LNG Project has a material impact on Oil Search:

- 505 mmboe of proven and probable (2P) reserves have been booked to Oil Search's reserves base.
- When the Project reaches plateau production, Oil Search's share of annual production will be approximately 18 mmboe.
- The Project provides robust financial returns and will deliver a strong and stable long-term cash flow for the Company from 2014 onwards.
- The Project development will provide significant infrastructure synergies and the LNG plant site can accommodate future LNG trains.
- Oil Search will maintain its role as the Operator of the oil fields, producing associated gas and operating the liquids export system.



Above: Yasina Yogowa, Security Guard with Kutubu Security Services

PNG LNG PROJECT MAP



PNG LNG PROJECT CONTINUED

Government to Government Co-operation

The PNG and the Australian Governments have agreed to work together to review and address a range of issues which will affect PNG, both during the construction of the PNG LNG Project and after it comes into production. These include capacity building, with a particular focus on strengthening Government departmental resources, the development of new infrastructure and the proposed formation of three separate sovereign wealth funds.

CHALLENGES

There were some challenges for the PNG LNG Project during 2010. These included initial infrastructure capacity constraints, since largely resolved, and ensuring the effective and efficient mobilisation of Project labour into PNG. While the Project has full support from the local community, Project activities have had some disruptions primarily due to landowner concerns about business development opportunities and seed capital, provided by the PNG Government for new business start-ups. The Operator and the PNG Government are proactively addressing stakeholder concerns and continue to seek opportunities for positive outcomes.

OUTLOOK FOR 2011

Activities during 2011 will focus on earthworks, the construction of foundations and some preliminary structural works. Manpower will also ramp up significantly. Key components expected to occur during the year include:

- LNG Plant – procurement, earthworks, foundations and commencement of structural steelwork, commencement of construction of pipe racks, jetty works and tank foundations.
- Offshore Pipeline – continued procurement and mobilisation of line pipe, preparations for and 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 in the Central Processing Facility (CPF) and at the Gobe Processing Facility (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.
- Mobilisation of drilling rigs to PNG.



KEY CONTRACTORS

CONTRACT	CONTRACTOR
C1– Upstream Infrastructure	Clough Curtain Brothers JV, Red Sea Housing
C2 – LNG Plant Early Works	Curtain Brothers PNG Limited
EPC1 – Telecommunications	TransTel Engineering
EPC2 – Offshore Pipeline	Saipem
EPC3 – LNG Plant & Marine Facilities	Chiyoda/JGC Corporation
EPC4 – Hides Gas Conditioning Plant & Hides Wellpads	CBI Clough JV (CBI Oil & Gas Europe BV and Clough Projects International Pty)
EPC5A – Onshore Pipelines & Infrastructure	SpieCapag
EPC 5B – Komo Airfield	MCJV (McConnell Dowell and Consolidated Contractors Group Offshore)
Associated Gas (Oil Search operated)	Jacob Engineering (Aker Solutions)
Drilling (new wells and recompletions)	Nabors Drilling International Limited



GAS SALES AGREEMENTS

CUSTOMER	COUNTRY	VOLUME (MTPA)
Sinopec (China Petroleum and Chemical Company)	China	2.0
Tokyo Electric Power Company (TEPCO)	Japan	1.8
Osaka Gas	Japan	1.5
CPC	Taiwan	1.2
Total		6.5 ⁽¹⁾

Main: PNG LNG plant site, located approximately 20 kilometres northwest of Port Moresby
Far Left: Line pipe stored at Kopi Shore Base

(1) The aggregate SPA quantity of 6.5 MTPA represents the full 6.6 MTPA base load production of the Project after adjusting for transportation boil off.

PRODUCTION

Oil Search's production in 2010 was 7.657 mmboe, 5.7% lower than in 2009. This was a pleasing outcome given the maturity of the PNG oil fields and comfortably exceeded the 2010 target of 7.2 – 7.4 mmboe.

2010 PRODUCTION PERFORMANCE

The 2010 production performance reflected natural decline from the 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 following a renewed focus on improving maintenance processes.

Kutubu

Production from the Kutubu fields was 7.5% lower than in 2009. This reflected natural field decline offset by continuing strong contributions from the new development wells drilled in the Kutubu, Usano and Agogo fields in 2009.

During the year, operations focused on optimising production from new and existing wells. By testing and monitoring individual reservoir zones to determine the best production parameters, gas breakthrough times and sweep efficiencies were improved, leading to increased ultimate recoveries from each zone.

Production at Agogo benefited from the ADT 2 ST3 well, which discovered oil in the forelimb of the Agogo field in late 2009. The well was brought into production early in 2010, producing at sustained rates of 1,500-2,000 barrels of oil per day (bopd) from the Digimu interval. The results of the ADT 2 ST3 well have been encouraging and testing of three deeper intervals in the well is scheduled for 2011. Production data is being used to assess the potential for a second well in the forelimb of the Agogo field, to be drilled in late 2011/early 2012.

Also at Agogo, the Hedinia reservoir in ADD 5 was flow tested at rates of up to 1,000 bopd. This follows the successful testing of the same interval in ADD 4 in 2009. Technical studies are underway to assess the potential for further development of this interval.

At Usano, information from recent drilling was used to rebuild the field reservoir model and assess further development opportunities for the field. As a result of this work, the drilling of an additional gas injection well and a workover in the UDT 3A well, to enable increased injection rates, are planned for Usano in 2011.

During the year, there was a strong focus on improving maintenance processes and practices, necessary to

meet gas delivery requirements for the PNG LNG Project. This resulted in a major improvement in process facility availability during 2010, as well as a material reduction in greenhouse gas (GHG) emissions from the production operations.

The Hydraulic Workover Unit (HWU) will commence operations in the second half of 2011 at Kutubu to complete a two/three well programme.

Moran

Production from the Moran field was 4% higher than in 2009, reflecting strong production from key wells and reduced unplanned downtime in both the wells and facilities.

Production rates in the existing wells were optimised by combining zone changes and swing production between specific wells, in order to manage reservoir pressures and gas break-through. The impact of a scheduled shutdown at the Agogo Processing Facility (APF) in the first half of 2010 was minimised by the commissioning of a by-pass facility, which allowed some ongoing production during the shut down. This facility is continuing to provide benefits to the APF.

During the year, the Moran 15 well, designed to appraise the Moran C Block, was drilled. The well successfully confirmed the presence of oil in both the Toro and Digimu reservoirs in an up-dip location of the Block, proving a south east extension to the Moran field. The well was completed as a six zone production well and brought on-stream at the end of October at rates of 1,500-2000 bopd from the Digimu reservoir. Testing of the Toro C and Toro A intervals will take place in 2011. Work is now underway, using the well and early production data, to assess the potential for a follow-up well in this part of the field, with a possible well in the third quarter of 2011.

Towards the end of the year, a new completion was run in the Moran 5 ST2 gas injection well, to address a wellhead integrity issue. Following clean-up of the Toro and Digimu reservoirs, injection recommenced at significantly improved rates compared to pre-workover levels, which is expected to lead to enhanced recoveries in this part of the Moran field.

Generating steady cash flows
for Oil Search and PNG



Above: John Kaiape, Process Technician
Main: Sylvia Ekali and Ellen Elijah, Apprentice Process Technicians, at the CPF, Kutubu

PRODUCTION CONTINUED

SE Mananda

Production from the SE Mananda field in 2010 was 50% lower than 2009 levels. This reflected natural decline from the producing wells combined with hydrate issues and the shut-in of the SEM 4 well while awaiting a choke change out. Partly mitigating these declines, the SEM 5 well was returned to production during the year, following a prolonged shut-in due to high sand production.

During 2011, continued emphasis will be given to maintaining optimum well and facility uptime efficiencies.

Gobe

During 2010, production from the SE Gobe field declined by 35% while Gobe Main was 3% lower than in 2009.

SE Gobe production was impacted by a number of scheduled and unscheduled facility shutdowns and the shut in of the SEG 4 well due to the loss of a wireline fish downhole. Production rates improved significantly towards the end of the year, following successful retrieval of the fish in SEG 4, increased production rates in the SEG Wedge area following gas lift optimisation and successful slickline activity in SEG 12.

In Gobe Main, production from the Lower lagifu wells, GM 1ST2 and GM 5ST3, and Upper lagifu well GM 2ST1, remained strong, despite the maturity of the field.

Field operations in both SE Gobe and Gobe Main focused on minimising natural decline from these mature fields through the optimisation of existing well and surface facility performance.

During 2011, a workover programme is planned using the HWU which is anticipated to partially mitigate the fields' natural decline.

Hides

At Hides, gas production was 1% lower than in 2009. Offtake volumes were impacted during the year by a water shortage at the Porgera mine site, which has since returned to normal following good rains.

PRODUCTION OUTLOOK

During 2011, a two week shut down of the processing facilities will take place to enable work related to the PNG LNG Project to take place. While underlying field decline is expected to be largely offset by work programme activities through 2011, the shut down will negatively impact production. Assuming the Company's currently planned future development activities are successful, oil and gas production is expected to remain relatively flat from 2011 through to first LNG shipments in 2014.

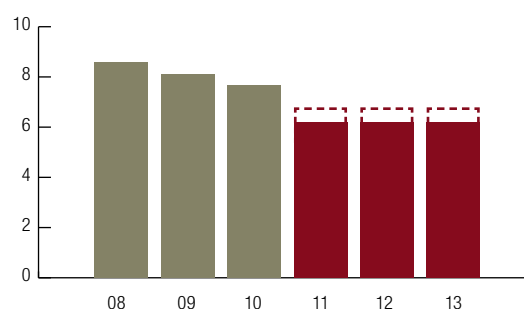
2010 Oil Search Production Summary

YEAR TO 31 DECEMBER:	2009		2010		% CHANGE	
	GROSS DAILY PRODUCTION (BOEPD)	NET TO OIL SEARCH (MMBOE)	GROSS DAILY PRODUCTION (BOEPD)	NET TO OIL SEARCH (MMBOE)	GROSS DAILY PRODUCTION	NET TO OIL SEARCH
OIL PRODUCTION						
Kutubu	17,691	3.877	16,364	3.587	-7.5%	-7.5%
Moran – PDL 2	6,174	1.353	6,411	1.405	3.8%	3.8%
Moran – PDL 5	7,718	1.146	8,013	1.190	3.8%	3.8%
Moran – PDL 6	140	0.037	146	0.038	3.8%	1.8%
Total Moran	14,032	2.536	14,570	2.633	3.8%	3.8%
SE Mananda	753	0.199	378	0.100	-49.8%	-49.8%
Gobe Main	1,665	0.061	1,608	0.059	-3.4%	-3.4%
SE Gobe	4,229	0.394	2,729	0.255	-35.5%	-35.5%
Total Gobe	5,895	0.455	4,337	0.313	-26.4%	-31.2%
Total Oil	38,371	7.068	35,649	6.633	-7.1%	-6.2%
Hides Condensate	370	0.135	366	0.134	-0.8%	-0.8%
Total Oil & Condensate	38,740	7.203	36,015	6.768	-7.0%	-6.1%
GAS PRODUCTION						
Hides Gas (mmscf)	15.11	5,515	14.65	5,348	-3.0%	-3.0%
Hides Gas (boe)	2,518	0.919	2,442	0.891	-3.0%	-3.0%
TOTAL OIL AND GAS PRODUCTION						
Total⁽¹⁾	41,258	8.122	38,457	7.657	-6.8%	-5.7%

(1) Numbers may not add due to rounding.



Above: Jeremiah Tiagoba, Pacific Helicopter Loadmaster
Main: CPF, Kutubu



FORECAST PRODUCTION NET TO OIL SEARCH (MMBOE)

■ ACTUAL
■ FORECAST

GROWTH ACTIVITIES

Following the commencement of construction of the PNG LNG Project in 2010, Oil Search's key strategic priority now is to grow its gas business in PNG.

2010 GROWTH ACTIVITIES

During 2010, Oil Search commenced implementation of a two-pronged LNG expansion strategy. This is aimed at maturing gas resources both in the Highlands, close to the PNG LNG upstream infrastructure, and in the Gulf of Papua region, to underpin the development of further LNG trains. In addition, the Company continued a measured oil exploration strategy in PNG and MENA which resulted in two oil discoveries in 2010, at Mananda 5 in PNG and Al Meashar in Yemen.

LNG EXPANSION STRATEGY

During 2010, Oil Search commenced the implementation of its LNG growth strategy developed over 2008 and 2009. The key tenet of this strategy is that LNG will provide Oil Search the best returns for its gas. The PNG LNG Project pipeline, LNG plant site and marine facilities allow for an expansion of capacity. The Company's primary gas aim in PNG is therefore the development of additional LNG trains in the earliest practical timeframe.

Oil Search is pursuing a two-pronged LNG expansion strategy:

- Expansion of the PNG LNG Project, utilising gas reserves located in the Foldbelt/Highlands areas, both within existing PNG LNG fields and in identified large structures located close to the PNG LNG upstream infrastructure, in which Oil Search has large equity positions.
- The establishment of Gulf Area LNG, focused on the Gulf of Papua, which is a relatively untested, proven gas province with a range of different play types and where Oil Search has secured an extensive acreage position. Oil Search believes that Gulf gas has the potential to provide the foundation for another LNG hub in PNG.

The fundamental requirements for LNG expansion are establishing sufficient certified proven gas reserves, within aligned joint ventures, and securing markets. Oil Search's activities over 2010 were focused on resource development and stakeholder alignment with significant advances made in both areas.

Oil Search's objective is that, by late 2012, it will have proved up sufficient gas to underwrite at least one additional LNG train, with like-minded joint venture partners.

PNG LNG EXPANSION

Over the year, discussions took place between the PNG LNG Project joint venture partners regarding the possibility of building a third LNG train and the timing and scope of an integrated exploration and appraisal programme to mature the gas reserves required. Agreement was reached for Train 3 activities to take place separately from the Project implementation activities, in order to maintain focus on delivering the foundation Project.

Oil Search believes the establishment of additional gas reserves within the PNG LNG Project fields (predominantly Hides and the Associated Gas fields) will provide the lowest cost and most available base for expansion. Discussions took place regarding the potential acceleration of the Hides appraisal programme, which is currently part of the PNG LNG upstream development plan, with a target of commencing drilling in late 2011. Additional assessment work is planned to be undertaken on the Associated Gas fields over 2011.

96 kilometres of 2D seismic was acquired in 2010 over the Angore gas field and two adjacent leads, Huria and Tagari. Processing and interpretation of this data is underway and initial results are encouraging, indicating a large gas prospect at Huria. The Huria joint venture partners have agreed that, should outstanding technical analysis and validation work prove positive, an exploration well may be drilled on the Huria lead in the late 2011/2012 time frame.

Detailed planning work for the appraisal of the P'nyang gas field in PRL 3, located 95 kilometres north west of Juha and 130 kilometres north west of Hides, was conducted during 2010. Shortly after the end of the year, a 2D seismic programme commenced in preparation for an appraisal well, scheduled to be drilled in early 2012. With an existing proven and probable resource estimated at 1.5 tcf, Oil Search believes that P'nyang has the potential to be a cornerstone Train 3 gas resource, subject to alignment of the partners, ExxonMobil, Oil Search and Nippon Oil.

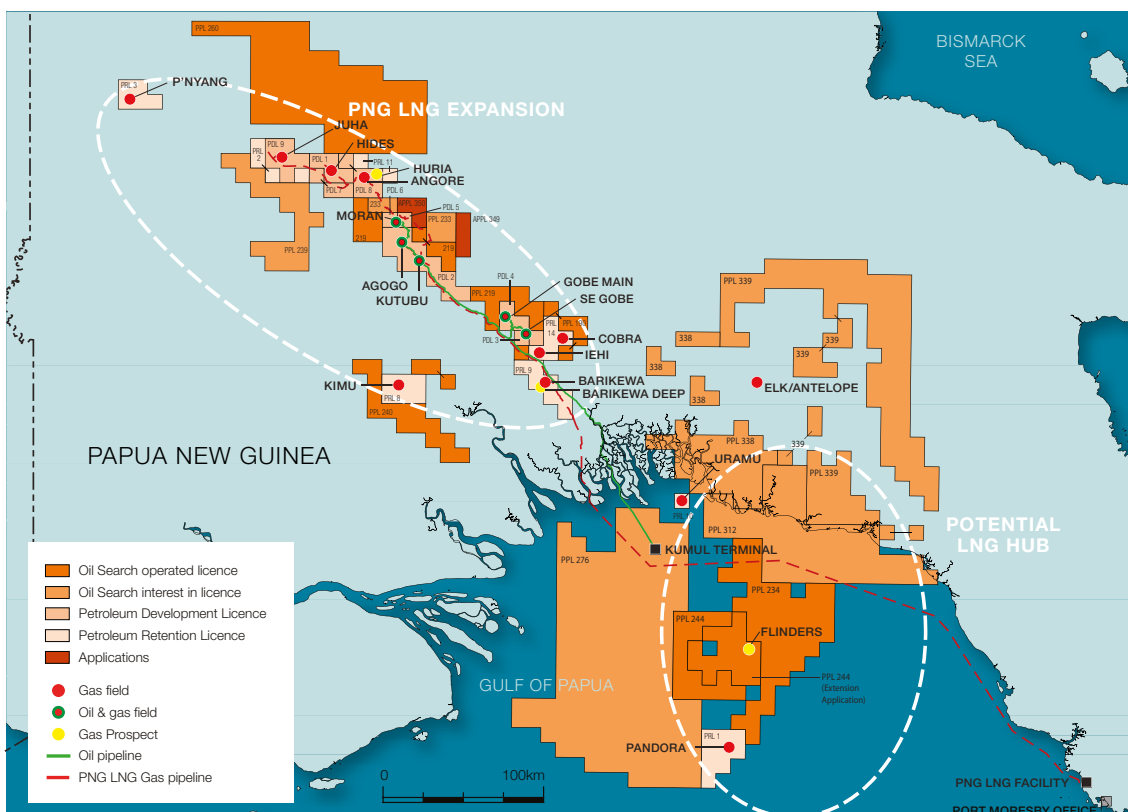
Growing value through LNG expansion and oil exploration



Above: Marc Mulugu, Community Development Officer, Kutubu

Main: Seismic acquisition over Huria lead. Photo courtesy of Mark Ogden

PNG Gas Growth Hubs



GROWTH ACTIVITIES CONTINUED

GULF AREA LNG

Following an extensive regional review of PNG in 2009 and 2010, Oil Search believes that the best potential for finding significant new hydrocarbon accumulations in PNG, outside the Foldbelt/ Highlands region, lies in the Gulf of Papua. Oil Search's strategy in the Gulf of Papua is to access large equity positions, in high graded licences and de-risk them through the acquisition of high quality 2D and 3D seismic. Consequently, during the year Oil Search significantly expanded its acreage portfolio in high graded licences offshore and immediately onshore the Papuan Gulf Basin, adding to its existing acreage position and giving it a dominant position in the Gulf region. The acreage acquisitions included:

- Increasing its equity in PRL 1, containing the Pandora gas discovery, from 5% to 24.1%.
- Increasing its equity in PPL 244 from 35% to 80% by way of an asset swap.
- Completing farm-in arrangements to four new licences (offshore PPLs 276 and 312 and onshore PPLs 338 and 339).

A 4,720 square kilometre 3D seismic survey was acquired over PPL 234 and PPL 244 in 2010 and early 2011. Interpretation of the first 1,000 square kilometres of processed 3D seismic data has commenced and has highlighted a number of potential leads. The balance of the seismic data will be processed and evaluated over the first half of 2011. An additional 1,585 square kilometres of 3D seismic will be

acquired in PPL 276 and PPL 312 during early 2011. The objective of this programme is to mature gas prospects in the Gulf of Papua prior to commencing a multi-well offshore drilling programme in late 2011/early 2012.

STAKEHOLDER ALIGNMENT

There is a strong recognition by all stakeholders that significant economic gain can be made from additional LNG trains in PNG. Over 2010, Oil Search continued discussions with a number of PNG gas stakeholders, including its PNG LNG co-venturers and the PNG Government, aimed at fostering alignment on the way forward for LNG expansion.

With the Gulf Area LNG strategy, when the seismic and prospect evaluation is completed, Oil Search intends to look for appropriate partners to share the evaluation risks and form long term relationships that can be the basis of a new LNG focused growth stream for the Company. This will be undertaken over 2011.

ASIAN LNG MARKET

Industry views on the long term growth in global LNG demand have softened over the past few years, in large part due to the sharp increase in unconventional gas supply from North America. Nonetheless, Pacific Basin demand for LNG is still expected to grow by some 5% pa through to 2020, due to increased demand from China, India and a range of new LNG buyers such as Pakistan, Bangladesh and Singapore. The recent earthquake in Japan and the consequent impact on the nuclear power industry, may lift



Above: Seismic acquisition, Gulf of Papua. Photo courtesy of PGS



LNG demand further. In addition, contracts of close to 50 MTPA will reach full term in the period 2011 to 2020. Some of these contracts are likely to be renewed, but a number of suppliers such as in Indonesia and Borneo have reserves issues or domestic supply requirements, providing an opportunity for new suppliers to capture this demand.

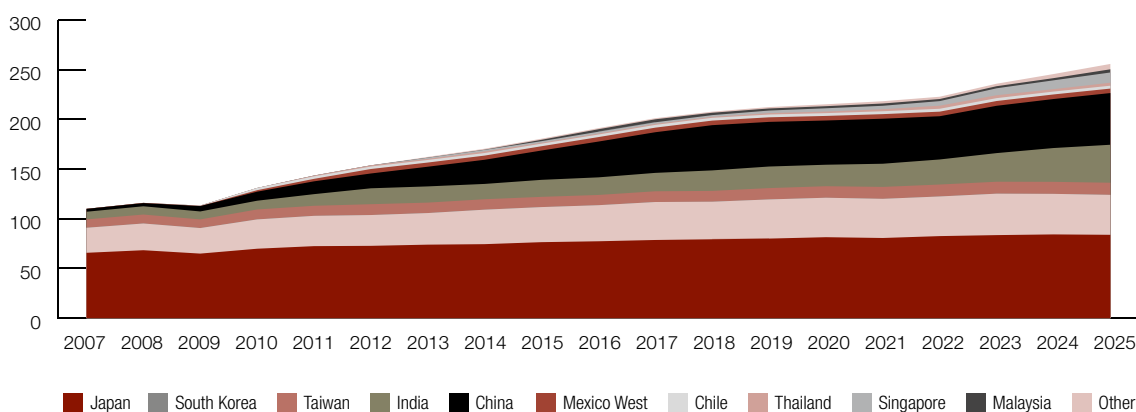
While there are a large number of proposed projects competing for the Asian markets, Oil Search believes that a PNG LNG brownfields expansion will be in a very strong competitive position to capture markets. With favourable economics, relatively small volume requirements are required to underpin a development when compared with greenfields projects. In addition, PNG LNG has the advantage of being a liquids rich conventional source of LNG and PNG represents supply diversity from the primarily Australian competition. Oil Search is confident that its very competitive expansion cost base, location and track record will ensure that it can secure market assess on good terms.



Above: Joe Maniha, Refinery Operator

Main: High Arctic Energy Services personnel on the rig floor

PACIFIC BASIN DEMAND FOR LNG BY COUNTRY (MTPA)



Source: Wood Mackenzie and Deutsche Bank, February 2011

GROWTH ACTIVITIES CONTINUED

PNG OIL EXPLORATION

During 2010, three exploration wells were drilled in the PNG Highlands.

In December, the Mananda 5 well discovered hydrocarbons within the Toro sandstone. Initial well flow testing has been encouraging and work is expected to commence during 2011 on the optimal development plan, which will most likely incorporate a tie-in to the SE Mananda oil field, located approximately 18 kilometres south east of Mananda 5.

An oil exploration well, Wasuma 1, was drilled in PPL 219 earlier in the year. A thin, three metre, zone of hydrocarbons was encountered in the Wasuma Deep footwall structure. While uncommercial, confirmation of a hydrocarbon charge in the footwall at Wasuma, together with the recovery of oil from the footwall forelimb of Agogo (ADT2 ST3), has opened up a new play fairway in the Foldbelt and has increased the potential for success in similar footwall structures that are mapped on trend in adjacent acreage held by Oil Search. The Korka 1 gas exploration well in PPL 260 was unsuccessful.

COAL SEAM GAS POTENTIAL IN PNG

A three-well coal seam gas assessment programme in the PNG Forelands region commenced in late 2010. While the first well, Ningerum-1, located in EL 1725, was unsuccessful, the second well, Drimgas-1 in EL 1726, which was drilled in early 2011, intersected coals and cores are currently being tested. The third well, Smipen-3 in EL 1725, is currently drilling.

Following review of the results of these three wells, the future path will be determined.

MIDDLE EAST/NORTH AFRICA (MENA) ACTIVITIES

During 2010, Oil Search continued to evaluate its MENA portfolio, to establish the prospectivity and materiality of each licence area.

Yemen

Two exploration wells and one appraisal well were drilled in the MENA region during the year, all in Yemen.

Early in the year, the Al Meashar-1 well in Block 7 discovered oil in the primary target, the fractured basement. The well flowed oil at rates of 200-300 bopd on test and was suspended for future evaluation. An appraisal well, Al Meashar-2, was drilled in late 2010. The well has been suspended for further evaluation and potential production. A 2D seismic programme will be acquired over other prospective parts of the licence in mid-2011.

Jebel Al Milh-1, also targeting fractured basement in Block 7, was drilled in mid-2010. Although good indications of gas were encountered throughout the basement, no liquid hydrocarbons were recovered. The well was suspended for possible further evaluation.



During 2010, oil and gas was discovered at Mananda 5 in PNG and oil at Al Meashar in Yemen



Iraq

In the Kurdistan region of Iraq, a 232 kilometre 2D seismic programme was safely completed in Block K42, in which Oil Search holds a seismic option. The data has been processed and interpreted. Discussions have commenced with the Ministry of Natural Resources to progress the Company's option to transfer the Block to a full Production Sharing Contract (PSC).

A small seismic programme was also completed over the Shakal discovery made in 2009, with a view to defining the trapping mechanism. Late in the year, the joint venture applied for further time to allow the evaluation of the Shakal Block to be completed.

Tunisia

In Tunisia, a 591 kilometre 2D seismic programme was carried out over the Tajerouine and Le Kef Blocks. At the end of the year the data was being processed. Interpretation will be carried out in early 2011 to define drilling targets for late 2011/early 2012 drilling.



Above: Ronnie Ipape, Process Technician

Main: Mananda 5 exploration well in PPL 219, PNG



Left: Al Meashar 2 appraisal well, Block 7, Yemen

2010 RESERVES AND RESOURCES

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, 301 mmboe of 1P and 505 mmboe of 2P are associated with the Company's share of the PNG LNG Project. Oil Search also had 318 mmboe of contingent 2C resources, taking the Company's total 2P reserves plus 2C resources to 877 mmboe.

2010 RESERVES AUDIT PROCESS

Estimates of reserves and contingent resources are conducted to Society of Petroleum Engineers (SPE) standards on a Proven (1P and 1C) and Proven and Probable (2P and 2C) basis. Proven Reserves (1P) and Contingent Resources (1C) are as certified by independent auditors, Netherland Sewell and Associates in Dallas (NSA). Proven and Probable reserves (2P) and Contingent Resources (2C) are estimated by a combination of independent audit, PNG LNG Project Operator estimates and internal assessments.

In 2008, the Company implemented an audit rotation schedule, where each field is required to be audited externally at least once every three years. In 2010, no external audits were undertaken, for the following reasons:

- Oil field performance during 2010 was generally consistent with expectations. Therefore, it is unlikely that there have been any significant changes to the previously audited reserve estimates.
- Following sanction of the PNG LNG Project, a major reserves booking was made at the end of 2009. There have been no significant changes to these gas reserve estimates since that time.

As a result, 1P and 2P reserves reported for 2010 are based on 2009 reserves adjusted for 2010 production.

2010 ANNUAL RESERVES STATEMENT

Proven Reserves

LICENCE/FIELD	END 2009 RESERVES	PRODUCTION	DISCOVERIES/ EXTENSIONS/ REVISIONS	ACQUISITIONS/ 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 Main	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 and Probable Reserves

LICENCE/FIELD	END 2009 RESERVES	PRODUCTION	DISCOVERIES/ EXTENSIONS/ REVISIONS	ACQUISITIONS/ 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 Main	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

RESERVES

At the end of 2010, Oil Search's proven (1P) reserves were 337 mmboe, which was 2.2% lower than at the end of 2009. Proven and probable (2P) reserves were 559 mmboe, down 1.3% on 2009 levels. These small declines reflected 2010 production of 7.66 mmboe, with no other changes made either to the oil fields or to PNG LNG Project reserves estimates, as noted on page 36.

RESOURCES

At the end of 2010, Oil Search held 2C resources, comprising oil, gas and associated liquids, of 318 mmboe. This was 37 mmboe higher than at the end of 2009, reflecting the following:

- The booking of resources related to the discovery of hydrocarbons at Mananda 5 in PPL 219, PNG and at Al Meashar-1 in Block 7, Yemen.
- The purchase from Twinza of an additional 6.4% interest in PRL 1, which contains the Pandora gas field.
- A 2.5% increase in net interest in PRL 9, which contains the Barikewa gas field, as a result of a farm-in with Santos.

RESERVES AND RESOURCES

Total reserves and resources at the end of 2010 were 877 mmboe, compared with 848 mmboe at the end of 2009.

RESERVES AND RESOURCES SUMMARY^(1,2)

LICENCE/FIELD	PROVEN (1P)				PROVEN & PROBABLE (2P)		
	OIL SEARCH INTEREST	LIQUIDS ⁽³⁾ MMBBL	GAS ⁽⁴⁾⁽⁵⁾ BSCF	OIL EQUI-VALENT ⁽⁶⁾ MMBOE	LIQUIDS ⁽³⁾ MMBBL	GAS ⁽⁴⁾⁽⁵⁾ BSCF	OIL EQUI-VALENT ⁽⁶⁾ MMBOE
Reserves							
PDL 2 – Kutubu	60.0%	12.7	–	12.7	19.4	–	19.4
PDL 2 – SE Mananda ⁽⁷⁾	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	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 GTE ⁽⁸⁾	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 ⁽⁹⁾	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	2,698.9	559.3
LICENCE/FIELD	1C			2C			
	OIL ⁽³⁾ MMBBL	GAS ⁽⁴⁾⁽⁵⁾ BSCF	BOE ⁽⁶⁾	OIL ⁽³⁾ MMBBL	GAS ⁽⁴⁾⁽⁵⁾ BSCF	BOE ⁽⁶⁾	
Contingent Resources							
Other Gas and Liquids ^(10,11)		–	–	–	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:

- (1) Numbers may not add due to rounding.
- (2) 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.
- (3) Liquids include crude oil, separator and plant condensates.
- (4) Full well stream (raw) gas reduced for field separator condensates are quoted for Hides Gas GTE and Other Gas resources.
- (5) For the PNG LNG Project, shrinkage has been applied to raw gas for the plant liquids recovery, fuel and flare.
- (6) Oil equivalent barrels incorporate oil, condensate and gas (converted at 6 mcf/bbl).
- (7) NSA did not audit SE Mananda in 2009. Estimate of reserves is based on NSA's end 2007 certification adjusted for 2008-2010 production.
- (8) Hides reserves associated with the GTE Project only.
- (9) 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.
- (10) Other Gas and Liquids Resources comprises the Company's other fields including SE Gobe, Juha North, P'nyang, Kimu, Pandora, Uramu, Barikewa, Iehi and Cobra fields, as well as the 2010 Al Meashar-1 and Mananda 5 discoveries.
- (11) 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 farm-in 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.

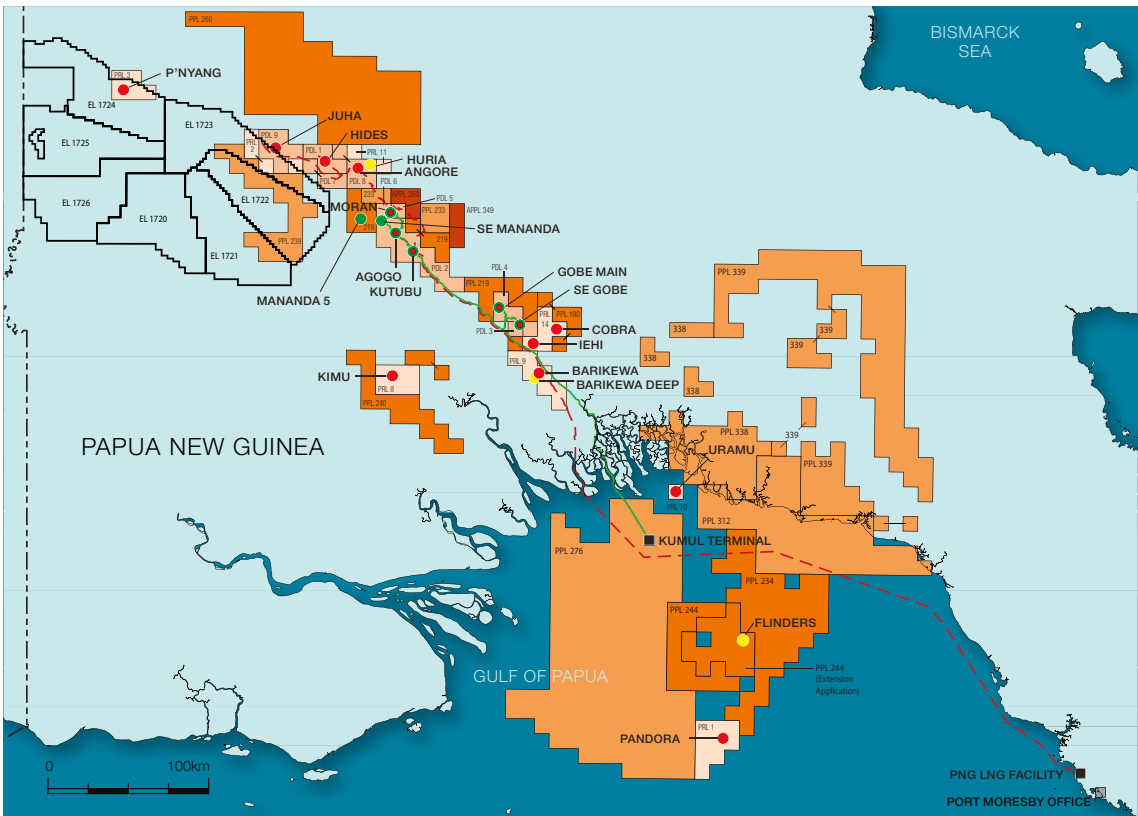


Above: Jonathan Godali, Plant Operator

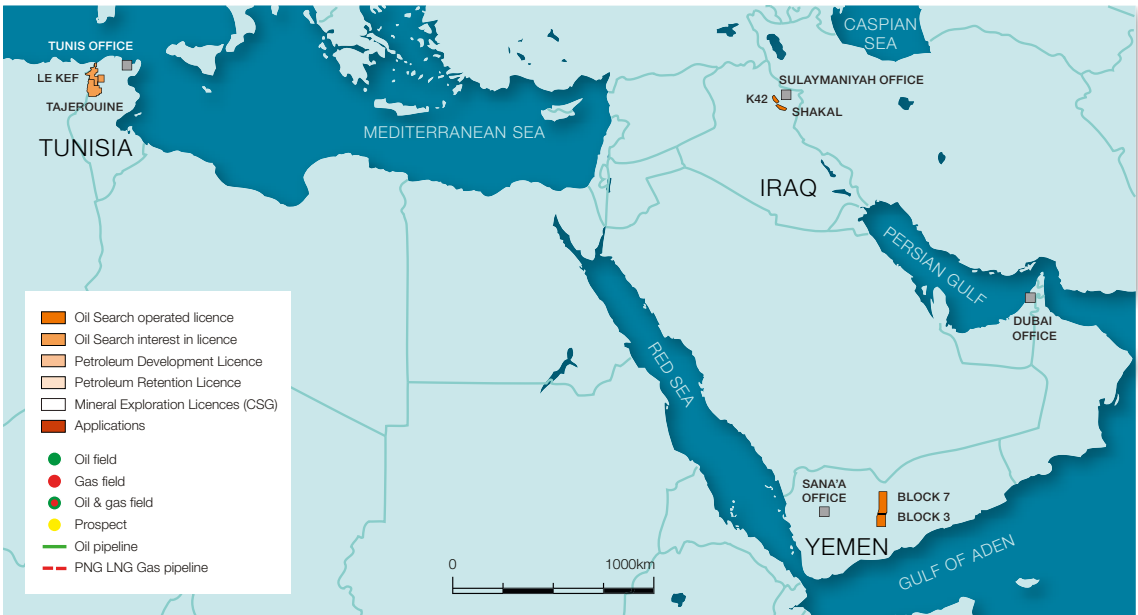
LICENCE INTERESTS

During 2010, Oil Search expanded its licence interests with the farm-in to four licences in the Gulf of Papua.

PNG Licence Interests



MENA Licence Interests



LICENCE INTERESTS

As at 28 February 2011

LICENCE	FIELD/ PROJECT	OIL SEARCH INTEREST %	OPERATOR
PNG Petroleum Development Licences (PDL)			
PDL 1	Hides	16.66	ExxonMobil
PDL 2	Kutubu, Moran	60.05	Oil Search
PDL 2 – SE Mananda JV	SE Mananda	72.27	Oil Search
PDL 3	SE Gobe	36.36	Santos
PDL 4	Gobe Main, SE Gobe	10.00	Oil Search
PDL 5	Moran	40.69	ExxonMobil
PDL 6	Moran	71.07	Oil Search
SE Gobe Unit (PDL 3/PDL 4)		25.55	Oil Search
Moran Unit (PDL 2/PDL 5/PDL 6)		49.51	Oil Search
Hides Gas to Electricity Project (PDL 1)		100.00	Oil Search
PDL 7	South Hides	40.69	ExxonMobil
PDL 8	Angore	40.69	ExxonMobil
PDL 9	Juha	24.42	ExxonMobil
PNG LNG	PNG LNG Project	29.00	ExxonMobil
PNG Pipeline Licences (PL)			
PL 1	Hides	100.00	Oil Search
PL 2	Kutubu	60.05	Oil Search
PL 3	Gobe	17.78	Oil Search
PL 4	LNG Project	29.00	ExxonMobil
PL 5	LNG Project	29.00	ExxonMobil
PL 6	LNG Project	29.00	ExxonMobil
PL 7	LNG Project	29.00	ExxonMobil
PL 8	LNG Project	29.00	ExxonMobil
PNG Petroleum Processing Facility Licence			
PPFL2	LNG Project	29.00	ExxonMobil
PNG Petroleum Retention Licences (PRL)			
PRL 1	Pandora	24.09	Talisman
PRL 2	Juha	31.51	ExxonMobil
PRL 3	P'nyang	38.51	ExxonMobil
PRL 8	Kimu	60.71	Oil Search
PRL 9	Barikewa	45.11	Santos
PRL 10	Uramu	59.55	Oil Search
PRL 11	Angore	52.50	Exxon Mobil
PRL 14	Cobra, Iehi, Bilip	62.56	Oil Search
PNG Petroleum Prospecting Licences (PPL)			
PPL 190		62.56	Oil Search
PPL 219		71.25	Oil Search
PPL 233		52.50	ExxonMobil
PPL 234		80.00	Oil Search
PPL 239		20.00 ⁽¹⁾	Oil Search
PPL 240		100.00	Oil Search
PPL 244		80.00 ⁽¹⁾	Talisman
PPL 260		50.00 ⁽¹⁾	Oil Search
PPL 276		30.00 ⁽²⁾	Rockwell Energy
PPL 312		30.00 ⁽¹⁾	Hillsborough
PPL 338		30.00 ⁽²⁾	Dabajodi
PPL 339		30.00 ⁽²⁾	Dabajodi
PNG Mining Exploration Licences			
EL 1720, 1721, 1722, 1723, 1724, 1725, 1726		100.00	Oil Search
Yemen			
Block 3		40.00	Oil Search
Block 7		34.00	Oil Search
Iraq			
K42		75.00	Oil Search
Shakal		15.00	Shakal Production Ltd
Tunisia			
Le Kef		25.00	Primoil
Tajerouine		100.00	Oil Search

(1) Awaiting government department approval.

(2) Subject to completing assignment documents.

Oil Search believes that only by conducting its operations in accordance with the principles of sustainable development can it achieve its ultimate business objectives.

Oil Search is strongly committed to sustainable development, with core sustainability concepts firmly embedded in all its policies and systems across all departments. The Company's key aim is to ensure sustainable livelihoods for future generations in its operational areas. This is achieved by working in collaboration with local communities to ensure long term solutions to their needs.

Oil Search's most extensive sustainability programmes are in PNG, as this is the only country in which it has production activities, though the Company approaches sustainability issues in other areas in which it operates in a similar manner. There are a range of fundamental hurdles to sustainable development within the Company's areas of operation in PNG. The geographical terrain in the PNG Highlands renders service delivery expensive and logistically challenging, while limited infrastructure and decentralised public management structures further hinder progress toward sustainable development. As a result, many communities lack access to basic goods and services, in particular primary health care services.

Oil Search works with its stakeholders to help address these issues, often acting as an intermediary between local communities and government and as a primary service provider. The Company places a large emphasis on stakeholder engagement with local communities, Non-Government Organisations (NGOs) and governments, so that significant issues are identified early and addressed promptly.

resource projects over the past few decades has not delivered as great a benefit to local communities as one would expect. Between 1992 and 2009, the oil industry in PNG has generated benefits of almost 12 billion Kina (approximately A\$4.5 billion) for landowners and all levels of government. However, improvements in living standards over this period have not been commensurate with resource company payments. Oil Search is committed to working with local industry bodies to encourage a more effective and transparent system of extractive industry benefits management in PNG.

Oil Search has recognised the need for greater focus in the Company's approach to sustainability. Consequently, in 2010 a Sustainability Group was formed and executive leadership roles assigned in both PNG and Australia. Significant resources have been allocated to this area to ensure that sustainability remains a core focus for the way Oil Search does business. The new Sustainability Group will drive the adoption of proactive socio-economic and environmental initiatives which will help the Company to identify social and environmental risks and opportunities, reduce costs, increase profit and maximise sustainable benefits for Oil Search stakeholders.

Oil Search has a longstanding practice of recording and tracking its performance in line with various sustainability metrics. This includes detailed socio-economic monitoring practices in Oil Search local communities and a rigorous Environmental Management System compliant with the International Standards Organisation (ISO14001). Oil Search submits an Environmental Report and a Social and Economic Impact Report to the PNG Department of Environment and Conservation (DEC) on an annual basis. This marks the first year when the Company will publish a formal Sustainability Report available to all stakeholders. This report is on the Company's website and hard copies are available on request.

One of Oil Search's core objectives is to leave a positive long-term legacy in all areas where it operates



Above: Kerry Lorry, Medical Laboratory Assistant

Main: Growing coffee as a sustainable economic activity has been promoted by Oil Search for a number of years

PRIORITY ISSUES: 2011-2015

ENVIRONMENT

As an oil and gas operator in one of the most pristine and biologically diverse regions on the planet, Oil Search considers the protection and conservation of the local environment to be a significant ongoing priority. Given PNG's vulnerability as a "Small Island Developing State" facing the impacts of climate change, the Company is also committed to carbon reduction initiatives and associated mitigation strategies.

COMMUNITY DEVELOPMENT

Maintaining a social licence to operate is an ongoing priority for Oil Search as the Company requires local community support to ensure successful project delivery and incident free operations. Local communities equally require Oil Search's support to facilitate local economic and social development.

STAKEHOLDER MANAGEMENT

Stakeholder management is the cornerstone of successful operations and the key to addressing Oil Search's priority issues. In 2011, the Company will develop and implement a detailed Stakeholder Engagement Plan, clearly defining methods for engaging and monitoring its engagement with its various stakeholder groups.

COMMUNITY HEALTH

Oil Search's public health team has developed significantly over the past five years and has achieved outstanding results, particularly in its targeted malaria and HIV/AIDS programmes. Given the success of these programmes, Oil Search aims to expand its community health service and is establishing a Health Foundation to support this expansion.

WEALTH AND BENEFITS DISTRIBUTION

A priority for Oil Search in the next five years is to support the PNG Government in ensuring that effective, transparent streams of benefits distribution from oil and gas projects are implemented and maintained.

TRANSPARENCY AND EFFICIENCY

Oil Search is committed to improving transparency and efficiency of governance structures affecting its industry in PNG. This includes support for capacity building in various Government departments and collaboration with the Chamber of Mines and Petroleum to encourage transparency of extractive industry payments to government.

*As a PNG company,
Oil Search is committed
to contributing towards
a sustainable future for
PNG and its people*



Above: Elia Nadile, Apprentice Process Technician

Main: Rice growing in Mano village, in the Lower Fasu area, Southern Highlands



Left: Lake Kutubu, Southern Highlands

ENVIRONMENT

OIL SEARCH'S APPROACH TO THE ENVIRONMENT

PNG has some of the most diverse and unique flora and fauna on earth. While its rugged terrain has long served as a natural protection for the country's rich biodiversity, the increase in resource project activity is challenging the delicate balance between human activity and environmental integrity.

At Oil Search, substantial efforts are made to ensure this balance is maintained and the Company is committed to conducting all its activities in an environmentally sustainable way. All activities are planned and managed to ensure minimal environmental impact and are conducted in a manner sensitive to the culture and requirements of the people they may affect. This involves identifying potential environmental impacts during project planning, minimising impacts on the environment through every stage of operations and investing in targeted conservation and regeneration projects.

The Company is committed to achieving incident free operations and has a rigorous Environmental Management System in place, which is ISO14001 certified.

Oil Search's goals are as follows:

- To ensure ISO14001 compliance.
- To maintain Oil Search's record of minimal impact on the local environment.
- To pursue efforts to reduce greenhouse gas (GHG) emissions and energy consumption within operational limits.

Oil Search works closely with the DEC to ensure the Company's operations are environmentally sound, responsible and accountable. Oil Search also supports the World Wildlife Fund (WWF) by funding conservation projects in the Kikori Basin.

ENVIRONMENTAL MANAGEMENT SYSTEM

Oil Search's HSES Policy states that all risks, hazards and threats must be identified, reported and evaluated so that they can be mitigated or managed to minimise potential impacts. This involves the inclusion of environmental aspects early in a project's conceptual and planning stage. This strategy has enabled Oil Search to systematically develop processes and procedures that control, mitigate and manage environmental risk.

A consistent approach to the management of environmental risks has evolved into a system compliant with the ISO standard for environmental management systems, ISO14001. Certification was awarded in January 2009 and a recertification audit is scheduled for the end of January 2012.

CLIMATE CHANGE

As an operator of oil and gas production facilities, Oil Search recognises it has an obligation to address its contribution to climate change. Oil Search's business activities generate GHG emissions, not only via the energy the Company uses in its operations but also through the downstream impacts generated by Oil Search's products.

Oil Search's involvement in the PNG LNG Project represents a transition by the Company from primarily oil production to predominantly natural gas. When LNG shipments commence in 2014, the Project will supply Asian markets with a low carbon alternative to traditional fuel sources, which will contribute to international carbon reduction targets.

ENERGY AND EMISSIONS

Almost all energy consumed in the Oil Search operations in PNG is generated internally. The primary source of energy is the associated gas from the oil fields, which is recovered together with crude oil and water.

Apart from internal usage, most of the associated gas produced is compressed and reinjected into the reservoirs to enhance oil production (Oil Search reinjects over 350 million cubic feet of gas each day in PNG). This gas is being conserved for delivery to the PNG LNG Project, which is scheduled to come onstream in 2014.

Oil Search's GHG emissions have declined significantly over the past five years, due to the initiation of a number of emission reduction programmes. A 54% reduction in GHG (CO₂eq) was achieved in 2010, mainly due to a High Pressure flare reduction programme. In 2008/09, Oil Search developed a strategy to minimise high pressure flaring while mitigating the adverse impact on oil production. The base operational flare needed at each plant to ensure safe normal operating conditions was estimated and compressor controls were modified to support this target. Flare minimisation testing commenced in the second quarter of 2009 and the plan was fully implemented in January, 2010.

Other emission reduction initiatives include:

- Improving the reliability of compressors used in the compression and reinjection of produced gas.
- The introduction of a rigorous maintenance schedule.
- Improvements in well management, where high gas production wells are choked back to restrict the production of excess gas.

Oil Search's core environmental objective is to ensure that its activities are planned and managed to ensure minimal environmental impact



CARBON TRADING OPPORTUNITIES

An application is being prepared for the United Nations Framework Convention for Climate Change Clean Development Mechanism Board to fund incremental fuel gas consumption reductions at Oil Search's oil processing facilities through the sale of Certified Emission Reductions – carbon credits – on an existing international exchange.

These fuel gas reduction projects, a first for PNG and Oil Search, are forecast to conserve 1.8 million cubic feet of gas per day, representing a greenhouse emission reduction of approximately 43,800 tonnes of CO₂eq per annum.

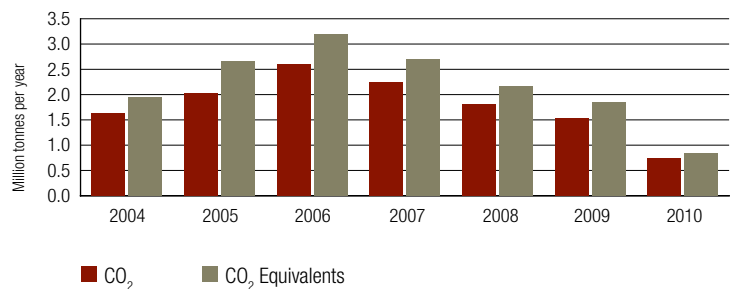
To date, Oil Search has invested approximately US\$350,000 on these projects and a further US\$3.28 million for these initiatives is included in the Company's 2011 budget.

For more information about Oil Search's Environmental Performance, including water, waste and biodiversity management, please refer to the Oil Search 2010 Sustainability Report.



Above: James Arabagali, Community Affairs Information and Administration Supervisor, Kutubu
Main: Flaring at the CPF has been substantially reduced

CARBON EMISSIONS



OIL SEARCH PEOPLE

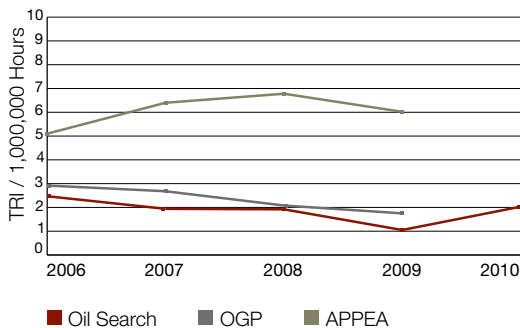
At Oil Search, high priority is placed on protecting, developing and retaining Oil Search's workforce. The Company's core objectives are:

- To maintain / improve Oil Search's world class HSES record, which is the cornerstone of Oil Search's corporate culture and distinguishes it from its peers.
- To develop Oil Search people to their maximum potential, as they are the Company's future and their professional development ensures long-term success.

SAFETY

Oil Search's ultimate objective is incident free operations and despite the difficult working conditions, Oil Search's Total Recordable Incident Frequency Rate (TRIFR) has been consistently lower than both the APPEA and OGP TRIFR averages since 2005. Oil Search was identified in a recent Citigroup Global Markets research report as having the lowest recorded TRIFR for the ASX 100 group of companies in both 2009 and 2010.

However, disappointingly, injuries rose year on year from 2009 to 2010, reflecting in part a changing mix of contractors with more inexperienced people on site. Oil Search is committed to reducing its TRIFR. To this end, the Company's policies on visible safety leadership, the nature of job hazard analyses and permits to work are being reviewed.



HEALTH

Oil Search is committed to optimising the health of its employees by providing a Company-wide health and wellbeing programme. The basis for the programme is to ensure that everyone clearly understands their health risks and how to manage them, so that they can prevent debilitating disease impacting their lives.

An individual's state of health is assessed during the pre-employment medical or periodic medical assessment against a risk rating, with high risk individuals prescribed a targeted health management plan, managed by the Company's medical team. A total of 625 health assessments were completed in 2010. The Company also provides scheduled activities, psychological support, workplace ergonomic advice and ongoing health and wellbeing education.

The Health and Wellbeing programme is designed for Oil Search employees and their immediate family members and components of the programme are also extended to contractors and the local community.



*Oil Search's vision is to be
a leader in oil and gas –
an operator and employer
of choice, delivering first
class performance with first
class people*



DEVELOPING OIL SEARCH PEOPLE

During 2010, there was a renewed emphasis on developing the knowledge and skills of Oil Search people and the retention of key staff. The employment market within PNG is in a state of rapid change as commercial and economic development continues to surge. The steady demand for skilled employees witnessed over the past few years looks set to rise as projects move towards critical milestones and have a positive impact on the economy. One of the key challenges facing Oil Search is staff retention, due to a scarcity of skilled labour in light of the PNG LNG Project and other resource developments. To date, the retention programmes the Company implemented in 2009 for PNG citizens who are critical to Oil Search operations have proved successful. It is anticipated that these retention plans will continue during 2011 and beyond.

During 2010, Oil Search established a Learning and Development Steering Committee, a single body to plan, oversee and co-ordinate people development within PNG. A leadership development programme, 'Leading the Oil Search Way' was also formed and over 100 employees within PNG attended the programme. The feedback received was overwhelmingly positive and the Company intends to offer a new and improved programme in 2011.

The focus on refining the technical competency frameworks continued throughout 2010. Strong partnerships have been established with training organisations within PNG and Australia that have the capability to design, deliver and assess competence in accordance with the Australian Quality Training Framework. While ultimate competence in a given area will be granted by independent external assessors, a number of Oil Search employees continue to work towards achieving their Workplace Training and Assessment qualifications.

For more information about the development of Oil Search's people, please refer to the Oil Search 2010 Sustainability Report.



Above: Warubi Masahimu, Electrical Maintenance Trainer

Main: Robert Tiabe, Apprentice Motor Mechanic, and Betty Firman, Apprentice Electrical and Instrument Technician at the Industrial Park, Iagifu Ridge

COMMENTS FROM OIL SEARCH PEOPLE

"I've seen this company medivac people who aren't employees out of a village and get them to hospital. Other companies don't do that."

"There's a sense of responsibility. We don't just act like any company. We care for each other. There's respect. Peter Botten and his team understand PNG culture."

"Oil Search's aim is to leave a long-term legacy of improved sustainable development opportunities in all the areas where it operates."

COMMUNITY SUPPORT

OIL SEARCH'S APPROACH TO LOCAL COMMUNITIES

All Oil Search activities are planned and implemented in a culturally sensitive manner to ensure community support and to optimise community benefits.

The Company's External Affairs Department is the principal interface between Oil Search and the Company's core PNG stakeholders, including government bodies, NGOs and the local project area communities.

Responsibility for community engagement lies with line management, who liaise directly with field based Community Affairs teams to facilitate the development of positive, sustainable relationships with local communities. These Community Affairs teams engage with local stakeholders and monitor concerns and issues emanating from the project areas. They also manage and oversee various community-based development programmes.

Development programmes are planned and designed annually, based on local needs assessments and in response to concerns and issues raised by Oil Search communities. Communities located adjacent to the project licence areas can also participate in development programmes.

Oil Search's Community Affairs teams are complemented by the Company's public health team, which focuses on community health issues, in particular malaria, HIV/AIDS and maternal and child health. Both teams have witnessed outstanding results over the past few years, contributing significantly to sustainable livelihoods and social service provision in Oil Search's local communities.

MONITORING COMMUNITY PERFORMANCE

Optimising community benefits demands strict monitoring of community performance in accordance with various socio-economic indicators. Oil Search carries out socio-economic surveys in its project communities to monitor the impact of the Company's operations and projects on local development. The results help to ascertain which projects and initiatives are having the most success and where the community is in most need of development assistance.

ECONOMIC DEVELOPMENT

Benefits distribution

One of Oil Search's key strategic sustainability initiatives for 2011-2015 is to optimise the management of benefit streams.

The current oil operations in PNG and the PNG LNG Project bring substantial cash and non-cash benefits to the people of PNG. These benefits devolve to beneficiaries through an assortment of processes, mechanisms and institutions. Oil Search is committed to working collaboratively with all stakeholders, including the Government and the PNG LNG Project Operator, to ensure the integrity of benefits distribution. Oil Search is taking an increasingly proactive approach to benefits management, assurance and delivery and is seeking alignment with all external stakeholders.

Infrastructure

Infrastructure development within project impacted communities is assisted by various infrastructure projects

including the Tax Credit Scheme and Oil Search Community Area Planning (CAP) Programme.

During 2010, under the CAP Programme contributions made by village communities were matched with material inputs to the value of US\$122,000 which enabled the construction and maintenance of a range of village infrastructure.

Local business development

Oil Search provides assistance including advice, support and training to local representative landowner companies (Lancos), principally those that are contractors to Oil Search, and to smaller enterprises and potential entrepreneurs in the project area.

Support for local business development is important since local business groups employ a large number of people, pay dividends to their individual and land group shareholders and engage smaller business groups as sub-contractors.

SOCIAL DEVELOPMENT

Public Health

Over the last 18 years, Oil Search has invested in various community health programmes within the oil operating areas of the PNG Highlands through a dedicated public health team.

The results achieved by the Oil Search public health team have received support and recognition from various stakeholders, including the PNG Provincial and National Departments of Health, donor organisations and various sectors of the community. In December 2010, Oil Search was nominated as a Principal Recipient for Global Fund's 'Round 10' HIV/AIDS reduction and minimisation strategy.

The Company now plans to expand its malaria control, HIV prevention and treatment, maternal and child health and health and hygiene initiatives across PNG.

To support this expansion, in 2011 Oil Search plans to establish a Health Foundation, to provide a platform for the Company's national health programmes and to seek further funding from international and local donors.

Oil Search is committed to establishing and maintaining strong relationships with the communities and governments impacted by Oil Search's operations



Above: Elaine Rageau, Environmental Systems Specialist

Main: Mary Michael, Oil Search Public Health Officer with Elisabeth Mulungu at Hides. Oil Search promotes a range of sustainable projects including the growing of market garden vegetables



Left: Working in the gardens adjacent to the Nogoli Hides Camp

COMMUNITY SUPPORT CONTINUED

Public Health Programmes

Malaria. Oil Search has developed comprehensive strategies to mitigate workforce and community malaria transmission. These strategies include improving diagnosis and treatment at local health centres and conducting targeted vector control through indoor residual spraying. The treatment programmes have resulted in an improvement in patient management and have created a network of village treatment providers. Oil Search has also recently been involved in the development of the revised PNG Malaria Treatment Guidelines and National Malaria Control Program Strategic Plan 2009-2013.

HIV/AIDS. In 2007, Oil Search was the first company to establish a formal partnership with the PNG National Department of Health to extend HIV services to communities surrounding its project area. Five other mining and agri-business companies have subsequently joined the project, which is known as the 'HIV Prevention and Control in Rural Development Enclaves Project'.

The project receives funding from the ADB and is designed to be managed by the local 'economic operator', in partnership with provincial government and church health agencies.

The programme has proved to be a successful model for HIV prevention and treatment in rural areas of PNG and has been a successful public private partnership between the Company and the various government health authorities. The upcoming Global Fund HIV programme, which will see Oil Search's activities expanded significantly outside the Company's traditional operating area, will draw on experiences from the Company's work to date and provide help to a much broader community.

Maternal and Child Health. Oil Search has recently established a dedicated Maternal and Child Health (MCH) team. Initial work has included analysis of important maternal and child health indicators in the immediate project area to guide programme development and implementation.

A recent Ministerial Taskforce on maternal health has set new guidelines to address many maternal health issues. The new Oil Search maternal health programme has adopted these recommendations and their implementation has commenced in the project area communities. This includes skills development for health workers through a tailored course in Emergency Obstetric Care delivered by qualified obstetricians and midwives. Community education on family planning and ante-natal screening is also being implemented.

In 2010, the MCH team commenced a comprehensive immunisation programme focused on improving the 'cold chain' for the supply of vaccines, by assisting health staff with ordering and distribution. Special vaccine fridges have been installed to ensure safe storage.

In addition to stepping up immunisation patrols, an education campaign for communities and health workers has resulted in increased coverage of vaccination. The percentage of children immunised against diphtheria, pertussis and tetanus rose from 38.5% in 2007 to 68.5%



in 2010, and measles immunisations from 34% to 73%. Immunisation coverage in the local area is expected to reach the national target of 85-90% by 2011.

The general effort to improve local health services, plus the provision of emergency treatment at Oil Search occupational clinics, has seen a significant decline in childhood deaths over the past five years.

While preventative strategies are being implemented, the Company continues to provide emergency road and aero-medical evacuation to centres of definitive care for those women developing complications which has contributed to saving many women's lives.



Education, human rights and gender based issues.

Throughout the project area, traditional customs tend to favour male children, in particular in participating in the education system. This situation is changing gradually and Oil Search is assisting in this process.

Education Sponsorship Programme. In 2010, scholarships were awarded to 43 project area community members to attend institutions such as the University of Goroka, Port Moresby and Goroka technical colleges, the University of PNG and the University of Technology.

Oil Search also continued its support of the CDI Foundation, which carries out high-school and tertiary level distance education as well as agriculture, village skills and health awareness training for people in the Kutubu, Gobe and Kikori project areas.

Sport and Physical Culture. Sport of various kinds is popular in PNG with both soccer and rugby league teams competing in international events. As well as the provision of equipment, Oil Search offers training in coaching and sports administration to facilitate the establishment of village, area, district and provincial sports competitions and structures through which talented players can progress.

Oil Search Women's Network. Most female Oil Search employees working in the PNG Highlands and in Port Moresby are members of the Oil Search Women's Network. The network seeks to empower female employees and to improve the lot of both women and children in the surrounding project area communities.

For more information about Oil Search's Community Support Programmes, please refer to the Oil Search 2010 Sustainability Report.



Above: Vicky Wai, Community Affairs Officer, Hides

Main: Oil Search Public Health Officer, Gordon Manub, carries out a check on a child at Mano village

Oil Search's new Health Foundation will support the expansion of the Company's health programmes

CORPORATE GOVERNANCE

Oil Search continues to focus on and commit to strong corporate governance across all areas of the Company.

COMMITMENT TO GOOD GOVERNANCE

Oil Search understands that there is no typical organisation and no single, ideal model for corporate governance. The corporate governance model of a company will need to transform over time as the company itself transforms. Accordingly, Oil Search's current governance structures are designed to best suit its current business and the needs of its stakeholders in the context of the overall evolution of governance standards.

Oil Search endeavours to observe the spirit of good corporate governance by those means which are most appropriate to its business.

Oil Search firmly believes that the more transparent it is about its governance practices, the better placed investors will be to make informed investment decisions.

Oil Search has reported against the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (the "CGC Recommendations") each year since their first release in 2004. In 2010, a number of significant amendments were made to the CGC Recommendations which will apply to listed entities from 1 January 2011. The Company has commenced revising its policies, practices and procedures as necessary to comply with the 2010 amendments to the CGC Recommendations and will commence reporting against the revised CGC Recommendations in the 2011 Annual Report.

ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

Oil Search believes it followed all the CGC Recommendations during the 12 months ended 31 December 2010.

In reporting against the CGC Recommendations for 2010, Oil Search:

- Addresses the CGC Recommendations consecutively.
- Includes cross references to information not included in the corporate governance report, but located elsewhere in the 2010 Annual Report or on the Company's website.

LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Oil Search's internal systems and procedures are designed to enable the Board to provide strategic guidance to the Company and effective management oversight.

Oil Search has formalised and defined the functions

reserved for Board and those delegated to management in a formal Board Charter. This charter defines Board duties to facilitate accountability to the Company and its shareholders. (Recommendations 1.1 and 1.3)

The Board and the Managing Director review the performance of senior executives on a regular basis.

The Managing Director usually conducts an annual face to face performance review with senior executives. The senior executives' performance during the year is assessed having regard to a variety of individual and corporate key performance indicators and stretch targets. The Board also assesses the performance of the Managing Director. The Chairman meets with the Managing Director and gives him feedback on that assessment. (Recommendation 1.2)

Performance evaluations for all senior executives were carried out in the reporting period, in accordance with the process disclosed in the above paragraph. The Company also expects that during 2011 performance evaluations for all senior executives will be carried out in accordance with that process. (Recommendations 1.2 and 1.3)

Copies of the Board Charter and the Charters for each of the three Board committees are on Oil Search's website in the corporate governance section. (Recommendation 1.3)

STRUCTURING THE BOARD TO ADD VALUE

Oil Search recognises that an effective board facilitates the efficient discharge of the duties imposed by law on directors and adds value in the context of Oil Search's evolving circumstances. Accordingly, Oil Search has structured its Board so that it:

- Has a proper understanding of, and competence to deal with, the current and emerging issues in Oil Search's business.
- Exercises independent judgement.
- Encourages enhanced performance of the Company.
- Effectively reviews and challenges management's performance and exercises independent judgement.

During 2010:

- At all times a majority of Oil Search's directors were independent, as assessed in accordance with the Board Charter and the CGC Recommendations, and the Board met regularly without management present. (Recommendation 2.1)
- The Chairman, Brian Horwood, was an independent director. (Recommendation 2.2)
- The roles of Chairman and Managing Director were performed by separate individuals. (Recommendation 2.3)

The Board has a Remuneration and Nominations Committee comprising four independent directors. The members of the Remuneration and Nominations Committee and their attendance at meetings of the Committee during 2010 are detailed in the Directors' Report. (Recommendations 2.4 and 2.6)

The responsibilities of the Remuneration and Nominations Committee include the identification of suitable candidates for appointment to the Board, in the event of a need to recruit a new director. (Recommendation 2.4)

The Oil Search Board has a formal annual review process for the Board and individual directors. The process involves each director completing a detailed questionnaire covering the performance of the Board as a whole, the performance of the three Board Committees, the individual director's own performance and the performance of the Chairman. The Chairman then meets with each director to review their responses to the questionnaire and to give the director the Chairman's own views on how the director has performed during the year. Due to two Board resignations and subsequent appointments of new directors that occurred during 2010, the formal annual review process was held over from 2010 and is scheduled to be completed in early 2011. (Recommendation 2.6)

A more detailed explanation of Oil Search's annual review process for the Board and individual directors is available on Oil Search's website in the corporate governance section. (Recommendation 2.5)

New directors participate in an induction programme to assist them in understanding Oil Search's strategic objectives, financial performance, operations and risk management systems. The induction process also covers relevant administrative and procedural arrangements to promote the effective functioning of the Board. A programme of continuing education is offered to all directors, including the practice of inviting external industry and subject specialists to present to the Board on matters of general relevance to the Company.

The skills, experience and relevant expertise of each director in office at the date of the annual report is detailed in the Directors' Report. Prior to their appointment to the Board, directors are required to provide the Chairman with details of their other commitments to make sure that, following their appointment, directors will have sufficient time to carry out their Oil Search duties. (Recommendation 2.6)

Each Oil Search non-executive director is considered by the Board to be an independent director. The independence of directors is assessed regularly. For the avoidance of doubt, only non-executive directors (that is, a director who is not a member of management) can be considered independent. The Board takes account of all circumstances relevant to a director in determining whether the director is free from any external interest or any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company. In determining materiality, the Board has regard, among other things, to the matters detailed in paragraph 3.3 of the Board Charter. (Recommendations 2.1 and 2.6)

There is a procedure in place for directors to take independent professional advice. In particular, a director may obtain independent professional advice if this is reasonably required to assist the director in the proper exercise of the powers and discharge of the duties of a director of the

Company. The costs of such independent professional advice are borne by the Company provided that before engaging the independent professional adviser, the director obtains the approval of the Chairman, or, if the director is the Chairman, the approval of a majority of the non-executive directors of the Company. (Recommendation 2.6)

The period of office held by each director in office at the date of the 2010 Annual Report is specified in the Directors' Report. (Recommendation 2.6)

Oil Search's Constitution and the Charter of the Remuneration and Nominations Committee are available on Oil Search's website in the corporate governance section. In addition, the selection and appointment policy and process for the selection and appointment of new directors is disclosed in the same location. (Recommendation 2.6)

PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Oil Search actively promotes ethical and responsible decision making.

Oil Search has a Code of Conduct which is supported by a training module and periodic monitoring of compliance. Amongst matters addressed, the Code of Conduct details the Company's requirements regarding monetary payments and gifts offered by third parties to Oil Search personnel. (Recommendation 3.1)

The Company recognises that Oil Search personnel should not have an unfair advantage over other investors in trading in Oil Search securities. Under Oil Search's Share Trading Policy, which underwent a major revision in April 2010, no employee, director, contractor or close family member of those persons is permitted to deal in Oil Search securities during closed periods. Closed periods operate from 1 January and 1 July each year until the release of the yearly and half yearly results respectively. In addition, senior executives, other designated employees and directors require permission to trade at other times unless the Board has declared an open trading window. Such trading windows usually are declared open for a period of four weeks following the release date of the yearly and half yearly results and the date of the Annual Meeting. The Oil Search Share Trading Policy is compliant with the ASX Listing Rules 12.9 to 12.12 introduced on 1 January 2011. (Recommendation 3.2)

The Code of Conduct and the Share Trading Policy are available on Oil Search's website in the corporate governance section. (Recommendation 3.3)

SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Oil Search recognises the importance of being able to independently verify and safeguard the integrity of the Company's financial reporting and has a structure in place to achieve this. This structure includes:

- The review and consideration of the financial statements by the Audit Committee.
- A process to ensure the independence and competence of the Company's external auditors.

CORPORATE GOVERNANCE CONTINUED

The Board has an Audit Committee. (Recommendation 4.1)

At all times during 2010 the Audit Committee consisted of:

- Non-executive directors only.
- Independent directors only.
- An independent chairman who was not chairman of the Board.
- Four members. (Recommendation 4.2)

The Audit Committee has a formal charter that details its role and responsibilities, composition, structure and membership requirements. (Recommendations 4.3 and 4.4)

The members of the Audit Committee, their qualifications and their attendance at meetings of the Committee held during 2010, are detailed in the Directors' Report. (Recommendation 4.4)

The number of meetings of the Audit Committee held during 2010 is detailed in the Directors' Report. (Recommendation 4.4)

The external auditors attended all Audit Committee meetings in 2010. The external auditors held discussions at each meeting with the Committee members and without management present. Oil Search's policy is to appoint an internationally recognised external audit firm with expertise in the resources sector. Deloitte Touche Tohmatsu initially was appointed the Company's auditor in May 2002. The Audit Committee reviews the performance of the external auditor and the rotational plan for external audit partners. The Committee recommends the tendering and selection of the external auditor to the Board. The external audit was tendered in March 2009 to a range of qualified international audit firms, with Deloitte Touche Tohmatsu successful in resecuring the role. The re-appointment of Deloitte Touche Tohmatsu was approved at the 2009 Annual Meeting.

Deloitte Touche Tohmatsu's professional requirements mandate that each lead audit partner rotates from his or her client after five years of service. That policy is followed for the Oil Search assignment and the next partner rotation will take place in 2011. (Recommendation 4.4)

Internal auditing processes are carried out by Oil Search's Assurance and Compliance function, with assistance from external consulting firms as required.

The Audit Committee Charter is available on Oil Search's website in the corporate governance section. (Recommendation 4.4)

MAKE TIMELY AND BALANCED DISCLOSURE

Oil Search promotes timely and balanced disclosure of all material matters concerning the Company. Oil Search has mechanisms designed to ensure compliance with the ASX Listing Rule disclosure requirements, such that:

- All investors have equal and timely access to material information concerning the Company – including its financial position, performance, ownership and governance.

- Company announcements are factual and presented in a clear and balanced way, including disclosure of both positive and negative information.

Oil Search has written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior manager level for that compliance. (Recommendation 5.1)

Reflecting its commitment to maintaining good governance practice, in 2009 Oil Search elected for the first time to include a Remuneration Report within the Directors' Report. This practice was continued in 2010. The 2010 Remuneration Report complies with section 300A of the Australian Corporations Act 2001 and has been audited by Deloitte Touche Tohmatsu.

Oil Search's External Communication and Disclosure Standard is available on Oil Search's website in the corporate governance section. (Recommendation 5.2)

RESPECT THE RIGHTS OF SHAREHOLDERS

Oil Search aims to empower its shareholders by:

- Communicating effectively with them.
- Giving them ready access to balanced and understandable information about the Company and corporate proposals.
- Making it easier for them to participate in annual meetings.

Oil Search has a Communication Standard designed to promote effective communication with shareholders and to encourage their participation at general meetings. (Recommendation 6.1)

As a company incorporated in Papua New Guinea, Oil Search's Annual Meeting is held in Port Moresby. The meeting is web cast to shareholders outside Papua New Guinea. Oil Search's Constitution requires the Chairman of the Annual Meeting to allow a reasonable time for shareholders at the meeting to question, discuss and comment on the management of the Company. A representative of the external auditor attends Oil Search's Annual Meeting. The representative is available at the meeting to answer shareholder questions about the audit and the Auditor's Report.

The Oil Search website is regularly updated so as to give all shareholders ready access to balanced and easily understood information about the Company and its business.

Oil Search liaises closely with a range of relevant institutions, including the Australian Shareholders Association. Shareholder queries are answered promptly, comprehensively and courteously.

Oil Search's website details how investors may contact the Company's investor relations team. In addition, the website contains contact details for the Company's external share registry, including a general enquiry line, fax number and email details. (Recommendation 6.2)

RECOGNISE AND MANAGE RISK

Oil Search recognises that risk management is a strategically important and integral part of managing the oil and gas business and has in place an extensive system of risk oversight, management, reporting and internal control and compliance monitoring.

Oil Search conducts an annual review of its risk management policies and standards. This review covers the following:

- The process for reporting on the identification, assessment and management of material business risks.
- Board and committee reviews of material business risk.
- Reports prepared by management.
- External reporting.

Oil Search has policies and standards in place covering the oversight and management of material business risks encountered within the oil and gas environment. These policies and standards are based upon management of the hazards and exposures inherent in Oil Search's business activities. Oil Search's risk profile incorporates the following areas of exposure:

- Strategic and business
- Asset and operations management
- Governance
- Financial
- Information technology
- External factors
- Health, safety and security
- Environmental
- Human resources

Oil Search has developed standards and management processes in support of the policies covering each of these areas. Oil Search's website contains a summary of these policies. (Recommendation 7.1)

The Board requires management to design and implement a risk management and internal control system to manage the Company's material business risks. Management reports to the Board on those material business risks. (Recommendations 7.2 and Recommendation 7.4)

In developing its risk management systems, Oil Search has carefully considered its legal obligations and its responsibilities to various interest groups. Oil Search recognises that many groups, including shareholders, employees, customers, suppliers, creditors, consumers, landowners, government authorities and the broader community, both locally and internationally, have a legitimate interest in the Company's risk management policies and procedures. Oil Search takes account of the potential impacts and consequences for all stakeholders when assessing risk exposures.

Oil Search's risk management framework is based on the International Standard for Risk Management (ISO31000). Aspects of other internationally developed risk frameworks, such as the "Enterprise Risk Management (ERM) Model" developed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO), have been incorporated as appropriate.

Oil Search has identified its material business risks and is actively managing those risks. All material business risks that arise in the course of the Company's activities have clearly defined management ownership and accountability for reporting to the Board.

The Board is responsible for reviewing the Company's policies on risk oversight and management. In doing so, the Board satisfies itself that management has developed and implemented a sound system of risk management and internal control.

Oil Search has a Finance and Risk Management Committee responsible for monitoring the risk management system. While the Finance and Risk Management Committee assists the Board to fulfil its risk oversight obligations, ultimate responsibility for risk oversight and risk management rests with the full Board.

Minutes of all Board committees are reviewed by the full Board. The Chairman of the Board attends committee meetings as an ex officio member. Board members are also invited to attend senior management meetings to observe the risk management process in action. The members of the Finance and Risk Committee, their qualifications and attendance at meetings of the Committee during 2010 are detailed in the Directors' Report.

Oil Search has a full time Assurance and Compliance Manager with responsibility for managing the internal audit function. The Assurance and Compliance Manager provides independent assurance on the adequacy and effectiveness of the Company's risk management framework, and the completeness and accuracy of risk reporting by management. The Assurance and Compliance Manager conducts annual risk reviews based on a plan agreed with management and the Audit Committee and the Finance and Risk Committee. The Assurance and Compliance Manager has access to all members of the management team and the right to seek information and explanations from any employee or contractor.

The Assurance and Compliance Manager is independent of the external auditor and meets privately with the Chairman of the Audit Committee. The Assurance and Compliance Manager is also invited to attend and report to Audit Committee meetings. The Audit Committee reviews the performance of the Assurance and Compliance Manager and approves their appointment and termination.

The Managing Director and Chief Financial Officer are both required to state in writing to the Board that the integrity of the Company's financial statements is based on a sound system of risk management as well as internal compliance and control which implements the Board's policies. In addition, senior managers are required to report to the

Managing Director and to the Chief Financial Officer in writing that key company policies and standards have been operating effectively throughout the year, including the operation of risk management processes, mitigation opportunities and contingency plans. The Managing Director and Chief Financial Officer provided an unqualified statement regarding risk management and internal compliance and control systems to the Board for 2010.

The Board requires the Managing Director and the Chief Financial Officer to provide a declaration that is consistent with section 295A of the Australian Corporations Act 2001. The Board received this declaration from the Managing Director and the Chief Financial Officer in 2010. In addition, as noted above, the Board also received reports from management during 2010 regarding material business risks. (Recommendations 7.3 and Recommendation 7.4)

A summary of the Company's policies on risk oversight and management is available on Oil Search's website in the corporate governance section. (Recommendation 7.4)

REMUNERATE FAIRLY AND RESPONSIBLY

Oil Search's policy is to ensure that the level and composition of remuneration for all employees is competitive and reasonable and that the relationship between remuneration and corporate and individual performance is clear.

Oil Search has established a Remuneration and Nominations Committee. (Recommendation 8.1)

The payment of any equity based remuneration is made in accordance with plans approved by shareholders. Oil Search has a Long Term Incentive Plan that allows the Board the flexibility to grant employees Performance Rights, Share Appreciation Rights, Share Options and Restricted Shares. Non-executive directors do not participate in these plans.

The payment of any equity based remuneration is made in accordance with plans approved by shareholders. Oil Search has an Employee Share Option Plan, a Performance Rights Plan and a Restricted Share Plan. Non-executive directors do not participate in these plans.

Within the aggregate amount approved by shareholders, the fees of the Chairman and non-executive directors are set at levels in line with the responsibilities of those directors and the time spent by those directors in discharging their duties. In setting fees, regard is also given to the level of fees paid to directors of similar companies. Non-executive directors are not currently entitled to retirement benefits, other than statutory superannuation. (Recommendations 8.2 and 8.3)

Remuneration packages of senior executives include both short term and long term performance based components. Rights granted under the Performance Rights Plan to senior executives are linked to the long term return to shareholders from investing in Oil Search. Performance Rights only vest following satisfaction of performance hurdles that are designed to maximise shareholder wealth. Further details

of the terms and conditions of short term and long term incentive plans are set out in the Remuneration Report.

The members of the Remuneration and Nominations Committee, their qualifications and attendance at meetings of the Committee during 2010 are detailed in the Directors' Report. (Recommendation 8.3)

The Remuneration and Nominations Committee's charter is available on Oil Search's website in the corporate governance section. (Recommendation 8.3)

Oil Search's Share Trading Policy expressly prohibits employees entering into transactions in financial products ("Transactions in Associated Products") which limit the economic risk of participating in unvested entitlements under equity based remuneration schemes. (Recommendation 8.3)

TRANSPARENCY

Oil Search wants all its shareholders and other stakeholders to have confidence in its corporate governance practices.

With this in mind Oil Search continued to focus on high quality disclosure during 2010 so that investors were able to invest in the most transparent environment possible.

Oil Search will continue to adjust its practices and procedures where experience shows this is necessary to deliver against the stated objective of transparency.

Oil Search complies
with all ASX Corporate
Governance Principles and
Recommendations

BF HORWOOD **CHAIRMAN**



PR BOTTEN



G AOPI



JL STITT



R IGARA



KG CONSTANTINOU



ZE SWITKOWSKI



AJ KANTSLER



MDE KRIEVALDT



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DIRECTORS' REPORT

FOR THE YEAR ENDED 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

Mr G Aopi, CBE, Executive, 56 years

Mr Aopi was appointed an Executive Director on 18 May 2006 and presently fills the position of Executive General Manager, External and Government Affairs and Sustainability (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 of 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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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

Dr AJ Kantsler, B.Sc (Hons), PhD, 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 to 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 Organisation. 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

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 20 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 12 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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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.

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 in 2009, 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 US\$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: US\$33.2 million) held in joint venture accounts, and debt of US\$929.7 million at the end of December (2009: nil).

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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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 Kantsler² 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 Switkowski³ and Mr TN Warren⁴;

Finance and Risk: Mr EF Ainsworth¹ (Chairman), Mr G Aopi, Mr KG Constantinou, Dr AJ Kantsler², Mr MDE Kriewaldt, Dr ZE Switkowski³ and Mr TN Warren⁴. 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) 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.
- (3) 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.
- (4) Mr TN Warren resigned from the Board effective 31 May 2010.
- (5) Mr BF Horwood was acting Chairman of the Finance and Risk Committee for the period 20 September 2010 to 16 February 2011.

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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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.

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.

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;
- **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:
 - The release of the half year results;
 - The release of the full year results; and
 - 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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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.

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	

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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.

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.

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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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:

$$\frac{\text{Number of Rights} \times (\text{Price on Vesting} - \text{Vesting Price})}{\text{Price on Vesting}} = \text{Number of Shares}$$

$$\frac{1,900 \times (\$7.63 - \$5.63)}{\$7.63} = \frac{\$3,800}{\$7.63} = 498 \text{ shares}$$

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 three 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.

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 three 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 two 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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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:

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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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.

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 Shares 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.

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 once financial close for 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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 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.

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, 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 Shares 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%

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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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:

- The length of his tenure during the vesting period; and
- The most recent measure of Oil Search relative TSR, as calculated by an independent third party.

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 Todorcevski 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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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

Gereia 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.

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 Todorcevski – 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.

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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

The remuneration philosophy outlined on page 72 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

	TFR	STI	LTI	"AT RISK"
DIRECTORS				
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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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 ⁽⁹⁾	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 Todorovski 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 Todorovski 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.

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

	INCLUDED IN REMUNERATION US\$	% VESTED IN YEAR	% FORFEITED IN YEAR
DIRECTORS			
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, International 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%

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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.

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, International 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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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.

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.

	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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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.

	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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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

EXERCISED IN 2010	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.

EXERCISED IN 2009	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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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
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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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

	RIGHTS GRANTED		% VESTED IN YEAR	% FORFEITED IN YEAR	FINANCIAL YEAR OF VESTING
	NUMBER	DATE			
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
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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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

	VALUE OF RIGHTS EXERCISED IN YEAR US\$ ⁽²⁾				VALUE OF RIGHTS LAPSED IN YEAR US\$ ⁽³⁾		
	GRANTED IN YEAR US\$ ⁽¹⁾	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 Todorovski	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

Table 18 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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

Table 18 – 2011 Performance Payment Potential

	SHORT TERM INCENTIVE		SHORT TERM INCENTIVE		LONG TERM INCENTIVE	
	PAID AS CASH ⁽¹⁾		DEFERRED AS SHARES ⁽²⁾		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 Todorovski	\$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.

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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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

	YEAR	SHORT TERM			POST EMPLOYMENT	LONG TERM	EQUITY		OTHER	TOTAL
		SALARIES, FEES AND ALLOWANCES	NON-MONE-TARY BENEFITS	SHORT TERM INCENTIVE	COMPANY CONTRI-BUTION TO SUPER	LONG SERVICE LEAVE ACCRUAL	PERFOR-MANCE RIGHTS	REST-RICED SHARES	SIGN ON/ TERMINATION BENEFITS	
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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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 85.

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.

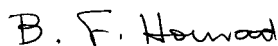
Underlying field production performance is expected to remain strong, however, output will be impacted by a planned shut-in of facilities in the second and fourth quarters of 2011, to enable Associated Gas work related to the PNG LNG Project to occur.

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.

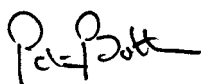
ROUNDING

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.



BF HORWOOD
Chairman



PR BOTTEN
Managing Director

Sydney, 21 February 2011

AUDITOR'S INDEPENDENCE DECLARATION
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

Deloitte.

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

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

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

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTE	CONSOLIDATED		PARENT	
		2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 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.

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	NOTE	CONSOLIDATED		PARENT	
		2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 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.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTE	CONSOLIDATED		PARENT	
		2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 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.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

CONSOLIDATED	SHARE CAPITAL US\$'000	FOREIGN CURRENCY TRANSLATION RESERVE US\$'000	RESERVE FOR TREASURY SHARES US\$'000	EMPLOYEE EQUITY COMPEN- SATION RESERVE US\$'000	RETAINED EARNINGS US\$'000	TOTAL 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.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

PARENT	SHARE CAPITAL US\$'000	FOREIGN CURRENCY TRANSLATION RESERVE US\$'000	AMALGA- MATION RESERVE US\$'000	RESERVE FOR TREASURY SHARES US\$'000	EMPLOYEE EQUITY COMPEN- SATION RESERVE US\$'000	RETAINED EARNINGS US\$'000	TOTAL 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.

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";
- Interpretation 17 "Distributions of Non-Cash Assets to owners"; and
- 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; and
- Interpretation 19 "Extinguishing Liabilities with Equity Instruments", applicable for annual reporting periods beginning on or after 1 July 2010.

(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.

1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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.

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.

(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.

1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 five 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 changes 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 recognised 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.

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.

2 REVENUE FROM OPERATIONS

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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	–	–

5 NET FINANCING COSTS

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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
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

7 EARNINGS PER SHARE

	CONSOLIDATED	
	2010 US CENTS	2009 US CENTS
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.

8 DIVIDENDS PAID OR PROPOSED

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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.

10 INVENTORIES

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Current				
At cost				
Materials and supplies	52,107	53,316	–	–
Petroleum products	8,083	6,202	–	–
	60,190	59,518	–	–

11 OTHER ASSETS

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Current				
Prepayments	4,405	4,424	136	124
Non-current				
Prepayments	916	1,206	–	–

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EXPLORATION AND EVALUATION ASSETS (NON-CURRENT)

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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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OIL AND GAS ASSETS (NON-CURRENT)

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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	–

14 OTHER PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT)

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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).

16 DEFERRED TAX ASSETS

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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

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PAYABLES

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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

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PROVISIONS

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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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LOANS AND BORROWINGS

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Non-current				
Secured loan from joint venture ⁽¹⁾	929,720	–	–	–

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 six months' interest, whichever is greater.

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

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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

21 SHARE CAPITAL AND RESERVES

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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 SHARES	2009 SHARES	2010 US\$'000	2009 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%.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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.

(A) RESERVES AT THE END OF THE FINANCIAL YEAR

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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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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

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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).

(B) RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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)

23 INTERESTS IN JOINTLY CONTROLLED OPERATIONS

(A) NET ASSETS EMPLOYED IN JOINT VENTURES

	NOTE	CONSOLIDATED		PARENT	
		2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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 US\$'000	2009 US\$'000
Contingent liabilities	–	–
Capital expenditure commitments	2,099,198	1,401,800
Other expenditure commitments	322,343	–

(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

			% INTEREST	
			COUNTRY	2010
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	South East Gobe oil field	PNG	36.36	36.36
PDL 4 ⁽²⁾	Gobe Main & South East Gobe oil fields	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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INTERESTS IN JOINTLY CONTROLLED OPERATIONS (CONTINUED)

(C) INTERESTS IN JOINTLY CONTROLLED OPERATIONS (CONTINUED)

		COUNTRY	% INTEREST	
			2010	2009
(ii) Exploration joint ventures				
PPL 190 ⁽¹⁾		PNG	62.56	62.56
PPL 219 ⁽¹⁾		PNG	71.25	71.25
PPL 233		PNG	52.50	52.50
PPL 234 ⁽¹⁾		PNG	80.00	80.00
PPL 239		PNG	20.00 ⁽²⁾	80.00
PPL 240 ⁽¹⁾		PNG	100.00	100.00
PPL 244 ⁽¹⁾		PNG	80.00 ⁽²⁾	30.00
PPL 260 ⁽¹⁾		PNG	50.00 ⁽²⁾	50.00
PPL 276		PNG	30.00 ⁽⁴⁾	–
PPL 338		PNG	30.00 ⁽⁴⁾	–
PPL 339		PNG	30.00 ⁽⁴⁾	–
PPL 312		PNG	30.00 ⁽²⁾	–
EL 1720, 1721, 1722, 1723, 1724, 1725, 1726		PNG	100.00	100.00
K42 ⁽¹⁾		Iraq	75.00	–
Shakal		Iraq	15.00	15.00
Le Kef		Tunisia	25.00 ⁽³⁾	25.00
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
PRL 11	Angore gas field	PNG	52.50	52.50
PRL 14 ⁽¹⁾	Cobra, lehi and Bilip field	PNG	62.56	–
PNG LNG	PNG LNG project	PNG	29.00	29.00
PPFL2	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) Prior period comparative changed to reflect revenue interest.

(4) Subject to completing assignment documents.

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 31 DECEMBER		LNG 31 DECEMBER		OIL AND GAS 31 DECEMBER		31 DECEMBER		31 DECEMBER	
	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)

24 SEGMENT REPORTING (CONTINUED)

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.

25 EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

	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.

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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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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

	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	MAY 2007 GRANT
EXECUTIVES										
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	4 May 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	A\$3.38
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	1 January 2010
Exercise price	A\$ nil	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	683,169
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)	(683,169)
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	683,169
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	683,169

	JULY 2010 GRANT	JULY 2010 GRANT	MARCH 2009 GRANT
OIL SEARCH (PNG) LIMITED			
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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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:

	2010 US\$	2009 US\$
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.

(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:

	2010 US\$	2009 US\$
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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

	2010 NO.	2009 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	–

27 AUDITORS' REMUNERATION

	CONSOLIDATED		PARENT	
	2010 US\$	2009 US\$	2010 US\$	2009 US\$
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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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:

	NO. OF ORDINARY SHARES		NO. OF PERFORMANCE RIGHTS ⁽¹⁾		NO. OF RESTRICTED SHARES ⁽¹⁾	
	2010	2009	2010	2009	2010	2009
DIRECTORS						
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.

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:

	TRANSACTIONS VALUE YEAR ENDED 31 DECEMBER	
	2010 US\$'000	2009 US\$'000
CONSOLIDATED		
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.

29 LEASES

	CONSOLIDATED		PARENT	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
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.

31 GROUP ENTITIES

	OWNERSHIP INTEREST % 2010	OWNERSHIP INTEREST % 2009	COUNTRY OF INCORPORATION
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.

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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.
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).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(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).

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 one to six 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).

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FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Interest rate risk (continued)

Consolidated

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	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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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.

(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.

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FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 & 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.

	NOTE	CONSOLIDATED		PARENT	
		2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 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).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(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 US\$'000	2009 US\$'000	2010 US\$'000	2009 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.

DIRECTORS' DECLARATION

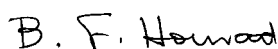
31 DECEMBER 2010

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.



BF HORWOOD

Chairman



PR BOTTEN

Managing Director

Sydney, 21 February 2011



Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Deloitte Tower, Level 12
Douglas Street
Port Moresby
PO Box 1275 Port Moresby
National Capital District
Papua New Guinea

Tel: +675 308 7000
Fax: +675 308 7001
www.deloitte.com.pg

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia
DX 10307SSE

Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

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 86 to 124.

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.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited.

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

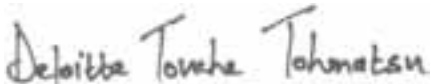
We have no interest in the company or any relationship other than that of the auditor of the company.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 64 to 83 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

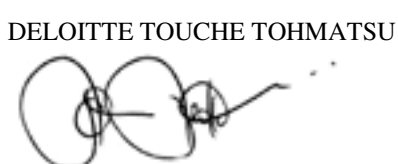
In our opinion the Remuneration Report of Oil Search Limited for the year ended 31 December 2010, complies with section 300A of the *Corporations Act 2001*.


DELOITTE TOUCHE TOHMATSU



Suzaan Theron
Partner
Chartered Accountants
Registered under the Accountants Act, 1996
Port Moresby, 21 February 2011


DELOITTE TOUCHE TOHMATSU



John A Leotta
Partner
Chartered Accountants
Registered Company Auditor in Australia
Sydney, 21 February 2011

SHAREHOLDER INFORMATION

OIL SEARCH LIMITED

ARBN 055 079 868

(a) The distribution of ordinary shares ranked according to size as at 28 February 2011 was:

SIZE OF HOLDING	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL
1 – 1,000	17,771	9,325,396	0.71
1,001 – 5,000	17,610	43,768,289	3.33
5,001 – 10,000	4,165	30,355,280	2.31
10,001 – 100,000	2,629	56,957,681	4.34
100,001 – 999,999,999	200	1,172,481,657	89.31
	42,375	1,312,888,303	100.00

(b) The 20 largest ordinary shareholders representing 82.83% of the ordinary shares as at 28 February 2011 were as follows:

SHAREHOLDER	NUMBER OF SHARES	% OF ISSUED CAPITAL
1 JP Morgan Nominees Australia Limited	258,122,489	19.66
2 HSBC Custody Nominees (Australia) Limited	238,341,875	18.15
3 Independent Public Business Corporation	196,604,177	14.97
4 National Nominees Limited	192,253,507	14.64
5 Citicorp Nominees Pty Limited	65,953,055	5.02
6 JP Morgan Nominees Australia Limited (Cash Income Account)	19,318,326	1.47
7 Cogent Nominees Pty Limited	16,482,735	1.26
8 Citicorp Nominees Pty Ltd (CFS WSLE Geared Share Fund Account)	16,353,124	1.25
9 Australian Foundation Investment Company Limited	13,227,042	1.01
10 HSBC Custody Nominees (Australia) Limited (Account 2)	10,216,480	0.78
11 Tasman Asset Management Limited (Tyndall)	8,533,032	0.65
12 UBS Nominees Pty Ltd	8,019,656	0.61
13 AMP Life Limited	7,848,137	0.60
14 Citicorp Nominees Pty Ltd (CFSIL WS Australian Share Account)	6,721,357	0.51
15 National Superannuation Fund Limited	6,081,472	0.46
16 RBC Dexia Investor Services Australia Nominees Pty Limited	5,679,459	0.43
17 Queensland Investment Corporation	4,804,285	0.37
18 Djerrivarrh Investments Limited	4,522,135	0.34
19 Dr Kwok Ching Chow & Mrs Chan Pik Yun Peggy Chow	4,268,880	0.33
20 Mrs Frances Claire Fox	4,113,000	0.31
Total	1,087,464,223	82.82

(c) Issued capital as at 28 February 2011 was:

- 1,312,888,303 ordinary fully paid shares
- 2,962,980 unlisted employee options
- 5,931,347 unlisted performance rights
- 1,425,709 restricted shares
- 1,491,500 share appreciation rights

The trustee for the employee share plan holds 2,154,783 shares that are available to satisfy the exercise of employee rights and options and vesting of restricted shares. The shares in the trust are part of the issued capital.

(d) The following interests were registered on the Company's register of Substantial Shareholders as at 28 February 2011:

SHAREHOLDER	NUMBER OF SHARES	% OF ISSUED CAPITAL
Independent Public Business Corporation as Trustee of The General Business Trust of Papua New Guinea*	196,604,177	14.97
The Capital Group Companies	164,282,688	12.51

* Independent Public Business Corporation (IPBC) has issued bonds that are exchangeable for IPBC's Oil Search shares on prescribed terms and conditions to International Petroleum Investment Company (IPIC), a wholly owned subsidiary of the Abu Dhabi Government.

(e) The Company's ordinary fully paid shares are listed on the Australian Securities Exchange and the Port Moresby Stock Exchange. Shares are also listed in the United States of America, via American Depositary Receipts (ADRs).

(f) At 28 February 2011, 1,225 holders held unmarketable parcels of ordinary shares in the Company.

VOTING RIGHTS ATTACHED TO ORDINARY SHARES

- On a show of hands, one vote per member.
- On a poll, every member present shall have one vote for every share held by him/her in the Company.

SHAREHOLDER INFORMATION

ANNUAL MEETING

Oil Search's 2011 Annual Meeting will be held at the Crowne Plaza, Cnr Hunter and Douglas Street, Port Moresby, Papua New Guinea on Wednesday 11 May 2011, commencing at 3pm.

2010 FINAL DIVIDEND

The 2010 final dividend will be paid on 8 April 2011 to shareholders registered as at the close of business on 16 March 2011.

The dividend will be paid in PNG Kina for those shareholder domiciled in Papua New Guinea, in GB Pounds for those shareholders that have lodged direct credit details requesting a GB credit with the Company's share registry, Computershare, and in Australian dollars for all other shareholders. The exchange rates used for converting the US dollar dividend into the payment currencies are the rates as on the record date, 16 March 2011.

The dividend will be unfranked and no withholding tax will be deducted. The Company's dividend reinvestment plan, which will be underwritten, will operate for the 2010 final dividend.

SHARE REGISTRY:

ENQUIRIES

Oil Search's share register is handled by Computershare, the world's leading transfer agency/share registry. Please contact Computershare for all shareholding related enquiries.

CHANGE OF SHAREHOLDER DETAILS

Shareholders should notify Computershare, in writing (fax, email, mail), of any changes in shareholder details such as:

- Registered name
- Registered address
- Direct credit payment details
- Dividend currency payment preference.

Computershare Investor Services Pty Limited

GPO Box 2975
Melbourne VIC 3000,
Australia

Telephone:
Within Australia: 1300 850 505
Outside Australia: +61 3 9415 4000

Facsimile: +61 3 9473 2500

Email: oilsearch@computershare.com.au

Website: www.computershare.com.au

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

REGISTER OF DEPOSITARY RECEIPTS

Bank of New York Mellon
ADR Division
22nd Floor
101 Barclay Street
New York
NY 10286

Telephone within USA: +1 888 269 2377
Telephone outside USA: +1 201 680 6825
Facsimile: +1 212 571 3050

SHARE CODES

ASX Share Code: OSH
ADR Share Code: OISHY

OIL SEARCH WEBSITE

A wide range of information on Oil Search is available on the Company's website, at **www.oilsearch.com**. As well as reviews of Oil Search's Board and senior management team, corporate governance practices, activities and responsibilities, the following information for investors is available:

- Annual Reports
- Profit Announcements
- Press Releases
- Quarterly Reports
- Drilling Updates
- Presentations
- Archived Webcasts.

Investor information, other than about shareholdings and dividends, can be obtained by sending an email to: **investor@oilsearch.com**

2011 FINANCIAL CALENDAR⁽¹⁾

EXPECTED DATE	EVENT
Tuesday 25 January 2011	Release of 2010 4th Quarter results
Tuesday 22 February 2011	Release of full year results for 2010
Wednesday 9 March 2011	Ex-dividend date for 2010 final dividend
Wednesday 16 March 2011	Record date for 2010 final dividend
Friday 8 April 2011	Release of 2010 Annual Report
Friday 8 April 2011	Payment of 2010 final dividend
Thursday 28 April 2011	Release of 2011 1st Quarter results
Wednesday 11 May 2011	Annual Meeting
Tuesday 26 July 2011	Release of 2011 2nd Quarter results
Tuesday 23 August 2011	Release of interim results for 2011
Friday 9 September 2011	Ex-dividend date for 2011 interim dividend
Thursday 15 September 2011	Record date for 2011 interim dividend
Monday 10 October 2011	Payment of 2011 interim dividend
Tuesday 25 October 2011	Release of 2011 3rd Quarter results
Saturday 31 December 2011	End of Financial Year

(1) Dates are subject to change.

CORPORATE DIRECTORY

SENIOR MANAGEMENT

Peter Botten CBE

Managing Director (Australia)

Gerea Aopi CBE

Executive General Manager, External & Government Affairs & Sustainability and Executive Director (Papua New Guinea)

Philip Bainbridge

Executive General Manager, Gas Commercialisation & PNG Growth (Australia)

Philip Caldwell

Executive General Manager, PNG LNG Delivery (Papua New Guinea)

Paul Cholakos

Executive General Manager, Project Development (Australia)

Paul Crute

Executive General Manager, Human Resources, Health & Administration (Australia)

Stephen Gardiner

General Manager, Corporate Services and Group Secretary (Australia)

Nigel Hartley

Executive General Manager, Sustainability (Australia)

Richard Robinson

Executive General Manager, PNG Operations (Papua New Guinea)

Zlatko Todorcevski

Executive General Manager, Finance & Treasury – Chief Financial Officer (Australia)

REGISTERED OFFICE

Oil Search (PNG) Limited
7th Floor
Credit House
Cuthbertson Street
Port Moresby
Papua New Guinea

PO Box 842
Port Moresby
Papua New Guinea

Telephone: +675 322 5599
Facsimile: +675 322 5566

AUSTRALIAN OFFICES

Papuan Oil Search Limited

Sydney office

Level 27
Angel Place
123 Pitt Street
Sydney NSW 2000

GPO Box 2442
Sydney NSW 2001

Telephone: +61 2 8207 8400
Facsimile: +61 2 8207 8500

Brisbane office

555 Coronation Drive
Cnr Landsborough Terrace
Toowong QLD 4066

PO Box 2270
Toowong QLD 4066

Telephone: +61 7 3114 1799
Facsimile: +61 7 3114 1750

YEMEN OFFICE

Oil Search (ROY) Limited
PO Box 16380
Sana'a
Republic of Yemen

Telephone: +967 1 423 440/441/422
Facsimile: +967 1 410 314

DUBAI OFFICE

Oil Search (Middle Eastern) Limited
Al Attar Business Tower
Level 8, Office 802
Sheikh Zayed Road
Dubai
United Arab Emirates

Telephone: +971 4 331 4884
Facsimile: +971 4 331 1610

TUNISIAN OFFICE

Oil Search (Tunisia) Limited
Bureau B1, Entree B bis, Immeuble Kenzet
Rue du lac Tchad, Les Berges du Lac
1053, Tunis
Tunisia

Telephone: +216 71 860 532
Facsimile: +216 71 960 473

IRAQ OFFICE

Oil Search (Iraq) Limited
Block 3, Floor 4
Girdi Sarchinar
Baharan Apartments
Sulaymaniyah, KRG,
Iraq

Telephone: +964 0 53 318 858

GLOSSARY OF TERMS

1C

Low estimate of contingent resources

1P

Proven reserves

2C

Best estimate of contingent resources

2P

Proven and Probable reserves

BARREL/BBL

The standard unit of measurement for all production and sales – one barrel equals 159 litres or 35 Imperial gallons

BCF/BSCF

Billion standard cubic feet where a billion is defined as 10⁹. On average 1 bscf of sales gas = 1.055 petajoules

BOE

Barrels of oil equivalent – the factor used to convert volumes of different hydrocarbon production to barrels of oil equivalent. Conversion rate used by Oil Search for gas is 6,000 cubic feet gas is equivalent to 1 barrel of oil

BOPD

Barrels of oil per day

BTU

British Thermal Units, a measure of thermal energy. 1 BTU is equivalent to 1,055 joules

DEVELOPMENT WELL

Wells designed to produce hydrocarbons from a gas or oil field within a proven productive reservoir defined by exploration or appraisal drilling

GOR

Gas to oil ratio

HYDROCARBONS

Solid, liquid or gas compounds of the elements hydrogen and carbon

LNG

Liquefied natural gas

LPG

Liquid petroleum gas

MENA

Middle East/North Africa

MMBBL

Million barrels

MMSCF/D

Million standard cubic feet per day

MTPA

Million tonnes per annum (LNG)

PDL

Petroleum Development Licence

PJ

Petajoules – joules are the metric measurement unit for energy – a petajoule is equal to 1 joule x 10¹⁵

PL

Pipeline Licence

PNG

Papua New Guinea

PNG LNG PROJECT OPERATOR

Esso Highlands Limited, a subsidiary of Exxon Mobil Corporation (ExxonMobil)

PPFL

Petroleum Processing Facilities Licence

PPL

Petroleum Prospecting Licence

PRL

Petroleum Retention Licence

SEISMIC SURVEY

A survey used to gain an understanding of rock formations beneath the earth's surface

TCF

Trillion cubic feet (measurement of gas volume)

WILDCATS

Exploration wells testing new play concepts or structures distanced from current fields

DEFINITION OF RESERVES AND CONTINGENT RESOURCES

Proven Reserves

Proven reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proven reserves are limited to those quantities of oil and gas which can be expected, with little doubt, to be recoverable commercially at current prices and costs, under existing regulatory practices and with existing conventional equipment and operating methods. Proven (1P) reserves are probabilistically

calculated reserves having a 90 per cent confidence level (P90); such reserves have a 90 per cent likelihood of being equalled or exceeded.

Proven developed producing reserves are those reserves which are expected to be produced from existing completion intervals now open for production in existing wells.

Proven developed non-producing reserves are (1) those reserves expected to be produced from existing completion intervals in existing wells, but due to pending pipeline connections or other mechanical or contractual requirements hydrocarbon sales have not yet commenced, and (2) other non-producing reserves which exist behind the casing of existing wells, or at minor depths below the present bottom of such wells, which are expected to be produced through these wells in the predictable future, where the cost of making such oil and gas available for production should be relatively small compared to the cost of a new well.

Proven undeveloped reserves are those reserves which are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion.

Probable Reserves

Probable reserves are those reserves which geological and engineering data demonstrate to be potentially recoverable, but where some element of risk or insufficient data prevent classification as proven. Probable reserves are calculated by subtracting proven reserves from those probabilistically calculated reserves having a 50 per cent confidence level (P50). Therefore, "Proven plus Probable" (2P) reserves are defined as those reserves which have a 50 per cent likelihood of being equalled or exceeded.

CONTINGENT RESOURCES

The Company's technically recoverable resources for its discovered but uncommercialised gas fields are classified as contingent resources. These resources would be expected to be booked in the reserves category once commercialisation arrangements have been finalised.

2C denotes the best estimate of contingent resources

TEN YEAR SUMMARY¹

	2010 US\$ 000	2009 US\$ 000	2008 US\$ 000
INCOME STATEMENT			
Revenue from operations	583,560	512,154	814,330
Other income/(expenses)	–	–	–
Foreign exchange (losses)/gains	2,077	2,455	(992)
Operating expenses	(97,290)	(94,494)	(107,225)
Net corporate costs	(16,635)	(10,728)	(8,052)
EBITDAX³	471,712	409,387	698,061
Amortisation and depreciation	(42,744)	(96,860)	(117,311)
Amortisation – site restoration	(7,130)	(8,556)	(9,919)
Amortisation negative goodwill	–	–	–
Exploration costs expensed and written-off	(131,188)	(75,729)	(91,234)
EBIT	290,650	228,242	479,597
Net interest and borrowing costs	(826)	(3,326)	6,093
Capital profit	3,158	14,914	126,145
Acquisition accounting adjustment	–	–	–
Net impairment reversals/(losses)	(15,808)	–	(91,530)
Operating profit before income tax	277,174	239,830	520,305
Income tax expense	(91,572)	(106,150)	(206,943)
Net profit after income tax, significant items	185,602	133,680	313,362
Significant items	41,488	34,058	73,396
Net profit after tax, before significant items	144,114	99,622	239,966
Dividends paid – ordinary	(52,687)	(67,359)	(89,415)
Dividends paid – preference	–	–	–
BALANCE SHEET			
Total assets	4,288,701	3,077,390	2,005,457
Total cash	1,263,589	1,288,077	534,928
Total debt	929,720	–	–
Shareholders' equity	2,798,467	2,593,181	1,593,227
OTHER INFORMATION			
Average realised oil price (US\$/bbl)	80.19	65.40	100.10
Average realised gold price (US\$/ounce)	N/A	N/A	N/A
Net annual oil production (mmstb)	6.77	7.20	7.71
Net annual gas production (bcf) ⁴	5.35	5.52	5.35
Total BOE net annual production (mmbae)	7.66	8.12	8.60
Net annual gold production (ounces)	N/A	N/A	N/A
Exploration and evaluation expenditure incurred (US\$'000)	175,980	438,922	257,286
Assets in development expenditure incurred (US\$'000)	1,139,058	–	4,214
Producing assets expenditure incurred (US\$'000)	41,850	142,325	157,584
Operating cash flow (US\$'000)	398,328	284,099	507,423
Operating cash flow per ordinary share (US cents)	30.5	24.5	45.3
Diluted EPS (including significant items) (US cents)	14.1	11.5	27.8
Basic EPS (excluding significant items) (US cents)	11.0	8.6	21.4
Ordinary dividend per share (US cents)	4.0	4.0	8.0
Special dividend per share (US cents)	–	–	–
Gearing (%)	–	–	–
Return on average shareholders' funds (%)	6.9%	6.4%	21.0%
Number of issued shares – ordinary (000's)	1,312,888	1,299,562	1,119,841
Number of issued shares – preference (000's)	–	–	–
EXCHANGE RATES			
Year end A\$: US\$	1.016	0.897	0.693
Average A\$: US\$	0.919	0.792	0.868

(1) Prior year comparatives have been restated where necessary, in order to achieve consistency with current year disclosures.

(2) Reflects changes in accounting policies.

(3) Earnings before interest, borrowing costs, tax, depreciation and amortisation, and exploration costs expensed.

(4) Hides gas production for 2008, 2009 and 2010 includes vent gas. Vent gas not reported prior to 2008.

	2007 US\$ 000	2006 US\$ 000	2005 US\$ 000	RESTATED 2004 ² US\$ 000	2003 US\$ 000	2002 US\$ 000	2001 US\$ 000
	718,755	644,534	663,993	416,296	350,801	233,003	123,865
	803	4,000	(479)	837	–	–	–
	(1,423)	(886)	(1,076)	(620)	2,716	1,505	11
	(104,702)	(91,140)	(99,022)	(75,461)	(103,595)	(65,172)	(30,528)
	(15,214)	(11,751)	(9,596)	(10,224)	(10,867)	(8,665)	(3,861)
	598,219	544,757	553,820	330,828	239,055	160,671	89,487
	(124,822)	(98,421)	(85,013)	(62,981)	(73,655)	(61,910)	(41,786)
	(11,117)	(4,554)	(9,725)	(6,112)	(5,960)	(3,613)	(2,318)
	–	–	–	–	9,428	5,576	–
	(163,324)	(46,765)	(37,334)	(64,276)	(12,467)	(13,982)	(7,165)
	298,956	395,017	421,748	197,459	156,401	86,742	38,218
	22,791	21,802	(2,035)	(4,158)	(8,074)	(3,853)	(11,276)
	1,968	258,321	4,663	9,621	5,575	1,734	–
	–	–	350	7,497	–	–	–
	129	(65,180)	–	–	–	–	–
	323,844	609,960	424,726	210,419	153,902	84,623	26,942
	(185,972)	(197,978)	(224,548)	(103,138)	(68,224)	(37,623)	(14,887)
	137,872	411,982	200,178	107,281	85,678	47,000	12,055
	(3,621)	204,437	–	–	–	–	–
	141,493	207,545	200,178	107,281	85,678	47,000	12,055
	(89,587)	(100,739)	(55,896)	(33,424)	(10,557)	–	–
	–	–	–	–	(1,158)	(2,965)	(3,730)
	1,833,479	1,802,755	1,519,529	1,329,801	1,377,033	1,197,703	868,919
	343,578	477,884	212,163	210,367	102,645	60,843	40,282
	–	–	126,000	168,000	200,000	192,105	215,000
	1,389,132	1,340,980	1,020,713	869,747	846,385	787,314	500,799
	77.78	67.22	58.06	41.65	29.80	24.87	18.88
	N/A	N/A	N/A	N/A	361.00	320.00	N/A
	8.98	9.22	11.15	10.00	9.51	7.70	5.89
	4.80	5.13	5.40	5.50	5.30	3.80	5.47
	9.78	10.20	12.18	11.05	10.40	8.34	6.80
	N/A	N/A	N/A	N/A	161,475	108,979	N/A
	222,391	120,929	78,624	75,556	52,908	28,629	25,004
	37,617	294	104,625	6,145	27,165	57,671	52,296
	57,219	143,367	76,799	45,815	–	–	–
	326,783	398,978	357,715	276,716	191,257	127,915	73,215
	29.2	35.6	32.0	24.8	17.3	13.0	12.0
	12.2	36.6	17.8	9.6	7.7	4.5	1.8
	12.6	18.5	17.9	13.5	7.7	4.5	1.4
	8.0	8.0	5.0	4.0	1.0	1.0	–
	–	–	2.0	–	1.0	–	–
	–	–	–	–	10.3%	14.3%	25.9%
	10.1%	34.9%	21.2%	12.5%	10.5%	7.3%	2.5%
	1,119,841	1,119,841	1,118,895	1,114,385	1,113,790	1,088,429	663,390
	–	–	–	–	–	802	802
	0.791	0.791	0.734	0.779	0.743	0.556	0.506
	0.836	0.752	0.762	0.737	0.653	0.539	0.508



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