



OIL SEARCH LIMITED

Incorporated in Papua New Guinea
ARBN 055 079 868

**CHAIRMAN'S ADDRESS
OIL SEARCH ANNUAL MEETING
11 May 2011**

Before the formal business of the meeting, I would like to say a few words about the Company's 2010 financial performance and the year's highlights.

This will be followed by a more detailed presentation from our Managing Director, Peter Botten, who will update you on the Company's activities and describe our plans to deliver further growth in the context of a major strategic review that was completed at the start of the year.

2010 Financial Performance

Oil Search reported a net profit after tax of US\$185.6 million in 2010, 39% higher than the 2009 result.

The main drivers of this increase were higher oil prices and a one-off restatement of deferred tax balances. There was also a continued strong focus on active cost management. This more than offset the earnings impacts of a small decline in oil and gas production, some localised cost pressures in PNG and adverse currency movements.

Operating margins remained strong, with operating cash flow 40% higher than in 2009.



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The Company's cash flows were all reinvested in the business. In total, US\$216 million was spent on oil operations capital projects and exploration and evaluation activities, whilst US\$1.14 billion was invested in the PNG LNG Project. The LNG expenditure was funded 70% by the draw-down of project finance debt and 30% from our cash flows and retained cash.

Despite these heavy expenditures, the Company's balance sheet remains strong, a result of prudent capital management in past years. At the end of March 2011, Oil Search had over US\$1.2 billion in cash and is well placed to fund all its future capital commitments. These include expenditure on both existing producing fields and the PNG LNG Project, as well as on our exploration and appraisal programme, designed to drive growth by finding more oil and gas in PNG.

Dividends

Based on the profit performance in 2010, the Board approved dividend payments of four US cents per share for the year, equivalent to 10.6 toea per share. The dividend was funded by a fully underwritten Dividend Reinvestment Plan, which was well supported by shareholders.

The level of the 2010 dividend was consistent with the Board's previously announced dividend policy of aligning dividend payments with underlying earnings. I should point out that whilst reported net earnings were up on 2009, a substantial portion of the increase arose from a restatement of deferred tax balances, which did not contribute to an increase in underlying earnings.



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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. The slight increase in injuries was disappointing, and reflected an increase in less experienced employees and contractors brought in to work on Oil Search projects associated with the PNG LNG development.

While our safety performance is still world class, we believe there is scope for improvement. Intensive efforts continue to be made by management to ensure an accident free working environment and prevent injuries in the workplace.

PNG LNG Project

2010 saw the start of full execution of the PNG LNG Project, including financial close and the start of debt draw downs in March. The focus of activities over the year was on:

- The mobilisation of the major engineering and construction contractors;
- Construction of core infrastructure;
- Opening up supply routes; and
- Clearing and preparatory work at more than 10 sites, spread from the PNG Highlands to Port Moresby.

The PNG LNG Joint Venture is committed to maximising the number of PNG nationals employed by the Project. A priority activity during 2010, therefore, was the construction of two new



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training facilities. The first, Port Moresby Technical College, formally opened in the third quarter of 2010, and the Juni training college, near Hides is set to open in the coming months. 30 trainees are now graduating each week from the construction training programme at Port Moresby Tech.

Of the 6,500 people currently employed by PNG LNG, some 75% are PNG nationals.

Like every major project, PNG LNG has faced some challenges, primarily due to landowner concerns about securing business development opportunities and seed capital. The Operator, Esso Highlands, and the PNG Government, with support from Oil Search, are proactively addressing stakeholder concerns. We are confident that any remaining issues can be resolved equitably. I would like to take this opportunity to thank the PNG Government for its continued support for the LNG Project, support which remains vital to ensure on target delivery of this very important project.

I am pleased to report that the Operator has confirmed that the Project remains on track to commence first LNG shipments in 2014.

2010 Strategic Review

During 2010, Oil Search conducted a major strategic review. Several workshops were held for management and the Board to develop a strategy to ensure continued business growth up to, and after, the PNG LNG Project is commissioned.



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The review gave the Board the confidence that, by utilising its core skills in proactively managing oil and gas operations in the PNG environment, Oil Search has the capacity to continue to generate top quartile returns, primarily through ongoing investment in PNG.

This investment will focus on the following areas:

- Assisting Esso Highlands with the successful delivery of the PNG LNG Project;
- Maturing and finding new gas reserves in the Highlands and Gulf regions, to be used for both LNG expansion and other gas development opportunities; and
- Drilling in-field and near-field oil exploration and appraisal opportunities, based on a view that substantial oil remains to be discovered.

Peter will talk further about these and other growth plans in his presentation.

Sustainability

Oil Search has, for many years, focused on ensuring our operations are conducted in a sustainable manner. This encompasses a strong focus on the safety and wellbeing of our staff and contractors, developing good relationships with government and the local community, protecting the environment in which we work and conducting a range of social and public health activities.



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With an increasing amount of development activity taking place within PNG, operating in a sustainable way is becoming ever more important.

It is Oil Search's intention to play a lead role in delivering projects and programmes that can make a positive difference to people's lives. To this end, during 2010, the Company formed a Sustainability Group, to drive our sustainability programmes and policies further. The Oil Search Health Foundation is now being formed, to build on our world-recognised health programmes and expand them within both our project areas and across PNG.

Part of this new focus is on transparency. I'm delighted to report that in 2011, we produced an inaugural Sustainability Report. One of our key achievements over the past few years has been a substantial decrease in gas flaring.

In 2010, our greenhouse gas emissions fell by 54%, primarily as a result of this programme. The Company is continuing to develop its carbon emissions strategy and intends to include carbon emissions targets in next year's Sustainability Report.

Changes to the Board

There were several changes to membership of the Company's Board of Directors during 2010. Fraser Ainsworth resigned after serving for eight years, while Tim Warren retired due to ill health and, sadly, has since passed away - we extend our condolences to his family.



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The Board recruited two new directors during the year to fill these vacancies, Agu Kanstler and Ziggy Switkowski. Both Agu and Ziggy are already adding significant value to Oil Search.

In closing, I would like to acknowledge on behalf of the Board, Oil Search's management and staff and thank them for their efforts last year, in particular for the work on the strategic review, a blueprint which will serve the Company well and drive future growth.

Thank you.