



OIL SEARCH LIMITED

(Incorporated in Papua New Guinea)
ARBN – 055 079 868

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

21 February 2012

(ASX: OSH; ADR: OISHY)

HIGHLIGHTS

- Oil Search's 2011 net profit after tax (NPAT) including significant items was US\$202.5 million, 9% higher than in 2010. The profit increase reflected a 45% rise in the average realised oil price, which more than offset 10.6% lower sales volumes. NPAT excluding significant items rose 64%, from US\$144.1 million to US\$235.7 million.
- During 2011, good progress was made on all aspects of the PNG LNG Project, which is now two years into a four year construction schedule. In early December, the Operator, Esso Highlands Limited, a subsidiary of Exxon Mobil Corporation, confirmed that the Project remains on track to achieve first LNG sales in 2014.
- Preparations were made during the year for the largest drilling programme in the Company's history. This campaign is targeting significant gas and oil reserves, which have the potential to underwrite further LNG growth and continued strength in oil production. Drilling is now underway and will extend for the next 18 months.
- 2011 total oil and gas production was 6.69 mmboe, 12.7% lower than in 2010 but at the upper end of the Company's guidance range. This reflected a continued strong operational performance from the Company's mature oil fields, with successful well optimisation and drilling substantially mitigating the impact of natural field decline and the planned facilities shutdown for PNG LNG Project-related construction work.
- Oil Search continues to have a strong balance sheet and is well placed to fund significant investment in the PNG LNG Project, as well as further growth initiatives. At the end of December 2011, the Company had cash reserves of US\$1,047.5 million (including its share of joint venture balances) and an undrawn revolving oil facility of US\$246.5 million, taking total liquidity to US\$1,294.0 million. The net debt position at the end of the year, including PNG LNG project finance draw-downs, was US\$700.1 million.
- The Board has approved the payment of a final dividend of two US cents per share for the 2011 financial year, payable on 10 April 2012. Together with the interim dividend of two US cents per share, paid to shareholders in October 2011, the total dividend for the year is four US cents per share, the same as in 2010. The dividend payment will be funded by a fully underwritten dividend reinvestment plan.

- **2012 will be a year of major investment by Oil Search in PNG. The Company will spend an estimated US\$2.2 billion in-country, on PNG LNG Project-related activities and on an extensive gas and oil exploration, appraisal and development programme. This is likely to make Oil Search the largest single investor in PNG this year, attesting to the Company's confidence in the Government and continued operating stability in the country, as well as its ability to manage in-country challenges, including the forthcoming election. Oil Search will continue to work closely with Government, bureaucracy and local communities to ensure the safety of its people and stability of the operating environment.**

Commenting on the 2011 results, Mr Peter Botten, Oil Search's Managing Director, said the following:

2011 Full year results

"Oil Search reported a solid set of results in 2011. The 9% increase in net profit, from US\$185.6 million to US\$202.5 million, was driven by higher realised oil prices and lower exploration expense. This more than offset a decline in oil sales volumes, ongoing cost pressures in PNG and the impact of the strengthening PNG kina and Australian dollar. If significant items are excluded, net profit after tax rose 64%, from US\$144.1 million to US\$235.7 million.

Production in 2011 was at the upper end of our expectations, at 6.69 mmboe. As anticipated, volumes were adversely impacted by the planned two-week facilities shutdown for PNG LNG Project tie-in work. Pleasingly, however, the Company had considerable success in slowing the decline from our mature PNG oil fields, through well work and a programme of infill and exploration/appraisal drilling. Four wells were drilled in the Kutubu complex fields during the year, all of which were successful.

Operating costs rose 18.9% over 2010 levels, due to a range of factors. Localised inflationary pressures in PNG and the strength of the Kina increased costs, while the strengthening of the A\$ relative to the US\$ during the year put pressure on the Company's A\$ denominated expenditures. A number of additional costs, including the establishment of the Oil Search Health Foundation and non-recurring expenses associated with ensuring the longevity of our infrastructure, were also incurred during 2011.

Exploration expense fell from US\$125.0 million in 2010 to US\$60.6 million. This reflected lower exploration and evaluation expenditures (US\$144.6 million compared to US\$176.0 million in 2010) combined with an improved drilling success rate. The write-offs primarily related to seismic work and other evaluation activities, which are expensed as incurred, in line with the successful efforts accounting policy.

As signalled to the market, the results included an impairment charge of US\$33.2 million associated with the Shakal Block in Kurdistan, following the non-renewal of the licence.

The effective tax rate for 2011 was 54%, with the Shakal charge attracting no tax benefit. This was considerably higher than the effective tax rate of 33% in 2010, which included a once-off non-cash tax adjustment.

The Board has approved the payment of a final dividend of two US cents per share, the same as in 2010. A fully underwritten dividend reinvestment plan will fund this payment."

PNG LNG Project

"PNG LNG Project activities ramped up significantly during the year, as early works and infrastructure development progressively reached completion and full scale construction commenced. By the end of 2011, more than 14,300 people were employed on Project activities, of which 60% were PNG citizens. In line with the Project's commitment to provide opportunities to PNG women, more than 1,000 people in the workforce were females, 94% from PNG.

Project activities in 2011 were focused on the following areas:

- **LNG Plant:** Commencement of construction of foundations, structural steelwork, pipe racks, jetty works and tank foundations, with work starting on the outer LNG tank shells towards the end of the year.
- **Offshore Pipeline:** Commencement of laying the offshore pipeline, including clearing of the landfall site at the LNG Plant site (Caution Bay), trenching, shore pull and trench backfilling. 130 kilometres of the 400 kilometre offshore pipeline had been laid by the end of the year.
- **Onshore Pipeline:** Continued procurement, coating and mobilisation of line pipe, with all line pipe received in PNG by year end. Route clearance and pipe laying continued, with over 100 kilometres of the onshore pipeline welded in 2011 and a number of sections trenched and complete. Pre-construction surveys for the entire 292 kilometre onshore pipeline route were completed.
- **Associated Gas and PL 2 Life Extension Projects:** Successful completion of the first phase of tie-ins and major equipment installation at the Kutubu Central Processing Facility (CPF) and the construction of a new control room at the CPF. Laying of a new subsea loading pipeline and the installation of a new Catenary Anchor Leg Mooring (CALM) buoy.
- **Hides Gas Conditioning Plant (HGCP) and Komo Airfield:** Continued earthworks, foundations and commencement of construction activity, including the commencement of piling work at the HGCP.
- **Drilling:** Mobilisation of the first of two new drilling rigs to PNG.

As highlighted previously, the Project Operator reiterated in December 2011 that first LNG sales remain on target to commence in 2014. It also advised that the budget for the Project had risen from US\$15 billion to US\$15.7 billion, with the increase primarily due to the impacts of currency fluctuations.

The PNG Government National Disaster Relief team, assisted by Esso Highlands and Oil Search, continues to do what it can to assist the local community, following the recent devastating landslide in the Hides region. PNG LNG Project activities in that area have now largely resumed and the Government is close to completing work to restore the section of road that was obstructed by the landslide, essential for local community and Project use."

Gas expansion activities

"Significant progress was made in 2011 in preparation for a major drilling programme aimed at evaluating gas resources to potentially underwrite growth in LNG production. As well as important development drilling by the PNG LNG Project concentrated on the Hides gas field, drilling will include a well on the P'nyang gas field and exploration at Trapia, near Hides, and in the Gulf of Papua.

The acquisition and interpretation of 2D and 3D seismic data in the Gulf has identified a number of attractive prospects, reinforcing our view that this area has potential gas reserves to support a standalone LNG project. Preparations to drill at least two of these prospects, starting in the last quarter of 2012, are now underway. Oil Search has received strong interest in participating in this programme from a number of major companies with LNG development experience.”

Oil exploration success

“Two new discoveries, Hedinia 10 and IDT 25, were made in 2011, both within the existing oil field boundaries, while the Agogo 6 appraisal well was also successful.

Hedinia 10 ST3 discovered oil in a forelimb exploration prospect, which lies beneath the producing Kutubu oil field. It was successfully tied-in to existing PDL 2 surface facilities and brought into production towards the end of the year.

IDT 25 was drilled as a development/exploration well at Kutubu. The well successfully penetrated the Main Block Toro development target, as expected. The well was then deepened into an exploration objective in the Koi Lange reservoir, which had not been tested before in the field area. Hydrocarbons were encountered and preparations are currently underway to test the Koi Lange reservoir, to confirm the hydrocarbon content and potential flow rates. A successful test is expected to lead to follow-up drilling. A completion will then be installed across the Toro reservoir for subsequent production.”

Safety record

“Oil Search’s Total Recordable Injury Frequency Rate in 2011 was 1.85 per million hours worked, compared with 1.96 per million hours worked in 2010. The decrease in injuries relative to 2010 was pleasing, particularly given the large number of contractors working on the Associated Gas Projects, new to Oil Search’s safety culture. Ensuring a safe working environment remains the Company’s foremost priority.”

Reserves and resources

“As at 31 December 2011, Oil Search had 1P reserves of 330 million barrels of oil equivalent (mmboe) and 2P reserves of 553 mmboe. Of these reserves, 301 mmboe of 1P and 505 mmboe of 2P were associated with the Company’s share of the PNG LNG Project.

No external audit was completed in 2011. This was because oil field performance was generally consistent with predictions, no changes have been made to the PNG LNG Project gas reserve estimates and the Company believes it is premature to ascribe reserves to the recent successful near-field exploration and appraisal programme until production history has been obtained and evaluated. As a result, 1P and 2P reserves reported for 2011 are based on 2009 reserves adjusted for 2010 and 2011 production of 7.7 mmboe and 6.7 mmboe respectively.

The Company is presently carrying out a major review of its oil and gas reserves, incorporating recent production history and the results of the successful drilling programme carried out in 2010 and 2011. The results of this review, which comprises a full analysis of oil and gas deliverability, including continued oil production and gas offtake for LNG, will be available in next year’s reserves and resources review. This work is likely to identify further resource potential within our existing fields.

At the end of December 2011, the Company also had 318 mmboe of contingent resources, comprising gas and associated liquids. This was the same as at the end of 2010. The Company's total 2011 year end 2P reserves plus 2C resources were 870 mmboe, down from 877 mmboe in 2010, representing production of 6.7 mmboe."

On the outlook for 2012, Mr Botten said:

PNG LNG Project

"During 2012, the following key activities are expected to take place on the PNG LNG Project:

- Continuation of construction at LNG plant site, including the commencement of topside jetty works and tank hydrostatic testing.
- Mechanical completion of the offshore pipeline and Kopi to Kutubu sections of the onshore pipeline.
- Completion of the Komo airfield, allowing shipping of a number of major equipment modules to the Highlands.
- Structural steel erection, mechanical construction and placement of major equipment at the HGCP.
- Completion of the Associated Gas CPF and GPF modifications and the PL 2 Kumul refurbishment projects.
- Mobilisation of the second rig to PNG and commencement of development drilling.

Production outlook

"As highlighted in the fourth quarter report, we anticipate that 2012 full year production will be in a similar range to 2011, of 6.2 – 6.7 mmboe. Output will be impacted by a three week shutdown of the CPF in the first quarter of 2012 and two shutdowns of the GPF in the second and fourth quarters of 2012, for Associated Gas work. Recent successful development, appraisal and exploration drilling within the oil fields is expected to largely offset natural field decline. Production in 2013 is currently expected to remain similar to 2012 levels, assuming planned development activities are successful."

Development activities planned for 2012 include:

- Drilling a development well in each of PDL 2 and the Moran Unit.
- Commencing a workover campaign in Kutubu, Usano and Agogo.
- Bringing the Agogo 6 well online, which has just been completed.
- Testing the Toro intervals in Moran 15 ST1 and the Koi Iange reservoir in IDT 25 well.
- Commissioning the SEG 1 ST1 well following a workover in 2011."

Given recent development drilling successes and the continued identification of attractive near field drilling candidates, the Company has recently committed to expanding its drill rig operations, to underpin an accelerated programme commencing in mid/late 2012. The additional drill rig capacity will also provide flexibility in optimising drilling priorities, between oil development and continuing gas appraisal and exploration."

Gas expansion and exploration outlook

“As mentioned, drilling has commenced on the P’nyang South-1 well. The well, which Oil Search is drilling under contract with the licence operator, Esso PNG P’nyang Ltd, is targeting a structure to the south of the P’nyang gas discovery. The Trapia exploration well is scheduled to be drilled following the completion of P’nyang South. Trapia will target a large structure to the east of the Hides and Angore fields. Good progress is presently being made on construction of the Trapia exploration well site and staging area.

Esso Highlands Limited, the Operator of the PNG LNG Project, is continuing to optimise the logistics to meet both Project construction and drilling timing requirements. Drilling on Hides is presently anticipated to start in mid-2012.

A preliminary view on whether enough gas is available to underwrite an expansion or whether additional activities are required, is likely to be formed in late 2012/early 2013.

In the Gulf of Papua, site surveys are currently being undertaken, prior to finalising rig selection. A rig will then be contracted for a multi-well offshore PNG programme, targeted to commence drilling in the second half of 2012.”

Middle East / North Africa Exploration

“In line with our strategy to maximise the value of the Company’s remaining Middle East and North Africa (MENA) assets, two exploration wells are planned to be drilled in the region in 2012. Preparations for drilling an exploration well in the Taza PSC licence in the Kurdistan Region of Iraq are progressing well, with a target spud date in mid-2012, while the Tajerouine 1 well in Tunisia is expected to spud at the end of 2012.”

Summary

“Execution of the key initiatives identified in the 2010/11 Strategic Review is progressing well. The PNG LNG Project remains on track to commence generating significant revenues in 2014. On potential LNG expansion, we will have significantly more clarity on the extent of the gas resource base in our PNG Highlands licences following the 2012 drilling programme. Based on the recent seismic, the Gulf of Papua also has potential to be an exciting new gas province.

Despite recent political developments in PNG, our production and development activities have continued uninterrupted. We look forward to working with the new Government following the elections planned for June 2012.

With an excellent asset base and in a position of financial strength, Oil Search is in a strong position to continue to generate long term growth for shareholders.”

PETER BOTTEN, CBE
Managing Director
21 February 2012

FINANCIAL PERFORMANCE

Year to 31 December	2009	2010	2011	% change 2011/2010
SALES DATA				
Total oil and gas production (mmboe)	8.12	7.66	6.69	-13
Total saleable oil production (mmbbl)	7.07	6.63	5.63	-15
Total oil liftings (mmbbl)	6.95	6.45	5.64	-13
Gas equivalent sales (mmscf)	5,652	5,631	5,742	+2
Total oil and gas sales (mmboe)	7.90	7.41	6.63	-11
Realised oil price (US\$/bbl)	65.40	80.19	116.09	+45
FINANCIAL DATA (US\$ million)				
Revenue from operations	512.2	583.6	732.9	+26
Operating expenses	(86.4)	(87.5)	(101.9)	+16
Royalties and levies	(9.8)	(9.8)	(12.0)	+22
Other expenses	(6.6)	(14.5)	(23.1)	+58
EBITDAX	409.4	471.7	595.9	+26
Site Restoration	(8.6)	(7.1)	(1.6)	-78
Amortisation/Depreciation	(96.9)	(42.7)	(49.7)	+16
Exploration costs expensed	(71.0)	(125.0)	(60.6)	-52
Business development costs	(4.7)	(6.2)	(10.3)	+66
EBIT	228.2	290.7	473.7	+63
Net financing (costs)/income	(3.3)	(0.8)	(0.7)	-13
Profit on sale of investments/ adjustments	14.9	3.2	0.1	-97
Impairment	-	(15.8)	(33.2)	+110
Profit before Tax	239.8	277.2	439.9	+59
Taxation Expense	(106.2)	(91.6)	(237.4)	+159
Profit after tax after significant items	133.7	185.6	202.5	+9
Profit after tax before significant items	99.6	144.1	235.7	+64
PER SHARE DATA				
Basic EPS before significant items (US cents)	8.6	11.0	17.9	+62
Basic EPS after significant items (US cents)	11.5	14.2	15.4	+8
Diluted EPS before significant items (US cents)	8.5	11.0	17.8	+62
Diluted EPS after significant items (US cents)	11.5	14.1	15.3	+8
CFPS (US cents)	24.5	26.5	29.3	+10
Interim dividend (US cents)	2.0	2.0	2.0	Unch
Final dividend (US cents)	2.0	2.0	2.0	Unch
Total dividend for the year (US cents)	4.0	4.0	4.0	Unch

Notes:

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

FACTORS AFFECTING THE RESULT

Oil and gas production and sales

Total oil and gas production in 2011 net to Oil Search was 6.7 mmboe, 12.7% below 2010 levels, with the planned two week shutdown of the CPF and APF and natural decline in the mature PNG oil field mitigated by contributions from recent development drilling, well optimisation and reduced facilities and well downtime.

Oil sales were 5.6 million barrels, 12.6% lower than in 2010, in line with lower production levels. Production from the Hides field for electricity generation was marginally higher than in 2010, at 5.6 billion cubic feet and 0.13 million barrels of condensate. Total oil and gas sales for 2011 were 10.6% lower than in 2010, at 6.63 mmboe.

Realised oil prices

The average realised oil price for the year was US\$116.09 per barrel, 44.8% higher than the average price realised in 2010 of US\$80.19 per barrel. Oil Search did not undertake any hedging activities during 2011.

Operating revenues

Revenue from operations at US\$732.9 million was 25.6% higher than in 2010, with the impact of lower volumes being more than offset by higher oil prices. Revenue was comprised as follows:

Revenue (US\$ million)	2010	2011	% change
Sale of oil	517.3	654.3	+26
Sale of gas and refined products	39.7	49.0	+23
Other field revenue*	26.5	29.6	+12
Total	583.5	732.9	+26

* Primarily tariff and rig income

Operating cash costs

Total cash operating costs were US\$132.9 million, 18.9% higher than in 2010 due to increased workover activity and PNG inflationary pressures. In addition, corporate costs increased due to the impact of a stronger Australian dollar and a number of one-off expenses. On a per barrel of oil equivalent basis, operating costs for 2011 were US\$20.16/boe, which was within the guidance range.

PNG field operating costs (including Hides) were US\$92.4 million, compared with US\$81.3 million in 2010. PNG oil field costs, excluding Hides and tariffs, averaged US\$14.69 per barrel compared with US\$10.70 per barrel in 2010, with the increase reflecting general cost pressures and the spread of higher costs over a lower production base.

Operating costs (US\$ million)	2010	2011	% change
Field costs	81.3	92.4	+14
Other opex	16.0	17.5*	+9
Net corporate costs	16.6	21.9	+32
FX (gains)/losses	(2.1)	1.2	-156
Operating Costs	111.8	132.9	+19

* Excludes purchases of hydrocarbons

Non-cash costs

Total non-cash charges, including depreciation, amortisation and site restoration, increased marginally, from US\$49.9 million in 2010 to US\$51.3 million in 2011. Amortisation and depreciation rose by 19% and 10% respectively, reflecting the change in mix of production from different fields with varying amortisation rates and higher rig utilisation rates. However, the site restoration charge fell, from US\$7.1 million in 2010 to US\$1.6 million for 2011, following a review of the restoration obligation as at 31 December 2010. The estimated time frames in which restoration works are expected to occur were extended significantly for some of the producing assets, to reflect their contribution to the PNG LNG Project.

Non-cash costs (US\$ million)	2010	2011	% change
Amortisation	32.4	38.4	+19
Depreciation	10.4	11.4	+10
Site Restoration	7.1	1.6	-78
Total	49.9	51.3	+3

Exploration expense and business development costs

During 2011, Oil Search spent US\$144.6 million on exploration, evaluation and new venture activities. In line with the successful efforts accounting policy, all costs associated with unsuccessful drilling, seismic work, new venture activities and other support costs related to exploration activity were expensed. This resulted in a pre-tax charge of US\$60.6 million, including US\$32.5 million related to seismic activities in PNG, US\$12.7 million of current and past costs in relation to the coal seam gas drilling programme and US\$9.0 million related to exploration activities in the Middle East. As at 31 December 2011, exploration costs capitalised pending well completion or appraisal totalled US\$131.6 million.

US\$10.3 million of costs related to new venture, business development and corporate screening activities were expensed in 2011, compared to US\$6.2 million in 2010 and US\$4.7 million in 2009. Previously, business development costs have been included in exploration expense.

Interest income / expense

Interest income of US\$7.0 million for 2011 was in line with 2010 income of US\$6.9 million. Cash balances were invested in short term US dollar deposits and investments through the period. Financing costs for 2011 were US\$7.6 million compared with US\$7.7 million in 2010. These costs included commitment fees and the amortisation of the establishment costs for the Company's corporate borrowing facility and a non-cash time-value charge of US\$4.2 million for future site restoration commitments (US\$3.7 million in 2010).

Taxation expense

2011 tax expense was US\$237.4 million, compared to US\$91.6 million in 2010. This resulted in an effective tax rate of 54% for 2011. This rate is higher than the PNG rate for oil income of 50%, due to the expenditure on exploration activities in the Middle East which is non-deductible for tax purposes. The 2010 tax charge included a once-off restatement of oil field deferred tax balances from the PNG LNG Project, resulting in an effective tax rate of 33% for 2010.

Impairment review

Following the Company's annual impairment review, which compares the asset carrying value to the estimated net present value of future cash flows from each asset, US\$33.2 million of costs were expensed in 2011. This charge represents costs previously capitalised in relation to the Shakal Block in Kurdistan, following the licence expiry.

Operating cash flows

Year to 31 December (US\$ million)	2010*	2011	% change
Net Receipts	467.8	560.4	+20
Net Interest income	3.3	4.3	+30
Tax Paid	(124.4)	(178.5)	+43
Operating cashflows	346.7	386.2	+11
Net Investing cashflows	(1,105.0)	(1,316.8)	+19
Net Financing cashflows	733.9	714.5	-3
Net Cash Flow	(24.5)	(216.1)	+782
OCFPS (US cents)	26.5	29.3	+10

*Prior period comparatives have been restated

Net operating cash flow rose from US\$346.7 million in 2010 to US\$386.2 million in 2011, primarily due to the impact of higher realised oil prices.

During 2011, Oil Search's net investing cash flow included:

- Expenditure of \$US1,059.3 million on development assets, mainly relating to PNG LNG (US\$908.7 million in 2010).
- Expenditure of US\$121.9 million on exploration and evaluation (US\$140.6 million in 2010).
- US\$128.5 million on production activities (US\$48.7 million in 2010).
- US\$7.1 million on property, plant and equipment (US\$7.0 million in 2010).

The Company distributed US\$52.7 million to shareholders by way of the 2010 final and 2011 interim dividends. This distribution was funded by a fully underwritten dividend reinvestment plan.

Balance sheet

As at 31 December (US\$ million)	2007	2008	2009	2010	2011
Cash and STDs	343.6	534.9	1,288.1	1,263.6	1,047.5
Term Debt	Nil	Nil	Nil	929.7	1,747.6
Net cash / (debt)	343.6	534.9	1,288.1	333.9	(700.1)

At the end of 2011, Oil Search had debt of US\$1,747.6 million and US\$1,047.5 million in cash, including joint venture balances. In addition, Oil Search had an undrawn corporate debt facility of US\$246.5 million, taking total liquidity to US\$1,294.0 million.

DIVIDENDS

The Board of Directors announced a final dividend for 2011 of two US cents per share, taking the total dividend for the 2011 financial year to four US cents per share. This is the same as in 2010. The Record Date for the final 2011 dividend payment is 15 March 2012 and the Payment Date is 10 April 2012. The shares will trade ex-dividend from 8 March 2012.

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

2011 PRODUCTION SUMMARY

Year to 31 December	2010		2011		% Change	
Oil production	Gross daily production (bopd)	Net to OSH (mmbbls)	Gross daily production (bopd)	Net to OSH (mmbbls)	Gross daily production	Net to OSH
Kutubu	16,364	3.587	13,816	3.028	-16	-16
Moran	14,570	2.633	12,708	2.296	-13	-13
Gobe Main	1,608	0.059	1,128	0.041	-30	-30
SE Gobe	2,729	0.255	2,230	0.208	-18	-18
SE Mananda	378	0.100	217	0.057	-42	-42
Total PNG Oil	35,649	6.632	30,100	5.631	-16	-15
Hides Liquids	366	0.134	356	0.130	-3	-3
Total Oil & Condensate	36,016	6.766	30,456	5.761	-15	-15
Gas production	mmscf / d	mmscf / d	mmscf / d	mmscf		
Hides Gas Production	14.65	5.348	15.24	5,562	+ 4	+ 4
Total Oil and Gas Production	boepd	mmboe	boepd	mmboe		
Total production	38,457	7.657	32,995	6.688	-14	-13

Notes:

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

2011 ANNUAL RESERVES STATEMENT

Proven Reserves					
Licence / Field	End 2010 Reserves	Production	Discoveries / Extensions / Revisions	Acquisitions / Divestments	End 2011 Reserves
PDL 2 - Kutubu	12.7	3.0	-	-	9.6
PDL 2 – SE Mananda	0.2	0.1	-	-	0.1
PDL 2/5/6 – Moran Unit	11.4	2.3	-	-	9.1
PDL 4 – Gobe Unit	0.2	0.0	-	-	0.1
PDL 3/4 - SE Gobe	0.5	0.2	-	-	0.3
PDL 1 - Hides	11.3	1.1	-	-	10.3
PNG LNG Project	300.6	-	-	-	300.6
Total	336.8	6.7	-	-	330.1
Proven & Probable Reserves					
Licence / Field	End 2010 Reserves	Production	Discoveries / Extensions / Revisions	Acquisitions / Divestments	End 2011 Reserves
PDL 2 - Kutubu	19.4	3.0	-	-	16.4
PDL 2 – SE Mananda	0.6	0.1	-	-	0.5
PDL 2/5/6 – Moran Unit	21.5	2.3	-	-	19.2
PDL 4 – Gobe Unit	0.3	0.0	-	-	0.2
PDL 3/4 - SE Gobe	0.8	0.2	-	-	0.6
PDL 1 - Hides	11.3	1.1	-	-	10.3
PNG LNG Project	505.4	-	-	-	505.4
Total	559.3	6.7	-	-	552.6

2011 RESERVES AND RESOURCES SUMMARY

Reserves & Resources							
Licence / Field	Oil Search Interest	Liquids (mmbbl)	Gas (bscf)	Oil Equivalent (mmboe)	Liquids (mmbbl)	Gas (bscf)	Oil Equivalent (mmboe)
Reserves		Proven (1P)			Proven & Probable (2P)		
PDL 2 - Kutubu	60.0%	9.6	-	9.6	16.4	-	16.4
PDL 2 – SE Mananda	72.3%	0.1	-	0.1	0.5	-	0.5
PDL 2/5/6 – Moran Unit	49.5%	9.1	-	9.1	19.2	-	19.2
PDL 4 – Gobe Unit	10.0%	0.1	-	0.1	0.2	-	0.2
PDL 3/4 - SE Gobe	25.6%	0.3	-	0.3	0.6	-	0.6
PDL 1 - Hides	100.0%	1.2	54.1	10.3	1.2	54.1	10.3
Oil Fields and Hides GTE Reserves		20.5	54.1	29.5	38.2	54.1	47.2
PNG LNG Project Reserves	29.0%	38.4	1,572.8	300.6	65.5	2,639.3	505.4
Subtotal Reserves		58.9	1,626.9	330.1	103.7	2,693.4	552.6
Contingent Resources		1C			2C		
Other Gas		-	-	-	28.6	1,734.6	317.7
Subtotal Resources		-	-	-	28.6	1,734.6	317.7
Total Reserves and Resources		58.9	1,626.9	330.1	132.3	4,428.1	870.3

Notes:

- Numbers may not add due to rounding.
- Proven Reserves (1P) are as certified by independent auditors Netherland, Sewell Associates, Inc. (NSA) in 2009, adjusted for 2010 and 2011 production. Proven and Probable Reserves (2P) and Contingent Resources (2C) are based on independent audit, PNG LNG Project Operator and internal assessments.
- Liquids include crude oil, separator and plant condensates.
- Full wellstream (raw) gas reduced for field separator condensates are quoted for Hides GTE and Other Gas resources.
- For the PNG LNG Project, shrinkage has been applied to raw gas for the plant liquids recovery, fuel and flare.
- Oil equivalent barrels incorporate oil, condensate and gas (converted at 6 mcf/bbl).
- NSA did not audit SE Mananda in 2009. Estimate of reserves is based on NSA's end 2007 certification adjusted for 2008-2011 production.
- Hides reserves associated with the GTE Project only.
- PNG LNG Project reserves comprise the Kutubu, Moran, Gobe, SE Hedinia, Hides, Angore and Juha fields. Field condensate from Kutubu, Moran and Gobe are based on licence interests.
- Other Gas Resources comprise 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.

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 23 years of relevant experience, is qualified in accordance with ASX Listing Rule 5.11 and has consented to publish this report.

For more information regarding this report, please contact:

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Oil Search will be holding a presentation for analysts and fund managers at 11.00 am AEDT today, 21 February 2012. The presentation will be webcast live over Oil Search's website. To listen to the webcast, please log on to www.oilsearch.com. If you experience any technical difficulties, please call:

+61 2 8223 1191 or +61 2 9556 7941

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

www.oilsearch.com

OIL SEARCH LIMITED
and its subsidiaries
ABN 055 079 868

Preliminary final report 2011

APPENDIX 4E

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

This information should be read in conjunction with the
Financial Report for the year ended 31 December 2011

Results for announcement to the market

			Year ended 31 December			
			2011		2010	
			% Change ⁽²⁾	US\$'000	A\$'000 ⁽¹⁾	US\$'000
Revenue from operations	up	25.6%	732,869	710,282	583,560	635,202
Net profit after tax attributable to members	up	9.1%	202,483	196,242	185,602	202,027
Net operating cash flow	up	11.4%	386,193	374,291	346,675	377,354 ⁽⁵⁾
			Year ended 31 December			
			2011		2010	
			US cents	A cents	US cents	A cents
Final dividend per security ⁽³⁾			2.00	TBA ⁽⁴⁾	2.00	2.02
Interim dividend paid per security ⁽³⁾			2.00	1.95	2.00	2.14
Basic earnings per share (including significant items)	up	8.1%	15.35	14.88 ⁽¹⁾	14.20	15.46 ⁽¹⁾

(1) Amounts shown have been converted from US\$ to A\$ at the average exchange rate of 1.0318 (2010: 0.9187).

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

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

(4) The Australian dollar amount will be fixed at the rate of exchange applicable on the day of the record date for determining entitlements to the final ordinary dividend, being 15 March 2012.

(5) Prior year comparatives have been restated in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" upon adoption of the "Improvements to IFRS's", specifically IAS 7 "Statement of Cash Flows".

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Financial Report
for the year ended 31 December 2011

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Directors' Report 31 December 2011

The directors submit their report for the financial year ended 31 December 2011.

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, 70 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, 57 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 Millenium 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: 1,801,599; Options: nil; Performance Rights: 1,116,700; Restricted shares: 206,969

Mr G Aopi, CBE, Executive, 57 years

Mr Aopi joined the Board as an Executive Director on 18 May 2006 and presently holds the position of Executive General Manager External & Government Affairs and Sustainability. 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 presently Chairman of Telikom PNG Ltd and was the Chairman of Independent Public Business Corporation (IPBC). 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: 183,692; Options: nil; Performance Rights: 270,272; Restricted shares: 151,832

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Directors' Report 31 December 2011

Mr KG Constantinou, OBE, Non-Executive, 54 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 private companies, including Airways Hotel & Apartments Limited, Lamana Hotel Limited, Heritage Park Hotel and Gazelle International Hotel. Mr Constantinou also holds board positions with two listed companies. He is Chairman of Bank South Pacific Limited and director of Airlines of PNG Limited. Mr Constantinou is Deputy President of the Employers Federation of Papua New Guinea, 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 Papua New Guinea, 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 (PNGSDP Ltd), a company which has a 52% interest in Ok Tedi Mining Ltd, and Executive Director (Strategic Investments Group) within PNGSDP Ltd. Mr Igara currently manages his family business and undertakes public policy, management and investment advisory services. He also serves on the board of Innovative Agro Industry Ltd as well as the boards of several community and not-for-profit organisations in Papua New Guinea and the Pacific.

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

Mr MDE Kriewaldt, B.A., LLB. (Hons), F.A.I.C.D., Non-Executive, 62 years

Mr Kriewaldt joined the Board on 16 April 2002. Mr Kriewaldt is a director of BrisConnections and ImpediMed Limited. 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 Macarthur Coal Limited, Suncorp Metway Limited, Campbell Brothers Limited, GWA International Limited, Peptech Limited and Orogen Minerals Limited and as Chairman of Suncorp Insurance and Finance, Infratil Australia Limited, Hooker Corporation Limited and Airtrain Citylink Ltd.

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

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Dr AJ Kantsler, B.Sc (Hons), Ph.D, G.A.I.C.D., FTSE, Non-Executive, 61 years

Dr Kantsler joined 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. 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. He is a Director of Savcor Group Limited and Forte Consolidated Limited.

Ordinary shares, fully paid: 7,025; Options: nil

Mr JL Stitt, M.A. (Hons), F.A.I.C.D., Non-Executive, 68 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 worldwide 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, 63 years

Dr Switkowski joined 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 and Managing Director of Kodak (Australasia). Dr Switkowski currently serves as a Director of Tabcorp Limited and Lynas Corporation Limited and is Chairman of Suncorp Metway Limited and Opera Australia. He is also Chancellor of the Royal Melbourne Institute of Technology (RMIT University). Dr Switkowski is former Chairman of the Australian Nuclear Science and Technology Organisation. He 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

GROUP SECRETARY

Mr SW Gardiner, B.Ec. (Hons), ASA, 53 years

Mr Gardiner joined Oil Search Limited in 2004, after a twenty year career in finance at two of Australia's largest multinational construction materials companies and a major Australian telecoms company. Mr Gardiner's roles at Oil Search have covered senior corporate finance responsibilities, including Acting Chief Financial Officer. In April 2011, Mr Gardiner was appointed to the role of Executive General Manager, Corporate Sustainability and Services. He is also the Group Secretary of Oil Search, a role he has held since May 2009.

Ordinary shares, fully paid: 150,995; Options: nil; Performance Rights: 150,300; restricted shares: nil

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RESULTS AND REVIEW OF OPERATIONS

Financial

The consolidated entity delivered a net profit of US\$202.5 million (2010: US\$185.6 million) for the year, after providing for income tax of US\$237.4 million (2010: US\$91.6 million).

Operations

2011 revenue from operations was US\$732.9 million (2010: US\$583.6 million), with crude oil sales contributing US\$654.3 million (2010: US\$517.3 million). The 26.5% crude revenue increase on the prior year was driven by a 44.8% increase in realised oil prices from US\$80.19/bbl in 2010 to US\$116.09/bbl in 2011, and a 12.6% decrease in oil sales volumes to 5,636,000 barrels. The Company did not establish any oil hedges during the period and remained unhedged to oil price movements.

Net cash from operating activities increased to US\$386.2 million in 2011, compared to US\$346.7 million in 2010.

Amortisation and depreciation charges increased by US\$1.4 million, from US\$49.9 million to US\$51.3 million, due to a less favourable mix of production from fields with higher amortisation rates and higher rig utilisation.

Exploration, development and production costs expensed during 2011 totalled US\$60.6 million, compared to US\$125.0 million, due to the write off of two unsuccessful wells in the prior year. The \$60.6 million expensed included \$32.5 million related to seismic activities in PNG, US\$12 million of current and past costs in relation to the coal seam gas drilling programme and US\$9.0 million related to exploration activities in the Middle East. Exploration and evaluation expenditure during the year, was US\$144.6 million (2010: US\$176.0 million), development expenditure was \$1,286.5 million (2010: 1,139.1 million) and production expenditure was US\$129.4 million (2010: US\$41.9 million).

Total oil and gas production, net to the Company, was 6.69 million barrels of oil equivalent (mmboe) in 2011 compared with 7.66 mmboe in 2010, with the 12.7% year-on-year reduction reflecting underlying field decline rates, partially offset by contributions from development drilling and well workover campaigns.

In 2011 good progress was made on the PNG LNG Project. Apart from the impact of foreign exchange fluctuations, the Project budget is largely unchanged. The revised cost of \$15.7 billion (US\$15 billion previously) will be funded in accordance with the Project's existing financing terms. The Project's US\$14 billion finance facility fully covers the 70% debt funded portion of the incremental cost increase. The remaining 30% will be funded by equity contributions from the Project co-venturers. Site preparation and infrastructure development activities continued, while the Project also moved into the heavy construction phase during the year.

Several key construction milestones were celebrated in 2011, including:

- A ground breaking ceremony for the handover of the LNG process area to the subcontractor for construction of the LNG trains.
- The pouring of the first concrete foundations for the Train 1 process area/pipe rack and the commencement of pile driving for the LNG Plant marine jetty.
- Commencement of welding, trenching and lowering of the 292 kilometre onshore pipeline.
- Commencement of the offshore pipeline.
- Further progress on earthworks at the Komo Airfield and Hides Gas Conditioning Plant.

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- Arrival of the first foundation piles at the Hides Gas Conditioning Plant Site and commencement of welding.
- Ongoing mobilisation to site of the first of the development drilling rigs.

Significant progress was made on the Oil Search-operated PL 2 Life Extension Project. The new CALM buoy was received on site in October and installed along with the subsea pipeline. This new facility will be commissioned in 2012. In addition, a rejuvenation programme commenced on the Kumul Marine Terminal.

The Company's financial position at 31 December 2011 has cash and cash equivalent holdings of US\$1,047.5 million (2010: US\$1,263.6 million), including US\$9.8 million (2010: \$4.8 million) held in joint venture accounts, and debt of US\$1,747.6 million at the end of December (2010: \$929.7 million).

DIVIDENDS

Subsequent to balance date, the directors approved the payment of a final unfranked dividend of US 2 cents per ordinary share (2010: US 2 cents final dividend), to ordinary shareholders in respect of the financial year ended 31 December 2011. The due date for payment is 10 April 2012 to all holders of ordinary shares on the Register of Members on 15 March 2012. The Company's dividend reinvestment plan will remain in operation for the final dividend. Dividends paid and declared during the year are recorded in note 8 to the financial statements.

PRINCIPAL ACTIVITIES

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

COMMITTEES OF THE BOARD

During the year ended 31 December 2011 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 R Igara, Dr AJ Kantsler and Mr JL Stitt. Mr BF Horwood is an ex officio attendee;

Remuneration and Nominations: Dr ZE Switkowski¹ (Chairman), Mr BF Horwood², Mr KG Constantinou, Mr R Igara, and Mr JL Stitt;

Finance and Risk: Dr AJ Kantsler³ (Chairman), Mr G Aopi, Mr KG Constantinou, Mr MDE Kriewaldt, and Dr ZE Switkowski. Mr BF Horwood⁴ is an ex officio attendee.

(1) Dr ZE Switkowski became Chairman of the Remuneration and Nominations Committee from 12 May 2011.

(2) Mr BF Horwood was acting Chairman of the Remuneration and Nominations Committee for the period 15 October 2009 to 12 May 2011.

(3) Dr AJ Kantsler became Chairman of the Finance and Risk Committee from 16 February 2011.

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

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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	7	4	4	4
Number of meetings attended				
BF Horwood	7	4 ⁽²⁾	4	4 ⁽²⁾
PR Botten ⁽¹⁾	7	-	-	-
G Aopi	7	NA	NA	4
KG Constantinou	7	NA	4	4
R Igara	7	4	4	-
MDE Kriewaldt	6	4	NA	3
JL Stitt	7	4	4	NA
AJ Kantsler	7	4	NA	4
ZE Switkowski	7	NA	4	3

(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.

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

ENVIRONMENTAL DISCLOSURE

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

CORPORATE INFORMATION

Oil Search Limited is a company limited by shares and is incorporated and domiciled in Papua New Guinea. The economic entity had 1,125 employees as at 31 December 2011 (2010: 1,050). Oil Search Limited is listed on the Australian Securities Exchange and PNG Stock Exchange.

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Directors' Report 31 December 2011

SHARE BASED PAYMENT TRANSACTIONS

There were 1,498,560 share appreciation rights (2010: 1,554,200) granted under the Employee Share Appreciation Rights Plan. There were 1,696,500 performance rights (2010: 1,997,400) granted under the Performance Rights Plan, and 443,289 restricted shares (2010: 751,857) granted under the Restricted Share Plan during the year.

As at 31 December 2011, there are 1,659,552 options (2010: 3,032,304), 2,918,020 share appreciation rights (2010: 1,542,800), 5,735,932 performance rights (2010: 6,183,991), and 1,657,365 restricted shares (2010: 1,915,386) granted over ordinary shares exercisable at various dates in the future, subject to meeting applicable performance hurdles, and at varying exercise prices (refer to note 25 for further details).

DIRECTORS' AND OTHER OFFICERS' REMUNERATION

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

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

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Directors' Report 31 December 2011

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 2011 to 31 December 2011. Although it is not a requirement for PNG companies, Oil Search has voluntarily complied with section 300A of the Corporations Act 2001 to ensure it meets current best practice remuneration reporting for ASX listed companies.

2. REMUNERATION POLICY

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

The objectives of the Oil Search remuneration policy are to:

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

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

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

3. SHARE TRADING POLICY

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

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

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

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

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

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

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

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

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

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

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

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4. ROLE OF THE REMUNERATION AND NOMINATIONS COMMITTEE

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

- Review of the ongoing appropriateness, coherence, and competitiveness of remuneration policies and practices, and recommendation of changes to the Board as appropriate;
- Oversight of the implementation of remuneration policies;
- Recommendation to the Board on the specific remuneration of executive directors, key management personnel and any other direct reports to the Managing Director;
- Recommendation to the Board of budgets for annual remuneration awards to all other employees;
- Recommendation to the Board on performance measures underpinning all Incentive Plans;
- Proposal to the Board of outcomes for any performance measures underlying Incentive Plans;
- Proposal to the Board 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 BF Horwood – independent non-executive (*Acting Chair until 12 May 2011*)
- Dr ZE Switkowski – independent non-executive (*Chair from 12 May 2011*)
- Mr KG Constantinou OBE – independent non-executive
- Mr R Igara CMG – independent non-executive
- Mr JL Stitt – independent non-executive

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 was the Acting Chair of the Committee until 12 May 2011. Dr Z Switkowski was appointed as the Chair of the Committee from 12 May 2011. 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 external, independent advisors as requested. All executives are excluded from any discussions impacting their own remuneration.

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Directors' Report 31 December 2011

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 2011 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 2011

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 and equity grant fair value calculations Non-Executive Director fee benchmarking	Advice on legislative tax changes Management of employee relocations Individual tax advice to expatriate employees
Egon Zehnder	Recruitment of a non-executive director	

5. REMUNERATION STRUCTURE

Oil Search's remuneration structure 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.

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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.

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 under development; and
- Transformational metrics which include: acquisition of new hydrocarbon resources and progress towards commercialisation of 3C gas reserves.

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 five 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	2008	2009	2010	2011
0% to 200% of STI Opportunity	65.6%	85.9%	84.6%	61.4%	28.5%

Long-Term Incentive (LTI)

Provided that they have demonstrated an acceptable level of personal performance, each employee also has the opportunity to participate in the Oil Search Long Term Incentive Plan (LTIP). Following changes to Australian taxation legislation with respect to employee share plans the existing Oil Search LTI programs were reviewed in 2010.

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As a result of the review, the existing Employee Share Option Plan (ESOP), Performance Rights Plan (PRP) and Restricted Share Plan (RSP) were combined under the Oil Search Long

Term Incentive Plan (LTIP). The Oil Search LTIP allows the Board the flexibility to grant employees:

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

Under the LTIP, allocations of Performance Rights and Share Options operate in the same manner as existing allocations, except for the automatic exercise on vesting of grants under the LTIP. This removes the existing two year period employees have to exercise vested options and rights. From 2010, grants of Share Options were replaced with grants of 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 2011 grant of SAR was 1,680 per participant and the Vesting Price (equivalent to the Exercise price of a Share Option) was \$6.98. Assuming the Oil Search share price increased to \$9.20 at vesting, the employee would be granted 405 shares based on the following formula:

$$\frac{\text{Number of Rights X (Price on Vesting – Vesting Price)}}{\text{Price on Vesting}}$$

↓

$$\frac{1,680 \times (\$9.20 - \$6.98)}{\$9.20} = \frac{\$3,729.60}{\$9.20} = 405 \text{ shares}$$

As can be seen from the above calculation, the benefit of 405 shares is equivalent in value to the \$3,729.60 in benefit the employee would receive by exercising 1,680 Share Options at an exercise price of \$6.98, given a market price of \$9.20.

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

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Employee Share Option Plan

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

The Board determines the appropriate size of each award under the ESOP and all eligible employees receive the same number of options. The initial awards under the ESOP were made following the 2004 Annual General Meeting, with the last 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 SAR from 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	2006	2007	2008	2009	2010	2011
Award Type	Options	Options	Options	Options	SAR	SAR
Grant Date	28 Jul 06	7 May 07	4 Aug 08	1 Jun 09	1 Jun 10	23 May 11
Vesting Date	28 Jul 09	7 May 10	5 May 11 ⁽¹⁾	13 May 12 ⁽²⁾	17 May 13 ⁽³⁾	16 May 14
Options/Rights per employee	2,168	2,170	2,170	1,600	1,900	1,680
Total Award	1,638,840	1,811,950	1,788,080	1,340,800	1,554,200	1,498,560
Exercise/Vesting Price	\$4.15	\$3.57	\$4.88	\$5.22	\$5.63	\$6.98

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

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

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

Performance Rights

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

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

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

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- 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 Limited, AWE Limited, Cairn Energy, Canadian Natural Resources, Chesapeake Energy Corporation, 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 2006 to 2009 and the granting of Performance Rights under the LTIP from 2010 to 2011:

Table 5 – Details of Awards of Performance Rights

GRANT YEAR	2006	2007	2008	2009⁽²⁾	2010	2011
Measurement Period	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	1 Jan 11 to 31 Dec 13
Total Rights Granted	2,736,955	2,783,746	2,437,300	1,774,895	1,997,400	1,696,500
Oil Search TSR (3 year) ⁽¹⁾	39%	91%	53%	44%		
Percentile Rank (ASX 150)	91.3%	96.0%	96.5%	68.3%		
Vesting	100.0%	50.0%	50.0%	43.3%	May 2013	May 2014
Percentile Rank (Int'l Group)		87.5%	94.1%	53.3%		
Vesting		50.0%	50.0%	28.3%	May 2013	May 2014
Total Vesting	100.0%	100.0%	100.0%	71.6%	May 2013	May 2014

(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 2009 Performance Rights will not vest until 13 May 2012, Oil Search relative TSR for the period 1 January 2009 to 31 December 2011 is available.

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Long Term Incentive Plan Rules

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

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

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

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

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

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

Retention Awards of Restricted Shares

In order to assist the Company in retaining key executives and other employees, the Company may issue them with Restricted Shares. Until 30 May 2010, grants were made under the Restricted Shares Plan (RSP), with all grants from 1 June 2010 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 Share Plan will only be made where the Board determines that a significant retention risk exists.

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.

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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.

Restricted Shares do not attract any right to voting and do not attract any right to dividends.

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.

There were 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 balance of these grants vested during 2011.

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.

Further reviews of participation in the PNG Retention Program were conducted in 2010 and 2011. 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.

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Deferred STI

The 50% deferred portion of an executive's STI (See section 6 below) is awarded as Restricted Shares under the LTIP. Any dividends payable on Restricted Shares issued as the deferred component of an executive's STI award are paid to the executive.

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

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

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

Short Term Incentive

The STI is an incentive opportunity of between 0%-160% of a senior executive's TFR (0%-200% for the Managing Director), where 80% (100% for the Managing Director) would be awarded for achieving exceptional corporate and individual performance. It is awarded in March each year for performance in the previous calendar year. Performance significantly beyond expectations could be rewarded by STI's up to a maximum of 160% of TFR (200% of TFR for the Managing Director) but such awards would be unusual. Awards since the commencement of the scheme for performance year 2007 have averaged 51.2% of TFR for executives and 64.9% for the Managing Director.

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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 Restricted Shares under the LTIP. The Restricted Shares 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 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	2008	2009	2010	2011
Managing Director	0 – 200% of TFR	50.0%	100.0%	84.6%	61.4%	28.5%
Senior Executives	0 – 160% of TFR	44.0%	68.7%	71.4%	49.1%	22.8%

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;

$$\frac{\text{X\% of TFR}}{\text{Oil Search Share Price}}$$

where X is 90% for the Managing Director and 60% for other senior executives, and “Oil Search Share Price” is 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 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

	2007		2008		2009		2010		2011	
	No.	Vest	No.	Vest	No.	Vest ⁽¹⁾	No.	Vest	No.	Vest
Directors										
P Botten	398,091	100.0%	338,600	100.0%	258,900	71.6%	273,400	2013	245,800	2014
GAopi	70,072	100.0%	48,900	100.0%	46,000	71.6%	54,200	2013	51,100	2014
Executives										
P Bainbridge	109,258	100.0%	93,000	100.0%	66,800	71.6%	70,700	2013	62,400	2014
P Caldwell	58,000	100.0%	61,100	100.0%	61,800	71.6%	65,300	2013	58,700	2014
P Cholakos							32,400	2013	55,200	2014
P Crute			65,900	100.0%	47,400	71.6%	52,700	2013	46,800	2014
S Gardiner	29,753	100.0%	38,700	100.0%	35,000	71.6%	32,400	2013	44,200	2014
R Robinson	39,422	100.0%	32,400	100.0%	29,700	71.6%	55,800	2013	49,700	2014
Z Todorovski ⁽²⁾	66,485	100.0%	66,485	100.0%	146,285	71.6%	84,400	2013	75,800	2014
Former Executives										
N Hartley	90,012	100.0%	76,600	100.0%	54,900	0.0%	59,300	0%	-	-
A Miller ⁽³⁾	113,956	100.0%	96,900	100.0%	69,600	66.7%	73,500	33%	-	-

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- (1) The vesting date of the 2009 Performance Rights is 13 May 2012. Oil Search's TSR for the period 1 January 2009 to 31 December 2011 will result in 71.6% vesting.
- (2) Z Todorcevski was granted allocations of Performance Rights in the 2007 and 2008 allocations as part of his recruitment arrangements.
- (3) As part of his separation from Oil Search, the Board approved the early vesting of the 2009 and 2010 allocations for A Miller based on the length of his tenure during the vesting period.

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	2007	2008	2009	2010	2011
Net profit after tax (US\$m)	137.2	313.4	133.7	185.6	202.5
Diluted Earnings per share (US cents)	12.2	27.8	11.5	14.1	15.3
Dividends per share (US cents)	8.0	8.0	4.0	4.0	4.0
Shares Closing price (A\$) ⁽¹⁾	\$4.85	\$4.65	\$6.12	\$7.04	\$6.25
Oil Search Three Year TSR ⁽²⁾	186%	39%	91%	53%	44%

(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.

Retention Awards of Restricted Shares

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 vested 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 vested on 1 January 2011.

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

7. REMUNERATION DETAILS FOR KEY MANAGEMENT PERSONNEL

For this section of the report, key management personnel excludes non-executive directors, whose remuneration is disclosed in Section 10. The key management personnel for the purposes of this section 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.

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

Incumbent for the full year

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

In addition, Gereia has 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

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 Cholakos – Executive General Manager Project Development

Incumbent for the full year

Paul has responsibility for the delivery and management of Oil Search projects in PNG, with a specific focus on those associated with the PNG LNG Project. He is also responsible for the management of the corporate project function.

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 Stephen Gardiner – EGM Sustainability, Corporate Services & Group Secretary

Incumbent for the full year

In his role, Stephen is responsible for the Information and Communications Technology and Contracts & Procurement functions of Oil Search as well as all Group Secretarial matters. Stephen also assumed control of the Corporate Sustainability function following the retirement of Nigel Hartley.

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Mr Nigel Hartley – Executive General Manager Sustainability

Retired 1 July 2011

Prior to his departure, Nigel was 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 Austin Miller – Executive General Manager Commercial, International New Ventures, Mergers and Acquisitions

Departed 28 February 2011

Prior to his departure, Austin's role was 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 for the full year

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 – Executive General Manager Finance and Treasury - 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.

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

Table 9 – Current Key Management Personnel Remuneration Mix

Directors	TFR	STI	LTI	"AT RISK"
Managing Director	34.5%	34.5%	31.0%	65.5%
EGM External Affairs and Sustainability	41.7%	33.3%	25.0%	58.3%
Executives				
EGM Gas Commercialisation and PNG Growth	41.7%	33.3%	25.0%	58.3%
EGM PNG LNG	41.7%	33.3%	25.0%	58.3%
EGM Project Development	41.7%	33.3%	25.0%	58.3%
EGM Human Resources	41.7%	33.3%	25.0%	58.3%
EGM Sustainability, Corporate Services & Group Secretary	41.7%	33.3%	25.0%	58.3%
EGM PNG Operations	41.7%	33.3%	25.0%	58.3%
EGM Finance and Treasury - CFO	41.7%	33.3%	25.0%	58.3%
Former Executives ⁽¹⁾				
EGM Sustainability	46.5%	37.2%	16.3%	53.5%
EGM Commercial, International New Ventures, Mergers and Acquisitions	46.5%	37.2%	16.3%	53.5%

(1) The remuneration breakdown for the former executives is based on their 2010 remuneration.

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The remuneration mix outlined above is determined by the application of the Oil Search Remuneration Strategy, assuming STI awards at 100% of opportunity (80% of TFR for Senior Executives and 100% of TFR for the Managing Director). 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 IFRS 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	2010	2011
AUD/USD	0.9187	1.0318
PGK/USD	0.3833	0.4248

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

	Year	Short Term			Post Employment	Long Term	Equity ⁽⁶⁾		Other	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	2011	2,102,632	8,573	254,024	15,980	178,728	1,180,905	637,140	-	4,377,982
	2010	1,573,700	-	1,537,624	37,605	50,544	1,138,738	697,931	-	5,036,142
G Aopi	2011	449,981	57,348	67,987	76,593	56,284	217,284	308,676	-	1,234,153
	2010	391,906	53,327	288,141	57,487	98,371	189,290	229,060	-	1,307,582
Executives										
P Bainbridge	2011	673,708	-	166,087 ⁽⁷⁾	59,306	71,775	307,118	222,700	-	1,500,694
	2010	611,913	-	401,034	44,532	-	303,627	220,095	-	1,581,201
P Caldwell	2011	912,877	-	78,103	51,590	43,571	270,847	195,846	-	1,552,834
	2010	819,860	-	370,437	45,935	53,078	225,919	222,070	-	1,737,299
P Cholakos	2011	648,755	-	73,516	25,885	-	91,046	89,170	-	928,372
	2010	-	-	-	-	-	-	-	-	-
P Crute	2011	524,253	2,031	62,341	24,537	-	223,331	153,355	-	989,848
	2010	427,059	5,925	289,889	22,179	-	199,647	190,370	-	1,135,069
S Gardiner*	2011	493,045	-	58,813	15,980	19,058	160,188	-	-	747,084
	2010	389,285	-	131,057	13,625	6,285	135,293	37,555	-	713,100
R Robinson*	2011	544,612	-	66,105	15,845	50,257	163,627	62,150	-	902,596
	2010	292,123	-	121,842	8,089	4,821	80,941	53,454	-	561,270
Z Todorovski	2011	875,881	-	100,922	15,980	-	465,770	185,124	-	1,643,677
	2010	765,386	3,823	331,465	13,625	-	447,521	269,822	-	1,831,642
Former Executives										
N Hartley*	2011	350,971	6,916	-	26,329	-191,171	43,149	266,147	734,736	1,237,077
	2010	460,426	13,115	336,165	42,181	8,610	250,597	175,902	-	1,286,996
A Miller*	2011	272,046	888	48,976 ⁽⁸⁾	3,921	-151,997	230,675	137,155	366,014	907,678
	2010	655,649	-	417,151	13,625	10,682	316,278	225,711	-	1,639,096

* The following movements occurred in the key management personnel during 2010 and 2011

R Robinson became EGM PNG Operations on 1 June 2010

P Cholakos became EGM Project Development on 1 January 2011

S Gardiner became EGM Corporate Services/Group Secretary/Sustainability on 1 May 2011

A Miller departed Oil Search on 28 February 2011

N Hartley retired on 1 July 2011

(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 excludes 50% deferred into Oil Search Shares under the Restricted Share Plan, which is captured in the *Restricted Shares* data in the *Equity* section. The 2010 STI includes the special one off PNG LNG Project Bonus. The 2010 comparative data for STI has been restated as it had included the 50% of STI that was deferred into Restricted Shares

(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) For his 2011 STI, P Bainbridge received 100% of his STI award as cash with no deferral to Restricted Shares

(8) For his 2011 STI, A Miller received 100% of his STI award as cash with no deferral to Restricted Shares

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

Table 11 – Analysis of STI Included in Remuneration

Directors	Included in Remuneration US\$⁽¹⁾	% Vested in Year	% Forfeited in Year
Managing Director	\$508,048	28.5%	71.5%
EGM External Affairs and Sustainability	\$135,974	28.5%	71.5%
Executives			
EGM Gas Commercialisation and PNG Growth	\$166,086	28.5%	71.5%
EGM PNG LNG	\$156,206	28.5%	71.5%
EGM Project Development	\$147,032	28.5%	71.5%
EGM Human Resources	\$124,682	28.5%	71.5%
EGM Sustainability, Corporate Services & Group Secretary	\$117,626	28.5%	71.5%
EGM PNG Operations	\$132,210	28.5%	71.5%
EGM Finance and Treasury - CFO	\$201,844	28.5%	71.5%
Former Executives			
EGM Sustainability	-	-	100.0%
EGM Commercial, International New Ventures, Mergers and Acquisitions ⁽²⁾	\$48,976	8.3%	91.7%

(1) The value includes 50% of the STI award paid as cash (as reported in Table 10) as well as the 50% to be deferred via the allocation of Restricted Shares, that will vest on 1 January 2014.

(2) The actual STI Award was based on the tenure during the year, with the percentage vested/forfeited is based on the opportunity for the full year.

8. KEY TERMS OF EMPLOYMENT CONTRACTS FOR KEY MANAGEMENT PERSONNEL

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

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

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

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

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Table 12 – Contractual Provisions for Specified Executives

Name and Job Title	Employing Company	Contract Duration	Notice Period Company	Notice period Employee	Termination Provision
Directors					
P Botten Managing Director	POSL	Ongoing	6 months	6 months	18 months TFR
G Aopi EGM External 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	OSPNG	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR
P Cholakos EGM Project Development	POSL	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
S Gardiner EGM Sustainability, Corporate Services & G	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum of 52 weeks) 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 Todorovski EGM Finance and Treasury - CFO	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR
Former Executives					
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

9. EQUITY INSTRUMENTS

All Rights in the following tables refer to Performance Rights or Restricted Shares 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 Performance Rights over ordinary shares in the Company that were granted as remuneration to each key manager during the reporting period and details of Performance Rights that vested during the reporting period are as follows:

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Table 13 – Details of Performance Rights Granted

	Number of Rights Granted During 2011	Grant Date	Fair value per Right (A\$)	Exercise Price per Right (A\$)	Expiry Date	Number of Rights Vested During 2011	
Directors							
P Botten	245,800	23 May 11	\$4.40	\$0.00	16 May 14	338,600	
G Aopi	51,100	23 May 11	\$4.40	\$0.00	16 May 14	48,900	
Executives							
P Bainbridge	62,400	23 May 11	\$4.40	\$0.00	16 May 14	93,000	
P Caldwell	58,700	23 May 11	\$4.40	\$0.00	16 May 14	61,100	
P Cholakos	55,200	23 May 11	\$4.40	\$0.00	16 May 14	-	
P Crute	46,800	23 May 11	\$4.40	\$0.00	16 May 14	65,900	
S Gardiner	44,200	23 May 11	\$4.40	\$0.00	16 May 14	38,700	
R Robinson	49,700	23 May 11	\$4.40	\$0.00	16 May 14	32,400	
Z Todorovski	75,800	23 May 11	\$4.40	\$0.00	16 May 14	66,485	
Former Executives							
N Hartley	-	-	-	-	-	76,600	
A Miller	-	-	-	-	-	167,799 ⁽¹⁾	

(1) The performance rights vesting in 2011 include the early vesting of the 2009 and 2010 allocations as approved by the Board.

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

All Performance 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 Performance Rights granted in the current year the earliest exercise date is 16 May 2014.

The deferred component of the 2010 STI was allocated as Restricted Shares under the Long Term Incentive Plan outlined above for certain key management personnel in 2011. The number of Restricted Shares granted or vested in advance of their vesting date during the reporting period is as follows:

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Table 14 – Details of Deferred STI granted as Restricted Shares

	Number Granted During 2011	Grant Date	Fair Value (A\$)	Exercise Price (A\$)	Vesting Date
Directors					
P Botten ⁽¹⁾	74,588	1 Mar 11	\$6.94	\$0.00	1 Jan 13
G Aopi ⁽²⁾	18,592	1 Mar 11	\$6.94	\$0.00	1 Jan 13
Executives					
P Bainbridge	24,258	1 Mar 11	\$6.94	\$0.00	1 Jan 13
P Caldwell	22,381	1 Mar 11	\$6.94	\$0.00	1 Jan 13
P Cholakos	Nil	-	-	-	-
P Crute	18,061	1 Mar 11	\$6.94	\$0.00	1 Jan 13
S Gardiner	Nil	-	-	-	-
R Robinson	19,123	1 Mar 11	\$6.94	-	1 Jan 13
Z Todorcevski	28,932	1 Mar 11	\$6.94	\$0.00	1 Jan 13
Former Executives					
N Hartley ⁽³⁾	40,482	3 Mar 10	\$5.28	\$0.00	1 Jul 11
	20,327	1 Mar 11	\$6.94	\$0.00	1 Jul 11
A Miller ⁽⁴⁾	46,016	3 Mar 10	\$5.28	\$0.00	1 Mar 11

(1) The allocation for P Botten was formally approved at the Annual Meeting on 12 May 2011

(2) The allocation for G Aopi was formally approved at the Annual Meeting on 12 May 2011

(3) The 2010 and 2011 allocations vested on 1 July 2011, in advance of their original vesting date and as part of the retirement arrangements for N Hartley

(4) The 2010 allocation vested on 1 March 2011, in advance of the original vesting date and as part of the separation arrangements for A Miller

Modification of Terms of Equity Settled Share based Payment Transactions

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

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Exercise of Rights Granted as Remuneration

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

Table 15 – Details of the Exercise of Performance Rights

<i>Exercised in 2011</i>	Number of Shares	Amount Paid per Share (A\$)
Directors		
P Botten	-	-
G Aopi	-	-
Executives		
P Bainbridge	93,000	\$0.00
P Caldwell	61,100	\$0.00
P Cholakos	-	-
P Crute	65,900	\$0.00
S Gardiner	29,753	\$0.00
R Robinson	32,400	\$0.00
Z Todorcevski	66,485	\$0.00
Former Executives		
N Hartley	76,600	\$0.00
A Miller ⁽¹⁾	167,799	\$0.00

(1) The rights vesting in 2011 include the early vesting of the 2009 and 2010 allocations as approved by the Board.

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

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

Details of vesting profiles of Performance Rights and Restricted Shares granted as remuneration to key management personnel are:

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Table 16 – Details of Vesting Profile of Performance Rights and Restricted Shares

	Rights Granted					
	Type	Number	Date	% Vested in Year	% Forfeited in Year	Financial Year of Vesting
Directors						
P Botten	Performance Rights	338,600	4 Aug 08	100%	0%	2011
	Restricted Shares	165,873	3 Mar 09	100%	0%	2011
	Performance Rights	258,900	1 Jun 09			2012
	Restricted Shares	132,381	3 Mar 10			2012
	Performance Rights	273,400	1 Jun 10			2013
	Restricted Shares	74,588	1 Mar 11			2013
	Performance Rights	245,800	23 May 11			2014
G Aopi	Performance Rights	48,900	4 Aug 08	100%	0%	2011
	Restricted Shares	26,732	3 Mar 09	100%	0%	2011
	Performance Rights	46,000	1 Jun 09			2012
	Restricted Shares	33,240	3 Mar 10			2012
	Restricted Shares	100,000	27 Apr 10			2014
	Performance Rights	54,200	1 Jun 10			2013
	Restricted Shares	18,592	1 Mar 11			2013
	Performance Rights	51,100	23 May 11			2014
Executives						
P Bainbridge	Performance Rights	93,000	4 Aug 08	100%	0%	2011
	Restricted Shares	46,232	3 Mar 09	100%	0%	2011
	Performance Rights	66,800	1 Jun 09			2012
	Restricted Shares	48,283	3 Mar 10			2012
	Performance Rights	70,700	1 Jun 10			2013
	Restricted Shares	24,258	1 Mar 11			2013
	Performance Rights	62,400	23 May 11			2014
P Caldwell	Performance Rights	61,100	4 Aug 08	100%	0%	2011
	Restricted Shares	29,150	3 Mar 09	100%	0%	2011
	Performance Rights	61,800	1 Jun 09			2012
	Restricted Shares	41,344	3 Mar 10			2012
	Performance Rights	65,300	1 Jun 10			2013
	Restricted Shares	22,381	1 Mar 11			2013
	Performance Rights	58,700	23 May 11			2014
P Cholakov	Restricted Shares	30,000	3 Mar 10			2012
	Performance Rights	32,400	1 Jun 10			2013
	Performance Rights	55,200	23 May 11			2014
P Crute	Restricted Shares	33,898	1 May 08	100%	0%	2011
	Performance Rights	65,900	4 Aug 08	100%	0%	2011
	Restricted Shares	25,343	3 Mar 09	100%	0%	2011
	Performance Rights	47,400	1 Jun 09			2012
	Restricted Shares	31,722	3 Mar 10			2012
	Performance Rights	52,700	1 Jun 10			2013
	Restricted Shares	18,061	1 Mar 11			2013
Performance Rights	46,800	23 May 11			2014	
S Gardiner	Performance Rights	38,700	4 Aug 08	100%	0%	2011
	Performance Rights	35,000	1 Jun 09			2012
	Performance Rights	32,400	1 Jun 10			2013
	Performance Rights	44,200	23 May 11			2014
R Robinson	Performance Rights	32,400	4 Aug 08	100%	0%	2011
	Performance Rights	29,700	1 Jun 09			2012
	Performance Rights	55,800	1 Jun 10			2013
	Restricted Shares	19,123	1 Mar 11			2013
	Performance Rights	49,700	23 May 11			2014
Z Todorovski	Performance Rights	99,728	1 Jan 09	100%	0%	2011
	Performance Rights	66,485	1 Jan 09	100%	0%	2011
	Performance Rights	146,285	1 Jun 09			2012
	Restricted Shares	30,439	3 Mar 10			2012
	Performance Rights	84,400	1 Jun 10			2013
	Restricted Shares	28,932	1 Mar 11			2013
	Performance Rights	75,800	23 May 11			2014
Former Executives						
N Hartley ⁽¹⁾	Performance Rights	76,600	4 Aug 08	100%	0%	2011
	Restricted Shares	35,364	3 Mar 09	100%	0%	2011
	Performance Rights	54,900	1 Jun 09	0%	100%	2012
	Restricted Shares	40,482	3 Mar 10	100%	0%	2012
	Performance Rights	59,300	1 Jun 10	0%	100%	2013
	Restricted Shares	20,327	1 Mar 11	100%	0%	2013
A Miller ⁽²⁾	Performance Rights	96,900	4 Aug 08	100%	0%	2011
	Restricted Shares	50,548	3 Mar 09	100%	0%	2011
	Performance Rights	69,600	1 Jun 09	67%	33%	2012
	Restricted Shares	46,016	3 Mar 10	100%	0%	2012
	Performance Rights	73,500	1 Jun 10	33%	67%	2013

(1) As part of his retirement the Board approved full vesting of all restricted shares for N Hartley.

(2) As part of his separation the Board approved full vesting of all restricted shares and partial vesting of performance rights based on tenure for A Miller.

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Analysis of Movements in Performance Rights and Restricted Shares

The movement during the reporting period, by value of Performance Rights or Restricted Shares over ordinary shares in Oil Search held by each key management personnel, is detailed below:

Table 17 – Movement by Value of Rights

	Granted in Year US\$ ⁽¹⁾	Value of Rights Exercised in Year US\$ ⁽²⁾			Value of Rights Lapsed in Year US\$ ⁽³⁾		
		Number of Rights	Average Value per Right	Total Value	Number of Rights	Average Value per Right	Total Value
Directors							
P Botten	1,650,014	165,873	\$7.24	1,201,457	-	-	-
G Aopi	365,121	26,732	\$7.24	193,626	-	-	-
Executives							
P Bainbridge	456,995	139,232	\$7.12	991,218	-	-	-
P Caldwell	426,757	90,250	\$7.22	651,811	-	-	-
P Cholakos	250,604	-	-	-	-	-	-
P Crute	341,798	125,141	\$7.22	903,026	-	-	-
S Gardiner	200,664	29,753	\$6.14	182,660	-	-	-
R Robinson	362,568	32,400	\$7.06	228,663	-	-	-
Z Todorcevski	551,299	166,213	\$7.14	1,187,456	-	-	-
Former Executives							
N Hartley ⁽⁴⁾	145,555	172,773	\$6.88	1,189,053	114,200	\$4.23	482,833
A Miller ⁽⁵⁾	-	264,363	\$7.18	1,898,758	72,201	\$4.04	291,460

(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 2011 include early vesting of Restricted Shares as approved by the Board.

(5) The rights vesting in 2011 include early vesting of Performance Rights and Restricted shares as approved by the Board.

2012 Performance Payment Potential

The table below provides the minimum and maximum performance payment potential for current key management personnel for the 2012 financial year. Incentive amounts are based on the TFR approved by the Board as part of the 2012 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 65.2% of opportunity for executives and 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 2011 exchange rates.

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Table 18 – 2012 Performance Payment Potential

	Short Term Incentive Paid as Cash ⁽¹⁾		Short Term Incentive Deferred as Shares ⁽²⁾		Long Term Incentive Performance Rights ⁽³⁾	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Directors						
P Botten	\$0	\$2,008,605	\$0	\$2,008,605	\$0	\$1,807,745
G Aopi	\$0	\$520,027	\$0	\$520,027	\$0	\$390,020
Executives						
P Bainbridge	\$0	\$582,761	\$0	\$582,761	\$0	\$437,070
P Caldwell	\$0	\$575,332	\$0	\$575,332	\$0	\$431,499
P Cholakos	\$0	\$541,489	\$0	\$541,489	\$0	\$406,116
P Crute	\$0	\$454,817	\$0	\$454,817	\$0	\$341,113
S Gardiner	\$0	\$433,356	\$0	\$433,356	\$0	\$325,017
R Robinson	\$0	\$482,882	\$0	\$482,882	\$0	\$362,162
Z Todorcevski	\$0	\$743,721	\$0	\$743,721	\$0	\$557,791

(1) The STI Paid as Cash would be paid in 2013 based on performance for the 2012 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. These shares would vest in 2014.

(3) The maximum value for LTI is based on the methodology detailed in the section on *Long Term Incentives (LTI) – Performance Rights*.

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 18 below sets out the fee structure applied from 1 January 2011. The fees are based on an data from independent advisors and were last increased in 2008.

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

POSITION	ANNUAL FEE FROM 1 JAN 2011
Chairman of the Board ⁽¹⁾	A\$450,000
Non-Executive Directors other than the Chairman	A\$150,000
Chairman Audit Committee (additional fee)	A\$45,000
Chairman Finance and Risk Management Committee (additional fee)	A\$35,000
Chairman Remuneration and Nominations Committee (additional fee)	A\$35,000
Member Audit Committee (additional fee)	A\$23,000
Member Finance and Risk Management Committee (additional fee)	A\$20,000
Member Remuneration and Nominations Committee (additional fee)	A\$20,000

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

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Each non-executive director also receives a travel allowance of A\$23,000 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 Board approved a one off payment to the Chairman of A\$26,000 in 2011 for his work in the capacity of Acting Chairman of the Remuneration and Nominations Committee from December 2009 until May 2011.

The total remuneration which was paid to each non-executive director in 2011 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.

Details of Directors' Remuneration

The details of the remuneration received by Oil Search directors in 2011 are set out in Table 20 below.

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

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

		Short Term			Post Employment	Long Term	Equity		Other	Total
		Salaries, fees and Allowances	Non-Monetary Benefits	Short Term Incentive	Company Contribution to Super	Long Service Leave Accrual	Performance Rights	Restricted Shares	Sign on/ Termination Benefits	
Executive Directors	Year									
P Botten	2011	2,102,632	8,573	254,024	15,980	178,728	1,180,905	637,140	-	4,377,982
	2010	1,573,700	-	1,537,624	37,605	50,544	1,138,738	697,931	-	5,036,142
G Aopi	2011	449,981	57,348	67,987	76,593	56,284	217,284	308,676	-	1,234,153
	2010	391,906	53,327	288,141	57,487	98,371	189,290	229,060	-	1,307,582
Non-Executive Directors										
BF Horwood	2011	514,868	-	-	-	-	-	-	-	514,868
	2010	376,667	-	-	-	-	-	-	-	376,667
F Ainsworth*	2011	-	-	-	-	-	-	-	-	-
	2010	131,604	-	-	-	-	-	-	-	131,604
KG Constantinou	2011	219,773	-	-	-	-	-	-	-	219,773
	2010	166,285	-	-	-	-	-	-	-	166,285
R Igara	2011	222,869	-	-	-	-	-	-	-	222,869
	2010	171,797	-	-	-	-	-	-	-	171,797
A Kantsler*	2011	236,368	-	-	-	-	-	-	-	236,368
	2010	76,252	-	-	-	-	-	-	-	76,252
MDE Kriewaldt	2011	245,568	-	-	-	-	-	-	-	245,568
	2010	178,228	-	-	-	-	-	-	-	178,228
JL Stitt	2011	222,869	-	-	-	-	-	-	-	222,869
	2010	171,797	-	-	-	-	-	-	-	171,797
ZE Switkowski*	2011	229,638	-	-	-	-	-	-	-	229,638
	2010	18,074	-	-	-	-	-	-	-	18,074
TN Warren*	2011	-	-	-	-	-	-	-	-	-
	2010	-	-	-	-	-	-	-	-	-

* The following movements occurred in the non-executive directors during 2010 and 2011

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

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2011

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 37.

LIKELY FUTURE DEVELOPMENTS

Oil and gas production from each of the PNG fields in which the Company holds an interest is expected to continue in 2012.

The 2012 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 2012. The Company is set to embark on the largest drilling programme in its long history, with gas appraisal and development wells at Hides and P'nyang, gas exploration at Trapia and oil appraisal and exploration in the Kutubu fields and in the Taza PSC in Kurdistan.

The construction phase for the PNG LNG Project will continue in 2012 with major work programmes planned for the LNG plant, field and pipeline development and supporting infrastructure.

Recent successful exploration and appraisal drilling within the oil fields is expected to largely offset natural field decline. Output will be impacted by a three week shutdown of the Central Processing Facility and Agogo Processing Facility in the first quarter of 2012 and two shorter shutdowns of the Gobe Processing Facility in the second and fourth quarters of 2012, to enable Associated Gas work related to the PNG LNG Project to be progressed further. Present forecasts indicate that production is likely to remain largely flat into 2013, assuming planned development activities are successful.

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.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2011

ROUNDING

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

Signed in accordance with a resolution of the Directors.

B. F. Horwood

.....
BF HORWOOD
Chairman

PR Botten

.....
PR BOTTEN
Managing Director

Sydney, 20 February 2012

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

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

20 February 2012

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 2011, 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

DELOITTE TOUCHE TOHMATSU



Jason Thorne
Partner
Chartered Accountants

OIL SEARCH LIMITED
and its subsidiaries

**Statements of comprehensive income
for the year ended 31 December 2011**

		Consolidated		Parent	
		2011	2010	2011	2010
	Note	US\$'000	US\$'000	US\$'000	US\$'000
Revenue from operations	2	732,869	583,560	-	-
Operating expenses		(101,902)	(87,464)	(350)	(1,503)
Amortisation - site restoration		(1,563)	(7,130)	-	-
Amortisation - oil and gas assets		(38,354)	(32,390)	-	-
Depreciation - operating assets		(7,232)	(5,134)	-	-
Royalties, development, and mining levies		(12,036)	(9,826)	-	-
Costs of sales		(161,087)	(141,944)	(350)	(1,503)
Gross profit from operating activities		571,782	441,616	(350)	(1,503)
Other expenses	3	(27,206)	(19,778)	(2,677)	(3,467)
Profit/(loss) from operating activities		544,576	421,838	(3,027)	(4,970)
Exploration, development and production costs expensed		(60,633)	(125,034)	(2,911)	(10,531)
Business development costs		(10,295)	(6,154)	(1,567)	-
Impairment expense	4	(33,227)	(15,808)	-	-
Profit on sale of other non-current assets		138	3,158	-	-
Interest income	5	6,953	6,856	5,056	4,950
Borrowing costs	5	(7,611)	(7,682)	(1,653)	(1,177)
Profit/(loss) from continuing operations before income tax		439,901	277,174	(4,102)	(11,728)
Income tax (expense)/benefit	6	(237,418)	(91,572)	(4,266)	1,952
Net profit/(loss) after tax		202,483	185,602	(8,368)	(9,776)
Other comprehensive income					
Foreign currency translation differences for foreign operations		(1,516)	(795)	-	-
Total comprehensive income for the year		200,967	184,807	(8,368)	(9,776)
		US cents	US cents		
Basic earnings per share	7	15.35	14.20		
Diluted earnings per share	7	15.27	14.13		

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

OIL SEARCH LIMITED
and its subsidiaries

Statements of financial position
as at 31 December 2011

		Consolidated		Parent	
		2011	2010	2011	2010
	Note	US\$'000	US\$'000	US\$'000	US\$'000
Current assets					
Cash and cash equivalents	22(a)	1,047,463	1,263,589	779,259	972,745
Receivables	9	102,253	87,912	423,464	210,992
Inventories	10	59,862	60,190	-	-
Current tax asset		-	-	-	4,229
Other assets	11	85,600	85,771	359	136
Total current assets		1,295,178	1,497,462	1,203,082	1,188,102
Non-current assets					
Receivables	9	3,966	3,326	-	-
Other non-current assets	11	329	916	-	-
Exploration and evaluation assets	12	337,611	281,840	30,069	27,510
Oil and gas assets	13	3,778,161	2,311,194	-	2
Other property, plant and equipment	14	67,977	72,108	-	11
Investments	15	29	29	326,507	326,507
Deferred tax assets	16	218,783	203,192	6,556	6,982
Total non-current assets		4,406,856	2,872,605	363,132	361,012
Total assets		5,702,034	4,370,067	1,566,214	1,549,114
Current liabilities					
Payables	17	415,946	301,042	9,520	1,529
Provisions	18	5,556	5,540	80	80
Current tax payable		106,908	69,660	791	-
Total current liabilities		528,410	376,242	10,391	1,609
Non-current liabilities					
Payables	17	4,899	-	-	-
Provisions	18	212,429	111,408	-	-
Loans and borrowings	19	1,747,567	929,720	-	-
Deferred tax liabilities	20	191,497	154,230	359	388
Total non-current liabilities		2,156,392	1,195,358	359	388
Total liabilities		2,684,802	1,571,600	10,750	1,997
Net assets		3,017,232	2,798,467	1,555,464	1,547,117
Shareholders' equity					
Share capital	21	1,683,492	1,610,667	1,683,492	1,610,667
Reserves	21	12,956	16,818	6,498	9,882
Retained earnings		1,320,784	1,170,982	(134,526)	(73,432)
Total shareholders' equity		3,017,232	2,798,467	1,555,464	1,547,117

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

OIL SEARCH LIMITED
and its subsidiaries

Statements of cash flows
for the year ended 31 December 2011

		Consolidated		Parent	
		2011	2010	2011	2010
	Note	US\$'000	US\$'000	US\$'000	US\$'000
Cash flows from operating activities					
Receipts from customers		724,392	624,048	-	-
Payments to suppliers and employees		(103,184)	(103,108)	(4,769)	(6,124)
Interest received		7,205	6,021	5,377	4,130
Borrowing costs paid		(2,927)	(2,694)	(1,653)	(1,177)
Income tax (paid)/refund		(178,494)	(124,447)	1,151	(6,353)
Payments for exploration and evaluation - seismic, G&A , G&G ⁽¹⁾		(49,838)	(46,991)	-	-
Payments for site rehabilitation		(666)	-	-	-
Payments for business development		(10,295)	(6,154)	(1,567)	-
Net cash from/(used in) operating activities	22(b)	386,193	346,675	(1,461)	(9,524)
Cash flows from investing activities					
Payments for property, plant and equipment		(7,121)	(6,984)	-	(10)
Payments for exploration and evaluation expenditure ⁽¹⁾		(121,866)	(140,635)	(10,364)	(36,620)
Payments for development asset expenditure		(1,059,263)	(908,739)	-	(2)
Payments for producing asset expenditure		(128,540)	(48,650)	-	-
Net cash outflow on investment		-	(29)	-	-
Net cash used in investing activities		(1,316,790)	(1,105,037)	(10,364)	(36,632)
Cash flows from financing activities					
Proceeds from underwriter of dividend reinvestment plan (DRP)		36,786	33,921	36,786	33,921
Dividend payments (net of DRP) ⁽²⁾	8	(36,723)	(33,797)	(36,786)	(33,921)
Cash received from option/right share issues		6,328	4,049	6,328	4,049
Costs relating to dividend reinvestment plan		(49)	(52)	(49)	(52)
Purchase of treasury shares		-	(59)	-	-
Proceeds from borrowings		708,129	729,812	-	-
Net cash from financing activities		714,471	733,874	(181,661)	(12,337)
Net decrease in cash and cash equivalents		(216,126)	(24,488)	(193,486)	(58,493)
Cash and cash equivalents at the beginning of the year		1,263,589	1,288,077	972,745	1,031,238
Cash and cash equivalents at the end of the year	22(a)	1,047,463	1,263,589	779,259	972,745

⁽¹⁾ Prior year comparatives have been restated in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" upon adoption of the "Improvements to IFRS's", specifically IAS 7 "Statement of Cash Flows".

⁽²⁾ Total dividend payments including cash and dividend reinvestment was \$52.7 million (2010: \$52.1 million). Total dividend payments net of dividends reinvested under the dividend reinvestment plan was \$36.8 million (2010: \$33.9 million).

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

OIL SEARCH LIMITED
and its subsidiaries

**Statements of changes in equity
for the year ended 31 December 2011**

	Share capital	Foreign currency translation reserve	Reserve for treasury shares	Employee equity compensation reserve	Retained earnings	Total
Consolidated	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
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	4,049	-	-	-	-	4,049
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
Balance at 1 January 2011	1,610,667	1,942	(6,378)	21,254	1,170,982	2,798,467
Dividends provided for or paid	-	-	-	-	(52,663)	(52,663)
Total comprehensive income for the year						
Net profit after tax for the year	-	-	-	-	202,483	202,483
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	(1,516)	-	-	-	(1,516)
Total comprehensive income for the year	-	(1,516)	-	-	202,483	200,967
Transactions with owners, recorded directly in equity						
Issue of shares through dividend reinvestment plan	52,726	-	-	-	-	52,726
Costs associated with share issues	(49)	-	-	-	-	(49)
Transfer of vested shares	13,070	-	-	(13,070)	-	-
Release of treasury shares on vesting	(1,039)	-	2,566	(1,527)	-	-
Issue of shares on exercise of options and rights	6,328	-	-	-	-	6,328
Employee share-based remuneration expense	-	-	-	12,057	-	12,057
Issue of treasury shares	1,789	-	(1,789)	-	-	-
Net exchange differences	-	-	-	(583)	-	(583)
Trust distribution	-	-	-	-	(18)	(18)
Total transactions with owners	72,825	-	777	(3,123)	(18)	70,461
Balance at 31 December 2011	1,683,492	426	(5,601)	18,131	1,320,784	3,017,232

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

OIL SEARCH LIMITED
and its subsidiaries

**Statements of changes in equity
for the year ended 31 December 2011**

Parent	Share capital	Foreign currency translation reserve	Amalgamation reserve	Reserve for treasury shares	Employee equity compensation reserve	Retained earnings	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 January 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	4,049	-	-	-	-	-	4,049
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 ⁽¹⁾	-	-	-	-	-	(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
Balance at 1 January 2011	1,610,667	-	(2,990)	-	12,872	(73,432)	1,547,117
Dividends provided for or paid	-	-	-	-	-	(52,663)	(52,663)
Total comprehensive income for the year							
Net loss after tax for the year	-	-	-	-	-	(8,368)	(8,368)
Total comprehensive income for the year	-	-	-	-	-	(8,368)	(8,368)
Transactions with owners, recorded directly in equity							
Issue of shares through dividend reinvestment plan	52,726	-	-	-	-	-	52,726
Costs associated with share issues	(49)	-	-	-	-	-	(49)
Transfer of vested shares	13,070	-	-	-	(13,070)	-	-
Release of treasury shares on vesting	(1,039)	-	-	-	-	-	(1,039)
Issue of shares on exercise of options and rights	6,328	-	-	-	-	-	6,328
Employee share-based remuneration	-	-	-	-	12,057	-	12,057
Issue of treasury shares	1,789	-	-	-	(1,789)	-	-
Settlement of equity based employee share payments	-	-	-	-	-	-	-
Net exchange differences	-	-	-	-	(582)	-	(582)
Dividends received on shares held in trust ⁽¹⁾	-	-	-	-	-	(63)	(63)
Total transactions with owners	72,825	-	-	-	(3,384)	(63)	69,378
Balance at 31 December 2011	1,683,492	-	(2,990)	-	9,488	(134,526)	1,555,464

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

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

OIL SEARCH LIMITED
and its subsidiaries

Notes to the Financial Statements
for the year ended 31 December 2011

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 2011 comprises the parent and its controlled entities (consolidated entity).

The financial statements were authorised for issue by the directors on 21 February 2012.

(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

- Revised IAS 24 "Related Party Disclosures";
- Amended IAS 27 "Consolidated and Separate Financial Statements";
- Amended IAS 32 "Classification of Rights Issues";
- Various Standards "Improvements to IFRS's 2009" - dealt with on a standard-by-standard basis;
- Various Standards "Improvements to IFRS's 2010" - dealt with on a standard-by-standard basis;
- Interpretation 14 "Prepayments of a Minimum Funding Requirement"; and
- Interpretation 19 "Extinguishing Financial Liabilities with Equity Instruments".

(ii) Issued standards not early adopted

At 31 December 2011, 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:

Standards applicable for annual reporting periods beginning on or after 1 July 2011

- Amended IFRS 7 "Financial Instruments: Disclosures";
- Various Standards "Improvements to IFRS's 2011" - dealt with on a standard-by-standard basis.

Standards applicable for annual reporting periods beginning on or after 1 January 2012

- Amended IAS 12 "Income Taxes".

Standards applicable for annual reporting periods beginning on or after 1 July 2012

- Amended IAS 1 "Presentation of Items of Other Comprehensive Income".

Standards applicable for annual reporting periods beginning on or after 1 January 2013

- IFRS 10 "Consolidated Financial Statements";
- IFRS 11 "Joint Arrangements";
- IFRS 12 "Disclosures of Interests in Other Entities";
- IFRS 13 "Fair Value Measurement";
- IAS 19 "Employee Benefits";
- IAS 27 "Separate Financial Statements";
- IAS 28 "Investments in Associates and Joint Ventures"; and
- Amended IAS 32 "Financial Instruments: Presentation".

Standards applicable for annual reporting periods beginning on or after 1 January 2015

- IFRS 9 "Financial Instruments", (this standard will eventually replace IAS 39 "Financial Instruments: Recognition and Measurement"); and
- IFRS 9 "Financial Instruments - Amendments to Other IFRSs", (to be adopted upon application of IFRS 9).

OIL SEARCH LIMITED
and its subsidiaries

Notes to the Financial Statements
for the year ended 31 December 2011

1 Summary of significant accounting policies (continued)

(b) Principles of consolidation

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

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

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

(c) Currency translation

Translation of transactions denominated in currencies other than US dollars

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

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

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

Translation of financial reports of overseas operations

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

(d) Income recognition

Oil, gas and other liquid sales

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

Dividend income

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

(e) Capitalisation of borrowing costs

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

(f) Leases

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

OIL SEARCH LIMITED
and its subsidiaries

Notes to the Financial Statements
for the year ended 31 December 2011

1 Summary of significant accounting policies (continued)

(g) Share-based remuneration

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

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

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

(h) Income tax

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

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

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

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

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2011

1 Summary of significant accounting policies (continued)

(h) Income tax (continued)

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

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

(i) Inventories

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

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

Inventories are accounted for on a FIFO basis.

(j) Exploration and evaluation assets

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

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

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

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

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

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Notes to the Financial Statements
for the year ended 31 December 2011

1 Summary of significant accounting policies (continued)

(k) Oil and gas assets

Assets in development

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

Producing assets

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

Commencing from 2010, past expenditure and accumulated amortisation relating to oil operations now included within the LNG Project will be 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, previously capitalised 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 gas sales contract term with the Porgera Joint Venture for supply of gas to the Porgera Gold Mine.

Restoration costs

Site restoration costs are capitalised within the cost of the associated assets and the provision is stated in the balance sheet at total estimated present value. These costs are estimated and based on judgements and assumptions regarding removal dates, technologies, and industry practice. 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.

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Notes to the Financial Statements
for the year ended 31 December 2011

1 Summary of significant accounting policies (continued)

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

Depreciation

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

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

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

(m) Impairment of assets

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

An impairment loss is recognised in the profit and loss statement when the carrying amount of an asset or its 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.

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Notes to the Financial Statements
for the year ended 31 December 2011

1 Summary of significant accounting policies (continued)

(p) Financial instruments

Trade receivables

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

Trade payables

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

Loans and borrowings

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

Cash and cash equivalents

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

Investments

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

Hedging contracts

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

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

(q) Critical accounting estimates and assumptions

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

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Notes to the Financial Statements
for the year ended 31 December 2011

1 Summary of significant accounting policies (continued)

(q) Critical accounting estimates and assumptions (continued)

Impairment of assets

The Group assesses whether oil and gas assets are impaired on a semi-annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the assets belong. For oil and gas properties, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs. Market values are also referenced where appropriate. 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 are made considering relevant legislation and industry practice and require management to make judgments regarding the removal date, the extent of restoration activities required and future removal technologies. For more detail regarding the policy in respect of provision for restoration refer to note 1(k). The carrying amount of the provision for restoration is disclosed in note 18.

Reserve estimates

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

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

Exploration and evaluation

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

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

(r) Rounding

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

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Notes to the Financial Statements
for the year ended 31 December 2011

	Consolidated		Parent	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
2 Revenue from operations				
Oil sales (gross)	654,266	517,345	-	-
Gas and refined product sales	49,017	39,704	-	-
Other field revenue	29,586	26,511	-	-
Total revenue	732,869	583,560	-	-
3 Other expenses				
Salaries and short-term employee benefits	(49,307)	(44,642)	-	-
Post-employment benefits	(2,366)	(2,156)	-	-
Employee share-based remuneration	(12,057)	(14,932)	-	-
Premises and equipment - operating leases	(4,749)	(4,216)	-	-
Other expenses	(27,920)	(19,970)	(4,419)	(3,404)
Corporate cost recoveries	74,524	69,281	-	-
Net corporate expenses	(21,875)	(16,635)	(4,419)	(3,404)
Depreciation	(4,158)	(5,220)	-	(47)
Foreign currency (losses)/gains	(1,173)	2,077	1,742	(16)
Total other expenses	(27,206)	(19,778)	(2,677)	(3,467)
4 Significant items				
Restatement of deferred tax, following LNG				
Project development approval	-	49,574	-	-
Impairment expense ⁽¹⁾	(33,227)	(15,808)	-	-
Applicable income tax benefit	-	7,722	-	-
Net impairment losses	(33,227)	(8,086)	-	-
Total significant items	(33,227)	41,488	-	-

(1) The impairment expense of \$33.2 million relates to the Shakal asset in Iraq and the expiration of the licence subsequent to year end.

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2011

	Consolidated		Parent	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
5 Net financing costs				
Interest received or receivable from others	6,953	6,856	5,056	4,950
Interest paid or payable to:				
others	-	-	-	-
subsidiaries	-	-	(1,653)	(1,177)
	-	-	(1,653)	(1,177)
Finance costs	(3,368)	(3,945)	-	-
	(3,368)	(3,945)	(1,653)	(1,177)
Unwinding of discount on site restoration	(4,243)	(3,737)	-	-
Total borrowing costs expensed	(7,611)	(7,682)	(1,653)	(1,177)
Net finance (costs)/income	(658)	(826)	3,403	3,773
6 Income tax				
The major components of tax expenses are:				
Current tax expense	219,713	161,552	-	-
Adjustments for current tax of prior periods	(3,971)	(7,198)	3,869	(558)
Deferred tax expense/(income)	21,676	(62,782)	397	(1,394)
Income tax expense/(benefit)	237,418	91,572	4,266	(1,952)
Reconciliation between tax expense and the pre-tax profit multiplied by the applicable tax rate is set out below:				
Pre-tax profit/(loss)	439,901	277,174	(4,102)	(11,728)
Tax at PNG rate for petroleum (50%)	219,951	138,587	(2,051)	(5,864)
Restatement of deferred tax for gas and non-oil (30%)	(132)	(49,574)	-	-
Effect of differing tax rates across tax regimes	(3,530)	(2,420)	2,445	2,346
	216,289	86,593	394	(3,518)
Tax effect of items not tax deductible or assessable:				
(Over)/under provisions in prior periods	(3,971)	(7,198)	3,869	(558)
Non-deductible expenditure	25,100	10,494	3	2,124
Non-assessable income	-	(890)	-	-
Reinstatement of deferred tax assets	-	-	-	-
Other	-	2,573	-	-
Income tax expense/(benefit)	237,418	91,572	4,266	(1,952)

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Notes to the Financial Statements
for the year ended 31 December 2011

	Consolidated		Parent	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
6 Income tax (continued)				
The amount of the deferred tax (income)/expense recognised in the net profit in respect of each type of temporary difference:				
Exploration and development	41,108	(84,644)	(974)	(176)
Other assets	504	(506)	(3)	(14)
Provisions	(25,201)	18,412	(28)	250
Other items	(981)	(306)	1,625	(135)
Tax losses	6,246	4,262	(223)	(1,319)
	21,676	(62,782)	397	(1,394)

	Consolidated	
	2011	2010
	US cents	US cents
7 Earnings per share		
Basic earnings per share (excluding significant items)	17.87	11.03
Basic earnings per share (including significant items)	15.35	14.20
Diluted earnings per share (excluding significant items)	17.78	10.97
Diluted earnings per share (including significant items)	15.27	14.13

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	1,319,327,747	1,306,642,961
Employee share options/SAR's	659,314	753,693
Employee performance rights	5,800,560	6,500,551
Diluted earnings per share	1,325,787,621	1,313,897,205

Basic earnings per share (excluding significant items) have been calculated on a net profit after tax of US\$235.710 million (2010: US\$144.114 million).

Basic earnings per share (including significant items) have been calculated on a net profit after tax of US\$202.483 million (2010: US\$185.602 million).

Diluted earnings per share (including significant items) have been calculated on a net profit after tax of US\$202.483 million (2010: US\$185.602 million). There are 3,109,252 options/SAR's (2010: 3,032,304), and 5,735,932 rights (2010: 6,183,991) 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 2011 to 31 December 2011.

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Notes to the Financial Statements
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	Consolidated		Parent	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
8 Dividends paid or proposed				
Unfranked ⁽¹⁾ dividends in respect of the year, proposed subsequent to the year end:				
Ordinary dividends ⁽²⁾	26,503	26,258	26,503	26,258
Unfranked ⁽¹⁾ dividends paid during the year:				
Ordinary – previous year final	26,253	25,964	26,253	25,964
Ordinary – current year interim ⁽³⁾	26,410	26,123	26,410	26,123
	52,663	52,087	52,663	52,087

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

(2) On 20 February 2012, the Directors declared a final unfranked dividend in respect of the current year, of US 2 cents per ordinary share (2010: US 2 cents final dividend), to be paid to the holders of ordinary shares on 10 April 2012. The proposed final dividend for 2011 are payable to all holders of ordinary shares on the Register of Members on 15 March 2012 (record date). The estimated dividends to be paid are US\$26,503,103 and have not been included as a liability in these financial statements.

(3) On 22 August 2011, the Directors declared an interim unfranked dividend in respect of the current half-year, of US 2 cents per ordinary share (2010: US 2 cents interim dividend), paid to the holders of ordinary shares on 10 October 2011.

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 2011 final dividend will be fully underwritten.

9 Receivables

Current

Trade debtors ⁽¹⁾	49,336	40,859	-	-
Other debtors ⁽¹⁾	52,917	47,053	6,683	1,388
Amounts due from subsidiary entities	-	-	416,781	209,604
	102,253	87,912	423,464	210,992

Non-current

Amounts due by:

other entities	3,966	3,326	-	-
	3,966	3,326	-	-

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

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Notes to the Financial Statements
for the year ended 31 December 2011

	Consolidated		Parent	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
10 Inventories				
Current				
At cost				
Materials and supplies	55,294	52,107	-	-
Petroleum products	4,568	8,083	-	-
	59,862	60,190	-	-
11 Other assets				
Current				
Prepayments	85,600	85,771	359	136
Non current				
Prepayments	329	916	-	-
12 Exploration and evaluation assets (non-current)				
At cost	401,237	312,239	30,069	27,510
Less impairment	(63,626)	(30,399)	-	-
	337,611	281,840	30,069	27,510
Balance at start of year	281,840	808,318	27,510	63,202
Transfer to another subsidiary	-	-	-	(44,080)
Transferred to assets in development	-	(559,377)	-	-
Transferred to producing assets	-	(70)	-	-
Additions	144,606	175,980	5,470	18,919
Exploration costs expensed during the year	(60,633)	(128,106)	(2,911)	(10,531)
Impairment losses ⁽¹⁾	(33,227)	(14,899)	-	-
Changes in restoration obligations	4,952	-	-	-
Disposals	-	-	-	-
Net exchange differences	73	(6)	-	-
Balance at end of year	337,611	281,840	30,069	27,510

(1) The impairment expense of \$33.2 million relates to the Shakal asset in Iraq and the expiration of the licence subsequent to year end.

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2011

	Consolidated		Parent	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
13 Oil and gas assets (non-current)				
Assets in development				
At cost	3,467,975	2,063,629	-	-
Accumulated amortisation	-	-	-	-
	3,467,975	2,063,629	-	-
Balance at start of year	2,063,629	-	-	-
Transferred from exploration and evaluation assets	-	559,377	-	-
Transferred from producing assets	98,509	367,060	-	-
Additions	1,176,824	944,683	-	-
Borrowing costs capitalised (LNG project)	109,718	194,375	-	-
Development costs expensed during the period	-	(1,866)	-	-
Changes in restoration obligations	19,295	-	-	-
Balance at end of year	3,467,975	2,063,629	-	-
Producing assets				
At cost	1,468,712	1,366,642	-	2
Accumulated amortisation and impairment	(1,158,526)	(1,119,077)	-	-
	310,186	247,565	-	2
Balance at start of year	247,565	638,026	2	-
Transfer to another subsidiary	-	-	-	-
Transferred from exploration	-	70	-	-
Transferred to development	(98,509)	(367,060)	-	-
Additions	129,396	41,850	-	2
Producing costs expensed during the period	-	(1,216)	-	-
Disposals	-	(1,885)	(2)	-
Changes in restoration obligations	71,183	(23,820)	-	-
Amortisation of site restoration	(1,284)	(7,200)	-	-
Amortisation	(38,165)	(31,200)	-	-
Balance at end of year	310,186	247,565	-	2
Total oil and gas assets	3,778,161	2,311,194	-	2

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Notes to the Financial Statements
for the year ended 31 December 2011

	Consolidated		Parent	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
14 Other property, plant and equipment (non-current)				
At cost	162,572	155,313	-	58
Accumulated depreciation and impairment	(94,595)	(83,205)	-	(47)
	67,977	72,108	-	11
Rigs				
Balance at start of year	63,426	67,442	-	-
Reclassification to other plant and equipment	(5)	-	-	-
Additions	152	1,938	-	-
Disposals	-	(820)	-	-
Depreciation	(7,232)	(5,134)	-	-
Balance at end of year	56,341	63,426	-	-
Other property, plant and equipment				
Balance at start of year	8,682	8,778	11	247
Reclassification from rigs	5	-	-	-
Transfer to another subsidiary	-	-	-	(199)
Additions	7,024	4,612	-	10
Disposals	-	(21)	(11)	-
Depreciation	(4,158)	(5,220)	-	(47)
Net exchange differences	83	533	-	-
Balance at end of year	11,636	8,682	-	11
15 Non-current investments				
Shares not quoted on securities exchange ⁽¹⁾	962	962	-	-
Accumulated impairment losses	(962)	(962)	-	-
	-	-	-	-
Shares in subsidiaries (at cost)	-	-	326,507	326,507
Investment in joint venture ⁽²⁾	29	29	-	-
	29	29	326,507	326,507

(1) Shares in Misima Mines Limited 3,772,843 (2010: 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 2011 is 29.0% (refer to note 19 for further details)).

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Notes to the Financial Statements
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	Consolidated		Parent	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
16 Deferred tax assets				
Temporary differences				
Exploration and development	132,227	145,283	4,128	4,780
Other assets	1,236	638	74	70
Provisions	71,389	39,792	24	24
Tax losses recognised	13,931	17,479	2,330	2,108
	218,783	203,192	6,556	6,982
17 Payables				
Current				
Trade creditors and accruals	415,946	301,042	9,348	1,469
Other payables	-	-	172	60
	415,946	301,042	9,520	1,529
Non-current				
Other payables	4,899	-	-	-
	4,899	-	-	-
18 Provisions				
Current				
Employee entitlements	5,476	5,460	-	-
Directors retirement allowances	80	80	80	80
	5,556	5,540	80	80
Non-current				
Employee entitlements	11,353	9,340	-	-
Site restoration ⁽¹⁾	200,326	101,318	-	-
Other	750	750	-	-
	212,429	111,408	-	-
Movement in site restoration provision				
Balance at start of year	101,318	121,402	-	-
Revision of provision	95,431	(23,821)	-	-
Use of provision	(666)	-	-	-
Unwinding of discount	4,243	3,737	-	-
Balance at end of year	200,326	101,318	-	-

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

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	Consolidated		Parent	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000

19 Loans and borrowings

Non-current

Secured loan from joint venture ⁽¹⁾

	1,747,567	929,720	-	-
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- (1) Papua New Guinea Liquefied Natural Gas Global Company LDC, a limited duration company incorporated under the laws of the Commonwealth of the Bahamas (the "Borrower") was organised to conduct certain activities of the LNG Project outside of PNG, including the borrowing and on-lending to the participants of senior debt, and the purchase and re-sale of LNG project liquids and LNG. The Borrower is owned by each participant in a percentage equal to its project interest (the Oil Search Limited Group interest at 31 December 2011 is 29.0%).

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

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

Terms and debt repayment schedule

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

As at 31 December 2011, the weighted average rate of the drawn loan was 3.28% (2010: 3.32%), consisting of both fixed or floating rate portions. The source of funding was from:

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

The loan facility is made up of the following:

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

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

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

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

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19 Loans and borrowings (continued)

Terms and debt repayment schedule (continued)

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

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

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

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

The Borrower grants to the security trustee:

- a first-ranking security interest in all of the Borrower's assets (Oil Search's share US\$1,447.4 million at 31 December 2011 (2010: \$738.2 million)), with a few limited exceptions;
- a fixed and floating charge in existing and future funds in the offshore accounts;
- a deed of charge (and assignment) in the sales contracts, LNG charter party agreements, rights under insurance policies, LNG supply and sales commitment agreements, on-loan agreements and the sales, shipping and finance administration agreements, collectively known as "Borrower Material Agreements"; and
- a mortgage of contractual rights over Borrower Material Agreements.

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

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

Oil Search has also granted security over:

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

20 Deferred tax liabilities

Temporary differences

Exploration and development	181,480	145,226	-	-
Prepayments and receivables	794	1,157	359	388
Other assets	9,223	7,847	-	-
	191,497	154,230	359	388

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	Consolidated		Parent	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
21 Share capital and reserves				
Issued 1,325,155,171 (2010: 1,312,888,303)				
Ordinary shares, fully paid (no par value)	1,683,492	1,610,667	1,683,492	1,610,667
	2011	2010	2011	2010
	Shares	Shares	US\$'000	US\$'000
Movements in issued and fully paid shares				
Balance at the beginning of the period	1,312,888,303	1,299,562,220	1,610,667	1,550,213
Transfer of vested shares from employee equity compensation reserve	-	-	13,070	13,421
Release of treasury shares on vesting	-	-	(1,039)	(11,491)
Ordinary shares issued on exercise of options and rights, and grant of restricted shares	3,975,651	3,900,448	8,117	6,365
DRP underwriting agreement ⁽¹⁾				
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
Ordinary shares issued at US\$6.98 (2010 final dividend)	2,715,366	-	18,965	-
Ordinary shares issued at US\$5.91 (2011 interim dividend)	3,017,882	-	17,821	-
DRP ⁽²⁾				
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
Ordinary shares issued at US\$6.85 (2010 final dividend)	1,069,058	-	7,319	-
Ordinary shares issued at US\$5.79 (2011 interim dividend)	1,488,911	-	8,621	-
Share issue costs	-	-	(49)	(52)
	1,325,155,171	1,312,888,303	1,683,492	1,610,667

(1) A fully underwritten DRP has been utilised for all dividends paid during the period covered by the Financial Statements.

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

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21 Share capital and reserves (continued)

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

At balance date, there are 1,659,552 options (2010: 3,032,304), 2,918,020 share appreciation rights (2010: 1,542,800), 5,735,932 performance rights (2010: 6,183,991), and 1,657,365 restricted shares (2010: 1,915,386) 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 1,264,452 share options (2010: 1,313,171) and 1,750,411 performance rights (2010: 1,926,853) were exercised and 108,300 options (2010: 135,850), 123,340 share appreciation rights (2010: 11,400) and 394,148 performance rights (2010: 398,054) were forfeited. Restricted shares totalling 619,693 were exercised (2010: 1,707,447) and 103,318 (2010: 72,256) restricted shares were forfeited during the year.

During the year 1,498,560 share appreciation rights (2010: 1,554,200) were granted under the Employee Share Appreciation Rights Plan. There were 1,696,500 performance rights (2010: 1,997,400) granted under the Performance Rights Plan, and 443,289 restricted shares (2010: 751,857) granted under the Restricted Share Plan during the year.

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	Consolidated		Parent	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
21 Share capital and reserves (continued)				
a) Reserves at the end of the financial year				
Foreign currency translation reserve	426	1,942	-	-
Amalgamation reserve	-	-	(2,990)	(2,990)
Reserve for treasury shares	(5,601)	(6,378)	-	-
Employee equity compensation reserve	18,131	21,254	9,488	12,872
Balance at end of year	12,956	16,818	6,498	9,882

b) Movements in reserves

Foreign currency translation reserve

Balance at start of year	1,942	2,737	-	-
Translation of financial statements of foreign subsidiaries	(1,516)	(795)	-	-
Balance at end of year	426	1,942	-	-

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	(6,378)	(16,821)	-	-
Purchase of shares during financial year	-	(59)	-	-
Issue of shares during financial year	(1,789)	(2,316)	-	-
Release of treasury shares on vesting	2,566	11,491	-	-
Transfer of exchange differences to FCTR	-	1,327	-	-
Balance at end of year	(5,601)	(6,378)	-	-

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

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	Consolidated		Parent	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
21 Share capital and reserves (continued)				
Employee equity compensation reserve				
Balance at start of year	21,254	19,531	12,872	13,465
Expense recognised in subsidiaries during financial year	12,057	14,932	12,057	14,932
Transfer of vested shares to share capital	(13,070)	(13,421)	(13,070)	(13,421)
Issue of treasury shares	-	-	(1,789)	(2,316)
Release of treasury shares on vesting	(1,527)	-	-	-
Net exchange differences	(583)	212	(582)	212
Balance at end of year	18,131	21,254	9,488	12,872

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.

22 Statement of cash flows

(a) For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and at bank, deposits at call, and bank overdraft

Cash at bank and on hand ⁽¹⁾	164,439	170,024	84,866	62,942
Share of cash in joint ventures	9,789	4,828	13	3
Interest-bearing short-term deposits ^{(2) (3)}	873,235	1,088,737	694,380	909,800
	1,047,463	1,263,589	779,259	972,745

(1) Includes US\$22.5 million (2010: 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\$7.2 million (2010: US\$7.6 million) held as security for letters of credit on issue.

(3) Includes US\$514.1 million (2010: \$720.8) held in escrow to meet future LNG Project base equity commitments (refer to note 19 for further details).

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	Consolidated		Parent	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
22 Statement of cash flows (continued)				
(b) Reconciliation of cash flows from operating activities				
Net profit/(loss) after tax	202,483	185,602	(8,368)	(9,776)
Add/(deduct):				
Exploration costs expensed ⁽¹⁾	10,795	84,197	2,911	10,531
Impairment expense	33,227	15,808	-	-
Profit on sale of non-current assets	(138)	(3,158)	-	-
Amortisation - site restoration	1,563	7,130	-	-
Unwinding of site restoration discount	4,243	3,737	-	-
Amortisation - oil and gas assets	38,354	32,390	-	-
Cost of share options	12,057	14,932	-	-
Depreciation	11,390	10,354	-	47
Exchange (gains)/ losses - unrealised	(2,099)	744	(1,742)	212
Movement in tax provisions	58,924	(32,875)	5,417	(8,305)
Net (decrease)/increase in provisions	1,363	(3,237)	-	-
Decrease/(increase) in inventories	49	(1,631)	-	-
Decrease/(increase) in other current assets	230	(839)	(408)	(12)
(Decrease)/increase in payables	20,151	13,151	408	(1,400)
Decrease/(increase) in receivables	(6,399)	20,370	321	(821)
	183,710	161,073	6,907	252
Net cash from operating activities	386,193	346,675	(1,461)	(9,524)

⁽¹⁾ Exploration costs expensed totalled \$60.6 million (2010: \$131.2 million). This includes \$10.8 million (2010: \$84.2 million) in note 22(b) and \$49.8 million (2010: \$47.0 million) in the operating cash flow disclosed in the Statement of Cash Flows.

(c) Non-cash transactions

	Consolidated	
	2011	2010
	US\$'000	US\$'000
Borrowing costs capitalised into developing assets	(109,718)	(199,908)

During the year, the Oil Search Group continued to draw down on the loan financed via the Papua New Guinea Liquefied Natural Gas Global Company LDC (the "Borrower"). This entity was created 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 movement in capitalised interest, is not a cash movement by the Oil Search Group. This cost, in accordance with the loan agreements is accrued into the loan balance prior to the completion of the construction phase of the PNG LNG Project.

This movement is therefore not included in the net cash flow used in investing activities in the Oil Search consolidated cash flow statement.

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	Note	Consolidated		Parent	
		2011	2010	2011	2010
		US\$'000	US\$'000	US\$'000	US\$'000
23 Interests in jointly controlled operations					
(a) Net assets employed in joint ventures					
Current assets					
Cash	22(a)	9,789	4,828	13	3
Receivables		88,870	25,996	-	-
Inventories		50,764	47,625	-	-
Non-current assets					
Exploration and evaluation assets		337,611	281,840	30,069	27,510
Oil and gas assets		3,778,161	2,311,194	-	2
Current liabilities		(338,134)	(200,787)		(66)
		3,927,061	2,470,696	30,082	27,449

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

	Consolidated	
	2011	2010
	US\$'000	US\$'000
Contingent liabilities	-	-
Capital expenditure commitments	2,073,493	2,099,198
Other expenditure commitments	309,314	322,343

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(c) Interests in jointly controlled operations

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

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

(i) Production licences			% Interest	
		Country	2011	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
	Gobe Main and South East			
PDL 4 ⁽²⁾	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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23 Interests in jointly controlled operations (continued)

(ii) Exploration licences		Country	% Interest	
			2011	2010
PPL 190 ⁽¹⁾⁽²⁾		PNG	-	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	20.00
PPL 240 ⁽¹⁾		PNG	100.00	100.00
PPL 244 ⁽¹⁾		PNG	80.00	80.00
PPL 260 ⁽¹⁾		PNG	50.00	50.00
PPL 276		PNG	30.00	30.00
PPL 338		PNG	30.00	30.00
PPL 339		PNG	30.00	30.00
PPL 312 ⁽¹⁾		PNG	30.00	30.00
ELA 1720, 1721, 1722, 1723, 1724, 1725, 1726 ⁽³⁾		PNG	-	100.00
Taza (K42) ⁽¹⁾		Iraq	60.00 ⁽⁴⁾	60.00 ⁽⁴⁾
Shakal		Iraq	15.00	15.00
Le Kef		Tunisia	25.00	25.00
Tajerouine ⁽¹⁾		Tunisia	100.00	100.00
Block 3 ⁽¹⁾		Yemen	40.00	40.00
Block 7 ⁽¹⁾		Yemen	34.00	34.00
(iii) Gas licences				
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	24.09
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 ⁽¹⁾	Barikewa gas field	PNG	45.11	45.11
PRL 10 ⁽¹⁾	Uramu gas field	PNG	59.55	59.55
PRL 11	Angore gas field	PNG	52.50	52.50
PRL 14 ⁽²⁾	Cobra, lehi, Bilip gas fields	PNG	62.56	-
PNG LNG	PNG LNG project	PNG	29.00	29.00
PPFL 2	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) PPL190 was converted into PRL14.

(3) All CSG licences relinquished in 2011.

(4) 60% represents participating interest. Previously disclosed as 75% paying interest.

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24 Segment reporting

Information about reportable segments

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

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

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

US\$'000	PNG				MENA		Corporate		Total	
	Oil and gas		LNG		Oil and gas		31 December		31 December	
	31 December		31 December		31 December		2011	2010	2011	2010
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
External revenues	732,869	583,560	-	-	-	-	-	-	732,869	583,560
Amortisation - site restoration	(1,563)	(7,130)	-	-	-	-	-	-	(1,563)	(7,130)
Amortisation - oil and gas assets	(38,354)	(32,390)	-	-	-	-	-	-	(38,354)	(32,390)
Depreciation - operating assets	(7,232)	(5,134)	-	-	(83)	(27)	(4,075)	(5,193)	(11,390)	(10,354)
Foreign currency (losses)/gains	(2,685)	2,051	-	-	(2)	(3)	1,514	29	(1,173)	2,077
Exploration, development and production costs expensed	(51,619)	(107,928)	-	-	(9,014)	(17,106)	-	-	(60,633)	(125,034)
Business development costs	(6,397)	(5,374)	-	-	(3,898)	(780)	-	-	(10,295)	(6,154)
Employee share based remuneration	-	-	-	-	-	-	(12,057)	(14,932)	(12,057)	(14,932)
Operating costs	(113,938)	(99,660)	-	-	(333)	(224)	(9,485)	891	(123,756)	(98,993)
EBIT	511,081	327,995	-	-	(13,330)	(18,140)	(24,103)	(19,205)	473,648	290,650
Profit on sale of other non-current assets	-	-	-	-	-	-	-	-	138	3,158
Unwinding of discount on site restoration	-	-	-	-	-	-	-	-	(4,243)	(3,737)
Impairment expense	-	-	-	-	-	-	-	-	(33,227)	(15,808)
Interest income	-	-	-	-	-	-	-	-	6,953	6,856
Interest expense	-	-	-	-	-	-	-	-	(3,368)	(3,945)
Reportable segment profit before income tax	-	-	-	-	-	-	-	-	439,901	277,174
Income tax expense	-	-	-	-	-	-	-	-	(237,418)	(91,572)
Net profit after tax	-	-	-	-	-	-	-	-	202,483	185,602
Investment expenditure	-	-	-	-	-	-	-	-	-	-
Exploration and evaluation assets	(89,544)	(140,415)	-	-	(55,062)	(35,565)	-	-	(144,606)	(175,980)
Oil and gas assets - development and production	(130,191)	(41,850)	(1,285,747)	(1,139,058)	-	-	-	-	(1,415,938)	(1,180,908)
Property, plant and equipment	(151)	(1,938)	-	-	(234)	(83)	(6,791)	(4,529)	(7,176)	(6,550)
Total capital expenditure	(219,886)	(184,203)	(1,285,747)	(1,139,058)	(55,296)	(35,648)	(6,791)	(4,529)	(1,567,720)	(1,363,438)

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	
	2011	2010	2011	2010
PNG	732,869	583,560	4,294,018	2,778,024
Australia	-	-	21,340	16,712
MENA	-	-	91,498	77,869
Total	732,869	583,560	4,406,856	2,872,605

Major customers

There is one customer with revenue exceeding 10% of the Group's total oil and gas sales revenue.

Revenue from this customer represents approximately \$604.1 million or 88% of the Group's total oil and gas sales revenues (2010: \$358.4 million, 66%) and 82% of the Group's total revenue of \$732.9 million (2010: 61% of \$583.6 million).

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

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	Consolidated		Parent	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
25 Employee entitlements and superannuation commitments				
The aggregate employee entitlement liability is comprised of:				
Annual leave entitlements	5,476	5,460	-	-
Directors' retirement allowances	80	80	80	80
Long service leave entitlements	11,353	9,340	-	-
	16,909	14,880	80	80
Balance at start of year	14,880	11,963	-	-
Additional provision	8,214	10,114	-	-
Reversal of provision	-	-	-	-
Provision utilised	(6,185)	(7,197)	-	-
Balance at end of year	16,909	14,880	-	-

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

There are currently 899 (2010: 869) employees participating in the Employee Share Option Plan and Share Appreciation Rights plan.

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25 Employee entitlements and superannuation commitments (continued)
Employee Share Option Plan and Share Appreciation Rights Plan (continued)

	May 2011 grant	June 2010 grant	June 2009 grant	August 2008 grant ⁽¹⁾	May 2007 grant	July 2006 grant	October 2005 grant ⁽²⁾
Grant date	23 May 2011	1 June 2010	1 June 2009	4 Aug 2008	7 May 2007	28 July 2006	28 Oct 2005
Share price at grant date	A\$6.92	A\$5.61	A\$5.73	A\$5.65	A\$3.66	A\$4.13	A\$3.30
Fair value	A\$1.73	A\$1.52	A\$2.02	A\$2.16	A\$1.01	A\$1.28	A\$1.48
Exercise date	23 May 2014	17 May 2013	13 May 2012	5 May 2011	7 May 2010	28 July 2009	13 May 2008
Exercise price	A\$6.98	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 2011	-	1,542,800	1,209,600	1,501,640	217,000	104,064	-
Granted during period	1,498,560	-	-	-	-	-	-
Forfeited during period	(30,240)	(93,100)	(43,200)	(65,100)	-	-	-
Exercised during period ⁽³⁾	-	-	-	(1,059,418)	(100,970)	(104,064)	-
Balance at 31 December 2011	1,468,320	1,449,700	1,166,400	377,122	116,030	-	-
Exercisable at 31 December 2011	-	-	-	377,122	116,030	-	-
Average share price at date of exercise				A\$6.90	A\$6.71	A\$6.58	-
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 ^(3,4)	-	-	-	-	(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

(1) 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.

(2) 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.

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

(4) 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:

	May 2011 grant	June 2010 grant	June 2009 grant	August 2008 grant	May 2007 grant	July 2006 grant	October 2005 grant
Volatility	30%	35%	40%	38%	32%	35%	40%
Dividend yield	0.60%	0.90%	2.00%	1.50%	2.90%	1.80%	1.73%
Risk-free interest rate	4.88%	4.64%	4.55%	5.96%	5.93%	5.90%	5.27%

An expense of US\$2,535,939 (2010: US\$2,615,054) has been recognised in the profit and loss statement in respect of these options and SAR's. All options expire two years after their vesting date or on termination of employment. SAR's are exercised on maturity if they are in the money.

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25 Employee entitlements and superannuation commitments (continued)

Performance Rights Plan

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

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

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

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

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

The rights are granted for nil consideration and are granted in accordance with guidelines approved by shareholders at the Annual Meeting in 2004. The rights cannot be transferred and are not quoted on the Australian Securities Exchange. There are currently 112 (2010: 155) employees participating in the Performance Rights Plan.

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Notes to the Financial Statements
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25 Employee entitlements and superannuation commitments (continued)
Performance Rights Plan (continued)

	May 2011 grant ⁽¹⁾	June 2010 grant ⁽²⁾	June 2009 grant ⁽³⁾	August 2008 grant ⁽⁴⁾	May 2007 grant ⁽⁵⁾	July 2006 grant ⁽⁶⁾	October 2005 grant ⁽⁷⁾
Grant date	23 May 2011	1 June 2010	1 June 2009	4 Aug 2008	7 May 2007	28 July 2006	28 Oct 2005
Share price at grant date	A\$6.92	A\$5.61	A\$5.73	A\$5.65	A\$3.66	A\$4.13	A\$3.30
Fair value	A\$4.40	A\$3.54	A\$4.70	A\$4.39	A\$2.10	A\$2.72	A\$2.81
Exercise date	23 May 2014	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	A\$ nil
Number of rights							
Balance at 1 January 2011	-	1,828,200	1,655,185	2,202,985	384,522	113,099	-
Granted during period	1,696,500	-	-	-	-	-	-
Forfeited during period	(44,163)	(141,132)	(179,553)	(29,300)	-	-	-
Exercised during period ^(8,9)	(1,437)	(29,068)	(53,547)	(1,351,185)	(202,075)	(113,099)	-
Balance at 31 December 2011	1,650,900	1,658,000	1,422,085	822,500	182,447	-	-
Exercisable at 31 December 2011	-	-	-	822,500	182,447	-	-
Average share price at date of exercise	A\$6.26	A\$6.83	A\$6.85	A\$6.76	A\$6.51	A\$6.60	-
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

(1) Performance period 1 January 2011 - 31 December 2013.

(2) Performance period 1 January 2010 - 31 December 2012.

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

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

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

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

(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.

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

	May 2011 grant	June 2010 grant	June 2009 grant	August 2008 grant	May 2007 grant	July 2006 grant	October 2005 grant
Volatility	30%	35%	40%	38%	32%	35%	40%
Dividend yield	0.60%	0.90%	2.00%	1.50%	2.90%	1.80%	1.73%
Risk-free interest rate	4.88%	4.64%	4.16%	6.00%	5.98%	5.93%	5.25%

An expense of US\$5,779,112 (2010: US\$7,011,533) has been recognised in the profit and loss statement in respect of these rights. All rights that have vested expire two years after their exercise date or on termination of employment.

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25 Employee entitlements and superannuation commitments (continued)

Restricted Share Plan

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

Restricted shares are granted under the plan in two situations. First as a way of retaining key management and other employees. Second, by way of mandatory deferral of a portion of a selected participant's short-term incentive award. Awards under the Restricted Share Plan are structured as grants of restricted shares for nil consideration. Restricted shares will be held on behalf of participants in trust, subject to the disposal restrictions and forfeiture conditions, until release under the terms of the plan and in accordance with guidelines approved by shareholders at the Annual Meeting in 2007. There are currently 615 (2010: 573) employees participating in the Restricted Share Plan.

Executives	March 2011 grant	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
Grant date	1 March 2011	27 April 2010	3 March 2010	3 March 2009	1 January 2009	1 January 2009	1 May 2008	1 May 2008	7 March 2008	14 December 2007	4 May 2007
Share price at grant date	A\$6.96	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	1 March 2013	27 April 2014	1 January 2012	1 January 2011	1 January 2011	1 January 2010	1 January 2011	1 January 2010	1 January 2010	14 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	A\$ nil
Number of shares											
Balance at 1 January 2011	-	100,000	433,907	379,242	99,728	-	33,898	-	-	-	-
Granted during period	226,262	-	-	-	-	-	-	-	-	-	-
Forfeited during period	-	-	-	-	-	-	-	-	-	-	-
Exercised during period	(20,327)	-	(86,498)	(379,242)	(99,728)	-	(33,898)	-	-	-	-
Balance at 31 December 2011	205,935	100,000	347,409	-	-	-	-	-	-	-	-
Exercisable at 31 December 2011	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-
Oil Search (PNG) Limited											
	July 2011 grant	July 2011 grant	July 2010 grant	July 2010 grant	March 2009 grant						
Grant date	15 July 2010	15 July 2010	26 July 2010	26 July 2010	15 June 2009						
Share price at grant date	A\$6.58	A\$6.58	A\$5.80	A\$5.80	A\$5.85						
Exercise date	15 July 2014	17 June 2013	15 July 2014	17 June 2013	17 June 2013						
Exercise price	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil						
Number of shares											
Balance at 1 January 2011	-	-	57,625	147,853	684,834						
Granted during period	51,685	165,342	-	-	-						
Forfeited during period	(2,546)	(7,054)	(18,289)	(16,855)	(58,574)						
Balance at 31 December 2011	49,139	158,288	39,336	130,998	626,260						
Exercisable at 31 December 2011	-	-	-	-	-						
Balance at 1 January 2010	-	-	-	-	757,090						
Granted during period	-	-	57,625	147,853	-						
Forfeited during period	-	-	-	-	(72,256)						
Balance at 31 December 2010	-	-	57,625	147,853	684,834						

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

An expense of US\$3,741,943 (2010: US\$5,305,896) has been recognised in the financial statements in respect of these restricted shares.

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	2011 US\$	2010 US\$
26 Key management personnel remuneration		
(a) Directors' remuneration		
Remuneration paid or payable, or otherwise made available, in respect of the financial year, to all Directors of Oil Search Limited, directly or indirectly, by the entity or any related party:		
Short-term benefits ⁽¹⁾	4,832,498	5,135,402
Long-term benefits	235,012	148,915
Post-employment benefits	92,573	95,092
Share-based payments	2,344,005	2,255,019
	7,504,088	7,634,428

⁽¹⁾ The 2010 comparative data for short term benefits has been restated as it included the 50% of STI deferred into restricted shares within share-based payments.

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\$20,000 – US\$29,999	-	1
US\$30,000 – US\$39,999	-	1
US\$40,000 – US\$49,999	-	1
US\$50,000 – US\$59,999	-	3
US\$60,000 – US\$69,999	1	-
US\$70,000 – US\$79,999	3	-
US\$80,000 – US\$89,999	1	-
US\$90,000 – US\$99,999	1	-
US\$100,000 – US\$109,999	-	1
US\$110,000 – US\$119,999	1	-
US\$120,000 – US\$129,999	1	-
US\$130,000 – US\$139,999	-	1
US\$140,000 – US\$149,999	1	-
US\$150,000 – US\$159,999	1	-
US\$160,000 – US\$169,999	-	1
US\$170,000 – US\$179,999	1	-
US\$180,000 – US\$189,999	-	1
US\$190,000 – US\$199,999	1	-
US\$200,000 – US\$209,999	-	1

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

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	2011 US\$	2010 US\$
26 Key management personnel remuneration (continued)		
(b) Executives' remuneration (excluding directors)		
Amounts received or due and receivable by executive officers of the economic entity whose remuneration is US\$100,000 or more, from entities in the economic entity and related entities:		
Short-term benefits ⁽¹⁾	7,061,596	8,499,876
Long-term benefits ⁽²⁾	(158,507)	(42,391)
Post-employment benefits	239,373	287,745
Share-based payments	3,267,398	3,753,518
	10,409,860	12,498,748

(1) The 2010 comparative data for short term benefits has been restated as it included the 50% of STI deferred into restricted shares within share-based payments.

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

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

	2011 No.	2010 No.
US\$560,000 – US\$569,999	-	1
US\$710,000 – US\$719,999	-	1
US\$740,000 – US\$749,999	1	-
US\$900,000 – US\$909,999	2	-
US\$920,000 – US\$929,999	1	-
US\$980,000 – US\$989,999	1	-
US\$1,130,000 – US\$1,139,999	-	1
US\$1,230,000 – US\$1,239,999	1	-
US\$1,280,000 – US\$1,289,999	-	1
US\$1,500,000 – US\$1,509,999	1	-
US\$1,550,000 – US\$1,559,999	1	-
US\$1,580,000 – US\$1,589,999	-	1
US\$1,630,000 – US\$1,639,999	-	1
US\$1,640,000 – US\$1,649,999	1	-
US\$1,730,000 – US\$1,739,999	-	1
US\$1,830,000 – US\$1,839,999	-	1
US\$2,010,000 – US\$2,019,999	-	1

	Consolidated 2011 US\$	2010 US\$	Parent 2011 US\$	2010 US\$
27 Auditors' remuneration				
Amounts paid or due and payable in respect of:				
Auditing the economic entity's financial report	319,892	326,494	123,118	103,006
Other services	34,620	16,684	-	-
	354,512	343,178	123,118	103,006

The audit fees are in Australian dollars and are translated at 1.0318 (2010: 0.9187).

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28 Related party transactions

(a) Key management personnel

The Directors and key management personnel of Oil Search Limited during the year to 31 December 2011, and their interests in the shares of Oil Search Limited at that date were:

Directors	No. of ordinary shares		No. of performance rights⁽¹⁾		No. of restricted shares⁽¹⁾	
	2011	2010	2011	2010	2011	2010
BF Horwood	12,500	12,500	-	-	-	-
PR Botten	1,801,599	1,728,726	1,116,700	870,900	206,969	298,254
G Aopi	183,692	168,188	270,272	219,172	151,832	159,972
KG Constantinou	-	-	-	-	-	-
R Igara	10,000	10,000	-	-	-	-
A J Kantsler	7,025	-	-	-	-	-
MD Kriewaldt	14,590	14,590	-	-	-	-
JL Stitt	42,190	42,190	-	-	-	-
Z Switkowski	100,000	100,000	-	-	-	-
Executives						
P Bainbridge	572,907	443,675	199,900	230,500	72,541	94,515
P Caldwell	80,000	209,206	185,800	188,200	63,725	70,494
P Cholakos	16,000	16,000	87,600	32,400	30,000	30,000
P Crute	66,270	132,320	146,900	166,000	49,783	90,963
S Gardiner	150,995	120,472	150,300	135,853	-	-
N Hartley ⁽²⁾	133,628	82,455	76,600	190,800	-	75,846
A Miller ⁽²⁾	342,023	717,497	240,000	240,000	46,016	96,564
R Robinson	184,124	184,124	135,200	117,900	19,123	-
Z Todorcevski	307,684	124,986	306,485	363,655	59,371	130,167

(1) Refer to note 25.

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

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Notes to the Financial Statements
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28 Related party transactions (continued)

(a) Key management personnel (continued)

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

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

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

Consolidated	Transactions value year	
	ended 31 December	
	2011	2010
	US\$'000	US\$'000
Airways Hotel and Apartments Limited ¹	49	55

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 2011.
- (6) Loans from joint venture entity are disclosed in note 19.

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	Consolidated		Parent	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
29 Leases				
Operating leases not capitalised in the accounts				
Rental of premises and motor vehicles				
Payable within 12 months	5,747	5,861	-	-
Payable 1 to 2 years	2,980	5,598	-	-
Payable 2 to 5 years	958	5,416	-	-

30 Contingent liabilities

(a) Guarantees

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

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

(b) Contingent claims

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

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

OIL SEARCH LIMITED
and its subsidiaries

Notes to the Financial Statements
for the year ended 31 December 2011

	Ownership interest % 2011	Ownership interest % 2010	Country of Incorporation
31 Group entities			
Parent entity			
Oil Search Limited			PNG
Consolidated entities			
Oil Search (Middle Eastern) Limited	100	100	British Virgin Is.
Oil Search (Iraq) Limited	100	100	British Virgin Is.
Oil Search (Libya) Limited	100	100	British Virgin Is.
Oil Search (Tunisia) Limited	100	100	British Virgin Is.
Oil Search (ROY) Limited	100	100	British Virgin Is.
Oil Search (Gas Holdings) Limited	100	100	PNG
Oil Search (Tumbudu) Limited	100	100	PNG
Oil Search (PNG) Limited	100	100	PNG
Oil Search (Drilling) Limited	100	100	PNG
Oil Search (Exploration) Inc.	100	100	Cayman Is.
Oil Search (LNG) Limited	100	100	PNG
New Guinea Investments Limited	100	100	PNG
New Guinea (Petroleum) Limited	100	100	PNG
Oil Search Health Foundation Limited ⁽¹⁾⁽²⁾⁽³⁾	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. Formerly known as New Guinea (LNG Interests) Limited.

(2) Prior to 2011 this entity was a subsidiary of New Guinea (Investments) Limited.

(3) Oil Search Health Foundation Limited is Trustee of the Oil Search Health Foundation Trust, a not-for-profit organisation established for charitable purposes in PNG. This Trust is not controlled by Oil Search and is not consolidated within the Group.

OIL SEARCH LIMITED
and its subsidiaries

Notes to the Financial Statements
for the year ended 31 December 2011

32 Financial instruments

(a) Terms, conditions and accounting policies

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

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

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2011

32 Financial instruments (continued)

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

Recognised financial instruments	Balance sheet notes	Accounting policies	Terms and conditions
(ii) Financial liabilities (continued)			
Secured loans	-	Secured loans are carried at amortised cost net of transaction costs. Interest on borrowings for major projects is capitalised until the commencement of production and then amortised over: - the estimated life of the project (oil facility); or - a fixed term from the Completion date (LNG Project). All other interest on borrowings is expensed at the effective interest rate.	Secured loans are repayable in quarterly instalments from proceeds earned from the producing oil fields (oil facility) or semi-annually from LNG proceeds (LNG Project). Interest is either fixed or floating (LIBOR plus a margin). Details of the security over the secured loans are set out in notes 19 and 30(a).
(iii) Equity			
Ordinary shares	21	Ordinary share capital is recognised at the historical US\$ equivalent of capital raised, net of capital raising costs.	Under the PNG Companies' Act, the concept of Authorised Capital no longer exists and there is no limit on the number of shares the company may issue. Details of shares issued and the terms and conditions of options and rights outstanding over ordinary shares are disclosed in notes 21 and 25.
Hedges		From time to time the economic entity enters into hedging arrangements in circumstances where it is necessary to ensure adequate cash flow to meet financial commitments. As per IAS 39: Financial Instruments Recognition and Measurement the company recognises the fair value of outstanding effective hedges in the Balance Sheet. Hedging settlements are included in the profit and loss at the same time as the underlying physical exposure is recognised in the profit and loss.	There are no outstanding forward sales contracts at balance date (2010: nil). As at 31 December 2011, there are no outstanding barrels hedged (2010: nil).

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2011

32 Financial instruments (continued)

(b) Financial risk management

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

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

(i) Market risk

Foreign exchange risk

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

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

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

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

Foreign exchange risk management

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

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

As at 31 December 2011, there were no foreign exchange deals outstanding (2010: nil).

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2011

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

Foreign exchange risk management (continued)

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

(ii) Interest rate risk

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

Interest rate risk management

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

As at 31 December 2011, there was no interest rate hedging in place (2010: nil). Surplus cash was invested in short-term instruments with an average maturity of 1 to 6 months.

Interest rate sensitivity

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

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

- net profit after tax would increase/decrease by \$1.7 million (2010: \$1.9 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 \$1.1 million (2010: \$1.3 million).

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2011

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

	Fixed interest rate maturing in:					Total carrying amount as per the balance sheet US\$'000	Weighted average effective interest rate %
	Floating Interest Rate US\$'000	1 year or less US\$'000	1-5 years US\$'000	More than 5 years US\$'000	Non interest bearing US\$'000		
Financial Instruments							
2011							
Financial assets							
Cash and cash equivalents	174,228	873,235	-	-	-	1,047,463	0.6%
Receivables – trade	-	-	-	-	49,336	49,336	
Other debtors	-	-	-	-	52,917	52,917	
Non-current receivables	-	-	-	-	3,966	3,966	
Total financial assets	174,228	873,235	-	-	106,219	1,153,682	
Financial liabilities							
Trade creditors and accruals	-	-	-	-	415,946	415,946	
Other payables	-	-	-	-	4,899	4,899	
Loans and borrowings	1,398,578	-	-	348,989	-	1,747,567	3.3%
Total financial liabilities	1,398,578	-	-	348,989	420,845	2,168,412	
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	-	-	-	-	301,042	301,042	
Other payables	-	-	-	-	-	-	
Loans and borrowings	846,510	-	-	83,210	-	929,720	3.3%
Total financial liabilities	846,510	-	-	83,210	301,042	1,230,762	

There exists no unrecognised financial instruments at balance date.

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2011

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

	Fixed interest rate maturing in:					Total carrying amount as per the balance sheet	Weighted average effective interest rate
	Floating Interest Rate	1 year or less	1-5 years	More than 5 years	Non interest bearing		
Financial Instruments	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	%
2011							
Financial assets							
Cash and cash equivalents	84,879	694,380	-	-	-	779,259	0.6%
Other debtors	-	-	-	-	6,683	6,683	
Total financial assets	84,879	694,380	-	-	6,683	785,942	
Financial liabilities							
Trade creditors and accruals	-	-	-	-	9,348	9,348	
Other payables	-	-	-	-	172	172	
Total financial liabilities	-	-	-	-	9,520	9,520	
2010							
Financial assets							
Cash and cash equivalents	62,945	909,800	-	-	-	972,745	0.5%
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	

There exists no unrecognised financial instruments at balance date.

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2011

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

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

Commodity risk management

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

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

As at 31 December 2011, there was no oil price hedging in place (2010: nil).

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

(iv) Credit risk

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

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

Credit risk management

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

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

At 31 December 2011 there was no significant concentration of credit risk exposure to any counterparty (2010: nil).

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

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2011

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

		Consolidated		Parent	
		2011	2010	2011	2010
	Note	US\$'000	US\$'000	US\$'000	US\$'000
Current					
Cash at bank and on hand	22(a)	164,439	170,024	84,866	62,942
Share of cash in joint ventures	22(a)	9,789	4,828	13	3
Interest-bearing short-term deposits	22(a)	873,235	1,088,737	694,380	909,800
Receivables	9	102,253	87,912	423,464	210,992
		1,149,716	1,351,501	1,202,723	1,183,737
Non-current					
Receivables	9	3,966	3,326	-	-
Loans and borrowings	19	1,747,567	929,720	-	-
		1,751,533	933,046	-	-

(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\$246.5 million was available at 31 December 2011. There was a nil drawn balance as at 31 December 2011 (2010: 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 2011, the Group has surplus cash of US\$1,038 million (2010: US\$1,259 million), of which US\$873 million was invested in short-term instruments (2010: US\$1,089 million).

OIL SEARCH LIMITED
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Notes to the Financial Statements
for the year ended 31 December 2011

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

Capital management

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

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

Fair values

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

	Aggregate fair value			
	Consolidated		Parent	
	2011 US\$'000	2010 US\$'000	2011 US\$'000	2010 US\$'000
Financial assets				
Cash	1,047,463	1,263,589	779,259	972,745
Receivables – trade	49,336	40,859	-	-
Other debtors	52,917	47,053	6,683	1,388
Investments	29	29	-	-
Non current receivables	3,966	3,326	-	-
Total financial assets	1,153,711	1,354,856	785,942	974,133
Financial liabilities				
Trade creditors and accruals	415,946	301,042	9,348	1,469
Other payables - current	-	-	172	60
Other payables - non current	4,899	-	-	-
Loans and borrowings	1,747,567	929,720	-	-
Total financial liabilities	2,168,412	1,230,762	9,520	1,529

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

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

OIL SEARCH LIMITED
and its subsidiaries

Directors' Declaration 31 December 2011

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 2011 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.

This declaration has been made after receiving unqualified declarations from the Managing Director and the Chief Financial Officer, that are consistent with requirements under section 295A of the Australian Corporations Act 2001, for the year ended 31 December 2011.

Signed in accordance with a resolution of the Directors.

On behalf of the Board of Directors

B. F. Horwood

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BF HORWOOD
Chairman

PR Botten

.....
PR BOTTEN
Managing Director

Sydney, 20 February 2012

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

Report on the Financial Report

We have audited the accompanying financial statements of Oil Search Limited (the Company), which comprises the statement of financial position as at 31 December 2011, 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 38 to 90.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements that give 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 financial statements 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 statements.

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

Opinion

In our opinion,

- (i) the financial statements of Oil Search Limited give a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2011 and of their performance for the year ended on that date in accordance with International Financial Reporting Standards (including the interpretations of the International Financial Reporting Interpretations Committee) and the *PNG Companies Act 1997*; and
- (ii) proper accounting records have been kept by the Company.

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 8 to 34 of the directors' report for the year ended 31 December 2011. 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.

Opinion

In our opinion the Remuneration Report of Oil Search Limited for the year ended 31 December 2011, 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, 20 February 2012



DELOITTE TOUCHE TOHMATSU



Jason Thorne

Partner

Chartered Accountants

Registered Company Auditor in Australia

Sydney, 20 February 2012