



OIL SEARCH LIMITED

STRATEGY ON TRACK

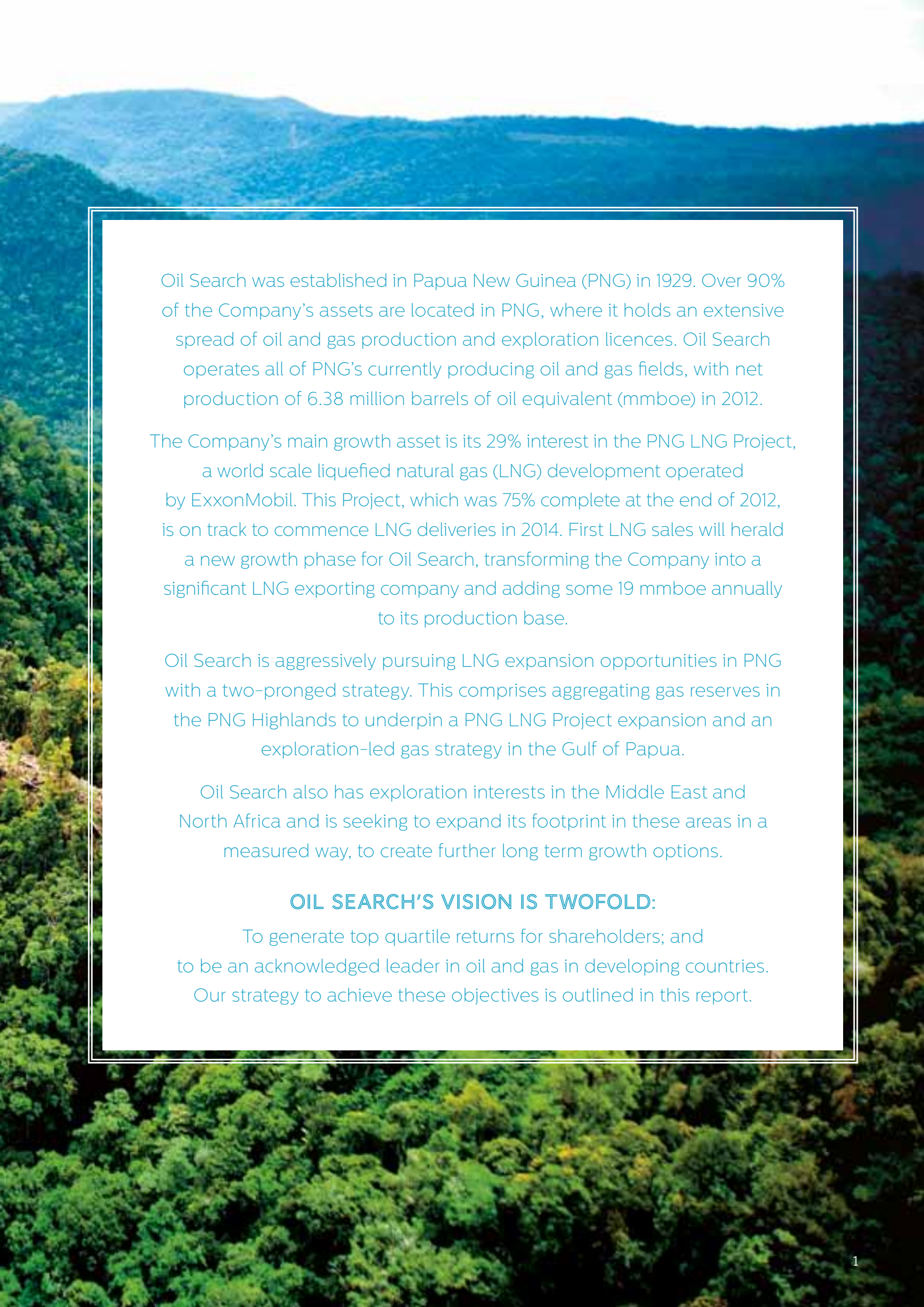
2012 ANNUAL REPORT



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Highlands section of the PNG LNG Project onshore pipeline

Front Cover: PNG LNG Project onshore pipeline. Courtesy of Tim Barker



Oil Search was established in Papua New Guinea (PNG) in 1929. Over 90% of the Company's assets are located in PNG, where it holds an extensive spread of oil and gas production and exploration licences. Oil Search operates all of PNG's currently producing oil and gas fields, with net production of 6.38 million barrels of oil equivalent (mmboe) in 2012.

The Company's main growth asset is its 29% interest in the PNG LNG Project, a world scale liquefied natural gas (LNG) development operated by ExxonMobil. This Project, which was 75% complete at the end of 2012, is on track to commence LNG deliveries in 2014. First LNG sales will herald a new growth phase for Oil Search, transforming the Company into a significant LNG exporting company and adding some 19 mmboe annually to its production base.

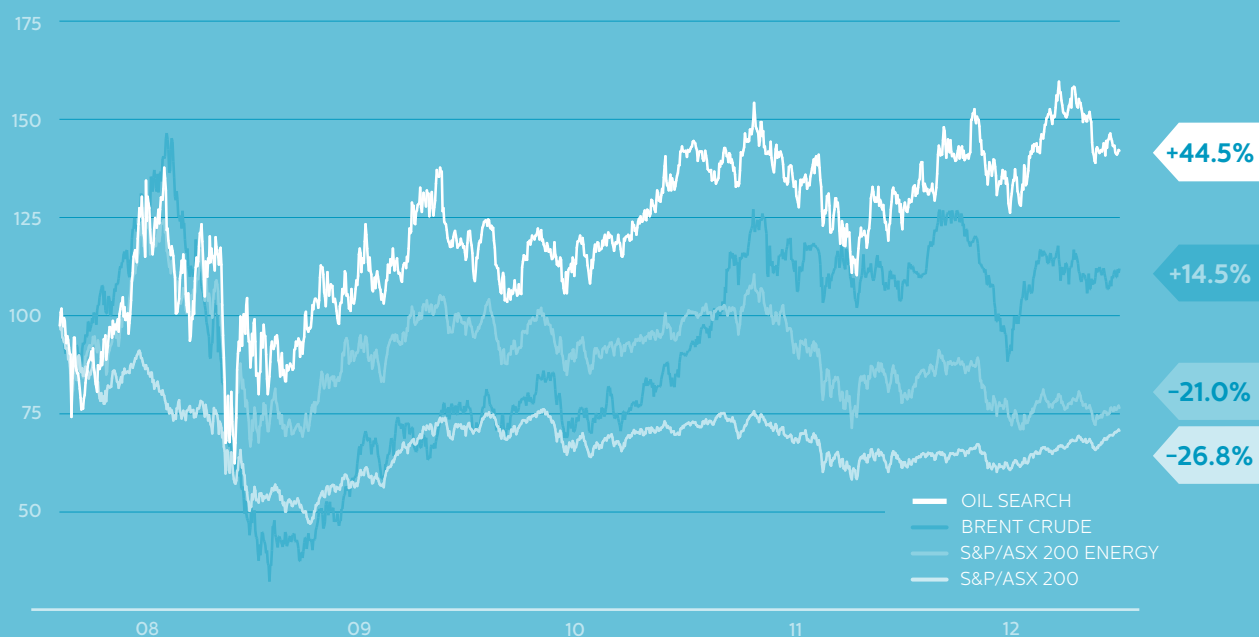
Oil Search is aggressively pursuing LNG expansion opportunities in PNG with a two-pronged strategy. This comprises aggregating gas reserves in the PNG Highlands to underpin a PNG LNG Project expansion and an exploration-led gas strategy in the Gulf of Papua.

Oil Search also has exploration interests in the Middle East and North Africa and is seeking to expand its footprint in these areas in a measured way, to create further long term growth options.

OIL SEARCH'S VISION IS TWOFOLD:

To generate top quartile returns for shareholders; and
to be an acknowledged leader in oil and gas in developing countries.
Our strategy to achieve these objectives is outlined in this report.

PERFORMANCE AT A GLANCE



SHARE PRICE PERFORMANCE

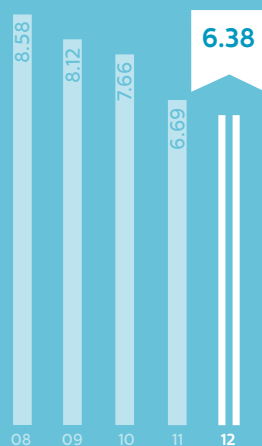
(2 JAN 08 - 31 DEC 12)

SHARE PRICE REBASED TO 2 JAN 08

PERFORMANCE SUMMARY

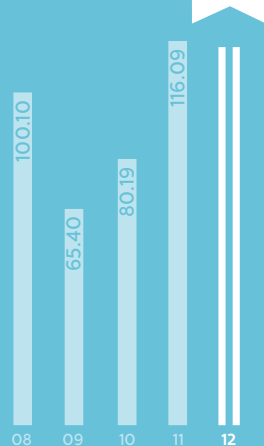
		2011	2012
Oil and gas production	(mmboe)	6.69	6.38
Oil and gas sales	(mmboe)	6.63	6.13
Realised oil price	(US\$/barrel)	116.09	113.97
Revenue	(US\$ million)	732.9	724.6
EBITDAX	(US\$ million)	585.6	524.3
Net Profit after tax*	(US\$ million)	202.5	175.8
EPS*	(US cents)	15.3	13.2
DPS	(US cents)	4.0	4.0
Operating cash flow	(US\$ million)	386.2	196.2
Net debt	(US\$ million)	(700.1)	(2,377.8)

* Including significant items



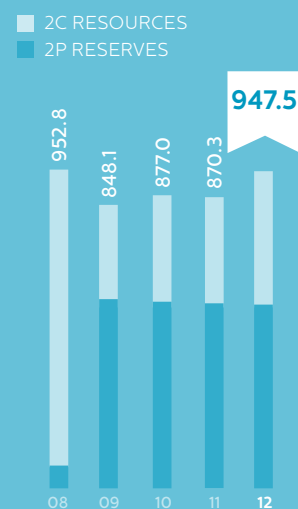
PRODUCTION
(MMBOE)

PRODUCTION FOR 2012 OF 6.38 MMBOE WAS IN LINE WITH GUIDANCE, DESPITE AN UNPLANNED FACILITIES SHUTDOWN.



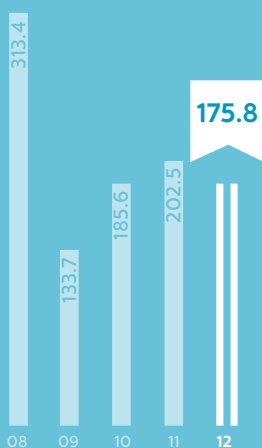
REALISED OIL PRICE
(US\$/BBL)

GLOBAL OIL PRICES REMAINED STRONG IN 2012, WITH OIL SEARCH REALISING AN AVERAGE PRICE OF US\$113.97 PER BARREL.



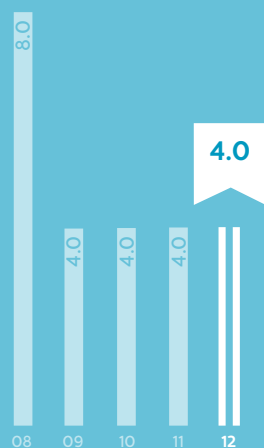
TOTAL RESERVES AND RESOURCES
(MMBOE)

TOTAL RESERVES AND RESOURCES INCREASED 9%, UNDERPINNED BY A 24% INCREASE IN 2C CONTINGENT RESOURCES.



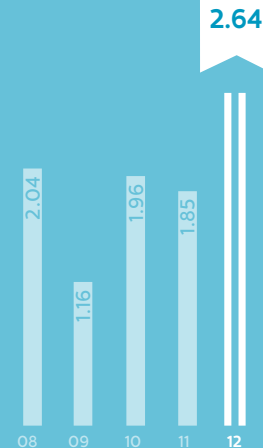
NET PROFIT AFTER TAX
INCLUDING SIGNIFICANT ITEMS
(US\$ MILLION)

NET PROFIT AFTER TAX, INCLUDING SIGNIFICANT ITEMS, WAS LOWER THAN IN 2011, MAINLY DUE TO HIGHER EXPLORATION AND EVALUATION COSTS EXPENSED.



DIVIDEND PER SHARE
(US CENTS)

TOTAL DIVIDEND PAYMENTS FOR 2012 WERE FOUR US CENTS PER SHARE, IN LINE WITH 2011 PAYMENTS.



TOTAL RECORDABLE INCIDENTS
(PER MILLION HOURS WORKED)

A RISE IN THE TOTAL RECORDABLE INCIDENT RATE REFLECTED AN INCREASED LEVEL OF HIGHER RISK DRILLING AND EXPLORATION ACTIVITIES.

STRATEGY 1:

OPTIMISE PNG FIELD PERFORMANCE

Oil Search is pursuing a range of value adding opportunities to enhance production and reserves at its PNG producing oil and gas fields. In 2012, the Company achieved a key objective, to minimise oil field decline, with production just 5% lower than in 2011.



Oil Search operates all of PNG's currently producing oil and gas fields. The fields are highly profitable and the cash flow generated from operations is being reinvested, to maintain field production rates and to fund Oil Search's many growth opportunities. The Company's share of PNG oil and gas production in 2012 was 6.38 mmboe, which was in line with guidance.

Mitigating oil production decline

All Oil Search's PNG oil fields are mature and experiencing natural decline, with an underlying decline rate of approximately 20% per annum. In 2012, oil production fell just 5% compared to 2011 levels, despite several planned and unplanned shutdowns. This clearly demonstrates the effectiveness of our oil field optimisation strategy. This strategy involves a combination of in-field development wells, workovers and gas injection optimisation, together with continual improvements in facility reliability. Since becoming Operator in 2003, approximately 100 mmbbls (gross) of oil has been added to ultimate recoverable oil field reserves by these activities.



2012 OBJECTIVES

- Mitigate oil field production decline and maintain/increase oil field reserves.
- Control field production costs.
- Undertake key PNG LNG Project development activities.

2012 ACHIEVEMENTS

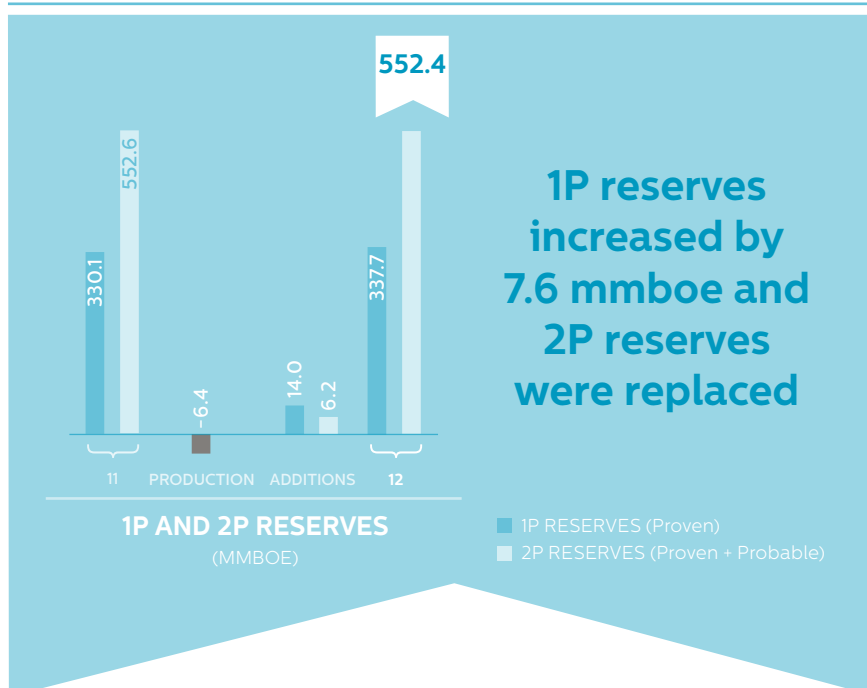
- 2012 production was in line with Company guidance. Proven reserves increased by 7.6 mmboe and proven and probable reserves were replaced.
- Underlying operating cash costs were US\$24.82 per barrel, consistent with expectations.
- Completed all planned PNG LNG-related activities on schedule.

Focus on profitable and value accretive opportunities

Production enhancing opportunities are only pursued if they add value and are profitable. Since 2008, the Company's development drilling activities have generated approximately US\$500 million of additional value. This has been achieved by drilling in areas within or close to existing infrastructure, which allows the wells to be brought into production quickly and at a modest cost, thus enhancing returns. Drilling in the Agogo and Hedinia fields has been particularly successful in recent years, where new forelimb structures have been discovered.

Smooth transition to gas

As well as oil, the PNG oil fields contain significant gas reserves, which are committed to the PNG LNG Project. During 2012, several planned shutdowns took place, to allow modifications to be made to the facilities in preparation for gas deliveries to the PNG LNG Project. Work to ensure the reliability and integrity of our oil and gas production, storage and export systems, which are critical to the performance of both our fields and the PNG LNG Project, is now well advanced.



2013 OBJECTIVES

- Maintain flat oil production through to first LNG sales.
- Prepare for the transition to first PNG LNG gas production.
- Ensure the long term sustainability of the oil operations.

OUTLOOK

PNG oil production will benefit in 2013 from the 2012/13 development drilling and workover programme, with 2013 production expected to be similar to that achieved in 2012. A key focus in 2013 will be ensuring that the Company's existing production operations are ready to provide gas for PNG LNG. This will involve ongoing work on optimising our operating systems and protocols and developing our workforce. In addition, the Company will assess the potential for long term operating synergies between the Oil Search-operated oil fields and the PNG LNG Project.

STRATEGY 2:

DELIVER THE PNG LNG PROJECT

Commercialisation of our large gas reserves through the PNG LNG Project is a strategic priority for Oil Search. Our objective is to support Esso Highlands' in-country Project development team. In addition, Oil Search will supply 20% of Project gas from its PNG oil fields.

The PNG LNG Project, which was sanctioned in late 2009, was 75% complete at the end of 2012, and is well on its way to delivering first LNG to customers in 2014, as planned. The Project, the largest development ever undertaken in PNG, will transform Oil Search, quadrupling our production base in the first full year of operation.

As an established operator in PNG, Oil Search's objective is to support the PNG LNG Project operator, Esso Highlands Limited, a subsidiary of Exxon Mobil Corporation, in-country. Oil Search is also undertaking several development projects in its operated licences, as part of its commitment to provide gas to the Project and manage the storage and export of PNG LNG produced liquids.

Project on track for 2014 start up

Several key milestones were achieved by the Project in 2012, which remains on track for first LNG sales in 2014. Highlights included the completion of the offshore pipelay, substantial progress on both LNG trains located outside Port Moresby and the commencement of development drilling in the PNG Highlands. The estimated Project cost has increased to US\$19 billion, with exchange rate movements representing the largest component of the cost increase. Offsetting the cost increase, Project economics have been helped by a 5% increase in Project capacity, from 6.6 MTPA to 6.9 MTPA, and approximately 30% higher commodity prices than assumed at Project sanction.

Playing our part

Oil Search has made significant progress with its PNG LNG Project-related activities. Construction works at the Kutubu and Gobe processing facilities are well advanced and equipment commissioning has commenced.



2012 OBJECTIVES

- Support the PNG LNG operator (Esso Highlands) on in-country issues.
- Upgrade and extend the life of equipment at Oil Search's oil processing facilities, to prepare for PNG LNG Project gas supply and liquids storage.
- Upgrade and extend the life of the PL 2 liquids export system.

2012 ACHIEVEMENTS

- Assisted the PNG LNG Project operator in selected areas of the development.
- Made significant progress at Oil Search's facilities in preparation for the supply of gas to PNG LNG.
- Substantially completed the PL 2 Life Extension Project.

75%

PROJECT COMPLETION AT THE END OF 2012

Gas from the PNG oil fields will be used to progressively commission components of the Project infrastructure, with gas anticipated to be available in the first half of 2013. Oil Search has also substantially completed the refurbishment of the Kumul Marine Terminal and the PL 2 oil export system, which has extended significantly the lives of both these pieces of infrastructure. The integrity and reliability of these Oil Search-operated facilities will be crucial to the ongoing safe and stable operation of the Project.

Community and Government assistance

Having operated in PNG for nearly 85 years, Oil Search is able to assist the PNG LNG operator with community and Government liaison. During 2012, the Company worked closely with Esso Highlands and its contractors with gaining access to oil support facilities and logistics infrastructure and had regular interactions regarding Project area communities. In addition, Oil Search is engaging with the Government and the Project operator to identify suitable structures and processes for benefits distribution in PNG.



PNG LNG Project export jetty located outside Port Moresby, PNG

2013 OBJECTIVES

- Provide gas from the oil fields to commence commissioning of PNG LNG infrastructure.
- Commission liquids management and PL 2 export system.
- Provide ongoing support to the Project operator and its contractors.

OUTLOOK

2013 will be a year of transition for PNG LNG, from heavy construction to equipment and systems installation and commissioning. The operator expects a number of key components of the Project to be completed during the year, including the Komo airfield, the Associated Gas facilities and the onshore pipeline to Hides. In addition, Project drilling activities will continue throughout the year. Other activities for 2013 will include progress with finalising tanker availability and coordinating with customers for offtake to start in 2014.

STRATEGY 3:

EXPAND GAS RESOURCES IN THE PNG HIGHLANDS

The expansion of gas resources in the PNG Highlands took a significant step forward during 2012 when a major gas discovery was made by the P'nyang South exploration well. P'nyang gas could potentially underpin a third LNG train at the PNG LNG Project.



One of Oil Search's strategic objectives is to capitalise on the asset base being constructed by the PNG LNG Project. Specifically, an early commitment to an expansion of the Project, by adding a third LNG production train (T3), has been highlighted as the highest value opportunity in Oil Search's portfolio of potential projects. Key aims for Oil Search are to aggregate sufficient gas resources to underpin the potential development of T3 and to commit to T3 in the earliest sensible timeframe.

A step towards expansion

In early 2012, an exploration well at P'nyang South in PRL 3 discovered a substantial gas accumulation. This has led to a material increase in total estimated gas resources at P'nyang. The PRL 3 joint venture, led by ExxonMobil, is assessing design concepts for the development of this multi-tcf gas and condensate field, with the use of the gas as a foundation resource for a potential T3 the primary option. A seismic programme is planned for 2013, which will assist in the location of any future wells.



2012 OBJECTIVES

- ▶ Drill the P'nyang South and Trapia exploration wells.
- ▶ Acquire seismic data over selected prospective areas.
- ▶ Expand and high-grade our PNG Highlands exploration licence portfolio.

2012 ACHIEVEMENTS

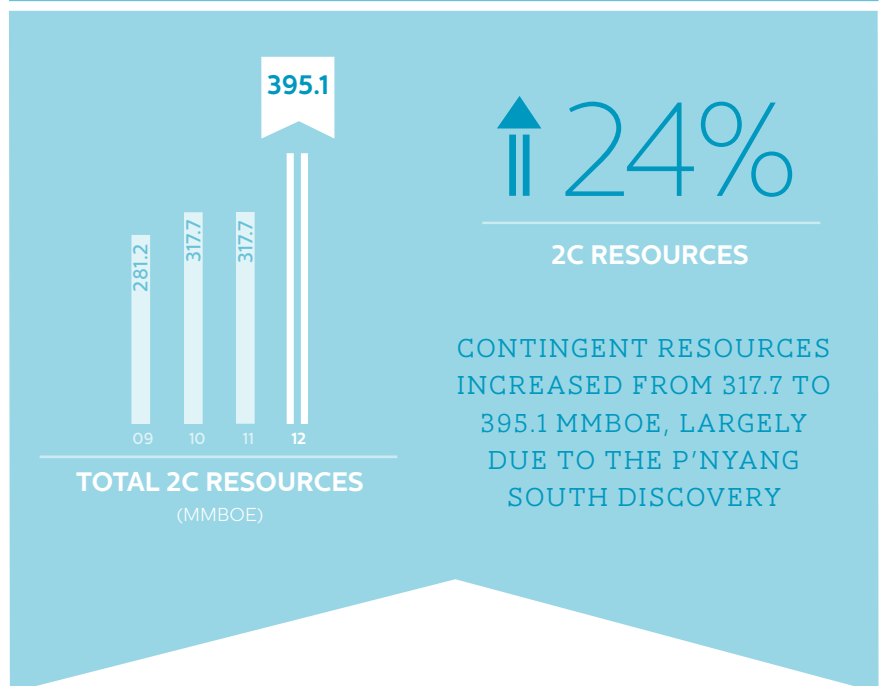
- ▶ Discovered a significant gas resource at P'nyang South.
- ▶ Commenced conceptual design studies for the P'nyang gas field.
- ▶ Acquired a 50% interest in Highlands licence PPL 277.

In addition to the P'nyang resource, potential gas upside exists within the existing Project gas fields. This may be unlocked through the drilling of Project development wells. In particular, the Hides produced water disposal well will help in better defining the gas-water contact in the field. Recent modelling of the gas which exists within the oil fields has also identified further gas resource potential in these fields.

Oil Search is seeking to commit to an expansion of the PNG LNG Project within a timeframe that enables the transfer of knowledge, skills and a trained workforce from the foundation project to the potential expansion project.

Other Highlands gas opportunities

Due to its remote nature, topography and associated logistical challenges, the PNG Highlands are relatively lightly explored. Oil Search believes there is potential to discover further hydrocarbons in the region and in 2012 committed US\$130.5 million to data acquisition, drilling and the purchase of additional Highlands exploration acreage. The Company is assessing exploration opportunities throughout the area, but in particular those in close proximity to the existing infrastructure.



2013 OBJECTIVES

- Complete initial P'nyang design studies and, if viable, decide whether to commence FEED and marketing activities.
- Complete seismic programmes and potentially drill other high potential Highlands gas prospects.
- Continue to access high quality exploration acreage.

OUTLOOK

T3 studies are expected to continue in 2013. During the year, Oil Search expects the P'nyang Joint Venture to agree an optimal design concept for the development of the field and potentially commence front end engineering and design (FEED). Development drilling now underway may also help identify additional resource upside. Other activities during 2013 will include additional seismic acquisition and analysis across several licences, which, combined with seismic surveys acquired in 2012, are expected to lead to drilling in either late 2013 or early 2014.

STRATEGY 4:

ESTABLISH GAS RESOURCES IN PNG GULF REGION

Oil Search believes that the PNG Gulf region could potentially have enough gas to support the development of a future standalone LNG project. The recent entry of Total SA as our strategic partner provides the capability to help us deliver an LNG project, if exploration is successful.

In 2009/10, Oil Search undertook a comprehensive geological study of PNG and identified the Gulf of Papua as one of the most prospective areas in PNG for finding new gas resources. The Company subsequently built up a material Gulf licence portfolio. Oil Search's objective in the Gulf, which is contingent on exploration success, is to create a new LNG development opportunity, with the option to become either a standalone LNG project or to supply third party gas to an existing development.

De-risking and high grading licences

During 2011 and 2012, Oil Search acquired an extensive 3D seismic survey over its key offshore Gulf licences, to de-risk the most prospective areas. Interpretation of the seismic data is now complete, with a range of prospects and leads identified. A drilling programme on at least two high-graded prospects will take place in 2013.

Farm-down to Total

During 2012, Oil Search farmed-down interests in five of its Gulf licences to French multi-national Total. Introducing Total as our strategic partner has satisfied several objectives. We will share the costs and risk of exploring in an underexplored basin with another party. In addition, Total has extensive experience in developing major LNG projects and has similar aspirations to Oil Search in assessing and, in the event of success, developing an LNG project in the Gulf region. As part of the Total farm-down terms, Oil Search will retain upstream operatorship and the ability to work with Total in any downstream development. This will expand the



2012 OBJECTIVES

- Complete the acquisition and interpretation of the offshore 3D seismic survey.
- Farm-down the Gulf licences to an experienced global LNG operator.
- Secure tenure over PPL 385 offshore in the Gulf of Papua.

2012 ACHIEVEMENTS

- Completed the assessment of the high quality 3D offshore seismic acquired across the offshore Gulf licences, which indicates material gas and liquids potential.
- Secured Total as our strategic partner for Gulf exploration.
- Awarded the PPL 385 licence.

7,343

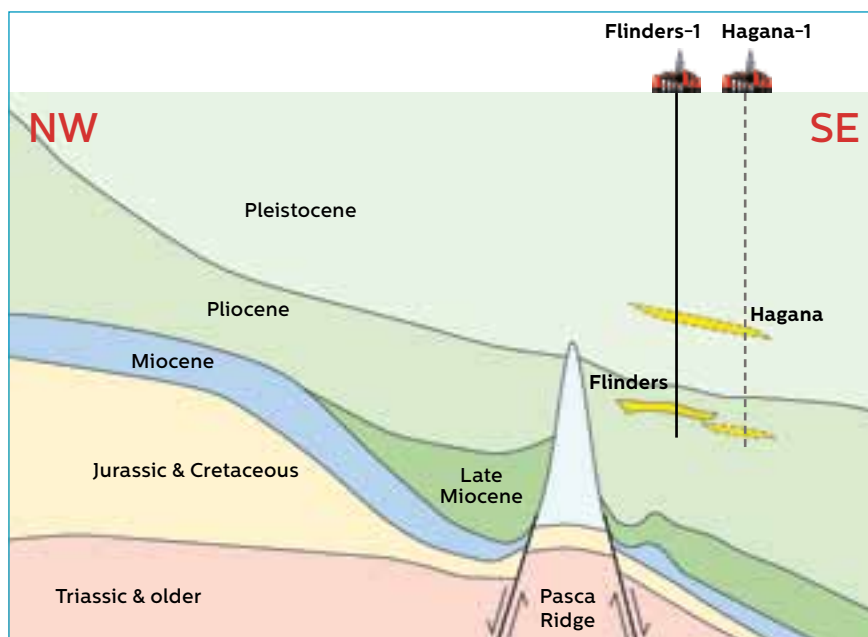
SQUARE KILOMETRES

EXTENSIVE 3D SEISMIC
SURVEYS WERE
ACQUIRED OVER THE
OFFSHORE GULF OF
PAPUA IN 2011 AND 2012.

Company's development and operating capabilities as well as provide further LNG operational experience. These are important skill-sets that would broaden the range of Oil Search's future growth options and opportunities.

Large potential prize

If successful, the PNG Gulf region strategy would be transformational for the Company, from both a value and a capability standpoint. It would also consolidate a long term operating position for the Company in PNG, a country to which we are strongly committed. As well as the offshore licences, our portfolio also includes a number of onshore licences in close proximity to the Gulf of Papua which are independent in terms of the play types, providing additional upside potential.



2013 OBJECTIVES

- Undertake a drilling programme in the offshore areas.
- Assuming success, develop a follow-up offshore drilling programme.
- Acquire seismic and, if positive, commit to drilling in the onshore licences.

OUTLOOK

2013 will be a pivotal year for our Gulf strategy. The offshore drilling programme will be the first real test of the gas potential in the area. The drilling programme, planned to commence in early 2013, will test a range of different play types. The Flinders 1 well is expected to be drilled first, followed by the Hagana 1 well, both located in PPL 244, with a possible third well, on Kidukidu 1. Also, planned seismic and exploration activities will lead to a decision on whether to take up equity and commit to drilling in the onshore Gulf licences.

STRATEGY 5:

EVALUATE AND PURSUE INTERNATIONAL GROWTH OPPORTUNITIES

In addition to Oil Search's long term commitment to PNG, the Company is seeking to selectively build an international portfolio of assets, capable of delivering organic growth beyond 2015. Encouraging results from the Taza well in Kurdistan represent a step forward for this strategy.

While Oil Search's primary focus is in PNG, where all our producing assets are presently located and where several high value growth opportunities have been identified, the Company has a strategy to expand and build on its existing international assets located in the Middle East and North Africa (MENA). This strategy will provide diversification, as Oil Search presently has a high degree of exposure to a single country (PNG) and, when PNG LNG production commences, to a single commodity (gas). Our MENA assets have the potential to generate long term growth, in addition to the PNG LNG Project and LNG expansion in PNG.

Building on our existing MENA presence

Oil Search already has an international presence, with exploration activities in the Kurdistan Region of Iraq, Tunisia and Yemen. In Kurdistan, a well on the Taza oil prospect was spudded in 2012. The early results from Taza have been encouraging, with oil proven in the first objective. If commercial flow rates can be established, Taza, with potential recoverable reserves of 250-500 mmbbls, could have a meaningful impact on Oil Search's value. A second well on Taza is being planned, to commence in late 2013, with potential further back-to-back wells in 2014.

In Tunisia, preparations were made in 2012 for drilling the Semda prospect, which spudded in January 2013. This well has potential recoverable oil of 50-100 mmbbls.

Developing options for long term growth

Oil Search is seeking additional opportunities in MENA with material potential and with a preference for



2012 OBJECTIVES

- Drill material oil prospects in Kurdistan and Tunisia.
- Continue to optimise our international portfolio.
- Build on our strategic relationships in the MENA region.

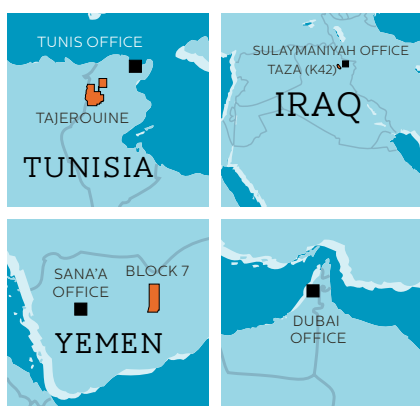
2012 ACHIEVEMENTS

- Commenced drilling the Taza 1 well in Kurdistan.
- Prepared the Semda 1 prospect in Tunisia for commencement of drilling in 2013.
- Sold our interest in Block 3 in Yemen to Total.

liquids, high equity and operatorship. The Company's strategy is, over time, to develop an international portfolio with a mix of exploration, appraisal and, potentially, development and production assets, which would vary in their range of risk and reward and development timeframes. A strict economic and strategic framework has been developed for any investment, the pace of which will be dependent on the Company's PNG capital commitments and liquidity profile.

Leveraging our strengths

Oil Search intends to leverage its existing skills base where possible. The Company has particular expertise in fold belt geology – all the producing PNG oil fields lie within a fold belt – which has led to our entry into the fold belts of Kurdistan and Tunisia. In addition, we have a unique approach to government and community affairs, which has been developed over many years in PNG and is being applied to our operations in other areas.



Semda 1 well, Tajerouine PSC, Tunisia

2013 OBJECTIVES

- Continue high-impact exploration activity in existing MENA assets.
- Resume activity in Yemen, Block 7, when the political and security situation allows.
- Proactively assess and scan international assets for suitable growth opportunities.

OUTLOOK

Both the Taza well in Kurdistan and the Semda well in Tunisia will be completed in 2013 and follow-up work will commence. While Taza drilling conditions have been challenging, early indications from the well have been positive and if follow-up drilling proves commercial flow rates, could lead to a development. During 2013, the Company will continue to develop and maintain its network of relationships, which is an essential part of the growth process, providing access to deal flows and opportunities.

STRATEGY 6:

OPTIMISE CAPITAL AND FINANCIAL STRUCTURE

In order to fund current commitments and to pursue further growth opportunities, Oil Search is proactively managing its cash position, financing options and business costs.

Managing and optimising Oil Search's capital structure and financial position are critical in achieving the Company's growth strategy. As well as maximising returns and cash flow from existing assets, which are being used to fund ongoing activities, a key objective is to ensure that an adequate and accessible source of funding is available to finance our growth ambitions and as a contingency for other potential liquidity demands.

Re-financing completed

During 2012, Oil Search secured a US\$500 million five year, non-amortising, revolving credit facility with a 15 member banking group. This replaced the previous US\$435 million amortising facility, which was due to expire in September 2013. The banking group includes all four major Australian banks as well as international banks, reaffirming the attractiveness of PNG as a place to invest. It also highlights the strength of our banking relationships, which have been built up over two decades. The five year term of the new credit facility provides the Company with funding flexibility well beyond the commencement of cash flows from the PNG LNG Project.

Attention continues to be focused on managing the Company's liquidity prior to the commencement of PNG LNG cash flows, with work on the Company's longer term capital structure and future financing options also ongoing.



2012 OBJECTIVES

- Replace existing credit facility to better reflect Oil Search's evolving credit profile.
- Continue to focus on managing liquidity during the construction phase of the PNG LNG Project.
- Deliver operating and capital costs within budgeted ranges.

2012 ACHIEVEMENTS

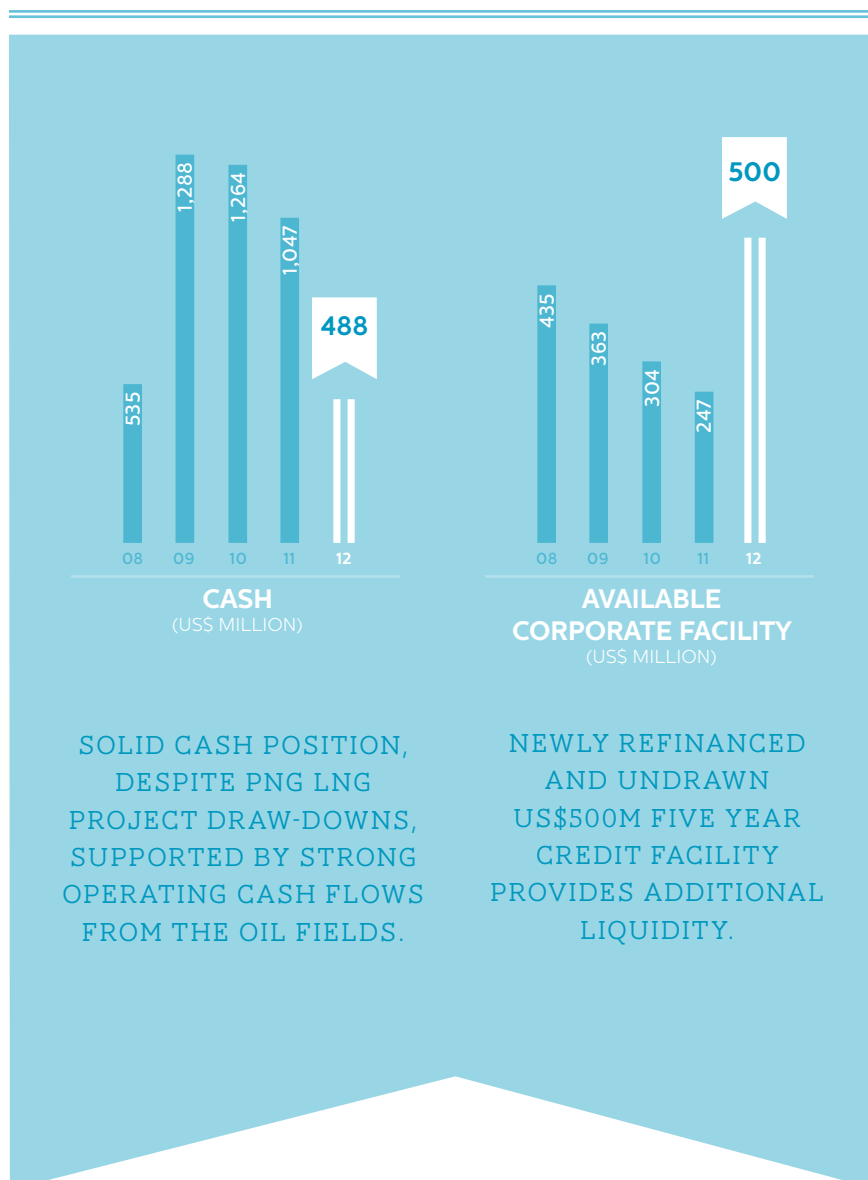
- Completed refinancing of the corporate debt facility.
- Rebuilt liquidity forecasting models.
- Base operating costs of US\$24.82 per barrel were within guidance.

Being prepared

During 2012, the PNG LNG Project operator advised the co-venture partners that the cost estimate for the Project had increased from US\$15.7 billion to US\$19 billion. It is expected that this capital cost increase will continue to be financed on the same ratio of debt and equity, namely 70% debt and 30% equity contributions from the co-venture partners. As permitted by the existing terms of the PNG LNG project finance agreements the co-venturers intend to expand the US\$14 billion PNG LNG project financing facility by raising supplemental debt of US\$1.5 billion. The process to increase the project financing amount has commenced and it is envisaged that the agreements associated with the new tranche of debt will be executed in 2013. Oil Search's additional equity contributions will be funded by its existing cash balances, operating cash flows and the new US\$500 million credit facility, which is presently undrawn.

Fiscal discipline

A key focus for Oil Search is fiscal discipline. During 2012, despite challenging market conditions, including a continued strong local currency, Oil Search's operating costs were maintained within its forecast range, with a cash operating margin of 72% achieved. In addition, after adjusting for changes in planned activities, capital costs were managed within budget.



2013 OBJECTIVES

- Continued focus on managing liquidity prior to the commencement of PNG LNG cash flows.
- Execution of the US\$1.5 billion PNG LNG project finance supplemental debt tranche.
- Ongoing review of the optimal longer term capital structure, including the consideration of financing options for the potential expansion of the PNG LNG Project.

OUTLOOK

During this critical phase of construction on the PNG LNG Project, the Company will continue to prudently manage liquidity prior to the commencement of LNG sales. The future capital structure is highly dependent on the performance of our base business, the progress of growth initiatives as well as macro-economic variables such as exchange rate movements. As such, continued effort will be focused on reviewing and optimising access to, and utilisation of, capital to support the strategies of the Company.

STRATEGY 7:

ENSURE SAFETY & SUSTAINABILITY

Oil Search believes that an ongoing commitment to safety and embedding sustainability into the way we operate is essential for business continuity and success.

Significant progress was made in 2012 in agreeing sustainability priorities and setting objectives to drive change.

Putting Sustainability Fundamentals in place

In 2011, we began implementing our first Company-wide Sustainability Strategy. This is a three year strategy with two key focus areas. Firstly, the strategy aims to ensure the Company has an appropriate sustainability platform to support our business strategy and to meet the changing expectations of stakeholders and secondly, it aims to embed sustainability more effectively within all business activities. These efforts continued through 2012 and are intended to be substantially completed in 2013.

Activities in 2012 included establishing an overarching Sustainability Policy, reviewing our systems, policies and standards and improving the measurement, monitoring and documenting of our practices. Towards the end of the year, the Company made progress in several direction-setting initiatives, such as commencing work to set targets, development of an emissions abatement strategy and setting a plan to identify opportunities to enhance sustainability outcomes in our supply chain.

In parallel with these activities, the Oil Search Health Foundation has continued to expand. The success of this not-for-profit charitable trust, which is working with Government and other partners to design and implement public health initiatives throughout PNG, is evidenced by a significant increase in grant funds received from external funding partners in 2012.

Transparency

Oil Search is committed to encouraging a stable and transparent operating environment in PNG. During 2012, the Company continued with advocacy efforts



2012 OBJECTIVES

- Continue to build a solid platform for sustainability performance in preparation for business growth.
- Increase the transparency of payments to the PNG Government.
- Improve our safety performance.

2012 ACHIEVEMENTS

- Board approval of a Sustainability Policy.
- Became an EITI Supporting Company and published our first official Transparency Report.
- Increased our safety management focus and implemented behaviour-based programmes across the operating areas of the business.

EITI

SUPPORTING COMPANY

OIL SEARCH'S BOARD ENDORSED
THE COMPANY BECOMING AN
EXTRACTIVE INDUSTRIES
TRANSPARENCY INITIATIVE
SUPPORTING COMPANY IN 2012.

in both anti-corruption and fair benefits distribution and became an Extractive Industries Transparency Initiative (EITI) Supporting Company.

We also improved the communication of our sustainability performance, with a more targeted suite of sustainability reporting information. This included a PNG specific sustainability report (written in tok pisin) and a case study book, "Connections", which demonstrates the tangible positive impact and shared value generated from our sustainable development projects.

Safety

Despite an increased focus on safety measures, a rise in comparatively higher risk drilling and exploration activities in PNG and Kurdistan led to a deterioration in our safety performance compared with 2011. The Company's response included implementing behaviour-based programmes and increased engagement by the senior management team in safety issues across the business. This approach helped to drive incidents down in the second half of the year.



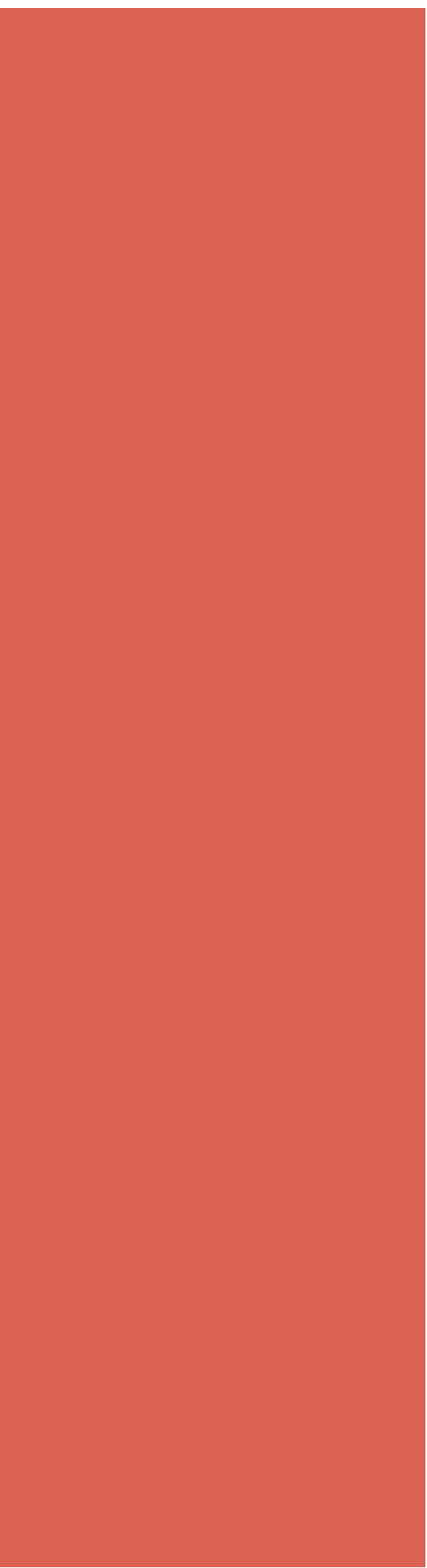
Community affairs activities in the PNG Highlands

2013 OBJECTIVES

- Set organisation level sustainability targets or aspirations for key material issues.
- Complete a review of systems and standards to ensure alignment with our Sustainability Policy and goals.
- Finalise the roll out a new online Company-wide incident management system.

OUTLOOK

2013 will bring to a close a number of key multi-year deliverables, focused on creating a strong sustainability platform to position us for first PNG LNG sales and ensure alignment with our overall business growth strategy. With these fundamentals in place and with continued efforts to embed sustainability within all activities, we will be well positioned to leverage our sustainability performance during the next phase of our business.



THE CHAIRMAN'S REPORT

Oil Search continues to pursue a clear and consistent long term growth strategy. The Company is in a solid financial position and well able to fund its many value accretive expansion opportunities.



2012 performance and dividend payments

In 2012, Oil Search recorded a net profit after tax of US\$175.8 million, or US\$153.0 million if significant items are excluded. While lower than in 2011, this earnings result was a pleasing outcome, given slightly lower oil prices and production reductions due to scheduled facilities shutdowns for PNG LNG Project-related work and an unplanned shutdown, while precautionary investigations were undertaken on the oil export system. The results included a US\$144.0 million expense related to exploration and evaluation, reflecting higher activity levels to deliver future business growth.

Total dividends paid for the year were four US cents, unchanged from payments in 2011. This is in line with the Board's policy to maintain steady dividends until earnings are achieved from the PNG LNG Project. When cash flows from the LNG Project commence, the Board's intention is to share the rewards with our shareholders, through higher dividends, while retaining sufficient funds to finance our many growth opportunities.

PNG LNG Project

Good construction progress was achieved on all fronts of the PNG LNG Project during 2012. At the end of the year, the Project was 75% complete and remained on track for first LNG sales in 2014.

Towards the end of the year, the Project operator, Esso Highlands Limited, advised its co-venture partners that the estimated capital costs for the Project had increased from US\$15.7 billion to US\$19 billion. While the increase in costs is disappointing and, unfortunately, a feature of the current LNG project construction environment, PNG LNG project economics remain attractive, particularly with the LNG plant capacity

being increased to 6.9 MTPA and a considerably higher oil price environment prevailing than when the Project was originally sanctioned. Oil Search remains in a robust financial position, well capable of funding its share of the increased capital cost. This capability is supported by a newly arranged and as yet undrawn US\$500 million debt facility, as well as significant cash on hand and strong cash flow generation from our producing assets in PNG.

Future growth options

The Company continues to develop its options for growth beyond the foundation PNG LNG Project. With exploration and evaluation activities at the highest level in the Company's history, a number of significant exploration prospects were drilled in 2012. In PNG, the discovery of a large gas accumulation at P'nyang South has brought us a step closer to underpinning an expansion of the PNG LNG Project, while early indications of oil from the Taza well in Kurdistan are also promising. Good progress was made on our gas expansion strategy in the Gulf of Papua, with a strategic partner secured and preparations finalised for the start of drilling in 2013.

Safety performance

Oil Search's Total Recordable Incident Rate (TRIR) in 2012 was 2.64 per million hours worked, substantially higher than in recent years. This is disappointing and reflected increased levels of higher risk drilling and exploration activities, with a significant number of new contractors and a greater proportion of work being conducted at very remote locations.

Oil Search is working closely with its contractors and staff to advance and further develop its health, safety and security systems and processes, as well as promote greater adherence to them. Excellence and continuous improvement in safety performance takes precedence in all operations and remains the Company's foremost priority.

PNG Government

In 2012, PNG successfully held its national elections. The new Government, led by Prime Minister Peter O'Neill, has a clear mandate to lead the country. We strongly endorse the Government's reform programme, targeted at addressing cost inflation, productivity, social impact issues and corruption in PNG. We look forward to working with the new Government to help it achieve its goals.

Board renewal

In 2012, the Board underwent a renewal process, to ensure it has directors who can serve the Company through the next critical phase of growth. John Stitt and Martin Kriewaldt resigned as non-executive directors, having served on the Board for 14 years and 10 years respectively, while Robert Igara resigned after providing 10 years of wise counsel, particularly on PNG related issues. I would like to thank John, Martin and Robert for their invaluable contributions to the Company over a substantial period of time.

I would also like to welcome three new directors to the Board. Richard Lee, Keith Spence and Bart Philemon have all served on boards of a range of major international organisations for extended periods. In particular, Richard's extensive investment banking experience, Keith's substantial oil and gas involvement and Bart's experience in the PNG parliament are highly complementary and will provide diversity to the Board's skills.

This will be the last annual report I give to shareholders. After almost nine years as Chairman of the Company, I will be retiring in the near future. The Board has elected Richard Lee as my successor. I wish him every success in this role and look forward to Oil Search continuing to achieve excellent results in the years to come.

On behalf of the Board, I would like to recognise the effort and achievements of all Oil Search's management and staff through 2012 and for their commitment to achieving the Company's objectives and delivering value to our stakeholders.

B. F. Horwood

BRIAN HORWOOD
CHAIRMAN

THE MANAGING DIRECTOR'S REPORT

2012 was a year of solid operational performance and progress on all our core strategic initiatives. With several development milestones expected and a high potential exploration programme planned, 2013 promises to be another pivotal year for the Company.



Achievements in 2012

Oil Search delivered a solid set of results in 2012, despite challenging political, economic and industry conditions. The total shareholder return (TSR), comprising share price appreciation and dividends, for the year was 13%. Over the five year period to the end of 2012, Oil Search has been a consistent top quartile performer, delivering a TSR of 52%, compared to the S&P/ASX 200 Index TSR of -23% and the S&P/ASX 200 Energy Index TSR of -35%.

2012 oil and gas production from our PNG fields was within guidance at 6.38 mmbobe. This was a good outcome, given the maturity of the fields and a three week unscheduled shutdown of the production facilities in the third quarter of 2012, to allow a precautionary inspection of the Kumul Marine Terminal. It is encouraging that the Company's oil field optimisation programme, which has now been ongoing for several years, continues to be successful in mitigating field decline and delivering high value incremental barrels.

Global oil prices remained strong during the year, contributing to total revenue of US\$724.6 million. Reported net profit of US\$175.8 million, and underlying net profit of US\$153.0 million, was lower than in 2011, primarily due to a US\$83.4 million increase in exploration expense. This higher expense reflected a significant ramping up of our exploration effort, with US\$240.6 million spent over the year on a range of exploration activities, including the successful P'nyang South well in PNG and the Taza well in Kurdistan.

We continued to generate strong cash flows, which were used to fund our pipeline of growth projects. Despite capital expenditures of nearly US\$2 billion in 2012, the highest in the Company's history, Oil Search's financial position remains healthy. The Company re-financed its corporate debt in 2012, with the arrangement of a US\$500 million five year, non-amortising revolving credit facility. Due to strong demand from existing and new lenders, we increased the size of the facility from our original target of US\$400 million, to US\$500 million. The support by the banking community is good evidence of PNG's investment attractiveness, as well as the value of our strong banking relationships. The facility provides us with funding flexibility to well beyond the commencement of cash flows from PNG LNG and provides support for our next phase of growth.

On the project development front, at the end of 2012 the PNG LNG Project was 75% complete, with many construction milestones achieved during the year.

We now have line of sight to the completion of this Company, and country, transformational project. The PNG LNG operator undertook a cost review in November, resulting in a US\$3.3 billion increase in the estimated capital costs, to US\$19 billion. The extent of the increase was beyond the upper end of what we had expected from cash drawdowns and Project progress, while the estimated foreign exchange impacts were also higher than we anticipated. We are confident that the operator can deliver the Project within this new revised budget. Pleasingly, the Project remains on schedule, with first deliveries expected to commence in 2014. In addition, the operator has confirmed an increase in plant capacity, from 6.6 MTPA to 6.9 MTPA, with the additional 0.3 MTPA to be sold either under contract or on the spot market.

The probability of an expansion of the PNG LNG Project increased following the discovery of a major gas accumulation at P'nyang South in early 2012. Design concepts are now being assessed, with

the primary option being the use of P'nyang gas as a foundation resource for a potential third PNG LNG train.

Another exploration success during the year was the Taza well in Kurdistan. Despite drilling challenges which led to slow progress, we have been encouraged by the early results from the well which proved oil in the first primary objective. Taza and the Semda well, currently drilling in Tunisia, both have the potential to create material value for Oil Search.

A highlight for 2012 was the farm-in by Total of France into five Oil Search licences in the Gulf of Papua, subject to Government approvals. While the focus of the transaction is on exploring and developing the prospective offshore Gulf and the eastern forelands area, Oil Search and Total have also agreed to form a strategic partnership to look at other licences in PNG, excluding the Highlands area. Representing the culmination of a lengthy and competitive bid selection process, this is an exciting transaction for both Oil Search and PNG, with the entry into the country of a well-respected major international oil and gas company with a strong development and operations capability.



New Tri Ethylene Glycol unit at the Central Processing Facility, PNG Highlands

52%

FIVE YEAR TSR

OVER THE PAST FIVE YEARS, OIL SEARCH HAS GENERATED THE 14TH HIGHEST TSR IN THE S&P/ASX 200.



Health and Safety

Oil Search reported a Total Recordable Incident Rate (TRIR) of 2.64 per million hours worked in 2012, compared to 1.85 in 2011. PNG operations achieved a TRIR of 1.87 per million hours worked while construction activities associated with Oil Search's PNG LNG Project-related work achieved a TRIR of 1.91 per million hours worked. A priority for the Company in 2013 is to improve the safety culture in remote operations away from producing areas in PNG, especially in MENA, where the focus on safety and environmental performance is less well developed. In addition, the Company has implemented a programme of increased supervision of both staff and contractors and a higher level of interaction between field staff and senior management. Our philosophy remains one of striving for continual improvements in safety and ensuring a safe work environment for all our personnel.

PNG challenges

PNG is currently undergoing unprecedented economic growth, fuelled primarily by the construction of the PNG LNG Project as well as other resource projects. Over US\$6 billion was invested in the oil and gas sector in 2012 and at least the same again is expected to be spent in 2013.

This high level of investment took place despite the major political upheaval seen in PNG during 2011 and the first half of 2012. This demonstrates the commitment of Oil Search, the PNG LNG co-venturers and others to PNG, which, despite the country's unique operating environment, with many projects located in remote and difficult areas, offers excellent resource potential and a stable fiscal and operating regime.

The oil and gas industry has been a major wealth generator since production commenced 20 years ago. It has been a catalyst for employment, skills development, infrastructure build and some (though unfortunately not major) improvement in service delivery. With the PNG LNG Project getting ever closer to first production, expectations are increasing. Substantial benefits will be derived by all stakeholders, with a comprehensive package of benefits going to the State and Project Area Landowners, but without constructive dialogue between the Government, landowners and industry, to improve on what has been done in the past, there will be significant challenges in meeting our collective aspirations.

A key focus for Oil Search is to improve transparency and communication, particularly on the distribution of Project benefits. In 2012, Oil Search officially became a Supporting Company of the Extractive Industry Transparency Initiative (EITI), the global initiative to improve accountability and transparency. The Company continues to work with the PNG Government and its extractive industry peers to adopt and implement an EITI standard specific to PNG. We have also produced our first Transparency Report, which publicly discloses Oil Search payments to Government and landowners.

The Company is very supportive of recent initiatives announced by the new O'Neill Government, in particular the implementation of a Sovereign Wealth Fund to handle the large benefits that will accrue to the State from the PNG LNG Project. Oil Search also believes that the proposal to reform the Department of Petroleum and Energy, by creating a better resourced Petroleum Authority, and the recent formation of a revitalised national oil company, with responsibility for owning and managing all the State's hydrocarbon interests, are to be applauded. In our view, having strong entities to both regulate and participate in PNG's petroleum industry are essential in light of the forthcoming massive change in the size and complexity of the sector.

The O'Neill Government has also announced that it intends to review the fiscal terms for oil and gas. Since 2000, there have been three significant reviews, all of which have been characterised by open honest and informed dialogue between all parties concerned and have resulted in a balanced outcome. PNG's stable fiscal terms have resulted in strong investment and financial support

for the industry. Continued investment requires ongoing stability, certainty and predictability. With many potential growth projects expected to reach development stage in the next decade, we are confident that an appropriate split of risk and reward can be achieved.

Opportunities for Oil Search in 2013 and beyond

Activity highlights in 2013 are expected to include the following:

- Continued construction progress of the PNG LNG Project, including the pre-commissioning of parts of the PNG LNG infrastructure using gas from the Oil Search operated oil fields.
- Finalisation of a development concept for the P'nyang gas field and a decision made on whether to move into front end engineering and design (FEED).
- Commencement of a drilling campaign in the offshore PNG Gulf region, which will be the first real test of the many leads and prospects identified by the 2011 and 2012 3D seismic surveys.
- Completion of drilling on the Taza 1 well in Kurdistan and, towards the end of the year, the commencement of an appraisal programme.
- Completion of drilling on the Semda well in Tunisia.
- Appraisal drilling on the Mananda oil and gas field and, if successful, a development decision by the end of 2013.
- A continuation of the successful oil field optimisation programme, with the aim of mitigating natural decline.

Oil Search's balance sheet and funding capabilities are strong and the Company is fully committed to advancing its suite of potential growth opportunities.

Positioning for change

As we enter 2013, it is clear that, over the next decade, Oil Search will face substantial change. 2014 will see the commencement of a substantial and long term cash flow stream from the PNG LNG Project, transforming our financial position. In addition, the Company has several potential growth projects that could dramatically alter the business. In a success case, the size and complexity of our business would increase significantly, requiring organisational change. A key focus, therefore, is to prepare the Company for the next stage of development. This includes a full review of the balance between continued investment for growth and potential capital returns to shareholders of a material portion of revenues derived from the PNG LNG Project.

Areas of work will also include reviewing the Company's structure, accountabilities and operating model. In addition, we are focused on developing our people capability, including augmenting skills in key areas, as well as ensuring smooth succession planning. While this is likely to result in substantial organisational change, we are committed to maintaining Oil Search's cultural values, which include a genuine commitment to the people and communities with whom we work.

Fortunately, we have a strong foundation on which to build and I am confident that Oil Search can meet these future challenges.

I would like to thank our staff for all their efforts during 2012. I would also like to particularly express my appreciation to retiring Chairman Brian Horwood for his commitment to the Company over the past nine years. He has presided over the Company during a period of extreme change and leaves a strong legacy for the future.

PETER BOTTEN
MANAGING DIRECTOR



PNG LNG Project
Hides Gas Conditioning Plant
in the PNG Highlands

2012 FINANCIAL REPORT

Financial Performance in 2012

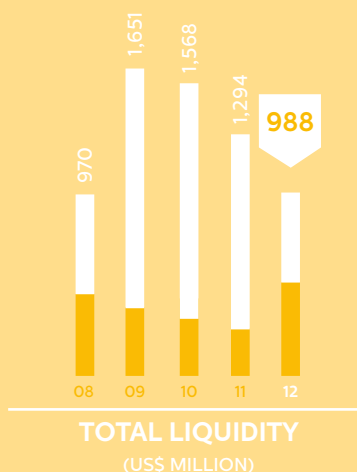
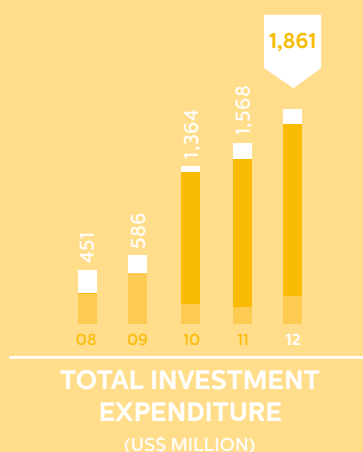
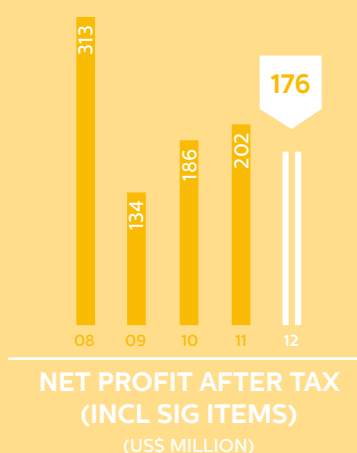
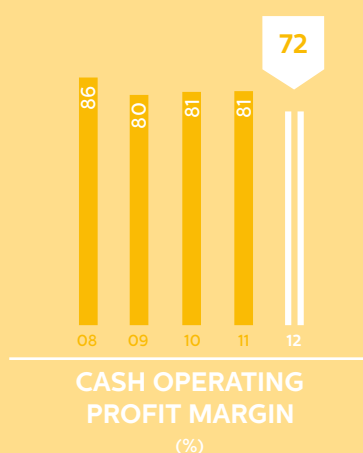
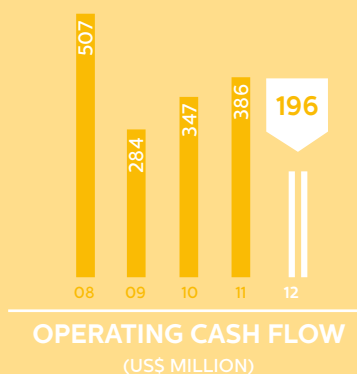
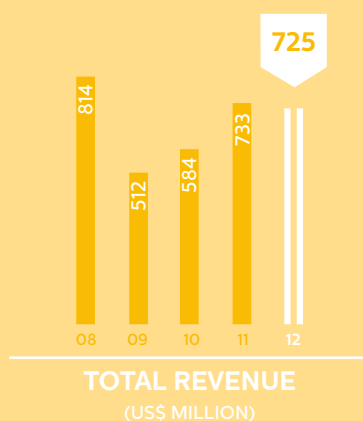
Oil Search reported a 2012 net profit after tax of US\$175.8 million. Underlying net profit, excluding significant items related to disposals and impairments, was US\$153.0 million.

Compared to 2011, the key factors impacting the results were as follows:

- Oil revenue fell 9%, reflecting lower oil liftings and a slightly lower realised oil price, of US\$113.97/bbl compared to US\$116.09/bbl in 2011.
- Gas revenue almost doubled, rising from US\$49.0 million to US\$95.6 million, due to a new Hides Gas-to-Electricity sales agreement following the expiry in December 2011 of the previous 20 year agreement. Higher gas revenue was partly offset by additional related gas purchase costs.
- Operating costs increased from US\$137.0 million in 2011 to US\$188.0 million. This included US\$36.6 million related to the revised Hides Gas-to-Electricity sales agreement. Costs were impacted by ongoing inflationary pressures in PNG, continued Australian dollar strength and the significantly stronger PNG Kina. In addition, US\$5.8 million of one-off costs associated with the Kumul Marine Terminal (KMT) investigation and severe weather damage repairs were incurred during the year. US\$12.3 million of business development expenditure was also expensed.
- Depreciation, amortisation and site restoration costs fell 4% to US\$49.5 million. This reflected lower oil liftings in 2012.
- Exploration and evaluation expenditure expensed increased, from US\$60.6 million in 2011 to US\$144.0 million primarily due to the write-off of the unsuccessful Trapia well and the exploration component of the IDT 25 well.
- Significant items included an after-tax profit of US\$29.3 million (US\$32.4 million pre-tax) on the sale of Oil Search's interest in Block 3 (Gardan) in Yemen and US\$12.7 million (US\$12.7 million pre-tax) associated with the farm-down of licences, including the Gulf of Papua. This was partially offset by an impairment charge of US\$19.2 million after tax (US\$23.8 million pre-tax) related to the PRL 1 (Pandora Gas Field) retention licence, which expired in February 2013.
- The 2012 effective tax rate on statutory profit (including the impact of disposals and impairment charges) was 49%, compared to the 2011 rate of 54%. This was in line with the statutory tax rate for oil earnings in PNG of 50%. Excluding the impact of significant items, the 2012 effective tax rate was 53%.

Financial Performance

Year to 31 December		2008	2009	2010	2011	2012	% CHANGE 2012/2011
Oil and gas production	(mmboe)	8.60	8.12	7.66	6.69	6.38	-5%
Oil liftings	(mmmbbl)	7.46	6.95	6.45	5.64	5.21	-8%
Total sales	(mmboe)	8.36	7.93	7.41	6.63	6.13	-8%
Realised oil price	(US\$/bbl)	100.10	65.40	80.19	116.09	113.97	-2%
Revenue from operations	(US\$m)	814.3	512.2	583.6	732.9	724.6	-1%
Operating costs	(US\$m)	(116.3)	(102.8)	(111.8)	(137.0)	(188.0)	+37%
Business development costs expensed	(US\$m)	—	(4.7)	(6.2)	(10.3)	(12.3)	+19%
EBITDAX	(US\$m)	698.1	404.6	465.6	585.6	524.3	-10%
Amortisation, depreciation and site restoration	(US\$m)	(127.2)	(105.4)	(49.9)	(51.3)	(49.5)	-4%
Exploration expensed	(US\$m)	(91.2)	(71.0)	(125.0)	(60.6)	(144.0)	+138%
EBIT	(US\$m)	479.6	228.2	290.7	473.6	330.9	-30%
Net interest income / (expense)	(US\$m)	6.1	(3.3)	(0.8)	(0.7)	(4.6)	N.M.
Impairment loss	(US\$m)	(91.5)	—	(15.8)	(33.2)	(23.8)	-28%
Other income/(expense)	(US\$m)	132.2	11.6	3.2	0.1	45.1	N.M.
Tax	(US\$m)	(206.9)	(106.2)	(91.6)	(237.4)	(171.8)	-28%
Profit after tax including significant items	(US\$m)	313.4	133.7	185.6	202.5	175.8	-13%
Significant items	(US\$m)	(73.4)	(34.1)	(41.5)	33.2	(22.8)	N.M.
Profit after tax excluding significant items	(US\$m)	240.0	99.6	144.1	235.7	153.0	-35%
Diluted earnings per share including significant items	(USc/share)	27.8	11.5	14.1	15.3	13.2	-14%
Dividends per share	(USc/share)	8.0	4.0	4.0	4.0	4.0	UNCH
Operating cash flow	(US\$m)	507.4	284.1	346.7	386.2	196.2	-49%
Net cash/(debt)	(US\$m)	534.9	1,288.1	333.9	(700.1)	(2,377.8)	+240%



Producing (and other PP&E)
 Development
 Exploration & Evaluation

Cash
 Available corporate facility

Dividends

Total dividends declared and paid in 2012 were four US cents per share, in line with 2011. Payments were funded by the Company's fully underwritten Dividend Reinvestment Plan, which continues to be well supported by shareholders.

Cash flows

In 2012, operating cash flow declined by 49%, due to lower sales volumes, the timing of cash receipts and higher income tax paid, including US\$40 million related to PNG tax returns for prior years following the receipt of final assessments. In addition, there were a number of non-recurring items, including the cost of the KMT shutdown and inspection.

Capital expenditure

Oil Search invested US\$1.86 billion in its business in 2012, up from US\$1.57 billion in 2011. US\$1.49 billion, or 80% of 2012 spend, related to the PNG LNG Project construction (US\$1.29 billion in 2011), of which 70% was funded through draw-downs from the PNG LNG project finance facility. US\$240.6 million was spent on exploration and evaluation activities, up considerably from the 2011 level of US\$144.6 million.

Capital management and liquidity

At the end of 2012, Oil Search had a net debt position of US\$2.38 billion (US\$700.1 million in 2011), comprising US\$488.3 million cash and US\$2,866.1 million of debt drawn under the PNG LNG project finance facility.

In late 2012, Oil Search signed a new US\$500 million five year non amortising revolving credit facility with a syndicate of 15 banks. The facility replaced the previous US\$435 million amortising facility that was due to expire in September 2013. The new facility provides the Company with the financial flexibility to fund its equity share of the PNG LNG Project, as well as other exploration and development activities.

Financial outlook

Oil Search remains in a sound financial position and is well positioned to fund the increased PNG LNG Project cost as well as current and future growth opportunities.

PNG LNG PROJECT



Project progress in 2012

The PNG LNG Project, operated by Esso Highlands Limited, made good progress in 2012 with a number of major construction activities now at, or nearing, completion. The Project was 75% complete at the end of the year, with more than 105 million cumulative work hours completed, and remains on track to achieve first LNG sales in 2014.

By the end of 2012, the following key milestones had been achieved:

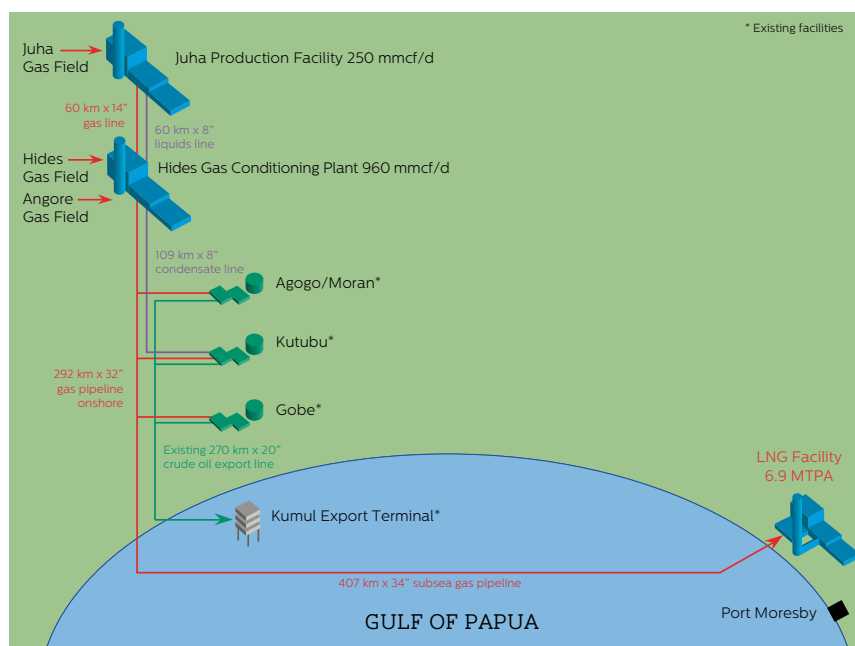
- At the LNG Plant, construction of the structural steelwork and the installation of all major processing equipment for the LNG trains had been completed. Welding on all 120 jetty pipe rack modules and installation of the Marine Control Building was completed on the LNG jetty. Construction of the LNG tanks and flare system was also well advanced. To date,
- over 20 million work hours have been delivered without a lost time incident.
- The construction of the offshore pipeline had been completed, with preparations underway at year end for final pressure testing.
- Over 215 kilometres of the 292 kilometre onshore pipeline, from the Gulf of Papua to beyond the Kutubu oil field, had been laid and welded. 176 kilometres of the pipeline had been hydro tested.
- Earthworks and foundations at the Hides Gas Conditioning Plant were completed and construction of structural steel, piping and cable installation had commenced.
- At the Komo airfield, the first layer of asphalt had been laid across half the 3.2 kilometre runway, with the final asphalt layer installed on 800 metres. Site utility buildings and facilities were nearing completion.
- Development drilling on the Hides gas field was underway using the first of two purpose built rigs. The second rig was on site and being assembled at the end of the year.

Oil Search has a 29% interest in the PNG LNG Project, a 6.9 MTPA LNG development operated by Esso Highlands Limited, a subsidiary of Exxon Mobil Corporation.

The Project will develop gas and condensate resources from three gas fields and associated gas from four oil fields, located in the Highlands of PNG. The gas will be transported by onshore and offshore pipeline to a two-train gas liquefaction plant located approximately 20 kilometres north-west of Port Moresby.

The PNG LNG Project has binding LNG sales agreements with four Asian buyers, with first LNG deliveries scheduled to commence in 2014.

The capital cost of the Project up to first production is estimated at US\$19 billion.





PNG LNG Project Plant site, near Port Moresby, PNG

Associated Gas and PL 2 Life Extension projects

Oil Search has an important role to play in the development of the PNG LNG Project. The Oil Search-operated PNG oil fields (Associated Gas fields) will supply approximately 20% of the total gas feedstock for the Project. In addition, Oil Search-operated facilities will handle liquids associated with the PNG LNG Project, with Project liquids stored and exported through the existing oil export system.

During 2012, the construction works at the Central Processing Facility (CPF) at Kutubu and the Gobe Processing Facility (GPF) advanced well. Key activities included the installation of two new Tri Ethylene Glycol (TEG) units at the CPF and one at the GPF, for de-watering the gas stream, and a Commissioning Gas Unit at the CPF. Towards the end of the year, equipment commissioning commenced and the Company expects to be ready to supply commissioning gas to the Project on schedule in 2013.

Oil Search had also substantially completed the life extension refurbishment of the Kumul Marine Terminal (KMT) and the PL 2 oil export system by the end of 2012. The remaining preservation and maintenance work scope will continue in 2013.

Building local capacity

During the year, community participation in Project business development and job opportunities remained strong. By the end of 2012, the workforce had increased to 21,220, of which nearly 40% were from PNG, and 6.65 billion Kina (US\$3.16 billion) had been spent on Project activities with businesses in PNG. Of this, 1.47 billion Kina (US\$700 million) had been spent with landowner companies.

Since sanction, the Project operator has provided more than 1.6 million hours of Project-provided training to over 10,000 PNG citizens, which has been delivered through over 6,800 courses. During 2012, development initiatives included formal classroom training in PNG, trainee programmes in Canada, graduate development programmes in Australia and Japan and on-the-job site-based training across Project worksites. In preparation for operations, the Project operator has also implemented graduate engineer programmes, an operations and maintenance training programme and Above Field workforce training.

Cost and Schedule Review

In November 2012, the PNG LNG Project operator provided the co-venture partners with a revised capital cost estimate for the Project. The Project cost has increased from US\$15.7 billion to US\$19 billion. Foreign exchange impacts represent the largest single contributor to the increase – total realised and estimated foreign exchange impacts, including the US\$0.7 billion impact announced in 2011, have added US\$2.1 billion to Project costs since Project sanction in 2009. Delays from work stoppages and land access issues, which have led to increased construction and drilling costs, have added a further US\$1.2 billion to the cost estimate. In addition, adverse logistics and weather conditions, including rainfall exceeding historic norms for most of the last two years, are estimated to have added US\$0.7 billion.

It is anticipated that the capital cost increase will be funded in line with the Project's existing financing terms, namely 70% by debt and 30% by equity contributions from the Project co-venturers, as allowed for under the existing project finance arrangements. Agreements to access the supplemental debt are expected to be executed in 2013. The Company has ample liquidity to fund its share of additional equity contributions.

The operator has advised the co-venturers that the PNG LNG Project remains on schedule, with start-up and first LNG deliveries expected to commence in 2014.

The operator has also confirmed an increase in the LNG plant capacity, from 6.6 MTPA to 6.9 MTPA, which is available for marketing and will be sold either under contract or on the spot market.

Given the capacity increase and substantially higher oil and gas prices than assumed at Project sanction, PNG LNG remains a highly robust economic project.



GAS GROWTH



Exploration field work in the PNG Highlands

Potential PNG LNG Project expansion

Oil Search was involved in drilling two high potential gas prospects in the PNG Highlands during 2012, in line with our strategic objective to aggregate gas resources to underpin an expansion of the PNG LNG Project.

In early 2012, drilling took place on P'nyang South, a prospect located four kilometres south-west of the P'nyang 1 gas discovery and approximately 90 kilometres north-west of the Juha gas field. The P'nyang South 1 ST1 well discovered a 380 metre gas column in the primary reservoir. Seismic interpretation and structural mapping indicates there is additional up-dip potential, suggesting a vertical gas column of over 650 metres. The well results have led to a material increase in estimated gas resources at P'nyang, which is now being considered as a resource to underpin a potential expansion of the PNG LNG Project.

The PRL 3 Joint Venture partners, which comprise the operator Esso Highlands Ltd, JX Nippon and Oil Search,

commenced conceptual design studies for the development of the P'nyang resource during the third quarter of 2012. The work includes an assessment of potential development options and an estimate of costs. Oil Search expects the Joint Venture to finalise the optimal development concept in 2013 and, subject to completing commercial discussions, make a decision on whether to proceed into front end engineering and design (FEED).

During 2012, Oil Search and its partner, ExxonMobil, drilled the Trapia 1 well in PRL 11, located east of the Hides and Angore fields. The well was plugged and abandoned after having drilled through a fault zone and encountered a repeat section of the Darai Limestone. While the Trapia well was unsuccessful, the area remains prospective and the Company and its partners are continuing to assess other structures and independent plays, particularly those located close to the existing PNG LNG gas fields. Other exploration activities during the year included the acquisition of a 185 kilometre 2D seismic survey over a number of leads adjacent to, and on trend with, the Angore

gas field. This programme is scheduled to be completed in 2013. A decision on further drilling will be made after completion of the seismic acquisition and analysis programme currently underway.

Oil Search continues to expand its asset base with the addition of prospective exploration acreage. During 2012, Oil Search and Esso Highlands completed the purchase of 100% equity (split equally between the partners) in PPL 277, a large block in the Highlands covering many prospective trends.

Oil Search believes there is considerable gas resource upside within the existing PNG oil and gas fields, most notably in the Hides gas field, which is not yet fully constrained. Eight wells are planned to be drilled on the Hides structure as part of the PNG LNG Project development plan. One of these wells, a produced water disposal well, which will reinject water that is produced from the gas production wells back into the reservoir, will help constrain the extent of the vertical hydrocarbon column. Development wells will also be drilled in the north-west area of the field. These wells will provide important information

regarding the ultimate recoverable reserves in the Hides field. In addition, recent modelling of the Associated Gas field reservoirs has demonstrated the potential for an additional 0.4 tcf of gas within the oil fields.

Establishing gas resources in the PNG Gulf Region

One of Oil Search's key strategic objectives for its Gulf of Papua acreage was delivered in October 2012, when the Company signed five Sales and Purchase Agreements with wholly owned affiliates of French multinational Total SA, for licences in the onshore and offshore Gulf of Papua region in PNG.

The transaction was the result of a sale process which commenced in late 2011, with the aim of introducing a suitable strategic partner with LNG development capability, to share the exploration and appraisal drilling and development risk. The opportunity attracted significant interest from a number of major oil and gas companies.

The Total deal, which will see Oil Search and Total hold equal interests in the five licences, marks the start of a strategic partnership with Total in PNG, outside the PNG Highlands. The terms of the transaction contains both firm and contingent components, dependent on drilling success. The firm component includes the reimbursement of past licence costs and a partial carry through an initial offshore drilling programme and an onshore seismic data acquisition programme. In a success case, additional cash-based success payments and a partial carry of Oil Search through up to seven exploration and appraisal wells in the offshore licences and up to eight wells in the onshore licences will be made.

Total and Oil Search have complementary skillsets and cultures. Oil Search will continue as the Operator, supplemented by expertise from Total. In the event of exploration and appraisal success that leads to an LNG project, Total would develop and operate the downstream facilities of any development. Through the association, Oil Search will have the opportunity to gain exposure and expand its operating capabilities in the downstream and gas marketing areas of the business.

Concurrent with the farm-out process, the Company decided to acquire an additional 1,050 square kilometres of 3D seismic data over a number of significant prospects and leads which had been identified on the fringe of the 2011 3D survey area. The results of this survey have been encouraging, with several new high-potential prospects and leads identified in the survey area, which covers parts of PPL 385 (where Oil Search was awarded a new exploration licence in October 2012) and PPL 276.

Oil Search and its partners will begin a drilling campaign in the Gulf of Papua in the first half of 2013, using the Stena Clyde semi-submersible rig. The drilling campaign, which will comprise two firm wells, with the option to drill two further wells, has the potential to unlock the multi-tcf of gas required to build a standalone LNG Project in PNG.



Application of new technology

With a long history in PNG, Oil Search has significant experience in exploring in the geologically complex and rugged Highlands region. The Company has built a team of highly trained technical experts in field mapping, geochemistry, structural modelling and the processing and interpretation of often poor quality 2D seismic data. Given the rough terrain, 3D seismic data is impossible to obtain.

In the more benign environment in the offshore Gulf of Papua, Oil Search has taken the opportunity to use more advanced interpretive techniques. In 2011 and 2012, Oil Search acquired two high quality, long offset 3D seismic surveys in the offshore Gulf, the first major 3D seismic to be shot in PNG. This has enabled detailed mapping of turbidite fan and channel morphologies and advanced geophysical interpretation, including amplitude versus offset (AVO) and seismic inversion techniques, to de-risk the prospect and lead inventory.

To augment the 3D seismic data, in 2012 Oil Search commissioned an experimental survey using Controlled Source Electro Magnetic (CSEM) technology in the Gulf. The CSEM technique employs an electromagnetic transmitter or electric dipole to transmit a low frequency electromagnetic signal into the earth and an array of receivers to record the resistivity of subsurface formations. As hydrocarbon bearing formations are more resistive than non-hydrocarbon bearing formations, an anomaly on a CSEM survey, depending on its strength, can be considered a direct hydrocarbon indicator.

While both the AVO and CSEM responses have yet to be calibrated with an exploration well in the Gulf, the techniques have assisted Oil Search in high-grading areas for exploration. If proven successful by the upcoming drilling campaign, both AVO and CSEM will represent valuable new remote sensing techniques for follow-up exploration and appraisal in the area.

PNG PRODUCTION

A core strategic objective for Oil Search is to keep production from our mature and naturally declining PNG oil fields broadly flat until first PNG LNG Project sales in 2014.

In 2012, the Company achieved this aim. Total oil and gas production was 6.38 mmbbl, which was within our guidance range of 6.2 – 6.7 mmbbl, and oil production was only 5% lower than in 2011.

The result was underpinned by the optimisation of existing wells and facilities, combined with maximising contributions from recent development wells and workovers and was achieved despite several scheduled and unscheduled shut downs. The Kutubu Central Processing Facility (CPF), Agogo Processing Facility (APF) and Gobe Processing Facility (GPF) were shut down for varying lengths of time during the year, primarily to allow PNG LNG Project-related modifications to be made to the facilities. In addition, an unscheduled three week shut down took place in July, while a minor oil sheen observed on the sea surface close to the Kumul Marine Terminal (KMT) was investigated. This investigation confirmed that the oil export system was sound and normal

loadings resumed in mid-August with no reappearance of the sheen. Our immediate, cautionary response during this incident reflects Oil Search's top priorities, which are a commitment to ensuring the safety of our personnel and the minimisation of impacts to the environment from our operations.

Field activities in 2012

Kutubu

Kutubu production in 2012 was 8% higher than in 2011. This excellent performance reflected strong contributions from all reservoirs.

The Hedinia and Agogo forelimbs, which were drilled in 2011 as part of the Company's near-field exploration strategy, continued to produce strongly. Production information is being used together with new structural mapping to assess the potential for additional drilling in these complex reservoirs.

The UDT 13 gas injection well at Usano East provided excellent pressure support to the field's best oil production well, UDT 11. In addition, a number of workovers were completed in both the Kutubu and Agogo fields, which have successfully accessed undrained intervals or allowed selective production from low gas:oil ratio zones.

2012 PRODUCTION SUMMARY⁽¹⁾

YEAR TO 31 DECEMBER

	2011		2012		% CHANGE	
	GROSS DAILY PRODUCTION (BOPD)	NET TO OIL SEARCH (MMBBL)	GROSS DAILY PRODUCTION (BOPD)	NET TO OIL SEARCH (MMBBL)	GROSS DAILY PRODUCTION	NET TO OIL SEARCH
OIL PRODUCTION						
Kutubu	13,816	3.028	14,865	3.267	+8%	+8%
Moran	12,708	2.296	10,290	1.865	-19%	-19%
Gobe Main	1,128	0.041	1,065	0.039	-5%	-5%
SE Gobe	2,230	0.208	2,120	0.198	-5%	-5%
SE Mananda	217	0.057	82	0.022	-62%	-62%
Total PNG Oil	30,100	5.631	28,421	5.390	-5%	-4%
Hides Liquids	356	0.130	307	0.112	-14%	-14%
Total Oil & Condensate	30,456	5.761	28,728	5.503	-5%	-4%
GAS PRODUCTION	MMSCF/D	MMSCF/D	MMSCF/D	MMSCF		
Hides	15.24	5,562	14.39	5,267	-5%	-5%
TOTAL OIL AND GAS PRODUCTION	BOEPD	MMBOE	BOEPD	MMBOE		
Total Production	32,995	6.688	31,126	6.380	-5%	-5%

NOTE:

(1) Numbers may not add due to rounding

Moran

While lower than in 2011, Moran's 2012 production performance was in line with expectations, with natural field decline partially offset by successful swing well management, regular zone changes and targeted gas injection. The Toro C interval at the Moran 15 ST1 well, drilled in 2010, was commissioned in the third quarter and flowed at sustained rates of approximately 1,700 bopd. This was an encouraging result, providing evidence that further drilling opportunities may exist in this part of the field.

The Moran 13 ST1 well, which is targeting the Toro and Digimu reservoirs in the north-west region, commenced drilling in the fourth quarter of 2012. Oil has been discovered at the target location and preparations are underway to complete the well as a producer.

SE Mananda

Full year production at SE Mananda was 62% lower than in 2011. While production was strong in the first half of the year, the field was shut-in for most of the second half due to the unscheduled KMT shutdown and damage to flowlines resulting from severe weather conditions. Repairs to the flowlines were completed in December and the field brought back on-line in January 2013.

Gobe

In 2012, production from the SE Gobe and Gobe Main fields fell by 5%. Natural field decline in these mature fields was offset by production from several wells which were worked over in 2011, to access new zones or to reinstate production from previously shut-in zones.

Hides Gas to Electricity Project

Gas production from the Hides Gas to Electricity Project was 5.27 bcf, 5% lower than in 2011. This small decline relative to 2011 reflected an increase in downtime at the Porgera Gold Mine during the year.



Smooth transition to gas

As well as oil, the PNG oil fields contain significant gas reserves, with some 350 bcf/day currently being produced and reinjected into field reservoirs to provide pressure support. These gas reserves are committed to the PNG LNG Project, with deliveries of commissioning gas scheduled to start in 2013 and full deliveries in 2014. Considerable planning has taken place to ensure that when gas deliveries to the PNG LNG Project commence, any adverse impact on oil production is minimised. In addition, the Oil Search-operated oil export system will be used by the PNG LNG Project for Project liquids. Work to ensure the reliability and integrity of our production, storage and export systems is progressing well.



Production outlook

Production in 2013 is expected to remain within the range of 6.2 – 6.7 mmboe, assuming planned development activities are successful. This is consistent with Oil Search's strategic objective to minimise production decline until first PNG LNG exports.

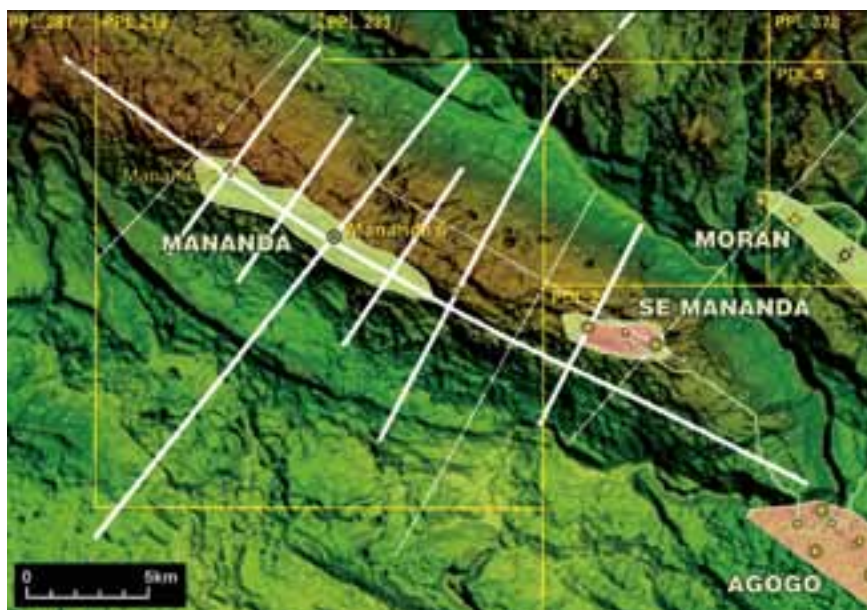
Production will be supported by the following activities:

- **Kutubu:** An ongoing workover campaign to enhance production from selected existing wells and a new development well in the Usano East area.
- **Moran:** Completion of the Moran 13 ST1 well currently drilling and a new development well, Moran 10 ST2, targeting the Digimu reservoir in the central part of the field.
- **Gobe:** Workovers at Gobe Main and SE Gobe.

In the second and fourth quarters of 2013, output will be impacted by brief scheduled shutdowns of the CPF, APF and GPF, to enable work related to the PNG LNG Project to be finalised and for scheduled maintenance and servicing activities.

Beyond 2013, recently rebuilt Kutubu, Agogo and Usano reservoir models will be used to both optimise existing depletion plans and to identify new candidates for intervention, workover or drilling. This work will include the continued assessment of the forelimb discoveries at Agogo and Hedinia for possible further drilling in the 2014-15 time-frame. At Moran, a development well location in the south-east part of the field is currently being assessed for possible drilling late in 2013.

OIL EXPLORATION



Mananda area, PNG Highlands, showing recent seismic acquisition and well locations.

PNG oil exploration

Oil Search believes there is considerable oil potential remaining in PNG and has an ongoing strategy to explore for oil, particularly within or in close proximity to its existing infrastructure.

During the first half of 2012, a 90 kilometre 2D seismic programme was acquired over the 2010 Mananda 5 discovery in PPL 219 and a number of near-field exploration targets in PDL 2. Following the processing and interpretation of the data, a location, approximately 5 kilometres south-east of Mananda 5, was selected for the Mananda 6 well. Mananda 6, located updip of Mananda 5 and on the crest of the Mananda structure, will appraise the hydrocarbon-bearing sands found at Mananda 5. If successful, a sidetrack well is likely to be drilled to further constrain volumes, prior to a field development decision by the end of 2013. Well-site construction was nearing completion at the end of 2012 and drilling is scheduled to commence in the first half of 2013.

Evaluation of the near-field exploration portfolio continued during 2012. The near-field exploration strategy has been

very successful since its implementation in 2011. High-value oil has been discovered in three wells targeting the Agogo and Hedinia forelimbs, which are now all in production. Several additional prospects within the Kutubu and Moran fields are being matured, with timing of drilling subject to rig availability and other drilling priorities.

Middle East and North Africa (MENA) exploration

2012 saw major activity in two key areas operated by Oil Search in the MENA region, with the start of drilling operations in Kurdistan and Tunisia. Both Taza in Kurdistan and Semda in Tunisia have the potential to deliver significant value to the Company. Optimisation of Oil Search's MENA portfolio also continued, while a number of new opportunities were evaluated.

The existing assets in MENA form a strong core on which to build and are providing an excellent opportunity to develop the Company's operating skills outside PNG.

Kurdistan

Taza 1, located in the Taza Production Sharing Contract (PSC) in Kurdistan, commenced drilling in the second half of 2012 and is expected to reach its target depth in early 2013. The well proved oil in the first reservoir objective, the Miocene Jeribe Formation, with production testing over two intervals producing hydrocarbons to surface. The flow rates achieved on test were relatively low, which may reflect damage to the formation caused during drilling, but nonetheless are encouraging given the challenging hole conditions encountered while drilling this interval. High pressure hydrocarbon influxes have been encountered while drilling towards the Euphrates Formation, the second primary objective, as has occurred in other wells in the area, and will be evaluated by further production testing.

Following the encouraging preliminary results from the Taza 1 well, the Company has submitted formal notification to the Kurdistan Regional Government of its intent to enter the second exploration period. The terms of the second period include the drilling of a second commitment well. In line

with this, Oil Search plans to drill Taza 2 in the second half of 2013. Other appraisal activities, including the acquisition of 3D seismic, will also take place in 2013, subject to the results of Taza 1.

Partnership in the Taza PSC changed during the year, with Total acquiring ShaMaran Petroleum's 20% participating interest.

Tunisia

During 2012, preparations to drill a commitment well, Semda 1, in the Tajerouine PSC located in the north-west of Tunisia, which had temporarily ceased due to political instability, recommenced and the well was spudded in early 2013.

The Semda 1 well has Cretaceous oil and gas targets in an under-explored area of Tunisia, close to a number of existing discoveries. The well is evaluating the potential of a large four-way dip closed structure and, if successful, has the potential to add significant value to the Company. Semda marks Oil Search's first drilling in Tunisia.

Yemen

Oil Search's Yemen licences have been in a state of force majeure since mid-2011. However, during the year the sale of Oil Search's 40% interest in Block 3 (Gardan) in Yemen to Total was completed following receipt of joint venture and government approvals. The Company's remaining asset in Yemen, Block 7 (Al Barqa), remains under force majeure.

Local staff continued to maintain a presence in the Yemen office throughout the year, providing support to the Company's operations in the other MENA areas. The Company plans to acquire a 2D seismic programme over prospective parts of Block 7 in 2013, subject to a return to a stable and safe operating environment.



2013 exploration drilling calendar

The following oil and gas exploration and appraisal wells are planned to be drilled in 2013:

First half 2013

Well: Taza 1

Licence/location: Taza PSC, Kurdistan

Oil Search interest: 60% working interest, 75% paying interest (operator)

Comment: Complete drilling to the Euphrates Formation, having proven oil in the Jeribe Formation, and test if required.

Well: Semda 1

Licence/location: Tajerouine PSC, Tunisia

Oil Search interest: 100% (operator)

Comment: Targeting oil in the Cretaceous Serdj Dolomites and deeper sandstones (Bed Bars and Sidi Aich) as well as gas in deeper objectives.

Well: Mananda 6

Licence/location: PPL 219, PNG Highlands

Oil Search interest: 71.25% (operator)

Comment: Appraise the Mananda 5 discovery. Targeting oil and associated gas in the Toro and Digimu sands.

Well: Flinders 1

Licence/location: PPL 244, Gulf of Papua

Oil Search interest: 80% (operator)*

Comment: Targeting gas in Plio-Pleistocene-age, submarine fan sands.

Well: Hagana 1

Licence/location: PPL 244, Gulf of Papua

Oil Search interest: 80% (operator)*

Comment: Targeting gas in Plio-Pleistocene-age, submarine fan sands. Stacked objectives.

Second half 2013

Well: Taza 2

Licence/location: Taza PSC, Kurdistan

Oil Search interest: 60% working interest, 75% paying interest (operator)

Comment: Further appraise the Jeribe and Euphrates Formations and drill the Cretaceous Shiranish and possible deeper targets.

Other possible wells include Mananda 6 ST1 and Mananda 7 in PPL 219 in the PNG Highlands, a possible gas target in the PNG Highlands close to the Hides field and Kidukidu 1 which straddles PPL 385 and PPL 244 in the Gulf of Papua. All drilling is subject to rig availability and joint venture approvals.

* reduces to 40% on Government approval of Total farm-in.

Taza 1 well, Taza PSC
Kurdistan Region of Iraq

2012 RESERVES AND RESOURCES

Reserves

In 2012, a comprehensive independent review of oil reserves in all the Company's producing oil fields was carried out by Netherland Sewell and Associates Inc (NSAI). This work included a full analysis of the impact on our oil fields of the commencement of gas production for the PNG LNG Project. This year, liquids reserves associated with PNG LNG were included in the proven (1P) category for the first time.

The review resulted in a 7.6 mmboe increase in 1P reserves, to 337.7 mmboe, after accounting for 2012 production of 6.4 mmboe, with proven and probable (2P) reserves remaining essentially flat at 552.4 mmboe.

In addition to changes related to the PNG LNG Project, other key drivers included:

- Upward revisions relating to the recent strong oil field performance and the results of in-field and near-field drilling.
- The inclusion of SE Gobe sales gas and condensate, which were previously included in contingent resources (2C), with the expectation that a gas sales agreement with the PNG LNG Project will be executed shortly. These reserves are now carried in the PNG LNG Project reserves category.
- SE-Mananda gas, previously carried under 2P PNG LNG Project reserves, being transferred to contingent resources.

Gas associated with the oil fields has not been recertified.

2012 ANNUAL RESERVES STATEMENT

Proven Reserves

LICENCE/FIELD	END 2011 RESERVES	PRODUCTION	DISCOVERIES/ EXTENSIONS/ REVISIONS	ACQUISITIONS/ DIVESTMENTS	END 2012 RESERVES
PDL 2 – Kutubu	9.6	3.3	9.5	–	15.9
PDL 2 – SE Mananda	0.1	–	–	–	0.1
PDL 2/5/6 – Moran Unit	9.1	1.9	4.1	–	11.3
PDL 4 – Gobe Main	0.1	–	–	–	0.1
PDL 3/4 – SE Gobe	0.3	0.2	0.4	–	0.5
PDL 1 – Hides	10.3	1.0	–	–	9.3
PNG LNG Project	300.6	–	–	–	300.6
Total	330.1	6.4	14.0	–	337.7

Proven & Probable Reserves

LICENCE/FIELD	END 2011 RESERVES	PRODUCTION	DISCOVERIES/ EXTENSIONS/ REVISIONS	ACQUISITIONS/ DIVESTMENTS	END 2012 RESERVES
PDL 2 – Kutubu	16.4	3.3	9.0	–	22.1
PDL 2 – SE Mananda	0.5	–	(0.2)	–	0.3
PDL 2/5/6 – Moran Unit	19.2	1.9	(1.4)	–	15.9
PDL 4 – Gobe Main	0.2	–	–	–	0.2
PDL 3/4 – SE Gobe	0.6	0.2	0.3	–	0.7
PDL 1 – Hides	10.3	1.0	–	–	9.3
PNG LNG Project	505.4	–	(1.6)	–	503.8
Total	552.6	6.4	6.2	–	552.4

Resources

A key objective for Oil Search is to build its gas resource position to underpin our LNG expansion strategy. One of the highlights of 2012 was the discovery of gas and liquids at P'nyang South. This was the primary driver of a 77.4 mmboe, or 24%, increase in best estimate (2C) contingent resources, comprising oil, gas and associated liquids, from 317.7 mmboe in 2011 to 395.1 mmboe.

The 2012 resource position also reflected the following:

- Revised resource estimates for Kimu and Uramu based on NSAI's independent audits in 2012.
- An increase in Oil Search's interest in Uramu to 100% as a result of the purchase of ML Energy Investment Fund Upstream (PNG) Pty Ltd's 40.45% interest in PRL 10.

Reserves and Resources

The Company's total 2P reserves and 2C resources increased by 9%, from 870.3 mmboe to 947.5 mmboe. Of these reserves, 503.8 mmboe is associated with the Company's share of the PNG LNG Project and SE Gobe gas sales volumes.

2012 Reserves Audit Process

Under the Company's audit rotation schedule, all oil fields were audited in 2012 by independent auditors, Netherland Sewell & Associates, Inc. (NSAI) in Dallas.

Estimates of reserves (1P and 2P) and contingent resources (2C) are conducted to Society of Petroleum Engineers (SPE) standards.

Oil field proven reserves (1P) and proven and probable reserves (2P) are as certified by NSAI.

1P PNG LNG Project reserves are as certified in 2008 by NSAI. PNG LNG Project 2P reserves and 2C contingent resources have been estimated by a combination of independent audit, PNG LNG Project operator estimates and internal assessments.

2012 RESERVES AND RESOURCES SUMMARY

Reserves and resources as at 31 December 2012⁽¹⁾⁽²⁾

NET TO OIL SEARCH

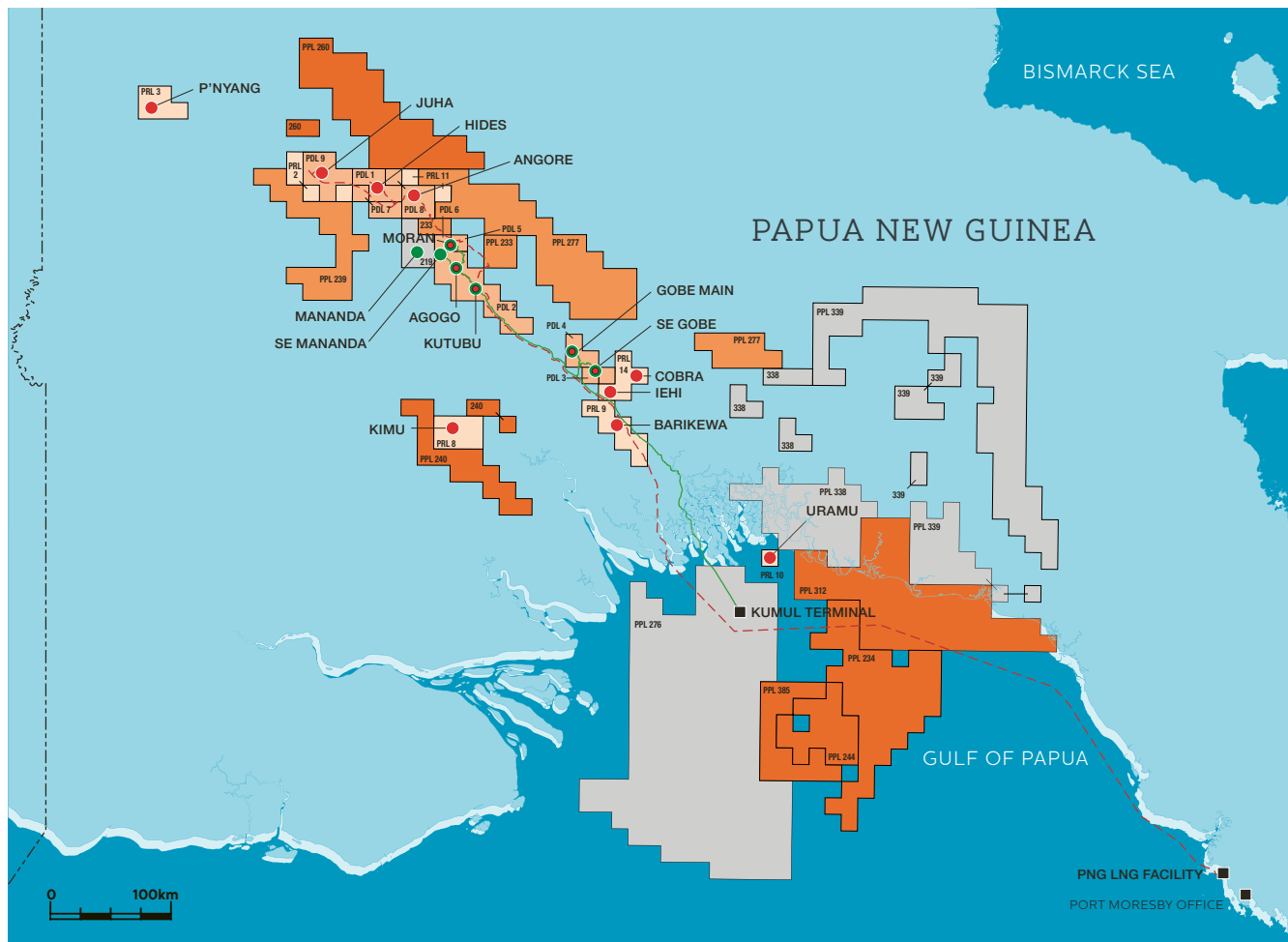
NET TO OIL SEARCH		PROVEN (1P)			PROVEN & PROBABLE (2P)		
LICENCE/FIELD	OIL SEARCH INTEREST	LIQUIDS ⁽³⁾ MMBBL	GAS ⁽⁴⁾⁽⁵⁾ BSCF	OIL EQUI- VALENT ⁽⁶⁾ MMBOE	LIQUIDS ⁽³⁾ MMBBL	GAS ⁽⁴⁾⁽⁵⁾ BSCF	OIL EQUI- VALENT ⁽⁶⁾ MMBOE
Reserves							
PDL 2 – Kutubu	60.0%	15.9	–	15.9	22.1	–	22.1
PDL 2 – SE Mananda ⁽⁷⁾	72.3%	0.1	–	0.1	0.3	–	0.3
PDL 2/5/6 – Moran Unit	49.5%	11.3	–	11.3	15.9	–	15.9
PDL 4 – Gobe	10.0%	0.1	–	0.1	0.2	–	0.2
PDL 3/4 – SE Gobe	25.6%	0.5	–	0.5	0.7	–	0.7
PDL 1 – Hides ⁽⁷⁾	100.0%	1.1	48.8	9.3	1.1	48.8	9.3
Oil fields and Hides GTE reserves		29.0	48.8	37.2	40.4	48.8	48.6
PNG LNG Project reserves ⁽⁸⁾	29.0%	38.4	1,572.8	300.6	61.5	2,653.9	503.8
Total Reserves		67.5	1,621.6	337.7	101.9	2,702.7	552.4
Contingent Resources		1C			2C		
Other gas and liquids resources ⁽⁹⁾⁽¹⁰⁾		–	–	–	31.5	2,181.7	395.1
Total Resources		–	–	–	31.5	2,181.7	395.1
Total Reserves and Resources		67.5	1,621.6	337.7	133.4	4,884.4	947.5

NOTES:

- (1) Numbers may not add due to rounding.
- (2) Oil field proven reserves (1P) and proven and probable reserves (2P) are as certified by independent auditors Netherland, Sewell & Associates, Inc. (NSAI) in 2012. 1P PNG LNG Project reserves are as certified in 2008 by NSAI. 2P PNG LNG Project reserves and contingent resources (2C) are based on a combination of independent audit, PNG LNG Project operator and internal assessments.
- (3) Liquids include crude oil, separator and plant condensates.
- (4) Full wellstream (raw) gas reduced for field separator condensates are quoted for Hides GTE. Other gas resources include a combination of raw gas, raw gas reduced for condensate production and fuel and flare.
- (5) For the PNG LNG Project, shrinkage has been applied to raw gas for field condensate, plant liquids recovery and fuel and flare.
- (6) Oil equivalent barrels incorporate oil, condensate and gas (converted at 6 mcf/bbl).
- (7) Hides reserves associated with the GTE Project only.
- (8) PNG LNG Project reserves comprise the Kutubu, Moran, Gobe Main, SE Hedinia, Hides, Angore and Juha fields. In addition, third party sales gas and plant condensates have been included for SE Gobe in 2P reserves, at the post-sales agreement SE Gobe field interest.
- (9) Other gas and liquids resources comprise the Company's other fields including SE Mananda, Juha North, P'nyang, Kimu, Pandora, Uramu, Barikewa, Iehi and Cobra fields, as well as the 2010 Al Meashar-1 and Mananda 5 discoveries.
- (10) Included in these volumes are 191.1 bcf for PRL 1 Pandora. Tenure to this licence expired on 22 February 2013.

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

LICENCE INTERESTS



LICENCE INTERESTS as at 26 February 2013

LICENCE	FIELD/PROJECT	OIL SEARCH INTEREST %	OPERATOR
PNG Petroleum Development Licences (PDL)			
PDL 1	Hides	16.66	ExxonMobil
PDL 2	Kutubu, Moran	60.05	Oil Search
PDL 2 - SE Mananda JV	SE Mananda	72.27	Oil Search
PDL 3	SE Gobe	36.36	Santos
PDL 4	Gobe Main, SE Gobe	10.00	Oil Search
PDL 5	Moran	40.69	ExxonMobil
PDL 6	Moran	71.07	Oil Search
SE Gobe Unit (PDL 3/PDL 4)		25.55	Oil Search
Moran Unit (PDL 2/PDL 5/PDL 6)		49.51	Oil Search
Hides Gas to Electricity Project (PDL 1)		100.00	Oil Search
PDL 7	South Hides	40.69	ExxonMobil
PDL 8	Angore	40.69	ExxonMobil
PDL 9	Juha	24.42	ExxonMobil
PNG LNG Project	PNG LNG Project	29.00	ExxonMobil
PNG Pipeline Licences (PL)			
PL 1	Hides	100.00	Oil Search
PL 2	Kutubu	60.05	Oil Search
PL 3	Gobe	17.78	Oil Search
PL 4	PNG LNG Project	29.00	ExxonMobil
PL 5	PNG LNG Project	29.00	ExxonMobil
PL 6	PNG LNG Project	29.00	ExxonMobil
PL 7	PNG LNG Project	29.00	ExxonMobil
PL 8	PNG LNG Project	29.00	ExxonMobil
PNG Petroleum Processing Facility Licence			
PPFL 2	PNG LNG Project	29.00	ExxonMobil
PNG Petroleum Retention Licences (PRL)			
PRL 2		31.51	ExxonMobil
PRL 3	P'nyang	38.51	ExxonMobil
PRL 8	Kimu	60.71	Oil Search
PRL 9	Barikewa	45.11	Oil Search
PRL 10	Uramu	100.00 ⁽¹⁾	Oil Search
PRL 11		52.50	ExxonMobil
PRL 14	Cobra, lehi	62.56	Oil Search
PNG Petroleum Prospecting Licences (PPL)			
PPL 219		71.25	Oil Search
PPL 233		52.50	ExxonMobil
PPL 234		80.00 ⁽²⁾	Oil Search
PPL 239		20.00 ⁽³⁾	Talisman
PPL 240		100.00 ⁽⁴⁾	Oil Search
PPL 244		40.00 ⁽⁵⁾	Oil Search
PPL 260		50.00 ⁽⁶⁾	Oil Search
PPL 277		50.00	ExxonMobil
PPL 312		30.00	Oil Search
PPL 385		100.00	Oil Search
PNG Farmin Agreements			
PPL 276		30.00 ⁽⁷⁾	Rockwell Energy
PPL 338		30.00 ⁽⁸⁾	Kina Petroleum
PPL 339		30.00 ⁽⁸⁾	Kina Petroleum
Yemen			
Block 7		34.00 ⁽⁹⁾	Oil Search
Iraq			
Taza (K42)		60.00 ⁽¹⁰⁾	Oil Search
Tunisia			
Tajerouine		100.00 ⁽¹¹⁾	Oil Search

(1) In October 2012, Oil Search entered into a farmout agreement with Total S.A., under which Total may acquire a 50% interest.

(2) In October 2012, Oil Search entered into a farmout agreement with Total, under which Total may acquire a 40% interest.

(3) Oil Search has withdrawn from the licence subject to Ministerial approval and registration.

(4) An application to surrender the licence has been lodged for approval with the Minister.

(5) Transfer of a 40% interest from Oil Search to Total, as part of the October 2012 farmout agreement, is subject to Ministerial approval.

(6) Oil Search has agreed to sell a 10% interest to Esso PNG Exploration, subject to Ministerial approval, which would reduce Oil Search's interest to 40%.

(7) In November 2010, Oil Search entered into a farmin agreement with Rockwell Energy under which it holds a 30% interest and an option to increase its equity to 80%. Its interests are subject to completing assignment documents and Ministerial approval and registration.

(8) In November 2010, Oil Search entered into a farmin agreement with Kina Petroleum under which it holds a 30% interest and an option to increase its equity to 70%. Its interests are subject to completing assignment documents and Ministerial approval and registration. In October 2012, Oil Search subsequently entered into a farmout agreement with Total, under which Total may acquire a 35% interest.

(9) 40% paying interest.

(10) 75% paying interest.

(11) Tunisian Government has back-in rights of up to 50% of the licence on payment of past costs.

SUSTAINABILITY



Oil Search believes an ongoing commitment to safety and further embedding sustainability into the way we operate are integral to our business continuity and ultimately our success. This commitment to sustainability comprises five key principles:

- Operating with integrity.
- Generating shared value.
- Maintaining and enhancing our social license to operate.
- Striving for continuous sustainability performance improvement.
- Seeking ways to manage natural resources responsibly.

The Company is now midway through a multi-year sustainability strategy which comprises two key focus areas:

- Ensuring the business has an appropriate sustainability platform to support our business strategy and to meet the changing expectations of stakeholders.
- Embedding sustainability more effectively within 'business as usual'.

Key outcomes achieved toward these goals in 2012 included the following:

- Obtained Board approval of our Sustainability Policy.

- Conducted our first sustainability materiality assessment.
- Conducted a range of compliance and peer reviews to evaluate the effectiveness of our current standards and processes.
- Conducted our first employee sustainability survey.
- Commenced operation of the Sustainability Operations Group and Sustainable Development Coordination Group, to provide effective direction and oversight of sustainability at an operational level.
- Improved our monitoring and measurement in both environment and community development activities, including adoption of a new data management system, ready for utilisation in 2013.
- Improved our sustainability reporting with the introduction of a suite of targeted materials, with improved disclosure, relevance and conciseness.

More information on our approach to operating sustainably and our performance in 2012 is contained within the 2012 Sustainability Report, available online at www.oilsearch.com/Sustainability/Sustainability-Reporting.html.

Operating with integrity

Oil Search embraces and advocates ethical principles and practices that contribute towards combatting corruption, promoting good governance and respecting human rights and the environment.

Combatting corruption

During 2012, Oil Search commenced the implementation of a Fraud and Corruption Prevention Framework, following a review of the Company's Code of Conduct and related policies. Designed to address fraud and corruption holistically, the Framework includes policies covering Whistleblower Protection and Gifts and Entertainment.

During 2012, no material fraud cases were identified. However a few minor incidents were investigated. While the monetary value involved was minor, the Company took decisive action, either terminating employee contracts or implementing disciplinary measures. In 2013, a key Company focus will be developing the Framework further and increasing the rigour and intensity of monitoring, to deter the occurrence of these incidents.

Increasing payment transparency

Oil Search is an active supporter of the principles and goals of the Extractive Industries Transparency Initiative (EITI), a global coalition of governments, institutions and companies aimed at strengthening governance by improving transparency and accountability in the extractive industries sector.

During 2012, the Company continued to advocate to the PNG Government and work with extractive industry peers to adopt and implement an EITI standard specific to PNG. In December 2012, the Board formalised its commitment and Oil Search became an EITI Supporting Company. This drive towards greater payment transparency forms part of the Company's commitment under the United Nations Global Compact and its broader Fraud and Corruption Prevention Framework to work against corruption.

As an EITI Supporting Company, Oil Search has agreed to meet transparency reporting requirements, and in 2012 the Company increased the range and value of payments publicly disclosed. Details of Oil Search's payments are contained in our first Transparency Report, which is included in the 2012 Transparency and Sustainability Data Book, available online at www.oilsearch.com/Sustainability/Sustainability-Reporting.html. During the year, the Company also continued working with its PNG extractive industry peers with the goal of producing an aggregate industry payments report for PNG.

Improving benefits distribution

A key priority for Oil Search is ensuring that the benefit streams from its oil and gas projects translate into noticeably improved living standards for local communities.

In anticipation of first sales revenue from the PNG LNG Project, Oil Search is providing assistance, where appropriate, to the PNG Government, which has begun updating and validating the beneficiary list and determining a transparent method of distributing the cash benefits that will flow from the Project. This process will remain a key focus in forthcoming years, as ensuring the equitable distribution of benefits is vital to mitigating the risk of disruption.

The Company also continues to work with provincial governments on infrastructure development issues, providing local knowledge and project management expertise for effective project identification and implementation.

US\$315m

**TOTAL VALUE OF PAYMENTS
TO GOVERNMENTS
DISCLOSED IN 2012**

INCLUDES US\$81M
TO LANDOWNER
COMPANIES.



SUSTAINABILITY (CONT'D)



Lake Kutubu, PNG Highlands

Environment

Oil Search is committed to ensuring environmental issues are considered prior to and during all stages of operations, from exploration through to production and rehabilitation.

Environment management systems (EMS) and performance

Oil Search maintained its ISO14001 certification across its PNG operations in 2012. EMS improvements over recent years have included the comprehensive review and updating of all site specific environment management plans (EMP) and the development of an environment audit schedule, to ensure adherence to permit requirements and Oil Search's environment systems and processes. A two year Bund Improvement Programme was introduced, to enhance our approach to minimise the risks and impacts associated with the storage of hazardous materials.

In 2013, the Company plans to outline environmental key performance indicators (KPIs) to address specific ISO14001 metrics. An online environment data management system is also currently being installed to improve the integrity of the Company's environmental data.

Regular monitoring and analysis of incidents with an environmental impact is an important part of our operational risk management. In response to an increasing number of reported incidents, we conducted a detailed analysis of 2011 and 2012 environmental incidents. The review found that, although more environmental incidents were reported, there was no corresponding increase in environmental impact.

Improving greenhouse gas performance

Following a focus on improving the data management systems in 2012, Oil Search remains on track to have baseline greenhouse gas (GHG) emissions data available in 2013. This will enable us to quantify progress against our reduction target.

Progress was also made with developing a GHG abatement strategy. The Company identified and examined a broad range of emissions reduction opportunities that could be implemented at our PNG operations. Based on this work, a shortlist of opportunities has been developed to investigate further in 2013.

In 2012, total GHG emissions from Oil Search's PNG operations decreased by 11%. A reduction in emissions intensity was also recorded. This intensity reduction was largely influenced by changes to flaring and fuel gas emission profiles. Gas combustion emissions decreased, due to production shutdowns and a compressor system being offline.

↓ 11%

**GREENHOUSE GAS
EMISSIONS, YEAR ON
YEAR (ktCO₂e)**

GREENHOUSE GAS
EMISSIONS FELL 11%
TO 918 ktCO₂e

Improving water and waste management

Maintaining the ecological integrity of water bodies surrounding the Company's operations, including Lake Kutubu and the Kikori River Delta, is critically important. As such, Oil Search has a strong focus on water quality and location of discharge to minimise its environmental impact. In 2012, a review of Oil Search's water quality monitoring programme was conducted. We are using the outcomes to guide improvements to our EMP.

An operation-wide waste management review was also undertaken during the year, which led to a series of improvements which have commenced and will continue into 2013. Recommended improvements include the trial of a centrifuge for production sludge, used/junk chemical inventory consolidation, processing and repackaging, offsite removal of waste oil and recyclables and a composting programme.

In 2012, the Company's on-site laboratory at Kutubu was audited to obtain certification under the PNG Laboratory Accreditation Scheme. Certification is expected to be received in early 2013, once a number of modifications have been made. This will improve testing result times, environment incident response times and quality assurance and provide a cheaper alternative to sending samples offshore.

Oil Search people

Oil Search is committed to providing an open and engaged workplace which encourages accountability and drives high performance. A key focus in 2012 was the development of the Company's workforce.

Building organisational competency and capacity

During 2012, the Company-wide Competency Assurance Management System (CAMS) was further developed. Designed to ensure the availability and maintenance of a well trained workforce, the CAMS Framework will be used in determining future training requirements and enable the Company to assess whether it has the right skills and competencies to address the increasing complexity of its operations. In addition to CAMS, professional development programmes are used in other areas such as Finance, Drilling, Exploration, Subsurface, Commercial and Human Resources.

Developing current and future leaders

Identifying and developing leadership talent remains a key Company focus, particularly as Oil Search undergoes a transformation from predominantly an oil producer, to a gas producer. During the year, the People Development Group, comprising the Managing

Director and all Executive General Managers, met regularly to discuss the planning and development of top talent within Oil Search.

The People Development Group provides emerging leaders with opportunities to transition to different parts of the business, to broaden their knowledge and develop their careers with Oil Search. This involves assigning experienced mentors, designing individual development plans and considering the succession of key people into leadership roles. Half of the talent pool consists of PNG citizens and more than 25% are women.

The Company also remained committed to supporting local PNG representation, an objective that is aligned with partner and government expectations. During 2012, the percentage of PNG citizens within the Company's PNG operations remained steady at 83%, while the proportion of women in senior management rose from 10% to 13%. Attracting, developing and retaining national employees remains a high priority for Oil Search.

Improving safety performance, awareness and competency

During 2012, Oil Search was involved in an increased number of higher risk drilling and exploration activities in both Kurdistan and PNG. This contributed to

a deterioration in safety performance, with the Company reporting a Total Recordable Incident Rate (TRIR) of 2.64 per million hours worked in 2012, up from 1.85 in 2011. PNG operations achieved a TRIR of 1.87 while construction activities associated with Oil Search-operated PNG LNG Project-related work achieved a TRIR of 1.91. Performance at our MENA operations and at more remote sites in PNG was weaker.

Behavioural factors, specifically non-adherence to procedure, rather than Oil Search's systems and processes, is believed to have been one of the drivers of this increase. To reverse this trend, the Company conducted a behavioural based review in June and has subsequently increased field staff and senior management interaction, as well as supervision of the safety behaviour and performance of contractors. In June 2012, Oil Search increased the ratio of trained Safety Advisors to contract staff, leading to an overall decline in contractor associated incidents in the latter part of the year. A landowner company Safety Scorecard has also been developed, with lead and lag indicators, to increase Oil Search's engagement with landowner companies regarding safety awareness and performance.

In preparation for the mobilisation of the Gulf of Papua offshore drill rig in early 2013, a drilling 'Safety Day' was held in September and a workshop in November. The Company will extend the provision of behavioural based safety leadership coaching to all front line supervisors in 2013.

Increasing health awareness

During 2012, an Oil Search Sexual Gender Based Violence (SGBV) Protocol, to standardise procedures and clinical care was released to all our occupational clinics. SGBV is a challenge across PNG but can be improved with education and awareness. We also provided training for our employees and landowner company contractors, covering:

- Sexual gender based violence
- Family planning
- Men's engagement in reproductive health.

These programmes were well received and will continue in 2013.

In the lead-up to World AIDS Day in November 2012, we revised and updated the Oil Search HIV Policy. A staff awareness campaign will commence in 2013.





US\$12m

**TOTAL COMMUNITY
INVESTMENT IN 2012**

COMPRISING
CONTRIBUTIONS
TO THE OIL SEARCH
HEALTH FOUNDATION,
TAX CREDIT SCHEME
AND COMMUNITY
PROGRAMMES IN PNG
AND MENA.

Community development

Oil Search is committed to ensuring its operations and business priorities provide local communities with positive and sustainable development outcomes. Community development initiatives are designed to transfer skills to project area communities, so they can better manage the impact of the Company's activities and pursue their own development in a sustainable and self-reliant manner.

Training

20 new students graduated from the Oil Search Education Sponsorship Programme in 2012, successfully completing their chosen course and graduating from a tertiary education institution in PNG. Our investment in the sponsorship programme increased from US\$163,000 in 2011 to US\$203,000 in 2012.

Partnering with community groups and NGOs

During the year, Oil Search continued working with the CDI Foundation, to support access to secondary and tertiary level distance education, as well as agriculture, village skills and health awareness training for communities in the Kutubu, Gobe and Kikori project areas.

Work also continued in the Community Area Planning programme, which provides assistance to project impacted communities in the form of infrastructure, including housing for school teachers, water catchments, churches and aid posts.

In 2012, a new partnership was established with the National Agricultural Research Institute. Aimed at diversifying and improving food sources for communities in the Lake Kutubu area, the programme will involve the establishment of village level farming projects, to provide alternative protein sources to fish from the lake, and improve garden practices.

Building local enterprise

Oil Search's objective is to support and develop the capacity of local people and businesses so they can both prosper in the local market and provide a wide range of goods, services and skills to international standards. The success of landowner companies in particular is important for ensuring an adequate supply of goods and services, generating an income for local community shareholders and mitigating any landowner-related problems. Supporting the growth of landowner companies is therefore an ongoing priority for Oil Search and in 2012 our spending on services provided by landowner companies increased by 43%, to US\$81 million.

During the year, Oil Search supported a number of local cooperatives through ongoing contracts for the supply of their produce to Oil Search camp caterers as well as to partner camps. Women were targeted for this activity, as they are proven to ensure more stability of income to the community, enabling them to expand their operations and support their local communities more effectively.

Sustainability activities in MENA

Oil Search manages social development in our MENA operational areas using a similar approach to that in PNG, but on a smaller scale and customised to the local context. To better understand the risks, impacts and opportunities of our operations in the Kurdistan Region of Iraq, in late 2011 we commissioned a social baseline study of the Taza PSC. Completed in 2012, the study provided economic and political data about the Taza area, highlighted cultural and social concerns and needs and outlined the underlying history. This has informed our approach to sustainable development around our operations in Kurdistan, which currently consists of a number of small community-led projects to improve infrastructure and basic services, particularly for schools.

Community health

Oil Search Health Foundation

Established in 2011 and formally launched in March 2012 by Prime Minister Peter O'Neill, the Oil Search Health Foundation is a not-for-profit charity which aims to improve the long term health and wellbeing of the people of PNG. The Foundation draws on a Public Private Partnership (PPP) model and uses fundamental business principles to drive sustainable positive social change.

In 2012, the Foundation commenced administering the malaria (Round 8) and HIV (Round 10) grants received in 2011 from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund). Directing in excess of US\$68 million across programmes within PNG, the grants will enable the Foundation, in cooperation with the National Department of Health and other development partners, to scale-up the national HIV and malaria response over the next five years. For more information on the Oil Search Health Foundation, please visit:

www.oilsearchhealthfoundation.org.

HIV programme reach expanded

With the support of the HIV grant commencing in 2012, the Foundation initiated new HIV programme activities in the Hela and Morobe provinces, increasing the programme's influence in PNG. During the year, staff recruitment began, partnerships with local health and education authorities were developed and new offices and staff accommodation were set up. In addition, training was undertaken prior to Oil Search health services commencing a new wave of clinical activities. In September, endorsement was received from the PNG Department of Education for a new teacher training and mentorship programme in the Morobe and Hela provinces, which will deliver lessons on personal development, HIV and sexual and reproductive health and rights.

Medicine Store Keeper Programme expanded

In 2012, following the success of the 'Marasin Stoa Kipa' (MSK) Programme (Medicine Store Keeper) developed by the Foundation to reduce malaria in PNG, the project was expanded. This growth has seen expansion into other provinces in PNG, with a new site in Madang now operational. While previously the MSK kit contained malaria



Medicine Store Keeper Programme and kit expanded

test kits and treatments only, the new kits also contain a range of over the counter health and hygiene products including toothpaste, soap and nappies.

The expansion of the programme was facilitated by a new partnership formed in November with the Morobe Mining Joint Venture (MMJV) which was interested in rolling out the programme in the Huon and Bululo Districts where it operates. As the first joint health PPP in PNG between two resource companies, this represents a new model for community health programmes in PNG.

Improving maternal and child health awareness and training

In February 2012, the Foundation entered into a three year PPP with the PNG National Department of Health and AusAID to create a PNG Reproductive Health Training Unit. The Unit is aimed at building the capacity and competency of front line PNG health educators and training institutions through the provision of emergency obstetric care and family planning courses. Phase 1 of the staged roll-out will commence in 2013 with 10 medical or health education institutions in a number of regions across PNG. The Foundation will continue to provide training until the Unit is fully operational.

CORPORATE GOVERNANCE

Oil Search is committed to applying robust corporate governance practices across all its activities.

Commitment to good governance

To achieve its strategic objectives, Oil Search believes it is essential for the Company to adopt and meet the highest standards of corporate governance across all its activities. It is also committed to support this by transparent and open reporting of its governance practices, so that investors will be able to make informed investment decisions.

Oil Search has reported against the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (the "CGC Recommendations") each year since their first release in 2004.

ASX Corporate Governance Principles and Recommendations

Oil Search believes it followed all the CGC Recommendations during the twelve months ended 31 December 2012.

In reporting against the CGC Recommendations for 2012, Oil Search:

- Addresses the CGC Recommendations consecutively.
- Includes cross references to information not included in the corporate governance statement, but located elsewhere in the 2012 Annual Report or on the Company's website.

Principle 1: Lay solid foundations for management and oversight

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

Oil Search has formalised and defined the functions reserved for the Board and those delegated to management in a formal Board Charter. This charter defines the Board's duties to facilitate accountability to the Company and its shareholders. (*Recommendations 1.1 and 1.3*)

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

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

Performance evaluations for all senior executives were carried out in the reporting period, in accordance with the process disclosed in the above paragraph. The Company also expects that during 2013, performance evaluations for all senior executives will be carried out in accordance with that process. (*Recommendation 1.2 and 1.3*)

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

Principle 2: Structure the Board to add value

Oil Search recognises that an effective Board facilitates the efficient discharge of the duties imposed by law on directors and contributes to the delivery of the Company's strategic objectives. Accordingly, Oil Search has structured its Board so that it:

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

During 2012:

- A majority of Oil Search's directors were independent at all times, as assessed in accordance with

the Board Charter and the CGC Recommendations, and met regularly without management present. (*Recommendation 2.1*)

- The Chairman, Brian Horwood, was an independent director. (*Recommendation 2.2*)
- The roles of Chairman and Managing Director were not performed by the same individual. (*Recommendation 2.3*)

The Board has a Remuneration and Nominations Committee comprising four independent directors. The members of the Remuneration and Nominations Committee and their attendance at meetings of the Committee during 2012 are detailed in the Directors' Report. (*Recommendations 2.4 and 2.6*)

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

Board capabilities, succession planning and review process

The Company believes that its Board should consist of directors bringing an appropriately diverse mix of skills and experiences that are compatible with the Company's operating activities, geographic focus and strategic direction. In particular, the overall mix of directors' skills should cover the industry and countries in which Oil Search operates and address accounting, finance and legal matters. The Board has developed a skills matrix that records the mix of skills, experience and technical capabilities of existing directors and assists in identifying any deficiencies compared to the overall targeted mix of capabilities that have been defined for the Board. This gap analysis is used to support the process of preparing the recruitment brief given to the recruitment firm or firms selected to search for a prospective new director when a Board vacancy arises. (*Recommendation 2.6*)

In the second half of 2011, the Board initiated a succession planning review, focusing on how the structure of the Company's Board should evolve over the next few years, particularly in preparation for the business growth opportunities that will flow from completion of the construction phase of the PNG LNG Project. The review concluded that it was desirable to



1. BF HORWOOD (CHAIRMAN)
2. PR BOTTEN
3. G AOPI
4. KG CONSTANTINOU
5. B PHILEMON
6. RJ LEE
7. AJ KANTSLER
8. KW SPENCE
9. ZE SWITKOWSKI

CORPORATE GOVERNANCE (CONT'D)

refresh the membership of the Board, provided suitable candidates could be identified and, accordingly, three new directors joined the Board during 2012.

The Oil Search Board operates a formal annual review process for the Board and individual directors. The process involves each director completing a detailed questionnaire covering the performance of the Board as a whole, the performance of the three Board Committees, the individual director's own performance and the performance of the Chairman. The Chairman then meets with each director to review their responses to the questionnaire and to give the director the Chairman's own views on how the director has performed during the year. This formal annual review process was conducted in 2012. *(Recommendation 2.6)*

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

Director induction and ongoing education

New directors participate in an induction programme to assist them in understanding Oil Search's strategic objectives, values and culture, financial performance, operations and risk management systems. The induction process also covers relevant administrative and procedural arrangements to promote the effective functioning of the Board.

A programme of continuing education is offered to all directors, including the practice of inviting external industry and subject specialists to present to the Board on matters of general relevance to the Company. In addition, Board members visit the Company's operating facilities at least annually.

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

Director independence and access to external advice

Each Oil Search director (other than the Managing Director, Peter

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

There is a procedure in place for directors to take independent professional advice. In particular, a director may obtain independent professional advice if this is reasonably required to assist the director in the proper exercise of the powers and discharge of the duties of a director of the Company. The costs of such independent professional advice are borne by the Company provided that, before engaging the independent professional adviser, the director obtains the approval of the Chairman, or, if the director is the Chairman, the approval of a majority of the non-executive directors of the Company. *(Recommendation 2.6)*

The period of office held by each director in office at the date of the 2012 Annual Report is specified in the Directors' Report. *(Recommendation 2.6)*

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

Principle 3: Promote ethical and responsible decision making

Oil Search actively promotes ethical and responsible decision making.

Oil Search has a Code of Conduct which is supported by a training module and periodic monitoring of compliance. The Code was reviewed and updated

in 2012. Among matters addressed, the Code of Conduct details the Company's requirements regarding monetary payments and gifts offered by third parties to Oil Search personnel. *(Recommendation 3.1)*

Diversity

Oil Search is committed to promoting diversity across the Company at all levels, including at Board level, as an engaged and diverse workforce will contribute to improved operating performance and the delivery of strategic objectives. In particular, as a Papua New Guinean company, Oil Search is focused on training and developing its PNG citizen employees so that they are equipped to assume leadership positions across the Company. The Company has established measurable objectives to increase the diversity mix of both the workforce and the Board.

In 2011, the Board approved a Diversity Policy for the Company that reflects this commitment and includes the requirement for setting and reporting on measurable objectives for increasing diversity, including with respect to the representation of PNG citizens and women in leadership roles. *(Recommendation 3.2)*

The Policy also outlines the Company's key commitments across activities such as recruitment, promotion and retention and removal of barriers to merit-based advancement of women and PNG citizens within the Company.

The Company's achievements in 2012 in promoting gender and other forms of diversity and the objectives set by the Board in support of the implementation of the Diversity Policy are set out on page 47 of the 2012 Annual Report. *(Recommendation 3.3)*

Key measures of diversity across the Oil Search organisation, including the proportion of women employees in total, women in senior management positions and women on the Board are summarised on page 47 of the 2012 Annual Report and set out in more detail in the 2012 Sustainability Report. *(Recommendation 3.4)*

Promoting diversity

Objectives for 2012	Outcome
1. Increase female representation on the Oil Search executive team and Board	Talent Development & Recruitment processes (particularly for senior management roles), have been refined to focus on gender (and ethnic) diversity. Career development plans are being progressed for females identified as having potential to occupy leadership roles.
2. Increase PNG citizen representation in leadership roles	PNG citizens have been appointed to production and functional leadership roles at each operation, supported by development programmes and formal mentors.
3. Implement key aspects of the Diversity Policy	The Code of Conduct training has been refreshed to include guidance on diversity objectives and priorities.
4. Support employees looking for more flexible work options	Flexible work options including teleworking are being adopted.

A summary of diversity indicators as at 31 December 2012 is provided below:

Diversity in senior management and governance roles	2010	2011	2012
% Women in organisation as a whole	19%	20%	21%
% Women in senior management roles	6%	10%	13%
% PNG nationals in senior management roles	23%	23%	22%
% Women on the Oil Search Board	0%	0%	0%
% PNG nationals on the Oil Search Board	22%	22%	22%

The Code of Conduct and the Diversity Policy are available on Oil Search's website in the Corporate Governance section. (*Recommendation 3.5*)

Principle 4: Safeguard integrity in financial reporting

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

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

The Board has an Audit Committee. (*Recommendation 4.1*)

At all times during 2012 the Audit Committee consisted of:

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

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

The members of the Audit Committee, their qualifications and their attendance at meetings of the Committee held during 2012 are detailed in the Directors' Report. (*Recommendation 4.4*)

The number of meetings of the Audit Committee held during 2012 is detailed in the Directors' Report. (*Recommendation 4.4*)

The external auditors attended all Audit Committee meetings in 2012. The external auditors held discussions at each meeting with the Committee members and without management present.

Oil Search's policy is to appoint an internationally recognised external audit firm with expertise in the resources sector. Deloitte Touche Tohmatsu was appointed the Company's auditor in May 2002. The Audit Committee reviews the performance of

the external auditor and the rotational plan for external audit partners. The Committee recommends the tendering and selection of the external auditor to the Board. The external audit was tendered in March 2009 to a range of qualified international audit firms, with Deloitte Touche Tohmatsu successful in resecuring the role. The re-appointment of Deloitte Touche Tohmatsu was approved at the 2012 Annual Meeting.

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

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

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

Principle 5: Make timely and balanced disclosure

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

- All investors have equal and timely access to material information concerning the Company, including its financial position, performance, ownership and governance.
- Company announcements are factual and presented in a clear and balanced way, including disclosure of both positive and negative information.

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

Although not required by the PNG regulatory framework, but reflecting the Company's commitment to maintaining good governance practice, Oil Search has elected to include a Remuneration Report within the Directors' Report. The 2012 Remuneration Report complies with section 300A of the Australian Corporations Act 2001 (Cth) and has been audited by Deloitte Touche Tohmatsu.

CORPORATE GOVERNANCE (CONT'D)

Oil Search's Public Disclosure and External Communications Policy is available on Oil Search's website in the corporate governance section. The Policy was reviewed and updated in 2012. (*Recommendation 5.2*)

Principle 6: Respect the rights of shareholders

Oil Search's Public Disclosure and External Communications Policy is designed to promote effective communication with shareholders, through the provision of readily accessible, balanced and understandable information about the Company, and to encourage their participation at general meetings. (*Recommendation 6.1*)

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

When the Company holds major investor briefings such as the half and full year results presentations, electronic facilities such as webcasting and teleconferencing are utilised to facilitate wide participation.

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

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

Oil Search's Public Disclosure and External Communications Policy is available on Oil Search's website in the corporate governance section.

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

Principle 7: Recognise and manage risk

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

Oil Search conducts an annual review of its risk management policies and standards. These reviews cover the process for reporting on the identification, assessment and management of material business risks, including Board and committee reviews of material business risk reports prepared by management. Oil Search has policies and standards in place covering the oversight and management of material business risks arising within the oil and gas environment. These policies and standards are based on management of the hazards and exposures inherent in Oil Search's business activities. Oil Search's risk profile incorporates the following areas of exposure:

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

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

The Board requires management to design and implement a risk management and internal control system, to manage the Company's material business risks. During 2012 management regularly reported to the Board on those material business risks. (*Recommendations 7.2 and Recommendation 7.4*)

In developing its risk management systems, Oil Search has considered its legal obligations and its responsibilities to various interest groups. Oil Search recognises that many groups, including shareholders, employees, customers, suppliers, creditors, consumers, landowners, government authorities and

the broader community, both locally and internationally, have a legitimate interest in the Company's risk management policies and procedures. Oil Search takes account of the potential impacts and consequences for all stakeholders when assessing risk exposures.

Oil Search's risk management framework is based on the International Standard for Risk Management (ISO 31000). Aspects of other internationally developed risk frameworks, such as the "Enterprise Risk Management Model", developed by the Committee of Sponsoring Organisations of the Treadway Commission, have been incorporated as appropriate.

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

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

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

Minutes of all Board committees are reviewed by the full Board. The Chairman of the Board attends committee meetings as an ex officio member. The members of the Finance and Risk Committee, their qualifications and attendance at meetings of the Committee during 2012 are detailed in the Directors' Report.

Oil Search has a full time Assurance and Compliance Manager with responsibility for managing the internal audit function. As part of his/her duties, the Assurance and Compliance Manager provides independent assurance on the adequacy and effectiveness of the Company's risk management framework and the completeness and accuracy of risk reporting by management. The Assurance and Compliance Manager conducts annual risk reviews based on a plan agreed with management and the Audit Committee

and the Finance and Risk Committee. The Assurance and Compliance Manager has access to all members of the management team and the right to seek information and explanations from any staff member or contractor.

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

The Managing Director and Chief Financial Officer are both required to state in writing to the Board that the integrity of the Company's financial statements is based on a sound system of risk management and internal control, which supports the implementation of the Board's policies. In addition, senior managers are required to confirm to the Managing Director and to the Chief Financial Officer in writing that key Company policies and standards have been operating effectively throughout the year, including the operation of risk management processes, mitigation opportunities and contingency plans. The Managing Director and Chief Financial Officer provided an unqualified statement regarding risk management and internal compliance and control systems to the Board for 2012.

The Board requires the Managing Director and the Chief Financial Officer to provide a declaration that is consistent with section 295A of the Australian Corporations Act 2001 (Cth). The Board received this declaration from the Managing Director and the Chief Financial Officer in 2012. In addition, as noted above, the Board also received reports from management during 2012 regarding the management of material business risks. (*Recommendations 7.3 and Recommendation 7.4*)

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

Principle 8: Remunerate fairly and responsibly

Oil Search's policy is to ensure that the level and composition of remuneration for all employees is competitive and

reasonable and that the relationship between remuneration and corporate and individual performance is clearly defined.

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

At all times during 2012 the Remuneration and Nominations Committee consisted of:

- Independent directors only.
- An independent chairman.
- A minimum of three members. (*Recommendation 8.2*)

Oil Search clearly distinguishes the structure of non-executive director remuneration from that of executive director and senior executive remuneration. Oil Search's policy in relation to remuneration is detailed in the Remuneration Report. (*Recommendation 8.3*)

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

Within the aggregate amount approved by shareholders, the fees of the Chairman and non-executive directors are set at levels in line with the responsibilities of those directors and the time spent by those directors in discharging their duties. In setting fees, regard is also given to the level of fees paid to directors of similar companies. Non-executive directors are not currently entitled to retirement benefits, other than statutory superannuation. (*Recommendations 8.3 and 8.4*)

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

The members of the Remuneration and Nominations Committee, their qualifications and attendance at meetings of the Committee during 2012 are detailed in the Directors' Report. (*Recommendation 8.4*)

The Remuneration and Nominations Committee's charter is available on Oil Search's website in the corporate governance section. (*Recommendation 8.4*)

Oil Search's Share Trading Policy expressly prohibits employees entering into transactions in financial products which limit the economic risk of participating in unvested entitlements under equity based remuneration schemes. The Share Trading Policy is available on Oil Search's website in the corporate governance section. (*Recommendation 8.4*)

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DIRECTORS' REPORT

31 DECEMBER 2012

The directors submit their report for the financial year ended 31 December 2012.

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, BCom, FAICD, FCPA (Chairman), Non-Executive, 71 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: 25,000; Options: nil

Mr PR Botten, CBE, BSc, ARSM, (Managing Director), Executive, 58 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: 2,139,122; Options: nil; Performance Rights: 953,272; Restricted shares: 112,493

Mr G Aopi, CBE, BEc, BAC, MBA, Executive, 58 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, and filling a number of important positions, including Secretary for Finance and Planning and Managing Director of Telikom PNG Ltd. He was previously the Chairman of Telikom PNG Ltd and 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: 243,526; Options: nil; Performance Rights: 240,736; Restricted shares: 128,046

Mr KG Constantinou, OBE, Non-Executive, 55 years

Mr Constantinou joined the Board on 16 April 2002. He is a prominent business figure in Papua New Guinea, holding a number of high level public sector and private sector appointments. Mr Constantinou is Chairman of various companies, including Airways Hotel & Apartments Limited, Lamana Hotel Limited, Lamana Development Limited, Hebou Constructions, Alotau International Hotel, Pacific Games 2015 Authority and Bank of South Pacific. He is a Director of Heritage Park Hotel in Honiara, Gazelle International Hotel in Kokopo, Grand Pacific Hotel in Fiji and Airlines PNG Limited. Mr Constantinou is also Vice President of the Employers Federation of Papua New Guinea, Deputy Chairman of St John Council, 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, BEc, GradDip (Intl. Law), MBA, MAICD, PNGID, Non-Executive, 59 years (Resigned 5 June 2012)

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, BA, LLB (Hons), FAICD, Non-Executive, 63 years (Resigned 8 May 2012)

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

DIRECTORS' REPORT

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Dr AJ Kantsler, BSc (Hons), PhD, GAICD, FTSE, Non-Executive, 62 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 Director of Forte Consolidated Limited. He was also Councillor and Director of the Australian Petroleum Production and Exploration Association (APPEA) for 15 years, where, as well as being chairman of several of APPEA's 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 Managing Director of Transform Exploration Pty Ltd, a Director of Savcor Group Limited and the Chamber of Commerce & Industry, WA.

Ordinary shares, fully paid: 17,090; Options: nil

Mr RJ Lee, BEng (Chem) (Hons), MA (Oxon), FAICD, Non-Executive, 62 years

Mr Lee joined the Board on 9 May 2012. Mr Lee has extensive resource banking and international commercial experience. His previous senior executive roles include 16 years with CSR Limited and 9 years in the position of Chief Executive Officer of NM Rothschild Australia Limited. Mr Lee is Chairman of Salmat Limited, Deputy Chairman of Ridley Corporation Limited and a Director of Newcrest Mining Limited.

Ordinary shares, fully paid: 20,000; Options: nil

Mr B Philemon, Non-Executive, 67 years

Mr Philemon joined the Board on 5 November 2012. Mr Philemon is acknowledged as one of Papua New Guinea's most influential leaders, with distinguished careers in both business and public service. Mr Philemon's career highlights include serving as Chairman of Air Nuigini and holding a number of ministerial posts in PNG Government, including Minister of Foreign Affairs and Minister for Finance and Treasury. Mr Philemon served as the member for Lae Open in Government from 1992 until the 2012 elections. Mr Philemon is a director of Highlands Pacific Limited.

Ordinary shares, fully paid: 7,165; Options: nil

Mr KW Spence, BSc (Geophysics) (Hons), Non-Executive, 59 years

Mr Spence joined the Board on 9 May 2012. Mr Spence brings over thirty years of oil and gas experience to the Board, having served in senior executive positions with Woodside Petroleum Limited, including Chief Operating Officer and Acting Chief Executive. Mr Spence was with Shell for 18 years prior to Woodside. Mr Spence is Chairman of Clough Limited and Geodynamics Limited. He is a Director of Verve Energy and also chairs a number of other bodies including the National Offshore Petroleum Safety and Environmental Management Authority Advisory Board and the Australian Institute of Management (WA).

Ordinary shares, fully paid: nil; Options: nil

Mr JL Stitt, MA (Hons), FAICD, Non-Executive, 69 years (Resigned 8 May 2012)

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, BSc (Hons), PhD, FAICD, FTSE, Non-Executive, 64 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 Group 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: 175,000; Options: nil

GROUP SECRETARY

Mr SW Gardiner, BEc (Hons), FCPA, 54 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 and corporate services responsibilities. In November 2012 Mr Gardiner was appointed to the position of Chief Financial Officer of Oil Search. Mr Gardiner is also the Group Secretary of Oil Search, a role he has held since May 2009.

Ordinary shares, fully paid: 151,812; Options: nil; Performance Rights: 185,060; Restricted shares: 8,178

DIRECTORS' REPORT

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RESULTS AND REVIEW OF OPERATIONS

Financial

The consolidated entity delivered a net profit of US\$175.8 million (2011: US\$202.5 million) for the year, after providing for income tax of US\$171.8 million (2011: US\$237.4 million).

Operations

2012 revenue from operations was US\$724.6 million (2011: US\$732.9 million), with crude oil sales contributing US\$593.2 million (2011: US\$654.3 million). The 9.3% crude revenue decrease on the prior year was driven by a 1.8% decrease in realised oil prices from US\$116.09/bbl in 2011 to US\$113.97/bbl in 2012, and a 7.6% decrease in oil sales volumes to 5,205,000 barrels. The Company did not establish any oil hedges during the period and remained unhedged to oil price movements.

Net cash from operating activities decreased to US\$196.2 million in 2012, compared to US\$386.2 million in 2011. This was primarily due to lower oil sales, higher tax payments following finalisation of assessments for prior years, non-recurring costs associated with the Kumul Marine Terminal (KMT) oil sheen incident and severe weather conditions, the impact of adverse foreign exchange movements and working capital movements.

In August 2012, Oil Search signed an extension agreement to its gas sales agreement with the Porgera gold mine to supply 56 billion cubic feet of gas (bcf) (including associated liquids) until the earlier of December 2021 or when the maximum sales volume has been reached. At the same time, Oil Search signed a parallel agreement with the owners of the Hides gas field to access the extra 56 bcf.

In December 2012 Oil Search completed the sale of its 40% interest in Block 3 (Gardan) in Yemen to TOTAL S.A. of France, resulting in a \$29.3 million net profit on sale.

During 2012, Oil Search also farmed down select Gulf of Papua licences (offshore PPLs 234, 244 and PRL10, and onshore PPLs 338 and 339) to TOTAL S.A. of France, resulting in a \$9.3 million net profit on sale.

Under the PNG Oil and Gas Act, Oil Search's 24.09% interest in PRL 1 (Pandora Gas Field) is required to be relinquished in February 2013 as the licence has reached its 15 year maximum term. As a consequence of the relinquishment, Oil Search has recorded a pre-tax \$23.8 million impairment to the carrying value of its exploration assets associated with this licence.

Amortisation and depreciation charges decreased by US\$1.8 million compared to the prior year, from US\$51.3 million to US\$49.5 million, due to lower sales volumes.

Exploration, development and production costs expensed during 2012 totalled US\$144.0 million, compared to US\$60.6 million in 2011. This included the write-off of current and past costs in relation to two unsuccessful wells, Trapia (US\$70.0 million) and the IDT 25 Koi lange test (US\$20.5 million). It also included US\$32.7 million outlaid on PNG seismic costs.

Exploration and evaluation expenditure during the year was US\$240.6 million (2011: US\$144.6 million), development expenditure was \$1,492.5 million (2011: US\$1,286.5 million) and production expenditure was US\$111.5 million (2011: US\$129.4 million).

Total oil and gas production was 6.38 million barrels of oil equivalent (mmboe) in 2012 compared with 6.69 mmboe in 2011, with the 4.6% year-on-year reduction due to:

- Underlying field decline rates;
- Major planned shutdowns at the Central and Gobe Processing Facilities to allow essential modifications for the PNG LNG Project and Associated Gas tie in work; and
- An unplanned shut-in in July to allow an inspection of the KMT loading system following identification of an oil sheen in proximity to the loading facility.

During the year, further progress was made on the construction of the PNG LNG Project, operated by Esso Highlands Limited (the operator), an affiliate of the Exxon Mobil Corporation. Site preparation and infrastructure development activities as well as the heavy construction phase, continued during the year. The operator has confirmed the Project remains on track to achieve first LNG sales in 2014 and is now approximately 75% complete. The Operator advised that the capital cost estimate for the Project increased from US\$15.7 billion to US\$19.0 billion. Foreign exchange is the largest single contributor to the increase, at US\$1.4 billion. This brings the total realised and estimated foreign exchange impact (through to first LNG deliveries) to US\$2.1 billion since Project sanction. Delays from work stoppages and land access issues, which have led to increased construction and drilling costs, have added US\$1.2 billion to the cost estimate. In addition, adverse logistics and weather conditions, including rainfall exceeding historic norms for most of the last two years, are estimated to have added US\$0.7 billion.

It is expected that the capital cost increase in the PNG LNG Project will continue to be financed on the same ratio of debt and equity, namely 70% debt and 30% equity contributions from the Project co-venturers. Under the existing terms of the PNG LNG project financing, the co-venturers intend to expand the US\$14 billion PNG LNG Project Financing Facility by issuing supplemental debt of US\$1.5 billion dollars. The process to increase the project financing has commenced and it is envisaged that the agreements associated with the new tranche of debt will be executed around the middle of 2013. Oil Search's additional equity contributions will be funded by its existing cash balances, operating cash flows and the new five year, US\$500 million revolving credit facility that was executed in October 2012.

PNG LNG Project activities in 2012 included:

- Continued construction of Trains 1 and 2, the main jetty and associated facilities at the LNG plant site near Port Moresby;
- Completion of the offshore pipeline;
- Continuation of the onshore pipe lay, past Kutubu and towards Hides;
- Continued construction of the Komo airfield and the earthworks and foundations of the Hides Gas Conditioning Plant;

DIRECTORS' REPORT

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- ▶ Continued well pad development and the commencement of drilling at the Hides field;
- ▶ Further work on the Associated Gas Project by Oil Search.

On 29 October 2012 Oil Search signed documentation with a 15 member banking group for a US\$500 million five year, non-amortising revolving credit facility. The new corporate facility replaces the previous US\$435 million amortising facility that was due to expire in September 2013.

At 31 December 2012 the Company's cash and cash equivalent holdings totalled US\$488.3 million (2011: US\$1,047.5 million), including US\$8.1 million (2011: \$9.8 million) held in joint venture accounts, and debt of US\$2,866.0 million at the end of December (2011: \$1,747.6 million).

DIVIDENDS

Subsequent to balance date, the directors approved the payment of a final unfranked dividend of US 2 cents per ordinary share (2011: US 2 cents final dividend) to ordinary shareholders in respect of the financial year ended 31 December 2012. The due date for payment is 9 April 2013 to all holders of ordinary shares on the Register of Members on 14 March 2013. 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, development 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 2012 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 Kriewaldt¹ (Chairman), Mr RJ Lee² (Chairman), Mr R Igara³, Dr AJ Kantsler, Mr B Philemon⁴, Mr KW Spence⁵ and Mr JL Stitt⁶. Mr BF Horwood is an ex officio attendee;

Remuneration and Nominations: Dr ZE Switkowski (Chairman), Mr KG Constantinou, Mr R Igara³, Mr B Philemon⁴, Mr KW Spence⁵ and Mr JL Stitt⁶. Mr BF Horwood is an ex officio attendee;

Finance and Risk: Dr AJ Kantsler (Chairman), Mr G Aopi, Mr KG Constantinou, Mr MDE Kriewaldt¹, Mr RJ Lee² and Dr ZE Switkowski. Mr BF Horwood is an ex officio attendee.

- (1) Mr MDE Kriewaldt was Chairman of the Audit Committee and a Member of the Finance and Risk Committee until his resignation from the Board effective 8 May 2012.
- (2) Mr RJ Lee was appointed to the Board effective 9 May 2012. Mr Lee became Chairman of the Audit Committee and a Member of the Finance and Risk Committee effective 19 July 2012.
- (3) Mr R Igara was a Member of the Audit Committee and the Remuneration & Nominations Committee until his resignation from the Board effective 5 June 2012.
- (4) Mr B Philemon was appointed to the Board effective 5 November 2012. Mr Philemon became a Member of the Audit Committee and the Remuneration and Nominations Committee effective the date of his appointment.
- (5) Mr KW Spence was appointed to the Board effective 9 May 2012. Mr Spence became a Member of the Audit Committee and Remuneration and Nominations Committee effective 19 July 2012.
- (6) Mr JL Stitt was a Member of the Audit Committee and the Remuneration and Nominations Committee until his resignation from the Board effective 8 May 2012.

DIRECTORS' REPORT

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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	9	4	4	4
Number of meetings attended				
BF Horwood ⁽²⁾	9	3	4	4
PR Botten	9	—	—	—
G Aopi	9	—	—	4
KG Constantinou	8	—	4	4
R Igara	4	2	2	—
MDE Kriewaldt	4	2	—	2
JL Stitt	4	2	2	—
AJ Kantsler	9	4	—	4
ZE Switkowski	9	—	4	4
RJ Lee	5	2	—	2
KW Spence	5	2	2	—
B Philemon	1	—	1	—

(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, Remuneration & Nominations Committee and Finance & 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 aims to operate 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 1,200 employees as at 31 December 2012 (2011: 1,125). Oil Search Limited is listed on the Australian Securities Exchange and Port Moresby Stock Exchange.

SHARE BASED PAYMENT TRANSACTIONS

There were 1,744,200 share appreciation rights (2011: 1,498,560) granted under the Employee Share Appreciation Rights Plan. There were 1,899,900 performance rights (2011: 1,696,500) granted under the Performance Rights Plan, and 108,513 restricted shares (2011: 443,289) granted under the Restricted Share Plan during the year.

As at 31 December 2012, there are 469,930 options (2011: 1,659,552), 4,291,120 share appreciation rights (2011: 2,918,020), 5,344,915 performance rights (2011: 5,735,932), and 1,295,197 restricted shares (2011: 1,657,365) 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 26 for further details).

DIRECTORS' AND OTHER OFFICERS' REMUNERATION

The Remuneration and Nominations 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 27 to the financial statements.

DIRECTORS' REPORT

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REMUNERATION REPORT

1 REMUNERATION REPORT

This report has been prepared in accordance with section 300A of the Australian Corporations Act 2001 and summarises the arrangements in place for the remuneration of directors, key management personnel and other employees of Oil Search for the period from 1 January 2012 to 31 December 2012. Although it is not a requirement for PNG companies, Oil Search has voluntarily complied with section 300A of the Corporations Act 2001 to ensure it meets current best practice remuneration reporting for ASX listed companies.

2 REMUNERATION POLICY

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

The objectives of the Oil Search remuneration policy are to:

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

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

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

3 SHARE TRADING POLICY

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

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

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

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

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

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

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

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

	CLOSED PERIOD	TRADING WINDOW	ALL OTHER TIMES
Restricted Employees	Not permitted to trade	May trade after first notifying Company Secretary	Must receive pre-approval 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 three non-executive directors and the members of the Committee during the year were:

- Dr ZE Switkowski – independent non-executive (*Chair from 12 May 2011*)
- Mr KG Constantinou OBE – independent non-executive
- Mr KW Spence – independent non-executive (from 9 May 2012)
- Mr B Philemon – independent non-executive (from 5 November 2012)
- Mr R Igara CMG – independent non-executive (until 5 June 2012)
- Mr JL Stitt – independent non-executive (until 8 May 2012)

The Chairman of the Board, Mr B Horwood, is normally an ex-officio member of the Committee. 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.

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 2012 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 2012

CONSULTANT	COMMITTEE AND BOARD ENGAGEMENTS	MANAGEMENT ENGAGEMENTS
Ernst & Young	Provision of data in relation to Non-Executive Directors' remuneration.	Management of employee relocations.
	Provision of Total Shareholder Return calculations.	Individual tax advice and tax return preparation for expatriate employees.
Aon Hewitt	Provision of data to support a review of remuneration of Managing Director and the Senior Management Team (to be completed in February 2013)	General remuneration survey data.
Orient Capital	Ad hoc reporting in relation to Total Shareholder Return calculations.	Regular analysis of the Company's shareholder registry.
JWS Consulting	Non-executive director recruitment.	
Egon Zehnder	Non-executive director recruitment.	

DIRECTORS' REPORT

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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.

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; and development initiatives; and
- Growth metrics which include: discovery of new hydrocarbon resources and progress towards the commercialisation of 2C 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	2008	2009	2010	2011	2012
0% to 200% of STI Opportunity	85.9%	84.6%	61.4%	28.5%	106.8%

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. 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.

DIRECTORS' REPORT

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Share Appreciation Rights

Share Appreciation Rights (SARs) 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 2012 grant of SARs was 1,900 per participant and the Vesting Price (equivalent to the Exercise price of a Share Option) was \$7.26. Assuming the Oil Search share price increased to \$9.60 at vesting, the employee would be granted 463 shares based on the following formula:

$$\frac{\text{Number of Rights} \times (\text{Price on Vesting} - \text{Vesting Price})}{\text{Price on Vesting}} = \frac{1,900 \times (\$9.60 - \$7.26)}{\$9.60} = \frac{\$4,446}{\$9.60} = 463 \text{ shares}$$

SARs 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 above the Vesting Price, then the SARs will automatically lapse on the vesting date. As a result, the employee only benefits from a grant of SARs if the Oil Search share price increases over the three year vesting period, so this form of LTI is directly related to increasing Shareholder Value.

Employee Share Option Plan

Awards under the 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 SARs 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	2008	2009	2010	2011	2012
Award Type	Options	Options	SARs	SARs	SARs
Grant Date	4 Aug 08	1 Jun 09	1 Jun 10	23 May 11	21 May 2012
Vesting Date	5 May 11 ⁽¹⁾	13 May 12 ⁽²⁾	17 May 13 ⁽³⁾	16 May 14	15 May 15
Options/Rights per employee	2,170	1,600	1,900	1,680	1,900
Total Award	1,788,080	1,340,800	1,554,200	1,498,560	1,744,200
Exercise/Vesting Price	\$4.88	\$5.22	\$5.63	\$6.98	\$7.26

(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 (PRs). Until 2009, PRs 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 PRs 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.

DIRECTORS' REPORT

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For awards made between 2007 and 2011, Oil Search's performance has been measured against two peer groups, with an equal weighting ascribed to each of:

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

(1) The 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.

The Committee made the following changes to the comparator group to apply for awards of Performance Rights made in May 2012:

- The ASX comparator group was narrowed to the ASX50 (excluding property trusts and non-standard listings) to better reflect the Company's market capitalisation; and
- The international oil and gas comparator group was broadened to include the constituents of the Standard & Poor's Global Energy Index. This removed the subjectivity of inclusion or exclusion of individual oil and gas companies and the larger peer group reduces the impact of merger and acquisitions within the peer group. TSR outcomes are also normalised against a US dollar base currency to provide consistency of measurement.

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 SARs, 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:

Table 5 – Details of Awards of Performance Rights

GRANT YEAR	2007	2008	2009	2010 ⁽²⁾	2011	2012
Measurement Period	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	1 Jan 12 to 31 Dec 14
Total Rights Granted	2,783,746	2,437,300	1,774,895	1,997,400	1,696,500	1,899,900
Oil Search TSR (3 year) ⁽¹⁾	91%	53%	44%	23%		
Percentile Rank (ASX peer group)	96.0%	96.5%	68.3%	68.3%		
Vesting	50.0%	50.0%	43.3%	43.25%	May 2014	May 2015
Percentile Rank (International Group)	87.5%	94.1%	53.3%	93.3%		
Vesting	50.0%	50.0%	28.3%	50%	May 2014	May 2015
Total Vesting	100.0%	100.0%	71.6%	93.3%	May 2014	May 2015

(1) 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 2010 Performance Rights will not vest until May 2013, Oil Search relative TSR for the period 1 January 2010 to 31 December 2012 is available.

Long Term Incentive Plan Rules

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

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

Under the LTIP, all grants are automatically exercised on vesting, so there will never be any vested grants that have not been exercised. 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. In line with the existing ESOP and PRP, if a participant dies or

DIRECTORS' REPORT

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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.

Grants of PRs, Share Options or SARs do not attract any right to dividends or voting rights.

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 are only 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.

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 provided as retention awards 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.

PNG Retention Program

The PNG LNG project is significantly changing the employment landscape in Papua New Guinea, with the project operator and its contractors hiring 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 is 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 on PNG LNG.

All permanent PNG Citizen 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, the 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.

Retention of our PNG Citizen employees continues to be reviewed on a regular basis in view of PNG LNG.

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.

DIRECTORS' REPORT

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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 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)

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) on salary package items 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 "at risk" remuneration, since any payment is dependent on performance. The Board's objective is that the size of these incentives should reflect Oil Search's success 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 (safety, production, costs, and development initiatives) and growth metrics (the discovery or 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 provides an incentive opportunity of 80% of TFR for senior executive's (100% of TFR for the Managing Director), for achieving exceptional corporate and individual performance. The target payout under the STI provides for a payment of 50% of the incentive opportunity. Performance significantly beyond expectations could be rewarded by STI's up to a maximum of two times the incentive opportunity.

The following table summarises STI as a % of TFR for Senior Executives and Managing Director for a range STI outcomes.

STI OUTCOME	STI OUTCOME AS A % OF OPPORTUNITY	STI OUTCOME AS % OF TFR	
		SENIOR EXECUTIVES	MANAGING DIRECTOR
Minimum	0%	0%	0%
Target	50%	40%	50%
'Opportunity'	100%	80%	100%
Maximum	200%	160%	200%

The STI is awarded in March each year for performance in the previous calendar year. Awards since the commencement of the scheme in 2007 have averaged 71.9% of opportunity.

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 1 January, two years after the end of the year to which the STI relates, 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 outcomes as a % of TFR

GRANT YEAR	STI RANGE	2007	2008	2009	2010	2011	2012
Managing Director	0 – 200% of TFR	50%	100.0%	84.6%	61.4%	28.5%	106.8%
Senior Executives	0 – 160% of TFR	44.0%	68.7%	71.4%	49.1%	22.8%	85.4%

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Long Term Incentive (LTI) – Performance Rights

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

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

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

	2008		2009		2010		2011		2012	
	NO.	VEST	NO.	VEST	NO.	VEST ⁽¹⁾	NO.	VEST	NO.	VEST
Directors										
P Botten	338,600	100.0%	258,900	71.6%	273,400	93.25%	245,800	2014	248,700	2015
G Aopi	48,900	100.0%	46,000	71.6%	54,200	93.25%	51,100	2014	53,600	2015
Executives										
P Caldwell	61,100	100.0%	61,800	71.6%	65,300	93.25%	58,700	2014	59,300	2015
P Cholakos					32,400	93.25%	55,200	2014	55,900	2015
S Gardiner	38,700	100.0%	35,000	71.6%	32,400	93.25%	44,200	2014	44,700	2015
R Robinson	32,400	100.0%	29,700	71.6%	55,800	93.25%	49,700	2014	49,800	2015
J Fowles									55,300	2015
Former Executives										
P Bainbridge	93,000	100.0%	66,800	71.6%	70,700	52.5%	62,400	17.9%	–	–
P Crute	65,900	100.0%	47,400	71.6%	52,700	93.25%	46,800	2014	46,900	2015
Z Todorcevski ⁽²⁾	66,485	100.0%	146,285	71.6%	84,400	0.0%	75,800	0.0%	76,700	0.0%

(1) The vesting date of the 2010 Performance Rights is 15 May 2013. Oil Search's TSR for the period 1 January 2010 to 31 December 2012 will result in 93.25% vesting.

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

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	2008	2009	2010	2011	2012
Net profit after tax (US\$m)	313.4	133.7	185.6	202.5	175.8
Diluted Earnings per share (US cents)	27.8	11.5	14.1	15.3	13.2
Dividends per share (US cents)	8.0	4.0	4.0	4.0	4.0
Shares Closing price (A\$) ⁽¹⁾	\$4.65	\$6.12	\$7.04	\$6.25	\$7.01
Oil Search Three Year TSR ⁽²⁾	39%	91%	53%	44%	23%

(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.

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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.

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 Caldwell – Executive General Manager PNG LNG

Incumbent for the full year

Philip is 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 Julian Fowles – Executive General Manager Exploration & Business Development

Incumbent from 23 April 2012

Julian has responsibility for Oil Search's exploration programs to grow Shareholder value through exposure to quality exploration projects on a risk basis. Julian leads new teams in the technical and commercial evaluation of new ventures and business development opportunities and leads in the negotiations for those assets that meet Oil Search's economic criteria.

Mr Stephen Gardiner – Chief Financial Officer & Group Secretary

Incumbent for the full year

Stephen's role is to manage corporate finance, treasury, tax and audit functions for the Company, as well as all Group Secretarial matters, the Information and Communications Technology function, Contracts and Procurement, and Sustainability. He is also responsible for planning, performance and cash flow management and reporting to management and the Board. Stephen was formally appointed to this position on 14 November 2012, having acted in the role since the departure of Zlatko Todorovski on 2 July 2012. Prior to this, Stephen's role was EGM Sustainability, Corporate Services & Group Secretary.

Mr Michael Herrett – Executive General Manager Human Resources – Health & Administration

Incumbent from 27 August 2012

Michael 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 to achieve the strategic objectives of the organisation. Michael also has overall responsibility for the Health & Administration function within the Company.

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.

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Former Executives

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

Departed 29 February 2012

Prior to his departure, Philip was responsible for managing Oil Search's organic growth via Gas Business Development and Exploration within PNG and optimising our exploration assets in MENA.

Mr Paul Crute – Executive General Manager Human Resources

Ceased to be Key Management Personnel on 26 August 2012

Prior to ceasing to be Key Management Personnel, Paul was responsible for the Human Resources, Health & Administration functions for the company.

Mr Zlatko Todorcevski – Executive General Manager Finance and Treasury – Chief Financial Officer

Departed 2 July 2012

Prior to his departure, Zlatko's role was to manage the corporate finance, treasury and audit functions for the company.

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
P Botten	34.5%	34.5%	31.0%	65.5%
G Aopi	41.7%	33.3%	25.0%	58.3%
Executives				
P Caldwell	41.7%	33.3%	25.0%	58.3%
P Cholakos	41.7%	33.3%	25.0%	58.3%
J Fowles	41.7%	33.3%	25.0%	58.3%
S Gardiner	41.7%	33.3%	25.0%	58.3%
Directors				
M Herrett	41.7%	33.3%	25.0%	58.3%
R Robinson	41.7%	33.3%	25.0%	58.3%
Former Executives⁽¹⁾				
P Bainbridge	41.7%	33.3%	25.0%	58.3%
P Crute	41.7%	33.3%	25.0%	58.3%
Z Todorcevski	41.7%	33.3%	25.0%	58.3%

(1) The remuneration breakdown for the former executives is based on their 2011 remuneration.

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 exchange rates used have been:

EXCHANGE RATE	2011	2012
AUD/USD	1.0318	1.0359
PGK/USD	0.4248	0.4955

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

	YEAR	SHORT TERM			POST EMPLOY- MENT	LONG TERM	EQUITY ⁽⁶⁾		OTHER	TOTAL
		SALARIES FEES AND ALLOW- ANCES ⁽¹⁾	NON- MONE- TARY BENEFITS ⁽²⁾	SHORT TERM INCEN- TIVE ⁽³⁾	COM- PANY CONTRI- BUTION TO SUPER ⁽⁴⁾	LONG SERVICE LEAVE ACCUAL ⁽⁵⁾	PER- FORM- ANCE RIGHTS	RES- TRICTED SHARES	SIGN ON /TERMI- NATION BENEFITS	
Directors										
P Botten	2012	2,143,166	12,414	1,077,023	16,701	123,605	1,112,343	416,639	–	4,901,891
Managing Director	2011	2,102,632	8,573	254,024	15,980	178,728	1,180,905	637,140	–	4,377,982
G Aopi	2012	458,926	210,521	327,042	81,027	18,721	225,061	254,127	–	1,575,425
EGM External Affairs and Sustainability	2011	449,981	57,348	67,987	76,593	56,284	217,284	308,676	–	1,234,153
Executives										
P Caldwell	2012	874,640	–	308,449	38,846	(16,099)	265,545	123,356	–	1,594,737
EGM PNG LNG	2011	912,877	–	78,103	51,590	43,571	270,847	195,846	–	1,552,834
P Cholakos	2012	676,899	–	275,789	18,566	–	178,625	33,552	–	1,183,431
EGM Project Development	2011	648,755	–	73,516	25,885	–	91,046	89,170	–	928,372
J Fowles	2012	489,181	–	214,760	11,643	–	53,260	–	–	768,844
EGM Exploration & Business Development	2011	–	–	–	–	–	–	–	–	–
S Gardiner	2012	609,103	–	282,117	16,701	27,685	172,189	26,646	–	1,134,441
Chief Financial Officer & Group Secretary	2011	493,045	–	58,813	15,980	19,058	160,188	–	–	747,084
M Herrett	2012	209,490	–	84,458	5,996	–	–	–	–	299,944
EGM Human Resources, Health & Administration	2011	–	–	–	–	–	–	–	–	–
R Robinson	2012	560,784	–	491,880 ⁽⁷⁾	49,850	(87,634)	211,369	104,827	–	1,331,076
PNG Operations	2011	544,612	–	66,105	15,845	50,257	163,627	62,150	–	902,596
Former Executives										
P Bainbridge	2012	109,323	–	–	9,323	(72,060)	83,804	95,637	–	226,027
EGM Gas Commercialisation and PNG Growth	2011	673,708	–	166,087	59,306	71,775	307,118	222,700	–	1,500,694
P Crute	2012	346,709	–	318,455 ⁽⁸⁾	16,155	–	211,007	99,224	–	991,550
EGM Human Resources	2011	524,253	2,031	62,341	24,537	–	223,331	153,355	–	989,848
Z Todorovski	2012	468,772	4,699	–	5,973	–	(147,304)	(94,154)	1,157,355	1,395,341
EGM Finance and Treasury – Chief Financial Officer	2011	875,881	–	100,922	15,980	–	465,770	185,124	–	1,643,677

(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.

(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 2012 STI, R Robinson received 100% of his STI as cash with no deferral to Restricted Shares.

(8) For his 2012 STI, P Crute received 100% of his STI as cash with no deferral to Restricted Shares.

Details of the total Short Term Incentives (including the portion which will be deferred and awarded in the form of Restricted Shares) for each Director of Oil Search and the key management personnel are detailed in Table 11.

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Table 11 – Analysis of STI Included in Remuneration

	INCLUDED IN REMUNERATION (US\$) ⁽¹⁾
P Botten	2,154,046
G Aopi	654,084
P Caldwell	616,898
P Cholakos	551,578
J Fowles	429,520
S Gardiner	564,234
M Herrett	168,916
R Robinson	491,880
Former Executives	
P Bainbridge	–
P Crute	318,455
Z Todorcevski	–

(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 2015.

8 KEY TERMS OF EMPLOYMENT CONTRACTS FOR KEY MANAGEMENT PERSONNEL

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

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

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

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

Table 12 – Contractual Provisions for Specified Executives

	EMPLOYING COMPANY	CONTRACT DURATION	NOTICE PERIOD COMPANY	NOTICE PERIOD EMPLOYEE	TERMINATION PROVISION
P Botten	POSL	Ongoing	6 months	6 months	18 months Total Fixed Reward
G Aopi	OSPNG	Ongoing	1 month	1 month	4 weeks per year of service (minimum 8, maximum 52)
P Caldwell	OSPNG	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum 52)
P Cholakos	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum 52)
J Fowles	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum 52)
S Gardiner	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum 52)
M Herrett	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum 52)
R Robinson	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum 52)

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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:

Table 13 – Details of Performance Rights Granted

	NUMBER OF RIGHTS GRANTED DURING 2012	GRANT DATE	FAIR VALUE PER RIGHT (A\$)	EXERCISE PRICE PER RIGHT (A\$)	EXPIRY DATE	NUMBER OF RIGHTS VESTED DURING 2012
P Botten	248,700	21 May 2012	\$4.52	\$0.00	15 May 2015	185,372
G Aopi	53,600	21 May 2012	\$4.52	\$0.00	15 May 2015	32,936
P Caldwell	59,300	21 May 2012	\$4.52	\$0.00	15 May 2015	44,248
P Cholakos	55,900	21 May 2012	\$4.52	\$0.00	15 May 2015	Nil
J Fowles	55,300	21 May 2012	\$4.52	\$0.00	15 May 2015	Nil
S Gardiner	44,700	21 May 2012	\$4.52	\$0.00	15 May 2015	25,060
R Robinson	49,800	21 May 2012	\$4.52	\$0.00	15 May 2015	21,265
Former Executives						
P Crute	46,900	21 May 2012	\$4.52	\$0.00	15 May 2015	33,938
Z Todorcevski	76,700	21 May 2012	\$4.52	\$0.00	15 May 2015	104,740

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 2012 the earliest exercise date is 15 May 2015.

The deferred component of the 2011 STI was allocated as Restricted Shares under the Long Term Incentive Plan outlined above for certain key management personnel in 2012. The number of Restricted Shares granted or vested in advance of their vesting date during the reporting period is as follows:

Table 14 – Details of Deferred STI granted as Restricted Shares

	NUMBER GRANTED DURING 2012	GRANT DATE	FAIR VALUE (A\$)	EXERCISE PRICE (A\$)	VESTING DATE
P Botten ⁽¹⁾	37,905	5 March 2012	\$6.97	\$0.00	1 January 2014
G Aopi ⁽²⁾	9,454	5 March 2012	\$6.97	\$0.00	1 January 2014
P Caldwell	10,860	5 March 2012	\$6.97	\$0.00	1 January 2014
P Cholakos	10,222	5 March 2012	\$6.97	\$0.00	1 January 2014
S Gardiner	8,178	5 March 2012	\$6.97	\$0.00	1 January 2014
R Robinson	9,192	5 March 2012	\$6.97	\$0.00	1 January 2014
Former Executives					
P Crute	8,669	5 March 2012	\$6.97	\$0.00	1 January 2014
Z Todorcevski	14,033	5 March 2012	\$6.97	\$0.00	1 January 2014

(1) The allocation for P Botten was formally approved at the Annual Meeting on 8 May 2012.

(2) The allocation for G Aopi was formally approved at the Annual Meeting on 8 May 2012.

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

EXERCISED IN 2012	NUMBER OF SHARES	AMOUNT PAID PER SHARE
P Botten	338,600	\$0.00
G Aopi	70,072	\$0.00
P Caldwell	44,248	\$0.00
R Robinson	21,265	\$0.00
Former Executives		
P Bainbridge	96,090	\$0.00
P Crute	33,938	\$0.00
Z Todorcevski	104,740	\$0.00
Exercised in 2011		
P Botten	–	–
G Aopi	–	–
P Caldwell	61,100	\$0.00
P Cholakos	–	–
S Gardiner	29,753	\$0.00
R Robinson	32,400	\$0.00
Former Executives		
P Bainbridge	93,000	\$0.00
P Crute	65,900	\$0.00
Z Todorcevski	66,485	\$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:

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

	TYPE	NUMBER	DATE	% VESTED IN THE YEAR	% FORFEITED IN THE YEAR	FINANCIAL YEAR OF VESTING
P Botten	Performance Rights	258,900	1 June 2009	71.6%	28.4%	2012
	Restricted Shares	132,381	3 March 2010	100%	0%	2012
	Performance Rights	273,400	1 June 2010			2013
	Restricted Shares	74,588	1 March 2011			2013
	Performance Rights	245,800	23 May 2011			2014
	Restricted Shares	37,905	5 March 2012			2014
	Performance Rights	248,700	22 May 2012			2015
G Aopi	Performance Rights	46,000	1 June 2009	71.6%	28.4%	2012
	Restricted Shares	33,240	3 March 2010	100%	0%	2012
	Restricted Shares	100,000	27 April 2010			2014
	Performance Rights	54,200	1 June 2010			2013
	Restricted Shares	18,592	1 March 2011			2013
	Performance Rights	51,100	23 May 2011			2014
	Restricted Shares	9,454	5 March 2012			2014
	Performance Rights	53,600	22 May 2012			2015
P Caldwell	Performance Rights	61,800	1 June 2009	71.6%	28.4%	2012
	Restricted Shares	41,344	3 March 2010	100%	0%	2012
	Performance Rights	65,300	1 June 2010			2013
	Restricted Shares	22,381	1 March 2011			2013
	Performance Rights	58,700	23 May 2011			2014
	Restricted Shares	10,860	5 March 2012			2014
	Performance Rights	59,300	22 May 2012			2015
P Cholakos	Restricted Shares	30,000	3 March 2010	100%	0%	2012
	Performance Rights	32,400	1 June 2010			2013
	Performance Rights	55,200	23 May 2011			2014
	Restricted Shares	10,222	5 March 2012			2014
	Performance Rights	55,900	22 May 2012			2015
J Fowles	Performance Rights	55,300	22 May 2012			2015
S Gardiner	Performance Rights	35,000	1 June 2009	71.6%	28.4%	2012
	Performance Rights	32,400	1 June 2010			2013
	Performance Rights	44,200	23 May 2011			2014
	Restricted Shares	8,178	5 March 2012			2014
	Performance Rights	44,700	22 May 2012			2015
R Robinson	Performance Rights	29,700	1 June 2009	71.6%	28.4%	2012
	Performance Rights	55,800	1 June 2010			2013
	Restricted Shares	19,123	1 March 2011			2013
	Performance Rights	49,700	23 May 2011			2014
	Restricted Shares	9,192	5 March 2012			2014
	Performance Rights	49,800	22 May 2012			2014
P Bainbridge ⁽¹⁾	Performance Rights	66,800	1 June 2009	71.6%	28.4%	2012
	Restricted Shares	48,283	3 March 2010	100%	0%	2012
	Performance Rights	70,700	1 June 2010	52.5%	47.5%	2012
	Restricted Shares	24,258	1 March 2011	100%	0%	2012
	Performance Rights	62,400	23 May 2011	17.9%	82.1%	2012

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

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

	TYPE	NUMBER	DATE	% VESTED IN THE YEAR	% FORFEITED IN THE YEAR	FINANCIAL YEAR OF VESTING
P Crute	Performance Rights	47,400	1 June 2009	71.6%	28.4%	2012
	Restricted Shares	31,722	3 March 2010	100%	0%	2012
	Performance Rights	52,700	1 June 2010			2013
	Restricted Shares	18,061	1 March 2011			2013
	Performance Rights	46,800	23 May 2011			2014
	Restricted Shares	8,669	5 March 2012			2014
	Performance Rights	46,900	22 May 2012			2015
Z Todorcevski	Performance Rights	146,285	1 June 2009	71.6%	28.4%	2012
	Restricted Shares	30,439	3 March 2010	100%	0%	2012
	Performance Rights	84,400	1 June 2010	0%	100%	2013
	Restricted Shares	28,932	1 March 2011	0%	100%	2013
	Performance Rights	75,800	23 May 2011	0%	100%	2014
	Restricted Shares	14,033	5 March 2012	0%	100%	2014
	Performance Rights	76,700	22 May 2012	0%	100%	2015

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

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 THE YEAR (US\$) ⁽¹⁾	VALUE OF RIGHTS EXERCISED IN YEAR ⁽²⁾			VALUE OF RIGHTS LAPSED IN YEAR (US\$) ⁽³⁾		
		NUMBER	AVERAGE VALUE (US\$)	TOTAL VALUE (US\$)	NUMBER	AVERAGE VALUE (US\$)	TOTAL VALUE (US\$)
P Botten	1,447,979	470,981	7.00	3,294,559	73,528	4.46	328,053
G Aopi	321,678	103,312	6.73	694,885	13,064	4.46	58,286
P Caldwell	358,883	85,592	6.66	570,214	17,552	4.46	78,310
P Cholakos	338,191	91,100	7.01	638,549	–	–	–
S Gardiner	270,462	–	–	–	9,940	4.46	44,348
R Robinson	301,926	21,265	6.71	142,646	8,435	4.46	37,634
J Fowles	258,929	–	–	–	–	–	–
Former Executives							
P Bainbridge ⁽⁴⁾	–	144,373	6.96	1,005,375	103,810	4.27	442,812
P Crute	64,581	65,660	6.64	435,660	13,462	4.46	60,062
Z Todorcevski	462,249	135,179	6.81	920,513	321,410	4.77	1,531,753

(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 2012 include early vesting of Performance Rights and Restricted shares as approved by the Board.

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2013 Performance Payment Potential

The table below provides the minimum and maximum performance payment potential for current key management personnel for the 2013 financial year. Incentive amounts are based on the TFR approved by the Board as part of the 2013 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 71.9% 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 2012 exchange rates.

Table 18 – 2013 Performance Payment Potential

	SHORT TERM INCENTIVE		SHORT TERM INCENTIVE		LONG TERM INCENTIVE	
	PAID AS CASH ⁽¹⁾		DEFERRED AS SHARES ⁽²⁾		PERFORMANCE RIGHTS ⁽³⁾	
	MINIMUM	MAXIMUM	MINIMUM	MAXIMUM	MINIMUM	MAXIMUM
P Botten	\$0	\$2,117,380	\$0	\$2,117,380	\$0	\$1,905,642
G Aopi	\$0	\$553,419	\$0	\$553,419	\$0	\$415,064
P Caldwell	\$0	\$606,499	\$0	\$606,499	\$0	\$454,874
P Cholakos	\$0	\$570,822	\$0	\$570,822	\$0	\$428,117
J Fowles	\$0	\$581,761	\$0	\$581,761	\$0	\$436,321
S Gardiner	\$0	\$554,207	\$0	\$554,207	\$0	\$415,655
M Herrett	\$0	\$478,586	\$0	\$478,586	\$0	\$358,939
R Robinson	\$0	\$484,801	\$0	\$484,801	\$0	\$363,601

(1) The STI Paid as Cash would be paid in 2014 based on performance for the 2013 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 on 1 January 2016.

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

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.

DIRECTORS' REPORT

31 DECEMBER 2012

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 and 2012 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 and 2012 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.

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

DIRECTORS	YEAR	SHORT TERM			POST EMPLOY- MENT	LONG TERM	EQUITY		OTHER	TOTAL
		SALARIES FEES AND ALLOW- ANCES	NON- MONE- TARY BENEFITS	SHORT TERM INCEN- TIVE	COM- PANY CONTRI- BUTION TO SUPER	LONG SERVICE LEAVE ACCRUAL	PER- FORM- ANCE RIGHTS	RES- TRICTED SHARES	SIGN ON / TERMI- NATION BENEFITS	
Executive Directors										
P Botten	2012	2,143,166	12,414	1,077,023	16,701	123,605	1,112,343	416,639		4,901,891
	2011	2,102,632	8,573	254,024	15,980	178,728	1,180,905	637,140	–	4,377,982
G Aopi	2012	458,926	210,521	327,042	81,027	18,721	225,061	254,127		1,575,425
	2011	449,981	57,348	67,987	76,593	56,284	217,284	308,676	–	1,234,153
Non-Executive Directors										
BF Horwood	2012	489,981	–	–	–	–	–	–	–	489,981
	2011	514,868	–	–	–	–	–	–	–	514,868
KG Constantinou	2012	220,647	–	–	–	–	–	–	–	220,647
	2011	219,773	–	–	–	–	–	–	–	219,773
A Kanstler	2012	238,234	–	–	–	–	–	–	–	238,234
	2011	236,368	–	–	–	–	–	–	–	236,368
R Lee ⁽¹⁾	2012	159,170	–	–	–	–	–	–	–	159,170
	2011	–	–	–	–	–	–	–	–	–
B Philemon ⁽²⁾	2012	34,658	–	–	–	–	–	–	–	34,658
	2011	–	–	–	–	–	–	–	–	–
KW Spence ⁽¹⁾	2012	144,457	–	–	–	–	–	–	–	144,457
	2011	–	–	–	–	–	–	–	–	–
ZE Switkowski	2012	236,185	–	–	–	–	–	–	–	236,185
	2011	229,638	–	–	–	–	–	–	–	229,638
Former Non-Executive Directors										
R Igara ⁽³⁾	2012	96,509	–	–	–	–	–	–	–	96,509
	2011	222,869	–	–	–	–	–	–	–	222,869
M Kriewaldt ⁽⁴⁾	2012	87,374	–	–	–	–	–	–	–	87,374
	2011	245,568	–	–	–	–	–	–	–	245,568
JL Stitt ⁽⁵⁾	2012	161,894	–	–	–	–	–	–	–	161,894
	2011	222,869	–	–	–	–	–	–	–	222,869

(1) Mr KW Spence and Mr RJ Lee have been independent non-executive directors since 9 May 2012.

(2) Mr B Philemon has been an independent non-executive director since 5 November 2012.

(3) Mr R Igara CMG was an independent non-executive director until 5 June 2012.

(4) Mr M Kriewaldt was an independent non-executive director until 8 May 2012.

(5) Mr JL Stitt was an independent non-executive director until 8 May 2012.

DIRECTORS' REPORT

31 DECEMBER 2012

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. These services are outlined in note 28.

Deloitte Touche Tohmatsu's Independence Declaration, which forms part of this report, is attached on page 75.

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 2013.

The 2013 work programme includes drilling and further development of the Gulf of Papua, drilling of Mananda 6 appraisal well and Taza and Semda drilling.

The construction phase for the PNG LNG Project will continue in 2013 with major work programmes planned for the LNG plant, field and pipeline development and supporting infrastructure.

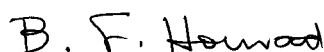
Recent successful exploration and appraisal drilling within the oil fields is expected to largely offset natural field decline. Present forecasts indicate that production is likely to remain largely flat into 2013, assuming planned development activities are successful.

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.

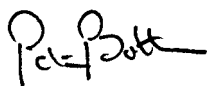
ROUNDING

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

Signed in accordance with a resolution of the Directors.



BF HORWOOD
Chairman



PR BOTTEN
Managing Director

Sydney, 25 February 2013

AUDITOR'S INDEPENDENCE DECLARATION

31 DECEMBER 2012

Deloitte.

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

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The Directors
Oil Search Limited
Level 22
1 Bligh Street
Sydney NSW 2000

25 February 2013

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 2012, 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



Jason Thorne
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTE	CONSOLIDATED		PARENT	
		2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Revenue from operations	2	724,619	732,869	–	–
Operating expenses		(153,670)	(101,902)	(4,823)	(350)
Amortisation – site restoration		(7,596)	(1,563)	–	–
Amortisation – oil and gas assets		(29,286)	(38,354)	–	–
Depreciation – operating assets		(7,241)	(7,232)	–	–
Royalties, development, and mining levies		(12,047)	(12,036)	–	–
Costs of sales		(209,840)	(161,087)	(4,823)	(350)
Gross profit from operating activities		514,779	571,782	(4,823)	(350)
Other expenses	3	(27,594)	(27,206)	(3,779)	(2,677)
Profit/(loss) from operating activities		487,185	544,576	(8,602)	(3,027)
Exploration, development and production costs expensed	13	(143,970)	(60,633)	(74,708)	(2,911)
Business development costs		(12,309)	(10,295)	(279)	(1,567)
Impairment expense	13	(23,793)	(33,227)	(23,793)	–
Profit on sale of other non-current assets	4	45,079	138	698	–
Interest income	5	5,287	6,953	3,523	5,056
Borrowing costs	5	(9,844)	(7,611)	(2,086)	(1,653)
Profit/(loss) from continuing operations before income tax		347,635	439,901	(105,247)	(4,102)
Income tax (expense)/benefit	6	(171,801)	(237,418)	25,584	(4,266)
Net profit/(loss) after tax		175,834	202,483	(79,663)	(8,368)
Other comprehensive income					
Foreign currency translation differences for foreign operations		(1,428)	(1,516)	–	–
Total comprehensive income for the year		174,406	200,967	(79,663)	(8,368)
		US CENTS	US CENTS		
Basic earnings per share	7	13.22	15.35		
Diluted earnings per share	7	13.17	15.27		

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

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	NOTE	CONSOLIDATED		PARENT	
		2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Current assets					
Cash and cash equivalents	23(a)	488,274	1,047,463	373,529	779,259
Receivables	9	173,233	102,253	751,473	423,464
Inventories	10	109,076	59,862	964	–
Other financial assets	11	48,398	–	–	–
Other assets	12	89,424	85,600	1,970	359
Total current assets		908,405	1,295,178	1,127,936	1,203,082
Non-current assets					
Receivables	9	4,271	3,966	–	–
Other non-current assets	12	8,919	329	–	–
Exploration and evaluation assets	13	401,597	337,611	14,884	30,069
Oil and gas assets	14	5,423,610	3,778,161	–	–
Other property, plant and equipment	15	71,906	67,977	–	–
Investments	16	29	29	326,507	326,507
Deferred tax assets	17	283,984	218,783	29,176	6,556
Total non-current assets		6,194,316	4,406,856	370,567	363,132
Total assets		7,102,721	5,702,034	1,498,503	1,566,214
Current liabilities					
Payables	18	392,217	415,946	3,394	9,520
Provisions	19	10,484	5,556	–	80
Current tax payable		75,329	106,908	2,057	791
Total current liabilities		478,030	528,410	5,451	10,391
Non-current liabilities					
Payables	18	4,951	4,899	–	–
Provisions	19	302,024	212,429	–	–
Loans and borrowings	20	2,866,050	1,747,567	–	–
Deferred tax liabilities	21	243,320	191,497	591	359
Total non-current liabilities		3,416,345	2,156,392	591	359
Total liabilities		3,894,375	2,684,802	6,042	10,750
Net assets		3,208,346	3,017,232	1,492,461	1,555,464
Shareholders' equity					
Share capital	22	1,753,192	1,683,492	1,753,192	1,683,492
Reserves	22	11,690	12,956	6,659	6,498
Retained earnings		1,443,464	1,320,784	(267,390)	(134,526)
Total shareholders' equity		3,208,346	3,017,232	1,492,461	1,555,464

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

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTE	CONSOLIDATED		PARENT	
		2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Cash flows from operating activities					
Receipts from customers		672,948	724,392	–	–
Payments to suppliers and employees		(199,648)	(103,184)	(9,459)	(4,769)
Interest received		5,895	7,205	4,020	5,377
Borrowing costs paid		(4,638)	(2,927)	(2,086)	(1,653)
Income tax (paid)/refund		(213,949)	(178,494)	4,462	1,151
Payments for exploration and evaluation – seismic, G&A, G&G		(51,205)	(49,838)	(4,726)	–
Payments for site rehabilitation		(868)	(666)	–	–
Payments for business development		(12,309)	(10,295)	(279)	(1,567)
Net cash from/(used in) operating activities	23(b)	196,226	386,193	(8,068)	(1,461)
Cash flows from investing activities					
Payments for property, plant and equipment ⁽¹⁾		(10,402)	(7,121)	–	–
Payments for exploration and evaluation expenditure		(126,570)	(121,866)	(73,708)	(10,364)
Payments for development asset expenditure		(1,485,384)	(1,059,263)	–	–
Payments for producing asset expenditure		(114,815)	(128,540)	–	–
Net proceeds from sale of investments ⁽²⁾		41,957	–	–	–
Acquisition of subsidiary		(10,000)	–	–	–
Loan to third party in respect of exploration and evaluation		(48,398)	–	–	–
Net cash used in investing activities		(1,753,612)	(1,316,790)	(73,708)	(10,364)
Cash flows from financing activities					
Proceeds from underwriter of dividend reinvestment plan (DRP)		31,746	36,786	31,746	36,786
Dividend payments (net of DRP) ⁽³⁾	8	(31,688)	(36,723)	(31,746)	(36,786)
Cash received from option/right share issues		5,848	6,328	5,848	6,328
Costs relating to dividend reinvestment plan		(55)	(49)	(55)	(49)
Proceeds from borrowings		1,002,411	708,129	–	–
Establishment fee on credit facility ⁽⁴⁾		(10,065)	–	–	–
Loans to related entity		–	–	(329,747)	(187,940)
Net cash from financing activities		998,197	714,471	(323,954)	(181,661)
Net decrease in cash and cash equivalents		(559,189)	(216,126)	(405,730)	(193,486)
Cash and cash equivalents at the beginning of the year		1,047,463	1,263,589	779,259	972,745
Cash and cash equivalents at the end of the year	23(a)	488,274	1,047,463	373,529	779,259

(1) Net of reimbursed lease incentives relating to relocation of Sydney Corporate office.

(2) Net of tax payments related to sale.

(3) Total dividend payments including cash and dividend reinvestment was \$53.2 million (2011: \$52.7 million).

Total dividend payments net of dividends reinvested under the dividend reinvestment plan were \$31.7 million (2011: \$36.8 million).

(4) On US\$500 million five year, non-amortising revolving credit facility signed on 29 October 2012.

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

CONSOLIDATED	SHARE CAPITAL US\$'000	FOREIGN CURRENCY TRANSLATION RESERVE US\$'000	RESERVE FOR TREASURY SHARES US\$'000	EMPLOYEE EQUITY COMPEN- SATION RESERVE US\$'000	RETAINED EARNINGS US\$'000	TOTAL US\$'000
Balance at 1 January 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
Balance at 1 January 2012	1,683,492	426	(5,601)	18,131	1,320,784	3,017,232
Dividends provided for or paid	—	—	—	—	(53,143)	(53,143)
Total comprehensive income for the year						
Net profit after tax for the year	—	—	—	—	175,834	175,834
Other comprehensive income:						
Exchange differences on translation of foreign operations	—	(1,428)	—	—	—	(1,428)
Total comprehensive income for the year	—	(1,428)	—	—	175,834	174,406
Transactions with owners, recorded directly in equity						
Issue of shares through dividend reinvestment plan	53,201	—	—	—	—	53,201
Costs associated with share issues	(55)	—	—	—	—	(55)
Transfer of vested shares	8,879	—	—	(8,879)	—	—
Release of treasury shares on vesting	—	—	1,844	(1,844)	—	—
Issue of shares on exercise of options and rights	5,848	—	—	—	—	5,848
Employee share-based remuneration expense	—	—	—	10,644	—	10,644
Issue of treasury shares	1,827	—	(1,827)	—	—	—
Net exchange differences	—	—	—	224	—	224
Trust distribution	—	—	—	—	(11)	(11)
Total transactions with owners	69,700	—	17	145	(11)	69,851
Balance at 31 December 2012	1,753,192	(1,002)	(5,584)	18,276	1,443,464	3,208,346

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

PARENT	SHARE CAPITAL US\$'000	FOREIGN CURRENCY TRANS- LATION RESERVE US\$'000	AMALGA- MATION RESERVE US\$'000	RESERVE FOR TREASURY SHARES US\$'000	EMPLOYEE EQUITY COMPEN- SATION RESERVE US\$'000	RETAINED EARNINGS US\$'000	TOTAL US\$'000
Balance at 1 January 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)	—	—
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
Balance at 1 January 2012	1,683,492	—	(2,990)	—	9,488	(134,526)	1,555,464
Dividends provided for or paid	—	—	—	—	—	(53,143)	(53,143)
Total comprehensive income for the year							
Net loss after tax for the year	—	—	—	—	—	(79,663)	(79,663)
Total comprehensive income for the year	—	—	—	—	—	(79,663)	(79,663)
Transactions with owners, recorded directly in equity							
Issue of shares through dividend reinvestment plan	53,201	—	—	—	—	—	53,201
Costs associated with share issues	(55)	—	—	—	—	—	(55)
Transfer of vested shares	8,879	—	—	—	(8,879)	—	—
Issue of shares on exercise of options and rights	5,848	—	—	—	—	—	5,848
Employee share-based remuneration	—	—	—	—	10,644	—	10,644
Issue of treasury shares	1,827	—	—	—	(1,827)	—	—
Net exchange differences	—	—	—	—	223	—	223
Dividends received on shares held in trust ⁽¹⁾	—	—	—	—	—	(58)	(58)
Total transactions with owners	69,700	—	—	—	161	(58)	69,803
Balance at 31 December 2012	1,753,192	—	(2,990)	—	9,649	(267,390)	1,492,461

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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 2012 comprises the parent and its controlled entities (consolidated entity).

The financial statements were authorised for issue by the directors on 26 February 2013.

(a) Basis of preparation

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

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

(i) Issued standards adopted during year

- Amended IFRS 7 “Financial Instruments: Disclosures”;
- Amended IAS 12 “Income Taxes”;
- Various Standards “Improvements to IFRS’s 2010” – dealt with on a standard-by-standard basis; and
- Various Standards “Improvements to IFRS’s 2011” – dealt with on a standard-by-standard basis.

(ii) Issued standards not early adopted

At 31 December 2012, 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. Oil Search is still in the process of assessing the impact of these changed accounting requirements, although the expected impact of these changes should not materially alter Oil Search’s financial result. 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 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”;
- 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).

(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.

(i) Business combinations

A business combination is a transaction in which an acquirer obtains control of one or more businesses. The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired.

The acquisition method is only applied to a business combination when control over the business is obtained. Subsequent changes in interests in a business where control already exists are accounted for as transactions between owners.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(b) Principles of consolidation continued

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the statement of comprehensive income.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the statement of comprehensive income.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. 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 statement of comprehensive income 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.

(iii) Joint arrangements

Exploration, development and production activities of the economic entity are carried on through joint operations with other parties and the economic entity's interest in each joint operation 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 20 for further details).

(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, excluding 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 sales 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 statement of comprehensive income 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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 statement of comprehensive income, 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 the statement of comprehensive income 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 statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The economic entity's liability or asset for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(j) Exploration and evaluation assets continued

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 statement of comprehensive income 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; or
- the expenditure is expected to be recouped by future exploitation or sale.

Where an ownership interest in an exploration and evaluation asset is exchanged for another, the transaction is recognised by reference to the carrying value of the original interest. Any cash consideration paid, including transaction costs, is accounted for as an acquisition of exploration and evaluation assets. Any cash consideration received, net of transaction costs, is treated as a recoupment of costs previously capitalised with any excess accounted for as a gain on disposal of non-current assets.

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

(k) Oil and gas assets

Assets in development

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

Producing assets

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

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 statement of comprehensive income 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(l) Other property, plant and equipment

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

Depreciation

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

Motor vehicles	20.0%
Office furniture	13.0%
Office equipment	20.0%
Buildings	3.0%
Computer equipment	33.3%
Rigs	Drilling days based on a 10 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 statement of comprehensive income 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

Financial assets, other than those at fair value through the statement of comprehensive income, 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.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the assets carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of comprehensive income.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(m) Impairment of assets continued

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to the statement of comprehensive income in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of comprehensive income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(n) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in the statement of comprehensive income.

On derecognition of a financial asset other than in its entirety (eg: when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under the continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in the statement of comprehensive income. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

(o) Employee benefits

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

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

(p) Financial instruments

Trade receivables

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

Trade payables

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost, using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short term receivables when the effect of discounting is immaterial.

Loans and borrowings

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

Cash and cash equivalents

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

Investments

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

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(p) Financial instruments continued

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 statement of comprehensive income for the period.

(q) Critical accounting estimates and assumptions

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

Impairment of assets

The Group assesses whether oil and gas assets are impaired on a semi-annual basis. This requires review of the indicators of impairment and/or 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 13 to 15.

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 19.

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 statement of comprehensive income 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 statement of comprehensive income.

(r) Rounding

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

2 REVENUE FROM OPERATIONS

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Oil sales (gross)	593,241	654,266	—	—
Gas and refined product sales	95,629	49,017	—	—
Other field revenue	35,749	29,586	—	—
Total revenue	724,619	732,869	—	—

3 OTHER EXPENSES

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Salaries and short-term employee benefits	(55,601)	(49,307)	—	—
Post-employment benefits	(2,624)	(2,366)	—	—
Employee share-based remuneration	(10,644)	(12,057)	—	—
Premises – operating leases	(7,863)	(4,749)	—	—
Donations	(4,953)	(3,700)	—	—
Other expenses	(29,452)	(24,220)	(4,556)	(4,419)
Corporate cost recoveries	90,322	74,524	—	—
Net corporate expenses	(20,815)	(21,875)	(4,556)	(4,419)
Depreciation	(5,334)	(4,158)	—	—
Foreign currency (losses)/gains	(1,445)	(1,173)	777	1,742
Total other expenses	(27,594)	(27,206)	(3,779)	(2,677)

4 PROFIT ON SALE OF OTHER NON-CURRENT ASSETS

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Proceeds on sale of non-current assets in MENA	44,000	—	—	—
Assets and liabilities disposed	(11,636)	—	—	—
Profit on sale before income tax	32,364	—	—	—
Applicable income tax expense	(3,090)	—	—	—
Profit on sale after income tax expense⁽¹⁾	29,274	—	—	—
Proceeds on sale of non-current assets in PNG	27,607	—	—	—
Assets and liabilities disposed	(10,598)	—	—	—
Reduction to current year exploration & evaluation expense	(4,294)	—	—	—
Profit on sale before income tax	12,715	—	—	—
Applicable income tax expense	—	—	—	—
Profit on sale after income tax expense⁽²⁾	12,715	—	—	—
Profit on sale of other non-current assets	—	138	698	—

(1) In December 2012 Oil Search sold its 40% interest in Block 3 (Gardan) in Yemen to TOTAL S.A. of France.

(2) Oil Search has entered into agreements to farm down Gulf of Papua licences (offshore PPLs 234 and 244 and PRL10, and onshore PPLs 338 and 339) to TOTAL S.A. of France, and PPL260 to ExxonMobil.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

5 NET FINANCING COSTS

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Interest received or receivable from others	5,287	6,953	3,523	5,056
Interest paid or payable to subsidiaries	—	—	(2,086)	(1,653)
Finance costs	(4,464)	(3,368)	—	—
Unwinding of discount on site restoration	(5,380)	(4,243)	—	—
Total borrowing costs expensed	(9,844)	(7,611)	(2,086)	(1,653)
Net finance (costs)/income	(4,557)	(658)	1,437	3,403

6 INCOME TAX

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
The major components of tax expenses are:				
Current tax expense	194,607	219,713	—	—
Adjustments for current tax of prior periods	(2,167)	(3,971)	(66)	3,869
Deferred tax expense/(income)	(20,639)	21,676	(25,518)	397
Income tax expense/(benefit)	171,801	237,418	(25,584)	4,266
Reconciliation between tax expense and the pre-tax profit multiplied by the applicable tax rate is set out below:				
Pre-tax profit/(loss)	347,635	439,901	(105,247)	(4,102)
Tax at PNG rate for petroleum (50%)	173,818	219,951	(52,624)	(2,051)
Restatement of deferred tax for gas and non-oil (30%)	(10,377)	(132)	—	—
Effect of differing tax rates across tax regimes	6,780	(3,530)	21,050	2,445
	170,221	216,289	(31,574)	394
Tax effect of items not tax deductible or assessable:				
(Over)/under provisions in prior periods	1,041	(3,971)	1,672	3,869
Non-deductible expenditure	22,794	25,100	4,527	3
Profit on disposal of assets	(22,255)	—	(209)	—
Income tax expense/(benefit)	171,801	237,418	(25,584)	4,266
The amount of the deferred tax (income)/expense recognised in the net profit in respect of each type of temporary difference:				
Exploration and development	(8,155)	41,108	(31,009)	(974)
Other assets	1,056	504	—	(3)
Provisions	(27,827)	(25,201)	(331)	(28)
Other items	2,094	(981)	(487)	1,625
Tax losses	12,193	6,246	6,309	(223)
Deferred tax (income)/expense	(20,639)	21,676	(25,518)	397

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

7 EARNINGS PER SHARE

	CONSOLIDATED	
	2012 US CENTS	2011 US CENTS
Basic earnings per share	13.22	15.35
Diluted earnings per share	13.17	15.27

	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	1,330,266,657	1,319,327,747
Employee share options/SAR's	233,780	659,314
Employee performance rights	5,086,286	5,800,560
Diluted earnings per share	1,335,586,723	1,325,787,621

Basic earnings and diluted earnings per share have been calculated on a net profit after tax of US\$175.834 million (2011: US\$202.483 million).

There are 1,491,810 options/SAR's (2011: 3,109,252), and 5,344,915 rights (2011: 5,735,932) 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 2012 to 31 December 2012.

8 DIVIDENDS PAID OR PROPOSED

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Unfranked ⁽¹⁾ dividends in respect of the year, proposed subsequent to the year end:				
Ordinary dividends ⁽²⁾	26,695	26,503	26,695	26,503
Unfranked ⁽¹⁾ dividends paid during the year:				
Ordinary – previous year final	26,511	26,253	26,511	26,253
Ordinary – current year interim ⁽³⁾	26,632	26,410	26,632	26,410
	53,143	52,663	53,143	52,663

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

(2) On 25 February 2013, the Directors declared a final unfranked dividend in respect of the current year, of US 2 cents per ordinary share (2011: US 2 cents final dividend), to be paid to the holders of ordinary shares on 9 April 2013. The proposed final dividend for 2012 is payable to all holders of ordinary shares on the Register of Members on 14 March 2013 (record date). The estimated dividends to be paid are US\$26,695,135 and have not been included as a liability in these financial statements.

(3) On 20 August 2012, the Directors declared an interim unfranked dividend in respect of the current half-year, of US 2 cents per ordinary share (2011: US 2 cents interim dividend), paid to the holders of ordinary shares on 13 September 2012.

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 2012 final dividend will be fully underwritten.

9 RECEIVABLES

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Current				
Trade debtors ⁽¹⁾	103,292	49,336	–	–
Other debtors ⁽¹⁾	69,941	52,917	5,653	6,683
Amounts due from subsidiary entities	–	–	745,820	416,781
	173,233	102,253	751,473	423,464
Non-current				
Amounts due by other entities	4,271	3,966	–	–
	4,271	3,966	–	–

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

10 INVENTORIES

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Current				
At cost				
Materials and supplies	101,980	55,294	964	—
Petroleum products	7,096	4,568	—	—
	109,076	59,862	964	—

11 OTHER FINANCIAL ASSETS

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Current				
Loan receivable ⁽¹⁾	48,398	—	—	—

(1) Part of the loan receivable accrues interest at the lower of 10% per annum or Libor plus 7.5%, and matures on 31 December 2013. An option agreement and a share pledge agreement are held over this receivable balance, permitting Oil Search to acquire an equity interest in the issued share capital of the Borrower. This asset is not past due or impaired at the end of the reporting period.

12 OTHER ASSETS

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Current				
Prepayments	89,424	85,600	1,970	359
Non-current				
Prepayments	8,919	329	—	—

13 EXPLORATION AND EVALUATION ASSETS

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Non-current				
At cost	489,016	401,237	38,677	30,069
Less impairment	(87,419)	(63,626)	(23,793)	—
	401,597	337,611	14,884	30,069
Balance at start of year	337,611	281,840	30,069	27,510
Additions ⁽¹⁾	240,615	144,606	83,316	5,470
Exploration costs expensed during the year	(143,970)	(60,633)	(74,708)	(2,911)
Impairment losses ⁽²⁾	(23,793)	(33,227)	(23,793)	—
Changes in restoration obligations	923	4,952	—	—
Disposals	(9,782)	—	—	—
Net exchange differences	(7)	73	—	—
Balance at end of year	401,597	337,611	14,884	30,069

(1) Includes \$15.0 million reimbursement for past costs as part of Gulf farm down.

(2) Impairment expense of \$23.8 million pre tax (\$19.2 million post tax) relates to the expiration of the PRL1 (Pandora gas field) licence (2011: \$33.2 million pre and post tax, related to the expiration of the Shakal licence in Iraq).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

14 OIL AND GAS ASSETS

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Non-current				
Assets in development				
At cost	5,103,463	3,467,975	—	—
Accumulated amortisation	—	—	—	—
	5,103,463	3,467,975	—	—
Balance at start of year	3,467,975	2,063,629	—	—
Transferred from producing assets	74,501	98,509	—	—
Additions	1,375,820	1,176,824	—	—
Borrowing costs capitalised (LNG project)	116,709	109,718	—	—
Changes in restoration obligations	68,458	19,295	—	—
Balance at end of year	5,103,463	3,467,975	—	—
Producing assets				
At cost	1,515,818	1,468,712	—	—
Accumulated amortisation and impairment	(1,195,671)	(1,158,526)	—	—
	320,147	310,186	—	—
Balance at start of year	310,186	247,565	—	2
Transferred to development	(74,501)	(98,509)	—	—
Additions	111,498	129,396	—	—
Disposals	—	—	—	(2)
Changes in restoration obligations	10,109	71,183	—	—
Amortisation of site restoration	(7,713)	(1,284)	—	—
Amortisation	(29,432)	(38,165)	—	—
Balance at end of year	320,147	310,186	—	—
Total oil and gas assets	5,423,610	3,778,161	—	—

15 OTHER PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Non-current				
At cost	179,076	162,572	—	—
Accumulated depreciation and impairment	(107,170)	(94,595)	—	—
	71,906	67,977	—	—
Rigs				
Balance at start of year	56,341	63,426	—	—
Reclassification to other plant and equipment	—	(5)	—	—
Additions	98	152	—	—
Depreciation	(7,241)	(7,232)	—	—
Balance at end of year	49,198	56,341	—	—
Other property, plant and equipment				
Balance at start of year	11,636	8,682	—	11
Reclassification from rigs	—	5	—	—
Additions	16,430	7,024	—	—
Disposals	—	—	—	(11)
Depreciation	(5,334)	(4,158)	—	—
Net exchange differences	(24)	83	—	—
Balance at end of year	22,708	11,636	—	—

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

16 NON-CURRENT INVESTMENTS

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Shares not quoted on securities exchange ⁽¹⁾	962	962	–	–
Accumulated impairment losses	(962)	(962)	–	–
	–	–	–	–
Shares in subsidiaries (at cost)	–	–	326,507	326,507
Accumulated impairment losses	–	–	–	–
	–	–	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 (2011: 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 Project 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 2012 is 29.0%). Refer to note 20 for further details.

17 DEFERRED TAX ASSETS

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Temporary differences				
Exploration and development	178,599	132,227	27,642	4,128
Other assets	1,473	1,236	643	74
Provisions	99,759	71,389	–	24
Tax losses recognised	4,153	13,931	891	2,330
	283,984	218,783	29,176	6,556

18 PAYABLES

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Current				
Trade creditors and accruals	392,217	415,946	3,394	9,348
Other payables	–	–	–	172
	392,217	415,946	3,394	9,520
Non-current				
Other payables	4,951	4,899	–	–
	4,951	4,899	–	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

19 PROVISIONS

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Current				
Employee entitlements	6,052	5,476	—	—
Directors retirement allowances	—	80	—	80
Site restoration	2,432	—	—	—
Contingent consideration	2,000	—	—	—
	10,484	5,556	—	80
Non-current				
Employee entitlements	9,262	11,353	—	—
Site restoration	281,897	200,326	—	—
Leases	10,865	—	—	—
Other	—	750	—	—
	302,024	212,429	—	—
Movement in directors' retirement allowances				
Balance at start of year	80	80	80	80
Use of provision	(80)	—	(80)	—
Balance at end of year	—	80	—	80
Directors' retirement allowances were cash settled in 2012.				
Movement in site restoration provision				
Balance at start of year	200,326	101,318	—	—
Revision of provision	79,491	95,431	—	—
Use of provision	(868)	(666)	—	—
Unwinding of discount	5,380	4,243	—	—
Balance at end of year	284,329	200,326	—	—
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.				
Movement in contingent consideration				
Balance at start of year	—	—	—	—
Revision of provision	2,000	—	—	—
Use of provision	—	—	—	—
Balance at end of year	2,000	—	—	—
The Group has included US\$2.0 million as contingent consideration in relation to the acquisition of ML Energy Investment Fund Upstream (PNG) Pty Ltd. Refer to note 33 for details.				
Movement in lease provision				
Balance at start of year	—	—	—	—
Revision of provision	10,865	—	—	—
Balance at end of year	10,865	—	—	—
This deferred liability is related to the Bligh Street Sydney office lease, and will be amortised over 12 years.				
Movement in other provisions				
Balance at start of year	750	750	—	—
Reclassification of provision	(750)	—	—	—
Balance at end of year	—	750	—	—
This provision has been reclassified to current payables and will be paid to third parties on commencement of commercial production from the Ramu Nickel Project which is anticipated to reach full production capacity in 2013.				

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

20 LOANS AND BORROWINGS

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Non-current				
Secured loan from joint venture ⁽¹⁾	2,866,050	1,747,567	–	–

(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 Project 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 2012 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 2012, the weighted average rate of the drawn loans was 3.25% (2011: 3.28%), 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 extended pro rata across all other borrowings and assuming 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 LNG Project capital costs at such time.

At financial close, Oil Search established an escrow account, secured to the lenders, wherein 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, until the completion date is reached.

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 commenced, in the case of interest, on the first payment date falling at least six months after financial close, and in the case of principal, will commence 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 received 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\$2,449.8 million at 31 December 2012 (2011: \$1,447.4 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

20 LOANS AND BORROWINGS CONTINUED

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 its project participants; and
- ▶ the participants' project interests and gas field licences.

21 DEFERRED TAX LIABILITIES

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Temporary differences				
Exploration and development	229,937	181,480	–	–
Prepayments and receivables	1,485	794	591	359
Other assets	11,898	9,223	–	–
	243,320	191,497	591	359

22 SHARE CAPITAL AND RESERVES

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Issued 1,334,756,742 (2011: 1,325,155,171)				
Ordinary shares, fully paid (no par value)	1,753,192	1,683,492	1,753,192	1,683,492
Movements in issued and fully paid shares	2012 SHARES	2011 SHARES	2012 SHARES	2011 SHARES
Balance at the beginning of the period	1,325,155,171	1,312,888,303	1,683,492	1,610,667
Transfer of vested shares from employee equity compensation reserve	–	–	8,878	13,070
Release of treasury shares on vesting	–	–	–	(1,039)
Ordinary shares issued on exercise of options and rights, and grant of restricted shares	2,510,333	3,975,651	7,676	8,117
DRP underwriting agreement ⁽¹⁾				
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
Ordinary shares issued at US\$7.26 (2011 final dividend)	2,017,775	–	14,643	–
Ordinary shares issued at US\$7.90 (2012 interim dividend)	2,157,896	–	17,045	–
DRP ⁽²⁾				
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
Ordinary shares issued at US\$7.11 (2011 final dividend)	1,672,768	–	11,894	–
Ordinary shares issued at US\$7.74 (2012 interim dividend)	1,242,799	–	9,619	–
Share issue costs	–	–	(55)	(49)
	1,334,756,742	1,325,155,171	1,753,192	1,683,492

(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 ten trading days following the Record Date for the dividend, less a discount of 2.00%.

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

At balance date, there were 469,930 options (2011: 1,659,552), 4,291,120 share appreciation rights (2011: 2,918,020), 5,344,915 performance rights (2011: 5,735,932), and 1,295,197 restricted shares (2011: 1,657,365) 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 26 for further details).

During the year, a total of 1,134,130 share options (2011: 1,264,452) and 1,426,764 performance rights (2011: 1,750,411) were exercised and 64,362 share options (2011: 108,300), 371,100 share appreciation rights (2011: 123,340) and 864,153 performance rights (2011: 394,148) were forfeited. Restricted shares totalling 371,667 were exercised (2011: 619,693) and 99,014 (2011: 103,318) restricted shares were forfeited during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

22 SHARE CAPITAL AND RESERVES CONTINUED

During the year 1,744,200 share appreciation rights (2011: 1,498,560) were granted under the Employee Share Appreciation Rights Plan. There were 1,899,900 performance rights (2011: 1,696,500) granted under the Performance Rights Plan, and 108,513 restricted shares (2011: 443,289) granted under the Restricted Share Plan during the year.

(a) Reserves at the end of the financial year

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Foreign currency translation reserve	(1,002)	426	–	–
Amalgamation reserve	–	–	(2,990)	(2,990)
Reserve for treasury shares	(5,584)	(5,601)	–	–
Employee equity compensation reserve	18,276	18,131	9,649	9,488
Balance at end of year	11,690	12,956	6,659	6,498

b) Movements in reserves

Foreign currency translation reserve

Balance at start of year	426	1,942	–	–
Translation of financial statements of foreign subsidiaries	(1,428)	(1,516)	–	–
Balance at end of year	(1,002)	426	–	–

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	(5,601)	(6,378)	–	–
Issue of shares during financial year	(1,827)	(1,789)	–	–
Release of treasury shares on vesting	1,844	2,566	–	–
Balance at end of year	(5,584)	(5,601)	–	–

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

Employee equity compensation reserve

Balance at start of year	18,131	21,254	9,488	12,872
Expense recognised in subsidiaries during financial year	10,644	12,057	10,644	12,057
Transfer of vested shares to share capital	(8,879)	(13,070)	(8,879)	(13,070)
Issue of treasury shares	–	–	(1,827)	(1,789)
Release of treasury shares on vesting	(1,844)	(1,527)	–	–
Net exchange differences	224	(583)	223	(582)
Balance at end of year	18,276	18,131	9,649	9,488

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

23 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, and deposits at call

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Cash at bank and on hand ⁽¹⁾	213,388	164,439	136,748	84,866
Share of cash in joint ventures	8,094	9,789	101	13
Interest-bearing short-term deposits ^(2,3,4)	266,792	873,235	236,680	694,380
	488,274	1,047,463	373,529	779,259

- (1) Includes US\$42.4 million (2011: \$39.1 million) held in escrow to meet future LNG Project base equity commitments (refer to note 20 for further details).
- (2) In 2012, includes US\$10.1 million in a debt service reserve account held with Australia & New Zealand Banking Group Limited, as required by the US\$500 million revolving facility agreement. In 2011, included 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.
- (3) Includes US\$1.7 million (2011: US\$7.2 million) held as security for letters of credit on issue.
- (4) Includes US\$235.0 million (2011: \$475.0 million) held in escrow to meet future LNG Project base equity commitments (refer to note 20 for further details).

(b) Reconciliation of cash flows from operating activities

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Net profit/(loss) after tax	175,834	202,483	(79,663)	(8,368)
Add/(deduct):				
Exploration costs expensed ⁽¹⁾	92,765	10,795	69,982	2,911
Impairment expense	23,793	33,227	23,793	—
Profit on sale of non-current assets	(45,079)	(138)	(698)	—
Amortisation – site restoration	7,596	1,563	—	—
Unwinding of site restoration discount	5,380	4,243	—	—
Amortisation – oil and gas assets	29,286	38,354	—	—
Cost of share options	10,644	12,057	—	—
Depreciation	12,575	11,390	—	—
Exchange (gains)/ losses – unrealised	(1,204)	(2,099)	(777)	(1,742)
Movement in tax provisions	(44,957)	58,924	(21,122)	5,417
Net (decrease)/increase in provisions	(2,463)	1,363	(80)	—
Decrease/(increase) in inventories	(5,708)	49	(964)	—
Decrease/(increase) in other current assets	(1,095)	230	(3,178)	(408)
(Decrease)/increase in payables	(3,061)	20,151	8,205	408
Decrease/(increase) in receivables	(58,080)	(6,399)	(3,566)	321
	20,392	183,710	71,595	6,907
Net cash from operating activities	196,226	386,193	(8,068)	(1,461)

- (1) Exploration costs expensed totalled \$144.0 million (2011: \$60.6 million). \$92.8 million (2011: \$10.8 million) represents the write off of costs for unsuccessful wells which are not included in operating cash flows.

(c) Non-cash transactions

	CONSOLIDATED	
	2012 US\$'000	2011 US\$'000
Borrowing costs capitalised into developing assets	(116,709)	(109,718)

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 LNG Project liquids and LNG.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

24 INTERESTS IN JOINTLY CONTROLLED OPERATIONS

(a) Net assets employed in joint ventures

	NOTE	CONSOLIDATED		PARENT	
		2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Current assets					
Cash	23(a)	8,094	9,789	101	13
Receivables		96,692	88,870	2,084	185
Inventories		95,461	50,764	–	–
Non-current assets					
Exploration and evaluation assets		401,597	337,611	–	30,069
Oil and gas assets		5,423,610	3,778,161	–	–
Current liabilities		323,705	(338,134)	2,623	(1,136)
		6,349,159	3,927,061	4,808	29,131

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

	CONSOLIDATED	
	2012 US\$'000	2011 US\$'000
Contingent liabilities	–	–
Capital expenditure commitments	1,653,245	2,073,493
Other expenditure commitments	291,711	309,314

(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	
			2012	2011
		COUNTRY		
PDL 1 ^(1,4)	Hides gas to electricity project	PNG	100.00	100.00
PDL 2 ^(2,3)	Kutubu & Moran oil fields	PNG	60.05	60.05
PDL 2 ^(2,3)	South East Mananda oil fields	PNG	72.27	72.27
PDL 3	South East Gobe oil field	PNG	36.36	36.36
PDL 4 ⁽²⁾	Gobe Main and South East Gobe oil fields	PNG	10.00	10.00
PDL 5 ⁽³⁾	Moran oil field	PNG	40.69	40.69
PDL 6 ^(2,3)	Moran oil field	PNG	71.07	71.07
PL 1 ^(2,4)	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.

(4) Licence 100% owned by the Oil Search Group. Disclosed for information purposes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

24 INTERESTS IN JOINTLY CONTROLLED OPERATIONS CONTINUED

(ii) Exploration licences

	COUNTRY	% INTEREST	
		2012	2011
PPL 219 ⁽¹⁾	PNG	71.25	71.25
PPL 233	PNG	52.50	52.50
PPL 234 ^(1,2)	PNG	80.00	80.00
PPL 239	PNG	—	20.00
PPL 240 ^(1,3)	PNG	100.00	100.00
PPL 244 ^(1,2)	PNG	40.00	80.00
PPL 260 ^(1,2)	PNG	40.00	50.00
PPL 276	PNG	30.00	30.00
PPL 277	PNG	50.00	—
PPL 312 ⁽¹⁾	PNG	30.00	30.00
PPL 338 ⁽²⁾	PNG	30.00	30.00
PPL 339 ⁽²⁾	PNG	30.00	30.00
PPL 385 ⁽³⁾	PNG	100.00	—
Taza (K42) ⁽¹⁾	Iraq	60.00 ⁽⁴⁾	60.00 ⁽⁴⁾
Shakal	Iraq	—	15.00
Le Kef	Tunisia	—	50.00
Tajerouine ⁽¹⁾	Tunisia	50.00 ⁽⁵⁾	50.00 ⁽⁵⁾
Block 3 ⁽¹⁾	Yemen	—	40.00 ⁽⁶⁾
Block 7 ⁽¹⁾	Yemen	34.00 ⁽⁷⁾	34.00 ⁽⁷⁾

(1) Joint venture operated by the economic entity.

(2) Subject to farm down agreement.

(3) Licence 100% owned by the Oil Search Group. Disclosed for information purposes.

(4) Participating interest is 60%. Paying interest is 75%.

(5) Participating interest is 50%. Paying interest is 100%.

(6) Participating interest was 40%. Paying interest was 42.6%.

(7) Participating interest is 34%. Paying interest is 40%.

(iii) Gas licences

			% INTEREST	
			2012	2011
		COUNTRY		
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 ⁽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 ⁽²⁾	Kimu gas field	PNG	60.71	60.71
PRL 9 ⁽²⁾	Barikewa gas field	PNG	45.11	45.11
PRL 10 ^(2,3,4)	Uramu gas field	PNG	100.00	59.55
PRL 11	Angore gas field	PNG	52.50	52.50
PRL 14	Cobra, lehi, Bilip gas fields	PNG	62.56	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) Licence expired in February 2013, having reached its maximum 15 year term.

(2) Joint venture operated by the economic entity.

(3) Subject to farm down agreement.

(4) Licence owned 100% by Oil Search Group at 31 December 2012 following acquisition of ML Energy Investment Fund Upstream (PNG) Pty Ltd. Refer to note 33.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

25 SEGMENT REPORTING

Information about reportable segments

The Group's segments are arranged primarily by location of operation (e.g. PNG and MENA (Middle East and North Africa)) followed by the commodity (e.g. oil and gas or LNG). Each managed segment has a management team that is accountable to the Managing Director. The Group's Executive Management team evaluates the financial performance of the Group and its segments principally with reference to earnings before interest and tax, and capital expenditure on exploration and evaluation assets, oil and gas assets, and property, plant and equipment.

US\$'000	PNG				MENA		CORPORATE		TOTAL	
	OIL AND GAS 31 DECEMBER		LNG 31 DECEMBER		OIL AND GAS 31 DECEMBER		31 DECEMBER		31 DECEMBER	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
External revenues	724,619	732,869	—	—	—	—	—	—	724,619	732,869
Amortisation – site restoration	(7,596)	(1,563)	—	—	—	—	—	—	(7,596)	(1,563)
Amortisation – oil and gas assets	(29,286)	(38,354)	—	—	—	—	—	—	(29,286)	(38,354)
Depreciation – operating assets	(7,241)	(7,232)	—	—	(171)	(83)	(5,163)	(4,075)	(12,575)	(11,390)
Foreign currency (losses)/gains	(1,265)	(2,685)	—	—	6	(2)	(186)	1,514	(1,445)	(1,173)
Exploration, development and production costs expensed	(129,486)	(51,619)	—	—	(14,484)	(9,014)	—	—	(143,970)	(60,633)
Business development costs	(7,295)	(6,397)	—	—	(5,014)	(3,898)	—	—	(12,309)	(10,295)
Employee share based remuneration	—	—	—	—	—	—	(10,644)	(12,057)	(10,644)	(12,057)
Operating costs	(168,231)	(113,938)	—	—	(427)	(333)	(7,230)	(9,485)	(175,888)	(123,756)
EBIT	374,219	511,081	—	—	(20,090)	(13,330)	(23,223)	(24,103)	330,906	473,648
Profit on sale of other non-current assets									45,079	138
Unwinding of discount on site restoration									(5,380)	(4,243)
Impairment expense									(23,793)	(33,227)
Interest income									5,287	6,953
Interest expense									(4,464)	(3,368)
Reportable segment profit before income tax									347,635	439,901
Income tax expense									(171,801)	(237,418)
Net profit after tax									175,834	202,483
Investment expenditure										
Exploration and evaluation assets	(185,568)	(89,544)	—	—	(55,047)	(55,062)	—	—	(240,615)	(144,606)
Oil and gas assets – development and production	(110,703)	(130,191)	(1,493,324)	(1,285,747)	—	—	—	—	(1,604,027)	(1,415,938)
Property, plant and equipment	(67)	(151)	—	—	(349)	(234)	(16,112)	(6,791)	(16,528)	(7,176)
Total capital expenditure	(296,338)	(219,886)	(1,493,324)	(1,285,747)	(55,396)	(55,296)	(16,112)	(6,791)	(1,861,170)	(1,567,720)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

25 SEGMENT REPORTING CONTINUED

Geographical segments

The Oil Search Group operates primarily in Papua New Guinea but also has activities in Yemen, 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	
	2012	2011	2012	2011
PNG	724,619	732,869	6,035,695	4,294,018
Australia	–	–	35,528	21,340
MENA	–	–	123,093	91,498
Total	724,619	732,869	6,194,316	4,406,856

Major customers

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

Revenue from one customer represents approximately \$593.2 million or 88% of the Group's total oil and gas sales revenues (2011: \$604.1 million, 88%) and 82% of the Group's total revenue of \$724.6 million (2011: 82% of \$732.9 million).

Revenue from one other customer represents approximately \$79.9 million or 12% of the Group's total oil and gas sales revenues (2011: \$34.1 million, 5%) and 11% of the Group's total revenue of \$724.6 million (2011: 5% of \$732.9 million).

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

26 EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
The aggregate employee entitlement liability is comprised of:				
Annual leave entitlements	6,052	5,476	–	–
Directors' retirement allowances	–	80	–	80
Long service leave entitlements	9,262	11,353	–	–
	15,314	16,909	–	80
Balance at start of year	16,909	14,880		–
Additional provision	3,706	8,214	–	–
Provision utilised	(5,301)	(6,185)	–	–
Balance at end of year	15,314	16,909	–	–

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 892 (2011: 899) employees participating in the Employee Share Option Plan and Share Appreciation Rights plan.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

26 EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS CONTINUED

	MAY 2012 GRANT	MAY 2011 GRANT	JUNE 2010 GRANT	JUNE 2009 GRANT	AUGUST 2008 GRANT ⁽¹⁾	MAY 2007 GRANT	JULY 2006 GRANT
Grant date	21 May 2012	23 May 2011	1 June 2010	1 June 2009	4 Aug 2008	7 May 2007	28 July 2006
Share price at grant date	A\$6.72	A\$6.92	A\$5.61	A\$5.73	A\$5.65	A\$3.66	A\$4.13
Fair value	A\$1.29	A\$1.73	A\$1.52	A\$2.02	A\$2.16	A\$1.01	A\$1.28
Exercise date	15 May 2015	23 May 2014	17 May 2013	13 May 2012	5 May 2011	7 May 2010	28 July 2009
Exercise price	A\$7.26	A\$6.98	A\$5.63	A\$5.22	A\$4.88	A\$3.57	A\$4.15
Number of options/SAR's							
Balance at 1 January 2012	—	1,468,320	1,449,700	1,166,400	377,122	116,030	—
Granted during period	1,744,200	—	—	—	—	—	—
Forfeited during period	(127,300)	(126,000)	(117,800)	(48,000)	(9,852)	(6,510)	—
Exercised during period ⁽²⁾	—	—	—	(817,250)	(209,530)	(107,350)	—
Balance at 31 December 2012	1,616,900	1,342,320	1,331,900	301,150	157,740	2,170	—
Exercisable at 31 December 2012	—	—	—	301,150	157,740	2,170	—
Average share price at date of exercise				A\$7.01	A\$7.16	A\$6.98	
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 ⁽²⁾	—	—	—	—	(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

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

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

	MAY 2012 GRANT	MAY 2011 GRANT	JUNE 2010 GRANT	JUNE 2009 GRANT	AUGUST 2008 GRANT	MAY 2007 GRANT	JULY 2006 GRANT
Volatility	30%	30%	35%	40%	38%	32%	35%
Dividend yield	0.60%	0.60%	0.90%	2.00%	1.50%	2.90%	1.80%
Risk-free interest rate	2.43%	4.88%	4.64%	4.55%	5.96%	5.93%	5.90%

An expense of US\$2,227,546 (2011: US\$2,535,939) has been recognised in the profit and loss statement in respect of these options and SAR's. All options expire two years after their vesting date or on termination of employment. SAR's are exercised on maturity if they are in the money.

Performance Rights Plan

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

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

The Committee made the following changes to the comparator group to apply for awards of Performance Rights made in May 2012:

- The ASX comparator group was narrowed to the ASX50 (excluding property trusts and non-standard listings) to better reflect the Company's market capitalisation; and
- The international oil and gas comparator group was broadened to include the constituents of the Standard & Poor's Global Energy Index. This removed the subjectivity of inclusion or exclusion of individual oil and gas companies and the larger peer group reduces the impact of merger and acquisitions within the peer group. TSR outcomes are also normalised against a US dollar base currency to provide consistency of measurement.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

26 EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS CONTINUED

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 130 (2011: 112) employees participating in the Performance Rights Plan.

	MAY 2012 GRANT ⁽¹⁾	MAY 2011 GRANT ⁽²⁾	JUNE 2010 GRANT ⁽³⁾	JUNE 2009 GRANT ⁽⁴⁾	AUGUST 2008 GRANT ⁽⁵⁾	MAY 2007 GRANT ⁽⁶⁾	JULY 2006 GRANT ⁽⁷⁾
Grant date	21 May 2012	23 May 2011	1 June 2010	1 June 2009	4 Aug 2008	7 May 2007	28 July 2006
Share price at grant date	A\$6.72	A\$6.92	A\$5.61	A\$5.73	A\$5.65	A\$3.66	A\$4.13
Fair value	A\$4.52	A\$4.40	A\$3.54	A\$4.70	A\$4.39	A\$2.10	A\$2.72
Exercise date	15 May 2015	23 May 2014	17 May 2013	13 May 2012	5 May 2011	7 May 2010	28 July 2009
Exercise price	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil
Number of rights							
Balance at 1 January 2012	–	1,650,900	1,658,000	1,422,085	822,500	182,447	–
Granted during period	1,899,900	–	–	–	–	–	–
Forfeited during period	(126,400)	(175,872)	(157,989)	(403,892)	–	–	–
Exercised during period ^(8,9)	–	(14,228)	(45,411)	(561,178)	(623,500)	(182,447)	–
Balance at 31 December 2012	1,773,500	1,460,800	1,454,600	457,015	199,000	–	–
Exercisable at 31 December 2012	–	–	–	457,015	199,000	–	–
Average share price at date of exercise				A\$6.82	A\$6.97	A\$6.74	
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

(1) Performance period 1 January 2012 – 31 December 2014.

(2) Performance period 1 January 2011 – 31 December 2013.

(3) Performance period 1 January 2010 – 31 December 2012.

(4) Performance period 1 January 2009 – 31 December 2011.

(5) Performance period 1 January 2008 – 31 December 2010.

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

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

(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 with the following inputs:

	MAY 2012 GRANT	MAY 2011 GRANT	JUNE 2010 GRANT	JUNE 2009 GRANT	AUGUST 2008 GRANT	MAY 2007 GRANT	JULY 2006 GRANT
Volatility	30%	30%	35%	40%	38%	32%	35%
Dividend yield	0.60%	0.60%	0.90%	2.00%	1.50%	2.90%	1.80%
Risk-free interest rate	2.43%	4.88%	4.64%	4.16%	6.00%	5.98%	5.93%

An expense of US\$5,917,637 (2011: US\$5,779,112) 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

26 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 566 (2011: 615) employees participating in the Restricted Share Plan.

	MARCH 2012 GRANT	MARCH 2011 GRANT	APRIL 2010 GRANT	MARCH 2010 GRANT	MARCH 2009 GRANT	JANUARY 2009 GRANT	MAY 2008 GRANT
EXECUTIVES							
Grant date	5 March 2012	1 March 2011	27 April 2010	3 March 2010	3 March 2009	1 January 2009	1 May 2008
Share price at grant date	A\$7.21	A\$6.96	A\$5.79	A\$5.28	A\$4.80	A\$4.65	A\$4.95
Exercise date	1 January 2014	1 January 2013	27 April 2014	1 January 2012	1 January 2011	1 January 2011	1 January 2011
Exercise price	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil
Number of shares							
Balance at 1 January 2012	—	205,935	100,000	347,409	—	—	—
Granted during period	108,513	—	—	—	—	—	—
Forfeited during period	(14,033)	(28,932)	—	—	—	—	—
Exercised during period	—	(24,258)	—	(347,409)	—	—	—
Balance at 31 December 2012	94,480	152,745	100,000	—	—	—	—
Exercisable at 31 December 2012	—	—	—	—	—	—	—
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	—	—	—

	JULY 2011 GRANT	JULY 2011 GRANT	JULY 2010 GRANT	JULY 2010 GRANT	MARCH 2009 GRANT
OIL SEARCH (PNG) LIMITED					
Grant date	15 July 2011	15 July 2011	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 2012	49,139	158,288	39,336	130,998	626,260
Granted during period	—	—	—	—	—
Forfeited during period	(10,419)	(3,266)	(2,835)	(9,896)	(29,633)
Balance at 31 December 2012	38,720	155,022	36,501	121,102	596,627
Exercisable at 31 December 2012	—	—	—	—	—
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

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

An expense of US\$2,498,951 (2011: US\$3,741,943) has been recognised in the financial statements in respect of these restricted shares.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

27 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:

	2012 US\$'000	2011 US\$'000
Short-term benefits	6,098,201	4,832,498
Long-term benefits	142,326	235,012
Post-employment benefits	97,728	92,573
Share-based payments	2,008,170	2,344,005
	8,346,425	7,504,088

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

	NO.	NO.
US\$30,000 – US\$39,999	1	–
US\$80,000 – US\$89,999	1	–
US\$90,000 – US\$99,999	1	–
US\$140,000 – US\$149,999	1	–
US\$150,000 – US\$159,999	1	–
US\$160,000 – US\$169,999	1	–
US\$210,000 – US\$219,999	–	1
US\$220,000 – US\$229,999	1	3
US\$230,000 – US\$239,999	2	1
US\$240,000 – US\$249,999	–	1
US\$480,000 – US\$489,999	1	–
US\$510,000 – US\$519,999	–	1
US\$1,230,000 – US\$1,239,999	–	1
US\$1,570,000 – US\$1,579,999	1	–
US\$4,370,000 – US\$4,379,999	–	1
US\$4,900,000 – US\$4,909,999	1	–

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

(b) Executives' remuneration (excluding directors)

Amounts received or due and receivable by executive officers of the economic entity whose remuneration is US\$100,000 or more, from entities in the economic entity and related entities:

	2012 US\$'000	2011 US\$'000
Short-term benefits	7,482,863	7,061,596
Long-term benefits ⁽¹⁾	(148,108)	(158,507)
Post-employment benefits	173,053	239,373
Share-based payments	1,417,583	3,267,398
	8,925,391	10,409,860

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

27 KEY MANAGEMENT PERSONNEL REMUNERATION CONTINUED

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

	2012 NO.	2011 NO.
US\$220,000 – US\$229,999	1	–
US\$290,000 – US\$299,999	1	–
US\$740,000 – US\$749,999	–	1
US\$760,000 – US\$769,999	1	–
US\$900,000 – US\$909,999	–	2
US\$920,000 – US\$929,999	–	1
US\$980,000 – US\$989,999	–	1
US\$990,000 – US\$999,999	1	–
US\$1,130,000 – US\$1,139,999	1	–
US\$1,180,000 – US\$1,189,999	1	–
US\$1,230,000 – US\$1,239,999	–	1
US\$1,330,000 – US\$1,339,999	1	–
US\$1,390,000 – US\$1,399,999	1	–
US\$1,500,000 – US\$1,509,999	–	1
US\$1,550,000 – US\$1,559,999	–	1
US\$1,590,000 – US\$1,599,999	1	–
US\$1,640,000 – US\$1,649,999	–	1

28 AUDITOR'S REMUNERATION

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Amounts paid or due and payable in respect of:				
Auditing the economic entity's financial report	348,626	319,892	131,164	123,118
Other services	25,895	34,620	–	–
	374,521	354,512	131,164	123,118

The audit fees are in Australian dollars and are translated at 1.0359 (2011: 1.0318).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

29 RELATED PARTY TRANSACTIONS

(a) Key management personnel

The Directors and key management personnel of Oil Search Limited during the year to 31 December 2012, and their interests in the shares of Oil Search Limited at that date were:

	NO. OF ORDINARY SHARES		NO. OF PERFORMANCE RIGHTS ⁽¹⁾		NO. OF RESTRICTED SHARES ⁽¹⁾	
	2012	2011	2012	2011	2012	2011
DIRECTORS						
BF Horwood	25,000	12,500	—	—	—	—
PR Botten	2,139,122	1,801,599	953,272	1,116,700	112,493	206,969
G Aopi	243,526	183,692	240,736	270,272	128,046	151,832
KG Constantinou	—	—	—	—	—	—
R Igara ⁽²⁾	10,000	10,000	—	—	—	—
AJ Kantsler	17,090	7,025	—	—	—	—
MDE Kriewaldt ⁽²⁾	14,590	14,590	—	—	—	—
RJ Lee	20,000	—	—	—	—	—
B Philemon	7,165	7,125	—	—	—	—
KW Spence	—	—	—	—	—	—
JL Stitt ⁽²⁾	42,190	42,190	—	—	—	—
ZE Switkowski	175,000	100,000	—	—	—	—
EXECUTIVES						
P Bainbridge ⁽²⁾	563,333	572,907	—	199,900	—	72,541
P Caldwell	70,000	80,000	183,300	185,800	33,241	63,725
P Cholakos	46,000	16,000	143,500	87,600	10,222	30,000
P Crute	50,406	66,270	146,400	146,900	26,730	49,783
J Fowles	—	—	55,300	—	—	—
S Gardiner	151,812	150,995	185,060	150,300	8,178	—
M Herrett	—	—	—	—	—	—
N Hartley ⁽²⁾	—	133,628	—	76,600	—	—
A Miller ⁽²⁾	—	342,023	—	240,000	—	46,016
R Robinson	202,372	184,124	155,300	135,200	28,315	19,123
Z Todorcevski ⁽²⁾	104,740	307,684	—	306,485	—	59,371

(1) Refer to note 26.

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

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

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

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

	TRANSACTIONS VALUE YEAR ENDED 31 DECEMBER	
	2012 US\$'000	2011 US\$'000
CONSOLIDATED		
Airways Hotel and Apartments Limited ⁽¹⁾	136	49
Lamana Hotel Port Moresby ⁽¹⁾	331	—

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, and Lamana Hotel Port Moresby, companies of which Mr KG Constantinou is a Director.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

29 RELATED PARTY TRANSACTIONS CONTINUED

(b) Other transactions

- (1) Interests in subsidiaries are disclosed in note 32.
- (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 24.
- (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 2012.
- (6) Loans from joint venture entities are disclosed in note 20.

30 LEASES

	CONSOLIDATED		PARENT	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Operating leases not capitalised in the accounts				
Rental of premises and motor vehicles				
Payable within 12 months	10,470	5,747	—	—
Payable 1 to 2 years	6,874	2,980	—	—
Payable 2 to 5 years	18,255	958	—	—
Payable greater than 5 years	41,097	—	—	—

31 CONTINGENT LIABILITIES

(a) Guarantees

As part of the terms and conditions of a Loan Agreement between Oil Search (Finance) Limited as borrower and the Commonwealth Bank of Australia lending syndicate for the provision of a US\$500 million term revolving facility, Oil Search (PNG) Limited, as guarantor, 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 (29%) of the LNG Project's senior debt obligations (refer to note 20).

Oil Search Limited has executed a bank guarantee for US\$22.5 million, to guarantee payment of its Sydney office lease on behalf of its subsidiary Papuan Oil Search Limited.

(b) Contingent claims

Various claims for damages, occurring through the ordinary course of business, existed at balance 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

32 GROUP ENTITIES

	OWNERSHIP INTEREST % 2012	OWNERSHIP INTEREST % 2011	COUNTRY OF INCORPORATION
Parent entity			
Oil Search Limited			PNG
Consolidated entities			
Oil Search (Middle Eastern) Limited	100	100	British Virgin Is.
Oil Search (Iraq) Limited	100	100	British Virgin Is.
Oil Search (Libya) Limited	100	100	British Virgin Is.
Oil Search (Tunisia) Limited	100	100	British Virgin Is.
Oil Search (Newco) Limited ⁽¹⁾	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 (P'nyang) Holdings Limited ⁽²⁾	100	—	PNG
Oil Search (P'nyang) Limited ⁽³⁾	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
Oil Search Finance Limited ⁽⁴⁾	100	—	British Virgin Is.
New Guinea Investments Limited	100	100	PNG
New Guinea (Petroleum) Limited	100	100	PNG
Oil Search Health Foundation Limited ⁽⁵⁾	100	100	PNG
Papuan Oil Search Limited	100	100	Australia
Oil Search (Uramu) Pty Limited ⁽⁶⁾	100	—	Australia
Oil Search Limited Retention Share Plan Trust	100	100	Australia

(1) Oil Search (Newco) Limited was incorporated on 10 July 2012.

(2) Oil Search (P'nyang) Holdings Limited was incorporated on 21 December 2012.

(3) Oil Search (P'nyang) Limited was incorporated on 21 December 2012.

(4) Oil Search Finance Limited was incorporated on 10 July 2012.

(5) 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.

(6) On 31 July 2012 Papuan Oil Search Limited acquired the shares in ML Energy Investment Fund Upstream (PNG) Pty Ltd. The acquired entity's name was subsequently changed to Oil Search (Uramu) Pty Limited.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

33 ACQUISITION OF SUBSIDIARIES

During the financial year the following controlled entity was acquired and the operating results have been included in the statement of comprehensive income from the date of acquisition:

	DATE OF ACQUISITION	BENEFICIAL INTEREST %	PURCHASE CONSIDERATION US\$'000	CONTRIBUTION TO CONSOLIDATED PROFIT SINCE ACQUISITION
ML Energy Investment Fund Upstream (PNG) Pty Ltd ⁽¹⁾	31 July 2012	100	12,000	—

(1) ML Energy Investment Fund Upstream (PNG) Pty Ltd's name was subsequently changed to Oil Search (Uramu) Pty Limited, and is included at note 32.

On 31 July 2012, Papuan Oil Search Limited obtained control of ML Energy Fund Upstream (PNG) Pty Ltd through the acquisition of 100% of its ordinary share capital. This entity was subsequently renamed Oil Search (Uramu) Pty Limited ("OSU"). The principal activity of OSU is the exploration, evaluation and development of hydrocarbon resources in PNG. This is carried out as a non-operator participant in the joint venture of the PRL10 licence related to the Uramu field. At the time of acquisition, OSU held a 40.45% interest in PRL10, with the Oil Search Group holding the remaining 59.55%.

This acquisition has been accounted for as an asset acquisition.

In the five months to 31 December 2012, OSU has contributed no revenue or profit to the Group's results. If the acquisition had occurred on 1 January 2012, management estimates there would have been no impact on the Group's consolidated revenue and the net profit attributable to equity holders of Oil Search Limited.

Consideration transferred

The following summarises the consideration transferred:

	US\$'000
Cash paid	10,000
Contingent consideration	2,000
Total consideration transferred	12,000

Contingent consideration

Papuan Oil Search Limited has agreed to pay the selling shareholders an additional consideration of US\$2.0 million if:

- at least 6 months prior to the expiration of PRL10 an extension to the licence is granted; or
- within 6 months of expiry of PRL10, the existing licensees or any OSL entity are granted a licence in an area on terms accepted by the buyer.

The Group has included US\$2.0 million as contingent consideration related to the additional consideration.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

34 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 29(b).
Loan receivable	11		Loans receivable are carried at amortised cost less any allowance for impairment.	Loans receivable are payable based on contractual arrangements.
Short-term deposits	23(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	18		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	18		Loans from related parties are carried at amortised cost. Interest is taken up as an expense on an accrual basis.	Amounts owing to related parties/entities are payable at call.
Secured loans	–		Secured loans are carried at amortised cost net of transaction costs. Interest on borrowings for major projects is capitalised until the commencement of production and then amortised over: ▶ the estimated life of the project (oil facility); or ▶ a fixed term from the completion date (LNG Project). All other interest on borrowings is expensed at the effective interest rate.	Secured loans are repayable in quarterly instalments from proceeds earned from the producing oil fields (oil facility) or semi-annually from LNG proceeds (LNG Project). Interest is either fixed or floating (LIBOR plus a margin). Details of the security over the secured loans are set out in notes 20 and 31(a).
(iii) Equity				
Ordinary shares	22		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 22 and 26.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

34 FINANCIAL INSTRUMENTS CONTINUED

(a) Terms, conditions and accounting policies continued

RECOGNISED FINANCIAL INSTRUMENTS	BALANCE SHEET NOTES	ACCOUNTING POLICIES	TERMS AND CONDITIONS
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 (2011: nil). As at 31 December 2012, there are no outstanding barrels hedged (2011: nil).

(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 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 2012, there were no foreign exchange hedge contracts outstanding (2011: nil).

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

34 FINANCIAL INSTRUMENTS CONTINUED

(b) Financial risk management continued

(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 2012, there was no interest rate hedging in place (2011: 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 (2011: 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 \$1.4 million (2011: \$1.7 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 \$1.0 million (2011: \$1.1 million).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

34 FINANCIAL INSTRUMENTS CONTINUED

(b) Financial risk management continued

(ii) Interest rate risk continued

Consolidated

FINANCIAL INSTRUMENTS	FIXED INTEREST RATE MATURING IN:					TOTAL CARRYING AMOUNT AS PER THE BALANCE SHEET US\$'000	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %
	FLOATING INTEREST RATE US\$'000	1 YEAR OR LESS US\$'000	1-5 YEARS US\$'000	MORE THAN 5 YEARS US\$'000	NON INTEREST BEARING US\$'000		
2012							
Financial assets							
Cash and cash equivalents	221,482	266,792	—	—	—	488,274	0.7%
Receivables – trade	—	—	—	—	103,292	103,292	
Other debtors	—	—	—	—	69,941	69,941	
Loan receivable	—	—	—	—	48,398	48,398	
Non-current receivables	—	—	—	—	4,271	4,271	
Total financial assets	221,482	266,792	—	—	225,902	714,176	
Financial liabilities							
Trade creditors and accruals	—	—	—	—	392,217	392,217	
Other payables	—	—	—	—	4,951	4,951	
Loans and borrowings	2,391,432	—	—	474,618	—	2,866,050	3.3%
Total financial liabilities	2,391,432	—	—	474,618	397,168	3,263,218	
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	
Loan receivable	—	—	—	—	—	—	
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	

There exists no unrecognised financial instruments at balance date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

34 FINANCIAL INSTRUMENTS CONTINUED

(b) Financial risk management continued

(ii) Interest rate risk continued

Parent

FINANCIAL INSTRUMENTS	FLOATING INTEREST RATE US\$'000	FIXED INTEREST RATE MATURING IN:				TOTAL CARRYING AMOUNT AS PER THE BALANCE SHEET US\$'000	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %
		1 YEAR OR LESS US\$'000	1-5 YEARS US\$'000	MORE THAN 5 YEARS US\$'000	NON INTEREST BEARING US\$'000		
2012							
Financial assets							
Cash and cash equivalents	136,849	236,680	—	—	—	373,529	0.6%
Receivables – trade	—	—	—	—	—	—	
Other debtors	—	—	—	—	5,653	5,653	
Loan receivable	—	—	—	—	—	—	
Total financial assets	136,849	236,680	—	—	5,653	379,182	
Financial liabilities							
Trade creditors and accruals	—	—	—	—	3,394	3,394	
Other payables	—	—	—	—	—	—	
Total financial liabilities	—	—	—	—	3,394	3,394	
2011							
Financial assets							
Cash and cash equivalents	84,879	694,380	—	—	—	779,259	0.6%
Receivables – trade	—	—	—	—	—	—	
Other debtors	—	—	—	—	6,683	6,683	
Loan receivable	—	—	—	—	—	—	
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	

There exists no unrecognised financial instruments at balance date.

(iii) Commodity price risk

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

Commodity risk management

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

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

As at 31 December 2012, there was no oil price hedging in place (2011: nil).

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

34 FINANCIAL INSTRUMENTS CONTINUED

(b) Financial risk management continued

(iv) Credit risk

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

- Financial transactions involving money market, surplus cash investments and derivative instruments
- Direct sales of crude
- Other receivables
- Loan receivable
- 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 issued 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. In accordance with the Group's debt facility Oil Search uses its best endeavours to have these counterparties sign a Buyers Consent Deed. Sales to non-investment grade counterparties must be secured by letters of credit from an investment grade bank.

An option agreement and a share pledge agreement are held over the third party loan receivable balance, permitting Oil Search to acquire an equity interest in the issued share capital of the Borrower.

At 31 December 2012 there was no significant concentration of credit risk exposure to any counterparty (2011: nil).

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

	NOTE	CONSOLIDATED		PARENT	
		2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Current					
Cash at bank and on hand	23(a)	213,388	164,439	136,748	84,866
Share of cash in joint ventures	23(a)	8,094	9,789	101	13
Interest-bearing short-term deposits	23(a)	266,792	873,235	236,680	694,380
Receivables	9	173,233	102,253	751,473	423,464
Loan receivable	11	48,398	—	—	—
		709,905	1,149,716	1,125,002	1,202,723
Non-current					
Receivables	9	4,271	3,966	—	—
Loans and borrowings	20	2,866,050	1,747,567	—	—
		2,870,321	1,751,533	—	—

(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 (Finance) Limited ("OSFL") signed a five year non-amortising financing facility effective 29 October 2012 for US\$500 million. A facility limit of US\$500 million was available at 31 December 2012. There was a nil drawn balance as at 31 December 2012 (2011: nil). As part of the terms and conditions of this facility, Oil Search (PNG) Limited ("OSP") as guarantor, has provided a charge over its credit account in Melbourne with Australia & New Zealand Banking Group Limited.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

34 FINANCIAL INSTRUMENTS CONTINUED

(b) Financial risk management continued

(v) Liquidity risk continued

The new corporate facility replaces the previous US\$435 million amortising facility that was due to expire in September 2013.

Each participant in 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 its currently estimated equity funding 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 2012, the Group has surplus cash of US\$480 million (2011: US\$1,038 million), of which US\$267 million was invested in short-term instruments (2011: US\$873 million).

(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	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Financial assets				
Cash	488,274	1,047,463	373,529	779,259
Receivables – trade	103,292	49,336	–	–
Other debtors	69,941	52,917	5,653	6,683
Loan receivable	48,398	–	–	–
Investments	29	29	–	–
Non current receivables	4,271	3,966	–	–
Total financial assets	714,205	1,153,711	379,182	785,942
Financial liabilities				
Trade creditors and accruals	392,217	415,946	3,394	9,348
Other payables – current	–	–	–	172
Other payables – non current	4,951	4,899	–	–
Loans and borrowings	2,866,050	1,747,567	–	–
Total financial liabilities	3,263,218	2,168,412	3,394	9,520

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.

The Group uses various methods in estimating the fair value of financial assets and financial liabilities.

The carrying amount of financial assets and liabilities measured at fair value is principally calculated with reference to quoted prices in active markets for identical assets or liabilities. Where no price information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on the Group's views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling and other risks implicit in such estimates. Movements in the fair value of financial assets and liabilities may be recognised through the income statement or in other comprehensive income. In summary, the methods comprise:

- Level 1 – the fair value is calculated using quoted prices in active markets;
- Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability; and
- Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair values of receivables, payables and other financial assets and liabilities which are not measured at fair value approximate their carrying amounts.

DIRECTORS' DECLARATION

31 DECEMBER 2012

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:

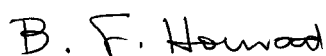
- (i) give a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2012 and their performance for the year ended on that date; and
- (ii) comply with International Financial Reporting Standards; and
- (iii) the attached financial statements and notes thereto 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.

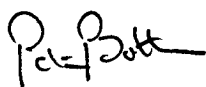
This declaration has been made after receiving unqualified declarations from the Managing Director and the Chief Financial Officer, that are consistent with requirements under section 295A of the Australian Corporations Act 2001, for the year ended 31 December 2012.

Signed in accordance with a resolution of the Directors.

On behalf of the Board of Directors



BF HORWOOD
Chairman



PR BOTTEN
Managing Director

Sydney, 25 February 2013



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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 2012, 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 76 to 119.

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.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF OIL SEARCH LIMITED

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 2012 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 56 to 73 of the directors' report for the year ended 31 December 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Jason Thorne
Partner
Chartered Accountants
Registered under the Accountants Act, 1996
Sydney, 25 February 2013



DELOITTE TOUCHE TOHMATSU



Paul Barber
Partner
Chartered Accountants
Registered Company Auditor in Australia
Port Moresby, 25 February 2013

SHAREHOLDER INFORMATION

Oil Search Limited

ARBN 055 079 868

(a) The distribution of ordinary shares ranked according to size as at 28 February 2013 was:

SIZE OF HOLDING	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL
1 – 1,000	17,313	8,655,724	0.65
1,001 – 5,000	16,059	39,209,762	2.94
5,001 – 10,000	3,639	26,485,867	1.98
10,001 – 100,000	2,216	48,157,397	3.61
100,001 – 9,999,999,999	183	1,212,247,992	90.82
	39,410	1,334,756,742	100.00

(b) The 20 largest ordinary shareholders representing 85.39% of the ordinary shares as at 28 February 2013 were as follows:

SHAREHOLDER	NUMBER OF SHARES	% OF ISSUED CAPITAL
1 HSBC Custody Nominees (Australia) Limited	286,335,304	21.45
2 JP Morgan Nominees Australia Limited	263,694,030	19.76
3 Independent Public Business Corporation	196,604,177	14.73
4 National Nominees Limited	164,826,053	12.35
5 Citicorp Nominees Pty Limited	67,419,787	5.05
6 Colonial First State Inv Account	32,085,362	2.40
7 BNP Paribas Noms Pty Ltd	26,253,130	1.97
8 JP Morgan Nominees Australia Limited (Cash Income Account)	18,970,932	1.42
9 Australian Foundation Investment Company Limited	14,952,218	1.12
10 AMP Life Limited	11,022,307	0.83
11 RBC Dexia Investor Services Australia Nominees Pty Limited	10,694,549	0.80
12 HSBC Custody Nominees (Australia) Limited	9,811,644	0.74
13 National Superannuation Fund Limited	6,081,472	0.46
14 UBS Nominees Pty Ltd	5,540,174	0.42
15 HSBC Custody Nominees (Australia) Limited – A/C 3	4,692,240	0.35
16 UBS Wealth Management Australia Nominees Pty Ltd	4,628,240	0.35
17 Djerriwarrh Investments Limited	4,559,850	0.34
18 Dr Kwok Ching Chow & Mrs Chan Pik Yun Peggy Chow	4,268,880	0.32
19 Mrs Frances Claire Fox	3,700,000	0.28
20 UBS Nominees Pty Ltd	3,562,500	0.27
Total	1,139,702,849	85.39

SHAREHOLDER INFORMATION

(c) Issued capital as at 28 February 2013 was:

- 1,334,756,742 ordinary fully paid shares
- 409,750 unlisted employee options
- 5,193,646 unlisted performance rights
- 1,169,023 restricted shares
- 4,186,060 share appreciation rights

The trustee for the employee share plan holds 2,386,025 shares that are available to satisfy the exercise of employee rights and options and vesting of restricted shares. The shares in the trust are part of the issued capital.

(d) The following interests were registered on the Company's register of Substantial Shareholders as at 28 February 2013:

SHAREHOLDER	NUMBER OF SHARES	% OF ISSUED CAPITAL
Independent Public Business Corporation as Trustee of The General Business Trust of Papua New Guinea*	196,604,177	14.73
The Capital Group Companies	152,543,105	11.43

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

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

(f) At 28 February 2013, 1,456 holders held unmarketable parcels of ordinary shares in the Company.

Voting rights attached to ordinary shares

1. On a show of hands, one vote per member.
2. On a poll, every member present shall have one vote for every share held by them in the Company.

SHAREHOLDER INFORMATION

Annual Meeting

Oil Search's 2013 Annual Meeting will be held at the Crowne Plaza, Cnr Hunter and Douglas Street, Port Moresby, Papua New Guinea on Friday, 10 May 2013, commencing at 10am.

2012 final dividend

The 2012 final dividend will be paid on 9 April 2013 to shareholders registered at the close of business on 14 March 2013.

The dividend will be paid in PNG Kina for those shareholders domiciled in Papua New Guinea, in GB Pounds for those shareholders that have lodged direct credit details requesting a GB credit with the Company's share registry, Computershare, and in Australian dollars for all other shareholders. The exchange rates used for converting the US dollar dividend into the payment currencies are the rates as on the record date, 14 March 2013.

The dividend will be unfranked and no withholding tax will be deducted. The Company's dividend reinvestment plan, which will be underwritten, will operate for the 2012 final dividend.

Share registry:

Enquiries

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

Change of shareholder details

Shareholders should notify Computershare of any changes in shareholder details via the Computershare website (www.computershare.com.au) or in writing (fax, email, mail). Examples of such changes include:

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

Computershare Investor Services Pty Limited

GPO Box 2975
Melbourne VIC 3001,
Australia

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

Facsimile: +61 3 9473 2500

Email: oilsearch@computershare.com.au

Website: www.computershare.com.au

American Depositary Receipts programme

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

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

Share codes

ASX Share Code: OSH
ADR Share Code: OISHY

Oil Search website

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

- Share price information.
- Dividend information.
- Annual reports.
- Quarterly reports.
- Press releases.
- Profit announcements.
- Drilling reports.
- Presentations.
- Webcasts.

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

SHAREHOLDER INFORMATION

Key announcements in 2012

January	24	Release of 2011 4th Quarter results
February	21	Release of 2011 Full Year results
March	1	Gas discovered at P'nyang South
	5	Sales and Purchase Agreement signed for the sale of OSH's 40% interest in Yemen Block 3 to Total
	7	Purchase of a 50% interest in PPL 277 announced
April	5	Release of 2011 Annual Report
	24	Release of 2012 1st Quarter results
May	8	Annual Meeting
July	24	Release of 2012 2nd Quarter results
	26	Temporary suspension of loadings at the Kumul Marine Terminal
	30	Commencement of drilling at PNG LNG Project
August	21	Release of 2012 interim results
September	3	Gas Sales Agreement signed with Barrick (Niugini) Ltd for the supply of up to 56bcf of natural gas (including associated liquids)
October	9	Five Sale and Purchase Agreements signed with Total for licences in the onshore and offshore Gulf of Papua region
	23	Release of 2012 3rd Quarter results
	31	US\$500m five year, non-amortising revolving credit facility secured with 15 member banking group to provide funding flexibility and support growth
November	5	Bart Philemon appointed as a Non-Executive Director
	12	PNG LNG Project Update – Project capital cost revised to US\$19bn, remains on track to achieve first LNG sales in 2014
	14	Stephen Gardiner appointed Chief Financial Officer
December	6	Oil discovered at Taza 1 ST 1 well
	31	Completion of sale of OSH's 40% interest Yemen Block 3 to Total

2013 financial calendar⁽¹⁾

January	29	Release of 2012 4th Quarter results
February	26	Release of 2012 Full Year results
March	7	Ex-dividend date for 2012 final dividend
	14	Record date for 2012 final dividend
April	5	Release of 2012 Annual Report
	9	Payment of 2012 final dividend
	23	Release of 2013 1st Quarter results
May	10	Annual Meeting
July	23	Release of 2013 2nd Quarter results
August	20	Release of 2013 interim results
September	6	Ex-dividend date for 2013 interim dividend
	12	Record date for 2013 interim dividend
October	8	Payment of 2013 interim dividend
	22	Release of 2013 3rd Quarter results
December	31	End of Financial Year

(1) Dates are subject to change.

CORPORATE DIRECTORY

Senior management

Peter Botten CBE

Managing Director (Australia)

Gerea Aopi CBE

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

Philip Caldwell

Executive General Manager,
PNG LNG (Australia)

Paul Cholakos

Executive General Manager,
PNG Operations (Australia)

Glenn Darnley-Stuart

Executive General Manager,
Project Development (Australia)

Julian Fowles

Executive General Manager,
Exploration and Business Development
(Australia)

Stephen Gardiner

Chief Financial Officer / Group Secretary
(Australia)

Michael Herrett

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

Registered office

Oil Search (PNG) Limited
7th Floor
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PO Box 842
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Telephone: +675 322 5599
Facsimile: +675 322 5566

Australian offices

Papuan Oil Search Limited

Sydney office

1 Bligh Street
Sydney NSW 2000

GPO Box 2442
Sydney NSW 2001

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

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555 Coronation Drive
Cnr Landsborough Terrace
Toowong QLD 4066

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Toowong QLD 4066

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

Dubai office

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

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

Iraq office

Oil Search (Iraq) Limited
Property 214/23
Qirga 2, Saiwan Street
Sulaymaniyah
Kurdistan, Iraq

Telephone: +964 53 328 2214
Facsimile: +61 2 8003 5357

Tunisian office

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

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

Yemen office

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

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

GLOSSARY OF TERMS

1C

Low estimate of contingent resources

1P

Proven reserves

2C

Best estimate of contingent resources

2P

Proven and probable reserves

barrel/bbl

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

bcf/bscf

Billion standard cubic feet where a billion is defined as 10^9 . On average 1 bscf of sales gas = 1.055 petajoules.

boe

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

bopd

Barrels of oil per day

BTU

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

Condensate

Hydrocarbons which are in the gaseous state under reservoir conditions and which become liquid when temperature or pressure is reduced. A mixture of pentanes and higher hydrocarbons.

Crude oil

Liquid petroleum as it comes out of the ground. Crude oils range from very light (high in gasoline) to very heavy (high in residual oils). Sour crude is high in sulphur content. Sweet crude is low in sulphur and therefore often more valuable.

Development well

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

EBITDAX

Earnings before interest, tax, depreciation, depletion, exploration and impairment.

FEED

Front end engineering and design. Conceptual design prior to detailed design.

GOR

Gas to oil ratio

Hydrocarbons

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

LNG

Liquefied natural gas

LPG

Liquid petroleum gas

LTi

Long term incentive

MENA

Middle East/North Africa

mmbbl

Million barrels

mmscf/d

Million standard cubic feet per day

MTPA

Million tonnes per annum (LNG)

PDL

Petroleum Development Licence

PJ

Petajoules – joules are the metric measurement unit for energy – a petajoule is equal to $1 \text{ joule} \times 10^{15}$.

PL

Pipeline Licence

PNG

Papua New Guinea

PNG LNG Project operator

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

PPFL

Petroleum Processing Facilities Licence

PPL

Petroleum Prospecting Licence

PRL

Petroleum Retention Licence

Seismic survey

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

STI

Short term incentive

tcf

Trillion cubic feet (measurement of gas volume)

Wildcats

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

Definition of reserves and contingent resources

Estimates of reserves and contingent resources are conducted to Society of Petroleum Engineers (SPE) standards on a Proven (1P and 1C) and Proven and Probable (2P and 2C) basis.

Proven reserves

Proven reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proven reserves are limited to those quantities of oil and gas which can be expected, with little doubt, to be recoverable commercially at current prices and costs, under existing regulatory practices and with existing conventional equipment and operating methods. Proven (1P) reserves are probabilistically calculated reserves having a 90 per cent confidence level (P90); such reserves have a 90 per cent likelihood of being equalled or exceeded.

Probable reserves

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

Contingent resources

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

2C denotes the best estimate of contingent resources.

TEN YEAR SUMMARY⁽¹⁾

	2012	2011	2010
INCOME STATEMENT (US\$'000)			
Revenue from operations	724,619	732,869	583,560
Other income/(expenses)	—	—	—
Foreign exchange (losses)/gains	(1,445)	(1,173)	2,077
Operating expenses	(165,717)	(113,938)	(97,290)
Net corporate costs	(20,815)	(21,875)	(16,635)
Business development costs	(12,309)	(10,295)	(6,154)
EBITDAX⁽³⁾	524,333	585,588	465,558
Amortisation and depreciation	(41,861)	(49,744)	(42,744)
Amortisation – site restoration	(7,596)	(1,563)	(7,130)
Amortisation of negative goodwill	—	—	—
Exploration costs expensed and written-off	(143,970)	(60,633)	(125,034)
EBIT	330,906	473,648	290,650
Net interest and borrowing costs	(4,557)	(658)	(826)
Capital profit	45,079	138	3,158
Acquisition accounting adjustment	—	—	—
Net impairment reversals/(losses)	(23,793)	(33,227)	(15,808)
Operating profit before tax	347,635	439,901	277,174
Income tax expense	(171,801)	(237,418)	(91,572)
Net profit after tax, including significant items	175,834	202,483	185,602
Significant items	22,796	(33,227)	41,488
Net profit after tax, excluding significant items	153,038	235,710	144,114
Dividends paid – ordinary	(53,143)	(52,663)	(52,087)
Dividends paid – preference	—	—	—
BALANCE SHEET (US\$'000)			
Total assets	7,102,721	5,702,034	4,370,067
Total cash	488,274	1,047,463	1,263,589
Total debt	2,866,050	1,747,567	929,720
Shareholders' equity	3,208,346	3,017,232	2,798,467
OTHER INFORMATION			
Average realised oil price (US\$/bbl)	113.97	116.09	80.19
Average realised gold price (US\$/ounce)	N/A	N/A	N/A
Oil production (mmstb)	5.50	5.76	6.77
Gas production (bcf) ⁽⁴⁾	5.27	5.56	5.35
Total oil and gas production (mmboe)	6.38	6.69	7.66
Gold production (ounces)	N/A	N/A	N/A
Exploration and evaluation expenditure incurred (US\$'000)	240,615	144,606	175,980
Assets under development expenditure incurred (US\$'000)	1,492,529	1,286,542	1,139,058
Producing assets expenditure incurred (US\$'000)	111,498	129,396	41,850
Operating cash flow (US\$'000)	196,226	386,193	346,675
Operating cash flow per ordinary share (US cents)	14.75	29.3	26.5
Diluted EPS (including significant items) (US cents)	13.17	15.3	14.1
Basic EPS (excluding significant items) (US cents)	11.50	17.9	11.0
Ordinary dividend per share (US cents)	4.0	4.0	4.0
Special dividend per share (US cents)	—	—	—
Gearing (%) ⁽⁵⁾	42.6%	18.8%	—
Return on average shareholders' funds (%)	5.6%	7.0%	6.9%
Number of issued shares – ordinary (000's)	1,334,757	1,325,155	1,312,888
EXCHANGE RATES			
Year end A\$: US\$	1.038	1.016	1.016
Average A\$: US\$	1.036	1.032	0.919

- 1 Prior year comparatives have been restated where necessary, in order to achieve consistency with current year disclosures.
- 2 Restated to reflect changes in accounting policies.
- 3 Earnings before interest, borrowing costs, tax, depreciation and amortisation, exploration and business development costs expensed.
- 4 Hides gas production for 2008 onwards includes vent gas. Vent gas was not reported prior to 2008.
- 5 Net debt / (net debt & shareholders' funds).

	2009	2008	2007	2006	2005	RESTATED 2004 ⁽²⁾	2003
	512,154	814,330	718,755	644,534	663,993	416,296	350,801
	—	—	803	4,000	(479)	837	—
	2,455	(992)	(1,423)	(886)	(1,076)	(620)	2,716
	(94,494)	(107,225)	(104,702)	(91,140)	(99,022)	(75,461)	(103,595)
	(10,728)	(8,052)	(15,214)	(11,751)	(9,596)	(10,224)	(10,867)
	(4,738)	—	—	—	—	—	—
	404,649	698,061	598,219	544,757	553,820	330,828	239,055
	(96,860)	(117,311)	(124,822)	(98,421)	(85,013)	(62,981)	(73,655)
	(8,556)	(9,919)	(11,117)	(4,554)	(9,725)	(6,112)	(5,960)
	—	—	—	—	—	—	9,428
	(70,991)	(91,234)	(163,324)	(46,765)	(37,334)	(64,276)	(12,467)
	228,242	479,597	298,956	395,017	421,748	197,459	156,401
	(3,326)	6,093	22,791	21,802	(2,035)	(4,158)	(8,074)
	14,914	126,145	1,968	258,321	4,663	9,621	5,575
	—	—	—	—	350	7,497	—
	—	(91,530)	129	(65,180)	—	—	—
	239,830	520,305	323,844	609,960	424,726	210,419	153,902
	(106,150)	(206,943)	(185,972)	(197,978)	(224,548)	(103,138)	(68,224)
	133,680	313,362	137,872	411,982	200,178	107,281	85,678
	34,058	73,396	(3,621)	204,437	—	—	—
	99,622	239,966	141,493	207,545	200,178	107,281	85,678
	(67,359)	(89,415)	(89,587)	(100,739)	(55,896)	(33,424)	(10,557)
	—	—	—	—	—	—	(1,158)
	3,077,390	2,005,457	1,833,479	1,802,755	1,519,529	1,329,801	1,377,033
	1,288,077	534,928	343,578	477,884	212,163	210,367	102,645
	—	—	—	—	126,000	168,000	200,000
	2,593,181	1,593,227	1,389,132	1,340,980	1,020,713	869,747	846,385
	65.40	100.10	77.78	67.22	58.06	41.65	29.80
	N/A	N/A	N/A	N/A	N/A	N/A	361.00
	7.20	7.71	8.98	9.22	11.15	10.00	9.51
	5.52	5.35	4.80	5.13	5.40	5.50	5.30
	8.12	8.58	9.78	10.20	12.18	11.05	10.40
	N/A	N/A	N/A	N/A	N/A	N/A	161,475
	438,922	257,286	222,391	120,929	78,624	75,556	52,908
	—	4,214	37,617	294	104,625	6,145	27,165
	142,325	157,584	57,219	143,367	76,799	45,815	—
	284,099	507,423	326,783	398,978	357,715	276,716	191,257
	24.5	45.3	29.2	35.6	32.0	24.8	17.3
	11.5	27.8	12.2	36.6	17.8	9.6	7.7
	8.6	21.4	12.6	18.5	17.9	13.5	7.7
	4.0	8.0	8.0	8.0	5.0	4.0	1.0
	—	—	—	—	2.0	—	1.0
	—	—	—	—	—	—	10.3%
	6.4%	21.0%	10.1%	34.9%	21.2%	12.5%	10.5%
	1,299,562	1,119,841	1,119,841	1,119,841	1,118,895	1,114,385	1,113,790
	0.897	0.693	0.791	0.791	0.734	0.779	0.743
	0.792	0.868	0.836	0.752	0.762	0.737	0.653



OIL SEARCH LIMITED