



OIL SEARCH LIMITED

STRATEGY ON TRACK

2012 SUSTAINABILITY REPORT

ABOUT THIS REPORT

This Sustainability Report covers the performance of Oil Search Limited and the activities over which Oil Search had operational control during the 2012 financial year (year end 31 December 2012). It is structured around the principles of Oil Search's Sustainability Policy, which was released in 2012 and is available at: www.oilsearch.com/corporate-governance/charters-and-policies.html.

The report provides an objective, transparent and succinct overview of Oil Search's sustainability performance in 2012 for the information of our major stakeholders: community members, employees, investors, government, non-government organisations and partners.

It covers Oil Search's exploration and production activities in Papua New Guinea (PNG) and, where noted, our operations in the Kurdistan Region of Iraq, Yemen and Tunisia. It does not cover the PNG LNG Project as operational control for this rests with Esso Highlands Limited (www.pnglng.com). However, it does include Oil Search's associated gas activities relating to the project.

The report is prepared to application level C+ of the Global Reporting Initiative's G3.1 Sustainability Reporting Guidelines

and Oil and Gas Sector Supplement (GRI Guidelines). Deloitte has provided independent limited assurance over Oil Search's self-declaration of having applied the GRI Guidelines at application level C+ using the Australian Standard on Assurance Engagements 3000. To see the GRI content index and the Assurance Statement from Deloitte, visit: www.oilsearch.com/sustainability/sustainability-reporting.html.

All financial figures in this report are quoted in US dollars.

For more information

Oil Search's sustainability reporting suite (including historical information) is available at www.oilsearch.com/sustainability/sustainability-reporting.html. It includes:

- 2012 Sustainability Report (this report)
- 2012 Transparency and Sustainability Data Book
- 2012 PNG Summary Sustainability Report
- Connections case study book.

Enquiries and feedback are welcome. Please contact the Oil Search Sustainability team at sustainability@oilsearch.com.

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MESSAGE FROM THE MANAGING DIRECTOR

A year of strengthening
foundations, continuously
improving performance and
managing risk.



A commitment to sustainability has been an inherent part of Oil Search's business and values for more than 80 years.

Today, having a strong sustainability platform and remaining true to Oil Search's values is even more vital. The Company is experiencing unprecedented growth and change due to an expanding drilling and exploration programme and our involvement in the PNG LNG Project, which comes on line in 2014.

Over the past two years we have been preparing for this growth phase by putting a robust framework around Oil Search's sustainability commitment and formalising and consolidating the Company's sustainability direction, systems and controls. Taking a more strategic approach supports better prioritisation, measurement, implementation and communication of our sustainability objectives and outcomes.

By the end of 2011, Oil Search had established a new corporate sustainability function, a formalised governance structure, a formal Sustainability Strategy and a Health Foundation. Throughout 2012 these foundations were strengthened and our forward momentum continued.

The year began with Board approval of the Sustainability Policy. Since then the Company has been working to align and integrate sustainability considerations more effectively into every aspect of the business, with the goal of embedding sustainability into day to day business activities across the organisation.

Continuing to build foundations

Having a workforce that understands and supports the goals of Oil Search's Sustainability Strategy is important for its success. A key part of the sustainability stakeholder engagement programme in 2012 was Oil Search's first employee sustainability engagement survey. Seven out of ten employees said that sustainability is consistently a consideration when Oil Search does business. The survey results were used to inform our first materiality process and the ongoing implementation of the Sustainability Strategy.

Continuous improvement was supported by investment in new data management systems and improved monitoring and measurement in key areas that impact sustainability performance. Providing managers with access to robust, timely, actionable information is a major element in our drive to do better every year. It is therefore pleasing that an independent ISO14001 certification surveillance audit of Oil Search's environment management system (EMS) showed that it continues to meet this internationally recognised standard.

During the year Oil Search's PNG emissions reduced by 11%. Substantial progress was also made in identifying opportunities to deliver our emissions reduction target; the process of evaluating these options has commenced. With the strengthening of our data management capabilities, in 2013 we can begin measuring performance against improved baseline data for emissions.

Oil Search is continually seeking ways to improve workplace safety. With an expanding programme of higher risk drilling and exploration activities underway, ensuring adherence to safety procedures is paramount. When the Total Recordable Injury Rate (TRIR) increased in the first quarter of 2012, analysis showed that while Oil Search's systems and processes were effective, field procedure was not always followed correctly. We responded with a remedial strategy that included an in-field behaviour based programme

and an expanded PNG safety team. Oil Search's safety incident numbers declined by the end of 2012 but the focus and intensity of the Company's safety initiatives remain.

Creating shared value by supporting sustainable development continued to be a strategic priority in 2012. Through Oil Search's well-established Community Development Programme, the Company collaborated with local communities to build education and health infrastructure, improve food security and support local business ventures. The Oil Search Health Foundation used its first tranche of funding from the Global Fund to expand HIV testing, treatment and support services. The Foundation also received nearly \$10 million in grants from AusAID to create a reproductive health training unit that will have a major impact on PNG's poor maternal health indicators. All these programmes rely on Oil Search's longstanding close relationships with local communities, non-government organisations and all levels of government.

The political environment was challenging this year due to national elections. Oil Search supports the new Government's intention to implement a Sovereign Wealth Fund and its proposal to transform the Department of Petroleum and Energy into a better-resourced statutory body; an outcome for which we have been advocating for a number of years. Both actions are important if the Government is to fully leverage the benefits of the PNG LNG Project for PNG's future.

Walking the talk

As part of our commitment as a signatory to the UN Global Compact, and reflected in our new Sustainability Policy, we have adopted a precautionary approach to managing the environment. An example of our commitment was demonstrated during the year when loading operations were halted for five weeks to investigate a light oil sheen at Kumul Terminal, even though the amount of oil was well below reportable volumes. After a thorough investigation that determined that the oil did not emanate from the Kumul loading facility, loading recommenced.

In December 2012, our Sydney office moved into new premises at 1 Bligh Street with superior sustainability credentials. Rated as 6 Star Green Star – the highest Green Star rated building in New South Wales – the building has a number of sustainability features such as black water recycling, solar panels and a double skin façade. Oil Search's Port Moresby office is also due to move into a new building in late 2013 which will greatly improve the sustainability performance of our Head Office.

During the year Oil Search's commitment to maintaining the highest ethical standards was reinforced. The Company ended 2012 with stronger risk management systems and policies, an expanded fraud and corruption framework and better transparency of in-country payments. To formalise our commitment to transparency, the Oil Search Board agreed in December 2012 to meet the reporting requirements of the Extractive Industries Transparency Initiative (EITI) by becoming an EITI Supporting Company. It was an important step forward and a fitting end to a year of wide-ranging sustainability activities.

PETER BOTTEN
MANAGING DIRECTOR

2012 PERFORMANCE HIGHLIGHTS

1ST

EMPLOYEE
SUSTAINABILITY SURVEY
CONDUCTED IN 2012

5

SUSTAINABILITY
STEERING GROUP
MEETINGS HELD

REVENUE	672.9
EMPLOYEE WAGES & BENEFITS	(63)
PAYMENTS TO PROVIDERS OF CAPITAL	(46.4)
PAYMENTS TO GOVERNMENTS	(266.7)
HEALTH & COMMUNITY INVESTMENTS	(9)
OTHER OPERATING COSTS	(95.8)
NET INVESTMENT EXPENDITURE	(1,753.6)
NET ECONOMIC VALUE (DISTRIBUTED)	(1,561.6)

ECONOMIC VALUE

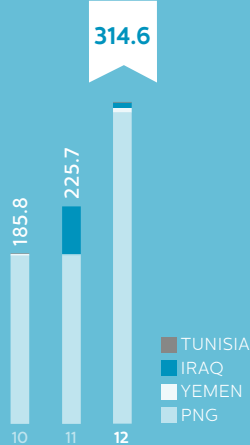
(US\$ MILLION)

THE NEGATIVE ECONOMIC VALUE REFLECTS OIL SEARCH'S CURRENT INVESTMENT AND GROWTH STAGE. THIS INVESTMENT WAS PREDOMINANTLY FUNDED BY DRAWINGS UNDER THE PNG LNG FINANCING FACILITY OF \$1.02 BILLION AND USE OF SURPLUS CASH OF \$559 MILLION.



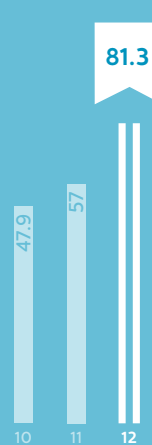
TOTAL PRODUCTION (MMBOE)

PRODUCTION FOR 2012 OF 6.4 MMBOE WAS IN LINE WITH GUIDANCE, DESPITE AN UNPLANNED FACILITIES SHUTDOWN.



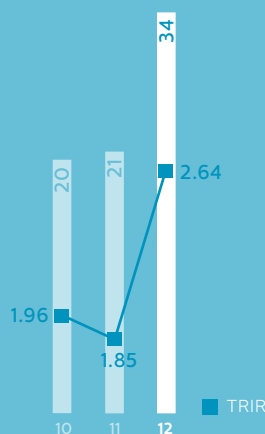
TOTAL VALUE OF PAYMENTS TO GOVERNMENTS (US\$ MILLION)

WITH THE RELEASE OF OIL SEARCH'S FIRST TRANSPARENCY REPORT, DISCLOSURE OF PAYMENTS TO GOVERNMENT HAS BEEN ENHANCED.



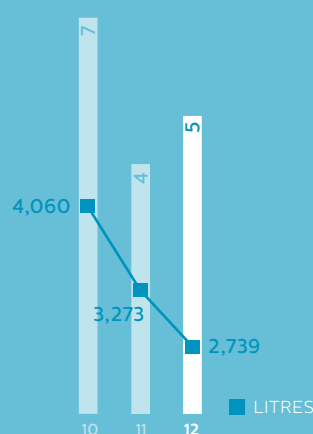
TOTAL PAID TO PNG LANDOWNER COMPANIES (US\$ MILLION)

A 43% INCREASE IN PNG LANDOWNER COMPANY SPEND IN 2012 REFLECTS THEIR ROLE IN OIL SEARCH'S GROWTH AND THE APPLICATION OF LOCAL PURCHASING PREFERENCES.



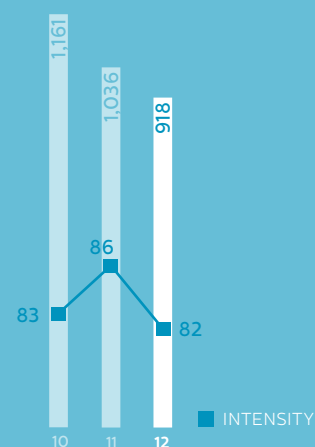
TOTAL NUMBER OF RECORDABLE INJURIES + TOTAL RECORDABLE INJURY RATE (TRIR) (RECORDABLE INJURIES + RECORDABLE INJURIES PER MILLION STAFF HOURS)

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



NO. OF SPILLS > 1 BBL THAT REACHED THE ENVIRONMENT + VOLUME WHICH REACHED THE ENVIRONMENT (NO. OF SPILLS + LITRES)

DESPITE AN INCREASE IN THE NUMBER OF ENVIRONMENTAL INCIDENTS, THERE WAS NO CORRESPONDING INCREASE IN ENVIRONMENTAL IMPACT.



GREENHOUSE GAS + GREENHOUSE GAS INTENSITY (ktCO₂e + ktCO₂e/MMBOE)

TOTAL EMISSIONS DECLINED 11%. CHANGES TO THE EMISSION PROFILE ALSO LED TO A DECREASE IN EMISSIONS INTENSITY OF 5% FROM 2011.



OPERATIONAL OVERVIEW

STRATEGY 1:

Optimise oil field performance

In 2012, Oil Search's production declined just 5% compared to 2011 levels despite natural oil field decline and planned/unplanned shut downs. This demonstrates the effectiveness of the oil field optimisation strategy.

PNG oil production will benefit in 2013 from Oil Search's 2012/13 development drilling and workover programme. 2013 production is expected to be similar to that in 2012. A key focus will be preparing Oil Search's production operations to provide gas for PNG LNG. This will involve ongoing optimisation of operating systems and protocols and developing the workforce.

STRATEGY 2:

Deliver PNG LNG Project

The PNG LNG Project is over 75% complete and on track to begin delivering LNG in 2014. As an established operator in PNG, Oil Search's objective is to support the Project's successful execution in-country.

Oil Search is also undertaking significant development projects as part of the Company's commitment to provide gas to the project and manage the storage and export of PNG LNG produced liquids. The Operator expects the Komo airfield, Associated Gas facilities and onshore pipeline to Hides to be completed in 2013.

STRATEGY 3:

Expand Highlands gas resources (T3)

A major gas discovery at P'nyang South could underpin a potential third LNG train. Design concepts for this multi-tcf gas and condensate field are being assessed. A seismic programme is planned for 2013 to assist in placing future wells.

There is also a potential gas upside within existing PNG oil and gas fields. This may be unlocked when development wells are drilled in 2013.



STRATEGY 4:

Establish gas resources in PNG Gulf region

Oil Search believes the PNG Gulf region could have enough gas to support a future standalone LNG project. Having Total SA as our new strategic partner provides the capability to help Oil Search deliver an LNG project if exploration is successful.

During 2011 and 2012, Oil Search acquired an extensive 3D seismic survey over key offshore Gulf licences. Most of the seismic data has been interpreted and a drilling programme on identified prospects will occur in 2013. This programme will be the first real test of gas potential in the area.

STRATEGY 5:

Evaluate international 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.

The Taza well in the Kurdistan Region of Iraq is a potential step forward for this strategy. While drilling is still underway, early results are encouraging.

In Tunisia, the Company is drilling on the Semda 1 prospect.

STRATEGY 6:

Optimise capital and financial structure

An optimal capital structure and financial position are critical for Oil Search's growth strategy.

During 2012, the Company replaced a \$435 million amortising facility with a \$500 million five-year, non-amortising revolving credit facility with a 15-member banking group.

In 2012, the PNG LNG Project operator advised the project cost estimate had increased from \$15.7bn to \$19.0bn. Oil Search will fund additional equity contributions using existing cash balances, operating cash flows and the new undrawn \$500 million credit facility. Oil Search will continue to prudently manage liquidity before production commences.

STRATEGY 7:

Ensure safety and sustainability

The increase in higher risk drilling and exploration activities led to a year on year rise in incidents in 2012. The Company is focused on improving safety performance.

Implementation of Oil Search's Sustainability Strategy continued. The focus was on strengthening the sustainability platform and embedding sustainability more effectively within the business.

The Oil Search Health Foundation continued to expand, receiving significant grants from external funding partners.

With a strong sustainability platform in place Oil Search will be well placed to leverage sustainability performance in future.

OUR SUSTAINABILITY APPROACH

We set ourselves apart from our peers by our sustainable development approach and our ability to contribute positively to the development of communities in which we operate.



In March 2012, the Board approved the Oil Search Sustainability Policy. The Policy comprises five key principles that underpin the Company's approach and the long term goal to embed sustainability within everyday business activities.

These five principles are:

- ✱ Operating with integrity
- ✱ Maintaining and enhancing our social licence
- ✱ Generating shared value
- ✱ Seeking ways to manage natural resources responsibly
- ✱ Continuous sustainability performance improvement.

Oil Search's approach includes various aspects of social responsibility and development, environment and governance. It recognises that:

- ✱ Each of these elements are interdependent
- ✱ Success in these areas supports Oil Search's ability to deliver continuous business operations
- ✱ People and safety are important for overall business sustainability.

Internally, this approach is represented graphically by five interlocked cogs surrounded by the key aspects of safety, people and continuous business operations.

Oil Search's implementation of these principles and our approach are reinforced by the Company's ongoing commitment as a Signatory to the UN Global Compact (UNGC) Ten Principles, the UN Millennium Development Goals (MDGs) and, most recently, the Extractive Industries Transparency Initiative (EITI).

This report is structured around the five key principles.

✱ Operating with Integrity

Operate ethically and adopt and advocate for principles, practices and standards that respect diversity, local culture, human rights, labour rights and the environment, and which contribute towards combatting corruption.

✱ Enhancing Social Licence to Operate

Support continued business operations by maintaining strong mutually beneficial relationships directly with stakeholders, monitoring the impact of our activities and leaving a long-term positive social development legacy.

✱ Generating Shared Value

Generate positive, sustainable outcomes for the communities in which we operate by creating opportunities which benefit the community and contribute to the continuity of our operations.

✱ Managing Resources Responsibly

Minimise our environmental impact and operate in an environmentally sustainable way through the adoption of a precautionary approach and consideration of effective and efficient use and re-use of resources.

✱ Continuous Performance Improvement

Continue to grow and leverage our sustainability capability by seeking ways to enhance our approach through improved monitoring, measurement and innovation.

Sustainability strategy on track

Implementation of Oil Search's first formal company-wide Sustainability Strategy began in 2011 with the objective of ensuring the appropriate fundamentals are in place to support the Company's next phase of growth. This was a multi-year strategy with two key focus areas:

- Ensuring Oil Search 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'.

Both focus areas support the development of Oil Search's sustainability framework.

A number of wide-ranging activities occurred during the year against the 2012 objectives. These are outlined in the table below.

Towards the end of 2012 progress was made with direction-setting initiatives such as: setting targets; developing an emissions abatement strategy; and plans

to identify opportunities for enhancing sustainability outcomes in Oil Search's supply chain. These efforts should be substantially completed in 2013, enabling a transition to the next phase of strategy implementation.

OBJECTIVES

ACTION IN 2012

1. Reach internal agreement on sustainability priorities and positions

- Board approval of Sustainability Policy
- Adoption of Sustainability Strategy
- Conducted first sustainability materiality process
- Reached agreement with the Sustainability Steering Group (SSG) to set aspirations or targets for key issues from mid-2013

2. Establish an effective management framework to leverage existing strengths and address gaps and to ensure coordination, credibility and reliability of performance

- Regular SSG meetings
- Commenced operation of the Sustainability Operations Group and Sustainable Development Coordination Group to provide effective direction and oversight of sustainability at an operational level
- Conducted a range of compliance and peer reviews to evaluate the effectiveness of current standards and processes
- Commenced a review against the revised International Finance Corporation (IFC) Environment and Performance Standards and the UN Protect, Respect and Remedy Framework and Guiding Principles on Business and Human Rights
- Improved monitoring and measurement in environment and community development activities, including adopting a new environmental data management system that will be ready for use in 2013

3. Build internal understanding and align organisational commitment to sustainability

- Finalised and commenced roll out of Sustainability Employee Engagement Plan
- Conducted first employee sustainability survey
- Held series of sustainability update sessions for all staff at major operational locations

4. Increase external credibility and profile of organisational capability and performance in sustainability

- Improved sustainability reporting by introducing a suite of targeted materials with improved disclosure, relevance and conciseness
- Released first Oil Search case study book, Connections, and a Transparency Report
- Participated in forums to advocate changes in benefits distribution, development of climate change legislation and adoption of payments transparency
- Obtained independent assurance for 2011 Sustainability Report
- Participated in Carbon Disclosure Project (CDP) and International Association of Oil and Gas Producers (OGP) survey assessments
- Active participant in United Nations Global Compact Network Australia (UNGCNA) leadership groups

5. Progressively introduce adoption of benchmark activities that align Oil Search with peers

- Continued to align safety, community and environmental measurement and indicators with international industry standards
- Undertook benchmarking against peers in relation to materiality and targets

OUR SUSTAINABILITY APPROACH (CONT'D)

Focusing on key issues

A shared understanding and agreement around the most material social, economic, and environmental business value drivers is essential for a more strategic approach to sustainability. For this reason, Oil Search's first materiality workshop was conducted in October 2012. The goal was to achieve a consensus about the most pressing material sustainability issues and to identify emerging issues. The workshop was attended by Sustainability Steering Group members and other senior management representatives from across the business. It was informed by: the employee survey; the community information management system; an updated peer benchmarking analysis; feedback from investors and analysts; and the input of participants.

The most material sustainability issues were those identified as being of importance to both stakeholders and the business. These were:

- **Sustainable development:** see page 24 – Generating shared value
- **Natural resource management:** see page 21 – Managing resources responsibly
- **Safety:** see page 11 – Enhancing our social licence
- **Environmental risk management and compliance:** see page 21 – Managing resources responsibly and page 17 Continuous performance improvement
- **Stakeholder engagement:** see page 11 – Enhancing our social licence
- **Managing sovereign risk:** see page 32 – Operating with integrity
- **Fighting corruption:** see page 32 – Operating with integrity.

These issues informed Oil Search's ongoing Sustainability Strategy and the Sustainability Employee Engagement Plan, which will continue to be rolled out in 2013 and which will form the basis for setting sustainability aspirations. All other issues considered at the workshop were determined to be either low or medium materiality with an external or internal concern. These will be treated as follows:

- **Low materiality:** Will continue to be monitored and reported on regionally as appropriate and will be largely excluded from this report
- **Medium materiality with external concern:** Will be subject to additional stakeholder monitoring and will be included in this report with additional communications as required
- **Medium materiality with internal concern:** Will be considered as appropriate in Sustainability Strategy implementation and internal reviews and will be included with less prominence in this report.

For further information on Oil Search's materiality determination process, visit www.oilsearch.com/sustainability/our-approach.html.

2013 OBJECTIVES

1. Have company-wide sustainability aspirations or targets in place
2. Roll out Sustainability Employee Engagement Plan
3. Develop a Sustainable Supply Chain Strategy
4. Obtain Sustainability Steering Group approval for Greenhouse Gas Abatement Strategy
5. Undertake comprehensive corporate functional sustainability risk review
6. Continue systems, standards and procedures review for alignment with Sustainability Policy
7. Develop position statements on material sustainability issues





ENHANCING OUR SOCIAL LICENCE

We build strong, open and mutually beneficial relationships with local communities and ensure our presence leaves a positive long term legacy.

Operating successfully on a sustainable basis in the regions where Oil Search operates is only possible with the acceptance of local communities and governments and the formation of strong, mutually beneficial relationships. These form the basis of the Company's social licence to operate and contribute to ensuring continuous business operations.

To not only maintain but to enhance Oil Search's social licence we:

- ✦ Keep our people and the community safe
- ✦ Help to improve the lives of local communities, including their health and development, focusing on community projects that generate shared value wherever practical
- ✦ Comply with all relevant laws and regulations
- ✦ Employ and develop local people and businesses wherever possible
- ✦ Monitor the impact of the Company's activities on local communities.

Oil Search strives to form strong community relationships, built on high levels of engagement and mutual respect. To this end, the Company prefers to interact directly with the community rather than use a third party. The Company is continually reviewing and improving interaction with all stakeholders and attempting to address their feedback by listening, communicating and responding.



**Enhancing
Social Licence
to Operate**

OBJECTIVES

- Commence implementation of new Health, Safety and Environment Security incident management system
- Be incident free at all areas of operation
- Identify opportunities to increase local content
- Improve PNG landowner company governance and capability to enable improved safety, compliance and sustainable development outcomes

DELIVERABLES

- The new incident management system was substantially developed and is currently being tested, with go live planned for mid-2013
- An increased number of higher risk drilling and exploration activities in the Kurdistan Region of Iraq and PNG contributed to deterioration in the Total Recordable Injury Rate of 2.64 in 2012, up from 1.85 in 2011
- Local hiring and new purchasing guidelines ensured the Company supports local enterprises and people where possible
- Supported the creation of a new umbrella PNG landowner company with a broad-based ownership model

ENHANCING OUR SOCIAL LICENCE (CONT'D)

Working with stakeholders

COMMUNITIES

- Commenced education programme to increase understanding within the community of key research outcomes for Lake Kutubu e.g. pressures on the lake, turnover events
- Responded to community need and requests by starting Lake Kutubu Community Development Project with National Agricultural Research Institute (NARI) to achieve conservation and food security outcomes
- Utilised community feedback to inform Oil Search's community development programmes

EMPLOYEES

- Conducted first employee sustainability engagement survey – see results on page 38
- Produced Tok Pisin version of 2011 Sustainability Report targeted at employees and PNG stakeholders
- Increased frequency and intensity of field visits by senior managers to raise awareness of safety initiatives

GOVERNMENT

- Continued to engage with PNG Government representatives in the Company's efforts to improve outcomes from benefits distribution
- Participated in PNG Government's Climate Change Policy stakeholder engagement forums
- Participated in the informal PNG Extractive Industries Transparency Initiative (EITI) Multi-stakeholder Group

NON-GOVERNMENT ORGANISATIONS

- Participated in AusAID's Consultative Forum with Business and Roundtable for Business
- Sponsored and participated in the Global Fund Access to Life exhibition, Sydney
- Facilitated Business for Millennium Development research, Southern Highlands
- Sponsored and participated in the Port Moresby Cancer Relief Society Annual Daffodil Cup Corporate Golf Day, Port Moresby
- Presented at World Vision Just One World Forum, Perth

PARTNERS AND CONTRACTORS

- Provided business development, management and safety support to PNG landowner companies (Lancos)
- Seconded Oil Search employees to Esso Highlands Limited (EHL) as Community Affairs Officers to support PNG LNG construction
- Commenced development of a Memorandum of Understanding with EHL for a Joint Programme of Work around the long term sustainability of Lake Kutubu

SHAREHOLDERS AND INVESTORS

- Conducted four investor field trips to Oil Search operations in PNG

- Provided quarterly updates and ongoing disclosures

INDUSTRY AND SUSTAINABILITY LEADERS ORGANISATIONS

- Sponsored and presented at PNG Mining and Petroleum Investment Conference, Sydney
- Participated in and presented at UN Conference on Sustainable Development, Rio de Janeiro as part of Rio +20
- Participated in UN Global Compact Network Australia's human rights, anti-corruption and environment leadership groups, Sydney, and presented at the Environment Leadership Group
- Sponsored and participated in The Australia PNG Business Council forum, Brisbane



Community Affairs, Hides

Building local enterprise and opportunity

Oil Search's objective is to develop or support the capacity of local people and businesses so they can provide a wide range of goods, services and skills to international standards. The aim is to find a balance between the higher short-term costs associated with supporting local business when compared to cheaper overseas alternatives and the benefits of having a thriving and sustainable local economy. The success of Landowner Companies (Lancos), in particular, is not only important for ensuring an adequate supply of goods and services and generating an income for local community shareholders, but for mitigating any landowner-related problems in their areas. Supporting the growth of Lancos is therefore an ongoing priority for Oil Search, and in 2012 our Lanco spending increased by 43% to \$81 million.

Improving governance by creating an umbrella Lanco

During the year Oil Search assisted with the establishment of a new umbrella Lanco, KutMor Limited, which represents landowners in and around the Kutubu and Moran licence areas. The use of an umbrella structure creates a broader based ownership model than many existing Lancos and improves the opportunity to apply good governance and management practices. KutMor Limited will have a more diversified business model and will operate in different market segments. This will improve the likelihood of long term business stability and therefore that shareholders will receive regular dividends from its activities; it is also intended to reduce Oil Search's supplier administration costs. KutMor Limited is contracted by Oil Search for labour supply and vehicle hire and will expand into other service activities once a landowner share subscription exercise is completed in early 2013.



Kutubu Catering Limited, Iagifu Ridge Camp, Kutubu

Improving local content

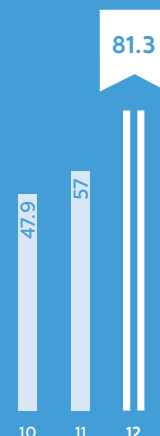
Assisting local enterprises, business and communities to benefit from the oil projects is a priority for Oil Search. While contributing to a positive social and economic legacy for communities, this commitment is important to Oil Search to ensure access to a skilled workforce and a reliable supply chain, as well as supporting stable local economies. Our approach includes the following elements and will be developed further in 2013:

- **Employment, development and diversity.** (see page 39) In 2012, local people made up 83% of our total workforce in PNG. We are committed to hiring local people for vacancies wherever possible and their retention and development forms a critical element of our workforce development objectives.
- **Procurement.** (see page 18) Our local purchasing guidelines ensure we apply a consistent approach across our operations, with the aim of giving local businesses preference wherever they meet our cost and quality criteria.
- **Local business development.** (see page 18) We are committed to supporting the development of Lancos by giving them preferential supplier opportunities and business development advice.

↑ 43%

PNG LANDOWNER COMPANY SPENDING

Increased by 43% to \$81M in 2012



TOTAL PAID TO
PNG LANDOWNER
COMPANIES
(US\$ MILLION)

HEALTH, SAFETY AND SECURITY

Responding to challenging conditions

Oil Search's successful exploration and drilling programmes in PNG and the Kurdistan Region of Iraq meant 2012 was an exciting year of considerable activity. Despite an increased focus on safety measures, this activity contributed to a deterioration in safety performance, with the Company recording a total recordable injury rate (TRIR) of 2.64 in 2012, up from 1.85 in 2011. PNG operations achieved a TRIR of 1.87 whilst performance at our MENA and more remote PNG sites was weaker.

Oil Search's senior management team closely analysed the key drivers behind this change and developed a number of focused safety initiatives that helped to drive down the number of incidents. The priority in 2013 is to improve the safety culture in remote operations away from our producing areas in PNG, especially MENA, where the culture of safety and environmental performance is less well developed.

Providing hands-on safety messages

In March 2012, the Company commenced a more rigorous and formal senior management field safety programme involving all Oil Search Executive General Managers and General Managers. The programme's priorities were to:

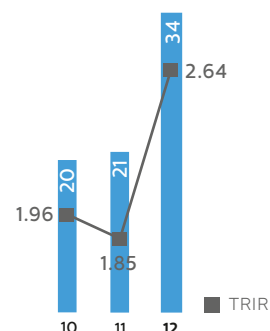
- Recognise instances of safety excellence

- Share expectations on safety values, leadership and behaviours
- Get commitment from everyone for achieving incident-free operations
- Focus on actions and behaviour rather than systems.

While senior managers often visit sites, the 2012 programme ensured all remote sites were visited systematically and increased the intensity and focus on these issues. It supported significantly higher engagement between front line workers and senior managers.

Modelling good safety behaviour

The primary reason for safety incidents and near misses in early 2012 was not adhering to procedures. To understand why this was happening, the Company introduced a behavioural-based review in June 2012, starting with drilling operations and a survey of field managers to ensure they had the right tools to model and communicate good safety behaviours. There was also an increased focus on contractor safety behaviour 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. In 2013 the behavioural-based safety coaching programme will be extended to all front line supervisors.



TOTAL NUMBER OF RECORDABLE INJURIES + TOTAL RECORDABLE INJURY RATE

(RECORDABLE INJURIES + RECORDABLE INJURIES PER MILLION STAFF HOURS)

An increasing number of incidents in the first quarter of 2012 correlated with a significant increase in the:

- Contractor staffing levels of skilled and semi-skilled labour
- Scope and scale of on- and off-shore non-routine construction activities
- Number of personnel and activity level required to support construction such as logistics (including road haulage)
- Aviation and camp service activities to accommodate the increase in staging and construction activities.

To try to reverse this trend, we implemented a number of initiatives, as detailed on this page.

Working with contractors

Following a number of high potential and actual incidents involving contractors in early 2012, Oil Search launched a campaign to increase contractor supervision by reviewing how we work and making some structural changes. By late June 2012, the ratio of trained Safety Advisors to contractor personnel had been increased, leading to an overall decline in incidents involving contractors by the end of the year.

To increase both Oil Search's engagement with Lancos over safety and our awareness of their safety performance, a Lanco Safety Scorecard was developed that includes leading and lagging indicators. Oil Search will monitor Lancos' performance against this scorecard throughout 2013. Ways to receive consistent, regular safety performance updates from all Oil Search's contractors are being investigated.

Increasing in-house specialist expertise

During the year Oil Search's PNG Safety and Risk team was restructured to increase in-house training, investigations and field audit capability and capacity. More people were employed in the safety area and additional safety, investigation and audit team members are being recruited.

The safety management system was strengthened by reviewing and updating the safety audit programme, which was expanded to focus on:

- ▶ Contractor health, safety and environment management systems, with a particular focus on Lancos
- ▶ Compliance with Oil Search's safety procedures
- ▶ Effective and timely close out of actions.

Improving reporting and investigation

Oil Search has made safety processes, meetings and reporting more rigorous by:

- ▶ Revised reporting of safety metrics to the most senior health and safety forum (HSES Group 1) for better analysis and understanding of causal trends
- ▶ Adopting industry-standard safety definitions
- ▶ Improving the capture of work-related medical reports from Oil Search clinics so they are more accurately recorded in safety performance reporting
- ▶ Streamlining incident investigation processes so all investigations follow a standardised procedure.

Our new company-wide incident notification and investigation process was substantially developed during 2012; and will be rolled out across the business during the first half of 2013. The software used for the new process will allow greatly improved analysis of incident causal factors, locations and work areas where incidents are occurring, thus allowing initiatives to be developed to target the highest risk areas.



Weekly Toolbox meeting, Yonoma, Southern Highlands

ENHANCING OUR SOCIAL LICENCE (CONT'D)



Managing technical safety risks

Oil Search's Asset Integrity Management System (AIMS) is designed to ensure there are adequate controls in place to manage the technical safety risks associated with achieving Oil Search's growth objectives, both now and throughout the asset life cycle. The AIMS provides the link between overall business objectives and the technical standards, procedures, and processes used every day for establishing, maintaining and demonstrating asset integrity.

During the year we have:

- Added all assets to the maintenance management system
- Critically assessed the assets for all sites
- Reviewed equipment maintenance strategies
- Identified all safety critical elements (SCEs)
- Documented the required methodology and processes in a suite of procedures.

The new system ensures a structured approach to identification of SCEs, addressing each major incident event and listing all the SCEs associated with a particular hazard. This is increasingly important as Oil Search transitions from operating mature oil fields to a gas producer with assets that will be in use beyond their original design life. Due to go live at the end of the first quarter of 2013, the system will ensure that integrity continues to be monitored and maintained throughout the extended life of the assets, ensuring each asset can function effectively and efficiently while safeguarding life and the environment.

Responding to natural disasters

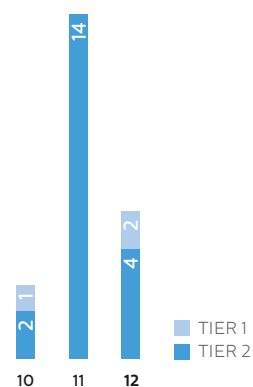
The location of Oil Search's operations, often far from government services and support, means the Company's ability to respond immediately when there is an emergency is critical for employee safety and the safety of local communities. In 2012, Oil Search's emergency response team won five group and two individual awards at the second PNG Emergency Response Challenge, which was attended by eight resource companies in PNG. The two-day event provides an opportunity for emergency response teams to demonstrate and compare their skills and competencies under simulated emergency scenarios.

Oil Search's emergency management plan includes direct communication with community leaders through the Company's network of Village Liaison Officers and a strong emergency preparedness culture.

During 2012, there were three natural disasters near Oil Search's PNG project areas:

- Tumbi quarry landslide (between Oil Search's Hides operations and a major PNG LNG construction site)
- Usano area flooding
- Kopi area flooding.

When the Tumbi landslide was declared a national natural disaster by the PNG National Disaster Centre, Oil Search assisted the PNG Government, which led the emergency response. Our efforts focussed on opening channels of communication with impacted local communities. The Company's response to the flooding at Usano and Kopi included supporting the provincial government response by providing items such as food, fuel or transportation.



PROCESS SAFETY EVENTS

Projects to improve blanket gas regulator performance and better control unstabilised crude rundown eliminated pressure release device discharges, significantly reducing the number of Tier 2 events in 2012. The two Tier 1 gas releases that did occur were from adjacent locations in the same field gathering line and were due to sand erosion at two pipe elbows. The Tier 1 and 2 Process Safety events reported are as defined by the American Petroleum Institute's Recommended Practice 754.



Oil Search's emergency response team, 'Best Search and Rescue Team' award winners at the 2012 PNG Emergency Response Challenge



CONTINUOUS PERFORMANCE IMPROVEMENT

We continue to grow
our sustainability capability
while seeking ways to improve
our approach, measurement
and reporting.

An important part of Oil Search's strategic approach to sustainability is our ability to continuously innovate and evolve our approach. This creates value for the Company as it increases our ability to deliver results, improves performance, efficiency and raises our credibility.

Underpinning our ability to deliver results and achieve our strategic objectives are our systems and processes for measuring and reporting our performance. Consistent, regular measuring of key performance indicators provides valuable data for analysis and use in decision-making and reporting.

During 2012, considerable focus was placed on improving sustainability systems and processes to enhance Oil Search's ability to manage risks and identify opportunities effectively, as well as to measure, monitor and analyse performance.

Some of Oil Search's most important systems and processes for supporting business operations were strengthened to increase efficiency, improve performance and better manage risk in four core areas:

- ⚙ Purchasing and contracts
- ⚙ Environmental management
- ⚙ Greenhouse gas emissions
- ⚙ Waste management.

This will help to improve the company's effectiveness in key areas such as minimising environmental impact.



**Continuous
Performance
Improvement**

OBJECTIVES

- Improve current supplier assessment and monitoring processes to reduce supplier risk
- Reduce greenhouse emissions intensity by 12% by 2016
- Improve accuracy and completeness of greenhouse gas inventory
- Improve robustness of waste data to drive waste reduction performance

DELIVERABLES

- Achieved certification under the Chartered Institute of Purchasing and Supply (CIPS) Corporate Certification Standard
- Continued groundwork to support progress against GHG reduction target. Oil Search is on track to have baseline emissions data in 2013
- Conducted operations-wide waste management review and commenced a waste improvement programme

CONTINUOUS PERFORMANCE IMPROVEMENT (CONT'D)

Reviewing purchasing process

In December 2012, Oil Search's procurement policies, strategies, procedures and processes were certified under the Chartered Institute of Purchasing and Supply (CIPS) Corporate Certification Standard. Certification under this standard, and the work being done to maintain and improve it, creates smarter ways of working and improves supplier risk management.

As part of the certification process, procurement policies and processes were reviewed and mapped against the CIPS Standard to understand the Company's strengths and areas for improvement. Outcomes were incorporated into the 2013 work plan and the revised company-wide Procurement and Contracts Procedure.

To ensure a consistent approach to supporting local businesses wherever possible, guidelines were introduced for local purchasing procedures in PNG. Whenever they can provide goods to the standard of quality we require under commercially acceptable terms, we purchase from local suppliers. Where opportunities exist, we assist local suppliers in implementing best practices for quality.

Targeting value in purchasing

During 2012, analysis was conducted to identify the major spend categories for the Company. These will be transitioned into fixed price purchasing agreements. Five fixed price agreements were concluded in 2012, and the target for 2013 is to complete eleven more. Fixed price purchasing agreements allow streamlining and automation of the ordering process, to:

- Reduce administration costs
- Mitigate the risk of engaging unsuitable suppliers
- Ensure quality of supply meets the needs of the business
- Increase suppliers' commitment and service levels
- Build better relationships with suppliers.

For suppliers, the changes will lead to reduced administration costs per order and stabilise the demand, prices and terms and conditions for their products.

Oil Search conducts a rolling programme of supplier audits to assess their compliance with contractual terms and conditions and to identify improvement opportunities. If the audit identifies non-compliance, an improvement plan is agreed with the supplier and tracked to completion.

During 2012, safety audits were conducted of key companies in the supply chain, including each of the aviation providers and a trucking service provider in PNG. Five other contract compliance audits were conducted, including audits of three Lancos.



Helicopter landing pad, Hides



Industrial Park, Iagifu
Ridge Camp, Kutubu

Environmental management: certification maintained

In December 2012, independent auditors undertook a surveillance audit of Oil Search's PNG environmental management system against the requirements of ISO 14001. The maintenance of Oil Search's ISO 14001 certification is overseen by the Sustainability Operations Group.

During the year Oil Search:

- Reviewed and updated the PNG facility environmental risk registers: A comprehensive assessment of the environmental risks was conducted at each facility; all site-specific environmental management plans were reviewed and updated accordingly.
- Improved internal compliance review and audit programmes: A risk-based environmental internal audit schedule was developed and implementation began.
- Undertook a detailed permit compliance review: This identified areas requiring improvement and strengthening.
- Commenced the PNG Operations Bund Improvement Programme: This two year programme combines major engineering works and procedural changes to reduce the risks and impacts associated with storing hazardous materials. The programme will focus on ensuring bunds align with Australian standards.

In 2013, Oil Search's operations environment KPIs will address ISO 14001 aspects as well as broader environmental management and performance.

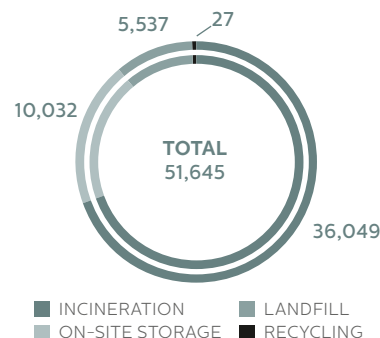
In addition, a comprehensive environmental data management system is being installed to more effectively maintain the quality and completeness of our environmental data. This will greatly improve how efficiently data is collated, supporting more consistent and timely analysis, management and feedback.

Waste management: addressing challenges

The remoteness of Oil Search's sites and the lack of public waste management infrastructure mean waste management is a challenging issue for Oil Search in PNG. In 2012, it was a significant focus for improvement.

An external specialist was contracted to undertake an operations-wide waste management review. This included identifying alternative waste management approaches and technologies and recommending ways to divert waste away from the incinerator. The review's outcomes guided a programme of improvements that is underway now and will continue in 2013. The programme includes:

- Trialling a centrifuge for production sludge: As well as avoiding the need for incineration, this will enable sludge constituents to be recovered for further processing
- Consolidating, processing and repacking the used/junk chemical inventory: Oil Search is making progress towards a multi-year programme to manage the disposal of used chemicals
- Investigating suppliers for offsite removal of waste oil and recyclables
- Planning a composting programme in 2013: This will reduce the amount of kitchen and camp waste being incinerated, increase incinerator efficiency and improve local air quality.



TOTAL WASTE BY DISPOSAL METHOD (M³)

To prepare for and support waste improvement initiatives, the waste data collection process was reviewed. During the year data collection was improved, training for waste management area staff was increased and awareness was raised on-site regarding waste generation. The improvement programme will continue in 2013 as waste data is incorporated into the new environmental data management system.



Iagifu Ridge Camp, Kutubu

CONTINUOUS PERFORMANCE IMPROVEMENT (CONT'D)

GHG and energy: improving performance

In 2012, we continued with our groundwork to support progress against the Company's target to reduce GHG emissions intensity across existing operations by 12% by 2016 against a 2009 baseline. This included progressing with improvements to data management processes and systems. As a result, we are on track for gathering baseline greenhouse gas emissions data in 2013.

Improvements to emissions data management included the rollout of a new production data management system. This will provide timely, accurate and consistent inputs to the greenhouse gas inventory and a reduced reliance on estimating emissions associated with venting.

In 2012, analysis of samples from two new production wells revealed a higher carbon dioxide content than existing Oil Search wells. This has a number of implications, including the potential for increased greenhouse gas emissions. Consequently, a detailed engineering study was undertaken to examine the feasibility of a number of options to segregate and process the carbon dioxide from the produced well fluids. Despite flaring being the least capital intensive solution to process the waste gas (which is high in carbon dioxide), Oil Search will install a Thermal Oxidising Unit to incinerate the waste gas and reduce emissions.

In parallel with the continued focus on data improvements, significant progress was also made with Oil Search's broader greenhouse gas abatement strategy. A multi-disciplined team from across the business identified and examined a broad range of emissions reduction opportunities that could be implemented at PNG operations. The work resulted in a shortlist of opportunities for further analysis and investigation in 2013.

Clean Development Mechanism project validation

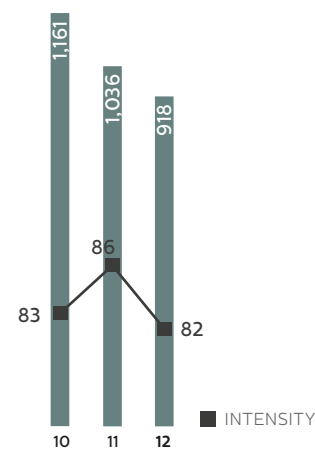
In November 2012, the auditor to the United Nations Framework Convention on Climate Change (UNFCCC) Executive Board submitted the Clean Development Mechanism (CDM) validation report for Oil Search's flare and vent gas conservation project. The auditor recommended registration.

The project involves Oil Search's Central Processing Facility, the Kutubu Refinery and the Gobe Processing Facility and comprises several components to minimise flaring and associated gas venting. It utilises technologies that are new to PNG so it provides the potential for skills and technology transfer as well as environmental benefits.

If it is registered by the UNFCCC, the project's benefits – gas conservation and Certified Emission Reduction (CER) accumulation – will begin once it is commissioned in early 2015. The estimated annual reduction in Oil Search's GHG emissions is 67-ktCO₂e with 57-ktCO₂e eligible for CER accumulation. This will be a key contributor to the Company's overall abatement strategy.

Update on biomass project

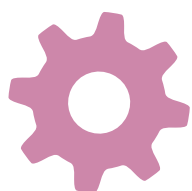
Developing renewable sources of power could help to diversify the power supply in PNG and meet the country's medium term power requirements. Oil Search committed \$4 million in funds in late 2011 to progress the biomass project towards front end engineering design. During the year the project secured land, continued evaluating pilot tree plantations, completed a socio-economic impact study, undertook preliminary social mapping and completed an environmental baseline study. The key elements of the project are progressing well and the project is towards a front end engineering design decision in 2013.



GREENHOUSE GAS + GREENHOUSE GAS INTENSITY

(ktCO₂e + ktCO₂e/MMBOE)

Total greenhouse gas emissions for Oil Search's PNG operations in 2012 decreased by approximately 11% and emissions intensity decreased by approximately 5% in 2012. This was primarily due to a reduction in fuel gas combustion as a result of production shutdowns. This decrease in emissions outweighed the increase in emissions from flaring, which occurred largely as a result of preparing facilities to provide gas to the PNG LNG project.



MANAGING RESOURCES RESPONSIBLY

We minimise our environmental
impact and operate in an
environmentally sustainable way

As an operator of oil and gas facilities in resource-rich but environmentally sensitive regions, Oil Search has an obligation to mitigate the environmental impact of our operations.

As Oil Search enters a period of substantial growth, we are investing in a comprehensive review of associated systems, processes and tools to increase effectiveness in this area.

The goal is to not only meet environmental performance indicators but to continually improve the Company's year on year performance.

Oil Search's natural resource management strategy is based on a precautionary approach. Risk mitigation, community collaboration and a commitment to continuous learning are central pillars of this strategy.

Over the past 12 months a number of programmes have been implemented to improve how Oil Search manages the impact of day to day operations on the surrounding environment.



**Managing
Resources
Responsibly**

OBJECTIVES

- Improve water monitoring capability to enable improved performance monitoring
- Improvement identification of causal factors behind increasing number of environmental incidents

DELIVERABLES

- Outcomes of a peer review of the Company's water monitoring programme conducted during the year will guide improvements in 2013. The planned installation of water meters at our Kutubu facility to improve water consumption data accuracy was postponed until 2013
- Conducted detailed analysis of incidents with an environmental impact and designed a revised set of environmental metrics to be reported to management in 2013

MANAGING RESOURCES RESPONSIBLY (CONT'D)



PNG Environment Team members, Kutubu. Photo attributed to Jerry Fareho

Improving water measurement and management

Oil Search regularly reviews and updates the Company's facility-wide Environment Management Plan (EMP). During 2012, external specialists were engaged to conduct a peer review of the water quality monitoring programme; the review outcomes are guiding improvements to the scale and scope of Oil Search's monitoring programme, which will inform an important component of the EMP.

Oil Search's on-site laboratory applied for ISO 17025 accreditation in August 2012 to the PNG Laboratory Scheme. The scope of accreditation will include JETA1 and diesel fuel certification, export crude product testing, and water extraction and wastewater discharge monitoring in order to meet Oil Search's environment licence. The certification is still being finalised; we expect to receive it in 2013. Having a certified laboratory on-site will greatly improve capacity to analyse field samples in PNG. In particular it will:

- Improve turnaround times for environmental sampling, which will improve environmental incident response times
- Improve the reliability and quality assurance and control of results.

The planned installation of water meters at the Kutubu facility to improve water consumption data accuracy was postponed until 2013.

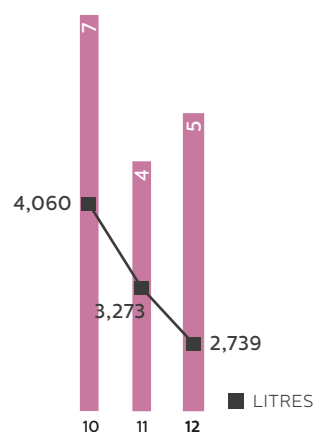
Refreshing incident analysis and reporting

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

The review found:

- An increase in very low quantity spills being reported
- An increase in volumes recovered and/or cleaned up
- An increase in spills that occurred in bunds.

Oil Search is committed to continuously improving environmental management performance and ensuring that reporting provides information that aids effective decision making and responses. A revised set of environmental metrics will be reported to the Company's most senior health, safety, environment and security forum (HSES Group 1) in 2013 to support our approach to environmental management.



NO. OF SPILLS > 1 BBL THAT REACHED THE ENVIRONMENT + VOLUME WHICH REACHED THE ENVIRONMENT

(NO. OF SPILLS + LITRES)

Approximately 38% of the volume spilled in 2012 related to one incident, when 1,050L of potassium formate was spilled on the Moro Road in the Southern Highlands when a truck load slipped on an incline. Potassium formate is non-hazardous and was diluted with water to assist its dispersion. Subsequent water sampling indicated there was no impact on nearby water courses, flora, fauna or communities.

Lake Kutubu, Southern Highlands



Collaborating to manage biodiversity

A collaborative approach is an important aspect of the success of Oil Search's sustainability initiatives as it ensures all parties are given the opportunity to participate in, influence, own and drive outcomes. For example, Oil Search is collaborating with stakeholder groups to protect the biodiversity of the Lake Kutubu Catchment and ensure the community is well equipped to manage the lake in the long term.

In late 2012, Oil Search began developing a Memorandum of Understanding with Esso Highlands Limited (EHL) that will confirm a collaborative approach to building governance capacity within local communities. The objective of the collaboration is to build the capacity of the local community to effectively manage the lake, with the focus of enhancing the ability of the Wildlife Management Area (WMA) Committee (a group of Lake Kutubu community leader representatives) to preserve biodiversity in the area. Alongside community stakeholders, we aim to achieve:

- A shared understanding of biodiversity, cultural and community values associated with the lake
- A better understanding of the lake's scientific (limnological) characteristics
- Protection of biodiversity and food security
- Local economic and community development opportunities.

Leveraging the output of the socio-economic and resource research that was conducted on the lake in 2011, Oil Search is collaborating with key stakeholders to update the Catchment Management Plan. These include EHL, the WMA Committee, the lake communities, provincial government, the World Wildlife Fund for Nature and the PNG Department of Environment and Conservation (DEC). This will ensure the community takes ownership of the Plan and reflects the best way to ensure the long term conservation of the lake's biodiversity while maintaining a sustainable livelihood for its communities.

A major project in 2013 will be improving understanding of Oil Search's biodiversity opportunities. This research will inform a framework for establishing the Company's biodiversity objectives in 2014.

Responding to concerns

In late December 2012, Oil Search and EHL received a community grievance relating to concerns about fish dying around Lake Kutubu. While neither parties believe our activities have contributed to the fish deaths, the welfare of the community and conservation of the lake are important to us. Therefore, together we have supported a DEC-led investigation to understand the cause of the fish deaths. Preliminary findings at the time of printing indicated that the endemic fish species may have been affected by the following:

- Higher than normal lake water temperature
- Presence of a parasite or pathogen
- Low dissolved oxygen levels due to decomposition of plant matter, presence of algae and low water levels.

An appropriate response will be developed once the final results are known.

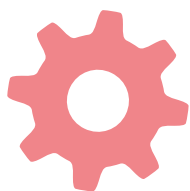


Oil Search's Kumul loading terminal, Gulf of Papua

Precautionary approach to managing offshore risks

During the year Oil Search suspended loading operations at Kumul Terminal for five weeks after staff reported a light oil sheen on the water adjacent to the Terminal. Extensive investigations confirmed the integrity of Oil Search's export system and did not reveal the source of the leak, which was well below reportable volumes, and we resumed export without further incident.

Protecting the marine environment in the Gulf of Papua is highly important to Oil Search. As such, when assessing the potential environmental impact of the Company's proposed offshore drilling activity in the Gulf, the scope of the impact assessment was expanded beyond what is required under PNG legislation. This has provided us added confidence that we will be able to minimise environmental impacts from these operations.



GENERATING SHARED VALUE

We ensure positive, sustainable outcomes for the communities in which we operate, while at the same time ensuring continued operations and being mindful of our responsibilities.

Oil Search continually strives to mitigate the impact of Company operations on local society, culture and environment while contributing to local community and economic development and leaving a positive legacy.

Generating shared value means creating opportunities where we can work together with the communities where we operate to generate outcomes which benefit the community and which contribute to ensuring the continuity of our operations. Our goal is to provide stakeholders, including local communities, with sustainable outcomes which last beyond the lifetime of our operations.

To achieve the best outcomes, our sustainable development approach is strategic and focuses on three core areas:

- ✿ Community development
- ✿ Local economic and business development
- ✿ Environmental protection.

It includes developing and trialling new delivery models and collaborating with industry peers on projects in priority areas such as healthcare and biodiversity. It also includes working with local partner organisations and government organisations and directly with community leaders.

The recently released Oil Search Connections contains several case studies that illustrate Oil Search's approach.



**Generating
Shared Value**

OBJECTIVES

- Improve how the outcomes of sustainable development activities are measured in order to more effectively communicate the impact
- Ensure women's participation is maximised as part of all projects
- Refresh approach to community business development and investigate opportunities to partner to achieve improved business skills

DELIVERABLES

- Implemented first phase of monitoring and measuring framework in PNG, including reviewing sustainable development priorities and piloting project planning and measuring tool; work will continue in 2013
- Increased involvement of and opportunities for women in agricultural projects, including supporting cooperatives and providing targeted training
- A review of our business development approach was conducted and initial discussions have been had with possible local partners to deliver business skills training

Understanding impacts and opportunities

To ensure Oil Search's sustainable development approach continues to target areas where the Company can make the most impact, the Sustainable Development Coordination Group (SDCG) held two workshops in 2012 to review and confirm community needs. The Group reviewed each need and rated and ranked them on a scale that captured their importance to the community and to Oil Search.

The five most material sustainable development priorities in PNG were:

- Health care
- Food security
- Women's empowerment
- Education
- Water access and sanitation.

Oil Search's current approach addresses all these priorities in some way. In future, the Company will be able to more clearly measure and communicate performance against them using the new monitoring and measuring framework, which was developed during 2012. The draft framework consists of an outcome-focused sustainable development planning and evaluation tool and guidelines for its use at project level. The draft framework will be piloted with selected community projects in PNG during 2013, using it to track progress against desired outcomes for the community and for Oil Search.

To better understand the social risks, impacts and opportunities of operations in the Kurdistan Region of Iraq, in late 2011 Oil Search commissioned a social baseline study of the Taza Block. Completed in 2012, the study provided economic and political data about the areas where Oil Search operates, highlighted cultural and social concerns and needs and outlined the underlying history. This has informed Oil Search's approach to sustainable development and security around operations in the Kurdistan Region of Iraq, which currently consists of a number of small community-led projects to improve infrastructure and basic services, particularly for schools.

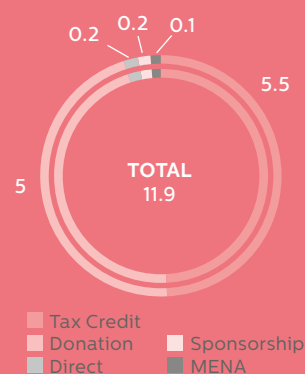


Anna Golang (middle), Oil Search Health Foundation Programme Officer with two nurses, Juni clinic, Hides

Expanding health worker accommodation

One of the projects that Oil Search completed under the PNG Government's voluntary Tax Credit Scheme in 2012 was constructing staff accommodation for the Juni Health Centre near Hides. The clinic is supported by the Oil Search Health Foundation and the PNG Department of Health and the new accommodation was one of several improvements to health support services in the area. Providing a safe, permanent residence with clean running water will increase staff satisfaction and retention.

Health infrastructure projects such as those completed under the Tax Credit Scheme form one part of Oil Search's approach to addressing health improvement objectives in PNG, the focus of which is our support of the Oil Search Health Foundation. An update on the Foundation's activities in 2012 is on page 28.



TOTAL SUSTAINABLE DEVELOPMENT INVESTMENT (US\$ MILLION)

Sustainable development investment in 2012 was \$11.9 million, which consisted largely of a \$4.9 million donation to the Oil Search Health Foundation and \$5.4 million invested on infrastructure under the PNG Government's Tax Credit Scheme (TCS). Although the TCS amount represents tax otherwise payable to the PNG Government, it has been included above as we are able to more effectively deliver these projects in remote areas.

GENERATING SHARED VALUE (CONT'D)



Students at Zinana High School where improvements were made to water and power supplies through the Community Area Planning Programme.

Improving sanitation and electricity

Oil Search applies the same sustainable principles to operations in Yemen, Tunisia and the Kurdistan Region of Iraq as in PNG. Zinana High School in Zinana Gawra in the Kurdistan Region of Iraq services a number of villages across the area. It has more than 100 pupils aged between 12-24 years. In 2012, Oil Search responded to the school's request for assistance with a number of health and safety improvements to its facilities, including connecting water to taps and toilets and making the power supply safer.

Although water is often plentiful in the Southern Highlands in PNG, easy access to clean drinking water can be difficult to source due to the lack of supporting infrastructure such as tanks. Using a similar approach to the one in Zinana, through the Oil Search Community Area Planning Programme, water supply and reticulation was improved during the year at a number of community buildings in the Southern Highlands, including churches and schools.

Providing education opportunities

Oil Search's university sponsorship programme and support for teachers wishing to further their qualifications with a Diploma in Education Primary In-Service (DEPI) continued during the year. A total of 24 teachers have obtained their DEPI qualification with Oil Search's support since the programme began in 2008. 20 university students supported by the Company graduated at the end of 2012.

During 2012 Oil Search reduced business development activities to allow time to review our approach and identify opportunities to partner with local business training and finance providers in 2013.

Building a new classroom

The Mbelopa community in Hides requested assistance with improving their elementary school under the Oil Search Community Area Planning Programme, which combines Oil Search materials and funding with community in-kind support such as labour and land. The classroom they had constructed from bush materials was no longer adequate following increases in the local population. The community provided most of the labour while Oil Search project managed and supplied materials and transportation. The new classroom for the elementary school generates the following benefits:

- A better learning environment, as it has desks and is protected from the weather
- Improved attendance, as the facility is larger, better and closer to where students live
- Reduced risk on the road, both for students who would otherwise have had to walk along busy roads, and drivers already dealing with poor road conditions
- Reduced maintenance requirements, as the school is made from more sturdy materials
- Increased security, so that teachers can securely store learning materials on-site
- A stronger community relationship with Oil Search.

The school is planning further expansion and has initiated discussion among local landowner leaders, encouraging them to talk to local government representatives about upgrading the school from an elementary school to a primary school.

24

24 TEACHERS

HAVE OBTAINED THEIR DIPLOMA IN EDUCATION PRIMARY IN-SERVICE WITH OIL SEARCH'S SUPPORT

20

UNIVERSITY STUDENTS

GRADUATED IN 2012 WITH OIL SEARCH'S SUPPORT

Students at the Mbelopa Elementary School outside new classrooms built by Oil Search through the Community Area Planning Programme





Orakana, Southern Highlands

Empowering women to improve food security

The involvement of women in all our sustainable development programmes is a priority, as supporting a woman often means a whole family is supported. Educated women who control income often raise better educated and healthier children, helping break a cycle of disadvantage. Sustainable agricultural enterprise, particularly enterprises run by women, can assist drive change towards multiple sustainable development priorities, including improved food security, economic development and health.

During the year, Oil Search supported a number of agricultural enterprise initiatives available to both men and women, including:

- Coffee seedlings to village farmers to supplement their existing income
- Agricultural training through partner, the CDI Foundation
- Basic business management skills to cooperative leaders.

Those initiatives specifically focused on women in 2012 are highlighted below.

IMPROVING FOOD SECURITY AROUND LAKE KUTUBU

Oil Search and the National Agricultural Research Institute (NARI) are jointly undertaking a programme to diversify and improve food sources for communities in the Lake Kutubu area. This is an extension of Oil Search's Community Development Programme activities and forms part of the company's approach to ensuring the long term conservation of the lake's biodiversity while maintaining a sustainable livelihood for its communities.

Food security will be improved by:

- Establishing village level husbandry and/or farming projects to breed and grow poultry as a source of protein
- Improving garden practices to ensure a better range of vegetable and carbohydrate food sources that stay fresher for longer
- Conducting on-site training at demonstration plots or at NARI facilities in the Highlands covering: basic animal husbandry and farming; animal healthcare and feeding; and local feed resources.

Training will be targeted at women as they have primary responsibility for maintaining gardens and livestock in these communities.

CONNECTING WOMEN'S COOPERATIVES TO MARKETS

The remote and rugged terrain where PNG's Highlands communities live and where Oil Search operates is an ongoing challenge for local entrepreneurs and small businesses. Vegetables, rice and poultry cultivated by cooperatives such as the Samberigi Polopa Women's Association in the Gobe Project Area and the Kutubu Foe Women's Cooperative Society in Kutubu are often adversely affected by local

conditions. Oil Search assists by providing the women with shade cloth, seeds, fencing wire and tools in the early project stages along with transport to markets. In 2012, the company helped the cooperatives to obtain an ongoing contract to supply produce to several Oil Search camp caterers and to the camps of partners. Having this stable income is enabling the women to expand their operations.

Supporting local cultural pride

The rapid pace of social change in PNG's Highlands provinces has led to a resurgence of cultural pride and a desire to maintain the rich cultural diversity of the Kutubu area. Now in its second year, the annual Kundu (drum) and Digaso (tree oil) Festival is becoming a major cultural event. Staged in the Foe villages of Fiwaga and Damaiyu every September, the festival attracts many visitors from outside the area and represents a unique opportunity to celebrate the cultural diversity of this part of the Southern Highlands Province.

Oil Search has supported the festival since its inception in 2011. In 2012 we supplied food, drinks and fuel and representatives from the Oil Search Health Foundation hosted a stall providing information on health and wellbeing.

Further information on our community development programmes, including our Tertiary Sponsorship, Community Area Planning, Donations, Agricultural, Training and Business Development Programmes as well as our participation in the PNG Tax Credit Scheme and work with our partners is available at www.oilsearch.com/sustainability/generating-shared-value.html.

OIL SEARCH HEALTH FOUNDATION



The Oil Search Health Foundation is a not-for-profit charity that contributes to the long term health and wellbeing of the people of PNG. The Foundation's goals complement Oil Search's broader sustainability approach and form a critical part of the Company's desire to secure a lasting legacy. The health and wellbeing of the people of PNG is a cornerstone in the development of the country, contributing to long term stability and assisting Oil Search's business continuity. More directly, the health programmes help Oil Search ensure a healthy and reliable local workforce and supply chain.

During 2012, the Foundation continued to manage community health programmes in Oil Search's oil and gas project operating areas while promoting a national focus to help ensure broader benefits for PNG.

Two major milestones were reached in 2012:

-  In February 2012, the Foundation signed two major grant agreements with the Global Fund to Fight AIDS, Tuberculosis and Malaria, which promotes partnerships between governments, civil society, the private sector and affected communities to tackle these diseases.
-  In March 2012, the Foundation was officially launched by the PNG Prime Minister, who highlighted how well it fits with the Government's Public Private Partnerships (PPP) policy.

Responding to HIV and malaria

The Global Fund selected Oil Search in 2011 as Principal Recipient for a \$22 million grant to support the National Malaria programme in PNG and a \$46 million grant to support the National HIV programme. The Foundation has partnered with the PNG Department of Health to manage the funds and the programme as well as implementation. The Foundation has contracted with 12 non-government organisations who will deliver specific components of the programme.

Malaria: The Foundation is helping to introduce a new drug treatment regimen, to PNG, Artemisinin Combination Therapy (ACT), which combats the parasite's resistance to previous drugs. It is also rolling out new Rapid Diagnostic Tests that can be performed by all levels of health worker and provide a rapid result.

HIV: The Global Fund grant for HIV focuses on nine high-burden provinces where the Foundation will help to expand HIV prevention, testing, treatment and support.

The Foundation continues to work towards the objectives of the Millennium Development Goals through additional projects in maternal and child health, such as the Reproductive Health Training Unit and integrating tuberculosis diagnosis and treatment into primary health care services.



Oil Search Health Foundation employee Dr Flora Jeturo with PNG Prime Minister Peter O'Neill at the Access to Life exhibition, Sydney

In November 2012, the Foundation supported the Global Fund Access to Life exhibition in Sydney. Featuring photographs of people living with HIV and their communities in PNG and other countries, the event highlighted how corporate, government and charitable sectors are collaborating to address health issues.

Improving data quality, reporting and research

PNG's national health information systems are challenged to optimise the use of available data to influence health policy and strategy. The Foundation facilitates the reporting of local data throughout our operational areas to the PNG National Health Information System, which improves the quantity and quality of national data available for analysis. In addition, improvement to data quality collation and analysis is built into the national HIV and Malaria programmes.

In 2012, data management and reporting systems were improved and operational research needs were identified, resulting in several new initiatives, including:

- Forming a partnership with James Cook University to strengthen the quality assurance of laboratory processes and to undertake operational research in support of our various programmes, including:
 - Studies into tuberculosis, which is a major public health problem in PNG
 - Analysing data from the Foundation's Medicine Store Keeper (MSK) and malaria programme to contribute to the body of knowledge on malaria control models. The reports will be made available to the PNG government
- Streamlining HIV programme data capture and reporting processes with a new data entry and reporting tool; real-time reporting will ensure programme managers have immediate access to the latest information
- Setting up a monthly reporting system for maternal and child health programme data to improve monitoring, planning and evaluation.

Expanding HIV programme reach

With the commencement of the Global Fund project to support the National HIV Strategy, the Foundation began new activities in Hela and Morobe provinces. Over the next five years, the Foundation will support the scale-up of HIV testing, treatment and support services across these provinces.

In early 2012, the Foundation developed a revised prevention plan to ensure the strategic delivery of activities using structural, behavioural and biomedical interventions. While most interventions are delivered through Company medical clinics and work groups, there was expansion within and beyond the Oil Search operational footprint, including outreach to populations at higher risk of HIV and sexually transmitted infections.

With endorsement from the PNG Department of Education, the Foundation developed a new school teacher training and mentorship programme which is being rolled out across Morobe and Hela provinces. Funded by the Global Fund grant, it provides a week-long workshop and follow-up mentorship sessions that help teachers to improve their competence and confidence when delivering the personal development teaching curriculum in secondary schools. The programme focuses on sexual and reproductive health, HIV and gender-based violence.

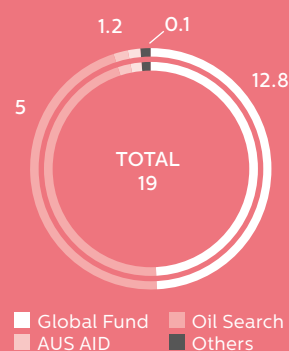


Secondary school teachers at a Personal Development workshop, Lae, Morobe

↑133

TOTAL CONTRIBUTION TO THE OIL SEARCH HEALTH FOUNDATION

Increased 133% to \$19 million in 2012



TOTAL CONTRIBUTIONS TO OIL SEARCH HEALTH FOUNDATION (US\$ MILLION)

Total contributions to the Oil Search Health Foundation increased 133% from \$7.8 million in 2011 to \$19 million in 2012 due to the receipt of the first tranche of grant money from the Global Fund of just under \$13 million and commencement of AusAID funding for the Reproductive Health Training Unit. In 2012 Oil Search contributed \$5 million. This increase demonstrates the Company's commitment to the long term sustainability of the Foundation.

GENERATING SHARED VALUE (CONT'D)



Medicine Store Keeper, Fotome Hessa, Sawmill, Southern Highlands

Expanding MSK programme

The PNG National Department of Health endorsed an expanded trial in other provinces for Oil Search's Marasin Stoa Kipa (Medicine Store Keeper-MSK) programme – see Connections for a case study about one of the Medicine Store Keepers. The programme trains village-based malaria treatment providers to provide early diagnosis and treatment where people have limited access to formal healthcare.

Under an agreement with Morobe Mining Joint Venture (MMJV), a 50-50 joint venture between Harmony Gold Mining Company Limited of South Africa and Newcrest Mining Limited, we are expanding the MSK programme into communities around a mining project area in Morobe Province. MMJV will fund the implementation, representing a new model for cooperation between resource development companies in addressing community health issues. Preparatory work is underway for roll out in early 2013.

In addition to expanding the reach of the MSK programme, the Foundation's Malaria team is focussed on upgrading the programme package. The improved package, MS3T, allows MSKs to also sell non-prescription medicines and health and hygiene products to supplement their income and widen community access to these products. This is particularly important to the on-going viability of each MSK's business, in a period of declining local malaria rates.

To assist with improving the ongoing sustainability of the programme and the capacity of local institutions, the Foundation is providing management, financial and standards training support to the local implementing partner for the Kutubu area MSK programme.

Creating reproductive health training unit

PNG has some of the worst maternal health indicators in the Asia Pacific region. The Foundation is involved in a major strategy to help address the underlying issues by delivering a new training model.

In September 2012, the Foundation entered a five-year public private partnership with the National Department of Health to create a PNG Reproductive Health Training Unit (RHTU) using a grant from AusAID of just under \$10 million. The RHTU is focused on improving the competency of front-line provincial health educators and selected health care workers. It will provide in-service training in essential obstetric care, emergency obstetric care and family planning. The RHTU will work with relevant stakeholders to develop the curriculum and set up a database of reproductive health training in PNG. The database will help the PNG Government to improve service delivery at provincial and district level.

The programme commenced in the Western Highlands with the delivery of a five-day emergency obstetric care training course and there are plans to scale up the training rapidly. To monitor and evaluate the programme's effectiveness, the Foundation has partnered with the World Health Organisation Collaborative Centre for Nursing Midwifery and Health Development at the University of Technology, Sydney. This will enable the RHTU to develop a robust monitoring and evaluation framework.

Increasing awareness

During the year the Foundation released an Oil Search Sexual Gender Based Violence (SGBV) Protocol to standardise procedures and clinical care across all OSL medical and occupational clinics. SGBV is a challenge across PNG but can be improved with education and awareness. Training was provided for employees and Lanco contractors covering:

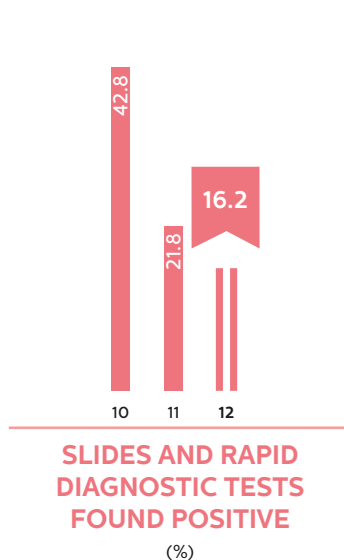
- Sexual gender based violence
- Family planning
- Men's engagement in reproductive health.

These programmes were well received and will continue in 2013.

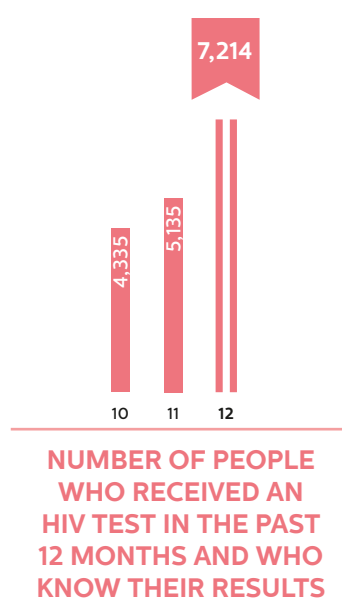
In the lead-up to World AIDS Day in December 2012, the Oil Search HIV Policy was revised and updated to align with 2010 International Labour Organisation guidance. A staff awareness campaign will begin in 2013.

Margaret Tasman, Jean Martin and Peiru Buluke participating in World AIDS Day, Port Moresby

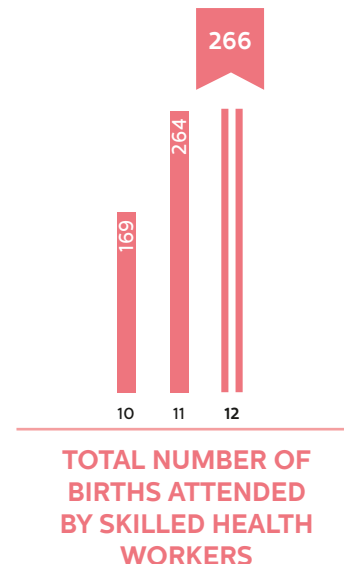




Malaria incidence in the Kutubu area has been steadily declining over the past few years. Early diagnosis and treatment through the MSK project and working effectively with Provincial and National Health authorities to deliver malaria and vector control programmes have contributed to this trend. Concentrated outbreaks are being managed effectively by the local MSK. The OSHF Malaria team is concentrating on improving the social business model as a sustainable solution to support the access to diagnosis and treatment of malaria.



A 40% increase in HIV testing was seen in 2012. This was largely a result of the implementation of the Global Fund grant. New HIV testing sites were operationalised and training for health care workers was conducted, bringing the total number of HIV testing facilities that the Foundation supports to 26. Better data capture systems were implemented at each of the sites and new HIV confirmation testing at the point of care resulted in no losses to follow-up between screening and diagnosis.



Elections in PNG during the year led to a deterioration in security in the Southern Highlands which limited opportunities for patients to travel and increased health staff absences. This resulted in the intermittent and sometimes sustained closure of clinics. The National Supplementary Immunisation Campaign saw a threefold increase in the number of vaccines administered in Kutubu compared to the previous year. This led to an increase in the percentage of children aged between 12 – 23 months who were completely immunised. However, a decline in the percentage of women who had at least two tetanus toxoid vaccinations in their pregnancy was noted. Strong inward economic migration to the Kutubu area suggests the overall results of this immunisation campaign were diluted.



OPERATING WITH INTEGRITY

We embrace and advocate ethical principles and practices that contribute to the fight against corruption and respect the rights of people, communities and the environment.

To follow the principle of operating with integrity, Oil Search aims to:

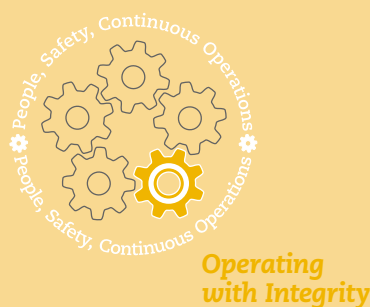
- ✱ Conduct business ethically at all times
- ✱ Adopt and advocate for practices and standards that respect diversity, local culture, human rights, labour rights and the environment
- ✱ Contribute towards combating corruption.

Good governance is essential for achieving these aims and supports long term, sustainable performance.

It provides guidance for how Oil Search can maintain company culture and values while meeting business goals, especially during times of growth and change.

Our governance systems demonstrate to stakeholders that our decisions have integrity; and they help to maintain high levels of transparency and show accountability.

In line with a commitment to partnership and collaboration, Oil Search works with our partners to ensure outcomes that align with our ethical principles.



OBJECTIVES

- Develop a human rights policy and management framework
- Increase transparency of payments made to government and other key stakeholders
- Pilot PNG Stakeholder Management Framework

DELIVERABLES

- Conducted a review and a gap analysis against key human rights frameworks to inform future work on the business position, policy and the development of a framework
- Published 2012 Oil Search Transparency Report
- In December 2012, Oil Search became an Extractives Industry Transparency Initiative (EITI) Supporting Company
- An aggregate extractive industry payments report for PNG is still in progress and is due in late-2013
- PNG Stakeholder Management Framework was not piloted in 2012 due to resource constraints; it is intended to be piloted in 2013

Maintaining high governance standards

Oil Search seeks to have a Board whose members cover a diverse mix of expertise and knowledge that aligns with the Company's operating activities, geographic focus and strategic direction.

Oil Search is committed to ongoing Board renewal. In 2012, three new non-executive directors with complementary skills joined the Board:

- ▶ Richard Lee (May 2012), who has extensive resources, banking and international commercial experience
- ▶ Keith Spence (May 2012), who has more than 30 years' oil and gas experience at a senior level
- ▶ Bart Philemon (November 2012), a former PNG government minister with a distinguished career in business and public service.

These members replaced retiring directors Martin Kriewaldt, John Stitt and Robert Igara. Effective 28th February 2013 Brian Horwood retired from the Board. His position as Chairman assumed by Rick Lee. The vacancy on the Board was filled by the appointment of Fiona Harris, our first female Board member in several years, who brings extensive experience in corporate governance and strategic development. In line with Company policy that the majority of directors should be independent, seven of Oil Search's nine Board members are independent directors.

Strengthening risk and compliance

To optimise user satisfaction and system functionality, Oil Search's risk management system was reviewed during 2012. The system supports risk management, audit reporting, management certification and compliance functions. As part of this review:

- ▶ Access rights were updated
- ▶ Online data capture for compliance reporting processes were implemented
- ▶ The data reporting process was streamlined
- ▶ Financing agreement requirements were embedded into management certifications to improve compliance.

Preventing fraud and corruption

Combating corruption and fraud is an ongoing concern for Oil Search in PNG. In Transparency International's 2012 Corruption Perceptions Index, PNG ranked

150 out of the 174 countries assessed on a scale where number 1 is the least corrupt. During 2012, expansion of the Company's prevention strategy continued.

- ▶ The Fraud and Corruption Prevention Framework was expanded by drafting two new policies: Whistle-blower Protection and Gifts & Entertainment. Both were endorsed by the Board.
- ▶ To support the implementation of fraud and corruption policies, the Company continued to improve relevant systems and processes. In October 2012 a new company-wide expense management system was introduced with more rigorous, built-in controls.
- ▶ The whistle-blower line was outsourced to an external provider who will provide a confidential multi-lingual service in 2013.
- ▶ The Oil Search Code of Conduct was reviewed and updated in March 2012 to ensure it was current and reflected Company values.

During 2012 Oil Search dealt with 13 incidents.

- ▶ There were two reported instances of corruption involving employees. The first involved allegations of an employee receiving financial inducements to over-order goods from a supplier. Though the values involved were modest, Oil Search terminated the employee's and supplier's contracts. The second case remains under investigation.
- ▶ Three cases of fraud were identified that involved contractors working for the Oil Search Health Foundation. The cases were identified through audits by Foundation staff. Two contracts were terminated and Oil Search is seeking to recover the funds. The third contractor has been disciplined and is repaying the funds. The financial amounts in all cases were minor.
- ▶ Eight minor breaches of the Oil Search Code of Conduct were raised. In all cases, disciplinary action was internal, including three warning letters. No terminations resulted.



OPERATING WITH INTEGRITY (CONT'D)

Understanding human rights risks

Protecting human rights is an integral part of Oil Search's policies for combating workplace discrimination and protecting community and cultural rights. Human rights risk management is relevant to Oil Search not only because of the risk to human rights associated with operating in developing countries, but because it has the potential to impact many elements of the business such as costs, continuity and employee retention.

Throughout 2012 Oil Search implemented a number of measures to build a more thorough and systematic management approach to addressing human rights risk.

- ▶ Obtained representation in the United Nations Global Compact Australia (UNGCA) leadership group on Human Rights.
- ▶ Conducted a preliminary review of the potential implications of the United Nations *Protect Respect and Remedy* framework and its Guiding Principles on Business and Human Rights on the business.
- ▶ Commenced a benchmarking and gap analysis against the updated International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability, which include consideration of human rights. The gap analysis forms part of Oil Search's broader ongoing systems review, which is making sure systems and standards are aligned with Oil Search's new Sustainability Policy and emerging stakeholder expectations.
- ▶ Commenced the design of an appropriate human rights due diligence process in accordance with the UN *Guiding Principles on Business and Human Rights* for roll out in 2013. This will be informed by the IFC gap analysis.

Oil Search remains committed to developing a human rights policy and management framework and will use the outputs from the activities undertaken in 2012 to inform the evolution of this framework.

Increasing payment transparency

The drive towards greater payment transparency forms part of Oil Search's commitments under the United Nations Global Compact and our broader Fraud and Corruption Prevention Framework.

As an important contributor to PNG Government revenues and an ongoing significant investor in the country, Oil Search supports the PNG Government in its efforts to ensure that effective and transparent benefit streams from oil and gas projects are implemented and maintained. Becoming an Extractive Industries Transparency Initiative (EITI) Supporting Company during the year was an important step in the process.

EITI is a coalition of governments, companies and civil society that sets a global standard to promote transparency in the oil, gas and mining sectors. At the time of publication, the PNG Government's application for EITI candidacy was under consideration by the PNG Treasurer and awaiting subsequent introduction to Cabinet.

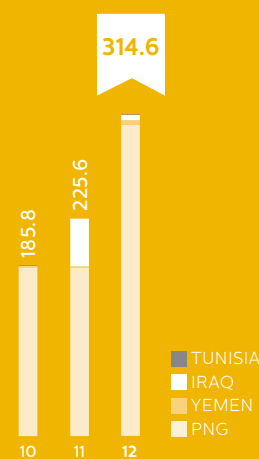
Oil Search is an active supporter of the principles and goals of EITI. In December 2012 the Oil Search Board formalised our commitment and Oil Search became an EITI Supporting Company. As an EITI Supporting Company, Oil Search agrees to meet transparency reporting requirements for the Company's countries of operation. This includes Yemen (suspended) and Iraq, which are already EITI compliant countries.

In 2012 Oil Search increased the public transparency of the number and value of payments made by participating in the PNG Chamber of Mines & Petroleum's "publish what you pay" campaign to increase awareness of the contribution of the industry to PNG. We also released Oil Search's first Transparency Report. During the year, Oil Search continued working with PNG extractive industry peers to produce an aggregate industry payments report for PNG. Detailed information on the payments made in all Oil Search's countries of operation or activity for the past four years is available in the 2012 Oil Search Transparency Report.

EITI

SUPPORTING COMPANY

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



TOTAL VALUE OF PAYMENTS TO GOVERNMENT DISCLOSED
(US\$ MILLION)

Improving benefits distribution

Landowners, provincial governments and local level governments receive a variety of benefits from Oil Search's oil projects. These will expand when the PNG LNG Project commences. Beneficiaries receive direct cash benefits such as royalties that are paid by Oil Search and the Company's joint venture partners. They also receive significant amounts of money from the national government under various benefits sharing agreements so they can develop local economic and social infrastructure. Ensuring all the benefits sharing agreements translate into noticeably improved living standards for local communities is a priority for Oil Search. As well as achieving sustainable development objectives, the aim is to mitigate risk.

2012 was a year of political uncertainty in PNG due to mid-year national elections. Oil Search's efforts to enact change on key aspects such as increasing the capacity of the Department of Petroleum and Energy (DPE) and developing effective project benefits delivery (as previously reported) slowed down during the election period. However, the elections delivered stable political leadership and in the last quarter of 2012 Oil Search was able to renew efforts. In the new environment, stakeholder coordination improved and a consistent view was achieved among all stakeholders regarding an effective project delivery framework.

Helping to draft provincial development plans

The PNG national government has recently entrusted Infrastructure Development Grant funds to the respective provincial governments so they can identify and implement projects. Oil Search is working with the provincial governments, providing local knowledge as well as project management expertise to help develop coordinated development plans, prioritise projects and adopt expenditure planning, while also working with the national government to put in place an effective project delivery framework.

Developing a shared responsibility model

In 2011 Oil Search reviewed the size or dollar value of the respective benefits streams and the weaknesses of the government's project management systems. In 2012 we worked jointly with the relevant stakeholders, the PNG Government, and the beneficiary group leadership on developing alternative benefits management and project delivery frameworks to put to government for consideration.

Together, we developed a shared responsibility model that allows Oil Search to apply project management skills to the delivery of carefully selected infrastructure projects.

Preparing for PNG LNG project cash benefit streams

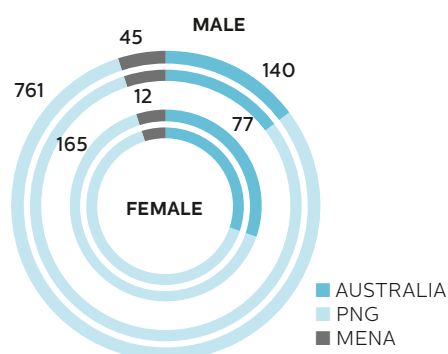
In anticipation of the first LNG shipments in 2014 and the consequential flow of PNG LNG Project benefits, Oil Search is supporting the DPE and PNG LNG Project operator Esso Highlands Limited to update and validate the beneficiary list and adopt a sound and transparent method of benefits distribution. Planning activities began at the end of 2012 and preparation will be a major focus in 2013.



Community markets near Aioo, Southern Highlands

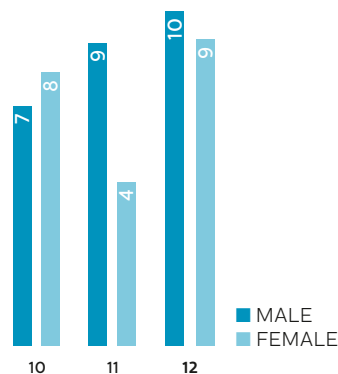
PEOPLE

We will create an inclusive, open, trusting and engaged workplace that encourages accountability and which consistently drives high performance



TOTAL WORKFORCE

The Oil Search workforce continued to grow in 2012, up 7% from 2011. This was driven by an 11% increase in permanent full time employees in new roles to support our expansion into gas production. In addition, the MENA workforce almost doubled as new drilling programmes in Iraq and Tunisia commenced.



TOTAL 12 MONTH TURNOVER RATE %

Turnover in PNG and Australia in 2012 was up from last year from 9% to 10% for men and from 4% to 9% for women. This reflects the tight employment market and competition for key talent in PNG as the PNG LNG Project develops. Despite a slight increase in turnover in PNG, these results were within the expected range, indicating the success of Oil Search's PNG Retention Programme in these conditions. Further details about the Retention Programme are available on page 61 of Oil Search's 2012 Annual Report.



Oil Search Process Technicians, Central Processing Facility, Kutubu

In 2012, Oil Search continued to implement the Human Resource Operating Plan identified in the 2011 Sustainability Report. The Plan remains the road map for addressing our workforce planning, succession and talent management needs until 2015.

The focus in 2012 – which will remain the same in 2013 – was workforce development. This work fell into three streams:

- Competency Assurance Management System (CAMS)
- Professional development
- Graduates and apprentices.

During the year we strengthened our systems, processes and capacity with several initiatives, including:

- Upgrading the leave management system to enable better usability and data capture
- Incorporating contractors' details into Oil Search's people management system to improve visibility and control
- Conducting a detailed analysis of performance reviews to ensure adherence to procedure
- Further strengthened human resource capability in PNG as we continued to implement structural and staff changes initiated in 2011.

Building organisational competency and capacity

The project to implement a Competency Assurance Management System (CAMS) has advanced considerably in 2012. Completion of the CAMS framework will contribute to the maintenance of a well-trained workforce, enabling assessment and verification that Oil Search has the right skills and competencies to address the increasing complexity of growing business needs.

The system's current focus is updating how the required skills for business-critical field roles are captured and mapped. The first stage, a detailed job task analysis, has been completed. Phase 2 (design and development) and phase 3 (implementation) will occur throughout 2013.

Once implemented, CAMS will inform future training requirements and help to develop a number of new training programmes in 2013. The new Learning Management System will be used to monitor an employee's progress through the training programmes required.

The CAMS programme is supported by other competency modules that have been developed in tandem for other areas of the business such as finance, drilling, exploration, subsurface, commercial and human resources.

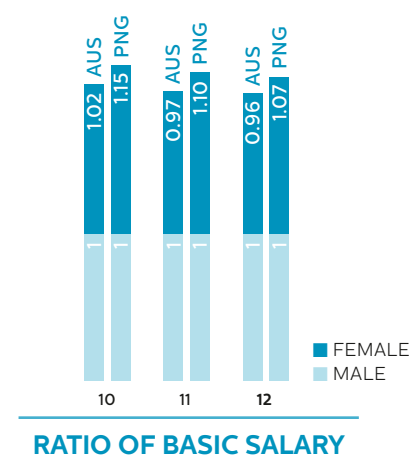
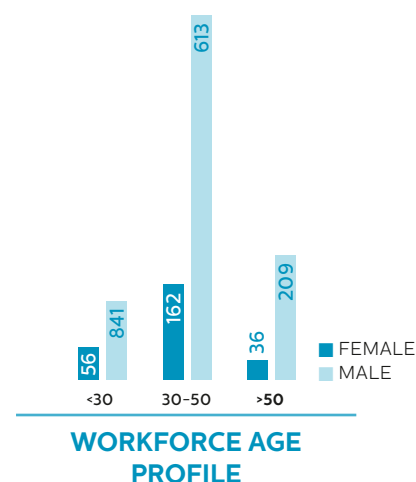
Developing current and future leaders

Planning for effective succession remains a key focus for Oil Search. It is critical to ensuring people are prepared for their next roles and that the company is prepared for changes as Oil Search transitions from an oil producer to an oil and gas producer. To drive leadership planning and development, two People Development Groups were formed and were active throughout 2012.

- Group 1 comprises members of the Oil Search executive management team – each member has been assigned a mentoring role with potential executive or general managers
- Group 2 comprises Oil Search's functional general management team – it targets potential technical and other high performers across the Company.

A planning approach was developed in 2012 to help technical and other emerging leaders transition to different parts of the business so they can grow their knowledge and develop their careers with Oil Search. To encourage participation, individual discussions were held with all employees about the professional development programme.

The 'Leading the Oil Search Way' programme content was reviewed to ensure it continued to meet the Company's current needs. A more advanced form of the programme will be piloted in 2013.



Hides Camp
volleyball

PEOPLE (CONT'D)

Increasing graduate engagement

By engaging better with stakeholders, Oil Search aims to improve the experience of graduate trainees, support internal alignment and provide a better recruitment outcome. During 2012:

- ▶ The newly revised programme was launched with an intake of nine graduate students
- ▶ Two inaugural graduate networking dinners were hosted on-site
- ▶ Individual feedback sessions were facilitated with graduates from the previous three years and departmental heads
- ▶ Relationships with local education institutions were enhanced to ensure Oil Search attracts the best prospective graduates.

Graduate feedback will be incorporated into the Graduate Development Framework in 2013. The framework will further expand Oil Search's graduate recruitment performance indicators with a more robust programme for monitoring and measuring outcomes.

Streamlining the apprentice programme

To align with the broader CAMS initiative of better capturing and mapping required competencies and skills, the apprentice programme was revised in 2012. The two streams – production and maintenance – will be managed holistically as one programme in 2013. This will support better monitoring and recording of training and skills milestones achievement.

The effectiveness of Oil Search's apprentice programme was reinforced in 2012 when Oil Search won the 2012 PNG Apprentice of the Year award. This is the second consecutive year in which an Oil Search apprentice has won this award.

Engaging employees on sustainability priorities

Harnessing the power of each employee is critical for achieving Oil Search's sustainability objectives. Their engagement and enthusiasm will ensure the Company continues to improve.

In October 2012 we conducted our first annual employee sustainability engagement survey in order to understand what drives Oil Search employees when it comes to sustainability. The survey indicated there was a strong interest in and awareness of sustainability across the business and provided the first formal opportunity to capture employees' sustainability priorities and ideas.

Employees said:

- ▶ Protecting the environment and community programmes and relationships should be clear priorities for Oil Search, followed closely by setting clear sustainability targets and policies and ensuring transparency and effective benefits mechanisms
- ▶ Sustainability ideas they put to management have been included in relevant plans where appropriate
- ▶ Internal communications on a range of sustainability topics could be increased.

The survey results will form a baseline from which to measure future employee awareness and engagement levels with Oil Search's sustainability approach and performance. They will also inform 2013 employee engagement initiatives, and the sustainability strategy.

72%

OF EMPLOYEES
BELIEVED SUSTAINABILITY
WAS CONSISTENTLY
CONSIDERED IN
THE WAY OIL SEARCH
OPERATES

50%

OF EMPLOYEES
CONSIDERED OIL SEARCH'S
SUSTAINABILITY
REPUTATION/
PERFORMANCE AS PART
OF THEIR DECISION TO
TAKE A ROLE WITH THE
COMPANY

Oil Search Production
Apprentice Jim Meria,
2012 PNG Apprentice
of Year award winner





Agogo Production Facility Board Operator, Alia Igibe, Agogo, Southern Highlands

Local representation

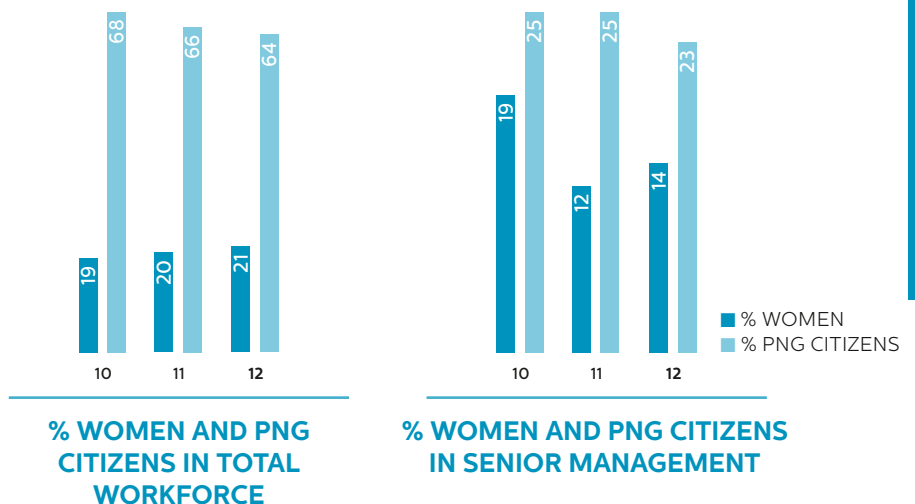
The policy of attracting, developing and retaining national employees is a critical part of Oil Search's ability to deliver growth and an essential part of the Company's license to operate. In addition to providing a local source of competent staff, having strong local representation in the workforce aligns with partner and government expectations.

Oil Search's online Code of Conduct training module, which all employees and contractors must complete during induction, has been updated. The module is now available in English and Tok Pisin and includes more detail about Oil Search's values and objectives.

Oil Search is committed to hiring local people for vacancies wherever possible. All vacancies are advertised publicly in-country and an international search commences only if local recruitment is unsuccessful. Any exceptions to this approach require approval by the Executive General Manager Operations.

No instances of discrimination were reported in 2012. An allegation of racial discrimination submitted to the Australian Anti-Discrimination Board (ADB) in 2011 has been closed. The ADB found the allegation to be without substance and refused an appeal against its ruling.

More information on Oil Search's diversity objectives is in the 2012 Annual Report.



In line with an overall increase in workforce size of 7%, the number of females and PNG citizens in Oil Search's total workforce and Senior Management team increased from 2011 to 2012. However, as a percentage, a reduction in the number of expatriates hired coupled with an increase in PNG citizens' turnover meant that the percentage of PNG citizens within Oil Search's PNG operations remained steady at 83%. Changes to the Senior Management team led to a small increase in the percentage of women in Senior Management from 12% to 14% and a small decrease in the % of PNG citizens from 25% to 23%.

GLOSSARY

AGRP

Associated Gas Related Project

APF

Agogo Production Facility

API

American Petroleum Institute

BBL/BARREL

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

BSCF/BCF

Billion standard cubic feet where a billion is defined as 10⁹

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 is 6,000 cubic feet of gas is equivalent to 1 barrel of oil

CAP Programme

Community Area Planning Programme

CDI Foundation

Community Development Initiative (a local NGO)

CDM

Clean Development Mechanism

CDP

Carbon Disclosure Project

CER

Certified Emissions Reduction

CPF

Central Production Facility in Kutubu

DEC

PNG Department of Environment and Conservation

DEPI

Diploma in Primary Education In-Service

DPE

PNG Department of Petroleum and Energy

EMS

Environmental Management System

EITI

Extractive Industries Transparency Initiative

GHG

Greenhouse Gas

GPF

Gobe Production Facility

GRI

Global Reporting Initiative

HSES

Health Safety Environment and Security

HR

Human Resources

ISO

International Organisation for Standardisation

IPIECA

International Petroleum Industry Environmental Conservation Association

LANCOs

PNG Landowner Companies

LNG

Liquefied Natural Gas

MDGs

Millennium Development Goals

MENA

Middle East North Africa

MMBBL

Million barrels

MMBOE

Million barrels of oil equivalent

MOA

Memorandum of Agreement

MRDC

Mineral Resources Development Company

NARI

PNG National Agricultural Resources Institute

OGP

International Association of Oil and Gas Producers

PDL

Petroleum Development Licence

PL2 LE

Pipeline Life Extension Project

PNG

Papua New Guinea

PPP

Public Private Partnership

SEISMIC SURVEY

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

STAKEHOLDER MANAGEMENT

The process of managing the expectations of those who have an interest in a project or who will be affected by its activities, outputs or deliverables

SDCG

Sustainable Development Coordination Group

SOG

Sustainability Operations Group

SSG

Sustainability Steering Group

SUSTAINABLE DEVELOPMENT

Development that meets the needs of the present without compromising the ability of future generations to meet their own needs

TAX CREDIT SCHEME

Under this voluntary PNG National Government scheme, 0.75% of gross assessable income can be applied to approved infrastructure construction and maintenance by the operator

TRIR

Total Recordable Injury Rate, defined as total recordable injuries per million staff-hours worked

TOK PISIN

Official language of Papua New Guinea

UBSA

Umbrella Benefits Sharing Agreement

UN

United Nations

UNFCCC

United Nations Framework for Climate Change

UNGC

United Nations Global Compact

UNGCNA

United Nations Global Compact Network Australia

WHO

World Health Organisation



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