

Results for the year ended 31 December 2013

27 February 2014

Highlights

Year to 31 December 2013	2012	2013	% change
Total production (mmboe)	6.38	6.74	+6%
Total sales (mmboe)	6.17	6.73	+9%
Total revenue (US\$m)	724.7	766.3	+6%
Net profit after tax ¹ (US\$m)	175.8	205.7	+17%
Operating cash flow (US\$m)	196.2	366.8	+87%
Total dividend (US cents)	4.0	4.0	Unch

¹ Including significant items

- Oil Search delivered a strong operational and financial performance in 2013.
- 2013 net profit after tax (including significant items) was US\$205.7 million, 17% higher than in 2012.
- Revenue rose 6% to US\$766.3 million, driven by a 9% increase in oil and gas sales, offset by a slightly lower realised oil price of US\$110.73 per barrel (US\$113.97 per barrel in 2012).
- Underlying operating costs per barrel were in line with 2012 levels, at US\$24.77 per barrel (US\$24.55 per boe in 2012).
- An 87% increase in operating cash flow to US\$366.8 million reflected higher sales volumes, the timing of cash receipts and lower income tax paid.
- At year end, the Company had total liquidity of US\$509.7 million, comprising US\$209.7 million in cash and US\$300 million undrawn under the US\$500 million corporate revolving facility.
- A 2013 final unfranked dividend of two US cents per share was announced, taking the 2013 full year unfranked dividend to four US cents per share, consistent with 2012.
- Total proven and probable oil reserves and contingent oil resources at the end of 2013 increased 34% to 179 mmbbl, primarily driven by the booking of contingent resources for the Taza field in Kurdistan. The Company's total proven and probable gas reserves and contingent gas resources fell slightly, to 4,667.5 bcf, largely due to modifications to comply with the new ASX listing rules.

Commenting on the 2013 results, Oil Search Managing Director, Peter Botten, said:

“Oil Search delivered a strong operational and financial performance in 2013, underpinned by solid production from our PNG oil fields. 2013 also saw the smooth transition from construction to commissioning activities at the PNG LNG Project and a successful exploration programme in PNG and the Middle East.”

Financial results

“Oil Search reported a 2013 net profit of US\$205.7 million, 17% higher than in 2012, which was a good result given the slightly softer oil price environment.

Total revenue rose 6%, driven by strong oil liftings. Despite an active well work programme, operating costs remained stable on a per barrel basis, at US\$24.77 per barrel of oil equivalent (excluding gas purchase costs). Exploration costs expensed of US\$107.4 million were 25% lower than in 2012, reflecting the success of the Company's exploration campaign in PNG and the Middle East, where we had two gas and two oil discoveries. In line with guidance in the fourth quarter report, Oil Search's effective tax rate for the full year was approximately 46% and there were no impairment charges recorded in 2013.

At the end of 2013, the Company remained in a healthy financial position, with total liquidity of US\$509.7 million, comprising US\$209.7 million in cash and US\$300 million undrawn under our corporate facility.”

Dividends

“The Board has approved the payment of a final unfranked dividend of two US cents per share, taking the total unfranked dividend for the 2013 full year to four US cents per share. This is in line with dividend levels in 2012 and is consistent with the Board's policy to maintain stable dividends until first cash flows are received from the PNG LNG Project. A fully underwritten dividend reinvestment plan will fund this payment. (See separate 2013 Final Dividend and DRP announcement for more information on the dividend payment).

In light of the forthcoming commencement of stable and long term cash flows from the PNG LNG Project and a desire to share this with shareholders, during 2014 the Board intends to reassess the dividend policy for 2015 and beyond. The appropriate balance between reinvestment of cash flows to finance high returning growth opportunities and capital returns to shareholders will be reviewed as part of a major Strategic Review, commencing in March. An update on the progress of this review will be provided at the 2014 first half results.”

PNG LNG Project

“The PNG LNG Project, operated by ExxonMobil PNG Limited, made substantial progress in 2013, moving from 75% complete at the end of 2012 to more than 95% currently. Construction crews are now starting to be demobilised and commissioning activities are well underway, both upstream at the Hides Gas Conditioning Plant (HGCP) and downstream at the LNG Plant site. The operator's development personnel are progressively being replaced with ExxonMobil's production team, who will supervise commissioning and operate future production activities.

The remaining construction work is expected to be complete in early 2014 and includes finishing the pipeline system linking the Hides production wells to the HGCP and final work on the second train at the LNG Plant site. All Oil Search-operated activities are now complete and we are preparing to start handling and exporting Project condensate, which will be co-mingled with the existing PNG oil stream, ahead of first LNG production.

Drilling at Hides is progressing well, with four wells completed and drilling ongoing on two of the four additional production wells at Wellpads D and G. Once the D and G Wellpad wells have been completed, development drilling will continue on the produced water disposal (PWD) well and on the Angore field production wells.

In late January, the operator advised that it had narrowed the window for first LNG deliveries to the third quarter of 2014, consistent with the schedule established in 2009 when the Project was sanctioned. The operator has also advised that it remains confident it will deliver the Project within the US\$19 billion revised capital cost estimate, which was provided in late 2012."

Gas expansion activities

"With construction of the foundation PNG LNG Project nearing completion, we are working closely with our partners to aggregate gas resources in the PNG Highlands and Western Province to underpin further LNG development. We are in the fortunate position of having a range of potential supply sources, including the P'nyang gas field and possible upside in existing PNG LNG fields. An active drilling and resource assessment programme is underway and by early 2015, we expect to be in a much better position to determine the potential supply configuration for any expansion.

Studies on the potential development of the P'nyang gas field in PRL 3 will continue through 2014, while preparations for the submission of a development licence application for the field in early 2015 will continue, based on work completed in 2013.

On the Hides Field, drilling is currently underway at Wellpad G. The two wells being drilled at this most northerly location on the field will not only produce gas for the Project, but will also help define the north-western extent of the Hides gas field. The PWD well, which is expected to spud in the second quarter of 2014, will help establish the vertical extent of the hydrocarbon column and better constrain the down dip volumes.

In addition, the PDL 1 joint venture is considering a proposal by the operator to drill the Hides 5 exploration well in late 2014. Hides 5 will test a deeper reservoir, which may potentially underlie the existing known Hides reservoirs and which has not yet been penetrated in the Hides field.

All these Hides wells will provide important information on the Hides gas field and potentially augment existing proven resources at P'nyang to underpin expansion.

In line with our strategy to aggregate gas resources to underpin further LNG expansion in PNG, we have today reached agreement to acquire a 22.835% interest in PRL 15 through the purchase of the Pac LNG Group Companies (see separate release for details). PRL 15, located in the onshore Papuan Basin in PNG, contains the Elk/Antelope gas discoveries, the largest remaining undeveloped gas resource in PNG, as well as significant exploration upside. The interest in Elk/Antelope is highly complementary to our existing asset base and, subject to the results of an exploration and appraisal programme which is expected to start shortly, has the potential to underpin either a major new standalone LNG development or LNG expansion, both of which are commercially attractive and would be value accretive for shareholders.

As a joint venture partner in PRL 15, Oil Search will gain industry standard rights, including pre-emption and work programme voting rights, and have the ability to influence how the Elk/Antelope resource is commercialised.

This puts Oil Search in a strong strategic position to ensure expansion or development of new LNG activities in PNG can be achieved in an optimal way, adding value to our existing developed resource and infrastructure, as well as our undeveloped resource base.

Work on updating the Company's Gulf of Papua geological models based on the drilling data gathered during the 2013 multi-well exploration campaign is continuing. Preliminary work has identified a new play, which has been de-risked by the drilling results. Further work will take place in 2014 to mature leads and prospects for a potential future drilling campaign."

Oil appraisal

"Oil Search is presently drilling two wells, to appraise the Mananda and Taza oil discoveries made in 2013.

In the PNG Highlands, the Mananda 7 well was spudded in mid-December and is drilling ahead. The well is designed to help better delineate the structure of the oil field discovered by Mananda 6, including the potential presence of a gas cap and a potential extension to the north, as well as targeting an optimal producer location that, if successful, would be tied back into the same facilities planned for the development of Mananda 5 and Mananda 6. Data from the well to date suggests the Mananda structure is more complex than originally mapped, with a downthrown northern fault compartment which is water wet. The forward plan for Mananda 7 is to drill ahead into the known Mananda 6 oil reservoir in an optimal production location and suspend the well as an additional future producer.

In the Kurdistan Region of Iraq, a comprehensive appraisal programme of the 2013 Taza 1 oil discovery, located in the Taza PSC, is underway. The Taza 2 appraisal well was spudded in late December and is drilling ahead, with the well expected to reach total planned depth late in the second quarter of 2014. The well will appraise the hydrocarbon-bearing intervals discovered by Taza 1 and explore deeper intervals for potential upside. Preparations are well advanced for the acquisition of up to 500 square kilometres of 3D seismic over the PSC, with the survey expected to commence shortly. We are also investigating the potential of contracting an Early Production Facility with mobilisation later in the year. A second appraisal well, Taza 3, is expected to spud in the second quarter of 2014, using a second rig. Taza 3, located 5 kilometres southeast of Taza 1, will help better define the field structural configuration, fluid contacts, reservoir quality and the distribution and nature of fracturing."

Safety performance

"Oil Search recorded a Total Recordable Injury Rate (TRIR) of 2.47 per million hours worked in 2013, an improvement from 2.64 in 2012. The decline was a pleasing result given the increased level of higher risk drilling and exploration activities undertaken during the year, including three offshore wells drilled in the Gulf of Papua, one on the Mananda Ridge and one in Kurdistan.

More than 95% of injuries incurred have involved contractor employees, reflecting the challenge of managing our large contractor workforce, many of whom are new to our areas of operation and to Oil Search's focused safety culture. In 2014, a key ongoing priority for the Company will be to ensure the right support is in place to generate and maintain a positive approach to safety in remote areas, particularly as the Company continues with appraisal activities at Mananda and Taza."

Reserves and resources

"Oil Search's total proven and probable oil reserves and contingent oil resources at the end of 2013 were 179 mmbbl, up 34% compared to the end of 2012. The increase primarily reflected the booking for the first time of 51.5 million barrels of net entitlement oil (and 134.9 bcf of net entitlement gas) in the contingent resource category for the Taza field in Kurdistan, following the Taza 1 discovery in 2013.

The Company's total proven and probable gas reserves and contingent gas resources were 4,667.5 bcf, 4% lower than at the end of 2012. This was driven mainly by the expiry of the PRL 1 licence (Pandora) as well

as revised assumptions used to calculate PNG LNG Project fuel, flare and shrinkage, in line with new ASX rules for reserves and resources reporting.

Please see the 2013 Reserves and Resources Statement released today for full details.”

Share register – placement to PNG Government and transfer of major shareholding to IPIC

“It is proposed that the acquisition of a 22.835% interest in the PRL 15 licence will be funded by a placement of 149.39 million shares to The Independent State of Papua New Guinea at A\$8.20 per share, which represents a discount to the volume weighted average price of Oil Search shares for the past month of less than 1%. This agreement is subject to final regulatory and financing approvals that are expected to be received on or before 6 March 2014. The placement to the PNG Government is strategically very important for the Company, ensuring the ongoing alignment of Oil Search and the PNG Government’s interests and a continuation of the strong working relationship that has been in place since the PNG Government first became a shareholder in the Company in 2002. The PNG Government is supportive of the development of all PNG hydrocarbon resources, including Elk/Antelope, in the earliest practical timeframe and we look forward to working with them and our joint venture partners to ensure the optimal outcome.

The exchangeable bonds, which were issued to International Petroleum Investment Company (IPIC) of Abu Dhabi by the Independent Public Business Corporation of Papua New Guinea (IPBC) on behalf of the PNG Government in 2009 as part of the Government’s PNG LNG Project funding arrangements, mature on 5 March 2014. IPIC has issued a mandatory exchange notice to exchange its entire holding of the bonds into 196,604,177 ordinary shares in Oil Search Limited. Once these shares are delivered, IPIC will become Oil Search’s largest shareholder, holding approximately 13.2% of the share capital, diluted for the Government placement.

While not in a position to comment on IPIC’s intentions with regard to its shareholding, IPIC has a reputation for being a long-term investor in overseas energy and energy-related assets and is widely regarded for the support it provides to all the companies in its portfolio. I can also advise that I have met with IPIC and so far they have been very supportive of both Oil Search and the PNG LNG Project. I look forward to having them as a core shareholder. ”

On the outlook for 2014, Mr Botten said:

“2014 will be a transformational year for Oil Search, from both an operational and financial perspective. As already highlighted, Hides condensate is projected to start flowing through the existing oil export system ahead of first LNG sales, which are expected to commence in the third quarter of 2014.

While the PNG LNG Project will only be operational for part of the year, it will have a marked impact on our total 2014 oil and gas production, which is expected to be roughly double 2013 levels. This will flow through to earnings and significantly strengthen our balance sheet position.

The focus and impetus of activities will again be on maturing optimal supply sources for LNG expansion and development. With the acquisition of a material interest in PRL15, Oil Search is in a unique position to influence how its gas resources are developed in a timely and capital efficient way. We believe these developments are able to deliver class-leading returns for our shareholders. The focus will also be on understanding our broader resource base, both in the Highlands and now down in the Gulf Province, where active appraisal and exploration programmes are planned for the whole year.

Continued development of our core oil business will underscore short term cash flows.

A key part of our 2014 programme will be a root and branch review of our business through a major Strategic Review. This work will analyse the potential value of our assets, how we may achieve that value and define the options and balance between investing in high returning growth projects versus capital management initiatives, with a focus on significant dividends. Shareholder input to this review will be sought through the year and the results will be communicated to shareholders in the second half of the year.”

2014 Guidance:

Year to December	2013 Actual ¹	2014 Guidance ^{2, 3}
Production		
Current operations (oil + GTE)	6.7 mmboe	6.4 – 6.9 mmboe
PNG LNG Project		
PNG LNG (LNG)	-	26 – 38 bscf
PNG LNG (liquids)	-	1.3 – 1.8 mmbbl
Total PNG LNG Project	-	6.4 – 9.3 mmboe
Total production	6.7 mmboe	13 – 16 mmboe
Operating costs		
Underlying (incl corporate costs)	US\$24.77/boe	US\$21 – 26/boe
Hides GTE gas purchase costs	US\$37.1 million	US\$37 – 40 million
Business development costs	US\$10.2 million	US\$10 - 15 million
Depreciation, amortisation and site restoration	US\$7.45/boe	US\$13 – 15/boe
Capital costs		
PNG producing fields	US\$152.6 million	US\$130 – 170 million
PNG LNG Project	US\$1,214.6 million	US\$700 – 850 million
Exploration and evaluation	US\$294.0 million	US\$360 – 440 million
Property, plant and equipment	US\$12.2 million	US\$25 – 35 million
Total	US\$1,673.4 million	US\$1,215 – 1,495 million

1. Gas volumes converted to barrels of oil equivalent (boe) using a standard conversion factor of 6,000 scf = 1 boe
2. Gas volumes converted to boe using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale. The change to a specific boe conversion factor more closely reflects the energy content of the Company's gas reserve portfolio compared to the previous conversion factor of 6,000 scf per boe. Note that prior year figures have not been restated.
3. Numbers may not add due to rounding.

2013 Performance Summary^{1, 2, 3}

Year to 31 December 2013	2012	2013	% change
Sales data			
Total oil and gas production (mmboe)	6.38	6.74	+6
Total saleable oil production (mmbbl)	5.32	5.63	+6
Total oil liftings (mmbbl)	5.21	5.73	+10
Gas equivalent sales (mmscf)	5,098	5,339	+5
Hides liquids (mmboe)	0.11	0.11	-1
Total oil and gas sales (mmboe)	6.17	6.73	+9
Realised oil price (US\$/bbl)	113.97	110.73	-3
Financial data (US\$million)			
Revenue from operations	724.6	766.3	+6
Operating expenses	(153.7)	(169.9)	+11
Royalties and levies	(12.0)	(12.6)	+5
Other expenses	(22.3)	(21.1)	-5
Business development costs	(12.3)	(10.2)	-17
EBITDAX	524.3	552.4	+5
Site Restoration	(7.6)	(3.8)	-50
Amortisation/Depreciation	(41.9)	(46.4)	+11
Exploration costs expensed	(144.0)	(107.4)	-25
EBIT	330.9	394.8	+19
Net financing (costs)/income	(4.6)	(15.2)	+230
Profit on sale of non-current assets	45.1	-	N.M.
Impairment	(23.8)	-	N.M.
Profit before tax	347.6	379.9	+9
Taxation expense	(171.8)	(174.1)	+1
Profit after tax after significant items	175.8	205.7	+17
Profit after tax before significant items	153.0	205.7	+34
Per share data			
Basic EPS before significant items (US cents)	11.5	15.4	+34
Basic EPS after significant items (US cents)	13.2	15.4	+17
Diluted EPS before significant items (US cents)	11.5	15.3	+33
Diluted EPS after significant items (US cents)	13.2	15.3	+16
CFPS (US cents)	14.8	27.4	+85
Interim dividend (US cents)	2.0	2.0	Unch
Final dividend (US cents)	2.0	2.0	Unch
Total dividend for the year (US cents)	4.0	4.0	Unch

1. In accordance with IAS 8 "Accounting Policies Changes in Accounting Estimates and Errors", prior year comparatives have been restated where applicable.

2. Numbers and percentage moves may not add due to rounding.
3. EBITDAX (earnings before interest, tax, depreciation/amortisation, impairment and exploration) and EBIT (earnings before interest and tax) are non-IFRS measures that are presented to provide a more meaningful understanding of the performance of Oil Search's operations. The non-IFRS financial information is unaudited but is derived from the financial statements which have been subject to audit by the Company's auditor

A full analysis of the financial results can be found in the Operating and Financial Review commencing on page 8 of the Directors' Report 31 December 2013.

2013 Production Summary ^{1, 2}

Year to 31 December	2012		2013		% change	
Oil production	Gross daily production (bopd)	Net to OSH (mmbbl)	Gross daily production (bopd)	Net to OSH (mmbbl)	Gross daily production	Net to OSH
Kutubu	14,865	3.267	15,848	3.473	+6	+6
Moran	10,290	1.865	11,295	2.041	+9	+9
Gobe Main	1,065	0.039	982	0.036	-8	-8
SE Gobe	2,120	0.198	1,412	0.132	-34	-34
SE Mananda	82	0.022	67	0.018	-18	-18
Total PNG Oil	28,421	5.390	29,604	5.700	+4	+6
Hides Liquids	307	0.112	325	0.119	+6	+6
Total Oil & Condensate	28,728	5.503	29,929	5.818	+4	+6
Gas production	mmscf/d	mmscf	mmscf/d	mmscf		
Hides Gas Production	14.39	5,267	15.11	5,513	+5	+5
	boepd	mmboe	boepd	mmboe		
Total Oil and Gas Production³	31,126	6.380	32,447	6.737	+4	+6

1. Prior period comparatives updated for subsequent changes.
2. Numbers may not add due to rounding.
3. Gas volumes converted to barrels of oil equivalent (boe) using a standard conversion factor of 6,000 scf = 1 boe

PETER BOTTEN, CBE**Managing Director****27 February 2014****For more information regarding this report, please contact:**

Ms Ann Diamant

Group Manager, Investor Relations

Tel: +612 8207 8440

Mob: +61 407 483 128

Presentation and Webcast

Oil Search will be holding a presentation for analysts and fund managers at 4.00 pm AEDT today, 27 February 2014. The presentation will be webcast live over Oil Search's website. To listen to the webcast, please log on to www.oilsearch.com. If you experience any technical difficulties, please call: +61 2 8280 6000.

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

DISCLAIMER

This report contains some forward-looking statements which are subject to particular risks associated with the oil and gas industry. Actual outcomes could differ materially due to a range of operational, cost and revenue factors and uncertainties including the timing of commissioning, completion of construction and commencement of production from the PNG LNG Project, oil and gas prices, changes in market demand for oil and gas, currency fluctuations, drilling results, field performance, the timing of well work-overs and field development, reserves depletion and fiscal and other government issues and approvals.

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

Preliminary final report

APPENDIX 4E

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

This information should be read in conjunction with the
Financial Report for the year ended 31 December 2013

Results for announcement to the market

			Year ended 31 December			
			2013		2012	
			US\$'000	A\$'000 ⁽²⁾	US\$'000	A\$'000 ⁽²⁾
Revenue from ordinary activities	up	5.7%	766,265	791,106	724,619	699,507
Profit from ordinary activities after tax attributable to members	up	17.0%	205,722	212,391	175,834	169,740
Net profit for the year attributable to members	up	17.0%	205,722	212,391	175,834	169,740

The financial information above has been prepared in accordance with International Financial Reporting Standards.

Dividends

	Year ended 31 December			
	2013		2012	
	US cents	A cents	US cents	A cents
Final dividend paid per security ⁽³⁾	2.00	TBA ⁽⁴⁾	2.00	1.92
Interim dividend paid per security ⁽³⁾	2.00	2.14	2.00	1.95

Details of Dividend Reinvestment Plan

The company advises the continuation of its Dividend Reinvestment Plan (DRP). The issue price of DRP shares will be based on the volume weighted average price (VWAP) over a period of 10 trading days commencing on 17 March 2014. The price of shares issued under the DRP will be at a 2.0% discount to the VWAP. The last date for the receipt of an election notice to participate in the DRP is the record date, 13 March 2014.

Net tangible assets

	Year ended 31 December			
	2013		2012	
	US\$	A\$ ⁽⁵⁾	US\$	A\$ ⁽⁵⁾
Net tangible asset backing per ordinary security	2.41	2.70	2.27	2.18

Details of entities over which control was gained or lost

There were no acquisitions or disposals of controlled entities during the year ended 31 December 2013.

On 31 July 2012, Papuan Oil Search Limited obtained control of ML Energy Fund Upstream (PNG) Pty Ltd through the acquisition of 100% of its ordinary share capital for consideration of US\$12.0 million. This entity was subsequently renamed Oil Search (Uramu) Pty Limited.

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

(2) Amount has been converted from US\$ to A\$ at the average exchange rate of 0.9686 (2012: 1.0359).

(3) No franking credits available on dividends, as Oil Search Limited is incorporated in Papua New Guinea. No part of the dividends represents conduit foreign income.

(4) The Australian dollar amount will be fixed at the rate of exchange applicable on the day of the record date for determining entitlements to the final ordinary dividend, being 13 March 2014.

(5) Amount has been converted from US\$ to A\$ at the 31 December 2013 exchange rate of 0.8948 (31 December 2012: 1.0384).

OIL SEARCH LIMITED
and its subsidiaries

ARBN 055 079 868

Financial Report
for the year ended 31 December 2013

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

	Page
Directors' report	1
Auditor's independence declaration	51
Statements of comprehensive income	52
Statements of financial position	53
Statements of cash flows	54
Statements of changes in equity	55
Notes to the financial statements	
1 Summary of significant accounting policies	57
2 Revenue from operations	69
3 Other expenses	69
4 Net finance costs	69
5 Income tax	69
6 Earnings per share	71
7 Dividends paid or proposed	72
8 Receivables	72
9 Inventories	72
10 Other financial assets	73
11 Other assets	73
12 Exploration and evaluation assets	73
13 Oil and gas assets	73
14 Other property, plant and equipment	74
15 Investments	75
16 Deferred tax assets	75
17 Payables	75
18 Provisions	75
19 Loans and borrowings	76
20 Deferred tax liabilities	79
21 Share capital and reserves	79
22 Statement of cash flows	81
23 Interests in joint arrangements	83
24 Segment reporting	85
25 Employee entitlements and superannuation commitments	86
26 Key management personnel remuneration	90
27 Auditor's remuneration	91
28 Related party transactions	92
29 Commitments	94
30 Contingencies	94
31 Group entities	95
32 Financial instruments	96
33 Events occurring after the reporting period	103
Directors' declaration	104
Independent Auditor's report	105

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

The directors submit their report for the financial year ended 31 December 2013.

DIRECTORS

The names, details and shareholdings of the directors of the company in office during or since the end of the financial year are:

Mr RJ Lee, BEng (Chem) (Hons), MA (Oxon), FAICD, (Chairman) Non-Executive, 63 years

Mr Lee joined the Board on 9 May 2012 and was appointed Chairman on 28 February 2013. Mr Lee has extensive resource banking and international commercial experience. His previous senior executive roles include 16 years with CSR Limited and 9 years in the position of Chief Executive Officer of NM Rothschild Australia Limited. Mr Lee is a Director of Newcrest Mining Limited. *Ordinary shares, fully paid: 40,000*

Mr BF Horwood, BCom, FAICD, FCPA, (Chairman) Non-Executive, 72 years (Resigned 28 February 2013)

Mr Horwood was appointed a Director on 28 May 2004 and Chairman of Oil Search on 1 June 2004. Prior to joining Oil Search, Mr Horwood had 35 years of experience with the Rio Tinto Group, having held executive positions in Australia, the United Kingdom and Papua New Guinea. Most recently, Mr Horwood was Managing Director, Rio Tinto-Australia. Mr Horwood was previously the Chairman of Energy Resources of Australia Limited and Coal and Allied Industries Limited. He has been a member of the Business Council of Australia and a Director of the Minerals Council of Australia. *Ordinary shares, fully paid: 25,000*

Mr PR Botten, CBE, BSc, ARSM, (Managing Director), Executive, 59 years

Mr Botten was appointed Managing Director on 28 October 1994, having previously filled both exploration and general manager roles in the company since joining in 1992. He has extensive worldwide experience in the oil and gas business, previously holding various senior technical and managerial positions in a number of listed and government owned organisations. Mr Botten is immediate past President of the Papua New Guinea Chamber of Mines and Petroleum and is on the Executive Committee of the Australia PNG Business Council. He is also a Director of Business for Millennium Development. He was awarded Commander of the Order of the British Empire (CBE) in the 2008 Queen's Birthday Honours List for services to commerce and the mining and petroleum industry in Papua New Guinea. *Ordinary shares, fully paid: 2,113,487; Performance Rights: 734,500; Restricted shares: 136,761*

Mr G Aopi, CBE, BEc, BAC, MBA, Executive, 59 years

Mr Aopi joined the Board as an Executive Director on 18 May 2006 and presently holds the position of Executive General Manager External & Government Affairs and Sustainability. Mr Aopi has substantial public service and business experience in Papua New Guinea, having had a long and distinguished career in government, with a number of important positions, including Secretary for Finance and Planning and Managing Director of Telikom PNG Ltd. He was previously the Chairman of Telikom PNG Ltd and Independent Public Business Corporation (IPBC). Mr Aopi is a Director of Steamships Trading, Bank of South Pacific and a number of other private sector and charitable organisations in Papua New Guinea. *Ordinary shares, fully paid: 317,671; Performance Rights: 189,936; Restricted shares: 136,464*

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

Mr KG Constantinou, OBE, Non-Executive, 56 years

Mr Constantinou joined the Board on 16 April 2002. He is a prominent business identity in Papua New Guinea, holding a number of high level public sector and private sector appointments. Mr Constantinou is Chairman of various companies, including Airways Hotel & Apartments Limited, Lamana Hotel Limited, Lamana Development Limited, Hebou Constructions, Alotau International Hotel, Pacific Games 2015 Authority and Bank of South Pacific. He is a Director of Heritage Park Hotel in Honiara, Gazelle International Hotel in Kokopo, Grand Pacific Hotel in Fiji, Taumeasina Island Resort in Samoa, Good Taste Company in New Zealand and Airlines PNG Limited. Mr Constantinou is also Vice Chairman of the Employers Federation of Papua New Guinea and Honorary Consul for Greece in Papua New Guinea. *Ordinary shares, fully paid: nil*

Ms FE Harris, BCom, FAICD, FCA (Aust), 53 years

Ms Harris joined the Board on 1 March 2013. Ms Harris has over 18 years of experience as a non-executive director, including on the boards of numerous resource and other companies in the ASX50, ASX100 and ASX200, and several with international operations. She is currently a non-executive director of listed companies Aurora Oil & Gas Limited, BWP Trust, Infigen Energy Limited and Sundance Resources Limited. Prior to commencing her career as non-executive director, Ms Harris was a partner at KPMG, working in Perth, San Francisco and Sydney. *Ordinary shares, fully paid: 10,026*

Dr AJ Kantsler, BSc (Hons), PhD, GAICD, FTSE, Non-Executive, 63 years

Dr Kantsler joined the Board on 19 July 2010. Dr Kantsler worked with Woodside Petroleum for 15 years, where he was most recently the Executive Vice President Health, Safety and Security. Dr Kantsler was Woodside Petroleum's Executive Vice-President Exploration & New Ventures from 1996 to 2009. Before joining Woodside Petroleum, Dr Kantsler had extensive experience with the Shell Group of Companies working in various exploration roles in Australia and internationally. Dr Kantsler has been a director of Forte Consolidated Limited. He was also Councillor and Director of the Australian Petroleum Production and Exploration Association (APPEA) for 15 years, where, as well as being chairman of several of APPEA's committees, he was Chairman from 2000 to 2002. In 2005, Dr Kantsler was awarded the APPEA Reg Sprigg Medal for his outstanding contribution to the oil and gas industry in Australia. Dr Kantsler was also a founding member of the Australian Government's Council for Australian Arab Relations (CAAR), where he served for two terms. He is Managing Director of Transform Exploration Pty Ltd, a Director of Savcor Group Limited, Apprenticeships Australia Pty Ltd and the Chamber of Commerce & Industry, WA. *Ordinary shares, fully paid: 25,200*

Mr B Philemon, Non-Executive, 68 years

Mr Philemon joined the Board on 5 November 2012. Mr Philemon is acknowledged as one of Papua New Guinea's most influential leaders, with distinguished careers in both business and public service. Mr Philemon's career highlights include serving as Chairman of Air Nuigini and holding a number of ministerial posts in PNG Government, including Minister of Foreign Affairs and Minister for Finance and Treasury. Mr Philemon served as the member for Lae Open in Government from 1992 until the 2012 elections. Mr Philemon is a director of Highlands Pacific Limited and the Bank of Papua New Guinea. *Ordinary shares, fully paid: 7,203*

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

Mr KW Spence, BSc (Geophysics) (Hons), Non-Executive, 60 years

Mr Spence joined the Board on 9 May 2012. Mr Spence brings over thirty years of oil and gas experience to the Board, having served in senior executive positions with Woodside Petroleum Limited, including Chief Operating Officer and Acting Chief Executive. Mr Spence was with Shell for 18 years prior to Woodside. Mr Spence is Chairman of Geodynamics Limited. He is a Director of Synergy and also chairs a number of other bodies including the National Offshore Petroleum Safety and Environmental Management Authority Board. *Ordinary shares, fully paid: nil*

Dr ZE Switkowski, BSc (Hons), PhD, FAICD, FTSE, Non-Executive, 65 years (Leave of Absence)

Dr Switkowski joined the Board on 22 November 2010. Dr Switkowski's career highlights include serving as Chief Executive Officer and Managing Director of Telstra, Chief Executive Officer of Optus and Chairman and Managing Director of Kodak (Australasia). Dr Switkowski currently serves as a Director of Tabcorp Limited and is Chairman of Suncorp Group and NBN Co. He is also Chancellor of the Royal Melbourne Institute of Technology (RMIT University). Dr Switkowski is former Chairman of the Australian Nuclear Science and Technology Organisation and Opera Australia, and was also a Director of Lynas Corporation. He holds an honours degree in science and a PhD in nuclear physics from the University of Melbourne and is a Fellow of the Australian Institute of Company Directors. *Ordinary shares, fully paid: 200,000*

GROUP SECRETARY

Mr SW Gardiner, BEc (Hons), CPA, 55 years

Mr Gardiner joined Oil Search Limited in 2004, after a twenty year career in finance at two of Australia's largest multinational construction materials companies and a major Australian telecoms company. Mr Gardiner's roles at Oil Search have covered senior corporate finance and corporate services responsibilities. In November 2012 Mr Gardiner was appointed to the position of Chief Financial Officer of Oil Search. Mr Gardiner is also the Group Secretary of Oil Search, a role he has held since May 2009. *Ordinary shares, fully paid: 229,786; Performance Rights: 166,260; Restricted shares: 35,823*

RESULTS AND REVIEW OF OPERATIONS

The Oil Search Limited Group ('the group') delivered a consolidated net profit of US\$205.7 million (2012: US\$175.8 million) for the year, after providing for income tax of US\$174.1 million (2012: US\$171.8 million).

Further details on the group's operating and financial performance can be found in the 'Operating and Financial Review' on page 8.

DIVIDENDS

Subsequent to balance date, the directors approved the payment of a final unfranked dividend of US 2 cents per ordinary share (2012: US 2 cents final dividend) to ordinary shareholders in respect of the financial year ended 31 December 2013. The due date for payment is 8 April 2014 to all holders of ordinary shares on the Register of Members on 13 March 2014. The company's dividend reinvestment plan will remain in operation for the final dividend. Dividends paid and declared during the year are recorded in note 7 to the financial statements.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

PRINCIPAL ACTIVITIES

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

LIKELY FUTURE DEVELOPMENTS

Refer to the 'Operating and Financial Review' on page 8 for details on likely developments and future prospects of the group.

ENVIRONMENTAL DISCLOSURE

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

CORPORATE INFORMATION

Oil Search Limited is a company limited by shares and is incorporated and domiciled in Papua New Guinea. The group had 1,252 employees as at 31 December 2013 (2012: 1,200). Oil Search Limited is listed on the Australian Securities Exchange and Port Moresby Stock Exchange.

SHARE BASED PAYMENT TRANSACTIONS

There were 1,873,950 share appreciation rights (2012: 1,744,200) granted under the Employee Share Appreciation Rights Plan. There were 1,635,200 performance rights (2012: 1,899,900) granted under the Performance Rights Plan, and 361,230 restricted shares (2012: 108,513) granted under the Restricted Share Plan during the year.

As at 31 December 2013, there are 121,350 options (2012: 469,930), 4,654,190 share appreciation rights (2012: 4,291,120), 4,653,631 performance rights (2012: 5,344,915), and 609,099 restricted shares (2012: 1,295,197) granted over ordinary shares exercisable at various dates in the future, subject to meeting applicable performance hurdles, and at varying exercise prices (refer to note 25 for further details).

ROUNDING

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

COMMITTEES OF THE BOARD

The company restructured its Board committees during 2013 and formed the Audit and Financial Risk Committee (replacing the Audit Committee) and Health, Safety and Sustainability Committee (replacing the Finance and Risk Committee). The company also formed a new Committee, being the Corporate Actions Committee. The name of the Remuneration and Nominations Committee was changed to the People and Nominations Committee.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

COMMITTEES OF THE BOARD (continued)

Members comprising the committees of the Board for the period 1 January 2013 to 17 July 2013 were:

Audit Committee: Mr RJ Lee¹ (Committee Chairman), Mr KW Spence² (Committee Chairman), Ms FE Harris³, Dr AJ Kantsler⁴ and Mr B Philemon. Mr BF Horwood⁵ was an ex-officio attendee of this Committee;

Finance and Risk Committee: Dr AJ Kantsler⁴ (Committee Chairman), Mr G Aopi, Mr KG Constantinou, Mr RJ Lee¹ and Dr ZE Switkowski⁶. Mr BF Horwood⁵ was an ex-officio attendee of this Committee; and

Remuneration and Nominations Committee: Dr ZE Switkowski⁶ (Committee Chairman), Mr KG Constantinou, Mr B Philemon and Mr KW Spence². Mr BF Horwood⁵ was an ex-officio attendee of this Committee.

Members comprising the committees of the Board for the period 18 July 2013 to 31 December 2013 were:

Audit and Financial Risk Committee: Dr AJ Kantsler⁴ (Committee Chairman), Ms FE Harris³, Mr B Philemon and Dr ZE Switkowski⁶. Mr RJ Lee¹ is an ex-officio attendee of this Committee;

Corporate Actions Committee: Mr RJ Lee¹ (Committee Chairman), Mr PR Botten, Dr AJ Kantsler⁴, Mr KW Spence² and Ms FE Harris³;

Health, Safety and Sustainability Committee: Mr KW Spence² (Committee Chairman), Dr AJ Kantsler⁴, Mr G Aopi, Mr KG Constantinou and Ms FE Harris³. Mr RJ Lee¹ is an ex-officio attendee of this Committee; and

People and Nominations Committee: Dr ZE Switkowski⁶ (Committee Chairman), Mr RJ Lee¹ (Acting Committee Chairman), Mr KG Constantinou, Mr B Philemon and Mr KW Spence².

- (1) Mr RJ Lee became Chairman of the Board effective 28 February 2013. Mr Lee was Chairman of the Audit Committee and a Member of the Finance and Risk Committee until 4 April 2013. Mr Lee became Chairman of the Corporate Actions Committee effective 18 July 2013. Mr Lee became Acting Chairman of the People and Nominations Committee effective 21 October 2013.
- (2) Mr KW Spence became Chairman of the Audit Committee effective 4 April 2013. Mr Spence became Chairman of the Health, Safety and Sustainability Committee and a Member of the Corporate Actions Committee effective 18 July 2013.
- (3) Ms FE Harris was appointed to the Board effective 1 March 2013. Ms Harris became a Member of the Audit Committee and a Member of the Finance and Risk Committee effective 4 April 2013. Ms Harris became a Member of the Corporate Actions Committee and the Health, Safety and Sustainability Committee effective 18 July 2013.
- (4) Dr AJ Kantsler was Chairman of the Finance and Risk Committee and a Member of the Audit Committee until 18 July 2013. Dr Kantsler became Chairman of the Audit and Financial Risk Committee and a Member of the Corporate Actions Committee and the Health, Safety and Sustainability Committee effective 18 July 2013.
- (5) Mr BF Horwood was Chairman of the Board until his resignation effective 28 February 2013.
- (6) Dr ZE Switkowski was Chairman of the Remuneration and Nominations Committee and a Member of the Finance and Risk Committee until 18 July 2013. Dr Switkowski became Chairman of the People and Nominations Committee and a Member of the Audit and Financial Risk Committee effective 18 July 2013; until his leave of absence effective 21 October 2013.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

ATTENDANCES AT DIRECTORS' AND COMMITTEE MEETINGS

The number of meetings of directors (including meetings of Committees of the Board) held during the year and the number of meetings attended by each director, were as follows:

Directors	Directors' Meetings	Audit	Audit and Financial Risk	Corporate Actions	Finance and Risk	Health, Safety and Sustainability	Remuneration/ People and Nominations
Number of meetings held	10	3	1	2	3	1	4
Number of meetings attended							
G Aopi	9	-	-	-	3	1	-
PR Botten	9	-	-	2	-	-	-
KG Constantinou	9	-	-	-	3	1	4
FE Harris	8	2	-	2	1	0	-
BF Horwood ¹	1	1	-	-	1	-	1
AJ Kantsler	10	3	1	2	3	1	-
RJ Lee ²	10	3	1	2	3	1	4
B Philemon	8	3	1	-	-	-	4
KW Spence	10	3	-	2	-	1	4
ZE Switkowski ³	7	-	-	-	3	-	3

- (1) Mr BF Horwood was an ex-officio attendee at the meetings of the Audit Committee, Finance and Risk Committee and Remuneration and Nominations Committee until his resignation from the Board effective 28 February 2013.
- (2) Mr RJ Lee was an ex-officio attendee at the meetings of the Audit Committee, Audit & Financial Risk Committee, Finance and Risk Committee and Remuneration and Nominations Committee after he became Chairman of the Board effective 28 February 2013. Mr Lee became Acting Chairman of the People and Nominations Committee effective 21 October 2013.
- (3) Dr ZE Switkowski was granted a five-month leave of absence, effective 21 October 2013.

Note: The Managing Director and Chief Financial Officer attend meetings at the request of the Committees. Other members of the Board have attended various Committee meetings during the year. These attendances are not included in the above table.

DIRECTORS' AND OTHER OFFICERS' REMUNERATION

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

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

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS, EMPLOYEES AND AUDITORS

During the financial year, the group paid premiums to insure all directors, officers and employees of the group against claims brought against the individual while performing services for the group and against expenses relating thereto. The amount of the insurance premium paid during the year has not been disclosed as it would breach the confidentiality clause in the insurance policy.

The group has agreed to indemnify the directors, officers and employees of the group against any liability to another person other than the group or a related body corporate for an act or omission that may arise from their positions as directors, officers and employees of the group, to the extent permitted by the PNG Companies Act 1997.

No indemnity has been granted to an auditor of the group in their capacity as auditor of the group.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

During the year the auditor, Deloitte Touche Tohmatsu, provided non-audit accounting services for the group. These services are outlined in note 27 to the financial statements.

Deloitte Touche Tohmatsu's Independence Declaration, which forms part of this report, is attached on page 51.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 27 February 2014, the group entered into an agreement to acquire the Pac LNG Group Companies ("Pac LNG"), which hold a 22.835% interest in Petroleum Retention License 15 ("PRL 15"), located in the eastern margin of the Papuan Basin in PNG. PRL 15 contains the Elk/Antelope gas discoveries.

Under the agreement, Oil Search will acquire the shares in Pac LNG for a consideration of:

- US\$900 million, payable at completion; and
- A contingent payment of US\$0.775/mcfe¹ (after Government participation) for any certified 2C contingent resource within the Elk/Antelope fields greater than 7tcfe², as certified in the future.

The acquisition is expected to be funded by a placement of Oil Search Limited shares.

The group has separately entered into a binding Heads of Agreement with the Pac LNG shareholders and other parties to undertake exclusive negotiations to acquire up to 100% of their interests in the PPL 236, PPL 237, PPL 238 and PRL 39 exploration licences in PNG, subject to parties agreeing terms and satisfying any required third party approvals. The exclusivity period extends for a period of six months from the date of the agreement. Should an agreement be reached, the acquisition price for such licences will be negotiated between the parties.

¹ mcfe = million cubic feet equivalent.

² tcfe = trillion cubic feet equivalent.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

OPERATING AND FINANCIAL REVIEW

1. Financial Overview

1.1 Summary of Financial Performance

Year ended 31 December	2013	2012	% change
Production and Sales Data			
Production (mmboe ³)	6.74	6.38	+6
Sales (mmboe)	6.73	6.17	+9
Average realised oil price (US\$/bbl)	110.73	113.97	-3
Financial Data (\$US million)			
Revenue from operations	766.3	724.6	+6
Cash operating costs	(203.7)	(188.0)	+8
Business development costs	(10.2)	(12.3)	-17
EBITDAX*	552.4	524.3	+5
Exploration and evaluation costs	(107.4)	(144.0)	-25
Non-cash costs	(50.2)	(49.5)	+1
EBIT*	394.8	330.9	+19
Impairment	-	(23.8)	-100
Profit on sale of non-current assets	0.2	45.1	-100
Net interest costs	(15.2)	(4.6)	+230
Taxation	(174.1)	(171.8)	+1
Net profit after tax	205.7	175.8	+17
Net debt	3,814.8	2,377.8	+60

Note: Numbers may not add due to rounding.

* EBITDAX (earnings before interest, tax, depreciation/amortisation, impairment and exploration) and EBIT (earnings before interest and tax) are non-IFRS measures that are presented to provide a more meaningful understanding of the performance of Oil Search's operations. The non-IFRS financial information is unaudited but is derived from the financial statements which have been subject to audit by the group's auditor.

Production and revenue from operations

Total oil and gas production in 2013 was 6.74 mmboe, 6% higher than the prior year. Further details on performance by operating segment and field are included in Section 2 'Overview of operations'.

Total revenue from operations of US\$766.3 million was 6% higher than the prior year, primarily due to higher oil sales volumes, offset by a lower average realised oil price.

Total oil sales volumes for the 2013 financial year were 5.73 mmbbls⁴, which was 10% higher than the prior year's volumes of 5.21 mmbbls. The realised average oil price for the year of US\$110.73 per barrel was 3% lower than the price achieved in 2012 of US\$113.97 per barrel. The group remained unhedged during the period.

Gas and refined product sales remained stable at US\$95.4 million in 2013 compared to US\$95.6 million in 2012, with lower realised prices on gas sales offset by higher gas sales volumes.

Other field revenue, which consists mainly of rig revenue and tariffs, increased to US\$36.7 million in 2013 from US\$35.7 million in 2012, due to marginally higher rig utilisation and charge-out rates.

³ mmboe = million barrels of oil equivalent. The conversion rate used by Oil Search for gas is 6,000 cubic feet of gas is equivalent to 1 barrel of oil.

⁴ mmbbls = million barrels

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

Cash operating costs

Total cash operating costs increased from US\$188.0 million in 2012 to \$203.7 million in 2013 primarily due to an increase in manpower, higher asset integrity and maintenance activity and increased well work activity at SE Gobe, Kutubu and Moran.

On a cost per barrel of oil equivalent sold basis, the 2013 cash operating costs remained stable, at US\$30.29/boe, compared to US\$30.49/boe in 2012. If the gas purchase costs are excluded, the underlying operating cost per barrel was US\$24.77 (US\$24.55 per barrel in 2012).

Non-cash costs

Total non-cash costs, including depreciation, amortisation and site restoration, increased marginally from US\$49.5 million in 2012 to US\$50.2 million in 2013. On a cost per barrel of oil equivalent produced basis, non-cash costs for 2013 were US\$7.45/boe, and below the 2012 cost of US\$7.76/boe.

Amortisation costs increased by \$3.7 million to \$33.0 million due to the decrease in reserves for Moran in 2012 and a higher capital base for the producing oilfield assets.

This was offset by a decrease in site restoration expense of \$3.8 million to \$3.8 million, driven by a reduction in the South East Mananda restoration rate.

Depreciation increased by \$0.8 million to \$13.4 million, driven by increased expenditure associated with the new Sydney and Brisbane offices and higher rig utilisation and day rates.

Exploration and evaluation costs

In line with the successful efforts accounting policy, all costs associated with unsuccessful drilling, seismic work and other support costs related to exploration activity were expensed during the year and resulted in a pre-tax charge of US\$107.4 million. This included US\$54.3 million attributable to the Kidukidu well and US\$40.0 million related to exploration activities in the Middle East/North Africa.

Further details on exploration activities during the year are included in Section 2 'Overview of operations'.

Impairment

The impairment charge in 2012 related to the PRL 1 (Pandora Gas Field) retention license which expired in February 2013. No impairment was recognised in 2013.

Profit on sale of non-current assets

Profit on sale of non-current assets in 2012 included a profit of \$32.4 million on the sale of Oil Search's interest in Block 3 (Gardan) in Yemen and US\$12.7 million associated with the farm-down of licenses in the Gulf of Papua. No significant asset sales occurred during 2013.

Net interest costs

Net interest costs of US\$15.2 million in the 2013 financial year were US\$10.6 million higher than the prior year.

Taxation

Tax expense on statutory profit in 2013 was US\$174.1 million, compared to US\$171.8 million in 2012. This resulted in an effective tax rate of 46%, slightly lower than the statutory tax rate for oil income in PNG of 50%, due to the transfer of some asset carrying values from PNG oil licences to the PNG LNG Project, which is subject to a 30% tax rate, and other PNG LNG Project related deductions, offset by the non-deductibility of exploration expenses in MENA.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

1.2 Summary of Financial Position

Net debt

As at 31 December 2013 Oil Search had net debt (total borrowings less cash) of US\$3,814.8 million, US\$1,437.0 million higher than the prior year net debt position of US\$2,377.8 million. A reconciliation of the movement in net debt during the year is as follows:

US\$ million

Net debt at 31 December 2012	2,377.8
Net draw down – PNG LNG Project finance facility	958.4
Net draw down – Revolving corporate facility	200.0
Decrease in cash balances	278.6
Net movement in 2013	1,437.0
Net debt at 31 December 2013	3,814.8

At 31 December 2013, the group had drawn down US\$3,824.4 million under the PNG LNG Project finance facility and US\$200.0 million under the revolving corporate facility. During the year, \$1.5 billion of supplemental project financing was arranged for the PNG LNG Project, taking the total project financing facility limit to US\$15.5 billion (with Oil Search's interest at 29%).

Oil Search remained in a satisfactory liquidity position at 31 December 2013, with cash held of US\$209.7 million and US\$300.0 million undrawn under the group's US\$500 million revolving corporate facility.

Investment expenditure

Total investment expenditure (including capitalised borrowing costs) for the 2013 financial year was US\$1,673.4 million, which was 10% lower than the prior year expenditure of US\$1,861.1 million. The components of capital expenditure for the year were:

US\$ million	2013	2012
PNG LNG Project ¹	1,214.6	1,492.5
Exploration and evaluation ^{2,3}	294.0	240.6
Producing assets	152.6	111.5
Other property, plant and equipment	12.2	16.5
Total capital expenditure	1,673.4	1,861.1

¹ Includes capitalised financing costs.

² Includes US\$107.4 million (2012: US\$144.0 million) of exploration costs expensed during the year.

³ Excludes expensed business development costs of US\$10.2 million in 2013 (2012: US\$12.3 million).

Oil Search's share of the PNG LNG Project development cost was US\$1,062.8 million during the 2013 financial year (2012: US\$1,375.8 million). An additional US\$151.8 million of financing costs related to the project were capitalised during year (2012: US\$116.7 million). At 31 December 2013, the PNG LNG Project was over 95% complete.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

Investment expenditure (continued)

Exploration and evaluation expenditure for 2013 was US\$294.0 million (US\$240.6 million in 2012). This was spent primarily on the Mananda 6 and 7 wells, the offshore drilling campaign in PNG and the Taza 1 and Taza 2 wells in Kurdistan.

Expenditure on producing assets totalled US\$152.6 million for the 2013 financial year, compared to US\$111.5 million in 2012. Expenditure in 2013 mainly related to the drilling of development wells and other production capital.

Reserves and resources

The group's total proven and probable oil reserves and contingent oil resources at 31 December 2013 were 179 mmbbl, up 34% compared to the prior year. The increase primarily reflected the booking for the first time of 51.5 million barrels of net entitlement oil (and 134.9 bcf of net entitlement gas) in the contingent resource category for the Taza field in Kurdistan, following the Taza 1 discovery in 2013.

Total proven and probable gas reserves and contingent gas resources were 4,667.5 bcf at 31 December 2013, 4% lower than the prior year. This was driven mainly by the expiry of the PRL 1 licence (Pandora) as well as revised assumptions used to calculate PNG LNG Project fuel, flare and shrinkage.

Further details are included in the 2013 Reserves and Resources Statement.

1.3 Operating cash flows

Year to 31 December (US\$ million)	2013	2012	% change
Net receipts	521.8	408.9	+28
Net interest (expense)/ income	(5.2)	1.3	-500
Tax paid	(149.8)	(213.9)	-30
Operating cash flow	366.8	196.2	+87
Net investing cash flow	(1,653.8)	(1,753.6)	-6
Net financing cash flow	1,008.4	998.2	+1
Net cash outflow	(278.6)	(559.2)	-50

Note: Numbers may not add due to rounding.

Net operating cash flow increased primarily due to higher sales volumes, the timing of cash receipts and lower income tax paid.

During 2013, Oil Search's net investing cash flow included expenditure of:

- US\$1,226.5 million on the PNG LNG Project (US\$1,485.4 million in 2012).
- US\$258.6 million on exploration and evaluation (US\$126.6 million in 2012).
- US\$154.6 million on production activities (US\$114.8 million in 2012).
- US\$12.1 million on property, plant and equipment (US\$10.4 million in 2012).

The group distributed US\$53.5 million to shareholders by way of the 2012 final and 2013 interim dividends during the year. These distributions were funded by a fully underwritten dividend reinvestment plan.

During 2013, borrowings of \$1,007.4 million were drawn down under the PNG LNG Project finance facility (US\$807.4 million) and the revolving corporate facility (US\$200.0 million).

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

2. Overview of operations

Oil Search is an oil and gas exploration, production and development company that has operated in Papua New Guinea (PNG) since 1929. Oil Search operates all of PNG's currently producing oil and gas fields.

The group's main growth asset is its 29% interest in the 6.9 MTPA PNG LNG Project, a world scale liquefied natural gas (LNG) development operated by ExxonMobil PNG Limited. Over its 30 year life, the two train project will produce more than 9 tcf of gas and over 200 million barrels of associated liquids.

Oil Search is pursuing LNG expansion opportunities in PNG and is involved in a range of exploration and appraisal activities aimed at aggregating gas resources to underpin LNG expansion.

Oil Search also operates exploration interests in the Middle East and North Africa, including an oil discovery in Kurdistan which is under appraisal, and is seeking to expand its footprint in other regions in a measured way, to create further long term growth options.

2.1 Activities in PNG

2.1.1 Oil and gas production

In 2013, total net production from Oil Search's PNG fields was 6.74 million barrels of oil equivalent (mmboe), 6% higher than the previous year. This was achieved despite the maturity of the oil fields and a number of scheduled facilities shut-downs during the year for modifications to enable the oil fields to deliver associated gas to the PNG LNG Project.

Kutubu (PDL 2 – 60.0%, operator)

Gross production from the Kutubu field averaged 15,848 barrels of oil per day (bopd) in 2013, up 6% on the previous year. During the year, the field benefited from active field management and contributions from new workovers. In particular, the Usano East wells performed strongly, contributing over 6,000 bopd, with the UDT 14 ST1 well brought online in the first half of the year and production from UDT 11 bolstered by dedicated pressure support from the UDT 13 gas injection well. At the Usano Main UDT 3A well, a coiled tubing intervention to clear a tubing obstruction was successful and will provide pressure support to the key producing wells in the Usano Main field in 2014. Towards the end of 2013, the IDT 25 ST2 well, targeting undrained oil in the northern segment of the Main Block Toro reservoir, was completed with commissioning commencing in late December.

Moran (49.5%, based on PDL 2 – 60.0%, PDL 5 – 40.7% and PDL 6 – 71.1%, operator)

Moran 2013 gross production averaged 11,295 bopd, up 10% on 2012. The Moran 13 ST3 development well, which completed drilling in the first half of the year, achieved a sustained production rate of approximately 2,500 bopd from the Digimu reservoir. The Moran 10 ST2/3 development well drilled mid-year was unsuccessful, reflecting the significant structural complexity in this part of the field. However, drilling results indicated that additional incremental opportunities may be present and work is ongoing to confirm and further mature these opportunities. Following the successful result at Usano in the Kutubu field, the coiled tubing unit was mobilised to the Moran 6 ST3 well to stimulate the Toro reservoir, resulting in an increase in production rate from 700 bopd to 2,500 bopd and allowing a zone change to the Digimu reservoir. Similar coiled tubing interventions were also undertaken at the Moran 11 and Moran 9 ST4 wells.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

Gobe (PDL 3 - 36.4% and PDL 4 - 10%, operator)

Production from the SE Gobe and Gobe Main fields fell by 34% and 8% respectively in 2013. At SE Gobe, production was impacted by the prolonged shut-in of the SEG 2 and SEG 5 wells during workover operations. Both wells came back online towards the end of the year; however, neither achieved its objective due to downhole issues. At Gobe Main, a workover of the GM 5 ST3 well was successful, gaining access to undrained oil from the Upper Iagifu reservoir.

SE Mananda (PDL 2 – 72.3%, operator)

2013 production at SE Mananda was 18% lower than in 2012. While the SEM 3 and SEM 4 wells performed solidly when online, both wells were shut-in for a large part of the year while facilities repairs were undertaken.

Hides Gas to Electricity Project (PDL 1 - 100%)

Gas production from the Hides Gas to Electricity Project was 5.5 bcf, 5% higher than in 2012, largely due to increased facilities uptime compared to the prior year.

2013 Production Summary

Year to 31 December	2012		2013		% Change	
	Gross daily production (bopd)	Net to OSH (mmbbls)	Gross daily production (bopd)	Net to OSH (mmbbls)	Gross daily production	Net to OSH
Oil production						
Kutubu	14,865	3.267	15,848	3.473	+6	+6
Moran	10,290	1.865	11,295	2.041	+9	+9
Gobe Main	1,065	0.039	982	0.036	-8	-8
SE Gobe	2,120	0.198	1,412	0.132	-34	-34
SE Mananda	82	0.022	67	0.018	-18	-18
Total PNG Oil	28,421	5.390	29,604	5.700	+4	+6
Hides Liquids	307	0.112	325	0.119	+6	+6
Total Oil & Condensate	28,728	5.503	29,929	5.818	+4	+6
Gas production	mmscf/d	mmscf	mmscf/d	mmscf		
Hides Gas Production	14.39	5,267	15.11	5,513	+5	+5
Total Oil and Gas Production	boepd	mmboe	boepd	mmboe		
Total production	31,126	6.380	32,447	6.737	+4	+6

Note: Numbers may not add due to rounding.

2.1.2 Oil appraisal

During the first half of 2013, the Mananda 6 well in PPL 219 (Oil Search – 71.25%, operator) was drilled to appraise the hydrocarbon-bearing sands found at Mananda 5 in late 2010. The well encountered oil in two intervals: 18 metres in the Toro and 40 metres in the Imburu/Digimu sandstone formations. On test, Mananda 6 flowed at rates of up to 1,750 bopd. Pressure data indicates that Mananda 6 has discovered a separate and slightly deeper oil field to that found by Mananda 5, likely the result of faulting which caused compartmentalisation of the reservoir. The Mananda 6 well has been suspended for potential future re-entry and conversion to a production well.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

In August 2013, the group submitted a Petroleum Development Licence application, covering the Mananda 5 and 6 oil discoveries, to the PNG Government. The conceptual development plan envisages a tie-back of the Mananda 5 and 6 oil discoveries through a new flowline to the South East Mananda facilities, with primary oil processing to take place at the Agogo Processing Facility. A dedicated development team has been formed to optimise oil recovery from the various oil accumulations on the Mananda Ridge.

In December, the Mananda 7 appraisal well was spudded. Drilled from the Mananda 6 wellpad, Mananda 7 is designed to appraise the northern extent of the field and test the presence of a potential gas cap. The well is targeting the Toro and Digimu sandstones which were found to be oil-bearing at Mananda 6. If successful, it is anticipated that Mananda 7 will be tied-back into the same facilities as Mananda 5 and Mananda 6 in a phased development process.

2.1.3 Oil Search-operated PNG LNG Project Development

During 2013, the Oil Search-operated Associated Gas (AG) Project was completed and the PL 2 Life Extension (PL 2) Project was substantially completed, with only minor work on the PL 2 Project remaining. The AG Project involved the installation of major items of equipment at the Central Processing Facility (CPF) and the Gobe Processing Facility (GPF), to enable the oil fields to supply commissioning and production stream gas to the PNG LNG Project as well as handle LNG Project liquids. The PL 2 Project comprised the laying of a new subsea loading pipeline and the installation of a new Catenary Anchor Leg Mooring Buoy.

In September 2013, commissioning gas from the Kutubu field was introduced into the onshore pipeline to begin commissioning activities at the PNG LNG Plant. This was followed in December by the supply of commissioning gas into the Hides Gas Conditioning Plant (HGCP).

Work on these two projects and the commencement of gas flows occurred with minimal unplanned interruption to oil production.

2.1.4 PNG LNG Project

(ExxonMobil – 33.2% and operator, Oil Search – 29.0%, National Petroleum Company of PNG – 16.8%, Santos – 13.5%, Nippon Oil – 4.7%, Mineral Resources Development Company – 2.8%)

The PNG LNG Project, operated by ExxonMobil PNG Limited, a subsidiary of Exxon Mobil Corporation, progressed from 75% completion at the end of 2012 to currently over 95%. In September, the operator confirmed that the estimated cost of the Project remained unchanged at US\$19 billion and that the Project remained on track to commence first deliveries of LNG in the second half of 2014. Shortly after the end of the year, the operator narrowed the range for first LNG sales to the third quarter of 2014.

The following activities took place in 2013:

- **LNG Plant.** In December 2012, the offshore pipeline, from the LNG Plant site at Caution Bay to landfall at Kikori in the Gulf of Papua, was completed. In 2013 the construction of Train 1, the LNG storage tanks and the jetty was also completed and preparations took place to commence commissioning. In September, commissioning gas from the Oil Search-operated Kutubu field was introduced to the LNG Plant and commissioning of Train 1, the common process and utilities areas commenced, with the gas also used to provide power at the Plant. Construction of Train 2 was ongoing at the end of the year. Since the commencement of construction, more than 64 million work hours have been completed at the Plant without a Lost Time Incident.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

- **Onshore pipeline.** Construction of the 292 kilometre, 32" main onshore gas pipeline, which links the offshore pipeline at Kikori in the Gulf of Papua to the HGCP, continued during the year. Early in the second half of 2013, the pipeline between the CPF to the Gulf Coast was completed, enabling commissioning gas from the Kutubu field to be delivered to the LNG Plant. By year end, all laying and welding of the main gas pipeline had been completed. In the second half of 2013, the condensate pipeline linking the HGCP to the CPF was completed and is being used to supply commissioning gas from the Kutubu field to the HGCP. Installation of the gathering pipeline system, linking the Hides production wells to the HGCP, also progressed, with the spinline to wellpad B completed in the second half of the year.
- **Komo airfield.** Construction of the Komo airfield was completed in early 2013 and the airfield commenced operations in May. 88 Antonov aircraft deliveries of heavy and sensitive equipment, primarily for the HGCP, were made into the Komo airfield, with deliveries completed in August, incident free and ahead of plan.
- **HGCP.** At the HGCP, construction continued during the year, with the equipment received via Komo enabling work to take place on numerous fronts. By year end, the HGCP was undergoing initial commissioning and testing, with the first gas turbine generator operational.
- **Hides drilling.** Four production wells (B1, B2, C1 and C2) were completed at two wellpads during the year using Nabors Rigs 702 and 703. At the end of 2013, Rig 702 was drilling at Wellpad D on the D1 and D2 production wells and Rig 703 was drilling the first of two Wellpad G production wells.
- **Associated Gas and PL2 Life Extension projects.** As already highlighted in Section 2.1.3, construction activities at the CPF at Kutubu were completed during the year, facilitating the supply of commissioning gas to the LNG Plant in September and to the HGCP in December.
- **Financing.** In October, financing arrangements to raise US\$1.5 billion of supplemental project financing were completed, taking the total project financing facility to US\$15.5 billion.

2.1.5 Gas aggregation activities

P'nyang

Studies continued throughout the year on the potential development of the P'nyang gas field in PRL 3 (Oil Search – 38.5%) as a potential supply source for expansion. Work undertaken included resource evaluation, engineering, environmental and social mapping studies.

Gulf of Papua

During the first half of 2013, Oil Search commenced a drilling campaign in the Gulf of Papua, aimed at discovering sufficient gas resources to underwrite an LNG development. The first well, Flinders 1 in PPL 244 (Oil Search – 40%, operator), discovered a 5 – 10 metre gas column within a 54 metre thick sand package with good reservoir properties at the main Pliocene target level. The second well, Hagana 1, also in PPL 244, discovered a nine metre gas column in the secondary Pliocene objective while the third and final well, Kidukidu 1 in PPL 385 (Oil Search – 100%, operator) was plugged and abandoned. Following the completion of drilling, work commenced on updating the group's Gulf geological models based on the drilling data.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

2.2 Middle East and North Africa

2.2.1 Kurdistan Region of Iraq

In the first half of 2013, the Taza 1 exploration well in the Taza PSC (Oil Search – 60%, operator), which spudded in the second half of 2012, discovered oil in three reservoir intervals. Testing of a 150 metre interval across the Jeribe/Dhiban, Euphrates and Kirkuk intervals flowed up to 1,100 bopd of light crude, with total fluid rates of over 4,000 bopd and approximately 1.7 mmcf per day of gas. Taza 1 was suspended for potential future re-entry and a discovery report outlining the drilling results from the well was submitted to the Kurdistan Regional Government (KRG) in July.

In September, the group submitted a proposed appraisal programme for the Taza PSC to the KRG for approval. The programme includes drilling Taza 2, the commitment well for the present licence period, the acquisition of up to 500 square kilometres of 3D seismic and an extended well test. The programme was approved by the KRG in December. During the year, a new team was formed to accelerate the appraisal and future development of the field.

In late December, the group commenced drilling the Taza 2 well. Located 10 kilometres north-west of Taza 1, the well is designed to appraise the hydrocarbon-bearing intervals discovered by Taza 1 (Jeribe/Dhiban and Euphrates/Kirkuk Formations) and explore deeper Tertiary and Cretaceous intervals known to be productive in other fields in Kurdistan.

2.2.2. Tunisia

In early 2013, the group spudded the Semda 1 exploration well located in the Tajerouine PSC (Oil Search – 100%, operator) in the north-west of Tunisia. The well was plugged and abandoned in March, with no significant indications of hydrocarbons.

Data gathered from the Semda 1 well was processed, interpreted and incorporated into the subsurface model of the Tajerouine PSC. Towards the end of the year, a contract was signed to acquire a 300 kilometre 2D seismic survey over the Tajerouine PSC, planned to commence in the first half of 2014.

2.2.3. Yemen

Block 7 in Yemen (Oil Search – 34%, operator) remained in a state of force majeure throughout 2013. During the year, the Yemeni Government granted the Joint Venture a 12 month extension of the licence until June 2014. At the end of the year, preparations for a joint operator regional airborne geophysical survey were underway, with mobilisation planned for early 2014.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

3. Business Strategy, Outlook and Risk

3.1. Business Strategy

Oil Search's vision is to generate top quartile returns for shareholders and to be an acknowledged leader in oil and gas in developing countries.

The group aims to deliver this objective by implementing the following key strategies:

- Optimise the performance of the PNG oil fields
- Deliver the PNG LNG Project
- Aggregate gas in PNG to underpin LNG expansion
- Evaluate and pursue international growth opportunities
- Optimise capital and financial structure
- Maintain an ongoing commitment to safety and sustainability

3.2. Outlook

Key activities in 2014 are expected to include the following:

- Continued development and appraisal drilling and workover activities in the PNG producing oil fields.
- Completion of the Mananda 7 appraisal well, a possible further appraisal well and commencement of Front End Engineering and Design for the development of the Mananda oil field.
- Completion of construction and commissioning of the PNG LNG Project, with first LNG sales expected to take place in the third quarter of 2014.
- As part of the PNG LNG Project development, completion of the two G pad wells, the most northerly wells on the Hides gas field, and the drilling of a produced water disposal well, which will identify the location of the gas-water contact within the Hides field. These wells may help delineate the resource potential of the field.
- Preparations for drilling the Hides Deep exploration well, including the purchase of long lead items and drill pad preparation.
- Ongoing studies on the potential development of P'nyang in support of future expansion.
- Completion of the Taza 2 appraisal well in Kurdistan, spudding of the Taza 3 appraisal well, completion of the acquisition of approximately 500 square kilometres of 3D seismic, the installation of Extended Well Test facilities and the commencement of Concept Select studies.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

3.3 Material business risks

The international scope of the group's operations, the nature of the oil and gas industry and external economic factors mean that a range of factors may impact results. Material business risks that could impact Oil Search's results and performance are described below.

These risks are not the only risks that may affect the group. Additional risks and uncertainties not presently known to management or that management currently believe not to be material may also affect Oil Search's business.

Pricing risk

Oil Search's business is heavily dependent on prevailing market prices for its products, primarily oil and gas. Changes in the prices of these commodities may impact the group's revenue and cash flows.

International oil and gas prices have fluctuated in past years and may continue to fluctuate in the future. There are a number of macroeconomic factors that influence oil pricing, over which Oil Search has no control.

Oil Search has executed long term sales and purchase agreements for the supply and sale of its gas and LNG product streams, with pricing factors already established under these agreements.

The group's financial risk management strategy to address commodity price risk is outlined in note 32 in the financial statements. The group's Audit and Financial Risk Committee is responsible for reviewing the policies, processes, practices and reporting systems covering the group's exposure to business and financial risks.

Operational risks

Exploration and development

Oil and gas exploration is a speculative endeavour and the nature of the business carries a degree of risk associated with the discovery of hydrocarbons in commercial quantities. Exploration and development operations can be hampered by a number of different factors including, amongst other things, force majeure circumstances, cost overruns for unforeseen events, adverse foreign exchange movements, changes to reserves estimates, the composition of oil and gas reserves, lack of qualified and available personnel and contractors, productivity, availability of drill rigs and other integral equipment, mechanical difficulties etc. In addition, certain projects may also require the use of new and advanced technologies, which can be expensive to develop, purchase and implement, and may not function as expected.

Production risks

Oil and gas producing assets may be exposed to production decreases or stoppages, which may be the result of facility shut-downs, mechanical or technical failure, well, reservoir or other subsurface impediments, safety breaches and other unforeseeable events. A significant failure to maintain production could result in the group lowering production forecasts, loss of revenues and incurring additional costs to reinstate production to expected levels.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

Other operational risks

In addition to the risks listed above, industry operating risks include fire, explosions, blow outs, pipe failures, abnormally pressured formations and environmental hazards such as accidental spills or leakage of petroleum liquids, gas leaks, ruptures, or discharge of toxic gases. The occurrence of any of these risks could result in substantial losses to the group due to injury or loss of life; damage to or destruction of property, natural resources, or equipment; pollution or other environmental damage; cleanup responsibilities; regulatory investigation and penalties or suspension of operations. Damages occurring to third parties as a result of such risks may also give rise to claims against the group.

The group manages operational risk through a variety of means including; strict adherence to its operating standards, procedures and policies; staff competency development and training programs and through the effective use of a group-wide risk management system. In addition, the group has insurance programs in place that are consistent with good industry practice.

Joint venture risk

Oil Search derives significant revenues and growth through joint venture arrangements. The use of joint ventures is common in the oil and gas industry and usually exists through all stages of the oil and gas lifecycle. Joint venture arrangements, amongst other things, mainly serve to mitigate the risk associated with exploration success and capital intensive development phases. However, failure to establish alignment between joint venture participants, poor performance of third party joint venture operators or the failure of joint venture partners to meet their commitments and share of costs and liabilities could have a material impact on the group's business.

The group manages joint venture risk through careful joint venture partner selection (when applicable) stakeholder engagement and relationship management. Commercial and legal agreements are also in place across all joint associations and help articulate the responsibilities and obligations of the joint venture parties.

Environmental risks

Oil and gas operations have inherent risks and liabilities associated with ensuring operations are carried out in a manner that is responsible to the environment. Although Oil Search operates within the prevailing environmental laws and regulations, such laws and regulations are continually changing and as such, Oil Search could be subject to changing obligations or unanticipated environmental incidents that, as a result, could impact costs, provisions and other facets of the group's operations.

The group complies with all environmental laws and regulations and, where laws and regulations do not exist, aims to operate at the highest industry standard for environmental compliance. The group's environmental standards require stringent reporting measures to identify risks, threats, hazards and other environmental considerations and the implementation of control measures to mitigate such risks; oversight of accidents, incidents and near misses from a company executive level; careful selection and engagement of contractors to ensure adherence to the group's systems and practices; appropriate contingency arrangements to be in place which include but are not limited to having insurances in place that are consistent with good industry practice; and, training and competency development to ensure the necessary human skills and knowledge are in place.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

Reserve and resource estimates

Underground oil and gas reserve and resource estimates are expressions of judgment based on knowledge, experience and industry practice. Estimates which are valid at a certain point in time may alter significantly or become uncertain when new oil and gas reservoir information becomes available through additional drilling or reservoir engineering over the life of the field. As reserve and resource estimates change, development and production plans may be altered in a way that may affect the group's operations and/or financial results.

Additionally, oil and gas reserves and resources assume that the group continues to be entitled to production licences over the fields and that the fields would be produced until the economic limit of production is reached. If any production licences for fields are not renewed or cancelled, estimated oil and gas reserves and resources may be materially impacted.

The group employs the appropriate internal expertise to estimate reserves and resources and to prepare the Annual Reserves Statement in compliance with the ASX listing rules. In addition, proven (1P) and proven and probable (2P) oil field reserves are certified by independent auditors periodically.

Future operating and capital cost requirements

Future operating and capital cost requirements may be impacted by multiple external and internal factors, many of which have been identified elsewhere through this section. Unexpected changes to future cost profiles could result in Oil Search's cash requirements being over and above its available liquidity. To the extent that the group's operating cash flows and debt facilities are insufficient to meet its requirements for ongoing operations and capital expenditure, Oil Search may need to seek additional funding, sell assets or defer capital expenditure. If Oil Search is unable to obtain additional funding on acceptable terms in these circumstances, its financial condition and ability to continue operating may be affected.

The group's financial risk management strategy to address liquidity risk is outlined in note 32 in the financial statements. The group's Audit and Financial Risk Committee is responsible for reviewing the policies, processes, practices and reporting systems covering the group's exposure to business and financial risks. The group also institutes regular short, medium and long term forecast updates to assess any implications on future liquidity and profitability.

Political, legislative and regulatory risk

Oil Search operates across a number of international jurisdictions and therefore the business is subject to various national and local laws and regulations in those jurisdictions. Changes in government policy, the fiscal regime, regulatory regime or the legislative framework could impact the group's business, results from operations or financial condition and performance.

The possible extent of such changes that may affect the group's business activities cannot be predicted with any certainty. The effects of any such actions may result in, amongst other things, increased costs, whether in the nature of capital or operating expenses, taxes (direct and indirect) or through delays or the prevention of the group to be able to execute certain activities.

Companies in the oil and gas industry may be subject to pay direct and indirect taxes, royalties and other imposts in addition to normal company taxes. The group's profitability may be affected by changes in government taxation and royalty policies or in the interpretation or application of such policies.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

In addition to changes in existing tax laws, risk is also embedded in the interpretation or application of existing tax laws, especially where specific guidance is unavailable or has not been tested in the tax jurisdiction.

Oil Search operates under its External Affairs standards and policies which require transparent, open, pro-active communication and cooperation between company and government at all levels. Oil Search operates dedicated teams to manage government relations, which amongst other things, are targeted towards minimising risk that could arise out of potential fiscal, tax, resource investment, infrastructure access or regulatory and legal changes.

Local community relations

Management of community and social expectations within the license areas in which Oil Search operates is integral to the continuation of the group's exploration, development and production operations.

Oil Search strives to minimise any negative impact of the group's operations on local society, culture and environment while contributing to local community and economic development and leaving a positive legacy. The group spends considerable time, effort and expense in working with communities led by a dedicated Community Affairs team. The Health, Safety and Sustainability Committee oversee the strategies and processes adopted by management and monitors the group's performance in these areas.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

1. REMUNERATION REPORT

This report has been prepared in accordance with section 300A of the Australian Corporations Act 2001 and summarises the arrangements in place for the remuneration of directors, key management personnel and other employees of Oil Search for the period from 1 January 2013 to 31 December 2013. Although it is not a requirement for PNG companies, Oil Search has voluntarily complied with section 300A of the Australian Corporations Act 2001 to ensure it meets current best practice remuneration reporting for ASX listed companies.

2. REMUNERATION POLICY

The objectives of the Oil Search remuneration policy are to:

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

Oil Search's approach to remuneration is based upon "Reward for Performance", and remuneration is differentiated based on various measures of corporate, team, and individual performance.

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

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

3. SHARE TRADING POLICY

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

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

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

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

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

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

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

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

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

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

	Closed Period	Trading Window	All Other Times
Restricted Employees	Not permitted to trade	May trade, but Directors and Executive Management must first notify the Group Secretary	Must receive pre-approval to trade
Prescribed Employees	Not permitted to trade	Not permitted to trade	Not permitted to trade
All Other Employees	Not permitted to trade	May trade	May trade

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

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

4. ROLE OF THE PEOPLE AND NOMINATIONS COMMITTEE

The People and Nominations Committee (the Committee) of the Board, formerly called the Remuneration & Nominations Committee, provides advice and recommendations to the Board regarding people matters. The Committee's responsibilities include:

- Review of the ongoing appropriateness, coherence, and competitiveness of remuneration policies and practices, and recommendation of changes to the Board as appropriate;
- Oversight of the implementation of remuneration policies;
- Recommendation to the Board on the specific remuneration of executive directors, key management personnel and any other direct reports to the Managing Director;
- Recommendation to the Board of budgets for annual remuneration awards for all other employees;
- Recommendation to the Board on performance measures underpinning all Incentive Plans;
- Proposal to the Board of outcomes for any performance measures underlying Incentive Plans;
- Proposal to the Board the appointment of new non-executive directors;
- Approval of terms and conditions and contracts for any new key management personnel and other direct reports of the Managing Director.

During the year the Committee's Charter was broadened to provide the Committee with formal oversight of the key processes employed to identify and develop key talent across the Group.

The Committee must comprise at least three non-executive directors and the members of the Committee during the year were:

- Mr KG Constantinou OBE – independent non-executive (from 16 April 2002)
- Mr KW Spence - independent non-executive (from 9 May 2012)
- Mr B Philemon - independent non-executive (from 5 November 2012)
- Dr ZE Switkowski – independent non-executive (Chair from 12 May 2011, commenced a period of leave of absence on 21 October 2013)

The Chairman of the Board, Mr R Lee, is normally an ex-officio member of the Committee. Mr Lee assumed the role of Acting Committee Chairman on 21 October 2013. At the Committee's invitation, the Managing Director, Executive General Manager Human Resources, and Rewards Manager attend meetings in an advisory capacity and co-ordinate the work of external, independent advisors as requested. All executives are excluded from any discussions impacting their own remuneration.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

Under its Charter, the Committee must meet at least four times a year. The Committee formally met four times during the year and the Committee Members' attendance records are disclosed in the Directors' Report. A copy of the charter of the Committee is available on Oil Search's website in the Corporate Governance Section.

To ensure it remains up to date with market practice, the Committee engages independent external advisors. The table below summarises work undertaken by external consultants at the Committee's request in 2013 and also notes additional work undertaken by the same consultants on behalf of management. Where a consultant was engaged by the Committee or the Board their findings were reported directly to the Committee or the Board.

Table 2 – External Consultants Engaged by the Committee in 2013

Consultant	Committee and Board Engagements	Management Engagements
Ernst & Young	Provision of data in relation to Non-Executive Directors' remuneration completed in February 2013.	Management of employee relocations. Individual tax advice and tax return preparation for expatriate employees. Calculation of fair values at grant of performance rights and share appreciation rights.
Aon Hewitt	Provision of data to support a review of remuneration of Managing Director and the Senior Management Team completed in February 2013.	General remuneration survey data.
Orient Capital	Ad hoc reporting in relation to Total Shareholder Return calculations.	Regular analysis of the Company's shareholder registry.

5. REMUNERATION STRUCTURE

Oil Search's remuneration structure comprises four elements:

- Total Fixed Remuneration (TFR);
- Short-Term Incentive (STI);
- Long-Term Incentive (LTI); and
- Occasional Retention Awards of Restricted Shares for key/critical staff.

The mix of remuneration elements for individual employees is dependent on their level and role within Oil Search, with the proportion of "at risk" performance-related remuneration (STI and LTI elements) increasing with greater seniority.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

Total Fixed Remuneration (TFR)

The target ranges for TFR payable for roles in the organisation, including those for key management personnel are 80% – 120% of competitive benchmarks. An independent external remuneration consultant engaged by the Committee provides competitive benchmark data for key management personnel roles.

For other roles in the organisation, remuneration information is derived from annual remuneration surveys conducted by independent third parties.

An annual TFR review budget, agreed by the Board each year, is used to adjust TFRs paid to individuals to ensure that their fixed remuneration remains competitive for their specific skills, competence, and value to the Company.

Short-Term Incentive (STI)

Each permanent employee has the opportunity to earn an annual STI which is based on a percentage of his or her TFR. The STI percentage increases with seniority to ensure a higher proportion of remuneration is “at risk” for our senior employees.

The size of the STI pool is directly related to corporate performance through a scorecard which includes a range of key measures that affect Shareholder Value and which are directly linked to the Oil Search 2010-2015 strategic plan.

At the start of each year, the Board determines the hurdles and target levels of performance required to earn an annual STI. The hurdles are derived presently from:

- Corporate performance against operational metrics which include: safety; production; costs; and development initiatives; and
- Strategic Initiatives and Growth metrics which include: the company’s successful commissioning of the PNG LNG project, discovery of new hydrocarbon resources and progress towards commercialisation of 2C gas reserves.

Given the transformational nature of successful commissioning of PNG LNG in 2014, a significant review of the Oil’s Search strategic plan will occur during 2014 following which both STI and LTI measures will be reviewed to ensure alignment to the revised strategy.

At the end of the year, the Board approves an overall STI pool based on the level of achievement against the hurdles that were determined at the start of the year. The STI pool is then distributed to employees, taking into account:

- The contribution of the employee’s division to the achievement of the organisational objectives; and
- The individual performance of the employee.

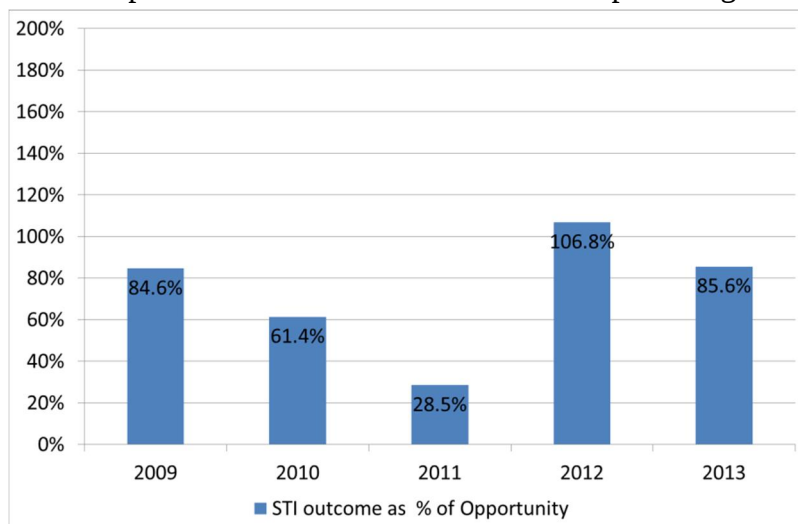
OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

Employees have the ability to earn between 0% and 200% of their STI opportunity. The target levels of performance set by the Board are challenging and if achieved deliver the payment of 50% of STI opportunity. Payment of 100% of STI opportunity requires exceptional corporate and individual performance.

Table 3 – STI Awards to Employees

Over the period 2009 to 2013 STI awards as a percentage of STI Opportunity have been as follows:



Long-Term Incentive (LTI)

Provided that they have demonstrated an acceptable level of personal performance, each permanent employee has the opportunity to participate in the Oil Search Long Term Incentive Plan (LTIP).

The Oil Search LTIP allows the Board the flexibility to grant employees:

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

Grants of Share Appreciation Rights replaced awards of Share Options for awards made after 1 July 2009 to address changes in Australian tax legislation.

Share Appreciation Rights

Share Appreciation Rights (SARs) operate in much the same way as Share Options, with an employee only receiving a benefit if the Oil Search share price increases over the vesting period. At the end of the vesting period the share appreciation is calculated and then that value is provided to the individual in Oil Search shares.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

As an example, the 2013 grant of SARs was 1,950 per participant and the Vesting Price (equivalent to the Exercise price of a Share Option) was \$7.82. Assuming the Oil Search share price increased to \$10.00 at vesting, the employee would be granted 425 shares based on the following formula:

$$\frac{\text{Number of Rights} \times (\text{Price on Vesting} - \text{Vesting Price})}{\text{Price on Vesting}} = \frac{1,950 \times (\$10.00 - \$7.82)}{\$10.00} = \frac{\$4,251}{\$10.00} = 425 \text{ shares}$$

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

Table 4 – Details of Awards Under the Employee Share Option Plan (ESOP) and Share Appreciation Rights

GRANT YEAR	2009	2010	2011	2012	2013
Award Type	Options	SARs	SARs	SARs	SARs
Grant Date	1 Jun 09	1 Jun 10	23 May 11	21 May 2012	20 May 2013
Vesting Date	13 May 12 ⁽¹⁾	17 May 13 ⁽²⁾	16 May 14	15 May 15	13 May 16
Options/Rights per employee	1,600	1,900	1,680	1,900	1,950
Total Award	1,340,800	1,554,200	1,498,560	1,744,200	1,873,950
Exercise/Vesting Price	\$5.22	\$5.63	\$6.98	\$7.26	\$7.82

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

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

Performance Rights

For key management personnel, and other key/critical managers and staff approved by the Board, the LTI program takes the form of a grant of Performance Rights (PRs).

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

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

Vesting of the awards depends on Oil Search's Total Shareholder Return (TSR) performance over a three-year period relative to two peer groups of companies. If the Performance Hurdles are satisfied awards automatically exercise on the vesting date and one Oil Search share is transferred in satisfaction of each vested Performance Right.

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

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

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

For example, if Oil Search's TSR performance is at or above the 75th percentile TSR performance of both peer groups, 100% of the Performance Rights granted will vest.

For awards made since 2012 the two peer groups have been:

- The ASX50 (excluding property trusts and non-standard listings); and
- The constituents of the Standard & Poor's Global Energy Index. TSR outcomes for this international group are normalised against a US dollar base currency to provide consistency of measurement.

For awards made between 2007 and 2011, Oil Search's performance was measured against the following two peer groups:

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

(1) The list of companies includes Anadarko Petroleum Corporation, AGL Energy Limited, AWE Limited, Cairn Energy, Canadian Natural Resources, Chesapeake Energy Corporation, Lundin Petroleum, Murphy Oil Corporation, Newfield Exploration, Nexen, Origin Energy, Premier Oil, Roc Oil, Santos, and Tullow Oil.

The changes to the peer groups were made in recognition of the Company's increasing market capitalisation and, in the case of the international group, to remove the subjectivity of inclusion or exclusion of individual oil and gas companies (the larger peer group also reducing the impact of mergers and acquisitions within the group).

Awards of Performance Rights are aligned with growth in Shareholder Value, measured in terms of Total Shareholder Return relative to other peer companies.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

The table below details the vesting of Performance Rights issued between 2009 and 2013:

Table 5 – Details of Awards of Performance Rights

GRANT YEAR	2009	2010	2011 ⁽²⁾	2012	2013
Measurement Period	1 Jan 09 to 31 Dec 11	1 Jan 10 to 31 Dec 12	1 Jan 11 to 31 Dec 13	1 Jan 12 to 31 Dec 14	1 Jan 13 to 31 Dec 15
Total Rights Granted	1,774,895	1,997,400	1,696,500	1,899,900	1,635,200
Oil Search TSR (3 year) ⁽¹⁾	44%	23%	27.4%		
Percentile Rank (ASX peer group)	68.3	68.3	59.3		
Vesting	43.3%	43.25%	68.5%	May 2015	May 2016
Percentile Rank (International Group)	53.3	93.3	85.7		
Vesting	28.3%	50%	100%	May 2015	May 2016
Total Vesting	71.6%	93.3%	84.25%	May 2015	May 2016

(1) TSR is calculated by an independent external consultant and is based on share price changes and dividends paid on the shares over the measurement period. In calculating the TSR it is assumed dividends are reinvested to purchase additional shares of the Company at the closing price applicable on the ex-dividend date.

(2) While the 2011 Performance Rights will not vest until May 2014, Oil Search relative TSR for the period 1 January 2011 to 31 December 2013 is available.

Long Term Incentive Plan Rules

Under the LTIP, all grants are automatically exercised on vesting. All unvested Performance Rights, Share Appreciation Rights or Share Options lapse on termination of employment unless the Board determines otherwise.

The Company may use newly issued or existing shares (for example, through purchase on market) to satisfy awards. Unvested PRs and SARs do not attract any right to dividends or voting rights.

For options and performance rights granted prior to 2010, the terms of the allocations provided for a 3 year vesting period followed by a 2 year exercise period. From 2010, all awards that satisfy their respective vesting conditions at the end of the 3 years vesting period are automatically exercised.

Retention Awards of Restricted Shares

In order to assist the Company in retaining key executives and other employees, the Company may issue Restricted Shares. Restricted Shares issued only vest after the employee has completed a specified period of future service with the Company.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

Restricted Shares are held on behalf of participants in trust, subject to disposal restrictions and forfeiture conditions, until released under the terms of the Plan.

Retention awards are only made where the Board determines that a significant retention risk exists.

The vesting of Restricted Shares is subject to continued employment only and as such no additional performance conditions apply. Unless the Board otherwise determines, unvested Restricted Shares will be forfeited when a participant ceases employment before the vesting date.

Restricted Shares held in trust (whether vested or not) will be forfeited by participants who are considered by the Board to have acted fraudulently or dishonestly. Once a participant's Restricted Shares have vested, disposal restrictions and forfeiture conditions will cease and the Restricted Shares will be released from the trust.

Restricted Shares provided as retention awards do not attract voting rights or dividends.

Deferred STI

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

6. REMUNERATION OF KEY MANAGEMENT PERSONNEL

For this group, and other senior executives, remuneration is benchmarked against that of similar roles in a primary reference group of ASX companies of similar size to Oil Search in terms of Enterprise Value, Total Assets, Gross Revenue, and Net Profit after Tax. For certain roles remuneration may also be benchmarked at different management tiers of much larger entities to normalise for relative business size while reflecting the likely recruitment market for roles. A smaller and secondary reference group of international energy and mining companies is used to assess whether any particular positions for which incumbents may be sourced internationally warrant extra consideration.

Total Fixed Remuneration (TFR)

TFR, which includes Company superannuation contributions and other remunerative benefits, is targeted within the range of the median and the 62.5 percentile of the reference group, depending on the international marketability and mobility of the executive concerned. Executives may choose to salary package items such as motor vehicles or superannuation contributions. However any costs arising from Fringe Benefits Tax (FBT) on salary package items are borne by the executive.

At Risk Remuneration & Relationship to Company Performance

As noted above in section 5, Oil Search executives are eligible to receive a STI and participate in a LTI program which is "at risk" remuneration, with any payment dependent on performance. The Board's objective is that the size of these incentives should reflect Oil Search's success in creating

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

Shareholder Value, whilst also being competitively positioned against benchmarks based on the reference groups of companies mentioned above.

Accordingly, the size of the STI is directly related to corporate performance against a range of key measures that impact shareholder value, namely operational metrics (safety, production, costs, and development initiatives) and growth metrics (the discovery or acquisition of new hydrocarbon resources and achievement of tangible value adding milestones towards commercialisation of significant oil or gas volumes).

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

Short Term Incentive

The STI provides an incentive opportunity of 80% of TFR for senior executives (100% of TFR for the Managing Director), for achieving exceptional corporate and individual performance. The target payout under the STI provides for a payment of 50% of the incentive opportunity. Performance significantly beyond expectations could be rewarded by STI's up to a maximum of two times the incentive opportunity.

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

STI outcome	STI outcome as a % of Opportunity	STI outcome as % of TFR	
		Senior Executives	Managing Director
Minimum	0%	0%	0%
Target	50%	40%	50%
'Opportunity'	100%	80%	100%
Maximum	200%	160%	200%

The STI is awarded in March each year for performance in the previous calendar year. Awards since the commencement of the scheme in 2007 have averaged 74.1% of opportunity.

At the end of the year the Board approves an overall STI pool for executives based on the level of achievement against the hurdles that were determined at the start of the year. This pool is distributed to individual senior executives based on their individual performance.

For all senior executives, 50% of their STI award is paid in cash and the other 50% is converted to Restricted Shares under the LTIP. The Restricted Shares are held in Trust on behalf of the employee and vest on 1 January two years after the end of the performance period to which the award relates,

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

providing the executive remains employed with Oil Search. Any dividends payable on Restricted Shares issued as the deferred component of an executive's STI award are paid to the executive.

Since the introduction of this scheme for performance in calendar year 2007, the Senior Executive STI has resulted in the following outcomes:

Table 6 – Senior Executive STI outcomes as a % of TFR

	STI Range	2009	2010	2011	2012	2013
Managing Director	0 – 200% of TFR	84.6%	61.4%	28.5%	106.8%	85.6%
Senior Executives	0 – 160% of TFR	71.4%	49.1%	22.8%	85.4%	68.5%

Long Term Incentive (LTI) – Performance Rights

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

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

where X is 90% for the Managing Director and 60% for other senior executives, and “Oil Search Share Price” is based on the 20 day Volume Weighted Average Price of Oil Search shares for the 20 trading days following the release of annual results in the year of award.

The grants and vesting level of performance rights over the past five years for current key management personnel is as follows:

Table 7 – Allocation of Performance Rights to Key Management Personnel

	2009		2010		2011		2012		2013	
	No.	Vest	No.	Vest	No.	Vest ⁽¹⁾	No.	Vest	No.	Vest
Directors										
P Botten	258,900	71.6%	273,400	93.25%	245,800	84.25%	248,700	2015	240,000	2016
G Aopi	46,000	71.6%	54,200	93.25%	51,100	84.25%	53,600	2015	52,300	2016
Executives										
P Caldwell	61,800	71.6%	65,300	93.25%	58,700	84.25%	59,300	2015	57,300	2016
P Cholakos			32,400	93.25%	55,200	84.25%	55,900	2015	53,900	2016
G Darnley-Stuart			28,900	93.25%	25,700	84.25%	26,100	2015	53,200	2016
S Gardiner	35,000	71.6%	32,400	93.25%	44,200	84.25%	44,700	2015	52,300	2016

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

	2009		2010		2011		2012		2013	
	No.	Vest	No.	Vest	No.	Vest ⁽¹⁾	No.	Vest	No.	Vest
J Fowles							55,300	2015	54,900	2016
M Herrett									45,200	2016
Former Executives										
R Robinson	29,700	71.6%	55,800	93.25%	49,700	48.95%	49,800	17.25%	-	-

⁽¹⁾ The vesting date of the 2011 Performance Rights is 16 May 2014. Oil Search's TSR for the period 1 January 2011 to 31 December 2013 will result in 84.25% vesting.

Corporate Financial Performance

Table 8 illustrates Oil Search's financial performance over the past five years, which may be compared with the levels of STI and LTI awards granted to key management personnel and detailed above.

Table 8 – Oil Search's Five Year Performance

Year Ended 31 December	2009	2010	2011	2012	2013
Net profit after tax (US\$m)	133.7	185.6	202.5	175.8	205.7
Diluted Earnings per share (US cents)	11.5	14.1	15.3	13.2	15.3
Dividends per share (US cents)	4.0	4.0	4.0	4.0	4.0
Shares Closing price (A\$) ⁽¹⁾	\$6.12	\$7.04	\$6.25	\$7.01	\$8.11
Oil Search Three Year TSR ⁽²⁾	91%	53%	44%	23%	27.4%

(1) The closing price of Oil Search shares is taken on the last day of the financial year.

(2) The TSR has been calculated by an independent external consultant and is based on share price increases and dividends paid on the shares over the three year period up to and including 31 December of the year they are reported against.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

7. REMUNERATION DETAILS FOR KEY MANAGEMENT PERSONNEL

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

Mr Peter Botten CBE – Managing Director

Incumbent for the full year

As the Managing Director, Peter has the overall responsibility for effectively managing Oil Search and achieving the corporate objectives. He is also responsible for ensuring that strategies agreed with the Board are implemented.

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

Incumbent for the full year

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

In addition, Gereia has responsibility of leading the company's broad Sustainability strategies within PNG.

Mr Philip Caldwell – Executive General Manager Enterprise Systems Development

Incumbent for the full year

From 1 September 2013 Philip has assumed responsibility for Oil Search's business systems and processes including Information and Communications Technology. In this new role Philip also has responsibility for the Company's Enterprise Management System and standards and the corporate risk framework and tolerability so that risks in the business are managed to the standards set by the Company.

Prior this Philip was responsible for managing Oil Search's participation in the PNG LNG Project. Philip has also previously held the position of Executive General Manager Oil Operations.

Mr Paul Cholakos – Executive General Manager PNG Operations

Incumbent for the full year

Paul was appointed to the role of EGM PNG Operations in February 2013 having previously held the role of EGM Project Development. In his role, Paul is responsible for Oil Search's operations in PNG, HSES, Oil and Gas production, Drilling, Subsurface and Logistics.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

Mr Glenn Darnley-Stuart - Executive General Manager – Project Development

Incumbent from 4 February 2013

Glenn was appointed to the role of EGM Project Development in February 2013. He has responsibility for the delivery and management of Oil Search projects, with a specific focus on those associated with the PNG LNG Project. He is also responsible for the management of the corporate project function.

Glenn previously spent five years as General Manager PNG Operations and was seconded to ExxonMobil as a Project Manager on the PNG LNG Project.

Dr Julian Fowles – Executive General Manager Exploration & Business Development

Incumbent for the full year

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

Mr Stephen Gardiner – Chief Financial Officer & Group Secretary

Incumbent for the full year

Stephen's role is to manage the corporate finance, treasury, tax and audit functions for the company as well as all Group Secretarial matters. He is also responsible for the corporate sustainability function and delivering an appropriate financial control and reporting framework. Stephen was formally appointed to this position on 14 November 2012, having acted in the role since the departure of Zlatko Todorovski on 2 July 2012. Prior to this, Stephen's role was EGM Sustainability, Corporate Services & Group Secretary.

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

Incumbent for the full year

Michael is responsible for establishing and aligning people management strategies, processes and systems to ensure that Oil Search attracts, develops, retains and rewards the right people with the right skills to achieve the strategic objectives of the organisation. Michael also has overall responsibility for the Health & Administration function within the Company.

Mr Ian Munro – Executive General Manager – Gas Business Development

Incumbent from 26 August 2013

Ian has day-to-day responsibility for growing the Company's gas business and driving opportunities for gas commercialisation. This followed a career spanning over 25 years in senior technical and commercial roles in oil and gas with ExxonMobil and Woodside Petroleum. Ian has extensive experience in Joint Venture relationship and commercial management, and economic evaluation for major LNG projects.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

Former Executives

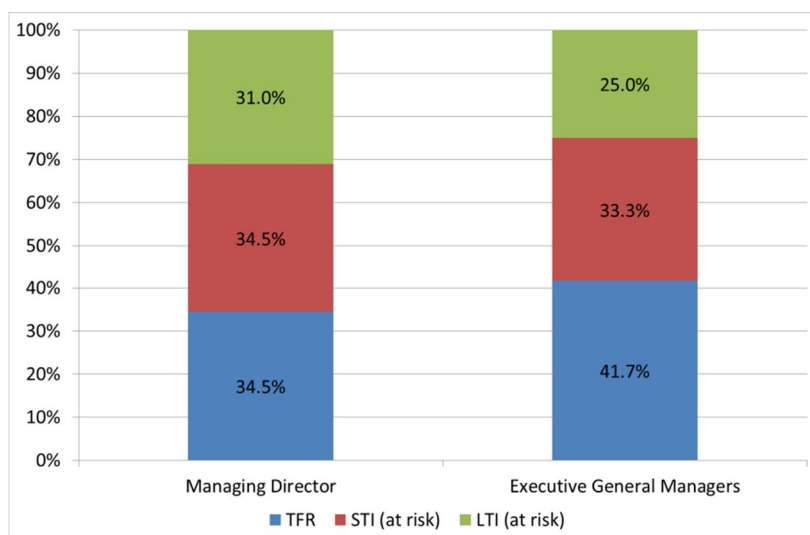
Mr Richard Robinson – Executive General Manager PNG Operations

Departed 31 May 2013

Prior to his departure, Richard was responsible for Oil Search's operations in PNG.

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

Table 9 – Current Key Management Personnel Remuneration Mix



The remuneration mix outlined above is determined by the application of the Oil Search Remuneration Strategy, assuming STI awards at 100% of opportunity (80% of TFR for Senior Executives and 100% of TFR for the Managing Director) and LTI awards at 100% of their 'face value'. Percentages shown in the later section on Executive Remuneration reflect actual incentives paid as a percentage of TFR, which includes movements in leave balances, non monetary benefits and share based payments calculated in accordance with IFRS 2 Share Based Payment.

The following table is in US Dollars. For all remuneration reporting stated in US Dollars, the following exchange rates have been used:

EXCHANGE RATE	2012	2013
AUD/USD	1.0359	0.9686
PGK/USD	0.4955	0.4545

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

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

	Year	Short Term			Post Employment	Long Term	Equity ⁽⁶⁾		Other	Total
		Salaries fees and allowances ⁽¹⁾	Non-Monetary benefits ⁽²⁾	Short Term Incentive ⁽³⁾	Company contribution to super ⁽⁴⁾	Long Service Leave accrual ⁽⁵⁾	Perform. Rights	Restricted Shares	Sign on / termination benefits	
Directors										
P Botten Managing Director	2013	2,087,827	11,763	847,362	16,527	124,079	1,074,582	608,330	-	4,770,470
	2012	2,143,166	12,414	1,077,023	16,701	123,605	1,112,343	416,639	-	4,901,891
G Aopi EGM External Affairs and Sustainability	2013	475,074	213,744	221,475	77,998	48,281	227,438	299,882	-	1,563,892
	2012	458,926	210,521	327,042	81,027	18,721	225,061	254,127	-	1,575,425
Executives										
P Caldwell EGM Enterprise Systems Development	2013	621,732	-	242,717	20,027	24,814	259,145	170,021	-	1,338,456
	2012	858,541	-	308,449	38,846	-	265,545	123,356	-	1,594,737
P Cholakos EGM PNG Operations	2013	651,359	-	228,439	16,585	-	231,305	299,761	-	1,427,449
	2012	676,899	-	275,789	18,566	-	178,625	33,552	-	1,183,431
G Darnley-Stuart EGM Project Development	2013	593,462	-	225,521	16,585	9,955	143,185	-	-	988,708
	2012	-	-	-	-	-	-	-	-	
J Fowles EGM Exploration & Business Development	2013	652,981	-	232,818	16,585	-	138,541	90,287	-	1,131,212
	2012	489,181	-	214,760	11,643	-	53,260	-	-	768,844
S Gardiner Chief Financial Officer & Group Secretary	2013	637,096	-	221,790	16,585	17,019	197,485	148,817	-	1,238,792
	2012	609,103	-	282,117	16,701	27,685	172,189	26,646	-	1,134,441
M Herrett EGM Human Resources, Health & Administration	2013	547,797	-	191,527	16,585	-	47,253	35,509	-	838,671
	2012	209,490	-	84,458	5,996	-	-	-	-	299,944
I Munro EGM Gas Business Development	2013	241,183	-	78,871	8,608	-	-	-	-	328,662
	2012	-	-	-	-	-	-	-	-	-
Former Executives										
R Robinson EGM PNG Operations	2013	134,009	-	187,548 ⁽⁷⁾	7,976	-	6,332	34,243	-	370,108
	2012	473,150	-	491,880 ⁽⁷⁾	49,850	-	211,369	104,827	-	1,331,076

(1) Includes salaries, allowances, expatriate allowances and movements in annual leave accruals.

(2) Includes the grossed up FBT value of all benefits provided to an employee in the year that the FBT is payable.

(3) STI is based on the year that the performance period relates to, regardless of when paid and excludes the 50% which is deferred into Oil Search Shares under the Restricted Share Plan, which is captured in the *Restricted Shares* data in the *Equity* section.

(4) Superannuation is the contributions made to an approved superannuation fund.

(5) Long service leave accrual is based on the relevant legislation.

(6) Equity is the expensed value of all Performance Rights or Restricted Shares.

(7) For his 2012 and 2013 STI, R Robinson received 100% of his STI as cash with no deferral to Restricted Shares.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

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

Table 11 – Analysis of STI Included in Remuneration

	Included in remuneration (US\$) ⁽¹⁾	% of STI Opportunity
P Botten	1,694,724	85.6%
G Aopi	442,950	85.6%
P Caldwell	485,434	85.6%
P Cholakos	456,878	85.6%
G Darnley-Stuart	451,042	85.6%
J Fowles	465,636	85.6%
S Gardiner	443,580	85.6%
M Herrett	383,054	85.6%
I Munro	157,742	85.6%
Former Executives		
R Robinson	187,548	41.6%

⁽¹⁾ The value includes 50% of the STI award paid as cash (as reported in Table 10) as well as the 50% to be deferred via the allocation of Restricted Shares, that will vest on 1 January 2016.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

8. KEY TERMS OF EMPLOYMENT CONTRACTS FOR KEY MANAGEMENT PERSONNEL

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

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

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

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

Table 12 – Contractual Provisions for Specified Executives

	Employing company	Contract duration	Notice period company	Notice period employee	Termination provision
P Botten	POSL	Ongoing	6 months	6 months	18 months Total Fixed Reward
G Aopi	OSPNG	Ongoing	1 month	1 month	4 weeks per year of service (minimum 8, maximum 52)
Other EGMs	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum 52)

9. EQUITY INSTRUMENTS

All Rights in the following tables refer to Performance Rights or Restricted Shares issued in accordance with the Performance Rights Plan or Long Term Incentive Plan. The structure of the Rights is detailed in section 5 on Remuneration Structure.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

Rights over Equity Instruments Granted as Remuneration

Details of Performance Rights over ordinary shares in the Company that were granted as remuneration to each key manager during the reporting period and details of Performance Rights that vested during the reporting period are as follows:

Table 13 – Details of Performance Rights Granted

	Number of Rights granted during 2013	Grant Date	Fair value per right (A\$)	Exercise price per right (A\$)	Expiry date	Number of rights vested during 2013
P Botten	240,000	10 May 2013	\$5.04	\$0.00	13 May 2016	254,945
G Aopi	52,300	10 May 2013	\$5.04	\$0.00	13 May 2016	50,541
P Caldwell	57,300	24 May 2013	\$5.275	\$0.00	13 May 2016	60,892
P Cholakos	53,900	24 May 2013	\$5.275	\$0.00	13 May 2016	30,213
G Darnley-Stuart	53,200	24 May 2013	\$5.275	\$0.00	13 May 2016	26,949
J Fowles	54,900	24 May 2013	\$5.275	\$0.00	13 May 2016	Nil
S Gardiner	52,300	24 May 2013	\$5.275	\$0.00	13 May 2016	30,213
M Herrett	45,200	24 May 2013	\$5.275	\$0.00	13 May 2016	Nil
Former Executives						
R Robinson	-	-	-	-	-	52,033

All Performance Rights expire on the earlier of their expiry date or termination of the individual's employment. The Performance Rights automatically exercise on the vesting dates detailed in the tables above conditional on Oil Search achieving certain performance hurdles. Details of the performance criteria are included in the section on Long Term Incentives above. For Performance Rights granted in 2013 the earliest exercise date is 15 May 2016.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

The deferred component of the 2012 STI was allocated as Restricted Shares under the Long Term Incentive Plan outlined above for certain key management personnel in 2013. The number of Restricted Shares granted during the reporting period is as follows:

Table 14a – Details of Deferred STI granted as Restricted Shares

	Number granted during 2013	Grant Date	Fair value (A\$)	Exercise price (A\$)	Vesting date
P Botten ⁽¹⁾	136,761	10 May 2013	\$7.85	\$0.00	1 January 2015
G Aopi ⁽¹⁾	36,464	10 May 2013	\$7.85	\$0.00	1 January 2015
P Caldwell	39,167	7 March 2013	\$7.602	\$0.00	1 January 2015
P Cholakos	35,020	7 March 2013	\$7.602	\$0.00	1 January 2015
S Gardiner	35,823	7 March 2013	\$7.602	\$0.00	1 January 2015
J Fowles	27,270	7 March 2013	\$7.602	\$0.00	1 January 2015
M Herrett	10,725	7 March 2013	\$7.602	\$0.00	1 January 2015

(1) The allocations for P Botten and G Aopi were formally approved at the Annual Meeting on 10 May 2013.

Table 14b – Details of other awards of Restricted Shares

	Number granted during 2013	Grant Date	Fair value (A\$)	Exercise price (A\$)	Vesting date
P Cholakos ⁽¹⁾	40,000 ⁽¹⁾	7 March 2013	\$7.602	\$0.00	30 October 2014

(1) P Cholakos received the above on commencement in the role of EGM PNG Operations.

Modification of Terms of Equity Settled Share based Payment Transactions

No terms related to equity-settled share based payment transactions (including Performance Rights and Restricted Shares granted as compensation to key management personnel) have been altered or modified by the issuing entity during the reporting period or the prior period, with the exception of the early vesting of certain allocations for terminating employees.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

Exercise of Rights Granted as Remuneration

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

Table 15 – Details of the Exercise of Performance Rights

Exercised in 2013	Number of shares	Amount paid per share (A\$)
P Botten	440,317	\$0.00
G Aopi	99,441	\$0.00
P Caldwell	60,892	\$0.00
P Cholakos	30,213	\$0.00
G Darnley-Stuart	26,949	\$0.00
S Gardiner	68,913	\$0.00
Former Executives		
R Robinson	52,033	\$0.00

Exercised in 2012	Number of shares	Amount paid per share
P Botten	338,600	\$0.00
G Aopi	70,072	\$0.00
P Caldwell	44,248	\$0.00
R Robinson	21,265	\$0.00
Former Executives		
P Bainbridge	96,090	\$0.00
P Crute	33,938	\$0.00
Z Todorcevski	104,740	\$0.00

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

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

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

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

	Type	Number	Grant Date	% vested in the year	% forfeited in the year	Financial Year of vesting
P Botten	Performance Rights	273,400	1 June 2010	93.25%	6.75%	2013
	Restricted Shares	74,588	1 March 2011	100%	0%	2013
	Performance Rights	245,800	23 May 2011			2014
	Restricted Shares	37,905	5 March 2012			2014
	Performance Rights	248,700	21 May 2012			2015
	Restricted Shares	136,761	10 May 2013			2015
	Performance Rights	240,000	10 May 2013			2016
G Aopi	Performance Rights	54,200	1 June 2010	93.25%	6.75%	2013
	Restricted Shares	18,592	1 March 2011	100%	0%	2013
	Restricted Shares	100,000	27 April 2010			2014
	Performance Rights	51,100	23 May 2011			2014
	Restricted Shares	9,454	5 March 2012			2014
	Performance Rights	53,600	21 May 2012			2015
	Restricted Shares	36,464	10 May 2013			2015
	Performance Rights	52,300	10 May 2013			2016
P Caldwell	Performance Rights	65,300	1 June 2010	93.25%	6.75%	2013
	Restricted Shares	22,381	1 March 2011	100%	0%	2013
	Performance Rights	58,700	23 May 2011			2014
	Restricted Shares	10,860	5 March 2012			2014
	Performance Rights	59,300	21 May 2012			2015
	Restricted Shares	39,167	7 March 2013			2015
	Performance Rights	57,300	24 May 2013			2016

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

	Type	Number	Grant Date	% vested in the year	% forfeited in the year	Financial Year of vesting
P Cholakos	Performance Rights	32,400	1 June 2010	93.25%	6.75%	2013
	Performance Rights	55,200	23 May 2011			2014
	Restricted Shares	10,222	5 March 2012			2014
	Performance Rights	55,900	21 May 2012			2015
	Restricted Shares	40,000	7 March 2013			2014
	Restricted Shares	35,020	7 March 2013			2015
	Performance Rights	53,900	24 May 2013			2016
G Darnley-Stuart	Performance Rights	28,900	1 June 2010	93.25%	6.75%	2013
	Performance Rights	25,700	23 May 2011			2014
	Performance Rights	26,100	21 May 2012			2015
	Performance Rights	53,200	24 May 2013			2016
J Fowles	Performance Rights	55,300	21 May 2012			2015
	Restricted Shares	27,270	7 March 2013			2015
	Performance Rights	54,900	24 May 2013			2016
S Gardiner	Performance Rights	32,400	1 June 2010	93.25%	6.75%	2013
	Performance Rights	44,200	23 May 2011			2014
	Restricted Shares	8,178	5 March 2012			2014
	Performance Rights	44,700	21 May 2012			2015
	Restricted Shares	35,823	7 March 2013			2015
	Performance Rights	52,300	24 May 2013			2016
M Herrett	Restricted Shares	10,725	7 March 2013			2015
	Performance Rights	45,200	24 May 2013			2016
Former Executives						
R Robinson	Performance Rights	55,800	1 June 2010	93.25%	6.75%	2013
	Restricted Shares	19,123	1 March 2011	100%	0%	2013
	Performance Rights	49,700	23 May 2011	48.95%	51.05%	2013
	Restricted Shares	9,192	5 March 2012	100%	0%	2013
	Performance Rights	49,800	21 May 2012	17.25%	82.75%	2013

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

Analysis of Movements in Performance Rights and Restricted Shares

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

Table 17 – Movement by Value of Rights and Restricted Shares

	Granted in the year (US\$) ¹	Value of Rights exercised and Restricted Shares vested in the year ²			Value of Rights lapsed and Restricted Shares forfeited in the year (US\$) ³		
		Number	Average Value (US\$)	Total Value (US\$)	Number	Average Value (US\$)	Total Value (US\$)
P Botten	2,211,482	514,905	7.42	3,821,436	18,455	7.75	143,004
G Aopi	532,570	118,033	7.64	901,476	3,659	7.75	28,353
P Caldwell	591,332	83,273	7.50	624,888	4,408	7.75	34,157
P Cholakos	847,263	30,213	7.75	234,114	2,187	7.75	16,947
G Darnley-Stuart	271,818	26,949	7.75	208,822	1,951	7.75	15,118
J Fowles	488,380	-	-	-	-	-	-
S Gardiner	540,294	68,913	7.89	543,739	2,187	7.75	16,947
M Herrett	312,699	-	-	-	-	-	-
Former Executives							
R Robinson ⁴	-	113,268	7.69	871,293	70,347	8.00	562,517

- (1) The value of the rights is the fair value at the time of grant for Performance Rights and the share price on the date of grant for Restricted Shares.
- (2) The value for rights exercised is based on the market price of Oil Search shares on the close of trade on the date of exercise. The value for Restricted Shares is based on the market price of Oil Search shares on the close of trade on the vesting date.
- (3) The value for rights lapsed and Restricted Shares forfeited is based on the market price of Oil Search shares on the close of trade on the date of lapse.
- (4) The rights vesting in 2013 include early vesting of Performance Rights and Restricted shares under good leaver provisions approved by the Board.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

10. NON-EXECUTIVE DIRECTOR REMUNERATION

Remuneration Policy

Remuneration for Non-Executive Directors is determined by reference to advice from external consultants and subject to the aggregate limit of A\$2,500,000 in any calendar year set by shareholders at the 2012 Annual General Meeting. This advice takes into consideration the level of fees paid to directors of other Australian corporations of similar size and complexity to Oil Search, the growing scale of its international activities and the responsibilities and work requirements of Board members.

Remuneration Payable

Fees payable to Non-Executive Directors are reviewed periodically and are fixed by the Board as discussed above. Table 18 below sets out the fee structure applied from 1 January 2013. The fees are based on data from independent advisors and were last increased in 2013.

Table 18 – Annual Board and Committee Fees Payable to Non-Executive Directors in Australian Dollars

POSITION	ANNUAL FEE FROM 1 JAN 2013
Chairman of the Board ⁽¹⁾	A\$495,000
Non-Executive Directors other than the Chairman	A\$165,000
Chairman Audit and Financial Risk Committee (additional fee)	A\$49,500
Chairman Health, Safety and Sustainability Committee (additional fee)	A\$38,500
Chairman People and Nominations Committee (additional fee) ⁽²⁾	A\$38,500
Member Audit and Financial Risk Committee (additional fee)	A\$25,500
Member Health, Safety and Sustainability Committee (additional fee)	A\$22,000
Member People and Nominations Committee (additional fee)	A\$22,000

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

(2) The Remuneration and Nominations Committee was renamed the People and Nominations Committee during 2013.

Each non-executive director also receives a travel allowance of A\$25,500 per annum to compensate for the extraordinary time spent travelling between Papua New Guinea and Australia to attend Board and Committee Meetings.

Board fees are paid to non-executive directors only.

In addition to Board and Committee fees, non-executive directors are entitled to be reimbursed for all reasonable travel, accommodation and other expenses incurred in attending meetings of the Board, Committees or shareholders or while engaged on Oil Search business.

The total remuneration which was paid to each non-executive director in 2012 and 2013 is set out in Table 19.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

There are no provisions in any of the non-executive directors' appointment arrangements for compensation payable on early termination of their directorship.

There is no separate retirement benefits plan or provision for superannuation for Oil Search's non-executive directors.

Equity Participation for Non-Executive Directors

There is no share plan for Oil Search non-executive directors.

Details of Directors' Remuneration

The details of the remuneration received by Oil Search directors in 2012 and 2013 are set out in Table 19 below.

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

Table 19 – Remuneration (US\$) of Directors of Oil Search Limited

Directors	Year	Short Term			Post Emp'ment	Long Term	Equity		Other	Total
		Salaries fees and allowances	Non-Monetary benefits	Short Term Incentive	Company contribution to super	Long Service Leave accrual	Perform. Rights	Restricted Shares	Sign on / termination benefits	
Executive Directors										
P Botten	2013	2,087,827	11,763	847,362	16,527	124,079	1,074,582	608,330	-	4,770,470
	2012	2,143,166	12,414	1,077,023	16,701	123,605	1,112,343	416,639	-	4,901,891
G Aopi	2013	475,074	213,744	221,475	77,998	48,281	227,438	299,882	-	1,563,892
	2012	458,926	210,521	327,042	81,027	18,721	225,061	254,127	-	1,575,425
Non-Executive Directors										
R Lee ¹	2013	463,817	-	-	-	-	-	-	-	463,817
	2012	159,170	-	-	-	-	-	-	-	159,170
KG Constantinou	2013	227,137	-	-	-	-	-	-	-	227,137
	2012	220,647	-	-	-	-	-	-	-	220,647
F Harris ²	2013	192,746	-	-	-	-	-	-	-	192,746
	2012	-	-	-	-	-	-	-	-	-
A Kanstler	2013	247,989	-	-	-	-	-	-	-	247,989
	2012	238,234	-	-	-	-	-	-	-	238,234
B Philemon	2013	230,527	-	-	-	-	-	-	-	230,527
	2012	34,658	-	-	-	-	-	-	-	34,658
KW Spence	2013	250,824	-	-	-	-	-	-	-	250,824
	2012	144,457	-	-	-	-	-	-	-	144,457
ZE Switkowski ³	2013	194,231	-	-	-	-	-	-	-	194,231
	2012	236,185	-	-	-	-	-	-	-	236,185

¹ Mr R Lee has been Chairman since 28 February 2013.

² Ms F Harris has been an independent non-executive director since 1 March 2013.

³ Dr Z Switkowski is on an approved leave of absence for a period of up to five months from 21 October 2013.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

Directors	Year	Short Term			Post Emp'ment	Long Term	Equity		Other	Total
		Salaries fees and allowances	Non- Monetary benefits	Short Term Incentive	Company contribution to super	Long Service Leave accrual	Perform. Rights	Restricted Shares	Sign on / termination benefits	
Former Non- Executive Directors										
BF Horwood ⁴	2013	82,626	-	-	-	-	-	-	-	82,626
	2012	489,981	-	-	-	-	-	-	-	489,981

⁴ Mr B Horwood was Chairman until 28 February 2013.

OIL SEARCH LIMITED
and its subsidiaries

Directors' Report 31 December 2013

Signed in accordance with a resolution of the directors.



.....
RJ LEE

Chairman



.....
PR BOTTEN

Managing Director

Sydney, 27 February 2014

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

27 February 2014

Dear Directors,

Oil Search Limited

I am pleased to provide the following declaration of independence to the directors of Oil Search Limited.

As lead audit partner for the audit of the financial statements of Oil Search Limited for the year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of any applicable code of professional conduct in relation to the audit, which includes the requirements of the *Accounting Professional & Ethical Standards Board (APESB) Code of Ethics for Professional Accountants (APES 110)*.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Jason Thorne
Partner
Chartered Accountants

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

Statements of comprehensive income
for the year ended 31 December 2013

		Consolidated		Parent	
	Note	2013	2012	2013	2012
		US\$'000	US\$'000	US\$'000	US\$'000
Revenue from operations	2	766,265	724,619	-	-
Operating expenses		(169,930)	(153,670)	(19)	(33)
Amortisation - site restoration		(3,804)	(7,596)	-	-
Amortisation - oil and gas assets		(33,003)	(29,286)	-	-
Depreciation - operating assets		(7,459)	(7,241)	-	-
Royalties, development and mining levies		(12,638)	(12,047)	-	-
Costs of sales		(226,834)	(209,840)	(19)	(33)
Gross profit from operating activities		539,431	514,779	(19)	(33)
Other expenses	3	(27,044)	(27,594)	(6,399)	(8,569)
Profit/(loss) from operating activities		512,387	487,185	(6,418)	(8,602)
Dividend income		-	-	500,000	-
Exploration and evaluation costs expensed	12	(107,424)	(143,970)	(1,185)	(74,708)
Business development costs		(10,157)	(12,309)	(2,976)	(279)
Impairment expense	12	-	(23,793)	-	(23,793)
Profit on sale of other non-current assets		216	45,079	-	698
Interest income	4	3,905	5,287	848	3,523
Finance costs	4	(19,057)	(9,844)	(2,047)	(2,086)
Profit/(loss) from continuing operations before income tax		379,870	347,635	488,222	(105,247)
Income tax (expense)/benefit	5	(174,148)	(171,801)	(1,257)	25,584
Net profit/(loss) after tax		205,722	175,834	486,965	(79,663)
Other comprehensive income					
<i>Items that may be reclassified to profit or loss:</i>					
Foreign currency translation differences for foreign operations		(4,410)	(1,428)	-	-
Total comprehensive income/(loss) for the year		201,312	174,406	486,965	(79,663)
		US cents	US cents		
Basic earnings per share	6	15.36	13.22		
Diluted earnings per share	6	15.30	13.17		

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

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

Statements of financial position
as at 31 December 2013

		Consolidated		Parent	
		2013	2012	2013	2012
	Note	US\$'000	US\$'000	US\$'000	US\$'000
Current assets					
Cash and cash equivalents	22(a)	209,661	488,274	75,295	373,529
Receivables	8	246,933	173,233	1,516,114	751,473
Inventories	9	131,654	109,076	-	964
Other financial assets	10	75,483	48,398	-	-
Other assets	11	42,513	89,424	1,238	1,970
Total current assets		706,244	908,405	1,592,647	1,127,936
Non-current assets					
Receivables	8	4,757	4,271	-	-
Other non-current assets	11	6,358	8,948	-	-
Exploration and evaluation assets	12	594,169	401,597	56,360	14,884
Oil and gas assets	13	6,710,189	5,423,610	-	-
Other property, plant and equipment	14	68,446	71,906	-	-
Investments	15	-	-	326,507	326,507
Deferred tax assets	16	331,374	283,984	24,362	29,176
Total non-current assets		7,715,293	6,194,316	407,229	370,567
Total assets		8,421,537	7,102,721	1,999,876	1,498,503
Current liabilities					
Payables	17	284,754	392,217	7,152	3,394
Provisions	18	11,417	10,484	-	-
Current tax payable		123,033	75,329	1,846	2,057
Total current liabilities		419,204	478,030	8,998	5,451
Non-current liabilities					
Payables	17	21,408	15,816	-	-
Provisions	18	267,127	291,159	-	-
Loans and borrowings	19	4,024,421	2,866,050	-	-
Deferred tax liabilities	20	268,325	243,320	62	591
Total non-current liabilities		4,581,281	3,416,345	62	591
Total liabilities		5,000,485	3,894,375	9,060	6,042
Net assets		3,421,052	3,208,346	1,990,816	1,492,461
Shareholders' equity					
Share capital	21	1,821,957	1,753,192	1,821,957	1,753,192
Reserves	21	3,474	11,690	2,853	6,659
Retained earnings/(losses)		1,595,621	1,443,464	166,006	(267,390)
Total shareholders' equity		3,421,052	3,208,346	1,990,816	1,492,461

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

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

Statements of cash flows
for the year ended 31 December 2013

		Consolidated		Parent	
		2013	2012	2013	2012
	Note	US\$'000	US\$'000	US\$'000	US\$'000
Cash flows from operating activities					
Receipts from customers		764,064	672,948	-	-
Payments to suppliers and employees		(195,826)	(199,648)	(5,695)	(9,459)
Interest received		2,922	5,895	1,187	4,020
Borrowing costs paid		(8,136)	(4,638)	(2,047)	(2,086)
Income tax (paid)/refund		(149,836)	(213,949)	2,817	4,462
Payments for exploration and evaluation - seismic, G&A, G&G		(36,227)	(51,205)	(2,166)	(4,726)
Payments for site rehabilitation		-	(868)	-	-
Payments for business development		(10,157)	(12,309)	(2,976)	(279)
Net cash from/(used in) operating activities	22(b)	366,804	196,226	(8,880)	(8,068)
Cash flows from investing activities					
Payments for property, plant and equipment		(12,060)	(10,402)	-	-
Payments for exploration and evaluation expenditure		(258,567)	(126,570)	(41,010)	(73,708)
Payments for development asset expenditure		(1,226,477)	(1,485,384)	-	-
Payments for producing asset expenditure		(154,623)	(114,815)	-	-
Net proceeds from sale of investments		23,698	41,957	-	-
Acquisition of subsidiary		-	(10,000)	-	-
Dividends received		-	-	-	-
Loan to third party in respect of exploration and evaluation		(25,758)	(48,398)	-	-
Net cash (used in)/from investing activities		(1,653,787)	(1,753,612)	(41,010)	(73,708)
Cash flows from financing activities					
Proceeds from underwriter of dividend reinvestment plan (DRP)		31,361	31,746	31,361	31,746
Dividend payments (net of DRP) ⁽¹⁾	7	(31,286)	(31,688)	(31,324)	(31,746)
Cash received from option/right share issues		1,018	5,848	1,018	5,848
Costs relating to share issues		(88)	(55)	(88)	(55)
Proceeds from borrowings		1,007,365	1,002,411	-	-
Establishment fee on credit facility		-	(10,065)	-	-
Loans to related entity		-	-	(249,311)	(329,747)
Net cash from/(used in) financing activities		1,008,370	998,197	(248,344)	(323,954)
Net decrease in cash and cash equivalents		(278,613)	(559,189)	(298,234)	(405,730)
Cash and cash equivalents at the beginning of the year		488,274	1,047,463	373,529	779,259
Cash and cash equivalents at the end of the year	22(a)	209,661	488,274	75,295	373,529

⁽¹⁾ Total dividend payments including cash and dividend reinvestment was \$53.5 million (2012: \$53.2 million). Total dividend payments net of dividends reinvested under the dividend reinvestment plan were \$31.3 million (2012: \$31.7 million).

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

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

Statements of changes in equity
for the year ended 31 December 2013

Consolidated	Share capital US\$'000	Foreign currency translation reserve US\$'000	Reserve for treasury shares US\$'000	Employee equity compensation reserve US\$'000	Retained earnings US\$'000	Total US\$'000
Balance at 1 January 2012	1,683,492	426	(5,601)	18,131	1,320,784	3,017,232
Dividends provided for or paid	-	-	-	-	(53,143)	(53,143)
Total comprehensive income for the year						
Net profit after tax for the year	-	-	-	-	175,834	175,834
<i>Other comprehensive income:</i>						
Exchange differences on translation of foreign operations	-	(1,428)	-	-	-	(1,428)
Total comprehensive income for the year	-	(1,428)	-	-	175,834	174,406
Transactions with owners, recorded directly in equity						
Issue of shares through dividend reinvestment plan / underwriting agreement	53,201	-	-	-	-	53,201
Costs associated with share issues	(55)	-	-	-	-	(55)
Transfer of vested shares	8,879	-	-	(8,879)	-	-
Release of treasury shares on vesting	-	-	1,844	(1,844)	-	-
Issue of shares on exercise of options and rights	5,848	-	-	-	-	5,848
Employee share-based remuneration expense	-	-	-	10,644	-	10,644
Issue of treasury shares	1,827	-	(1,827)	-	-	-
Net exchange differences	-	-	-	224	-	224
Trust distribution	-	-	-	-	(11)	(11)
Total transactions with owners	69,700	-	17	145	(11)	69,851
Balance at 31 December 2012	1,753,192	(1,002)	(5,584)	18,276	1,443,464	3,208,346
Balance at 1 January 2013	1,753,192	(1,002)	(5,584)	18,276	1,443,464	3,208,346
Dividends provided for or paid	-	-	-	-	(53,532)	(53,532)
Total comprehensive income for the year						
Net profit after tax for the year	-	-	-	-	205,722	205,722
<i>Other comprehensive income:</i>						
Exchange differences on translation of foreign operations	-	(4,410)	-	-	-	(4,410)
Total comprehensive income for the year	-	(4,410)	-	-	205,722	201,312
Transactions with owners, recorded directly in equity						
Issue of shares through dividend reinvestment plan / underwriting agreement	53,570	-	-	-	-	53,570
Costs associated with share issues	(88)	-	-	-	-	(88)
Transfer of vested shares	13,404	-	-	(13,404)	-	-
Release of treasury shares on vesting	-	-	3,825	(3,825)	-	-
Issue of shares on exercise of options and rights	1,018	-	-	-	-	1,018
Employee share-based remuneration expense	-	-	-	10,060	-	10,060
Issue of treasury shares	861	-	(861)	-	-	-
Net exchange differences	-	-	-	399	-	399
Trust distribution	-	-	-	-	(33)	(33)
Total transactions with owners	68,765	-	2,964	(6,770)	(33)	64,926
Balance at 31 December 2013	1,821,957	(5,412)	(2,620)	11,506	1,595,621	3,421,052

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

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

**Statements of changes in equity
for the year ended 31 December 2013**

Parent	Share capital US\$'000	Foreign currency translation reserve US\$'000	Amalgamation reserve US\$'000	Reserve for treasury shares US\$'000	Employee equity compensation reserve US\$'000	Retained earnings US\$'000	Total US\$'000
Balance at 1 January 2012	1,683,492	-	(2,990)	-	9,488	(134,526)	1,555,464
Dividends provided for or paid	-	-	-	-	-	(53,143)	(53,143)
Total comprehensive income for the year							
Net loss after tax for the year	-	-	-	-	-	(79,663)	(79,663)
Total comprehensive income for the year	-	-	-	-	-	(79,663)	(79,663)
Transactions with owners, recorded directly in equity							
Issue of shares through dividend reinvestment plan / underwriting agreement	53,201	-	-	-	-	-	53,201
Costs associated with share issues	(55)	-	-	-	-	-	(55)
Transfer of vested shares	8,879	-	-	-	(8,879)	-	-
Issue of shares on exercise of options and rights	5,848	-	-	-	-	-	5,848
Employee share-based remuneration	-	-	-	-	10,644	-	10,644
Issue of treasury shares	1,827	-	-	-	(1,827)	-	-
Net exchange differences	-	-	-	-	223	-	223
Dividends received on shares held in trust ⁽¹⁾	-	-	-	-	-	(58)	(58)
Total transactions with owners	69,700	-	-	-	161	(58)	69,803
Balance at 31 December 2012	1,753,192	-	(2,990)	-	9,649	(267,390)	1,492,461
Balance at 1 January 2013	1,753,192	-	(2,990)	-	9,649	(267,390)	1,492,461
Dividends provided for or paid	-	-	-	-	-	(53,532)	(53,532)
Total comprehensive income for the year							
Net profit after tax for the year	-	-	-	-	-	486,965	486,965
Total comprehensive income for the year	-	-	-	-	-	486,965	486,965
Transactions with owners, recorded directly in equity							
Issue of shares through dividend reinvestment plan / underwriting agreement	53,570	-	-	-	-	-	53,570
Costs associated with share issues	(88)	-	-	-	-	-	(88)
Transfer of vested shares	13,404	-	-	-	(13,404)	-	-
Issue of shares on exercise of options and rights	1,018	-	-	-	-	-	1,018
Employee share-based remuneration	-	-	-	-	10,060	-	10,060
Issue of treasury shares	861	-	-	-	(861)	-	-
Net exchange differences	-	-	-	-	399	-	399
Dividends received on shares held in trust ⁽¹⁾	-	-	-	-	-	(37)	(37)
Total transactions with owners	68,765	-	-	-	(3,806)	(37)	64,922
Balance at 31 December 2013	1,821,957	-	(2,990)	-	5,843	166,006	1,990,816

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

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

1 Summary of significant accounting policies

Oil Search Limited ('the parent entity' or 'company') is incorporated in Papua New Guinea (PNG). The consolidated financial report for the year ended 31 December 2013 comprises the parent and its controlled entities (together, 'the group').

The financial statements were authorised for issue by the directors on 27 February 2014.

(a) Basis of preparation

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

(i) Issued standards adopted during year

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2013 had a material effect on any of the amounts recognised in the current period or any prior period. The following new standards and amendments to standards were adopted by the group:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- Amended IAS 27 Separate Financial Statements
- Amended IAS 28 Investments in Associates and Joint Ventures
- Amended IAS 19 Employee Benefits
- Amended IFRS 7 Financial instruments: Disclosures on asset and liability offsetting
- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

As a result of the adoption of IFRS 11 Joint Arrangements, the group has revised its accounting policy. Under the new principles, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. The group has assessed the nature of its joint arrangements and determined that they comprise investments in joint operations.

The accounting for the group's joint operations has not changed as a result of the adoption of IFRS 11. The group continues to account for its direct rights and obligations by recognising its share of jointly held assets, liabilities, revenues and expenses of each joint operation. These have been incorporated in the financial statements under the appropriate headings.

1 Summary of significant accounting policies (continued)

(ii) Issued standards not early adopted

At 31 December 2013, certain new accounting standards and interpretations have been published that will become mandatory in future reporting periods. The group has not elected to early-adopt these new or amended accounting standards and interpretations. The group is still in the process of assessing the impact of these changed accounting requirements, although the expected impact of these changes should not materially alter the group's financial result. The group will adopt the following standards during the applicable mandatory annual reporting periods:

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

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

(b) Principles of consolidation

The consolidated financial statements comprise the financial statements of Oil Search Limited (the parent entity) and its controlled subsidiaries, after elimination of all inter-company transactions.

(i) Business combinations

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

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

The group measures goodwill at the acquisition date as:

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

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

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

1 Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

(i) Business combinations (continued)

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

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

(ii) Subsidiaries

Subsidiaries are entities controlled by the group. Subsidiaries are consolidated from the date the parent obtains control and until such time as control ceases.

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

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

(iii) Joint arrangements

Exploration, development and production activities of the group are primarily carried on through joint arrangements with other parties. Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. The group has assessed the nature of its joint arrangements and determined that they comprise investments in joint operations.

Joint operations

The group has accounted for its direct rights and obligations by recognising its share of jointly held assets, liabilities, revenues and expenses of each joint operation. These have been incorporated in the financial statements under the appropriate headings. Details of the joint operations are set out in note 23.

(c) Currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated and parent financial statements are presented in United States dollars, which is Oil Search Limited's functional and presentation currency.

1 Summary of significant accounting policies (continued)

(c) Currency translation (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the statement of comprehensive income on a net basis within other income or other expenses.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

(d) Income recognition

Oil, gas and other liquid sales

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

Rig income

Rig income is recognised on a days utilised basis.

Dividend income

Dividend income is recognised when the right to receive payment is established.

(e) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the borrower's outstanding borrowings during the year used to develop the qualifying asset.

All other borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

1 Summary of significant accounting policies (continued)

(f) Leases

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

(g) Share-based remuneration

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

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

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

(h) Income tax

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

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

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

1 Summary of significant accounting policies (continued)

(h) Income tax (continued)

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

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

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

(i) Inventories

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

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

(j) Exploration and evaluation assets

Exploration and evaluation expenditures are accounted for under the successful efforts method.

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

All other exploration and evaluation expenditures including directly attributable general administration costs, geological and geophysical costs and new venture activity expenditures are charged as expenses in the statement of comprehensive income as incurred, except where the expenditure relates to an exploration discovery that:

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

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

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

1 Summary of significant accounting policies (continued)

(k) Oil and gas assets

Assets in development

The costs of oil and gas assets in development are separately accounted for and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment and any associated land and buildings. When the committed development expenditure programs are completed and production commences, these costs are subject to amortisation.

Producing assets

The costs of oil and gas assets in production are separately accounted for and include past exploration and evaluation costs, past development costs and the ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings. These costs are subject to amortisation.

Commencing from 2010, past expenditure and accumulated amortisation relating to oil operations now included within the PNG LNG Project will be transferred from producing assets to assets in development with amortisation suspended. Upon completion of the PNG LNG Project, all PNG LNG assets in development will be transferred to producing assets and amortised.

Amortisation of oil and gas assets

Costs in relation to producing assets are amortised on a production output basis. In relation to the Kutubu, Gobe, Greater Moran and SE Mananda oil fields, previously capitalised exploration and development costs, along with any future expenditure necessary to develop the assumed reserves, are amortised over the remaining estimated economic life of the fields.

Costs in relation to the Hides gas to electricity project are amortised in order to expense accumulated exploration and development costs over the gas sales contract term with the Porgera Joint Venture for supply of gas to the Porgera Gold Mine.

Restoration costs

Site restoration costs are capitalised within the cost of the associated assets and the provision is stated in the statement of financial position at total estimated present value. These costs are estimated and based on judgements and assumptions regarding removal dates, technologies, and industry practice. Over time, the liability is increased for the change in the present value based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The costs of restoration are brought to account in the statement of comprehensive income through depreciation of the associated assets over the economic life of the projects with which these costs are associated. The unwinding of the discount is recorded as an accretion charge within finance costs.

1 Summary of significant accounting policies (continued)

(l) Other property, plant and equipment

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

Depreciation

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

Motor vehicles	20.0%
Office furniture	13.0%
Office equipment	20.0%
Computer equipment	33.3%
Rigs	Drilling days based on a 10 year drilling life

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

(m) Impairment of assets

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

An impairment loss is recognised in the statement of comprehensive income when the carrying amount of an asset or its CGU exceeds its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

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

1 Summary of significant accounting policies (continued)

(m) Impairment of assets (continued)

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

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

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

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

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

(n) Derecognition of financial assets

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

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

1 Summary of significant accounting policies (continued)

(n) Derecognition of financial assets (continued)

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

(o) Employee benefits

Provision is made for long service leave and annual leave estimated to be payable to employees on the basis of statutory and contractual requirements. The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee entitlements and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Expected future payments are discounted using market yields at the end of the reporting period on government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

The contributions made to defined contribution superannuation funds by entities within the group are recognised as an expense when they become payable. In Australia, the group is legally required to make contributions based on an individual employees' salaries and wages. The contribution rate was 9% until 1 July 2013 when the contribution rate increased to 9.25%.

(p) Financial instruments

Trade receivables

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

Trade payables

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

Loans and receivables

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

1 Summary of significant accounting policies (continued)

(p) Financial instruments (continued)

Loans and borrowings

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

Cash and cash equivalents

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

Investments

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

(q) Critical accounting estimates and assumptions

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

Impairment of assets

The group assesses whether oil and gas assets are impaired on a semi-annual basis. This requires review of the indicators of impairment and/or an estimation of the recoverable amount of the cash-generating unit to which the assets belong. For oil and gas properties, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs. Market values are also referenced where appropriate. The carrying value of oil and gas properties, exploration and evaluation and other plant and equipment is disclosed in notes 12 to 14.

Restoration obligations

The group estimates the future removal and restoration costs of oil and gas production facilities, wells, pipelines and related assets at the time of installation of the assets. In most instances the removal of these assets will occur many years in the future. The estimate of future removal costs are made considering relevant legislation and industry practice and require management to make judgments regarding the removal date, the extent of restoration activities required and future removal technologies. For more detail regarding the policy in respect of provision for restoration refer to note 1(k). The carrying amount of the provision for restoration is disclosed in note 18.

Reserve estimates

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

1 Summary of significant accounting policies (continued)

(q) Critical accounting estimates and assumptions (continued)

Reserve estimates (continued)

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

Exploration and evaluation

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

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

Classification of joint arrangements

Exploration, development and production activities of the group are conducted primarily through arrangements with other parties. Each arrangement has a contractual agreement which provides the participating parties rights to the assets and obligations for the liabilities of the arrangement. Under certain agreements, more than one combination of participants can make decisions about the relevant activities and therefore joint control does not exist. Where the arrangement has the same legal form as a joint operation but is not subject to joint control, the group accounts for its interest in accordance with the contractual agreement by recognising its share of jointly held assets, liabilities, revenues and expenses of the arrangement.

The group's interest in joint operations is disclosed in note 23(a). The group's interest in other arrangements with same legal form as a joint operation but that are not subject to joint control are disclosed in note 23(b).

(r) Rounding

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

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

	Consolidated		Parent	
	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000
2 Revenue from operations				
Oil sales	634,108	593,241	-	-
Gas and refined product sales	95,414	95,629	-	-
Other field revenue	36,743	35,749	-	-
Total revenue	766,265	724,619	-	-
3 Other expenses				
Salaries and short-term employee benefits	(66,176)	(61,444)	(1,710)	(2,010)
Post-employment benefits	(2,982)	(2,624)	-	-
Employee share-based remuneration	(10,060)	(10,644)	-	-
Premises - operating leases	(7,386)	(7,863)	-	-
Donations	(6,017)	(4,953)	(48)	-
Other expenses	(31,062)	(29,452)	(4,045)	(7,337)
Corporate cost recoveries	103,082	96,165	(65)	-
Net corporate expenses	(20,601)	(20,815)	(5,868)	(9,346)
Depreciation	(5,935)	(5,334)	-	-
Foreign currency (losses)/gains	(508)	(1,445)	(531)	777
Total other expenses	(27,044)	(27,594)	(6,399)	(8,569)
4 Net finance costs				
Interest received or receivable from third parties	3,905	5,287	848	3,523
Interest paid or payable to subsidiaries	-	-	(2,047)	(2,086)
Borrowing costs	(11,462)	(4,464)	-	-
Unwinding of discount on site restoration	(7,595)	(5,380)	-	-
Total finance costs	(19,057)	(9,844)	(2,047)	(2,086)
Net finance (costs)/income	(15,152)	(4,557)	(1,199)	1,437
5 Income tax				
The major components of tax expenses are:				
Current tax expense	210,184	194,607	-	-
Adjustments for current tax of prior periods	(17,663)	(2,167)	(22)	(66)
Deferred tax expense/(income)	(18,373)	(20,639)	1,279	(25,518)
Income tax expense/(benefit)	174,148	171,801	1,257	(25,584)

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

	Consolidated		Parent	
	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000
5 Income tax (continued)				
Reconciliation between tax expense and the pre-tax profit multiplied by the applicable tax rate is set out below:				
Pre-tax profit/(loss)	379,870	347,635	488,222	(105,247)
Tax at PNG rate for petroleum (50%)	189,935	173,818	244,111	(52,624)
Restatement of deferred tax for gas and non-petroleum (30%)	(29,851)	(10,377)	-	-
Effect of differing tax rates across tax regimes	(4,618)	6,780	(97,645)	21,050
	155,466	170,221	146,466	(31,574)
Tax effect of items not tax deductible or assessable:				
(Over)/under provisions in prior periods	(17,663)	1,041	(22)	1,672
Non-deductible expenditure	35,819	22,794	4,813	4,527
Non-assessable income	-	-	(150,000)	-
Profit on disposal of assets	-	(22,255)	-	(209)
Other	526	-	-	-
Income tax expense/(benefit)	174,148	171,801	1,257	(25,584)
The amount of the deferred tax (income)/expense recognised in the net profit in respect of each type of temporary difference:				
Exploration and development	(22,894)	(8,155)	613	(31,009)
Other assets	(507)	1,056	-	-
Provisions and accruals	1,327	(27,827)	(289)	(331)
Other items	(505)	2,094	(167)	(487)
Tax losses	4,206	12,193	1,122	6,309
Deferred tax (income)/expense	(18,373)	(20,639)	1,279	(25,518)

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

	Consolidated	
	2013	2012
	US cents	US cents
6 Earnings per share		
Basic earnings per share	15.36	13.22
Diluted earnings per share	15.30	13.17
	No.	No.

Weighted average number of ordinary shares used for the purposes of calculating diluted earnings per share reconciles to the number used to calculate basic earnings per share as follows:

Basic earnings per share	1,339,184,811	1,330,266,657
Employee share options/share appreciation rights	225,209	233,780
Employee performance rights	5,055,230	5,086,286
Diluted earnings per share	1,344,465,250	1,335,586,723

Basic earnings and diluted earnings per share have been calculated on a net profit after tax of US\$205.7 million (2012: US\$175.8 million).

There are 2,799,740 share options/share appreciation rights (2012: 1,491,810), and 4,653,631 performance rights (2012: 5,344,915) which are dilutive potential ordinary shares and are therefore included in the weighted average number of shares for the calculation of diluted earnings per share. The Restricted Share Plan Trust holds 237,873 (2012: 1,129,977) Oil Search Limited shares that may be used to settle these obligations which are taken into account in the calculation of diluted earnings per share.

The average market value of the company's shares for the purpose of calculating the dilutive effect of share options and rights was based on quoted market prices for the period 1 January 2013 to 31 December 2013.

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

	Consolidated		Parent	
	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000
7 Dividends paid or proposed				
Unfranked ⁽¹⁾ dividends in respect of the year, proposed subsequent to the year end:				
Ordinary dividends ⁽²⁾	26,867	26,695	26,867	26,695
Unfranked ⁽¹⁾ dividends paid during the year:				
Ordinary – previous year final	26,704	26,511	26,704	26,511
Ordinary – current year interim ⁽³⁾	26,828	26,632	26,828	26,632
	53,532	53,143	53,532	53,143

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

(2) On 27 February 2014, the Directors declared a final unfranked dividend of US 2 cents per ordinary share for the current year (2012: US 2 cents final dividend) to be paid on 8 April 2014. The proposed final dividend for 2013 is payable to all holders of ordinary shares on the Register of Members on 13 March 2014 (record date). The estimated dividends to be paid are US\$26,867,223 and have not been included as a liability in these financial statements.

(3) On 19 August 2013, the Directors declared an interim unfranked dividend of US 2 cents per ordinary share (2012: US 2 cents interim dividend), paid to the holders of ordinary shares on 8 October 2013.

A Dividend Reinvestment Plan is currently in operation. It provides shareholders with the option of reinvesting all or part of their dividends in additional Oil Search shares. It is intended that the reinvestment shortfall on the 2013 final dividend will be fully underwritten.

8 Receivables

Current

Trade debtors ⁽¹⁾	105,766	103,292	-	-
Other debtors ⁽¹⁾	141,167	69,941	17,958	5,653
Amounts due from subsidiary entities	-	-	1,498,156	745,820
	246,933	173,233	1,516,114	751,473

Non-current

Other debtors ⁽¹⁾	4,757	4,271	-	-
	4,757	4,271	-	-

(1) During 2013, no receivables have been determined to be impaired and no related impairment loss has been charged to the profit and loss statement (2012: nil).

9 Inventories

Current

At cost

Materials and supplies	127,625	101,980	-	964
Petroleum products	4,029	7,096	-	-
	131,654	109,076	-	964

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

	Consolidated		Parent	
	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000
10 Other financial assets				
<i>Current</i>				
Loan receivable ⁽¹⁾	75,483	48,398	-	-
(1) The loan receivable relates to cash advanced by Oil Search under a farmin arrangement that remains subject to Government approvals. The balance is comprised of both interest bearing (\$46.4 million) and non-interest bearing (\$29.1 million) components. Interest accrues at the lesser of 10% per annum or Libor plus 7.5%. An option agreement and a share pledge agreement are held over this receivable balance, permitting Oil Search to acquire an equity interest in the issued share capital of the borrower. This asset is not past due or impaired at the end of the reporting period.				
11 Other assets				
<i>Current</i>				
Prepayments	42,513	89,424	1,238	1,970
<i>Non current</i>				
Prepayments	6,358	8,948	-	-
12 Exploration and evaluation assets				
At cost	681,588	489,016	80,153	38,677
Less impairment	(87,419)	(87,419)	(23,793)	(23,793)
	594,169	401,597	56,360	14,884
Balance at start of year	401,597	337,611	14,884	30,069
Additions	293,985	240,615	42,661	83,316
Exploration costs expensed during the year	(107,424)	(143,970)	(1,185)	(74,708)
Impairment losses	-	(23,793)	-	(23,793)
Changes in restoration obligations	7,664	923	-	-
Disposals	-	(9,782)	-	-
Net exchange differences	(1,653)	(7)	-	-
Balance at end of year	594,169	401,597	56,360	14,884
Exploration and evaluation assets include \$181.5 million (2012: \$183.5 million) of license acquisition costs and signature bonuses that are classified as intangible assets.				
13 Oil and gas assets				
<i>Assets in development</i>				
At cost	6,400,179	5,103,463	-	-
Accumulated amortisation	-	-	-	-
	6,400,179	5,103,463	-	-
Balance at start of year	5,103,463	3,467,975	-	-
Transferred from producing assets	63,688	74,501	-	-
Additions	1,062,840	1,375,820	-	-
Borrowing costs capitalised (PNG LNG Project)	151,775	116,709	-	-
Changes in restoration obligations	18,413	68,458	-	-
Balance at end of year	6,400,179	5,103,463	-	-

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

13 Oil and gas assets (continued)

	Consolidated		Parent	
	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000
<i>Producing assets</i>				
At cost	1,542,488	1,515,818	-	-
Accumulated amortisation and impairment	(1,232,478)	(1,195,671)	-	-
	310,010	320,147	-	-
Balance at start of year	320,147	310,186	-	-
Transferred from assets in development	(63,688)	(74,501)	-	-
Additions	152,600	111,498	-	-
Changes in restoration obligations	(62,242)	10,109	-	-
Amortisation of site restoration	(3,804)	(7,713)	-	-
Amortisation	(33,003)	(29,432)	-	-
Balance at end of year	310,010	320,147	-	-
Total oil and gas assets	6,710,189	5,423,610	-	-

14 Other property, plant and equipment

At cost	189,010	179,076	-	-
Accumulated depreciation and impairment	(120,564)	(107,170)	-	-
	68,446	71,906	-	-
<i>Rigs</i>				
Balance at start of year	49,198	56,341	-	-
Additions	-	98	-	-
Depreciation	(7,459)	(7,241)	-	-
Balance at end of year	41,739	49,198	-	-
<i>Other property, plant and equipment</i>				
Balance at start of year	22,708	11,636	-	11
Additions	12,195	16,430	-	-
Disposals	-	-	-	(11)
Changes in make-good assets	761	-	-	-
Depreciation	(5,935)	(5,334)	-	-
Net exchange differences	(3,022)	(24)	-	-
Balance at end of year	26,707	22,708	-	-

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

	Consolidated		Parent	
	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000
15 Investments				
Shares not quoted on securities exchange ⁽¹⁾	962	962	-	-
Accumulated impairment losses	(962)	(962)	-	-
	-	-	-	-
Shares in subsidiaries (at cost)	-	-	326,507	326,507
Accumulated impairment losses	-	-	-	-
	-	-	326,507	326,507

(1) Shares in Misima Mines Limited: 3,772,843 (2012: 3,772,843) ordinary shares at acquisition cost.

16 Deferred tax assets

Temporary differences				
Exploration and development	222,233	178,599	24,001	27,642
Other assets	1,410	1,473	167	643
Provisions	98,890	99,759	194	-
Tax losses recognised	8,841	4,153	-	891
	331,374	283,984	24,362	29,176

17 Payables

Current				
Trade creditors and accruals	278,860	392,217	7,152	3,394
Deferred lease liability	5,894	-	-	-
	284,754	392,217	7,152	3,394
Non-current				
Other payables	9,693	4,951	-	-
Deferred lease liability	11,715	10,865	-	-
	21,408	15,816	-	-

The deferred lease liability is related to the Bligh Street Sydney and Green Square Brisbane office leases and will be amortised over 12 years and 10 years, respectively.

18 Provisions

Current				
Employee entitlements	6,985	6,052	-	-
Site restoration	2,432	2,432	-	-
Contingent consideration	2,000	2,000	-	-
	11,417	10,484	-	-
Non-current				
Employee entitlements	13,040	9,262	-	-
Site restoration	254,087	281,897	-	-
	267,127	291,159	-	-

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

	Consolidated		Parent	
	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000
18 Provisions (continued)				
<i>Movement in site restoration provision</i>				
Balance at start of year	284,329	200,326	-	-
Additional provision recognised	(35,405)	79,491	-	-
Use of provision	-	(868)	-	-
Unwinding of discount	7,595	5,380	-	-
Balance at end of year	256,519	284,329	-	-

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

<i>Movement in contingent consideration</i>				
Balance at start of year	2,000	-	-	-
Additional provision recognised	-	2,000	-	-
Use of provision	-	-	-	-
Balance at end of year	2,000	2,000	-	-

The group has US\$2.0 million as contingent consideration in relation to the acquisition of ML Energy Investment Fund Upstream (PNG) Pty Ltd in 2012.

19 Loans and borrowings

Non-current

Revolving credit facility	200,000	-	-	-
Secured loan from joint operation ⁽¹⁾	3,824,421	2,866,050	-	-
	4,024,421	2,866,050	-	-

- (1) Papua New Guinea Liquefied Natural Gas Global Company LDC, a limited duration company incorporated under the laws of the Commonwealth of the Bahamas (the "Borrower") was organised to conduct certain activities of the PNG LNG Project outside of PNG, including the borrowing and on-lending to the Project participants of senior debt, and the purchase and re-sale of PNG LNG Project liquids and LNG. The Borrower is owned by each participant in a percentage equal to its project interest (the Oil Search Limited Group interest at 31 December 2013 is 29.0% (December 2012: 29.0%)).

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

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

19 Loans and borrowings (continued)

Revolving credit facility

Oil Search (Finance) Limited ("OSFL") signed a five year non-amortising financing facility effective 29 October 2012 for US\$500 million. A facility limit of US\$300 million was available at 31 December 2013. As part of the terms and conditions of this facility, Oil Search (PNG) Limited ("OSP") as guarantor, has provided a charge over its credit account in Melbourne with Australia & New Zealand Banking Group Limited.

As at 31 December 2013, the weighted average interest rate for the drawn loans was 3.27% (2012: nil).

Secured loan from joint operation

The PNG LNG Project ("LNG Project") achieved financial investment decision on 8 December 2009 and financial close on 12 March 2010. The maximum committed debt facility available to the LNG Project at the date of signing was US\$14 billion under nine loan facility agreements. On 4 October 2013, a supplemental debt facility of US\$1.5 billion was secured by the LNG Project.

As at 31 December 2013, the weighted average interest rate for the drawn loans was 3.26% (2012: 3.25%), consisting of both fixed and floating rate portions. The source of funding was from:

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

The loan facility is made up of the following:

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

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

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

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

19 Loans and borrowings (continued)

Terms and debt repayment schedule (continued)

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

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

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

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

The Borrower grants to the security trustee:

- a first-ranking security interest in all of the Borrower's assets (Oil Search's share US\$3,258.5 million at 31 December 2013 (2012: \$2,449.8 million)), with a few limited exceptions;
- a fixed and floating charge over existing and future funds in the offshore accounts;
- a deed of charge (and assignment) over the sales contracts, LNG charter party agreements, rights under insurance policies, LNG supply and sales commitment agreements, on-loan agreements and the sales, shipping and finance administration agreements, collectively known as "Borrower Material Agreements"; and
- a mortgage of contractual rights over Borrower Material Agreements.

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

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

Oil Search has also granted security over:

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

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

	Consolidated		Parent	
	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000
20 Deferred tax liabilities				
Temporary differences				
Exploration and development	254,046	229,937	-	-
Prepayments and receivables	13,727	1,485	62	591
Other assets	552	11,898	-	-
	268,325	243,320	62	591
21 Share capital and reserves				
Issued 1,343,361,150 (2012: 1,334,756,742)				
Ordinary shares, fully paid (no par value)	1,821,957	1,753,192	1,821,957	1,753,192
Movements in issued and fully paid shares	2013	2012	2013	2012
	Shares	Shares	US\$'000	US\$'000
Balance at the beginning of the period	1,334,756,742	1,325,155,171	1,753,192	1,683,492
Transfer of vested shares from employee equity compensation reserve	-	-	13,404	8,879
Ordinary shares issued on exercise of options and rights, and grants of restricted shares	1,775,000	2,510,333	1,879	7,675
DRP underwriting agreement ⁽¹⁾				
Ordinary shares issued at US\$7.26 (2011 final dividend)	-	2,017,775	-	14,643
Ordinary shares issued at US\$7.90 (2012 interim dividend)	-	2,157,896	-	17,045
Ordinary shares issued at US\$7.74 (2012 final dividend)	1,900,006	-	14,702	-
Ordinary shares issued at US\$8.09 (2013 interim dividend)	2,058,706	-	16,658	-
DRP ⁽²⁾				
Ordinary shares issued at US\$7.11 (2011 final dividend)	-	1,672,768	-	11,894
Ordinary shares issued at US\$7.74 (2012 interim dividend)	-	1,242,799	-	9,619
Ordinary shares issued at US\$7.58 (2012 final dividend)	1,586,782	-	12,028	-
Ordinary shares issued at US\$7.93 (2013 interim dividend)	1,283,914	-	10,181	-
Share issue costs	-	-	(88)	(55)
	1,343,361,150	1,334,756,742	1,821,957	1,753,192

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

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

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

21 Share capital and reserves (continued)

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

At balance date, there were 121,350 options (2012: 469,930), 4,654,190 share appreciation rights (2012: 4,291,120), 4,653,631 performance rights (2012: 5,344,915), and 609,099 restricted shares (2012: 1,295,197) granted over ordinary shares exercisable at various dates in the future, subject to meeting applicable performance hurdles, and at varying exercise prices (refer to note 25 for further details).

During the year, a total of 278,010 share options (2012: 1,134,130), 353,379 share appreciation rights and 1,968,151 performance rights (2012: 1,426,764) were exercised and 61,700 share options (2012: 64,362), 1,157,501 share appreciation rights (2012: 371,100) and 358,333 performance rights (2012: 864,153) were forfeited. Restricted shares totalling 1,043,456 vested and were exercised (2012: 371,667) and 4,072 (2012: 99,014) restricted shares were forfeited during the year.

During the year, 1,873,950 share appreciation rights (2012: 1,744,200) were granted under the Employee Share Appreciation Rights Plan. There were 1,635,200 performance rights (2012: 1,899,900) granted under the Performance Rights Plan, and 361,230 restricted shares (2012: 108,513) granted under the Restricted Share Plan during the year.

	Consolidated		Parent	
	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000
a) Reserves at the end of the financial year				
Foreign currency translation reserve	(5,412)	(1,002)	-	-
Amalgamation reserve	-	-	(2,990)	(2,990)
Reserve for treasury shares	(2,620)	(5,584)	-	-
Employee equity compensation reserve	11,506	18,276	5,843	9,649
Balance at end of year	<u>3,474</u>	<u>11,690</u>	<u>2,853</u>	<u>6,659</u>

b) Movements in reserves

Foreign currency translation reserve

Balance at start of year	(1,002)	426	-	-
Translation of financial statements of foreign subsidiaries	(4,410)	(1,428)	-	-
Balance at end of year	<u>(5,412)</u>	<u>(1,002)</u>	<u>-</u>	<u>-</u>

The foreign currency translation reserve is used to record foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Amalgamation reserve

Balance at start of year	-	-	(2,990)	(2,990)
Balance at end of year	<u>-</u>	<u>-</u>	<u>(2,990)</u>	<u>(2,990)</u>

The amalgamation reserve was used to record the retained earnings of entities amalgamated into the parent entity in 2006.

Reserve for treasury shares

Balance at start of year	(5,584)	(5,601)	-	-
Issue of shares during financial year	(861)	(1,827)	-	-
Release of treasury shares on vesting	3,825	1,844	-	-
Balance at end of year	<u>(2,620)</u>	<u>(5,584)</u>	<u>-</u>	<u>-</u>

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

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

	Consolidated		Parent	
	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000
21 Share capital and reserves (continued)				
Employee equity compensation reserve				
Balance at start of year	18,276	18,131	9,649	9,488
Expense recognised in subsidiaries				
during financial year	10,060	10,644	10,060	10,644
Transfer of vested shares to share capital	(13,404)	(8,879)	(13,404)	(8,879)
Issue of treasury shares	-	-	(861)	(1,827)
Release of treasury shares on vesting	(3,825)	(1,844)	-	-
Net exchange differences	399	224	399	223
Balance at end of year	11,506	18,276	5,843	9,649

The employee equity compensation reserve is used to record the share based remuneration obligations to employees in relation to Oil Search Limited ordinary shares as held by the Employee Options and Rights Share Plans and Share Appreciation Rights Share Plans, which have not vested as at the end of the year.

22 Statement of cash flows

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

Cash at bank and on hand ⁽¹⁾⁽²⁾	165,799	213,388	73,615	136,748
Share of cash in joint operations	42,182	8,094	-	101
Interest-bearing short-term deposits ^{(2) (3) (4)}	1,680	266,792	1,680	236,680
	209,661	488,274	75,295	373,529

(1) Includes US\$56.3 million (2012: US\$42.4 million) held in escrow to meet future LNG Project base equity commitments (refer to note 19 for further details).

(2) In 2013, 'Cash at bank and on hand' includes US\$10.1 million in a debt service reserve account held with Australia & New Zealand Banking Group Limited, as required by the US\$500 million revolving facility agreement. In 2012, this amount was included in 'Interest-bearing short-term deposits'.

(3) Includes US\$1.7 million (2012: US\$1.7 million) held as security for letters of credit on issue.

(4) In 2013, US\$nil (2012: US\$235.0 million) was held in escrow to meet future LNG Project base equity commitments (refer to note 19 for further details).

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

	Consolidated		Parent	
	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000
22 Statement of cash flows (continued)				
(b) Reconciliation of cash flows from operating activities				
Net profit/(loss) after tax	205,722	175,834	486,965	(79,663)
Add/(deduct):				
Exploration costs expensed ⁽¹⁾	71,111	92,765	(981)	69,982
Impairment expense	-	23,793	-	23,793
Profit on sale of non-current assets	(216)	(45,079)	-	(698)
Dividend income	-	-	(500,000)	-
Amortisation - site restoration	3,804	7,596	-	-
Unwinding of site restoration discount	7,595	5,380	-	-
Amortisation - oil and gas assets	33,003	29,286	-	-
Employee share-based remuneration	10,060	10,644	-	-
Depreciation	13,394	12,575	-	-
Exchange (gains)/ losses - unrealised	(989)	(1,204)	531	(777)
Movement in tax provisions	25,319	(44,957)	4,074	(21,122)
Net increase/(decrease) in provisions	11,455	(2,463)	-	(80)
(Increase)/decrease in inventories	(15,495)	(5,708)	964	(964)
Decrease/(increase) in other current and non-current assets	1,754	(1,095)	13	(3,178)
Increase/(decrease) in payables	7,873	(3,061)	7,979	8,205
Increase in receivables	(7,586)	(58,080)	(8,425)	(3,566)
	161,082	20,392	(495,845)	71,595
Net cash from/(used in) operating activities	366,804	196,226	(8,880)	(8,068)

(1) Exploration costs expensed totalled \$107.4 million (2012: \$144.0 million) of which \$71.1 million (2012: \$92.8 million) represents the write-off of costs for unsuccessful wells which are not included in operating cash flows.

(c) Non-cash transactions

	Consolidated	
	2013	2012
	US\$'000	US\$'000
Borrowing costs capitalised into developing assets	(151,006)	(116,709)

During the year, the Oil Search Group continued to draw down on the loan financed via the Papua New Guinea Liquefied Natural Gas Global Company LDC (the "Borrower"). This entity was created to conduct certain activities of the LNG Project outside of PNG including the borrowing and on-lending to the participants of senior debt, and the purchase and re-sale of LNG Project liquids and LNG.

The movement in capitalised interest relating to the LNG Project facility is not a cash movement by the Oil Search Group. In accordance with the loan agreements, this cost is accrued into the loan balance prior to the completion of the construction phase of the LNG Project and is therefore not included in the net cash flow used in investing activities in the consolidated cash flow statement.

Interest on the group's revolving credit facility is cash-settled when due.

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

23 Interests in joint arrangements

(a) Interests in joint operations

The principal activities of the following joint operations in which the group holds an interest are the exploration for and the production of crude oil and natural gas. The group's interests in joint operations are as follows:

(i) Exploration licences	Principal place of business	% Interest	
		2013	2012
PPL 233	PNG	52.50	52.50
PPL 234 ⁽¹⁾⁽²⁾	PNG	80.00	80.00
PPL 276 ⁽⁴⁾	PNG	-	30.00
PPL 277 ⁽²⁾	PNG	50.00	50.00
PPL 312 ⁽¹⁾	PNG	30.00	30.00
Block 7 ⁽¹⁾	Yemen	34.00 ⁽³⁾	34.00 ⁽³⁾

(1) Joint operation operated by an Oil Search Group entity.

(2) Subject to farm down agreement.

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

(4) Farmin agreement expired on 11 December 2013.

(ii) Gas licences		Principal place of business	% Interest	
			2013	2012
PDL 1	Hides gas field	PNG	16.66	16.66
PDL 7	South Hides gas field	PNG	40.69	40.69
PDL 8	Angore gas field	PNG	40.69	40.69
PDL 9	Juha gas field	PNG	24.42	24.42
PRL 1 ⁽¹⁾	Pandora gas field	PNG	-	24.09
PRL 3	P'nyang gas field	PNG	38.51	38.51
PRL 9 ⁽²⁾	Barikewa gas field	PNG	45.11	45.11
PRL 11	Angore gas field	PNG	52.50	52.50
PNG LNG	PNG LNG Project	PNG	29.00	29.00
PPFL 2	PNG LNG Project	PNG	29.00	29.00
PL 4	PNG LNG Project	PNG	29.00	29.00
PL 5	PNG LNG Project	PNG	29.00	29.00
PL 6	PNG LNG Project	PNG	29.00	29.00
PL 7	PNG LNG Project	PNG	29.00	29.00
PL 8	PNG LNG Project	PNG	29.00	29.00

(1) Licence expired in February 2013, having reached its maximum 15 year term.

(2) Joint operation operated by an Oil Search Group entity.

(iii) Other projects		Principal place of business	% Interest	
			2013	2012
Papua New Guinea Liquefied Natural Gas Global Company LDC		Bahamas	29.00	29.00
Biomass		PNG	63.50 ⁽¹⁾	60.00

(1) Participating interest is 63.5%. Paying interest is 100%.

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

23 Interests in joint arrangements (continued)

(b) Interests in other arrangements

The group participates in arrangements with other parties that have the same legal form as a joint operation but are not subject to joint control (as described in note 1(q)). The group's interests in these arrangements is as follows:

			% Interest	
			2013	2012
(i) Production licences		Principal place of business		
PDL 1 ⁽¹⁾⁽⁴⁾	Hides gas to electricity project	PNG	100.00	100.00
PDL 2 ⁽²⁾⁽³⁾	Kutubu & Moran oil fields	PNG	60.05	60.05
PDL 2 ⁽²⁾⁽³⁾	South East Mananda oil fields	PNG	72.27	72.27
PDL 3	South East Gobe oil field	PNG	36.36	36.36
PDL 4 ⁽²⁾	Gobe Main and South East Gobe oil fields	PNG	10.00	10.00
PDL 5 ⁽³⁾	Moran oil field	PNG	40.69	40.69
PDL 6 ⁽²⁾⁽³⁾	Moran oil field	PNG	71.07	71.07
PL 1 ⁽²⁾⁽⁴⁾	Hides gas pipeline	PNG	100.00	100.00
PL 2 ⁽²⁾	Kutubu oil pipeline	PNG	60.05	60.05
PL 3 ⁽²⁾	Gobe oil pipeline	PNG	17.78	17.78

(1) The group is operator of the gas to electricity project.

(2) Operated by an Oil Search Group entity.

(3) Whilst not the operator of PDL 5, the group operates the Greater Moran Unit, incorporating PDL 2, 5 and 6, under a separate commercial arrangement.

(4) Licence 100% owned by the group. Disclosed for information purposes.

			% Interest	
			2013	2012
(ii) Exploration licences		Principal place of business		
PPL 219 ⁽¹⁾		PNG	71.25	71.25
PPL 240 ⁽¹⁾⁽³⁾		PNG	100.00	100.00
PPL 244 ⁽¹⁾⁽²⁾		PNG	40.00	40.00
PPL 260 ⁽¹⁾⁽²⁾		PNG	40.00	40.00
PPL 338 ⁽²⁾		PNG	30.00	30.00
PPL 339 ⁽²⁾		PNG	30.00	30.00
PPL 385 ⁽³⁾		PNG	100.00	100.00
Taza (K42) ⁽¹⁾		Iraq	60.00 ⁽⁴⁾	60.00 ⁽⁴⁾
Tajerouine ⁽¹⁾		Tunisia	50.00 ⁽⁵⁾	50.00 ⁽⁵⁾

(1) Operated by an Oil Search Group entity.

(2) Subject to farm down agreement.

(3) Licence 100% owned by the group. Disclosed for information purposes.

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

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

			% Interest	
			2013	2012
(iii) Gas licences		Principal place of business		
PRL 2	Juha gas field	PNG	31.51	31.51
PRL 8 ⁽¹⁾	Kimu gas field	PNG	60.71	60.71
PRL 10 ⁽¹⁾⁽²⁾⁽³⁾	Uramu gas field	PNG	100.00	100.00
PRL 14	Cobra, lehi, Bilip gas fields	PNG	62.56	62.56

(1) Operated by an Oil Search Group entity.

(2) Subject to farm down agreement.

(3) Licence 100% owned by the group. Disclosed for information purposes.

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

24 Segment reporting

Information about reportable segments

The group's segments are arranged primarily by location of operation (e.g. PNG and MENA (Middle East and North Africa)) followed by the commodity (e.g. oil and gas or LNG).

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

US\$'000	PNG				MENA		Corporate		Total	
	Oil and gas		LNG		Oil and gas		31 December		31 December	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
External revenues	766,265	724,619	-	-	-	-	-	-	766,265	724,619
Amortisation - site restoration	(3,804)	(7,596)	-	-	-	-	-	-	(3,804)	(7,596)
Amortisation - oil and gas assets	(33,003)	(29,286)	-	-	-	-	-	-	(33,003)	(29,286)
Depreciation	(7,459)	(7,241)	-	-	(242)	(171)	(5,693)	(5,163)	(13,394)	(12,575)
Foreign currency (losses)/gains	20	(1,265)	-	-	23	6	(551)	(186)	(508)	(1,445)
Exploration and evaluation costs expensed	(67,366)	(129,486)	-	-	(40,058)	(14,484)	-	-	(107,424)	(143,970)
Business development costs	(9,459)	(7,295)	-	-	(698)	(5,014)	-	-	(10,157)	(12,309)
Employee share-based remuneration	-	-	-	-	-	-	(10,060)	(10,644)	(10,060)	(10,644)
Operating costs	(182,110)	(168,231)	-	-	(73)	(427)	(10,926)	(7,230)	(193,109)	(175,888)
EBIT	463,084	374,219	-	-	(41,048)	(20,090)	(27,230)	(23,223)	394,806	330,906
Profit on sale of other non-current assets									216	45,079
Unwinding of discount on site restoration									(7,595)	(5,380)
Impairment expense									-	(23,793)
Interest income									3,905	5,287
Borrowing costs									(11,462)	(4,464)
Reportable segment profit before income tax									379,870	347,635
Income tax expense									(174,148)	(171,801)
Net profit after tax									205,722	175,834
Investment expenditure										
Exploration and evaluation assets	(206,927)	(185,568)	-	-	(87,058)	(55,047)	-	-	(293,985)	(240,615)
Oil and gas assets - development and production	(152,600)	(110,703)	(1,214,615)	(1,493,324)	-	-	-	-	(1,367,215)	(1,604,027)
Property, plant and equipment	-	(67)	-	-	(370)	(349)	(11,825)	(16,112)	(12,195)	(16,528)
Total capital expenditure	(359,527)	(296,338)	(1,214,615)	(1,493,324)	(87,428)	(55,396)	(11,825)	(16,112)	(1,673,395)	(1,861,170)

Geographical segments

The Oil Search Group operates primarily in Papua New Guinea but also has activities in Yemen, Iraq, Tunisia and Australia. Production from the designated segments is sold on commodity markets and may be sold to other geographical segments.

In presenting information on the basis of geographical segments, segment revenue and segment assets are based on the location of operating activity.

US\$'000	Revenues		Non-current assets	
	2013	2012	2013	2012
PNG	766,265	724,619	7,499,739	6,035,695
Australia	-	-	44,926	35,528
MENA	-	-	170,628	123,093
Total	766,265	724,619	7,715,293	6,194,316

Major customers

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

Revenue from one customer represents approximately \$418.8 million or 57% of the group's total oil and gas sales revenues (2012: \$593.2 million, 88%) and 55% of the group's total revenue of \$766.3 million (2012: 82% of \$724.6 million).

Revenue from one other customer represents approximately \$215.3 million or 30% of the group's total oil and gas sales revenues (2012: \$nil) and 28% of the group's total revenue of \$766.3 million (2012: nil).

Revenue from one other customer represents approximately \$81.3 million or 11% of the group's total oil and gas sales revenues (2012: \$79.9 million, 12%) and 11% of the group's total revenue of \$766.3 million (2012: 11% of \$724.6 million).

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

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

	Consolidated		Parent	
	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000
25 Employee entitlements and superannuation commitments				
The aggregate employee entitlement liability is comprised of:				
Annual leave entitlements	6,985	6,052	-	-
Long service leave entitlements	13,040	9,262	-	-
	20,025	15,314	-	-
Balance at start of year	15,314	16,909	-	-
Additional provision	12,706	3,706	-	-
Provision utilised	(7,995)	(5,301)	-	-
Balance at end of year	20,025	15,314	-	-

The provisions represent amounts due to employees in respect of entitlements to annual leave and long service leave accrued under statutory obligations applicable in Australia, PNG, the Middle East and North Africa. These amounts are payable in the normal course of business, either when leave is taken or on termination of employment.

Employee Share Option Plan and Share Appreciation Rights Plan

The Employee Share Option Plan was established in 2004 and selected employees of the group were granted options over ordinary shares of Oil Search Limited. The options are granted for nil consideration and are granted in accordance with guidelines approved by shareholders at the Annual Meeting in 2004. The options cannot be transferred and are not quoted on the Australian Securities Exchange. If an employee ceases to be employed by the group they forfeit any options and rights that have not vested, subject to Board discretion.

Commencing with the 2010 grant, options are no longer awarded and all grants are for share appreciation rights (SAR's). SAR's are similar to traditional employee share options, except that they are net settled. Net-settled refers to the fact that the employee does not have the option to take delivery of the full underlying number of shares, but merely receives the net gain on the option on maturity. The gain is calculated as the difference between the exercise price, being the share price at the time the SAR's were issued, and the Oil Search Limited share price at maturity. The option is assumed to be exercised on maturity if it is in the money, and the net gain is settled by delivering shares in Oil Search Limited to the value of the gain.

There are currently 960 (2012: 892) employees participating in the Employee Share Option Plan and Share Appreciation Rights plan.

	May 2013 grant	May 2012 grant	May 2011 grant	June 2010 grant	June 2009 grant	August 2008 grant⁽¹⁾	May 2007 grant
Grant date	20 May 2013	21 May 2012	23 May 2011	1 June 2010	1 June 2009	4 Aug 2008	7 May 2007
Share price at grant date	A\$8.04	A\$6.72	A\$6.92	A\$5.61	A\$5.73	A\$5.65	A\$3.66
Fair value	A\$1.67	A\$1.29	A\$1.73	A\$1.52	A\$2.02	A\$2.16	A\$1.01
Exercise date	13 May 2016	15 May 2015	16 May 2014	17 May 2013	13 May 2012	5 May 2011	7 May 2010
Exercise price	A\$7.82	A\$7.26	A\$6.98	A\$5.63	A\$5.22	A\$4.88	A\$3.57

Number of options/SAR's

Balance at 1 January 2013	-	1,616,900	1,342,320	1,331,900	301,150	157,740	2,170
Granted during year	1,873,950	-	-	-	-	-	-
Forfeited during year	(19,500)	(57,000)	(102,480)	(978,521)	(40,000)	(19,530)	(2,170)
Exercised during year ⁽²⁾	-	-	-	(353,379)	(139,800)	(138,210)	-
Balance at 31 December 2013	1,854,450	1,559,900	1,239,840	-	121,350	-	-
Exercisable at 31 December 2013	-	-	-	-	121,350	-	-
Average share price at date of exercise				A\$7.83	A\$7.94	A\$7.85	
Balance at 1 January 2012	-	-	1,468,320	1,449,700	1,166,400	377,122	116,030
Granted during year	-	1,744,200	-	-	-	-	-
Forfeited during year	-	(127,300)	(126,000)	(117,800)	(48,000)	(9,852)	(6,510)
Exercised during year ⁽²⁾	-	-	-	-	(817,250)	(209,530)	(107,350)
Balance at 31 December 2012	-	1,616,900	1,342,320	1,331,900	301,150	157,740	2,170
Exercisable at 31 December 2012	-	-	-	-	301,150	157,740	2,170
Average share price at date of exercise					A\$7.01	A\$7.16	A\$6.98

(1) Whilst not formally granted until 4 August 2008, the 2008 options were awarded on 5 May 2008, when the share price was A\$4.88.

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

25 Employee entitlements and superannuation commitments (continued)

Employee Share Option Plan and Share Appreciation Rights Plan (continued)

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

	May 2013 grant	May 2012 grant	May 2011 grant	June 2010 grant	June 2009 grant	August 2008 grant	May 2007 grant
Volatility	25%	30%	30%	35%	40%	38%	32%
Dividend yield	0.48%	0.60%	0.60%	0.90%	2.00%	1.50%	2.90%
Risk-free interest rate	2.53%	2.43%	4.88%	4.64%	4.55%	5.96%	5.93%

An expense of US\$2,004,758 (2012: US\$2,227,546) has been recognised in the statement of comprehensive income in respect of these options and SAR's. For options granted prior to 2010, the terms of the allocations provided for a 3 year vesting period followed by a 2 year exercise period. From 2010, all awards that satisfy their respective vesting conditions at the end of the 3 years vesting period are automatically exercised.

Performance Rights Plan

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

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

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

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

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

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

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

The rights are granted for nil consideration and are granted in accordance with guidelines approved by shareholders at the Annual Meeting in 2004. The rights cannot be transferred and are not quoted on the Australian Securities Exchange. There are currently 138 (2012: 130) employees participating in the Performance Rights Plan.

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

25 Employee entitlements and superannuation commitments (continued)
Performance Rights Plan (continued)

	May 2013 grant ⁽¹⁾	May 2012 grant ⁽²⁾	May 2011 grant ⁽³⁾	June 2010 grant ⁽⁴⁾	June 2009 grant ⁽⁵⁾	August 2008 grant ⁽⁶⁾	May 2007 grant ⁽⁷⁾
Grant date	24 May 2013	21 May 2012	23 May 2011	1 June 2010	1 June 2009	4 Aug 2008	7 May 2007
Share price at grant date	A\$8.16	A\$6.72	A\$6.92	A\$5.61	A\$5.73	A\$5.65	A\$3.66
Fair value	A\$5.28	A\$4.52	A\$4.40	A\$3.54	A\$4.70	A\$4.39	A\$2.10
Exercise date	20 May 2016	15 May 2015	23 May 2014	17 May 2013	13 May 2012	5 May 2011	7 May 2010
Exercise price	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil
Number of rights							
Balance at 1 January 2013	-	1,773,500	1,460,800	1,454,600	457,015	199,000	-
Granted during period	1,635,200	-	-	-	-	-	-
Forfeited during period	-	(156,885)	(98,415)	(103,033)	-	-	-
Exercised during period ^(8,9)	-	(20,715)	(54,985)	(1,351,567)	(341,884)	(199,000)	-
Balance at 31 December 2013	1,635,200	1,595,900	1,307,400	-	115,131	-	-
Exercisable at 31 December 2013	-	-	-	-	115,131	-	-
Average share price at date of exercise		A\$7.65	A\$7.68	A\$7.81	A\$7.86	A\$7.99	
Balance at 1 January 2012	-	-	1,650,900	1,658,000	1,422,085	822,500	182,447
Granted during period	-	1,899,900	-	-	-	-	-
Forfeited during period	-	(126,400)	(175,872)	(157,989)	(403,892)	-	-
Exercised during period ^(8,9)	-	-	(14,228)	(45,411)	(561,178)	(623,500)	(182,447)
Balance at 31 December 2012	-	1,773,500	1,460,800	1,454,600	457,015	199,000	-
Exercisable at 31 December 2012	-	-	-	-	457,015	199,000	-
Average share price at date of exercise					A\$6.82	A\$6.97	A\$6.74

(1) Performance period 1 January 2013 - 31 December 2015.

(2) Performance period 1 January 2012 - 31 December 2014.

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

(4) Performance period 1 January 2010 - 31 December 2012. All rights vested on 17 May 2013.

(5) Performance period 1 January 2009 - 31 December 2011. All rights vested on 13 May 2012.

(6) Performance period 1 January 2008 - 31 December 2010. All rights vested on 5 May 2011.

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

(8) Settled by cashing out or cancelling the rights or by issuing new shares.

(9) Board discretion exercised in relation to death, resignation or termination of employment.

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

	May 2013 grant	May 2012 grant	May 2011 grant	June 2010 grant	June 2009 grant	August 2008 grant	May 2007 grant
Volatility	25%	30%	30%	35%	40%	38%	32%
Dividend yield	0.48%	0.60%	0.60%	0.90%	2.00%	1.50%	2.90%
Risk-free interest rate	2.60%	2.43%	4.88%	4.64%	4.16%	6.00%	5.98%

An expense of US\$5,563,960 (2012: US\$5,917,637) has been recognised in the statement of comprehensive income in respect of these rights.

For performance rights granted prior to 2010, the terms of the allocations provided for a 3 year vesting period followed by a 2 year exercise period. From 2010, all awards that satisfy their respective vesting conditions at the end of the 3 years vesting period are automatically exercised.

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

25 Employee entitlements and superannuation commitments (continued)

Restricted Share Plan

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

Restricted shares are granted under the plan in two situations. First as a way of retaining key management and other employees. Second, by way of mandatory deferral of a portion of a selected participant's short-term incentive award. Awards under the Restricted Share Plan are structured as grants of restricted shares for nil consideration. Restricted shares will be held on behalf of participants in trust, subject to the disposal restrictions and forfeiture conditions, until release under the terms of the plan and in accordance with guidelines approved by shareholders at the Annual Meeting in 2007. There are currently 315 (2012: 566) employees participating in the Restricted Share Plan.

Executives	March 2013 grant	March 2013 grant	March 2012 grant	March 2011 grant	April 2010 grant	March 2010 grant
	7 March	7 March				
Grant date	2013	2013	5 March 2012	1 March 2011	27 April 2010	3 March 2010
Share price at grant date	\$7.87	\$7.87	A\$7.21	A\$6.96	A\$5.79	A\$5.28
Exercise date	31 October 2014	1 January 2015	1 January 2014	1 January 2013	27 April 2014	1 January 2012
Exercise price	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil

Number of shares

Balance at 1 January 2013	-	-	94,480	152,745	100,000	-
Granted during year	40,000	321,230	-	-	-	-
Forfeited during year	-	-	-	-	-	-
Vested during year	-	-	(21,832)	(152,745)	-	-
Balance at 31 December 2013	40,000	321,230	72,648	-	100,000	-
Exercisable at 31 December 2013	-	-	-	-	-	-
Balance at 1 January 2012	-	-	-	205,935	100,000	347,409
Granted during year	-	-	108,513	-	-	-
Forfeited during year	-	-	(14,033)	(28,932)	-	-
Vested during year	-	-	-	(24,258)	-	(347,409)
Balance at 31 December 2012	-	-	94,480	152,745	100,000	-

Oil Search (PNG) Limited	July 2011 grant	July 2011 grant	July 2010 grant	July 2010 grant	March 2009 grant
	15 July	15 July	26 July	26 July	15 June
Grant date	2011	2011	2010	2010	2009
Share price at grant date	A\$6.58	A\$6.58	A\$5.80	A\$5.80	A\$5.85
Exercise date	15 July 2014	17 June 2013	15 July 2014	17 June 2013	17 June 2013
Exercise price	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil

Number of shares

Balance at 1 January 2013	38,720	155,022	36,501	121,102	596,627
Granted during year	-	-	-	-	-
Forfeited during period	-	-	-	(2,189)	(1,883)
Vested during period	-	(155,022)	-	(118,913)	(594,744)
Balance at 31 December 2013	38,720	-	36,501	-	-
Exercisable at 31 December 2013	-	-	-	-	-
Balance at 1 January 2012	49,139	158,288	39,336	130,998	626,260
Granted during period	-	-	-	-	-
Forfeited during period	(10,419)	(3,266)	(2,835)	(9,896)	(29,633)
Balance at 31 December 2012	38,720	155,022	36,501	121,102	596,627

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

An expense of US\$2,490,908 (2012: US\$2,498,951) has been recognised in the statement of comprehensive income in respect of these restricted shares.

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

	2013	2012
	US\$	US\$
26 Key management personnel remuneration		
(a) Directors' remuneration		
Remuneration paid or payable, or otherwise made available, in respect of the financial year, to all directors of Oil Search Limited, directly or indirectly, by the company or any related party:		
Short-term benefits	5,747,142	6,098,201
Long-term benefits	172,360	142,326
Post-employment benefits	94,525	97,728
Share-based payments	2,210,232	2,008,170
	8,224,259	8,346,425

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

	No.	No.
US\$30,000 – US\$39,999	-	1
US\$80,000 – US\$89,999	1	1
US\$90,000 – US\$99,999	-	1
US\$140,000 – US\$149,999	-	1
US\$150,000 – US\$159,999	-	1
US\$160,000 – US\$169,999	-	1
US\$190,000 – US\$199,999	2	-
US\$220,000 – US\$229,999	1	1
US\$230,000 – US\$239,999	1	2
US\$240,000 – US\$249,999	1	-
US\$250,000 – US\$259,999	1	-
US\$460,000 – US\$469,999	1	-
US\$480,000 – US\$489,999	-	1
US\$1,560,000 – US\$1,569,999	1	-
US\$1,570,000 – US\$1,579,999	-	1
US\$4,770,000 – US\$4,779,999	1	-
US\$4,900,000 – US\$4,909,999	-	1

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

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

	2013	2012
	US\$	US\$
26 Key management personnel remuneration (continued)		
(b) Executives' remuneration (excluding directors)		
Amounts received or due and receivable by executive officers of the group whose remuneration is US\$100,000 or more, from entities in the group:		
Short-term benefits	5,688,850	7,482,863
Long-term benefits	51,788	(148,108)
Post-employment benefits	119,536	173,053
Share-based payments	1,801,884	1,417,583
	7,662,058	8,925,391

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

	2013	2012
	No.	No.
US\$220,000 – US\$229,999	-	1
US\$290,000 – US\$299,999	-	1
US\$320,000 – US\$329,999	1	-
US\$370,000 – US\$379,999	1	-
US\$760,000 – US\$769,999	-	1
US\$830,000 – US\$839,999	1	-
US\$980,000 – US\$989,999	1	-
US\$990,000 – US\$999,999	-	1
US\$1,130,000 – US\$1,139,999	1	1
US\$1,180,000 – US\$1,189,999	-	1
US\$1,230,000 – US\$1,239,999	1	-
US\$1,330,000 – US\$1,339,999	1	1
US\$1,390,000 – US\$1,399,999	-	1
US\$1,420,000 – US\$1,429,999	1	-
US\$1,590,000 – US\$1,599,999	-	1

	Consolidated		Parent	
	2013	2012	2013	2012
	US\$	US\$	US\$	US\$
27 Auditor's remuneration				
Amounts paid or due and payable in respect of:				
Auditing the group's financial report	360,319	348,626	121,501	131,164
Other services	117,755	25,895	-	-
	478,074	374,521	121,501	131,164

The audit fees are in Australian dollars and are translated at 0.9686 (2012: 1.0359).

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

28 Related party transactions

(a) Key management personnel

The directors and key management personnel of Oil Search Limited during the year to 31 December 2013, and their interests in the shares of Oil Search Limited at that date were:

Directors	No. of ordinary shares		No. of performance rights ⁽¹⁾		No. of restricted shares ⁽¹⁾	
	2013	2012	2013	2012	2013	2012
BF Horwood	25,000	25,000	-	-	-	-
PR Botten	2,075,582	2,139,122	734,500	953,272	174,666	112,493
G Aopi	312,188	243,526	189,936	240,736	145,918	128,046
KG Constantinou	-	-	-	-	-	-
FE Harris	10,026	-	-	-	-	-
R Igará ⁽²⁾	-	10,000	-	-	-	-
AJ Kantsler	25,200	17,090	-	-	-	-
MDE Kriewaldt ⁽²⁾	-	14,590	-	-	-	-
RJ Lee	40,000	20,000	-	-	-	-
B Philemon	7,203	7,165	-	-	-	-
KW Spence	-	-	-	-	-	-
JL Stitt ⁽²⁾	-	42,190	-	-	-	-
ZE Switkowski	200,000	175,000	-	-	-	-
Executives						
P Bainbridge ⁽²⁾	-	563,333	-	-	-	-
P Caldwell	40,000	70,000	175,300	183,300	50,027	33,241
P Cholakos	76,213	46,000	165,000	143,500	85,242	10,222
P Crute ⁽²⁾	-	50,406	-	146,400	-	26,730
G Darnley-Stuart	46,495	-	105,000	-	-	-
J Fowles	-	-	110,200	55,300	27,270	-
S Gardiner	221,608	151,812	166,260	185,060	44,001	8,178
M Herrett	-	-	45,200	-	10,725	-
I Munro	-	-	-	-	-	-
R Robinson ⁽²⁾	273,528	202,372	32,920	155,300	9,192	28,315
Z Todorcevski ⁽²⁾	-	104,740	-	-	-	-

(1) Refer to note 25.

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

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

28 Related party transactions (continued)

(a) Key management personnel (continued)

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

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

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

Consolidated	Transactions value year ended 31 December	
	2013	2012
	US\$'000	US\$'000
Airways Hotel and Apartments Limited ⁽¹⁾	167	136
Airways Residence Limited ⁽¹⁾	101	-
Alotau International Hotel ⁽¹⁾	19	-
Lamana Hotel Port Moresby ⁽¹⁾	340	331

All services acquired were based upon normal commercial terms and conditions.

(1) The group acquired hotel, conference facility and accommodation services in PNG from Airways Hotel and Apartments Limited, Airways Residence Limited, Alotau International Hotel and Lamana Hotel Port Moresby, companies of which Mr KG Constantinou is a Director.

(b) Other transactions

- (1) Interests in subsidiaries are disclosed in note 31.
- (2) Loans receivable from subsidiaries are disclosed in note 8. Interest revenue and expenses brought to account by the company in respect of these loans during the financial year are disclosed in note 4.
- (3) The group's interests in joint arrangements are set out in note 23.
- (4) Loans from joint arrangements are disclosed in note 19.
- (5) Other than transactions between entities in the group, which were made under normal commercial terms and conditions, there were no other related party transactions during the year to 31 December 2013.

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

29 Commitments

(a) Operating lease commitments

Rental of premises, equipment and LNG Project charter vessels

	Consolidated 2013 US\$'000	2012 US\$'000	Parent 2013 US\$'000	2012 US\$'000
Payable within 12 months	33,820	39,332	-	-
Payable 1 to 2 years	27,086	46,831	-	-
Payable 2 to 5 years	60,040	63,851	-	-
Payable greater than 5 years	159,395	178,344	-	-
	280,340	328,358	-	-

(b) Expenditure commitments

Capital expenditure commitments

Other expenditure commitments

	949,230	1,577,771	17,007	39,000
	206,493	206,493	-	-
	1,155,723	1,784,263	17,007	39,000

30 Contingencies

(a) Guarantees

As part of the terms and conditions of a Loan Agreement between Oil Search (Finance) Limited as borrower and the Commonwealth Bank of Australia lending syndicate for the provision of a US\$500 million term revolving facility, Oil Search (PNG) Limited, as guarantor, provided a charge over its credit account in Melbourne with Australia & New Zealand Banking Group Limited.

Oil Search Limited, as Completion Guarantor, has guaranteed payment by the Borrower of its share (29%) of the LNG Project's senior debt obligations (refer to note 19).

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

(b) Contingent claims

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

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

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

	Ownership interest % 2013	Ownership interest % 2012	Country of Incorporation
31 Group entities			
Parent entity			
Oil Search Limited			PNG
Consolidated entities			
Oil Search (Middle Eastern) Limited	100	100	British Virgin Is.
Oil Search (Iraq) Limited	100	100	British Virgin Is.
Oil Search (Libya) Limited	100	100	British Virgin Is.
Oil Search (Tunisia) Limited	100	100	British Virgin Is.
Oil Search (Newco) Limited	100	100	British Virgin Is.
Oil Search (ROY) Limited	100	100	British Virgin Is.
Oil Search (Gas Holdings) Limited	100	100	PNG
Oil Search (Tumbudu) Limited	100	100	PNG
Oil Search (P'nyang) Holdings Limited	100	100	PNG
Oil Search (P'nyang) Limited	100	100	PNG
Oil Search (PNG) Limited	100	100	PNG
Oil Search (Drilling) Limited	100	100	PNG
Oil Search (Exploration) Inc.	100	100	Cayman Is.
Oil Search (LNG) Limited	100	100	PNG
Oil Search Finance Limited	100	100	British Virgin Is.
New Guinea Investments Limited	100	100	PNG
New Guinea (Petroleum) Limited	100	100	PNG
Oil Search Health Foundation Limited ⁽¹⁾	100	100	PNG
Papuan Oil Search Limited	100	100	Australia
Oil Search (Uramu) Pty Limited	100	100	Australia
Oil Search Limited Retention Share Plan Trust	100	100	Australia

⁽¹⁾ Oil Search Health Foundation Limited is Trustee of the Oil Search Health Foundation Trust, a not-for-profit organisation established for charitable purposes in PNG. This Trust is not controlled by Oil Search and is not consolidated within the group.

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

32 Financial instruments

(a) Terms, conditions and accounting policies

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

Recognised financial instruments	Notes	Accounting policies	Terms and conditions
(i) Financial assets			
Receivables - trade	8	Trade receivables are carried at amortised costs less any allowance for doubtful debts. An allowance for doubtful debts is recognised when collection of the full nominal amount is no longer probable.	Credit sales are on 30 day terms.
Receivables - Related parties/entities	8	Amounts (other than trade debts) receivable from related parties/entities are carried at amortised cost less any allowance for doubtful debts.	Receivables from related parties/ entities are payable at call.
Loan receivable	10	Loans receivable are carried at amortised cost less any allowance for impairment.	Loans receivable are payable based on contractual arrangements.
Short-term deposits	22(a)	Short-term deposits are stated at amortised cost. Interest is recognised in the statement of comprehensive income at the effective interest rate.	Short-term deposits have maturity dates of 3 months or less.
(ii) Financial liabilities			
Trade creditors and accruals	17	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the group.	Trade liabilities are normally settled on 30 day terms.
Accounts payable - Related parties/entities	17	Loans from related parties are carried at amortised cost. Interest is recognised as an expense on an accrual basis.	Amounts owing to related parties/entities are payable at call.
Secured loans	-	Secured loans are carried at amortised cost net of transaction costs. Interest on borrowings for major projects is capitalised until the commencement of production and then amortised over: - the estimated life of the project (revolving credit facility); or - a fixed term from the completion date (PNG LNG Project). All other interest on borrowings is expensed at the effective interest rate.	Secured loans are repayable in quarterly instalments from proceeds earned from the producing oil fields (oil facility) or semi-annually from LNG proceeds (PNG LNG Project). Interest is either fixed or floating (LIBOR plus a margin). Details of the security over the secured loans are set out in notes 19 and 30(a).

32 Financial instruments (continued)

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

Recognised financial instruments	Notes	Accounting policies	Terms and conditions
(iii) Equity			
Ordinary shares	21	Ordinary share capital is recognised at the historical US\$ equivalent of capital raised, net of capital raising costs.	Under the PNG Companies Act, the concept of Authorised Capital no longer exists and there is no limit on the number of shares the company may issue. Details of shares issued and the terms and conditions of options and rights outstanding over ordinary shares are disclosed in notes 21 and 25.
Hedges	-	From time to time the group enters into hedging arrangements in circumstances where it is necessary to ensure adequate cash flow to meet financial commitments. As per IAS 39: Financial Instruments Recognition and Measurement the company recognises the fair value of outstanding effective hedges in the statement of financial position. Hedging settlements are included in the statement of comprehensive income at the same time as the underlying physical exposure is recognised in the statement of comprehensive income.	There are no outstanding forward sales contracts at balance date (2012: nil). As at 31 December 2013, there are no outstanding barrels hedged (2012: nil).

(b) Financial risk management

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

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

32 Financial instruments (continued)

(b) Financial risk management (continued)

(i) Market risk

Foreign exchange risk

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

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

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

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

Foreign exchange risk management

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

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

As at 31 December 2013, there were no foreign exchange hedge contracts outstanding (2012: nil).

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

(ii) Interest rate risk

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

Interest rate risk management

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

As at 31 December 2013, there was no interest rate hedging in place (2012: nil). Cash was invested in short-term instruments with an average maturity of 1 to 3 months.

Interest rate sensitivity

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

At the reporting date, if interest rates had been 25 basis points (2012: 25 basis points) higher or lower and all other variables were held constant, the group's net profit after tax would increase/decrease by \$0.5 million (2012: \$1.4 million).

At the reporting date, if interest rates had been 25 basis points higher or lower and all other variables were held constant, the parent entity's net profit after tax would increase/decrease by \$0.4 million (2012: \$1.0 million).

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

32 Financial instruments (continued)

(b) Financial risk management (continued)

(ii) Interest rate risk (continued)

Consolidated

Financial Instruments	Floating Interest Rate US\$'000	Fixed interest rate maturing in:				Non interest bearing US\$'000	carrying amount in the statement of financial position US\$'000	Weighted average effective interest rate %
		1 year or less US\$'000	1-5 years US\$'000	More than 5 years US\$'000				
2013								
Financial assets								
Cash and cash equivalents	207,981	1,680	-	-	-	209,661	1.3%	
Receivables – trade	-	-	-	-	105,766	105,766		
Other debtors	-	-	-	-	141,167	141,167		
Loan receivable	24,014	-	-	-	51,469	75,483		
Non-current receivables	-	-	-	-	4,757	4,757		
Total financial assets	231,995	1,680	-	-	303,159	536,834		
Financial liabilities								
Trade creditors and accruals	-	-	-	-	278,860	278,860		
Other payables	-	-	-	-	9,693	9,693		
Loans and borrowings	3,385,743	-	-	638,678	-	4,024,421	3.3%	
Total financial liabilities	3,385,743	-	-	638,678	288,553	4,312,974		
2012								
Financial assets								
Cash and cash equivalents	221,482	266,792	-	-	-	488,274	0.7%	
Receivables – trade	-	-	-	-	103,292	103,292		
Other debtors	-	-	-	-	69,941	69,941		
Loan receivable	9,808	-	-	-	38,590	48,398		
Non-current receivables	-	-	-	-	4,271	4,271		
Total financial assets	231,290	266,792	-	-	216,094	714,176		
Financial liabilities								
Trade creditors and accruals	-	-	-	-	392,217	392,217		
Other payables	-	-	-	-	4,951	4,951		
Loans and borrowings	2,387,420	-	-	478,630	-	2,866,050	3.3%	
Total financial liabilities	2,387,420	-	-	478,630	397,168	3,263,218		

There exists no unrecognised financial instruments at balance date.

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

32 Financial instruments (continued)

(b) Financial risk management (continued)

(ii) Interest rate risk (continued)

Parent

Financial Instruments	Floating Interest Rate US\$'000	Fixed interest rate maturing in:				Non interest bearing US\$'000	Total carrying amount in the statement of financial US\$'000	Weighted average effective interest rate %
		1 year or less US\$'000	1-5 years US\$'000	More than 5 years US\$'000				
2013								
Financial assets								
Cash and cash equivalents	73,615	1,680	-	-	-	75,295	0.4%	
Other debtors	-	-	-	-	17,958	17,958		
Total financial assets	73,615	1,680	-	-	17,958	93,253		
Financial liabilities								
Trade creditors and accruals	-	-	-	-	7,152	7,152		
Total financial liabilities	-	-	-	-	7,152	7,152		
2012								
Financial assets								
Cash and cash equivalents	136,849	236,680	-	-	-	373,529	0.6%	
Other debtors	-	-	-	-	5,653	5,653		
Total financial assets	136,849	236,680	-	-	5,653	379,182		
Financial liabilities								
Trade creditors and accruals	-	-	-	-	3,394	3,394		
Total financial liabilities	-	-	-	-	3,394	3,394		

There are no unrecognised financial instruments at balance date.

(iii) Commodity price risk

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

Commodity risk management

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

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

As at 31 December 2013, there was no oil price hedging in place (2012: nil). No commodity price sensitivity analysis is required as there was no hedging in place.

(iv) Credit risk

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

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

32 Financial instruments (continued)

(b) Financial risk management (continued)

(iv) Credit risk (continued)

Credit risk management

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

The group markets Kutubu crude oil on behalf of the Joint Lifting Consortium, primarily selling this product to investment grade counterparties. In accordance with the group's debt facility Oil Search uses its best endeavours to have these counterparties sign a Buyers Consent Deed. Sales to non-investment grade counterparties are secured by letters of credit from an investment grade bank.

An option agreement and a share pledge agreement are held over the third party loan receivable balance, permitting Oil Search to acquire an equity interest in the issued share capital of the Borrower (note 10).

At 31 December 2013 there was no significant concentration of credit risk exposure to any counterparty (2012: nil).

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

	Note	Consolidated		Parent	
		2013	2012	2013	2012
		US\$'000	US\$'000	US\$'000	US\$'000
Current					
Cash at bank and on hand	22(a)	165,799	213,388	73,615	136,748
Share of cash in joint operations	22(a)	42,182	8,094	-	101
Interest-bearing short-term deposits	22(a)	1,680	266,792	1,680	236,680
Receivables	8	246,933	173,233	1,516,114	751,473
Loan receivable	10	75,483	48,398	-	-
		532,077	709,905	1,591,409	1,125,002
Non-current					
Receivables	8	4,757	4,271	-	-
Loans and borrowings	19	4,024,421	2,866,050	-	-
		4,029,178	2,870,321	-	-

(v) Liquidity risk

The group has exposure to liquidity risk if it is unable to settle transactions in the normal course of business and if new funding and refinancing cannot be obtained as required and on reasonable terms.

Liquidity risk management

The group manages liquidity risk by ensuring that there are sufficient funds available to meet its financial obligations on a day-to-day basis and to meet unexpected liquidity needs in the normal course of business. The group's liquidity policy is to maintain surplus immediate cash liquidity together with committed undrawn lines of credit for business opportunities and unanticipated cash outflows.

The group also seeks to ensure maturities of committed debt facilities are reasonably well spread over time to minimise the group's exposure to risk on the cost or availability of funds should the refinancing requirement coincide with unexpected short-term disruption or adverse fund-raising conditions in the capital markets. In order to avoid an exposure to any particular source of external funding the group acknowledges the benefits of diversification of funding sources and where possible, aims to source its funds from a range of lenders, markets and funding instruments.

In 2012, Oil Search (Finance) Limited ("OSFL") signed a five year non-amortising financing facility for US\$500 million. As at 31 December 2013, US\$200.0 million has been drawn down under the facility (2012: nil). As part of the terms and conditions of this facility, Oil Search (PNG) Limited ("OSP") as guarantor, has provided a charge over its credit account in Melbourne with Australia & New Zealand Banking Group Limited.

Each participant in the PNG LNG Project severally provides participant equity funding pro rata with each disbursement of ECA/Bank loans so that participant equity funding is provided for at least 30% of project capital costs at such time. 60% of OSL's future base equity commitments are held in escrow. Oil Search plans to meet its remaining share of its currently estimated equity funding out of existing cash, corporate debt, cash flows or if necessary additional funding. In the event of material cost overruns, delays or protracted low oil prices, further capital management, equity raisings, oil price hedging or further sale of assets may be considered.

As at 31 December 2013, the group has cash of US\$209.7 million (2012: US\$488.3 million), of which US\$1.7 million was invested in short-term instruments (2012: US\$266.8 million).

32 Financial instruments (continued)

(b) Financial risk management (continued)

(vi) Capital risk

Capital management

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

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

Fair values

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

	Aggregate fair value			
	Consolidated		Parent	
	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000
Financial assets				
Cash and cash equivalents	209,661	488,274	75,295	373,529
Receivables – trade	105,766	103,292	-	-
Other debtors - current	141,167	69,941	17,958	5,653
Loan receivable	75,483	48,398	-	-
Other debtors - non-current	4,757	4,271	-	-
Total financial assets	536,834	714,176	93,253	379,182
Financial liabilities				
Trade creditors and accruals	278,860	392,217	7,152	3,394
Other payables - non-current	9,693	4,951	-	-
Loans and borrowings	4,024,421	2,866,050	-	-
Total financial liabilities	4,312,974	3,263,218	7,152	3,394

(vi) Capital risk

All financial assets and financial liabilities are initially recognised at the fair value of consideration paid or received, net of transaction costs as appropriate, and subsequently carried at fair value or amortised cost. The financial assets and liabilities are presented by class in the table above at their carrying values, which generally approximate to the fair values.

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

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

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

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

33 Events occurring after the reporting period

On 27 February 2014, the group entered into an agreement to acquire the Pac LNG Group Companies ("Pac LNG"), which hold a 22.835% interest in Petroleum Retention License 15 ("PRL 15"), located in the eastern margin of the Papuan Basin in PNG. PRL 15 contains the Elk/Antelope gas discoveries.

Under the agreement, Oil Search will acquire the shares in Pac LNG for a consideration of:

- US\$900 million, payable at completion; and
- A contingent payment of US\$0.775/mcfe⁽¹⁾ (after Government participation) for any certified 2C contingent resource within the Elk/Antelope fields greater than 7tcfe⁽²⁾, as certified in the future.

The acquisition is expected to be funded by a placement of Oil Search Limited shares.

⁽¹⁾ mcfe = million cubic feet equivalent.

⁽²⁾ tcfe = trillion cubic feet equivalent.

OIL SEARCH LIMITED
and its subsidiaries
ARBN 055 079 868

In accordance with a resolution of the directors of Oil Search Limited, the Directors declare that:

(a) the attached financial statements and notes thereto of the Company and of the consolidated entity:

(i) give a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2013 and their performance for the year ended on that date; and

(ii) comply with International Financial Reporting Standards; and

(iii) the attached financial statements and notes thereto comply with the reporting requirements of the Australian Securities Exchange Listing Rules; and

(b) in the opinion of the Directors, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due or payable.

This declaration has been made after receiving unqualified declarations from the Managing Director and the Chief Financial Officer, that are consistent with requirements under section 295A of the Australian Corporations Act 2001, for the year ended 31 December 2013.

Signed in accordance with a resolution of the Directors.

On behalf of the Board of Directors



.....
RJ LEE
Chairman



.....
PR BOTTEN
Managing Director

Sydney, 27 February 2014

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

Report on the Financial Report

We have audited the accompanying financial statements of Oil Search Limited (the Company), which comprises the statement of financial position as at 31 December 2013, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 52 to 104.

Directors' Responsibility for the Financial Statements

The directors of the company are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (including the interpretations of the International Financial Reporting Interpretations Committee) and the *PNG Companies Act 1997* and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with International Standards of Auditing. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion,

- (i) the financial statements of Oil Search Limited give a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2013 and of their performance for the year ended on that date in accordance with International Financial Reporting Standards (including the interpretations of the International Financial Reporting Interpretations Committee) and the *PNG Companies Act 1997*; and
- (ii) proper accounting records have been kept by the Company.

Other Information

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 22 to 49 of the directors' report for the year ended 31 December 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report and have voluntarily complied with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with International Standards on Auditing.

Opinion

In our opinion the Remuneration Report of Oil Search Limited for the year ended 31 December 2013, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Jason Thorne
Partner
Chartered Accountants
Registered Company Auditor in Australia
Sydney, 27 February 2014



DELOITTE TOUCHE TOHMATSU



Zanie Theron
Partner
Chartered Accountants
Registered under the Accountants Act, 1996
Port Moresby, 27 February 2014



OIL SEARCH LIMITED
2013 Final Dividend and
Dividend Reinvestment Plan

Oil Search Limited (Oil Search or the Company) will pay a final dividend of US\$0.02 (two US cents) per ordinary share on Tuesday, 8 April 2014.

The record date is Thursday, 13 March 2014 and the ordinary shares will trade ex-dividend from Thursday, 6 March 2014.

The dividend will be paid in PNG Kina for those shareholders domiciled in Papua New Guinea, in GB Pounds for those shareholders that have lodged direct credit details requesting a GB Pounds credit and in Australian dollars for all other shareholders.

The exchange rates used for converting the US dollar dividend into the payment currencies will be the rates on the record date.

The dividend will be unfranked and no withholding tax will be deducted.

The Company also advises the continuation of its Dividend Reinvestment Plan (DRP) for eligible shareholders, currently being all shareholders with a registered address in Australia, Papua New Guinea, the United Kingdom, New Zealand, Hong Kong or Singapore. It is intended that the DRP will be fully underwritten for the 2013 final dividend.

The specific terms of the DRP for the 2013 final dividend will be as follows:

- The period for calculating the issue price of DRP shares will be the volume weighted average price (VWAP) over the period from and including Monday, 17 March 2014 to Friday, 28 March 2014;
- The price of shares issued under the DRP will be at a 2.0% discount to the VWAP;
- The issue price of the DRP shares will be announced on Monday, 31 March 2014; and
- The DRP shares will be issued on Tuesday, 8 April 2014.

Shareholders that have not elected to participate in the DRP, but wish to do so, must notify Oil Search's share registry, Computershare Investor Services Pty Limited, by way of an election notice, of their intention to participate in the DRP **before 5.00pm (AEST) on Thursday, 13 March 2014.**

Yours faithfully
OIL SEARCH LIMITED

STEPHEN GARDINER
Group Secretary

Thursday, 27 February 2014