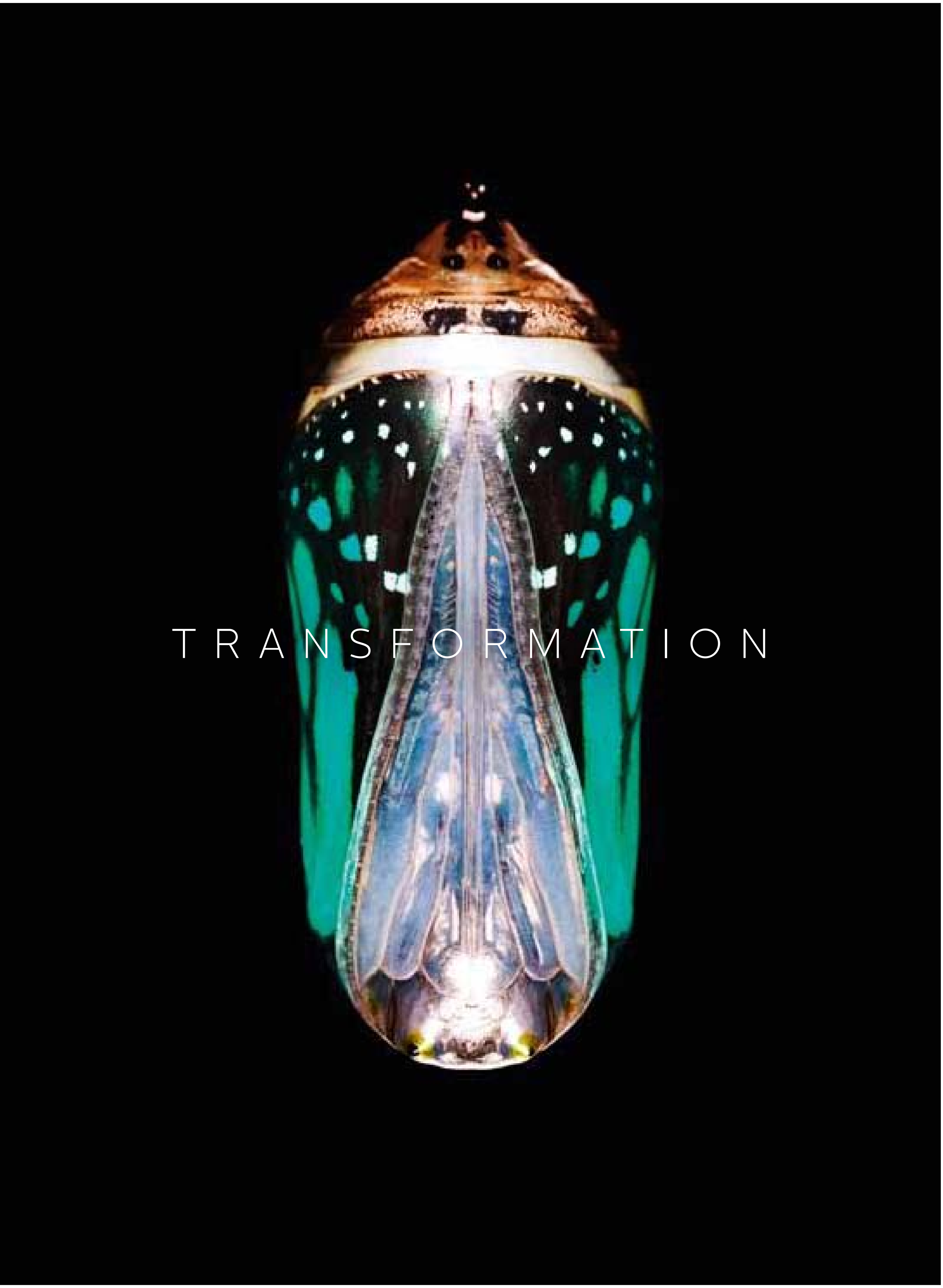
Oil Search

ANNUAL REPORT 2013

A YEAR OF TRANSFORMATION

SUCCESSFUL COMPLETION OF THE US$19 BILLION PNG LNG PROJECT IN 2014 WILL SEE OIL SEARCH TRANSFORM INTO A SIGNIFICANT LNG EXPORTER. WITH A MAJOR NEW REVENUE STREAM AND MATERIAL EXPANSION OPPORTUNITIES ON THE HORIZON, OUR AIM IS TO DELIVER BOTH GROWTH AND HIGHER DIVIDENDS TO SHAREHOLDERS, ENSURING CONTINUED TOP QUARTILE RETURNS IN THE YEARS AHEAD.


TRANSFORMATION

PNG LNG PLANT, JANUARY 2011

Oil Search was established in Papua New Guinea (PNG) in 1929 and is the country's largest oil producer. Over 95% of the Company's assets are located in PNG, where it holds a range of oil and gas production and exploration licences. Oil Search's main growth asset is its 29% interest in the US$19 billion PNG LNG Project, a world-class liquefied natural gas (LNG) development operated by ExxonMobil PNG Limited. The Project is on track to produce first LNG cargoes in the middle of 2014, which will quadruple Oil Search's annual production volumes from 2015 onwards and transform the Company into a significant LNG exporter.


PNG LNG PLANT, JANUARY 2014

2013 HIGHLIGHTS

↑6%

INCREASE IN TOTAL PRODUCTION
TO 6.74 MMBOE

↑6%

INCREASE IN REVENUE FROM OPERATIONS
TO US$766.3 MILLION

↑17%

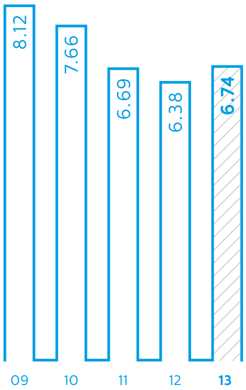
INCREASE IN NET PROFIT AFTER TAX[2]
TO US$205.7 MILLION

↑87%

INCREASE IN OPERATING CASH FLOW
TO US$366.8 MILLION

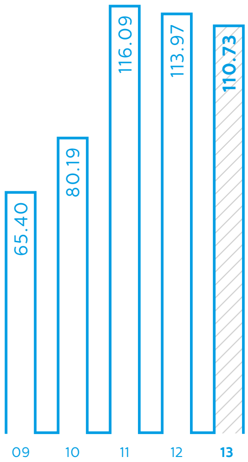
PERFORMANCE SUMMARY

		2012	2013	% CHANGE
Total production	(mmboe)	6.38	**6.74**	6%
Total sales	(mmboe)	6.17	**6.73**	9%
Realised oil price	(US$/barrel)	113.97	**110.73**	(3%)
Revenue from operations	(US$ million)	724.6	**766.3**	6%
EBITDAX[1]	(US$ million)	524.3	**552.4**	5%
Net profit after tax[2]	(US$ million)	175.8	**205.7**	17%
Basic EPS[2]	(US cents)	13.2	**15.4**	17%
DPS	(US cents)	4.0	**4.0**	–
Operating cash flow	(US$ million)	196.2	**366.8**	87%
Net debt	(US$ million)	(2,377.8)	**(3,814.8)**	60%



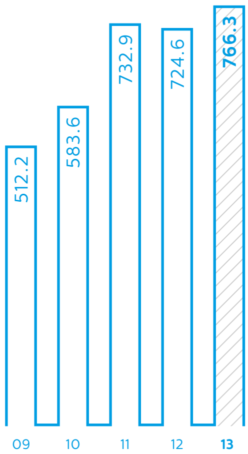
TOTAL PRODUCTION
(MMBOE)

Total production for 2013 grew 6% to 6.74 mmboe, slightly above guidance, due to active field management and contributions from new development wells.



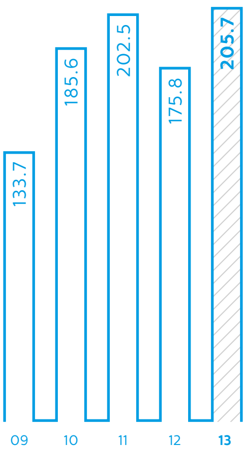
REALISED OIL PRICE
(US$/BBL)

Global oil prices remained strong in 2013, with Oil Search realising an average price of US$110.73 per barrel.



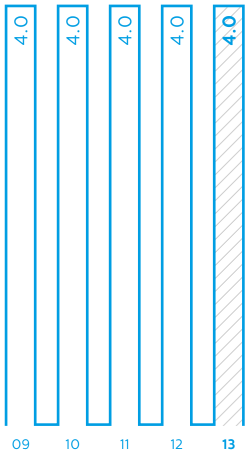
REVENUE FROM OPERATIONS
(US$ MILLION)

Revenue from operations grew 6% in 2013 to US$766.3 million, underpinned by strong production.



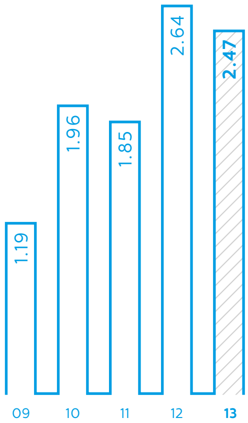
NET PROFIT AFTER TAX
(US$ MILLION)

Net profit after tax including significant items increased 17% to US$205.7 million. This was driven by stronger sales revenue and lower exploration costs expensed.



DIVIDEND PER SHARE
(US CENTS)

Dividend payments for 2013 totalled four US cents per share, consistent with 2012.



TOTAL RECORDABLE INCIDENTS
(PER MILLION HOURS WORKED)

Oil Search's safety performance improved slightly in 2013, with a Total Recordable Injury Rate (TRIR) of 2.47 per million hours worked.

OIL SEARCH CORPORATE FACTS

Incorporated in PNG in 1929

OPERATOR
OF ***ALL*** PNG'S CURRENTLY PRODUCING OIL FIELDS

Listed on Australian Securities Exchange **(OSH)**, Port Moresby Stock Exchange **(OSH)** and US ADRs **(OISHY)**

Following recent share placement to PNG Government, **market capitalisation of approximately**

A$13 BILLION
(March 2014)

Oil and gas exploration interests in **PNG, KURDISTAN REGION OF IRAQ, TUNISIA AND YEMEN**

TOTAL SHAREHOLDER RETURN*

1 YEAR **16%** 5 YEAR **81%**

*TO 31 DEC 2013


29% INTEREST IN PNG LNG PROJECT
LARGEST DEVELOPMENT EVER UNDERTAKEN IN PNG
6.9 MILLION
METRIC TONNES PER ANNUM CAPACITY
Two train development with >30 year Project life
>9 TRILLION
CUBIC FEET OF GAS
& 200 MILLION BARRELS
OF ASSOCIATED LIQUIDS
expected to be produced over the Project life
Operated by ExxonMobil PNG Limited
6.6 MILLION
METRIC TONNES PER ANNUM
contracted to Asian buyers
(SINOPEC, TEPCO, OSAKA GAS, CPC)

CHAIRMAN'S LETTER

Dear Shareholder,

2013 was another excellent year for Oil Search and our shareholders. A continued strong operating performance from the PNG oil fields helped drive an improvement in all financial metrics compared with the prior year. The PNG LNG Project development made steady progress, with commissioning now underway and first LNG shipments expected in the middle of 2014. In addition, our strategy to pursue international growth opportunities, in a measured way, took a major step forward, with the discovery of the Taza field in Kurdistan.

Pleasingly, despite higher levels of operating activity, the Company recorded an improved safety performance in 2013, with a Total Recordable Injury Rate (TRIR) of 2.47 per million hours worked, compared to 2.64 in 2012. Our strong focus on operating sustainably was recognised by our selection in 2013 for inclusion in the Dow Jones Sustainability Index (DJSI) for Australia. The Index is one of the most prestigious benchmarks for corporate sustainability and our selection represents a significant achievement for Oil Search.

With production from the PNG LNG Project expected to commence in 2014, over the next 12 months Oil Search will transition into a regionally significant oil and gas producer. In preparation for this major change, the Board and management have embarked on a thorough review of all aspects of the Company's strategy, operational capabilities, skills training, reward structures, talent management and succession planning, as well as addressing the important issues of capital management and dividend policy. We will be communicating with shareholders further on these matters as the year progresses.

Oil Search has an exciting future, supported by a broadening oil and gas platform and, as cash flows permit, a growing capability to be involved in a range of new opportunities, including the recently announced purchase of an interest in PRL 15, containing the Elk/Antelope gas field. The Company is uniquely positioned: it is an experienced operator in challenging environments, with a strong and well deserved reputation for working sustainably with our host governments, employees and local communities.

Oil Search would not have reached this point without the support and patience of our shareholders over many years, for which we are most grateful. Our share register has changed substantially over the past month. In March 2014, we welcomed International Petroleum Investment Corporation (IPIC) from Abu Dhabi onto the register as our largest shareholder, following the exchange of its bonds into the Oil Search shares held by the PNG Government. Shortly afterwards, a 10% placement to the PNG Government, raising US$1.1 billion which was used to fund the PRL 15 purchase, was completed, ensuring their continued presence on the register. We are delighted with the support received from both IPIC and the PNG Government. All shareholders can be assured that their interests are paramount as we map the long-term future for the Company.

I would like to acknowledge and thank our Managing Director, Peter Botten, his leadership team and all employees, partners and contractors who have contributed to the success and considerable progress made in 2013. I would also like to express my appreciation to my fellow directors, for their support through 2013 and their commitment to act at all times in the best interests of the Company and its shareholders. In particular, I thank my predecessor, Brian Horwood, for his nine years of service to Oil Search and recognise with gratitude his significant contribution to the leadership and governance of the Company through this period of transformation.

RICHARD LEE
Chairman

A MESSAGE FROM THE MANAGING DIRECTOR

Oil Search is undergoing a major corporate transformation. When the PNG LNG Project comes onstream in 2014, the Company's profile, from a production and financial perspective, will change dramatically. In 2015, the first full year of PNG LNG Project operations, our production is expected to be approximately 27 mmboe, some four times 2013 levels, resulting in a substantial rise in operating cash flows.

In March 2014, the operator, ExxonMobil PNG Limited, advised the co-venturers that the PNG LNG Project is progressing smoothly, with first LNG deliveries expected in the middle of 2014, in line with the schedule established in 2009, when the Project was first sanctioned. The operator also confirmed it expects to deliver the Project within the revised US$19 billion budget provided in late 2012. This is an excellent outcome, given the current LNG construction environment. Work crews are now being demobilised and commissioning activities are well underway, both downstream at the LNG plant and upstream at the Hides Gas Conditioning Plant.

As construction of the foundation PNG LNG Project nears completion, we are working closely with our joint venture partners to aggregate gas resources in PNG 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 in the Western Province and possible upside in existing PNG LNG fields located in the PNG Highlands. In February 2014, the Company added materially to these gas resources by acquiring a 22.835% interest in PRL 15. This licence, located in the onshore Papuan Basin, contains the Elk/Antelope gas discoveries, the largest undeveloped gas resource in PNG, as well as significant exploration upside.

In 2014, Oil Search and its partners will undertake a comprehensive appraisal programme on Elk/Antelope. Together with an active drilling programme on the Hides gas field, these activities will help define the gas resources available to underwrite the next phase of LNG development in PNG. With equity positions in gas fields both in the Highlands region and now in the Papuan Basin, Oil Search expects to have an influential role in driving future gas resource development in PNG.

The purchase of the interest in PRL 15 was funded by the issue of 149.4 million new shares to the PNG Government. This is strategically important as, on 5 March 2014, the exchangeable bonds issued by the PNG Government to International Petroleum Investment Company (IPIC) in 2009 reached maturity. As a result, ownership of the PNG Government's 196.6 million shares, held since 2002, transferred to IPIC. The issue of new Oil Search shares to the Government means they will continue to be a major shareholder in Oil Search, one of the country's largest and most successful companies, and the interests of Oil Search and the Government will remain aligned. The Government's new investment demonstrates their confidence in the Company's future prospects and our growth opportunities. We also welcome IPIC, which has a reputation for being a long-term investor in overseas energy and energy-related assets and is well regarded for the support it provides to the companies in its portfolio, onto the register.

2013 was a good year for exploration, with the discovery of oil at Taza 1 in Kurdistan and Mananda 6 in the PNG Highlands and two gas discoveries, albeit modest in size, in the Gulf of Papua. At Taza, a comprehensive appraisal programme on this potentially material oil resource is underway, with the Taza 2 well drilling ahead and up to three more wells, 3D seismic and installation of an Early Production Facility planned.

The backbone of the Company remains our producing oil and gas fields in PNG, which Oil Search has operated for over a decade. Under our operatorship, more than 50 million barrels of oil (gross) have been added to the expected ultimate recoveries of these mature oil fields. Our strong financial performance in 2013 was driven by solid production together with prudent cost control, which saw net profit grow by 17% to US$205.7 million, an excellent result given the slightly weaker oil price environment. At the end of 2013, the Company remained in a healthy financial position, with total liquidity of over US$500 million.

Embedded in the Company's operations and strategic objectives is a commitment to sustainability. While the Company's Total Recordable Injury Rate (TRIR) fell by 6% in 2013 to 2.47 per million hours worked, there is still room for further improvement in safety performance and we remain vigilant as we step up appraisal activities in 2014. We are particularly pleased with the positive impact the Oil Search Health Foundation has had on improving community health through its HIV, malaria, maternal and child health programmes since its establishment in 2011. We continue to support the PNG Government and PNG LNG Project operator to ensure the equitable distribution of imminent Project benefits to impacted communities.

In 2014, we will conduct a root and branch review of our business through a major Strategic Review. This review will set Oil Search's vision and objectives for the next five years, establishing a detailed corporate plan on how to achieve maximum value from our existing asset portfolio and drive further value-accretive growth while, at the same time, ensuring appropriate capital management initiatives are in place. A review of organisational design, leadership and capabilities to drive the future of Oil Search will also be conducted. The results will be communicated to shareholders in the second half of the year.

Oil Search is in an enviable position: 2014 will see the commencement of substantial, long-term legacy cash flows from the PNG LNG Project, production from our oil fields remains highly profitable and we have a range of potential high-returning projects to pursue within our existing portfolio. We have a very exciting future ahead.

I sincerely thank our Board and our staff for their support, hard work and dedication to growing our Company over the past year.

PETER BOTTEN
Managing Director


Oil Search

Q & A

WITH **PETER BOTTEN, MANAGING DIRECTOR**

Q. What remains to be completed on the PNG LNG Project and are there any risks to either the timetable for first LNG sales or the US$19 billion budget?

A. Construction is presently almost complete, with commissioning in full swing, both downstream at the LNG plant and upstream at the Hides Gas Conditioning Plant (HGCP). Outstanding work to be completed in 2014 includes finalising the construction of Train 2 at the LNG plant and the HGCP, commissioning the remaining pieces of infrastructure and tying in the Hides production wells to the HGCP. Once gas starts to flow from the Hides field through the Project's more than 700 kilometres of pipelines to the LNG plant facility, production of LNG will commence and exports will then begin.

The operator has recently brought forward the date for expected first LNG sales to the middle of 2014. The Project team has benefited from lessons learned during the initial Project execution stages and is actively managing costs to maintain the budget of US$19 billion. The reduction in foreign exchange pressure in 2013 has also helped budget certainty.

Q. When do you expect to move forward with LNG expansion and what are the potential sources of gas?

A. With construction of the foundation PNG LNG Project nearing completion, we are working closely with our partners to aggregate gas resources in PNG to underpin further LNG development. We are well placed to pursue a high-returning brownfield expansion of the PNG LNG Project, underpinned by the material gas resource at the P'nyang gas field and potential upside in existing PNG LNG fields, particularly Hides. The acquisition of an interest in PRL 15, containing the Elk/Antelope gas discoveries in the Papuan Basin, the largest undeveloped gas resource in PNG, provides another potential source of gas.

In 2014, Oil Search and its partners will undertake an active drilling and resource assessment programme on the Elk/Antelope and Hides gas fields and continue with studies on the P'nyang resource in PRL 3, with the objective of submitting development plans for PRL 3 and PRL 15 to the PNG Government in 2015, prior to licence expiry.

Q. How does Oil Search's recent acquisition of an interest in the PRL 15 licence in PNG impact LNG expansion? Is there potential to commercialise this gas through the PNG LNG Project?

A. Oil Search's direct participation in the PRL 15 joint venture delivers us an influential role in driving the optimal commercialisation route for the Elk/Antelope resource. While the Company remains focused on the potential expansion of the PNG LNG Project, underpinned by Highlands and Western Province gas, the acquisition of an interest in the Elk/Antelope gas discoveries provides us with a further material and value-creating LNG growth opportunity, with multiple development options. Based on Oil Search's resource estimates, a potential LNG development underpinned by PRL 15 gas would be commercially attractive on either a standalone or expansion basis. We remain committed to maximising the value of all our gas and infrastructure assets in PNG and driving timely and responsible development.

Q. What is the expected production profile of your base business going forward and what is the prospectivity for further oil upside in and around the existing PNG fields?

A. Production from our oil fields in 2014 is forecast to be in the range of 6.4-6.9 mmboe, similar to 2013 production of 6.74 mmboe, with contributions from recent and ongoing development drilling and well work activity expected to offset natural decline.

Oil Search also continues to pursue oil exploration opportunities in PNG that offer the potential to build on the Company's base oil production by leveraging existing infrastructure. The Mananda Ridge in the PNG Highlands is one such opportunity. The Mananda 7 appraisal well, which spudded in December, has recently been suspended as a potential future oil producer. The well indicates that the structure is more complex than expected and we are working through optimal development options for this resource.

TRI ETHYLENE GLYCOL (TEG) DEHYDRATION UNIT. Central Processing Facility, PNG Highlands.

Q. What appraisal activities are planned for the Taza field in Kurdistan and do you plan to retain your 60% interest and operatorship?

A. In the Kurdistan Region of Iraq, a comprehensive appraisal programme of the 2013 Taza 1 oil discovery, located in the Taza Production Sharing Contract (PSC), is underway. The programme includes the Taza 2 appraisal well, currently drilling ahead, the acquisition of up to 500 square kilometres of 3D seismic, an Early Production Facility (EPF) and up to three additional wells in the PSC.

At present, our plan is to complete the Taza appraisal programme, which is designed to establish the size of this substantial oil discovery. Once the resource has been delineated, we will then review how to best monetise the field. We believe Taza could be a world-class oil resource and aim to maximise the value of our interest.

Q&A

WITH **PETER BOTTEN, MANAGING DIRECTOR**

(CONT'D)

Q. Are you planning any further international expansion?

A. With a substantial and long-term, stable cash flow stream from the PNG LNG Project expected to commence in 2014, Oil Search continues to actively evaluate international expansion opportunities capable of delivering growth beyond 2015. Oil Search's strategy for international expansion is primarily focused on oil opportunities that have material potential, where we can leverage our existing strong relationships, skill base and operating experience in developing countries, working with local communities. Our current international activities in the Middle East/North Africa region, particularly in the Kurdistan Region of Iraq, offer the potential for significant growth and value upside.

During 2013, Oil Search's new ventures team capabilities were enhanced and a range of opportunities reviewed against the Company's strict investment screening criteria. The pace of the Company's international expansion remains governed by a prudent approach to capital allocation, with the focus on identifying suitable value-accretive opportunities and balancing offshore investment with the Company's wide selection of high returning LNG development opportunities in PNG.

Q. When the PNG LNG Project commences production, how do you intend to balance reinvestment in growth opportunities with paying increased dividends to shareholders?

A. The Board has indicated a desire to share the stable and long-term cash flows from the PNG LNG Project with shareholders. Based on an analysis of forecast cash flows, we believe the Company is able to pursue both our high-returning growth opportunities in PNG and overseas, as well as pay a meaningful dividend to shareholders. Establishing what the appropriate balance is between reinvestment of cash flows and capital returns to shareholders will be reviewed as part of the 2014 Strategic Review. An update on the progress of this review will be provided at the 2014 first half results.

HIDES GAS CONDITIONING PLANT. PNG Highlands.

Q. What is the Company's view on the recent transfer of a major shareholding to the International Petroleum Investment Company (IPIC)? What is the nature of the PNG Government's equity interest in Oil Search?

A. IPIC is a long-term investor in overseas energy and energy-related assets and is highly regarded for the support it provides to the companies in its portfolio. We welcome IPIC onto our register as our largest shareholder, with a 13.2% interest, and look forward to continuing to develop our relationship over time.

Oil Search's equity placement to the PNG Government to fund our acquisition of an interest in PRL 15 was strategically important for Oil Search, ensuring the ongoing alignment of our interests and a continuation of our strong working relationship with the PNG Government.

Q. While the Company's 2013 safety performance was better than in 2012, more injuries were incurred than in previous years. Why and what is the Company doing to address this?

A. 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, but up from 1.85 in 2011. During 2012 and 2013, the Company was involved in an increased level of higher risk drilling and exploration activities, including drilling wells offshore in the Gulf of Papua, the Mananda Ridge, Kurdistan and Tunisia.

In 2013, more than 95% of injuries 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 positive safety culture. In 2014, a key ongoing priority for the Company will be to ensure the right support is in place to promote and maintain its strong safety culture with contractors and in remote areas, particularly as the Company steps up appraisal activities in PNG and internationally.

Q. Does Oil Search have the right management team in place to guide it through the major transition that is occurring?

A. During 2013, Oil Search's senior management team was strengthened, with the appointment of a number of experienced personnel to key roles to lead the Company through the next stage of development. In addition, substantial work took place, directed at maturing the Company's management structures and operating systems and extending capabilities to assess and execute growth initiatives both in the oil and LNG sectors. These will be reviewed again as part of our 2014 Strategic Review.

FINANCIAL MANAGEMENT

WITH **STEPHEN GARDINER, CHIEF FINANCIAL OFFICER**

Financial performance

Oil Search delivered a solid financial performance in 2013, achieving a net profit after tax of US$205.7 million, 17% higher than in 2012. Excluding the impact of significant items in 2012, core profit rose 34% year-on-year.

Revenue from operations for 2013 rose 6% to US$766.3 million, driven by strong oil and gas production of 6.74 million barrels of oil equivalent (mmboe), which was slightly above guidance, and higher oil sales volumes, partly offset by a lower realised oil price of US$110.73/bbl compared to US$113.97/bbl in 2012.

Operating costs increased from US$188.0 million in 2012 to US$203.7 million in 2013, reflecting higher field costs associated with increased manpower and well work activity, though unit operating costs remained stable at US$24.77/boe (excluding gas purchase costs). Depreciation, amortisation and site restoration unit costs decreased from US$7.76/boe to US$7.45/boe.

US$107.4 million was expensed on exploration and evaluation activities in 2013, substantially lower than 2012, reflecting the success of exploration activities in PNG and the Middle East, which yielded two gas and two oil discoveries during the year. Exploration expensed included US$54.3 million attributable to the Kidukidu well in the Gulf of Papua and US$40.0 million related to exploration activities in the Middle East/North Africa.

There were no impairment charges or other significant items recognised in 2013.

The 2013 effective tax rate on statutory profit was 46%, compared to the 2012 rate of 49%. This was lower than the statutory tax rate for oil income in PNG of 50%, reflecting the transfer of a portion of asset carrying values from the PNG oil licences to the PNG LNG Project, which is subject to the 30% tax rate for gas income in PNG. This was partly offset by the non-deductibility of exploration expenses in the Middle East/North Africa.

Cash flows

Operating cash flows grew significantly, from US$196.2 million generated in 2012 to US$366.8 million in 2013. This was driven by higher sales volumes, the timing of cash receipts and lower income tax paid. Investment spend remained high, with net investing cash outflow of US$1,653.8 million, including US$154.6 million on the producing assets, US$1,226.5 million on the PNG LNG Project and US$258.6 million on exploration and evaluation.

Capital expenditure

The Company continued to invest heavily in 2013, with total capital expenditure of US$1.67 billion, compared to US$1.86 billion in 2012. The decline in PNG LNG Project spend, as construction activities wound down from their peak in 2012, was partially offset by increased investment in the Company's oil fields and exploration and appraisal activities in PNG and internationally, creating the platform for future growth.

Capital management and liquidity

At year end, Oil Search had a net debt position of US$3.81 billion (US$2.38 billion in 2012), which comprised US$209.7 million in cash, US$3.82 billion of debt drawn under the PNG LNG Project finance facility and US$200 million of debt drawn under the US$500 million revolving corporate facility. The Company had access to total liquidity of US$509.7 million at year end.

In October 2013, an additional US$1.5 billion of supplemental committed funding was finalised to expand the PNG LNG Project finance facility to US$15.5 billion, with the Company able to draw on 29% of that amount.

Total unfranked dividends declared and paid in 2013 totalled four US cents per share, unchanged from 2012. The Company's fully underwritten Dividend Reinvestment Plan remained in operation in 2013.

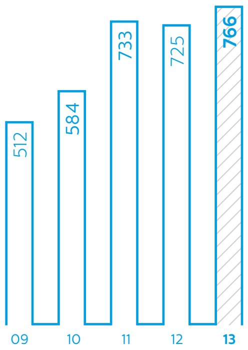
In light of the forthcoming significant and long-term cash flows arising from the PNG LNG Project, the Board intends to reassess the Company's dividend policy for 2015 and beyond as part of the 2014 Strategic Review. A key focus of the review will be determining the appropriate balance between reinvestment of cash flows to finance the Company's high-returning growth opportunities and delivering capital returns to shareholders.

Outlook

In March 2014, the Company completed an equity placement, issuing 149.4 million ordinary shares to the Independent State of Papua New Guinea. The funds were used to finance the US$900 million upfront cost of its entry into the PRL 15 licence.

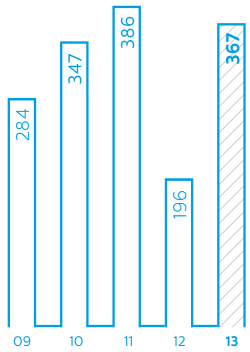
The commencement of first LNG sales from the PNG LNG Project, expected to occur in the middle of 2014, will generate a material uplift in earnings and cash flows and will significantly strengthen our balance sheet position. While we will not be able to fully access cash generated by the PNG LNG Project until a range of lender completion tests have been met (expected in the first half of 2015), we have the flexibility to release cash as required from the Project's sales proceeds accounts by lodging letters of credit as alternative security prior to completion.

This funding source, in addition to the Company's existing liquidity and cash flows generated by our oil and gas business, will provide sufficient capacity to fund our remaining equity share in the PNG LNG Project, as well as progress other growth opportunities prior to the distribution of cash from the PNG LNG Project.



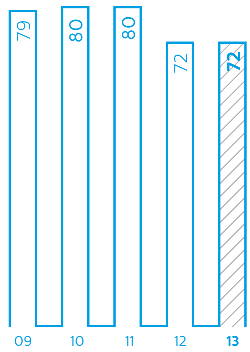
REVENUE FROM OPERATIONS

(US$ MILLION)



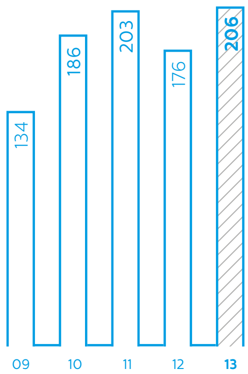
OPERATING CASH FLOW

(US$ MILLION)



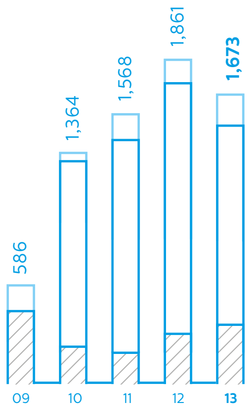
CASH OPERATING PROFIT MARGIN[1]

(%)



NET PROFIT AFTER TAX (INCLUDING SIGNIFICANT ITEMS)

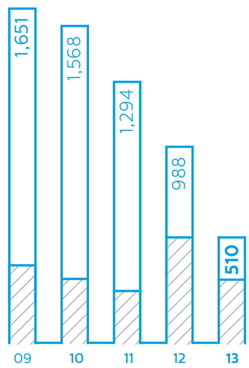
(US$ MILLION)



TOTAL INVESTMENT EXPENDITURE

(US$ MILLION)

- PRODUCING AND OTHER PP&E
- DEVELOPMENT
- EXPLORATION & EVALUATION



TOTAL LIQUIDITY

(US$ MILLION)

- CASH
- AVAILABLE CORPORATE FACILITY

FINANCIAL PERFORMANCE

Year to 31 December		2009	2010	2011	2012	**2013**	% CHANGE 2013/2012
Total production	mmboe	8.12	7.66	6.69	6.38	**6.74**	6%
Oil liftings	mmbbl	6.95	6.45	5.64	5.21	**5.73**	10%
Total sales	mmboe	7.93	7.41	6.63	6.17	**6.73**	9%
Realised oil price	US$/bbl	65.40	80.19	116.09	113.97	**110.73**	(3%)
Revenue from operations	US$m	512.2	583.6	732.9	724.6	**766.3**	6%
Operating costs	US$m	(102.8)	(111.8)	(137.0)	(188.0)	**(203.7)**	8%
Business development costs	US$m	(4.7)	(6.2)	(10.3)	(12.3)	**(10.2)**	(17%)
EBITDAX[2]	US$m	404.6	465.6	585.6	524.3	**552.4**	5%
Amortisation, depreciation and site restoration	US$m	(105.4)	(49.9)	(51.3)	(49.5)	**(50.2)**	1%
Exploration expensed	US$m	(71.0)	(125.0)	(60.6)	(144.0)	**(107.4)**	(25%)
EBIT[2]	US$m	228.2	290.7	473.6	330.9	**394.8**	19%
Net interest income/(expense)	US$m	(3.3)	(0.8)	(0.7)	(4.6)	**(15.2)**	N.M.
Impairment loss	US$m	–	(15.8)	(33.2)	(23.8)	**–**	N.M.
Other income	US$m	11.6	3.2	0.1	45.1	**0.2**	N.M.
Tax	US$m	(106.2)	(91.6)	(237.4)	(171.8)	**(174.1)**	1%
Net profit after tax including significant items	US$m	133.7	185.6	202.5	175.8	**205.7**	17%
Significant items	US$m	(34.1)	(41.5)	33.2	(22.8)	**–**	N.M.
Net profit after tax excluding significant items	US$m	99.6	144.1	235.7	153.0	**205.7**	34%
Basic earnings per share including significant items	USc/share	11.5	14.2	15.4	13.2	**15.4**	16%
Dividends per share	USc/share	4.0	4.0	4.0	4.0	**4.0**	–
Operating cash flow	US$m	284.1	346.7	386.2	196.2	**366.8**	87%
Net cash/(debt)	US$m	1,288.1	333.9	(700.1)	(2,377.8)	**(3,814.8)**	60%

1. Cash Operating Profit Margin = EBITDAX/Revenue from operations.
2. 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.

PNG LNG EXPORT JETTY.

The 2.4 kilometre jetty will allow access for large LNG tankers to transport LNG to international customers.

PNG LNG PROJECT SET TO TRANSFORM OIL SEARCH'S PROFILE

Commissioning gas started flowing from the Kutubu field into the LNG plant (above) near Port Moresby in September 2013. This gas has been used to power the facility as well as commission key parts of the plant.

Oil Search's main growth asset is its 29% interest in the PNG LNG Project, the largest development ever undertaken in PNG.

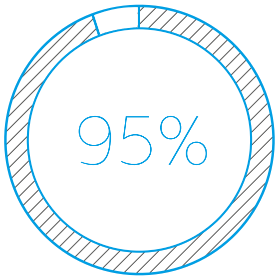
Operated by ExxonMobil PNG Limited, this world-class LNG development progressed from 75% completion at the end of 2012 to over 95% at year end. The operator has confirmed that the estimated cost of the Project remains unchanged at US$19 billion and has recently narrowed the targeted window for first LNG deliveries to the middle of 2014.

At plateau, the LNG plant will produce 6.9 million tonnes of LNG per annum. Over its 30 year life, it is expected to produce more than nine trillion cubic feet of gas and over 200 million barrels of associated liquids.

This will have a profound impact on Oil Search, quadrupling our annual production rates from 2015 and transforming the Company into a significant player in the LNG sector.

PNG LNG PROJECT ACTIVITIES IN 2013

HIDES GAS CONDITIONING PLANT (HGCP). The HGCP in the PNG Highlands received gas from the Kutubu oil fields in December 2013 and is undergoing initial commissioning and testing.



PROJECT COMPLETION
(%)

The Project is more than 95% complete. First LNG deliveries are expected in the middle of 2014.

Upstream

Significant progress was made on the upstream Project facilities during the year. A key item of infrastructure, the purpose built, 3.2 kilometre Komo Airfield, was completed and commenced operations in early May. This enabled large and sensitive equipment required for the construction of the Hides Gas Conditioning Plant (HGCP) to be delivered into the Highlands, with the last of 88 Antonov aircraft heavy equipment deliveries taking place in August 2013. By the end of the year, construction work on the HGCP, which will be used to strip out liquids and condition the gas produced from the Hides gas field prior to export to the LNG plant, was well advanced. In December, gas from Kutubu was introduced into the HGCP for initial commissioning and testing.

Drilling operations on the Hides field, using two new-build rigs, continued through the year. At year end, four of the eight planned production wells on the Hides field had been completed and drilling was ongoing at Wellpads D and G, where four additional production wells will be located.

The Oil Search-operated Associated Gas (AG) Project was completed in 2013. The AG Project comprised a range of modifications to the Central Processing Facility (CPF) at Kutubu and Gobe Processing Facility (GPF) at Gobe to allow the production of pipeline specification gas and the handling of Project condensate. This enabled the delivery of commissioning gas from the Kutubu field to the LNG plant in September and to the HGCP in December. The PL 2 Life Extension Project, comprising upgrades to the Oil Search liquids export system (also operated by Oil Search) to extend life and increase reliability, was also substantially completed during the year. Pleasingly, these two projects, undertaken within a live oil production facility, were successfully executed with good safety performance and minimal interruption to oil production.

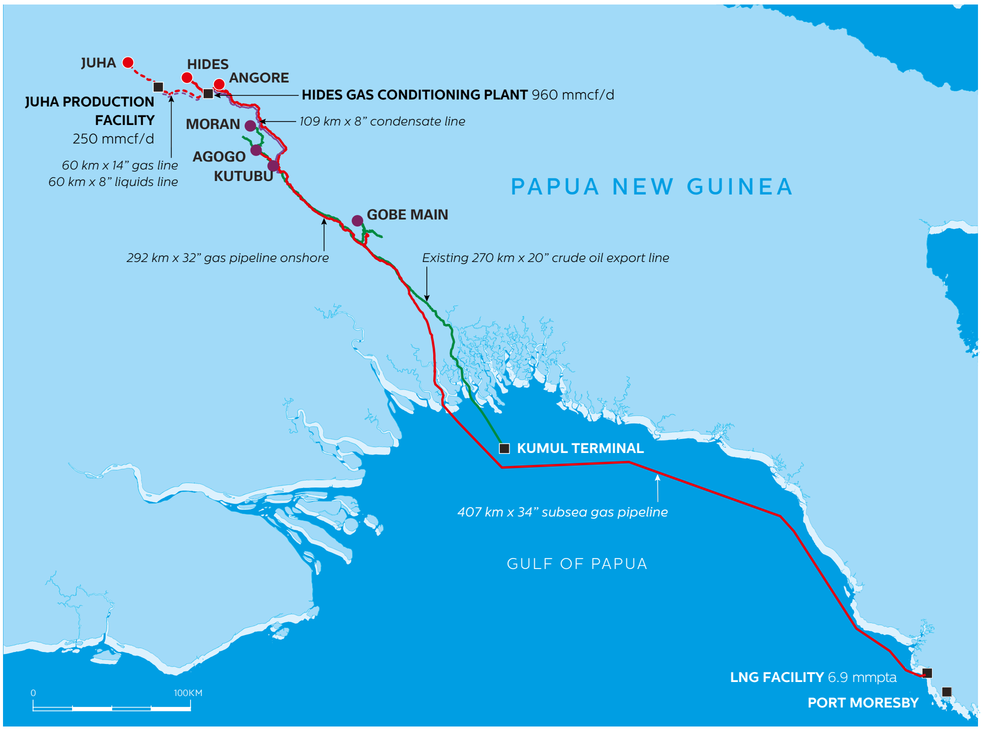
Pipelines

The PNG LNG Project incorporates more than 700 kilometres of pipelines, connecting the producing fields in the Highlands of PNG to the LNG plant, located 20 kilometres north-west of Port Moresby. In December 2012, the 407 kilometre offshore pipeline between the LNG plant and Kikori in the Gulf of Papua was completed. Substantial progress was made on the onshore pipeline, with all laying and welding completed on the 292 kilometre main onshore gas pipeline allowing commissioning gas from Kutubu to start flowing downstream to the LNG plant. The eight inch pipeline, which runs between the HGCP and the CPF and will transport Hides condensate to the CPF, was completed in late 2013. This pipeline was used temporarily to supply commissioning gas from Kutubu to the HGCP. Installation of the pipeline system linking the Hides production wells to the HGCP was ongoing at the end of the year.

SAFETY FOCUS.

Since the Project's inception, nearly 65 million hours have been worked at the LNG plant without a lost time incident.

- Oil field
- Gas field
- Oil & gas field
- Oil pipeline
- PNG LNG gas pipeline



Downstream

At the LNG plant, numerous construction milestones were achieved during 2013, including mechanical completion of Train 1, the two LNG storage tanks and the 2.4 kilometre jetty. Gas from the Kutubu field was introduced into the LNG plant in September to begin commissioning activities on Train 1 and the common process and utilities areas, as well as to provide power to the plant. Construction of Train 2 continued to make good progress.

Workforce and business development

Demobilisation of the workforce commenced in 2013, as construction activities began to wind down. At the end of 2013, the workforce totalled approximately 14,700, of which 38% comprised PNG citizens, compared to 21,220 (40% PNG citizens) at the end of 2012.

The Project is continuing to support workforce development and the growth of PNG enterprise during the demobilisation phase. In 2013, the focus of training programmes moved from construction-based courses to transition training programmes, to equip PNG workers for opportunities outside the Project.

By the end of 2013, the Project operator had provided 2.1 million hours of training through more than 11,550 training activities. To date, more than 200 employees have graduated from the Project's engineering programmes in Australia and operations and maintenance training programmes in Canada and Malaysia, producing a highly skilled workforce for the production phase.

The Project also continued to support PNG businesses, with more than 10.3 billion Kina (US$4.3 billion) spent in-country to date, including more than 2.5 billion Kina (US$1.1 billion) spent through landowner companies. Practical assistance has also been provided to more than 16,700 entrepreneurs through various business support programmes and more than 9,300 training days.

Community and government engagement

During 2013, Oil Search continued to leverage its 85 years of in-country operational experience to support the operator in liaising with Project-impacted communities. In particular, the Company continued to support the PNG Government in the PNG LNG Clan Vetting Project, aimed at the identification of Project beneficiary clans and the determination of the appropriate distribution of Project benefits.

FOCUS ITEMS FOR 2014

- Complete construction and commissioning of the HGCP.
- Complete drilling of the D and G Wellpad production wells at Hides.
- Complete the gathering pipeline system linking the Hides production wells to the HGCP.
- Complete Train 2 construction and commissioning activities at the LNG plant.
- Support the PNG Government, as appropriate, in finalising the Clan Vetting Project.
- First LNG deliveries in the middle of 2014.

SEISMIC ACQUISITION IN THE PNG HIGHLANDS.

Oil Search is undertaking a comprehensive exploration and appraisal programme, aimed at defining and aggregating gas resources to underwrite LNG expansion.

PNG GAS GROWTH

With equity positions in material gas resources in the Highlands, Western Province and the Papuan Basin, Oil Search is in an excellent position to ensure the development of these resources in the most capital efficient and timely way.

With construction of the foundation PNG LNG Project nearing completion, Oil Search's focus has turned towards how it can leverage existing infrastructure and skills developed through the foundation project to underpin further LNG development. As the existing pipelines and infrastructure at the PNG LNG plant site have capacity to accommodate a third LNG train with minor additional investment, a brownfield LNG expansion offers a potential high-return growth opportunity.

The Company has a range of potential supply sources, including the P'nyang field in the Western Province. Oil Search and its partners continue to progress development studies on this material proven gas resource and are working towards submitting a Petroleum Development Licence application for P'nyang in early 2015. Work is also ongoing on the Hides field, which Oil Search believes has considerable resource upside. Development wells being drilled in 2014, as well as an exploration well targeting a possible deeper reservoir in Hides, will help further define the resource.

In March 2014, the Company took a significant step forward in its gas aggregation strategy, with the acquisition of a 22.835% interest in PRL 15. Located in the onshore Papuan Basin, the licence contains the Elk/Antelope gas discoveries, the largest undeveloped gas resource in PNG, as well as significant exploration upside.

PNG GAS GROWTH

HIDES, PNG HIGHLANDS. Oil Search believes there is considerable resource upside in the Hides gas field.

Potential PNG LNG Project expansion opportunities

During 2013, Oil Search and its joint venture partners continued to assess possible sources of gas that could underwrite potential LNG expansion.

P'nyang gas field

Gas studies in 2013 were focused on the potential development of the P'nyang gas field in PRL 3, which holds an estimated 2C gas resource of 2.5 tcf. Activities undertaken by the PRL 3 joint venture partners (comprising the operator ExxonMobil PNG Limited, Oil Search and JX Nippon) included work on resource definition, engineering, environmental and social impact studies for the field's potential development. Studies on the preferred pipeline route to link the field into the Project also took place.

An additional 43 kilometres of 2D seismic was acquired over the field in 2013, with processing of the data underway at the end of the year. Preliminary analysis of the data supports the existing mapping of the field.

Studies on a P'nyang development are expected to continue through 2014, while preparations for the submission of a development licence application for the field will continue, based on studies completed in 2013.

PNG LNG Project fields

Oil Search believes there is potential for considerable gas resource upside within the oil and gas fields already contributing to the PNG LNG Project, particularly the Hides gas field.

Technical work is ongoing to establish the structural extent of Hides beyond that constrained by existing wells. As part of the PNG LNG development, nine wells (eight production wells and a produced water disposal (PWD) well) are being drilled on the Hides field. These wells will all provide important information that can be used to better define the Hides resource. Specifically, the two development wells currently being drilled from the most northerly wellpad, Wellpad G, will help constrain the north-western area of the Hides gas field while the PWD well will help constrain the vertical extent of the hydrocarbon column and further define the field volumes. In addition, subject to joint venture approval, an exploration well, Hides 5, is expected to spud towards the end of 2014, targeting a potential deeper reservoir that has not, as yet, been penetrated in the Hides field.

DRILLING AT WELLPAD G, HIDES GAS FIELD. Further drilling will take place at the Hides field in 2014, while up to three wells are planned to appraise the Elk/Antelope gas field.

In PDL 9, approximately 26 kilometres of 2D seismic was acquired over the Juha North structure in 2013, to assist in constraining the size of the discovery. Seismic acquisition will continue through 2014, in PDL 9 and nearby licences PPL 260, PDL 7 and PDL 1. Analysis of seismic data and work to mature a potential well is also planned for 2014.

Gas resources in the Papuan Gulf Basin

In 2013, Oil Search undertook a three well offshore exploration campaign in the Gulf of Papua, where no drilling had taken place for over 12 years. Two exploration wells, Flinders and Hagana, drilled in PPL 244, discovered gas. While the volumes are thought to be relatively modest, the programme has confirmed the presence of good quality reservoir sandstones in the Plio-Pleistocene section, a gas charge and an effective trapping mechanism, opening up a new play fairway in this area of the basin. Further work will take place in 2014 to mature leads and prospects for a potential future drilling campaign.

In early 2014, the Company acquired an interest in PRL 15, containing the Elk/Antelope gas discoveries in the Papuan Basin, the largest undeveloped gas resource in PNG. This represents another potential source of gas to underpin further LNG development. The Company's direct participation in the joint venture provides Oil Search with an influential role in driving the optimal commercialisation route for not only the Elk/Antelope resource, but also the Company's other undeveloped gas resources in PNG and its now considerable gas handling infrastructure.

FOCUS ITEMS FOR 2014

- Preparations for the submission of a development licence application for the P'nyang field.
- Completion of development drilling at Hides and the possible commencement of the Hides 5 exploration well.
- Appraisal drilling of up to three wells on PRL 15, ahead of certification of the resource.
- Seismic acquisition in PDL 9, PPL 260 and other licences around Hides.
- Ongoing studies in the Gulf of Papua.
- Definition of options for new LNG development.

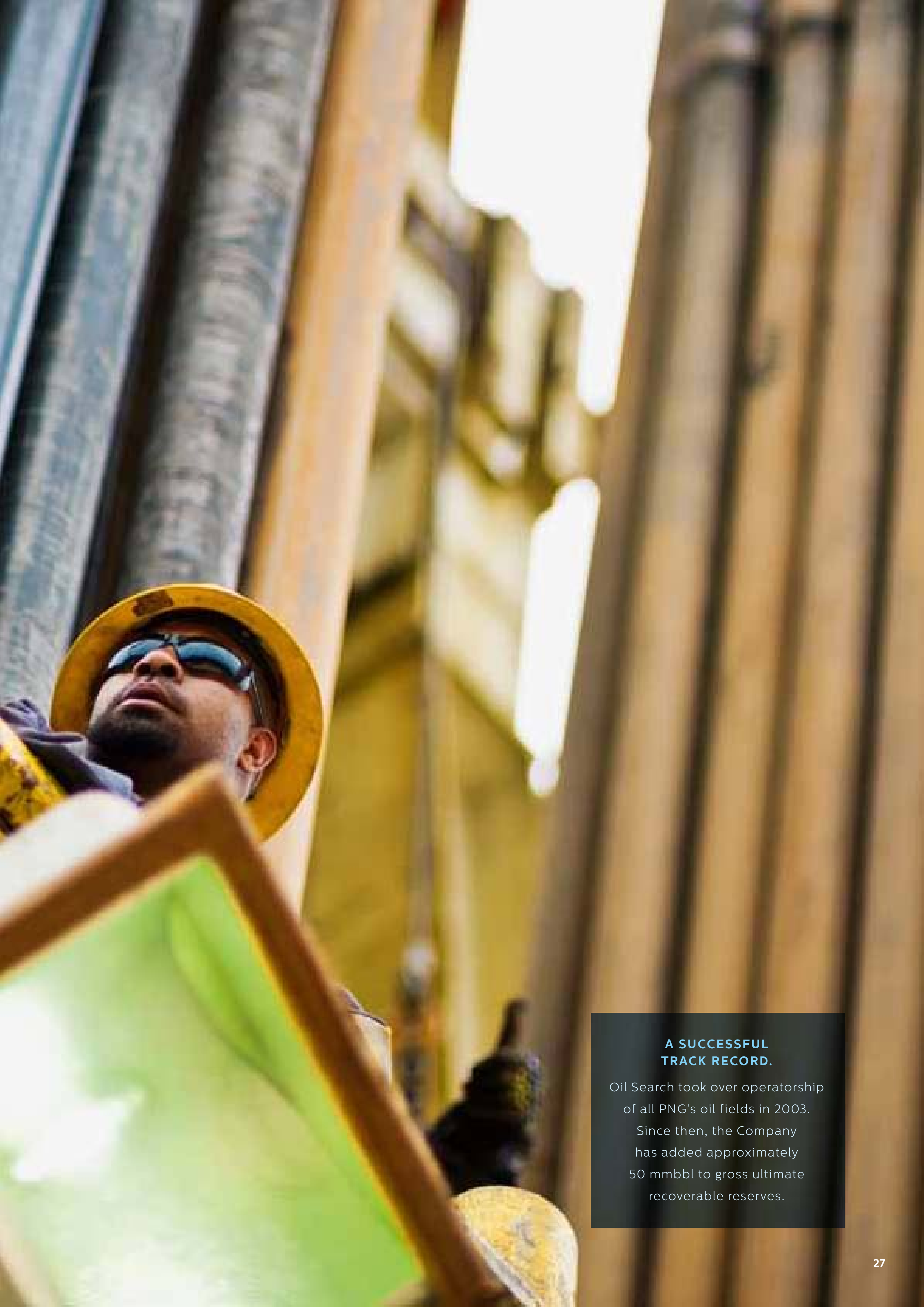
PNG PRODUCTION & EXPLORATION

Development and near-field drilling was successful in mitigating natural decline from Oil Search's mature PNG oil fields in 2013.

In 2013, Oil Search achieved total oil and gas production of 6.74 mmboe, 6% higher than in 2012 and slightly above the Company's 6.2-6.7 mmboe guidance range. This solid performance reflected strong contributions from new wells and active field management, focused on optimising the efficiency and uptime of existing wells and facilities. These efforts have proven successful in mitigating the natural decline of our mature oil fields.

Significantly, reliable production was achieved despite a number of scheduled facilities shutdowns for modifications to enable the oil fields to deliver gas to the PNG LNG Project. The Kutubu field began delivering commissioning gas downstream to the PNG LNG plant in September and upstream to the HGCP in December, with minimal disruption to production.

The Mananda Ridge in the PNG Highlands offers the potential to build on the Company's existing PNG oil production by utilising existing infrastructure for its development. Following oil discoveries by Mananda 5 and Mananda 6, the Company drilled the Mananda 7 appraisal well in the first quarter of 2014. The well has recently been suspended as a potential future oil producer.



A SUCCESSFUL TRACK RECORD.

Oil Search took over operatorship of all PNG's oil fields in 2003. Since then, the Company has added approximately 50 mmbbl to gross ultimate recoverable reserves.

PNG OIL AND GAS PRODUCTION ACTIVITIES

Development and near-field drilling

Since taking over operatorship of the PNG oil fields in 2003, Oil Search has drilled 40 development wells in PNG, with a success rate in excess of 85%. More than 50 million barrels of oil (gross) have been added to the expected ultimate recoveries of the oil fields and over 50% of oil production now comes from wells drilled in the past six years, highlighting the success of the Company's development and near-field appraisal drilling programme in maximising oil recovery from existing fields.

Much of the drilling has focused on the key Kutubu and Moran fields, which, despite having been onstream for 22 and 18 years respectively, continue to be reliable producers, contributing more than 90% of Oil Search's total oil production.

In 2013, four new development wells were drilled on Kutubu and Moran, including the UDT 14 ST1 well at Usano East, which achieved a sustained production rate of approximately 3,500 bopd, lifting the total contribution from Usano East to over 6,000 bopd. Towards the end of 2013, the IDT 25 ST2 well, targeting undrained oil in the northern segment of the Main Block Toro reservoir at Kutubu, was also successfully completed. At Moran, the Moran 13 ST3 well was drilled in the first half of 2013, achieving a sustained production rate of approximately 2,500 bopd from the Digimu reservoir.

Field management

Well interventions and new workovers continued to help offset natural field decline in 2013. The Company's strategy for workovers has involved the installation of selective multiple zone completions, allowing production from intervals with the most productive potential at any given time. Workovers were undertaken at Kutubu, Agogo and Gobe during the year. Well interventions using coiled tubing were also undertaken in the UDT 3A well at Usano and in the Moran 6 ST3, Moran 11 and Moran 9 ST4 wells at Moran. These were successful in enhancing production rates through reservoir stimulation.

UDT 14 WELL, USANO EAST.

New development wells at Usano East added over 6,000 bopd to production in 2013.

2013 PRODUCTION SUMMARY[1,2]

YEAR TO 31 DECEMBER	2012		2013		% CHANGE	
OIL PRODUCTION	GROSS DAILY PRODUCTION (BOPD)	NET TO OIL SEARCH (MMBBLS)	GROSS DAILY PRODUCTION (BOPD)	NET TO OIL SEARCH (MMBBLS)	GROSS DAILY PRODUCTION	NET TO OIL SEARCH
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 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 GTE Gas	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:
(1) Numbers may not add due to rounding.
(2) Gas volumes converted to barrels of oil equivalent (boe) using a standard conversion factor of 6,000 scf = 1 boe.

MANANDA 7.

In December, the Company spudded the Mananda 7 appraisal well in the PNG Highlands. Mananda 7 has recently been suspended as a potential future oil producer.

Commissioning gas for the PNG LNG Project

During 2013, the Oil Search-operated Associated Gas (AG) Project, which is part of the PNG LNG Project development (see pages 18–21), was completed. This Project included making modifications to the CPF, allowing pipeline-specification gas to be produced. Gas commenced flowing from the Kutubu field to the PNG LNG plant near Port Moresby in September and to the HGCP in December. The completion of the AG Project and start of gas deliveries was completed with minimal disruption to existing oil operations.

Oil appraisal

Oil Search continues to pursue oil exploration opportunities in PNG, particularly those that are close to existing infrastructure. One of those opportunities is the Mananda Ridge in the PNG Highlands, where oil was discovered by Mananda 5 in late 2010.

In 2013, the Mananda 6 well was drilled and discovered oil in two intervals, confirming the presence of the hydrocarbon bearing sands found at Mananda 5.

In August, the Company submitted a Petroleum Development Licence application covering the Mananda 5 and Mananda 6 oil discoveries to the PNG Government. The conceptual development plan envisages a tie-back of the Mananda oil discoveries to the South East Mananda facilities, with primary oil processing to take place at the Agogo Processing Facility.

In December, the Company spudded the Mananda 7 appraisal well which has recently been suspended as a potential future oil producer. Development studies on Mananda 5, 6 and 7 are ongoing.

FOCUS ITEMS FOR 2014

- **Kutubu.** Drill two development wells at Kutubu in 2014, in the forelimb of the Agogo field and in the forelimb of the Usano field.
- **Moran.** Rebuild geological and simulation models for Moran and potentially drill a development well, depending on the outcome of remodelling work.
- **Gobe.** Optimise oil production from existing wells and commence delivery of gas to the PNG LNG Project.
- Continue development studies at Mananda.

2014 PRODUCTION OUTLOOK[1,2]

Current operations (oil + GTE)	**6.4 – 6.9 mmboe**
PNG LNG Project	
LNG	26.0 – 38.0 bscf
Liquids	1.3 – 1.8 mmbbl
Total PNG LNG Project	6.4 – 9.3 mmboe
Total Production	**13 – 16 mmboe**

(1) Numbers may not add due to rounding.

(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.

INTERNATIONAL GROWTH

Surrounded by proven oil fields of material size and in a highly prospective, yet underexplored region, Oil Search believes there is potential for material oil volumes in the Taza PSC.

Oil Search's strategy for international expansion is largely focused on oil opportunities that offer the potential for significant growth and value upside, in areas where we can leverage existing relationships and our experience in operating in developing countries.

The discovery of oil at Taza 1, located in the Kurdistan Region of Iraq, in 2013 is very encouraging. A comprehensive appraisal programme is now underway, comprising up to four additional wells, the acquisition of extensive 3D seismic and the installation of an Early Production Facility. If appraisal is successful, Taza has the potential to add materially to Oil Search's operated resource base, future production and exposure to oil.

Evaluation of Oil Search's other international acreage remains ongoing, while active screening of additional international opportunities with material potential is a key focus area for the Company.

TAZA 1 WELL, KURDISTAN.

The 2013 Taza 1 exploration well discovered light oil and has been suspended for potential future re-entry.

SEISMIC ACQUISITION. During 2014, Oil Search plans to acquire seismic in Kurdistan, Tunisia and Yemen.

Kurdistan Region of Iraq (Taza PSC. Oil Search – 60%, operator)

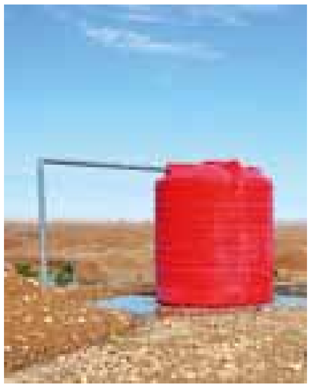
Oil Search's exploration programme in the Taza Production Sharing Contract (PSC) made significant headway in 2013. The Taza 1 exploration well, which spudded in 2012, discovered light oil in four Tertiary age reservoir intervals in the first half of 2013. Testing of the Miocene to Oligocene Jeribe, Dhiban, Euphrates and Kirkuk intervals flowed at up to 1,100 barrels of oil per day (bopd). This was pleasing given the challenging hole conditions resulting from a complex downhole regime with large differential pressures, characteristic of drilling conditions in the region. Taza 1 was suspended for potential future re-entry and a discovery report was submitted to the Kurdistan Regional Government (KRG) in July.

In September, the Company submitted a proposed appraisal programme to the KRG for approval. The programme includes drilling the Taza 2 well, which is the commitment well for the present licence period, the Taza 3 appraisal well and preparations for drilling Taza 4 and 5, the acquisition of up to 500 square kilometres of 3D seismic and implementation of an Early Production Facility (EPF).

The appraisal programme was approved and in late December the Company spudded Taza 2. Located 10 kilometres north-west of Taza 1, the Taza 2 well will appraise the hydrocarbon-bearing intervals discovered by Taza 1 and explore deeper Tertiary and Cretaceous intervals known to be productive in other fields in Kurdistan. Rig PR3 has been contracted from the Sakson Group to drill Taza 2. One of the key focus areas has been a modified well design, in light of the subsurface pressure data gathered at Taza 1. This is expected to lead to more efficient drilling and more definitive data acquisition than at Taza 1. Taza 2 is expected to reach target depth in the first half of 2014.

Subject to the drilling results, an EPF may be installed on Taza 2, in late 2014 or early 2015, to provide production data that can be used for full-field development planning. Initially designed to produce up to 5,000 bopd, the EPF will have the potential for expansion to a capacity of up to 10,000 bopd. Additional systems could be installed on subsequent wells to facilitate the early development of the field, while assessing and developing a full-field development plan.

Follow-up appraisal wells will seek to address field structural configuration, fluid contacts, reservoir quality and fracturing. The second appraisal well, Taza 3, located approximately six kilometres south-east of Taza 1, is anticipated to spud in the second quarter of 2014, using a second rig. Taza 3 will provide further areal information as well as focusing on characterising the nature and distribution of fractures in the carbonate reservoirs.

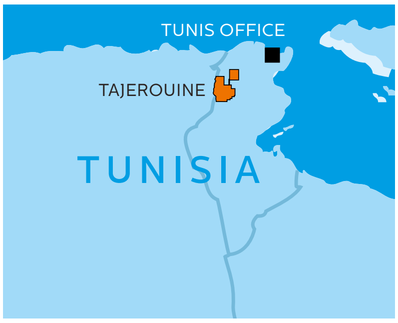


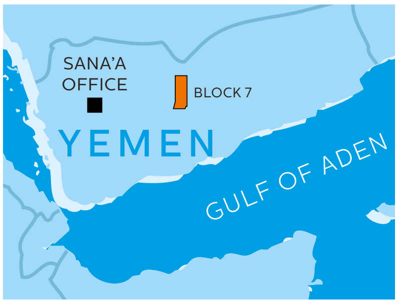
COMMUNITY DEVELOPMENT.

In 2013, 12 water supply and school improvement projects were completed in Kurdistan.

COMMITMENT TO THE MIDDLE EAST/ NORTH AFRICA REGION.

In 2013, Oil Search opened a second office in Kurdistan located in Erbil, reflecting the Company's commitment to the region as it progresses from exploration to appraisal at Taza.





Surrounded by proven oil fields of material size and in a highly prospective, yet underexplored region, Oil Search believes there is significant upside potential in the Taza PSC, in deeper horizons at Taza and in a lead in the west of the licence, which will be further matured during 2014.

A number of large oil and gas discoveries have been made in Kurdistan over the past decade and major global companies have established positions in the country. As a result, the region is starting to transition into a significant energy player. The KRG has announced production targets of one million bopd in 2015 and two million bopd by 2020. To facilitate crude exports, it has recently completed construction of a new 300,000 bopd crude oil export pipeline linking Kurdistan with Turkey and is investing in the rapid development of additional infrastructure. Although discussions continue between the KRG and the Federal Government of Iraq over control of Kurdistan's petroleum resources, positive steps are apparent in the political landscape for energy production and sales.

Tunisia (Tajerouine PSC. Oil Search – 100%, operator)

In early 2013, the Company spudded the Semda 1 exploration well located in the Tajerouine PSC, marking the Company's inaugural drilling activity in Tunisia. The well reached total depth with no indications of significant hydrocarbons and was plugged and abandoned in March. The results have constrained the distribution of Cretaceous reservoirs in the frontier block. Towards the end of the year, a contract was signed to acquire a 300 kilometre 2D seismic survey in the south of the Tajerouine PSC, which is expected to commence in the second quarter of 2014.

Yemen (Block 7. Oil Search – 34%, operator)

Oil Search's Block 7 asset in Yemen 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. Preparations for a regional airborne geophysical survey were ongoing at the end of 2013, with mobilisation planned for early 2014.

Despite political progress, the security situation remains unpredictable for ground operations. Seismic acquisition and extended well testing of the 2010 Al Meashar discovery are both being planned as possible activities later in the year, should security conditions allow.

New venture activities

With a substantial and long-term stable cash flow stream from the PNG LNG Project expected to commence in 2014, Oil Search continues to actively evaluate international expansion opportunities, capable of delivering growth beyond 2015. During 2013, Oil Search's new ventures team capabilities were enhanced and a range of opportunities reviewed against the Company's strict investment screening criteria.

FOCUS ITEMS FOR 2014

- Complete Taza 2 and commence drilling the Taza 3 appraisal well and acquiring 3D seismic in Kurdistan.
- Install EPF equipment on one of the Taza wells.
- Acquire seismic in Tunisia.
- Acquire seismic or conduct well testing in Yemen, if the security situation permits.
- Continue to build new ventures capabilities and evaluate opportunities.

2013 RESERVES AND RESOURCES

At the end of 2013, Oil Search's total proven and probable oil reserves and contingent oil resources were 179 mmbbl, up 34% compared to the end of 2012. The increase primarily reflected the booking for the first time of contingent resources for the Taza field in Kurdistan.

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, driven mainly by the expiry of the PRL 1 licence (Pandora) and revised assumptions used to calculate PNG LNG Project fuel, flare and shrinkage.

Oil Search's 2013 reserves and resources statement has been modified this year to comply with the new ASX listing rules which came into effect on 1 December 2013. These modifications include a number of re-classifications of reserves and resources to align with ASX guidance and the definition of reserves in developed and undeveloped categories for the first time.

OIL AND GAS RESERVES

At 31 December 2013, the Company's proven oil and gas reserves (1P) were 61.6 million barrels of oil and 1,616.1 bcf of gas. Proven and probable reserves (2P) were 94.3 million barrels of oil and 2,370.7 bcf of gas.

The key changes in 1P and 2P reserves since 31 December 2012, which are summarised in Tables 1 and 2, are as follows:

- Reserves at 31 December 2013 have been adjusted for 2013 net production of 5.8 mmbbl oil and condensate and 5.5 bcf gas.
- Oil Search has reviewed the Company's PNG LNG Project reserves and resources database in light of the new ASX listing rules. This review has resulted in the movement of 208.4 bcf (excluding 35 bcf for fuel, flare and shrinkage) and 1.8 mmbbl of liquids from undeveloped reserves to contingent resources (Tables 1 and 2). This relates to tail gas and associated liquids produced beyond 2046, when the annual production rate is forecast to be below the current minimum operating rate of the LNG plant unless plant modifications are made.

TABLE 1: 2013 LIQUIDS RESERVES AND RESOURCES RECONCILIATION WITH 2012

Proven Liquids Reserves (millions of barrels)

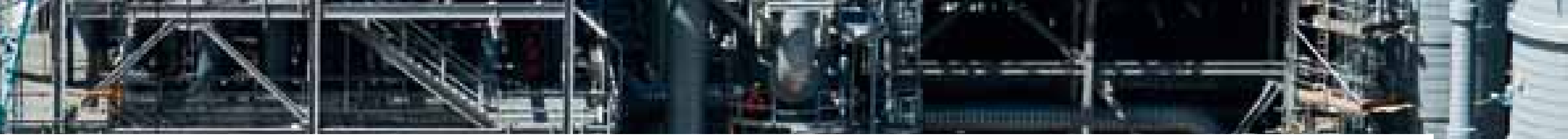
LICENCE/FIELD	END 2012 1P RESERVES	PRODUCTION	DISCOVERIES/ EXTENSIONS/ REVISIONS	ACQUISITIONS/ DIVESTMENTS	END 2013 1P RESERVES
PDL 2 – Kutubu	15.9	3.5	–	–	12.4
PDL 2 – SE Mananda	0.1	–	–	–	0.1
PDL 2/5/6 – Moran Unit	11.3	2.0	–	–	9.3
PDL 4 – Gobe Main	0.1	–	–	–	0.1
PDL 3/4 – SE Gobe	0.5	0.1	–	–	0.3
PDL 1 – Hides	1.1	0.1	–	–	1.0
PNG LNG Project	38.4	–	–	–	38.4
Total	**67.5**	**5.8**	**–**	**–**	**61.6**

Proven & Probable Liquids Reserves (millions of barrels)

LICENCE/FIELD	END 2012 2P RESERVES	PRODUCTION	DISCOVERIES/ EXTENSIONS/ REVISIONS	ACQUISITIONS/ DIVESTMENTS	END 2013 2P RESERVES
PDL 2 – Kutubu	22.1	3.5	–	–	18.7
PDL 2 – SE Mananda	0.3	–	–	–	0.3
PDL 2/5/6 – Moran Unit	15.9	2.0	–	–	13.9
PDL 4 – Gobe Main	0.2	–	–	–	0.2
PDL 3/4 – SE Gobe	0.7	0.1	–	–	0.6
PDL 1 – Hides	1.1	0.1	–	–	1.0
PNG LNG Project	61.5	–	(1.8)	–	59.7
Total	**101.9**	**5.8**	**(1.8)**	**–**	**94.3**

2C Contingent Liquids Resources (millions of barrels)

LICENCE/FIELD	END 2012 2C RESOURCES	PRODUCTION	DISCOVERIES/ EXTENSIONS/ REVISIONS	ACQUISITIONS/ DIVESTMENTS	END 2013 2C RESOURCES
PNG LNG Project Liquids	–	–	1.7	–	1.7
PNG Other Liquids	29.9	–	–	–	29.9
Middle East Liquids	1.6	–	51.5	–	53.1
Total	**31.5**	**–**	**53.1**	**–**	**84.7**



This reclassification does not affect sales volumes or 1P reserves. The reference point for booking PNG LNG Project reserves is, as in previous years, at the outlet to the PNG LNG plant.

- The PNG LNG reserves and resources review has also resulted in an 85 bcf reduction in PNG LNG 2P reserves, due to an update in the assumptions used for fuel, flare and shrinkage at the lease, the HGCP and the LNG plant.
- 23.8 bcf related to SE Gobe net sales gas and liquids, which were previously carried within the PNG LNG Project category at the plant outlet, have been reclassified and are now reported at the Gobe outlet.

Developed and undeveloped reserves are shown in Table 3. Undeveloped oil and gas reserves within the oil fields are related to field life extensions resulting from the PNG LNG Project. A substantial portion of the undeveloped oil field and PNG LNG Project undeveloped reserves will transfer to the developed reserves category once the PNG LNG Project comes on-stream in 2014.

CONTINGENT RESOURCES

At the end of 2013, the Company's 2C contingent oil resources were 84.7 mmbbl and 2C contingent gas resources were 2,296.8 bcf.

The key changes in contingent resources since 31 December 2012, which are summarised in Tables 1 and 2, are as follows:

- The successful outcome of the Taza 1 well in the Kurdistan region of Iraq, completed in 2013, has resulted in the addition of 51.5 mmbbl oil and 134.9 bcf gas to 2C contingent resources (see Tables 1 and 2).
- As previously noted, a proportion of PNG LNG Project tail gas has been transferred from the reserves category to the contingent resources category.
- 191.1 bcf of contingent resources relating to the Pandora field in PRL 1 have been removed due to the expiry of the licence in February 2013 and a minor correction to resources at Kimu in PRL 8 has been incorporated.

TABLE 2: 2013 GAS RESERVES AND RESOURCES RECONCILIATION WITH 2012

Proven Gas Reserves (billions of standard cubic feet)

LICENCE/FIELD	END 2012 1P RESERVES	PRODUCTION	DISCOVERIES/ EXTENSIONS/ REVISIONS	ACQUISITIONS/ DIVESTMENTS	END 2013 1P RESERVES
PDL 2 – Kutubu	–	–	–	–	–
PDL 2 – SE Mananda	–	–	–	–	–
PDL 2/5/6 – Moran Unit	–	–	–	–	–
PDL 4 – Gobe Main	–	–	–	–	–
PDL 3/4 – SE Gobe	–	–	–	–	–
PDL 1 – Hides	48.8	5.5	–	–	43.3
PNG LNG Project	1,572.8	–	–	–	1,572.8
Total	**1,621.6**	**5.5**	**–**	**–**	**1,616.1**

Proven & Probable Gas Reserves (billions of standard cubic feet)

LICENCE/FIELD	END 2012 2P RESERVES	PRODUCTION	DISCOVERIES/ EXTENSIONS/ REVISIONS	ACQUISITIONS/ DIVESTMENTS	END 2013 2P RESERVES
PDL 2 – Kutubu	–	–	–	–	–
PDL 2 – SE Mananda	–	–	–	–	–
PDL 2/5/6 – Moran Unit	–	–	–	–	–
PDL 4 – Gobe Main	–	–	–	–	–
PDL 3/4 – SE Gobe	–	–	23.8	–	23.8
PDL 1 – Hides	48.8	5.5	–	–	43.3
PNG LNG Project	2,653.9	–	(350.3)	–	2,303.6
Total	**2,702.7**	**5.5**	**(326.5)**	**–**	**2,370.7**

2C Contingent Gas Resources (billions of standard cubic feet)

LICENCE/FIELD	END 2012 2C RESOURCES	PRODUCTION	DISCOVERIES/ EXTENSIONS/ REVISIONS	ACQUISITIONS/ DIVESTMENTS	END 2013 2C RESOURCES
PNG LNG Project Gas	–	–	208.4	–	208.4
PNG Other Gas	2,181.7	–	(37.0)	(191.1)	1,953.6
Middle East Gas	–	–	134.9	–	134.9
Total	**2,181.7**	**–**	**306.2**	**(191.1)**	**2,296.8**

2013 RESERVES AND RESOURCES

(CONT'D)

As technical work to constrain a number of subsurface uncertainties has not yet been completed, no contingent resource estimates have been included in the current statement for the 2013 Flinders and Hagana Gulf of Papua gas discoveries. It is expected that this technical work will be completed in 2014.

RESERVES AND RESOURCES

As highlighted in Table 4, at the end of 2013, Oil Search's total proven and probable oil reserves and contingent oil resources were 179 mmbbl and the Company's total proven and probable gas reserves and contingent gas resources were 4,667.5 bcf.

TAZA PSC – INITIAL BOOKING OF CONTINGENT RESOURCE

51.5 million barrels of net entitlement oil and 134.9 bcf of net entitlement gas have been booked for the first time in the contingent resource category relating to the Taza discovery in the Taza Production Sharing Contract (PSC) (Block K42) in the Kurdistan Region of Iraq. Based on information gained from the initial exploration campaign, gross volumes are estimated at 165.8 million barrels and 356.9 bcf of gas. Oil Search's net entitlement is calculated based on the terms of the Taza PSC, with an evaluation date of December 2013.

The presence of significant quantities of potentially moveable hydrocarbons in the Taza field has been confirmed from the following:

- Data was acquired from the Taza 1 exploration well and two sidetracks drilled in 2012/13.
- A total of four well tests were conducted which identified the presence of mobile oil in the Jeribe and Euphrates reservoir intervals. Samples of oil and gas were collected from the Euphrates reservoir.
- Analysis of petrophysical data gathered during the drilling also indicated the likely presence of hydrocarbons in the Kirkuk reservoir intervals.

Contingent resource volumes have been estimated by combining in-place volume estimates from geological modelling with recovery factor estimates from both simulation modelling and a consideration of analogue fields. A deterministic approach was used to estimate the reported volumes in each reservoir and they have been aggregated arithmetically.

These resources are considered to be contingent on the confirmation of a commercially viable development project. Planning for the installation of an Early Production Facility has commenced. Additional appraisal drilling and evaluation will be required to further assess the potential for commercial recovery and this may also include the reprocessing of existing seismic lines, the acquisition of additional seismic lines and further well testing.

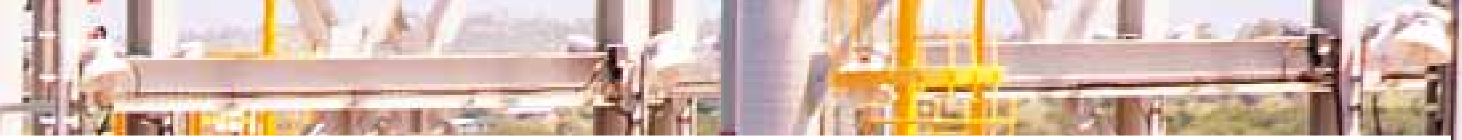
TABLE 3: DEVELOPED AND UNDEVELOPED RESERVES

Developed Reserves

NET TO OIL SEARCH		PROVEN (1P)		PROVEN & PROBABLE (2P)	
LICENCE/FIELD	OIL SEARCH INTEREST	LIQUIDS DEVELOPED[3] MMBBL	GAS DEVELOPED[4,5] BSCF	LIQUIDS DEVELOPED[3]	GAS DEVELOPED[4,5]
PDL 2 – Kutubu	60.0%	11.1	–	17.3	–
PDL 2 – SE Mananda	72.3%	0.1	–	0.3	–
PDL 2/5/6 – Moran Unit	49.5%	7.8	–	12.2	–
PDL 4 – Gobe	10.0%	–	–	0.1	–
PDL 3/4 – SE Gobe	25.6%	0.2	–	0.4	–
PDL 1 – Hides	100.0%	1.0	43.3	1.0	43.3
Oil Fields and Hides GTE Reserves		20.2	43.3	31.4	43.3
PNG LNG Project Reserves	29.0%	–	–	–	–
Subtotal Developed Reserves		**20.2**	**43.3**	**31.4**	**43.3**

Undeveloped Reserves

NET TO OIL SEARCH		PROVEN (1P)		PROVEN & PROBABLE (2P)	
LICENCE/FIELD	OIL SEARCH INTEREST	LIQUIDS UNDEVELOPED[3] MMBBL	GAS UNDEVELOPED[4,5] BSCF	LIQUIDS UNDEVELOPED[3]	GAS UNDEVELOPED[4,5]
PDL 2 – Kutubu	60.0%	1.3	–	1.3	–
PDL 2 – SE Mananda	72.3%	–	–	–	–
PDL 2/5/6 – Moran Unit	49.5%	1.5	–	1.7	–
PDL 4 – Gobe	10.0%	–	–	–	–
PDL 3/4 – SE Gobe	25.6%	0.2	–	0.2	23.8
PDL 1 – Hides	100.0%	–	–	–	–
Oil Fields and Hides GTE Reserves		3.0	–	3.3	23.8
PNG LNG Project Reserves	29.0%	38.4	1,572.8	59.7	2,303.6
Subtotal Undeveloped Reserves		**41.5**	**1,572.8**	**63.0**	**2,327.4**



GOVERNANCE AND 2014 AUDIT PLAN

The governance arrangements for the reporting of hydrocarbon reserves and resources are based on the Company's Reserves Management and Audit Process (RMAP) which consists of the following:

- A Technical Reserves Committee (TRC) which meets on a regular basis throughout the year and assesses all proposed changes and additions to the Company's reserves and resources database, utilising advice and contributions from peer review and subject matter experts where appropriate.
- The TRC reports to the Reserves Operating Committee (ROC), consisting of senior management from technical and commercial disciplines, for the sanction of changes proposed by the TRC.
- Final statements are subject to Board approval at the Audit and Financial Risk Committee.
- Under the Company's RMAP arrangements, oil fields are subject to independent audit every three years or more frequently under some circumstances (for example, if a material change is indicated).

All oil fields were audited at the end of 2012 by independent auditors, Netherland Sewell & Associates, Inc. (NSAI). No fields were audited in 2013 as performance during the year was closely in line with expectations. Field performance will be monitored in order to determine whether a further audit of any of the fields is justified in 2014. Gas reserves are subject to audit under instruction from the PNG LNG Project operator, ExxonMobil PNG Limited.

TABLE 4: TOTAL RESERVES AND RESOURCES SUMMARY[1,2]

Reserves and Resources as at 31 December 2013

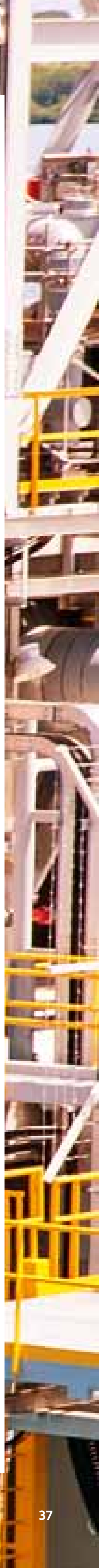
NET TO OIL SEARCH		PROVEN (1P)		PROVEN & PROBABLE (2P)	
LICENCE/FIELD	OIL SEARCH INTEREST	LIQUIDS[3] MMBBL	GAS[4] BSCF	LIQUIDS[3] MMBBL	GAS[4] BSCF
RESERVES					
PDL 2 – Kutubu	60.0%	12.4	–	18.7	–
PDL 2 – SE Mananda	72.3%	0.1	–	0.3	–
PDL 2/5/6 – Moran Unit	49.5%	9.3	–	13.9	–
PDL 4 – Gobe	10.0%	0.1	–	0.2	–
PDL 3/4 – SE Gobe[5]	25.6%	0.3	–	0.6	23.8
PDL 1 – Hides[6]	100.0%	1.0	43.3	1.0	43.3
Oil Fields and Hides GTE Reserves		**23.2**	**43.3**	**34.6**	**67.1**
PNG LNG Project Reserves[5]	**29.0%**	**38.4**	**1,572.8**	**59.7**	**2,303.6**
Subtotal Reserves		**61.6**	**1,616.1**	**94.3**	**2,370.7**
CONTINGENT RESOURCES		1C		2C	
PNG LNG Project Gas and Liquids		–	–	1.7	208.4
PNG Other Gas and Liquids[7]		–	–	29.9	1,953.6
Middle East Gas and Liquids[7]		–	–	53.1	134.9
Subtotal Resources		–	–	84.7	2,296.8
Total Reserves and Resources		**61.6**	**1,616.1**	**179.0**	**4,667.5**

NOTES

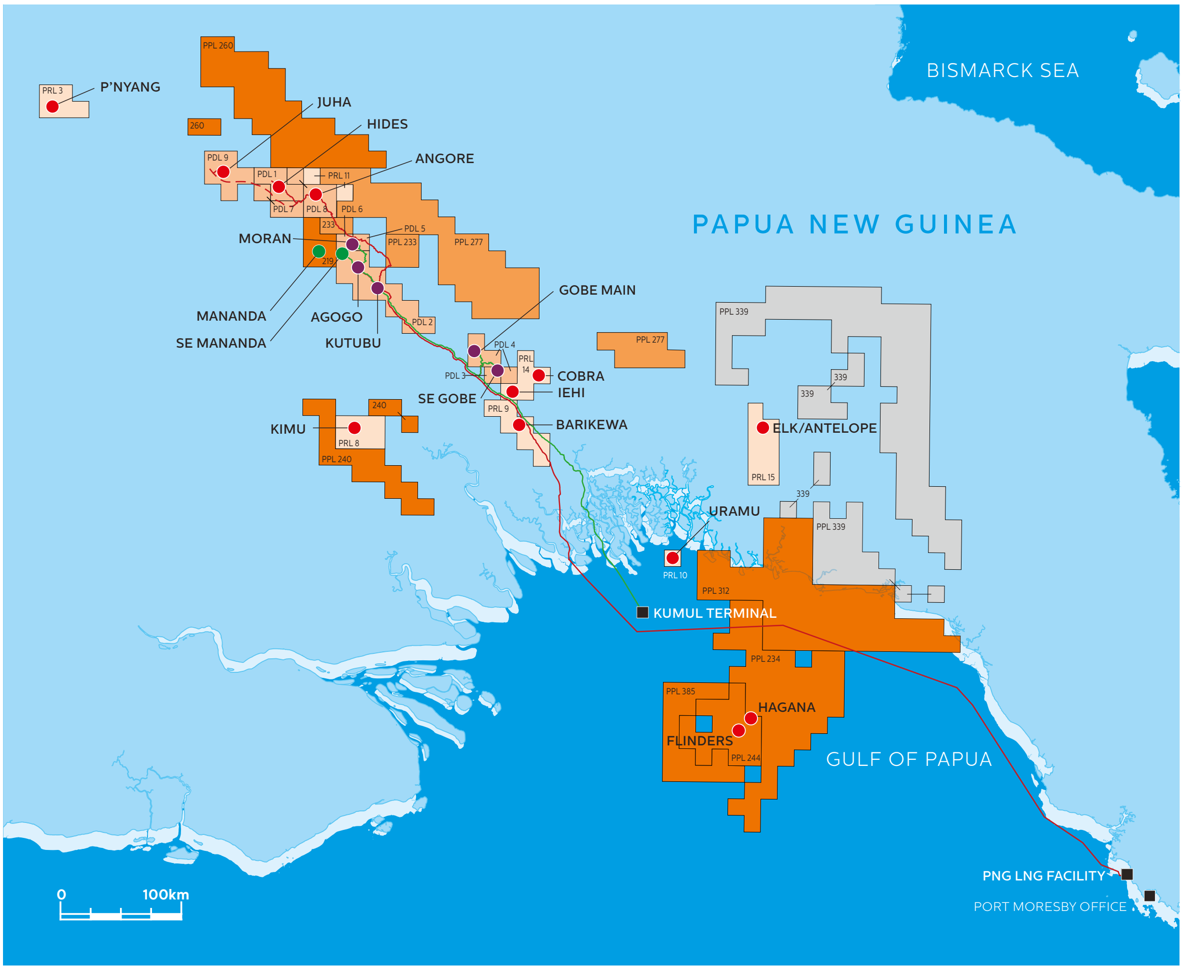
1. Numbers may not add due to rounding.
2. Oil field proven reserves (1P) and proven and probable reserves (2P) are as certified by independent auditors Netherland, Sewell & Associates, Inc. (NSAI) in 2012. 1P PNG LNG Project reserves are as certified in 2008 by independent auditors, NSAI. 2P PNG LNG Project reserves and contingent resources (2C) are based on a combination of independent audit, PNG LNG Project operator and internal assessments.
3. Liquids include crude oil, separator and plant condensates.
4. For PNG LNG Project, shrinkage has been applied to raw gas for the field condensate, plant liquids recovery and fuel and flare.
5. PNG LNG Project reserves comprise the Kutubu, Moran, Gobe, SE Hedinia, Hides, Angore and Juha fields. In addition, third party wet gas sales to the project at the Gobe plant outlet (inclusive of plant condensate) have been included for SE Gobe in 2P at the post-sales agreement SE Gobe field interest (22.58%).
6. Hides reserves associated with the GTE Project only.
7. Other Gas and Liquids Resources comprise the Company's other fields including SE Mananda, Juha North, P'nyang, Kimu, Uramu, Barikewa, Iehi, Cobra, Al Meashar-1 fields, as well as the 2010/2013 Mananda 5/6 and 2013 Taza discoveries. These gas resources may include fuel, flare and shrinkage depending on the choice of reference point.

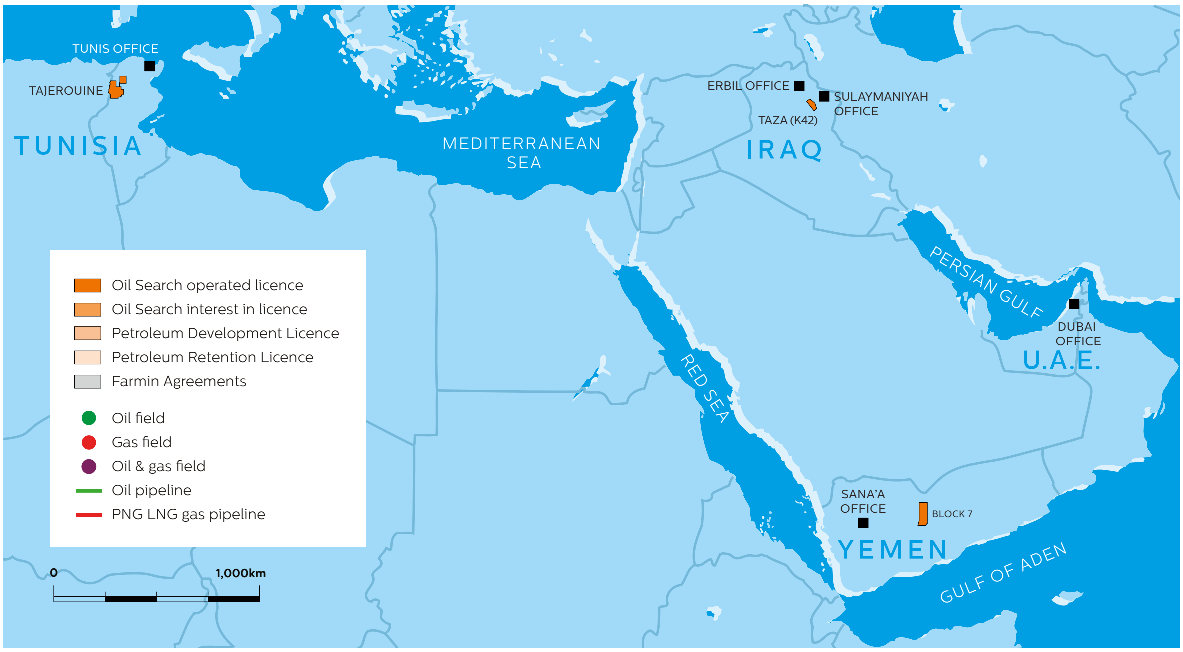
ADDITIONAL NOTES

- The evaluation date for these estimates is 31st December 2013.
- The following reference points are assumed:
  - Oil field liquids: the inlet to the refinery
  - Hides GTE: the custody transfer point at the wellhead with gas and condensate reported separately
  - PNG LNG: the outlet to the LNG plant
  - SE Gobe gas: the outlet to the Gobe facility
  - Fuel, flare and shrinkage upstream of the reference points have been excluded.
- Reserves and contingent resources are aggregated by arithmetic summation by category and therefore proved reserves may be a very conservative estimate due to the portfolio effects of arithmetic summation.
- Reserves and contingent resources have been estimated using both deterministic and probabilistic methods.
- The information in this reserves and resources statement has been prepared by Dr Jon Rowse, Oil Search's General Manager – Subsurface, who is a full-time employee of the Company and a member of the Society of Petroleum Engineers. Dr Rowse is qualified in accordance with ASX Listing Rules 5.41-5.44, and confirms that the statement fairly represents information and documentation which has been prepared under his supervision and approved by him. He has consented to publish this information in the form and context in which it is presented in this statement.



LICENCE INTERESTS





LICENCE INTERESTS (14 March 2014)

LICENCE	FIELD/PROJECT	OIL SEARCH % INTEREST	OPERATOR
PNG Petroleum Development Licences (PDL)			
PDL 1	Hides	16.66	ExxonMobil
PDL 2	Kutubu, Moran	60.05	Oil Search
PDL 2 – SE Mananda JV	SE Mananda	72.27	Oil Search
PDL 3	SE Gobe	36.36	Santos
PDL 4	Gobe Main, SE Gobe	10.00	Oil Search
PDL 5	Moran	40.69	ExxonMobil
PDL 6	Moran	71.07	Oil Search
SE Gobe Unit (PDL 3/PDL 4)		25.55	Oil Search
Moran Unit (PDL 2/PDL 5/PDL 6)		49.51	Oil Search
Hides Gas to Electricity Project (PDL 1)		100.00	Oil Search
PDL 7	South Hides	40.69	ExxonMobil
PDL 8	Angore	40.69	ExxonMobil
PDL 9	Juha	24.42	ExxonMobil
PNG LNG Project	PNG LNG Project	29.00	ExxonMobil
PNG Pipeline Licences (PL)			
PL 1	Hides	100.00	Oil Search
PL 2	Kutubu	60.05	Oil Search
PL 3	Gobe	17.78	Oil Search
PL 4	PNG LNG Project	29.00	ExxonMobil
PL 5	PNG LNG Project	29.00	ExxonMobil
PL 6	PNG LNG Project	29.00	ExxonMobil
PL 7	PNG LNG Project	29.00	ExxonMobil
PL 8	PNG LNG Project	29.00	ExxonMobil
PNG Petroleum Processing Facility Licence			
PPFL 2	PNG LNG Project	29.00	ExxonMobil
PNG Petroleum Retention Licences (PRL)			
PRL 3	P'nyang	38.51	ExxonMobil
PRL 8	Kimu	60.71	Oil Search
PRL 9	Barikewa	45.11	Oil Search
PRL 10	Uramu	100.00[1]	Oil Search
PRL 11		52.50	ExxonMobil
PRL 14	Cobra, Iehi	62.56	Oil Search
PRL 15	Elk/Antelope	22.84[2]	InterOil
PNG Petroleum Prospecting Licences (PPL)			
PPL 219		71.25	Oil Search
PPL 233		52.50	ExxonMobil
PPL 234		80.00[3]	Oil Search
PPL 240		100.00[4]	Oil Search
PPL 244		40.00	Oil Search
PPL 260		40.00	Oil Search
PPL 277		50.00	ExxonMobil
PPL 312		30.00[5]	Oil Search
PPL 385		100.00	Oil Search
PNG Farm-In Agreements			
PPL 339		30.00[6]	Kina Petroleum
Yemen			
Block 7		34.00[7]	Oil Search
Iraq			
Taza (K42)		60.00[8]	Oil Search
Tunisia			
Tajerouine		100.00[9]	Oil Search

(1) In October 2012, Oil Search entered into a farm-out agreement with Total, under which Total may acquire a 50% interest.

(2) In March 2014, Oil Search acquired five corporate entities which hold an aggregate interest in PRL 15 of 22.835%, before the PNG Government's back-in rights under the PNG Oil and Gas Act.

(3) In October 2012, Oil Search entered into a farm-out agreement with Total, under which Total may acquire a 40% interest.

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

(5) An application to withdraw from the licence has been lodged for approval with the Minister.

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

(7) 40% paying interest.

(8) 75% paying interest.

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

SUSTAINABILITY AT OIL SEARCH 2013

NEW HEALTH, SAFETY & SUSTAINABILITY **BOARD COMMITTEE**

FOR THE FIRST TIME...

Oil Search included in Dow Jones Sustainability Index (DJSI) Australia

US$8.2M INVESTED IN COMMUNITY DEVELOPMENT

Including a US$5.8M donation

to the Oil Search Health Foundation, community projects in PNG and MENA, partnerships and community enterprise start-up loans

US$249.1M

PAID TO PNG, KURDISH, YEMENI AND TUNISIAN GOVERNMENTS

as royalties, taxes, dividends and levies

APPROVED

CORRUPTION PREVENTION FRAMEWORK

Training on the framework for all employees to occur during 2014

2.47 TOTAL RECORDABLE INJURY RATE

an improvement from 2.64 in 2012

US$10.7M

spent on works in lieu of tax, assisting the PNG Government to deliver *eight infrastructure projects*, including *two in Port Moresby*, under the new National Infrastructure Tax Credit Scheme.

9% *decline*

in greenhouse gas intensity to

73ktCO_2e/MMBOE

980 TONNES

of legacy junk chemicals

responsibly

DISPOSED OF FROM SITES IN PNG

OIL SEARCH'S APPROACH TO SUSTAINABILITY

People, Safety, Continuous Operations

Sustainable. Oil Search.

> "Oil Search will be a leader in delivering sustainability, driven by integrity, innovation and partnership with governments and the communities with whom we work."
>
> — *Oil Search sustainability vision*

To support Oil Search's current growth plans, it is vital to have a robust sustainability approach that is embedded in day-to-day operations. 2013 marked the midway point for the Company's 2011 multi-year Sustainability Strategy to build Oil Search's sustainability platform in readiness for future growth. The strategy remains focused on ensuring the fundamentals are in place to respond to changing stakeholder expectations and to embed sustainability more effectively within 'business as usual'. During the year, a risk review guided efforts to build the Company's understanding of, and response to, current and emerging sustainability risks that have the potential to impact the achievement of Oil Search's business objectives. The results of this review have informed an internal audit programme in 2014 and will be integrated into an ongoing improvement plan and updates to Company-wide management systems.

For further information on Oil Search's sustainability approach, see Oil Search's *2013 Sustainability Report* or go to *www.oilsearch.com/Sustainability/Our-Approach.html*

FOCUS ITEMS FOR 2014

- Continue risk and impact assessment and implementation of human rights due diligence processes.
- Finalise development of Environment and Social Management System documentation as part of the corporate Enterprise Management System review.
- Develop and commence implementation of sustainable supply chain strategy.
- Continue monitoring improvement programme for community projects.
- Review and update Sustainability Strategy as part of the Company's Strategic Review.

SUSTAINABILITY
(CONT'D)

WORKFORCE DEVELOPMENT. An annual talent review process ensures the Company has skilled, experienced people ready to move into critical roles.

Oil Search people

The people of Oil Search and the culture of the organisation are core elements of the Company's success. In support of this, workforce development continues to be a key priority. The implementation of a new Learning Management System will provide employees and their supervisors greater visibility and control over ongoing training and development requirements.

Competency Assurance Management System

The technical competencies required for safety critical roles have been defined and used to assess employee competence, with gaps addressed by the implementation of improvement actions during 2013.

In 2014, application of this framework will be extended to other employees to identify and close capability gaps through the application of individual development plans. The system is aimed at ensuring Oil Search continues to have an appropriately skilled workforce as the complexity of operations increases.

Building leadership skills and programmes

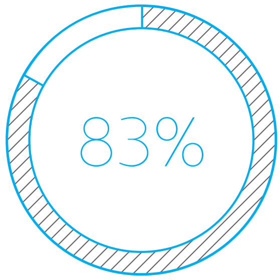
In 2013, Oil Search commenced a review of leadership competencies required to enable the Company to identify and develop current and future business leaders. New leadership development programmes will be run for leaders at all levels of the organisation in 2014.

Oil Search also conducted a formal talent and succession review for all executive management and critical operational roles during the year. This assessment will be conducted on an annual basis to ensure a pipeline of equipped and experienced talent ready to move into management roles.

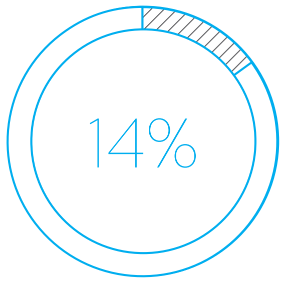
Operating with integrity

Governance structure and processes strengthened

In 2013, changes were made to the Board Committee structure, including the formation of a new Health, Safety and Sustainability Board Committee, to ensure the Board is able to effectively consider a broad cross section of operational and financial issues. Also during the year, Oil Search directors were included in the management certification process for the first time, requiring them to confirm compliance with key internal controls and financial reporting disclosures.



OF THE PNG WORKFORCE COMPRISES PNG CITIZENS



OF THE SENIOR MANAGEMENT TEAM ARE WOMEN

For further information on Oil Search's workforce and diversity, see the *2013 Sustainability Data Book*, available online at *www.oilsearch.com/sustainability/sustainability-reporting.html*

Improvements to corruption prevention measures

During the year, there were a number of steps taken to strengthen the Company's corruption prevention measures. These included the Board's approval of the Corruption Prevention Framework and training for all members of the Board and Executive Management team on anti-corruption laws and compliance requirements in jurisdictions where Oil Search operates. In 2014, a comprehensive training programme will be rolled out to all employees on the Corruption Prevention Framework.

Support for EITI formalised in PNG

In mid-2013, the PNG Government announced its intention to adopt the Extractives Industries Transparency Initiative (EITI). Oil Search has been an EITI Supporting Company since January 2013 and has actively promoted the adoption of the EITI by the PNG Government for a number of years.

All of Oil Search's payments to Governments are summarised in the *2013 Transparency Report* at *www.oilsearch.com/sustainability/sustainability-reporting.html*

Human rights risk review ongoing

During the year, a legal and regulatory review was conducted to more effectively understand Oil Search's potential human rights risks and impacts. Oil Search remains committed to developing a clear human rights position and the continued development of this framework will be an ongoing focus in 2014.

Enhancing our social licence to operate

Safety performance

The Company recorded a Total Recordable Injury Rate (TRIR) of 2.47 per million hours worked in 2013, an improvement from 2.64 in 2012. This was a pleasing result, given the increased level of higher risk drilling and exploration activities in PNG, Tunisia and the Kurdistan Region of Iraq during the year.

A detailed process safety plan has been developed and resourced to ensure the 'Case for Safety' is made for each asset in PNG. The plan includes process design, facility operation and operational competency and will be governed by a Process Safety Steering Group.

Improving social impact measurement

During the year, the Company focused on improving its social impact monitoring and measurement methods, to better understand and communicate the impacts of its activities as well as direct future mitigation efforts. To ensure a robust environmental and social baseline is captured around Oil Search's operations in Kurdistan, work undertaken was reviewed to identify areas for improvement. A community projects measurement tool was also piloted in PNG to improve performance analysis of selected community projects.

New shared benefits management model approved

Since 2010, Oil Search has worked alongside ExxonMobil PNG Limited and representatives from various levels of Government to develop the Shared Responsibility Model (SRM). The initial version (since revised) was approved by the PNG National Executive Council in September 2013. It aims to improve the execution of Government infrastructure commitments included in legacy oil Memorandum of Agreements and the PNG LNG Project-related umbrella benefits sharing agreements.

In 2013, Oil Search continued to support the PNG LNG Project operator to provide logistical and advisory assistance to the Department of Petroleum and Energy's efforts to implement the benefits-related Clan Vetting Project.

Generating shared value

Community development

In 2013, Oil Search invested US$8.2 million in community development, including a US$5.8 million donation to the Oil Search Health Foundation and investment in agriculture, water supply and small scale community infrastructure projects.

Oil Search regularly undertakes many community projects in collaboration with local communities to improve sustainable development outcomes and facilitate and maintain local community relationships.

During the year, Oil Search, in partnership with the Australian NGO, Business for Millennium Development (B4MD), commenced trials for a possible commercial piggery which, in addition to becoming a commercial enterprise, is intended to provide local pig farmers with an additional cash income source.

OIL SEARCH HEALTH FOUNDATION
Caring for Communities
PNG PROUD

COMMUNITY HEALTH

The Oil Search Health Foundation aspires to become an internationally recognised non-profit organisation that builds the PNG Government's capacity to deliver safe and effective healthcare in PNG.

In 2013, the Foundation reviewed its leadership and organisational structure to ensure the programmes are fit for purpose, scalable and sustainable. These developments helped facilitate a significant increase in activity during the year, specifically in the HIV and maternal and child health programmes. This included Foundation support for an additional 35 HIV clinics, doubling the number of HIV tests conducted to 17,956.

For more information on the Oil Search Health Foundation, see the *2013 Sustainability Report* or the *2013 Oil Search Health Foundation Annual Report*.
www.oilsearchhealthfoundation.org

Managing resources responsibly

Strengthening our environmental management system capability

Oil Search's PNG operations have been ISO14001 certified since 2009 and the Company's Environmental Management System (EMS) and performance continues to improve. In 2013, 70% of previously issued minor non-conformances were closed out and there were no new non-conformances raised by our external auditor. This significant achievement is attributed to an enhanced focus on integrating accountability for environmental management within business operations.

Understanding biodiversity and water use in PNG

During 2013, the Company undertook a review of biodiversity risks and opportunities and a comprehensive biodiversity field survey. The results of both the risk analysis and field survey will inform the Company's biodiversity improvements in 2014. Also in 2013, a number of improvements were made to Oil Search's water monitoring capabilities designed to allow us to report water consumption data in 2014.

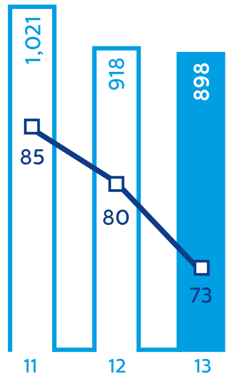
Continuous performance improvement

On track to achieve greenhouse gas emissions target

Work continued throughout 2013 on investigating opportunities for greenhouse gas (GHG) emissions reduction. This highlighted that the highest value opportunities for emissions reduction lie in new asset and project developments. Over the next few years, the Company will refine its internal processes to properly embed energy efficiency and emissions reduction opportunities into new projects.

In 2013, total GHG emissions from Oil Search's PNG operations decreased by 2% to 898 ktCO_2e, due to slightly lower flaring and liquid field consumption from the prior year. This, coupled with increased production, lowered emissions intensity from 80 ktCO_2e/mmboe to 73 ktCO_2e/mmboe.

Oil Search remains on track to meet its target of reducing its emissions intensity across existing operations by 12% by 2016, against a 2009 baseline.



GHG EMISSIONS AND INTENSITY

ktCO_2e   ktCO_2e/mmboe

For further data on Oil Search's environment and sustainability performance, see the *2013 Sustainability Data Book.*

WASTE IMPROVEMENT. The "Hot Rot" composting unit installed in late 2013 will divert approximately 730 tonnes of kitchen waste annually from the incinerator into usable material.

PNG waste improvement projects delivered

The delivery of waste improvement projects was a significant focus in 2013. These included: the installation of a composting unit to improve incinerator efficiency and local air quality by diverting 730 tonnes of kitchen waste a year; the removal of 980 tonnes of legacy junk chemicals from site in PNG, reducing risks to the environment and the health of the workforce; and the installation of a sludge waste oil reprocessing centrifuge, resulting in the recovery of approximately 2,140 barrels of oil.

CORPORATE GOVERNANCE

Oil Search is committed to adopting and implementing rigorous corporate governance practices across all of its activities.

COMMITMENT TO GOOD GOVERNANCE

In pursuit of the Company's strategic objectives, Oil Search strives to implement the highest standards of corporate governance across all of its activities. The Company supports this commitment by transparent and open reporting of its governance practices so that investors will be able to make informed investment decisions.

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

ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

Oil Search believes it followed all the CGC Recommendations during the 12 months ended 31 December 2013.

In reporting against the CGC Recommendations for 2013, Oil Search:

- Addresses the CGC Recommendations consecutively.
- Includes cross references to information not included in the Corporate Governance statement, but located elsewhere in the 2013 Annual Report or on the Company's website.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

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

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

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

Performance evaluations for all senior executives were carried out in the reporting period, in accordance with the process disclosed in the above paragraph. The Company also expects that during 2014, performance evaluations for all senior executives will be carried out in accordance with that process. (Recommendations 1.2 and 1.3)

Copies of the Board Charter and the Charters for each of the four Board Committees are on Oil Search's website in the Corporate Governance section. (Recommendation 1.3)

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

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

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

During 2013:

- A majority of Oil Search's directors were independent at all times, as assessed in accordance with the Board Charter and the CGC Recommendations, and met regularly without management present. (Recommendation 2.1)
- The Chairman (Brian Horwood, retired 28 February 2013 and then Rick Lee, appointed 28 February 2013), was an independent director. (Recommendation 2.2)
- The roles of Chairman and Managing Director were not performed by the same individual. (Recommendation 2.3)

Committees of the Board

Following a review of the evolving activities of the Company, the Board restructured its Committees during 2013.

The Committees of the Board for the period 1 January 2013 to 17 July 2013 were:

- Audit Committee;
- Finance and Risk Committee; and
- Remuneration and Nominations Committee.

The Committees of the Board from 18 July 2013 onwards consisted of:

- Audit and Financial Risk Committee;
- Corporate Actions Committee;
- Health, Safety and Sustainability Committee; and
- Remuneration and Nominations Committee (renamed People and Nominations Committee from 12 December 2013).

The formation of the Audit and Financial Risk Committee saw a merger of the Audit Committee responsibilities with the financial risk management oversight previously undertaken by the Finance and Risk Committee.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1. RJ LEE (CHAIRMAN)
2. PR BOTTEN
3. G AOPI
4. KG CONSTANTINOU
5. B PHILEMON
6. FE HARRIS
7. AJ KANTSLER
8. KW SPENCE
9. ZE SWITKOWSKI

CORPORATE GOVERNANCE

(CONT'D)

The Health, Safety and Sustainability Committee assumed HSES and sustainability oversight, which was previously undertaken directly by the Board and also incorporated the operations risk management oversight that was previously addressed by the Finance and Risk Committee.

The Corporate Actions Committee was formed to assume responsibility for supporting the Board in exercising governance and oversight over potential change of control events, major capital markets transactions and other material transactions and initiatives, as delegated by the Board from time to time.

With the exception of a name change, the People and Nominations Committee remained unchanged during 2013.

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

The People and Nominations Committee comprises a minimum of four independent directors. The members of the People and Nominations Committee and their attendance at meetings of the Committee during 2013 are detailed in the Directors' Report. (Recommendations 2.4 and 2.6)

Board capabilities, succession planning and review process

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

A restructure of Board membership commenced in 2012, to ensure appropriate Board capabilities to support the Company's business growth opportunities. The restructure was completed during 2013 with the appointment of a new Chairman and a new director.

The Oil Search Board operates a formal annual review process for the Board and individual directors. The process involves each director completing a detailed questionnaire covering the performance of the Board as a whole, the performance of the four Board Committees, the individual director's own performance and the performance of the Chairman. The Chairman then meets with each director to review their responses to the questionnaire and to give the director the Chairman's own views on how the director has performed during the year. This formal review process was held over in 2013 due to the appointment of a new Chairman and was conducted in early 2014. (Recommendation 2.6)

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

Director induction and ongoing education

New directors participate in an induction programme to assist them in understanding Oil Search's strategic objectives, values and culture, financial performance, operations and risk management systems. The induction process also covers the Company's Code of Conduct and other corporate policies that Board members must comply with, as well as relevant administrative and procedural arrangements to promote the effective functioning of the Board.

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

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

Director independence and access to external advice

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

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

The period of office held by each director in office at the date of the 2013 Annual Report is specified in the Directors' Report. (Recommendation 2.6)

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

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Oil Search actively promotes ethical and responsible decision making.

Oil Search has a Code of Conduct which is supported by a training module and periodic monitoring of compliance. The Code was reviewed and updated in 2012. Among matters addressed, the Code of Conduct details the Company's requirements regarding complying with legal obligations and reporting unethical practices. (Recommendation 3.1)

The Code was supplemented in late 2013 by the introduction of a comprehensive framework of corruption prevention standards.

Diversity

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

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

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

The Company's achievements in 2013 in promoting gender and other forms of diversity and the objectives set by the Board for 2014 in support of the implementation of the Diversity Policy are set out on pages 51-52 of the 2013 Annual Report. (Recommendation 3.3)

Key measures of diversity across the Oil Search organisation, including the proportion of women employees in total, women in senior management positions and women on the Board are summarised on pages 51-52 of the 2013 Annual Report and set out in more detail in the 2013 Sustainability Report. (Recommendation 3.4)

OBJECTIVES FOR 2013	OUTCOME
1. Increase female representation on the Oil Search executive team and Board	Talent Development & Recruitment processes (particularly for senior management roles) have been refined to focus on gender (and ethnic) diversity. Career development plans are being progressed for females identified as having potential to occupy leadership roles. In 2013, a female Director, Ms Fiona Harris, was appointed to the Board. A female General Manager and a number of female managers were externally recruited during 2013. Career Planning sessions resulted in high potential women being appointed to development roles.
2. Increase PNG citizen representation in leadership roles	PNG citizens have been appointed to production and functional leadership roles at each operation, supported by the appointment of expatriate deputies, and the use of individual development programmes and formal mentors/coaches.
3. Implement key aspects of the Diversity Policy	During 2013, a Diversity workshop was conducted with the Executive Leadership team facilitated by an external Diversity Consultant. A diagnostic set of interviews was then conducted with a range of senior staff. The insights gained have been used to frame the 2014 Diversity Objectives. During the year an Australian chapter of the Oil Search Women's network was established. The Oil Search Women's network has successfully operated in PNG for a number of years. The purpose of the network(s) is to champion workplace diversity and create networking, mentoring and a variety of development opportunities for women.
4. Support employees looking for more flexible work options	Flexible work options including teleworking are in place. A number of job share and part-time work arrangements are used in Australia. Oil Search continues to provide employees in Port Moresby a daily transport service for staff and their school aged children, picking children up from school and dropping them home each school day. Employees in Australia are entitled to paid personal carers' leave which accumulates from year to year.

CORPORATE GOVERNANCE

(CONT'D)

The measurable Objectives endorsed by the Board for 2014 are:

- **Objective 1:** Increase the percentage of females in leadership roles by 2017.
- **Objective 2:** Increase the percentage of PNG citizens in leadership roles by 2017.
- **Objective 3:** Increase the percentage of female graduates and apprentices to 25% by 2017.
- **Objective 4:** Increase the number of PNG citizens on succession plans for leadership and management roles.
- **Objective 5:** Implement diversity and inclusiveness training as part of the Oil Search Leadership Development programme.

A summary of diversity indicators as at 31 December 2013 is provided below:

DIVERSITY IN SENIOR MANAGEMENT AND GOVERNANCE ROLES	2010	2011	2012	2013
% Women in organisation as a whole	19%	20%	21%	22%
% Women in senior management roles	6%	10%	13%	14%
% PNG nationals in senior management roles	23%	23%	22%	21%
% Women on the Oil Search Board	0%	0%	0%	11%
% PNG nationals on the Oil Search Board	22%	22%	22%	22%

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

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

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

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

The Board has an Audit and Financial Risk Committee. (Recommendation 4.1)

At all times during 2013 the Audit and Financial Risk Committee consisted of:

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

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

The members of the Audit and Financial Risk Committee, their qualifications and their attendance at meetings of the Committee held during 2013, are detailed in the Directors' Report. (Recommendation 4.4)

The number of meetings of the Audit and Financial Risk Committee held during 2013 is detailed in the Directors' Report. (Recommendation 4.4)

The external auditors attended all Audit and Financial Risk Committee meetings in 2013. The external auditors held discussions at each meeting with the Committee members and without management present.

Oil Search's policy is to appoint an internationally recognised external audit firm with expertise in the resources sector. Deloitte Touche Tohmatsu was appointed the Company's auditor in May 2002. The Audit Committee reviews the performance of the external auditor and the rotational plan for external audit partners. The Committee recommends the tendering and selection of the external auditor to the Board. The external audit was tendered in March 2009 to a range of qualified international audit firms, with Deloitte Touche Tohmatsu successful in resecuring the role. The re-appointment of Deloitte Touche Tohmatsu was approved at the 2013 Annual Meeting.

Deloitte Touche Tohmatsu's professional requirements mandate that each lead audit partner rotates from his or her client after no more than five years of service. That policy is followed for the Oil Search assignment and a partner rotation occurred in 2011, with the next rotation to occur in 2014. (Recommendation 4.4)

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

The Audit and Financial Risk Committee Charter is available on Oil Search's website in the Corporate Governance section. (Recommendation 4.4)

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

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

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

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

Although not required by the PNG regulatory framework, but reflecting the Company's commitment to maintaining good governance practice, Oil Search elects to include a Remuneration Report within the Directors' Report. The 2013 Remuneration Report complies with section 300A of the Australian Corporations Act 2001 (Cth) and has been audited by Deloitte Touche Tohmatsu.

Oil Search's Public Disclosure and External Communications Policy is available on Oil Search's website in the Corporate Governance section. (Recommendation 5.2)

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

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

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

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

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

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

Oil Search's Public Disclosure and External Communications Policy is available on Oil Search's website in the Corporate Governance section. Oil Search's website details how investors may contact the Company's investor relations team. In addition, the website contains contact details for the Company's external share registry, including a general enquiry line, fax number and email details. (Recommendation 6.2)

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

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

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

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

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

The Board requires management to design and implement a risk management and internal control system to manage the Company's material business risks. During 2013 management regularly reported to the Board on those material business risks. (Recommendations 7.2 and 7.4)

In developing its risk management systems, Oil Search has considered its legal obligations and its responsibilities to various interest groups. Oil Search recognises that many groups, including shareholders, employees, customers, suppliers, creditors, consumers, landowners, government authorities and the broader community, both locally and internationally, have a legitimate interest in the Company's risk management policies and procedures. Oil Search takes account of the potential impacts and consequences for all stakeholders when assessing risk exposures.

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

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

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

The Board is also responsible for monitoring the risk management system.

CORPORATE GOVERNANCE

(CONT'D)

Minutes of all Board committees are reviewed by the Board. The Chairman of the Board attends committee meetings as an ex officio member, other than the Corporate Actions Committee, which the Board Chairman chairs.

Oil Search has a full-time Assurance and Compliance Manager with responsibility for managing the internal audit function. As part of his/her duties, the Assurance and Compliance Manager provides independent assurance on the adequacy and effectiveness of the Company's risk management framework and the completeness and accuracy of risk reporting by management. The Assurance and Compliance Manager conducts annual risk reviews based on a plan agreed with management and the Audit and Financial Risk Committee. The Assurance and Compliance Manager has access to all members of the management team and the right to seek information and explanations from any staff member or contractor.

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

The Managing Director and Chief Financial Officer are both required to state in writing to the Board that the integrity of the Company's financial statements is based on a sound system of risk management as well as internal compliance and control which implements the Board's policies. In addition, senior managers are required to formally confirm to the Managing Director and to the Chief Financial Officer that key Company policies and standards have been operating effectively throughout the year, including the operation of risk management processes, mitigation opportunities and contingency plans. The Managing Director and Chief Financial Officer provided an unqualified statement regarding risk management and internal compliance and control systems to the Board for 2013.

The Board requires the Managing Director and the Chief Financial Officer to provide a declaration that is consistent with section 295A of the Australian Corporations Act 2001 (Cth). The Board received this declaration from the Managing Director and the Chief Financial Officer in 2013. In addition, as noted above, the Board also received reports from management during 2013 regarding the management of material business risks. (Recommendations 7.3 and 7.4)

A summary of the Company's policies on risk oversight and management is available on Oil Search's website in the Corporate Governance section. (Recommendation 7.3 and 7.4)

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Oil Search's policy is to ensure that the level and composition of remuneration for all employees is competitive and reasonable and that the relationship between remuneration and corporate and individual performance is clearly defined.

Oil Search has a People and Nominations Committee. (Recommendation 8.1)

At all times during 2013 the People and Nominations Committee consisted of:

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

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

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

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

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

The members of the People and Nominations Committee, their qualifications and attendance at meetings of the Committee during 2013 are detailed in the Directors' Report. (Recommendation 8.4)

The People and Nominations Committee's charter is available on Oil Search's website in the Corporate Governance section. (Recommendation 8.4)

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

FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

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 nine 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*

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 Niugini 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*

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

Mr Spence joined the Board on 9 May 2012. Mr Spence brings over 30 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 20 year career in finance at two of Australia's largest multi-national 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' (pages 60–68).

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.

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' (pages 60–68) 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.

DIRECTORS' REPORT
(CONT'D)

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.

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

Audit Committee: Mr RJ Lee(1) (Committee Chairman), Mr KW Spence(2) (Committee Chairman), Ms FE Harris(3), Dr AJ Kantsler(4) and Mr B Philemon. Mr BF Horwood(5) was an ex-officio attendee of this Committee;

Finance and Risk Committee: Dr AJ Kantsler(4) (Committee Chairman), Mr G Aopi, Mr KG Constantinou, Mr RJ Lee(1) and Dr ZE Switkowski(6). Mr BF Horwood(5) was an ex-officio attendee of this Committee; and

Remuneration and Nominations Committee: Dr ZE Switkowski(6) (Committee Chairman), Mr KG Constantinou, Mr B Philemon and Mr KW Spence(2). Mr BF Horwood(5) 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 Kantsler(4) (Committee Chairman), Ms FE Harris(3), Mr B Philemon and Dr ZE Switkowski(6). Mr RJ Lee(1) is an ex-officio attendee of this Committee;

Corporate Actions Committee: Mr RJ Lee(1) (Committee Chairman), Mr PR Botten, Dr AJ Kantsler(4), Mr KW Spence(2) and Ms FE Harris(3);

Health, Safety and Sustainability Committee: Mr KW Spence(2) (Committee Chairman), Dr AJ Kantsler(4), Mr G Aopi, Mr KG Constantinou and Ms FE Harris(3). Mr RJ Lee(1) is an ex-officio attendee of this Committee; and

People and Nominations Committee: Dr ZE Switkowski(6) (Committee Chairman), Mr RJ Lee(1) (Acting Committee Chairman), Mr KG Constantinou, Mr B Philemon and Mr KW Spence(2).

(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.

DIRECTORS' REPORT
(CONT'D)

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.

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 85.

DIRECTORS' REPORT
(CONT'D)

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 Licence 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] applied to Oil Search's gross share before PNG Government back-in for any certified 2C contingent resource within the Elk/Antelope fields greater than 7 tcfe[2].

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.

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[4]	552.4	524.3	+5
Exploration and evaluation costs	(107.4)	(144.0)	-25
Non-cash costs	(50.2)	(49.5)	+1
EBIT[4]	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.

(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) 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 mmbbls[5], 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.

(5) mmbbls = million barrels.

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.

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 US$3.7 million to US$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 US$3.8 million to US$3.8 million, driven by a reduction in the South East Mananda restoration rate.

Depreciation increased by US$0.8 million to US$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 licence 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 US$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 licences 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.

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, US$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.

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 mmbbl 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).

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.

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.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONT'D)

2013 production summary

YEAR TO 31 DECEMBER	2012		2013		% CHANGE	
OIL PRODUCTION	GROSS DAILY PRODUCTION (BOPD)	NET TO OSH (MMBBLS)	GROSS DAILY PRODUCTION (BOPD)	NET TO OSH (MMBBLS)	GROSS DAILY PRODUCTION	NET TO OSH
Kutubu	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.

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.
- **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 spineline 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.

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 installation of an Early Production Facility. 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, Euphrates and 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.

3. Business strategy, outlook and risks

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; and
- 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 an Early Production Facility and the commencement of Concept Select studies.

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 and mechanical difficulties. 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.

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; clean-up 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 programmes and through the effective use of a group-wide risk management system. In addition, the group has insurance programmes 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 humans skills and knowledge are in place.

Reserve and resource estimates

Underground oil and gas reserve and resource estimates are expressions of judgement 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.

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 licence 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.

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;
- **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:
  - The release of the half year results;
  - The release of the full year results; and
  - The Oil Search Annual Meeting.

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

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

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

	CLOSED PERIOD	TRADING WINDOW	ALL OTHER TIMES
Restricted Employees	Not permitted to trade	May trade, 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.

4. ROLE OF THE PEOPLE AND NOMINATIONS COMMITTEE

The People and Nominations Committee (the Committee) of the Board, formerly called the Remuneration and 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 on 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 (Chairman 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.

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.

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 group.

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 group's successful commissioning of the PNG LNG Project, discovery of new hydrocarbon resources and progress towards commercialisation of 2C gas resources.

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

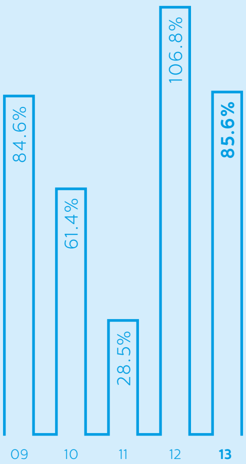
At the end of the year, the Board approves an overall STI pool based on the level of achievement against the hurdles that were determined at the start of the year. The STI pool is then distributed to employees, taking into account:

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

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 that value is provided to the individual in the form of Oil Search shares.

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:

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

$$\downarrow$$

$$\frac{1{,}950 \text{ X } (\$10.00 - \$7.82)}{\$10.00} = \frac{\$4{,}251}{\$10.00} = 425 \text{ shares}$$

SARs are automatically exercised on vesting, which is dependent on the Oil Search share price increasing over the three-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. 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 June 09	1 June 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 programme 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.

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 the 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.

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 1 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 Performance Rights and Share Appreciation Rights 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 three-year vesting period followed by a two-year exercise period. From 2010, all awards that satisfy their respective vesting conditions at the end of the three-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.

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 62.5th 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 and relationship to Company performance

As noted in section 5, Oil Search executives are eligible to receive a STI and participate in a LTI programme 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 shareholder value, whilst also being competitively positioned against benchmarks based on the reference groups of companies.

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 STIs up to a maximum of two times the incentive opportunity.

The following table summarises STI awards as a percentage of TFR for senior executives and the Managing Director for a range of 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 the 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, providing the executive remains employed by 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**
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.

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 Gerea Aopi CBE – Executive General Manager External & Government Affairs and Sustainability and Executive Director

Incumbent for the full year

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

In addition, Gerea 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 to 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 Executive General Manager, PNG Operations in February 2013 having previously held the role of Executive General Manager, Project Development. In his role, Paul is responsible for Oil Search's operations in PNG, Oil and Gas production, Drilling, Subsurface, Logistics and Health, Safety, Environment and Security.

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

Incumbent from 4 February 2013

Glenn was appointed to the role of Executive General Manager, 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 programmes to grow shareholder value through exposure to quality exploration projects on a risked basis. Julian leads teams in the technical and commercial evaluation of new ventures and business development opportunities.

Mr Stephen Gardiner – Chief Financial Officer and 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 Todorcevski on 2 July 2012. Prior to this, Stephen's role was Executive General Manager, Sustainability, Corporate Services and Group Secretary.

Mr Michael Herrett – Executive General Manager Human Resources – Health and 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 and 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.

Former Executives

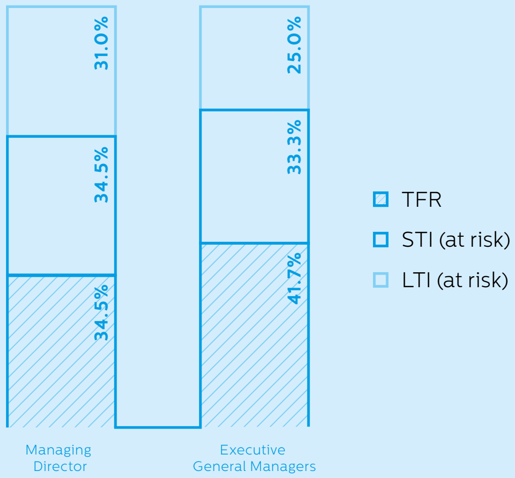
Mr Richard Robinson – Executive General Manager PNG Operations

Departed 31 May 2013

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

The remuneration philosophy 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/US$	1.0359	**0.9686**
PGK/US$	0.4955	**0.4545**

Table 10 – Key management personnel remuneration (US$)

		SHORT-TERM			POST EMPLOY-MENT	LONG-TERM	EQUITY[6]		OTHER	
	YEAR	SALARIES FEES AND ALLOW-ANCES[1]	NON-MONETARY BENEFITS[2]	SHORT-TERM INCEN-TIVE[3]	COMPANY CONTRIB-UTION TO SUPER[4]	LONG SERVICE LEAVE ACCRUAL[5]	PERFORM. RIGHTS	RESTRICTED SHARES	SIGN ON/ TERMI-NATION BENEFITS	TOTAL
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 & Government 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 Fringe Benefits Tax (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.

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.

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.

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. For Performance Rights granted in 2013 the earliest exercise date is 15 May 2016.

The deferred component of the 2012 STI was allocated as Restricted Shares under the Long-Term Incentive Plan 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.

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 (A$)
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

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 shown below:

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
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

	TYPE	NUMBER	GRANT DATE	% VESTED IN THE YEAR	% FORFEITED IN THE YEAR	FINANCIAL YEAR OF VESTING
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

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.

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 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 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

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.

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.

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

DIRECTORS' REPORT

REMUNERATION REPORT (CONT'D)

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

		SHORT-TERM			POST EMP'MENT	LONG-TERM	EQUITY		OTHER	
DIRECTORS	YEAR	SALARIES FEES AND ALLOW-ANCES	NON-MONETARY BENEFITS	SHORT-TERM INCENTIVE	COMPANY CONTRI-BUTION TO SUPER	LONG SERVICE LEAVE ACCRUAL	PERFORM. RIGHTS	RESTRICTED SHARES	SIGN ON/ TERMIN-ATION BENEFITS	TOTAL
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
Former Non–Executive Directors										
BF Horwood[(4)]	**2013**	**82,626**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**82,626**
	2012	489,981	–	–	–	–	–	–	–	489,981

(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.

(4) Mr B Horwood was Chairman until 28 February 2013.

Signed in accordance with a resolution of the directors.

RJ LEE
Chairman

PR BOTTEN
Managing Director

Sydney, 27 February 2014

Deloitte.

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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

Member of Deloitte Touche Tohmatsu Limited.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

		CONSOLIDATED		PARENT	
	NOTE	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'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					
Items that may be reclassified to profit or loss:					
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.

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

		CONSOLIDATED		PARENT	
	NOTE	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'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.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTE	CONSOLIDATED 2013 US$'000	CONSOLIDATED 2012 US$'000	PARENT 2013 US$'000	PARENT 2012 US$'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)	**–**	–
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.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

CONSOLIDATED	SHARE CAPITAL US$'000	FOREIGN CURRENCY TRANS-LATION RESERVE US$'000	RESERVE FOR TREASURY SHARES US$'000	EMPLOYEE EQUITY COMPEN-SATION RESERVE US$'000	RETAINED EARNINGS US$'000	TOTAL US$'000
Balance at 1 January 2012	**1,683,492**	**426**	**(5,601)**	**18,131**	**1,320,784**	**3,017,232**
Dividends provided for or paid	–	–	–	–	(53,143)	(53,143)
Total comprehensive income for the year						
Net profit after tax for the year	–	–	–	–	175,834	175,834
Other comprehensive income:						
Exchange differences on translation of foreign operations	–	(1,428)	–	–	–	(1,428)
Total comprehensive income for the year	–	(1,428)	–	–	175,834	174,406
Transactions with owners, recorded directly in equity						
Issue of shares through dividend reinvestment plan/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
Other comprehensive income:						
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.

STATEMENTS OF CHANGES IN EQUITY

CONT'D

PARENT	SHARE CAPITAL US$'000	FOREIGN CURRENCY TRANS-LATION RESERVE US$'000	AMALGA-MATION RESERVE US$'000	RESERVE FOR TREASURY SHARES US$'000	EMPLOYEE EQUITY COMPEN-SATION RESERVE US$'000	RETAINED EARNINGS US$'000	TOTAL US$'000
Balance at 1 January 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

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; and
- 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS
(CONT'D)

1 Summary of significant accounting policies *(cont'd)*

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 re-measured 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.

(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 Statement of Comprehensive Income, 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 Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position;
- 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

1 Summary of significant accounting policies *(cont'd)*

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.

(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.

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.

1 Summary of significant accounting policies *(cont'd)*

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.

(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 programmes 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.

(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

1 Summary of significant accounting policies *(cont'd)*

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.

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.

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

NOTES TO THE FINANCIAL STATEMENTS
(CONT'D)

1 Summary of significant accounting policies *(cont'd)*

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 12 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.

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 Statement of Cash Flows, 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.

1 Summary of significant accounting policies *(cont'd)*

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 judgements 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 programme requiring an external audit of each material producing field every three years, as well as other assumptions, interpretations and assessments. These include assumptions regarding commodity prices, exchange rates, discount rates, future production and transportation costs, and interpretations of geological and geophysical models to make assessments of the quality of reservoirs and their anticipated recoveries.

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

NOTES TO THE FINANCIAL STATEMENTS
(CONT'D)

2 Revenue from operations

	CONSOLIDATED		PARENT	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
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

	CONSOLIDATED		PARENT	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
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

	CONSOLIDATED		PARENT	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
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

	CONSOLIDATED		PARENT	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
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 (income)/expense	**(18,373)**	(20,639)	**1,279**	(25,518)
Income tax expense/(benefit)	**174,148**	171,801	**1,257**	(25,584)
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)

6 Earnings per share

	CONSOLIDATED	
	2013 US CENTS	2012 US CENTS
Basic earnings per share	**15.36**	13.22
Diluted earnings per share	**15.30**	13.17

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:

	CONSOLIDATED	
	2013 NO.	2012 NO.
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).

6 Earnings per share *(cont'd)*

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.

7 Dividends paid or proposed

	CONSOLIDATED		PARENT	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
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

	CONSOLIDATED		PARENT	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
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 Statement of Comprehensive Income (2012: nil).

9 Inventories

	CONSOLIDATED		PARENT	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
Current				
At cost				
Materials and supplies	**127,625**	101,980	**–**	964
Petroleum products	**4,029**	7,096	**–**	–
	131,654	109,076	**–**	964

10 Other financial assets

	CONSOLIDATED 2013 US$'000	CONSOLIDATED 2012 US$'000	PARENT 2013 US$'000	PARENT 2012 US$'000
Current				
Loan receivable[1]	**75,483**	48,398	**–**	–

(1) The loan receivable relates to cash advanced by Oil Search under a farm-in arrangement that remains subject to Government approvals. The balance is comprised of both interest bearing (US$46.4 million) and non-interest bearing (US$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

	CONSOLIDATED 2013 US$'000	CONSOLIDATED 2012 US$'000	PARENT 2013 US$'000	PARENT 2012 US$'000
Current				
Prepayments	**42,513**	89,424	**1,238**	1,970
Non-current				
Prepayments	**6,358**	8,948	**–**	–

12 Exploration and evaluation assets

	CONSOLIDATED 2013 US$'000	CONSOLIDATED 2012 US$'000	PARENT 2013 US$'000	PARENT 2012 US$'000
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 US$181.5 million (2012: US$183.5 million) of licence acquisition costs and signature bonuses that are classified as intangible assets.

NOTES TO THE FINANCIAL STATEMENTS
(CONT'D)

13 Oil and gas assets

	CONSOLIDATED		PARENT	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
Assets in development				
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	–	–
Producing assets				
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

	CONSOLIDATED		PARENT	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
At cost	**189,010**	179,076	–	–
Accumulated depreciation and impairment	**(120,564)**	(107,170)	–	–
	68,446	71,906	–	–
Rigs				
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	–	–
Other property, plant and equipment				
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	–	–

NOTES TO THE FINANCIAL STATEMENTS
(CONT'D)

15 Investments

	CONSOLIDATED		PARENT	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
Shares not quoted on securities exchange[1]	**962**	962	**–**	–
Accumulated impairment losses	**(962)**	(962)	**–**	–
	–	–	**–**	–
Shares in subsidiaries (at cost)	**–**	–	**326,507**	326,507
Accumulated impairment losses	**–**	–	**–**	–
	–	–	**326,507**	326,507

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

16 Deferred tax assets

	CONSOLIDATED		PARENT	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
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

	CONSOLIDATED		PARENT	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
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

	CONSOLIDATED 2013 US$'000	CONSOLIDATED 2012 US$'000	PARENT 2013 US$'000	PARENT 2012 US$'000
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	**–**	–
Movement in site restoration provision				
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.

	CONSOLIDATED 2013 US$'000	CONSOLIDATED 2012 US$'000	PARENT 2013 US$'000	PARENT 2012 US$'000
Movement in contingent consideration				
Balance at start of year	**2,000**	–	**–**	–
Additional provision recognised	**–**	2,000	**–**	–
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

	CONSOLIDATED 2013 US$'000	CONSOLIDATED 2012 US$'000	PARENT 2013 US$'000	PARENT 2012 US$'000
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.

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).

19 Loans and borrowings *(cont'd)*

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; and
- 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; and
- 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 six months' interest, whichever is greater, until the completion date is reached.

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

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

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

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

The Borrower grants to the security trustee:

- A first-ranking security interest in all of the Borrower's assets (Oil Search's share US$3,258.5 million at 31 December 2013 (2012: US$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.

20 Deferred tax liabilities

	CONSOLIDATED		PARENT	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
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

	CONSOLIDATED		PARENT	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
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

	2013 SHARES	2012 SHARES	2013 US$'000	2012 US$'000
Movements in issued and fully paid shares				
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 10 trading days following the Record Date for the dividend, less a discount of 2.00%.

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

At balance date, there were 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.

21 Share capital and reserves *(cont'd)*

(a) Reserves at the end of the financial year

	CONSOLIDATED		PARENT	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
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
	3,474	11,690	**2,853**	6,659

(b) Movements in reserves

	CONSOLIDATED 2013 US$'000	CONSOLIDATED 2012 US$'000	PARENT 2013 US$'000	PARENT 2012 US$'000
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	**(5,412)**	(1,002)	**–**	–

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

	CONSOLIDATED 2013 US$'000	CONSOLIDATED 2012 US$'000	PARENT 2013 US$'000	PARENT 2012 US$'000
Amalgamation reserve				
Balance at start of year	**–**	–	**(2,990)**	(2,990)
Balance at end of year	**–**	–	**(2,990)**	(2,990)

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

	CONSOLIDATED 2013 US$'000	CONSOLIDATED 2012 US$'000	PARENT 2013 US$'000	PARENT 2012 US$'000
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	**(2,620)**	(5,584)	**–**	–

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

	CONSOLIDATED 2013 US$'000	CONSOLIDATED 2012 US$'000	PARENT 2013 US$'000	PARENT 2012 US$'000
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.

NOTES TO THE FINANCIAL STATEMENTS
(CONT'D)

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.

	CONSOLIDATED		PARENT	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
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).

(b) Reconciliation of cash flows from operating activities

	CONSOLIDATED		PARENT	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
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/(decease) 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 US$107.4 million (2012: US$144.0 million) of which US$71.1 million (2012: US$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 US$'000	2012 US$'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.

22 Statement of cash flows *(cont'd)*

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 Statement of Cash Flows.

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

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) Farm-in 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%.

23 Interests in joint arrangements *(cont'd)*

(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:

(i) Production licences

		PRINCIPAL PLACE OF BUSINESS	% INTEREST 2013	% INTEREST 2012
PDL 1[(1)(4)]	Hides Gas to Electricity Project	PNG	**100.00**	100.00
PDL 2[(2)(3)]	Kutubu and 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.

(ii) Exploration licences

	PRINCIPAL PLACE OF BUSINESS	% INTEREST 2013	% INTEREST 2012
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%.

(iii) Gas licences

		PRINCIPAL PLACE OF BUSINESS	% INTEREST 2013	% INTEREST 2012
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, Iehi, 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.

NOTES TO THE FINANCIAL STATEMENTS
(CONT'D)

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.

	PNG				MENA					
US$'000	**OIL AND GAS**		**LNG**		**OIL AND GAS**		**CORPORATE**		**TOTAL**	
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.

24 Segment reporting *(cont'd)*

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 2013	REVENUES 2012	NON-CURRENT ASSETS 2013	NON-CURRENT ASSETS 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 US$418.8 million or 57% of the group's total oil and gas sales revenues (2012: US$593.2 million, 88%) and 55% of the group's total revenue of US$766.3 million (2012: 82% of US$724.6 million).

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

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

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

25 Employee entitlements and superannuation commitments

	CONSOLIDATED 2013 US$'000	CONSOLIDATED 2012 US$'000	PARENT 2013 US$'000	PARENT 2012 US$'000
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.

The 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 (SARs). SARs 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 SARs 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.

25 Employee entitlements and superannuation commitments *(cont'd)*

	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.

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[1]	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 SARs. For options granted prior to 2010, the terms of the allocations provided for a three-year vesting period followed by a two-year exercise period. From 2010, all awards that satisfy their respective vesting conditions at the end of the three-year 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.

25 Employee entitlements and superannuation commitments *(cont'd)*

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 the 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.

	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.

25 Employee entitlements and superannuation commitments *(cont'd)*

For Performance Rights granted prior to 2010, the terms of the allocations provided for a three-year vesting period followed by a two-year exercise period. From 2010, all awards that satisfy their respective vesting conditions at the end of the three-year vesting period are automatically exercised.

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
Grant date	7 March 2013	7 March 2013	5 March 2012	1 March 2011	27 April 2010	3 March 2010
Share price at grant date	A$7.87	A$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	–	–	–	–
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
Grant date	15 July 2011	15 July 2011	26 July 2010	26 July 2010	15 June 2009
Share price at grant date	A$6.58	A$6.58	A$5.80	A$5.80	A$5.85
Exercise date	15 July 2014	17 June 2013	15 July 2014	17 June 2013	17 June 2013
Exercise price	A$ nil	A$ nil	A$ nil	A$ nil	A$ nil
Number of shares					
Balance at 1 January 2013	38,720	155,022	36,501	121,102	596,627
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
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.

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:

	2013 US$	2012 US$
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:

	2013 NO.	2012 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.

(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:

	2013 US$	2012 US$
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

26 Key management personnel remuneration *(cont'd)*

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

	2013 NO.	2012 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

27 Auditor's remuneration

	CONSOLIDATED		PARENT	
	2013 US$	2012 US$	2013 US$	2012 US$
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).

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:

	NO. OF ORDINARY SHARES		NO. OF PERFORMANCE RIGHTS(1)		NO. OF RESTRICTED SHARES(1)	
	2013	2012	2013	2012	2013	2012
Directors						
BF Horwood(2)	**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 Igara(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	**–**	–	**–**	–

(1) Refer to note 25.

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

NOTES TO THE FINANCIAL STATEMENTS
(CONT'D)

28 Related party transactions *(cont'd)*

	NO. OF ORDINARY SHARES		NO. OF PERFORMANCE RIGHTS[1]		NO. OF RESTRICTED SHARES[1]	
	2013	2012	2013	2012	2013	2012
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.

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:

	TRANSACTIONS VALUE YEAR ENDED 31 DECEMBER	
CONSOLIDATED	2013 US$'000	2012 US$'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.

29 Commitments

(a) Operating lease commitments

	CONSOLIDATED		PARENT	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
Rental of premises, equipment and LNG Project charter vessels				
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

	CONSOLIDATED		PARENT	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
Capital expenditure commitments	**949,230**	1,577,771	**17,007**	39,000
Other expenditure commitments	**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.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

31 Group entities

	OWNERSHIP INTEREST % 2013	OWNERSHIP INTEREST % 2012	COUNTRY OF INCORPORATION
Parent entity			
Oil Search Limited			PNG
Consolidated entities			
Oil Search (Middle Eastern) Limited	**100**	100	British Virgin Is.
Oil Search (Iraq) Limited	**100**	100	British Virgin Is.
Oil Search (Libya) Limited	**100**	100	British Virgin Is.
Oil Search (Tunisia) Limited	**100**	100	British Virgin Is.
Oil Search (Newco) Limited	**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.

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 three months or less.

32 Financial instruments *(cont'd)*

RECOGNISED FINANCIAL INSTRUMENTS	NOTES	ACCOUNTING POLICIES	TERMS AND CONDITIONS
(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	19	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).
(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 *(cont'd)*

(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 one to three 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).

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

32 Financial instruments *(cont'd)*

CONSOLIDATED FINANCIAL INSTRUMENTS	FLOATING INTEREST RATE US$'000	FIXED INTEREST RATE MATURING IN: 1 YEAR OR LESS US$'000	1-5 YEARS US$'000	MORE THAN 5 YEARS US$'000	NON INTEREST BEARING US$'000	TOTAL CARRYING AMOUNT IN THE STATEMENT OF FINANCIAL POSITION US$'000	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %
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.

32 Financial instruments *(cont'd)*

PARENT FINANCIAL INSTRUMENTS	FLOATING INTEREST RATE US$'000	FIXED INTEREST RATE MATURING IN: 1 YEAR OR LESS US$'000	1-5 YEARS US$'000	MORE THAN 5 YEARS US$'000	NON INTEREST BEARING US$'000	TOTAL CARRYING AMOUNT IN THE STATEMENT OF FINANCIAL POSITION US$'000	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %
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; and
- Granting financial guarantees in support of the PNG LNG Project.

32 Financial instruments *(cont'd)*

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 & 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:

		CONSOLIDATED		PARENT	
	NOTE	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'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).

(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.

NOTES TO THE FINANCIAL STATEMENTS
(CONT'D)

32 Financial instruments *(cont'd)*

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

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 Licence 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], applied to Oil Search's gross share before PNG Government back-in for any certified 2C contingent resource within the Elk/Antelope fields greater than 7 tcfe[2].

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.

DIRECTORS' DECLARATION

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

Deloitte.

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

Report on the Financial Report

We have audited the accompanying financial statements of Oil Search Limited (the Company), which comprises the statement of financial position as at 31 December 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 55 to 126.

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.

Deloitte.

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 69 to 84 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

SHAREHOLDER INFORMATION

Oil Search Limited

ARBN 055 079 868

(a) The distribution of ordinary shares ranked according to size as at 14 March 2014 was:

SIZE OF HOLDING	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL
1 – 1,000	18,976	9,334,447	0.63
1,001 – 5,000	18,671	45,695,116	3.06
5,001 – 10,000	4,142	29,995,991	2.00
10,001 – 100,000	2,498	55,173,777	3.69
100,001 – 9,999,999,999	183	1,352,552,063	90.61
Total	**44,470**	**1,492,751,394**	**100.00**

(b) The 20 largest ordinary shareholders representing 85.30% of the ordinary shares as at 14 March 2014 were as follows:

SHAREHOLDER	NUMBER OF SHARES	% OF ISSUED CAPITAL
1. National Nominees Limited	371,134,535	24.86
2. HSBC Custody Nominees (Australia) Limited	315,126,018	21.11
3. JP Morgan Nominees Australia Limited	282,440,420	18.92
4. Citicorp Nominees Pty Limited	77,099,188	5.16
5. UBS Nominees Pty Ltd	43,206,951	2.89
6. Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	34,253,445	2.29
7. BNP Paribas Noms Pty Ltd <DRP>	30,584,589	2.05
8. JP Morgan Nominees Australia Limited <Cash Income A/C>	18,758,459	1.26
9. Australian Foundation Investment Company Limited	16,482,507	1.10
10. AMP Life Limited	13,211,669	0.89
11. The Independent State of Papua New Guinea	12,377,994	0.83
12. UBS Nominees Pty Ltd	11,480,458	0.77
13. RBC Investor Services Australia Nominees Pty Limited <Pi Pooled A/C>	8,068,515	0.54
14. HSBC Custody Nominees (Australia) Limited <Nt-Comnwlth Super Corp A/C>	7,566,206	0.51
15. Warbont Nominees Pty Ltd <Settlement Entrepot A/C>	7,098,699	0.48
16. National Superannuation Fund Limited	6,081,472	0.41
17. UBS Wealth Management Australia Nominees Pty Ltd	5,861,785	0.39
18. Djerriwarrh Investments Limited	4,583,413	0.31
19. HSBC Custody Nominees (Australia) Limited – A/C 3	4,180,096	0.28
20. Dr Kwok Ching Chow and Mrs Chan Pik Yun Peggy Chow <Est Cho-Poon Chow A/C>	3,771,809	0.25
Total	**1,273,368,228**	**85.30**

(c) Issued capital as at 14 March 2014 was:

- 1,492,751,394 ordinary fully paid shares
- 107,950 unlisted employee options
- 4,588,502 unlisted performance rights
- 616,067 restricted shares
- 4,640,960 share appreciation rights

The trustee for the employee share plan holds 226,646 shares that are available to satisfy the exercise of employee rights and options and vesting of restricted shares. The shares in the trust are part of the issued capital.

SHAREHOLDER INFORMATION

(CONT'D)

(d) The following interests were registered on the Company's register of Substantial Shareholders as at 14 March 2014:

SHAREHOLDER	NUMBER OF SHARES	% OF ISSUED CAPITAL
International Petroleum Investment Company	196,604,177	13.17
Independent State of Papua New Guinea	149,390,244	10.01
The Capital Group Companies	126,440,978	8.47
The Commonwealth Bank of Australia Group	106,408,037	7.13

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

(f) At 14 March 2014, 1,454 holders held unmarketable parcels of ordinary shares in the Company.

Voting rights attached to ordinary shares

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

SHAREHOLDER INFORMATION
(CONT'D)

Annual Meeting

Oil Search's 2014 Annual Meeting will be held at the Crowne Plaza Hotel, Port Moresby, Papua New Guinea on Friday, 16 May 2014, commencing at 10:00am (Port Moresby time).

2013 final dividend

The 2013 final dividend will be paid on 8 April 2014 to shareholders registered at the close of business on 13 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 credit with the Company's share registry, Computershare, and in Australian dollars for all other shareholders. The exchange rates used for converting the US dollar dividend into the payment currencies are the rates as on the record date, 13 March 2014.

The dividend will be unfranked and no withholding tax will be deducted. The Company's dividend reinvestment plan, which will be underwritten, will operate for the 2013 final dividend.

Share registry

Enquiries

Oil Search's share register is handled by Computershare, the world's leading transfer agency/share registry. Please contact Computershare for all shareholding and dividend related enquiries.

Change of shareholder details

Shareholders should notify Computershare of any changes in shareholder details via the Computershare website (www.computershare.com.au) or in writing (fax, email, mail). Examples of such changes include:

- Registered name
- Registered address
- Direct credit payment details
- Dividend payment currency preference.

Computershare Investor Services Pty Limited

GPO Box 2975
Melbourne VIC 3001,
Australia

Telephone:
Within Australia: 1300 850 505
Outside Australia: +61 3 9415 4000

Facsimile: +61 3 9473 2500

Email: oilsearch@computershare.com.au

Website: www.computershare.com.au

American Depositary Receipts programme

Bank of New York Mellon
ADR Division
22nd Floor
101 Barclay Street
New York
NY 10286

Telephone:
Within USA: +1 888 269 2377
Outside USA: +1 201 680 6825
Facsimile: +1 212 571 3050

Share codes

ASX Share Code: OSH
POMSoX Share Code: OSH
ADR Share Code: OISHY

Oil Search website

A wide range of information on Oil Search is available on the Company's website, at www.oilsearch.com As well as reviews of Oil Search's Board and senior management team, corporate governance practices, activities and sustainability initiatives, the following information for investors is available:

- Share price information
- Dividend information
- Annual reports
- Quarterly reports
- Press releases
- Profit announcements
- Drilling reports
- Presentations
- Webcasts.

Investor information, other than about shareholdings and dividends, can be obtained by sending an email to: investor@oilsearch.com

SHAREHOLDER INFORMATION
(CONT'D)

KEY ANNOUNCEMENTS IN 2013

January	29	Release of 2012 4Q results
February	25	Change in board membership announced – resignation of Brian Horwood as Director and Chairman; appointment of Rick Lee as Chairman and Fiona Harris as Director
	26	Release of 2012 Full Year results
April	5	Release of 2012 Annual Report and 2012 Sustainability Report
	23	Release of 2013 1Q results
May	6	Commencement of operations at Komo Airfield as part of PNG LNG Project
	10	Annual Meeting
July	23	Release of 2013 2Q results
August	20	Release of 2013 interim results New management appointments announced – Ian Munro appointed EGM Gas Business Development; Matt Kay appointed EGM Commercial
September	2	PNG LNG Project Update – estimated cost of US$19bn unchanged, on track to achieve first LNG sales in 2H 2014
	20	Oil Search selected for inclusion in the Dow Jones Sustainability Index (DJSI) Australia
October	4	US$1.5bn of supplemental project financing secured for the PNG LNG Project from co-venturer and commercial bank lenders
	22	Release of 2013 3Q results
December	9	Market Update – discussions between Oil Search and key stakeholders associated with the PRL 15 sale process remain ongoing

2014 FINANCIAL CALENDAR[1]

January	28	Release of 2013 4Q results
February	27	Release of full year results for 2013 Announcement of acquisition of an interest in PRL 15 in PNG
March	7	Ex-dividend date for 2013 final dividend
	13	Record date for 2013 final dividend
April	8	Payment of 2013 final dividend
	11	Release of 2013 Annual Report
	22	Release of 2014 1Q results
May	16	Annual Meeting
July	22	Release of 2014 2Q results
August	19	Release of interim results for 2014
September	9	Ex-dividend date for 2014 interim dividend
	11	Record date for 2014 interim dividend
October	7	Payment of 2014 interim dividend
	21	Release of 2014 3Q results
December	31	End of Financial Year

(1) Dates are subject to change.

TEN YEAR SUMMARY[1]

	2013 US$'000	2012 US$'000	2011 US$'000	2010 US$'000
INCOME STATEMENT				
Revenue from operations	**766,265**	724,619	732,869	583,560
Other income/(expenses)	**–**	–	–	–
Foreign exchange (losses)/gains	**(508)**	(1,445)	(1,173)	2,077
Operating expenses	**(182,568)**	(165,717)	(113,938)	(97,290)
Net corporate costs	**(20,601)**	(20,815)	(21,875)	(16,635)
Business development costs	**(10,157)**	(12,309)	(10,295)	(6,154)
EBITDAX[3]	**552,431**	524,333	585,588	465,558
Amortisation and depreciation	**(46,397)**	(41,861)	(49,744)	(42,744)
Amortisation – site restoration	**(3,804)**	(7,596)	(1,563)	(7,130)
Exploration and evaluation costs expensed	**(107,424)**	(143,970)	(60,633)	(125,034)
EBIT	**394,806**	330,906	473,648	290,650
Net finance (costs)/income	**(15,152)**	(4,557)	(658)	(826)
Other income	**216**	45,079	138	3,158
Acquisition accounting adjustment	**–**	–	–	–
Net impairment (losses)/reversals	**–**	(23,793)	(33,227)	(15,808)
Operating profit before income tax	**379,870**	347,635	439,901	277,174
Income tax expense	**(174,148)**	(171,801)	(237,418)	(91,572)
Net profit after tax including significant items	**205,722**	175,834	202,483	185,602
Significant items	**–**	22,796	(33,227)	41,488
Net profit after tax excluding significant items	**205,722**	153,038	235,710	144,114
Dividends paid – ordinary	**(53,532)**	(53,143)	(52,663)	(52,087)
BALANCE SHEET				
Total assets	**8,421,537**	7,102,721	5,702,034	4,370,067
Total cash	**209,661**	488,274	1,047,463	1,263,589
Total debt	**4,024,421**	2,866,050	1,747,567	929,720
Shareholders' equity	**3,421,052**	3,208,346	3,017,232	2,798,467
OTHER INFORMATION				
Average realised oil price (US$/bbl)	**110.73**	113.97	116.09	80.19
Net annual oil production (mmbbl)	**5.82**	5.50	5.76	6.77
Net annual gas production (bcf)[4]	**5.51**	5.27	5.56	5.35
Total BOE net annual production (mmboe)	**6.74**	6.38	6.69	7.66
Exploration and evaluation expenditure incurred (US$'000)	**293,985**	240,615	144,606	175,980
Assets in development expenditure incurred (US$'000)	**1,214,615**	1,492,529	1,286,542	1,139,058
Producing assets expenditure incurred (US$'000)	**152,600**	111,498	129,396	41,850
Operating cash flow (US$'000)	**366,804**	196,226	386,193	346,675
Operating cash flow per ordinary share (US cents)	**27.39**	14.75	29.30	26.50
Basic EPS (including significant items) (US cents)	**15.36**	13.22	15.35	14.20
Diluted EPS (including significant items) (US cents)	**15.30**	13.17	15.27	14.13
Ordinary dividend per share (US cents)	**4.00**	4.00	4.00	4.00
Special dividend per share (US cents)	**–**	–	–	–
Gearing (%)[5]	**52.7%**	42.6%	18.8%	–
Return on average shareholders' funds (%)	**6.2%**	5.6%	7.0%	6.9%
Number of issued shares – ordinary (000's)	**1,343,361**	1,334,757	1,325,155	1,312,888
Number of issued shares – preference (000's)	**–**	–	–	–
EXCHANGE RATES				
Year end A$: US$	**0.895**	1.038	1.016	1.016
Average A$: US$	**0.969**	1.036	1.032	0.919

(1) Prior year comparatives have been restated where necessary, in order to achieve consistency with current year disclosures.
(2) Reflects changes in accounting policies.
(3) Earnings before interest, tax, depreciation/amortisation, impairment and exploration costs.
(4) Hides gas production for 2008 onwards includes vent gas. Vent gas was not reported prior to 2008.
(5) Net debt/(net debt and shareholders funds).

TEN YEAR SUMMARY[1]

(CONT'D)

2009 US$'000	2008 US$'000	2007 US$'000	2006 US$'000	2005 US$'000	RESTATED 2004[2] US$'000
512,154	814,330	718,755	644,534	663,993	416,296
–	–	803	4,000	(479)	837
2,455	(992)	(1,423)	(886)	(1,076)	(620)
(94,494)	(107,225)	(104,702)	(91,140)	(99,022)	(75,461)
(10,728)	(8,052)	(15,214)	(11,751)	(9,596)	(10,224)
(4,738)	–	–	–	–	–
404,649	698,061	598,219	544,757	553,820	330,828
(96,860)	(117,311)	(124,822)	(98,421)	(85,013)	(62,981)
(8,556)	(9,919)	(11,117)	(4,554)	(9,725)	(6,112)
(70,991)	(91,234)	(163,324)	(46,765)	(37,334)	(64,276)
228,242	479,597	298,956	395,017	421,748	197,459
(3,326)	6,093	22,791	21,802	(2,035)	(4,158)
14,914	126,145	1,968	258,321	4,663	9,621
–	–	–	–	350	7,497
–	(91,530)	129	(65,180)	–	–
239,830	520,305	323,844	609,960	424,726	210,419
(106,150)	(206,943)	(185,972)	(197,978)	(224,548)	(103,138)
133,680	313,362	137,872	411,982	200,178	107,281
34,058	73,396	(3,621)	204,437	–	–
99,622	239,966	141,493	207,545	200,178	107,281
(67,359)	(89,415)	(89,587)	(100,739)	(55,896)	(33,424)
3,077,390	2,005,457	1,833,479	1,802,755	1,519,529	1,329,801
1,288,077	534,928	343,578	477,884	212,163	210,367
–	–	–	–	126,000	168,000
2,593,181	1,593,227	1,389,132	1,340,980	1,020,713	869,747
65.40	100.10	77.78	67.22	58.06	41.65
7.20	7.71	8.98	9.22	11.15	10.00
5.52	5.35	4.80	5.13	5.40	5.50
8.12	8.58	9.78	10.20	12.18	11.05
438,922	257,286	222,391	120,929	78,624	75,556
–	4,214	37,617	294	104,625	6,145
142,325	157,584	57,219	143,367	76,799	45,815
284,099	507,423	326,783	398,978	357,715	276,716
24.51	45.31	29.18	35.64	32.04	24.84
11.53	27.98	12.25	36.80	17.93	9.63
11.46	27.76	12.15	36.57	17.81	9.59
4.00	8.00	8.00	8.00	5.00	4.00
–	–	–	–	2.0	–
–	–	–	–	–	–
6.4%	21.0%	10.1%	34.9%	21.2%	12.5%
1,299,562	1,119,841	1,119,841	1,119,841	1,118,895	1,114,385
–	–	–	–	–	–
0.897	0.693	0.791	0.791	0.734	0.779
0.792	0.868	0.836	0.752	0.762	0.737

GLOSSARY

$, $m, $bn
Dollars stated in US dollar terms unless otherwise stated.

1C
Low estimate of contingent resources.

1H, 2H
Halves of the calendar year.
1H (1 January – 30 June),
2H (1 July – 31 December).

1P
Proven reserves.

1Q, 2Q, 3Q, 4Q
Quarters of the calendar year.
1Q (1 January – 31 March), 2Q (1 April – 30 June), 3Q (1 July – 30 September), 4Q (1 October – 31 December).

2C
Best estimate of contingent resources.

2P
Proven and probable reserves.

Appraisal well
A well drilled to follow up an oil or gas discovery to evaluate its commercial potential.

barrel/bbl
The standard unit of measurement for oil and condensate production and sales.

bcf/bscf
Billion standard cubic feet, a measure of gas volume.

boe
Barrels of oil equivalent – the factor used to convert volumes of different hydrocarbon production to barrels of oil equivalent. Conversion rate used by Oil Search for gas is 6,000 scf = 1 boe up to and including 2013 production; 5,100 scf = 1 boe thereafter.

bopd
Barrels of oil per day.

BTU
British thermal units, a measure of thermal energy.

Condensate
Hydrocarbons which are in the gaseous state under reservoir conditions and which become liquid when temperature or pressure is reduced. A mixture of pentanes and higher hydrocarbons.

Crude oil
Liquid petroleum as it comes out of the ground. Crude oils range from very light (high in gasoline) to very heavy (high in residual oils). Sour crude is high in sulphur content. Sweet crude is low in sulphur and therefore often more valuable.

Development well
Wells designed to produce hydrocarbons from a gas or oil field within a proven productive reservoir defined by exploration or appraisal drilling.

Deviated well
A well whose path has been intentionally diverted at an angle from vertical, often to reach a distant part of the reservoir and increase exposure to producing zones.

EBITDAX
Earnings before interest, tax, depreciation/amortisation, impairment and exploration.

FEED
Front end engineering and design. Conceptual design prior to detailed design.

FID
Final Investment Decision.

Gearing
Net debt/(net debt & shareholders' funds)

GOR
Gas to oil ratio.

Hydrocarbons
Solid, liquid or gas compounds of the elements hydrogen and carbon.

JV
Joint venture.

LNG
Liquefied natural gas.

LPG
Liquid petroleum gas.

LTI
Long-term incentive.

MENA
Middle East/North Africa.

mmbbl
Million barrels.

mmscf/d
Million standard cubic feet per day.

mtpa
Million tonnes per annum (LNG).

Net debt
Total debt less cash and cash equivalents.

PDL
Petroleum Development Licence.

PJ
Petajoules – joules are the metric measurement unit for energy – a petajoule is equal to 1 joule x 10^{15}.

PL
Pipeline Licence.

PNG
Papua New Guinea.

PNG LNG Project operator
ExxonMobil PNG Limited, a subsidiary of Exxon Mobil Corporation (ExxonMobil).

PPFL
Petroleum Processing Facilities Licence.

PPL
Petroleum Prospecting Licence.

PRL
Petroleum Retention Licence.

PSC
Production Sharing Contract.

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

STI
Short-term incentive.

scf
Standard cubic feet, a measure of gas volume.

tcf
Trillion cubic feet, a measure of gas volume.

Definition of reserves and contingent resources
Estimates of reserves and contingent resources are conducted to Society of Petroleum Engineers (SPE) standards on a Proven (1P and 1C) and Proven and Probable (2P and 2C) basis.

Proven reserves
Proven reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proven reserves are limited to those quantities of oil and gas which can be expected, with little doubt, to be recoverable commercially at current prices and costs, under existing regulatory practices and with existing conventional equipment and operating methods. Proven (1P) reserves are probabilistically calculated reserves having a 90 per cent confidence level (P90); such reserves have a 90 per cent likelihood of being equalled or exceeded.

Probable reserves
Probable reserves are those reserves which geological and engineering data demonstrate to be potentially recoverable, but where some element of risk or insufficient data prevent classification as proven. Probable reserves are calculated by subtracting proven reserves from those probabilistically calculated reserves having a 50 per cent confidence level (P50). Therefore, "Proven plus Probable" (2P) reserves are defined as those reserves which have a 50 per cent likelihood of being equalled or exceeded.

Contingent resources
The Company's technically recoverable resources for its discovered but uncommercialised gas fields are classified as contingent resources. 2C denotes the best estimate of contingent resources.

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