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## 2014 Annual Meeting: Chairman's Address

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16 May 2014

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"Ladies and Gentlemen, I'm very pleased to be here today to talk about our progress in 2013 and our plans for 2014 and beyond. As many of you will know, Oil Search, which celebrated its 85th anniversary in January 2014, is a company in transition. Over the next year, the commencement of sales from the PNG LNG Project will transform us from a medium sized oil and gas explorer and producer to a significant LNG exporter.

Major progress was made on this journey in 2013. By the end of the year, construction of the PNG LNG Project was close to completion and commissioning activities were well underway. I'm happy to report that production of LNG commenced in April this year and the first LNG tanker is now loading and will depart for Asia in the next few days.



*Spirit of Hela,  
PNG LNG plant  
May 2014*

The start of LNG exports is a momentous event and I'd like to congratulate the operator, ExxonMobil PNG Limited, for delivering this large and complex project, ahead of schedule and within the revised budget of US\$19 billion. I would also like to congratulate all the Oil Search staff, both present and past, who have worked for many years on this Project. Oil Search had a vision, over a decade ago, to develop the vast gas reserves in the Highlands and it's very fulfilling to see this dream finally come to fruition. The Project heralds a new era for both Oil Search and Papua New Guinea. We expect the Project to be producing at full capacity by 2015. In its first full year, it

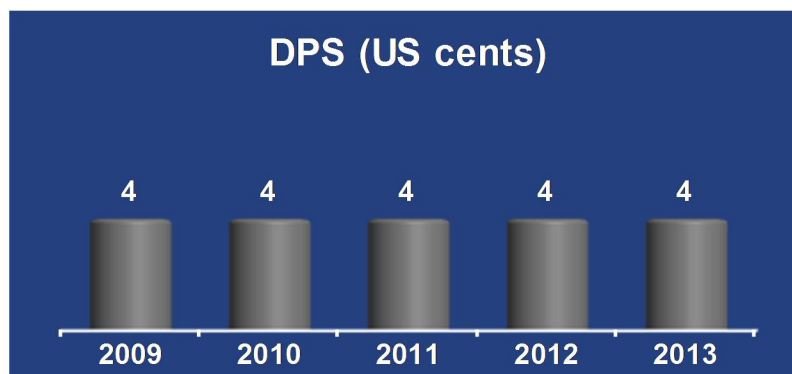
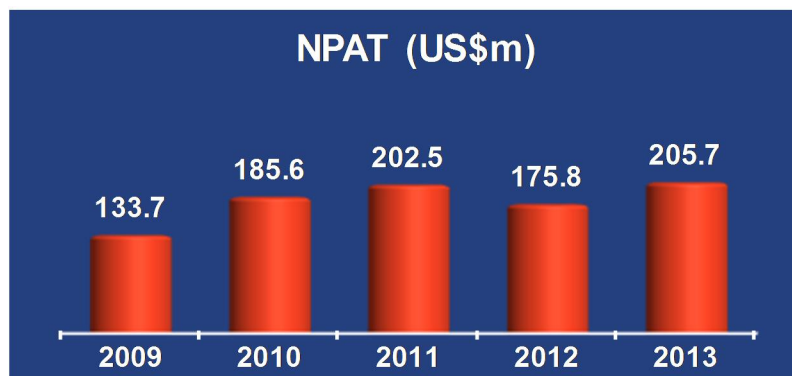
will quadruple our production base and contribute more than US\$1.3 billion annually to the Company's operating cash flows. For PNG, it is estimated that the Project will more than double the country's gross domestic product, creating a long-term, steady revenue stream for current and future generations.



*Central Processing Facility, Kutubu*

*Usano well, Kutubu Field*

2013 also saw another strong performance from our PNG oil fields. Total production increased 6%, reflecting contributions from new wells and proactive field management. The success in keeping production from this mature set of oil fields relatively flat for the past five years is a testament to the skill and dedication of the Oil Search production and operations teams. Net profit generated by these fields, plus our Hides gas supply business, was US\$205.7 million, 17% higher than last year.



Total dividends paid for the 2013 year were four US cents (9.5 toea) per share, the same as last year, in line with the Board's policy to maintain steady dividends, in US dollar terms, during the construction phase of the PNG LNG Project. Once the PNG LNG Project has reached Financial Completion and is producing at full capacity, the Board plans to materially increase dividend payments. The precise dividend policy, including how we will balance paying dividends with reinvesting cash into our growth projects, will be developed over the coming months as part of our 2014 Strategic Review. This Review, which Peter Botten will talk more about in his presentation, will cover all aspects of the Company's structure, operations and human resources and will help set a framework for Oil Search's continued evolution and growth over the next five years.



*Drilling on Wellpad G, Hides*

Now that the foundation PNG LNG Project infrastructure is in place, a key objective for Oil Search is to capitalise on this asset base through LNG expansion. We are actively working together with our joint venture partners to aggregate the necessary gas resources to underpin the development of further LNG trains. As well as the large gas resource at P'nyang in PRL 3 and potential upside in the existing PNG LNG fields, in particular at Hides, early this year we added materially to our gas portfolio by the acquisition of a 23% interest in PRL 15, containing the Elk/Antelope fields.





While further exploration and appraisal drilling is required to better quantify the size of the resource, we are confident that PRL 15 contains sufficient gas to underpin a commercially attractive and value accretive LNG project. Together with the potential expansion of the PNG LNG Project, this means there is a high probability that the Company will have invested in up to three further LNG trains by the end of the decade.

With interests in both PNG LNG and the potential PRL 15 LNG opportunity, Oil Search is in an excellent position to help drive new LNG developments in PNG and to ensure that they are developed optimally, making maximum use of existing infrastructure in the country.

I'd now like to address two issues related to our PRL 15 acquisition that have been receiving a lot of attention.

The first is the legal steps we are taking regarding the sale by InterOil of part of its interest in PRL 15 to Total SA in late March. Oil Search believes that the transfer of this interest, first announced in December 2013, is subject to various notifications and pre-emptive rights under the PRL 15 Joint Venture Operating Agreement. As a result, the Company has commenced a dispute resolution process, which includes arbitration proceedings in London. We believe that, as we set out on what we hope will be a twenty-year plus relationship, it is vital that our legal rights are respected and that all parties have full clarity on the Joint Venture operating rules and commit to abide by them. We have also engaged in formal negotiations with the parties in the event a commercial resolution can be reached. Given the potential substantial value of an LNG development, to the Joint Venture participants and to the nation, we support the appraisal and development of PRL 15 as quickly and efficiently as possible.

The second issue is the recent acquisition by the PNG Government of a 10% interest in Oil Search. The background to this transaction and, in our view, the rationale for the Government's investment, is as follows:

In 2009, the PNG Government needed to raise money to fund its share of the PNG LNG Project's development costs. After assessing various sources of financing at the time, US\$1.68 billion was raised by issuing bonds to International Petroleum Investment Company (IPIC) of Abu Dhabi that would exchange into the Government's 196.6 million holding in Oil Search in March 2014. Effectively, what the Government did in 2009 was forward sell its Oil Search shares at a price of A\$8.55 per share, a far higher price than the share price at the time and some eight times the price in 2002 when the Government originally acquired the shares. IPIC was willing to pay this higher price because of a belief that Oil Search's share price would steadily increase over time, which it has. In fact, over the five years to the end of December 2013, Oil Search's share price has increased by nearly 80%, making it one of the best performers in the Australian stock market.

Moving forward five years, after discussions between the Government and IPIC related to the Government buying back the shares were unsuccessful, the exchangeable bonds matured in March 2014 and were exchanged into the Government's Oil Search shares, in line with the original agreement. This left the Government without a direct stake in Oil Search, a company with a proven record of delivering high returns to shareholders, for the first time in 12 years. With the PNG LNG Project just months away from starting to generate large cash flows, the PNG Government will soon be looking for good long term investment opportunities; while much of the Government's PNG LNG revenues will be invested into new infrastructure, hospitals and schools, a proportion will be prudently invested, through a sovereign wealth fund, for future generations. Aware that we were assessing funding alternatives to finance our proposed PRL 15 acquisition, the Government approached Oil Search, with an offer to fund a 10% placement, which we accepted. We believe having the Government as a key shareholder in Oil Search is beneficial to both parties, as we have many shared objectives, in particular driving the future development of the country's abundant gas resources.

As some will know, the Ombudsman Commission has commenced an investigation into the loan provided by UBS to the Government to finance its Oil Search investment. While Oil Search was not a party to these loan arrangements, we welcome the Ombudsman's enquiries and hope that they will clear the air on this issue.



*Taza 1 discovery well, Kurdistan*

We welcome both the Government and IPIC to the register – their respective investments in Oil Search clearly demonstrate their confidence in the Company's assets and its range of growth projects. These include not only the oil and gas fields, the PNG LNG Project and LNG expansion opportunities, but also significant oil upside in Kurdistan. The 2012 Taza oil discovery is currently being appraised. A comprehensive programme, which includes several wells and 3D seismic of this potentially very large oil field, is now underway. Results to date from the Taza 2 well, currently drilling, are highly encouraging.



*Local community*

Political, fiscal and operating stability in PNG are integral to our success, which is why a core part of our business plan is not just to operate oil and gas fields and promote the development of LNG trains, but also to work with the Government so that the people of PNG get the services they so desperately need. During 2013, in addition to our long-standing community development and health care programmes, we spent nearly US\$11 million through the PNG tax credit scheme on delivering public infrastructure in the Highlands and Port Moresby. A key area of focus for us remains promoting transparency and good governance. We became an Extractive Industries Transparency Initiative (EITI) Supporting Company in January 2013 and were delighted when, in May, the PNG Government announced it intended to adopt EITI. We strongly endorse this decision and other reforms the Government has made since it came to power to address corruption in PNG.

In closing, I think everyone would agree that the Company has come a very long way in the 85 years since its inception. Peter Botten, the management team and staff have worked extremely hard over the past few years to get the Company to this point and I'd like to sincerely thank them all for their efforts. I would also like to acknowledge the commitment and wise counsel of my fellow directors. But most importantly, I must again at today's Annual Meeting express my sincere appreciation to all shareholders for your ongoing loyalty and patience in waiting for rewards to flow from the PNG LNG project development which are now so close.

I will now hand over to Peter to discuss the Company's operations in more detail."

**RICHARD LEE**

**Chairman**

**For further information please contact:**

Ms Ann Diamant

Group Manager, Investor Relations

Tel: +61 2 8207 8440

Mob: +61 407 483 128